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

2i Rete Gas

Gruppo F2i Reti Italia

# Interim financial report
# 30 June 2014

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# II. Company bodies

**Board of directors**

**Chairperson**
Paola Muratorio

**Deputy chairperson**
Angelo Ferrari

**Chief executive officer**
Gianclaudio Neri

**Directors**
Carlo Michelini
Matteo Ambroggio
Matias Sebastian Burghardt
Stefano Mion
Luca Galli
Mario Francesco Anaclerio
Giuseppe Picco Rogantini
Stephan Fedrigo

**Board of statutory auditors**

**Chairperson**
Marco Antonio Modesto Dell'Acqua

**Standing statutory auditors**
Ugo Venanzio Gaspari
Giancarlo Fornaciari

**Substitute statutory auditors**
Andrea Cioccarelli
Ilaria Fornaciari

**Independent auditors**

KPMG

# Directors' report

## 1. Macroeconomic scenario

Banca d'Italia's Economic Bulletin on the first six months of the year describes how the Italian macroeconomic situation is still fragile: winter-month economic activities reflected the contraction in energy generation, partly due to the mild weather, and the chronic weakness of the construction sector, which triggers development in the gas distribution network and new network connections. Industrial production contracted unexpectedly in the Eurozone in May, caused in part by calendar effects; the available information points to the substantial stagnation of the second quarter.
Although it did not directly have a large negative effect on the Group's results, the reduction in gross domestic gas consumption seen in 2013 was confirmed in the first half of this year, down 14.2% on 30 June 2013 with consumption of 32,922 million cubic metres compared to 38,364 million cubic metres in the first six months of 2013.

No area tenders were called in the period, even though many municipalities commenced the procedures to request operators provide the data necessary to award contracts.

## 2. Highlights

The Group's highlights for the period are summarised in the following table:

| | 30.06.2014 | 31.12.2013 |
|---|---|---|
| **Active concessions** | 1,942 | 1,941 |
| **Active redelivery points** | 3,833,661 | 3,812,883 |
| **Gas distributed (natural gas and LPG) in millions of cubic metres** | 2,899 | 5,868 |
| **Gross operating profit in millions of Euro:** | 173.0 | 382.6 |
| **Distribution networks managed in km:** | 57,355 | 57,124 |

| | 30.06.2014 | 31.12.2013 |
|---|---|---|
| **Adjusted net financial debt in millions of Euro** | 1,733.7 | 1,587.8 |
| **Net invested capital in millions of Euro** | 2,518.5 | 2,456.2 |

## 3. Key corporate operations of the period

No capital operations involving the parent took place during the six months.
On 10 March 2014, the parent's shareholders resolved to change its name, approving the suggestion made by the board of directors, and the company changed its name from Enel Rete Gas S.p.A. to 2i Rete Gas S.p.A. with effect from 19 March 2014.

In June 2014, after obtaining an "investment grade" rating from two major rating agencies, the parent approved an EMTN programme of up to €3,000 million as part of its project to optimise its debt structure, which will be concluded in the second half of the year.
This project also includes the streamlining of the Group's structure to be achieved by merging the parent with its ultimate parent. Accordingly, an expert was appointed as per articles 2501-sexies and 2503 of the Italian Civil Code and the preliminary documentation was readied.

## 4. Transactions involving equity investments during the period

On 26 June 2014, the parent signed an agreement for the acquisition of 100% of Genia Distribuzione Gas S.r.l., the gas distributor for the San Giuliano Milanese municipality (roughly 17,000 end users), following the awarding of the tender for the sale of this company by its former sole quotaholder Genia S.p.A. in liquidation (wholly owned by the San Giuliano Milanese municipality).
In addition, Italcogim Velino S.r.l. was put into liquidation during the period.

## 5. Concession development and management

Just one tender was called for a concession for natural gas distribution services in the period, continuing the trend of the last two years with a very limited number of tenders being called, due to Legislative decree no. 93 of 1 June 2011 (implementing the Third Energy Package), which halted the calling of new tenders unless they are for minimum geographical areas ("ATEM").
Notwithstanding the great efforts of both the Ministry for Economic Development and AEEGSI (the Regulator Authority for Electricity, Gas and Water), the legislative framework is still unfinished and thus no tenders for minimum geographical areas have been called.
To this end and to allow the contractors to complete their preliminary work before new tenders are called, the draft law converting Law decree no. 91 of 24 June 2014 (the "Competitiveness decree") has been approved. This decree postpones again the deadline for commencement of tender activities whereby the first tenders will probably be pushed forward to the first half of 2015.

## Participation in tenders

Given the above and as specifically permitted by the Ministry for Economic Development, just one new tender was called in the period for the concession of a natural gas distribution service in the Terento (BZ) municipality, which does not yet have mains gas.
In addition, the tender procedure for the service in the Spinete (CB) municipality (roughly 200 end users) was repeated, after the previous one had been annulled.
The Spinete municipality re-issued the invitation to tender to the companies that had already qualified for the previous tender: 2i Rete Gas S.p.A. promptly presented a suspension request which was accepted by the Molise regional administrative court. Its ruling of 25 July 2014 found the tender called by the municipality to be irregular. During 2013, the Campobasso provincial governor announced that the damage incurred by the 2i Rete Gas Group would be quantified, acknowledging that the Council of State on 22 November 2013 confirmed the compliance ruling of 29 March 2013 handed down by the Molise regional administrative court against the Spinete (CB) municipality about the compensation due to the 2i Rete Gas Group for damage incurred by it as a result of the tender procedure, found to be irregular.

## Re-awarding of concessions

On 20 May 2013, the parent was informed that it had been definitely awarded the tender for the natural gas distribution service in the Trissino, Brogliano and Cornedo Vicentino (VI) municipalities (roughly 8,700 end users) after the award to Pasubio Group S.p.A. had expired.
On 14 March 2014, the parent received a copy of the report prepared by the tender manager stating that the tender award was ineffective. Nonetheless, the parent continues to operate the concession pursuant to article 14.7 of Legislative decree no. 164/00.
The new contract for the Castronno municipality (roughly 2,200 end users) concession, already re-awarded mid tender in 2011, has not yet been signed.

## Concessions awarded to the 2i Rete Gas Group sub iudice

With respect to the tender called by the Mirabello (FE) municipality (roughly 1,650 end users), awarded to the Group in 2011 and cancelled by the Emilia regional administrative court on 12 April 2012, the Group appealed before the Council of State on 19 July 2012. A date for the hearing has yet to be set.
On 28 June 2013, the parent was informed that it had been definitely awarded the natural gas distribution service concession for the Como and San Fermo della Battaglia municipalities (roughly 44,600 end users). The appeal filed by ACSM-AGAM Reti Gas S.p.A. against this decision was rejected by the Lombardy regional administrative court with its ruling of 24 December 2013 as the 2i Rete Gas Group filed an incidental claim about tender eligibility requirements. On 18 February 2014, the Group was notified of an appeal to the Council of

State by ACSM-AGAM Reti Gas S.p.A. against the Lombardy regional administrative court's ruling. The related merits hearing will be held on 4 November 2014.

### Concessions awarded to third parties

On 26 June 2013, the parent communicated its withdrawal of the bid presented for the tender called by the Pieve Vergonte (VB) municipality together with the Anzola d'Ossola, Ornavasso, Piedimulera, Premosello Chiovenda and Vogogna municipalities (roughly 5,800 end users in total) and the tender was definitively awarded to Molteni S.p.A. in 2011, which has not yet signed the related service agreement.

On 28 April 2014, the Caronno Varesino (VA) municipality (roughly 2,100 end users) signed a service agreement with Pomilia Gas S.c.a.r.l., following the definitive awarding of the tender called in 2012.

Despite the parent having notified, including to the municipal body, that the tendered service agreement had been renegotiated with the successful tenderer, it was obliged to deliver the plants on 4 July 2014. The Group promptly challenged the town council's resolution, which had approved the amendments to the service agreement covered by the tender, before the Lombardy regional administrative court. The hearing for the suspension motion requested by the 2i Rete Gas Group is set for 17 September 2014.

### Concessions awarded to third parties sub iudice

Following presentation of its bid for the service tendered in the Manfredonia (FG) municipality (roughly 16,000 end users), for which it was provisionally awarded first place, the parent was excluded from the tender on 9 July 2013 as the commission held that its bid was "irregular, unsuitable and unrealistic" after identifying irregularities as per Legislative decree no. 163/06.

The Group appealed against this decision on a timely basis. Following discussions of the appeal made by the Group against its exclusion from the tender and the appeal filed by Gas Natural S.p.A. (classified as second place following exclusion of the parent), on 24 June 2014, the Puglia regional administrative court ordered AEEGSI to perform a technical check of the commission's activities within the next 90 days.

On 14 January 2014, the Lombardy regional administrative court filed its ruling rejecting the appeal made by the Group for cancellation of the definitive award to Italgas S.p.A. of the tender called by the Paderno Dugnano (MI) municipality (roughly 21,700 end users). The parent appealed to the Council of State against this ruling on 26 February 2014 and the date for the related merits hearing has yet to be set.

On 25 February 2014, the Council of State announced its merits decision about the last grounds of the appeal made by the Group for the cancellation of the definitive awarding of the tender called by the Verbania (VB) municipality (roughly 18,000 end users) to Molteni S.p.A.. It ordered that a court-appointed technical expert (a representative of AEEGSI) examine the suitability of the bid presented by Molteni S.p.A. and that the related findings be available before the public hearing to be held on 13 January 2015.

## Transfer of concessions to other operators

With respect to the tenders called by municipalities previously served by it, the parent:

- signed the transfer deed for the plant and operation of the gas distribution service on 27 June 2013 (effective from 1 July 2013) to ACSM-AGAM Reti Gas S.p.A. for the municipalities of Comunità del Triangolo Lariano di Barni, Bellagio, Caglio, Canzo, Caslino d'Erba, Castelmarte, Eupilio, Lasnigo, Magreglio, Proserpio, Pusiano, Rezzago, Sormano and Valbrona (CO) (roughly 11,700 end users). Following the Council of State's positive ruling about the parent's appeal, the procedure to check irregularities in the bid presented by ACSM-AGAM Reti Gas S.p.A. was resumed and the Group is awaiting the results. On 25 June 2014, the Group's appeal for compensation for damage incurred due to non-continuation of the concession was notified to the Comunità Montana.

## Suspended or cancelled tenders

With respect to the tenders called by municipalities previously served by the Group:

- On 3 August 2011, the tender for gas distribution in the Lomazzo (CO) municipality (around 4,350 end users) was awarded to ACSM-AGAM Reti Gas S.p.A.. The parent (outgoing operator) appealed against this decision to the Lombardy regional administrative court challenging the correctness of the award. The court allowed the appeal on 20 April 2012 and cancelled the tender.
  The winning tenderer ACSM-AGAM Reti Gas S.p.A. appealed against this ruling before the Council of State which rejected its appeal and definitively cancelled the tender with its decision of 7 May 2013 taken in a plenary sitting. On 3 July 2013, the municipality issued a new invitation to tender, challenged by 2i Rete Gas S.p.A.. The Council of State suspended the procedure on 25 September 2013 so that the Lombardy regional administrative court could discuss its merits. On 25 March 2014, the court handed down a favourable ruling cancelling the challenged invitation in which the Lomazzo municipality renewed its call to tender for the assignment of the gas distribution service. On 5 May 2014, the reasons for the Lombardy regional administrative court's ruling were explained: it held that the new invitation to call, sent after 29 June 2011, violates the ban imposed by article 24 of Legislative decree no. 93/2011 of calling single tenders and not tenders by minimum geographical area.

## 6. Tariff framework

The tariff regime defined with Arg/gas resolution no. 159/08 (RTDG), applicable in the third regulatory period from 2009 to 2012, was in force until 31 December 2013. The reference tariffs and the mandatory tariffs for 2013, already approved with resolution no. 553/2012/R/gas of 20 December 2012 were recalculated with resolution no. 328/2013/R/gas of 29 July 2013, considering the amendments to accepted costs incurred due to unforeseeable or exceptional events, changes in the regulatory framework and in the universal service obligations. On 27 December 2013, the Authority published resolution no. 633/2013/R/GAS approving the mandatory tariffs to be used in 2014, the amounts of the two-monthly payments on account for the distribution and measurement services and the other gas options for the distribution and measurement services for other than natural gas.

The lengthy consultation procedure about the new rules to calculate the tariffs for the next regulatory period (starting from 2014) was completed on 12 December 2013 with resolution no. 573/2013/R/GAS, which enacted the new principles to be applied to the distribution and measurement tariffs for the fourth regulatory period (2014-2019), which is now six years for the first time, instead of four. The resolution also provides for a three-yearly review of the x-factor and a two-yearly review of the WACC, in which respect, the rate of return on risk-free assets will be revised considering the ten-year treasury bond (BTP) performance of the last 12 months. The WACC has been set at 6.9% for the first two years for the distribution service and 7.2% for the measurement service.

Resolution no. 573/2013/R/GAS also includes new rules about the recognition of net investments in order to calculate the capital invested in the area, as starting from the 2014 tariffs, the pre-actual investments of the previous year (t-1) are also considered as well as the actual investments for two years earlier (t-2). This mechanism allows the better presentation of investments and the RAB (the regulated asset base), also considering an operator’s participation in future area tenders. The centralised capital costs are calculated using a fee determined at national level for all operators.

In addition, the new rules introduced certain amendments to the treatment of grants, especially for grants existing at 31 December 2011 (“accumulated grants”). Operators were able to choose (article 2.2) either not to reduce the grants, in line with the third regulatory period, within 28 February 2014 (option a) or to gradually reduce the grants (option b). Grants received after 2012 are offset against the carrying amount of the non-current assets both to calculate RAB and depreciation.

The method used to calculate operating costs has also been changed. Specifically, the initial levels of operating costs for the distribution service are determined considering the effective average costs recognised in the 2011 unbundling reports weighted by the costs recognised for tariff purposes in the previous regulatory period, differentiating the operators based on their size and geographical coverage.

On 28 March 2014, resolution no. 132/2014/R/gas of 27 March 2014 approved the interim reference tariffs for the natural gas distribution and measurement services for 2014.
The Authority also provided with this resolution that further discussions would take place with the distributors and their associations about the implications of exercising the option as per article 2 of resolution no. 573/2013/R/GAS about the treatment of grants.
Given the new area tenders, the Authority published resolution no. 310/2014/R/gas on 27 June governing the methodological aspects for identification of cases where the reimbursement paid to the outgoing operator (VIR) differs from the carrying amount of the assets for regulatory purposes (RAB) and how to acquire data about the VIR necessary to allow the Authority to perform the checks required by Law decree no. 145/13. The resolution also sets out the procedure to check differences between the VIR and RAB when they are greater than 10%, as per article 1.16 of the same law decree.

## 7. Regulatory framework

Please see Annex XII "Regulatory framework".

## 8. Assistance with gas distribution activities

### 8.1 Commercial quality

The commercial quality level is measured using a general company index which represents the percentage of services not provided within the standard times set by AEEGSI for activations, reactivations, deactivations, fee quotes and the performance of simple and complex works.
The general "non-standard" service index is 0.21% for the first six months of 2014, calculated to measure service quality.

The actual specific indicators for the "non-standard" services are as follows:

| | |
|---|---|
| • Activations | 0.07% |
| • Performance of simple works | 0.66% |
| • Commercial quotes | 0.41% |
| • Reactivations of defaulting customers | 0.29% |
| • Deactivations as per customer requests | 0.13% |
| • Performance of complex works (not subject to compensation) | 0.56% |

Monitoring of the processes covered by resolution no. 574/13 shows that the "appointment compliance" indicator is 0.05% (79 non-standard) for 166,376 interventions performed.

## 8.2 Claims and complaints management

During the period, the Group handled 985 written claims and complaints and written requests for information as well as 22 requests for information received from AEEGSI via authorised sales companies.
It prepared replies to 563 requests received by AEEGSI's consumer helpdesk for claims and complaints received directly by it. This desk was set up in 2009 to assess claims and complaints made by end users.
The Group also dealt with 1,637 requests for technical data obtaining by reading the meters (M01) and 2,450 requests for other technical data (M02).

## 8.3 Invoicing gas distribution

During the period, the Group invoiced its gas distribution and other related services using a unified IT platform (after the non-recurring merger and integration transactions of 2013) within the scheduled deadlines, i.e., within one month of that in which the service was rendered.
Following enactment of resolution no. 534/2013/R/gas (methods and timing for re-calculation of the balancing sessions of 2013), the gas balancing reports made in 2013 were recalculated during the period with the subsequent communication to the national carriers of the volumes carried through each city gate, split by distributor and combined by withdrawal profile and meter reading frequency (half-yearly/yearly, monthly, daily).
This process, commenced in February 2014 with recalculation of January and February 2013 data, was completed in July 2014 with the recalculation of the November and December 2013 data.

## 8.4 Commercial gas network

During the period, management of commercial services requested by the sales companies almost exclusively took place using the Four portal, a tool used by most sales companies (both the web solution and application to application solution).

Activations of the last resort services, last result supply (FUI) and default (Default) services increased considerably in the six months, mainly due to non-payments by end users to their sales companies.
The sales companies may terminate the supply contract with the end user, if it is not possible to cease or halt supplies for technical and/or financial reasons, by availing of the option to suspend their title and transfer it to the relevant last resort service.
At 1 June 2014, active redelivery points managed by FUI and Default numbered 8,025 and 4,393, respectively.

On 1 April 2014, the switching process as per AEEGSI resolution no. 9/2013 was amended, whereby new flows of information with the retail companies are possible, even when the end user's tax data is missing or wrong or the service has been halted due to non-payment. Requests to change supplier averaged 35,000/month during the period.

# 9. Plant construction, environment and safety

## 9.1 Gas distribution plants

The Group laid pipelines for roughly 90 km during the six months.

During the period, it laid approximately 72 km of new pipelines and about 18 km to renew/maintain other pipelines.

Construction of the feeder is underway with the building of a natural gas distribution plant for the Campodolcino (SO) municipality: roughly 2.9 km of medium pressure pipes were laid during the six months out of the total approximate 5.3 km to be laid during the year.
Work continued on the new natural gas pipelines in the Teglio (SO) municipality. Lot 1 has been completed with the laying of roughly 1 km of low pressure pipes while work is continuing on Lot 2 involving about 2 km of medium pressure pipes out of a total approximate 2.5 km to be laid in 2014.
With respect to compliance with the commitments taken on with the awarding of concessions by means of tenders, the Group continued to work on:

- renovating the REMI (regulation and measuring) plant and laying about 2 km of new low pressure pipes in the Buttapietra municipality;
- extending the network by about 2.3 km with medium pressure pipes in the Casaloldo municipality;
- extending the network by about 1 km with medium and low pressure pipes in the Ceresara municipality;
- extending the network by about 1 km in the Gussago municipality;
- extending the network by about 1 km in the Sant'Ambrogio di Valpolicella municipality.

## 9.2 Service continuity and safety

As is its normal practice, the Group checked its compliance with the rules set out by AEEGSI in resolution no. 120/08 about technical standards for 2013. The main parameters relate to services and the operator's ability to intervene promptly in potentially dangerous situations (number of emergency service cases, time involved) or to organise and carry out preventive

checks to guarantee the correct monitoring of safety conditions (percentage of network inspected, gas odorisation levels, percentage of cathodic-protected network).
Overall, the checked data showed service quality levels higher than the minimum requested in the above resolution, continuing the trend of previous years.
During the period, the Group introduced the new system for receiving and handling emergency service calls.
This has made the Group fully independent as the service was previously managed by Enel Group.
Its IT department developed this system assisted by external providers, while the Group employees and contact centre operators were trained internally.
The regularly-operating service was successfully activated on 23 June 2014.

## 9.3 Resolution no. 155/08 (smart meters)

In early 2014, the Group started to prepare a plan for the installation of electronic meters following the AEEGSI's publication of resolution no. 631/2013/R/GAS on 27 December 2013 (Amendments and integrations to the obligation to introduce smart gas meters and its annex setting out instructions for the roll out of gas metering units with the required minimum qualifications).
The introduction to the resolution stated that the Authority had received confirmation from the constructors that the electronic meters would be available in 2014 and that the Italian Gas Committee had communicated that the missing parts of regulation no. UNI/TS/11291 would be made available in early 2014 with respect to the G4/G6 mass market meters.
The new instructions attached to resolution no. 631/2013/R/GAS thus confirmed the existing deadlines for 2018 and introduced interim deadlines for distributors with more than 200,000 end users at 31 December 2013 (such as 2i Rete Gas) for their installation of 3% of the mass market electronic meters by 31 December 2014 and 10% by 31 December 2015. In addition, 3% of the meters shall be active by 31 December 2015 and, as already established, 60% by 31 December 2018.
Given that the main parts of the awaited aforesaid regulation no. UNI TS 11291-11 became applicable in March 2014, a tender has been called for the supply of the necessary number of G4/G6 meters to meet the identified requirements.
Plans for the installation of these mass market meters are being discussed and the numbers required by the Authority will probably be exceeded for both 2014 and 2015, involving 23 municipalities in Italy during the first round.
In the meantime, during the period, work continued on the Avogadro Project for the pilot installation of the integrated mass market meters at Biella. At 30 June, more than 9,000 meters had been installed, including roughly 7,600 in this six-month period. The remote reading of the installed meters commenced in March and at the end of June roughly 6,000 remote-read meters connected to the concentrators were operational and the gap with the installed meters is decreasing as scheduled.

The Project, presented to AEEGSI in April 2013, is the first of its kind in Italy in terms of its size and the number of meters being upgraded. Progress is in line with plans.
With respect to the higher class meters, the upgrading of the class G10 and G25 meters continued during the period and that of the G16 meters started.
The integrated meter constructors finally started to produce the required numbers of meters, overcoming the difficulties persecuting 2013. Upgrading activities continued throughout Italy with roughly 8,000 meters installed in the six months, thus leading to the supposition that the Authority's objectives will be well exceeded.

### 9.4 Subsidised works

During the period, 39 municipalities received state aid to construct gas distribution networks for a total amount of works qualifying for legal benefits of €33.9 million receiving capital grants of €23.7 million, of which €16.1 million has already been received with previous progress reports.
Four of the 39 municipalities received assistance from the Ministry for the Economy and Finance/Treasury under Law no. 784/80 (general natural gas project for southern Italy). The others received funding either directly from the municipalities or as part of regional projects, funded by the EU.

## 10. Workforce

The Group was heavily committed to a huge project during the period aimed at standardising organisational models and work processes and internal procedures and rules. This included enhancing the value of core businesses and internal expertise, hiring new employees with potential and/or specific skills, reinforcing existing management skills and laying the groundwork for the gradual creation of a new, single corporate culture, as part of a structurally integrated organisation (both at central and peripheral level).

This project focused on optimising and regulating the new organisational models and processes, mainly in relation to the emergency/availability service, IT planning of the technical-operational aspects of customer management and operations/maintenance (WFM project) as well as the roll out of the electronic meters project.

The Group held cultural integration and change management training courses to assist and reinforce its key management personnel's skills.

It built up internal expertise by transferring employees as part of the gradual insourcing of the distribution and pipeline construction activities. The Group also hired young graduates, who started out as trainees in 2013.

It undertook an intense recruitment programme to hire persons with specialised and/or potential skills.

The Group signed agreements with trade unions covering legislative and financial issues and for the application of the new organisational models without harming the existing ones and ensuring continued efficiency and effectiveness. It also signed agreements for the rejuvenation of its workforce by introducing a redundancy project, mainly designed for employees who meet the requirements for pensionability.
Departures for reasons other than the redundancy project (e.g., pensionability, resignations, etc.) were normal in the six months. At 30 June 2014, the Group had 2,062 employees compared to 2,043 at 31 December 2013.

## 11. Quality, safety and the environment

Every year, each group company checks that it has continued to comply with the relevant requirements to maintain its standards or is re-certified. They are compliant with the UNI EN ISO 14001:2004 (environmental management system), BS-OHSAS 18001:2007 (safety management system) and UNI EN ISO 9001:2008 (quality management system) regulations.
Following reconfirmation of CERTIQUALITY as its auditor by means of a tender at the end of 2013, this certification body performed an audit for renewal of the certifications for the integrated quality, safety and environmental management system during the period considering the Group's new organisation and extending it to the former G6 Rete Gas.
The result was very positive and better than that of the previous year.
No cases of non-compliance were noted.
In short, the overall assessment of the compliance and efficiency of the Group's management systems was as follows:
The integrated QSE management system is active, compliant with the relevant regulations and able to ensure customer satisfaction. Safety management is effective and widespread throughout the Group. Improvement objectives have been identified and pursued in line with the Group's development. The AEEGSI's objectives are complied with.

STRENGHTS
- Active participation of HR management and all employees.
- Sense of belonging and technical expertise of employees.
- Design and preparation of the risk assessment document update, which was made more user-friendly.
- Systematic use of the integrated management system to integrate the organisation.
- Consistency and application of the procedures to all geographical areas, including the new structures being expanded.

## 11.1 Prevention and protection service

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

### Accidents at work:

Nine “not serious” accidents took place in the period (i.e., involving sick leave of less than 30 days), while no “serious” accidents took place (i.e., more than 30 days sick leave), in line with previous periods.

This trend shows an improvement on 2013.

In order to attain the “zero accident” objective, the QSE unit and the prevention and protection service manager continue to carry out internal checks into safety at work at the companies and checks of the work sites of their contractors.

A new health inspection company was selected in 2013 and the health protection programme continued during the period in line with the findings of the risk assessment procedures and related healthcare measures.

## 11.2 The environment

The QSE unit monitors significant environmental issues on an ongoing basis. Environmental investigations of the asbestos fibres in the air at the investigated sites continued as scheduled on the basis of the 2013 findings. Any sites with asbestos will be reclaimed.
The acoustic characterisation of the REMI stations and monitoring of the acoustic impact of the reduction groups continued so that the relevant internal units could schedule the subsequent actions to reduce the effect on the environment.
Following introduction of the SISTRI waste tracking system in March 2014 for all hazardous special waste, all the Group’s production units involved in waste elimination have been provided with the devices required by the relevant measures.

### 11.3 Annual quality report on the distribution service, inspections as per AEEGSI resolution no. 120/08

As required by the Authority, the QSE unit collected, formatted and uploaded the commercial quality and distribution service data about services provided in 2013, for which mandatory reports are required, into the AEEGSI portal in March 2014.
This procedure covered the data about the plants operated by Enel Rete Gas (now 2i Rete Gas) and the data for the plants operated by G6 Rete Gas for the period from 1 January to 30 September.

Immediately after communicating the data to the Authority, the QSE unit started the inspections of the local offices to ensure the consistent collection of the documents about the reported services, both for the commercial quality of the service and security and continuity issues.
Its results were in line with expectations; any situations where improvements could be made were communicated to the relevant departments (operations, distribution and engineering) so that the most suitable corrective actions could be analysed and identified.

## 12. Information systems

The Group rolled out its new ICT unit in early 2014 as part of the project to insource the ICT service, currently mainly provided by Enel Servizi.
This project comprises the insourcing and development of IT applications and the introduction of the services and infrastructure necessary to support the operating processes. Specifically, after obtaining the applications from Enel, the technical and operational skills will be transferred to the Group's information systems employees leading to the independent management of upgrades and maintenance.
In addition, the Group will develop all the applications not obtained from Enel by defining and selecting the technical and operational solutions and implementing and integrating an internal application map.
At the same time, the insourcing project includes the development of central systems, definition of a technical and organisational solution to set up a data centre service for the Group and management of the related maintenance and upgrading processes, as well as the centralised printing and posting services.
Accordingly, during the period, all parts of the project were defined in detail and commenced, some of which also involved the implementation of services and applications that were already active in the six months. They include development of the new data centre service at Rozzano and Cesano Maderno which, inter alia, allowed the Group to build and roll out the new telephone and application platform in June to handle the gas emergency service management process via the toll free numbers. In addition, the Group defined and put in

place the services to manage the printers at the central and local operating offices, the mobile and landline management services and the centralised printing and posting of invoices and communications issued by the IT system.
Alongside this insourcing project and as a continuation of previous years, the Group carried out significant work on its information system during the period to comply with and implement the changes required by AEEGSI to optimise the managed processes. Specifically, it complied with the instructions for the implementation of the new regulatory tariff and technical and commercial quality cycle, making the suitable changes to the information system, assisted by Enel Servizi's ICT unit. It also completed the final activities of the corporate integration project carried out in 2012 and 2013 affecting the IT structure.
Finally, with respect to the electronic meters, the Group defined the technical and functional solution and acquired the services to build the new information system for the remote management of the G4/G6 gas meters and the remote reading of the more advanced gas meters (>G6). Specifically, this was achieved by implementing a new solution for the >G6 meter remote reading, thanks to the acquisition of modules that interface with the currently operational models and their integration in the information system.
Concurrently and based on the tests carried out, the Group finalised the overall solution for the remote management of the G4/G6 meters, which includes the building of dedicated central systems and a peripheral system to manage the electronic meters to be replaced in line with AEEGSI's objectives.
The remote management system project entails the building of central and peripheral systems in the second half of 2014 and the concurrent definition and development of control room services for the proactive monitoring of the related integrated business processes.

## 13. Research and development

During the period and to avail of the opportunities offered by the new regulatory period about service continuity and safety and to research cutting edge, efficient technological solutions, the Group started a project to test the dispersion of asbestos fibres into the air using portable equipment with laser rays that analyse dispersions, including from a distance. Two departments are currently involved in the project and the use of the equipment should be regulated in October for its widespread use throughout the Group starting from next year.

## 14. Results

The Group's results are shown in the following table, obtained by reclassifying the income statement using management criteria, in line with international practice.

| €m | First half of 2014 | First half of 2013 | Variation |
|---|---|---|---|
| **Revenue** | **378.2** | **400.0** | **(21.8)** |
| Transportation and sale of natural gas and LPG | 275.1 | 295.2 | (20.1) |
| Connection fees and ancillary fees | 10.1 | 11.6 | (1.5) |
| Other sales and services | 9.0 | 7.1 | 1.9 |
| Revenue from intangible assets/assets under development | 51.9 | 44.8 | 7.1 |
| Other revenue | 32.1 | 41.2 | (9.1) |
| **Operating costs** | **(205.2)** | **(218.2)** | **13.1** |
| Personnel expenses | (59.4) | (57.9) | (1.6) |
| Raw materials and inventories | (15.6) | (11.6) | (4.0) |
| Services | (99.5) | (105.9) | 6.4 |
| Other costs | (23.5) | (35.3) | 11.8 |
| Accruals to provisions for risks and charges | (7.2) | (8.0) | 0.8 |
| Increase in non-IFRIC 12 non-current assets | - | 0.4 | (0.4) |
| **Gross operating profit** | **173.0** | **181.7** | **(8.7)** |
| **Amortisation, depreciation and impairment losses** | **(69.5)** | **(71.2)** | **1.7** |
| Amortisation, depreciation and impairment losses | (69.5) | (71.2) | 1.7 |
| **Operating profit** | **103.5** | **110.5** | **(7.0)** |
| Net financial expense and net gains on equity investments | (156.7) | (43.0) | (113.7) |
| **Pre-tax profit/(loss)** | **(53.2)** | **67.5** | **(120.7)** |
| Income taxes | 30.2 | (32.3) | 62.6 |
| ***Profit/(loss) from continuing operations*** | **(23.0)** | **35.2** | **(58.2)** |
| ***Profit/(loss) from discontinued operations*** | **-** | **-** | **-** |
| **Profit/(loss) for the period** | **(23.0)** | **35.2** | **(58.2)** |

Revenue of €378.2 million decreased by €21.8 million due to the temporary contraction in natural gas and LPG distribution revenue (-€275.1 million) as a result of the introduction of the new regulatory period.
Volumes distributed during the period amounted to 2,899 million cubic metres (natural gas and LPG).

As required by IFRIC 12, the Group recognised revenue of €51.9 million as "Revenue from intangible assets/assets under development", showing an increase of €7.1 million on the corresponding period of 2013 due to the larger investments in electronic meters.
This revenue is compensated in full by costs incurred to build the gas distribution network and, thus, no additional profits were made.

The connection fees and ancillary fees of €10.1 million decreased by €1.5 million on the corresponding period of the previous year (€11.6 million) due to the slow-down in the domestic economy, as mentioned earlier.

Revenue from other sales and services of €9.0 million increased by €1.9 million, principally due to higher invoicing to recover municipality charges and an increase in invoicing for activities to suspend and reactivate defaulting customers as requested by the retail companies.
Other revenue of €32.1 million decreased by €9.1 million compared to the corresponding period of 2013, mainly due to the smaller amount for energy efficiency certificates as a result of the smaller purchases of certificates during the period, smaller premiums to encourage technical quality and smaller gains on the sale of assets, caused by the limited number of concessions returned for which the reimbursement amount due to the outgoing operator was defined.
Operating costs of €205.2 million decreased by €13.1 million. The effect of adopting IFRIC 12 was €51.9 million for the current reporting period (€44.8 million for the corresponding period of 2013).

Gross personnel expense increased by €1.6 million to €59.4 million.

Costs for services decreased by €6.4 million, mainly due to the insourcing of certain service agreements.

The gross operating profit is €173.0 million, down €8.7 million on the corresponding period of 2013 (€181.7 million) due to the temporary contraction in distribution revenue (see above), partly offset by the aforesaid reduction in operating costs.

Amortisation, depreciation and impairment losses of €69.5 million principally relate to amortisation and depreciation.
The balance is in line with that for the corresponding period of 2013.

The operating profit amounts to €103.5 million compared to €110.5 million for the first six months of the previous year. The comments made above for the gross operating profit hold true for this result as well.

Net financial expense increased by €113.7 million to €156.7 million for the period.
This caption mainly consists of interest expense on loans and borrowings and was heavily affected by the refinancing transaction approved by the parent's board of directors in June 2014 (described in more detail in the notes to the condensed interim consolidated financial statements).
This decision led to the recognition of higher borrowing costs of €18.4 million due to the re-measurement of the amortised cost method of the existing financing to reflect its different repayment dates and the recognition of financial expense of €95 million for the fair value measurement of existing IRSs that no longer qualify for hedge accounting under IAS 39.

The pre-tax loss of €53.2 million represents a decrease of €120.7 million on the corresponding period of 2013 caused by the above-mentioned impact of the financial expense and smaller gross operating profit.

Income taxes are a positive €30.2 million (negative €32.3 million for the first six months of 2013).

The Group recorded a loss for the period of €23 million.

The next table shows the Group's financial position, obtained by reclassifying its statement of financial position using management criteria.

| €m | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| | A | A | A-B |
| **Net non-current assets** | **2,444.1** | **2,388.5** | **55.6** |
| Property, plant and equipment | 35.5 | 34.5 | 1.0 |
| Intangible assets | 2,674.6 | 2,682.1 | (7.5) |
| Equity investments | 3.3 | 3.3 | 0.0 |
| Other non-current assets | 6.6 | 6.5 | 0.1 |
| Other non-current liabilities | (275.9 ) | (272.1 ) | (3.8) |
| Fair value of derivatives | | (65.8 ) | 65.8 |
| **Net working capital:** | **54.7** | **97.9** | **(43.2)** |
| Inventories | 8.3 | 6.3 | 2.0 |
| Trade receivables - third parties and group | 139.6 | 284.3 | (144.7) |
| Net current tax assets/(liabilities) | 11.1 | (12.8 ) | 24.0 |
| Other current assets | 176.2 | 137.0 | 39.1 |
| Trade payables - third parties | (157.3 ) | (148.3 ) | (9.0) |
| Other current liabilities | (123.3 ) | (168.7 ) | 45.4 |
| **Gross invested capital** | **2,498.8** | **2,486.4** | **12.4** |
| **Provisions** | **(19.7)** | **30.2** | (49.9) |
| Post-employment benefits and other employee | 36.1 | 37.2 | (1.0) |
| Provisions for risks and charges | 65.0 | 61.6 | 3.4 |
| Net deferred taxes | (120.8 ) | (68.5 ) | (52.3) |
| **Net invested capital** | **2,518.5** | **2,456.2** | **62.3** |
| **Equity** | **757.6** | **838.2** | **(80.6)** |
| **Outstanding liability for unwinding of IRSs** | **27.1** | **30.2** | **(3.0)** |
| **Adjusted net financial debt** | **1,733.7** | **1,587.8** | **145.9** |

Net non-current assets of €2,44.1 million mainly relate to intangible assets for the gas distribution concessions. They show a net increase (see below for an explanation) of €55.6 million on 31 December 2013.

The €7.5 million decrease in intangible assets is the net result of new investments of €56.3 million, decreases of €1.9 million and amortisation of €67.9 million.

The increase in property, plant and equipment of €1 million is the net result of new investments of €2.6 million and depreciation of €1.7 million.

Equity investments are unchanged at €3.3 million while the increase in other non-current liabilities (€3.8 million) is due to higher accrued expenses for connection fees, property subdivision, plant transfer and network extension contributions.

The fair value of derivatives is included in the Group’s net financial debt following the parent’s refinancing decision taken during the period and its related reclassification to profit or loss. Accordingly, the related liability is shown as part of adjusted net financial debt. These derivatives were settled on 16 July and their fair value was fully reimbursed to the counterparty banks.

Net working capital of €54.7 million dropped sharply by roughly €43.2 million, mainly due to seasonal factors affecting receivables collections.

Due to the combined effect of changes in net non-current assets and net working capital, gross invested capital increased by €12.4 million from €2,486.4 million to €2,498.8 million at 30 June 2014.

The provisions decreased by €49.9 million to €19.7 million, mostly as a result of changes in net deferred taxes (€52.3 million), significantly affected by the payment of substitute tax on goodwill recognised after the merger with G6 Rete Gas.

As a result, net invested capital increased by €62.3 million from €2,456.2 million at 31 December 2013 to €2,518.5 million.

Equity went from €838.2 million to €757.6 million at 30 June 2014 as a net effect of the following changes:

- distribution of ordinary dividends (-€101 million);
- cancellation of the negative fair value reserve (-€43.4 million);
- recognition of the net loss for the period (-€23 million).

The Group's adjusted net financial debt increased from €1,587.8 million at 31 December 2013 to €1,733.7 million at the reporting date when it includes the fair value measurement of IRSs, classified under current financial liabilities. Net financial debt which, in addition to the liability for the unwinding of the previous IRSs, already included the fair value measurement of the existing derivatives at 31 December 2013, went from €1,683.8 million to €1,760.9 million at 30 June 2014.

The following table provides a reconciliation between adjusted net financial debt and net financial debt and a breakdown of the individual captions:

| €m | Notes | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|---|
| Non-current bank loans and borrowings | 24 | (1,751.2) | (1,751.2) | 0.0 |
| Cash and cash equivalents with third parties | 20 | 119.4 | 140.6 | (21.2) |
| Current loan assets | 18 | 2.4 | 5.7 | (3.2) |
| Other current financial assets | 19 | 0.0 | 0.0 | 0.0 |
| Current bank loans and borrowings | 30 | (0.0) | 0.0 | (0.0) |
| Current portion of non-current loans and borrowings | 31 | (2.2) | (2.1) | (0.1) |
| Adjustment to liability for borrowing costs (IAS 39) | 31 | 0.0 | 2.1 | (2.1) |
| Non-current financial assets | 14 | 0.2 | 0.3 | (0.0) |
| Non-current financial liabilities | 28 | 0.0 | 0.0 | 0.0 |
| Current financial liabilities | 35 | (95.2) | (0.4) | (94.8) |
| Adjustment to liability for borrowing costs (IAS 39) | 24 | 0.9 | 26.4 | (25.6) |
| Commissions on loans and borrowings | 24 | (8.1) | (9.2) | 1.1 |
| **Adjusted net financial debt** | | **(1,733.7)** | **(1,587.8)** | **(145.9)** |
| Fair value gains on derivatives | 19 | | | |
| Fair value losses on derivatives | 35 | 0.0 | (65.8) | 65.8 |
| Outstanding liability for unwinding of IRSs, current portion | 35 | (6.2) | (6.2) | (0.1) |
| Outstanding liability for unwinding of IRSs, non-current portion | 28 | (20.9) | (24.0) | 3.1 |
| **Net financial debt** | | **(1,760.9)** | **(1,683.8)** | **(77.1)** |

## 15. Risk management

2i Rete Gas operates in the natural gas distribution sector in Italy. The Group's main risks are:

- *market risk,* due to its exposure to fluctuations in interest rates;
- *credit risk,* should a counterparty default;
- *liquidity risk,* arising on the unavailability of financial resources to meet current obligations;
- *operational risk*, due to the possibility that accidents, malfunctioning, breakdowns with damage to individuals and the environment occur and that also would affect its results.

Note 6 to the condensed interim consolidated financial statements provides information about the first three risks.
With respect to operational risk, the main issues related to this risk are:

***The risk of plant malfunctioning***: management of a complex gas distribution network system implies a series of risks of malfunctioning and unforeseeable service disruption due to reasons outside the Group's control, such as accidents, breakdowns, malfunctioning of plant and extraordinary events such as explosions, fire, earthquakes, landslides or other similar events that the Group cannot control. These events could cause significant damage to individuals, objects or the environment. Service disruption and compensation obligations arising from these events could decrease the Group's revenue and/or increase its costs. As the Group has agreed specific insurance policies to cover some of these risks, it is not probable that the related insurance cover will be inadequate to cover all the losses incurred, compensation due or increases in costs.

***Risks related to sector regulations***: the Group operates in a regulated sector. Directives and measures issued by the European Union and Italy as well as decisions taken by the AEEGSE may significantly impact the Group's operations, results and financial stability. Future changes in the legislative policies adopted by the EU or Italy could have unforeseeable repercussions on the legislative framework and, hence, the Group's results and operations.
According to the ruling legislation, tenders for new gas distribution service contracts will no longer be called by individual municipalities but solely by geographical areas as decided with the ministerial decrees of 19 January 2011 and 18 October 2011.
As the tender procedures unwind, it could happen that the Group may not be awarded one or more of the new concessions or it could be awarded them at less favourable conditions to those currently applied. This would adversely affect its operations, financial position and results without prejudice to the collection of the reimbursement amount provided for to be paid to the outgoing operator for municipalities previously served by it should it not be re-awarded the tender.
Given the size of the geographical areas (much larger than the individual municipalities), it can reasonably be assumed that, considering also the Group's size and financial resources, it should be able to maintain a number of customers more or less in line with its current customer base.
Therefore, the uncertainties inherent in the above legislative framework do not cast doubts on the Group's ability to continue as a going concern.

***Risks arising from future natural gas consumption trends***: following introduction of Law no. 159/08, since 1 January 2009, the Group's revenue has no longer depended on the actual volumes of gas transported. Therefore, this risk no longer significantly conditions its results.

## 16. Outlook

During 2014, the projects in place to improve operating efficiency and contain costs will be continued. The forecast results for the year will depend on new regulations, market trends, economies of scale and cost efficiencies that the Group may achieve thanks to the size of its customer portfolio.

Specifically, its projects are designed to:

- concentrate its resources on its higher value added network management activities, by continuing to streamline and specialise its operating units;
- create important synergies at ground level to optimise its local base and act more efficiently, including by integrating the subsidiaries' IT systems;
- continue and improve the use of IT systems, especially for customer management, to become more efficient;
- continue to reduce accidents in the workplace by improving work quality and safety in all areas.

2i Rete Gas S.p.A.
Chief executive officer
Gianclaudio Neri
(signed on the original)

# Condensed interim consolidated financial statements

# Financial statements

# III. Income statement

| Thousands of Euros | Notes | First half of 2014 | First half of 2013 |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from sales and services | 5.a | 294,188 | 313,894 |
| Other revenue | 5.b | 32,117 | 41,243 |
| Revenue from intangible assets / assets under development | 5.c | 51,879 | 44,821 |
| ***Sub-total*** | | **378,184** | **399,959** |
| **Costs** | | | |
| Raw materials and consumables | 6.a | 15,602 | 11,603 |
| Services | 6.b | 99,465 | 105,899 |
| Personnel expense | 6.c | 59,423 | 57,862 |
| Amortisation/depreciation and impairment losses | 6.d | 69,507 | 71,190 |
| Other operating costs | and | 30,671 | 43,281 |
| Internal work capitalised | 6.f | 0 | (409 ) |
| ***Sub-total*** | | **274,668** | **289,424** |
| **Operating profit** | | **103,516** | **110,534** |
| Income/(expense) from equity investments | 7 | 0 | 169 |
| Financial income | 8 | 1,105 | 497 |
| Financial expense | 8 | (157,820 ) | (43,683 ) |
| ***Sub-total*** | | **(156,714 )** | **(43,018 )** |
| **Pre-tax profit/(loss)** | | **(53,198 )** | **67,516** |
| Income taxes | 9 | (30,218 ) | 32,345 |
| **Profit/(loss) from continuing operations** | | **(22,980 )** | **35,172** |
| **Profit/(loss) from discontinued operations** | 10 | 0 | 0 |
| **PROFIT/(LOSS) FOR THE PERIOD** | | **(22,980 )** | **35,172** |

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Chief Executive Officer
Gianclaudio Neri
(signed on the original)

# IV. Statement of comprehensive income

| Thousands of Euros | First half of 2014 | First half of 2013 |
|---|---|---|
| **Profit/(loss) for the period** | **(22,980)** | **35,172** |
| *Items that are or may be reclassified subsequently to profit or loss:* | | |
| Change in fair value of hedging derivatives | 0 | 35,632 |
| Change in fair value of hedging derivatives reclassified to profit or loss | 65,792 | 0 |
| Deferred tax assets from change in fair value | 0 | (12,115) |
| Deferred tax assets from change in fair value of hedging derivatives reclassified to profit or loss | (22,369) | 0 |
| | 43,423 | 23,517 |
| **Other comprehensive income for the period** | **43,423** | **23,517** |
| **Comprehensive income for the period** | **20,443** | **58,689** |
| ***Comprehensive income attributable to:*** | | |
| - Owners of the parent | 20,443 | 58,689 |
| - Non-controlling interests | 0 | 0 |

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Chief Executive Officer
Gianclaudio Neri
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# V. Statement of financial position

| Thousands of Euros | Notes | 30.06.2014 | 31.12.2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 35,504 | 34,499 |
| Intangible assets | 12 | 2,674,578 | 2,682,107 |
| Deferred tax assets | 27 | 246,353 | 197,676 |
| Equity investments | 13 | 3,329 | 3,329 |
| Non-current financial assets | 14 | 249 | 253 |
| Other non-current assets | 15 | 6,613 | 6,535 |
| | *Total* | **2,966,627** | **2,924,399** |
| | | | |
| Inventories | 16 | 8,331 | 6,344 |
| Trade receivables | 17 | 139,644 | 284,323 |
| Current loan assets | 18 | 2,431 | 5,669 |
| Other current financial assets | 19 | 0 | 0 |
| Cash and cash equivalents | 20 | 119,393 | 140,554 |
| Current tax assets | 21 | 11,221 | 6,800 |
| Other current assets | 22 | 176,173 | 137,031 |
| Non-current assets (or assets included in disposal groups) held for sale | | 0 | 0 |
| | *Total* | **457,194** | **580,721** |
| **TOTAL ASSETS** | | **3,423,820** | **3,505,120** |

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| Thousands of Euros | Notes | 30.06.2014 | 31.12.2013 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity - owners of the parent** | 23 | | |
| Share capital | | 71,950 | 71,950 |
| Treasury shares | | (634) | (634) |
| Other reserves | | 700,406 | 679,101 |
| Retained earnings | | 8,873 | 8,537 |
| Profit/(loss) for the period/year | | (22,980) | 79,230 |
| **Equity - owners of the parent** | | **757,615** | **838,184** |
| **Equity - non-controlling interests** | | | |
| Non-controlling interests | | 0 | 0 |
| Profit/(loss) attributable to non-controlling interests | | 0 | 0 |
| **Equity - non-controlling interests** | | **0** | **0** |
| **EQUITY** | | **757,615** | **838,184** |
| **Non-current liabilities** | | | |
| Non-current loans and borrowings | 24 | 1,758,362 | 1,733,921 |
| Post-employment and other employee benefits | 25 | 36,110 | 37,151 |
| Provision for risks and charges | 26 | 12,699 | 11,192 |
| Deferred tax liabilities | 27 | 125,556 | 129,156 |
| Non-current financial liabilities | 28 | 20,928 | 24,020 |
| Other non-current liabilities | 29 | 275,915 | 272,131 |
| | *Total* | **2,229,571** | **2,207,572** |
| **Current liabilities** | | | |
| Current loans and borrowings | 30 | 0 | 0 |
| Current bank loans and borrowings | 31 | 2,212 | 0 |
| Current portion of non-current and current provisions | 32 | 52,275 | 50,397 |
| Trade payables | 33 | 157,283 | 148,290 |
| Current tax liabilities | 34 | 92 | 19,621 |
| Current financial liabilities | 35 | 101,428 | 72,323 |
| Other current liabilities | 36 | 123,345 | 168,733 |
| Liabilities held for sale | 37 | 0 | 0 |
| | *Total* | **436,635** | **459,364** |
| **TOTAL LIABILITIES** | | **2,666,205** | **2,666,936** |
| **TOTAL EQUITY AND LIABILITIES** | | **3,423,820** | **3,505,120** |

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Chief Executive Officer
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# VI. Statement of cash flows

| Thousands of Euros | | First half of 2014 | First half of 2013 |
|---|---|---|---|
| **A) OPENING CASH AND CASH EQUIVALENTS** | **20** | **140,554** | **134,284** |
| **Cash flows from operating activities** | | | |
| Pre-tax profit/(loss) | | (53,198) | 67,516 |
| Tax expense | 9 | 30,218 | (32,345) |
| Profit/(loss) from discontinued operations | 10 | - | - |
| **1. Profit/(loss) for the period** | | **(22,980)** | **35,172** |
| **Adjustments for:** | | | |
| Amortisation/depreciation | 6.d | 69,612 | 68,375 |
| Impairment losses/(Reversals of impairment losses) | 6.d | (105) | 2,815 |
| Gains/(losses) | 5.b/6.e | 388 | (1,456) |
| Accrual to the provisions for risks and charges and post-employment benefits | | 9,889 | 10,266 |
| Net financial income | 7 and 8 | 156,714 | 43,018 |
| **2. Total adjustments** | | **236,498** | **123,018** |
| **Change in net working capital** | | | |
| Inventories | 16 | (1,856) | (1,147) |
| Trade receivables | 17 | 145,763 | 73,622 |
| Trade payables | 33 | 8,859 | (14,577) |
| Other current assets | 22 | (38,718) | (62,538) |
| Other current liabilities | 36 and 37 | (47,836) | 49,718 |
| Net tax assets/(liabilities) | 21 and 34 | (23,964) | 10,321 |
| Decrease in the provisions for risks and charges and post-employment benefits | 25 and 26 | (7,836) | (8,049) |
| Decrease in the provisions for deferred taxation | 27 | (74,604) | (6,112) |
| Other non-current assets | 15 | (64) | (66) |
| Other non-current liabilities | 29 | 3,784 | 4,670 |
| Financial income/(expense) other than for financing activities | 7 and 8 | 27 | (271) |
| **3. Total change in net working capital** | | **(36,444)** | **45,571** |
| **B) CASH FLOWS FROM OPERATING ACTIVITIES (1+2+3)** | | **177,074** | **203,760** |
| **Cash flows from investing activities** | | | |
| Net non-current assets | | (57,429) | (42,026) |
| Acquisition of a subsidiary | 7 and 13 | (5,292) | (0) |
| Cash acquired as part of the acquisition | | 537 | 0 |
| **C) CASH FLOWS USED IN INVESTING ACTIVITIES** | | **(62,183)** | **(42,026)** |
| **D) FREE CASH FLOW (B+C)** | | **114,891** | **161,735** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (101,012) | (82,018) |
| Change in reserves | | 0 | (7) |
| Purchase of treasury shares | | 0 | 0 |
| Change in amortised cost | 24 and 31 | 26,653 | 7,569 |
| Net financial expense for financing activities? | 7 and 8 | (61,714) | (42,916) |
| Change in financial indebtedness | 24 and 30 | 0 | 313 |
| Change in non-current financial liabilities | 28 | (3,092) | (3,036) |
| Change in other non-current financial assets | 14 | 4 | 0 |
| Change in other loan assets | 18 and 19 | 3,238 | 0 |
| Change in other loans and borrowings | 35 | (130) | 802 |
| E) CASH FLOWS USED IN FINANCING ACTIVITIES | | (136,051) | (119,294) |
| **F) CASH FLOWS FOR THE PERIOD (D+E)** | | **(21,161)** | **42,441** |
| **G) CLOSING CASH AND CASH EQUIVALENTS** | | **119,393** | **176,724** |

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Chief Executive Officer
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# VII. Statement of changes in equity

| Thousands of Euros | Share capital | Treasury shares | Revaluation reserve | Legal reserve | Reserve for grants related to assets | Other reserves | Hedging reserves | Other IFRS reserves | Retained earnings | Profit/(loss) for the period | Total - owners of the parent | Total - non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital and reserves | | | | | | | | | | | | |
| **Total at 31 December 2012 - restated** | **71,950** | **(545 )** | **409,145** | **20,248** | **99,697** | **207,394** | **(68,319 )** | **(2,439 )** | **11,602** | **67,264** | **815,997** | **7** | **816,004** |
| *Allocation of profit:* | | | | | | | | | | | | | |
| Allocation of profit | | | | | | 0 | | | 67,264 | (67,264) | **0** | | **0** |
| *Contributions and distributions* | | | | | | | | | | | | | |
| - Dividends paid | | | | | | | | | (46,706) | | **(46,706)** | | **(46,706)** |
| - Distribution of other reserves | | | | | | (35,313) | | | | | **(35,313)** | | **(35,313)** |
| *Total contributions and distributions* | | | | | | | | | | | *(82,018)* | | *(82,018)* |
| - Contribution from change in consolidation scope | | | | | | | | | | | **0** | | **0** |
| *Other changes* | | | | | | | | | | | **0** | | **0** |
| Re-purchase of treasury shares | | | | | | | | | | | **0** | | **0** |
| Profit for the period recognised in equity | | | | | | | | | | | **0** | | **0** |
| Change in IFRS reserves | | | | | | | 23,517 | | | | **23,517** | **(7 )** | **23,510** |
| Profit for the period recognised in profit or loss | | | | | | | | | | 35,172 | **35,172** | **0** | **35,172** |
| **Total 30 June 2013** | **71,950** | **(545 )** | **409,145** | **20,248** | **99,697** | **172,081** | **(44,803 )** | **(2,439 )** | **32,160** | **35,172** | **792,667** | **(0 )** | **792,667** |
| *Total contributions and distributions* | | | | | | | | | | | *0* | | *0* |
| - Contribution from change in consolidation scope | | | | | | | | | | | **0** | | **0** |
| *Other changes* | | (89) | | | | 23,624 | | | (23,624) | | **(89)** | | **(89)** |
| Re-purchase of treasury shares | | | | | | | | | | | **0** | | **0** |
| Profit for the period recognised in equity | | | | | | | 1,380 | 167 | | | **1,547** | | **1,547** |
| Change in IFRS reserves | | | | | | | | | | | **0** | **0** | **0** |
| Profit for the period recognised in profit or loss | | | | | | | | | | 44,059 | **44,059** | **0** | **44,059** |
| **Total from 1 July to 31 December 2013** | **71,950** | **(634 )** | **409,145** | **20,248** | **99,697** | **195,705** | **(43,423 )** | **(2,272 )** | **8,537** | **79,230** | **838,184** | **(0 )** | **838,184** |
| *Allocation of profit for 2013:* | | | | | | | | | | | | | |
| Allocation of profit | | | | | | 0 | | | 79,230 | (79,230) | **0** | | **0** |
| *Contributions and distributions* | | | | | | | | | | | | | |
| - Dividends paid | | | | | | | | | (78,894) | | **(78,894)** | | **(78,894)** |
| - Distribution of other reserves | | | | | | (22,118) | | | | | **(22,118)** | | **(22,118)** |
| - Distribution of the extraordinary reserve | | | | | | | | | | | **0** | | **0** |
| *Total contributions and distributions* | | | | | | | | | | | *(101,012)* | | *(101,012)* |
| - Contribution from change in consolidation scope | | | | | | | | | | | **0** | | **0** |
| *Other changes* | | | | | | | | | | | **0** | | **0** |
| Re-purchase of treasury shares | | | | | | | | | | | **0** | | **0** |
| Profit for the period recognised in equity | | | | (5,858) | | 5,858 | 43,423 | 0 | | | **43,423** | | **43,423** |
| Change in IFRS reserves | | | | | | | | | | | **0** | **0** | **0** |
| Profit for the period recognised in profit or loss | | | | | | | | | | (22,980) | **(22,980 )** | **0** | **(22,980 )** |
| **Total 30 June 2014** | **71,950** | **(634 )** | **409,145** | **14,390** | **99,697** | **179,445** | **0** | **(2,272 )** | **8,873** | **(22,980 )** | **757,615** | **(0 )** | **757,615** |

2i Rete Gas S.p.A.
Chief Executive Officer
Gianclaudio Neri
(signed on the original)

# VIII. Notes to the condensed interim consolidated financial statements

## 1. Basis of preparation

The 2i Rete Gas Group operates in the gas distribution sector. The parent 2i Rete Gas S.p.A. is a company limited by shares and is located in Via Paolo da Cannobio 33, Milan. Pursuant to article 3 of the articles of association, the parent's duration is until 2050.

On 19 September 2014, the parent's directors approved these condensed interim consolidated financial statements prepared on a voluntary basis. In accordance with IAS 10.17, the directors considered 19 September 2014, the date these financial statements were approved by the board of directors, as the date of authorisation for issue.
These condensed interim consolidated financial statements were reviewed by KPMG S.p.A. not pursuant to any legal requirement.

## 2. Compliance with IFRS

These condensed interim consolidated financial statements at 30 June 2014 have been prepared in compliance with the International Financial Reporting Standards (IFRS), which encompass the International Accounting Standards (IAS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at period end, as well as the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and those of the Standing Interpretations Committee (SIC), effective at the same date. Specifically, these condensed interim consolidated financial statements have been prepared in accordance with IAS 34 - Interim financial reporting. The above standards and interpretations are hereafter collectively referred to as "IFRS-EU".

## 3. Basis of presentation

The condensed interim 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 these notes thereto.
Assets and liabilities are recognised in the statement of financial position based on a current/non-current distinction, indicating the assets and liabilities held for sale separately.

Current assets, which include cash and cash equivalents, are those expected to be realised, sold or consumed in the normal operating cycle or within twelve months after the reporting period, while current liabilities are those expected to be settled in the normal operating cycle or within twelve months after the reporting period.
Income statement captions are classified based on the nature of costs, while the statement of cash flows is presented using the indirect method.
The condensed interim consolidated financial statements are presented in euro, which is the Group's functional currency. Unless otherwise indicated, the figures presented in these notes are in thousands of euros.
These condensed interim consolidated financial statements have been prepared on the historical cost basis except for those captions that are measured at fair value in accordance with IFRS-EU, as described in the accounting policies for the individual captions.
They have been prepared on a going concern basis, as described in detail in the directors' report.

## 4. Accounting policies

Except for that set out below, these condensed interim consolidated financial statements have been prepared using the same accounting policies used to draw up the consolidated financial statements at 31 December 2013. The following changes in IFRS will also affect the preparation of the Group's 2014 consolidated financial statements.
The following standards, amendments and interpretations issued by the IASB and endorsed by the European Union have been adopted as of 1 January 2014:
- Amendment to IAS 39 - Financial instruments: novation of derivatives and continuation of hedge accounting
- Amendment to IAS 36 - Impairment of assets: recoverable amount disclosures for non-financial assets
- Transition guidance: amendments to IFRS 10 - Consolidated financial statements, IFRS 11 - Joint arrangements and IFRS 12 - Disclosure of interests in other entities
- Amendment to IAS 32 Financial instruments: presentation — offsetting financial assets and financial liabilities.

The new standards had no significant impact on these condensed interim consolidated financial statements.

## 5. Use of estimates

In preparing these condensed interim consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the

Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
The individual measurements relevant to these condensed interim consolidated financial statements and the main sources of estimation uncertainties are unchanged from those applied in the preparation of the consolidated financial statements at 31 December 2013.

## 6. Risk management

As stated in the directors' report, the main following financial risks that are typical of the sector in which the 2i Rete Gas Group operates are described below.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and the risk of changes in the price of equity instruments.

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

Fair value is calculated using the official prices of instruments traded on regulated markets. The fair value of instruments not listed on regulated markets is determined using appropriate measurement techniques for each type of financial instrument as well as market data at the reporting date (such as interest rates, exchange rates, commodity prices and volatility), discounting expected future cash flows on the basis of the market interest rate curve at the reporting date and translating amounts in currencies other than the euro using the closing rates provided by the European Central Bank.

The notional amount of a derivative is the contractual amount at which differentials are exchanged. This amount can be expressed as a value or a quantity (for example tons, converted into euro by multiplying the notional amount by the agreed price). Any amounts denominated in currencies other than the euro are converted into euro at the exchange rate prevailing at the reporting date.
The notional amounts of the following derivatives do not represent amounts exchanged between the parties and, therefore, they do not represent the company's credit risk exposure. As for the risk of a change in interest rates, the company pursues the objective of minimising interest rate risk.

Some of 2i Rete Gas Group's loans bear interest rates which are index-linked to the benchmark (EURIBOR). In order to limit the risk connected to interest rate volatility, the Group uses interest rate swaps to balance fixed-rate and floating-rate debt.
The Group does not hold derivatives for trading purposes.

## Credit risk

The 2i Rete Gas Group provides its distribution services to more than 150 sales companies, the most important of which is Enel Energia S.p.A..
No significant instances of non-compliance by the counterparties were identified in 2014.
The rules for users' access to the gas distribution service are governed by the Network Code which, in compliance with the provisions of the Regulatory Authority for Electricity, Gas and Water (AEEGSI), 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 non-compliance by the sales companies.
With respect to the gas distribution and related credit lines, the selection of external counterparties is carefully monitored through a credit risk assessment 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 mitigated.

A summary quantitative indication of the maximum exposure to credit risk is provided by the carrying amount of the financial assets gross of the related allowance for impairment.
At 30 June 2014, the Group's maximum exposure to credit risk amounted to €460 million (€587 million at 31 December 2013):

**Millions of Euros**

| | 30.06.2014 | 31.12.2013 | 2014- 2013 |
|---|---|---|---|
| ***Third parties:*** | | | |
| Non-current financial assets | 0.2 | 0.3 | (0.0) |
| Other non-current assets | 6.6 | 6.5 | 0.1 |
| Trade receivables | 156.5 | 301.5 | (145.0) |
| Other current financial assets | 0.0 | 0.0 | 0.0 |
| Cash and cash equivalents | 119.4 | 140.6 | (21.2) |
| Other current assets | 177.3 | 138.1 | 39.1 |
| **Total** | **460.0** | **587.0** | **(127.0)** |

The receivables from the Compensation Fund for Energy Efficiency Certificates under "Other current assets", due after one year, are measured at the repayment amount set by the Authority.

## Liquidity risk

Based on its current financial structure and the expected cash flows forecast in business plans, the 2i Rete Gas Group can autonomously satisfy its ordinary financial requirements and ensure that the Group continues to operate on a going concern basis. The credit lines granted to the parent in September 2011 by a syndicate comprised of 12 leading banks have been backed by further short-term credit lines which improve the parent's flexibility in the daily management of its working capital.
For the purposes of a correct presentation of liquidity risk in accordance with IFRS 7, the Group's indebtedness is analysed below.

The contractual due dates of financial liabilities at 30 June 2014 are shown below:

**Financial liabilities**

| **Millions of Euros** | **Due within one year** | **Due between 2 and 5 years** | **Due after 5 years** |
|---|---|---|---|
| **Financial liabilities at 30 June 2014** | | | |
| Non-current loans and borrowings | 0.0 | 1,751.2 | 0.0 |
| Current loans and borrowings | 0.0 | 0.0 | 0.0 |
| Current bank loans and borrowings | 2.2 | 0.0 | 0.0 |
| Other non-current financial liabilities | 0.0 | 20.9 | 0.0 |
| Other current financial liabilities | 6.4 | 0.0 | 0.0 |
| **Total** | **8.6** | **1,772.1** | **0.0** |

For comparative purposes, the contractual due dates of financial liabilities at 31 December 2013 are also shown below:

| **Millions of Euros** | **Due within one year** | **Due between 2 and 5 years** | **Due after 5 years** |
|---|---|---|---|
| **Financial liabilities at 31 December 2013** | | | |
| Non-current loans and borrowings | 0.0 | 1,751.2 | 0.0 |
| Current loans and borrowings | 0.0 | 0.0 | 0.0 |
| Other non-current financial liabilities | 0.0 | 24.0 | 0.0 |
| Other current financial liabilities | 6.5 | 0.0 | 0.0 |
| **Total** | **6.5** | **1,775.2** | **0.0** |

Forecast cash requirements are based on expected cash flows from ordinary operations.
Since September 2011, the Group has had a credit line totalling €2,113 million, issued by a syndicate made up of 12 leading banks.
Furthermore, a €300 million credit line was granted to finance investments on the network for future years (unused at 30 June 2014), and a revolving credit line of €40 million for working capital purposes (unused at 30 June 2014).
Continuation of the credit line is subject to the Group's compliance with several financial covenants which is checked every six months. At 30 June 2014, these financial covenants were fully complied with.

Non-current indebtedness of €1,751.2 million relates to the above credit lines agreed by 2i Rete Gas, expiring 84 months after the start date, i.e. 26 September 2018.
For an in-depth analysis of non-current loans and borrowings, reference should be made to note 24.

In June 2014, the parent decided to reorganise its financial structure in order to optimise the debt structure, after obtaining an "investment grade" rating from two rating agencies and considering the extremely favourable market situation.

In this respect, after the end of the reporting period, the Group extinguished the above credit lines and implemented a more efficient debt structure which will enable it to manage its indebtedness more effectively and less expensively.
On 16 July, upon conclusion of the public offering reserved to institutional investors, the parent placed two bond issues listed on the regulated Irish Stock Exchange of five and ten years amounting to €750 million and €600 million, respectively.
The debt restructuring was completed on the same date with the signing of new financing of €1,750 million comprised of a credit line to refinance the parent's residual indebtedness, a bridge loan of €600 million for the bond issue which was not used, a credit line for investments and, finally, another one for the parent's operating cash needs.
This transaction should generate significant savings in the cost of debt in the next few years.

## Interest rate risk

Management of interest rate risk aims to achieve a balanced debt structure, decreasing the financial debt that is exposed to changes in interest rates, while minimising the cost of funding, thereby limiting the volatility of results. To this end, derivative contracts, specifically interest rates swaps, are used.

Interest rate swaps are used to reduce the amount of debt exposed to changes in interest rates and to reduce the volatility of borrowing costs. The Group enters into interest rate swap with counterparties to exchange at specified intervals floating-rate interest flows for fixed-rate interest flows (as agreed between the parties), both of which are calculated on the basis of a notional principal.

For the purposes of a correct presentation of the interest rate risk in accordance with IFRS 7, the Group's outstanding contracts are analysed below.

The Group has one outstanding seven-year interest rate swap with 11 leading banks, which include some of those which also granted the €2,113 million credit lines upon termination of the acquisition contract of G6 Rete Gas. The derivative contracts signed hedge at least 75% of the exposure to changes in interest rates on the existing credit lines.

The following table shows derivatives by due date.

| Thousands of Euros | **Notional amount** | | **Due within one year** | **Due between 2 and 5 years** | **Due after 5 years** |
|---|---|---|---|---|---|
| | **at 30.06.2014** | **at 31.12.2013** | | | |
| ***Cash flow hedges*** | | | | | |
| *Interest rate swaps* | 1,329,900 | 1,329,900 | - | 1,329,900 | - |
| ***Total interest rate swaps*** | 1,329,900 | 1,329,900 | - | 1,329,900 | - |

These contracts were agreed with a lower notional amount and a maturity date aligned to that of the underlying financial liability, so that the change in the expected cash flows from these contracts is offset by a corresponding change in the expected cash flows of the underlying position.

Measurement of the fair value gains or losses on the financial derivative is determined by the fluctuation in the interest rate curve compared to the date the contract was signed (Cumulative Based Test). The present value of expected future cash flows for outstanding derivatives are calculated on the basis of the relevant rate curves provided by a major provider of financial information (Telerate).

Outstanding derivatives can be measured on the basis of input data (interest rates) which can be directly observed on the active interest rate market.

Accordingly, the fair value of the financial derivatives generally reflects the estimated amount that the Group would have to pay or receive in order to settle the contracts at the end of the reporting period.

In accordance with IFRS 7, the following table summarises financial assets and financial liabilities and shows the carrying amount and the related fair value. The Group does not hold held-to-maturity investments, available-for-sale assets or assets held for trading.

| Thousands of Euros | Notes | Derivatives | Loans and receivables | Other financial liabilities | Total | Fair value |
|---|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | | |
| | | | | | - | |
| **Financial assets not measured at fair value** | | | | | | |
| Non-current financial assets | 14 | | 249 | | 249 | 249 |
| Other non-current assets | 15 | | 6,304 | | 6,304 | 6,304 |
| Trade receivables | 17 | | 139,644 | | 139,644 | 139,644 |
| Current loan assets | 18 | | 2,431 | | 2,431 | 2,431 |
| Other current financial assets | 19 | | 0 | | 0 | 0 |
| Cash and cash equivalents | 20 | | 119,393 | | 119,393 | 119,393 |
| Other current assets | 22 | | 167,040 | | 167,040 | 167,040 |
| **TOTAL ASSETS** | | **-** | **435,061** | **-** | **435,061** | **435,061** |
| **Financial liabilities measured at fair value** | | | | | | |
| IRSs | 35 | 95,027 | | | 95,027 | 95,027 |
| **Financial liabilities not measured at fair value** | | | | | | |
| Non-current loans and borrowings | 24-31 | | | 1,758,362 | 1,758,362 | 1,759,226 |
| Financial liabilities for IRS unwinding | 28-35 | | | 27,135 | 27,135 | 28,008 |
| Other non-current liabilities | 29 | | | 362 | 362 | 362 |
| Trade payables | 33 | | | 157,283 | 157,283 | 157,283 |
| Current financial liabilities | 35 | | | 195 | 195 | 195 |
| Other current liabilities | 36 | | | 104,106 | 104,106 | 104,106 |
| **TOTAL LIABILITIES** | | **95,027** | **-** | **2,047,443** | **2,142,469** | **2,144,207** |

For the purposes of comparison, the same table is provided for the corresponding period of 2013:

| Thousands of Euros | Notes | Derivatives | Loans and receivables | Other financial liabilities | Total | Fair value |
|---|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | | |
| | | | | | - | |
| **Financial assets not measured at fair value** | | | | | | |
| Non-current financial assets | 14 | | 253 | | 253 | 253 |
| Other non-current assets | 15 | | 6,226 | | 6,226 | 6,226 |
| Trade receivables | 17 | | 284,323 | | 284,323 | 284,323 |
| Current loan assets | 18 | | 5,669 | | 5,669 | 5,669 |
| Other current financial assets | 19 | | 0 | | 0 | 0 |
| Cash and cash equivalents | 20 | | 140,554 | | 140,554 | 140,554 |
| Other current assets | 22 | | 133,203 | | 133,203 | 133,203 |
| **TOTAL ASSETS** | | **-** | **570,228** | **-** | **570,228** | **570,228** |
| **Financial liabilities measured at fair value** | | | | | | |
| IRSs | 35 | 65,792 | | | 65,792 | 65,792 |
| **Financial liabilities not measured at fair value** | | | | | | |
| Non-current loan | 24-31 | | | 1,733,921 | 1,733,921 | 1,875,527 |
| Financial liabilities for IRS unwinding | 28-35 | | | 30,171 | 30,171 | 30,913 |
| Other non-current liabilities | 29 | | | 362 | 362 | 362 |
| Trade payables | 33 | | | 148,290 | 148,290 | 148,290 |
| Current financial liabilities | 35 | | | 381 | 381 | 381 |
| Other current liabilities | 36 | | | 151,399 | 151,399 | 151,399 |
| **TOTAL LIABILITIES** | | **65,792** | **-** | **2,064,523** | **2,130,315** | **2,272,662** |

As shown in the tables above, the carrying amount of the financial assets not measured at fair value and of trade payables and other current liabilities is deemed a reasonable approximation of the fair value.

The above fair values of IRSs and the non-current credit lines can both be classified as "level 2" (measurement made on the basis of directly or indirectly observable market data).

In order to determine the fair value of IRSs and the non-current credit lines, the Group has applied the discounted cash flow method, using market parameters at the reporting date.

# IX. Notes to the income statement

## Revenue

Natural gas is transported exclusively within Italy.
Segment reporting pursuant to IFRS 8 (Operating Segments) was not provided as the Group only operates in one business segment.

### 5.a Revenue from sales and services – *€294,188 thousand*

This caption of €294,188 thousand mainly refers to gas distribution activities and connection fees.

It can be analysed as follows:

**Thousands of Euros**

| | First half of 2014 | First half of 2013 | 2014-2013 |
|---|---|---|---|
| ***Third parties:*** | | | |
| Gas and LPG transportation | 275,057 | 295,184 | (20,128) |
| Connection fees | 7,361 | 7,890 | (529) |
| Accessory fees | 2,765 | 3,702 | (938) |
| Revenue from the sale of water | 1,594 | 1,544 | 50 |
| Accessory services – water sector | 536 | 439 | 97 |
| Revenue from customer operations management | 37 | 128 | (90) |
| Revenue from sewerage/treatment | 561 | 356 | 206 |
| Other revenue and other sales and services | 6,276 | 4,650 | 1,626 |
| **Total revenue from sales and services** | **294,188** | **313,894** | **(19,707)** |

Revenue from gas distribution total €275,057 thousand and mainly refers to the 2014 Allowed Revenues for the distribution of natural gas and LPG.
As expected, revenue from gas distribution fell on the same period of the previous year following the regulations governing the fourth regulatory period which became effective on 1 January 2014.

Connection fees of €7,361 thousand fell by €529 thousand compared to those recorded in the same period of the previous year.

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

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

Revenue from the sale of water remains stable.
“Other revenue and other sales and services” rose €1,626 thousand mainly as a consequence of the work to suspend and reactivate defaulting customers as requested by the sales companies.

## 5.b Other revenue – *€32,117 thousand*

“Other revenue” total €32,117 thousand (€41,243 thousand in the same period of 2013), down by €9,126 thousand.
The decrease is mainly due to the smaller amount for energy efficiency certificates as a result of the smaller purchases of certificates during the period, smaller premiums to encourage technical quality and smaller gains on the sale of assets, caused by the limited number of concessions returned for which the reimbursement amount due to the outgoing operator was defined.

## 5.c Revenue from intangible assets / assets under development – *€51,879 thousand*

**Thousands of Euros**

| | First half of 2014 | First half of 2013 | Variation |
|---|---|---|---|
| **Revenue from intangible assets / assets under development** | | | |
| Revenue from intangible assets / assets under development | 51,879 | 44,821 | 7,058 |
| **Total revenue from intangible assets / assets under development** | **51,879** | **44,821** | **7,058** |

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

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

## Costs

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

### 6.a Raw materials and consumables – *€15,602 thousand*

This caption is mainly comprised of the costs to purchase the materials used in the process of laying the pipes and the fuel for motor vehicles. It rose by €3,999 thousand on the same period of the previous year, partly as a consequence of the purchase of new meters which are currently being installed.

### 6.b Services – €99,465 thousand

This caption can be analysed as follows:

| Thousands of Euros | First half of 2014 | First half of 2013 | Variation |
|---|---|---|---|
| ***Third parties:*** | | | |
| Maintenance, repair and construction of assets | 28,207 | 30,719 | (2,511) |
| Electricity, power and water | 2,461 | 2,636 | (176) |
| Gas (for internal use) | 2,920 | 3,715 | (796) |
| Telephone and data transmission | 1,504 | 1,576 | (72) |
| Insurance premiums | 2,901 | 2,648 | 253 |
| Services and other expenses relating to personnel | 2,398 | 2,740 | (342) |
| Fees | 474 | 573 | (99) |
| Legal and notary fees | 281 | 58 | 223 |
| Costs for company acquisitions and disposals | 218 | 20 | 198 |
| Personnel and other services | 3,553 | 3,673 | (120) |
| Advertising | 38 | 56 | (18) |
| IT services | 4,508 | 7,226 | (2,718) |
| Meter reading service | 2,792 | 3,083 | (291) |
| Audit fees | 280 | 471 | (191) |
| On call and emergency service | 1,138 | 2,233 | (1,095) |
| Plant certifications resolution no. 40 | 290 | 435 | (145) |
| Gas transportation by third parties | 494 | 419 | 75 |
| Professional, consultancy and other services | 4,181 | 2,182 | 1,998 |
| Other services | 2,339 | 2,153 | 186 |
| ***Use of third party assets*** | | | |
| Leases | 3,741 | 3,834 | (93) |
| Rentals | 5,328 | 3,328 | 2,000 |
| Use of third party assets | 1,102 | 785 | 317 |
| C.o.s.a.p. (fee for occupation of public areas) | 504 | 643 | (139) |
| Municipal gas concession fees | 27,812 | 30,691 | (2,878) |
| **Total** | **99,465** | **105,899** | **(6,434)** |
| - of which capitalised as/under intangible assets | 28,374 | 28,951 | (577) |

Costs for services (including those for the use of third party assets) decreased by €6,434 thousand on the same period of the previous year. Indeed, as from 2010, all costs relating to concession management have been affected by network construction charges recognised in accordance with IFRIC 12.

The decrease in this caption, which is broken down in the relevant table, is mainly due to the following effects:

- the decrease in costs for maintenance, repair and construction of assets for €2,511 thousand due to the reduced operations of the period;
- a decrease in IT service costs compared to the previous period. In 2013, this caption included costs which, in the first half of 2014, have been classified under hardware rental as a result of the new contracts agreed. Furthermore, in 2013, the completion of the integration of the IT systems of the two merged companies required considerable investments.
- the increase in professional services which grew by €1,998 thousand as a consequence of the rating project costs which were partly offset by the optimisation of operating costs after the merger of G6 Rete Gas;
- the decrease in municipal fees which fell by €2,878 thousand following the development of the business development.

## 6.c Personnel expense – €59,423 thousand

This caption of €59,423 thousand includes all charges incurred on an ongoing basis which, directly or indirectly, concern employees. It rose by €1,561 thousand.
During the period, personnel turnover trends were normal, with changes due to normal replacement of employees who reached retirement age.

Personnel expense is broken down by category as follows:

| | Managers | Junior managers | White collars | Blue collars | Total |
|---|---|---|---|---|---|
| **Personnel at 31 December 2013** | **34** | **100** | **1,122** | **786** | **2,042** |
| Change in consolidation area | 0 | 1 | 4 | 8 | **13** |
| Increase | 0 | 3 | 26 | 1 | **30** |
| Decrease | (1) | 0 | (15) | (7) | **(23)** |
| Promotions | 0 | 2 | (1) | (1) | **0** |
| **Personnel at 30 June 2014** | **33** | **106** | **1,136** | **787** | **2,062** |

## 6.d Amortisation/depreciation and impairment losses – *€69,507 thousand*

Amortisation and depreciation total €69,507 thousand and are down €1,683 thousand on the same period of the previous year.
The decrease includes greater amortisation (€961 thousand) and depreciation (€277 thousand). Following the introduction of IFRIC 12, amortisation mainly concerns the rights to the concessions for the operation of gas distribution networks.
This caption fell by €105 thousand following the release of the allowance for impairment of trade receivables.

It can be analysed as follows:

| Thousands of Euros | First half of 2014 | First half of 2013 | Variation |
|---|---|---|---|
| Depreciation | 1,709 | 1,432 | 277 |
| Amortisation | 67,903 | 66,942 | 961 |
| Impairment losses: | | | |
| - Impairment losses on intangible assets | 0 | 1,443 | (1,443 ) |
| - Allowance for impairment - trade receivables | (105 ) | 1,372 | (1,477 ) |
| | **69,507** | **71,190** | **(1,683 )** |

## 6.e Other operating costs – *€30,671 thousand*

"*Other operating costs*" mainly include the costs to purchase energy efficiency certificates and the net accruals for risks and charges. This caption fell by €12,610 thousand on the same period of the previous year following the decrease in the number of certificates purchased.
For a breakdown of the related provisions, reference should be made to the notes to liabilities.

## 6.f Internal work capitalised – *€0 thousand*

Following the introduction of IFRIC 12, these costs are no longer recognised as those costs which are directly connected to the construction of the network under concession. Accordingly, this caption now only includes those residual costs which can be capitalised but which do not concern concessions.

## 7. Income (expense) from equity investments – *€0 thousand*

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

## 8. Net financial expense – *€156,714 thousand*

This caption can be analysed as follows:

**Thousands of Euros**

| | First half of 2014 | First half of 2013 | 2014-2013 |
|---|---|---|---|
| **Financial income** | | | |
| - Default interest income | 107 | 161 | (54) |
| - Interest income on bank and postal accounts | 504 | 166 | 338 |
| - Interest income on trade receivables | 493 | 153 | 340 |
| - Other interest and financial income | 1 | 17 | (16) |
| **Total income** | **1,105** | **497** | **609** |
| **Financial expense** | | | |
| - Interest expense on non-current loans | 48,856 | 28,807 | 20,049 |
| - Other expense on non-current bank loans and borrowings | 1,183 | 1,183 | 0 |
| - Financial expense on derivatives | 12,179 | 12,982 | (803) |
| - Interest expense on bank current accounts | - | 110 | (110) |
| - Discounting of post-employment and other employee benefits | 555 | 583 | (28) |
| - Interest on taxes | 1 | 8 | (7) |
| - Fair value losses on IRSs | 29,235 | - | 29,235 |
| - Fair value losses on hedging derivatives reclassified to comprehensive income | 65,792 | | 65,792 |
| - Other financial and interest expense | 19 | 10 | 8 |
| **Total expense** | **157,820** | **43,684** | **114,136** |
| **NET FINANCIAL EXPENSE** | **(156,714)** | **(43,187)** | **(113,527)** |

Net financial expense of €156,714 thousand is mainly due to the recognition of the fair value loss on the derivative which was reclassified to non-hedging derivatives following the parent's decision to refinance, triggering the reclassification of the previous fair value gains recognised in comprehensive income to profit or loss and the recognition of the subsequent fair value loss on derivatives in profit or loss, for a total of €95,027 thousand. The decision to extinguish the existing credit line also led to re-measurement of the amortised cost of the non-current credit line agreed in 2011 with a syndicate made of leading European banks in order to consider the different timing for repayment. Consequently, interest expense for the period amounts to €48,856 thousand.

## 9. Income taxes – *€30,218 thousand*

This caption can be analysed as follows:

**Thousands of Euros**

| | First half of 2014 | First half of 2013 | Variation |
|---|---|---|---|
| **Current taxes** | | | |
| Current income taxes: IRES | 25,255 | 33,254 | (7,999) |
| IRES substitute tax | 12,479 | - | 12,479 |
| Current income taxes: IRAP | 7,400 | 8,815 | (1,415) |
| **Total current taxes** | **45,134** | **42,069** | **3,065** |
| **Adjustments for prior year income taxes** | | | |
| Negative adjustments for prior year income taxes | 787 | 1,686 | (899) |
| Positive adjustments for prior year income taxes | (1,385) | (4,363) | 2,979 |
| **Total adjustments for prior year income taxes** | **(597)** | **(2,677)** | **2,080** |
| **Deferred taxes** | | | |
| (Use)/recognition of deferred tax liabilities | (3,389) | (5,922) | 2,533 |
| Use/(recognition) of deferred tax assets | (71,366) | (1,125) | (70,241) |
| *Deferred taxes for the period* | (74,755) | (7,047) | (67,708) |
| Adjustments to prior year deferred tax liabilities due to tax rate change | - | - | - |
| Adjustments to prior year deferred tax assets due to tax rate change | - | - | - |
| *Adjusted deferred taxes* | - | - | - |
| **Total deferred taxes** | **(74,755)** | **(7,047)** | **(67,708)** |
| **TOTAL INCOME TAXES** | **(30,218)** | **32,345** | **(62,563)** |

Income taxes for the first half of 2014 amount to €30,218 thousand.
Specifically, they refer to:

- the recognition of current taxes, including IRES of €25,255 thousand (including the Robin Hood tax) and IRAP of €7,400 thousand and the IRES substitute tax of €12,479 thousand;
- Net adjustments to prior year income taxes amount to €(597) thousand compared to €(2,677) in the same period of the previous year.

The mentioned application of the substitute tax to goodwill arising from the merger of G6 Rete Gas, which was completed in 2013, led to the recognition of deferred tax assets amounting to €29,848 thousand.

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

## 10. Profit/(loss) from discontinued operations – €0 thousand

Profit/(loss) from discontinued operations remains zero as in the previous period, since no assets were classified as “discontinued”.

# X. Notes to the statement of financial position

## Assets

### Non-current assets

### 11. Property, plant and equipment – *€35,504 thousand*

Following the introduction of IFRIC 12, this caption solely includes those assets which are not tied to gas distribution concessions. Such assets are now presented under intangible assets.
The following table gives a breakdown of and changes in property, plant and equipment in 2013 and in the first half of 2014 :

| Thousands of Euros | Land | Buildings | Plant and machinery | Industrial and commercial equipment | Other assets | Leasehold improvements | Non-current assets under constructions and payments on account | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31.12.2012 restated** | **14,468** | **12,534** | **373** | **2,405** | **2,478** | **913** | **543** | **33,714** |
| Investments | - | 1,126 | 8 | 466 | 825 | 809 | 314 | **3,548** |
| Entry into service | - | - | - | 0 | (0) | 521 | (521) | **-** |
| *Gross amount* | - | - | - | 159 | (159) | 521 | (521) | **-** |
| *Accumulated depreciation* | - | - | - | (159) | 159 | - | - | **-** |
| Decreases | - | - | - | - | (18) | - | - | **(18)** |
| *Gross amount* | - | - | - | (19) | (228) | - | - | **(248)** |
| *Accumulated depreciation* | - | - | - | 19 | 211 | - | - | **230** |
| Reclassifications | 205 | (205) | - | - | (28) | 373 | - | **345** |
| *Gross amount* | 205 | (205) | - | - | 10 | 2,076 | - | **2,086** |
| *Accumulated depreciation* | - | - | - | - | (37) | (1,703) | - | **(1,741)** |
| Impairment losses | - | - | - | - | - | - | - | **-** |
| *Gross amount* | - | - | - | - | - | - | - | **-** |
| *Accumulated depreciation* | - | - | - | - | - | - | - | **-** |
| Depreciation | - | (1,207) | (101) | (634) | (777) | (372) | - | **(3,090)** |
| **Total changes** | 205 | **(286)** | **(93)** | **(167)** | **2** | **1,331** | **(207)** | **785** |
| Historical cost | 14,673 | 35,602 | 3,448 | 21,170 | 41,264 | 9,277 | 335 | **125,770** |
| Accumulated depreciation | - | (23,354) | (3,168) | (18,931) | (38,784) | (7,034) | - | **(91,270)** |
| **Balance at 31.12.2013** | **14,673** | **12,248** | **281** | **2,238** | **2,481** | **2,243** | **335** | **34,499** |
| Increases following changes to the consolidation scope: | - | - | - | 63 | 12 | - | - | **75** |
| *Gross amount* | - | - | - | 136 | 38 | - | - | **174** |
| *Accumulated depreciation* | - | - | - | (73) | (26) | - | - | **(99)** |
| Investments | - | 25 | - | 155 | 2,212 | - | 246 | **2,639** |
| Entry into service | - | 28 | - | - | - | 148 | (175) | **-** |
| *Gross amount* | - | 28 | - | - | - | 148 | (175) | **-** |
| *Accumulated depreciation* | - | - | - | - | - | - | - | **-** |
| Decreases | - | - | - | - | - | - | - | **-** |
| *Gross amount* | - | - | - | - | (687) | - | - | **(687)** |
| *Accumulated depreciation* | - | - | - | - | 687 | - | - | **687** |
| Reclassifications | - | - | - | - | - | - | - | **-** |
| *Gross amount* | - | - | - | - | - | - | - | **-** |
| *Accumulated depreciation* | - | - | - | - | - | - | - | **-** |
| Impairment losses | - | - | - | - | - | - | - | **-** |
| *Gross amount* | - | - | - | - | - | - | - | **-** |
| *Accumulated depreciation* | - | - | - | - | - | - | - | **-** |
| Depreciation | - | (589) | (41) | (358) | (382) | (340) | - | **(1,709)** |
| **Total changes** | - | **(536)** | **(41)** | **(141)** | **1,843** | **(192)** | **71** | **1,005** |
| Historical cost | 14,673 | 35,655 | 3,448 | 21,460 | 42,828 | 9,425 | 407 | **127,896** |
| Accumulated depreciation | - | (23,943) | (3,208) | (19,362) | (38,505) | (7,374) | - | **(92,391)** |
| **Balance at 30.06.2014** | **14,673** | **11,712** | **240** | **2,098** | **4,324** | **2,051** | **407** | **35,504** |

At 30 June 2014, this caption rose by €1,005 thousand on 31 December 2013. The increase is due to the net balance between investments (€2,639 thousand), the change in the consolidation scope (€75 thousand) following the inclusion of Genia Distribuzione and depreciation (€1,709 thousand).

## 12. Intangible assets – *€2,674,579 thousand*

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 2013 and the first half of 2014 are shown below :

| Thousands of Euros | Industrial patents and intellectual property rights | Concessions and similar rights | Concessions and similar rights - Assets under development and payments on account | Assets under devep. and payments on account | Other | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| Historical cost | 84,977 | 4,820,966 | 10,078 | 7,447 | 38,080 | 151,458 | **5,113,005** |
| Accumulated amortisation | (66,872) | (2,304,803) | 0 | 0 | (31,755) | (8,503) | **(2,411,932)** |
| **Balance at 31.12.2012 restated** | **18,105** | **2,516,164** | **10,078** | **7,447** | **6,325** | **142,955** | **2,701,074** |
| Investments | 11,435 | 106,917 | 10,555 | 713 | 3,090 | 0 | **132,710** |
| Entry into service | 0 | 9,445 | (8,626) | (6,306) | 5,486 | 0 | **0** |
| *Gross amount* | 0 | 9,445 | (8,626) | (6,306) | 5,486 | 0 | **0** |
| *Accumulated amortisation* | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Decreases | 0 | (15,246) | (6) | (101) | 0 | 0 | **(15,353)** |
| *Gross amount* | 0 | (47,150) | (6) | (101) | 0 | 0 | **(47,257)** |
| *Accumulated amortisation* | 0 | 31,903 | 0 | 0 | 0 | 0 | **31,903** |
| Reclassifications | (2,008) | 2,196 | 0 | 0 | (532) | 0 | **(345)** |
| *Gross amount* | (12,663) | 16,115 | 0 | 0 | 3,708 | 0 | **7,159** |
| *Accumulated amortisation* | 10,655 | (13,919) | 0 | 0 | (4,240) | 0 | **(7,504)** |
| Impairment losses | 0 | (1,438) | 0 | 0 | 0 | 0 | **(1,438)** |
| *Gross amount* | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| *Accumulated amortisation* | 0 | (1,438) | 0 | 0 | 0 | 0 | **(1,438)** |
| Amortisation | (7,308) | (124,201) | 0 | 0 | (3,032) | 0 | **(134,541)** |
| **Total changes** | **2,118** | **(22,327)** | **1,923** | **(5,693)** | **5,013** | **0** | **(18,967)** |
| Historical cost | 83,748 | 4,906,294 | 12,001 | 1,754 | 50,364 | 151,458 | **5,205,618** |
| Accumulated amortisation | (63,526) | (2,412,457) | 0 | 0 | (39,026) | (8,503) | **(2,523,512)** |
| **Balance at 31.12.2013** | **20,223** | **2,493,837** | **12,001** | **1,754** | **11,338** | **142,955** | **2,682,107** |
| Increases following changes to the consolidation scope: | 0 | 5,973 | 0 | 0 | 0 | 0 | **5,973** |
| Investments | 0 | 37,335 | 14,544 | 4,223 | 229 | 0 | **56,331** |
| Entry into service | 793 | 8,511 | (8,511) | (793) | 0 | 0 | **(0)** |
| *Gross amount* | 793 | 8,511 | (8,511) | (793) | 0 | 0 | **(0)** |
| *Accumulated amortisation* | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Decreases | 0 | (1,928) | (1) | 0 | 0 | 0 | **(1,929)** |
| *Gross amount* | 0 | (7,585) | (1) | 0 | 0 | 0 | **(7,586)** |
| *Accumulated amortisation* | 0 | 5,656 | 0 | 0 | 0 | 0 | **5,656** |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| *Gross amount* | 0 | (517) | 0 | 0 | 0 | 0 | **(517)** |
| *Accumulated amortisation* | 0 | 517 | 0 | 0 | 0 | 0 | **517** |
| Amortisation | (4,068) | (62,056) | 0 | 0 | (1,779) | 0 | **(67,903)** |
| **Total changes** | **(3,275)** | **(12,166)** | **6,033** | **3,430** | **(1,550)** | **0** | **(7,528)** |
| Historical cost | 84,541 | 4,956,546 | 18,033 | 5,184 | 50,593 | 151,458 | **5,266,356** |
| Accumulated amortisation | (67,594) | (2,474,876) | 0 | 0 | (40,805) | (8,503) | **(2,591,777)** |
| **Balance at 30.06.2014** | **16,948** | **2,481,670** | **18,033** | **5,184** | **9,788** | **142,955** | **2,674,579** |

Intangible assets decreased by €7,528 thousand on 31 December 2013. The decrease is due to the net balance between new investments of €56,331 thousand, the change in the consolidation scope (€5,973 thousand), decreases (€1,929 thousand) and amortisation (€67,903 thousand).

At 31 December 2013, "Concessions, licences, trademarks and similar rights", divided between intangible assets and assets under development, totalled €2,493,837 thousand and €12,001 thousand, respectively. At 30 June 2014, €2,481,670 thousand relate to intangible assets and €18,033 to assets under development. This caption relates to the recognition of the Group's rights as operator of the gas distribution service and one-off fees for the acquisition of concessions for natural gas distribution.

The amortisation of concession-related charges was calculated on a straight-line basis over the concession's estimated realisable value at the end of its term.

The term of concessions is calculated using the same criteria adopted in the previous year.

"Assets under development and payments on account", totalling €5,184 thousand, mainly consist of the costs incurred for the insourcing of information technology and distribution activities. The increase of the period amounts to €4,233 thousand. The entry into service had a €793 thousand impact on this caption which reduced the 2013 balance.

"Other" intangible assets of €9,788 thousand include sundry deferred costs, such as the capitalisable costs incurred in connection with the merger.

"Goodwill" of €142,955 thousand arises from the merger of former subsidiaries. This amount was recognised with the approval of the board of statutory auditors.

Goodwill's recoverable amount is estimated at least once a year. This test was successfully completed at 31 December 2013.

## 27. Deferred tax assets - *€246,353 thousand* and Deferred tax liabilities – *€125,556 thousand*

Deferred tax assets and deferred tax liabilities are calculated using the tax rates in force at the reporting date. Deferred tax assets total €246,353 thousand (€197,676 thousand at 31 December 2013), while deferred tax liabilities amount to €125,556 thousand (€129,156 thousand at 31 December 2013).

Deferred tax assets and liabilities at 30 June 2014 were determined applying the following ruling tax rates: 34% for IRES and 4.27% for IRAP.

The increase in net deferred tax assets is mainly due to the decrease in deferred tax assets, triggered by the termination of the outstanding derivative, and the increase attributable to financial expense deductible in future years, following the refinancing.
Deferred tax assets relating to “Expenses deductible in future years” include €29,848 thousand recognised following the application of the substitute tax to goodwill in June 2014 and €35,678 thousand related to the excess interest recognised at 30 June 2014 compared to the fiscally-deductible amount of the period.
The Group believes that it can use the deferred tax assets as part of its ordinary business, also considering the cash flows forecast in the most recent business plans.

| Thousands of Euros | At 31.12.2013 | Adjust. to UNICO tax form | At 01.01.2014 | Increases following changes to the consolidation scope: | Increases recognised in | | Decreases recognised in | | Other changes | Balance at 30.06.2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Profit or loss | Equity | Profit or loss | Equity | | |
| **Deferred tax assets:** | | | | | | | | | | |
| accruals for risks and charges, deductible | 14,747 | (88) | 14,659 | | 2,002 | 0 | (196) | 0 | 0 | **16,465** |
| accruals for exit and stock options☐ | 2,285 | 0 | 2,285 | | 0 | 0 | (967) | 0 | 0 | **1,319** |
| accruals for disputes | 6,003 | (344) | 5,659 | | 1,215 | 0 | (679) | 0 | 0 | **6,195** |
| accruals for inventory obsolescence | 4,437 | (22) | 4,415 | | 0 | 0 | 0 | 0 | 0 | **4,415** |
| impairment losses, deferred deductibility (allowance for impairment) | 4,282 | (0) | 4,282 | 4 | 0 | 0 | 0 | 0 | 0 | **4,286** |
| impairment losses, deferred deductibility (impairment losses on plant) | 2,437 | (23) | 2,414 | 7 | 0 | 0 | 0 | 0 | 0 | **2,420** |
| amortisation and depreciation, deferred deductibility | 84,345 | 418 | 84,763 | | 6,132 | 0 | (1,097) | 0 | 196 | **89,994** |
| separation of land/buildings and component analysis | 128 | (1) | 127 | | 0 | 0 | 0 | 0 | 0 | **127** |
| start-up costs | 2,984 | (14) | 2,970 | | 0 | 0 | 0 | 0 | 0 | **2,970** |
| post-employment and other employee benefits | 1,083 | 1,628 | 2,712 | | 389 | 0 | (248) | 0 | (85) | **2,768** |
| taxes and duties deductible on a cash basis | 16 | (0) | 16 | | 0 | 0 | 0 | 0 | 0 | **16** |
| income deferred taxation (connection fees) | 48,319 | (306) | 48,012 | | 7 | 0 | (832) | 0 | 0 | **47,187** |
| expenses deductible in future years | 1,702 | (1,611) | 91 | | 65,528 | 0 | 0 | 0 | 0 | **65,620** |
| goodwill | 1,531 | 0 | 1,531 | | 0 | 0 | 0 | 0 | 0 | **1,531** |
| post-employment benefits - OCI | 1,008 | 0 | 1,008 | | 0 | 0 | 0 | 0 | 0 | **1,008** |
| derivatives (in case of net decreases in the specific equity reserve) | 22,369 | 0 | 22,369 | | 0 | 0 | 0 | (22,369) | 0 | **-** |
| losses that can be offset in subsequent years | | | | 32 | | | | | | **32** |
| other consolidation adjustments | (0) | | (0) | | | | | | - | **0** |
| **Total** | **197,676** | **(363)** | **197,313** | **43** | **75,274** | **0** | **(4,019)** | **(22,369)** | **112** | **246,353** |
| **Deferred tax liabilities:** | | | | | | | | | | |
| differences related to property, plant and equipment and intangible assets – additional depreciation and amortisation | 38,915 | 618 | 39,533 | | 327 | 0 | (573) | 0 | (202) | **39,086** |
| differences related to intangible assets - goodwill | 1,451 | (204) | 1,247 | | 0 | 0 | 0 | 0 | 0 | **1,247** |
| separation of land/buildings and component analysis | 5,172 | (35) | 5,137 | | 0 | 0 | 0 | 0 | 0 | **5,137** |
| allocation to assets of merger costs | 39,413 | (249) | 39,164 | | 0 | 0 | (1,155) | 0 | (52) | **37,957** |
| post-employment benefits | 1,257 | (0) | 1,257 | | 0 | 0 | 0 | 0 | 0 | **1,257** |
| income deferred taxation | 6,849 | (22) | 6,828 | | 0 | 0 | (1,402) | 0 | 0 | **5,425** |
| other… | 3,775 | (320) | 3,455 | | 0 | 0 | (176) | 0 | 26 | **3,305** |
| ASEM - OCI | 46 | 0 | 46 | | 0 | 0 | 0 | 0 | 0 | **46** |
| deferred taxes recognised in connection with the merger | 23,726 | 0 | 23,726 | | 0 | 0 | 0 | 0 | 0 | **23,726** |
| other consolidation adjustments | 8,551 | | 8,551 | | | | (182) | | | **8,369** |
| **Total** | **129,156** | **(212)** | **128,945** | | **327** | **0** | **(3,488)** | **0** | **(228)** | **125,556** |

## 13. Equity investments – €3,329 thousand

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

| Thousands of Euros | Historical cost | (Impairment losses)/Reversals of impairment losses | Carrying amount | % of investment | Increases following changes to the consolidation scope | Acquisitions | Disposals | Other decreases | Adjustments | Historical cost | (Impairment losses)/Reversals of impairment losses | Carrying amount | % of investment |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | at 31.12.2013 | | | | Changes in the first half of 2014 | | | | | at 30.06.2014 | | | |
| **Associates** | | | | | | | | | | | | | |
| **Equity accounted** | | | | | | | | | | | | | |
| Melegnano Energia Ambiente S.p.A. | 2,266 | 185 | 2,451 | 40.00% | | 0 | 0 | 0 | 0 | 2,266 | 185 | 2,451 | 40.00% |
| Cbl Distribuzione S.r.l. | 320 | 40 | 360 | 40.00% | | 0 | 0 | 0 | 0 | 320 | 40 | 360 | 40.00% |
| **Other companies** | | | | | | | | | | | | | |
| **Measured at cost** | | | | | | | | | | | | | |
| Interporto di Rovigo S.p.A. | 42 | 0 | 42 | 0.30% | | 0 | 0 | 0 | 0 | 42 | 0 | 42 | 0.30% |
| Fingranda S.p.A. | 26 | 0 | 26 | 0.58% | | 0 | 0 | 0 | 0 | 26 | 0 | 26 | 0.58% |
| Agenzia di Pollenzo S.p.A. | 68 | (35) | 33 | 0.27% | | 0 | 0 | 0 | 0 | 68 | (35) | 33 | 0.27% |
| Industria e Università S.r.l. | 11 | 0 | 11 | 0.10% | | 0 | 0 | 0 | 0 | 11 | 0 | 11 | 0.10% |
| FISAP (wound up) | 19 | (19) | 0 | 0.00% | | 0 | 0 | 0 | 0 | 19 | (19) | 0 | 0.00% |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | 405 | 0 | 405 | 3.37% | | 0 | 0 | 0 | 0 | 405 | 0 | 405 | 3.37% |
| Terme di Offida S.p.A. | 1 | 0 | 1 | 0.19% | | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0.19% |
| **TOTAL EQUITY INVESTMENTS** | **3,157** | **171** | **3,329** | | **0** | **0** | **0** | **0** | **0** | **3,157** | **171** | **3,329** | |

The following tables show the list of equity investments in other companies at 30 June 2014:

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

| C) Other companies | Registered office | Share/quota capital (Euro) | Equity (Euro) | Revenue (Euro) | Profit/(loss) for the latest year (Euro) | Reporting date | % of investment | Carrying amount (Euro) |
|---|---|---|---|---|---|---|---|---|
| **Interporto di Rovigo S.p.A.** | Rovigo | 8,575,489 | 6,891,719 | 1,642,120 | (246,955) | 31.12.2013 | 0.30% | 41,634 |
| **Fingranda S.p.A.** | Cuneo | 2,662,507 | 2,500,368 | 48,594 | (189,172) | 30.06.2013 | 0.58% | 25,822 |
| **Agenzia di Pollenzo S.p.A.** | Bra (CN) | 25,610,365 | 24,897,102 | 937,109 | 31,430 | 31.12.2013 | 0.27% | 33,082 |
| **Industria e Università S.r.l.** | Varese | 13,005,000 | 10,877,836 | - | (31,786) | 31.12.2013 | 0.10% | 10,989 |
| **F.I.S.A.P. S.p.A. (wound up)** | Cittadellla (PD) | - | - | 0 | - | - | 0.00% | - |
| **Azienda Energetica Valtellina Valchiavenna S.p.A.** | Tirano (SO) | 1,803,562 | 18,032,762 | 9,551,172 | 1,485,227 | 31.12.2013 | 3.37% | 405,000 |
| **Terme di Offida S.p.A.** | Offida (AP) | 277,029 | 151,171 | - | (33,666) | 31.12.2013 | 0.19% | 548 |

## 14. Non-current financial assets – *€249 thousand*

This caption is comprised of loans granted to employees to purchase housing.

## 15. Other non-current assets – *€6,613 thousand*

This caption rose by €78 thousand on 31 December 2013.

Guarantee deposits of €3,144 thousand refer to receivables guaranteeing work to be performed on distribution plant and user contracts and increased following the above-mentioned merger.

Grants to be received of €1,234 thousand refer to the non-current portion of grants related to assets.

Tax credits claimed for reimbursement of €821 thousand refer to the reimbursement claim pursuant to article 6 of Law decree no. 185/2008 (Deduction from IRES of part of the IRAP pertaining to personnel expense and interest).

Prepayments of €309 thousand relate to prepaid promotional expenses incurred in previous years and in the first half of 2014.

Receivables for other non-current assets of €1,252 thousand relate to receivables due from municipalities arising from concessions and are recognised at their realisable value. The allowance for impairment is shown separately.

## Current assets

### 16. Inventories – €8,331 thousand

Closing inventories of raw materials rose by €1,987 thousand on the previous year.
Specifically, closing inventories of raw materials, consumables and supplies mainly consist of materials for construction and maintenance of gas and water distribution plant.
This caption includes the allowance for inventory write-down, set up to take into account inventories with unlikely future use.
The weighted average purchase cost is used.

### 17. Trade receivables – €139,644 thousand

Trade receivables amount to €193,644 thousand, down by €144,679 thousand on 31 December 2013.

This caption can be analysed as follows:

Thousands of Euros

| | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| **Third party customers:** | | | |
| Trade receivables | 156,475 | 301,496 | (145,022) |
| - Allowance for impairment | (16,831) | (17,174) | 343 |
| Intercompany receivables | 0 | 0 | 0 |
| **Total** | **139,644** | **284,323** | **(144,679)** |

Receivables from third party customers consist of trade and other receivables and essentially relate to gas distribution and invoicing of water sales.

They are affected by the seasonality of the business. Consequently, the considerable decrease recorded at period end was expected.

The allowance for impairment can be analysed as follows.

Thousands of Euros

| | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| **Opening balance** | **17,174** | **12,512** | **4,661** |
| Increases following changes to the consolidation scope | 20 | | 20 |
| Accruals | 3 | 5,129 | (5,126) |
| Releases | (108) | (1) | (107) |
| Utilisation | (257) | (467) | 210 |
| **Closing balance** | **16,831** | **17,174** | **(343)** |

All Group’s operations are in Italy.

## 18. Current loan assets – *€2,431 thousand*

Current loan assets of €2,431 thousand consist of loan assets with GME. These are deposits made to take part in the trade of energy efficiency certificates. They decreased by €3,238 thousand on the previous year.

## 19. Other current financial assets – *€0 thousand*

Other current financial assets include any fair value gains at the reporting date on the outstanding hedges.

## 20. Cash and cash equivalents – *€119,393 thousand*

Cash and cash equivalents decreased by €21,161 thousand. The reduction is due to the net effect of smaller bank deposits and greater post office deposits and cash in hand of €504 thousand.

Bank and postal accounts include cash related to operations.

## 21. Current tax assets – *€11,221 thousand*

Current tax assets total €11,221 thousand and relate to IRES assets with the ultimate parent F2i Reti Italia S.r.l. (€2,041 thousand), IRES assets with the tax authorities in relation to the excess payments on account of the Robin Hood tax (€3,788 thousand), the IRES claimed for reimbursement directly by the Group due to non-deduction of IRAP relating to personnel expense, whether employees or similar (pursuant to Law decree no. 201/2011) (€5,113 thousand) and IRAP (€279 thousand). The €4,422 thousand increase on the previous year end is almost entirely attributable to the net effect of the IRES and IRAP paid on account in June 2014, net of the current taxes accrued for the first half of 2014 and the IRAP credit used to pay 2013 taxes.

## 22. Other current assets – *€176,173 thousand*

Other current assets rose by €39,142 thousand on 31 December 2013. The increase is mainly the net result of:

- an increase in the amounts due from the Compensation Fund for €36,205 thousand, mainly as a consequence of the increase in receivables for energy saving targets achieved with the energy efficiency certificates purchased. This caption is linked to the amount due to the Compensation Fund described in note 36 "Other current liabilities";
- a decrease of €4,619 thousand in the amounts due from municipalities for the disposal of assets due to the expiry of concessions, following the definition of the reimbursement amount for gas distribution networks handed over in prior years;
- an increase in sundry prepayments due to the seasonality of prepaid concession fees paid to municipalities.

All captions are affected by the change in the consolidation scope, as described earlier.

This caption can be analysed as follows:

Thousands of Euros

| | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| **Other tax assets:** | | | |
| VAT credit claimed for reimbursement | 1,043 | 1,068 | (24) |
| Tax asset reimbursements applied for | 158 | 158 | 0 |
| Other tax assets | 511 | 411 | 101 |
| **Other assets:** | | | |
| Social security and insurance institutions | 2,107 | 1,190 | 916 |
| Grants related to assets | 3,702 | 4,196 | (495) |
| Compensation Fund | 141,889 | 105,684 | 36,205 |
| Municipalities for asset disposal due to expiry of concessions | 11,907 | 16,526 | (4,619) |
| Municipalities | 291 | 291 | 0 |
| Suppliers | 4,093 | 2,374 | 1,719 |
| Sundry | 2,453 | 2,419 | 34 |
| - Allowance for impairment | (1,115) | (1,115) | 0 |
| Accrued income | 1 | 1 | 0 |
| Prepayments relating to other deferred charges | 377 | 51 | 325 |
| Prepayments relating to real estate leases | 0 | 0 | 0 |
| Prepaid promotional expense | 42 | 42 | 0 |
| Prepaid insurance premiums | 1,602 | 2,945 | (1,343) |
| Other prepayments | 7,113 | 790 | 6,323 |
| **Total** | **176,173** | **137,031** | **39,142** |

# Liabilities

## Equity

### 23. Equity – €757,615 thousand

Equity of €757,615 thousand is down by €80,569 thousand due to the net effect of the following changes:

- a decrease following the distribution of ordinary dividends for €78,894 thousand (€0.54 per share);
- a decrease following the distribution of reserves for €22,118 thousand;
- an increase following the reclassification of the derivative fair value reserve to profit or loss for €43,423 thousand;
- a decrease following the loss for the for €22,980 thousand.

### Share capital – €71,950 thousand

At 31 December 2013, the parent's share capital consisted of 145,383,653 ordinary shares and amounted to €71,950 thousand, fully subscribed and paid up. This caption is unchanged.

### Reserve for the purchase of treasury shares – €(634) thousand

The reserve for the purchase of treasury shares of €634 thousand was set up in 2010 in accordance with IAS 1 following the purchase of the parent's shares from some withdrawing shareholders.

### Other reserves – €700,406 thousand

#### Revaluation reserves – *€409,145 thousand*

The revaluation reserves amount to €409,145 thousand and include the reserve pursuant to Law no. 413/91 (€72 thousand), the reserve pursuant to Law no. 350/03 (€408,980 thousand) and the reserve pursuant to Law no. 342/00 (€94 thousand). These reserves are unchanged compared to the previous year.

#### Legal reserve – €14,390 thousand

The legal reserve amounts to €14,390 thousand, down by €5,858 thousand following the reclassification of the portion exceeding 20% of share capital to other reserves.

#### Reserve for grants related to assets – €99,697 thousand

This reserve amounts to €99,697 thousand and is unchanged compared to 31 December 2013.

### Other reserves – €179,445 thousand

They amount to €179,445 thousand and fell by €16,260 thousand on the previous year end following their partial use to pay the 2013 dividend and the reclassification of the excess amount of the legal reserve.

### Hedging reserve – €0 thousand

The hedging reserve, which was set up in 2011 following the measurement of the new derivatives outstanding as of October 2011, has a nil balance as a result of the reclassification of €43,423 thousand relating to the fair value measurement of the derivatives entered into on 25 and 26 October 2011 to profit or loss.

### Other IFRS reserves - €(2,272) thousand

They are unchanged.

## Retained earnings – €8,873 thousand

Retained earnings total €8,873 thousand, up by €336 thousand on the previous year due to the combined effect of the recognition of the profit for 2013 (€79,230 thousand) and part of the payment of a dividend during 2014 (€78,894 thousand).

## Loss for the period – €22,980 thousand

The loss for the first half of 2014 amounts to €22,980 thousand, down by €58,152 thousand on the loss for the first half of 2013. The financial performance of the period was significantly affected by the refinancing transaction and the related termination of the outstanding hedging derivatives.

## Non-current liabilities

## 24. Non-current loans and borrowing (including the portions due within one year) – *€1,758,362 thousand*

This caption relates to the non-current credit line granted by a syndicate made up of 12 leading European banks.

The table below shows non-current financial debt expressed in the original currency and the relevant interest rate. The credit line’s notional amount is the same as the carrying amount.

| Thousands of Euros | | | Notional amount | | Interest rate | Effective interest |
|---|---|---|---|---|---|---|
| | 30.06.2014 | 31.12.2013 | 30.06.2014 | 31.12.2013 | in force | rate |
| Floating rate debt | 1,751,187 | 1,751,187 | 1,751,187 | 1,751,187 | Eur3+2.10% | 4.95% |
| Borrowing costs (non-current) | 7,176 | (17,266) | | | | |
| **TOTAL** | **1,758,362** | **1,733,921** | **1,751,187** | **1,751,187** | | |

The due date of the credit line is set out below:

| Thousands of Euros | Notional amount | | Due within one year | Due between 2 and 5 years | Due after 5 years |
|---|---|---|---|---|---|
| | at 30.06.2014 | at 31.12.2013 | | | |
| ***Non-current loans and borrowings*** | | | | | |
| *Loan - principal* | 1,751,187 | 1,751,187 | 0 | 1,751,187 | 0 |
| *Capex line* | | | | | |
| ***Total*** | 1,751,187 | 1,751,187 | 0 | 1,751,187 | 0 |

This credit line was fully repaid in July 2014. Consequently, the contractual expiry date set out herein was intentionally brought forward to said date.

## 25. Post-employment and other employee benefits – *Euro 36,110 thousand*

The Group provides its employees with various types of benefits, including post-employment benefits, health service benefits, compensation for lack of notice and compensation due instead of the energy discount.

This caption includes the amounts accrued for post-employment benefits, including defined benefit plans and other long-term benefits due to employees by law or contract.

Pursuant to IAS 19, defined benefit obligations are calculated using the projected unit credit method, whereby the liability is calculated proportionally to the service rendered at the relevant date compared to the expected total service to be rendered.

This caption can be analysed as follows:

### Post-employment benefits

In accordance with Italian legislation, when the employment relationship ends, the employee has the right to receive post-employment benefits, measured as a portion for each year of service of the gross remuneration due for the year divided by 13.5.
Following approval of Law no. 296 of 27 December 2006 (the 2007 Finance Act) and subsequent decrees and implementing regulations, only the portions of the post-employment benefits that remain with the company are considered as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the INPS (the Italian Social Security Institution) treasury fund are considered as a defined contribution plan.

### Health service

Based on the collective labour agreement, the managers in the industrial sector are entitled to health services in addition to those provided by the National Health Service, both during their time of employment and afterwards. Asem and FASI, the health service fund set up for Italian electricity industry employees, provide reimbursement of medical expenses.

## 26. Provisions for risks and charges – *€12,699 thousand*

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

Provisions for risks and charges (both the current and the non-current portions) increased by €1,506 thousand compared to 31 December 2013.
The table below shows total provisions for risks and charges (both the current and non-current portions) with a separate column for the current portion.

| Thousands of Euros | 31.12.2013 | Of which current portion | Of which non-current portion | Contribution from change in consolidation scope | Accruals | Releases | Utilisation | Other changes | 30.06.2014 | Of which current portion | Of which non-current portion |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Provisions for litigation and disputes | 9,157 | - | 9,157 | - | 3,175 | (792) | (982) | - | 10,558 | - | 10,558 |
| Provision for taxes and duties | 1,860 | - | 1,860 | - | - | - | - | - | 1,860 | - | 1,860 |
| Provisions for stock option costs | - | - | - | - | - | - | - | - | - | - | - |
| Provisions for disputes with personnel | 100 | - | 100 | - | - | - | - | - | 100 | - | 100 |
| Provision for transaction costs with personnel | - | - | - | - | - | - | - | - | - | - | - |
| Provision for future charges | 75 | - | 75 | - | - | - | - | - | 75 | - | 75 |
| Provision for disputes on concessions | 13,745 | 13,745 | - | - | 2,868 | (118) | (28) | - | 16,467 | 16,467 | - |
| Other provisions for risks and charges | 29,930 | 29,930 | - | 106 | 2,365 | (341) | (25) | - | 32,035 | 31,929 | 106 |
| **Total** | **54,868** | **43,676** | **11,192** | **106** | **8,407** | **(1,251)** | **(1,035)** | **-** | **61,095** | **48,397** | **12,699** |
| Provisions for leaving incentives | 6,722 | 6,722 | - | - | - | - | (2,843) | - | 3,879 | 3,879 | - |
| **Total** | **61,590** | **50,397** | **11,192** | **106** | **8,407** | **(1,251)** | **(3,878)** | **-** | **64,974** | **52,275** | **12,699** |

Provisions for risks and charges total €64,974 thousand (current portion: €52,275 thousand) and can be broken down as follows:

- "Provisions for litigation and disputes" (€10,558 thousand), to cover contingent liabilities mainly arising from several ongoing litigation cases with customers for harmful events;
- "Provision for taxes and duties" (€1,860 thousand), mainly for litigation relating to the taxes on the occupation of public space (Tosap and Cosap), the municipal tax on property (ICI), and other local taxes;
- "Provisions for disputes with personnel" (€100 thousand), to cover expected charges arising from disputes with personnel of a company merged in previous years. The balance of this caption is unchanged;
- "Provision for future charges" (€75 thousand);
- "Provision for disputes on concessions" (€16,467 thousand), rose by €2,868 thousand following some requests made by municipalities for the review of the

agreed concession fees. Releases were made for disputes that are no longer ongoing (€118 thousand), while utilisations amount to €28 thousand;

- "Other provisions for risks and charges" (€32,035 thousand), mainly to cover the risk of changes to some tariff components, the estimate of costs for international arbitration proceedings, and finally the risk due to the obligation to purchase energy efficiency certificates in the amount set by AEEGSI for 2013 and 2014;
- "Provisions for charges pertaining to leaving incentives" (€3,879 thousand), to cover probable liabilities that may arise from agreements with the trade unions signed in 2012 and in 2013 as part of the corporate restructuring process. Of this amount, €2,843 thousand has been used.

The parent's tax position is closed to inspection until the end of 2008.

## 27. Deferred tax liabilities – *€125,556 thousand*

For information on this caption, reference should be made to the note to deferred tax assets.

## 28. Non-current financial liabilities - *€20,928 thousand*

This caption, which decreased by €3,092 thousand compared to the previous year, includes the non-current portion of the debt arising from the termination of the derivatives connected to the credit line outstanding until October 2011. These derivatives are recognised in the Group's financial statements as a non-current liability which will be settled before the expiry of the new interest rate swaps subscribed in October 2011 and currently outstanding.

## 29. Other non-current liabilities – *€275,915 thousand*

This caption rose by €3,784 thousand compared to the previous year end. It can be analysed as follows:

Thousands of Euros

| | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| Sundry payables | 362 | 362 | 0 |
| Deferred income for grants related to assets | 50,897 | 51,559 | (661) |
| Deferred income for connection fees, property subdivision, plant transfer and grid extension contributions | 224,656 | 220,210 | 4,445 |
| **Total deferred income** | **275,915** | **272,131** | **3,784** |

The increase in deferred income for connection fees (€4,445 thousand) is mostly due to the contributions received during the year, net of the portion recognised in profit or loss to cover the operating costs incurred.

## Current liabilities

### 30. Current loans and borrowings – *€0 thousand*

This caption includes current banks loans and borrowings.

### 31. Current portion of non-current bank loans and borrowings – €2,212 thousand

The current portion of non-current bank loans and borrowings amounts to €2,212 thousand at 30 June 2014. It reflects the current portion of the liability for the outstanding interest rate swaps.

### 32. Current portion of non-current provisions and current provisions – *€52,275 thousand*

The current portion of non-current provisions amounts to €52,275 thousand. For a comment and details on this caption, reference should be made to the note to the provisions for risks and charges (note 26).

### 33. Trade payables – *€157,283 thousand*

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

They rose by €8,992 thousand on 31 December 2013.

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

Thousands of Euros

| | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| Due to suppliers | 156,238 | 147,567 | 8,672 |
| Due to the owners of the ultimate parent | 1,044 | 724 | 321 |
| **Total** | **157,283** | **148,290** | **8,992** |

Payables due to suppliers rose by €8,672 thousand on the previous year end. The period-end balance mainly consists of the residual amount payable to companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from personnel and operating support services, and from the purchase of electricity and gas service for internal use.

### 34. Current tax liabilities – *€92 thousand*

Current tax liabilities are shown net of the first payment on account made in June 2014.

### 35. Current financial liabilities – *€101,428 thousand*

They refer to the fair value of derivatives outstanding at 30 June 2014 (€95,027 thousand) following the revised valuation based on the estimated rate curves at the same date, as well as interest expense accrued on the credit line (€195 thousand) and the spread of derivatives. Moreover, the financial liabilities which arose from the termination of the previous derivatives in October 2011 had an impact on the debt position.

Thousands of Euros

| | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| Accrued expenses for interest on current bank loans and borrowings | 195 | 381 | (185) |
| Fair value losses on IRSs | 95,027 | 65,792 | 29,235 |
| Current portion of financial liabilities | 6,206 | 6,150 | 56 |
| **Total** | **101,428** | **72,323** | **29,105** |

### 36. Other current liabilities – *€123,345 thousand*

They can be analysed as follows:

Thousands of Euros

| | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| Other tax liabilities | 5,684 | 7,241 | (1,557) |
| Social security contributions | 11,102 | 9,100 | 2,002 |
| Other liabilities | 89,902 | 137,981 | (48,079) |
| Accrued expenses | 3,306 | 2,965 | 341 |
| Deferred income | 13,350 | 11,445 | 1,905 |
| **Total** | **123,345** | **168,733** | **(45,388 )** |

Other tax liabilities of €5,684 thousand, are as follows:

| Thousands of Euros | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| VAT liabilities | 2,548 | 3,951 | (1,403) |
| Employees' withholding taxes | 2,860 | 2,997 | (138) |
| Withholding taxes | 92 | 107 | (16) |
| Other taxes | 185 | 185 | 0 |
| **Total** | **5,684** | **7,241** | **(1,557 )** |

Social security contributions of €11,102 thousand, are broken down below:

| Thousands of Euros | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| Due to INPS | 9,194 | 7,861 | 1,333 |
| Due to other institutions | 1,908 | 1,240 | 669 |
| **Total** | **11,102** | **9,100** | **2,002** |

Other liabilities of €89,902 thousand, can be analysed as follows:

| Thousands of Euros | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| Due to employees | 16,970 | 10,902 | 6,068 |
| Due to municipalities for rights and fees | 5,112 | 6,921 | (1,809) |
| Due for connections and other trade payables | 6,271 | 6,426 | (154) |
| Users' guarantee deposits and advances | 1,631 | 2,106 | (476) |
| Due to the Compensation fund | 45,388 | 100,345 | (54,957) |
| Due to the board of statutory auditors | 18 | 12 | 7 |
| Due to municipalities for tariffs | 547 | 547 | 0 |
| Other payables | 13,964 | 10,722 | 3,242 |
| **Total** | **89,902** | **137,981** | **(48,079 )** |

The amount due to the Compensation Fund consist of payables for the entries that are transferred to the trading companies through the invoicing mechanism and subsequently paid to the Compensation Fund. The decrease on the previous year end is mainly due to the seasonal nature of the invoicing to trading companies against the Allowed Revenues determined in accordance with the Tariff Regulation.

Accrued expense and deferred income of €16,656 thousand, can be analysed as follows:

Thousands of Euros

| | 30.06.2014 | 31.12.2013 | Variation |
|---|---|---|---|
| **Accrued expenses** | | | |
| Additional monthly accrual for employees | 3,267 | 2,965 | 302 |
| Other accrued expenses | 39 | 1 | 39 |
| **Total accrued expenses** | **3,306** | **2,965** | **341** |
| **Deferred income** | | | |
| Deferred income for grants related to assets | 2,234 | 2,217 | 17 |
| Deferred income for connection fees, property subdivision, plant transfer and grid extension contributions | 8,241 | 7,578 | 663 |
| Other deferred income | 2,875 | 1,650 | 1,225 |
| **Total other deferred income** | **13,350** | **11,445** | **1,905** |
| **Total accrued expenses and deferred income** | **16,656** | **14,411** | **2,245** |

## 37. Liabilities held for sale – *€0 thousand*

Liabilities held for sale in the first half of 2014, unchanged from the previous year, are equal to zero.

## Related party disclosures

Related parties have been identified in accordance with the IFRS.

On 21 December 2013, Enel Distribuzione sold its investment in the parent to F2i Reti Italia 2 S.r.l.. In this respect, in 2014, the following were defined as related parties:

- F2i Reti Italia S.r.l.
- F2i Reti Italia 2 S.r.l.
- CBL Distribuzione
- Azienda Energetica Valtellina Chiavenna
- MEA S.p.A.
- F2I SGR S.p.A.

For comparative purposes, in 2013, the following parties were also considered related parties:

- Enel Distribuzione S.p.A.
- Enel Energia S.p.A.
- Enel Servizi S.p.A.
- Enel Servizio Elettrico S.p.A.
- Enel Si S.p.A.
- Enel Green Power S.p.A.

The definition of related parties covers key management personnel, including their close relatives, of the parent and F2i Reti Italia S.r.l., as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those over which the Group exercises significant influence. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and include directors.

The main related party trade receivables relate to CBL Distribuzione, while the main related party trade payables relate to the amounts due to F2i Reti Italia for the tax consolidation scheme.

The dividends paid of €100,961 thousand refer to the distribution of the profit for the period to F2I Reti Italia S.r.l. and F2I Reti Italia 2 S.r.l..

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

Trading and financial transactions and other transactions between the Group and its ultimate parents, subsidiaries, other group companies and other related parties of the ultimate parent are as follows:

## Trading and other transactions

### First half of 2014

| | Trade | | Trade | |
|---|---|---|---|---|
| Euro | Receivables | Payables | Costs | Revenue |
| F2i Reti Italia S.r.l. | 0 | (1,044) | 775 | 0 |
| F2i Reti Italia 2 S.r.l. | 0 | 0 | 0 | 0 |
| CBL Distribuzione | 1,110 | 0 | 0 | 318 |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | 0 | 0 | 0 | 0 |
| MEA S.p.A. | 59 | 0 | 0 | 0 |
| F2i SGR | 0 | (24) | 20 | 0 |
| **Total** | **1,169** | **(1,069)** | **795** | **318** |

## First half of 2013

| Thousands of Euros | Trade Receivables | Payables | Trade Costs | Revenue |
|---|---|---|---|---|
| Enel Distribuzione | 3,252 | (2,778) | 6,343 | 1,941 |
| Enel Energia | 110,148 | (6,712) | 4,747 | 288,087 |
| Enel S.p.A. | - | (716) | - | - |
| Enel Servizi | - | (5,687) | 11,416 | - |
| Enel Servizio Elettrico | 151 | (3) | - | - |
| Enel Trade | 6,410 | - | - | 13,269 |
| Enel Sì | - | - | - | - |
| Enel Green Power | - | - | - | - |
| F2i Reti Italia S.r.l. | - | (724) | 1,458 | - |
| F2i sgr S.p.A. | - | - | - | - |
| CBL Distribuzione | 822 | - | - | 687 |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | - | - | - | - |
| MEA S.p.A. | 59 | - | - | 19 |
| **Total** | **120,841** | **(16,619)** | **23,963** | **304,003** |

# Financial transactions

## 2014

| Euro | Loan assets | Loans and borrowings | Costs | Revenue | Dividends paid |
|---|---|---|---|---|---|
| F2i Reti Italia S.r.l. | 2,041 | (72) | 0 | 0 | 86,003 |
| F2i Reti Italia 2 S.r.l. | 0 | 0 | 0 | 0 | 14,959 |
| CBL Distribuzione | 0 | 0 | 0 | 0 | 0 |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | 0 | 0 | 0 | 0 | 0 |
| MEA S.p.A. | 136 | 0 | 0 | 0 | 0 |
| F2i SGR | 0 | 0 | 0 | 0 | 0 |
| **Total** | **2,176** | **(72)** | **0** | **0** | **100,961** |

## 2013

| Thousands of Euros | Loan assets | Loans and borrowings | Costs | Revenue | Dividends |
|---|---|---|---|---|---|
| Enel Distribuzione | - | - | - | - | 12,146 |
| Enel Energia | - | - | - | - | - |
| Enel S.p.A. | - | - | - | - | - |
| Enel Servizi | - | - | - | - | - |
| Enel Servizio Elettrico | - | - | - | - | - |
| Enel Trade | - | - | - | - | - |
| Enel Green Power | - | - | - | - | - |
| F2I Reti Italia | 1,284 | (13,866) | - | - | 69,832 |
| F2i sgr S.p.A. | - | - | - | - | - |
| CBL Distribuzione | - | - | - | - | - |
| Azienda Energetica Valtellina Valchiavenna S.p.A. | - | - | - | 17 | - |
| MEA S.p.A. | 136 | - | - | - | - |
| **Total** | **1,419** | **(13,866)** | **-** | **17** | **81,978** |

## 38. Contractual commitments and guarantees

Guarantees given total €115,490 thousand and relate to guarantees given to third parties. Of these guarantees, €94,179 thousand refers to bank guarantees and €21,311 thousand to insurance guarantees.
They relate to the maintenance and extension work for the distribution network and participation in tenders for gas distribution service management.
Moreover, pursuant to article 2427.22-*ter* of the Italian Civil Code, it is noted that there are no unrecognised agreements which would generate significant effects on the Group's financial statements.

## Contingent liabilities and assets

### Contingent liabilities

There are no contingent liabilities at 30 June 2014.

### Contingent assets

There are no contingent assets at 30 June 2014.

## Significant events after the reporting period

In its decision of 15 July 2014, the Council of State allowed 2i Rete Gas S.p.A.'s appeal to cancel the final award of the tender by the Rozzano municipality (approximately 18,000 end users) to the joint venture set up by Sicurgas S.r.l., the joint-venture representative with a 60% stake therein, with Egea S.p.A. and Distribuzione Gas Naturale S.r.l. as it did not meet the requirements to participate in the bid.
The above decision invalidates the contract agreed with the winning tenderer, confirming 2i Rete Gas S.p.A.'s right to being entrusted with the natural gas distribution service contract, subject to verification of the relevant requirements.

## Management and coordination

2i Rete Gas Group has been managed by F2i Reti Italia S.r.l. since 1 October 2009.
Below are the highlights of the financial statements of F2i Reti Italia S.r.l. at 31 December 2013.

| Thousands of Euros | 31/12/2013 |
|---|---|
| Balance sheet | |
| Fixed assets | 719,887 |
| Current assets | 113,573 |
| Prepayments and accrued income | 17 |
| Net equity | 639,982 |
| Provisions for risks and charges | 1,183 |
| Employees' leaving entitlement | 13 |
| Payables | 192,099 |
| Accrued expenses and deferred income | 200 |

| | 2013 |
|---|---|
| Profit and loss account | |
| Production revenues | 1,463 |
| Production cost | (2,497) |
| Financial income | 86,053 |
| Financial expense | (13,670) |
| Extraordinary income | 0 |
| Extraordinary expense | (52) |
| Income taxes | 2,846 |
| Net profit for the year | 74,143 |

# XI. Corporate governance

## Management and organisational model

Legislative decree no. 231 of 8 June 2001, entitled “Administrative liability of legal entities, companies, and associations, including without legal personality”, and subsequent amendments introduced corporate administrative liability for several specific crimes (extortion, bribery, fraud against public officials in Italy and abroad, corporate crimes, environmental crimes, etc.) committed by natural persons who represent, direct, manage or administer a company or by natural persons subject to their management or supervision.

On 16 March 2011, the parent’s board of directors - in consideration of the Group leaving the scope of the Enel Group and the opportunity to reflect the contribution, experience and underlying principles provided by the new majority shareholder F2i Reti Italia S.r.l. – approved and issued, in implementation of the provisions of article 6 of Legislative decree no. 231/2001 of 8 June 2001, its own independent and distinct “Organisational, management and control model” (in place of the Organisational, management and control model of the Enel Group that had previously been adopted by resolution of the board of directors on 18 December 2002). It also appointed the parent’s supervisory body to monitor implementation, ongoing updating, effectiveness of and compliance with the Management and organisational model under Legislative decree no. 231/2001, jointly and with autonomous powers of initiative and control in the persons of the internal audit manager Angelo Santo Bargigia, the chairman of the board of statutory auditors, Marco Antonio Modesto Dell’Acqua, and Daniela Mainini, the latter being appointed chairwoman of the supervisory body itself.

During the parent’s board of directors’ meeting of 23 December 2013, some revisions to the parent’s Organisational, management and control model were approved, on the basis of the need to standardise the contents of the model with the parent’s new institutional and organisational structure, following the merger of 2iGas Infrastruttura Italiana Gas S.r.l. and G6 Rete Gas S.p.A. and to align its contents to some specific features of the gas distribution business.

The purpose of the model is the construction and fine-tuning of a structured and comprehensive system of control procedures and activities, to be implemented also on a pre-emptive basis, aimed at preventing the types of crimes listed in the decree, specifically through identification of “operational areas at risk” and the setting up of procedures for them.

The model consists of a “general section” and individual “special sections” dedicated to the different types of crimes listed in Legislative decree no. 231/2001 and subsequent amendments.

The model calls for the identification of operational areas considered "at risk" of crime pursuant to Legislative decree no. 231/2001 and the setting up of procedures for them, including monitoring, allowing for prompt intervention to prevent or take action against the committing of such crimes.

## Code of conduct

The Group has its own code of conduct, approved by the board of directors on 16 March 2011 and subsequently updated in order to include the change of its name to 2i Rete Gas Group. The Code of conduct, inspired by awareness of the social and environmental implications inherent in the activities undertaken by the Group together with the importance played by a cooperative approach with stakeholders, sets out in detail the principles of ethics and conduct which the company, its subsidiaries and their employees and collaborators are required to adopt and comply with in carrying out their work. Specifically, the founding principle of the Group's code of conduct is that of reaffirming as the primary interest of its actions that of maintaining and enhancing the relationship of trust with its stakeholders, encouraging investments by shareholders, the loyalty of customers, attracting the best personnel, creating a stable and strong relationship with suppliers and reliability towards creditors, and - internally - helping to create a peaceful and stimulating work environment, to allow full use of the Group's human resources and to allow it to assess, take and implement strategic and organisational decisions with clarity, correctness, honesty and speed.

2i Rete Gas S.p.A.
Chief Executive Officer
Gianclaudio Neri
(signed on the original)

# XII. Report of the Independent Auditors

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI

Telefono +39 02 6763.1
Telefax +39 02 67632445
e-mail it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

# Auditors' report on review of condensed interim consolidated financial statements

To the Board of Directors
2i Rete Gas S.p.A.

1 We have reviewed the condensed interim consolidated financial statements of the 2i Rete Gas Group as at and for the six months ended 30 June 2014, comprising the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to prepare this report based on our review. The parent engaged us to perform such review on a voluntary basis.

2 We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. The review consisted primarily of the collection of information about the captions of the condensed interim consolidated financial statements and the consistency of application of the accounting policies through discussions with company directors and analytical procedures applied to the financial data presented in such condensed interim consolidated financial statements. The review excluded such audit procedures as tests of controls and substantive procedures on assets and liabilities and is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. As a consequence, contrary to our report on the annual consolidated financial statements, we do not express an audit opinion on the condensed interim consolidated financial statements.

With regard to the corresponding figures included in the condensed interim consolidated financial statements, reference should be made to our reports on the annual consolidated and condensed interim consolidated financial statements of the previous year dated 23 April 2014 and 16 October 2013, respectively.

3 Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the 2i Rete Gas Group as at and for the six months ended 30 June 2014 have not been prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 26 September 2014

KPMG S.p.A.

(signed on the original)

Massimo Maffeis
Director of Audit

# XIII. “Regulatory framework” Appendix

With respect to the rules which govern the Group’s business, it is noted that in the Italian Official Journal - General Series no. 252 of 28 October 2011, the decree of the Ministry for Economic Development of 18 October 2011 was published containing the precise list of the municipalities which fall within each of the 177 areas for the assignment through tender competitions of the natural gas distribution service, as set out in the Ministerial decree of 19 January 2011 “The local areas in the natural gas distribution sector”, most recently adjusted by the communication of the Ministry of Economic Development published in the Italian Official Journal no. 303 of 30 December 2011.
Both decrees were challenged before the Lazio Regional administrative court (TAR) by some municipalities and by some distributors. At the hearing to discuss the appeals held on 27 February 2014, the Lazio Regional administrative court declared its lack of jurisdiction on the dispute and concurrently declared the jurisdiction of the Lombardy Regional administrative court before which the case will be reinstated in accordance with the law.

In the Ordinary Supplement of the Italian Official Journal no. 22 of 27 January 2012, the decree of the Ministry for Economic Development no. 226 of 12 November 2011 was published, setting out the Regulation for the tender criteria for the assignment of the gas distribution service concessions.
The Regulation comes into force on the fifteenth day following publication, as specified in article 19.
The Ministerial decree introduces detailed regulations for the pre-tender stage (articles 2/4) and specifically regulates the means of aggregating the granting bodies and the disclosure obligations for outgoing operators, the reimbursement amount due to the latter (articles 5/8), the carrying out of tenders (articles 9/16) and the monitoring of the effects of the decree (articles 17/19).
The Ministerial decree identifies various implementing provisions, still under preparation, including the definition of a standard progress report (to be prepared by AEEGSI pursuant to article 4 of Ministerial decree no. 226/2011), a price list for investment assessment (to be prepared by AEEGSI pursuant to article 5 of Ministerial decree no. 226/2011), an automated system to calculate tender costs (to be prepared by AEEGSI pursuant to article 8 of Ministerial decree no. 226/2011), a procedure relating to energy efficiency investments covered by the tender (AEEGSI pursuant to article 13 of Ministerial decree no. 226/2011) and a monitoring and support system for the decree’s implementation with the preparation of a programme which calculates the compensation due to outgoing operators (Ministry of Production Activities pursuant to article 17 of Ministerial decree no. 226/2011).

AEEGSI, by means of its resolution 113/2013/R/GAS of 21 March 2013, approved the preparation of the form to notify any divergences from standard tenders and from tender specifications by bidders, as envisaged by article 9.1 and 2 of Ministerial decree no. 226/2011. The notification form to be used was subsequently approved with the resolution of the Infrastructure, Unbundling and Certification Department of AEEGSI no. 2/13 of 7 June 2013.
Ministerial decree no. 226/2011 was challenged before the Lazio Regional administrative court by the municipality of Caserta and the hearing, which was originally set for 5 October 2012, was postponed to 27 February 2014, when the Lazio Regional administrative court declared the illegality of article 2.7 of Ministerial decree no. 226/2011 only, which provides for a specific procedure to terminate service contracts in case of serious and repeated violations by the Area operator.

With respect to area tender procedures, the Constitutional Court, with ruling no. 134 of 7 June 2013, confirmed the legitimacy of article 24.4 of Legislative decree no. 93/2011 in relation to art. 76 of the Italian Constitution.

In the Ordinary Supplement of the Italian Official no. 71 of 24 March 2012, art. 25 of Law decree no. 1/2012 was converted into law unchanged, in the section concerning the regulation of the disclosure obligations of operators of public services (currently paragraphs 6 and 7); the law comes into force the day after publication.
Article 25 creates an obligation on grantors and operators of local public services, following a specific request, to provide municipalities which decide to call tenders for the assignment of the service, data concerning:
- the technical characteristics of plant and infrastructure,
- their carrying amount at the start of the reporting period, in accordance with market parameters, revaluations and accumulated depreciation and
- any other information necessary to prepare the tenders.

Delay in such disclosure beyond the deadline of sixty days from the request and the presentation of false information represent an illegal act for which the provincial governor, at the request of the local authority, may apply a fine of between €5,000 and €500,000, without prejudice to the possible application of the penalties envisaged by the anti-trust legislation on abuse of a dominant position.

In the Official Bulletin of the Lombardy Region no. 16 of 20 April 2012, the Regional Law of Lombardy no. 7 was published on the “Measures for growth, development and employment”; in order to facilitate the updating process of the registry of the subsoil, article 42.3 provides that all subjects who manage infrastructure on the subsoil, must, by 30 June, provide the competent local offices with cartographic documentation, on a digital support, of the infrastructure managed, with an indication of its location and size. The same obligation is incumbent on the implementing party during work to build or lay the foundations of new non-industrial infrastructure. It also established that the Regional Council, by means of its own resolution, shall establish the means of implementing the provision.

Failure to comply with these obligations at article 42.4 entails a minimum fine of €5 to a maximum of €15 for every linear meter of infrastructure, as well as a ban on issuing new construction permits for the realisation of infrastructure on the subsoil of the same municipality. In this regard a subsequent Regulation with implementing and executive provisions will be issued.

Law decree no. 83 (Urgent measures for the country's growth) was published in the Italian Official Journal of 26 June 2012; article 37 of the Law decree amends articles 14 and 15 of Legislative decree no. 164/00 and provides for the possibility of taking part in the initial distribution tenders for direct holders of concessions (prior to the Letta decree), even if they manage local public services other than natural gas distribution by virtue of direct award.
In addition, there is no prejudice to the provisions of article 46-bis of Law decree no. 159/07 and the gas distribution areas established pursuant to the same article, on the basis of which tenders must be carried out in compliance with art. 24.4 of Legislative decree no. 93/11.
This Law decree was converted into Law no. 134 of 7 August 2012, which did not entail any changes to the aforementioned article 37.

Law decree no. 179 of 18 October 2012 was published in the Italian Official Journal no. 245 of 19 October 2012; it was converted into Law no. 221 of 17 December 2012, published in the Italian Official Journal no. 294 of 18 December 2012, and contains a provision for economically significant local public services (article 34), which is not applicable to the natural gas distribution service; the Law decree also provides that there is no change to the provisions as set out in the aforementioned article 37 of Law decree no. 83/12 converted into Law no. 134/12.

Law decree no. 69 of 21 June 2013 was published in the Italian Official Journal no. 144 of 21 June 2013; it was converted into Law no. 98 of 9 August 2013, published in the Italian Official Journal no. 194 of 20 August 2013, containing urgent measures for economy recovery.
Article 4 established the mandatory nature of the deadlines as set out in article 3 of Ministerial decree no. 226/2011 for the commencement of the area tender procedures, envisaging an extension of the deadlines as set out in annex I of the above Ministerial decree for the appointment of the contracting authority relating to areas falling within groupings I and II, as well as the intervention, first of the Region and then also of the Ministry for Economic Development, should the deadlines pass without action being taken. The same article provides for penalties applicable to municipalities which do not comply with the above timeframes, to the extent of 20% of the remuneration of the local capital and the related annual depreciation which the area operator is required to pay to the municipalities to the extent set out in the tender, pursuant to art. 8.4 of Ministerial decree no. 226/2011. To this end and to allow contractors to complete their preliminary work before new tenders are called, the draft law converting Law decree no. 91 of 24 June 2014 (the "Competitiveness decree") has been approved. This decree

postpones again the deadline for commencement of tender activities whereby the first tenders will probably be pushed forward to the first half of 2015.

Law no. 9 converting Law decree no. 145/2013 (the so-called "Destinazione Italia", a policy to attract foreign investments), which modified article 15.5 of Legislative decree no. 164/2000, was published in the Italian Official Journal on 21 February 2014, affecting the reimbursement amount due from the new operator, which shall be calculated in compliance with that established in the agreements or contracts and *"for any matter not covered by the same contracts or agreements, based on the Guidelines about the operating terms and criteria for calculating the reimbursement amount..Omissis".* The conversion of the Destinazione Italia decree into law confirms that the private grants related to local areas, assessed in accordance with the ruling tariff method, must be deducted from the repayment amount.

The above conversion law also introduced point 16 *quater* of article 1 which, in order to boost the launching of area tenders, provides that outgoing operators pay in advance to the contracting authority an amount equal to the one-off tender fees, pursuant to article 8.1 of Ministerial decree no. 226/2011.

In implementation of article 4.6 of Law decree no. 69 of 21 June 2013, converted into Law no. 98 of 9 August 2013, the Ministry for Economic Development - with Ministerial decree dated 22 May 2014 published in the Italian Official Journal no. 129 of 6 June 2014 which came into force on the next day - approved the "Guidelines about the terms and criteria to calculate the reimbursement amount for natural gas distribution plant".