

2i Rete Gas

**Annual Financial Report
at 31 December 2015**

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II Corporate boards

Board of Directors

Chairman

Paola Muratorio

Deputy Chairman

Carlo Michelini

Chief Executive Officer

Michele Enrico De Censi

Directors

Matteo Ambroggio

Mathias Sebastian Burghardt

Rita Ciccone

Stephan Fedrigo

Luca Galli

Stefano Mion

Alessandra Moiana

Giuseppe Picco Rogantini

Board of Statutory Auditors

Chairman

Marco Antonio

Modesto Dell'Acqua

Regular auditors

Gian Luigi Gola

Marco Giuliani

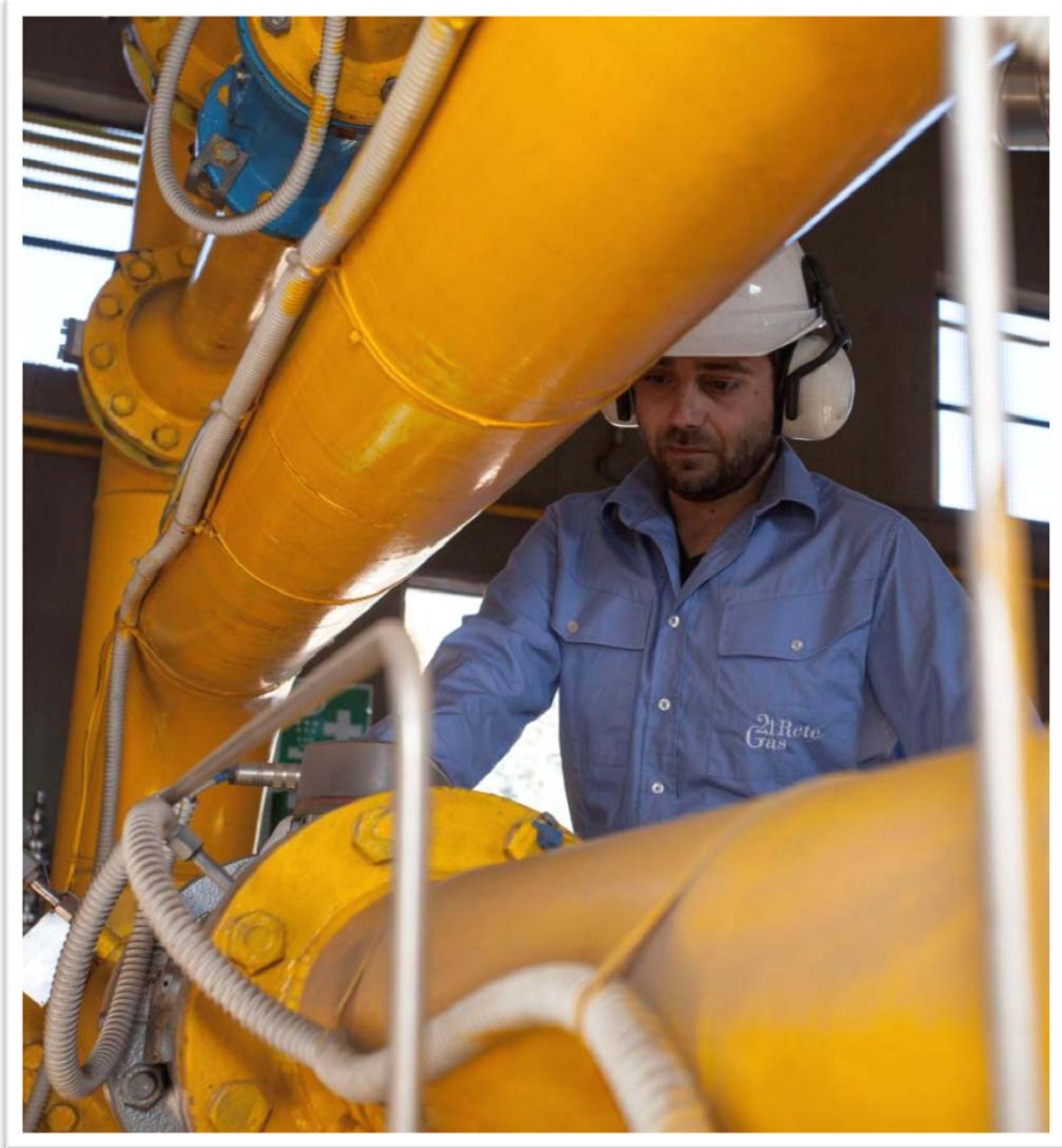
Substitute auditors

Andrea Cioccarelli

Giuseppe Panagia

Independent Auditors

PricewaterhouseCoopers
S.p.A.



Works in substation

III Directors' Report

1. Foreword

According to the recent Economic Bulletin issued in January 2016 by the Bank of Italy, in 2015 the Italian economy showed gradual signs of recovery.

The boost from exports, which are affected by the weakness of non-European markets, is gradually being replaced by that from internal demand, in particular due to consumption and inventory replenishment. The recovery in the manufacturing cycle went hand in hand with signs of growth in services and, after a prolonged fall, stabilisation in the construction sector.

However, the prospects for investment are affected by the uncertainty concerning foreign demand.

According to ISTAT, in the final quarter of 2015 GDP stood at +0.1%, bringing growth to +1.0% compared to 2014.

The forward indicators show a strengthening recovery at the start of 2016: the measures to stimulate the purchase of capital goods contained in the Stability Law for 2016 should support investments from as early as the first quarter; in addition, capital accumulation will be assisted by investment in construction which will benefit from the stronger signs of the reawakening of the real estate market, which were seen as from the middle of last year.

A strengthening of this sector, on which the growth trend of the gas distribution network and new connections to the network itself depends, and in general of gas consumption, which affects both the invoicing trend and the trend in the growth in the number of active customers, would therefore lead to more marked organic growth.

Although not impacting directly on the Group's Income Statement, the 2015 report of the Ministry of Economic Development on gas balancing shows a marked increase nationally in gross domestic gas consumption, as already pointed out in the first half, bringing the related figure in terms of the increase compared to December 2014 to 9.1%, with 67,523 million cubic metres consumed to the end of December 2015 compared to 61,912 million cubic metres in the previous year.

For 2015 the 2i Rete Gas Group has operating figures which are a slight improvement on the same figures for 2014, with a recovery in transported volumes and a slight rise in the number of Redelivery Points supplied; from the economic viewpoint there was a clear increase in the results both in terms of revenues and EBITDA, after the slowdown in the previous year and due largely to the redefinition of the calculation methodologies for the tariff revenue cap introduced in the fourth regulatory period as from 1 January 2014.

Financial expenses, which in the previous year had a significant impact on the net result owing to the refinancing operation completed between July and December 2014, were particularly limited in 2015 thanks to the new financial structure, while

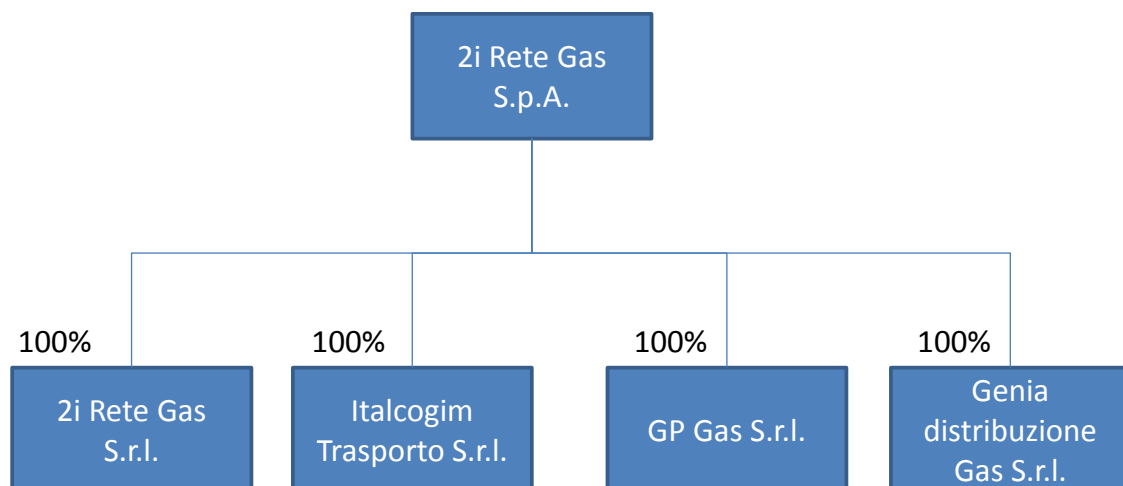
there was a significant impact on taxes mainly due to the adjustment of the provisions for deferred tax assets and liabilities following the Robin Hood Tax being declared unconstitutional and the 2016 Stability Law approved at the end of 2015.

During 2015 thirteen “area tenders” were called, none of which has reached the assignment stage. On the other hand, work continued to respond to the municipalities which started procedures to request essential data from operators in order to go ahead with tender assignment.

2. Group structure and key figures

At the end of 2015 a corporate vehicle was created called 2i Rete Gas S.r.l., which at 31 December 2015 was inactive.

The following diagram sets out the Group’s equity investments at 31 December 2015:



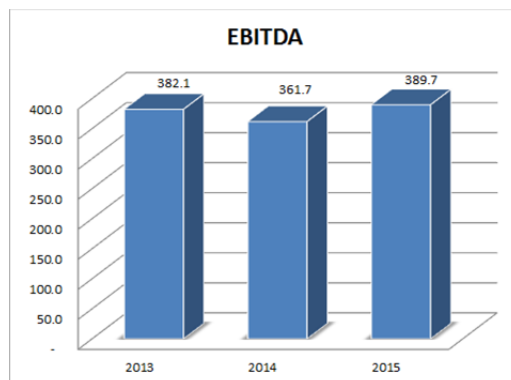
Regarding the operating and financial highlights of the Group, the following table shows the key operating, economic and equity indicators of the Group:

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|------------|------------|-------------|
| Active concessions: | 1,940 | 1,940 | - |
| Active redelivery points: | 3,819,104 | 3,813,598 | 5,506 |
| Distributed Gas (Natural gas and LPG) in millions of cubic metres: | 5,409 | 4,978 | 431 |
| EBITDA in millions of euro: | 389.7 | 361.7 | 28 |
| Net income in millions of euro: | 88.0 | 12.0 | 76 |
| Managed networks in kilometers: | 57,667 | 57,349 | 318 |

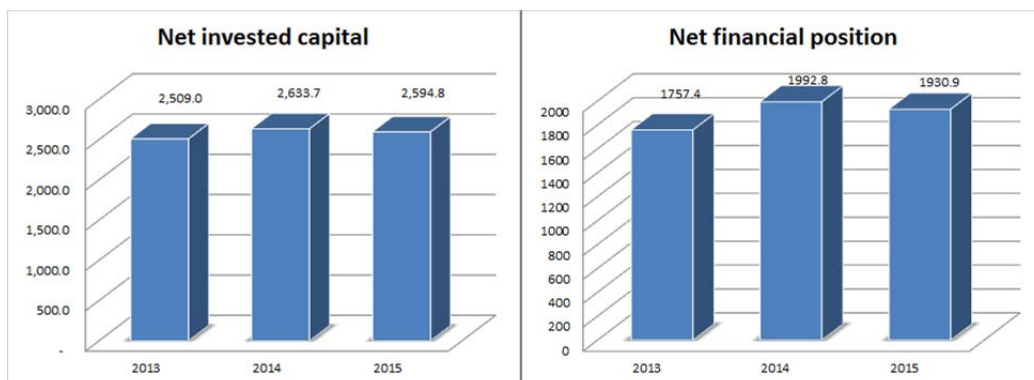
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|------------|------------|-------------|
| Net financial position in millions of euro: | 1,930.9 | 1,992.8 | (62) |
| Net invested capital in millions of euro: | 2,594.8 | 2,633.7 | (39) |

In order to better appreciate the development over time of some fundamental parameters for the Group, the diagrams below show the trend in the Company's main income statement and statement of financial position data. For an analysis of the reported figures, reference should be made to section "The Results of the Zi Rete Gas Group":

Trend in EBITDA from 2013 to 2015:



trend in Net Invested Capital and Net Financial Position from 2013 to 2015:



3. Significant events during the reporting period

On 1 January 2015, following the resolutions of the shareholders' meetings held in November 2014, F2i Reti Italia S.r.l. and 2i Rete Gas S.p.A. were merged; upon conclusion of this merger, F2i Reti Italia (the incorporating company) changed its name to 2i Rete Gas S.p.A.

In June 2015, as part of the annual ratings review by Standard and Poors and Moody's, the company presented to the two rating agencies the progress of its own business and the fundamental parameters underlying its financial strength. Upon completion of that review, both companies confirmed the rating attributed in 2014 (respectively BBB Stable Outlook and Baa2 Stable Outlook) increasing S&P's rating of the "liquidity profile" from "adequate" to "strong" thereby confirming the stability of the course undertaken by the company.

On 18 November 2015 the company 2i Rete Gas S.r.l. was created. By means of its resolution of 18 December 2015, 2i Rete Gas S.p.A. transferred to it, as from 1 January 2016, a company branch relating to the gas concession of Cinisello Balsamo.

In January 2015 a loan was finalised with the European Investment Bank at particularly favourable rates. This loan is linked to the plan adopted by the Group for the widespread replacement of traditional meters by electronic meters, which guarantee real-time monitoring of volumes and performance.

Finally, in December Italcogim Trasporto formalised the transfer, as from 1 January 2016, of its own gas transport network to the parent company 2i Rete Gas S.p.A., at the same time as reclassifying the network as a gas distribution network.

4. Results of the 2i Rete Gas Group

When commenting its economic and equity data, the group uniformly and continuously avails of certain widely used indicators, which are not provided for or otherwise defined by the IAS/IFRS. In particular, in the income statement interim results are provided, such as EBITDA and EBIT, which result from the algebraic sum of the items preceding them. At the equity level, similar considerations apply to the net invested capital, the net financial position, the adjusted financial position and the accounting net financial debt, the components of which are listed in the tables that follow below.

As they do not derive from the reference accounting standards, the definition of the indicators used by the Group may not be aligned with those adopted by other companies/groups and therefore they may not be comparable.

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

| Millions of euro | 31.12.2015 | 31.12.2014 | Change |
|---|----------------|----------------|--------------|
| Revenues | 862.9 | 838.9 | 24.0 |
| Transport and sale of methane gas and LPG | 575.8 | 567.8 | 8.0 |
| Connection fees and accessory rights | 18.0 | 19.7 | (1.8) |
| Other sales and services | 20.9 | 20.6 | 0.3 |
| Revenues from intangible assets/assets under construction | 170.0 | 144.6 | 25.4 |
| Other revenues | 78.2 | 86.2 | (7.9) |
| Operating costs | (473.2) | (477.3) | 4.1 |
| Labour costs | (131.1) | (116.0) | (15.1) |
| Raw materials and inventories | (63.2) | (42.7) | (20.5) |
| Services | (208.3) | (226.6) | 18.3 |
| Other costs | (64.0) | (65.8) | 1.8 |
| Allocations to provisions for risks and charges | (6.5) | (26.1) | 19.6 |
| Increase in fixed assets not subject to IFRIC 12 | 0.0 | 0.0 | (0.0) |
| EBITDA | 389.7 | 361.7 | 28.1 |
| Amortisation, depreciation and write-downs | (154.5) | (151.0) | (3.5) |
| Amortisation, depreciation and impairment losses | (154.5) | (151.0) | (3.5) |
| EBIT | 235.3 | 210.7 | 24.6 |
| Net financial income (expenses) and income (expenses) from equity investments | (48.4) | (201.1) | 152.8 |
| Pre-tax income | 186.9 | 9.6 | 177.3 |
| Income taxes for the year | (98.9) | 2.5 | (101.4) |
| Net result from continuing operations | 88.0 | 12.0 | 75.9 |
| Net result from discontinued operations | - | - | - |
| Net income for the year | 88.0 | 12.0 | 75.9 |

The interpretation of IFRIC 12, on which the presentation of the tables for the statutory and consolidated financial statements of the 2i Rete Gas Group is based, does not impact on profits, but only on the equal recording of revenues and costs, which totalled 170 million euro in year and which relate to the construction of the distribution network infrastructure; therefore, for the purposes of easier analysis of any operational deviations, the income statement is set out below showing the consolidated revenues and costs, net of the impact of the application of the aforementioned interpretation.

| Millions of euro | 31.12.2015 without IFRIC adjustment | 31.12.2014 without IFRIC adjustment | Change |
|---|---|---|--------------|
| Revenues | 692.9 | 694.3 | (1.5) |
| Transport and sale of methane gas and LPG | 575.8 | 567.8 | 8.0 |
| Connection fees and accessory rights | 18.0 | 19.7 | (1.8) |
| Other sales and services | 20.9 | 20.6 | 0.3 |
| Revenues from intangible assets/assets under construction | - | - | - |
| Other revenues | 78.2 | 86.2 | (7.9) |
| Operating costs | (303.2) | (332.7) | 29.5 |
| Labour costs | (94.3) | (86.7) | (7.6) |
| Raw materials and inventories | (9.4) | (10.1) | 0.7 |
| Services | (129.5) | (144.3) | 14.8 |
| Other costs | (63.4) | (65.5) | 2.1 |
| Allocations to provisions for risks and charges | (6.5) | (26.1) | 19.6 |
| Increase in fixed assets not subject to IFRIC 12 | 0.0 | 0.0 | (0.0) |
| EBITDA | 389.7 | 361.7 | 28.1 |
| Amortisation, depreciation and write-downs | (154.5) | (151.0) | (3.5) |
| Amortisation, depreciation and impairment losses | (154.5) | (151.0) | (3.5) |
| EBIT | 235.3 | 210.7 | 24.6 |
| Net financial income (expenses) and income (expenses) from equity investments | (48.4) | (201.1) | 152.8 |
| Pre-tax income | 186.9 | 9.6 | 177.3 |
| Income taxes for the year | (98.9) | 2.5 | (101.4) |
| Net result from continuing operations | 88.0 | 12.0 | 75.9 |
| Net result from discontinued operations | - | - | - |
| Net income for the year | 88.0 | 12.0 | 75.9 |

Revenues totalled 692.2 million euro, decreasing by 1.5 million euro. In particular revenues from transporting natural gas and LPG, which totalled 575.8 million euro, rose by 8 million euro mainly due to the adjustment of the weight of the gross fixed capital deflator to be applied to the Regulated Asset Base (RAB).

The connection fees and accessory rights totalled 18.0 million euro, down by 1.8 million euro compared to the same period of the previous year (19.7 million euro) due to the slow recovery in construction operations as per requests from new customers .

Revenues from other sales and services totalled 20.9 million euro and were broadly in line with the previous year, with higher revenues for the connection and reconnection of customers in arrears offset by lower revenues from the water sector.

Other revenue mainly includes revenue for energy efficiency certificates and totalled 78.2 million euro, with a fall on the previous year of 7.9 million euro. This decrease was largely due to the lower level of purchases of energy efficiency certificates in the year, for 10.8 million euro, and the lower capital gains from the sale of assets, following a more limited number of reassigned concessions for which the redemption value due to the outgoing operator has been established. This item also includes higher extraordinary income for 5

million euro, mainly following the closure of the arbitration started in 2011 with Gaz de France and regarding the purchase of G6 Rete Gas S.p.A.

Operating costs totalled 303.2 million euro and fell by 29.5 million euro.

Gross labour costs totalled 94.3 million euro, net of capitalisation, and rose by 7.6 million euro compared to the previous year owing to the impact of the recording of the Gas Fund, which was partly offset by the higher capitalisation due to the installation of electronic meters.

The cost of raw materials and inventories was in line with the previous year (+0.7 million euro) once the capitalised element was stripped out.

Costs for services at consolidated level fell by 14.8 million euro, above all owing to lower costs for consultancy and professional services for 3.4 million euro (which in the previous year were particularly high due to the extraordinary operations which were undertaken), lower staff service costs (which were brought in-house in the year) for 3.6 million euro, as well as an overall saving on other costs (- 8.0 million euro in aggregate, thanks to the operating efficiency measures adopted in the year).

Other costs fell by 2.1 million euro, mainly due to the reduction in the number of energy efficiency certificates purchased (-5.6 million euro).

Finally, allocations to provisions for risks and charges fell by 19.6 million euro, following the increase in the previous year to cover tariff risks.

EBITDA thus totalled 389.7 million euro, up by 28.1 million euro compared to the previous year (361.7 million euro) following the squeezing of costs and the capitalisation of the activities to replace traditional meters with electronic ones, together with lower allocations to provisions for risks as well as the improved profits on energy efficiency certificates.

The amortisations, depreciations and write-downs totalled 154.5 million euro, and they are mainly relating to the amortisation of fixed assets.

The figure is higher than in the previous year (+3.5 million euro) owing to the higher investments made in recent years.

EBIT totalled, therefore, 235.3 million euro while in 2014 it amounted to 210.7 million euro. The notes accompanying the EBITDA are also applicable to the EBIT.

Net financial expenses totalled 48.4 million euro, decreasing significantly by 152.8 million euro as opposed to the previous year.

It should be noted that, in the previous year, this item was significantly affected in the year by the refinancing operation and the issue of bonds approved by the Board of Directors in

June 2014. However, in 2015 there were no significant extraordinary costs and also the company benefitted from the impact of the renegotiation which was completed in 2014.

Pre-tax income totalled 186.9 million euro and so rose by 177.3 million euro compared to 2014 (9.6 million euro) due to lower financial expenses and the improvement in the result from operations in 2015.

Income taxes for the year impacted on the Group's accounts for 98.9 million euro (after a positive impact of 2.5 million euro in 2014), owing to the different pre-tax income compared to 2014 and the effects of the adjustment to the provisions for deferred tax assets and liabilities following the supplementary "Robin Hood Tax" being declared unconstitutional and the lowering of the IRES (corporate tax rate) rate to 24% as from 2017, as established in the Stability Law for 2016 which was approved in December 2015. On the other hand, the figure for 2014 benefitted, following the payment of withholding tax of 12.5 million euro, from prepaid taxes generated by the tax redemption of goodwill which occurred due to the merger of the subsidiary G6 Rete Gas into 2i Rete Gas. In addition, again in 2014, non-deductible financial expenses in the year from the closure of the hedging derivative for the bank loan which was closed in the year generated further deferred tax assets.

As a consequence of the above, the net income for the year was 88 million euro, up by 75.9 million euro compared to the previous year.

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

| Millions of euro | 31.12.2015 | 31.12.2014 | Change |
|--|----------------|----------------|---------------|
| | A | B | A-B |
| Net fixed assets | 2,578.4 | 2,549.9 | 28.5 |
| Property, plant and equipment | 42.6 | 40.8 | 1.7 |
| Intangible assets | 2,796.6 | 2,765.3 | 31.3 |
| Investments | 3.3 | 3.3 | 0.0 |
| Other non-current assets | 32.0 | 23.8 | 8.3 |
| Other non-current liabilities | (296.1) | (283.3) | (12.8) |
| Net working capital: | 68.5 | 78.8 | (10.4) |
| Inventories | 13.8 | 7.8 | 6.0 |
| Trade receivables from third parties and the Group | 239.5 | 213.6 | 25.9 |
| Net receivables/(payables) for income taxes | 8.7 | 21.7 | (13.0) |
| Other current assets | 146.2 | 163.1 | (17.0) |
| Trade payables to third parties | (169.3) | (184.2) | 14.9 |
| Other current liabilities | (170.4) | (143.2) | (27.2) |
| Gross invested capital | 2,646.8 | 2,628.7 | 18.1 |
| Other provisions | 52.1 | (5.0) | 57.0 |
| Termination and other employee benefits | 47.2 | 39.1 | 8.1 |
| Provisions for risks and charges | 73.7 | 69.2 | 4.5 |
| Net deferred taxes | (68.8) | (113.2) | 44.4 |
| Net invested capital | 2,594.8 | 2,633.7 | (38.9) |
| Assets held for sale | - | - | - |
| Liabilities held for sale | 0.0 | - | 0.0 |
| Equity | 663.9 | 640.9 | 23.0 |
| Net Financial Position | 1,930.9 | 1,992.8 | (62.0) |

Net fixed assets, mainly consisting of intangible assets for gas distribution concessions, totalled 2,578.4 million euro, up by 28.5 million euro compared to 31 December 2014, as noted below.

The rise recorded in the item "Intangible assets" of 31.3 million euro was the net result of new investments of 193.6 million euro, in addition to decreases of 12.6 million euro, reclassifications of 1.9 million euro and amortisation in the year of 147.8 million euro.

The increase in the item "Property, plant and equipment" of 1.7 million euro was due to new investments (5.0 million euro), reclassifications (1.9 million euro) and depreciation (5.1 million euro).

At consolidated level equity investments were unchanged at 3.3 million euro, while the increase in "other non-current assets" and "other non-current liabilities", of respectively

8.3 million euro and 12.8 million euro, was due, in the former case, to the recognition of the advances paid to the contracting authorities which requested them for ATEM tenders as well to the estimate of the receivable arising from the replacement of traditional meters which are not fully amortized with electronic meters, while, for the latter, it was due to higher medium/long-term deferred income for connection fees, property subdivision, plant transfer and network extension contributions.

Net working capital totalled 68.5 million euro and fell by 10.4 million euro compared to the previous year, due to a rise in trade receivables, inventories and a fall in trade payables despite the significant investment in electronic meters; all these movements were offset by a fall in tax receivables, a fall in current assets and an increase in the related liabilities mainly due to the revision of the balances in regard to the Equalisation Fund for the Electricity Sector (*Cassa Conguaglio per il Settore Elettrico- CCSE*, as from 1 January 2016 the Fund for Energy and Environmental Services *Cassa per i servizi energetici e ambientali- CSEA*).

Therefore, due to the combined effect of the changes in the net long-term assets and the net working capital, the gross invested capital increases by 18.1 million from 2,628.7 million euro in the previous year to 2,646.8 million euro as at 31 December 2015.

The various provisions, the overall balance of which is 52.1 million euro, have increased overall by 57.0 million euro, mainly due to the change in the provision for net deferred taxes of 44.4 million euro, which was significantly affected by the readjustment made after the Robin Hood Tax was declared illegitimate in February 2015 and the 2016 Stability Law, which significantly reduced the corporation tax (IRES) rate to which the company is subject. There was also an increase in the provisions regarding employees following the closure of the "Gas Fund" which imposed a compensation cost on companies which will be paid in 240 monthly instalments, but the amount of which was already certain at the time it was recorded.

Therefore net invested capital decreased from 2,633.7 million euro in the previous year to 2,594.8 million euro, down by 38.9 million euro.

Equity rose from 640.9 million euro in 2014 to 663.9 million euro at 31 December 2015, due to the net impact of the following changes:

- decrease of 65 million euro following the payment of ordinary dividends;
- change in IAS reserves for 90 thousand euro;
- an increase of 88 million euro following recognition of the result at 31 December 2015.

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

| Note | | | | |
|--|----|------------------|------------------|-------------|
| Millions of euro | | 31.12.2015 | 31.12.2014 | Change |
| Medium/long-term bank loans | 25 | (200.0) | (214.1) | 14.1 |
| Medium/long-term debenture loans | 25 | (1,890.0) | (1,890.0) | - |
| Cash and cash equivalents with third parties | 21 | 160.5 | 108.5 | 52.0 |
| Short-term financial receivables | 19 | 0.3 | 1.0 | (0.6) |
| Other current financial assets | 20 | 0.0 | 0.0 | (0.0) |
| Short-term payables due to banks | 30 | - | (7.8) | 7.8 |
| Non-current financial assets | 15 | 0.9 | 0.7 | 0.2 |
| Non-current financial liabilities | 28 | - | - | - |
| Current financial liabilities | 35 | (21.4) | (15.6) | (5.8) |
| Net financial position - Adjusted | | (1,949.6) | (2,017.4) | 67.7 |
| Non-current financial assets - costs on loan | 15 | 4.3 | 7.3 | (3.0) |
| Adjustment of payables due to costs on loan (IAS 39) | 31 | - | - | - |
| Current portion of medium/long-term loans | 31 | - | - | - |
| Adjustment of payables due to costs on loan (IAS 39) | 25 | 14.4 | 20.3 | (5.9) |
| Loan fees due | 25 | - | (3.1) | 3.1 |
| Net Financial Position | | (1,930.9) | (1,992.8) | 62.0 |

The net financial position went from 1,992.8 million euro in 2014 to 1,930.9 million euro at 31 December 2015. The Adjusted Net Financial Position totalled 1,949.6 million euro and improved by around 67.7 million euro due to the result from operations and the fall in net working capital.

| Millions of euro | 31.12.2015 | 31.12.2014 |
|--|------------------|------------------|
| A) NFP Adjusted | (2,017.4) | (1,777.2) |
| A) NFP acquired | | (30.2) |
| EBITDA | 389.7 | 361.7 |
| Write down of receivables | (1.5) | (0.4) |
| Capital gains/ (losses) | 9.5 | 1.9 |
| Income taxes for the period | (98.9) | 2.5 |
| B) GROSS CASH FLOW | 298.8 | 365.6 |
| Change in net working capital | 10.4 | 21.4 |
| Change in provisions (risks and charges, TFR, deferred tax assets and liabilities) | 57.1 | (80.4) |
| Change in other non-current assets | (8.3) | (17.2) |
| Change in other non-current liabilities | 12.8 | 11.2 |
| C) OPERATIVE CASH FLOW | 370.9 | 300.6 |
| Net investments | (195.5) | (166.9) |
| Investments in financial assets | 0.2 | (5.2) |
| D) FREE CASH FLOW | 175.6 | 128.5 |
| Financial income/(expenses) | (48.6) | (201.2) |
| Adjustment for variation of amortised cost and payable for fees | 5.8 | (4.3) |
| Increase/ (decrease) in payable for unwinding in interest rate swaps | 0.0 | (30.2) |
| Payment of dividends | (65.0) | (89.0) |
| Change in equity reserves | (0.0) | (13.7) |
| E) CASH FLOW FROM FINANCING ACTIVITIES | (107.8) | (338.4) |
| F) CHANGE IN DEBT (D+E) | 67.7 | (209.9) |
| G) FINAL NFP - Adjusted (A+F) | (1,949.6) | (2,017.4) |
| IAS adjustment to cost of debt | 18.7 | 24.5 |
| NET FINANCIAL POSITION | (1,930.9) | (1,992.8) |

This statement of cash flows enables representation of the change in adjusted NFP determined in accordance with the criteria used mainly by rating agencies.

Cash flow in the year improved on 2014 by 277.6 million euro and benefitted in particular from the higher cash flows from operations.

Gross Cash Flow in the year was below that in 2014 largely due to a significant change in income taxes for the period, which must be analysed taking into consideration the movements in the period in the provisions for deferred taxes. In particular, "Change in provisions" in 2014 included an increase in the receivable for prepaid taxes of 85.1 million euro and in 2015 a fall in the same item for 41.4 million euro. Net of this change, 2014 Gross Cash Flow would in fact be 280.5 million euro, while in 2015 it would be 340.2 million euro.

In terms of cash flow from operations, the improvement compared to the previous year was 70.3 million euro.

The requirement for the higher investments made in 2015 had a negative impact of 23.2 million euro, while financial operations, which fell in total by 192.9 million euro compared to the previous year when they were affected by the refinancing operation for a total of 162.6 million euro, led the final Net Financial Position, after the distribution of a dividend

for 65 million euro, to record an improvement of around 67 million euro compared to the end of the previous year.

5. Regulatory and tariff framework

5.1 Regulation

As regards the business perimeter of 2i Rete Gas, the interventions of the *Autorità per l'energia elettrica, il gas ed il sistema idrico* (AEEGSI – Regulatory Authority for Electricity, Gas and Water) during 2015 developed along the lines which had been largely outlined during 2014.

In the period in question the AEEGSI issued numerous provisions affecting the Group and regarding the gas or water services sectors; among these in particular, of specific interest to gas distribution, various resolutions on tariffs, regulation of the metering service, the quality and safety of the service, regulation of arrears in the gas sector, the contribution to obtain energy efficiency certificates by distributors which have taken on obligations, the connection of bio methane production plants to natural gas networks, the exchange of data among operators, the completion of the implementing regulation for tenders to assign the gas distribution service and checks in regard to operators.

In particular, as regards tariffs for the gas distribution and metering service, after the provisions adopted at the end of 2013, together with those on service quality, for the new regulatory period 2014-2019 and in 2014 with Resolution no. 367/2014/R/gas (RTDG) aimed at completing the definition of some specific aspects regarding local operations which will come into effect after the holding of the related tenders, during 2015 the Authority arranged to set the final tariffs for 2014, on the basis of the definitive financial data for 2013 as communicated by the companies, the provisional tariffs for 2015 and, at year end, the obligatory tariffs for 2016 and the related equalisation payments to be paid every two months for the natural gas distribution and metering services.

Besides this, at the end of 2015 the AEEGSI developed and completed, with Resolution no. 583/2015/R/com of 2 December 2015, the process started at the end of 2014 to review the means of establishing the weighted average cost of capital (WACC) for all the regulated infrastructure services of the electricity and gas sectors.

With the new arrangements a regulatory period for the rate of remuneration (PWACC) was introduced with a set term of six years (2016-2021), distinct from the tariff regulation periods for the individual services and in relation to which levels of the WACC base parameters are set which are valid for all the infrastructure services of the electricity and gas sectors, excluding the specific parameters relating to the individual service, as identified in parameter β (systematic risk of the activity) and in the ratio between debt capital and own funds (so-called "gearing"). Due to the new provisions the WACC for distributing and

metering natural gas as from 1 January 2016 and the period 2016-2018 will be respectively 6.1% and 6.6%.

A mechanism has also been envisaged for the interim updating of the WACC, on a three-yearly basis, to allow any necessary revisions of the rate on the basis of economic trends. As regards the specific parameters relating to the individual service, the Authority then announced that the gearing will be reassessed during the interim updating of the PWACC 2016-2021, while the revision of parameter β will be undertaken in reference to each infrastructure service during review of the regulatory periods for the individual services.

As regards equalisation and the need to combine the operational needs of the equalisation mechanisms on the part of the Equalisation Fund for the Electricity Sector (as from 1 January 2016 Fund for Energy and Environmental Services) with the financial needs of companies, the AEEGSI also introduced, with Resolution no. 396/2015/R/gas, changes to the timeframes relating to the equalisation mechanisms for natural gas distribution and metering services, setting at 15 December of each year the deadline to make the payments from the Fund to the companies of the amounts due to them.

In March, with Resolution no. 117/2015/R/gas, the reform was approved of the regulation regarding the metering of natural gas at Redelivery Points of the distribution network, introducing new provisions to be implemented throughout 2015 and 2016 regarding in particular the meter reading frequencies made available to sale companies, the management of remote readings, the means and timeframes for recording and making available switching readings and further provisions for the gradual introduction of smart gas meters.

Regarding the installation and putting into service for remote reading/management, the AEEGSI further integrated, with Resolution no. 554/2015/R/gas, the provisions regarding the installation and putting into service of the so-called smart gas meters, in particular reformulating the obligations for the putting into service of the new meters for distributors with over 200,000 redelivery points served, envisaging, by 31 December 2018, the putting into service of 100% of the G10 class meters and 50% of the meters below or equal to G6 class (with interim objectives of 15% and 33% respectively at 31 December 2016 and at 31 December 2017).

Up to 31 December of the year following that of the service being activated, the option was also introduced to not use, for G4 and G6 class meters, the remote command function for the electrovalve and, for the purposes of penalties for failing to achieve installation obligations, a 2% tolerance compared to the objective was envisaged.

As regards the quality and safety of the service, the Authority (Resolution no. 290/2015/R/gas) completed the determination, for 2014-2019, of the starting levels and trend levels for distribution companies on the regulation of the premiums/penalties for the natural gas distribution service.

The Authority then intervened with a provision (Resolution no. 258/2015/R/com) to integrate and change the regulation of arrears in the electricity and natural gas sectors, introducing automatic compensation and penalties on the transport fees paid by distribution companies in the case of failure to comply with the timeframes established to

execute services regarding suspensions/closures for being in arrears which are requested by sale companies. A review was also arranged of the switching procedure in the natural gas sector, in order to reduce its lead-times.

As regards energy efficiency certificates (EEC), the Authority, in application of the new means for establishing the contribution to cover the costs incurred by distributors who are under obligations as established at the start of 2014, set the value of the definitive tariff contribution for 2014 (105.83 €/EEC) and the estimated tariff contribution for 2015 (108.13 €/EEC).

The update was also approved of the operating rules for the white certificate (EEC) market, in order to assign the role of central counterpart to GME.

As regards the exchange of data between operators, in 2015 too the AEEGSI continued the adoption of provisions aimed at the gradual extension, also to the gas sector, of the so-called Integrated Information System, which has already been launched for the electricity sector and destined, in the intention of the Authority, to facilitate information flows between energy distributors and sellers in many of the processes that they manage. Changes and additions were also introduced to the methods to be followed and to the tracking of information flows between distribution companies and sellers (communication standard introduced as from 2008 with Resolution no. ARG/gas 185/08), in particular regarding metering, following the reform adopted with Resolution no. 117/2015/R/gas, and regarding the gas bonus which end users may benefit from.

The Authority also adopted provisions to complete the regulation implementing tenders to assign the natural gas distribution service by area and provisions relating to the means of acquiring, safeguarding and processing the documentation for the purposes of verifying the differences between the residual industrial value and the RAB and the tender documentation sent to the Authority by the contracting authorities, as well as regarding the stratification of the repayment value for tariff purposes, with clarification about the means of applying the provisions of the RTDG in reference to area tenders.

As regards the provisions relating to the assignment of the gas distribution service by area through a tender, the Ministry of Economic Development, by means of Ministerial Decree no. 106 of 20 May 2015, arranged to update the regulation as set out in Ministerial Decree no. 226/11 relating to the tender criteria, an update made necessary following the new provisions introduced by Law Decree no. 145/13 "Destinazione Italia" (converted into Law no. 9/14) and in order to coordinate the provisions of the Regulation with those envisaged by the Guidelines as set out in the Ministerial Decree of 22 May 2014.

Following the receipt of the documentation from the first contracting authorities, the Authority also started, in the final months of the year, its own check on the differences between the residual industrial value and the RAB and the tender documentation, publishing at year end the first provision (Resolution no. 631/2015/R/gas) setting out the observations made on the tender documentation sent, pursuant to the provisions as set out in art. 9, para. 2, of Ministerial Decree no. 226/11, by the Municipality of Milan, i.e. contracting authority *ATEM Milano 1- Città e Impianto di Milano*.

In relation to the responsibilities on water services, in 2015 the Authority also adopted various provisions regarding the regulation of tariffs and the quality of the integrated water service. In particular the following were introduced with specific provisions: the regulation of the contractual quality of the integrated water service and of each of the individual services which go with it, the base agreement for the regulation of dealings between the assigning bodies and operators of the integrated water service with provisions on the essential minimum contents and the tariff method for the integrated water service for the regulatory period 2016-2019.

During 2015 the Authority, besides the consultations regarding the orders which were subsequently issued, undertook consultations aimed at the adoption of the subsequent orders also regarding:

- implementation of the market processes as part of the Integrated Information System for the natural gas sector;
- accounting separation of the integrated water service and of each of the individual services which make it up.

Faced with the numerous consultations by the Authority on issues regarding gas distribution and the company or its subsidiaries, with the publication of documents in regard to which to make observations and proposals, 2i Rete Gas S.p.A. has always put forward its observations/responses on all the issues which it considers relevant.

5.2 Other significant events

- As part of the program of 6 inspections regarding service safety recoveries for 2014, which were established by Resolution no. 219/2015/E/gas of 14.05.2015 for natural gas distribution companies from among those which receive the highest level of incentives or which have not yet been inspected, on 13-14 October and 10-11 November the AEEGSI carried out two inspections on the data regarding safety and on the plant managed, in order to apply the bonus/penalty mechanisms for the safety levels achieved in 2014. No findings or challenges were raised either during the checks undertaken by the inspection staff or subsequently; therefore, the incentives due for 2014 should be calculated and paid over without any reduction. The approval and payment of the incentives for 2014 is expected during 2016.

- On 1 September 2015 2i Rete Gas S.p.A. was notified of the outcomes of the further analysis of the inspection carried out by the AEEGSI in June 2011 regarding the correct application of the provisions on tariffs for the regulatory period 2009-2012 for some areas with assets owned by the local authorities. Despite the fact that the documentation produced to support the values set out in the tables of tariffs was considered compliant or traceable to an accounting source for almost all the areas affected by the analysis, such conformity was not recognised from the start (i.e. from 2009), but only from the moment when further documentation was provided traceable to obligatory accounting sources of the Municipalities, although this documentation confirms the values which were certified at the time by the Municipalities themselves. Consequently the offices of the Authority

envisage, for these areas, the possible automatic application of the tariff up to the year in which the accounting documentation was produced. 2i Rete Gas S.p.A. nonetheless asked the offices of the Authority to reconsider the envisaged approach and to assess as compliant to the original requirements the values set out in the tables of tariffs for all the areas in question, putting forward arguments, backed up also by third-party views, confirming the conformity and therefore the validity of the documentation produced. The Authority's conclusions are expected in the first few months of 2016. The company has in any case already arranged, starting from previous years, to establish a provision for risks to cover any resulting liability.

- By means of the Ministerial Decree of 3 November 2015, the Ministry of Economic Development, ordered, as from 1 January 2016, the reclassification as a distribution network of the regional natural gas transport network of the subsidiary Italcogim Trasporto. As of 1 January 2016 the related plant was bought at the same time by 2i Rete Gas, which manages it with the same start date as a distribution network, while Italcogim Trasporto ended its work as a regional natural gas transport company.

5.3 Provisions subsequent to 31 December 2015

After 31 December 2015, with Resolution no. 10/2016/R/gas of 14 January 2016, it was arranged (in accordance with the provisions of Resolution no. 326/2014/R/gas) to update the interest rate for the repayment to outgoing operators of the amounts to cover tender costs as set out in Ministerial Decree no. 226/11, which was set at equal to the yield on debt capital used for the purposes of setting the remuneration rate on invested capital (WACC). In particular, following Resolution no. 583/2015/R/com of last December that approved the new method for determining and updating the WACC, it was established that:

- for the period 2016-2018 an interest rate is applied equal to the cost of debt capital, in nominal post-tax terms, used for the purposes of determining the WACC, which for the period 2016-2018 is 3.53% (the value set previously to the end of 2015 was 4.86%);
- the interest rate will be updated for the years following 2016-2018, in line with the provisions for updating the WACC in relation to the parameter linked to the cost of debt, in nominal post-tax terms.

With Resolution no. 20/2016/R/gas of 21 January 2016, bonuses and penalties were assigned for 2013 relating to safety recoveries in the natural gas distribution service, for 166 natural gas distribution companies. 2i Rete Gas was the first gas distribution company in terms of bonuses with a value of around 7.3 million euro out of a total of around 23.5 million euro.

5.4 Tariff framework

In 2015 the application continued of distribution and metering tariffs in accordance with the new principles introduced with Resolution no. 367/2014/R/gas for the fourth regulation

period (2014-2019). The net invested capital, both centralised and localised, continued to be remunerated respectively at 6.9% for distribution and 7.2% for metering (biennial review). The same applies for recognised operating costs, which are recorded on the basis of company size and the density of the service, which have been updated for inflation and reduced by an x-factor of 1.7% for distribution and 0% for metering and marketing; a review of this x-factor is envisaged as from 2017.

The application continued in each individual location of the option on how to treat contributions under Resolution no. 455/2014/R/gas on the stock of outstanding contributions at 31 December 2011, which offered the option between two different treatments: the contributions do not deteriorate and depreciation is calculated gross of the contributions or the contributions gradually deteriorate and depreciation is calculated net of the contributions (the most common option on the market).

Therefore, the reference tariffs for natural gas distribution and metering services for 2015, which are calculated on the basis of the preliminary financial data relating to the previous year (t-1), were "provisionally" approved at the start of April with Resolution no. 147/2015/R/gas. The "final" annual accounting of the definitive financial data for 2014 (t-1) took place in November 2015, therefore the "definitive" reference tariffs will be published by the Authority in the first few months of 2016 and applied by the Fund for Energy and Environmental Services, in order to calculate the equalisation for 2015.

During the year, as already noted, the Authority set a remuneration rate respectively of 6.1% for distribution and 6.6% for metering for the period 2016-2018. In reference to the investments for 2016 there was confirmation of the application of parametric assessment criteria for the centralised assets, standard costs for metering and actual costs for distribution, while as from 2017 the Authority intends to evaluate, only for new investments, the introduction of standard costs and is starting due proceedings.

In the final days of 2015 the Authority published, with Resolution no. 645/2015/R/gas, the obligatory tariffs for 2016 for natural gas distribution and metering services, the amount of the bi-monthly equalisation payments on account, and the tariff options for different types of gas. The same resolution also approved the maximum amount that can be recognised in the tariff for higher costs arising from concession fees (COL) to be paid to municipalities pursuant to art. 46 bis of Law Decree no. 159/07.

6. Development work and management of concessions

The competitive bidding market for the methane gas distribution service during the first half of 2015 saw two calls for tenders per individual concession, Castel San Giorgio (SA) and Roccaspide (SA). Very limited the number of tenders for individual concessions published over the last four years, also in light of Legislative Decree no.93 of 1 June 2011 (the "Third Energy Package"), which blocked new calls for tenders which did not refer to minimum territorial areas [Minimum Territorial Areas (ATEM)].

Thanks to the intensive work by both the Ministry of Economic Development and by the AEEGSI, the regulatory framework was recently completed, with the publication on 14 July 2015 of Ministerial Decree no. 106/15 which integrates and modifies Ministerial Decree no. 226/11 and as at 31 December 2015 thirteen ATEM tenders were being held, of which one (Monza and Brianza 2 – West) was withdrawn as a self-protective measure by the contracting authority of Lissone on 21 December 2015.

6.1 Concessions awarded

Regarding the call for tenders for awarding of the natural gas distribution service to the municipalities of the Como and San Fermo of the Battaglia (approximately 44,600 end users), it should be noted that, on 4 November 2014, the Consiglio di Stato rejected the appeal made by ACSM-AGAM Reti Gas S.p.A., confirming the award which 2i Rete Gas S.p.A. had received in 2013 in relation to the gas distribution concession.

Contacts have progressed with the Municipal Administration in order to arrange replacement of the departing operator

On 13 November 2014, 2i Rete Gas S.p.A. received from the municipality of Rozzano (approximately 19,000 end users) communication of the positive outcome of the verification of the requirements declared in the bidding process, as required by the ruling of the Consiglio di Stato, which determined the ineffectiveness of the contract stipulated with GasPiù Distribuzione S.r.l., concurrently establishing the right of 2i Rete Gas S.p.A. to be awarded the natural gas distribution service.

Given the Municipal Administration's failure to act, 2i Rete Gas S.p.A. petitioned for compliance with the ruling of the Consiglio di Stato and the hearing, for which judgement is awaited, was held on 27 October 2015.

On the other hand, regarding the call for tenders for the natural gas distribution service in the municipality of Mirabello (approximately 1,650 end users), it should be noted that on 30 April 2015 the Consiglio di Stato admitted the appeal made by 2i Rete Gas S.p.A. for the declaration of the illegitimacy of the ruling handed down by the TAR of Emilia-Romagna which had cancelled the tender procedure, confirming the final award to 2i Rete Gas S.p.A., which had received it in 2011. Contacts are still underway with the Municipal Administration in order to arrange replacement of the departing operator

The signature of the new contract for the Municipality of Castronno concession (approximately 2,200 end users), which had already been awarded through a tender procedure in 2011, has yet to take place.

6.2 Concessions lost

Regarding the tender for awarding of the natural gas distribution service announced by the municipality of Pieve Vergonte (VB), in association with the municipalities of Anzola

d'Ossola, Ornavasso, Piedimulera, Premosello Chiovenda e Vogogna (a total of approximately 5,800 end users), Molteni S.p.A. has yet to sign the relative service contract, despite the fact that the final award took place in 2011. 2i Rete Gas therefore continues operation thereof, pursuant to art. 14 co. 7 of Legislative Decree no. 164/00.

As regards the tender for assignment of the natural gas distribution service called by the Municipality of Manfredonia (FG) (around 16,000 end customers), on 18 June 2015 the hearing took place following the appeal presented by 2i Rete Gas S.p.A. to the Regional Administrative Court of Bari (TAR). The TAR of Bari on 29 July 2015 passed judgment nullifying both the exclusion due to anomaly of the offer by 2i Rete Gas S.p.A. and, consequently, the award to the company Gasman, however limiting its judgment to asking the local authority to renew the procedure for verifying the anomaly as well as the consequent award.

On 28 September 2015 Gasman appealed to the *Consiglio di Stato* against the aforementioned sentence of the TAR of Bari.

The hearing before the *Consiglio di Stato* was set for 22 March 2016.

6.3 Participation in non-“ATEM” tenders

As indicated above, during the year two tenders were called for assignment of the gas distribution service in the municipality [manca il nome del commune nell'originale]. 2i Rete Gas S.p.A. only took part in the tender for assignment of the concession for the final and executive design, the construction and management of the gas distribution plant of the municipality of Roccadaspide with the criterion of the economically most advantageous tender, as called on 4 November 2015 in the Official Gazette by the local authority for a period of five years and in any case not beyond the assignment of the ATEM tender for SALERNO 3 – North and East. The final outcome of this tender from the contracting authority is pending.

6.4 Activities on “ATEM” tenders

During this year the company has been actively preparing and transmitting all the necessary documentation to the Municipal Administrations and/or the Contracting Authorities which have requested this material in order to draft and subsequently publish the call for tenders.

This is preliminary information which must be updated during the tender and is envisaged by art. 4 as well as the redemption value due to the outgoing operator as envisaged by art. 5 of Ministerial Decree no. 226/2011 calculated in accordance with the methodologies envisaged by the most recent legal provisions in force at the time of sending the information and the data available at that date.

As already mentioned in the second half of 2015 the following tenders were called for the following Minimum Territorial Areas : Varese 2 – Centre, Udine 2 – City of Udine

and Centre, Monza and Brianza 2 – West (as already mentioned withdrawn as a self-protective measure by the contracting authority, the Municipality of Lissone on 21 December 2015), Alessandria 2 – Centre (the deadlines for which were suspended in 2016), Turin 3 – South West, Massa and Carrara (the deadlines for which were suspended in 2016), Milan 1 – City and Plant of Milan, Udine 1 – North, Monza and Brianza 1 – East, Cremona 2 Centre and Cremona 2 South (the deadlines for which were suspended during 2016), Venice 1 – Laguna Veneta, Turin 2 – Plant of Turin and Perugia 2 – South and East.

Finally, it is noted that on 27 January 2016, the AEEGSI published clarification regarding tenders which have not complied with the obligation to send the tender announcement and regulations to the Authority itself, on the basis of which, should there be a difference between the residual industrial value and the RAB of more than 10%, the value taken for regulatory purposes will be the parametric value determined pursuant to article 14 of the Authority's Resolution no. 310/2014/R/gas of 26 June 2014.

6.5 Definition of the repayment value

As regards agreement on the repayment value for the outgoing operator of the plant they own, during 2015 there was growing interest seen from public administrations and contracting authorities. These were in charge of completing the discussions started some time ago through numerous technical meetings, also in light of the obligations to publish tenders and of future uncertainties in the case of disagreement with the distributor regarding compensation.

6.6 Recovery of sums arising from the transfer of plant

During the year, an agreement was reached on the means of payment for plant in Toscolano Maderno, Stezzano and Sumirago and a repayment plan was agreed with the local authority concerned.

7. Support for gas transport activities

7.1 Main Regulatory Changes

As mentioned, during 2015 the Authority issued numerous orders regarding the activities for which the "Network Commercial Services" Department is responsible. In particular:

- Resolution no. 117/2015/R/gas of 19 March 2015 which reforms the regulation regarding the metering of redelivery points of the gas distribution network
- Resolution no. 258/2015/R/com of 4 June 2015, which amends and integrates the rules regarding payment delays in the electricity and natural gas sectors.
- Resolution no. 418/2015/R/com of 6 August 2015, which approves the provisions relating to the initial implementation of the Integrated Information System for the natural gas sector, in particular in relation to extending the pre-check and management service as part of the integrated water service to the monthly and annual data under the Integrated Text on Gas Settlement (TISG).

The implementation phase of the regulatory amendments which entered into effect starting from 1 January 2016 and are described in further detail in the paragraphs below was concluded with success, while to date the internal actions aiming to implement the processes connected to the regulations that will enter into effect from the first half of 2016 are under way.

7.2 Support for corporate developments

During 2015 was launched and terminated the project for the in-sourcing of the gas distribution commercial operations as part of the "Network Commercial Services" of the subsidiary Genia Distribuzione Gas S.r.l. with 17,075 active customers.

The implementation of processes and systems in order to provide correct management of all corporate operations as outlined above was successfully completed and these will come into force as from 1 January 2016.

7.3 Relations with Traders and Customer Care

Major customers

In 2015 the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sale companies or traders).

The Group's main customers are Italian companies which are leaders on the gas market. In particular, customers with which turnover was over 10% of the total during the year were:

- ENEL ENERGIA S.P.A. with 44.0%
- GDF SUEZ ENERGIE S.P.A. with 14.1%

Commercial quality

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

The general quality index, pursuant to the provisions of Resolution no. 574/2013, was 0.15% for the specific levels and 1.13% for the general levels.

To provide a useful comparison, pursuant to Resolution no. 574/13, the minimum percentage of requests for complex works that must be completed within a maximum of 60 working days is 90% (compared to the 97.71% achieved) and, in any case, automatic compensation is envisaged and paid should the planned service target not be met, as moreover happens for the other parameters set out here for which there is no minimum threshold.

Management of complaints

The main areas on which requests for information and/or complaints were received from end customers are the following:

- Verification of metering and reconstruction of consumption
- Information regarding the ownership of the redelivery point
- Clarification as regards the activation of last resort services.

In 2015, the 2i Rete Gas group managed 3,279 written complaints and 3 requests for information in addition to requests from the AEEGSI which were received through companies authorized to sell gas.

Replies were prepared to 546 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 by end customers.

Finally, there were 2,768 requests for technical data which can be acquired through a meter group reading (M01), and 5,522 requests for other technical data (M02).

Front Office

In 2015, the management activities referring to commercial services required by the sales companies took place, in continuation of the information provided in the

previous year, almost exclusively through the Four portal; this instrument has now been adopted by most of the sales companies, both in the "web" solution as well as in its "application to application" solution.

The processes for activation of last resort services, supply of last resort (Fui) and default service (Default), experienced a significant increase in the same period, compared to the previous year, mainly due to the delays in the payments of the end customers to the respective sales companies.

Indeed, the latter can terminate the supply contract with the end customer, even without closure or interruption of the supply due to technical and/or economic reasons, taking advantage of their right to terminate their ownership which can be transferred to the competent supplier of the last resort.

On 31 December 2015, the redelivery points for which last resort services were in effect were respectively 13,059 (FUI) and 6,227 (Default).

Continuing from 2014, the activity carried out in compliance with the applicable laws on the switching off of the redelivery points under the Default Distribution regime continued.

During 2015 1,971 redelivery points had seen their supply interrupted

In 2015, there were 32,200 requests for a supplier change per month on the average, totalling 387,460 switching requests.

Meeting with sales companies

As in the previous year, in November the Network Commercial Services Department met the representatives of the sales companies operating on the gas distribution network of companies in the 2i Rete Gas Group, in two separate meetings held in Rome and Milan.

The main issues addressed concerned the corporate developments at 2i Rete Gas S.p.A. in 2015 and communication of the related projects approved, starting as from 1 January 2016 and which are described above.

These meetings set out the main issues relating to the development of the regulatory framework in the gas distribution sector and the main changes in terms of processes and systems introduced by the Network Commercial Services Department. This is not only in order to incorporate the provisions that have come into force, but also to increase the efficiency of corporate processes managed by the Front Office, Transport Invoicing, Service, Settlement and Metering Invoicing services.

The meetings saw the involvement of 88 sales companies.

7.4 Gas invoicing and Balancing

Invoicing of Transport and Services

During the year, in compliance with the timelines set by the provisions of Resolution no. 573/2013/R/gas of 12 December 2013, the calculation engine for invoicing of the transport service was adjusted beginning 1 January 2015.

The main new areas referred to:

- introduction of stepped differentiated consideration for fixed distribution amounts and metering based on the meter calibration class;
- introduction of stepped differentiated consideration for variable portions of distribution;
- the introduction of two new fixed components of the mandatory tariffs for the distribution service, covering, respectively, the tariff discount pursuant to the future tenders to be held (this is still to be defined) and coverage of the differences between realisable value of concessions (VIR) and RAB.

In compliance with the envisaged timeframes, the regulatory changes introduced by Resolution no. 258/2015/R/com of 4 June 2015 were implemented, regarding:

- compensation to be applied to the distribution company, in the case of failure to comply with the deadlines envisaged for the communication and execution of services regarding processes on late payments, suspension of redelivery points and interruption of redelivery points.
- reduction in fees invoiced for the transport service, in the case of failure to comply with the envisaged deadlines, for the carrying out of services regarding processes for arrears; this reduction will be applied only to Redelivery Points which are affected by the aforementioned delays, to the extent of 50% for the period between the date envisaged for undertaking the work and the real date the work is done.

In addition, the implementation stage was completed for the “Zero Printing” project for the Transport Service Invoicing Unit; this project enabled the means of transmitting tax documents to be changed, moving from despatch via the postal service to the use of certified email, with a consequent benefit in terms of the certainty of delivery, payment within the invoice due date and elimination of the costs connected to postal delivery.

The invoicing of the transport service and commercial services was done monthly and regularly during 2015.

Gas Balances

During 2015, respectively in February and July, in compliance with the Resolutions no. 229/2012/R/gas – TISG (Integrated Tax on Gas Settlement) and no. 534/2013/R/gas “Means and timeframes for redetermining the balancing sessions held in 2013”, the following activities were completed:

- handover to national/regional transporters of data relating to the 2013 adjustment session;
following publication by the AEEGSI and the Head of Balancing for Snam Rete Gas

of an exceptional procedure, aimed at letting distribution users notify the presence of errors in the data needed to carry out the adjustment session itself, there was also the opportunity to compare and verify data with distribution users for which these notifications were made;

- handover to national/regional transporters of data relating to the 2014 adjustment session

The implementation related to adjustment of the calculation engine for monthly balances was finalized upon entry into effect of Resolution no. 117/2015/R/gas of 19. March 2015, which establishes, among other things, the obligation to read on a monthly basis and provide daily details for the redelivery points with the metering groups equipped with a deployed "smart meter" (class higher than/equal to G10) and consequent use of readings in the commercial processes.

The monthly activities linked to calculating the balance were regularly carried out in compliance with the deadlines envisaged by the relevant law.

7.5 Metering

During the year meter-reading work was assigned to 4 new contractors in place of the previous 22. It is envisaged that this change will allow the whole process of managing meter-reading batches to become more efficient.

The entry into effect of Resolution no. 117/2015/R/gas of 19 March 2015, which, with different application deadlines, reformed the regulation on metering of redelivery points of the gas distribution network, introducing significant amendments regarding the procedures applied by the distribution company for recording and providing the data, in order to increase the number of actual metering data available to the seller.

The main impact concerned the process of remote reading, switching and scheduling regular readings starting from 1 January 2016, which was duly made available on the website of 2i Rete Gas S.p.A.

In reference to Resolution no. 117/2015/R/gas, 2i Rete Gas S.p.A. and its subsidiaries have arranged their own plan to take meter readings, which was accepted by the AEEGSI, since it was in line with the principles envisaged by the regulation as set out in the aforementioned resolution and with the related clarification published on 5 August and 23 October 2015.

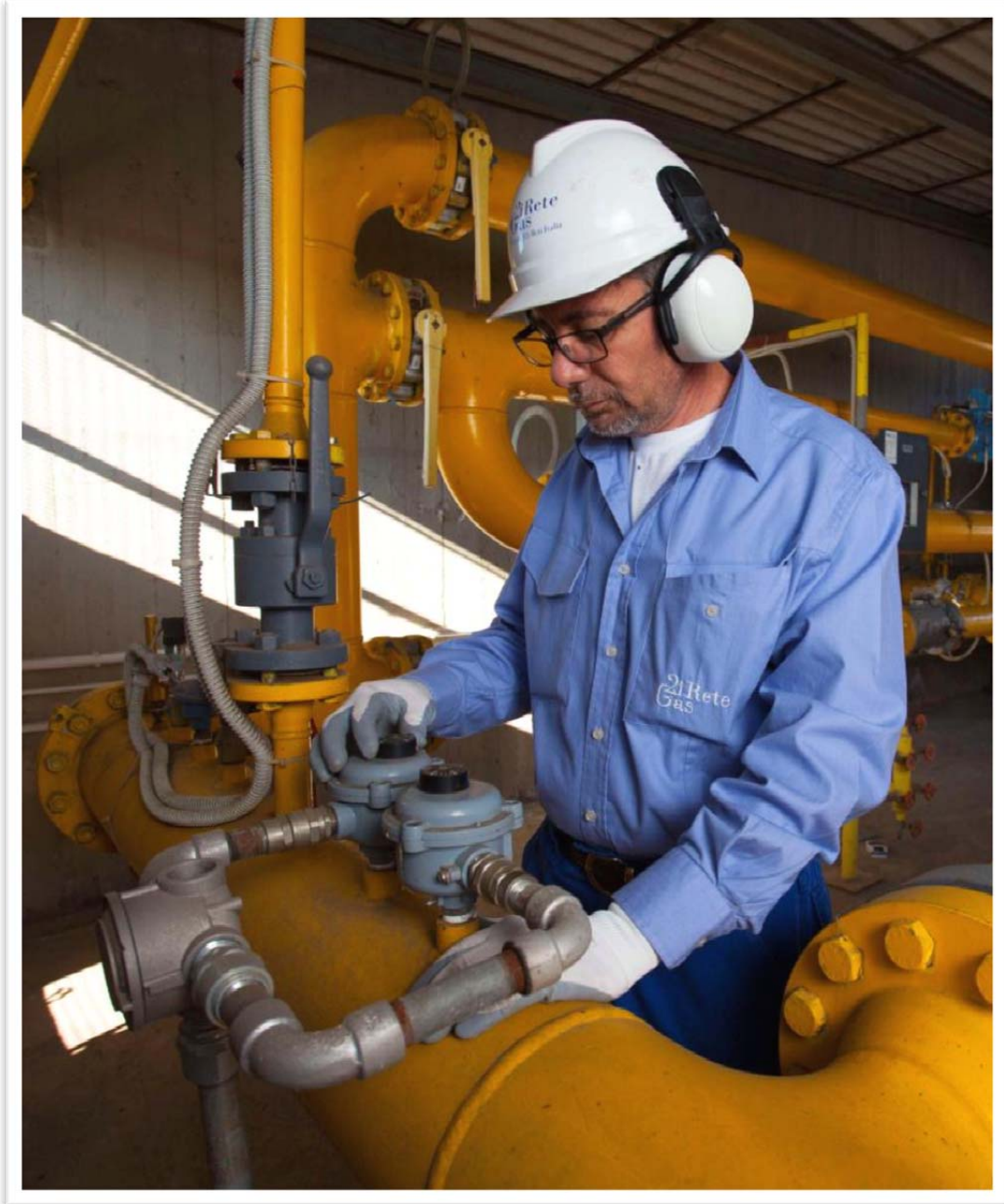
7.6 Determination of Equalisation Balances for the Default Distribution Service for the period February-May 2013

During 2015, following the publication, by CCSE (now CSEA, i.e. the Fund for Energy and Environmental Services), of the circulars:

- no. 18/2015/GAS “Mechanisms to reintegrate the costs for arrears of the default service in the natural gas sector for 2013-2014 and update of previous years”
- no. 19/2015/GAS “Mechanisms to equalise revenues for default services in the natural gas sector – Equalisation of the default distribution service for late supply of the service between 1 February and 31 May 2013

work was completed to determine and communicate the data needed prior to determining the balances for the total specific equalisation of arrears, relating to receivables that were not collected by distribution companies for invoices issued for over 12 months in relation to the default distribution service (amount credited to the distribution company) and the total general equalisation of the default distribution service, relating to the determination of the margin between the revenues from application of the terms and conditions envisaged by the law in force for the default distribution service and the costs incurred by the distribution company in providing the necessary resources to supply the service (amount debited to distribution company) for the default distribution service for the period between 1 February and 31 May 2013, a transitory period of the regulation in which the distribution company was responsible for guaranteeing the balancing of the distribution network in relation to the off-take of gas directly by end customers who did not have a supplier.

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



Checks in substation

8. Plant construction, environment and safety

8.1 Gas distribution plant

During the period a total of around 215 km of piping was laid, of which around 56% was high to medium pressure and 44 % low pressure.

In general the piping laid in the year was around 95% done in HDPE (high density polyethylene) which is a technologically advanced material widely used by the main international gas operators and has lower operating and laying costs compared to traditional coated steel.

This work arises from the improvement needed to maintain levels of service and acquisition of new customers as well as to meet the concession obligations deriving from the agreements with the competent authorities.

The total length of piping managed by the 2i Rete Gas Group at 31 December 2015 was, therefore, around 57,632 km, servicing over 1,900 municipalities. In addition, 1,134 primary substations are active which, downstream from the distribution networks which the Group manages, reduce, measure and odourise the gas from the national transport networks. Specifically the network consists of around 47,000 km in steel piping (of which around 27,500 km at low pressure and around 19,500 km at medium pressure) and around 10,000 km in HDPE (around 5,500 km at low pressure and around 4,500 km at medium pressure). On the network there are also over 14,000 secondary reduction groups with a capacity of at least 120 scm/h to reduce pressure between the medium and low pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.

8.2 Network and plant design

During 2015 design work continued, given the forthcoming launch of the ATEM or area tenders envisaged by Ministerial Decree no. 226/2011, and focussed on planning and preparation for the envisaged area tenders.

During the year work continued to recover and check further detailed technical elements in order to draw up the best possible technical proposals to be put forward in the tender stage and to automate as far as possible the related design work.

Following the publication of some tenders in the final months of the year, starting from December, work was also aimed at analysing these tenders and their related technical documentation, if present. Project guides were also analysed, which, besides being an obligatory document for the contracting authorities in which the main local needs and/or expectations or technical failings are indicated by the contracting authority, are an essential element to better direct design choices and are initial technical and economic means of identifying the main work needed.

8.3 Service continuity and safety

The 2i Rete Gas Group carried out checks on the data concerning service continuity and safety processes as set out in Resolution no. 574/2013/R/gas

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).

By the end of March 2016 reporting on the technical standards for 2015 will be completed, extracting the data recorded directly during the year from the company information systems, as well as undertaking checks on the correctness and congruence of the reported data.

In general, in keeping with the experience of previous years, we can already confirm the qualitatively high level of the service both in comparison to the minimum service required and in relation to the service provided by competitors.

In terms of constant attention to the safety of plant and end customers, campaigns were undertaken regarding the preventative search for dispersions: relating to the planned inspection on the distribution network equal to over 70% of the high and medium pressure piping and over 60% of the low pressure piping.

As regards checks on the level of odourisation of the gas distributed which were carried out in the field in order to provide a complete check on the real level of odourisation of such gas, data was recorded (around 16,000 chromatographic gas tests) well above the minimum value required by the AEEGSI (around 3,300 tests), a sign of the particular attention paid to service safety.

8.4 Technical and cartographic systems

As part of the technical systems, the use of the new cartographic system (SIR) became firmly established during the year.

As regards the system for remote surveillance of cathodic protection, work started to bring in-house the application which will be completely managed by specialist divisions of the company.

8.5 Smart meters (Resolution no. 155/08)

Following the publication by the AEEGSI of Resolution no. 631/2013/R/GAS of 27 December 2013 – "Changes and additions to the obligations for putting smart gas meters into service", with the attachment "Directives for putting into service gas meters featuring the minimum operational prerequisites" – which made important changes to the directives

started with Resolution no. 155 of 2008, 2i Rete Gas established the plan relating to the installation of electronic meters.

At the end of 2014, with Resolution no. 651/2014/R/GAS of 23 December, some further changes were introduced to the Directives, relating to the addition of installation obligations for electronic meters for companies which may have continued with the installation also of traditional meters.

These changes made a review necessary in the first few months of 2015 of the previous idea of replacing traditional meters.

During the year 2i Rete Gas was committed to the complex programme of renewing domestic customers' meters, an authentic and important revolution in the gas distribution world. The plan to install domestic meters continued and, starting from the first grouping of 23 municipalities, has been extended to a total of 409 cities in Italy.

In the meantime, in accordance with the respective programmes, work continued on both the activities of the pilot projects in Biella and Perugia, relating to the installation of integrated domestic meters and the concentrators needed to send the readings to the central systems, and on the activities of the "Gas G4-G6 Remote Reading Project" to support the mass installation plan of domestic meters and with the aim of regulating the growth of new technologies and standardising procedures and processes.

Regarding the installation of mass market meters, during 2015 over 388,000 electronic meters were installed, taking to over 450,000 the total number of domestic electronic meters installed; at the end of the year around 118,000 meters were also put into service, in line with the objectives set by the AEEGSI.

Finally, with reference to the meters in higher classes, the so-called "industrial" meters, in 2015 the adjustment was completed to the Directives on G16 and G25 class meters, and work continued to adjust the G10 class meter for which the objective of 30% set by the Authority for the end of 2015 was well exceeded.

At the end of 2015 over 68,000 industrial meters had been adjusted and remotely read overall, both through the add-on solution and with the integrated solution.

At the end of the year, with Resolution no. 2015 554/15/R/gas of 20 November, the AEEGSI introduced further significant changes to the Directives attached to Resolution no. 631/2013/R/GAS; the changes entailed, among other things, for companies of the size of 2i Rete Gas and for meters in the G4 and G6 classes, a reduction in the installation objectives to 2018 from 60% to 50% and the introduction of interim objectives for 2016 (15%) and for 2017 (33%).

The Group does not envisage any particular problems in complying with these new objectives.

8.6 Regulatory oversight

Also during 2015 the 2i Rete Gas Group took active part in regulatory oversight both at national level, in numerous working groups and committees of the UNI-CIG (Italian Gas Committee), and in Europe.

9. Quality, Safety and Environment

As part of the periodic verification of the conformity of the Integrated Quality, Safety and Environment (QSE) Management System, which was contractually entrusted to the certification body "Certiquality S.r.l.", in the first half of 2015 the first control visit took place to maintain the certifications.

The verification allowed to confirm that the integrated QSA system is considered to be active and compliant with the reference standards and able to fulfil the requirements of customers. The safety management is considered effective and disseminated throughout all levels of the organization. The improvement goals are identified and pursued taking account of the development of the organisation.

The indicators prescribed by the AEEGSI are complied with.

No cases of non-compliance were reported.

During 2015, ISO published the new version of the certification standards ISO 9001 and ISO 14001; the new standards envisage a three-year transition period, during which certificates issued against the previous edition of ISO 9001:2008 and ISO 14001:2004 will remain valid.

The current certification issued to 2i Rete Gas SpA is therefore confirmed up to June 2017, the deadline by which the renewal must be made.

Until this deadline, a routine check will be carried out annually by the Certification Body aimed at confirming the existence of the prerequisites expected by the certification standards referring to UNI EN ISO 14001:2004 Environmental Management System, BS-OHSAS 18001:2007 Safety Management System and UNI EN ISO 9001:2008 Quality Management System.

The transition to the new editions, which entails the need to assess changes made necessary by the new revisions of the 9001 Standard and the 14001 Standard and to identify gaps in regard to the new prerequisites, will in any case be planned to coincide with the renewal of certification in 2017.

9.1 Prevention and protection service

In keeping with the activities envisaged for the change in the registered office and the alignment of the supporting documentation between August and October 2015, the employers, in collaboration with the Prevention and Protection Service, arranged to update the Risk Assessment Documents for each individual Production Unit.

In addition, the safety system organisation document for all the production units is periodically updated and is responsible for identifying, in relation to the provisions of Legislative Decree no. 81/08, the figures in the company who act as the Employer, Delegate of the Employer, Head of the Prevention and Protection Service, and Operator of the Prevention and Protection Service.

During the year in agreement with company management and in collaboration with the Human Resources Department, it was arranged to undertake a new assessment on work-related stress, in order to update the data which was previous available separately for Enel Rete Gas and G6 Rete Gas.

The assessment which ended in September involved around 800 employees spread evenly among different work roles and locations, thus enabling a meaningful picture to be developed at company level; the total risk coefficient fell compared to the past.

9.1.1 Trend in injuries

With reference to the operating personnel, in 2015 there were 13 "non serious" accidents (that is with prognosis lower than 30 days) while the number of accidents defined as "serious" remained at zero (that is with prognosis higher than 30 days).

As regards injuries to operational staff, the trend in 2015 when compared to the figures for the previous year, improved with one injury fewer.

9.1.2 Healthcare oversight

During 2015, oversight of and compliance with the health surveillance program were ensured, according to the indications that emerged from the risk assessment and based on the correlated health protocol.

The total number of staff subject to routine checks to guarantee their suitability for their task was 1,285 (65% of staff considering the total workforce of 1,963 at 31 December 2015); the table below summarises the results, noting that the oversight protocol was also applied to staff who were newly recruited during 2015, including trainees.

Healthcare Oversight Prevention Indicators

| | |
|---|-------|
| Staff subject to healthcare oversight | 1,285 |
| No. employees confirmed suitable for the task | 1,285 |
| No. employees judged suitable for the task with limitations | 159 |
| No. employees judged unsuitable for the task | 0 |
| Cases of work-related illness | 0 |

9.2 Environmental issues

In 2015 too, the Quality Safety and Environment Department guaranteed the monitoring of environmental aspects with the introduction of a new and improved “Environmental Analysis”.

The company also benefitted from the main regulatory alignment for the industry thanks to the constant updating pursued by QSE.

Together with the Prevention and Protection Service, environmental investigations for air-dispersed fibres continued as scheduled at the surveyed sites where asbestos is present, with results that were well below the reference limits.

In addition, following the issue of the Guidelines on the handling of man-made vitreous fibres, it was arranged to summarise the situation at company level regarding the surveying of fibres and to define the modus operandi in cases that are considered as requiring reclamation.

During 2015 work continued to map the acoustic features of ReMi substations and to monitor the noise produced by gas pressure reduction plant, so as to enable the planning of subsequent actions and/or initiatives to mitigate the environmental impact.

In reference to waste management, the QSE Department followed regulatory developments relating to the Waste Traceability System (SISTRI) implementing, in compliance with the relevant law, provisions on how to handle special hazardous waste generated in the production units that are affected. To support and control the management of special waste, 2015 saw the use, when the system was at full operation, of a specific application in parallel to that of the loading and unloading registers.

10. Water sector

The management of the potable water in 10 municipalities in which the company is still present continued. In this regard it is noted that:

- on 25 May 2015 2i Rete Gas S.p.A. signed with ACEA ATO 2 S.p.A., the single operator of ATO 2 Lazio Centrale-Rome, the agreement for the disposal of the integrated water service plants in the municipality of Colferro (Rome) (approximately 8,600 end customers) and the launch of the new management by ACEA ATO 2 S.p.A. beginning on 26 May 2015;
- on 2 December 2015 2i Rete Gas S.p.A. signed, again with ACEA ATO 2 S.p.A., the agreement for the disposal of the water mains service plants in the municipality of Valmontone (Rome) (a little more than 5,000 end customers) and the launch of the new management by ACEA ATO 2 S.p.A. beginning on 3 December 2015.

11. Human resources

11.1 Company organization

2015 was a year characterised by activities and efforts to develop work processes, some existing organisational models, information systems, optimise monitoring and reporting instruments, analyse and define improvements to be made to communication and relational aspects aimed at a gradual construction of a single new corporate culture, as part of an organisational structure which is now integrated, both at central and local level.

Training programmes were started to develop the professional, communication and managerial skills of young staff who have stood out in the company in terms of their role or ability to coordinate.

The implementation of an Assessment System was also started – in the sense of both a system to maximise people’s value and to analyse and verify performance – which involved staff with a coordinating role and/or a specialist function, with the aim of a gradual extension of the system to a greater percentage of staff.

A thorough recruitment and selection process was carried out for addition of specialized staff and/ or staff with potential.

The outflow of staff is to be considered normal.

Here below is the breakdown of staff at 31 December 2015:

| | Executives | Middle Managers | Office Employees | Workers | Total |
|--------------------------------------|------------|-----------------|------------------|------------|--------------|
| Personnel at 31 December 2014 | 33 | 106 | 1,116 | 719 | 1,974 |
| Increase | 2 | 0 | 34 | 0 | 36 |
| Decrease | (2) | (1) | (25) | (19) | (47) |
| Change in category | 0 | 5 | 2 | (7) | 0 |
| Personnel at 31 December 2015 | 33 | 110 | 1,127 | 693 | 1,963 |

Average number of employees of the 2i Rete Gas Group

| Average balance | 2015 | 2014 |
|------------------------|--------------|--------------|
| Executives | 33 | 34 |
| Middle Managers | 105 | 105 |
| Office Employees | 1,107 | 1,105 |
| Workers | 702 | 758 |
| Total | 1,947 | 2,002 |

11.2 Relations with trade unions

2015 was characterised by two union agreements relating to the performance bonus and business travel, as well as union meetings/discussions both at national and local level for the analysis and study of:

- Availability outside of work hours
- Composition and renewal of the single union representation (RSU) and rules for talks as part of union relations
- Growth of the workforce, workloads and rebalancing of internal resources.

11.3 Selection

2015 was characterised by intensive recruitment and selection, which led to a total of 36 new employees, with different types of contracts (from staff leasing to fixed-term and permanent contracts): in particular, the focus was on completing the Network Commercial Services, Information Systems and Purchasing & Services departments, as well as reinforcing some technical and administrative areas and departments (in particular in the north and centre).

Besides these main recruitment operations, further recruitment then occurred, in particular in the Legal Department, Administration, Finance and Control Department, and finally the Human Resources Department and in the Tariffs and Rents Office to cover maternity leave.

11.4 Training and development

In 2015, the Human Resources Department completed the supply of a managerial training course, which started in 2014 and which saw as participants a group of 30 key managers belonging to various divisions and departments: the training modules taken in 2015 concerned negotiating, problem-solving, leadership and change management.

Also a specific three-day training course was started, based on communication, problem-solving and time management, dedicated to a select group of staff who have stood out due to their excellent performance and potential, which will be completed in February 2016.

In addition to this, in collaboration with the QSA, the design, organization and holding of training/information courses concerning work-related stress was held over 13 days of meetings at the headquarters and within the territory, with the participation of approximately 40% of all employees.

The following initiatives were then organised within QSE:

- fire safety course for around 450 people for all Departments;
- first aid and fire safety course for newly appointed staff for the new offices in Via Albricci in Milan;
- courses on Planning, control and placement of road signage (throughout Italy);
- courses to qualify electricians as Expert Persons (completion of the training started in 2014);

In addition:

- training was designed and supplied for professional alignment and development of departmental human resource managers;
- a course on assessing staff was held in order to support first level managers in the new internal assessment process;
- a training cycle was designed and supplied by DNV on audit techniques and on Resolution no. AEEG 574/2013/R/gas, with the main objective of improving the quality of gas distribution services and focussing on the most important technical innovations;
- some of our engineers who have powers of signature were provided with a series of courses on Project Management, ISO 50001 and Risk Management in order to obtain Professional Training Credits.

Finally, the following initiatives were launched:

- the design and planning of a cycle of sessions regarding the use of office automation instruments;
- the training project to deepen knowledge of company processes and structures and more generally of our sector, dedicated to those joining the company in the last three years, with supply planned for the first few months of 2016;
- the tendering of a mass cycle of sessions on the issue of first aid, to be carried out in the first half of 2016.

For the most important of these initiatives, financing was requested and obtained from the Inter-professional Fund for continuous training (Fondimpresa), to cover all the related expenses.

12. Information systems

2015 was the first year of complete autonomy on the part of the 2i Rete Gas Group in managing the information system: on 2 January with the migration of the systems acquired for the Datacenter of 2i Rete Gas, the in-house project was completed and so independent management started of all the Group's systems and services under the control of the Information Systems Department.

Overall a series of actions were taken to develop the information system in order to comply with the regulatory provisions: among the main actions were the finalisation of systems to guarantee the process of the first 2014 adjustment session, the adjustment to the invoicing system under Resolution no. 573/13/R/gas, with a significant review of the invoicing system in order to incorporate the invoicing rules for fixed quotas, actions on all the systems to guarantee the new management system for arrears and to comply with the new resolution on metering (117/2015/R/gas), as well as actions to enable the putting into service of electronic meters (Resolution no. 631/2013/R/gas) and to guarantee the integration with the Integrated Information System of the Single Buyer and to realise the "on condition" updating of the integrated water service as ordered by AEEGSI.

In particular, to this end, the project was organised to manage the workforce in the field (so-called "WFM Full").

The G4-G6 Gas remote management project required a significant commitment for the upgrading of the systems and information and operating processes involved in the replacement of the electronic gas meters, with adjustment of the involved systems to better support operations.

In addition, work was started for the network roll-out to install concentrators in some cities where the plan for the mass replacement of meters is underway, thus allowing the launch of remote reading of meters in the Municipality of Perugia.

In April, Genia Distribuzione was integrated into the 2i Rete Gas systems, ensuring full operative management according to corporate processes directly on the Group systems.

In the final part of the year, important stages were completed in some projects aimed at increasing operating efficiency: among these, the new system of designing and managing planned maintenance, the graphic design and estimating system, the first stage of the system to realise managerial reporting.

In the final quarter, the project was also completed for the realisation of Disaster Recovery, with the successful undertaking of the failsafe testing of one of the centres which houses the Gas Emergency Response service.

13. Research and development

No research took place during the year. Development was centred on in depth examination and verification of certain technologies aimed at monitoring the quality of work and new materials.



Checks on connections

14. 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 operates. Regarding liquidity, credit and market risks reference should be made to the appropriate section in the notes to the financial statements and the consolidated financial statements.

14.1 Operational risks

The management of the natural gas distribution network involves the risks of malfunction or unanticipated interruption of the service, due to factors that are not under the Group's control, such as accidents, breakdowns or malfunctions of equipment or control systems, underperformance of the plants and extraordinary events such as explosions, fires, earthquakes, landslides and other natural disasters. These events can result in an interruption of the service, significant damages to persons or things, the environment and/or which could cause disturbance at the social and economic level.

Any service interruptions, inadequate performance or inadequacy of the Group structures and/or the consequent obligations to provide compensation could result in a reduction in revenues, an increase in costs and/or regulatory interventions. The Group has stipulated specific insurance policies against these risks, which are considered to provide adequate coverage insofar as the types and levels of the damages that could be caused.

14.2 Risks linked to the development of the legal and regulatory context

The Group may be exposed to risks related to changes in the tariff levels applied to its activities, which are regulated by the natural gas distribution sector. For example, a change in the regulatory variables or in the method used for regulation, including, by way of example, in the means by which the grants received to develop the network and infrastructure are included in the tariff in each regulated period, will impact on the levels of tariffs applicable to the Group's business, with negative repercussions on revenue and profits.

The regulatory period has a six-year duration, during which the review of the WACC (weighted average cost of capital) is planned every three years.

14.3 Risks deriving from the future trend in natural gas consumption

Though the regulated income of the Group's operating companies does not directly depend on the distribution volumes, in regard to which the group has not incurred any risks insofar as the volumes of the demand, a prolonged economic crisis or other external event that may lead to reduced gas consumption levels could give rise to an increase in interventions by the government and changes to the legislative framework, which could impact negatively on the Group.

14.4 Environmental and safety risks

The management and maintenance of the gas distribution networks is an activity which is potentially dangerous and which could cause damages to members of the public and/or employees of the Group. The Group is subject to domestic and European community laws and regulations that govern issues regarding health and safety and the purpose of which is to protect the public and the employees.

In its operations, the Group uses products and sub-products that are potentially dangerous, and the work sites in which it operates are subject to laws and regulations (including zoning laws) regarding pollution, environmental protection and usage and disposal of hazardous substances and waste.

These laws and regulations expose the Group to costs and liabilities connected to its operation and its plants, including in relation to the disposal of waste.

The costs for future obligations of any environmental restoration are subject to uncertainty, in relation to the extent of the contamination, the appropriate corrective actions and the responsibility inherent upon the Group, which are often intrinsically difficult to calculate.

To mitigate the risk, the Group has concluded specific insurance policies covering both the cost of intervention required to contain any potential pollution as well as the restoration and connected damages.

15. Main features of the risk management and internal control systems in relation to financial disclosure

This section of the Directors' report describes the main features of the Group's corporate governance, thus discharging the specific disclosure obligations envisaged pursuant to art. 123 bis of Legislative Decree no.58/1998 – Consolidated Law on Finance (TUF – Report on corporate governance and shareholding structure) regarding the information required by paragraph 2, letter b).

15.1 Foreword

On 1 January 2015 F2i Reti Italia S.r.l. merged with the subsidiary 2i Rete Gas S.p.A., at the same time taking its name and corporate form.

Following the aforementioned merger, as described in detail hereafter, 2i Rete gas S.p.A. (former F2i Reti Italia S.r.l.) integrated its internal control system, basically changing it to that implemented in the Incorporated company.

The Internal Control System adopted, in its broadest sense, is defined as a process undertaken by the Board of Directors (hereafter the "BoD"), by executives and by other people in the corporate structure, the purpose of which is to provide a reasonable guarantee concerning the achievement of all the corporate objectives, whether strategic, operational or in terms of legislative/regulatory compliance.

In addition, the Internal Control System aims to ensure that the company:

- respects the laws, regulations and internal procedures,
- safeguards the company's assets,
- makes the accounting and operational information reliable,
- applies criteria of efficiency and effectiveness in the operations it undertakes.

In particular the Internal Control System in relation to the financial disclosure process aims to identify and assess the actions or events whose occurrence or non-occurrence may compromise, in full or in part, the achievement of the objectives of the trustworthiness, accuracy, reliability and timeliness of the financial disclosure.

In general reference to the whole Internal Control System and, in particular, to the Company's financial disclosure, the BoD defines:

- the guidelines so that in the Company an Internal Control System is adopted which refers directly to the models envisaged by relevant best international practice (i.e. the "Co.SO Report");
- the initiatives necessary so that the strategic, operational and legislative compliance risks of the Company and of the Group are adequately measured, monitored, managed and assessed through a suitable and structured risk analysis method;

- the methods and contents with which the effectiveness and actual operation of the Internal Control System is periodically tested. This must take place on the basis of a suitable organisational framework and arrangements to be realised by the delegated departments (approval of the Audit plan and verification of the audit work undertaken by the audit bodies).

15.2 Bodies supporting the BoD which operate with a view to financial disclosure

In order to be able to effectively implement the items indicated above, the BoD interacts with various institutional control bodies, such as the Board of Statutory Auditors, the Supervisory Body pursuant to Legislative Decree no. 231/2001 (hereafter the “SB”) and the independent auditors, with the support of the CFO and of Internal Audit, ensuring that the latter have the powers and resources needed to undertake their respective functions and activities.

Board of Statutory Auditors

The Board of Statutory Auditors carries out the supervisory and control functions envisaged by the Italian Civil Code. Given that the Parent company is a “Public interest body”, on the basis of art. 19 of Legislative Decree no. 39/2010, the Board of Statutory Auditors also acts as the “internal control and audit committee”, with supervisory responsibilities over:

- a) the financial disclosure process;
- b) effectiveness of the internal control, audit (if applicable) and risk management systems;
- c) audit of the annual accounts and consolidated accounts;
- d) independence of the statutory auditor or of the independent auditors, in particular as regards the provision of non-audit services to the body whose accounts must be audited.

Supervisory Body and Organisational Model under Legislative Decree no. 231/2001.

On 23 December 2014 the BoD of the Incorporating company adopted – with effect as from 1 January 2015 - the new Organisational Model under Legislative Decree no.231/01, which takes its inspiration and contents from the experience of the Organisational Model approved by the Board of Directors of the Incorporated company on 16 March 2011 (as subsequently modified and integrated on 13 December 2013) and in force at 31 December 2014, including the necessary references to the Code of Ethics, the related system of fines and the updating of the special parts in relation to the most recent types of crime, as well as in relation to the organisational development of the Company.

The updated Organisational Model is organised in the following terms:

i. the General Part, which describes, after a short legal introduction to the contents of Legislative Decree no. 231/2001 and the so-called predicate crimes to administrative liability, the aims of the Model, the related structure, the recipients, the changes and additions adopted, the Company's institutional and organisational arrangements, including a detailed description of the company structure and identification also of the services provided by third party companies, the Code of Ethics, the powers and functions of the Supervisory Body, included in the Regulation of the body itself, the information flows to it, the processes for training and informing staff, as well as the disciplinary system;

ii. the Special Parts which are divided depending on the categories of predicate crime considered herein. Specifically, the breakdown of each Special Part is as follows: the description of the aims of the Special Part, the identification of the types of relevant crime, the list of the potentially sensitive processes connected to the specific types of crime, the general principles of conduct and implementation, the specific procedural principles, the powers of the Supervisory Body and the flows from the managers/contact persons to the Body itself. With particular reference to the "information flows" to the Supervisory Body, which the latter needs to effectively undertake its control and consultancy work, also thus guaranteeing the complete traceability of the analyses undertaken on the key aspects, the aforementioned Model defines:

- the contents of the information flows to be provided by the Organisational Model managers/contact persons to the Supervisory Body;
- the envisaged reporting by the managers/contact persons, three times a year.

On 29 April 2015 the BoD appointed the new Supervisory Body as the collegiate body responsible for overseeing the operation and observance of the Organization, Management and Control Model adopted, as well as the related update of the same, consisting respectively of:

- Attorney Daniela Mainini (formerly Chairman of the SB serving at the Incorporated company), Chairman of the SB;
- Marco Antonio Modesto Dell'Acqua (formerly member of the SB serving at the Incorporated company); and
- Attorney Maria Cristina Fortunati, Head of the Legal and Corporate Affairs Department, under the General Affairs Directorate of the company.

The Supervisory Body is called on to exercise the following activities or functions:

- a supervisory role over the operation and observance of the Organizational Model adopted;
- the verification of the real suitability and adequacy of the Organizational Model adopted, in other words its real ability to prevent the commission of predicate

crimes for the potential administrative liability of the Company, pursuant to Legislative Decree no. 231/2001;

- monitoring the effective implementation of the Organisational Model, pursuant to art. 7, paragraph 4, letter a) of Legislative Decree no. 231/2001, understood as the continuing correspondence of this document to the institutional and corporate organisational arrangements, as well as to the ordinary business of the Company;
- consultancy aimed at updating, integrating or changing the Organisational Model and the Code of Ethics adopted, on the basis of regulatory changes or new corporate needs;
- the collection, examination and conservation of all the information flows received or sent. In this regard, it should be noted that, in compliance with the internal operating procedure which was adopted as from 11 July 2013 and confirmed at the Board of Directors' meeting of 23 December 2014, the Supervisory Body analyses the reports sent every four months by the managers/contact persons pursuant to the Model, including the central Administration, Finance and Control Department.

Independent Auditors

The Shareholders' Meeting of 2i Rete Gas S.p.A., on 29 April 2015, conferred the legal audit for the years 2015– 2023 on the independent auditors PricewaterhouseCoopers S.p.A.

The independent auditors will present the Board of Statutory Auditors, in its role as the "committee for internal control and audit", with a report on fundamental issues that emerged during the audit, and in particular on the significant failings found in the Internal Control System with reference to the financial disclosure process.

Internal Audit

The BoD, on 23 December 2014, outsourced – with effect as from 1 January 2015 - to COGITEK S.r.l. (a company which undertakes similar work for companies listed on regulated markets) the Internal Audit and Risk Analysis work coordinated by Pierantonio Piana who was appointed Head of Internal Audit (Mr. Piana was already in charge of Internal Audit for 2i Rete Gas S.p.A.).

The Head of Internal Audit reports to the BoD and through it to the Chief Executive Officer or the General Manager (hereafter "senior management"), and is therefore independent from the heads of the operational areas, including Administration and Finance. He/she also has direct access to all the information needed to undertake the role, as indicated in the "Mandate".

The audit plan (which has a three-year time horizon) is prepared following a structured and full risk analysis, in order to identify the most important areas on which to carry out the audit and enable the Internal Audit Unit to establish the most appropriate means to carry out the related checks, as well as to optimise the use of the specifically dedicated resources.

The results of the risk analysis and the audit, as they are gradually carried out, are systematically illustrated to senior management, with a periodic summary for the BoD,

should there be any weaknesses present or potentially present in the Internal Control System, they can be put right with suitable preventative/corrective measures, which are duly assigned, scheduled and monitored until their complete realisation.

The CFO and the Administration, Finance and Control Department

The system for risk management and internal control over financial disclosure is governed by the CFO, who is responsible for designing, implementing and approving the Accounting and Administrative Control Model, as well as assessing its application.

In carrying out his/her activities, the CFO:

- interacts with the independent auditors and with Internal Audit;
- is supported by the department heads involved who, in relation to their own area of competence, ensure the completeness and reliability of the information flows to the CFO for the purposes of preparing the accounting disclosure;
- coordinates the activities undertaken by the administrative managers of relevant subsidiaries, who are responsible for the implementation, within their own company, together with the delegated bodies, of an adequate accounting control system to oversee administrative and accounting processes and assess their effectiveness over time, setting out the results to the Parent Company through an internal certification process.

Other corporate departments involved

The various corporate departments (and the organisational areas) – involved in the various core and support processes – are called on to follow the rules of correctness and transparency, accountability and traceability which are part of the procedural framework relating to every activity undertaken. The aforementioned departments also arrange to carry out the so-called “first” and “second” level controls on the process which precedes the final accounting figures, in order to guarantee the “soundness” and reliability of the latter.

15.3 Description of the main features of the risk management and internal control systems in relation to the process of financial disclosure

Given that the Company, in setting up its own Internal Control System, has adhered to the indications in this regard in the relevant laws and regulations, including the Italian Civil Code, Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), specifically artt. 123 bis, paragraph 2 letter B, 184 and 185, the Market Abuse (Directive 2003/6/EC) Regulations 2005 and the Transparency (Directive 2004/109/EC) Regulations 2007 issued by the Irish Central Bank, Legislative Decree no. 231/2001, Legislative Decree no. 39/2010, as well as the applicable IAS/IFRS, the related description of the aforementioned system is hereafter set out following the sections of the framework from the Co.SO Report.

Control environment

The control environment consists of the collection of corporate values which represent the organisational and behavioural prerequisites needed for a transparent and virtuous management style which leads to sound and correct management of the company: it refers, in particular, to the ethical values expressed by the Company, to the organisational structure, to the system of proxies and delegated powers, to the operational and regulatory framework, etc.

In order to consolidate this positive governance of the business, the company has therefore continued in its updating/drafting of guidelines, corporate procedures, as well as the essential operational and IT control processes which are a precise decision-making and behavioural guide for top management and all employees.

In particular, the aforementioned documentation has been made available on the company intranet, so that everyone working in the company can consult it and check the elements that may help support their work and make it compatible with company values and the rules of “good governance”.

Likewise third parties (and in particular suppliers, who have been subjected to an increasingly intensive form of “pre-approval”, with reference also to avoiding non-transparent or incorrect conduct) are called on to comply with the ethical principles contained in the aforementioned documents with the introduction and agreement to specific clauses in the contracts which bind them to the Company.

These external subjects, in order to respect the ethical principles and the company values mentioned above, have the chance to access online the indications on conduct which the company has made available to them (e.g. the Organisational and Management Model pursuant to Legislative Decree no. 231/2001 – General part).

Risk assessment

This is the activity promoted, developed and managed by Internal Audit, on the indication of the BoD (2015 – 2017 Audit Plan) which aims to identify, evaluate and manage strategic, operational and legislative/regulatory compliance risks that the Company may encounter. This activity also includes critical assessment of the system of “company defences” against the aforementioned forms of risk.

In fact, the primary objective of Risk Analysis – which is undertaken making precise and timely reference to the most common best practices internationally, such as ERM-Enterprise Risk Management and CRSA-Control Risk Self-Assessment – is to make the company aware, in a structured and complete way, of the aforementioned potential threats and the related weaknesses of the existing defences, as well as deploying, with a rigorous

approach to priority interventions and with precise responsibilities and timeframes, the most suitable preventative/corrective plans aimed at remedying the potential weaknesses that have been identified.

Given that the Risk Analysis process is an exercise which is carried out each year by the company, in 2015 there was an update of the risks from 2014, deriving both from organisational, regulatory and legislative and/or business changes which have characterised this year and from other or further risk conditions which emerged in the period.

As regards assessing risks and controls, subject to updating the mapping of company processes where necessary, the logic has been followed of self-assessment of the risks by the various company managers (top management and process owners), while the assessment of the controls adopted to combat such risks has been carried out by the Internal Audit Department (on the basis of the information gathered and the experiences gradually “accrued” from the audit work undertaken up to that moment).

The risks have been assessed in terms of “severity and probability”, while the controls have been examined on the basis of their “adequacy and activation”: all the assessments made by the various subjects responsible have been supported by specific measurements arranged for the purpose.

The assessments which were updated in 2015 of the aforementioned risks and related controls have given rise to “plotting” the same on respective diagrams represented by the «theoretical risk profile» (risk appetite) and by the «control profile». These profiles – in agreement with top management – have been divided into acceptable and unacceptable areas (“tolerance of risks and weaknesses in controls”). As already happened in the Risk Analysis 2014, the 2015 update took as a reference very broad unacceptable areas (especially for legislative and regulatory compliance risks) in order to reach a particularly cautious assessment of risks for the business.

The comparison between potential risks and related controls highlights the so-called “residual risks”, in other words the unacceptable risks which have not been adequately managed by the controls and which may have a significant impact on various company objectives.

As noted above, the results of the risk analysis for 2015, besides triggering a remediation plan process with prioritised interventions, enable the identification and scheduling of audit activities over the next three years (Audit Plan 2016 – 2018 to be approved by the Board).

The methodology was applied across the head office departments and local areas and enabled analysis of potential risks and the related controls, of which only a small percentage were found that were not adequately regulated by the existing controls and therefore subject to preventative/corrective action plans, which moreover had already been completed or were being put into place.

Control activity

These are control activities carried out by the operational and local departments (first-level controls), the Quality Department, the Administration Finance and Control Department, Management Control, etc. (second-level controls) and Internal Audit (third-level controls, in agreement with the Board of Statutory Auditors, the Supervisory Body under Legislative Decree no. 231/01, the external auditor, etc.).

The information principles underpinning the aforementioned controls, which are carried out, as noted, thanks to the increasingly broad and structured presence of adequately formalised and organised rules, concern the separation of duties and roles, the authorisation system for all accounting and managerial operations, the traceability of operations with suitable documentation and registration, the detailing of choices, physical control over tangible and intangible assets, as well as accounting entries and operational recordings.

The corporate support tools enabling the effective control work set out above are:

- The managerial procedures, operational procedures, operational instructions and technical specifications;
- the Quality manual;
- the accounting and administrative control system, through procedures which have been digitalised on SAP;
- the Group accounting manual and chart of accounts – a document which aims to promote the development and application of uniform accounting criteria within the Group as regards the recording, classification and measurement of operations;
- the operational instructions for financial statements and reporting and year-end timetables – documents which aim to inform the various departments of the detailed operating methods to manage the work to prepare the financial statements within the established and agreed deadlines;
- the administrative and accounting procedures – documents which establish the responsibilities and control rules to follow with particular reference to administrative and accounting processes;
- the three-year Audit Plan and the audit manuals.

The above description of the tools and procedures is subject to continuous improvement following control activities undertaken by each body during their own institutional work.

Given that in 2014 – subject to risk analysis on the internal control system – the control work regarded above all checking «on the field» the presence, suitability and uniformity of the existing rules and control procedures for the main «core» company processes and for the essential «support processes» (operational and administrative), in 2015, flowing on

from the aforementioned update of the risk analysis, a vast and structured check was started on compliance with the rules included in the internal control system by company departments and, in particular, Internal Audit, on the basis of the defined and approved Audit Plan.

In 2015, all the actions envisaged by the aforementioned Plan were carried out and findings emerged which gave rise to preventative/corrective orders which were approved by the top management and activated/realised by the company structure.

Again in 2015 continuous auditing took place, with an increasing level of analysis in the various accounting cycles, promoted by Internal Audit, aimed at automatically extracting from all the company databases information which can highlight – on the basis of critical indicators (“red flags”) which are specifically designed – all situations which should be analysed and studied, such as legislative and procedural non-compliance.

This approach, which exploits a new and all-encompassing best practice methodology for analysis, which, by focussing directly on preselected situations that are objectively worth analysing, enables rapid repeated and detailed analyses on broad company areas, notably increasing the operational effectiveness of the controls, compared to the traditional logic of sampling.

Although the company is not subject to the provisions as set out in art. 154 bis and ter of the Consolidated Law on Finance (TUF), the continuous auditing approach will also be used to broadly confirm the soundness of the administrative and accounting processes for the purposes of financial disclosure.

Information and communication

This refers, in particular, to the strategic and tactical information which must flow down from senior management throughout the corporate structure, so that all the parties involved in management have adequate knowledge of the elements that are essential for managing their area of competence. In the Company this disclosure takes place in accordance with the logic of the process of planning, budgeting and periodic reporting (e.g. Tableau de Bord) and pervades the main levels of the organisation.

Monitoring

It relates to the activities aimed at constantly checking over time the quality of the Internal Control System. This approach is applied periodically by Internal Audit which is called on to provide the BoD with an assessment –at least annually – on the correspondence of the Company’s Internal Control System to the aforementioned expectations.

This operation – in accordance with international best practice – must be undertaken on analytical bases through the risk analysis process and the subsequent audit work which must be carried out in the Plan year; however, in order to have an initial assessment in a short timeframe, a questionnaire was used – which is the intellectual property of COGITEK Srl – consisting of around 140 questions inspired by the principles of the Co.SO Report framework.

The aforementioned questionnaire, which was put in 2015 to the Chief Executive Officer of the company and to the managers of various divisions (including Internal Audit), recorded their perception of the quality of the existing control system, confirming the positive assessment which emerged from the similar activity undertaken in 2014.

In parallel, on conclusion of the risk analysis and each annual Audit plan, Internal Audit verifies the quality level of the Internal Control System, also in light of the complete realisation of the preventative/corrective measures assigned to the various process owners.

16. Significant events after the reporting period and outlook

During 2016, work will continue to improve operational efficiency and to contain costs. The forecast profit for 2016 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 2i Rete Gas 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 ;
- 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. Key figures of the Parent company

The income and equity situation for the year are shown in summary in the tables below, which have been obtained by reclassifying respectively the data from the Income statement and the Statement of Financial Position in accordance with operational criteria complying with international practice.

17.1 Reclassified profit or loss

| Millions of euro | 31.12.2015 | 31.12.2014 | 2015-2014 |
|---|----------------|--------------|----------------|
| Revenues | 859.3 | 1.6 | 857.7 |
| Transport and sale of methane gas and LPG | 572.8 | - | 572.8 |
| Connection fees and accessory rights | 17.9 | - | 17.9 |
| Other sales and services | 20.7 | - | 20.7 |
| Revenues from intangible assets / assets under construction | 169.2 | - | 169.2 |
| Other revenues | 78.6 | 1.6 | 77.0 |
| Operating costs | (471.2) | (2.6) | (468.6) |
| Labour costs | (130.9) | (1.6) | (129.3) |
| Raw materials and inventories | (62.9) | - | (62.9) |
| Services | (207.0) | (0.7) | (206.3) |
| Other costs | (63.9) | (0.2) | (63.6) |
| Allocations to provisions for risks and charges | (6.6) | - | (6.6) |
| Increase in fixed assets not subject to IFRIC 12 | 0.0 | - | 0.0 |
| EBITDA | 388.1 | (1.0) | 389.0 |
| Amortisation, depreciation and write-downs | (153.8) | - | (153.8) |
| Amortisation, depreciation and impairment losses | (153.8) | - | (153.8) |
| EBITDA | 234.2 | (1.0) | 235.2 |
| Net financial income (expenses) and income (expenses) from equity investments | (48.4) | 74.9 | (123.2) |
| Pre-tax income | 185.9 | 73.9 | 112.0 |
| Income taxes for the year | (99.0) | 4.0 | (103.0) |
| Net result from continuing operations | 86.9 | 77.9 | 9.0 |
| Net result from discontinued operations | - | - | - |
| Net income for the year | 86.9 | 77.9 | 9.0 |

17.2 Reclassified statement of Financial Position

| Millions of euro | 31.12.2015 | 31.12.2014 | 2015-2014 |
|--|----------------|--------------|----------------|
| | A | B | A-B |
| Net fixed assets | 2,571.0 | 839.8 | 1,731.2 |
| Property, plant and equipment | 40.7 | - | 40.7 |
| Intangible assets | 2,776.1 | - | 2,776.1 |
| Investments | 17.2 | 839.8 | (822.6) |
| Other non-current assets | 32.0 | - | 32.0 |
| Other non-current liabilities | (295.0) | - | (295.0) |
| Net working capital: | 68.9 | (0.8) | 69.7 |
| Inventories | 13.8 | - | 13.8 |
| Trade receivables from third parties and the Group | 238.2 | 1.0 | 237.2 |
| Net receivables/(payables) for income taxes | 8.7 | (0.1) | 8.9 |
| Other current assets | 145.4 | 0.0 | 145.3 |
| Trade payables to third parties and the Group | (168.0) | (0.1) | (167.9) |
| Other current liabilities | (169.2) | (1.6) | (167.7) |
| Gross invested capital | 2,639.9 | 839.0 | 1,800.9 |
| Other provisions | 51.2 | (7.5) | 58.7 |
| Termination and other employee benefits | 47.1 | - | 47.1 |
| Provisions for risks and charges | 73.6 | - | 73.6 |
| Net deferred taxes | (69.6) | (7.5) | (62.1) |
| Net invested capital | 2,588.6 | 846.5 | 1,742.2 |
| Liabilities held for sale | 7.7 | - | - |
| Equity | 0.8 | - | 0.8 |
| Residual payable for Unwinding IRS | 662.8 | 635.9 | 26.9 |
| Net Financial position | 1,932.8 | 210.6 | 1,722.2 |

18. 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 2015 of 2i Rete Gas S.p.A. and the corresponding values in the consolidated financial statements are as follows:

| Thousands of euro | Net income for the year recognised in profit or loss 2015 | Equity 31.12.2015 |
|---|--|-------------------|
| Separate financial statements of 2i Rete Gas S.p.A. | 86,914 | 662,806 |
| Surplus of shareholders' equity from financial statements of subsidiaries used for the purposes of the consolidation, compared to the carrying values of the equity investments in subsidiaries | 778 | (1,393) |
| Consolidation adjustments for: | | |
| Consolidation difference allocated to concessions | (107) | 3,451 |
| Consolidation difference allocated to goodwill | | 19 |
| Valuation of equity investments with the equity method | 6 | 6 |
| Deferred and prepaid taxes | 384 | (988) |
| Consolidated financial statements of 2i Rete Gas S.p.A. | 87,974 | 663,901 |
| Non-controlling interests | 0 | 0 |
| Consolidated financial statements of 2i Rete Gas S.p.A. - owners of the Parent | 87,974 | 663,901 |

The main impacts shown as "Adjustments made during consolidation" at 31 December 2015 derive largely from the consolidation of the equity investment in Genia S.p.A. and in GP Gas S.r.l and the related allocations of the purchase prices, as well as the accompanying tax effect.

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

19. Proposed allocation of the profit from the financial statements

In relation to the above, we propose to:

- approve the financial statements of 2i Rete Gas S.p.A. at 31 December 2015, which show a net profit of 86,913,586 euro and the accompanying Directors' report;
- to distribute, in regard to the profit for the year and taking into account that the legal reserve has reached 20% of the share capital, 0.2337 euro for each of the 363,851,660 shares, equal to a total of 85,032,132.94 euro.
- carry forward the residual amount of the net profit of 1,881,453 euro.

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

IV Consolidated financial statements of the 2i Rete Gas Group

1. Income Statement

| Thousands of euro | Notes | 31.12.2015 | of which from related parties | 31.12.2014 | of which from related parties |
|---|------------------|-----------------|----------------------------------|------------------|----------------------------------|
| Revenues | | | | | |
| Revenues from sales and services | 5.a | 614,619 | 2 | 608,150 | |
| Other revenues | 5.b | 78,240 | 531 | 86,173 | 520 |
| Revenues from intangible assets / assets under construction | 5.c | 170,040 | | 144,622 | |
| | Sub-Total | 862,899 | | 838,945 | |
| Costs | | | | | |
| Raw materials and consumables | 6.a | 63,203 | | 42,745 | 2 |
| Services | 6.b | 208,313 | 40 | 226,609 | 343 |
| Personnel costs | 6.c | 131,137 | 1,721 | 116,044 | 1,618 |
| Amortisation, depreciation and impairment losses | 6.d | 154,455 | | 150,953 | |
| Other operating costs | 6.e | 70,538 | 256 | 91,917 | 485 |
| Capitalised costs for internal work | 6.f | (1) | | (20) | |
| | Sub-Total | 627,645 | | 628,247 | |
| EBIT | | | | | |
| | | 235,254 | | 210,698 | |
| Income (expenses) from equity investments | 7 | 229 | 200 | 43 | 20 |
| Financial income | 8 | 740 | | 1,494 | |
| Financial expenses | 8 | (49,328) | | (202,656) | (1) |
| | Sub-Total | (48,359) | | (201,118) | |
| Pre-tax income | | | | | |
| | | 186,895 | | 9,580 | |
| Taxes | 9 | 98,921 | | (2,461) | |
| Net result from continuing operations | | | | | |
| | | 87,974 | | 12,041 | |
| Net result from discontinued operations | 10 | - | | - | |
| NET INCOME FOR THE YEAR | | | | | |
| | | 87,974 | | 12,041 | |

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

2. Statement of Comprehensive Income

| Thousands of euro | 31.12.2015 | 31.12.2014 |
|--|---------------|---------------|
| Net income recognised in profit or loss | 87,974 | 12,041 |
| Net income attributable to owners of the parent | | 12,021 |
| Net income attributable to non controlling interests | | 20 |
| Other comprehensive income | | |
| <i>Items which will never be reclassified in profit/(loss):</i> | | |
| Revaluations of net liabilities/assets for defined benefits - owners of the parent | 1,162 | (4,577) |
| Revaluations of net liabilities/assets for defined benefits - non controlling interests | | (5) |
| Deferred tax assets and liabilities on items which will never be classified in profit / (loss) - non controlling interests | | 2 |
| Deferred tax assets and liabilities on items which will never be classified in profit / (loss) - owners of the parent | (1,073) | 1,895 |
| | 90 | (2,684) |
| <i>Items which may be reclassified subsequently in profit/(loss):</i> | | |
| Change in fair value of hedging derivatives - owners of the parent | - | 65,726 |
| Change in fair value of hedging derivatives - non controlling interests | | 66 |
| Change in fair value of hedging derivatives reclassified in the income for the period - owners of the parent | - | (22,347) |
| Change in fair value of hedging derivatives reclassified in the income for the period - non controlling interests | | (22) |
| | - | 43,423 |
| Total other comprehensive income | 90 | 40,738 |
| Total comprehensive income | 88,064 | 52,779 |
| Total comprehensive income attributable to: | | |
| - Owners of the Parent | 88,064 | 52,718 |
| - Non controlling Interests | 0.00 | 61 |

Earnings per share: 0.2418 euro

Diluted earnings per share: 0.2418 euro

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

3. Statement of Financial Position

Assets

| Thousands of euro | Notes | 31.12.2015 | of which from related parties | 31.12.2014 | of which from related parties |
|---|--------------|------------------|-------------------------------|------------------|-------------------------------|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 42,555 | | 40,825 | |
| Intangible assets | 12 | 2,796,578 | | 2,765,276 | |
| Net deferred tax assets | 13 | 68,835 | | 113,227 | |
| Investments | 14 | 3,334 | | 3,329 | |
| Non-current financial assets | 15 | 5,213 | | 7,993 | |
| Other non-current financial assets | 16 | 32,048 | | 23,779 | |
| | <i>Total</i> | 2,948,562 | | 2,954,429 | |
| Current assets | | | | | |
| Inventories | 17 | 13,810 | | 7,794 | |
| Trade receivables | 18 | 239,501 | 1,166 | 213,622 | 614 |
| Short-term financial receivables | 19 | 323 | 315 | 957 | |
| Other current financial assets | 20 | 8 | | 26 | |
| Cash and cash equivalents | 21 | 160,541 | | 108,506 | |
| Income tax receivables | 22 | 9,940 | | 21,699 | |
| Other current assets | 23 | 146,170 | | 163,138 | 136 |
| | <i>Total</i> | 570,293 | | 515,743 | |
| Assets (or assets included in disposal groups) held for sale | | | | | |
| Assets (or assets included in disposal groups) held for sale | 37 | - | | - | |
| | <i>Total</i> | - | | - | |
| TOTAL ASSETS | | 3,518,855 | | 3,470,171 | |

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Chief Executive Officer
Michele Enrico De Censi

Liabilities

| Thousands of euro | Note | 31.12.2015 | of which from related parties | 31.12.2014 | of which from related parties |
|---|------|------------------|-------------------------------|------------------|-------------------------------|
| EQUITY AND LIABILITIES | | | | | |
| Equity - Owners of the Parent | | | | | |
| Share capital | 24 | 3,639 | | 3,636 | |
| Treasury shares | | - | | - | |
| Other Reserves | | 494,375 | | 640,323 | |
| Retained earnings (accumulated losses) | | 77,913 | | (16,019) | |
| Net income for the year | | 87,974 | | 12,021 | |
| Total equity - Owners of the Parent | | 663,901 | | 639,961 | |
| Equity - non-controlling interests | | | | | |
| Non-controlling interests | | - | | 876 | |
| Net income for the year - non-controlling interests | | - | | 20 | |
| Total equity - non-controlling interests | | - | | 896 | |
| TOTAL EQUITY | | 663,901 | | 640,857 | |
| Non-current liabilities | | | | | |
| Long-term loans | 25 | 2,075,571 | | 2,086,923 | |
| Termination and other employee benefits | 26 | 47,202 | | 39,052 | |
| Provision for risks and charges | 27 | 10,637 | | 9,600 | |
| Deferred tax liabilities | 13 | - | | - | |
| Non-current financial liabilities | 28 | - | | - | |
| Other non-current liabilities | 29 | 296,142 | 8 | 283,342 | |
| <i>Total</i> | | 2,429,552 | | 2,418,918 | |
| Current liabilities | | | | | |
| Short-term loan | 30 | - | | 7,791 | |
| Short-term payables due to banks | 31 | - | | - | |
| Short-term portion of long-term and short-term provisions | 32 | 63,054 | | 59,588 | |
| Trade payables | 33 | 169,330 | 329 | 184,201 | 297 |
| Income tax payables | 34 | 1,266 | | 23 | |
| Current financial liabilities | 35 | 21,394 | | 15,611 | |
| Other current liabilities | 36 | 170,360 | 0 | 143,182 | |
| <i>Total</i> | | 425,403 | | 410,396 | |
| Liabilities (or liabilities included in disposal groups) held for sale | | | | | |
| Liabilities (or liabilities included in disposal groups) held for sale | 37 | 0 | | - | |
| <i>Total</i> | | 0 | | - | |
| TOTAL LIABILITIES | | 2,854,954 | | 2,829,314 | |
| TOTAL EQUITY AND LIABILITIES | | 3,518,855 | | 3,470,171 | |

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

4. Statement of Cash Flows

| Thousands of euro | | 31.12.2015 | 31.12.2014 |
|--|---------------|------------------|------------------|
| A) CASH AND CASH EQUIVALENTS - INITIAL BALANCE | | 21 | 108,506 |
| | | | 147,110 |
| Cash flow from operating activities | | | |
| Pre-tax income | | 186,895 | 9,580 |
| Income taxes for the period | 9 | (98,921) | 2,461 |
| Net result from discontinued operations | 10 | - | - |
| 1. Net income for the year | | 87,974 | 12,041 |
| Adjustments for: | | | |
| Amortisation | 6. d | 152,931 | 150,184 |
| Write-downs/(Write-ups) | 6. d | 1,523 | 415 |
| Capital gains/(losses) | 5. b/6. e | 9,546 | 1,883 |
| Allocations to provisions for risks and charges and termination benefits | | 28,554 | 12,953 |
| Financial (income)/expenses | 7 and 8 | 48,359 | 201,118 |
| 2. Total adjustments | | 240,914 | 366,553 |
| Change in net working capital | | | |
| Inventories | 17 | (6,016) | (1,450) |
| Trade receivables | 18 | (27,366) | 70,682 |
| Trade payables | 33 | (14,872) | 36,302 |
| Other current assets | 23 | 16,932 | (25,992) |
| Other current liabilities | 36 and 37 | 27,178 | (26,810) |
| Net tax receivables/(payables) | 22 and 34 | 13,002 | (31,014) |
| | 26, 27 and | | |
| Increase/(decrease) in provisions for risks and charges and termination benefits | 32 | (14,741) | (3,453) |
| Increase/(decrease) in provisions for deferred tax assets and liabilities | 13 | 43,320 | (64,376) |
| Other non-current assets | 16 | (8,269) | (17,244) |
| Other non-current liabilities | 29 | 12,800 | 11,212 |
| Financial income/(expenses) other than for financing | 8 | (250) | (963) |
| 3. Total change in net working capital | | 41,720 | (53,107) |
| B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3) | | 370,607 | 325,487 |
| Cash flow (used in) generated by investing activities | | | |
| Net fixed assets | | (195,510) | (172,182) |
| Purchase of subsidiary and income from equity investments | 7 and 14 | 224 | |
| C) CASH FLOW (USED IN) GENERATED BY INVESTING ACTIVITIES | | (195,286) | (172,182) |
| D) FREE CASH FLOW (B+C) | | 175,322 | 153,305 |
| Cash flow from financing activities | | | |
| Dividend distribution | | (65,020) | (89,000) |
| Share capital increase | | 0 | 536 |
| Change in reserves | | (0) | 96,189 |
| Change due to the controlling interests | | 0 | (6,369) |
| Change in non controlling interests | | 0 | (130,983) |
| Change in amortised cost | 15, 25 and 31 | 5,783 | 2,630 |
| Change in the valuation reserve relating to the hedging derivative instrument | 7 and 8 | 0 | 36,953 |
| Change in fair value of IRS derivatives | 20 and 35 | 0 | (65,792) |
| Financial income/(expenses) relating to the Fv of the derivative instrument | 8 | 0 | (39,952) |
| Financial income for financing activities | 8 | 188 | 628 |
| Financial (expenses) for financing activities | 8 | (48,526) | (95,039) |
| New loan | 25 | 200,000 | |
| Repayment of loan | 25 | (210,000) | |
| Interest payables | 25 | (4,132) | |
| Changes in indebtedness to banks and other lenders | 25, 30 and 31 | 0 | 181,651 |
| Change in short-term financial debt | 30 | (7,791) | 0 |
| Change in non-current financial liabilities | 28 | 0 | (24,020) |
| Change in other non-current financial assets | 15 | (224) | (7,317) |
| Change in other financial receivables | 19 and 20 | 652 | 4,688 |
| Change in other financial payables | 35 | 5,784 | (56,713) |
| E) CASH FLOW FROM FINANCING ACTIVITIES | | (123,287) | (191,909) |
| F) CASH FLOW FOR THE PERIOD (D+E) | | 52,035 | (38,604) |
| G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE | 21 | 160,541 | 108,506 |

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

5. Statement of Changes in Equity

| Thousands of euro | Share capital and reserves | | | | | | | Total - Owners of the Parent | Total - Non-controlling interests | Total consolidated equity |
|--|----------------------------|------------------------|---------------|---------------------------------------|----------------|-------------------|-------------------------|------------------------------|-----------------------------------|---------------------------|
| | Share Capital | Share Premium Reserves | Legal Reserve | Reserves for valuation of derivatives | Other reserves | Retained earnings | Net income for the year | | | |
| Total 31 December 2013 | 3,100 | 3 62,794 | 620 | (36,953) | 195,695 | 9,999 | 54,375 | 589,629 | 131,859 | 721,488 |
| <i>Allocation of result for 2013:</i> | | | | | | | | | | |
| Allocation of result | | | | | | 54,375 | (54,375) | - | | - |
| - Payment of dividends | | (11,227) | | | | (77,773) | | (89,000) | | (89,000) |
| - Other changes (merger of F2IRI2) | 536 | | | | 92,441 | (6,369) | | 86,608 | (130,968) | (44,360) |
| - Other changes | | | | | | (2,677) | | (2,677) | (59) | (2,736) |
| - Purchase of treasury Shares in portfolio | | | | | | | | - | | - |
| - Net income for the year recognised in equity | | | | | | | | - | | - |
| - Change in IAS reserves | | | | 36,953 | | 6,426 | | 43,379 | 43 | 43,422 |
| - Net income for the year recognised in profit or loss | | | | | | | 12,021 | 12,021 | 20 | 12,041 |
| Total 31 December 2014 | 3,636 | 3 51,567 | 620 | 0 | 288,136 | (16,019) | 12,021 | 639,961 | 896 | 640,857 |
| <i>Allocation of result for 2014:</i> | | | | | | | | | | |
| Allocation of result | - | - | - | - | - | 12,021 | (12,021) | - | - | - |
| - Increase in legal reserve | - | - | 108 | - | (107,70) | - | - | - | - | - |
| <i>Contribution from shareholders and payments to them as shareholders</i> | | | | | | | | | | |
| - Payment of dividends | - | - | - | - | - | - | - | - | - | - |
| - Payment of the share premium reserve | - | (65,020) | - | - | - | - | - | (65,020) | - | (65,020) |
| - Other changes (merger of ZiRete gas) | 2 | - | - | - | (85,128) | 86,021 | - | 896 | (896) | (0) |
| - Other changes | - | - | - | (0) | 4,111 | (4,110) | - | 0 | - | 0 |
| - Net income for the year recognised in equity | - | - | - | - | - | - | - | - | - | - |
| - Change in IAS reserves | - | - | - | - | 90 | - | - | 90 | - | 90 |
| - Net income for the year recognised in profit or loss | - | - | - | - | - | - | 87,974 | 87,974 | - | 87,974 |
| Total 31 December 2015 | 3,639 | 286,546 | 728 | - | 207,101 | 77,913 | 87,974 | 663,901 | - | 663,901 |

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

6. Notes to the financial statements

Format and contents of the Financial Statements

The 2i Rete Gas Group operates in the gas distribution sector. The Parent Company 2i Rete Gas S.p.A. is a public limited company and is located in Milan, Via Alberico Albricci, 10.

The local structure of the parent company envisages six departments and one special area. The departmental offices are:

- North West Department - Via Gazzoletto, 16/18 - 26100 Cremona (CR)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (VA)
- North East Department - Via Serassi, 17/Rs - 24124 Bergamo (BG)
- Central Department - Via Morettini, 39 - 06128 Perugia (PG)
- South West Department - Via Paul Harris, 63 - 81100 Caserta (CE)
- South East Department - Via Enrico Mattei - 72100 Brindisi (BR)
- Special Area Sicily - Via Odorico Da Pordenone, 44 - 95121 Catania (CT)

The directors of 2i Rete Gas S.p.A. on 18 March 2016 approved these consolidated financial statements and agreed to make them available to shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.

For the purposes of IAS 10.17, the date taken into consideration by directors in preparing the financial statements is, therefore, 18 March 2016.

These consolidated financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The consolidated financial statements for the year ended 31 December 2015 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Board (IASB), as endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The aforementioned key standards and interpretations are hereafter collectively referred to as "IFRS-EU".

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 on the basis of 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.

Consolidation criteria

The consolidated financial statements are prepared applying the line-by-line method of consolidation of the data of the Parent Company and of the investee companies over which the Parent Company holds control, directly or indirectly. Control exists when the Group is exposed to variable returns arising from its relationship with the company, or can boast rights over such returns, and at the same time has the ability to influence these rights by exercising its power over the company itself. The financial statements of subsidiaries are included in the consolidated financial statements from when the Parent Company starts to exercise control until the date when such control ends.

The Group accounts for business combinations by applying the acquisition method on the date in which it effectively obtains control of the purchased company. In this regard refer to section below "Business combinations".

Third-party equity investments are valued in proportion to the related share of net identifiable assets of the purchased company at the acquisition date. The changes in the Group's stake in a subsidiary which do not entail loss of control are recognised as operations between shareholders in their role as shareholders.

In the case of loss of control, the Group eliminates the subsidiary's assets and liabilities, any third-party equity investments and other equity items relating to the subsidiaries. The profit or loss arising from the loss of control is recognised on the income statement. Any

residual equity investment held in the former subsidiary is valued at fair value at the date of loss of control.

In drawing up the consolidated financial statements, debit and credit items are eliminated, as well as costs and revenues and all significant dealings between the companies included in the scope. Unrealised profits are also eliminated as well as capital gains and losses arising from transactions between Group companies.

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 adopted when the carrying amount of financial statement items cannot be easily deduced from other sources. The actual results might therefore differ from these estimates. 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. Should 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.

Recognition of revenues

Revenues from gas transport are determined annually on the basis of the tariff regulation in force, which, as from 2009, sets forth the definition of the VRT (tariff revenue cap) which is allowed for each gas distribution company. On the basis of Resolution no. 573/2013/R/Gas of December 2013, the parameters were defined which regulate the calculation of the VRT (Tariff Revenue Cap) for the years from 2014 to 2019 (Fourth Regulatory period).

This figure for revenues is accounted for in the invoicing of gas transport to sales companies and, to complement the VRT value, in the Fund for Energy and Environmental Services equalisation element.

Since it is necessary to base the calculations for the VRT on a recognition of assets which is updated to the previous year, the company 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.

Pensions and other post-employment benefits

Some Company 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 on the basis of 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.

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 more frequent review is necessary.

Where the carrying amount of a group of fixed assets is considered to be impaired, it is written down to its recoverable value, as estimated on the basis of 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 further details on the means of carrying out the impairment test and its results, reference should be made to the specific section.

Disputes

The 2i Rete Gas Group is involved in various legal disputes relating mainly to labour cases and litigation with some granting bodies.

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

The estimate of the provisions is the result of a complex process which entails subjective assessments by management. The provisions for risks recorded in the financial statements have been estimated 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.

Bad debt provision

This provision reflects the estimates of losses on the Company'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 periodically revised and the impact of each change is reflected in profit or loss in the relevant year.

Accounting policies and valuation criteria

These consolidated financial statements have been drawn up using a standard application for all the years shown of the accounting standards set out below.

Equity investments in associates and companies subject to joint control

Equity investments in associates means those in which the 2i Rete Gas Group has considerable influence over the financial and operational policies, although not holding control or joint control.

Companies subject to joint control or joint ventures are companies where the Group, by virtue of an agreement, claims rights over the net assets.

Equity investments in associates and in joint ventures are initially recorded at cost and subsequently recorded on an equity basis. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of profits or losses and that of the investee companies accounted for using the equity method, until the date on which said considerable influence or joint control ends.

Business combinations

Business combinations subsequent to 1 January 2010 are recognised using the purchase method envisaged by IFRS 3 (Revised). The identifiable assets purchased and the liabilities taken over are valued 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 carrying value of any goodwill is subject to annual impairment testing in order to identify any impairment.

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. Any adjustment arising from the completion of the valuation process is recognised within 12 months of the acquisition date.

The transaction costs, other than those relating to the issue of debt securities and equity, which are incurred by the Group to make a business combination are recognised as operating costs when incurred.

Combinations of bodies under common control

Business combinations under which the participating companies are definitively controlled by one company or by companies both before and after the combination, and this control is not temporary, are regarded as "Under common control" operations.

These operations are not regulated by IFRS 3 or by other IFRS. In the absence of a relevant international accounting standard, in compliance with the principle of prudence which entails application of the criterion of continuity of values for the net assets acquired, the Group has opted to record assets and liabilities from any combinations of bodies under common control at the carrying value which these assets and liabilities had in the financial statements of the seller/purchase or in the consolidated financial statements of the controlling common body. Where the transfer values are higher than the historic values, the surplus is eliminated by adjusting down the Group's equity.

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. It should be recalled that, as better specified below, following application of IFRIC 12, those assets which were previously considered as tangible are now 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 purchase or production cost includes the financial expenses relating to loans connected to the purchase of tangible 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.

Some assets which are revalued at the date of transition to the IFRS-EU or in previous periods have been recognised on the basis of the revalued cost, considered as deemed cost.

Should significant parts of individual tangible assets have different useful lives, the identified components are recognised and amortised separately.

Subsequent costs are recognised as an increase in the carrying amount of the asset to which they refer when it is probable that future economic benefits deriving from the cost will flow to the Group and the cost of the item can be reliably determined. All other costs are recognised in profit or loss in the year in which they are incurred.

The cost of replacing part or all of an asset is recognised as an increase in the value of the asset to which it refers and is depreciated over its residual useful life; the net carrying amount of the replaced unit is recognised in profit or loss, with recognition of any capital loss.

Property, plant and equipment are reported net of accumulated depreciation and any impairment losses determined as set out below.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life – which is reviewed annually – and any changes are applied 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 which is transferred for free at the end of the concession.

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, since the Group is subject to demand risk, the accounting treatment which it considered correct to apply is that of intangible assets: all the proprietary infrastructure obtained under a concession contract is therefore no longer recognised as property, plant and equipment but classified as intangible assets.

Intangible assets are measured at purchase or internal production cost, when it is likely that the use of such assets will generate future economic benefits and the related cost can be reliably determined.

The cost includes any directly attributable incidental expenses necessary to make the assets ready 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 assets, which have a finite useful life, are shown net of accumulated amortisation and any impairment losses, determined as follows.

Amortisation is calculated on a straight-line basis over the item's estimated useful life, which is reviewed at least annually; any changes in amortisation methods are applied on a prospective basis.

Amortisation begins when the intangible asset is ready 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 which have an indefinite useful life are not systematically amortised but are subject to an impairment test on an annual basis at least.

As for concessions, the 2i Rete Gas Group holds the concession for the gas distribution service assigned by tender for a maximum period of 12 years by municipalities (municipalities, municipality groups 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 on the basis of 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.

It should be recalled that 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 2i Rete Gas Group is continuing with the management of the network in the same way as prior to the expiry.

Should the concession not be reassigned to the Group, the Group would have the right to compensation equal to the industrial value of the assets used for the concession determined in accordance with the relevant law.

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.

In determining the value in use, the expected future financial flows are discounted using a discount rate which reflects the current market valuations of the cost of funding in relation to the timing and specific risks of the business.

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 first charged against the carrying amount of any goodwill allocated to the CGU, then proportionally to reduce the other assets which 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.

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.

Financial instruments

The initial recording of non-derivative financial assets and liabilities takes place, for loans, receivables and debt securities issued at the moment when they originated, while for all the other financial assets and liabilities it takes place on the trading date.

Financial assets are eliminated from the financial statements when: i) the contractual rights to receive financial flows are exhausted; ii) when the Group has maintained the right to receive financial flows from the asset, but has taken on the contractual obligation to pay them in full without any delay to a third party; or iii) when the Group has transferred the

right to receive financial flows from the assets and has substantially transferred all the risks and benefits of ownership of the financial asset, or has transferred control over the financial asset.

Any residual involvement in the transferred asset which is originated or maintained by the Group is recorded as a separate asset or liability.

The Group provides for the accounting elimination of a financial liability when the obligation specified in the contract was fulfilled or cancelled or had 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.

Such assets are initially recognised at *fair value*. The attributable transaction costs are recorded on the income statement when they are incurred. Profit and losses from changes in their *fair value* are recognised in profit or loss.

Financial assets held to maturity

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*, including any transaction costs; subsequently, they are measured at amortised cost using the effective interest rate method, net of impairment.

Any 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 Fund for Energy and Environmental Services for certificates in the 2i Rete Gas Group's portfolio.

Financial assets available for sale

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. Such assets are initially recognised at fair value increased by any transaction costs.

After initial recording, these instruments are recorded at fair value against the other components of the statement of comprehensive income.

At the time of sale, retained earnings and accumulated 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.

Derivative financial instruments

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.

The accounting for such instruments is done at the trading 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.

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), the actuarial gains/losses that emerge following 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.

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.

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.

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;
- revenue from gas transport is accrued on the basis of the tariffs and the related restrictions envisaged by legal provisions and by the provisions of the AEEGSI, in force during the period in question. The introduction of the new formula for the recognition of revenue for gas transport, which was applied as from 2009, with the coming into force of Resolution ARG/gas no. 159/08 and largely reconfirmed in the AEEGSI Resolutions no. 573/13 and 367/14, led to the introduction of an equalisation mechanism which enables the relevant distribution companies' revenue to be calculated in order to remunerate the invested capital and the operating costs attributable to the gas distribution and metering service, regardless of the volumes distributed;
- 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.

The costs are recognised when they relate to goods and services sold or used in the year or allocated through systematic accrual when it is not possible to identify the future benefit of the same.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis in line with interest accrued on the net value of the related financial assets and liabilities using the effective interest rate method.

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.

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, which are set out in the tables presented as the net impact of the two items under 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.

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 which 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.

Recently issued accounting standards

Pursuant to IAS 8, the following section “Accounting standards, amendments and interpretations applicable by the Group as from this year” sets out the main features of the amendments to the International Accounting Standards in force as from 1 January 2015 and of potential interest for the Group.

In the following sections “Accounting standards, amendments and interpretations approved by the European Union but applicable after 31 December 2015” and “Accounting standards, amendments and interpretations not yet approved by the European Union”, there is an indication of the accounting standards and interpretations which have already been issued, but not yet come into force, or which have not yet been approved by the European Union and are therefore not applicable for the drafting of the financial statements at 31 December 2015, the impact of which may be included as from the financial statements for subsequent years.

Accounting standards, amendments and interpretations applicable by the Group as from this year

As from 1 January 2015 some additions to standards have been applied consequent to specific sections of the International Accounting Standards which have already been adopted by the Group in previous years, none of which has had a significant impact on the Group’s economic and financial results.

The main changes are set out below.

- IAS 19 Revised “Employee benefits”: the changes made to IAS 19 on 21 November 2013 allow (but do not require) the recording of a reduction in the “current service cost” for those contributions paid by employees or by third parties which are not related to the number of years of service, instead of allocating such contributions over the period of time in which the employment service has been provided. The conditions to be able to apply this provision are that the contributions: (i) are indicated in the formal conditions of the plan; (ii) are connected to the service provided by the employee; (iii) are independent from the employee’s number of years of service. The changes are applicable as from 1 February 2015;
- With the annual improvement cycle for 2012, which is applicable on a voluntary and not obligatory basis for financial statements as at 31 December 2015, the IASB issued amendments to the following accounting standards:
 - IFRS 2 “Share-based payments”: the amendment clarifies the definition of “vesting condition” and separately defines “performance conditions” and “service conditions”;
 - IFRS 3 “Business combinations”: the standard was modified in order to clarify that the obligation to pay a contingent consideration falls under the definition

- of financial instrument and must be classified as a financial liability or as an item of equity on the basis of the indications in IAS 32. In addition, it was clarified that obligations to pay contingent consideration, other than those which fall under the definition of equity instrument, are assessed at fair value at each financial statement date, with changes taken to the income statement;
- IFRS 8 “Operating segments”: the standard was changed with the introduction of a new disclosure obligation, requiring a short description of the operating segments which have been aggregated and of the economic indicators which have been used for the aggregation;
 - IFRS 13 “Fair value measurement”: the amendment clarifies that the exemption which allows an entity to value groups of financial assets and liabilities at fair value applies to all contracts, including non-financial contracts;
 - IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”: both the standards have been changed in order to clarify how the recoverable value and the useful life are treated should the entity make a revaluation;
 - IAS 24 “Related party disclosures”: the standard has been changed in order to include, as a related party, an entity which provides services related to management (a so-called management company);
- With the annual improvement cycle for 2013, which is in force for administrative years starting as from 1 January 2015, the IASB issued amendments to the following accounting standards:
 - IFRS 3: the change makes clear that the standard is not applicable to record the accounting impact regarding the formation of a joint venture or joint operation in the financial statements of the joint venture or of the joint operation;
 - IFRS 13: it was clarified that the provision contained in IFRS 13 under which it is possible to measure the fair value of a group of financial assets and liabilities on a net basis, applies to all contracts which fall under IAS 39 (or IFRS 9) even when they do not meet the definitions of financial assets and liabilities in IAS 32;
 - IAS 40 “Investment property”: the change to the standard concerns the interaction between the provisions envisaged by IFRS 3 and those of this standard in cases in which the acquisition of a property can be identified as a business combination.
 - IFRIC 21 “Levies”: this interpretation of IAS 37 “Provisions, contingent liabilities and contingent assets” concerns the recognition of levies imposed by governments which do not fall within the scope of application of IAS 12 “Income taxes”. IAS 37 “Provisions, contingent liabilities and contingent assets” establishes the criteria relating to the recognition of a liability, one of which is the presence of a current obligation for the entity as the result of a past event. The interpretation in question clarifies that the obligation which gives rise to the liability for the levy to be paid is the activity described in the legislation from which the payment of the levy arises.

Accounting standards, amendments and interpretations approved by the European Union but applicable after 31 December 2015

The following accounting standards and interpretations which have already been approved by the European Union and are not currently applied by the Group may be adopted in coming years, should the prerequisites arise:

- IFRS 11 “Joint arrangements”: the amendment to the standard provides the guidelines relating to the accounting treatment to be adopted in the case of the purchase of investments in joint arrangements, whose business coincides with the definition of “business” as established by IFRS 3 “Business combinations”. The change in question is applicable as from 1 January 2016;
- IAS 1 “Presentation of financial statements”: the change to the standard in question was issued by the IASB on 18 December 2014 and is applicable as from 1 January 2016. It explicitly clarifies that immaterial information must not be provided even if expressly requested by a specific IFRS. The change to the standard in question also intends to provide clarification about the aggregation or disaggregation of financial statement items should their amount be significant or “material”. In addition, in reference to the setting out of the financial position of an entity, the amendment clarifies the need to disaggregate some items envisaged by paragraphs 54 (Financial position) and 82 (Income statement) of IAS 1;
- IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”: this change to the two aforementioned standards clarifies that an amortisation process based on revenues cannot be applied in reference to the elements of property, plant and equipment, since this method is based on factors (for example sale volumes and prices) which do not represent actual consumption of the economic benefits of the underlying asset. The aforementioned restriction has been included also in IAS 38, on the basis of which intangible assets can be amortised on the basis of revenues only if it is possible to show that the revenues and consumption of the economic benefits of the intangible asset are closely related;
- IAS 27 Revised “Separate financial statements”: the amendment to the standard in question was issued by the IASB on 12 August 2014 and is applicable as from 1 January 2016. It allows an entity to use the equity method in order to record in the separate financial statements investments in subsidiaries, joint ventures and associates;
- Annual changes to the IFRS 2012-2014: on 25 September 2014 the IASB published a series of amendments to some International Accounting Standards, which are applicable as from 1 January 2016. The changes concern:
 - IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”;
 - IFRS 7 “Financial instruments: Disclosures”;
 - IAS 19 “Employee Benefits”;
 - IAS 34 “Interim Financial Reporting”.

In particular, in reference to IFRS 7, the amendment in question establishes that should an entity transfer a financial asset on conditions such as to allow the “derecognition” of the asset itself, disclosure is required concerning the residual involvement of the entity in the transferred asset, if it has signed service contracts which include an interest of the entity in the future performance of the financial assets transferred.

The proposed change in IAS 19 clarifies that the discount rate used to discount obligations for benefits subsequent to the employment relationship ending is determined in reference to the market yields on bonds of leading companies and in countries where this is no “deep market” for such securities that the market yields on the securities of public bodies are used.

Standards which have yet to be adopted and applied

The following standards and amendments to existing standards are still being approved by the European Union and therefore cannot be applied by the Group. The dates indicated reflect the date of application expected and established in the standards themselves; this date is however subject to effective approval by the competent bodies of the European Union:

- IFRS 9 “Financial instruments”: this standard represents the first part of a staged process which aims to replace in full IAS 39 “Financial instruments: recognition and measurement” and introduces new criteria for the classification and measurement of financial assets and liabilities. The main changes introduced by IFRS 9 can be summarised as follows: financial assets can be classified in only two categories - at “fair value” or at “amortised cost”.

The classification in the two categories takes place on the basis of the business model of the entity and in relation to the characteristics of the cash flows generated by the assets themselves. A financial asset is valued at amortised cost if both the following requirements are met: the business model of the entity envisages that the financial asset is held to collect the related cash flows (and so in essence not to realise trading profits) and the characteristics of the cash flows of the asset correspond solely to the payment of capital and interest. If this is not so, the financial asset must be measured at fair value. The rules for the recognition of incorporated derivatives have been simplified: it is no longer required to recognise separately the incorporated derivative and the financial asset which is “host” to it. All the instruments representing capital – both listed and unlisted – must be measured at fair value.

IFRS 9 does not allow reclassification between the two categories of financial assets except in rare cases where there is a change in the business model of the entity. In this case the effects of the reclassification are applied prospectively.

Finally, the disclosure required in the notes has been adjusted to the classification and measurement rules introduced by IFRS 9. On 19 November 2013 the IASB

issued an amendment to the standard in question, which mainly concerns the following aspects:

- the substantial review of hedge accounting, which will allow companies to better reflect their risk management activities in the financial statements;
 - the change is allowed in the accounting treatment of liabilities measured at fair value: in particular the effects of a worsening in companies' credit risk will no longer be recorded on the Income statement;
 - the date of the coming into force of the standard in question is delayed, having been initially set as from 1 January 2015.
- IFRS 15 "Revenue from contracts with customers": the standard, which was issued by the IASB on 28 May 2014, is the result of an attempt at convergence between the IASB and the FASB ("Financial Accounting Standard Board", the body responsible for the issue of new accounting standards in the United States) in order to achieve a single model for the recognition of revenues applicable in both IFRS and US GAAP. The new standard will be applicable to all contracts with customers, including contract work in progress, and therefore will replace the current IAS 18 – Revenues and IAS 11 – Construction contracts and all the related interpretations. The standard in question is applied when the following criteria occur together:
 - the parties have approved the contract and have agreed to carry out the respective obligations;
 - the rights of each of the parties regarding the goods and services to be transferred as well as the payment terms have been identified;
 - the contract signed has commercial substance (the risks, the timeframe or the total future cash flows of the entity may be changed as a result of the contract);
 - there is the likelihood of receiving and paying the amounts connected to execution of the contract.

IFRS 15 also includes disclosure obligations which are significantly broader than the existing standard, in regard to the nature, amounts, timeframes and uncertainty of the revenues and cash flows arising from contracts with customers.

On 11 September 2015 the IASB issued a change to the standard in question, deferring its application date to 1 January 2018;
 - IFRS 10 "Consolidated financial statements": the change to the standard was issued on 18 December 2014 and regards exemption from presentation of consolidated financial statements should the parent company have investments in "investment entities" which value their subsidiaries at fair value. The amendment to the standard is applicable as from 1 January 2016;
 - IAS 28 "Investments in associates and joint ventures": on 18 December 2014 the standard was changed as regards investments held in associates or joint ventures which are "investment entities": such investments can be measured at fair value or with the equity method. This change is applicable as from 1 January 2016.

- IAS 12 “Income taxes”. On 19 January 2016 the IASB published some changes which seek to clarify how to account for deferred tax assets relating to debit instruments measured at fair value. The changes are applicable as from 1 January 2017.

Information on the Income Statement

Revenues

The transport of methane gas takes place exclusively within Italy.

5.a Revenues from sales and services – 614,619 thousand euro

The "Revenues from sales and services" item which amounted to 614,619 thousand euro mainly refers to the gas transport activity and the connection fees.

"Revenues from sales and services" are broken down as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015- 2014 |
|---|----------------|----------------|--------------|
| Sales and services | | | |
| <i>Third parties:</i> | | | |
| Gas and LPG transport | 579,884 | 557,203 | 22,680 |
| Provision for risks | (4,128) | 10,573 | (14,701) |
| Connection fees | 12,343 | 14,031 | (1,688) |
| Accessory rights | 5,618 | 5,713 | (95) |
| Revenues from the sale of water | 2,533 | 3,181 | (648) |
| Accessory services – water sector | 486 | 558 | (72) |
| Revenues from customer operations | 58 | 378 | (320) |
| Revenues from sewerage/purification | 905 | 1,135 | (231) |
| Other revenues and other sales and services | 16,921 | 15,378 | 1,542 |
| Total revenues from sales and services | 614,619 | 608,150 | 6,468 |

Revenues from gas transport totalled 579,884 thousand euro and mainly refer to the 2015 tariff revenue cap for natural gas and LPG, together with revenues from adjustments in previous years.

This figure was calculated on the basis of AEEGSI Resolution no. 367/2014/R/gas which is valid for the fourth regulatory period up to 2019.

In the year it was arranged to set aside a further provision for the risk that the tariffs of some concessions may be reviewed where the ownership is held by third parties.

The figure for transport revenue rose compared to the previous year by 7,979 thousand euro, after excluding the impact of 1,470 thousand euro in the two years for the allocation and release of the aforementioned provision for risks.

The difference is due to tariff adjustments relating to previous years following the revision of the macroeconomic data by the Authority.

Connection contributions, totalling 12,343 thousand euro, fell by 1,688 thousand euro compared to those recorded in the previous year; the cause was the cautious economic recovery the effects of which had still not been felt in 2015, with in general slowdowns in grid investments continuing.

As in the prior year, the prepayments relating to these fees were calculated. In particular, the connection fee is based on a specific quote according to the type of service requested and consists of:

- the cost of the material required;
- the labour cost;
- the percentage for the coverage of general expenses.

The analysis undertaken enabled the separation of the percentage of revenue for contributions received from customers to be used to cover overhead costs which are accessory to the investment activity (around 18%), and therefore not to be deferred, from that to be attributed to the costs which are capitalised and therefore to be deferred on the basis of the length of the amortisation of the asset.

The revenue relating to the sale of water decreased by 950 thousand euro overall, following the gradual restriction in the water concessions managed by the Company.

In “Other revenues and other sales and services” the positive change of 1,542 thousand euro was mainly due to the increase of revenues linked to the work to suspend and reactivate customers in arrears at the request of the sales companies.

5.b Other revenues – 78,240 thousand euro

“Other revenues” totalled 78,240 thousand euro (86,173 thousand euro in 2014), decreasing by 7,933 thousand euro and are broken down as follows:

| Thousands of euro | | | |
|--|-------------------|-------------------|--------------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Other revenues | | | |
| <i>Third parties:</i> | | | |
| Revenues from energy efficiency certificates | 50,254 | 61,013 | (10,758) |
| Revenues from plant contributions | 2,348 | 2,300 | 48 |
| Contingent assets | 8,294 | 3,231 | 5,063 |
| Revenues from Resolution no. 120 | 9,224 | 10,088 | (864) |
| Rental income | 691 | 776 | (85) |
| Capital gains from assets | 809 | 3,456 | (2,647) |
| Compensation for damages | 543 | 1,042 | (499) |
| Revenues from seconded personnel | - | 972 | (972) |
| Other revenues and income and services | 6,077 | 3,295 | 2,781 |
| Total other revenues | 78,240 | 86,173 | (7,933) |

The decrease in the item was largely due to lower revenues, totalling 10,758 thousand euro, relating to energy efficiency certificates (owing to lower purchases made in the year compared to the previous year), the increase in extraordinary income caused by the sum paid by Gaz de France Italia given the closure of the international arbitration during the year, the lower capital gains made given the absence of tenders for the sale and acquisition of concessions (2,647 thousand euro) and, finally, the increase in other revenues and income for 2,781 thousand euro due mainly to a repayment from the Fund for Energy and Environmental Services, higher revenues for resolution 40 and reimbursements for training costs.

Revenues for energy efficiency certificates refer to achieving the objective for 2014 and partially achieving the specific energy saving objective for 2015. In relation to the objective for 2015 it is necessary to have cancelled (or delivered to GME) at least 50% of the certificates requested by May 2016.

In this regard, the 2i Rete Gas Group, at the end of the reporting period, believes that there will be no problems in achieving the targets in compliance with relevant laws and regulations.

5.c Revenues from intangible assets / assets under construction – 170,040 thousand euro

| Thousands of euro | | | |
|--|-------------------|-------------------|--------------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Revenues from intangible assets/assets under construction | | | |
| Revenues from intangible assets/assets under construction | 170,040 | 144,622 | 25,418 |
| Total revenues from intangible assets/assets under construction | 170,040 | 144,622 | 25,418 |

These revenues have been recognised in the financial statements following application, as from 1 January 2010, of IFRIC 12 “Service concession arrangements”.

Revenues from intangible assets and assets under construction represent the portion of revenues directly attributable to the construction and the enhancement 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, these revenues are estimated to be exactly the same as the costs incurred for the same end, and so there is no impact in terms of gross margin.

Costs

As already noted, all costs recorded in order to adopt the accounting model proposed by IFRIC 12 are divided by nature within the pre-existing cost items.

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

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|----------------|----------------|---------------|
| Costs relating to revenues from intangible assets / assets under construction | | | |
| Raw materials and consumables | 4,133 | 5,047 | (914) |
| Costs for services | 78,808 | 82,331 | (3,523) |
| Other operating costs | 555 | 320 | 235 |
| Personnel costs | 86,545 | 56,925 | 29,620 |
| Total costs relating to revenues from intangible assets / assets under construction | 170,040 | 144,622 | 25,418 |

6.a Raw materials and consumables – 63,203 thousand euro

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

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|-------------------|-------------------|--------------------|
| Raw materials and consumables | | | |
| <i>Third parties:</i> | | | |
| Costs for the purchase of gas, water and lubricants | 4,042 | 4,912 | (870) |
| Stationery and printed materials | 299 | 307 | (8) |
| Various materials | 64,877 | 38,847 | 26,030 |
| (Change in inventories of raw materials) | (6,016) | (1,321) | 4,694 |
| Total cost for raw materials and consumables | 63,203 | 42,745 | 20,458 |
| - of which capitalised for intangible assets | 53,834 | 32,661 | 21,173 |
| - of which capitalised | - | | |

The costs of “Raw materials and consumables” essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes; compared to the previous year these costs increased by 20,458 thousand euro.

Specifically this significant increase was due to the start of the campaign to replace traditional meters with new electronic meters which started in the final months of the last year and which led to around 388,400 meters being replaced during the year. The electronic meters plan envisages the replacement of 50% of traditional meters by the end of 2017.

6.b Services - 208,313 thousand euro

Costs for “Services” are broken down as follows:

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|----------------|----------------|-----------------|
| Costs for services | | | |
| Maintenance, repair and realisation of assets | 77,146 | 78,870 | (1,724) |
| Costs for electricity, power and water | 4,020 | 4,800 | (780) |
| Gas (for internal use) | 3,844 | 5,176 | (1,331) |
| Telephone and data transmission costs | 3,837 | 3,239 | 598 |
| Insurance premiums | 5,171 | 5,700 | (529) |
| Costs for services and other expenses relating to personnel | 5,332 | 4,743 | 589 |
| Fees | 659 | 1,059 | (400) |
| Legal and notary costs | 392 | 617 | (225) |
| Costs for company acquisitions and disposals | 1 | 230 | (229) |
| Staff and other services | 1,439 | 5,001 | (3,562) |
| Advertising | 108 | 164 | (55) |
| IT services | 7,611 | 8,607 | (996) |
| Meter reading service | 3,968 | 5,642 | (1,675) |
| Audit fees | 388 | 579 | (192) |
| Repairs and immediate intervention service | 3,180 | 2,285 | 895 |
| Plant certifications Resolution no. 40 | 720 | 677 | 43 |
| Gas transport by third parties | 2,248 | 1,610 | 638 |
| Professional and other services | 4,564 | 7,952 | (3,387) |
| Other costs for services | 7,894 | 8,177 | (284) |
| Costs for the use of third-party assets | | | |
| Leases | 6,809 | 7,707 | (899) |
| Rentals | 6,472 | 10,516 | (4,044) |
| Other costs for the use of third-party assets | 2,525 | 3,049 | (524) |
| Fee for temporary occupation of public space (C.o.s.a.p.) | 1,262 | 1,054 | 207 |
| Municipal gas concession fees | 58,722 | 59,152 | (430) |
| Total | 208,313 | 226,609 | (18,296) |
| - of which capitalised for intangible assets | 78,808 | 82,331 | (3,523) |

The aggregate figure for costs for services (including also costs for the use of third-party assets) is significantly down compared to that presented in the previous year.

A more detailed analysis of the individual costs items shows an increase in telephone costs, due to the new remote reading of meters, which was more than offset by the fall in costs for the meter reading service.

The biggest savings, on the other hand, came from the following items:

- costs for maintenance, repair and construction of assets of 1,724 thousand euro due to an optimisation of tender contracts and a different mix of resources used for such work and due to the reclassification of some costs relating to the on-call service;
- costs for electricity, gas and water, which fell thanks to careful renegotiation of the existing framework contracts (2,112 thousand euro) as with insurance premiums for the same reason (529 thousand euro);
- bank fees, which show an improvement in costs for guarantees as part of a general improvement in the conditions for financial operations;
- legal and notary costs, which fell by 225 thousand euro compared to 2014, and which were incurred to complete extraordinary operations in the Group;
- costs for staff services, which fell by 3,562 thousand euro following the definitive closure of existing contracts with the Enel Group for transporting gas and managing IT infrastructure;
- IT services, which fell by 996 thousand euro thanks to the benefits of bringing IT activities in house;
- costs for the meter reading service which improved by 1,675 thousand euro thanks to a contractual renegotiation with third-party meter readers;
- costs for professional services, other services and consultancy, which fell by 3,387 thousand euro: in the previous year these costs were affected by the costs due to the overall refinancing operation which led to an improvement in the financial structure, with a further saving on financial expenses;
- lease costs, which fell by 899 thousand euro thanks to the reorganisation of the head offices;
- hire fees, which as from 2014 include the hire of the hardware necessary to manage all the systems of 2i Rete Gas. In the year significant savings were made due to the revision of the main contracts following the complete bringing in-house of ICT services. There were also lower costs linked to vehicle hire.

Partly offsetting the aforementioned savings were:

- telephone and data transmission costs which grew by 598 thousand euro for communications made in year prior to installation of electronic meters;

- the increase of 895 thousand euro for the on-call and emergency response service, due solely to the aforementioned reclassification from maintenance costs;
- gas transport for third parties which rose by 638 thousand euro due to the costs of transporting trailer trucks which are recharged to the individual traders.
-

6.c Personnel costs - 131,137 thousand euro

Personnel costs are broken down as follows:

| Thousands of euro | | | |
|--|-------------------|-------------------|--------------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Wages and salaries | 81,628 | 83,780 | (2,152) |
| Social security charges | 29,376 | 26,491 | 2,885 |
| Termination benefits | 5,491 | 5,458 | 32 |
| Asem/Fisde | 9 | (20) | 29 |
| Fondo Gas | 11,386 | | 11,386 |
| Other personnel costs | 2,248 | 335 | 1,913 |
| Incentives to leave | 1,000 | - | 1,000 |
| Total non-recurring personnel costs | 1,000 | 0 | 1,000 |
| Total personnel costs | 131,137 | 116,044 | 15,093 |
| - of which capitalised for intangible assets | 36,843 | 29,311 | 7,533 |
| - of which capitalised | 1 | 20 | (19) |

Personnel costs of 131,137 thousand euro include all charges incurred on an ongoing basis which, directly or indirectly, concern employees. The item increased by 15,093 thousand euro; this increase was caused only by the abolition, as from 1 December 2015, of the so-called "Gas fund" which led the Group to have to record in 2015 the full discounted impact of the 240 instalments which must be paid monthly to employees and the additional contribution to be paid into the funds of INPS in order to make good the cash imbalance to 2015.

In addition, the rise is noted in the figure for the capitalisation of personnel costs thanks also to the campaign to install electronic meters.

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

| | Executives | Middle Managers | Office Employees | Workers | Total |
|--------------------------------------|------------|-----------------|------------------|------------|--------------|
| Personnel at 31 December 2014 | 33 | 106 | 1,116 | 719 | 1,974 |
| Increase | 2 | 0 | 34 | 0 | 36 |
| Decrease | (2) | (1) | (25) | (19) | (47) |
| Change in category | 0 | 5 | 2 | (7) | 0 |
| Personnel at 31 December 2015 | 33 | 110 | 1,127 | 693 | 1,963 |

In the year the turnover of staff was normal, with 36 new recruits, while 47 employees left the company.

6.d Amortisation, depreciation and impairment losses – 154,455 thousand euro

Depreciation and amortisation and impairment losses amounted to 154,455 thousand euro, up by 3,502 thousand euro compared to the previous year.

This change is mainly due to an increase in amortisation of intangible assets by 1,075 thousand euro and to an increase in depreciation of tangible assets by 1,672 thousand euro.

With the introduction of IFRIC 12, the amortisation of intangible assets mainly concerns the rights over concessions in which the Group manages the gas distribution networks.

Impairment totalling 1,523 thousand euro includes only the write-down of trade receivables. In particular, in 2015 it was necessary to write down the receivable for 1,388 thousand euro due from Suissegas Italia S.p.A. following admittance of the latter to an arrangement with creditors.

This item is broken down as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|-----------------------------------|-------------------|-------------------|--------------------|
| Depreciation of tangible assets | 5,087 | 3,415 | 1,672 |
| Amortisation of intangible assets | 147,844 | 146,769 | 1,075 |
| Impairment losses: | | | |
| - Impairment of intangible assets | - | 415 | (415) |
| - Write down of trade receivables | 1,523 | 353 | 1,170 |
| | 154,455 | 150,953 | 3,502 |

6.e Other operating costs – 70,538 thousand euro

“Other operating costs” decreased by 21,379 thousand euro compared to last year and are broken down as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|---------------|---------------|-----------------|
| Other operating costs | | | |
| <i>Third parties:</i> | | | |
| Remuneration of statutory auditors and Supervisory Body | 149 | 400 | (250) |
| Remuneration of members of the Board of Directors | 256 | 485 | (230) |
| Association fees | 444 | 437 | 7 |
| Contribution to the Supervisory Authority | 158 | 172 | (15) |
| Compensation to customers | 649 | 194 | 454 |
| Municipal tax on property | 472 | 460 | 12 |
| CCIAA (chamber of commerce) fees and duties | 426 | 399 | 27 |
| Purchase of energy efficiency certificates | 48,211 | 53,769 | (5,558) |
| Tax on the occupation of public space (Tosap) | 1,624 | 1,840 | (216) |
| Capital losses on the disposal of assets | 10,114 | 4,938 | 5,176 |
| Capital losses on the sale of assets | 242 | 401 | (159) |
| Local and sundry taxes | 587 | 755 | (168) |
| Difficulties in checks pursuant to Resolution no. 40 | 0 | 57 | (56) |
| Other costs | 667 | 1,507 | (840) |
| (Net) provision for risks and charges | 6,540 | 26,102 | (19,562) |
| Total other operating costs | 70,538 | 91,917 | (21,379) |
| - of which capitalised for intangible assets | 555 | 320 | 235 |

The decrease in other operating costs mainly depends on:

- lower costs for the purchase of energy efficiency certificates for the 2015 objectives for 5,558 thousand euro, mainly due to the lower volumes of certificates purchased in the year;
- higher capital losses from the disposal of assets for 5,176 thousand euro, due mainly to the work to replace traditional meters with electronic ones, and lower capital losses from the sale of assets for 159 thousand euro owing to the stall in tenders for the assignment of concessions;

- lower charges for provisions for risks of 6,540 thousand euro. The net provision for the period refers mainly to the provision for new legal cases which arose during the year, where the outcome of such cases is not certain, but the risk of losing them is probable, to a provision for differences between the actual purchase price and the recognised prices of energy certificates and to the provision for measurement checks on the electronic meters installed. The breakdown of the related provisions is provided in the comment on liabilities recognised in the Statement of financial position.

6.f Capitalised costs for internal work – 1 thousand euro

The item includes those costs which can be capitalised but do not concern concessions. Compared to 2014, the item fell by 19 thousand euro.

| Thousands of euro | | | |
|--|-------------------|-------------------|--------------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Internal services | 1 | 20 | (19) |
| Total capitalised costs for internal work | 1 | 20 | (19) |

7. Income (expenses) from equity investments - 229 thousand euro

The item in question includes the income from dividends approved by associates and other investees.

8. Financial income/(expenses) - (48,588) thousand euro

In detail:

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015-2014 |
|--|-----------------|------------------|------------------|
| Financial income | | | |
| - Interest earned from loans to employees | 1 | - | 1 |
| - Interest income from discounting of receivables | 75 | - | 75 |
| - Interest income on delayed payments | 129 | 219 | (89) |
| - Interest income from current accounts and post office deposits | 188 | 585 | (398) |
| - Interest income from receivables from customers | 122 | 664 | (542) |
| - Other financial interest and income | 225 | 26 | 198 |
| Total income | 740 | 1,494 | (755) |
| Financial expenses | | | |
| - Interest expense on medium/long-term loans | 2,435 | 34,364 | (31,929) |
| - Other expense on medium/long-term loans from banks | 1,581 | 2,944 | (1,363) |
| - Financial expenses on debenture loans | 37,200 | 14,809 | 22,391 |
| - Financial expenses from amortised cost | 7,308 | 29,955 | (22,646) |
| - Financial expenses concerning derivative contracts | - | 13,034 | (13,034) |
| - Interest expense on current bank accounts | 1 | - | 1 |
| - Discounting of termination and other employee benefits | 601 | 1,165 | (565) |
| - Interests on taxes | 97 | 429 | (332) |
| - Change in fair value of Interest Rate Swaps | - | 39,952 | (39,952) |
| - Change in fair value of hedging derivatives reclassified from comprehensive income | - | 65,726 | (65,726) |
| - Other financial and interest expense | 104 | 278 | (174) |
| Total expenses | 49,328 | 202,656 | (153,328) |
| TOTAL FINANCIAL INCOME AND (EXPENSES) | (48,588) | (201,161) | 152,573 |

The balance of financial income and expenses, which was negative for 48,588 thousand euro, was mainly due to the recognition of interest expense on debenture loans taken out during 2014 and on the loan for 210 million euro repaid in December 2015. In 2014 the effects of the closure of the previous loan which was closed in order to be able to proceed with the issue of the debenture loans were recognised.

The total saving in financial income and expense was 152,573 thousand euro and was due to the presence in 2014 of costs for the closure of derivatives (105,678 thousand euro). Other savings were due largely to the reduction in the interest rate following the new financial structure, which passed from a weighted average of 2.48% to 1.99%.

The Group debt structure is almost entirely at a fixed rate thanks to the presence of debenture loans.

The so-called revolving credit line remains available, even if currently unused, for cash needs for 100 million euro as well as the credit line for investments of 300 million euro, which was also unused at the reporting date.

9. Taxes – (98,921) thousand euro

This item is broken down as follows:

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|---------------|-----------------|-----------------|
| Current taxes | | | |
| Current income taxes: IRES | 44,903 | 54,132 | (9,230) |
| IRES substitute tax on exemption | - | 12,479 | (12,479) |
| Current income taxes: IRAP | 11,227 | 15,846 | (4,618) |
| Total current taxes | 56,130 | 82,457 | (26,327) |
| Adjustments for income taxes relating to previous years | | | |
| Negative adjustments for income taxes relating to previous years | 556 | 1,174 | (618) |
| Positive adjustments for income taxes relating to previous years | (1,179) | (1,173) | (6) |
| Total adjustments for income taxes relating to previous years | (623) | 1 | (624) |
| Deferred and prepaid taxes | | | |
| Deferred taxes (use)/allocations | (7,022) | (10,135) | 3,112 |
| Prepaid taxes (allocation) / use | 22,208 | (74,784) | 96,992 |
| <i>Total current deferred and prepaid taxes</i> | <i>15,185</i> | <i>(84,918)</i> | <i>100,104</i> |
| Adjustments to deferred taxes of previous years due to tax rate change | (34,051) | - | (34,051) |
| Adjustments to prepaid taxes of previous years due to tax rate change | 62,279 | - | 62,279 |
| <i>Total adjusted deferred and prepaid taxes</i> | <i>28,228</i> | <i>-</i> | <i>28,228</i> |
| Total deferred and prepaid taxes | 43,414 | (84,918) | 128,332 |
| TOTAL TAXES | 98,921 | (2,460) | 101,381 |

Income taxes for 2015 are equal to 98,921 thousand euro.

Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES of 44,903 thousand euro and IRAP of 11,227 thousand euro.

In 2014 current taxes were significantly affected both by the additional IRES tax, the so-called "Robin Hood Tax" and by the withholding tax paid by the parent company in order to release, from a tax viewpoint, the goodwill that emerged in the separate financial statements of the parent company following the merger of the investment in G6 Rete Gas, which occurred in 2013.

The positive effects of 7.8 million euro per annum in higher downward adjustments occurred as from the current year and will last for the next 10 years.

The net adjustments to income taxes relating to previous years are positive for 623 thousand euro; these adjustments arose following the definitive calculation of the taxes during the payment in June 2015.

The tax impact of IRES for 2015 on income before taxes is equal to 24%. The comparison with the previous year, however, is not significant since, following the Robin Hood Tax being declared illegitimate, the company's current tax profile changed considerably. In addition, the ending of the Robin Hood Tax and the approval of the Stability Law for 2016, which indicated the IRES tax rate for 2017 at 24%, made a considerable change necessary in the so-called "Tax Assets".

For the notes on prepaid and deferred taxes, 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 income before taxes:

Thousands of euro

| | 31.12.2015 |
|---|-------------------|
| Income before taxes | 186,895 |
| Theoretical IRES taxes - 2015: 27,5%, 2014: 34% | 51,430 |
| Lower taxes: | |
| - capital gains from exempt equity investments | - |
| - write downs in prior years | - |
| - release of contributions taxed in prior years | 962 |
| - use of provisions | 2,821 |
| - release of provisions | 1,593 |
| - reversal of statutory amortisation/depreciation not deducted in prior | 2,044 |
| - deducted tax amortisation | 2,501 |
| - deductible interest expense for previous years | 17,941 |
| - capital gains by instalments | 19 |
| - others | 3,325 |
| Higher taxes: | |
| - write-downs for the year | - |
| - allocations to provisions | 5,637 |
| - amortisation/depreciation on amounts that are not recognised for ta: | 3,015 |
| - statutory amortisation/depreciation exceeding the fiscal limits | 11,438 |
| - reversal of excess fiscal amortisation/depreciation deducted in prior | 1,051 |
| - capital losses on the disposal/sale of assets | 113 |
| - capital gains by instalments | 2,229 |
| - partially deductible costs | 673 |
| - connection fees | 24 |
| - taxes | 104 |
| - others | 394 |
| Total current income taxes (IRES) | 44,903 |
| IRAP - 2014: 4,58% | 11,227 |
| Total deferred and prepaid taxes | 43,414 |
| TOTAL INCOME TAXES | 99,544 |

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero, as in the previous year, since no asset was classified in the Consolidated Financial Statements for the year as “Discontinuing”.

Information on the Statement of Financial Position

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 and 2015 are shown below:

| Thousands of euro | Land | Buildings | Plant and equipment | Industrial and commercial equipment | Other assets | Improvements to third-party assets | Fixed assets under construction and advances | Total |
|--|---------------|---------------|---------------------|-------------------------------------|--------------|------------------------------------|--|---------------|
| Historical cost | 14,673 | 35,602 | 3,448 | 21,170 | 41,264 | 9,277 | 335 | 125,770 |
| Accumulated amortisation | - | (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 |
| Contribution from change in the scope of consolidation | - | - | - | 63 | 12 | - | - | 75 |
| Investments | - | 105 | 112 | 642 | 6,038 | 314 | 2,673 | 9,883 |
| Entry into service | - | 138 | - | - | - | 179 | (317) | - |
| Disposals | - | - | (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 amortisation | - | (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 |
| Contribution from change in the scope of consolidation | - | - | - | - | - | - | - | - |
| Investments | - | 34 | 503 | 472 | 994 | 1,762 | 1,190 | 4,955 |
| Entry into service | - | 40 | - | - | 1,022 | 1,607 | (2,669) | - |
| Disposals | - | - | (3) | (15) | (11) | - | - | (29) |
| Reclassifications | 10 | 79 | 1,802 | - | - | (0) | - | 1,891 |
| Impairment losses | - | - | - | - | - | - | - | - |
| Depreciation | - | (1,107) | (89) | (677) | (2,208) | (1,006) | - | (5,087) |
| Total changes | 10 | (954) | 2,214 | (219) | (204) | 2,363 | (1,479) | 1,730 |
| Historical cost | 14,683 | 36,009 | 4,168 | 22,152 | 47,800 | 13,139 | 1,212 | 139,163 |
| Accumulated amortisation | - | (25,527) | (1,846) | (20,132) | (40,425) | (8,678) | - | (96,608) |
| Balance at 31.12.2015 | 14,683 | 10,481 | 2,322 | 2,020 | 7,375 | 4,462 | 1,212 | 42,555 |

The item at 31 December 2015 increased compared to 31 December 2014 by 1,730 thousand euro; this growth was due to the net balance of investments for 4,955 thousand euro, disposals for 29 thousand euro, reclassifications for 1,891 thousand euro, and depreciation for 5,087 thousand euro.

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

31.12.2015 31.12.2014

| Thousands of euro | | |
|--|--------------|--------------|
| Increases for internal services | 1 | 20 |
| Increases for materials | 1,688 | - |
| Increases for external acquisitions/services | 3,266 | 9,863 |
| Total | 4,955 | 9,883 |

12. Intangible assets – 2,796,578 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 and 2015 are shown below:

| Thousands of euro | Patent and intellectual property rights | Concessions and similar rights | Concessions and similar rights - Fixed assets under construction and advances | Fixed assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|-----------------------------------|--|---|-------------------------------|----------------|------------------|
| Historical costs | 83,748 | 4,985,294 | 12,001 | 1,754 | 50,364 | 151,458 | 5,284,618 |
| Accumulated amortisation | (63,526) | (2,421,662) | - | - | (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 |
| Contribution from change in the scope of consolidation: | - | 5,973 | - | - | 10 | 19 | 6,002 |
| Investments | 4,333 | 135,247 | 9,510 | 1,233 | 15,255 | - | 165,577 |
| Entry into service | - | 12,223 | (12,223) | (793) | 793 | - | 0 |
| Disposals | - | (11,019) | (1) | - | - | - | (11,020) |
| Reclassifications | (1,112) | - | 960 | (960) | 1,112 | - | 0 |
| Impairment losses | - | (415) | - | - | - | - | (415) |
| Depreciation | (7,928) | (134,501) | - | - | (4,340) | - | (146,769) |
| Total changes | (4,707) | 7,508 | (1,754) | (521) | 12,831 | 19 | 13,375 |
| Historical costs | 86,661 | 5,067,685 | 10,246 | 1,233 | 67,844 | 151,476 | 5,385,146 |
| Accumulated amortisation | (71,146) | (2,496,546) | - | - | (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 |
| Investments | 1,304 | 161,961 | 8,772 | 1,562 | 19,994 | - | 193,593 |
| Entry into service | - | 9,118 | (9,118) | - | - | - | - |
| Disposals | - | (12,546) | (11) | - | - | - | (12,556) |
| Reclassifications | 19 | (1,892) | 10 | - | (29) | - | (1,891) |
| Impairment losses | - | - | - | - | - | - | - |
| Depreciation | (6,534) | (132,842) | - | - | (8,468) | - | (147,844) |
| Total changes | (5,211) | 23,800 | (346) | 1,562 | 11,497 | 0 | 31,301 |
| Historical costs | 87,994 | 5,185,599 | 9,900 | 2,795 | 87,735 | 151,476 | 5,525,500 |
| Accumulated amortisation | (77,690) | (2,590,660) | - | - | (52,069) | (8,503) | (2,728,922) |
| Balance at 31.12.2015 | 10,304 | 2,594,939 | 9,900 | 2,795 | 35,666 | 142,974 | 2,796,578 |

Intangible assets increased by 31,301 thousand euro compared to 31 December 2014; this decrease is due to the net balance among new investments of 193,593 thousand euro, increases totalling 12,556 thousand euro, reclassifications of 1,891 thousand euro and amortisation of 147,844 thousand euro.

The net decrease in the item "Patent and intellectual property rights" by 5,211 thousand euro, refers to investments (1,304 thousand euro), to reclassifications under the item "Other intangible assets" (19 thousand euro) and to amortisation (6,534 thousand euro). Investments in the year of 1,304 thousand euro mainly concern the latest essential upgrading of the existing systems and software licences which the Company has acquired.

The item "Concessions and similar rights" in 2014 totalled 2,571,139 thousand euro as fixed assets; in this period fixed assets amounted to 2,594,939 thousand euro; the item relates to the recognition of rights which the Group claims as concessionaire and operator of the gas distribution service, as well as one-off fees for the acquisition of concessions for 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 realisable value 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 value 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 value 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 "Fixed assets under construction and advances", totalling 2,795 thousand euro mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company.
The investment caused all of the positive change.

The "other intangible fixed assets" item of 35,666 thousand euro includes miscellaneous costs of a multiple year nature such as costs linked to the implementation of the remote metering system for electronic meters.

The "goodwill" item is equal to 142,974 thousand euro and it is related to the deficit from the consolidation and merger of companies which had previously been subsidiaries. The recognition of the item took place with the agreement of the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the discounted cash flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use. In detail, cash flows are considered for an explicit period of 5 years, consistent with the 2i Rete Gas plan illustrated by the Board of Directors on 29 January 2016 and drafted on the assumption of an ongoing concern, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the two main assumptions are:

- continuity in concessions, since the redefinition of the relevant local areas resulting from the tenders will be a concrete opportunity for the Group to expand its business on the competitive market given its economic capacity, available credit lines, and top position in a market that is experiencing concentration;
- the continuous management of end customers, with the assumption of further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years.

Discount rates applied, the explicit time horizon over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

| Tax Rate | WACC (1) | Explicit cash flow period | "TV (g) growth rate " |
|-----------------|---------------------|--------------------------------------|----------------------------------|
| 32,1% (2) | 4.5% | 2016 - 2020 | 0.00% |

(1) WACC is the weighted average cost of capital

(2) IRAP + IRES rate

The value in use as determined in accordance with the aforementioned methods was higher than the value of the net invested capital recorded in the financial statements.

The recoverability of the Group's invested capital was also confirmed by a further sensitivity analysis undertaken by simulating possible changes in the key assumptions included in the business and financial plan used for the impairment test.

In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital) there would have to be damaging changes to the plan such as to reduce the net cash flows by around 25%, a percentage which is much higher than the reductions considered possible by the Group.

13. Net deferred tax assets - 68,835 thousand euro

Deferred tax assets and deferred tax liabilities are determined on the basis of the tax rates in force at the end of the reporting period. Deferred tax assets totalled 171,943 thousand euro (257,408 thousand euro at 31 December 2014), while deferred tax liabilities totalled 103,109 thousand euro (144,181 thousand euro at 31 December 2014).

The value of deferred tax assets and deferred tax liabilities at 31 December 2015 was therefore determined by applying the tax rates in force: for IRES 27.5% on the amounts which the company considers can be used by the end of 2016, while it will be 24% for the amounts that can be used subsequently. For IRAP the rate of 4.56% was used.

Deferred net tax assets decreased by 44,487 thousand euro compared to the previous year. This change is mainly connected to the increases in the year for 15,335 thousand euro (deriving mostly from the different treatment of accumulated amortisation in accordance with art. 102 bis of the Consolidated Income Tax Law (TUIR)), to decreases for 28,131 thousand euro (this was affected for 27,805 thousand euro by the use of deferred tax assets due to financial expenses with deferred deductibility) and other negative movements for 30,618 thousand euro due mainly to the readjustment of deferred tax assets following the so-called Robin Hood Tax being declared illegitimate and 2016 Stability Law which introduced the cut in the IRES tax rate to 24% as from 2017.

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.

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 euro | At 31.12.2014 | Adjustments to UNICO | Balance after adjustments to UNICO | Increases recognised in | | Decreases recognised in | | Other changes | | Balance at 31.12.2015 |
|--|----------------|----------------------|------------------------------------|-------------------------|------------|-------------------------|--------------|-----------------|--------------|-----------------------|
| | | | | Profit or Loss | Equity | Profit or Loss | Equity | Profit or Loss | Equity | |
| | | | | | | | | | | |
| Deferred income tax assets: | | | | | | | | | | |
| allocation to provisions for risks and charges, deferred deductibility | 20,056 | 3 | 20,060 | 3,624 | - | (1,304) | - | (5,082) | - | 17,298 |
| allocation to provisions for exit and stock option | 744 | - | 744 | 286 | - | (467) | - | (90) | - | 473 |
| allocation to provisions for disputes | 5,330 | - | 5,330 | 1,012 | - | (570) | - | (1,833) | - | 3,938 |
| allocation to provisions for inventory obsolescence | 4,352 | 6 | 4,357 | 71 | - | (88) | - | (1,109) | - | 3,231 |
| impairment losses on deferred deductibility assets (receivables write-downs) | 4,292 | 64 | 4,356 | 167 | - | (924) | - | (1,042) | - | 2,557 |
| impairment losses on deferred deductibility assets (plant write-downs) | 2,590 | - | 2,590 | - | - | - | - | (689) | - | 1,901 |
| depreciation and amortisation of tangible and intangible assets, deferred deductibility | 96,695 | 2 | 96,697 | 9,975 | - | (1,753) | - | (28,540) | - | 76,379 |
| separation of land/buildings and component analysis | 144 | - | 144 | 6 | - | (0) | - | (35) | - | 114 |
| plant costs | 3,114 | - | 3,114 | - | - | - | - | (882) | - | 2,232 |
| termination and other employee benefits | 3,340 | - | 3,340 | 604 | - | (829) | - | (792) | - | 2,324 |
| cash deductible taxes and duties | 16 | - | 16 | - | - | - | - | (4) | - | 12 |
| proceeds subject to deferred taxation (connection fees) | 46,934 | 44 | 46,978 | 21 | - | (1,087) | - | (12,329) | - | 33,583 |
| deferred deductibility charges | 65,349 | 3 | 65,352 | 16 | - | (2,805) | - | (12,601) | - | 24,963 |
| goodwill | 1,533 | - | 1,533 | - | - | - | - | (397) | - | 1,136 |
| termination benefits - Italian Accounting Body (OC1) | 2,857 | 0 | 2,857 | - | - | - | (356) | - | (702) | 1,799 |
| for losses recoverable in future years | 48 | (29) | 19 | 3 | - | (19) | - | - | - | 3 |
| other consolidation adjustments | 17 | - | 17 | - | - | 1 | (15) | (1) | 1 | 3 |
| Total | 257,408 | 94 | 257,502 | 15,784 | - | (34,844) | (372) | (65,428) | (700) | 171,943 |
| Deferred income tax liabilities: | | | | | | | | | | |
| differences on tangible and intangible assets – additional depreciation and amortisation | 38,503 | - | 38,503 | 354 | - | (908) | - | (11,163) | - | 26,785 |
| differences on intangible assets – goodwill | 8,086 | - | 8,086 | - | - | (195) | - | (2,038) | - | 5,853 |
| separation of land/buildings and component analysis | 5,178 | - | 5,178 | - | - | - | - | (1,349) | - | 3,829 |
| allocation to assets of costs relating to company mergers | 59,357 | - | 59,357 | - | - | (2,653) | - | (12,041) | - | 44,664 |
| non-accounting deductions relating to impairment of equity investments, receivables and licenses | - | - | - | - | - | - | - | - | - | - |
| Termination benefits | 1,257 | - | 1,257 | - | - | - | - | (370) | - | 887 |
| proceeds subject to deferred taxation | 4,026 | - | 4,026 | - | - | (2,250) | - | (793) | - | 983 |
| others... | 3,184 | - | 3,184 | 39 | - | (282) | - | (769) | - | 2,172 |
| ASEM - Italian Accounting Body (OC1) | 0 | - | 0 | - | 1 | - | - | (0) | - | 1 |
| recording of deferred taxes due to merger | 23,217 | - | 23,217 | 55 | - | (388) | - | (5,939) | - | 16,945 |
| other consolidation adjustments | 1,372 | - | 1,372 | - | - | (36) | - | (348) | - | 988 |
| 5% dividends received allocated to future years on an accruals basis | 0 | - | 0 | 2 | - | - | - | 0 | - | 2 |
| Total | 144,181 | - | 144,181 | 449 | 1 | (6,713) | - | (34,810) | - | 103,109 |
| Net deferred tax assets | 113,227 | 94 | 113,321 | 15,335 | (1) | (28,131) | (372) | (30,618) | (700) | 68,835 |

14. Equity investments – 3,334 thousand euro

The following table shows the changes in the period for each equity investment, with the corresponding values at the beginning and end of the year, as well as the list of equity investments held in “Other companies”.

| Thousands of euro | Carrying amount | % ownership | Contribution from change in the scope of consolidation: | Investments for the year | Disposals | Other increases | Other decreases | Adjustments | Original cost | Write-downs/Write-ups | Carrying amount | % ownership |
|---|-----------------|-------------|---|--------------------------|-----------|-----------------|-----------------|---------------|---------------|-----------------------|-----------------|-------------|
| | Changes in 2015 | | | | | | | at 31.12.2015 | | | | |
| Associates | | | | | | | | | | | | |
| Equity Method | | | | | | | | | | | | |
| Melegnano Energia Ambiente SpA | 2,451 | 40.00% | | | | 15 | | | 2,451 | | 2,466 | 40.00% |
| Cbl Distribuzione Srl | 360 | 40.00% | | | | (9) | | | 360 | | 351 | 40.00% |
| Other companies | | | | | | | | | | | | |
| Valuation at cost | | | | | | | | | | | | |
| Interporto di Rovigo S.p.A. | 42 | 0.30% | | | | | | | 42 | | 42 | 0.30% |
| Fingrandà S.p.A. | 26 | 0.58% | | | | | | | 26 | | 26 | 0.58% |
| Agenzia di Pollenzo S.p.A. | 33 | 0.27% | | | | | | | 33 | | 33 | 0.27% |
| Industria e Università S.r.l. | 11 | 0.09% | | | | | | | 11 | | 11 | 0.09% |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | 405 | 3.37% | | | | | | | 405 | | 405 | 3.37% |
| Terme di Offida SpA | 1 | 0.19% | | | | | | | 1 | | 1 | 0.19% |
| Asogas S.p.A. in liquidazione | - | 9.00% | | | | | | | - | | - | 9.00% |
| Alpifiere S.r.l. in fallimento | - | 3.00% | | | | | | | - | | - | 3.00% |
| TOTAL EQUITY INVESTMENTS | 3,329 | | - | - | - | 6 | - | - | 3,329 | - | 3,334 | |

The following tables show the list of equity investments in associates and values as recorded in the Group financial statements at 31 December 2015:

| B) Associates | Registered office | Share capital (euro) | Equity (euro) | Revenues (euro) | Income/loss latest year (euro) | End of the reporting period | % ownership | Consolidated carrying amount (euro) |
|--------------------------------|-------------------|----------------------|---------------|-----------------|--------------------------------|-----------------------------|-------------|-------------------------------------|
| Melegnano Energie Ambiente SpA | Melegnano (MI) | 4,800,000 | 6,430,357 | 5,929,979 | 302,797 | 31.12.2014 | 40.00% | 2,451,467 |
| CBL Distribuzione Srl | Mede (PV) | 170,000 | 927,375 | 3,212,909 | 77,187 | 31.12.2014 | 40.00% | 360,075 |

Finally, the equity investments in other companies at the same date were:

| C) Other Companies | Registered office | Share capital (euro) | Equity (euro) | Revenues (euro) | Income/loss latest year (euro) | End of the reporting period | % ownership | Carrying amount (euro) |
|---|-------------------|----------------------|---------------|-----------------|--------------------------------|-----------------------------|-------------|------------------------|
| Interporto di Rovigo S.p.A. | Rovigo | 8,575,489 | 6,363,993 | 1,425,953 | (527,726) | 31.12.2014 | 0.30% | 41,634 |
| Fingranda S.p.A. | Cuneo | 2,662,507 | 2,072,132 | 2,527 | (199,129) | 31.12.2014 | 0.58% | 25,822 |
| Agenzia di Pollenzo S.p.A. | Bra (CN) | 24,319,920 | 23,724,636 | 948,043 | 117,979 | 31.12.2014 | 0.27% | 33,082 |
| Industria e Università S.r.l. | Varese | 13,005,000 | 10,852,773 | - | (33,690) | 31.12.2014 | 0.09% | 10,989 |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | Tirano (SO) | 1,803,562 | 19,047,828 | 4,767,979 | 977,705 | 30.06.2015 | 3.37% | 405,000 |
| Terme di Offida Spa | Offida (AP) | 277,029 | 141,432 | 7,549 | (9,739) | 31.12.2014 | 0.19% | 548 |
| Asogas S.p.A. in liquidazione | Amandola (FM) | 104,000 | (152,970) | - | (16,228) | 31.12.2014 | 9.00% | - |
| Alpifere S.r.l. in fallimento | Morbegno (SO) | 10,330 | - | - | - | 31.12.1998 | 3.00% | - |

15. Non-current financial assets – 5,213 thousand euro

The item mainly represents the deferral of the transaction costs incurred to obtain the credit lines which were granted but had still not been used at 31 December 2015.

16. Other non-current assets – 32,048 thousand euro

This item increased compared to 31 December 2014 by 8,269 thousand euro; it is broken down as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|---------------|---------------|--------------|
| guarantee deposits | 3,527 | 3,118 | 409 |
| receivables for plant contributions | 678 | 1,234 | (556) |
| tax receivables reimbursements applied for | 2,079 | 821 | 1,258 |
| prepaid promotional expenses | 232 | 232 | - |
| receivables from municipalities for disposals of assets due to expiration of concessions | 16,116 | 17,299 | (1,183) |
| other non-current assets | 9,564 | 1,222 | 8,342 |
| bad debt provision | (147) | (147) | - |
| Total | 32,048 | 23,779 | 8,269 |

Guarantee deposits totalled 3,527 thousand euro and refer to receivables for work to be done on distribution plant and user contract.

The 678 thousand euro contribution receivables refer to recognition of the medium/long-term portion of receivables for plant contributions and decreases in the year due to income received.

Receivables for tax reimbursements of 2,079 thousand euro refer to the claim under art. 6 of Decree Law no. 185/2008 (Deduction from IRES of part of the IRAP pertaining to labour costs and interest).

The receivable due from municipalities for the disposal of assets due to the ending of concessions had a balance of 16,116 thousand euro and refers to receivables which are subject to legal challenge or similar ongoing procedures with municipalities in order to obtain the value requested as reimbursement for the outgoing operator for some concessions which have been handed back over the years. In light of the continuation of the recovery activities both through arbitration and through some legal cases, the Company considered it more appropriate to reclassify these receivables as non-current assets.

In the year, following recovery activities, transactions were completed with 3 municipalities which established a progressive repayment plan, the effects of which are visible in the fall in long-term receivables.

Finally, among the other non-current assets as from this year are receivables due from contracting authorities for advances paid following the specific request for the arrangement of ATEM tenders (4,144 thousand euro) and receivables regarding the capital losses which were generated in the year following work to replace traditional with electronic meters (4,415 thousand euro).

Current assets

17. Inventories – 13,810 thousand euro

Final inventories of raw materials rose compared to the previous year by 6,016 thousand euro.

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

The item includes the provision for the write-down of inventories equal to 314 thousand euro. The provision was set up to take into account inventories with unlikely future use.

The cost method adopted is weighted average purchase cost.

18. Trade receivables – 239,501 thousand euro

Trade receivables amounted to 239,501 thousand euro, up by 25,880 thousand euro compared to 2014.

The breakdown is set out below.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--------------------------------|----------------|----------------|---------------|
| Third-party customers: | | | |
| Receivables due from customers | 253,155 | 229,987 | 23,168 |
| - Bad debt provision | (13,653) | (16,365) | 2,712 |
| Total | 239,501 | 213,622 | 25,880 |

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 customers are recognised net of a 13,653 thousand euro bad debt provision, compared to 16,365 thousand euro at the beginning of the year. Changes in the bad debt provision are set out below.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|---------------|---------------|----------------|
| At 1 January | 16,365 | 17,174 | (808) |
| Contribution from change in the scope of consolidation | - | 20 | (20) |
| Allocations | 3,091 | 1,208 | 1,883 |
| Releases | (1,605) | (855) | (750) |
| Uses | (4,198) | (1,182) | (3,016) |
| At 31 December | 13,653 | 16,365 | (2,712) |

The fiscal provision for bad debts at 31 December 2015 was set at 8,980 thousand euro (11,680 thousand euro at 31 December 2014).

All the Group's operations are in Italy.

19. Short-term financial receivables – 323 thousand euro

Short-term financial receivables totalling 323 thousand euro mainly consist of financial receivables due from associates for dividends which they have approved but not yet paid.

20. Other current financial assets – 8 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2015.

21. Cash and cash equivalents – 160,541 thousand euro

Cash and cash equivalents increased by 52,035 thousand euro, attributable to the net effect of the increase in bank deposits by 52,097 thousand euro, the decrease in post office deposits by 46 thousand euro and a 16 thousand euro increase in cash in hand.

Cash and cash equivalents are broken down as follows.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|----------------------|----------------|----------------|---------------|
| Bank deposits | 160,098 | 108,002 | 52,097 |
| Post office deposits | 285 | 330 | (46) |
| Cash in hand | 158 | 174 | (16) |
| Total | 160,541 | 108,506 | 52,035 |

Operating cash is held in bank and post office deposits.

22. Income tax receivables – 9,940 thousand euro

Income tax receivables totalled 9,940 thousand euro and mainly included receivables for IRES for 8,756 thousand euro and 1,184 thousand euro for IRAP; compared to the previous year these receivables fell by 11,759 thousand euro.

23. Other current assets – 146,170 thousand euro

Other current assets fell compared to 31 December 2014 by 16,969 thousand euro; this decrease was mainly the net result of:

- an increase in receivables due from social security institutes for 1,780 thousand euro owing to the change made in the assets of 2i Rete Gas (formerly F2i Reti Italia) following the merger, which entailed a higher payment in 2015 but also a revision of the amount due to the social security institutes.
- a decrease in the receivables due from the Fund for Energy and Environmental Services, for 19,285 thousand euro, due to the trend in invoicing in 2015 in regard to the Tariff Revenue Limit (VRT) which was already established. The receivables due from the Fund for Energy and Environmental Services refer mainly to the equalisation element for 2015, the UG2 components and the Gas Bonus and to the receivables for energy efficiency certificates. The item must be correlated with the

payables due to the Fund for Energy and Environmental Services shown under note 36 "Other current liabilities";

- An increase of 1,416 thousand euro in receivables due from municipalities for the disposal of assets due to the expiry of concessions, given by a reclassification from long to short term of some receivables due from municipalities with which an agreement has been signed for payment of the same.

The item is broken down as follows:

| Thousands of euro | | | |
|---|----------------|----------------|-----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Other tax receivables: | | | |
| VAT receivables reimbursements applied for | 1,084 | 923 | 162 |
| Tax receivables reimbursements applied for | 412 | 620 | (208) |
| Other tax receivables: | | | |
| from pension and insurance agencies | 2,928 | 1,147 | 1,781 |
| for plant contributions | 1,729 | 1,722 | 7 |
| from the Compensation Fund | 128,676 | 147,961 | (19,285) |
| from municipalities for disposals of asset due to expiration of concessions | 5,333 | 3,917 | 1,416 |
| from municipalities | 246 | 291 | (45) |
| from suppliers | 1,352 | 3,114 | (1,762) |
| Sundry receivables | 4,270 | 3,073 | 1,196 |
| - Bad debt provision | (1,152) | (1,115) | (37) |
| Accrued income | 1 | 1 | - |
| Deferred expenses relating to other multi-year charges | 51 | 51 | (0) |
| Deferred expenses relating to real estate lease fees | 190 | - | 190 |
| Deferred promotional expenses | - | 37 | (37) |
| Deferred insurance premiums | 101 | 140 | (39) |
| Other deferred expenses | 948 | 1,256 | (308) |
| Total | 146,170 | 163,138 | (16,969) |

Liabilities

Equity

24. Equity – 663,901 thousand euro

Equity amounted to 663,901 thousand euro, up by 23,043 thousand euro in the year, due to:

- decrease following the ordinary dividend pay-out for an overall amount of 65,020 thousand euro;
- change in IAS reserves for 90 thousand euro;
- increase from result for the year for 87,974 thousand euro;

Share capital – 3,639 thousand euro

The share capital at 31 December 2015 consisted of 363,851,660 ordinary shares of 2i Rete Gas S.p.A. and amounted to 3,639 thousand euro, entirely subscribed and paid up; the item changed in the year following the merger, with the related entry into the shareholding structure of the shareholders of the operating company 2i Rete Gas S.p.A.

Share Premium Reserve – 286,546 thousand euro

The share premium reserve changed in the year by 65,020 thousand euro following the distribution of the dividend relating to 2014.

Legal reserve – 728 thousand euro

The legal reserve is equal to 728 thousand euro and has increased by 108 thousand euro in the year to reach the limit envisaged by the law.

Other sundry reserves – 207,101 thousand euro

Other sundry reserves of 207,101 thousand euro changed compared to the previous year by 81,035 thousand euro, mainly owing to the reclassification caused by the merger of 2i Rete Gas with the subsidiary for (85,128) thousand euro and other movements for 4,111 thousand euro.

Retained earnings – 77,913 thousand euro

Retained earnings totalled 77,913 thousand euro and increased compared to the previous year by 93,932 thousand euro due to the above reclassifications.

Net income for the year – 87,974 thousand euro

Net income totalled 87,974 thousand euro in 2015 and compared to the result for 2014 (12,021 thousand euro) rose by 75,953 thousand euro.

Non-current liabilities

25. Long-term loans (including portions falling due within the next 12 months) – 2,075,571 thousand euro

The item refers to the three instalments of the long-term debenture loan issued during 2014 by the Company as part of a total redesign of its financial structure as well as to the bank debt due to the European Investment Bank for 200 million euro.

The table below shows long-term debt expressed in the original currency and the relevant interest rate. The loans' notional value is the same as the carrying amount.

| | Thousands of euro | | Notional Value | | Interest rate | Effective |
|--|-----------------------|-----------------------|------------------|------------------|---------------|-----------|
| | Balance 31.12.2015 | Balance 31.12.2014 | 31.12.2015 | 31.12.2014 | | |
| Floating rate debt | - | 210,000 | - | 210,000 | Eur6+3.25% | 5.41% |
| Floating rate debt | 200,000 | - | 200,000 | - | Eur6+0.59% | 0.55% |
| Interests payable | - | 4,132 | - | - | | |
| Debenture loan expiring 2019 | 750,000 | 750,000 | 750,000 | 750,000 | 1.75% | 1.89% |
| Debenture loan expiring 2020 | 540,000 | 540,000 | 540,000 | 540,000 | 1.13% | 1.35% |
| Debenture loan expiring 2024 | 600,000 | 600,000 | 600,000 | 600,000 | 3.00% | 3.13% |
| Costs connected to loans (long term) | (14,429) | (17,200) | - | - | | |
| 2i Rete Gas (former F2i Reti Italia Srl) financing costs | - | (8) | - | - | | |
| TOTAL | 2,075,571 | 2,086,923 | 2,090,000 | 2,100,000 | | |

The maturity schedule for this financial liability is set out below.

| | Thousands of euro | | 1 year | 2 - 5 years | beyond 5 years |
|---|---------------------------|---------------------------|----------|------------------|----------------|
| | Notional at 31.12.2015 | Notional at 31.12.2014 | | | |
| Medium/long-term financial liabilities | | | | | |
| Financing | 200,000 | 210,000 | - | 18,182 | 181,818 |
| Medium/long-term debenture loans | 1,890,000 | 1,890,000 | - | 1,290,000 | 600,000 |
| Total | 2,090,000 | 2,100,000 | - | 1,308,182 | 781,818 |

The bond loan regulation, issued for a market of institutional investors, does not provide for covenants.

Alongside this loan there continues to exist a bank loan provided by a pool of seven leading credit institutions which currently have yet to be used.

The Group still has available a credit line for cash needs of 100 million euro, one for investments for a total of 300 million euro.

During the year, a line of credit totalling 210 million euro was closed, while in December 2015 the company obtained a slightly smaller line of credit (200 million euro) provided by the European Investment Bank to support the plan to install electronic meters.

This operation enabled the Group to further lengthen the expiry of its debt, at the same time optimising the cost.

The loan is subject to some conditions that the Group must meet to continue using the credit lines. The covenants concern the following basic elements:

Total net financial debt, RAB (Regulatory Asset Base), EBITDA, and net financial charges.

At 31 December 2015 all the covenants had been complied with.

26. Termination and other employee benefits – 47,202 thousand euro

The Company provides employees with various types of benefits, including termination 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 attributable 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 | | | |
|----------------------|---------------|---------------|--------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Termination benefits | 35,061 | 37,168 | (2,107) |
| ASEM health service | 1,831 | 1,884 | (54) |
| Fondo GAS | 10,310 | - | 10,310 |
| | 47,202 | 39,052 | 8,150 |

Below is an analysis of the main items.

Termination benefits

Pursuant to Italian legislation, when the employment relationship ends, the employee has the right to receive termination 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 budget law) and subsequent decrees and implementing regulations, only portions of the termination 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.

Fondo Gas

Legislative Decree no. 78/2015, coordinated with Law no. 125/2015 (Official Gazette 14/08/2015), ordered the suppression of the so-called "Fondo Gas" ("Gas Fund") as from 1 December 2015. The same decree also ordered the payment, to serving staff or as a voluntary continuation of the contribution to the Gas Fund, of an amount (to be paid by the employer) equal to 1% of the contribution to the Gas Fund for 2014, for each year or part year that the person has been registered in the Gas Fund, which can be set aside with the employer or destined, by way of contribution, to the complementary pension plan (hereafter Contribution to former Gas Fund). The provision must be made in 240 monthly instalments of an equal amount. Should the employment relationship end before the payments are completed, the credit to the Fund must take place in a single payment in the final pay packet.

The provision made of 10,310 thousand euro is the best estimate possible at the time of drafting the financial statements of the liabilities which arise from this legislative change.

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

| | 31.12.2015 | 31.12.2014 |
|---|------------------|------------|
| Financial hypothesis | | |
| Discount rate | 2.00% | 1.50% |
| Rate of wage increase | 1.90% | 1.50% |
| Rate of increase in cost of health spending | 2.90% | 2.50% |
| Demographic hypothesis | | |
| Probability of death/invalidity | ISTAT Table 2014 | Table RG48 |
| Resignation rate < 50 years of age | 2.00% | 2.00% |
| Resignation rate > 50 years of age | Nil | Nil |

27. Provisions for risks and charges – 10,637 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes, without taking into account the 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 short-term and the medium/long-term portion) increased by 4,502 thousand euro compared to 31 December 2014.

The table below shows total provisions for risks and charges (both the short-term and medium/long-term portions) with a separate column for the short-term portion.

| Thousands of euro | Of which current portion | | Of which non-current portion | | Allocations | Releases | Uses | Other changes | Of which current portion | | Of which non-current portion | |
|--|--------------------------|---------------|------------------------------|---------------|----------------|----------------|------------|---------------|--------------------------|---------------|------------------------------|----------|
| | 31.12.2014 | | | | | | | | 31.12.2015 | | | |
| Provisions for litigation and disputes | 7,765 | - | 7,765 | 3,541 | (2,013) | (1,777) | - | 7,517 | - | 7,517 | - | 7,517 |
| Provision for taxes and duties | 1,583 | - | 1,583 | 10 | (290) | (1) | - | 1,301 | - | 1,301 | - | 1,301 |
| Provisions for disputes with personnel | 100 | - | 100 | - | - | - | - | 100 | - | 100 | - | 100 |
| Provision for future charges | 75 | - | 75 | - | - | - | - | 75 | - | 75 | - | 75 |
| Provision for disputes on concessions | 17,206 | 17,206 | - | 3,971 | (2,611) | (55) | - | 18,511 | 18,511 | - | - | - |
| Other provisions for risks and charges | 40,532 | 40,455 | 77 | 8,708 | (647) | (4,009) | 129 | 44,714 | 43,070 | 1,644 | - | - |
| Total | 67,261 | 57,661 | 9,600 | 16,230 | (5,561) | (5,842) | 129 | 72,217 | 61,580 | 10,637 | - | - |
| Provisions for charges pertaining to incentives to leave | 1,928 | 1,928 | - | 1,000 | - | (1,454) | - | 1,473 | 1,473 | - | - | - |
| Total | 69,189 | 59,588 | 9,600 | 17,230 | (5,561) | (7,296) | 129 | 73,690 | 63,054 | 10,637 | - | - |

Provisions for risks and charges amounted to 73,690 thousand euro (short-term portion: 63,054 thousand euro) broken down as follows:

- “Provisions for litigation and disputes”, 7,517 thousand euro, to cover contingent liabilities mainly arising from several ongoing litigation cases with customers for harmful events;
- “Provision for taxes and duties”, 1,301 thousand euro, mainly for litigation relating to the tax on the occupation of public space (Tosap), the fee for temporary occupation of public space (Cosap), the municipal tax on property (ICI), and other local taxes;
- “Provisions for disputes with personnel”, 100 thousand euro, to cover expected charges arising from disputes with personnel of a company acquired in previous financial years.
- “Provision for disputes on concessions”, 18,511 thousand euro, rose by 3,971 thousand euro following some requests made by municipalities relating to the review of the agreed concession fees; it was released for disputes that are no longer current for 2,611 thousand euro and was used for 55 thousand euro;
- "Other provisions for risks and charges", equalling 44,714 thousand euro, thousand euro which mainly address the risk of a revision of some tariffs linked to concessions involving third-party ownership, an estimate of residual costs for international arbitration proceedings and, finally, the risk due to the obligation to purchase energy efficiency certificates in the amount set by the AEEGSI for 2015.
- “Provision for charges pertaining to incentives to leave” totalling 1,473 thousand euro addresses the residual probable liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started in 2015 and still under way.

28. Non current financial liabilities – 0 thousand euro

The item was not used in the period.

29. Other non-current liabilities – 296,142 thousand euro

This item increased by 296,142 thousand euro compared to the previous year. The breakdown is set out below.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|----------------|----------------|---------------|
| Payables to pension and insurance agencies | 1,984 | | 1,984 |
| Other payables | 361 | 362 | (1) |
| Plant contributions | 50,466 | 49,417 | 1,050 |
| Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions | 243,331 | 233,564 | 9,767 |
| Total deferred income | 296,142 | 283,342 | 12,800 |

The increase in deferred income for connection fees by 9,767 thousand euro is mostly attributable to contributions received during the year net of the portion recognised in profit or loss to hedge operating costs incurred.

Current liabilities

30. Short-term loans – 0 thousand euro

The item was set to zero in the year. In the previous year, it included receipts from some receivables which had been sold and then transferred in full to the factoring company in the first days of 2015.

| Thousands of euro | | | |
|----------------------------------|------------|--------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Short-term payables due to banks | - | 7,791 | (7,791) |
| Total | - | 7,791 | (7,791) |

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

At 31 December 2015 there was no current portion of medium/long-term bank loans.

32. Current portion of long-term provisions and short-term provisions – 63,054 thousand euro

The current portion of long-term provisions amounted to 63,054 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 27).

33. Trade payables – 169,330 thousand euro

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

Compared to 31 December 2014, this item fell by 14,872 thousand euro despite major investments.

The breakdown of trade payables to third-party suppliers is set out below.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--------------|----------------|----------------|-----------------|
| Suppliers | 169,330 | 184,201 | (14,872) |
| Total | 169,330 | 184,201 | (14,872) |

The balance at 31 December 2015 mainly consists of residual amount payable to companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from staff and operating support services, and from the purchase of electricity and gas service for internal use.

34. Income tax payables – 1,266 thousand euro

At 31 December 2015 there were income tax payables of 1,266 thousand euro, up compared to the previous year by 1,243 thousand euro. The Group companies have a credit balance due to the trend in the payments made on account.

35. Current financial liabilities – 21,394 thousand euro

Current financial liabilities refer to the interest expense accrued and not yet paid relating to the three instalments of the debenture loan issued during 2014.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|---------------|---------------|--------------|
| Accrued liabilities for interest on short-term bank loans and bank expenses | 20,905 | 15,611 | 5,294 |
| Other current financial liabilities | 490 | - | 490 |
| Total | 21,394 | 15,611 | 5,784 |

36. Other current liabilities – 170,360 thousand euro

Other current liabilities rose in the year by 27,178 thousand euro, mainly due to the rise in “Other payables”, an item which also includes the debt in regard to the Fund for Energy and Environmental Services for the items relating to the various tariff components, and “Other tax payables”, mainly for the VAT debit balance in December.

Other current liabilities are set out below.

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|----------------|----------------|---------------|
| other tax payables | 13,534 | 6,645 | 6,888 |
| payables to welfare and pension agencies | 11,033 | 9,821 | 1,212 |
| other payables | 131,577 | 111,490 | 20,086 |
| accrued liabilities | 3,886 | 3,636 | 250 |
| deferred income | 10,330 | 11,589 | (1,259) |
| Total | 170,360 | 143,182 | 27,178 |

Other tax payables, amounting to 13,534 thousand euro, are set out below.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|----------------------------|---------------|--------------|--------------|
| VAT payables | 10,011 | 993 | 9,018 |
| Employee withholding taxes | 3,351 | 3,397 | (46) |
| Withholding taxes | 122 | 104 | 18 |
| Other taxes | 50 | 2,152 | (2,102) |
| Total | 13,534 | 6,645 | 6,888 |

Payables to welfare and pension agencies, amounting to 11,033 thousand euro, are set out below.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|-----------------------|---------------|--------------|--------------|
| due to INPS | 9,149 | 8,428 | 720 |
| due to other agencies | 1,885 | 1,393 | 491 |
| Total | 11,033 | 9,821 | 1,212 |

Other payables, amounting to 131,577 thousand euro, are set out below.

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|----------------|----------------|---------------|
| Payables to employees | 13,629 | 13,844 | (215) |
| Payables to municipalities for rights and fees | 4,181 | 5,296 | (1,114) |
| Connection payables and other receivables due from customers | 2,288 | 3,061 | (772) |
| User guarantee deposits and advances | 1,921 | 1,641 | 280 |
| Payables to CSEA | 95,888 | 72,896 | 22,992 |
| Other payables | 13,669 | 14,753 | (1,084) |
| Total | 131,577 | 111,490 | 20,086 |

Payables to the Fund for Energy and Environmental Services, of 80,835 thousand euro, consist of payables for the entries that are transferred through the invoicing mechanism to

the trading companies and then paid to the Fund for Energy and Environmental Services generally on a two-monthly basis (UG1, UG2, UG3, Re and Rs) and payables relating to the amount of equalisation for previous years which the Group did not consider as finalised at the end of the reporting period.

Accruals and deferred income, amounting to 14,216 thousand euro, are set out below.

| Thousands of euro | | | |
|---|---------------|---------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Accrued liabilities | | | |
| Additional monthly accrual for employees | 3,037 | 3,039 | (2) |
| Other accruals | 849 | 596 | 252 |
| Total accruals | 3,886 | 3,636 | 250 |
| Deferred income | | | |
| Plant contributions | 2,257 | 2,896 | (639) |
| Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions | 7,588 | 7,645 | (57) |
| Other deferred income | 485 | 1,048 | (563) |
| Total deferred income | 10,330 | 11,589 | (1,259) |
| Total accruals and deferred income | 14,216 | 15,225 | (1,008) |

37. Liabilities held for sale – 0 thousand euro

The liabilities held for sale in 2015 were zero as in the previous year.

Related party disclosures

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

The following were defined as related parties for 2015:

- F2i SGR S.p.A.- as the operating company of “F2i – Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors”
- F2i SGR S.p.A.- as the operating company of “F2i – Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors”
- Finavias Sarl
- Axa Infrastructure Holding S.à.r.l.
- Melegnano Energia Ambiente S.r.l. (MEA S.p.A.)
- CBL Distribuzione S.r.l.

The definition of related parties includes executives with strategic responsibilities, including their close relatives, of the Parent company as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the Parent 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.

All the commercial balances are for transactions which took place at market values.

Trade, financial and other transactions involving the Group, its parent companies and its subsidiaries.

Trade and other transactions

Year 2015

| Thousands of euro | Trade | | Costs | Trade | |
|---|--------------|------------|--------------|----------|------------|
| | Receivables | Payables | | Revenues | |
| F2i sgr Spa | 1,111 | 24 | 40 | | |
| CBL Distribuzione | | 296 | | | 515 |
| MEA S.p.A | 55 | | | | 18 |
| Executives with strategic responsibilities, including directors | | 19 | 1,976 | | |
| Total | 1,166 | 338 | 2,016 | | 533 |

Year 2014

| Thousands of euro | Trade | | Costs | Trade | |
|---|-------------|------------|--------------|----------|------------|
| | Receivables | Payables | | Revenues | |
| F2i sgr Spa | - | 36 | 120 | | - |
| CBL Distribuzione | 537 | 230 | - | | 502 |
| MEA S.p.A | 213 | - | - | | 18 |
| Genia S.p.A. in liquidazione | - | 31 | 226 | | - |
| Executives with strategic responsibilities, including directors | | | 2,103 | | |
| Total | 750 | 297 | 2,450 | | 520 |

Financial transactions

Year 2015

| Thousands of euro | Financial Transaction | | Financial Transaction | | |
|------------------------------|-----------------------|----------|-----------------------|------------|------------------|
| | Receivables | Payables | Costs | Revenues | Dividend payment |
| F2i sgr Spa | | | | | |
| CBL Distribuzione | | | | 20 | |
| Genia S.p.A. in liquidazione | | | | | |
| MEA S.p.A | 315 | | | 180 | |
| Total | 315 | - | - | 200 | - |

Year 2014

| Thousands of euro | Financial Transaction | | Financial Transaction | | |
|------------------------------|-----------------------|----------|-----------------------|-----------|------------------|
| | Receivables | Payables | Costs | Revenues | Dividend payment |
| F2i sgr Spa | - | - | - | - | 66,750 |
| Finavias S. à r.l. | - | - | - | - | 22,250 |
| CBL Distribuzione | - | - | - | 20 | - |
| MEA S.p.A | | | | | |
| Genia S.p.A. in liquidazione | - | - | 1 | - | - |
| Total | - | - | 1 | 20 | 89,000 |

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 no. DEM/6064293, the Group declares that during the year there were no significant extraordinary events or operations.

Positions or transactions arising from atypical and/or unusual operations

Pursuant to CONSOB Communication of 28 July 2006 no. DEM/6064293, the Group declares that during the year there were no positions or transactions arising from atypical and/or unusual operations.

Fees for directors, auditors and executives with strategic responsibilities

The fees for 2015 for directors and auditors of the Parent Company, totalling 349 thousand euro (230 thousand euro in 2014), refer to the fees for auditors for 93 thousand euro and fees for directors for 256 thousand euro.

Contractual commitments and guarantees

Guarantees provided totalled 104,055 thousand euro and referred to guarantees provided to third parties. These guarantees refer to bank guarantees (88,534 thousand euro) and to insurance guarantees (15,167 thousand euro).

These guarantees were granted in favour 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 Company's financial statements.

Segment reporting

The Group is managed as a single business unit operating mainly in natural gas distribution through networks and therefore the Group's activities are analysed as a single whole by senior management.

The reporting used by senior management to take operating decisions is aligned to the models used in the consolidated financial statements, less the effects arising from IFRIC 12 and highlighted in note 5.c and in the section relating to costs.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Credit, liquidity and market risk

Credit risk

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

No significant cases of non-compliance by the counterparties were found in 2015.

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 bad debt provision.

At 31 December 2015, the Group's maximum exposure to credit risk amounted to 598.4 million euro (534.9 million euro at 31 December 2014):

| Millions of euro | 31.12.2015 | 31.12.2014 | 2015- 2014 |
|--|--------------|--------------|-------------|
| Third parties: | | | |
| Non-current financial assets | 5.2 | 8.0 | (2.8) |
| Other non-current financial assets (gross of bad debt provisic | 32.2 | 24.1 | 8.1 |
| Trade receivables (gross of bad debt provision) | 253.2 | 230.0 | 23.2 |
| Cash and cash equivalents | 160.5 | 108.5 | 52.0 |
| Other receivables (gross of bad debt provision) | 147.3 | 164.3 | (16.9) |
| Total | 598.4 | 534.9 | 63.5 |

Liquidity risk

The 2i Rete Gas Group is able, based on the current financial structure and 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.

The closure of the previous lines of credit and the simultaneous issue of the debenture loan not only improved the operational management of the Company's financing, but also guaranteed longer-term liquidity funding with differentiated expiry dates, thus reducing the refinancing risk.

For the debenture loans issued during 2014, the lines of credit granted in July 2014 to the parent company by a group of 7 leading banks for a total of 400 million euro are still available, and a loan contract was concluded with the European Investment Bank for a total of 200 million euro, improving the duration and interest rate compared to the previous lines of credit.

For the purposes of correct statement of liquidity risk as required by IFRS 7, the features of Company debt are set out below.

The contractual maturities of the financial liabilities as at 31 December 2015 are set forth below:

| Millions of euro | Within next year | Between 2 and 5 years | Beyond 5 years |
|--|------------------|-----------------------|----------------|
| Financial liabilities at 31 December 2014 | | | |
| Long-term loans | | | 200.0 |
| Medium/long-term debenture loans | | 1,290.0 | 600.0 |
| Short-term loans | 0.0 | | |
| Short-term payables due to banks | 0.0 | | |
| Other long-term financial liabilities | | | |
| Other short-term financial liabilities | 21.4 | | |
| Total | 21.4 | 1,290.0 | 800.0 |

For comparative purposes, the contractual maturities of the financial liabilities at 31 December 2014 are set forth below:

| Thousands of euro | Within next year | Between 2 and 5 years | Beyond 5 years |
|--|------------------|-----------------------|----------------|
| Financial liabilities at 31 December 2014 | | | |
| Long-term loans | 214.1 | 0.0 | 0.0 |
| Medium/long-term debenture loans | | 750.0 | 1,140.0 |
| Short-term loans | 7.8 | | |
| Short-term payables due to banks | | | |
| Other long-term financial liabilities | | | |
| Other short-term financial liabilities | 15.6 | | |
| Total | 237.5 | 750.0 | 1,140.0 |

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

It should be noted that loans are subject to a periodical check on the compliance with some financial parameters at consolidated level. At 31 December 2015 these parameters were fully complied with.

The “Medium/long-term debenture loans” for a total of 1,890 million euro refer to the aforementioned three debenture loan instalments issued by 2i Rete Gas and with 5, 6 and 10-year expiries.

The Company’s development plan envisages the need of refinancing, but currently given the excellent performance of the Company, the rating obtained and the ongoing compliance with the financial parameters established by the lending banks no problems are envisaged in obtaining such refinancing.

The Group constantly monitors the possibility of optimising its financial structure. For an in-depth analysis of the features of the long-term loans, see note 25 herein.

Market risk

The market management, namely the management of interest rate risk aims to achieve a debt structure able to decrease the financial debt that is subject to changes in interest rates and to minimise the cost of loans, thereby limiting the volatility of the results.

The Company, as from July 2014, has ended all its outstanding Interest Rate Swaps and is pursuing its stated policy with alternative means.

In particular, the issue of the fixed rate bond loan in three instalments which took place during the year has ensured achievement of both results (reduction of the debt subject to changes in interest rates and minimisation of the funding cost) while also securing an extension of the debt itself and above all differentiation of the repayment of the individual instalments issued.

At 31 December 2015, therefore, the Group was not in fact exposed to interest rate changes.

In compliance with the requirements of IFRS 7, we hereby provide a table indicating the financial assets and liabilities with the related book values and fair values. We hereby specify that the company holds neither held-to-maturity financial assets nor financial assets held for sale or for trading.

| Thousands of euro | 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 | | 5,213 | | 5,213 | 5,213 |
| Other non-current financial assets | 16 | | 31,816 | | 31,816 | 31,816 |
| Trade receivables | 18 | | 239,501 | | 239,501 | 239,501 |
| Short-term financial receivables | 19 | | 323 | | 323 | 323 |
| Other current financial assets | 20 | | 8 | | 8 | 8 |
| Cash and cash equivalents | 21 | | 160,541 | | 160,541 | 160,541 |
| Other current assets | 23 | | 144,879 | | 144,879 | 144,879 |
| TOTAL ASSETS | | - | 582,282 | - | 582,282 | 582,282 |
| Financial liabilities measured at fair value | | | | | | |
| IRS derivatives | 35 | - | | | - | - |
| Financial liabilities not measured at fair value | | | | | | |
| Long-term loan | 25-31 | | | 200,000 | 200,000 | 200,000 |
| Medium/long-term debenture loans | 25 | | | 1,875,571 | 1,875,571 | 1,977,914 |
| Financial liabilities for Unwinding IRS | 28-35 | | | - | - | - |
| Other non-current liabilities | 29 | | | 361 | 361 | 361 |
| Short-term loan | 30 | | | - | - | - |
| Trade payables | 33 | | | 169,330 | 169,330 | 169,330 |
| Current financial liabilities | 35 | | | 20,905 | 20,905 | 20,905 |
| Other current liabilities | 36 | | | 154,140 | 154,140 | 154,140 |
| TOTAL LIABILITIES | | - | - | 2,420,306 | 2,420,306 | 2,522,649 |

In order to enable comparison, we expose the same table for 2014:

| Thousands of euro | 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 financial assets | 16 | | 23,547 | | 23,547 | 23,547 |
| Trade receivables | 18 | | 213,622 | | 213,622 | 213,622 |
| Short-term financial receivables | 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 derivatives | 35 | - | | | - | - |
| Financial liabilities not measured at fair value | | | | | | |
| Long-term loan | 25-31 | | | 214,123 | 214,123 | 214,123 |
| Medium/long-term debenture loans | 25 | | | 1,872,800 | 1,872,800 | 1,976,640 |
| Financial liabilities for Unwinding IRS | 28-35 | | | - | - | - |
| Other non-current liabilities | 29 | | | 362 | 362 | 362 |
| Short-term loan | 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 |

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

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

V Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

* * * * *

**Report of the Board of Statutory Auditors to the
Consolidated Financial Statements as of 31.12.2015**

* * * * *

To the Shareholders,

The Board of Directors has presented to this Board the consolidated financial statements of 2i Rete Gas S.p.A. Group.

The consolidated financial statements as at December 31, 2015 have been prepared in accordance with the recognition and measurement criteria established by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and, where compatible, by the Civil Code.

Under Article. 37 of Legislative Decree No. 39 of 27/10/2010 the audit was entrusted to the auditing firm PricewaterhouseCoopers S.p.A. which did not report to the Board of Statutory Auditors any critical or significant reprehensible event about the contents of the consolidated financial statements.

The consolidated financial statements for 2015 includes 5 companies, including the 2i Rete gas S.p.A..

The scope of consolidation consists of the following companies:

- 2i Rete Gas S.p.A.
- 2i Rete Gas S.r.l.
- Italcogim Trasporto S.r.l.
- G.P. Gas S.r.l.
- Genia Distribuzione S.r.l.

The consolidation criteria are stated in Section 6 of the notes to the consolidated financial statements for the year 2015.

The financial statements of subsidiaries, consolidated from 2i Rete Gas Group, were prepared at each period-end using the same accounting principles of the parent company and using, where applicable, the balance sheets of companies approved by the respective assemblies or, failing that, on the basis of draft financial statements approved by the governing bodies.

The Consolidated Financial Statements consist of the Balance Sheet, Income Statement and Explanatory Notes, are accompanied by the Directors' Report and presents, in summary, the following results, expressed in thousands of Euro:

| Thousands of euro | 31.12.2015 | 31.12.2014 |
|---|-------------------|-------------------|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 42,555 | 40,825 |
| Intangible assets | 2,796,578 | 2,765,276 |
| Net deferred tax assets | 68,835 | 113,227 |
| Investments | 3,334 | 3,329 |
| Non-current financial assets | 5,213 | 7,993 |
| Other non-current financial assets | 32,048 | 23,779 |
| | 2,948,562 | 2,954,429 |
| Current assets | | |
| Inventories | 13,810 | 7,794 |
| Trade receivables | 239,501 | 213,622 |
| Short-term financial receivables | 323 | 957 |
| Other current financial assets | 8 | 26 |
| Cash and cash equivalents | 160,541 | 108,506 |
| Income tax receivables | 9,940 | 21,699 |
| Other current assets | 146,170 | 163,138 |
| | 570,293 | 515,743 |
| Assets (or assets included in disposal groups) held for sale | | |
| Assets (or assets included in disposal groups) held for sale | - | - |
| | - | - |
| TOTAL ASSETS | 3,518,855 | 3,470,171 |

| | 31.12.2015 | 31.12.2014 |
|---|------------------|------------------|
| Thousands of euro | | |
| EQUITY AND LIABILITIES | | |
| Equity - Owners of the Parent | | |
| Share capital | 3,639 | 3,636 |
| Treasury shares | - | - |
| Other Reserves | 494,375 | 640,323 |
| Retained earnings (accumulated losses) | 77,913 | (16,019) |
| Net income for the year | 87,974 | 12,021 |
| Total equity - Owners of the Parent | 663,901 | 639,961 |
| Equity - non-controlling interests | | |
| Non-controlling interests | - | 876 |
| Net income for the year - non-controlling interests | - | 20 |
| Total equity - non-controlling interests | - | 896 |
| TOTAL EQUITY | 663,901 | 640,857 |
| Non-current liabilities | | |
| Long-term loans | 2,075,571 | 2,086,923 |
| Termination and other employee benefits | 47,202 | 39,052 |
| Provision for risks and charges | 10,637 | 9,600 |
| Deferred tax liabilities | - | - |
| Non-current financial liabilities | - | - |
| Other non-current liabilities | 296,142 | 283,342 |
| | 2,429,552 | 2,418,918 |
| Current liabilities | | |
| Short-term loan | - | 7,791 |
| Short-term payables due to banks | - | - |
| Short-term portion of long-term and short-term provisions | 63,054 | 59,588 |
| Trade payables | 169,330 | 184,201 |
| Income tax payables | 1,266 | 23 |
| Current financial liabilities | 21,394 | 15,611 |
| Other current liabilities | 170,360 | 143,182 |
| | 425,403 | 410,396 |
| Liabilities (or liabilities included in disposal groups) held for sale | | |
| Liabilities (or liabilities included in disposal groups) held for sale | 0 | - |
| | 0 | - |
| TOTAL LIABILITIES | 2,854,954 | 2,829,314 |
| TOTAL EQUITY AND LIABILITIES | 3,518,855 | 3,470,171 |

| | 31.12.2015 | 31.12.2014 |
|---|------------------|-------------------|
| Thousands of euro | | |
| Revenues | | |
| Revenues from sales and services | 614,619 | 608,150 |
| Other revenues | 78,240 | 86,173 |
| Revenues from intangible assets / assets under construction | 170,040 | 144,622 |
| Sub-Total | 862,899 | 838,945 |
| Costs | | |
| Raw materials and consumables | 63,203 | 42,745 |
| Services | 208,313 | 226,609 |
| Personnel costs | 131,137 | 116,044 |
| Amortisation, depreciation and impairment losses | 154,455 | 150,953 |
| Other operating costs | 70,538 | 91,917 |
| Capitalised costs for internal work | (1) | (20) |
| Sub-Total | 627,645 | 628,247 |
| EBIT | 235,254 | 210,698 |
| Income (expenses) from equity investments | 229 | 43 |
| Financial income | 740 | 1,494 |
| Financial expenses | (49,328) | (202,656) |
| Sub-Total | (48,359) | (201,118) |
| Pre-tax income | 186,895 | 9,580 |
| Taxes | 98,921 | (2,461) |
| Net result from continuing operations | 87,974 | 12,041 |
| Net result from discontinued operations | - | - |
| NET INCOME FOR THE YEAR | 87,974 | 12,041 |

The Board of statutory Auditors states that it has verified that the consolidated financial statements reflect all the facts and information that it has become aware of as a result of the participation to the meetings of the governing bodies, the exercise of their supervision duties and its powers of inspection and control.

Finally, the Board acknowledges that it has verified the compliance and consistency of

the Board of Directors' report with the data and the results of the consolidated financial statements.

Milan, 06/04/2016

The Board of Statutory Auditors

(Signed on the original)

Dott. Marco Antonio Dell'Acqua

Dott. Gian Luigi Gola

Dott. Marco Giuliani

VI Report of the Independent Auditors



2I RETE GAS SPA

**INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH
ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39
OF 27 JANUARY 2010**

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2015**



INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
2i Rete Gas SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the 2i Rete Gas Group, which comprise the statement of financial position as of 31 December 2015, the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory note.

Directors' responsibility for the consolidated financial statements

The directors of 2i Rete Gas are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11, paragraph 3, of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the 2i Rete Gas Group as of 31 December 2015 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union.

Report on compliance with other laws and regulations

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

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of 2i Rete Gas SpA, with the consolidated financial statements of the 2i Rete Gas Group as of 31 December 2015. In our opinion, the report on operations is consistent with the consolidated financial statements of 2i Rete Gas Group as of 31 December 2015.

Milan, 6 April 2016

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

[pagina volutamente bianca – spazio per relazione società di revisione]

VII Statutory financial statements of 2i Rete Gas S.p.A.

1. Income Statement¹

| Euro | Note | 31.12.2015 | | 31.12.2014 | |
|--|--|----------------------|-------------------------------|-------------------|-------------------------------|
| | | | of which from related parties | | of which from related parties |
| Revenues | | | | | |
| Revenues from sales and services | 5.a | 611,516,335 | 202,736 | - | |
| Other revenues | 5.b | 78,571,787 | 973,288 | 1,619,102 | 1,617,864 |
| Revenues from intangible assets / assets under construct | 5.c | 169,193,001 | | - | |
| | Sub-Total | 859,281,122 | | 1,619,102 | |
| Costs | | | | | |
| Raw materials and consumables | 6.a | 62,875,537 | 94,248 | - | |
| Services | 6.b | 207,025,537 | 39,600 | 741,023 | 110,613 |
| Personnel Costs | 6.c | 130,873,161 | 1,720,731 | 1,617,864 | 1,617,864 |
| Amortisation, depreciation and impairment losses | 6.d | 153,811,602 | | - | |
| Other operating costs | 6.e | 70,455,068 | 255,708 | 234,108 | 51,310 |
| Capitalised costs for internal work | 6.f | (1,208) | | - | |
| | Sub-Total | 625,039,696 | | 2,592,996 | |
| | EBIT | 234,241,426 | | (973,894) | |
| Income (expenses) from equity investments | 7 | 223,888 | 199,600 | 86,010,934 | 86,002,619 |
| Financial income | 8 | 741,661 | 2,415 | 21,076 | |
| Financial expenses | 8 | (49,325,562) | (4) | (11,180,179) | |
| | Sub-Total | (48,360,013) | | 74,851,831 | |
| | Pre-tax income | 185,881,413 | | 73,877,937 | |
| Taxes | 9 | 98,967,828 | | (4,035,297) | |
| | Net result from continuing operations | 86,913,586 | | 77,913,234 | |
| Net result from discontinued operations | 10 | - | | - | |
| NET INCOME FOR THE YEAR | | 86,913,586 | | 77,913,234 | |

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

¹ In order to have a clearer comparison of the financial position and income statements, please take due note of the disclosure given in the Notes relating to the merger operation performed at the beginning of the year and the contributions thereof.

2. Statement of Comprehensive Income

Euro

| | 31.12.2015 | 31.12.2014 |
|--|-------------------|-------------------|
| Net income recognised in profit or loss | 86,913,586 | 77,913,234 |
| Other comprehensive income | | |
| <i>Items which will never be reclassified in profit/(loss):</i> | | |
| Revaluations of net liabilities/assets for defined benefits | 1,113,487 | |
| Deferred tax assets and liabilities on items which will never be classified in profit / (loss) | (1,058,637) | |
| | 54,850 | 0 |
| <i>Items which may be reclassified subsequently in profit/(loss):</i> | | |
| Change in fair value of hedging derivatives | | |
| Change in fair value of hedging derivatives reclassified in the income for the year | - | |
| Deferred tax assets from change in fair value | | |
| Deferred tax assets from change in fair value of hedging derivatives reclassified in the income for the year | - | |
| | - | |
| Total other comprehensive income | 54,850 | 0 |
| Total comprehensive profit/ (loss) recorded in the year | 86,968,436 | 77,913,234 |

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

3. Statement of Financial Position

Assets

| Euro | Note | | | | |
|---|--------------|----------------------|--|--------------------|--|
| ASSETS | | 31.12.2015 | of which from related parties | 31.12.2014 | of which from related parties |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 40,744,150 | | - | |
| Intangible assets | 12 | 2,776,051,095 | | - | |
| Net deferred tax assets | 13 | 69,552,680 | | 7,459,507 | |
| Investments | 14 | 17,173,561 | | 839,789,256 | |
| Non-current financial assets | 15 | 5,213,062 | | 442,820 | |
| Other non-current financial assets | 16 | 32,042,521 | | - | |
| | <i>Total</i> | 2,940,777,069 | | 847,691,583 | |
| Current assets | | | | | |
| Inventories | 17 | 13,798,376 | | - | |
| Trade receivables | 18 | 238,235,771 | 1,485,552 | 1,024,531 | 1,024,531 |
| Short-term financial receivables | 19 | 1,025,096 | 1,017,050 | - | |
| Other current financial assets | 20 | 8,554 | 565 | - | |
| Cash and cash equivalents | 21 | 157,941,449 | | 3,083,049 | |
| Income tax receivables | 22 | 10,021,234 | 92,506 | 10,430,375 | 10,086 |
| Other current assets | 23 | 145,356,195 | 5,842 | 19,385 | |
| | <i>Total</i> | 566,386,675 | | 14,557,340 | |
| Assets (or assets included in disposal groups) held for sale | | | | | |
| Assets (or assets included in disposal groups) held for sale | 37 | 7,730,200 | | - | |
| | <i>Total</i> | 7,730,200 | | - | |
| TOTAL ASSETS | | 3,514,893,944 | | 862,248,924 | |

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

Liabilities

| Euro | Note | | | | |
|---|--------------|----------------------|--|--------------------|--|
| EQUITY AND LIABILITIES | | 31.12.2015 | of which from related parties | 31.12.2014 | of which from related parties |
| Equity | 24 | | | | |
| Share Capital | | 3,638,517 | | 3,636,338 | |
| Treasury Shares | | - | | - | |
| Other Reserves | | 494,340,290 | | 554,312,723 | |
| Retained earnings (accumulated losses) | | 77,913,234 | | - | |
| Net income for the year | | 86,913,586 | | 77,913,234 | |
| TOTAL EQUITY | | 662,805,626 | | 635,862,295 | |
| Non-current liabilities | | | | | |
| Long-term loans | 25 | 2,075,570,817 | | 209,991,787 | |
| termination and other employee benefits | 26 | 47,137,461 | | - | |
| Provision for risks and charges | 27 | 10,594,549 | | - | |
| Deferred tax liabilities | 13 | - | | - | |
| Non-current financial liabilities | 28 | - | | - | |
| Other non-current liabilities | 29 | 295,029,680 | 8,477 | - | |
| | <i>Total</i> | 2,428,332,507 | | 209,991,787 | |
| Current liabilities | | | | | |
| Short-term loan | 30 | 8,004 | 8,004 | - | |
| Short-term payables due to banks | 31 | - | | - | |
| Short-term portion of long-term and short-term provisions | 32 | 63,047,126 | | - | |
| Trade payables | 33 | 167,999,386 | 351,451 | 125,673 | 16,470 |
| Income tax payables | 34 | 1,283,270 | 19,829 | 10,551,497 | 10,549,481 |
| Current financial liabilities | 35 | 21,393,609 | | 4,131,703 | |
| Other current liabilities | 36 | 169,245,794 | 223 | 1,585,967 | |
| | <i>Total</i> | 422,977,190 | | 16,394,841 | |
| Liabilities (or liabilities included in disposal groups) held for sale | | | | | |
| Liabilities (or liabilities included in disposal groups) held for sale | 37 | 778,620 | | - | |
| | <i>Total</i> | 778,620 | | - | |
| TOTAL LIABILITIES | | 2,852,088,317 | | 226,386,628 | |
| TOTAL EQUITY AND LIABILITIES | | 3,514,893,944 | | 862,248,924 | |

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

4. Statement of Cash Flows

| Euro | | 31.12.2015 |
|--|---------------|----------------------|
| A) CASH AND CASH EQUIVALENTS - INITIAL BALANCE | | 21 |
| A) CASH AND CASH EQUIVALENTS ACQUIRED THROUGH COMPANY ACQUISITION | | 103,303,078 |
| Cash flow from operating activities | | |
| Pre-tax income | | 185,881,413 |
| Income taxes for the period | 9 | (98,967,828) |
| Net result from discontinued operations | 10 | 0 |
| 1. Net income for the year | | 86,913,586 |
| Adjustments for: | | |
| Depreciation | 6.d | 152,304,526 |
| Write-downs/(Write-ups) | 6.d | 1,507,076 |
| Capital gains/(losses) | 5.b/6.e | 9,470,446 |
| Allocations to provisions for risks and charges and termination benefits | 6.c/6.e | 28,583,125 |
| Financial (income)/expenses | 7 and 8 | 48,360,013 |
| 2.Total adjustments | | 240,225,186 |
| Change in net working capital | | |
| Inventories | 17 | (6,121,471) |
| Trade receivables | 18 | (26,204,480) |
| Trade payables | 33 | (14,951,314) |
| Other current assets | 23 | 16,986,177 |
| Other current liabilities | 36 and 37 | 26,831,136 |
| Net tax receivables/(payables) | 22 and 34 | 12,964,945 |
| Increase/(decrease) in provisions for risks and charges and termination benefits | 26, 27 and 32 | (14,591,825) |
| Increase/(decrease) in provisions for deferred tax assets and liabilities | 13 | 43,701,992 |
| Other non-current financial assets | 16 | (8,271,784) |
| Other non-current liabilities | 29 and 37 | 12,732,808 |
| Financial income/(expenses) other than for financing | 8 | (247,700) |
| 3. Total change in net working capital | | 42,828,484 |
| B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3) | | 369,967,255 |
| Cash flow (used in) generated by investing activities | | |
| Net fixed assets | | (194,646,501) |
| Investments | 7 and 14 | 213,888 |
| Cash acquired through company acquisition | | |
| C) CASH FLOW (USED IN) GENERATED BY INVESTING ACTIVITIES | | (194,432,613) |
| D) FREE CASH FLOW (B+C) | | 175,534,642 |
| Cash flow from financing activities | | |
| Dividend distribution | | (65,020,292) |
| Change in reserves | | |
| Purchase of treasury shares | | |
| Repayment of loan | 15, 25 and 31 | 5,783,353 |
| Receipt for issue of debenture loans | 8 | 189,703 |
| Payment arising from termination of derivatives | 8 | (48,525,903) |
| Change in non-current financial liabilities | 25 | 200,000,000 |
| Change in current other financial payables | 25 | (210,000,000) |
| Financial income/(expenses) for financing activities | 30 | (7,783,161) |
| Change in amortised cost | 28 | |
| Change in short-term financing | 35 | |
| Change in other non-current financial assets | 15 | (224,426) |
| Change in other financial receivables | 19 and 20 | (50,545) |
| Change in other current financial payables | 35 | 1,651,950 |
| E) CASH FLOW FROM FINANCING ACTIVITIES | | (123,979,321) |
| F) CASH FLOW FOR THE PERIOD (D+E) | | 51,555,321 |
| G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE | | 21 |
| | | 157,941,449 |

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

5. Statement of Changes in Equity

| Euro | Share capital and reserves | | | | | | Total |
|---|----------------------------|-----------------------|----------------|--------------------|--|-------------------------|--------------------|
| | Share Capital | Share premium reserve | Legal Reserve | Other reserves | Retained earnings (accumulated losses) | Net income for the year | |
| Total 01 January 2014 | 3,100,000 | 362,794,261 | 620,000 | 109,674,206 | 3,629,631 | 74,142,891 | 553,960,989 |
| <i>Allocation of result for 2013:</i> | | | | | | | |
| Allocation of result | | | | | | | 0 |
| Contribution from shareholders and payments to them as shareholders | | | | | | | 0 |
| Payment of dividends | | (11,227,478) | | | (3,629,631) | (74,142,891) | (89,000,000) |
| Distribution of other reserves | | | | | | | 0 |
| Total contribution from shareholders and payments to them as shareholders | | | | | | | (89,000,000) |
| Merger contributions | 536,338 | | | 92,440,654 | | | 92,976,992 |
| Other changes | | | | 11,080 | | | 11,080 |
| Purchase of treasury shares in portfolio | | | | | | | 0 |
| Net income for the year recognised in equity | | | | | | | 0 |
| Net income for the year recognised in profit or loss | | | | | | 77,913,234 | 77,913,234 |
| Total 31 December 2014 | 3,636,338 | 351,566,783 | 620,000 | 202,125,940 | 0 | 77,913,234 | 635,862,295 |
| <i>Allocation of result for 2014:</i> | | | | | | | |
| Allocation of result | | | | | 77,913,234 | (77,913,234) | 0 |
| Increase in legal reserve | | | 107,703 | (107,703) | | | 0 |
| Contribution from shareholders and payments to them as shareholders | | | | | | | 0 |
| Payment of dividends | | | | | | | 0 |
| Distribution of Share premium reserve | | (65,020,292) | | | | | (65,020,292) |
| Total contribution from shareholders and payments to them as shareholders | | | | | | | (65,020,292) |
| - Other changes (merger of 2iRete gas) | 2,179 | | | 4,993,008 | | | 4,995,187 |
| Other changes | | | | | | | 0 |
| Net income for the year recognised in equity | | | | | | | 0 |
| Net income for the year recognised in equity | | | | 54,850 | | | 54,850 |
| Net income for the year recognised in profit or loss | | | | | | 86,913,586 | 86,913,586 |
| Total 31 December 2015 | 3,638,517 | 286,546,491 | 727,703 | 207,066,095 | 77,913,234 | 86,913,586 | 662,805,626 |

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

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

Format and contents of the Financial Statements

The Company 2i Rete Gas S.p.A., operating in the gas distribution field, is a public limited company and is located in Milan, Via Alberico Albricci, 10.

The local structure of the parent company envisages six departments and one special area. The departmental offices are:

- North West Department - Via Gazzoletto, 16/18 - 26100 Cremona (CR)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (VA)
- North East Department - Via Serassi, 17/Rs - 24124 Bergamo (BG)
- Central Department - Via Morettini, 39 - 06128 Perugia (PG)
- South West Department - Via Paul Harris, 63 - 81100 Caserta (CE)
- South East Department - Via Enrico Mattei - 72100 Brindisi (BR)
- Special Area Sicily - Via Odorico Da Pordenone, 44 - 95121 Catania (CT)

The directors of F2i Reti Italia S.r.l. (now 2i Rete Gas S.p.A.) on 18 March 2016 approved these consolidated financial statements and agreed to make them available to shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.

For the purposes of IAS 10.17, the date taken into consideration by directors in preparing the financial statements is, therefore, 18 March 2016.

These consolidated financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The Statutory financial statements for the year ended 31 December 2015 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Board (IASB), as endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The aforementioned key standards and interpretations are hereafter collectively referred to as "IFRS-EU".

On the basis of these standards, the comparison with the values for the previous year has been made with the financial statements of the company at 31 December 2014 duly revised in light of the adoption of International Accounting Standards and not including the figures for 2i Rete Gas S.p.A. which was merged as from 1 January 2015.

In a specific section of these notes there will be an indication of the two financial statements of the merged and merging company at 31 December 2014 in order to be able to better appreciate the values involved in the aforementioned merger.

Reporting and valuation criteria

The Statutory 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 financial statements are presented in euro and the values shown in the notes to the statutory financial statements are expressed in thousands of euro.

The reporting and valuation criteria are the same as those adopted to draw up the consolidated annual report, to which reference should be made, except as indicated hereafter.

In the statutory financial statements, equity investments in subsidiaries, jointly controlled companies and associates are valued at purchase cost.

Given objective evidence of impairment, the recoverability is checked by comparing the carrying value with the recoverable value represented by the greater of the fair value, net of disposal costs, and the value in use. Should the grounds which caused the impairment no longer exist, the value of the equity investment is restated, up to the limits of the original cost.

The dividends received by subsidiaries and associates are recognised on the income statement.

Information on the separate financial statements of the merged entities

Here below are set out both the income statement and the statement of financial position for 2014 of the two entities which were merged as from 1 January 2015, i.e. the operating company 2i Rete Gas S.p.A. and the merging company F2i Reti Italia S.r.l. (renamed 2i Rete Gas S.p.A. following the merger).

The setting out of this data, in accordance with the provisions of OIC 4, is done to help the reader understand the nature of the merger, which entailed for F2i Reti Italia S.r.l. a review of its activities and an adjustment to its business model, in order to be able to undertake also those duties which the merged operating company had carried out up to 2014.

Income Statement

| Euro | Note | 2i Rete Gas S.p.A. (former F2i Reti Italia Srl) 31.12.2014 | 2i Rete Gas S.p.A. 31.12.2014 |
|---|------|---|----------------------------------|
| Revenues | | | |
| Revenues from sales and services | 5.a | - | 605,764,838 |
| Other revenues | 5.b | 1,619,102 | 86,257,246 |
| Revenues from intangible assets / assets under construction | 5.c | - | 144,152,115 |
| Sub-Total | | 1,619,102 | 836,174,200 |
| Costs | | | |
| Raw materials and consumables | 6.a | - | 42,677,415 |
| Services | 6.b | 741,023 | 226,288,491 |
| Personnel costs | 6.c | 1,617,864 | 114,028,675 |
| Amortisation, depreciation and impairment losses | 6.d | - | 147,472,468 |
| Other operating costs | 6.e | 234,108 | 91,517,683 |
| Capitalised costs for internal work | 6.f | - | (20,393) |
| Sub-Total | | 2,592,996 | 621,964,339 |
| EBIT | | (973,894) | 214,209,861 |
| Income (expenses) from equity investments | 7 | 86,010,934 | 980,891 |
| Financial income | 8 | 21,076 | 1,472,830 |
| Financial expenses | 8 | (11,180,179) | (191,471,919) |
| Sub-Total | | 74,851,831 | (189,018,198) |
| Pre-tax income | | 73,877,937 | 25,191,663 |
| Taxes | 9 | (4,035,297) | 2,451,318 |
| Net result from continuing operations | | 77,913,234 | 22,740,345 |
| Net result from discontinued operations | 10 | - | - |
| NET INCOME FOR THE YEAR | | 77,913,234 | 22,740,345 |

Statement of Financial Position - Assets

| Euro | Note | 2i Rete Gas S.p.A. (former F2i Reti Italia Srl) 31.12.2014 | 2i Rete Gas S.p.A. 31.12.2014 |
|---|--------------|---|-------------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | - | 40,755,482 |
| Intangible assets | 12 | - | 2,670,377,622 |
| Net deferred tax asset | 13 | 7,459,507 | 136,134,354 |
| Investments | 14 | 839,789,256 | 15,955,937 |
| Non-current financial assets | 15 | 442,820 | 7,549,975 |
| Other non-current assets | 16 | - | 23,770,737 |
| | <i>Total</i> | 847,691,583 | 2,894,544,108 |
| Current assets | | | |
| Inventories | 17 | - | 7,676,905 |
| Trade receivables | 18 | 1,024,531 | 212,476,421 |
| Short-term financial receivables | 19 | - | 957,229 |
| Other current financial assets | 20 | - | 25,876 |
| Cash and cash equivalents | 21 | 3,083,049 | 103,303,078 |
| Income tax receivables | 22 | 10,430,375 | 21,824,031 |
| Other current assets | 23 | 19,385 | 162,360,403 |
| | <i>Total</i> | 14,557,340 | 508,623,942 |
| Non-current assets (or assets included in disposal groups) held for sale | | | |
| Non-current assets (or assets included in disposal groups) | 37 | - | - |
| | <i>Total</i> | - | - |
| TOTAL ASSETS | | 862,248,924 | 3,403,168,050 |

Statement of Financial Position - Liabilities

| Euro | Note | 2i Rete Gas S.p.A. (former F2i Reti Italia Srl) 31.12.2014 | 2i Rete Gas S.p.A. 31.12.2014 |
|---|--------------|---|-------------------------------------|
| EQUITY AND LIABILITIES | | | |
| Equity | 24 | | |
| Share capital | | 3,636,338 | 71,949,720 |
| Treasury shares | | - | (634,038) |
| Other Reserves | | 554,312,723 | 698,130,865 |
| Retained earnings (accumulated losses) | | - | 149,670 |
| Net income for the year | | 77,913,234 | 22,740,345 |
| TOTAL EQUITY | | 635,862,295 | 792,336,561 |
| Non-current liabilities | | | |
| Long-term loans | 25 | 209,991,787 | 1,872,799,836 |
| Termination and other employee benefits | 26 | - | 38,807,902 |
| Provision for risks and charges | 27 | - | 9,510,991 |
| Deferred tax liabilities | 13 | - | - |
| Non-current financial liabilities | 28 | - | - |
| Other non-current liabilities | 29 | - | 283,055,584 |
| | <i>Total</i> | 209,991,787 | 2,204,174,312 |
| Current liabilities | | | |
| Short-term loan | 30 | - | 7,791,165 |
| Short-term payables due to banks | 31 | - | - |
| Short-term portion of long-term and short-term provisi | 32 | - | 59,582,430 |
| Trade payables | 33 | 125,673 | 182,825,027 |
| Income tax payables | 34 | 10,551,497 | - |
| Current financial liabilities | 35 | 4,131,703 | 15,609,955 |
| Other current liabilities | 36 | 1,585,967 | 140,848,600 |
| | <i>Total</i> | 16,394,841 | 406,657,177 |
| Non-current liabilities (or liabilities included in disposal groups) held for sale | | | |
| Non-current liabilities (or liabilities included in disposal groups) held for sale | 37 | - | - |
| | <i>Total</i> | - | - |
| TOTAL LIABILITIES | | 226,386,628 | 2,610,831,489 |
| TOTAL EQUITY AND LIABILITIES | | 862,248,924 | 3,403,168,050 |

Information on the Income Statement

Revenues

The transport of methane gas takes place exclusively within Italy.

5.a Revenues from sales and services – 611,516 thousand euro

The "Revenues from sales and services" item which amounted to 611,516 thousand euro mainly refers to the gas transport activity and the connection fees.

"Revenues from sales and services" are broken down as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|-------------------|-------------------|--------------------|
| Sales and services | | | |
| <i>Third parties:</i> | | | |
| Gas and LPG transport | 576,977 | - | 576,977 |
| Provision for risks | (4,128) | - | (4,128) |
| Connection fees | 12,327 | - | 12,327 |
| Accessory rights | 5,592 | - | 5,592 |
| Revenues from the sale of water | 2,533 | - | 2,533 |
| Accessory services – water sector | 486 | - | 486 |
| Revenues from customer operations | 47 | - | 47 |
| Revenues from sewerage/purification | 905 | - | 905 |
| Other revenues and other sales and services | 16,577 | - | 16,577 |
| <i>Group companies:</i> | | | |
| Management fee | 201 | | 201 |
| Total revenues from sales and services | 611,516 | - | 611,516 |

Revenues from gas transport totalled 576,977 thousand euro and mainly refer to the 2015 tariff revenue cap for natural gas and LPG, together with revenues from contingent assets relating to previous years.

This figure was calculated following publication by the AEEGSI of Resolution no. 367/2014/R/gas which definitively clarified the means for calculating the tariffs regarding the fourth regulatory period and is shown net of a provision for risks on issues regarding a possible review of the tariffs of some concessions where there is plant partly owned by third parties.

As already noted, the figure for revenues from transporting appears for the first time in the financial statements of 2i Rete Gas (formerly F2i Reti Italia) following the merger on

1.1.2015, and so is not comparable with the previous data. By way of information, it is noted that the operating company 2i Rete Gas S.p.A., which was merged into F2i Reti Italia S.r.l., in 2014 showed a figure below around 7.3 million, including the adjustments for allocations and releases of the related provisions.

The connection contributions, which totalled 12,327 thousand euro, were affected by a further slowdown in the construction sector.

There was a precise calculation of the deferral of the contributions as already happened in the merged operating company. In particular, the connection fee is based on a specific quote according to the type of service requested and consists of:

- the cost of the material required;
- the labour cost;
- the percentage for the coverage of general expenses.

The analysis undertaken enabled the separation of the percentage of revenue for contributions received from customers to be used to cover overhead costs which are accessory to the investment activity (around 18%), and therefore not to be deferred, from that to be attributed to the costs which are capitalised and therefore to be deferred on the basis of the length of the amortisation of the asset.

Revenues relating to the water sales sector are influenced by the sale of two further concessions.

“Revenues from other sales and services” includes revenues linked to interventions for the suspension and reactivation of customers who are in arrears at the request of the sale companies, which totalled around 5,430 thousand euro and revenues for 9,873 thousand euro relating to costs on access fees.

5.b Other revenues – 78,572 thousand euro

“Other revenues” totalled 78,572 thousand euro (1,619 thousand euro in 2014, 86,257 in 2014 of the operating company), decreasing by 76,953 thousand euro and are broken down as follows:

| Thousands of euro | | | |
|--|-------------------|-------------------|--------------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Other revenues | | | |
| Third parties: | | | |
| Revenues from energy efficiency certificates | 50,254 | | 50,254 |
| Revenues from plant contributions | 2,348 | | 2,348 |
| Contingent assets | 8,287 | 1 | 8,286 |
| Revenues from Resolution no. 120 | 9,145 | | 9,145 |
| Rental income | 691 | | 691 |
| Capital gains from assets | 793 | | 793 |
| Compensation for damages | 543 | | 543 |
| Other revenues and services | 6,067 | 1,618 | 4,450 |
| Group companies: | | | |
| Other revenues and income and services | 442 | | 442 |
| Total other revenues | 78,572 | 1,619 | 76,953 |

The most important values under Other Revenues are largely due to the revenues for energy efficiency certificates purchased in the year and which will be “cancelled” (or redelivered against payment to the AEEGSI) next May on the basis of the annual targets which the AEEGSI itself sets.

Revenues for energy efficiency certificates refer to achieving the objective for 2014 and partially achieving the specific energy saving objective for 2015. In relation to the objective for 2015 it is necessary to have cancelled at least 50% of the certificates requested by May 2016.

In this regard, the 2i Rete Gas Group, at the end of the reporting period, believes that there will be no problems in achieving the targets in compliance with relevant laws and regulations.

The amount of the second most important item, i.e. extraordinary income, is connected to the receipt of around 7.3 million euro from Gaz de France Italia in accordance with the decision of the arbitration panel before which a judgment was pending to ascertain the damage suffered by 2i Rete Gas following certain conduct by the counterparty just before the acquisition of the investment in G6 Rete Gas (a company which is now merged into 2i Rete Gas) .

As regards the other items, all the differences are due to the activities undertaken in the year which were not previously present.

It is worth highlighting that the amount of revenues for the quality of the gas distribution and metering services (Resolution no. 120/08 – formerly Resolution no. 168/04), which continued what happened in the operating company in previous years, confirms the Company’s focus on the technical quality of its services. This result depends on both the number of chromatographic gas analyses undertaken by the distributor (a parameter which the Company can control) and on the fall in losses at the distributor’s plant (a parameter

which cannot be governed directly by the distributor except through continuous monitoring).

5.c Revenues from intangible assets / assets under construction – 169,193 thousand euro

| Thousands of euro | | | |
|--|----------------|------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Revenues from intangible assets/assets under construction | | | |
| Revenues from intangible assets/assets under construction | 169,193 | - | 169,193 |
| Total revenues from intangible assets/assets under construction | 169,193 | - | 169,193 |

These revenues have been recognised in the financial statements following application, as from 1 January 2010, of IFRIC 12 “Service concession arrangements”.

Revenues from intangible assets and assets under construction represent the portion of revenues directly attributable to the construction and the enhancement 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, these revenues are estimated to be exactly the same as the costs incurred for the same end, and so there is no impact in terms of gross margin.

In 2014 for the operating company this item totalled 144,152 thousand euro.

Costs

As already noted, all costs recorded in order to adopt the accounting model proposed by IFRIC 12 are divided by nature within the pre-existing cost items.

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

| Thousands of euro | | | |
|--|----------------|------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Costs relating to revenues from intangible assets / assets under construction | | | |
| Raw materials and consumables | 4,048 | - | 4,048 |
| Costs for services | 78,504 | - | 78,504 |
| Other operating costs | 553 | - | 553 |
| Capitalised costs for materials, personnel and services | 86,088 | - | 86,088 |
| Total costs relating to revenues from intangible assets / assets under construction | 169,193 | - | 169,193 |

6.a Raw materials and consumables – 62,876 thousand euro

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

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|-------------------|-------------------|--------------------|
| Raw materials and consumables | | | |
| <i>Third parties:</i> | | | |
| Costs for the purchase of gas, water and lubricants | 4,041 | - | 4,041 |
| Stationery and printed materials | 299 | - | 299 |
| Various materials | 64,657 | - | 64,657 |
| (Change in inventories of raw materials) | (6,121) | - | (6,121) |
| Total cost for raw materials and consumables | 62,876 | - | 62,876 |
| - of which capitalised for intangible assets | 53,360 | - | 53,360 |

The costs of “Raw materials and consumables” essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes. By way of information, compared to the operating company’s separate financial statements of the previous year there was a sharp increase in the item “other materials” for 25,861 thousand euro due to the significant purchase and installation of new electronic meters during the year.

6.b Services - 207,026 thousand euro

Costs for “Services” are broken down as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|----------------|------------|----------------|
| Costs for services | | | |
| <i>Third parties:</i> | | | |
| Maintenance, repair and realisation of assets | 76,865 | | 76,865 |
| Costs for electricity, power and water | 4,016 | | 4,016 |
| Gas (for internal use) | 3,825 | | 3,825 |
| Telephone and data transmission costs | 3,820 | | 3,820 |
| Insurance premiums | 5,157 | 5 | 5,151 |
| Costs for services and other expenses relating to personnel | 5,330 | 0 | 5,330 |
| Fees | 655 | 37 | 619 |
| Legal and notary costs | 381 | 65 | 316 |
| Costs for company acquisitions and disposals | 1 | | 1 |
| Staff and other services | 1,439 | | 1,439 |
| Advertising | 108 | | 108 |
| IT services | 7,445 | | 7,445 |
| Meter reading service | 3,946 | | 3,946 |
| Audit fees | 362 | 35 | 326 |
| Repairs and immediate intervention service | 3,148 | | 3,148 |
| Plant certifications Resolution no. 40 | 720 | | 720 |
| Gas transport by third parties | 2,235 | | 2,235 |
| Professional and other services | 4,509 | 329 | 4,180 |
| Other costs for services | 7,873 | 269 | 7,603 |
| Costs for the use of third-party assets | | | |
| <i>Third parties:</i> | | | |
| Leases | 6,791 | | 6,791 |
| Rentals | 6,472 | | 6,472 |
| Other costs for the use of third-party assets | 2,517 | 0 | 2,517 |
| Fee for temporary occupation of public space (C.o.s.a.p.) | 1,241 | | 1,241 |
| Municipal gas concession fees | 58,169 | | 58,169 |
| <i>Group companies:</i> | | | |
| Leases | - | | - |
| Costs for services | 207,026 | 741 | 206,285 |
| - of which capitalised for intangible assets | 78,504 | - | 78,504 |

The aggregate figure for services (including the costs for use of third party assets) improved compared to the previous year for the operating company (226,288 thousand euro), due both to a reduction in maintenance costs and lower costs for staff and hosting fees for IT systems, linked to the contracts which existed in the first nine months of 2014 for transport and related activities.

6.c Personnel costs - 130,873 thousand euro

Personnel costs are broken down as follows:

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|----------------|--------------|----------------|
| Wages and salaries | 81,441 | 1,346 | 80,095 |
| Social security charges | 29,317 | 163 | 29,154 |
| Termination benefits | 5,473 | 83 | 5,390 |
| Asem/Fisde | 9 | | 9 |
| Fondo Gas | 11,386 | | 11,386 |
| Other personnel costs | 2,247 | 27 | 2,221 |
| Total personnel costs | 129,873 | 1,618 | 128,255 |
| Non-recurring personnel costs | | | |
| Incentives to leave | 1,000 | | 1,000 |
| Total non-recurring personnel costs | 1,000 | - | 1,000 |
| Total personnel costs | 130,873 | 1,618 | 129,255 |
| - of which capitalised for intangible assets | 36,776 | - | 36,776 |
| - of which capitalised for internal work | 1 | - | 1 |

Personnel costs of 130,873 thousand euro include all charges incurred on an ongoing basis which, directly or indirectly, concern employees and rose by 129,255 thousand euro due to the change in the scope of consolidation following the aforementioned merger, and 16,844 thousand euro compared to the previous year of the operating company. The year was also affected by the impact of the closure, as from 1 December 2015, of the "Gas Fund" and the related recognition in a single year of the amount the company will be required to pay to the social security bodies and employees in the future in accordance with the national union agreement which was established during the year.

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

| | Executives | Middle Managers | Office Employees | Workers | Total |
|--------------------------------------|------------|-----------------|------------------|------------|--------------|
| Personnel at 31 December 2014 | 1 | - | - | - | 1 |
| Merger contribution | 32 | 105 | 1,112 | 711 | 1,960 |
| Internal mobility within Group: | - | 1 | 2 | 5 | 8 |
| Increase | 2 | 0 | 34 | - | 36 |
| Decrease | (2) | (1) | (24) | (18) | (45) |
| Change in category | - | 5 | 2 | (7) | - |
| Personnel at 31 December 2015 | 33 | 110 | 1,126 | 691 | 1,960 |

Setting aside the merger, staff movements in and out of the company are normal.

6.d Amortisation, depreciation and impairment losses – 153,812 thousand euro

The amortisation and depreciation of tangible and intangible assets and impairment totalled 153,812 thousand euro, given accumulated amortisation and depreciation which did not exist in the previous year and 147,472 thousand euro in amortisation and depreciation in the previous year at the operating company.

It should be noted that 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.

Impairment totalling 1,507 thousand euro mainly concerned the write-down of some receivables for the water service and the gas transport service. In particular, in 2015 it was necessary to write down the receivable for 1,388 thousand euro claimed from Suissegas Italia S.p.A. following the admittance of the latter to an arrangement with creditors.

This item is broken down as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015- 2014 |
|---|----------------|------------|----------------|
| Depreciation of tangible assets | 5,031 | | 5,031 |
| Amortisation of intangible assets | 147,273 | 0 | 147,273 |
| Impairment losses: | | | |
| - Impairment of intangible assets | - | | - |
| - Write down of trade and other receivables | 1,507 | | 1,507 |
| Total depreciation, amortisation and impairment losses | 153,812 | 0 | 153,812 |

6.e Other operating costs – 70,445 thousand euro

“Other operating costs” rose given the change in the scope of consolidation in 2015 which makes it impossible to compare the figures. Considering the same item in the financial statements of the operating company in 2014, there was a fall of 21,063 thousand euro. In detail the costs were as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|-------------------|-------------------|--------------------|
| Other operating costs | | | |
| <i>Third parties:</i> | | | |
| Remuneration of statutory auditors and Supervisory Body | 142 | 179 | (37) |
| Remuneration of members of the Board of Directors | 256 | 51 | 204 |
| Association fees | 444 | | 444 |
| Contribution to the Supervisory Authority | 157 | | 157 |
| Compensation to customers | 643 | | 643 |
| Municipal tax on property | 472 | | 472 |
| CC IAA (chamber of commerce) fees and duties | 422 | 1 | 421 |
| Purchase of energy efficiency certificates | 48,211 | | 48,211 |
| Tax on the occupation of public space (Tosap) | 1,620 | | 1,620 |
| Capital losses on the disposal of assets | 10,030 | | 10,030 |
| Capital losses on the sale of assets | 234 | | 234 |
| Local and sundry taxes | 582 | 1.77 | 580 |
| Difficulties in checks pursuant to Resolution no. 40 | 0 | | 0 |
| Other costs | 657 | 1 | 656 |
| (Net) provision for risks and charges | 6,587 | | 6,587 |
| Total other operating costs | 70,455 | 234 | 70,221 |
| - of which capitalised for intangible assets | 553 | - | 553 |

The fall in other operating costs, when analysed in light of the financial statements at 31 December 2014 of the operating company, depends mainly on lower costs for the purchase of energy efficiency certificates for the target for 2014, lower provisions for risks and charges and higher costs for accelerated capital losses following the policy of disposing of and replacing traditional meters with electronic meters as undertaken during the year.

6.f Capitalised costs for internal work – 1 thousand euro

Following the introduction of IFRIC 12, accounting for capitalised costs for internal work no longer occurs as in the past for those costs which are directly connected to network

construction operations under concession. For this reason the item now only includes those residual costs which can be capitalised but do not concern concessions.

At 31 December 2015 the item totalled 1 thousand euro.

7. Income (expenses) from equity investments - 224 thousand euro

The item in question includes the income from investments in subsidiaries, associates and other companies. Compared to the previous year, the fall of 85,787 thousand euro was due to the merger with which the parent company incorporated the subsidiary, from which all the dividends recorded arose.

8. Financial income/(expenses) - (48,584) thousand euro

In detail:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|-----------------|-----------------|-----------------|
| Financial income | | | |
| <i>Third parties:</i> | | | |
| - Interest earned from loans to employees | 1 | | 1 |
| - Interest income from discounting of receivables | 75 | | 75 |
| - Interest income on delayed payments | 129 | | 129 |
| - Interest income from current accounts and post office deposits | 187 | 1 | 187 |
| - Interest income from receivables from customers | 122 | | 122 |
| - Other financial interest and income | 225 | 20 | 204 |
| <i>Group companies:</i> | | | |
| - Interest income | 2 | | 2 |
| Total income | 742 | 21 | 721 |
| Financial expenses | | | |
| <i>Third parties:</i> | | | |
| - Interest expense on medium/long-term loans | 2,435 | 7,991 | (5,555) |
| - Other expense on medium/long-term loans from banks | 1,581 | | 1,581 |
| - Financial expenses on debenture loans | 37,200 | | 37,200 |
| - Financial expenses from amortised cost | 7,308 | 3,189 | 4,119 |
| - Financial expenses concerning derivative contracts | - | | - |
| - Interest expense on current bank accounts | 1 | | 1 |
| - Discounting of termination and other employee benefits | 599 | | 599 |
| - Interests on taxes | 97 | | 97 |
| - Change in fair value of Interest Rate Swaps | - | | - |
| - Change in fair value of hedging derivatives reclassified from comprehensive income | - | | - |
| - Other financial and interest expense | 104 | 0 | 104 |
| <i>Group companies:</i> | | | |
| - Interest expense | 0 | | 0 |
| Total expenses | 49,326 | 11,180 | 38,145 |
| TOTAL FINANCIAL INCOME AND (EXPENSES) | (48,584) | (11,159) | (37,425) |

Net financial expenses of 48,584 thousand euro were mainly due to the recognition in the year of the costs relating to the debenture loans and the related amortised cost; following the aforementioned merger, the company became the issuer of three debenture loans with

an increase in debt of 1,865,579 thousand euro. The effect of this increase in debt was access to a means of financing which guaranteed the company a more favourable interest rate and lengthening of its debt compared to the previous situation.

Finally, in the year the previous loan supplied by a pool of banks for 210 million euro was closed. At the end of 2015, the company also obtained a loan of 200 million euro provided by the European Investment Bank to support the program to install electronic meters, thus further improving the conditions of the single tranche which had remained of bank debt.

The structure of the Company's debt has now almost entirely moved to a fixed rate thanks to the debenture loans, lengthening the average duration of the existing debt and more than halving the cost of the debt itself, thus putting the Company in a position where it can face the very challenging stage of the area tenders with new financial resources and a more solid equity structure.

The so-called revolving credit line remains available, even if unused, for cash needs for 100 million euro as well as the credit line for investments of 300 million euro, which was also unused at the reporting date.

9. Taxes – 98,968 thousand euro

This item is broken down as follows:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|---------------|----------------|----------------|
| Current taxes | | | |
| Current income taxes: IRES | 44,608 | 119 | 44,488 |
| Current income taxes: IRAP | 11,182 | | 11,182 |
| Total current taxes | 55,790 | 119 | 55,670 |
| Adjustments for income taxes relating to previous years | | | |
| Negative adjustments for income taxes relating to previous years | 556 | | 556 |
| Positive adjustments for income taxes relating to previous years | (1,171) | | (1,171) |
| Total adjustments for income taxes relating to previous years | (615) | 0.00 | (615) |
| Deferred and prepaid taxes | | | |
| Deferred taxes (use)/allocations | (6,985) | (2,051) | (4,934) |
| Prepaid taxes (allocation) / use | 22,217 | (2,104) | 24,321 |
| <i>Total current deferred and prepaid taxes</i> | <i>15,232</i> | <i>(4,155)</i> | <i>19,387</i> |
| Adjustments to deferred taxes of previous years due to tax rate change | (33,704) | | (33,704) |
| Adjustments to prepaid taxes of previous years due to tax rate change | 62,265 | | 62,265 |
| <i>Total adjusted deferred and prepaid taxes</i> | <i>28,561</i> | | <i>28,561</i> |
| Total deferred and prepaid taxes | 43,793 | (4,155) | 47,948 |
| TOTAL TAXES | 98,968 | (4,035) | 103,003 |

Income taxes for 2015 are equal to 98,968 thousand euro.

Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES of 44,608 thousand euro and IRAP of 11,182 thousand euro.

The income taxes for 2015 were not affected by the additional IRES tax known as the "Robin Hood Tax" since it was declared illegitimate in 2015, while the change in deferred tax assets and liabilities was affected not only by the fall given the non-application of the

Robin Hood Tax but also by the adjustment of the provisions for taxes in the 2016 Stability Law which was approved in December and which envisages for 2017 a further reduction in the standard IRES rate from 27.5% to 24%.

For more in-depth notes on prepaid and deferred taxes, reference should be made to the relevant section of the notes to the Statement of financial position.

The net adjustments to income taxes relating to previous years are positive in this year for 615 thousand euro; these adjustments arose following the definitive calculation of the taxes during the payment in June 2015.

The tax impact of IRES for 2015 is equal to 24%.

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 income before taxes:

Thousands of euro

| | 31.12.2015 |
|---|---------------|
| Income before taxes | 185,881 |
| Theoretical IRES taxes - 2015: 27,5%; 2014: 34% | 51,117 |
| Lower taxes: | 31,124 |
| - release of contributions taxed in prior years | 959 |
| - use of provisions | 2,808 |
| - release of provisions | 1,587 |
| - reversal of statutory amortisation/depreciation not deducted in prior y | 2,030 |
| - deducted tax amortisation | 2,501 |
| - deductible interest expense for previous years | 17,941 |
| - capital gains by instalments | 19 |
| - others | 3,279 |
| Higher taxes: | |
| - write-downs for the year | - |
| - allocations to provisions | 5,634 |
| - amortisation/depreciation on amounts that are not recognised for tax | 3,015 |
| - statutory amortisation/depreciation exceeding the fiscal limits | 11,406 |
| - reversal of excess fiscal amortisation/depreciation deducted in prior y | 1,051 |
| - capital losses on the disposal/sale of assets | 113 |
| - capital gains by instalments | 2,229 |
| - partially deductible costs | 672 |
| - taxes | 104 |
| - others | 3,279 |
| Total current income taxes (IRES) | 44,608 |
| IRAP - 2014: 4,58% | 11,182 |
| Total deferred and prepaid taxes | 43,793 |
| TOTAL INCOME TAXES | 99,583 |

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero, as in the previous year.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 40,744 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 and 2015 are shown below:

| Thousands of euro | Land | Buildings | Plant and equipment | Industrial and commercial equipment | Other assets | Improvements to third-party assets | Fixed assets under construction and advances | Total |
|------------------------------|---------------|---------------|---------------------|-------------------------------------|--------------|------------------------------------|--|-----------------|
| Historical cost | | | | | | | | - |
| Accumulated amortisation | | | | | | | | - |
| Balance at 31.12.2014 | - | - | - | - | - | - | - | - |
| Merger contribution: | 14,673 | 11,436 | 108 | 2,180 | 7,568 | 2,098 | 2,691 | 40,755 |
| <i>Gross value</i> | 14,673 | 35,845 | 112 | 21,814 | 46,146 | 9,770 | 2,691 | 131,051 |
| <i>Acc. Amort.</i> | 0 | (24,409) | (3) | (19,634) | (38,577) | (7,672) | - | (90,295) |
| Investments | - | 34 | 468 | 472 | 994 | 1,762 | 1,190 | 4,920 |
| Entry into service | - | 40 | - | - | 1,022 | 1,607 | (2,669) | - |
| <i>Gross value</i> | - | 40 | - | - | 1,022 | 1,607 | (2,669) | - |
| <i>Acc. Amort.</i> | - | - | - | - | - | - | - | - |
| Disposals | - | - | (3) | - | (3) | - | - | (6) |
| <i>Gross value</i> | - | - | (113) | (244) | (385) | - | - | (742) |
| <i>Acc. Amort.</i> | - | - | 111 | 244 | 382 | - | - | 736 |
| Reclassifications | - | - | 106 | - | - | (0) | - | 106 |
| <i>Gross value</i> | - | - | 1,713 | - | - | (0) | - | 1,713 |
| <i>Acc. Amort.</i> | - | - | (1,607) | - | - | - | - | (1,607) |
| Impairment losses | - | - | - | - | - | - | - | - |
| <i>Gross value</i> | - | - | - | - | - | - | - | - |
| <i>Acc. Amort.</i> | - | - | - | - | - | - | - | - |
| Depreciation | - | (1,105) | (45) | (669) | (2,206) | (1,006) | - | (5,031) |
| Total changes | 14,673 | 10,404 | 635 | 1,983 | 7,375 | 4,462 | 1,212 | 40,744 |
| Historical cost | 14,673 | 35,919 | 2,180 | 22,043 | 47,777 | 13,139 | 1,212 | 136,942 |
| Accumulated amortisation | 0 | (25,514) | (1,545) | (20,060) | (40,402) | (8,678) | - | (96,198) |
| Balance at 31.12.2015 | 14,673 | 10,404 | 635 | 1,983 | 7,375 | 4,462 | 1,212 | 40,744 |

The item at 31 December 2015 was affected by the merger contribution for total 40,755 thousand euro; the growth for the year, instead, was due to the net balance of investments for 4,920 thousand euro, disposals for 6 thousand euro, and depreciation for 5,031 thousand euro.

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

| Thousands of euro | 31.12.2015 | 31.12.2014 |
|--|--------------|------------|
| Increases for internal services | 1 | - |
| Increases for materials | 1,688 | - |
| Increases for external acquisitions/services | 3,230 | - |
| Total | 4,920 | - |

The improvements to third party assets concerned the investments in new head and local offices which were used as from the first months of 2015.

In compliance with the provisions of art. 10 of Law no. 72/83 we break down below the historical figures (expressed in thousands of euro) are broken down for the monetary revaluations included in the asset categories and contained in the item in question and in that for intangible assets:

| | | | |
|--|----------------|--|--------------|
| LAND | | LAND CONC | |
| Revaluation Law 576/75 | 25 | Revaluation Law 576/75 | 1 |
| Revaluation Law 72/83 | 14 | Revaluation Law 72/83 | 15 |
| Revaluation Law 413/91 | 409 | Revaluation Law 413/91 | - |
| Revaluation Law 350/03 | 4,793 | Revaluation Law 350/03 | 50 |
| Total revaluations of land and buildings | 5,241 | Total revaluations of land and buildings | 66 |
| BUILDINGS | | BUILDINGS CONC | |
| Revaluation Law 576/75 | 27 | Revaluation Law 576/75 | 17 |
| Revaluation Law 72/83 | 8 | Revaluation Law 72/83 | 101 |
| Revaluation Law 413/91 | 549 | Revaluation Law 413/91 | 138 |
| Revaluation Law 350/03 | 7,411 | Revaluation Law 350/03 | 2,162 |
| Total revaluations of land and buildings | 7,995 | Total revaluations of land and buildings | 2,418 |
| PLANT AND EQUIPMENT CONC | | INDUSTRIAL AND COMMERCIAL EQUIPMENT | |
| Revaluation Law 576/75 | 2,530 | Revaluation Law 576/75 | 1 |
| Revaluation Law 72/83 | 19,801 | Revaluation Law 72/83 | 10 |
| Revaluation Law 413/91 | 9 | Revaluation Law 350/03 | 7 |
| Revaluation Law 342/00 | 10,454 | Total revaluations of industrial and commercial equipment | 18 |
| Revaluation Law 350/03 | 519,815 | | |
| Total revaluations of plant and equipment | 552,609 | | |
| OTHER ASSETS | | | |
| Revaluation Law 576/75 | 1 | | |
| Revaluation Law 72/83 | 11 | | |
| Revaluation Law 350/03 | 7 | | |
| Total revaluations of other assets | 18 | | |

12. Intangible assets – 2,776,051 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 and 2015 are shown below:

| Thousands of euro | Patent and intellectual property rights | Concessions and similar rights | Concessions and similar rights - Fixed assets under construction and advances | Fixed assets under construction and advances | Other intangible assets | Goodwill | Total |
|---|---|--------------------------------|---|--|-------------------------|----------------|------------------|
| Historical cost | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulated amortisation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance at 31.12.2014 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Merger contribution: | 15,515 | 2,556,732 | 10,228 | 1,233 | 24,126 | 142,955 | 2,750,789 |
| Historical cost | 87,902 | 5,039,000 | 10,228 | 1,233 | 74,870 | 151,532 | 5,364,766 |
| Accumulated amortisation | (72,387) | (2,482,269) | - | - | (50,744) | (8,577) | (2,613,977) |
| Investments | 1,291 | 161,133 | 8,754 | 1,562 | 19,994 | - | 192,734 |
| Entry into service | - | 9,100 | (9,100) | - | - | - | - |
| <i>Gross value</i> | - | 9,100 | (9,100) | - | - | - | - |
| <i>Acc. Amort.</i> | - | - | - | - | - | - | - |
| Disposals | - | (12,461) | (11) | - | - | - | (12,472) |
| <i>Gross value</i> | - | (49,105) | (11) | - | (3) | - | (49,119) |
| <i>Acc. Amort.</i> | - | 36,644 | - | - | 3 | - | 36,648 |
| Reclassifications | - | (96) | - | - | (10) | - | (106) |
| <i>Gross value</i> | - | (1,643) | - | - | (71) | - | (1,713) |
| <i>Acc. Amort.</i> | - | 1,546 | - | - | 61 | - | 1,607 |
| Impairment losses | - | - | - | - | - | - | - |
| <i>Gross value</i> | - | - | - | - | - | - | - |
| <i>Acc. Amort.</i> | - | - | - | - | - | - | - |
| Fixed assets classified as assets held for sale | - | (7,618) | (3) | - | - | - | (7,621) |
| <i>Gross value</i> | - | (14,498) | (3) | - | - | - | (14,500) |
| <i>Acc. Amort.</i> | - | 6,880 | - | - | - | - | 6,880 |
| Depreciation | (6,524) | (132,305) | - | - | (8,445) | - | (147,273) |
| Total changes | 10,283 | 2,582,102 | 9,872 | 2,795 | 35,666 | 142,955 | 2,783,672 |
| Historical cost | 89,194 | 5,143,987 | 9,869 | 2,795 | 94,790 | 151,532 | 5,492,166 |
| Accumulated amortisation | (78,910) | (2,569,503) | 0 | 0 | (59,124) | (8,577) | (2,716,115) |
| Balance at 31.12.2015 | 10,283 | 2,574,483 | 9,869 | 2,795 | 35,666 | 142,955 | 2,776,051 |

Intangible assets rose due to the merger contribution compared to 31 December 2014 by 2,750,789 thousand euro; besides this increase, the value at the end of 2015 arose from the investments in the year for 192,734 thousand euro, the disposals for 12,472 thousand euro, and the accumulated amortisation for 147,273 thousand euro.

“Industrial patent and intellectual property rights”, as well as the significant merger contribution for 15,515 thousand euro, included investments for 1,291 thousand euro and accumulated amortisation for 6,524 thousand euro.

The item “Concessions and similar rights” which received the significant contribution of 2,556,732 thousand euro from the merger, includes the amounts relating to the recognition of rights which the Company claims as concessionaire and operator of the gas distribution service, as well as one-off fees for the acquisition of concessions for natural gas distribution. The figure must be read together with the related item “Assets under development” which received a contribution from the merger of 10,228 thousand euro. The total of the two items shows a final balance after accumulated amortisation of 2,584,353 thousand euro.

The amortisation of the charges linked to the concessions has been determined on a straight-line basis and on the basis of the realisable value 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 value 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 value 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 "Fixed assets under construction and advances", the contribution from which was 1,233 thousand euro and which closed with a balance of 2,795 thousand euro mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company.

The item "Other intangible assets" totalled 35,666 thousand euro and includes other long-term costs, including the costs which can be capitalised and which were incurred for the process of bringing the IT platforms in house which occurred at the end of the year, as well as costs linked to the implementation of the remote reading system for electronic meters.

The "goodwill" item is equal to 142,955 thousand euro and it is related to the deficit from the merger of companies which had previously been subsidiaries. The recognition of the item took place with the agreement of the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the discounted cash flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use. In detail, cash flows are considered for an explicit period of 5 years, consistent with the 2i Rete Gas plan illustrated

by the Board of Directors on 29 January 2016 and drafted on the assumption of an ongoing concern, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the two main assumptions are:

- continuity in concessions, since the redefinition of the relevant local areas resulting from the tenders will be a concrete opportunity for the Group to expand its business on the competitive market given its economic capacity, available credit lines, and top position in a market that is experiencing concentration;
- the continuous management of end customers, with the assumption of further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years.

Discount rates applied, the explicit time horizon over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

| Tax Rate | WACC (1) | Explicit cash flow period | "TV (g) growth rate " |
|-----------|----------|---------------------------|-----------------------|
| 32,1% (2) | 4.5% | 2016 - 2020 | 0.00% |

(1) WACC is the weighted average cost of capital

(2) IRAP + IRES rate

The value in use as determined in accordance with the aforementioned methods was higher than the value of the net invested capital recorded in the financial statements.

The recoverability of the Group's invested capital was also confirmed by a further sensitivity analysis undertaken by simulating possible changes in the key assumptions included in the business and financial plan used for the impairment test.

In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital) there would have to be regulatory changes such as to reduce the revenue cap by over 25%, a percentage which is much higher than the reductions considered possible by the Company.

13. Net deferred tax assets - 69,553 thousand euro

Deferred tax assets and deferred tax liabilities are determined on the basis of the tax rates in force at the end of the reporting period. Deferred tax assets totalled 171,302 thousand euro, while deferred tax liabilities totalled 101,749 thousand euro.

With Law no. 208 of 28 December 2015, the reduction to 24% was approved of the IRES tax rate for all companies as from 2017. This change in rate made it necessary to review the amounts of the company's deferred tax assets and liabilities.

The value of deferred tax assets and liabilities at 31 December 2015 was therefore determined applying the tax rates in force: for IRES 27.5% on the amounts which the company considers useable by the end of 2016, and 24% for the amounts that may be used subsequently. For IRAP the rate used was 4.56%.

The increase in deferred tax assets is due for 249,863 thousand euro to the merger contribution of the operating company, and a net fall of 86,021 thousand euro for movements in the year. The change in the year refers to increases for 15,729 thousand euro and decreases for 101,750 thousand euro due both to the change in the year and to the adjustment due to the so-called Robin Hood Tax being declared illegitimate and to the 2016 Stability Law.

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.

Net of the merger contribution for a total of 142,808 thousand euro, deferred tax liabilities fell by 41,060 thousand euro compared to the previous year. This change was due to the net fall in the year for 7,090 thousand euro.

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 euro | At 31.12.2014 DATA FOR FORMER EX F2I RI I TA GAAAP | At 31.12.2014 DATA FOR FORMER F2I RI ENTRIES UNDER IAS FTA | At 31.12.2014 DATA FOR FORMER F2I RI IAS | Adjustment to Unico (tax return) FORMER F2I RI | Balance after adjustments to Unico | Merger contribution | Adjustment to Unico FORMER 2IRG | Total merger contribution | 01.01.2015 | | Increases recognised in | | Decreases recognised in | | Other changes | | Balance at 31.12.2015 | |
|---|---|--|---|---|--|------------------------|---------------------------------------|------------------------------|-------------------|---------------|-------------------------|-----------------|-------------------------|-----------------|---|--------------|--------------------------|--------|
| | | | | | | | | | Profit or Loss | Equity | Profit or Loss | Equity | Profit or Loss | Equity | Classified under available-for- sale assets | | | |
| Deferred income tax assets: | | | | | | | | | | | | | | | | | | |
| allocation to provisions for risks and charges, deferred deductibility | - | - | - | - | - | 20,054 | - | 20,054 | 20,054 | 3,624 | - | - | (1,304) | - | (5,082) | - | - | 17,293 |
| allocation to provisions for exit and stock option | - | - | - | - | - | 744 | - | 744 | 744 | 286 | - | - | (467) | - | (90) | - | - | 473 |
| allocation to provisions for disputes | - | - | - | - | - | 5,330 | - | 5,330 | 5,330 | 1,012 | - | - | (570) | - | (1,833) | - | - | 3,938 |
| allocation to provisions for inventory obsolescence | - | - | - | - | - | 4,352 | - | 4,352 | 4,352 | 70 | - | - | (82) | - | (1,109) | - | - | 3,230 |
| impairment losses on deferred deductibility assets (receivables write | - | - | - | - | - | 4,282 | 64 | 4,346 | 4,346 | 165 | - | - | (924) | - | (1,041) | - | - | 2,547 |
| impairment losses on deferred deductibility assets (plant write-downs | - | - | - | - | - | 2,590 | - | 2,590 | 2,590 | - | - | - | - | - | (689) | - | - | 1,901 |
| depreciation and amortisation of tangible and intangible assets, deferred deductibility | - | - | - | - | - | 96,651 | 3 | 96,654 | 96,654 | 9,953 | - | - | (1,739) | - | (28,536) | - | (439) | 75,894 |
| separation of land/buildings and component analysis | - | - | - | - | - | 128 | - | 128 | 128 | - | - | - | - | - | (33) | - | - | 95 |
| plant costs | - | 143 | 143 | - | 143 | 2,971 | - | 2,971 | 3,114 | - | - | - | - | - | (882) | - | - | 2,232 |
| termination and other employee benefits | - | - | - | - | - | 3,340 | - | 3,340 | 3,340 | 604 | - | - | (829) | - | (792) | - | - | 2,324 |
| cash deductible taxes and duties | - | - | - | - | - | 16 | - | 16 | 16 | - | - | - | - | - | (4) | - | - | 12 |
| proceeds subject to deferred taxation (connection fees) | - | - | - | - | - | 46,893 | 25 | 46,917 | 46,917 | - | - | - | (1,084) | - | (12,322) | - | (43) | 33,469 |
| deferred deductibility charges | 7,317 | - | 7,317 | - | 7,317 | 58,032 | (0) | 58,032 | 65,349 | 14 | - | - | (27,801) | - | (12,601) | - | - | 24,961 |
| goodwill | - | - | - | - | - | 1,533 | - | 1,533 | 1,533 | - | - | - | - | - | (397) | - | - | 1,136 |
| termination benefits - Italian Accounting Body (OC I) | - | - | - | - | - | 2,857 | 0 | 2,857 | 2,857 | - | - | - | - | - | (356) | - | (702) | 1,799 |
| Total | 7,317 | 143 | 7,460 | - | 7,460 | 249,772 | 92 | 249,863 | 257,323 | 15,729 | - | (34,799) | (356) | (65,412) | (702) | (482) | 171,302 | |
| Deferred income tax liabilities: | | | | | | | | | | | | | | | | | | |
| differences on tangible and intangible assets – additional depreciation and amortisation | - | - | - | - | - | 38,503 | - | 38,503 | 38,503 | 354 | - | - | (908) | - | (11,163) | - | (0) | 26,785 |
| differences on intangible assets – goodwill | - | - | - | - | - | 8,086 | - | 8,086 | 8,086 | - | - | - | (195) | - | (2,038) | - | - | 5,853 |
| separation of land/buildings and component analysis | - | - | - | - | - | 5,178 | - | 5,178 | 5,178 | - | - | - | - | - | (1,349) | - | - | 3,829 |
| allocation to assets of costs relating to company mergers | - | - | - | - | - | 59,357 | - | 59,357 | 59,357 | - | - | - | (2,653) | - | (12,041) | - | - | 44,664 |
| non-accounting deductions relating to impairment of equity investments, receivables and licenses | - | - | - | - | - | 0 | - | - | - | - | - | - | - | - | - | - | - | - |
| Termination benefits | - | - | - | - | - | 1,257 | - | 1,257 | 1,257 | - | - | - | - | - | (370) | - | - | 887 |
| proceeds subject to deferred taxation | - | - | - | - | - | 4,026 | - | 4,026 | 4,026 | - | - | - | (2,250) | - | (793) | - | - | 983 |
| others... | - | - | - | - | - | 3,184 | - | 3,184 | 3,184 | 39 | - | - | (282) | - | (769) | - | (372) | 1,800 |
| ASEM - Italian Accounting Body (OC I) | - | - | - | - | - | 0 | - | 0 | 0 | - | 1 | - | - | - | (0) | - | - | 1 |
| recording of deferred taxes due to merger | - | - | - | - | - | 23,217 | - | 23,217 | 23,217 | 55 | - | - | (388) | - | (5,939) | - | - | 16,945 |
| 5% dividends received allocated to future years on an accruals basis | - | - | - | - | - | 0 | - | 0 | 0 | 2 | - | - | - | - | 0 | - | - | 2 |
| Total | - | - | - | - | - | 142,808 | - | 142,808 | 142,808 | 449 | 1 | (6,677) | (356) | (34,461) | - | (372) | 101,749 | |
| Net deferred tax assets | 7,317 | 143 | 7,460 | 0 | 7,460 | 106,963 | 92 | 107,055 | 114,514 | 15,280 | (1) | (28,122) | (356) | (30,951) | (702) | (109) | 69,553 | |

14. Equity investments – 17,174 thousand euro

The following table shows the changes in the period for each equity investment, with the corresponding values at the beginning and end of the year, as well as the list of equity investments held in “Other companies”.

The investment in 2i Rete Gas was cancelled following the merger.

| Thousands of euro | Carrying amount | % ownership | Merger contribution | Increases for the year | Disposals | Other decreases | Adjustments | Original cost | Increase / (Decrease) | Carrying amount | % ownership |
|---|-----------------|-------------|---------------------|------------------------|-----------|------------------|-------------|----------------|-----------------------|-----------------|-------------|
| Changes in 2015 | | | | | | | | | | | |
| at 31.12.2015 | | | | | | | | | | | |
| A) Subsidiaries | | | | | | | | | | | |
| 2i Rete Gas S.p.A. | 839,789 | 100% | | | | (839,789) | | 839,789 | (839,789) | - | 100% |
| GP Gas S.r.l. | | 100% | 5,799 | | | | | - | 5,799 | 5,799 | 100% |
| Italcogim Trasporto S.r.l. | | 100% | 2,908 | | | | | - | 2,908 | 2,908 | 100% |
| Genia Distribuzione gas Srl | | 100% | 5,129 | | | | | - | 5,129 | 5,129 | 100% |
| 2i Rete Gas SRL | | 100% | | 10 | | | | - | 10 | 10 | 100% |
| Total subsidiaries | 839,789 | | 13,835 | 10 | - | (839,789) | - | 839,789 | (825,944) | 13,845 | |
| B) Associates | | | | | | | | | | | |
| Melegnano Energie Ambiente SpA | | 40% | 2,451 | | | | | - | 2,451 | 2,451 | 40.00% |
| CBL Distribuzione Srl | | 40% | 360 | | | | | - | 360 | 360 | 40.00% |
| Total associates | - | | 2,812 | - | - | - | - | - | 2,812 | 2,812 | |
| C) Other companies | | | | | | | | | | | |
| Interporto di Rovigo S.p.A. | | 0.30% | 42 | | | | | - | 42 | 42 | 0.30% |
| Fingrandia S.p.A. | | 0.58% | 26 | | | | | - | 26 | 26 | 0.58% |
| Agenzia di Pollenzo S.p.A. | | 0.27% | 33 | | | | | - | 33 | 33 | 0.27% |
| Industria e Università S.r.l. | | 0.09% | 11 | | | | | - | 11 | 11 | 0.09% |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | | 3.37% | 405 | | | | | - | 405 | 405 | 3.37% |
| Terme di Offida Spa | | 0.19% | 1 | | | | | - | 1 | 1 | 0.19% |
| Asogas S.p.A. (in liquidazione) | | 9.00% | - | | | | | - | - | - | 9.00% |
| Alpifiere S.r.l. in fallimento | | 3.00% | | | | | | | | | 3.00% |
| Total other companies | - | | 517 | - | - | - | - | - | 517 | 517 | |
| TOTAL EQUITY INVESTMENTS | 839,789 | - | 17,164 | 10 | - | (839,789) | - | 839,789 | (822,616) | 17,174 | |

The following tables show the list of equity investments in subsidiaries and values as recorded in the Company financial statements at 31 December 2015:

| A) Subsidiaries | Registered office | Share Capital (euro) | Equity (euro) | Profit/(Loss) | End of the reporting period | % ownership | Carrying amount | Equity (ITA GAAP) (euro) |
|-----------------------------|----------------------------|----------------------|---------------|---------------|-----------------------------|-------------|-----------------|--------------------------|
| GP Gas S.r.l. | Milan | 10,400 | 3,612,207 | 474,878 | 31/12/2014 | 100.00% | 5,798,675 | 3,612,207 |
| Italogim Trasporto S.r.l. | Milan | 10,000 | 2,907,551 | 55,752 | 31/12/2014 | 100.00% | 2,907,551 | 2,907,551 |
| Genia Distribuzione gas Srl | San Giuliano Milanese (MI) | 5,316,484 | 5,147,266 | (169,218) | 31/12/2014 | 100.00% | 5,128,716 | 5,147,266 |
| 2i Rete Gas SRL | Milan | 10,000 | | | registered 19.11.2015 | 100.00% | 10,000 | 0 |

As regards associates, on the other hand, the values at 31 December 2015 were as follows:

| B) Associates | Registered office | Share Capital (euro) | Equity (euro) | Profit/(Loss) | Income/loss latest year (euro) | End of the reporting period | % ownership | Carrying amount (euro) |
|--------------------------------|-------------------|----------------------|---------------|---------------|--------------------------------|-----------------------------|-------------|------------------------|
| Melegnano Energie Ambiente SpA | Melegnano (MI) | 4,800,000 | 6,430,357 | 5,929,979 | 302,797 | 31.12.2014 | 40.00% | 2,451,467 |
| CBL Distribuzione Srl | Mede (PV) | 170,000 | 927,375 | 3,212,909 | 77,187 | 31.12.2014 | 40.00% | 360,075 |

Finally, the equity investments in other companies at the same date were:

| C) Other companies | Registered office | Share Capital (euro) | Equity (euro) | Profit/(Loss) | Income/loss latest year (euro) | End of the reporting period | % ownership | Carrying amount (euro) |
|---|-------------------|----------------------|---------------|---------------|--------------------------------|-----------------------------|-------------|------------------------|
| Interporto di Rovigo S.p.A. | Rovigo | 8,575,489 | 6,363,993 | 1,425,953 | (527,726) | 31.12.2014 | 0.30% | 41,634 |
| Fingranda S.p.A. | Cuneo | 2,662,507 | 2,072,132 | 2,527 | (199,129) | 31.12.2014 | 0.58% | 25,822 |
| Agenzia di Pollenzo S.p.A. | Bra (CN) | 24,319,920 | 23,724,636 | 948,043 | 117,979 | 31.12.2014 | 0.27% | 33,082 |
| Industria e Università S.r.l. | Varese | 13,005,000 | 10,852,773 | - | (33,690) | 31.12.2014 | 0.09% | 10,989 |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | Tirano (SO) | 1,803,562 | 19,047,828 | 4,767,979 | 977,705 | 30.06.2015 | 3.37% | 405,000 |
| Terme di Offida Spa | Offida (AP) | 277,029 | 141,432 | 7,549 | (9,739) | 31.12.2014 | 0.19% | 548 |
| Asogas S.p.A. (in liquidazione) | Armandola (FM) | 104,000 | (152,970) | - | (16,228) | 31.12.2014 | 9.00% | - |
| Alpiflere S.r.l. in fallimento | Morbegno (SO) | 10,330 | | | | 31.12.1998 | 3.00% | |

15. Non-current financial assets – 5,213 thousand euro

The item mainly represents the deferral of the transaction costs incurred to obtain credit lines, which however had still not been used at 31 December 2015.

16. Other non-current assets – 32,043 thousand euro

The item includes the following entries:

| Thousands of euro | 31.12.2015 | 31.12.2014 | 2014- 2013 |
|---|---------------|------------|---------------|
| guarantee deposits | 3,522 | - | 3,522 |
| receivables for plant contributions | 678 | - | 678 |
| tax receivables reimbursements applied for | 2,079 | - | 2,079 |
| prepaid promotional expenses | 232 | - | 232 |
| from municipalities for disposals of asset due to expiration of concessions | 16,116 | - | 16,116 |
| other non-current assets | 9,564 | - | 9,564 |
| bad debt provision | (147) | - | (147) |
| Total | 32,043 | - | 32,043 |

Guarantee deposits, totalling 3,522 thousand euro, refer to receivables for work to be done on distribution plant and user contract and increased thanks to the merger above.

The 678 thousand euro contribution receivables refer to recognition of the medium/long-term portion of receivables for plant contributions.

Receivables for tax reimbursements of 2,079 thousand euro refer to the claim under art. 6 of Decree Law no. 185/2008 (Deduction from IRES of part of the IRAP pertaining to labour costs and interest).

Prepaid expenses of 232 thousand euro include prepaid promotional expenses made in 2015 and in previous years.

The receivable due from municipalities for the disposal of assets due to the ending of concessions had a balance of 16,116 thousand euro. Said balance refers to receivables which are subject to legal challenge or similar ongoing procedures with municipalities in order to obtain the value requested as reimbursement for the outgoing operator for some concessions which have been handed back over the years. In light of the continuation of the recovery activities both through arbitration and through some legal cases, the Company considered it more appropriate to reclassify these receivables as non-current assets in the 2015 financial statements.

Current assets

17. Inventories – 13,798 thousand euro

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

The item includes the provision for the write-down of inventories equal to 314 thousand euro. The provision was set up to take into account inventories with unlikely future use.

The cost method adopted is weighted average purchase cost.

18. Trade receivables – 238,236 thousand euro

Trade receivables are equal to 238,236 thousand euro.

The breakdown is set out below.

| Thousands of euro | | | |
|-----------------------------------|----------------|--------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Third-party customers: | | | |
| Receivables due from customers | 251,505 | | 251,505 |
| - Bad debt provision | (13,589) | | (13,589) |
| Total | 237,916 | - | 237,916 |
| Group companies: | | | |
| Receivables due from subsidiaries | 319 | 1,025 | (705) |
| Total | 319 | 1,025 | (705) |
| TOTAL | 238,236 | 1,025 | 237,211 |

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.

The breakdown of receivables due from subsidiaries is as follows:

| Thousands of euro | | | |
|---|------------|--------------|--------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Receivables due from subsidiaries: | | | |
| 2i Rete Gas S.r.l. | 1 | 1,025 | (1,023) |
| Italcogim Trasporto S.r.l. | 26 | - | 26 |
| GP Gas S.r.l. | 30 | - | 30 |
| Genia Distribuzione gas S.r.l. | 262 | - | 262 |
| TOTAL | 319 | 1,025 | (705) |

Receivables due from third-party customers are recognised net of a 13,589 thousand euro bad debt provision.

Changes in the bad debt provision are set out below.

| Thousands of euro | | | |
|-----------------------|---------------|------------|---------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| At 1 January | - | - | - |
| Merger contributions | 16,317 | - | 16,317 |
| Allocations | 3,071 | - | 3,071 |
| Releases | (1,602) | - | (1,602) |
| Uses | (4,198) | - | (4,198) |
| At 31 December | 13,589 | - | 13,589 |

The fiscal provision for bad debts at 31 December 2015 was set at 8,938 thousand euro. All the Company's operations are in Italy.

19. Short-term financial receivables – 1,025 thousand euro

Short-term financial receivables totalling 1,025 thousand euro consisted of 702 thousand euro in financial receivables due from the subsidiary Genia Distribuzione S.p.A. for an intercompany current account, and 315 thousand euro for dividends to be received from the associate Mea S.p.A.

20. Other current financial assets – 9 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2015.

21. Cash and cash equivalents – 157,941 thousand euro

Cash and cash equivalents stood at 157,941 thousand euro and were affected by the merger contribution at the start of the period for 103,303 thousand euro.

Cash and cash equivalents are broken down as follows.

| Thousands of euro | | | |
|----------------------|----------------|--------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Bank deposits | 157,493 | 3,083 | 154,410 |
| Post office deposits | 300 | - | 300 |
| Cash in hand | 149 | - | 149 |
| Total | 157,941 | 3,083 | 154,858 |

Operating cash is held in bank and post office deposits.

22. Income tax receivables – 10,021 thousand euro

Income tax receivables totalled 10,021 thousand euro and mainly included receivables for IRES for 8,755 thousand euro and 1,173 thousand euro for IRAP.

23. Other current assets – 145,356 thousand euro

The item is broken down as follows:

Thousands of euro

| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|---|----------------|------------|----------------|
| Other tax receivables: | | | |
| VAT receivables reimbursements applied for | 879 | | 879 |
| Tax receivables reimbursements applied for | - | | - |
| Other tax receivables | 412 | | 412 |
| from pension and insurance agencies | 2,909 | 1 | 2,909 |
| for plant contributions | 1,729 | | 1,729 |
| from CSEA | 128,093 | | 128,093 |
| from municipalities for disposals of asset due to expiration of concessions | 5,333 | | 5,333 |
| from municipalities | 246 | | 246 |
| from suppliers | 1,352 | 19 | 1,333 |
| Sundry receivables | 4,270 | | 4,270 |
| - Bad debt provision | (1,152) | | (1,152) |
| Accrued income | 1 | | 1 |
| Deferred expenses relating to other multi-year charges | 46 | | 46 |
| Deferred expenses relating to real estate lease fees | 190 | | 190 |
| Deferred insurance premiums | 101 | | 101 |
| Other deferred expenses | 941 | 0 | 940 |
| Other current receivables - Group | | | |
| Other current receivables - Group | 6 | | 6 |
| Total | 145,356 | 19 | 145,337 |

Receivables due from the Fund for Energy and Environmental Services regard the amount which must be recognised for the energy efficiency certificates and for the equalisation receivables for the gas distribution service, and the so-called UG2 and UG3 “passing” components.

Assets held for sale – 7,730 thousand euro

Assets held for sale relate to the company branch for the concession of Cinisello Balsamo which in December the company decided to transfer to the subsidiary 2i Rete Gas S.r.l. as from 1 January 2016. The item includes all the related assets.

Liabilities

Equity

24. Equity – 662,806 thousand euro

Equity amounted to 662,806 thousand euro, up by 26,943 thousand euro in the year, due to:

- decrease in the ordinary dividend pay-out of 0.6951 euro per share, for an overall amount of 65,020 thousand euro;
- increase in share capital for 2 thousand euro and other reserves for 4,993 thousand euro following the merger;
- increase in other reserves for the result for the year taken directly to equity for 55 thousand euro;
- increase from result for the year for 86,914 thousand euro;

Share capital – 3,639 thousand euro

The share capital at 31 December 2015 consisted of 363,851,660 ordinary shares and amounted to 3,639 thousand euro, entirely subscribed and paid up; the item changed in the year following the merger, with the related entry into the shareholding structure of the shareholders of the operating company 2i Rete Gas S.p.A.

Share Premium Reserve – 286,546 thousand euro

The share premium reserve changed in the year by 65,020 thousand euro following the distribution of the dividend relating to 2014.

Legal reserve – 728 thousand euro

The legal reserve is equal to 728 thousand euro and has increased by 108 thousand euro in the year in order to reach the limit envisaged by the law.

Other sundry reserves – 207,066 thousand euro

Other sundry reserves totalling 207,066 thousand euro increased compared to the previous year by 4,940 thousand euro, mainly due to the recording of the merger reserve.

Retained earnings – 77,913 thousand euro

Retained earnings totalled 77,913 thousand euro and increased compared to the previous year by the whole amount.

Net income for the year – 86,914 thousand euro

Net income totalled 86,914 thousand euro in 2015 and compared to the result for 2014 (77,913 thousand euro) rose by 9,000 thousand euro.

Here below is the table relating to the availability and possibility of distributing equity:

| | Amount | Possibility of use | Amount available | Amount unavailable |
|--|--------------------|--------------------|--------------------|--------------------|
| Share Capital | 3,638,517 | | | 3,638,517 |
| Treasury Shares reserve | 286,546,491 | A,B,C | 286,546,491 | |
| Legal reserve | 727,703 | B | 0 | 727,703 |
| Other reserves | 205,138,832 | A,B,C | 205,138,832 | |
| Reserves other than merger surplus | 92,440,654 | A,B | 92,440,654 | |
| Reserves other than FTA | (86,021,234) | | (86,021,234) | |
| Reserve for valuation of employee severance inde | (4,492,157) | | (4,492,157) | |
| Retained earnings (accumulated losses) | 77,913,234 | A,B,C | 77,913,234 | |
| Net income for the year | 86,913,586 | A,B,C | 86,913,586 | |
| Total | 662,805,626 | | 658,439,406 | 4,366,220 |

Non-current liabilities

25. Long-term loans (including portions falling due within the next 12 months) – 2,075,571 thousand euro

The item refers to the three instalments of the long-term bond loan issued in 2014 by the company as part of an overall redesign of its own financial structure aimed at improving the costs related to the payables toward third parties by decreasing the rates paid and rendering the structure itself more solid, extending the average duration and differentiating the repayment times, as well as the variable rate debt for 200 million euro obtained from the European Investment Bank.

The table below shows long-term debt expressed in the original currency and the relevant interest rate. The loans' notional value is the same as the carrying amount.

| | Balance | | Notional Value | | Interest rate in force | Effective Interest |
|--------------------------------------|--------------------|----------------|------------------|----------------|---------------------------|-----------------------|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | | |
| | Floating rate debt | - | 210,000 | - | 210,000 | Eur6+3.25% |
| Floating rate debt | 200,000 | | 200,000 | 0 | Eur6+0.59% | 0.55% |
| Debenture loan expiring 2019 | 750,000 | | 750,000 | 0 | 1.75% | 1.89% |
| Debenture loan expiring 2020 | 540,000 | | 540,000 | 0 | 1.13% | 1.35% |
| Debenture loan expiring 2024 | 600,000 | | 600,000 | 0 | 3.00% | 3.13% |
| Costs connected to loans (long term) | (14,429) | (8) | | | | |
| TOTAL | 2,075,571 | 209,992 | 2,090,000 | 210,000 | | |

The maturity schedule for this loan is set out below.

| | Notional | | 1 year | 2 - 5 years | beyond 5 years |
|---|------------------|----------------|----------|------------------|----------------|
| | 31.12.2015 | at 31.12.2014 | | | |
| Medium/long-term financial liabilities | | | | | |
| Financing - Main line of credit | 200,000 | 210,000 | - | 18,182 | 181,818 |
| Medium/long-term debenture loans | 1,890,000 | - | - | 1,290,000 | 600,000 |
| Total | 2,090,000 | 210,000 | - | 1,308,182 | 781,818 |

The bond loan regulation, issued for a market of institutional investors, does not provide for covenants.

Alongside this loan there continues to exist a bank loan provided by a pool of seven leading credit institutions which have yet to be used as at the reporting date.

The Company still has available a credit line for cash needs of 100 million euro, one for investments for a total of 300 million euro.

In addition, in December 2015 a loan was finalised with the European Investment Bank at particularly advantageous rates, resulting in an excellent cost structure associated with the company's funding.

Loans are subject to some conditions calculated on the basis of the consolidated financial statements that the Company must meet to continue using the credit lines.

The covenants concern the following basic elements:

Total net financial debt, RAB (Regulatory Asset Base), EBITDA, and net financial charges.

At 31 December 2015 all the covenants had been complied with.

26. Termination and other employee benefits – 47,137 thousand euro

The Company provides employees with various types of benefits, including termination benefits, health service benefits, compensation due instead of notice of dismissal (*Indennità Sostitutiva 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 attributable 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 | | | |
|----------------------|---------------|------------|---------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Termination benefits | 34,997 | - | 34,997 |
| ASEM health service | 1,831 | - | 1,831 |
| Fondo GAS | 10,310 | - | 10,310 |
| TOTAL | 47,137 | - | 47,137 |

Below is an analysis of the main items.

Termination benefits

Pursuant to Italian legislation, when the employment relationship ends, the employee has the right to receive termination 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 budget law) and subsequent decrees and implementing regulations, only portions of the termination 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.

Fondo Gas

Legislative Decree no. 78/2015, coordinated with Law no. 125/2015 (Official Gazette 14/08/2015), ordered the suppression of the so-called "Fondo Gas" ("Gas Fund") as from 1 December 2015. The same decree also ordered the payment, to serving staff or as a voluntary continuation of the contribution to the Gas Fund, of an amount (to be paid by the employer) equal to 1% of the contribution to the Gas Fund for 2014, for each year or part year that the person has been registered in the Gas Fund, which can be set aside with the employer or destined, by way of contribution, to the complementary pension plan (hereafter Contribution to former Gas Fund). The provision must be made in 240 monthly instalments of an equal amount. Should the employment relationship end before the payments are completed, the credit to the Fund must take place in a single payment in the final pay packet.

The provision made of 10,310 thousand euro is the best estimate possible at the time of drafting the financial statements of the liabilities which arise from this legislative change.

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

| | 31.12.2015 | 31.12.2014 |
|---|------------------|------------|
| Financial hypothesis | | |
| Discount rate | 2.00% | 1.50% |
| Rate of wage increase | 1.90% | 1.50% |
| Rate of increase in cost of health spending | 2.90% | 2.50% |
| Demographic hypothesis | | |
| Probability of death/invalidity | ISTAT Table 2014 | Table RG48 |
| Resignation rate < 50 years of age | 2.00% | 2.00% |
| Resignation rate > 50 years of age | Nil | Nil |

27. Provisions for risks and charges – 10,595 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes, without taking into account the effects of disputes that could

have a positive outcome and those for which a possible charge cannot be reasonably quantified.

The table below shows total provisions for risks and charges (both the short-term and medium/long-term portions) with a separate column for the short-term portion.

| Thousands of euro | at 31.12.2014 | | at 31.12.2015 | | | | | | | | |
|--|--------------------------|------------------------------|---------------------|---------------|---------------|----------------|----------------|--------------------------|------------------------------|---------------|---------------|
| | Of which current portion | Of which non-current portion | Merger contribution | Allocations | Releases | Uses | Other changes | Of which current portion | Of which non-current portion | | |
| Provisions for litigation and disputes | - | - | - | 7,765 | 3,541 | (2,013) | (1,777) | - | 7,517 | - | 7,517 |
| Provision for taxes and duties | - | - | - | 1,571 | 10 | (290) | (1) | - | 1,289 | - | 1,289 |
| Provisions for disputes with personnel | - | - | - | 100 | - | - | - | - | 100 | - | 100 |
| Provision for future charges | - | - | - | 75 | - | - | - | - | 75 | - | 75 |
| Provision for disputes on concessions | - | - | - | 17,206 | 3,971 | (2,611) | (55) | - | 18,511 | 18,511 | - |
| Other provisions for risks and charges | - | - | - | 40,449 | 8,707 | (600) | (4,009) | 129 | 44,677 | 43,063 | 1,614 |
| Total | - | - | - | 67,166 | 16,229 | (5,514) | (5,842) | 129 | 72,168 | 61,574 | 10,595 |
| Provisions for charges pertaining to incentives to leave | - | - | - | 1,928 | 1,000 | - | (1,454) | - | 1,473 | 1,473 | - |
| Total | - | - | - | 69,093 | 17,229 | (5,514) | (7,296) | 129 | 73,642 | 63,047 | 10,595 |

Provisions for risks and charges amounted to 73,642 thousand euro (short-term portion: 63,047 thousand euro) broken down as follows:

- “Provisions for litigation and disputes”, 7,517 thousand euro, to cover contingent liabilities mainly arising from several ongoing litigation cases with customers for harmful events;
- “Provision for taxes and duties”, 1,289 thousand euro, mainly for litigation relating to the tax on the occupation of public space (Tosap), the fee for temporary occupation of public space (Cosap), the municipal tax on property (ICI), and other local taxes;
- “Provisions for disputes with personnel”, 100 thousand euro, to cover expected charges arising from disputes with personnel of a company acquired in previous financial years. It was not considered necessary to change it in these financial statements;
- “Provision for disputes on concessions”, 18,511 thousand euro, in addition to the merger contribution, in the year rose by 1,359 thousand euro following the requests made by municipalities relating to the review of the agreed concession fees; the provision was used in the year for 55 thousand euro;
- “Other provisions for risks and charges”, equalling 44,677 thousand euro, thousand euro which mainly address the risk of a revision of some tariffs linked to concessions involving third-party ownership, an estimate of residual costs for international arbitration proceedings and, finally, the risk due to the obligation to purchase energy efficiency certificates in the amount set by the AEEGSI for 2015.
- “Provision for charges pertaining to incentives to leave” totalling 1,473 thousand euro addresses the residual probable liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started in 2015 and still under way.

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

28. Non current financial liabilities – 0 thousand euro

The item was not used in the period.

29. Other non-current liabilities – 295,030 thousand euro

The item includes the following entries:

| Thousands of euro | | | |
|---|----------------|------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Deferred income | | | |
| payables to pension and insurance agencies | 1,984 | - | 1,984 |
| Other payables | 361 | - | 361 |
| Plant contributions | 50,466 | - | 50,466 |
| Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions | 242,218 | - | 242,218 |
| Total other non-current liabilities | 295,030 | - | 295,030 |

If compared with the same item contributed by the operating company relating to 31 December 2014, totalling 283,056 thousand euro, there was a further increase of around 11,974 thousand euro, largely due to the contributions received in the year, net of the amount accredited to the income statement in relation to the coverage of the operating costs incurred.

Current liabilities**30. Short-term loans – 8 thousand euro**

The amounts present in this item refer solely to the payables for the infragroup current account.

| Thousands of euro | | | |
|---|------------|------------|-------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| payables for infragroup current account | 8 | - | 8 |
| Total | 8 | - | 8 |

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

At 31 December 2015 there was no current portion of medium/long-term bank loans.

32. Current portion of long-term provisions and short-term provisions – 63,047 thousand euro

The current portion of long-term provisions amounted to 63,047 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 27).

33. Trade payables – 167,999 thousand euro

This item includes all trade and operating liabilities whose amount and due date are certain.

If compared with the same item of the operating company merged at 31 December 2014, this item fell by 14,826 thousand euro.

The breakdown of trade payables to third-party suppliers and group suppliers is set out below.

| Thousands of euro | | | |
|------------------------------|----------------|------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Suppliers | 167,977 | 126 | 167,852 |
| Total | 167,977 | 126 | 167,852 |
| Payables due to subsidiaries | 22 | - | 22 |
| Total | 22 | - | 22 |
| Total | 167,999 | 126 | 167,874 |

Payables due to suppliers fell, compared to the previous year of the merged company, by 13,807 thousand euro. The balance at 31 December 2015 mainly consists of residual amount payable to companies to which gas distribution plant construction and maintenance is outsourced, to suppliers of materials and for the purchase of electricity and gas service for internal use.

As regards dealings with subsidiaries, here below are the relevant payables:

| Thousands of euro | | | |
|----------------------------|------------|------------|-------------|
| | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
| Subsidiaries: | | | |
| Italcogim Trasporto S.r.l. | 3 | - | 3 |
| Genia Distribuzione S.r.l. | 19 | - | 19 |
| TOTAL | 22 | - | 22 |

34. Income tax payables – 1,283 thousand euro

At 31 December 2015 the company had a debit balance for IRES tax of 1,283 thousand euro due to the trend in the payments made on account.

35. Current financial liabilities – 21,394 thousand euro

Current financial liabilities refer to the interest expense accrued and not yet paid relating to the three instalments of the debenture loan issued during 2014. In the previous year, on the other hand, the item included the interest expense accrued on the loan outstanding at the time.

| Thousands of euro | | | |
|---|---------------|--------------|---------------|
| | 31.12.2015 | 31.12.2014 | 2015- 2014 |
| Accrued liabilities for interest on short-term bank loans | 20,904 | 4,132 | 16,772 |
| Other current financial payables | 490 | | 490 |
| Total | 21,394 | 4,132 | 17,262 |

36. Other current liabilities – 169,246 thousand euro

Other current liabilities, when compared with those from the merged operating company, rose in the year by 28,397 thousand euro, mainly due to the increase in “Other tax payables” and “Other payables”, an item which also includes the payable due to the Fund for Energy and Environmental Services for the entries relating to various tariff components. Other current liabilities are set out below.

| Thousands of euro | | | |
|--|----------------|--------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015- 2014 |
| other tax payables | 13,517 | | 13,517 |
| payables to welfare and pension agencies | 11,021 | 0 | 11,021 |
| other payables | 130,530 | 1,581 | 128,949 |
| accrued liabilities | 3,882 | 4 | 3,878 |
| Deferred income | 10,295 | | 10,295 |
| Total | 169,246 | 1,586 | 167,660 |

Other tax payables, amounting to 13,517 thousand euro, are set out below.

| Thousands of euro | | | |
|----------------------------|---------------|------------|---------------|
| | 31.12.2015 | 31.12.2014 | 2015- 2014 |
| VAT payables | 9,999 | | 9,999 |
| Employee withholding taxes | 3,348 | | 3,348 |
| Withholding taxes | 120 | | 120 |
| Other taxes | 50 | | 50 |
| Total | 13,517 | - | 13,517 |

Payables to welfare and pension agencies, amounting to 11,021 thousand euro, are set out below.

| Thousands of euro | | | |
|-----------------------|---------------|------------|---------------|
| | 31.12.2015 | 31.12.2014 | 2015- 2014 |
| due to INPS | 9,143 | 0 | 9,143 |
| due to other agencies | 1,879 | 0 | 1,878 |
| Total | 11,021 | 0 | 11,021 |

Other payables, amounting to 130,530 thousand euro, are set out below.

| Thousands of euro | | | |
|--|----------------|--------------|----------------|
| | 31.12.2015 | 31.12.2014 | 2015- 2014 |
| Payables to employees | 13,615 | | 13,615 |
| Payables to municipalities for rights and fees | 4,181 | | 4,181 |
| Payables for connections and other payables due to customers | 2,275 | | 2,275 |
| User guarantee deposits and advances | 1,921 | | 1,921 |
| Payables to CSEA | 94,882 | | 94,882 |
| Other payables | 13,656 | 1,581 | 12,074 |
| Total | 130,530 | 1,581 | 128,949 |

Payables to CSEA of 74,245 thousand euro, consist of payables for the entries that are transferred through the invoicing mechanism to the trading companies and then paid to the Fund for Energy and Environmental Services generally on a two-monthly basis (UG1, UG2, UG3, Re and Rs), payables relating to the amount of equalisation for 2009 and 2010 (3,445

thousand euro) which the Company did not consider as finalised at the end of the reporting period while, for the remainder, payables relate to the balance of the equalisation for 2013 and 2014.

Accruals and deferred income, amounting to 14,177 thousand euro, are set out below.

| Thousands of euro | | | |
|---|---------------|------------|---------------|
| | 31.12.2015 | 31.12.2014 | 2015- 2014 |
| Accrued liabilities | | | |
| Additional monthly accrual for employees | 3,034 | 4 | 3,030 |
| Other accruals | 849 | - | 849 |
| Total accruals | 3,882 | 4 | 3,878 |
| Deferred income | | | |
| Plant contributions | 2,257 | - | 2,257 |
| Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions | 7,552 | - | 7,552 |
| Property subdivision contributions | 1,672 | - | 1,672 |
| Connection fees | 5,537 | - | 5,537 |
| Plant transfer contributions | 343 | - | 343 |
| Other deferred income | 485 | - | 485 |
| Total deferred income | 10,295 | - | 10,295 |
| Total accruals and deferred income | 14,177 | 4 | 14,173 |

37. Liabilities held for sale – 779 thousand euro

The liabilities held for sale related to the company branch for the concession of Cinisello Balsamo which in December the company decided to transfer to a subsidiary as from 1 January 2016. The item includes all the related liabilities.

Related party disclosures

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

The following were defined as related parties for 2015:

- GP Gas S.r.l.
- Genia Distribuzione Gas S.r.l.
- Italcogim Trasporto S.r.l.
- 2i Rete Gas S.r.l.
- F2i SGR S.p.A.- as the operating company of "F2i – Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors"
- F2i SGR S.p.A.- as the operating company of "F2i – Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors"
- Finavias Sarl
- Axa Infrastructure Holding S.à.r.l.
- Melegnano Energia Ambiente S.p.A. (MEA S.p.A.)
- CBL Distribuzione S.r.l.

The definition of related parties also includes executives with strategic responsibilities, including their close relatives, of the company 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 the chief executive officer and the managers reporting to him, as well as directors.

The Group has a centralised cash management system equipped with intercompany current accounts as well as a tax consolidation contract which generates financial movements. All the commercial balances are for transactions at market values.

Trade, financial and other transactions involving the Company, its parent companies and its subsidiaries.

Trade and other transactions

Year 2015

| Thousands of euro | Trade | | Costs | Trade | |
|---|--------------|-------------|--------------|--------------|--------------|
| | Receivables | Liabilities | | Revenues | |
| F2i sgr Spa | - | 24 | 40 | - | - |
| GP Gas S.r.l. | 30 | - | - | - | 201 |
| Italcogim Trasporto S.r.l. | 26 | 3 | 2 | - | 85 |
| CBL Distribuzione | 1,111 | 296 | - | - | 515 |
| MEA S.p.A | 55 | - | - | - | 18 |
| Genia Distribuzione Gas S.r.l. | 268 | 19 | 92 | - | 356 |
| 2i Rete GAS S.r.l. | 1 | - | - | - | 1 |
| Executives with strategic responsibilities, including directors | 0 | 19 | 1,976 | - | 0 |
| Total | 1,491 | 360 | 2,110 | 1,176 | 1,176 |

Year 2014

| Thousands of euro | Trade | | Costs | Trade | |
|---|--------------|-------------|--------------|--------------|--------------|
| | Receivables | Liabilities | | Revenues | |
| F2i SGR | | 16 | 80 | | |
| 2i Rete Gas SpA | 1,025 | | 31 | | 1,618 |
| GP Gas S.r.l. | | | | | |
| Italcogim Trasporto S.r.l. | | | | | |
| CBL Distribuzione | | | | | |
| MEA S.p.A | | | | | |
| Genia Distribuzione Gas S.r.l. | | | | | |
| Executives with strategic responsibilities, including directors | | | 1,669 | | |
| Total | 1,025 | 16 | 1,780 | 1,618 | 1,618 |

Financial transactions

Year 2015

| Thousands of euro | Financial Transaction | | Financial Transaction | | Dividend payment |
|---|-----------------------|-------------|-----------------------|------------|------------------|
| | Receivables | Liabilities | Costs | Revenues | |
| F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa) | - | - | - | - | 41,548 |
| F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa) | - | - | - | - | 5,271 |
| Finavias S. à r.l. | - | - | - | - | 13,849 |
| Axa Infrastructure Holding S. à r.l. | - | - | - | - | 4,254 |
| GP Gas S.r.l. | - | 8 | - | - | - |
| Italcogim Trasporto S.r.l. | - | 11 | - | - | - |
| CBL Distribuzione | - | - | - | 20 | - |
| MEA S.p.A | 315 | - | - | 180 | - |
| Genia Distribuzione Gas S.r.l. | 795 | - | - | 2 | - |
| 2i Rete GAS S.r.l. | - | 8 | 0 | - | - |
| Executives with strategic responsibilities, including directors | - | - | - | - | - |
| Total | 1,110 | 28 | 0 | 202 | 64,922 |

Year 2014

| Thousands of euro | Financial Transaction | | Financial Transaction | | Dividends received | Dividend payment |
|---|-----------------------|---------------|-----------------------|----------|--------------------|------------------|
| | Receivables | Liabilities | Costs | Revenues | | |
| F2i sgr Spa | - | - | - | - | - | 66,750 |
| Finavias S. à r.l. | - | - | - | - | - | 22,250 |
| F2i Reti Italia S.r.l. | - | - | - | - | - | - |
| 2i Rete Gas SpA | - | 10,549 | - | - | 86,003 | - |
| F2i Reti Italia 2 S.r.l. merged into F2i Reti Italia S.r.l. | - | - | - | - | - | - |
| GP Gas S.r.l. | 3 | - | - | - | - | - |
| Italcogim Trasporto S.r.l. | 7 | - | - | - | - | - |
| CBL Distribuzione | - | - | - | - | - | - |
| MEA S.p.A | - | - | - | - | - | - |
| Total | 10 | 10,549 | - | - | 86,003 | 89,000 |

Here below is a summary of the key information regarding the subsidiaries:

Equity investments

GP Gas S.r.l.

Share capital: 10,400 euro

Registered office: Milan.

Equity investment: 100%.

The company is concessionaire for the natural gas distribution service in 8 municipalities in the province of Pavia.

The financial statements at 31 December 2015 showed net profit of 504 thousand euro on revenues of 1,076 thousand euro and equity of 4,116 thousand euro.

Gp Gas S.r.l. will be merged into the parent company as from 1 January 2016.

Italcogim Trasporto S.r.l.

Share capital: 10,000 euro

Registered office: Milan.

Equity investment: 100%.

Italcogim Trasporto offers the regional gas transport service through a gas pipeline. The network it manages guarantees energy to some companies and three natural gas distribution plants serving six municipalities in the province of Ascoli Piceno. On 1 January 2016, following a specific request, the transport network was administratively transformed by the decree of the Ministry into a distribution network, and at the same time was transferred to the parent company 2i Rete Gas S.p.A. The financial statements at 31 December 2015 showed net profit of 24 thousand euro on revenues of 320 thousand euro and equity of 2,932 thousand euro.

Genia Distribuzione Gas S.r.l.

Share capital: 5,316,484 euro

Registered office: San Giuliano Milanese

Equity investment: 100%.

Genia Distribuzione is the concessionaire for the natural gas distribution service in San Giuliano Milanese.

The financial statements at 31 December 2015 showed net profit of 260 thousand euro on revenues of 2,537 thousand euro and equity of 5,408 thousand euro.

2i Rete Gas S.r.l.

Share capital: 10,000 euro

Registered office: Milan

Equity investment: 100%.

2i Rete Gas S.r.l. is a newly established company and is not active.

The financial statements at 31 December 2015 showed net loss of 7 thousand euro with 0 revenues and equity of 3 thousand euro.

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 no. DEM/6064293, the Company declares that during the year there were no significant extraordinary events or operations.

Positions or transactions arising from atypical and/or unusual operations

Pursuant to CONSOB Communication of 28 July 2006 no. DEM/6064293, the Company declares that during the year there were no positions or transactions arising from atypical and/or unusual operations.

Fees for directors, auditors and executives with strategic responsibilities

The fees for 2015 for directors and auditors of the Parent Company, totalling 349 thousand euro, refer to the fees for auditors for 93 thousand euro and fees for directors for 256 thousand euro.

Contractual commitments and guarantees

Guarantees provided totalled 103,694 thousand euro and referred to guarantees provided to third parties. These guarantees refer to bank guarantees (88,527 thousand euro) and to insurance guarantees (15,167 thousand euro).

These guarantees were granted in favour 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 Company's financial statements.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Credit, liquidity and market risk

Credit risk

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

In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2015.

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 bad debt provision.

At 31 December 2015, the Group's maximum exposure to credit risk amounted to 592.1 million euro:

| Millions of euro | 31.12.2015 | 31.12.2014 | 2015 - 2014 |
|--|--------------|------------|--------------|
| Third parties: | | | |
| Non-current financial assets | 5.2 | 0.4 | 4.8 |
| Other non-current financial assets (gross of bad debt provision) | 32.2 | - | 32.2 |
| Trade receivables (gross of bad debt provision) | 251.5 | - | 251.5 |
| Other current financial assets | 1.0 | - | 1.0 |
| Cash and cash equivalents | 157.9 | 3.1 | 154.9 |
| Other receivables (gross of bad debt provision) | 143.9 | 0.0 | 143.9 |
| Group companies: | | | |
| Trade receivables | 0.3 | 1.0 | (0.7) |
| Other receivables (gross of bad debt provision) | 0.0 | - | 0.0 |
| Total | 592.1 | 4.6 | 587.6 |

Liquidity risk

2i Rete Gas is able, based on the current financial structure and 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.

The closure of the previous lines of credit and the simultaneous issue of the debenture loan not only improved the operational management of the Company's financing, but also guaranteed longer-term liquidity funding with differentiated expiry dates, thus reducing the refinancing risk.

Besides the debenture loans issued during 2014, there are still available lines of credit granted in July 2014 to the company by a group of 7 leading banks for a total of 400 million euro, and in the year a loan was concluded with the European Investment Bank for a total of 200 million euro, improving the duration and interest rate compared to previous bank loans.

For the purposes of correct statement of liquidity risk as required by IFRS 7, the features of Company debt are set out below.

The contractual maturities of the financial liabilities as at 31 December 2015 are set forth below:

| Millions of euro | Within next year | Between 2 and 5 years | Beyond 5 years |
|--|------------------|-----------------------|----------------|
| Financial liabilities at 31 December 2015 | | | |
| Long-term loans | | 18.2 | 181.8 |
| Medium-long term debenture loans | | 1,290.0 | 600.0 |
| Short-term loan | 0.01 | | |
| Short-term payables due to banks | - | | |
| Other long-term financial liabilities | | | |
| Other short-term financial liabilities | 21.4 | | |
| Current financial liabilities | | | |
| Total | 21.4 | 1,308.2 | 781.8 |

For comparative purposes, the contractual maturities of the financial liabilities at 31 December 2014 are set forth below:

| Millions of euro | Within next year | Between 2 and 5 years | Beyond 5 years |
|--|------------------|-----------------------|----------------|
| Financial liabilities at 31 December 2014 | | | |
| Long-term loans | 210.0 | | |
| Medium-long term debenture loans | | 0.0 | 0.0 |
| Short-term loan | - | | |
| Short-term payables due to banks | - | | |
| Other long-term financial liabilities | | | |
| Other short-term financial liabilities | 4.1 | | |
| Current financial liabilities | | | |
| Total | 214.1 | 0.0 | 0.0 |

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

It should be noted that these loans are subject to a half-year check on some financial parameters at consolidated level. At 31 December 2015 these parameters were fully complied with.

The “Medium/long-term debenture loans” for a total of 1,890 million euro refer to the aforementioned three debenture loan instalments issued by 2i Rete Gas and with 5, 6 and 10-year expiries.

The Company’s development plan envisages the need of refinancing, but currently given the excellent performance of the Company, the rating obtained and the ongoing compliance with the financial parameters established by the lending banks no problems are envisaged in obtaining such refinancing.

The Company constantly monitors the possibility of optimising its financial structure. For an in-depth analysis of the features of the long-term loans, see note 25 herein.

Market risk

The market management, namely the management of interest rate risk aims to achieve a debt structure able to decrease the financial debt that is subject to changes in interest rates and to minimise the cost of loans, thereby limiting the volatility of the results.

The Company, as from July 2014, has ended all its outstanding Interest Rate Swaps and is pursuing its stated policy with alternative means.

In particular, the issue of the fixed rate bond loan in three instalments which took place during the year has ensured achievement of both results (reduction of the debt subject to changes in interest rates and minimisation of the funding cost) while also securing an extension of the debt itself and above all differentiation of the repayment of the individual instalments issued.

At 31 December 2015, therefore, the Company was not in fact exposed significantly to interest rate changes.

In compliance with the requirements of IFRS 7, we hereby provide a table indicating the financial assets and liabilities with the related book values and fair values. We hereby specify that the company holds neither held-to-maturity financial assets nor financial assets held for sale or for trading.

| Thousands of euro | 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 | | 5,213 | | 5,213 | 5,213 |
| Other non-current financial assets | 16 | | 31,811 | | 31,811 | 31,811 |
| Trade receivables | 18 | | 238,236 | | 238,236 | 238,236 |
| Short-term financial receivables | 19 | | 1,025 | | 1,025 | 1,025 |
| Other current financial assets | 20 | | 9 | | 9 | 9 |
| Cash and cash equivalents | 21 | | 157,941 | | 157,941 | 157,941 |
| Other current assets | 23 | | 144,078 | | 144,078 | 144,078 |
| TOTAL ASSETS | | - | 578,313 | - | 578,313 | 578,313 |
| Financial liabilities measured at fair value | | | | | | |
| IRS Derivatives | 35 | - | | | - | - |
| Financial liabilities not measured at fair value | | | | | | |
| Long-term loan | 25-31 | | | 200,000 | 200,000 | 200,000 |
| Medium/long term debenture loans | 25 | | | 1,875,571 | 1,875,571 | 1,977,914 |
| Financial liabilities for Unwinding IRS | 28-35 | | | | - | - |
| Other non-current liabilities | 29 | | | 361 | 361 | 361 |
| Short-term loan | 30 | | | 8 | 8 | 8 |
| Trade payables | 33 | | | 167,999 | 167,999 | 167,999 |
| Current financial liabilities | 35 | | | 20,904 | 20,904 | 20,904 |
| Other current liabilities | 36 | | | 153,062 | 153,062 | 153,062 |
| TOTAL LIABILITIES | | - | - | 2,417,906 | 2,417,906 | 2,520,248 |

In order to enable comparison, we present the same table for 2014:

| Thousands of euro | 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 | | 443 | | 443 | 443 |
| Other non-current financial assets | 16 | | - | | - | - |
| Trade receivables | 18 | | 1,025 | | 1,025 | 1,025 |
| Short-term financial receivables | 19 | | - | | - | - |
| Other current financial assets | 20 | | - | | - | - |
| Cash and cash equivalents | 21 | | 3,083 | | 3,083 | 3,083 |
| Other current assets | 23 | | 19 | | 19 | 19 |
| TOTAL ASSETS | | - | 4,570 | - | 4,570 | 4,570 |
| Financial liabilities measured at fair value | | | | | | |
| IRS Derivatives | 35 | - | | | - | - |
| Financial liabilities not measured at fair value | | | | | | |
| Long-term loan | 25-31 | | | 209,992 | 209,992 | 210,000 |
| Medium/long term debenture loans | 25 | | | - | - | - |
| Financial liabilities for unwinding IRS | 28-35 | | | | - | - |
| Other non-current liabilities | 29 | | | - | - | - |
| Short-term loan | 30 | | | - | - | - |
| Trade payables | 33 | | | 126 | 126 | 126 |
| Current financial liabilities | 35 | | | 4,132 | 4,132 | 4,132 |
| Other current liabilities | 36 | | | 1,586 | 1,586 | 1,586 |
| TOTAL LIABILITIES | | - | - | 215,835 | 215,835 | 215,843 |

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

To determine the fair value of the bond loan, the company has used the market valuations at 31 December 2015.

Significant events after the reporting period

On 1 January 2016 the company branch related to the concession of Cinisello Balsamo was transferred to the subsidiary 2i Rete Gas S.r.l., as defined in the transfer deed dated 18 December 2015.

In addition, again on 1 January 2016, the company acquired from Italcogim Trasporto S.r.l. the whole distribution network of the latter.

Direction and coordination

The company is not subject to direction and coordination, while it provides direction and coordination to the following companies:

- 2i Rete Gas S.r.l.
- Genia Distribuzione Gas S.r.l.
- Italcogim Trasporto S.r.l.
- GP Gas S.r.l. (now merged)

VIII Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

* * * * *

**Report ex Art. 2429 Civil Code by the Board of statutory Auditors
to the financial statements as of 31.12.2015**

To the Shareholders,

We remind you that the supervisory duties in art. 2403, paragraph 1 of the Civil Code regarding the observance of the Law and the Statute, the adequacy of the organizational, administrative and accounting structure of the Company, and the full respect of the principles of proper administration compete to Board of Statutory Auditors.

As to the procedures for the preparation of the Financial Statements, please note that the company was the subject during the year to the adoption of International Accounting Standards; Thus, the Financial Statements have been prepared in accordance with the recognition and measurement in the International Financial Reporting Standards criteria (IFRS) issued by the International Accounting Standards Board (IASB), the principles that were adopted by the European Commission with the procedure stated in art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and the interpretations of the Standing Interpretations Committee (SIC), as applicable, and to the Civil Code.

The combination of the above reference standards and interpretations are, as usual, defined "IFRS-EU". The Annual Financial Statements were likewise defined in compatibility with paragraph 3 of article. 9 of Legislative Decree 38 of 28 February 2005.

The audit of these financial statements and related audits related to the regular corporate accounting and correct reporting of company events in the accounting records of the company, for the year under review - as required by art. 2409 bis paragraph 1 of the Civil Code - was conducted by the audit firm PricewaterhouseCoopers S.p.A. Having said that, We therefore report what we were able to observe in the year 2015 and current year 2016 until the date of preparation of this report.

SUPERVISION ACTIVITY

In reference to supervision activities, we highlight the following:

In the year 2015, the Board of Statutory Auditors in office since 29.04.2015 has participated in n. 10 meetings of the Board.

The meetings were held in accordance with the regulatory provisions, statuesque and the regulations governing its activity.

As to what concerns the Board of Statutory Auditors, in 2015, we held board all the meetings required by law and acquired documentation that will be held in our working

papers. The work performed did not reveal any facts or items requiring special citations in this report.

On the occasion of our participation to the meetings of the corporate bodies we became aware of the general performance of the company and the most significant transactions that affected the period.

The Board of Directors has taken its deliberations in respect of the law and the bylaws. These resolutions have not appeared imprudent or risky and still oriented to the protection and development of the asset.

To the best of our knowledge, and of the findings in the company documentation, that has been shown to us, the activities carried out in execution of the resolutions of the Board of Directors are consistent with the characteristics set out above and in accordance with the resolutions of the various corporate bodies.

We also took due notice of the activities of the Company, also through meetings with the representatives of the company.

Based on the acquired information, also upon the meetings of Board of Directors, and through appropriate contacts with the heads of various internal functions we have no comments to be displayed with regard to the administrative and accounting system, and we express a favorable opinion about his ability to properly reflect the Company's management and its functioning.

No complaints pursuant to art. 2408 of the Civil Code or reports from third parties have been received.

EXAMINATION OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
ON DECEMBER 31, 2015

The audit of the items constituting the Financial Statements as at December 31, 2015, as already stated, does not compete to us, while the Board of Auditors is responsible for supervising the general layout of the Financial Statements and its compliance with the law and with the principles and regulations that govern their preparation.

The Company has carried out an "impairment test" for the calculation of the recoverable amount of fixed assets, and the independent auditors - as the party responsible for the audit - found no exceptions.

The Financial Statements consists of the Balance Sheet, Income Statement and Explanatory Notes, they are accompanied by the Directors' Report and presents, in summary, the following results, expressed in euro:

Euro

| ASSETS | 31.12.2015 | 31.12.2014 |
|---|----------------------|--------------------|
| Non-current assets | | |
| Property, plant and equipment | 40,744,150 | - |
| Intangible assets | 2,776,051,095 | - |
| Net deferred tax assets | 69,552,680 | 7,459,507 |
| Investments | 17,173,561 | 839,789,256 |
| Non-current financial assets | 5,213,062 | 442,820 |
| Other non-current financial assets | 32,042,521 | - |
| | 2,940,777,069 | 847,691,583 |
| Current assets | | |
| Inventories | 13,798,376 | - |
| Trade receivables | 238,235,771 | 1,024,531 |
| Short-term financial receivables | 1,025,096 | - |
| Other current financial assets | 8,554 | - |
| Cash and cash equivalents | 157,941,449 | 3,083,049 |
| Income tax receivables | 10,021,234 | 10,430,375 |
| Other current assets | 145,356,195 | 19,385 |
| | 566,386,675 | 14,557,340 |
| Assets (or assets included in disposal groups) held for sale | | |
| Assets (or assets included in disposal groups) held for sale | 7,730,200 | - |
| | 7,730,200 | - |
| TOTAL ASSETS | 3,514,893,944 | 862,248,924 |

Euro

| EQUITY AND LIABILITIES | 31.12.2015 | 31.12.2014 |
|---|----------------------|--------------------|
| Equity | | |
| Share Capital | 3,638,517 | 3,636,338 |
| Treasury Shares | - | - |
| Other Reserves | 494,340,290 | 554,312,723 |
| Retained earnings (accumulated losses) | 77,913,234 | - |
| Net income for the year | 86,913,586 | 77,913,234 |
| TOTAL EQUITY | 662,805,626 | 635,862,295 |
| Non-current liabilities | | |
| Long-term loans | 2,075,570,817 | 209,991,787 |
| termination and other employee benefits | 47,137,461 | - |
| Provision for risks and charges | 10,594,549 | - |
| Deferred tax liabilities | - | - |
| Non-current financial liabilities | - | - |
| Other non-current liabilities | 295,029,680 | - |
| | 2,428,332,507 | 209,991,787 |
| Current liabilities | | |
| Short-term loan | 8,004 | - |
| Short-term payables due to banks | - | - |
| Short-term portion of long-term and short-term provisions | 63,047,126 | - |
| Trade payables | 167,999,386 | 125,673 |
| Income tax payables | 1,283,270 | 10,551,497 |
| Current financial liabilities | 21,393,609 | 4,131,703 |
| Other current liabilities | 169,245,794 | 1,585,967 |
| | 422,977,190 | 16,394,841 |
| Liabilities (or liabilities included in disposal groups) held for sale | | |
| Liabilities (or liabilities included in disposal groups) held for sale | 778,620 | - |
| | 778,620 | - |
| TOTAL LIABILITIES | 2,852,088,317 | 226,386,628 |
| TOTAL EQUITY AND LIABILITIES | 3,514,893,944 | 862,248,924 |

Euro

| | 31.12.2015 | 31.12.2014 |
|--|----------------------|-------------------|
| Revenues | | |
| Revenues from sales and services | 611,516,335 | - |
| Other revenues | 78,571,787 | 1,619,102 |
| Revenues from intangible assets / assets under construct | 169,193,001 | - |
| Sub-Total | 859,281,122 | 1,619,102 |
| Costs | | |
| Raw materials and consumables | 62,875,537 | - |
| Services | 207,025,537 | 741,023 |
| Personnel Costs | 130,873,161 | 1,617,864 |
| Amortisation, depreciation and impairment losses | 153,811,602 | - |
| Other operating costs | 70,455,068 | 234,108 |
| Capitalised costs for internal work | (1,208) | - |
| Sub-Total | 625,039,696 | 2,592,996 |
| EBIT | 234,241,426 | (973,894) |
| Income (expenses) from equity investments | 223,888 | 86,010,934 |
| Financial income | 741,661 | 21,076 |
| Financial expenses | (49,325,562) | (11,180,179) |
| Sub-Total | (48,360,013) | 74,851,831 |
| Pre-tax income | 185,881,413 | 73,877,937 |
| Taxes | 98,967,828 | (4,035,297) |
| Net result from continuing operations | 86,913,586 | 77,913,234 |
| Net result from discontinued operations | - | - |
| NET INCOME FOR THE YEAR | 86,913,586 | 77,913,234 |

As to contractual commitments and guarantees please refer to the notes, as they are bank and insurance guarantees.

The Board of Directors, in the Notes, has described the criteria used for the evaluation of assets and liabilities and has provided the information required by law and regulations in force both on the balance sheet, both on the income statement, and also provides all the other information deemed necessary for a more comprehensive intelligibility of the financial statements.

The criteria adopted by the Board of Directors correspond to those applied in the previous year. The Board of Directors, in its report accompanying the Financial Statements, has illustrated and described the major events that marked the year 2015, providing information on the organization, economic and financial management, and initiatives taken to achieve the statutory purposes.

In our opinion, the financial statements, on the whole, have been prepared clearly and represent the financial position and financial performance of the Company for the year ended 31/12/2015, according to the rules governing financial reporting.

Therefore, we express a favorable opinion to the approval of the financial statements for year ended 31/12/2015 and the proposal, coming from the administrative body, to allocate the profit for the year.

We want to extend special thanks to the staff of the company for the collaboration and openness that, as per tradition, we have been demonstrated facilitating our task.

Milan, 06/04/2016

The Board of Statutory Auditors

(Signed on the original)

Dott. Marco Antonio Dell'Acqua

Dott. Gian Luigi Gola

Dott. Marco Giuliani

IX Report of the Independent Auditors



2I RETE GAS SPA

**INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH
ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39
OF 27 JANUARY 2010**

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2015



**INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16
OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010**

To the shareholders of
2i Rete Gas SpA

Report on the financial statements

We have audited the accompanying financial statements of 2i Rete Gas SpA, which comprise the statement of financial position as of 31 December 2015, the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of 2i Rete Gas SpA are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11, paragraph 3, of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of 2i Rete Gas SpA as of 31 December 2015 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union.

Report on compliance with other laws and regulations

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

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of 2i Rete Gas SpA, with the financial statements of 2i Rete Gas SpA as of 31 December 2015. In our opinion, the report on operations is consistent with the financial statements of 2i Rete Gas SpA as of 31 December 2015.

Milan, 6 April 2016

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

X Transition to the International Accounting Standards

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1) Foreword

On 20 May 2015 the Board of Directors of 2i Rete Gas S.p.A. approved the adoption of the IFRS International Accounting Standards pursuant to Leg. Decree 38/2005 art. 2 letter g, since there were both the grounds and prerequisites for 2i Rete Gas S.p.A. to directly adopt the IFRS accounting standards for the keeping of its own accounts and the drafting of the financial statements.

The last financial statements of 2i Rete Gas S.p.A. drafted in accordance with Italian accounting standards relate to the year ended at 31 December 2014.

As from 2015 2i Rete Gas S.p.A. has in fact adopted the IFRS International Accounting Standards approved by the European Union (hereafter "IFRS-EU"), in particular drafting the financial statements at 31 December 2015 in accordance with the accounting standards indicated in the notes to the financial statements and presenting the comparative data relating to the year ended at 31 December 2014 restated as described below.

As required by IFRS1, in this document, paragraph 8, there is a reconciliation of the net equity balances at the transition date (1 January 2014) and at the end date of the previous year (31 December 2014), as well as the result for 2014, with the previous values in accordance with the Italian accounting standards and those restated in accordance with the IFRS-EU, together with the related notes on the changes. The statement of financial position and the income statement for 2014 have been prepared for the sole purposes of the transition project in order to draft the first complete financial statements in accordance with the IFRS – EU and therefore do not have the comparative data and notes which are required for a complete representation of the equity, financial and income situation of 2i Rete Gas S.p.A. in conformity with the IFRS-EU standards.

2) Application of IFRS 1 – First-time application of the International Accounting Standards

For the adoption of the International Accounting Standards the company applied the provisions of IFRS 1 – First-time adoption of the International Financial Reporting Standards, adjusting the amounts which were recorded in the financial statements drawn up in conformity with Italian accounting standards.

The opening financial statements at the transition date to the IFRS (1 January 2014) were drawn up on the basis of the following criteria:

- all the assets and liabilities were recorded whose recording is required by the IFRS;
- those assets and liabilities whose recording is not allowed by the IFRS were not recorded;
- due reclassifications were applied in order to guarantee the correct classification on the basis of the new IFRS, which were applied in assessing all the assets and liabilities recorded;
- all the adjustments arising from the first-time application of the IFRS were recorded with a contra entry in equity (IAS Reserve). The breakdown of the composition of the IAS Reserve is set out in the table of changes in equity.

The assessment and measurement of accounting entries, both as regards adjustments to the financial statements for 2014 and those relating to the financial statements for 2015, are based on the IFRS in force at 31 December 2015 and on their current interpretation as from the documents issued up to now by the International Financial Reporting Committee (IFRIC).

Therefore, except for the comments below, in arranging the reconciliation statements set out below the same accounting standards have been retroactively applied as adopted in drafting the financial statements for the year ended at 31 December 2015 of 2i Rete Gas S.p.A. as described in the notes to these financial statements.

Set out below are exemptions envisaged by IFRS 1 which are applicable to the company, indicating those used in drafting the opening statement of financial position:

- business combinations: the company has not applied IFRS 3 retrospectively to business combinations that occurred before the date of transition to the IFRS;
- in relation to the assessment of property, plant and equipment and intangible assets the company has used the criterion of revalued cost in place of cost at the date of transition to the IFRS.

3) Accounting policies and valuation criteria

4) Reconciliations required under IFRS 1

As required by IFRS 1 “First-time adoption of the International Financial Reporting Standards”, this annex provides reconciliations and notes of the equity and result for the year in accordance with the previous standards applied by 2i Rete Gas (Italian accounting standards) and in accordance with the new body of IFRS International Accounting Standards. The reconciliations were made at the transition date (1 January 2014) and at 31 December 2014.

5) Statement of financial position under IFRS-EU at 1 January 2014 and at 31 December 2014, Income statement under IFRS-EU for the year ended at 31 December 2014

Below are the tables from the statement of financial position at 1 January 2014 and 31 December 2014 and of the income statement for 2014 which show:

- the values according to the Italian accounting standards reclassified in accordance with the IFRS models (“ITA GAAP” column);
- the changes to adjust to the IFRS-EU.

FINANCIAL POSITION AS OF 1.1.2014

Thousands of euro

| ASSETS | ITA GAAP | ADJUSTMENTS FOR IFRS | IFRS | Notes |
|--|----------------|----------------------|----------------|-------|
| Non-current assets | | | | |
| Property, plant and equipment | | | | |
| Intangible assets | 1,991 | (1,991) | 0 | 1 |
| Net deferred tax asset | 5,093 | (1,702) | 3,391 | 2 |
| Investments | 717,473 | (81) | 717,392 | 3 |
| Non-current financial assets | 422 | 0 | 422 | |
| Other non-current assets | | | | |
| | 724,980 | (3,774) | 721,206 | |
| Current assets | | | | |
| Inventories | | | | |
| Trade receivables | 86,707 | (86,003) | 704 | 4 |
| Short-term financial receivables | | | | |
| Other current financial assets | | | | |
| Cash and cash equivalents | 6,557 | 0 | 6,557 | |
| Income tax receivables | 15,123 | 0 | 15,123 | |
| Other current assets | 110 | 0 | 110 | |
| Non-current assets (or assets included in disposal groups) held for sale | | | | |
| | 108,497 | (86,003) | 22,494 | |
| TOTAL ASSETS | 833,476 | (89,776) | 743,700 | |

Thousands of euro

| SHAREHOLDERS' EQUITY AND LIABILITIES | ITA GAAP | ADJUSTMENTS FOR IFRS | IFRS | Notes |
|---|----------------|----------------------|----------------|-------|
| Shareholders' equity | | | | |
| Share capital | 3,100 | | 3,100 | |
| Treasury shares | | | | |
| Other reserves | 559,110 | (86,021) | 473,088 | |
| Retained earnings (accumulated losses) | 3,630 | | 3,630 | |
| Net income for the year | 74,143 | 0 | 74,143 | |
| TOTAL SHAREHOLDERS' EQUITY | 639,982 | (86,021) | 553,961 | |
| Equity attributable to third parties | | | | |
| Non-controlling interests | | | | |
| Net income for the year - non-controlling interests | | | | |
| Total equity attributable to third parties | 0 | 0 | 0 | |
| TOTAL SHAREHOLDERS' EQUITY | 639,982 | (86,021) | 553,961 | |
| Non-current liabilities | | | | |
| Long-term loans | 178,885 | (2,573) | 176,312 | 5 |
| Termination and other employee benefits | 13 | 0 | 13 | |
| Provisions for risks and charges | | | | |
| Deferred tax liabilities | 1,183 | (1,183) | 0 | 6 |
| Non-current financial liabilities | | | | |
| Other non current liabilities | | | | |
| | 180,081 | (3,755) | 176,325 | |
| Current liabilities | | | | |
| Short-term loans | | | | |
| Current portion of medium/long-term bank loans | | | | |
| Short-term portion of long-term and short-term provisions | | | | |
| Trade payables | 328 | 0 | 328 | |
| Income tax payables | 11,640 | 0 | 11,640 | |
| Current financial liabilities | 200 | 0 | 200 | |
| Other current liabilities | 1,246 | 0 | 1,246 | |
| Liabilities held for sale | | | | |
| | 13,413 | 0 | 13,413 | |
| TOTAL LIABILITIES | 193,494 | (3,755) | 189,739 | |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 833,476 | (89,776) | 743,700 | |

FINANCIAL POSITION AS OF 31.12.2014

Thousands of euro

| ASSETS | ITA GAAP | ADJUSTMENTS FOR IFRS | IFRS | Notes |
|--|----------------|----------------------|----------------|-------|
| Non-current assets | | | | |
| Property, plant and equipment | | | | |
| Intangible assets | 98 | (98) | 0 | 1 |
| Net deferred tax assets | 7,317 | 143 | 7,460 | 2 |
| Investments | 840,139 | (350) | 839,789 | 3 |
| Non-current financial assets | 443 | 0 | 443 | |
| Other non-current assets | | | | |
| | 847,997 | (305) | 847,692 | |
| Current assets | | | | |
| Inventories | | | | |
| Trade receivables | 1,025 | 0 | 1,025 | 4 |
| Short-term financial receivables | | | | |
| Other current financial assets | | | | |
| Cash and cash equivalents | 3,083 | 0 | 3,083 | |
| Income tax receivables | 10,430 | 0 | 10,430 | |
| Other current assets | 19 | 0 | 19 | |
| Non-current assets (or assets included in disposal groups) held for sale | | | | |
| | 14,557 | 0 | 14,557 | |
| TOTAL ASSETS | 862,554 | (305) | 862,249 | |

Thousands of euro

| SHAREHOLDERS' EQUITY AND LIABILITIES | ITA GAAP | ADJUSTMENTS FOR IFRS | IFRS | Notes |
|---|----------------|----------------------|----------------|-------|
| Shareholders' equity | | | | |
| Share capital | 3,636 | | 3,636 | |
| Treasury shares | | | | |
| Other reserves | 640,323 | (86,010) | 554,313 | |
| Retained earnings (accumulated losses) | 0 | | 0 | |
| Net income for the year | (7,800) | 85,713 | 77,913 | |
| TOTAL SHAREHOLDERS' EQUITY | 636,159 | (297) | 635,862 | |
| Equity attributable to third parties | | | | |
| Non-controlling interests | | | | |
| Net income for the year - non-controlling interests | | | | |
| Total equity attributable to third parties | 0 | 0 | 0 | |
| TOTAL SHAREHOLDERS' EQUITY | 636,159 | (297) | 635,862 | |
| Non-current liabilities | | | | |
| Long-term loans | 210,000 | (8) | 209,992 | 5 |
| Termination and other employee benefits | 0 | 0 | 0 | |
| Provisions for risks and charges | | | | |
| Deferred tax liabilities | 0 | 0 | 0 | 6 |
| Non-current financial liabilities | | | | |
| Other non current liabilities | | | | |
| | 210,000 | (8) | 209,992 | |
| Current liabilities | | | | |
| Short-term loans | | | | |
| Current portion of medium/long-term bank loans | | | | |
| Short-term portion of long-term and short-term provisions | | | | |
| Trade payables | 126 | 0 | 126 | |
| Income tax payables | 10,551 | 0 | 10,551 | |
| Current financial liabilities | 4,132 | 0 | 4,132 | |
| Other current liabilities | 1,586 | 0 | 1,586 | |
| Liabilities held for sale | | | | |
| | 16,395 | 0 | 16,395 | |
| TOTAL LIABILITIES | 226,395 | (8) | 226,387 | |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 862,554 | (305) | 862,249 | |

INCOME STATEMENT AS OF 31.12.2014*Thousands of euro*

| Income statement | ITA GAAP | ADJUSTMENTS FOR IFRS | IFRS | Notes |
|---|-----------------|----------------------|----------------|-------|
| Revenues | | | | |
| Revenues from sales and services | | | | |
| Other revenues | 1,619 | | 1,619 | |
| Revenues from intangible assets / assets under construction | | | | |
| Sub-Total | 1,619 | 0 | 1,619 | |
| Costs | | | | |
| Raw materials and consumables | 0 | 0 | 0 | |
| Services | (569) | (172) | (741) | 1 |
| Personnel costs | (1,618) | 0 | (1,618) | |
| Amortisation, depreciation and impairment losses | (2,550) | 2,550 | 0 | 2 |
| Other operating costs | (4) | (230) | (234) | 3 |
| Capitalised costs for internal work | 0 | 0 | 0 | |
| Sub-Total | (4,741) | 2,148 | (2,593) | |
| EBIT | (3,122) | 2,148 | (974) | |
| Income (expenses) from equity investments | 8 | 86,003 | 86,011 | 4 |
| Financial income | 21 | 0 | 21 | |
| Financial expenses | (7,991) | (3,189) | (11,180) | 5 |
| Sub-Total | (7,961) | 82,813 | 74,852 | |
| Pre-tax income | (11,083) | 84,961 | 73,878 | |
| Taxes | 3,283 | 752 | 4,035 | 6 |
| Net result from continuing operations | | | | |
| Net result from discontinued operations | | | | |
| NET INCOME FOR THE YEAR | (7,800) | 85,713 | 77,913 | |

Statement of Comprehensive Income*Thousands of euro*

| | |
|--|---------------|
| Net income for the year IFRS | 77,913 |
| Other comprehensive income | |
| <i>Items which will never be reclassified in profit/(loss)</i> | |
| <i>Items which may be reclassified subsequently in profit/(loss)</i> | |
| Total other comprehensive income | 0 |
| Total comprehensive income recorded in the year | 77,913 |

The above table connects the net result for the year under the IFRS to the overall result under the IFRS for 2014 without providing a comparison with the values under "ITA GAAP" since these are not items which are pertinent in the tables under "ITA GAAP".

6) Comment on the main adjustments under IFRS-EU made to the items on the statement of financial position at 1 January 2014 and at 31 December 2014

Items on statement of financial position – Assets

1) Intangible assets (0 thousand euro at 1 January 2014 and 0 thousand euro at 31 December 2014).

The item includes the effects deriving from:

- reclassification linked to the presentation of the amortised cost on the outstanding loan at 1 January 2014 for -1,989 thousand euro (0 thousand euro at 31 December 2014);
- the elimination of start-up and expansion costs: -2 thousand euro at 1 January 2014 and – 98 thousand euro at 31 December 2014;

As regards the reclassification linked to the presentation of the amortised cost on the existing loan, in accordance with Italian accounting standards the transition costs incurred to obtain medium/long-term loans have been suspended as long-term costs and amortised over the duration of the loan in accordance with the financial method, or on a straight line basis, if the resulting effects do not diverge significantly from the financial method. With the adoption of the IFRS, the net carrying value of these transition costs is shown against the related financial payables, which are assessed with the amortised cost criterion (see note 5).

2) Deferred tax assets (3,391 thousand euro at 1 January 2014 and 7,460 thousand euro at 31 December 2014).

The adjustments reflect the equity contra entry for the tax effect on the items indicated in the table reconciling equity and the result for the year attached at the end of these notes (see the table of reconciliation of equity and the result for year attached at the end of these notes). The deferred tax assets are expressed net of the deferred tax liabilities.

3) Investments (717,392 thousand euro at 1 January 2014 and 839,789 thousand euro at 31 December 2014)

The item includes the effects of reversing accessory charges on investments of 81 thousand euro at 1 January 2014 and -350 thousand euro at 31 December 2014 and which cannot be recorded to increase the value of the investment for IFRS purposes.

4) Trade receivables (704 thousand euro at 1 January 2014 and 1,025 thousand euro at 31 December 2014).

The adjustment of 86,003 thousand euro includes the elimination of the dividends approved by the shareholders' meeting of 12 May 2014 and recorded in the separate financial statements already in 2013. According to the International Accounting Standards these dividends can be recorded only after the resolution of the shareholders' meeting.

Items on statement of financial position - Liabilities

5) Long-term loans (176,312 thousand euro at 1 January 2014 and 209,992 thousand euro at 31 December 2014).

The adjustment includes for -2,573 thousand euro the reclassification of the amortised cost in reference to the transition costs linked to F2i Reti Italia Srl obtaining the loan for 210,000 thousand euro.

At 01 January 2014 the company had:

| | |
|---|------------------------------|
| Payables for Lines of credit in bank pool | 178,885 thousand euro |
| <u>Costs connected to the loan</u> | <u>(2,573) thousand euro</u> |
| <i>Total financial payables</i> | <i>176,312 thousand euro</i> |

At 31 December 2014 the company had:

| | |
|---|------------------------------|
| Payables for Lines of credit in bank pool | 210,000 thousand euro |
| <u>Costs connected to the loan</u> | <u>(8) thousand euro</u> |
| <i>Total financial payables</i> | <i>209,992 thousand euro</i> |

6) Deferred tax liabilities (0 thousand euro at 1 January 2014 and 0 thousand euro at 31 December 2014).

The adjustments reflect the equity contra entry for the tax effects on the items in the table reconciling equity and the result for the year (see the table reconciling equity and the result for the year attached at the end of these notes).

The deferred tax liabilities have been reclassified to reduce the deferred tax assets.

7) Comment on the main adjustments under IFRS-EU made to the income statement items for 2014

1) Services (741 thousand euro at 31 December 2014).

The adjustment includes 172 thousand euro relating to:

- Tobin Tax for 269 thousand euro recorded in the financial statements under ITA GAAP to increase the cost of the investment;
- Start-up and expansion costs for 133 thousand euro, of which 38 thousand euro is recorded in the financial statements under ITA GAAP under amortisation for 2014;
- reclassification for (230) thousand euro of the costs for auditors and directors which are classified in the financial statements under IFRS under other operating costs.

2) Amortisation, depreciation and impairment (0 thousand euro at 31 December 2014).

These adjustments are the result of reversing the amortisation of start-up and expansion costs for 38 thousand euro (highlighted in paragraph 6 note 1).

In addition, the adjustments include for 2,513 thousand euro the reclassification under financial expenses of part of the amount deriving from the repayment plan for transition costs linked to the medium/long-term loan (see paragraph 6 note 5).

3) Other operating costs (234 thousand euro at 31 December 2014).

These adjustments of 230 thousand euro include the reclassification of the costs for auditors and directors for 230 thousand euro.

4) Investment income (86,011 thousand euro at 31 December 2014).

The item includes the recording of the dividend for 2013 approved on 12 May 2014 and totalling 86,003 thousand euro (see note 4 at paragraph 4).

5) Financial expenses (11,180 thousand euro at 31 December 2014)

The effect is caused by higher financial expenses arising from higher total costs for the amortisation of transition costs (-3,189 thousand euro at 31 December 2014).

6) Income taxes (4,035 thousand euro at 31 December 2014).

The adjustment of 752 thousand euro reflects the tax effect of the adjustments to the income statement items.

8) Reconciliation of equity and net income for the year

As required by IFRS 1, below is set out the table reconciling equity at 1 January 2014 and at 31 December 2014 and the result for 2014, together with the related comments on the adjustments made to the balances prepared in accordance with Italian accounting standards.

Statement of reconciliation of equity

Reconciliation of equity balances (EB)

| Thousands of euro | 01/01/14 | 31/12/14 | Notes |
|--|----------------|----------------|----------|
| EB ITA GAAP | 639,982 | 636,159 | |
| Elimination of start-up and expansion costs | (2) | (98) | <i>a</i> |
| Total tax effect on previous adjustments | 1 | 27 | |
| ----- | | | |
| Elimination of additional costs on investment | (81) | (350) | <i>b</i> |
| Total tax effect on previous adjustments | 27 | 116 | |
| ----- | | | |
| Adjustment due to assessment of amortised cost | 584 | 8 | <i>c</i> |
| Total tax effect on previous adjustments | (547) | 0 | |
| ----- | | | |
| Elimination of dividends approved by 2i Rete Gas SpA on 12/05/2014 | (86,003) | 0 | <i>d</i> |
| Total tax effect on previous adjustments | 0 | 0 | |
| ----- | | | |
| Subtotal of adjustments | (86,021) | (297) | |
| ----- | | | |
| EB IAS/IFRS | 553,961 | 635,862 | |

Below is the breakdown of the First-Time Adoption (FTA) Reserve, totalling (86,021) thousand euro, relating to the first-time application of the IFRS/EU.

| First Time Adoption Reserve In thousands of euro | ADJUSTMENTS | TAX EFFECT | TOTAL ADJUSTMENTS |
|--|-----------------|--------------|-------------------|
| Start-up and expansion costs | (2) | 1 | (2) |
| Additional costs on investment | (81) | 27 | (54) |
| Different assessment of additional costs on loan | 584 | (547) | 37 |
| Elimination of dividends approved by 2i Rete Gas SpA on 12/05/2014 | (86,003) | 0 | (86,003) |
| Total | (85,502) | (520) | (86,021) |

Below is the statement of reconciliation of the profit for the year recorded in accordance with the Italian accounting standards compared to the profit for the year and total profit under the IFRS.

Reconciliation of net profit at 31 December 2014

| Thousands of euro | ADJUSTMENTS | TAX EFFECT | TOTAL | NOTES |
|---|-------------|------------|----------------|----------|
| Profit(loss) for the year ITA GAAP | | | (7,800) | |
| Elimination of start-up and expansion costs | (133) | 37 | (97) | |
| Elimination of depreciation of start-up and expansion costs | 38 | (10) | 27 | |
| | | | (69) | <i>a</i> |
| Elimination of amortisation on borrowing costs | 2,513 | 637 | 3,149 | |
| Recognition of financial costs from amortised cost | (3,189) | | (40) | <i>b</i> |
| Elimination of costs on investment | (269) | 89 | (180) | <i>c</i> |
| Recognition of dividend received in 2014 | 86,003 | 0 | 86,003 | <i>d</i> |
| Total adjustments | | | 85,713 | |
| Net profit(loss) for the year IFRS | | | 77,913 | |

- a) Intangible assets and the related amortisation-start-up and expansion costs. The effect of these adjustments, for which reference should be made to paragraph 6 note 1 and paragraph 7 note 2, entailed a total negative impact on the result of 69 thousand euro
- b) Intangible assets and the related amortisation-costs on loan. The effect of such adjustments, for which reference should be made to paragraph 6 note 1 and 5 and to paragraph 7 note 2, entailed a total negative impact on the result of 40 thousand euro
- c) Accessory costs on investment. The effect of these adjustments, for which reference should be made to paragraph 6 note 3 and to paragraph 7 note 1, entailed a total negative impact on the result of 180 thousand euro.
- d) Dividend. The effect of these adjustments, for which reference should be made to paragraph 6 note 4 and paragraph 7 note 4, entailed a total positive impact on the result of 86,003 thousand euro.

9) Effects on the statement of cash flow at 31 December 2014

The table reconciling cash flow is not presented since the effects from the application of the accounting standards IFRS-EU did not have any significant impact.