

A stylized, light gray background illustration of a gas pipeline network. It consists of several horizontal and vertical lines representing pipes, connected by 90-degree and T-junctions. Each pipe has a slight 3D effect with a darker gray shadow on the bottom. There are 12 valve symbols, each consisting of two vertical bars with a central horizontal bar and a small brownish-orange detail, placed at various points along the pipes.

INTERIM  
FINANCIAL  
REPORT  
as at 30 June 2019

# Contents

<b>Contents</b>	<b>1</b>
<b>I. Corporate Boards</b>	<b>4</b>
<b>II. Directors' Report</b>	<b>5</b>
1 Foreword .....	6
2 Group structure and highlights .....	7
3 Significant events during the reporting period .....	7
4 The scope of consolidation.....	8
5 Results of the 2i Rete Gas Group.....	9
6 Regulatory and tariff framework.....	16
<b>6.1 Regulation</b> .....	<b>16</b>
<b>6.2 Tariffs</b> .....	<b>19</b>
7 Concession development and operation .....	21
<b>7.1 Participation in non-ATEM tenders</b> .....	<b>22</b>
<b>7.2 Activities on ATEM tenders</b> .....	<b>23</b>
<b>7.3 Concessions awarded</b> .....	<b>23</b>
<b>7.4 Concessions lost</b> .....	<b>24</b>
<b>7.5 Acquisition of companies</b> .....	<b>24</b>
8 Support for gas transport activities.....	25
<b>8.1 Main Regulatory Changes</b> .....	<b>25</b>
<b>8.2 Relations with Traders and Customer Care</b> .....	<b>27</b>
<b>8.3 Front Office</b> .....	<b>28</b>
<b>8.4 Commercial Call Centre</b> .....	<b>28</b>
<b>8.5 Requirements of the Integrated Information System</b> .....	<b>29</b>
<b>8.6 Gas Invoicing and Balancing</b> .....	<b>30</b>
<b>8.7 Metering</b> .....	<b>31</b>
<b>8.8 Commercial development</b> .....	<b>32</b>
9 Plant construction, environment and safety.....	34
<b>9.1 Gas distribution plants</b> .....	<b>34</b>
<b>9.2 Service continuity and safety</b> .....	<b>34</b>
<b>9.3 Resolution 155/08 – (Smart meters)</b> .....	<b>35</b>
<b>9.4 Planning activities</b> .....	<b>35</b>
10 Water Sector .....	36
11 Quality, Safety and Environment .....	36
<b>11.1 Prevention and Protection Service</b> .....	<b>38</b>

11.2	<b>Environmental issues</b> .....	<b>38</b>
11.3	<b>Technical and Commercial Quality, control over technical and commercial quality data subject to communication to ARERA</b> .....	<b>39</b>
11.4	<b>Control over worksite safety</b> .....	<b>41</b>
12	Human resources .....	41
12.1	<b>Company organization</b> .....	<b>41</b>
12.2	<b>Industrial relations</b> .....	<b>42</b>
12.3	<b>Selection</b> .....	<b>42</b>
12.4	<b>Training and development</b> .....	<b>43</b>
12.5	<b>Corporate climate</b> .....	<b>44</b>
12.6	<b>Compliance</b> .....	<b>44</b>
13	IT systems .....	45
14	Research and development.....	46
15	Risk management.....	46
15.1	<b>Operational risks</b> .....	<b>47</b>
15.2	<b>Regulatory risks</b> .....	<b>47</b>
15.3	<b>Risks deriving from future changes in natural gas consumption</b> .....	<b>47</b>
15.4	<b>Environmental and safety risks</b> .....	<b>48</b>
16	Outlook.....	48
IV.	<b>Consolidated Interim Report</b>	<b>50</b>
V.	<b>Financial Statements</b>	<b>51</b>
VI.	<b>Profit or Loss</b>	<b>52</b>
VII.	<b>Statement of Comprehensive Income</b>	<b>53</b>
VIII.	<b>Statement of Financial Position</b>	<b>54</b>
IX.	<b>Statement of Cash Flows</b>	<b>56</b>
X.	<b>Statement of Changes in Equity</b>	<b>57</b>
XI.	<b>Notes</b>	<b>58</b>
17	Format and contents of the Financial Statements .....	58
18	Conformity to IFRS/IAS and basis of presentation .....	58
19	Accounting standards, valuation criteria and use of estimates .....	59
XII.	<b>Information on the Income Statement</b>	<b>63</b>
XIII.	<b>Information on the Statement of Financial Position</b>	<b>72</b>
XIV.	<b>Report of the Independent Auditors</b>	<b>102</b>

## I. Corporate Boards

Board of Directors	Board of Statutory Auditors	Independent Auditors
Chairman Paola Muratorio	Chairman Marco Antonio Modesto Dell'Acqua	PricewaterhouseCoopers S.p.A.
Deputy Chairman Carlo Michelini	Standing auditors Nicola Gaiero Marco Giuliani	
Chief Executive Officer Michele Enrico De Censi	Alternate auditors Andrea Cioccarelli Giuseppe Panagia	
Directors Matteo Ambroggio Rita Ciccone Rosaria Calabrese Rosario Mazza Carlo Maddalena Jans Willem Ruisbroek		

## II. Directors' Report

## 1 Foreword

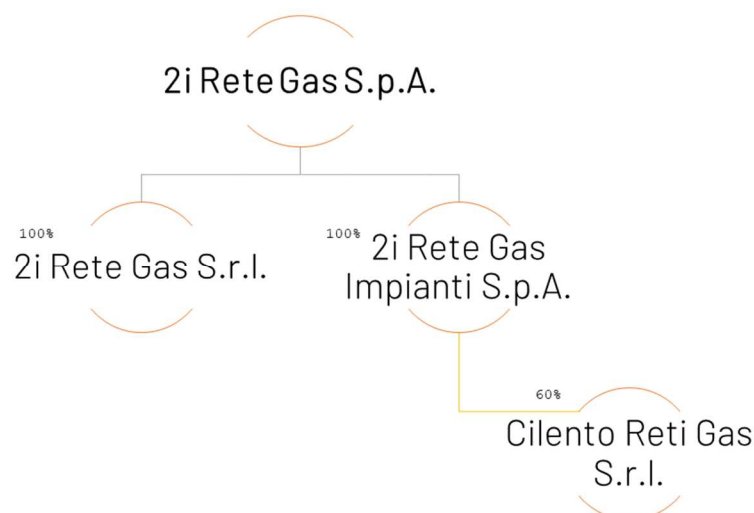
In its July 2019 Economic Bulletin, the Bank of Italy noted that, after a first quarter in 2019 marked by a moderate recovery in the main economic indicators, the most recent data show stationary or slightly declining economic activity in Italy in the second quarter. This was the result above all of the weakness of the industrial cycle, caused by ongoing trade tensions. In the Bank of Italy's surveys, companies' assessments on the trend in demand for their products suggest a slowdown in coming months and indicate investment plans which will barely grow in the current year.

The average forecast for GDP growth is 0.1% this year, 0.8% next and 1.0% in 2021. There is a slowdown in investments.

As for the 2i Rete Gas Group, the specific indicators for its business, such as new installations of meters and gas connections, instead saw higher growth in the first half compared to what was planned at the start of the year; this result was possible thanks to the ongoing efforts of the whole Group, seeking not only to improve its network and make it safer and more modern, but also to increase and optimise investments.

## 2 Group structure and highlights

The following chart presents the situation of the Group as at 30 June 2019:



Regarding the Group's operating and financial highlights, the following table shows the key operating, economic and financial indicators of the Group at 30 June 2019 compared to the previous year as well as the first half of 2018 alone:

	30.06.2019	31.12.2018	30.06.2018	2019 - 2018
<b>Active concessions:</b>	2,141	2,150	2,150	(9)
<b>Active redelivery points:</b>	4,333,708	4,395,955	4,383,451	(62,247)
<b>Distributed Gas (Natural gas and LPG) in millions of cubic metres:</b>	3,628	6,040	3,605	(2,412)
<b>EBITDA in millions of euro:</b>	241.9	461.2	226.0	16
<b>Net income in millions of euro:</b>	108.9	155.4	75.6	33
<b>Managed networks in kilometers:</b>	65,859	66,263	66,064	(404)

	30.06.2019	31.12.2018	30.06.2018	2019 - 2018
<b>Net financial position in millions of euro:</b>	2,603.4	2,640.5	2,711.5	(37)
<b>Net invested capital in millions of euro:</b>	3,441.6	3,440.5	3,434.1	1

Data regarding concessions and redelivery points that were active in the half fell compared to previous periods solely due to the disposal of the concessions in the provinces of Bari and Foggia in application of the conditions required by the Antitrust Authority for the purchase of companies from the Naturgy Group which took place in 2018.

## 3 Significant events during the reporting period

On 1 January 2019 two companies which were acquired in the previous year were merged into the parent company 2i Rete Gas S.p.A., i.e. CGM S.r.l. and 2i Rete Gas Servizi S.p.A., in order to simplify the Group's structure without impacting the scope of consolidation. Also in the half the merger was approved of 2i Rete Gas Impianti S.p.A. into the parent company, to complete the aforementioned corporate simplification with positive effects in terms of reducing overheads. The operation will be completed in the second half of 2019.

On 1 April 2019 the award and subsequent transfer of concessions in the local area of Bari and Foggia were completed.

This transfer arose from the takeover of Nedgia S.p.A. (now 2i Rete Gas Impianti S.p.A), which had been verified and authorised by the Antitrust Authority while requesting some measures to maintain market equilibrium. To this end the Group had started the sale of two blocks of concessions in the areas of Bari 2 and Foggia 1; at the end of the process, which was carried out in the first half of 2018, 2i Rete Gas S.p.A. had signed a preliminary sale agreement with Centria S.r.l, a subsidiary of Estra S.p.A., related to some plants of the ATEMs of Foggia 1 North and Bari 2 South that were being disposed of.

## 4 The scope of consolidation

The scope of consolidation of the 2i Rete Gas Group did not see any significant change in the half, given the irrelevance of the mergers within the Group and the relative importance of the concessions in Bari and Foggia, as noted above.



## 5 Results of the 2i Rete Gas Group

When commenting on its income statement and statement of financial position data, the Group consistently uses over time certain popular non-IAS/IFRS measures. In particular, the income statement presents intermediate measures, such as EBITDA and EBIT, which are the algebraic sum of the items preceding them. As for statement of financial position data, similar considerations apply to net invested capital, net financial position, adjusted financial position, and accounting net financial debt, which are broken down in the following tables.

As the measures used by the Group are not defined in the reference accounting standards, their definitions may not be aligned with those adopted by other companies/groups, and therefore they may not be comparable.

Millions of euro	30.06.2019	30.06.2018	Change
<b>Revenue</b>	<b>491.9</b>	<b>473.8</b>	<b>18.0</b>
Transport and sale of methane gas and LPG	328.5	316.8	11.7
Connection fees and accessory rights	7.4	7.4	0.0
Other sales and services	11.8	13.7	(1.9)
Revenue from intangible assets / assets under construction	132.4	122.3	10.1
Other revenue	11.9	13.7	(1.8)
<b>Operating costs</b>	<b>(250.0)</b>	<b>(247.9)</b>	<b>(2.1)</b>
Labour costs	(63.7)	(63.1)	(0.7)
Raw materials and inventories	(34.4)	(33.4)	(1.1)
Services	(127.5)	(127.4)	(0.0)
Other costs	(15.1)	(17.8)	2.7
Allocations to provisions for risks and charges	(9.7)	(6.5)	(3.2)
Increase in fixed assets not subject to IFRIC 12	0.4	0.3	0.1
<b>EBITDA</b>	<b>241.9</b>	<b>226.0</b>	<b>15.9</b>
<b>Amortisation, depreciation and write-downs</b>	<b>(99.8)</b>	<b>(91.6)</b>	<b>(8.2)</b>
Amortisation, depreciation and impairment losses	(99.8)	(91.6)	(8.2)
<b>EBIT</b>	<b>142.1</b>	<b>134.3</b>	<b>7.8</b>
Net financial income (expenses) and income (expenses) from equity investmer	(31.3)	(25.8)	(5.5)
<b>Pre-tax income</b>	<b>110.7</b>	<b>108.5</b>	<b>2.2</b>
Income taxes for the year	(17.9)	(32.9)	15.0
<b>Net income (expenses) from continuing operations</b>	<b>92.8</b>	<b>75.6</b>	<b>17.2</b>
<b>Net income (expenses) from discontinued operations</b>	<b>16.0</b>	<b>-</b>	<b>16.0</b>
<b>Net income for the year</b>	<b>108.9</b>	<b>75.6</b>	<b>33.3</b>

It has been obtained by reclassifying the income statement data in accordance with operational criteria that conform to international practice and maintain the accounting treatment required by IFRIC 12. The operating performance for the year is shown in the table above.

IFRIC 12, which represents the basis of presentation of the consolidated interim financial statements, does not affect profitability, and only requires recognising revenues and

costs relating to the construction of distribution network infrastructure; for the sake of a better understanding of operating changes, here below is a summary table that shows consolidated revenues and costs excluding the impact of IFRIC 12.

Starting with the financial statements for 2018 the revenues and costs for Energy Efficiency Certificates (EEC) are shown net, thus highlighting the (positive or negative) margin from the management of these certificates. In this situation, the consolidated interim financial report, in order to ensure better understanding and easier comparison with the data for the prior-year period, has restated the income statement as at 30.06.2018 so as to remain coherent with what is set out here.

Millions of euro	30.06.2019 without IFRIC 12	30.06.2018 without IFRIC 12	Change
<b>Revenue</b>	<b>359.5</b>	<b>351.5</b>	<b>8.0</b>
Transport and sale of methane gas and LPG	328.5	316.8	11.7
Connection fees and accessory rights	7.4	7.4	0.0
Other sales and services	11.8	13.7	(1.9)
Revenue from intangible assets / assets under construction	(0.0)	(0.0)	0.0
Other revenue	11.9	13.7	(1.8)
<b>Operating costs</b>	<b>(119.0)</b>	<b>(125.6)</b>	<b>6.6</b>
Labour costs	(32.8)	(34.9)	2.2
Raw materials and inventories	(2.5)	(1.6)	(0.9)
Services	(59.7)	(65.5)	5.8
Other costs	(14.7)	(17.3)	2.6
Allocations to provisions for risks and charges	(9.7)	(6.5)	(3.2)
Increase in fixed assets not subject to IFRIC 12	0.4	0.3	0.1
<b>EBITDA</b>	<b>240.5</b>	<b>226.0</b>	<b>14.6</b>
<b>Amortisation, depreciation and write-downs</b>	<b>(98.4)</b>	<b>(91.6)</b>	<b>(6.8)</b>
Amortisation, depreciation and impairment losses	(98.4)	(91.6)	(6.8)
<b>EBIT</b>	<b>142.1</b>	<b>134.3</b>	<b>7.8</b>

Concerning the above tables, revenues, which amounted to 491.9 million euro including the impact of IFRIC 12, increased by 18 million euro due essentially to the increase in transport revenues and revenues from intangible assets (which represent investments in gas distribution concessions).

In particular, transport revenues for natural gas and LPG for the half totalled 328.5 million euro, up by 11.7 million euro thanks to the increase in investments in the prior period and the increase in the regulatory WACC recognised, while connection fees and accessory rights, of 7.4 million euro, were stable compared to the prior-year period.

Revenues for other sales and services, which totalled 11.8 million euro, decreased slightly compared to the previous year, largely due to the loss of the work for third parties undertaken in 2018 by 2i Rete Gas Servizi S.p.A.

Other revenue totalled 11.9 million euro and compared to the previous year fell by 1.8 million euro: technical quality incentive bonuses fell slightly compared to those in the

first half of 2018 by around 0.8 million euro; the capital gains on the disposal of assets were in line with the previous year, while reimbursements for compensation for damage, which in the previous year had been affected by the compensation for the damage caused by the Amatrice earthquake (0.9 million euro), fell back to a normal operating level.

Lastly, with reference to the table reporting amounts including the impact of IFRIC 12, increase in investments made during the first half of the year, mainly in electronic meters and in relation to obsolete network replacement works, resulted in the recognition of 132.4 million euro in revenue (in accordance with IFRIC 12) under "Revenues from intangible assets / assets under construction", up by 10.1 million euro compared to the prior-year period.

Operating costs, totalling 250 million euro in the version with IFRIC 12, increased by 2.1 million euro; please note that the overall impact on the item from IFRIC 12 is 132.4 million euro for the current year (122.3 million in the previous year). Net of this effect, therefore, there was an overall fall in operating costs of 6.6 million euro due largely to a fall in costs for services and labour.

More specifically, gross labour costs, totalling 63.7 million euro are fundamentally stable at Group level, with a marginal increase of 0.7 million euro compared to the prior-year period. Considering instead the cost of labour net of the impact of IFRIC 12, this fell by 2.2 million euro also thanks to the effect of the investments made by the company's staff.

The cost for raw materials rose by 1.1 million euro owing to the greater use of warehouse stocks; without the impact due to accounting under IFRIC 12, there would have been a further rise of 0.9 million euro.

Globally the costs for services at consolidated level were largely in line with the first half of the previous year, as a result of an increase in costs for maintenance and a decrease both in costs for the use of third-party assets (owing to accounting under IFRS 16) and in those for meter readings.

The analysis net of the effect due to IFRIC 12 instead shows lower costs for services for 5.8 million euro, thanks to the investments made, as well as to the aforementioned effects of IFRS 16 and of the meter readings.

Other costs improved by 2.7 million euro. While there were lower capital losses on the disposal of assets for 3.5 million euro, net costs increased for Energy Efficiency Certificates by 0.9 million euro.

Allocations to the provision for risks totalled 9.7 million euro in the half and rose by 3.2 million euro compared to 30.06.2018. Besides the normal trend in provisions in the period, they reflected in particular the amount of risk on smart meters which do not meet the company's standards for 4.4 million euro: this risk, which was already highlighted and assigned a value at 31.12.2018, was still not present in the valuation of 30 June 2018.

EBITDA was 241.9 million euro and rose by 15.9 million euro compared to the previous year (226 million euro) following the combined effect of the higher transport revenues for 11.7 million euro, the lower level of other revenue for a total of 3.7 million euro and lower operating costs which, net of the impact of IFRIC 12, fell by 6.6 million euro. In this regard, it is noted that, following the implementation of IFRS 16, the costs relating to the use of third-party assets are no longer included under costs for services, but appear in the half on the income statement as extra amortisation and depreciation and financial expenses for a total of 3.3 million euro.

Amortisation, depreciation and write-downs totalled 99.8 million euro, up by 8.2 million euro compared to the first half of 2018. This value includes amortisation of the rights of use relating to leased assets in accordance with IFRS 16, for a total of 3.1 million euro in the half.

Therefore, EBIT totalled 142.1 million euro, compared to 134.3 million euro in the first six months of 2018. The same considerations for EBITDA apply also to EBIT.

Financial income and expenses were negative at 31.3 million euro and were higher than the 25.8 million euro in the previous year as a consequence of the issue of the final tranche of the debenture loan for 500 million euro which occurred in the second half of 2018.

The Group reported 110.7 million euro in profit before tax, up 2.2 million euro on the previous year thanks to better operating activities.

The negative impact from the income tax expense for the period on the Group's accounts totalled 17.9 million euro. Taxes in the period were positively impacted for 16.3 million euro as the net effect of the redemption of goodwill generated in 2i Rete Gas Impianti S.p.A. following the merger in 2018 with the parent company 2i Rete Gas Impianti S.r.l.

Net income from continuing operations was thus 92.8 million euro, up by 17.2 million euro compared to the previous year, thanks also to the aforementioned redemption of goodwill; to this value must be added income from discontinued operations of 16 million euro.

In the period the Group recorded a significant capital gain thanks to the recognition of the disposal of the investment in Murgia Reti Gas S.r.l., the company sold in order to comply with the obligation imposed by the Anti-trust Authority to dispose of any concessions in the provinces of Bari and Foggia following the acquisition of Nedgia S.p.A. (now 2i Rete Gas Impianti) in 2018. The sale was completed on 1 April 2019 and entailed an accounting capital gain of 16.2 million euro, which is here set out net of the related tax impact.

The result for the period is therefore positive by 108.9 million euro, with a 33.3 million euro improvement compared to the first half of the previous year.

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

Millions of euro	30.06.2019	31.12.2018	Change
	A	A	A-B
<b>Net fixed assets</b>	<b>3,513.4</b>	<b>3,474.3</b>	<b>39.1</b>
Property, plant and equipment	38.4	39.3	(0.9)
Rights of use IFRS 16	27.8	-	27.8
Intangible assets	3,711.5	3,682.3	29.2
Equity investments	3.5	3.5	0.0
Other non-current assets	59.3	57.7	1.6
Other non-current liabilities	(327.0)	(308.4)	(18.6)
<b>Net working capital:</b>	<b>(33.0)</b>	<b>39.4</b>	<b>(72.4)</b>
Inventories	25.3	23.9	1.4
Trade receivables from third parties	160.3	232.6	(72.3)
Net receivables/(payables) for income taxes	0.3	5.8	(5.5)
Other current assets	324.9	207.7	117.2
Trade payables to third parties	(203.9)	(207.6)	3.8
Other current liabilities	(340.0)	(223.0)	(116.9)
<b>Gross invested capital</b>	<b>3,480.4</b>	<b>3,513.7</b>	<b>(33.3)</b>
<b>Other provisions</b>	<b>38.8</b>	<b>73.3</b>	<b>(34.5)</b>
Post-employment and other employee benefit:	44.4	45.6	(1.2)
Provisions for risks and charges	113.1	110.4	2.7
Net deferred taxes	(118.7)	(82.7)	(35.9)
<b>Net invested capital</b>	<b>3,441.6</b>	<b>3,440.5</b>	<b>1.2</b>
<b>Assets held for sale</b>	<b>3.0</b>	<b>32.7</b>	<b>(29.7)</b>
<b>Liabilities held for sale</b>	<b>0.1</b>	<b>6.9</b>	<b>(6.8)</b>
<b>Equity</b>	<b>841.1</b>	<b>825.7</b>	<b>15.4</b>
<b>Net Financial Position</b>	<b>2,603.4</b>	<b>2,640.5</b>	<b>(37.2)</b>

Net fixed assets, which mainly consist of intangible assets related to gas distribution concessions, totalled 3,513.4 million euro, up 39.1 million euro overall compared to 31 December 2018.

The item "Property, plant and equipment" of 38.4 million euro includes new investments (4.9 million euro), disposals (1.5 million euro) and depreciation (4.3 million euro).

The new item “Rights of use” includes the rights of use of rented or hired assets which mirror the prerequisites established by IFRS 16. The balance of 27.8 million euro on the item consists of an initial value for existing contracts as at 31.12.2018 of 25.1 million euro and additions of 5.8 million euro. The amortisation in the half was 3.1 million euro.

The item “Intangible assets” of 3,711.5 million euro was the net result of new investments of 136.1 million euro, in addition to decreases of 14.3 million euro (3 million euro of which were due to the reclassification of the assets available for sale as at 30 June 2019) and impairment losses and amortisation in the year totalling 92.6 million euro.

Equity investments were unchanged, while the 1.6 million euro increase in “other non-current assets” was largely the result of the rise in medium- and long-term receivables due from the Fund for Energy and Environmental Services (CSEA), while “other non-current liabilities” were up 18.6 million euro due to the increase in medium/long-term deferred income for connection fees, property subdivision, plant transfer and network extension fees.

Noting that the comparison between the figure at 31 December and that at 30 June clearly suffers from a seasonal impact on working capital which is implicit in the gas distribution business, it can be seen that the negative net working capital of (33) million euro, fell by 72.4 million euro, compared to 31 December 2018; the items experiencing the biggest changes were trade receivables, which were affected by the seasonal trend and fell by around 72.3 million euro, and other current assets and liabilities, which saw a marked increase respectively in receivables and payables due from/to the Fund for Energy and Environmental Services (CSEA); trade payables, albeit decreasing, were not significantly affected by the seasonal trend.

Due to the combined effect of the changes in the net long-term fixed assets and the net working capital, the gross invested capital therefore decreases by 33.3 million euro from 3,513.7 million euro in the previous year to 3,480.4 million euro as at 30 June 2019.

Sundry provisions, totalling a positive 38.8 million euro, were down 34.5 million euro overall, largely because of the change of 2.7 million euro in the provision for risks and charges, while the provision for deferred taxes made a negative contribution to the balance of 35.9 million euro; the provision for post-employment and other employee benefits decreased due to higher uses in the period.

Therefore, net invested capital increased by 1.2 million euro, from 3,440.5 million euro in the previous year to 3,441.6 million euro.

Equity rose by 15.4 million euro, from 825.7 million euro at 31 December 2018 to 841.1 million euro at 30 June 2019, due to the net impact of the following changes:

- 93.0 million euro decrease following the ordinary dividend payout;

- 0.4 million euro decrease in the reserves for the valuation of derivatives;
- 108.9 million euro increase following the recognition of the result as at 30 June 2019.

The recording of the non-controlling interest of 1.4 million euro.

The net financial position was up from 2,640.5 million euro in December 2018 to 2,603.4 million euro as at 30 June 2019 because of, among other things, the payment of the dividend for 2018 in light of the positive operating activities in the first half of the year.

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

Notes				
Millions of euro		30.06.2019	31.12.2018	Changes
Medium-/long-term bank loans	27	(415.9)	(425.0)	9.1
Medium-/long-term debenture loans	27	(2,265.0)	(2,532.1)	267.1
Short-term debenture loans	33	(629.9)	(362.8)	(267.1)
Cash and cash equivalents with third parties	22	766.9	686.4	80.5
Short-term financial receivables	20	12.8	1.4	11.4
Other current financial assets	21	0.8	0.2	0.6
Short-term payables due to banks	33	(8.8)	0.1	(8.9)
Current financial liabilities	38	(50.6)	(23.3)	(27.3)
IFRS 16 Non-current financial liabilities	31	(21.4)		(21.4)
IFRS 16 Current financial liabilities	39	(6.0)		(6.0)
<b>ESMA net financial position</b>		<b>(2,617.1)</b>	<b>(2,655.1)</b>	<b>38.0</b>
Non-current financial assets	16	0.6	0.7	(0.0)
<b>Adjusted net financial position</b>		<b>(2,616.4)</b>	<b>(2,654.4)</b>	<b>38.0</b>
Non-current financial assets - costs on loan	16	1.0	0.3	0.6
Adjustment of payables due to costs on ST loan (IAS 39)	38	0.4	0.3	0.1
Adjustment of payables due to costs on MLT loan (IAS 39)	27	11.7	13.2	(1.5)
<b>Net Financial Position</b>		<b>(2,603.4)</b>	<b>(2,640.5)</b>	<b>37.2</b>
<b>Accounting net financial debt</b>		<b>(2,603.4)</b>	<b>(2,640.5)</b>	<b>37.2</b>

## 6 Regulatory and tariff framework

### 6.1 Regulation

As for the activities concerning 2i Rete Gas, the interventions of the Autorità di Regolazione per Energia, Reti e Ambiente - ARERA (the Regulatory Authority for Energy, Networks and the Environment) during the first half of 2019 were developed in light of the definition by the new Board of the Authority, of the Strategic Framework of priorities and objectives of regulatory action for the period 2019-2021. This was then adopted with Resolution 242/2019/A of 18 June 2019, with which the Authority's action plan was established up to 2021, based on the current and medium-term scenario.

In the period in question, the Authority issued orders concerning the company and its subsidiaries and regarding the gas sector and water services. Among the orders affecting gas distribution, in particular, there were some orders regarding tariffs and Energy Efficiency Certificates and related objectives for 2019, regarding incentives/penalties for the security levels of the service, regarding settlement gas and the management of commercial processes under the Integrated Information System, as well as regarding the electric and gas bonus, biomethane and controls over operators.

#### **Tariffs for the gas distribution and metering service:**

in March (Resolution 98/2019/R/gas, which was followed in April by 127/2019/R/gas) definitive reference tariffs were approved for gas distribution and metering services for 2018, on the basis of the final data for 2017, while in April (Resolution 128/2019/R/gas) provisional reference tariffs were determined for gas distribution and metering services for 2019, on the basis of the final data for 2018.

In May and June the Authority also undertook the first consultation (170/2019/R/gas) on the next tariff regulation period and gas quality distribution and metering services (5<sup>th</sup> regulatory period), the start of which is planned as from 1 January 2020, presenting the general interventions and the first guidelines.

As for Energy Efficiency Certificates (EEC), in January, with Resolution 1/2019 DMRT, the data on the primary energy saving targets for 2019 assigned to electricity and natural gas distributors were defined and submitted to Italy's Ministry of Economic Development (MiSE) as well as Gestore dei Servizi Energetici (GSE) - a publicly-owned company promoting and supporting renewable energy sources in Italy (companies in the 2i Rete Gas Group were overall assigned a target corresponding to 706,032 white certificates, 665,683 for 2i Rete Gas S.p.A. and 40,349 for 2i Rete Gas Impianti S.p.A.)

With the executive decree of 9 May, the Ministry of Economic Development also approved the application rules adopted by GSE (Electric Services Operator) for the request to issue "virtual" certificates, which are useful to enable obligated subjects to achieve their minimum targets. Following this executive decree, the Authority changed (Resolution 209/2019/R/efr) the means of determining the tariff contribution as from 2019,



establishing that, to determine the average price for trading certificates for the purposes of setting the contribution due to the obliged subjects, for bilateral trades only the weighting is considered with quantities of EECs traded at a price below €250/EEC (rather than, as envisaged previously, all the EECs traded through bilateral agreements are considered at the price of only the certificates traded in the so-called "relevant" price interval for the purposes of determining the contribution).

#### **Regarding incentives/penalties for the security levels of the service:**

with Resolution 75/2019/R/gas of 05.03.2019, incentives and penalties were determined for natural gas distributors for 2015. 2i Rete Gas was recognised the highest overall incentive of those assigned, 10.808 m.euro (4.044 m. for the component linked to the measurement of the gas odourisation level and 6.764 m. for the component linked to reducing leaks), while 2i Rete Gas Impianti was recognised 0.729 m.euro (0.355 m. for the measurement of the level of odourisation and 0.374 m. for reducing leaks), accounting overall therefore for more than 25% of the total incentives supplied (44.200 m.euro, taking account of the fact that the determination of bonuses and penalties for 3 companies of the almost 200 companies participating in the incentive mechanism was deferred to a subsequent order); in the light of the advance payments already made in 2018, 2i Rete Gas and 2i Rete Gas Impianti were respectively recognised balances of 2.142 and 0.692 m.euro.

#### **Gas settlement:**

with Resolution 155/2019/R/gas of 16.04.2019 provisions were approved to enable updating of the correspondence between the user of the balancing service and the redelivery point of the distribution network under the Integrated Information System; with Resolution 147/2019/R/gas of 16.04.2019 the process was reformed of conferral to the exit points of the transport network which feed the distribution networks (city-gate) and with Resolution 148/2019/R/gas of 16.04.2019 the new "Integrated text of provisions for the regulation of the physical and economic items of the natural gas balancing service (TISG)" was approved, in place of the previous text and transposing the new regulations on the provisional balance and management of the chain of commercial relations under the Integrated Information System. In addition, provisions were introduced (Resolution 271/2019/R/gas) relating to the process of making available to the Integrated Information System the technical and other data of the redelivery points and the metering data.

#### **Regarding the electric and gas bonus:**

in February (Resolution 61/2019/R/com) and May (Resolution 165/2019/R/com) changes were introduced to the Integrated texts on the means of applying the compensation regimes for expense met by indigent domestic customers for electricity and natural gas supplies (the so-called electric and gas social bonus) and for the supply of water (water social bonus), aimed at simplifying, for the various subjects involved, the processes for managing cases for the recognition of subsidies.

### **Biomethane:**

with its Resolution 27/2019/R/gas of 29.01.2019, the Authority updated the directive for biomethane plant connections to natural gas networks and implemented the provisions of the Ministerial Decree of 02.03.2018 regarding biomethane production incentives.

### **With regard to checks on operators:**

with Resolution 74/2019/E/gas of 05.03.2019 the usual annual campaign was launched for 2019 of phone checks and inspections regarding gas distribution companies on their compliance with the regulation on the gas emergency service (as in previous years, the checks will cover 50 gas distribution companies and will be undertaken by 31.12.2019 with support from Guardia di Finanza personnel, to check initially the correct operation of emergency switchboards, with subsequent inspections if necessary on the basis of the outcomes of the phone checks made).

### **Activities related to the ATEM tenders:**

ARERA, during the first half of the year, approved the observations regarding the reimbursement value for the ATEM tenders of Modena 1 - North and Naples 1 - City of Naples and the coastal plant (Resolutions 56/2019/R/gas and 145/2019/R/gas).

As regards directly 2i Rete Gas S.p.A. and the Group companies:

- in reference to Resolution 626/2016/R/gas of November 2016 (with which, for some locations with assets owned by the local authorities and given the further analyses undertaken following the inspection carried out in June 2011, the recalculation was ordered of the reference tariffs for some years starting from 2009), after the sentence of the Regional Administrative Court of Lombardy – Milan section no. 733/2018 which annulled the resolution and the other orders challenged by the company, the Italian Council of State, with its sentence published on 28 May 2019, also acknowledged 2i Rete Gas' arguments and rejected the appeal brought by the Authority against the Regional Administrative Court's sentence, instead accepting in full the cross-appeal made by the company and thus agreed with all the arguments about illegitimacy put as from the first degree case;
- as part of the program of 5 inspections regarding service safety recoveries for 2017, established by Resolution 455/2018/E/gas of 09.06.2016, ARERA carried out an inspection in regard to 2i Rete Gas Impianti S.p.A., on 28, 29 and 30 May on safety data for the Altamura power plant, in order to apply the bonus/penalty mechanisms for 2017. The results of the inspection will be communicated in coming months.

### **Provisions and/or other events subsequent to 30 June 2019**

After 30 June 2019 the Authority:

- on the basis of the means of determination that were in force before Resolution 209/2019/R/efr, established (Resolution 4/2019-DMRT of 10.07.2019) the value of the

definitive tariff contribution due to distributors who have taken on obligations for 2018 (248.89 €/EEC);

- ordered (Resolution 296/2019/E/gas of 09.07.2019) to repeat in regard to distribution companies, in the period from 1 October 2019 to 30 September 2020 and as in previous years, the campaign of technical checks on the level of odorisation, effective heating power and gas pressure, by undertaking 50 checks;
  - in regard to the technical quality incentive bonuses for 2016, as happened in 2018 for the recognition of bonuses/penalties for 2015, ordered (Resolution 305/2019/R/gas of 16.07.2019) an advance payment of 80% of the overall net value of the bonus due on the basis of the results of the preliminary stage as communicated by the Authority itself, for the companies which confirm these results, with payment of the advance by the Fund for Energy and Environmental Services (CSEA) by 30 October;
  - at the end of July published a second consultation document (338/2019/R/gas) regarding guidelines on the duration of the regulatory period (confirmed as being 6 years and starting as from 1 January 2020) and on the regulation of the quality of the gas distribution and metering services in the fifth regulatory period;
  - as regards the proceedings started on the safety of the gas distribution service against Compagnia Generale Metanodotti S.r.l., which was acquired in 2018 and merged into 2i Rete Gas S.p.A. as from 01.01.2019, in regard to events prior to the acquisition, on 09.08.2019 communicated the preliminary results. These showed that all the irregularities recorded had been remedied after the acquisition of the company – and the subsequent merger – by 2i Rete Gas; for this reason there are no grounds for the adoption of injunctions and this circumstance will also be considered for the purposes of quantifying any penalty, for which, in any case, it is noted that the corresponding guarantees envisaged by the contract to buy the company can be activated.
- There were no further significant events recorded at the date of preparing this report.

## 6.2 Tariffs

In the first half of 2019, the distribution and metering tariffs continued to apply in accordance with the principles established in Resolution 367/2014/R/gas for the fourth regulatory period (2014-2019), in which the revenue elements related to remuneration and amortisation and depreciation are determined on the basis of the annual update of the net invested capital (RAB), taking account of the (net) investments made in the year t-1. The principles of the aforementioned Resolution were partially amended by Resolution 583/2015/R/com, which introduced a revised method for calculating the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors and partially by Resolutions 775/2016/R/gas and 904/2017/R/gas in reference to operating costs, the costs of meter checks, the costs for the remote reading/remote management/concentrator system (“TEL” and “CON”) and to the standard costs of investments in G6 or below meters.

With Resolution 639/2018/R/com, the WACC values were approved for 2019-2021 and set respectively at 6.3% and 6.8%.

The invested capital of the distribution companies (RAB) continues to be broken down into localised invested capital and centralised invested capital. The evaluation criterion for localised invested capital in distribution and metering is based essentially on the revised historical cost method, except for new investments in smart meters which continue to be determined as the weighted average between actual cost and the standard cost set by the Authority, with weights for the 2019 tariffs respectively of 60% and 40%. The valuation criterion for centralised invested capital is based on a parametric method, except for assets regarding remote metering/remote management/ concentrator systems, which are valued at effective cost. However, starting from the 2018 tariffs, the invested capital of such assets takes account of a ceiling that includes the remuneration of capital and the recognition of operating costs.

As for operating costs recognised by the Authority on the basis of the opening levels of the operating costs (by company size and customer density) and established in Resolution 367/2014/R/gas, these were updated with inflation and subjected to an X-factor of 1.7% for large companies and 2.5% for small/medium sized companies for the distribution service and 0% for the metering and marketing service for 2017-2019.

The costs for metering checks are remunerated on the basis of the costs effectively incurred as from 2018.

The annual “final” recognition of investments for the purposes of determining the net invested capital (RAB) for distribution and metering for 2019 will take place in November by taking into account the changes in the investments of the previous year.

From the point of view of the work on resolutions, during the first half of 2019 the Authority proceeded with Resolution 98/2019/R/gas, integrated with Resolution 127/2019/R/gas, to determine the “final” reference tariffs for gas distribution and metering services for 2018 and with Resolution 99/2019/R/gas to redetermine the tariffs of some operators for 2011-2017. In the same period, with resolution 128/2019/R/gas, the Authority set the “provisional” reference tariffs for natural gas distribution and metering services for 2019.

In the same period, on the basis of the relevant resolutions, the tariff components destined to cover the system costs of the gas sector (RE, RS, UG1, GS, UG2) were updated.

From the point of view of the work on resolutions, during the first half of 2019 the Authority published DCO 170/2019/R/gas with which it set out the initial guidelines on the definition of the criteria for tariff regulation and the quality of gas distribution and metering services in the fifth regulatory period (2020-2025). The main changes regard the evaluation of new investments in distribution with standard cost methodologies and the completion of the reform on the recognition of remote reading/remote management costs and concentrator costs on the basis of a parametric approach. On 30 July DCO

338/2019/R/gas was published containing the guidelines of the regulation of the quality of the distribution and metering services for the fifth regulatory period which, in reference to the duration of the same, is confirmed as starting as from 2020. The publication of the final order is planned by the end of December 2019.

Finally, it is noted that the Authority with Resolution 541/2017/R/gas had retroactively redetermined, as from 2009 and up to 2013 or 2015, the reference tariffs for a list of locations which were subject to inspection in June 2011, where the local authorities are owners of parts of the methane gas distribution networks. Following the appeal presented to the Regional Administrative Court of Lombardy, with sentence no. 733 of 15 March 2018 the company's arguments were held as valid. This sentence was challenged by the Authority which appealed to the Italian Council of State. Following the public hearing on 14 March 2019, sentence no. 3475/2019 of 28 May 2019 was published and rejected the appeal brought by the Authority. The Authority can appeal to the Cassation Court by 30 December 2019.

## 7 Concession development and operation

Despite the regulatory changes in 2017 aimed at simplifying the process and given the failure to intervene, albeit envisaged by law in art. 3 para. 1 of art. 226/11 as amended and supplemented, by both the Regions and, should the latter have not done so, by the Ministry for Economic Development (DL 69/2013 art. 4 para. 2), the delay which has already been noted in previous reports, continues to accumulate.

During the first half of 2019 just one ATEM tender was called for the minimum territorial area for Turin 1 – City of Turin.

As at 30.06.2019, in relation to the 17 ATEM tenders on the ARERA dashboard, the instrument which sets out the information regarding the outcomes of the analysis of tender documentation sent by the Contracting Authorities as set out in article 9, para. 2 of Ministerial Decree no. 226 of 12 November 2011, the situation was as follows:

- two tenders were completed with final assignment: Milan 1 – City of Milan (though *sub judice*) and Turin 2 – Plant of Turin;
- there were two previously called tenders for which the evaluation of the offers presented was still ongoing by the tender commission: Belluno and Valle d'Aosta;
- there were seven tenders for which ARERA had temporarily deferred the analysis of the tender with a request for additional documentation: Florence 1-Florence 2, Genoa 1, Lucca, Massa and Carrara, Modena 1, Verona 2 and Vicenza 3;
- there were four tenders for which ARERA had completed the analysis of the tender documentation sent by the contracting authorities and, thus, the related announcements could be published: Rome 1, Venice 1, Forlì and Cesena, Naples 1.

Subsequently, on 21 August 2019, as contracting authority, the Municipality of Naples published its call for ATEM Naples 1 (around 370,000 redelivery points) which, besides the provincial capital, includes a further 5 municipalities bordering Naples 1.

On the other hand, the deadlines for the presentation of offers are still open for the ATEM tenders of Udine 2 – City of Udine and Centre (around 91,000 active users and contract value of 128.3 million euro), the date for the presentation of which was recently extended to 30.09.2019, and – as already mentioned in the introduction to this section – for the ATEM tender of Turin 1 – City of Turin (around 560 thousand active users and contract value of around 954 million euro), published on 27.05.2019 with a presentation date for offers set for 12.11.2019.

As for so-called “non-ATEM” tenders, during the first half of 2019 the following procedures were called:

- the concession, following project financing tendered and completed during 2018, of the final and executive design, works management and safety coordination for the realisation of reclamation work and concession of the distribution plant in the municipality of Cellole (CE), on 12.03.2019
- the concession of the natural gas distribution service in the municipality of Castel San Giorgio (SA), on 06.05.2019
- the concession of the natural gas distribution service in the municipality of Villa Santa Maria (CH), on 06.05.2019
- the concession of the natural gas distribution public service in the municipalities of Ortezzano (FM), Montelparo (FM), Monte Vidon Combatte (FM), Monte Rinaldo (FM) and Montalto delle Marche (AP), on 21.05.2019

## 7.1 Participation in non-ATEM tenders

As for the tender called by the Consorzio della Media Valtellina per il Trasporto del Gas regarding the assignment of the technical management service of the network and the methane gas transport systems in Alta Valtellina, a service which was previously managed by 2i Rete Gas S.p.A. under the award of the previous procedure on 01.01.2015, the final assignment is still awaited in order to sign the contract following the provisional assignment on 20.12.2018.

2i Rete Gas S.p.A. on 10.07.2019 presented an offer for the tender called by the Municipality of Castel San Giorgio (SA), with around 1,250 active users, contract value around 5.1 million euro and 12-year duration as from the date of the signing the handover document, in relation to which evaluations are still ongoing by the Tender Commission.

Subsequently on 31 July 2019, the Municipality of Cisliano (MI), where 2i Rete Gas S.p.A. is currently the concessionaire for methane gas distribution, called a tender for the assignment of the gas distribution service in the local area.

## 7.2 Activities on ATEM tenders

2i Rete Gas S.p.A. on 01.09.2017 presented an offer for the tender for ATEM Belluno and, through its subsidiary 2i Rete Gas S.r.l. (a company subject to management and coordination by 2i Rete Gas S.p.A.), on 16.01.2017 for the tender for Milan 1 – City and Plant of Milan.

As for the tender for Milan 1, following the announcement of the final award to another distributor (Unareti S.p.A., a company in the A2A group) communicated on 03.09.2018, 2i Rete Gas S.r.l. on 03.10.2018 notified its appeal against the tender documents and the final award, as well as against the refusal of the Contracting Authority for full access to the tender documents.

After the Regional Administrative Court of Lombardy, with sentence no. 300 of 13.02.2019, had initially accepted 2i Rete Gas S.r.l.'s appeal, granting it the possibility to see the successful bidder's offer in full, the Council of State, with sentence no. 3936 of 12.06.2019, accepted Unareti S.p.A.'s cross-appeal, thus rejecting 2i Rete Gas S.r.l.'s request for full access to the tender documents.

As for the appeal against the tender documents and the final award to Unareti S.p.A., the public hearing on the merits is set for 21.11.2019 before the Regional Administrative Court of Milan.

As regards the tender for Belluno, in May work started by the Tender Commission called to evaluate the four offers presented (besides 2i Rete Gas S.p.A., offers were presented by Italgas Reti S.p.A., Ascopiave S.p.A. and Erogasmet S.p.A.).

Also during the first half of 2018, the Group has been preparing and transmitting to the Municipal Administrations and/or the Contracting Authorities that requested it all the necessary documentation pursuant to Article 4 (Disclosure obligations for operators) and Article 5 (Compensation to the outgoing operator) of Italian Ministerial Decree 226/2011 in order to draft and subsequently issue the call for tenders. It is information which, should it be necessary, must be updated.

## 7.3 Concessions awarded

2i Rete Gas S.p.A., following the definitive assignment on 24.11.2017 of the tender called by the Municipality of San Nicola in Baronía (AV), as the lead municipality also for the municipalities of Carife, Castel Baronía, San Sossio Baronía, Campitella, Trevico, Vallata and Vallesaccarda, on 23 .04.2018 signed the related service contract.

The outgoing operator S.I.DI.GAS S.p.A. notified on 12.03.2018 a writ of summons before the Court of Benevento to seek the condemnation of the Municipality or of 2iRG to pay

the reimbursement value of the gas plants, which is not included in the tender call, for which the next hearing in the proceedings is set for 19.11.2019.

On 22.03.2018, the same company appealed to the Council of State against the sentence of the Regional Administrative Court of Salerno no. 276 of 21.02.2018, which had rejected on grounds of jurisdiction the appeal the company had made against the acts of the tender called by the Municipality of San Nicola Baronia.

With its sentence no. 3217 of 29.05.2018, the Council of State accepted the appeal recognising the administrative jurisdiction, which had been rejected by the Regional Administrative Court of Salerno, and referred back to the same Court the decision on the merits of the appeal.

The Regional Administrative Court of Salerno, with its sentence no. 603 of 15.04.2019, accepted the appeal of S.I.DI.GAS S.p.A., thus annulling the tender.

On 10.07.2019 the Municipality of San Nicola in Baronia, as the lead municipality of the other local authorities appealed to the Council of State against the decision of the Regional Administrative Court of Salerno as above, without requesting suspension of the effectiveness of the sentence itself: therefore, it is not expected that the dispute can be settled quickly.

#### 7.4 Concessions lost

In the half, except for the concession portfolio of Murgia Reti Gas S.r.l., no concessions for methane gas distribution left the Group's scope.

As from May 2019 the concessions of San Gillio and Givoletto have been classified under available for sale assets and liabilities following the final award of the tender for Turin 2 to another operator. The management of these concessions, however, remains with the Group until delivery of the plant to the operator which won the tender.

#### 7.5 Acquisition of companies

In the half there were no calls or participation in tenders for the acquisition of public or private companies which manage the natural gas distribution service.

In this regard on 02.08.2018 the tender was called by the Municipality of Gaggiano (MI) for the sale of 100% of the shares of ASGA S.r.l., a company which manages the methane gas distribution service in the municipality of Gaggiano (MI), serving around 4,300 users, with the presentation date for participation on 17.10.2018.

Since no offers were received, on 02.01.2019 the Contracting Authority called the tender again, reducing the minimum bid and with 25.01.2019 as the new date to present any request to participate.

On 28.01.2019 2i Rete Gas S.p.A. received formal communication from the contracting authority of admittance to the restricted stage of the procedure with 26.02.2019



indicated as the date to present offers. On 21.02.2019 the contracting authority notified the deferral of the above deadline to 01.07.2019, a deadline which was further deferred to 30.09.2019 with a communication of 28.06.2019.

## 8 Support for gas transport activities

### 8.1 Main Regulatory Changes

The orders of ARERA for 2019 and previous years regarding the aspects linked to activities carried out by the “Network Commercial Services” were:

- Resolution 593/2017/R/com of 03/08/2017, which defines the development of the compensation system as part of implementation in the Integrated Information System and application in the natural gas sector;
- Budget Law 205/2017, with particular reference to the provisions on electronic invoicing between private individuals and the introduction of the so-called “short prescription period”;
- Resolution 72/2018/R/gas of 8/02/2018, which reforms the provision of gas settlement;
- Resolution 97/2018/R/com of 22/02/2018, which, for the natural gas sector, starts the proceedings for complete implementation of the provisions of Law 205/2017 on invoicing and metering;
- Resolution 223/2018/R/gas of 5/04/2018, which establishes the determination of the divergence fees for 2013–2019 on gas settlement;
- Resolution 264/2018/R/com of 11/04/2018, which defines the provisions to manage existing relations between distribution companies and transport users in the case of non-payment due to a plea of limitation raised by the end user;
- Resolution 488/2018/R/gas of 27/09/2018, governing the centralised management of readings as part of the Integrated IT System with reference to the gas sector.
- Resolution 515/2018/R/gas of 16/10/2018, which defines the provisions for the accreditation of users of balancing services and the management of transport contracts in the Integrated Information System;
- Resolution 569/2018/R/com of 13/11/2018, which defines the provisions to strengthen the protection of end users in cases of invoicing amounts referring to consumption dating back over longer than two years;
- Consultation Document 570/2018/R/gas of 13/11/2018, on the two-year prescription in application of Law 205/17: activities aimed at streamlining interaction between subjects in the sector and optimising the collection of metering data for invoicing the end user;

- Resolution 587/2018/R/com of 20/11/2018, which defines further extraordinary and urgent measures regarding the integrated electric, gas and water service to support populations affected by the earthquakes of 24 August 2016 and subsequent;
- Resolution 669/2018/R/gas of 18/12/2018, which updates the obligations to introduce smart gas meters;
- Resolution 676/2018/R/gas of 18/12/2018, which governs the means and time frames for adjustments relating to divergence fees determined following the settlement sessions;
- Resolution 683/2018/R/com of 18/12/2018, which integrates, with further urgent provisions, the regulation for invoicing amounts referring to consumption dating back over longer than two years in the natural gas and electricity sectors;
- Resolution 712/2018/R/com of 27/12/2018 which defines the interventions following the provisions of Law 205/2017 on electronic invoicing regarding Bolletta 2.0 (Bill 2.0), the network code for the electricity transport service and the network code for natural gas distribution;
- Resolution 32/2019/R/gas of 29/01/2019, which regulates the means of relief for sellers following the redetermination of the k coefficient with Resolution 737/2017/R/gas, to determine the price of the gas raw material and the protection service in the period 1 October 2010 - 30 September 2012, to comply with the sentence of the Council of State 4825/2016; offsetting this amount, a new additional competent is introduced to the tariff for the transport service, called UG2k, with effect as from 01/04/2019, to be applied to all customers who have a gas supply with consumption of up to 200 thousand Smc, including contracts for public services.
- Resolution 132/2019/R/gas of 11/04/2019, which introduces transitory provisions on calculating and making available the parameter relating to the annual levy for the application of the gas settlement regulation, for thermal year 2019 - 2020;
- Resolution 147/2019/R/gas of 16/04/2019, which reforms the process of conferral to the exit points of the transport network which feed the distribution networks (city-gate);
- Resolution 148/2019/R/gas of 16/04/2019, which approves the new "Integrated text of provisions for the regulation of the physical and economic items of the natural gas balancing service (TISG)", which replaces that approved with Resolution 72/2018/R/gas, transposing the new regulations on the provisional balance and the management of the chain of commercial dealings in the Integrated Information System;
- Resolution 155/2019/R/gas of 16/04/2019, which introduces provisions to allow the updating of the correspondence between the user of the balancing service and the redelivery point of the distribution network under the Integrated Information System;
- Resolution 165/2019/R/com of 07/05/2019, which changes the Integrated text on the means of applying the compensation regimes for expense incurred by indigent domestic customers for electricity and natural gas supplies to enable recipients of the Citizens' Income and Pension to access the electric and gas social bonus;
- Consultation Document 170/2019/R/gas of 07/05/2019, which sets out the guidelines for the regulation of tariffs and the quality of distribution and metering services in the fifth regulatory period;

- Resolution 246/2019/R/com of 19/06/2019, which integrates and modifies the provisions of the Resolution of the Authority 712/2018/R/com regarding the bill for end users and the documents accounting for the natural gas distribution and electricity transport service, in order to make it easier for the various players involved to coordinate the Authority's regulation with the legislative provisions on electronic invoicing.
- Resolution 271/2019/R/gas of 25/06/2019, which introduces the provisions relating to the process to make available technical and other data of the redelivery points to the Integrated Information System and the metering data and change to the communication standards with reference to the gas sector

All the implementations of the regulatory changes envisaged as from 01.01.2018 have been completed; on the other hand, the implementation of the regulatory changes envisaged by the Resolutions, which will come into force subsequently, is ongoing.

With effect as from 01.01.2019, the merger was completed of Compagnia Generale Metanodotti S.r.l., the operator of the public service in the Municipality of Cadeo, with a perimeter of 2,692 active redelivery points, into 2i Rete Gas S.p.A.

In addition, independent management was started of the distribution service for the concessions held in the name of Cilento Reti Gas S.r.l.

All the commercial activities connected to the integrated scope were fully operational.

## 8.2 Relations with Traders and Customer Care

### Major customers

In the first half of 2019, the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sale companies or traders).

The Group's main customers are Italian companies which are leaders on the gas market. In particular, customers whose contribution to turnover was over 5% of the total during the half were:

Enel Energia S.p.A. with 36.5%  
Engie Italia S.p.A. with 10.1%  
E.ON Energia S.p.A. with 7.2%  
Edison Energie S.p.A. with 9.9%

### Commercial quality

The level of commercial quality is measured by means of a general company index showing the percentage of services not carried out within the standard time frames set

by ARERA with reference to connections, reconnections, disconnections, quotations, and the execution of both simple and complex work.

The index of “non-standard” services, for the purposes of the service’s quality parameters envisaged by ARERA with Resolution 574/2013/R/gas, achieved during the first half of 2019 for the specific quality levels was 0.05% overall.

For general quality levels the overall result was 0.35%.

### 8.3 Front Office

In the period, the management of commercial services required by the sales companies took place, in line with the information provided in the previous years, almost exclusively through the Four portal; this instrument has now been adopted by most of the sales companies, both in the “web” solution as well as in its “application to application” solution. The processes for the connection of last resort services, supply of last resort (Fui) and default service (Default), remained high also compared to the previous year, mainly because end customers delayed payments to the respective sales companies.

The number of last resort services activated was 7,285, including 4,277 Fui and 3,008 Default connections.

During the first half requests to change supplier that were successfully completed totalled 213,016, up compared to the prior-year period (162,164 requests at Group level).

### 8.4 Commercial Call Centre

The 2i Rete Gas Group makes available for free a call centre service on working days, through two freephone numbers for end users.

This service, which is an addition to what is envisaged by the law in force, is a benefit for the network end users and lets them ask for more information on:

- commercial aspects, with a freephone number dedicated to activation requests pursuant to Resolution 40/2014, commercial offers, reactivation of supply following suspension due to potential danger, last resort services and the portal for end users,
- smart meters, with a freephone number dedicated to information requests on the mass replacement plan and to set up a personal appointment for replacement of a traditional meter with a smart meter should it not have been possible to make the replacement during the planned mass replacement.

During the first half the Group’s commercial call centre received 161,879 calls (103,007 in the first half of 2018), of which 143,406 were actioned (98,657 in the first half of 2018).

The target for 2019 is to maintain the corporate standards in management of the service level in line with the trend this year.

## 8.5 Requirements of the Integrated Information System

In the half regulatory developments continued to expand and update the information and data in the Official Central Register [RCU] made available to the Integrated Information System.

The regulatory aim is to let the Integrated Information System use a complete database in order to enable access to information that is needed prior to managing the processes of metering, settlement, access to the network, verification of the availability of capacity at the city gate and social bonus, as part of sharing responsibilities for these processes in the future between the Integrated Information System itself and the distribution company.

This process, in particular, saw, in a first stage completed at the end of 2018 with the provisions under ARERA Resolution 77/2018, the attribution to the Integrated Information System of responsibility for switching and ownership processes, which were previously held by the distribution company.

During the first half of 2019, in addition the processes and related information flows were updated in application of the provisions of ARERA Resolution 488/2018/R/gas, with the end of the experimental stage and the consequent start of the stage of sending all the meter readings exclusively to the Integrated Information System through the "Next Cloud" platform.

This requirement entails the ending of the obligation to make available the metering data directly to the sale companies.

Also the "transitory" process was defined for the supply, by the distribution company, of the data used to calculate the so-called "annual consumption" by redelivery point, valid for the thermal year 2019-2020.

In the half the developments were successfully completed of the so-called "stage 1" to implement the regulation of the compensation system in the natural gas sector, introduced by Resolution 593/2017/R/com, with management of the process of admissibility of the request to suspend compensation and the related communication flows with the Integrated Information System in force since 01.07.2019.

The objective of the reform is recognition of compensation to the user of the outgoing distribution service with reference to the credit relating to invoices that have not been paid by the end user, for residential buildings with annual consumption of no more than 200,000 smc and for other uses with annual consumption of no more than 50,000 smc, in the 4 months preceding the switch.

Finally, analyses and developments are underway as envisaged by ARERA Resolution 271/2019/R/gas of 25/06/2019, which introduces provisions relating to the making available of technical and other data of redelivery points to the Integrated Information

System and the metering data and change to the communication standards with reference to the gas sector.

The provision, which includes various implementation stages associated with various start dates between 01.09.2019 and 30.04.2020, envisages, as an initial obligation, pending the coming into operation of the new communication standards on metering, making available to the Integrated Information Service, through the “Next Cloud” platform, own meter readings and the meter readings recorded on transfer of registration with use of the figures currently in force.

## 8.6 Gas Invoicing and Balancing

### Invoicing of Transport and Services

Developments have been gradually introduced linked to the “Electronic Invoicing among private individuals” project, introduced by the Stability Law 2018 and in force as from 01.01.2019, by updating the back-office applications and changing the flows exchanging invoicing documents with commercial counterparts.

Specifically, the so-called “Electronic invoicing among private individuals” includes the following corporate processes:

- Invoicing of transport
- invoicing of commercial services to sale companies and document checks;
- Invoicing of the replacement fuel service using lorry-mounted gas cylinders;
- Invoicing of insurance for end users and the COL (municipal fee) component;
- Invoicing of commercial services requested directly by end users.

In addition, the implementation stages needed to fulfil the requirements of the bill for end users were started as well as the documents accounting for the natural gas distribution and electricity transport service, in order to make it easier for the various players involved to coordinate the Authority’s regulation with the legislative provisions on electronic invoicing.

Having completed, in line with the regulatory deadlines, the updating of the invoicing process for the transport service as envisaged by Resolution 32/2019/R/gas of 29.01.2019, which introduced a new additional component to the tariff for the transport service, called UG2k, starting as from 01.04.2019, to be applied to all customers who have gas supply with consumption up to 200 thousand Smc, including contracts for public services.

In addition, during the half work started to manage the requirements envisaged by ARERA Resolution 587/2018/R/gas, which sets out the extension of the time frames for the validity of subsidies, up to 31.12.2020, for customers located in the so-called “red zones” [set up by specific orders by the mayors].

As part of the judicial actions undertaken pursuant to applicable laws concerning the discontinuation of the service to the Redelivery Points under default, 2i Rete Gas has continued charging back the legal costs it incurred.

In the half, work continued to analyse the requirements introduced by the primary and sectoral legal provisions relating to the objection of limitation raised by the end user, the so-called “short prescription period” in force as from 01.01.2019.

Ordinary transport, commercial services and compensation activities were invoiced on a monthly and regular basis and during the first half of 2019.

## Gas Balances

The Group carried out the monthly activities associated with calculating the balance within the deadlines envisaged by applicable laws.

28.02.2019 saw completion of the production and delivery to national/regional transporters and interconnected distributors of the data relating to the so-called “Multi-year Adjustment Session” for 2014-2017.

Work continued to control and analyse the changes introduced by the so-called “Settlement Reform” through participation in the related sector commissions and the work groups planned by the Balancing Manager.

The analyses started to transpose the part of the requirements relating to the activities of the distribution company, such as for example:

- introduction of dynamic profiling of consumption using the WKr coefficient;
- updating of the calculation procedure for annual consumption for the thermal year 2019-2020;
- change in the procedure of assigning the so-called “usage profiles” and management of the so-called statutory declaration by distribution customers;
- change in management of “commercial mapping”;
- change in the means of supplying the data leading to the definition of the “provisional balance”.

## 8.7 Metering

The installation of new smart meters, envisaged by Resolution 631/2013/R/gas, is significantly changing the recording of metering data; owing to the coming into service of smart meters which autonomously transmit metering data, the work of manual recording of metering data at redelivery points still equipped with traditional meters has fallen off considerably.

As regards the management of metering data under the Integrated Information System, the updates were completed envisaged by Resolution 434/2017/R/gas, subsequently

supplemented by Resolution 488/2018/R/gas: as from 01.05.2019, all the meter reading flows are only available to the Integrated Information System.

Due to the publication of the ARERA consultation document 570/2018/R/gas, the implementing resolution for which was expected by the end of 2018 but has still not been published, the regulatory framework which will regulate the distributor's obligations regarding the objection to the so-called "short prescription period" by the end user is still evolving.

## 8.8 Commercial development

### Scope of 2i Rete Gas S.p.A.

During the first half of 2019, in 2i Rete Gas S.p.A. most of the initiatives continued which were started during 2018 to incentivise the use of methane gas in the areas with highest potential in terms of users who do not have a service and where redelivery points have been created but never activated.

In addition, the same types of initiatives were started in other areas, thus expanding the geographic scope of the municipalities involved.

The local departments affected by these initiatives were the South East Department, the South West Department and the North Department with over 240 municipalities involved. Overall these initiatives led to the creation of 3,281 new redelivery points, of which 1,013 were activated during the half, and the activation of a further 1,504 redelivery points which had never been activated before.

The initiatives regard:

- municipalities with high potential in terms of users who do not have a service, with the introduction of subsidies on the contributions to realise simple connections.
- municipalities with high potential in terms of redelivery points created but never activated, with the introduction of campaigns on the incentives for contributions for activation and document checks.
- the municipalities involved in the new methane supply works, with over 24 initiatives launched throughout Italy, with the introduction of subsidies on the contributions to realise connections: in these areas it was arranged to distribute informative material to support the incentives.

In April, a roundtable was organised at which both the sale companies and installers took part who are active in the areas of the South East Department which are covered by the above subsidies; the purpose of the meeting was, besides analysing the results achieved thanks to the subsidies introduced, to exchange ideas to identify initiatives to stimulate the use of



natural gas by citizens, and put sale companies and installers in touch for possible collaboration.

### Scope of 2i Rete Gas Impianti S.p.A.

The agreement signed during 2018 was extended in the half up to 30.06.2019 for around 90 installers, in order to allow its revision with a new process for approving companies to be made operative for the second half of 2019.

The agreement regards the search for potential new customers to whom to offer natural gas as an energy source, setting out all its advantages, the assistance available to accompany them in the various stages of the process, from requesting an estimate for a new connection to eventually activating the redelivery point, and the construction of the branch of the connection.

During the half the work enabled the realisation of 1,266 new redelivery points, of which 711 are already activated.

### Cilento project

Cilento Reti Gas S.r.l., a company which is 60% owned by 2i Rete Gas Impianti S.p.A., is engaged in the realisation of the natural gas distribution network in 31 municipalities which adhere to the agreement signed in 2010 in the areas of Bussento, Lambro and Mingardo, Gelbison and Cervati, Alento and Monte Stella.

Currently the municipalities with gas are, as in 2018, Sapri, Camerota and Vibonati, while in the remaining municipalities the network is being built and the end of the project, with the introduction of gas to the final municipalities, is envisaged for 2023.

In 2019 work started to build the natural gas distribution network in 6 municipalities in the province of Salerno (Torraca, Morigerati, Casellone in Pittari, Casaletto Spartano, Tortorella and Ispani); in the same areas a communication plan was prepared and implemented at the same time as the work to lay the methane gas pipelines, in order to raise the awareness of citizens and to accelerate connections to the distribution network, highlighting, among other things, the possibility of using the subsidy for the cost of connection, which is available during construction of the plant.

The communication plan, which was launched in April and ended in June, saw the use of various instruments to promote the use of natural gas with broad participation by citizens who expressed strong interest in the arrival of methane gas in the area.

The aforementioned plan was agreed upon with the municipal administrations.

## 9 Plant construction, environment and safety

### 9.1 Gas distribution plants

During the first half of the year, a total of around 135 km of piping was laid by the Group companies, of which 48% was high to medium pressure and 52% low pressure.

In line with the company's technical guidelines, the piping laid in the period by the Group companies was almost entirely (over 98%) done in HDPE (high-density polyethylene) which is a technologically advanced material widely used also at the international level, already adopted by the Group for years now, which also has lower operating costs compared to traditional coated steel.

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

In particular, around 15 km relates to Cilento Reti Gas and the work to lay methane gas pipelines in the municipalities of Caselle, Ispani, Morigerati, Torraca, Tortorella and Vibonati.

The overall size of the network managed by the companies of the 2i Rete Gas Group, at 30 June 2019, was around 66,500 km

In addition, over 1,200 primary substations are active which, upstream of the distribution networks that the Group manages, reduce, measure and odorise the gas from the national transport networks. On the network there are also over 16,000 secondary reduction groups with a capacity of at least 120 sm<sup>3</sup>/h used to reduce pressure between the medium- and low-pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.

### 9.2 Service continuity and safety

By March 2019, the Group published the data on the 2018 service safety and continuity technical standards for all its companies. This work was done by extracting data from the corporate IT systems recorded by the local units during the year. The necessary accuracy and suitability controls were carried out before the data was sent to ARERA.

As in previous years, the Group's performance has exceeded the minimum requirements of the competent authority.

Overall, for the companies of the Group, in terms of constant attention to the safety of plants and end customers, campaigns were undertaken regarding the preventative

search for leaks: relating to the planned inspection on the distribution network, equal to over 72% of the high and medium pressure (HP/MP) piping and over 60% of the low pressure (LP) piping.

The percentages of network subjected to preventative search remained in line with the historic figures, despite the differing approaches which different companies had necessarily to adopt during 2018, at the end of plans which were started/scheduled before their acquisition by the Group.

As for gas odourisation tests carried out in the field in order to thoroughly monitor the actual level, the reported values were largely higher than the minimum requirements (around 18,500 chromatography tests) compared to the minimum value required by ARERA (around 3,600 tests).

In the first six months of the year, consistently with applicable laws and corporate procedural guidelines, the Group started checking the data concerning service Continuity and Safety processes pursuant to Resolution 574/2013/R/gas for the year 2019.

The main parameters concerning these activities relate to services showing the distributor's ability to promptly intervene in potentially dangerous situations (emergency interventions, intervention time), or to organise and carry out preventative checks to ensure correct monitoring of safety conditions (percentage of network subject to inspection, level of gas odourisation, percentage of network with cathodic protection).

### 9.3 Resolution 155/08 – (Smart meters)

At 30 June 2019, around 2,705,000 smart meters were in service, in line with the plan to reach the target for 2020 envisaged by ARERA of 85% of the total installed meters at the end of the year.

In accordance with the requirements of the Italian Gas Committee (CIG), testing continued on the integrated remote-control process with remote closure of valves.

Work continued to standardise the new meter models and the specific tests at the laboratory in Cremona.

### 9.4 Planning activities

Despite the continuation of the delay in calling ATEM tenders, work continues to prepare, check and update the detailed technical elements, relating above all to the plants that were previously managed by the Group, for the preparation of technical proposals to be put forward during the tender stage.

The work was aimed also at the plants for which the contracting authorities have already made available the technical documentation.

In addition, the usual design work was undertaken to support internal requests for the development and extension of existing networks, as well as a fluid dynamic check of plants.

## 10 Water Sector

During the first half of 2019, to be precise on 29.03.2019 and following the signing of a specific agreement, the drinking water distribution service in the municipality of Carate Urio (CO) was transferred to the operator of the integrated water service in the Iariana province, Como Acqua S.r.l.

Therefore, on 30.06.2019 the residual business in the water sector managed by 2i Rete Gas S.p.A. consists of just two concessions for drinking water distribution in the municipalities of Riva Ligure and Santo Stefano al Mare, both in the province of Imperia, and the supply of drinking water in the municipalities of Ventimiglia di Sicilia, Baucina and Ciminna, all in the province of Palermo.

## 11 Quality, Safety and Environment

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

The organisation continues to follow the reference standards and, in June, this was confirmed by a third-party audit undertaken directly by the Istituto di Certificazione Accreditato.

The audit assessed as adequate the means of managing the QSE/IMS (Quality Safety Environment/Integrated Management System) compared to the requirements envisaged by the reference laws and, therefore, the certifications for the Quality and Environment Systems held were confirmed.

At the same time the management system for Occupational Health and Safety was examined. It already conforms to BS 18001:2007 and was examined to obtain the Certificate of Conformity to the new standard, UNI ISO 45001:2018.

The final report confirmed the QSE/IMS as compliant with all the relevant regulations; no evidence of non-compliance was found.

Currently, therefore, 2i Rete Gas S.p.A. operates with a Certified Management System which conforms:

- for Quality Management to UNI EN ISO 9001:2015;
- for Environmental Management to UNI EN ISO 14001:2015;
- for Health and Safety Management to UNI ISO 45001:2018.

The audit concerned the North West and Centre departments as well as the following Office Organisational Structures: Procurement and Services, Operating Department,

Human Resources, IT Systems, Tenders and Communication, beside the Quality, Safety and Environment structure, including also the Prevention and Protection Service.

The overall assessment on the conformity and effectiveness of the management system expressed through the Audit Report states, in the overall judgment, that “the integrated management system for Quality, Environment and Safety is built around a document-based system which is largely digitalised and enables the coverage of the activities undertaken in all the corporate processes.

The management system is subject to continuous updating in relation to organisational and process changes. Particularly important are the ability to achieve targets, the management of change, and the control over operations including those entrusted to third parties.”

The judgment on the ability to analyse and manage risks and opportunities states that “the documentation examined clearly defines the corporate mission and the context in which the organisation operates; stakeholders are identified and for each of them the respective needs and expectations are established. The correlations are correctly set out between the operational stages and the stakeholders directly and indirectly involved. The identification of risks and opportunities is undertaken with a focus on the three macro business processes (acquisition, management and release of plant); in reference to the above period, the validity of the approach adopted is recognised. For significant risks, the mitigating actions were correctly identified and – on the basis of the effectiveness of the latter – the residual risks were calculated. The procedures were correctly defined to which to refer for the management and reassessment of the actions undertaken.”

The following were identified as strengths of the IMS: the management of change, the control over operations and control over outsourcers, and the ability to achieve the goals set.

The report included also some recommendations/opportunities for improvement, mainly referring to timing aspects that require to plan targeted actions. During the audit scheduled for next year, the Group will provide evidence that these actions have been implemented and are effective.

For 2019, 53 checks (internal audits) were planned aimed at guaranteeing control over the alignment of the Quality, Safety and Environment management system to the reference laws and the system documents, as well as to the correct implementation of the actions envisaged for the control over relevant risks.

In the first half of the year 26 audits were carried out in line with the above program, managed by internal qualified auditors.

The audits involved 7 structures in the head office, 3 departments, 11 local area offices and 4 secondary area offices.

All the visits enabled the recording, through sampling of all the processes managed, of the absence of any situation of serious non-conformity and the correct identification and implementation of the corrective actions needed to keep management aligned to the IMS.

## Certification of the Quality System of 2i Rete Gas S.r.l. and 2i Rete Gas Impianti S.p.A.

The Certification Body was engaged also to provide for the periodic verification for the maintenance of the certifications of the quality management systems of 2i Rete Gas S.r.l. and the integrated QSE management of 2i Rete Gas Impianti.

The verifications, which were carried out at the same time as the control by the parent company, certified that the systems were compliant with no findings made.

Currently 2i Rete Gas S.r.l. maintains its certification of UNI EN ISO 9001:2015 valid until 14.05.2021, while 2i Rete Gas Impianti maintains its certifications of UNI EN ISO 9001:2015, UNI EN ISO 14001:2015 and BS OHSAS 18001:2007, valid until 01.08.2020.

### 11.1 Prevention and Protection Service

In relation to the new risk assessment on “Work-related Stress”, in January the survey was completed extended to all staff and recorded participation in the online questionnaire of 86% of staff (1,839 employees). Currently, the corrective actions are being analysed to be implemented to address the issues that arose from the survey.

#### Workplace injuries:

In the first half of 2016, workplace injuries were up compared with the previous year.

In relation to the first half of 2018 there were 7 injuries that could be classified as “non-serious” (in other words with initial diagnosis of under 30 days) for operating staff and no injury for white-collar staff. In the first half of 2019 there were 7 “non-serious” injuries to operating staff and likewise 2 “non-serious” injuries to white-collar staff.

To these must be added also injuries while travelling for work, which in the first half of 2019 were: 1 (2018 it was 0) for operational staff and 6 (2018 was 3) for white-collar staff. The total number of injuries recorded in the first half of 2019 was 16, compared to 10 in the first half of 2018.

In order to achieve “zero injuries”, the QSE structure, in collaboration with the Head of the Prevention and Protection Service, continues auditing workplace safety at the territorial facilities as well as the work sites run by contractors.

### 11.2 Environmental issues

The QSE structure constantly monitors material environmental aspects and ensures the Company is aligned with changes in environmental regulations.

Surveys and removal work continued for buildings containing asbestos, which was implemented in advance and proactively with the aim of keeping the organisation “Asbestos free”, guaranteeing likewise on-site analyses of airborne fibres in collaboration with the Prevention and Protection Service.

In the context of environmental system indicators, the transition to the new regulatory model (UNI EN ISO 14001:2015) allowed revision of the goals set and which were divided between parameters to monitor regulatory compliance and objectives for continuous improvement.

In the first case (regulatory compliance) a check was made of the capacity for control by the Organisation of the environmental aspects linked to the management of the companies’ worksites (generation of noise and vibrations, handling of land and rocks/waste/spills), the management of waste products by the Group, the management of asbestos in properties in compliance with Law 257/92 as amended and supplemented and Regional Regulations, the correct management of the authorisation process for water discharges (Leg. Decree 152/06 as amended and supplemented), and compliance with environmental restrictions in the planning and construction stages.

As for the improvement goals, parameters were introduced to control consumption of raw materials and natural resources (consumption of fuel for operational vehicles, consumption of paper for printing and orientation to use recycled paper as an alternative to “virgin” paper, primary energy consumption for technological purposes in the decompression process and in the cathodic protection process), atmospheric emissions (emissions from the car fleet, raising efficiency for thermal plants for preheating of gas, prevention of release of asbestos fibres with preventative work on structures where asbestos is present), optimisation of handling of special waste (“non-hazardous” and “hazardous sent for recovery”), and control over the quantity of the waste produced.

The Group is registered in the SISTRI System for the purposes of managing its own hazardous special waste. The Company handles the non-hazardous and hazardous special waste it generates in compliance with the law, tracking it by keeping waste acceptance and deposit records as well as digitally using the “Atlantide” application.

### **11.3 Technical and Commercial Quality, control over technical and commercial quality data subject to communication to ARERA**

As at 30.06.2019 five plants were audited (4 of 2i Rete Gas S.p.A. and 1 of 2i Rete Gas Impianti S.p.A.); the checks will continue also in the second half, so as to ensure the coverage of at least 10 plants as planned.

The check aimed to verify the quality of the documents certifying the service safety and continuity (management of the emergency service, management of leaks, management of checks on the level of odourisation of the gas distributed) which were guaranteed during 2018.

The proposed corrective or preventative actions, once implemented by the structures concerned, allow to further improve the confidence on compliance of the audited data where necessary.

As for the events for Safety and Continuity, the QSE/IMS structure has planned 7 inspections for 2019 aimed at determining the conformity of the registrations of the commercial quality of the service, carried out on samples selected on the basis of the provincial territory. In the first half checks continued for the performance of the provinces of Perugia and Venice: the results, which were minuted, enabled certification of the conformity of the figures.



## 11.4 Control over worksite safety

During the first half of 2019 work continued to guarantee alignment to relevant laws in force and compliance with corporate provisions regarding the management of safety aspects for activities which fall under art. 26 and in Chapter IV of Leg. Decree 81/08, which involve company representatives, respectively in the role of Employer commissioning the work, Principal and Works Manager.

The Worksite Safety Coordination also deals with defining standard behaviour in the approach to safety issues at the worksites of 2i Rete Gas.

The company documents relating to the definition of roles and responsibilities of the aforementioned figures were updated regarding implementation of the above.

As for the management of safety coordination on worksites, the work was monitored as undertaken by external and internal safety coordinators during planning (Italian acronym: CSP) and during execution (Italian acronym: CSE) involved throughout the scope of the company.

All the CSEs are adopting the same format for reporting site visits, so that a uniform method is adopted by them in carrying out the controls, limiting as far as possible a subjective approach.

During the first half of 2019 the CSEs produced a total of 2,981 reports, highlighting 634 cases of non-conformity which were all managed by verifying the actions adopted by the companies at the instructions of the CSEs.

The Safety Index of 2i Rete Gas is the performance indicator of the control proceedings, which is traditionally expressed as the ratio between the cases of non-conformity found and the total number of reports produced. As at 30/06/19 it was 79%, a value in line with the corporate target of 78%.

The half also saw the return of cross-checks, in other words on-site checks by the QSE/CSC units together with the internal CSEs, with the deployment of staff on jobs other than those entrusted to them.

Besides confirming or otherwise the picture set out by the internal/external CSE regarding the safety performance of the companies entrusted to the CSE, the cross-checks provide a way to verify the on-site approach of the internal CSEs who, in the cases considered so far, has proven professional and in line with company requirements.

## 12 Human resources

### 12.1 Company organization

During the first half of 2019, the Job Evaluation project came to an end in the stage regarding the definition of professional profiles for the operating areas with the consequent updating of the mapping of the related staff.

Following legislative changes, it was necessary to consider the law relating to early retirement under the so-called “quota 100”, in order to assess its effective impact, dividing the analysis by type of worker and work unit, setting up a continuous monitoring system for the turnover in staff.

In keeping with the process of organisational and logistical simplification of the departments and local offices, the merger and/or closure of local offices which needed changing continued.

## 12.2 Industrial relations

In keeping with the activities carried out during 2018, the first half of the year saw the conclusion of the harmonisation and integration process for the staff of 2i Rete Gas Servizi within the Group.

In addition, an agreement was signed on corporate welfare linked to the results bonus accrued in 2018 and paid in 2019. Negotiations started for the definition of the next framework agreement relating to the Results Bonus 2019-2021, which must include, in line with previous practice, social security and welfare services.

The criteria for the renewal of the union representation were definitively formalised as well as for the industrial relations protocol.

## 12.3 Selection

In the first half of 2019, the recruitment of 21 new staff was completed through external selection, 7 of which relate to research processes that started in 2018 and 14 to processes started in 2019.

The reasons for external recruitment were varied, in particular the need to replace staff who had been posted to vacant positions thanks to the job posting process or to internal job rotation, and replacing specialist figures who have left the company following retirement.

Most of the contracts signed were fixed-term (15), plus 5 permanent contracts and 1 temporary contract.

As for searches through internal job postings, 18 positions were set up, with a total of 40 applications received and 2 procedures completed at 30/6, with a further 7 in the final stage.

## 12.4 Training and development

As for training, the commitment in the first half of 2019 focussed on the technical and safety issues as well as managerial, specialist and IT issues.

As for managerial training, in the first few months of the year a project was undertaken dedicated to young staff and aimed at developing and/or consolidating the soft skills of junior professionals; in this training program important issues were addressed for the personal/professional development of skills linked to effective communication, problem-solving and self-empowerment.

In addition, in January a project was completed dedicated specifically to the new middle managers in the Information Systems unit.

In regard to specialist issues, thanks to the commitment and contribution of inhouse teachers who are managers in their respective structures, training was offered on the main issues connected to tariffs and fees and a training project was launched for the project management business, with the aim of achieving a high level of collaboration among the corporate structures, above all during the implementation and development of IT projects.

In addition, some colleagues took part in meetings and forums linked to innovation and digitalisation.

Specific courses were organised for Human Resources as regards the new methods for Recruitment and Compensation Policies, also in order to consolidate the skills of new staff who have recently been reallocated in the structure.

Then a training/information session continued on the New Regulation on Privacy and on Decree 38. Teaching was provided by Legal and Corporate Affairs.

As for technical and operational training, various important initiatives were launched and provided, in particular:

- The project to develop the skills of general blue-collar staff as maintenance staff or substation staff (which involved 39 employees) and specialist smart meter staff which involved a further 56 employees. The project aims to increase the professional skills of operational staff, above all on fundamental issues and skills for the company's core business
- The training on emergency response continued and saw the involvement of the colleagues who had not been trained in the sessions provided in 2018, for a total of around 130 staff;
- The training on the instrumentation and the "Emma" devices for the pre-heating process in gas reduction and measurement cabins and on the "Webpressure" application implemented for management of the peripheral cabins of 2i Rete Gas Impianti, involving over 100 staff in the various local departments;
- training on new IT development to manage surveillance work by internal staff and external companies, involving 117 colleagues from all the departments;

- training on “steel welding in accordance with UNI EN ISO 9606-1” - “welding of polyethylene in accordance with UNI 10761-2012” for 32 colleagues from various departments.

In partnership with QSE and RSPP, the Group organised and provided the following Workplace Safety training initiatives:

- First aid courses (refresher training) for nearly 120 employees from all the departments;
- fire prevention courses (refresher training) for around 200 employees across all departments;
- courses on breathing apparatus for 25 staff from some departments;
- courses for staff for electrical works (skilled/trained) for 7 employees from the head office ESE-CE structure;
- internal training on the manual movement of loads for 33 employees from some departments;
- internal training on the management of emergencies in buildings and evacuation testing for 22 employees in one department.

In addition, the provision of the general and specialist course on safety (Workers Safety and Office Risks) continued via e-learning, which the first half saw it completed by an additional 165 employees.

## 12.5 Corporate climate

2i Rete Gas, following the experience of the previous assessment on work-related stress undertaken in 2015, decided to schedule a new survey on the main risk factors and on the corporate climate.

The objective was both to assess the progress of the action plan which had been defined in the past and to implement new solutions and initiatives to favour a positive and collaborative climate and so continuous improvement in the work environment.

The results of the survey and the related work plan were shared with the company management and with the local managers and in the third quarter they will be disseminated to all employees who will be involved in specific meetings on the issue.

## 12.6 Compliance

With the purpose of guaranteeing effective management of the process of consultation and updating of the Register of the processing of personal data, in compliance with EU Regulation 2016/679, the revision and maintenance of the Register was regulated.

## 13 IT systems

The first half of 2019, as regards information systems, saw a sharp focus on activities relating to completion of the integration of the companies bought during 2018 from the Naturgy group, work on compliance, support for the mass installation project and management of smart meters and completion of the Asset Management Program, and the technological renewal of central and distributed infrastructure.

The work continued to update the information system to integrate 2i Rete Gas Impianti S.p.A. into 2i Rete Gas S.p.A., which is planned for the third quarter of 2019.

The main updates were completed to support the accounting and reporting of the activities to build plants as part of the project to introduce methane gas to Cilento.

A significant commitment was requested of the systems to guarantee compliance, in particular functions were developed to implement the new accounting standard IFRS16 and to update the commercial systems to the new switching process defined by Resolution 77/18, the Contractual Termination and Activation of Last resort Services through the Integrated Information System.

As part of the Smart Meter Project, the activities were finalised to maximise the implementation of the meters installed, providing analysis of the communications to optimise the RF 169 Mhz network and to identify the issues of phone network coverage with GPRS. The work was completed to improve the efficiency of the communication between the central system and meters, both in order to maximise the duration of the batteries and for better management of the processes of remote meter reading and management.

Work continued under the program to optimise Asset Management, aimed at coherent and integrated management of the assets with the aim of achieving greater efficiency and precision in executing operations, supporting the company's strategic decisions.

The dissemination of the dashboard and instruments to support the roll-out of smart meters was completed, using the information collected on the Big Data & Advanced Analytics system, mainly to control the process of implementing the service and managing the stock of meters (anomalies, communication problems, etc.).

The Cyber Security program saw the completion of the activation of the platform to support Data Loss Prevention and the launch of the project to configure further control concepts to support the GDPR.

The first half saw marked involvement in terms of infrastructure, with the technological renewal of mobile equipment (smartphones, tablets) and workstations, as well as

enhancement of the connectivity network with all the offices and the launch of the new outsourcing contract which allowed the optimisation of operating costs.

As part of operational efficiency gains, with particular reference to the operational model and the management of IT services, the revision of the IT processes was started in line with best market practice, through a detailed Project Management program with the objective of optimising the management of projects and services to maintain and develop the systems of the application mapping. In this context, the first half saw the provision and launch of the competitive purchase process for Application Maintenance services for the next three years, with a particular focus on operational efficiency and on improving the quality of the systems and service levels offered.

## 14 Research and development

During the half research and development was undertaken in the IT segment and on the smart meter management system.

In addition, an agreement was completed with a leading American research company to test a new methodology for finding leaks.

This methodology, by correlating the signals collected during the search with other climate and environment parameters, enables quicker undertaking of inspections and a wider scope of action compared to the coverage of the leak detector, with an increase in the areas subject to control.

The work was undertaken in the field in July on two sample plants for around a total of 150 km.

The objective of the experimentation is to test in the field the effectiveness of the technology, to understand directly its specific nature, and to refine its use for future company applications.

Again, during the first half an agreement was completed with the Polytechnic of Milan for the analysis of possible prospects for the evolution of the gas distribution network with the development of a model for the simulation of the network given the injection of biomethane.

The research involves the analysis of the gas distribution network given injections of biomethane with the possibility of reverse-flow towards the national transport networks, developed through the construction of a model to simulate the functioning of the network aimed at analysing the evolution over time of the same (time and space variation in the pressure profiles / flow), given consumption with assigned profiles.

## 15 Risk management

This section concerning Enterprise Risk Management describes the main operational risks that characterise the sector in which the 2i Rete Gas Group operates. Regarding

liquidity, credit and market risks, reference should be made to the relevant section in the notes to the consolidated financial report.

### 15.1 Operational risks

Operating natural gas distribution networks involves the risks of malfunction or unanticipated interruption of the service, due to factors that are not under the Group's control, such as accidents, breakdowns or malfunctions of equipment or control systems, underperformance of the plants, and extraordinary events such as explosions, fires, earthquakes, landslides, and other natural disasters. These events can result in an interruption of the service, significant damage to people or property as well as the environment, and/or economic and social turmoil.

Any service interruptions, underperformance, or inadequacy of the Group structures and/or the consequent obligations to provide compensation could result in a reduction in revenue, an increase in costs, and/or regulatory actions. The Group has taken out specific insurance policies against these risks that are considered to adequately cover any type and amount of damage that could be caused.

### 15.2 Regulatory risks

The Group may be exposed to risks related to changes in the tariffs for regulated natural gas distribution activities. For example, a change in the regulatory variables or in the method used for regulation – including, but not limited to, in how the contributions received to develop the network and infrastructure are included in the tariff in each regulated period – will impact the tariffs applicable to the Group's business, with negative repercussions on revenue and margin.

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

### 15.3 Risks deriving from future changes in natural gas consumption

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

## 15.4 Environmental and safety risks

Operating and maintaining gas distribution networks is potentially dangerous and could cause damage to the public and/or Group employees. The Group is subject to Italian and European Union laws and regulations that govern health and safety to protect the public and employees.

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

These laws and regulations expose the Group to costs and liabilities associated with its operations and plants, including those in relation to waste disposal.

The costs for any future environmental restoration obligations involve uncertainty as to the extent of the possible contamination, the appropriate corrective actions, and the Group's responsibility – which are often hard to estimate.

To mitigate this risk, the Group has adopted check and management systems that carefully monitor the processes and the related environmental issues, as well as taken out specific insurance policies covering both the cost of containing a potential contamination as well as of the relevant restoration and damage caused.

## 16 Outlook

In 2019, the Group will continue improving operational efficiency and curbing costs. The profitability for 2019 is expected to be in line with the first half of the year.

In particular, the actions undertaken by the 2i Rete Gas Group seek to:

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



The Chief Executive Officer  
Michele Enrico De Censi

## IV. Consolidated Interim Report

## V. Financial Statements

## VI. Profit or Loss

Thousands of euro	Notes	30.06.2019	of which from related parties	30.06.2018	of which from related parties
<b>Revenue</b>					
Revenue from sales and services	5.a	347,622	-	337,820	
Other revenue	5.b	11,857	7	13,701	4
Revenue from intangible assets / assets under construction	5.c	132,414	-	122,326	
	<b>Sub-Total</b>	<b>491,893</b>		<b>473,847</b>	
<b>Costs</b>					
Raw materials and consumables	6.a	34,434	-	33,375	
Services	6.b	127,476	3,801	127,449	268
Personnel Costs	6.c	63,709	1,243	63,052	1,163
Amortisation, depreciation and impairment losses	6.d	99,789	-	91,633	
Other operating costs	6.e	24,786	194	24,333	223
Capitalised costs for internal work	6.f	(386)	-	(316)	
	<b>Sub-Total</b>	<b>349,807</b>		<b>339,527</b>	
		<b>EBIT</b>		<b>134,320</b>	
Income / (expenses) from equity investments	7	80	76	1,242	1,183
Financial income	8	1,061	-	35	
Financial expenses	8	(32,491)	-	(27,099)	
	<b>Sub-Total</b>	<b>(31,350)</b>		<b>(25,822)</b>	
		<b>Pre-tax income</b>		<b>108,499</b>	
Taxes for the period	9	17,913	-	32,900	
		<b>Net income from continuing operations</b>		<b>75,598</b>	
Pre-tax income from discontinued operations		16,244			
Tax effect		(195 )			
		<b>Net income from discontinued operations</b>		<b>-</b>	
		<b>NET INCOME FOR THE YEAR</b>		<b>75,598</b>	
<b>Net income for the year attributable to:</b>					
- Owners of the Parent		108,852		75,605	
- Non controlling interests		20		(7 )	

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

## VII. Statement of Comprehensive Income

Thousands of euro	30.06.2019	30.06.2018
<b>Net income recognised through profit or loss</b>	<b>108,872</b>	<b>75,598</b>
- Net income attributable to owners of the Parent	108,852	75,605
- Net income attributable to non-controlling interests	20	(7)
<b>Other comprehensive income</b>		
<i>Items which will never be reclassified through profit/(loss):</i>		
Revaluations of net liabilities/assets for defined benefits - owners of the Parent	(14)	(74)
Deferred tax assets and liabilities on items which will never be classified through profit / (loss) - owners of the Parent	(3)	21
	(17)	(53)
<i>Items which may be reclassified subsequently through profit/(loss):</i>		
Change in fair value of hedging derivatives - non-controlling interests	-	(5,709)
Change in fair value of hedging derivatives reclassified in profit for the period - non-controlling interests	(612)	-
Change in fair value of hedging derivatives (tax effect) - non-controlling interests	-	1,370
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interest	147	-
	(465)	(4,339)
<b>Total other comprehensive income</b>	<b>(482)</b>	<b>(4,392)</b>
<b>Total comprehensive income</b>	<b>108,390</b>	<b>71,207</b>
<b>Total comprehensive income attributable to:</b>		
- Owners of the Parent	108,370	71,214
- Non controlling interests	20	(7)

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

## VIII. Statement of Financial Position

Thousands of euro	Notes	30.06.2019	of which from related parties	31.12.2018	of which from related parties
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	11	38,442	-	39,312	
Rights of use IFRS 16	12	27,827	-		
Intangible assets	13	3,711,451	-	3,682,262	
Net deferred tax assets	14	118,659	-	82,716	
Equity investments	15	3,463	3,340	3,459	3,336
Non-current financial assets	16	1,635	-	1,025	
Other non-current assets	17	59,278	-	57,710	
	<i>Total</i>	<b>3,960,755</b>		<b>3,866,484</b>	
<b>Current assets</b>					
Inventories	18	25,341	-	23,948	
Trade receivables	19	160,303	7	232,624	27
Short-term financial receivables	20	12,788	-	1,394	
Other current financial assets	21	764	-	187	
Cash and cash equivalents	22	766,873	-	686,353	
Income tax receivables	23	6,964	-	14,633	
Other current assets	24	324,930	214	207,726	
	<i>Total</i>	<b>1,297,963</b>		<b>1,166,865</b>	
<b>Non-current assets and assets included in disposal groups held for sale</b>					
Non-current assets (or assets included in disposal groups) held for sale	25	2,954	-	32,681	
	<i>Total</i>	<b>2,954</b>		<b>32,681</b>	
<b>TOTAL ASSETS</b>		<b>5,261,671</b>		<b>5,066,030</b>	

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

<b>Thousands of euro</b>	Notes	<b>30.06.2019</b>	<b>of which from related parties</b>	<b>31.12.2018</b>	<b>of which from related parties</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity - Owners of the Parent</b>					
	26				
Share Capital		3,639	-	3,639	
Treasury Shares		-	-	-	
Other Reserves		504,848	-	505,388	
Retained earnings / (accumulated losses)		222,332	-	159,812	
Net income for the year		108,852	-	155,457	
<b>Total equity - Owners of the Parent</b>		<b>839,670</b>		<b>824,296</b>	
<b>Equity - non-controlling interests</b>					
Non-controlling interests		1,398	-	1,420	
Net income for the year - non-controlling interests		20	-	(17)	
<b>Total equity - non-controlling interests</b>		<b>1,418</b>		<b>1,403</b>	
<b>TOTAL EQUITY</b>		<b>841,088</b>		<b>825,699</b>	
<b>Non-current liabilities</b>					
Long-term loans	27	2,669,170	-	2,943,857	
Post-employment and other employee benefits	28	44,421	-	45,606	
Provision for risks and charges	29	9,338	-	9,916	
Deferred tax liabilities	14	-	-	-	
Non-current financial liabilities	30	-	-	-	
IFRS 16 Non-current financial liabilities	31	21,388	-		
Other non-current liabilities	32	327,015	-	308,442	
	<i>Total</i>	<b>3,071,333</b>		<b>3,307,821</b>	
<b>Current liabilities</b>					
Short-term loans	33	638,673	-	362,651	
Current portion of long-term loans	34	-	-	-	
Short-term portion of long-term and short-term provisions	35	103,721	-	100,476	
Trade payables	36	203,850	4,620	207,608	1,291
Income tax payables	37	6,711	-	8,851	
Current financial liabilities	38	50,191	-	22,966	
IFRS 16 Current financial liabilities	39	5,993	-		
Other current liabilities	40	339,978	207	223,036	220
	<i>Total</i>	<b>1,349,118</b>		<b>925,586</b>	
<b>Non-current liabilities and liabilities included in disposal groups held for sale</b>					
Non-current liabilities and liabilities included in disposal groups held for sale	25	132	-	6,923	
	<i>Total</i>	<b>132</b>		<b>6,923</b>	
<b>TOTAL LIABILITIES</b>		<b>4,420,583</b>		<b>4,240,331</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,261,671</b>		<b>5,066,030</b>	

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

## IX. Statement of Cash Flows

Thousands of euro		30.06.2019	30.06.2018
<b>A) CASH AND CASH EQUIVALENTS - OPENING BALANCE</b>		<b>22</b>	<b>686,353</b>
<b>Cash flow from operating activities</b>			
Pre-tax income		110,736	108,499
Taxes for the period	9	(17,913)	(32,900)
Net income from discontinued operations	10	16,049	-
<b>1. Net income for the period</b>		<b>108,872</b>	<b>75,598</b>
<b>Adjustments for:</b>			
Depreciation	6.d	99,977	91,709
Write-downs / (Write-ups)	6.d	(188)	(76)
Capital (gains) / losses	5.b/6.e	6,311	9,422
Allocations to provisions for risks and charges and post-employment benefits		12,778	9,635
Financial (income) / expenses	7 and 8	31,350	25,822
<b>2. Total adjustments</b>		<b>150,227</b>	<b>136,512</b>
<b>Change in net working capital</b>			
Inventories	18	(1,392)	(4,942)
Trade receivables	19	72,513	157,806
Trade payables	36	(4,287)	(22,487)
Other current assets	24	(117,204)	(71,218)
Other current liabilities	40	116,672	(36,660)
Net tax receivables / (payables)	23 and 37	5,530	37,232
Increase / (decrease) in provisions for risks and charges and post-employment benefits	28, 29 and 35	(12,341)	(5,826)
Increase / (decrease) in provisions for deferred tax assets and liabilities	14	(37,146)	(5,497)
Other non-current assets	17	(1,456)	(2,723)
Other non-current liabilities	32	15,761	7,645
Financial income / (expenses) other than for financing	8	(389)	(474)
<b>3. Total change in net working capital</b>		<b>36,262</b>	<b>52,856</b>
<b>B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)</b>		<b>295,360</b>	<b>264,966</b>
<b>Cash flow (used in) / generated by investing activities</b>			
Net fixed assets		(102,648)	(128,368)
Purchase of subsidiary and income from equity investments	7 and 15	76	(730,064)
Cash acquired through company acquisition		-	1,916.03
<b>C) CASH FLOW (USED IN) / GENERATED BY INVESTING ACTIVITIES</b>		<b>(102,572)</b>	<b>(856,517)</b>
<b>D) FREE CASH FLOW (B+C)</b>		<b>192,789</b>	<b>(591,551)</b>
<b>Cash flow from financing activities</b>			
Dividend payout		(93,000)	(85,032)
Change in amortised cost	16, 27 and 34	799	1,235
Financial income/(expenses) relating to the Fv of the derivative instrument from Comprehensive Income	7 and 8	(612)	-
Financial income for financing activities	8	1,025	9
Financial (expenses) for financing activities	8	(32,066)	(26,599)
Receipts from debenture loan issues	27	-	0
Change in short-term financial debt	33	(108)	(13)
Current portion of long-term loans	34	-	-
Change in amortised cost	30	-	(42)
Change in other non-current financial assets	16	34	20
Change in other financial receivables	20 and 21	(11,972)	(13,982)
Change in financial leases IFRS 16	31, 39 and 11	(3,593)	-
Change in other financial payables	38	27,225	20,072
<b>E) CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(112,269)</b>	<b>(104,331)</b>
<b>F) CASH FLOW FOR THE PERIOD (D+E)</b>		<b>80,520</b>	<b>(695,882)</b>
<b>G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE</b>		<b>22</b>	<b>120,257</b>

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



## X. Statement of Changes in Equity

	Share capital and reserves							Total - Owners of the Parent	Total - Non-controlling interests	Total consolidated equity
	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year			
<b>Thousands of euro</b>										
<b>Total 31 December 2017</b>	<b>3,639</b>	<b>286,546</b>	<b>728</b>	<b>15,948</b>	<b>206,939</b>	<b>124,508</b>	<b>121,624</b>	<b>759,932</b>	<b>-</b>	<b>759,932</b>
<i>Allocation of income for 2017:</i>										
Distribution of income	-	-	-	-	-	121,624	(121,624)	-	-	-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
<i>Total contribution from shareholders and payments to them as shareholders</i>								<i>(85,032)</i>		<i>(85,032)</i>
- Other changes	-	-	-	-	1,275	(1,275)	-	-	-	-
- Other changes	-	-	-	-	14	(14)	-	-	1,420	1,420
Net income for the year recognised in equity	-	-	-	-	-	-	-	-	-	-
- Change in IAS reserves	-	-	-	(6,599)	538	-	-	(6,061)	-	(6,061)
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	155,457	155,457	(17)	155,440
<b>Total 31 December 2018</b>	<b>3,639</b>	<b>286,546</b>	<b>728</b>	<b>9,349</b>	<b>208,765</b>	<b>159,812</b>	<b>155,457</b>	<b>824,296</b>	<b>1,403</b>	<b>825,699</b>
<i>Allocation of income for 2018:</i>										
Distribution of income	-	-	-	-	-	155,457	(155,457)	-	-	-
- Dividend payout	-	-	-	-	-	(93,000)	-	(93,000)	-	(93,000)
<i>Total contribution from shareholders and payments to them as shareholders</i>								<i>(93,000)</i>		<i>(93,000)</i>
- Other changes	-	-	-	-	(58)	58	-	-	-	-
- Other changes	-	-	-	-	-	5	-	5	(5)	-
Net income for the year recognised in equity	-	-	-	-	-	-	-	-	-	-
- Change in IAS reserves	-	-	-	(465)	(17)	-	-	(482)	-	(482)
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	108,852	108,852	20	108,872
<b>Total 30 June 2019</b>	<b>3,639</b>	<b>286,546</b>	<b>728</b>	<b>8,884</b>	<b>208,690</b>	<b>222,332</b>	<b>108,852</b>	<b>839,670</b>	<b>1,418</b>	<b>841,088</b>

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

## XI. Notes

### 17 Format and contents of the Financial Statements

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

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

- North West Department - Via Gazzoletto, 16/18 - 26100 Cremona (province of Cremona)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (province of Varese)
- North East Department - Via Serassi, 17/Rs - 24124 Bergamo (province of Bergamo)
- Central Department - Via Morettini, 39 - 06128 Perugia (province of Perugia)
- South-West Department - Via Boscofangone snc - 80035 Nola (province of Caserta)
- South East Department - Via Enrico Mattei - 72100 Brindisi (province of Brindisi)

On 24 September 2019, the Directors of 2i Rete Gas S.p.A. approved this condensed consolidated interim financial report prepared on a voluntary basis.

For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 24 September 2019.

These half-year condensed consolidated financial statements are subject, on a voluntary basis, to a limited audit by PricewaterhouseCoopers S.p.A.

### 18 Conformity to IFRS/IAS and basis of presentation

This condensed consolidated interim financial report at 30 June 2019 has been prepared in compliance with: the International Accounting Standards (IAS) or the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at the end of the period; the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as the interpretations of the Standing Interpretations Committee (SIC) effective at the same date. In particular, this condensed consolidated interim financial report has been

prepared in compliance with IAS 34 - Interim Financial Reporting. The above standards and interpretations are hereinafter referred to as "IFRS-EU".

### Basis of presentation

The consolidated interim financial report consists of the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity, and the Notes.

The assets and liabilities reported in the Statement of Financial Position are classified on a "current/non-current" basis, separately disclosing the assets and liabilities held for sale.

Current assets, which include cash and cash equivalents, are those intended to be sold, consumed or realised as part of the normal operating cycle or within 12 months after the balance sheet date; current liabilities are those expected to be settled in the normal operating cycle or within 12 months after the balance sheet date.

Items in the Income Statement are classified based on the nature of expenses, while the Statement of Cash Flows is presented using the indirect method.

The consolidated interim financial report is presented in euro (the Group's functional currency) and the amounts reported in the notes are expressed in thousands of euro, unless otherwise stated.

The consolidated interim financial report has been prepared using the historical cost approach, except for those line items that, in accordance with IFRS-EU, are measured at fair value, as indicated in the measurement basis for the individual items.

This consolidated interim financial report has been prepared on an ongoing concern basis, as detailed in the Directors' Report.

## 19 Accounting standards, valuation criteria and use of estimates

In preparing the consolidated interim financial report, the Group has used the same accounting policies as those used in preparing the consolidated financial statements for the year ended 31 December 2018, except for what stated below.

### Adoption of IFRS 16

The Group adopted IFRS 16 retroactively as from 1 January 2019, but did not restate the comparative data for 2018, as allowed by the specific transitory provisions of the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recorded in the opening financial statements on 1 January 2019.

On adopting IFRS 16, the Group recorded the liabilities relating to rental contracts, hire, and leasing which had been previously classified as "operating leases" in accordance with the IAS 17 Leasing.

These liabilities were valued at the present value of the remaining payments on the lease, discounted using the lessee's incremental debt rate at 1 January 2019. The lessee's average weighted incremental debt rate applied to the lease liabilities at 1 January 2019 was 1.97%.

The assets for the rights of use were evaluated for an amount equal to the present value of the lease liability, adjusted by the amount of any payments made or accrued and recorded in the financial statements as at 31 December 2018 according to the "Modified retrospective" approach.

The rights of use recognised as at 01.01.2019 refer to the following types of activity:

4,828 thousand euro vehicle hire.  
20,318 thousand euro rent of properties.

In applying IFRS 16 for the first time, the group used the following practical expedients which are allowed by the standard:

- the use of a single discount rate on a portfolio of lease contracts with reasonably similar characteristics
- entrusting to previous evaluations on the fact that the lease contracts are onerous
- the accounting of operating leases with a residual lease duration of less than 12 months at 1 January 2019 such as a short-term lease
- the exclusion of initial direct costs to measure the asset of right of use at the date of the initial request
- the use of better estimates in determining the duration of the lease contract in which the contract contains options to extend or terminate the lease
- exclusion of low value assets, including IT equipment.

Car hire contracts are generally signed for periods of 3 to 5 years, but may have extension options.

The terms of property leases are instead negotiated on an individual basis and contain a vast range of different terms and conditions.

Since 1 January 2019, leases are recorded as assets with right of use and a corresponding liability at the date when the leased asset is available for use by the Group.

Every payment relating to these contracts is divided between the liability and financial expenses. The finance cost is charged to the income statement in the lease period so as to produce a constant periodic interest rate on the residual amount of the liability for each period. The asset of right of use is amortised for the shorter between the useful life of the asset and the duration of the lease, on a straight-line basis.

The costs associated with short-term leases and low value asset leases are instead recorded on a straight-line basis on the income statement.

As for the other standards applicable as from 1 January 2019, we may note:

- “Annual Improvements to IFRS Standards 2015-2017 Cycle”, the approval of which by the EU took place on 14 March 2019 with Regulation no. 412. The changes introduced, which apply to the financial statements relating to years starting as from 1 January 2019, or subsequently and are part of the routine work to rationalise and clarify the international accounting standards, regard the following standards: (i) IFRS 3 - Business Combinations and IFRS 11 - Joint Arrangements: the IASB clarified how to account for the increased stake in a joint operation which meets the definition of business; (ii) IAS 12 - Income Taxes: the IASB clarified that the tax effects related to the payment of dividends (including the payments relating to financial instruments classified under equity) are recognised coherently with the transactions or underlying events which generated the amounts to be distributed (e.g. recognition in the statement of profit or loss, in other comprehensive income or in equity); (iii) IAS 23 - Borrowing Costs: the IASB clarified that the general borrowing to calculate financial expenses to be capitalised on qualifying assets does not include borrowings which relate specifically to the qualifying assets during construction or development. When these qualifying assets are available for use, the related borrowings are considered as general borrowing for the purposes of IAS 23.
- Changes to IAS 19 - Employee Benefits. “Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)”, the approval of which by the EU took place on 13 March 2019 with Regulation no. 402, clarifies some accounting aspects relating to changes, reductions or terminations of a defined benefit plan. The amendments apply for changes to plans, reductions or transactions which occur as from 1 January 2019 or the date on which they are applied for the first time.
- Changes to IAS 28 - Investments in associates and joint venture. “Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)”, the approval of which by the EU took place on 8 February 2019 with Regulation no. 237, aims to clarify some aspects in the cases in which companies finance associates and joint ventures with preference shares or through loans for which repayment is not envisaged in the foreseeable future (“Long-Term Interests” or “LTI”). In particular, the amendment clarifies that these types of loans, although representing an extension of the net investment in these investees to which IAS 28 applies, are in any case subject to the provisions on impairment of IFRS 9. The changes apply to financial statements relating to years starting from 1 January 2019, or subsequently.
- IFRIC 23 Uncertainty over Income Tax Treatments, the approval of which by the EU took place on 23 October 2018 with Regulation no. 1595, which provides indications on how to reflect in the accounting of income taxes the uncertainties about the tax treatment of a given phenomenon. IFRIC 23 applies to financial statements for years as from 1 January 2019 or subsequently.
- Amendments to IFRS 9 - Financial instruments. “Prepayment features with Negative Compensation (Amendments to IFRS 9)”, the approval of which by the EU took

place on 22 March 2018 with Regulation no. 498, aims to modify the requirements of IFRS 9 with reference to the following two cases: (i) the financial assets which contain early payment options through negative compensation can now be valued at amortised cost or at fair value through other comprehensive income (FVOCI) if they satisfy the other key requirements of IFRS 9; (ii) new accounting criteria are introduced in the case of minor changes which do not entail derecognition in the case of changes or exchange of financial liabilities at a fixed rate. The changes apply to financial statements relating to years as from 1 January 2019, or subsequently.

Except for the comment above on IFRS 16, the adoption of the new standards which are applicable as from 1 January 2019 did not entail significant effects.

### Accounting standards and interpretations issued by IASB/IFRIC during the first half and not yet approved by the European Commission

At the date of approving these interim consolidated financial statements, some accounting standards, interpretations and amendments were issued by the IASB, but were still not approved by the European Union, and were still at the consultation stage, including:

- On 18 May 2017, the IASB published the new IFRS 17 Insurance Contracts, which replaces the current IFRS 4. The new standard on insurance contracts aims to increase the transparency over sources of profit and on the quality of the profits made and to guarantee a high level of comparability between the results, introducing a single standard to recognise revenues which reflects the services provided. IFRS 17 applies to financial statements relating to years as from 1 January 2021 or subsequently. The Endorsement Process by EFRAG is still ongoing.
- On 29 March 2018 the IASB published the revised version of the Conceptual Framework for Financial Reporting. The main changes compared to the 2010 version concern a new chapter on evaluation, better definitions and guidance, in particular with reference to the definition of liabilities, and clarifications of important concepts, such as stewardship, prudence and uncertainty in evaluations. Approval by the EU is envisaged during 2019.
- On 22 October 2018 the IASB published some changes to IFRS 3. “Amendment to IFRS 3 Business Combinations” introduced a much more restrictive definition of business compared to that contained in the current version of IFRS 3, as well as a logical route to be followed to verify whether a transaction can be configured as a “business combination” or as a simple acquisition of an asset. The amendment must be applied to acquisitions which occur as from 1 January 2020. Approval by the EU is expected during 2019.
- On 31 October 2018 the IASB published “Amendments to IAS 1 and IAS 8: Definition of Material” with the aim of refining and aligning the definition of “Material” in some IFRS, so that it is coherent with the Conceptual Framework for Financial Reporting approved in

March 2018. The changes apply to financial statements relating to years as from 1 January 2020. Advance application is allowed. Approval by the EU is expected during 2019.

Any impacts that the accounting standards, amendments and interpretations that are to be applied may have on the Group's financial disclosure are currently being analysed and assessed.

### Use of estimates

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. As these are estimates, actual results may differ from those presented in these financial statements.

The critical judgements made in preparing this consolidated interim financial report, as well as the key sources of estimation uncertainty, are the same as those in the financial statements for the year ended 31 December 2019.

## XII. Information on the Income Statement

### Revenue

The transport of methane gas takes place exclusively within Italy.

The Group did not provide segment reporting pursuant to the requirements of IAS 34 and IFRS 8 (Operating Segments) due to the substantial uniqueness of its business.

#### 5.a Revenue from sales and services

"Revenues from sales and services" amounted to 347,622 thousand euro in the period and mainly referred to gas transport operations and connection fees.

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

**Thousands of euro**

	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>2019 - 2018</b>
<b>Sales and services</b>			
Gas and LPG transport	328,477	316,892	11,585
Provision for risks	-	(76)	76
Connection fees	4,339	4,335	4
Ancillary fees	3,021	3,019	2
Revenue from the sale of water	246	346	(101)
Ancillary services - water sector	134	48	85
Revenue from customer operations	30	30	(1)
Sundry revenue and other sales and services	11,376	13,225	(1,849)
<b>Total revenue from sales and services</b>	<b>347,622</b>	<b>337,820</b>	<b>9,802</b>

Revenue from gas transport totalled 328,477 thousand euro and mainly refer to the first half of portion of 2019 Tariff Revenue Cap for natural gas and LPG.

The increase is due to the higher tariff cap for 2019.

Connection fees, totalling 4,339 thousand euro, were stable at the previous year's levels. It should be noted that the connection fee is a set amount defined through a specific quote according to the type of service requested, and consists of:

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

Revenues from the sale of water were influenced by the additional disposal of the water concessions managed by the Group.

"Sundry revenues and other sales and services" saw a fall of 1,849 thousand euro and was wholly due to the ending of revenues from the subsidiary (now merged) 2i Rete Gas Servizi S.p.A. for services provided up to the end of 2018 to third parties.

## 5.b Other revenues

"Other revenues" totalled 11,857 thousand euro (13,701 thousand euro in the prior-year period), down by 1,844 thousand euro.

The item in the previous half-year report included revenues for energy efficiency certificates, which are now alternatively shown under other revenues or other costs in the form of a net margin from management of the certificates.

This approach reveals more clearly the impact of EECs on the Group's financial statements.



Reimbursements for compensation for damages last year included the amount paid by the insurance company for the damage incurred due to the Amatrice earthquake in 2016, while this year the item has returned to the normal average.

“Other revenues and income and services” were stable at last year’s values, while estimated revenues for the so-called “technical quality” (Res. 574/13) instead fell by 831 thousand euro. The capital gains on the disposal of assets totalled 649 thousand euro (excluding the impact from the disposal of available for sale assets), compared to 630 thousand euro in the first half of last year.

### 5.c Revenue from intangible assets / assets under construction

As from 1 January 2010, the Company has been recognising this revenue, equal to 132,414 thousand euro, pursuant to IFRIC 12 “Service Concession Arrangements”.

Compared to the prior year period, there was an increase of 10,088 thousand euro thanks to the greater effort made in the year by the Group to improve its plant.

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

### Costs

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

### 6.a Raw materials and consumables

“Raw materials and consumables”, of 34,434 thousand euro, largely includes the cost of the materials used to lay pipelines and vehicle fuel; the value at 30.06.2019 rose compared to the prior year period by 1,059 thousand euro owing to the change in inventories of raw materials connected to higher investments made in the half, despite the improvement in economic conditions for the supply of some primary materials, such as smart meters for the mass market.

### 6.b Services

“Costs for services”, amounting to 127,476 thousand euro, are set out below.

**Thousands of euro**

	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>2019 - 2018</b>
<b>Costs for services</b>			
Maintenance, repair and realisation of assets	65,323	59,233	6,089
Costs for electricity, power and water	1,778	1,662	116
Gas (for internal use)	2,303	1,882	420
Telephone and data transmission costs	1,263	2,024	(761)
Insurance premiums	2,143	2,446	(303)
Costs for services and other expenses relating to personnel	2,516	2,818	(302)
Fees	365	350	15
Legal and notary costs	1,441	1,273	168
Costs for company acquisitions and disposals	23	14	9
Staff and other services	-	290	(290)
Advertising	43	27	16
IT services	4,375	3,696	680
Meter reading service	1,724	3,286	(1,561)
Audit fees	301	310	(9)
Repairs and emergency service	2,900	3,271	(372)
Plant certifications Resolution no. 40	202	292	(90)
Gas transport by third parties	1,089	934	155
Professional and other services	2,106	2,391	(285)
Other costs for services	4,190	4,065	125
<b>Costs for the use of third-party assets</b>			
Leases	722	2,616	(1,894)
Rentals	704	2,415	(1,711)
Other costs for the use of third-party assets	1,052	1,045	7
Fee for temporary occupation of public space (C.o.s.a.g)	639	658	(19)
Municipal gas concession fees	30,275	30,447	(171)
<b>Total</b>	<b>127,476</b>	<b>127,449</b>	<b>30</b>
- of which capitalised for intangible assets	67,769	61,937	5,832

Costs for services were largely unchanged compared to the previous year.

As already mentioned, as from 2010, all costs relating to the operation of the concessions include network construction costs in accordance with IFRIC 12. Excluding this item, costs for services were down by 5,805 thousand euro overall.

The change in costs for services, the analysis of which is set out in the attached table, was mainly due to the effect of the higher costs for maintenance, repair and construction of assets for 6,089 thousand euro due to the work undertaken by the Group on the plants in the half, lower costs both for telephony owing to the harmonisation of contracts to the Group standards and due to meter reading thanks to the campaign to replace traditional meters with smart meters with remote reading (overall 2,322 thousand euro); the most important aspects of changes in items are completed by the lower costs on fees for the use of third-party assets (down by 3,605 thousand euro).

It is worth recalling that this final item fell compared to the previous year only due to the introduction of the accounting method envisaged by IFRS 16, which entails the recording of a "Right of use" amortised over the life of the asset's lease. The related costs therefore as from 1.1.2019 appear in the financial statements in the form of amortisation and related financial expenses.

The fees paid to the municipalities relating to business development were largely in line with the first half of 2018.

### 6.c Total personnel costs

Personnel costs of 63,709 thousand euro include all charges incurred on an ongoing basis which, directly or indirectly, concern employees. The item is essentially unchanged compared to the same period of the previous year. Net of the effect of IFRIC 12, compared to the previous year the item fell by 2,161 thousand euro thanks to the greater use of internal staff.

The table below shows the changes for the first half of 2019 by category.

	Executives	Middle Managers	Office Employees	Manual Workers	Total
<b>Personnel at 31 December 2018</b>	<b>35</b>	<b>122</b>	<b>1,253</b>	<b>704</b>	<b>2,114</b>
Increase	-	-	37	-	<b>37</b>
Decrease	(2)	(6)	(39)	(32)	<b>(79)</b>
Change in category	1	(1)	3	(3)	-
<b>Personnel at 30 June 2019</b>	<b>34</b>	<b>115</b>	<b>1,254</b>	<b>669</b>	<b>2,072</b>

## 6.d Amortisation, depreciation and impairment losses

The item, amounting to 99,789 thousand euro in the period, increased by 8,156 thousand euro compared to the previous year.

This change reflects for 3,148 thousand euro the impact of the recognition of amortisation for the Rights of use in accordance with IFRS 16 and for the remainder the normal life cycle of tangible and intangible assets, while the impact on the income statement of impairment comes from the revision of the estimates of the recoverability of receivables for 191 thousand euro.

This item is broken down as follows:

<b>Thousands of euro</b>	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>2019 - 2018</b>
Depreciation	4,279	3,015	1,264
Amortisation of rights of use IFRS 16	3,148		3,148
Amortisation	92,550	88,694	3,856
<b>Impairment losses:</b>			
- Impairment of tangible assets	-	395	(395)
- Impairment of intangible assets	3	-	3
- Write-down of trade receivables	(191)	(471)	279
<b>Total depreciation, amortisation and impairment losses</b>	<b>99,789</b>	<b>91,633</b>	<b>8,156</b>
- of which capitalised for intangible assets	1,367		1,367

## 6.e Other operating costs

"Other operating costs", amounting to 24,786 thousand euro at 30 June, consisted of the net charges for the management of Energy Efficiency Certificates, for 3,563 thousand euro, losses on the disposal of assets (6,418 thousand euro in the first six months), and net provisions for risks and charges of 9,709 thousand euro; overall, the item was up 452 thousand euro on the prior-year period.

The most important changes compared to the prior-year period concern the capital losses from recognition, which fell by 3,547 thousand euro given more work on the existing network, local and other taxes which in the previous half-year report included the tax on financial transactions (the so-called "Tobin tax") due to the corporate takeover undertaken and, on the other hand, the greater net allocations for risks and charges for 3,184 thousand euro which were duly increased given the problems encountered with meters which do not perfectly correspond to the Group standards.

The breakdown of the relevant provisions is shown in the comments on liabilities.

Capital losses from the sale of assets totalled 542 thousand euro in the half compared to 88 thousand euro as at 30.06.2018.

## 6.f Capitalised costs for internal work

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work. For this reason, the item now includes only any residual costs that can be capitalised but do not concern concessions. In June, this item totalled 386 thousand euro.

## 7. Income / (Expenses) from equity investments

The item, amounting to 80 thousand euro in the reporting period, includes the income from investments in associates and other companies. Specifically, at 30 June 2019, this item corresponds to the carrying amount of the equity-accounted investments in MEA S.p.A.

## 8. Financial income / (expenses)

This item is broken down as follows:

<b>Thousands of euro</b>	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>2019 - 2018</b>
<b>Financial income</b>			
- Interest income from loans to employees	0	0	-
- Interest income from current accounts and post office deposits	1,025	9	1,015
- Interest income from receivables from customers	16	5	12
- Other financial interest and income	19	21	(1)
<b>Total income</b>	<b>1,061</b>	<b>35</b>	<b>1,026</b>
<b>Financial expenses</b>			
- Interest expense on medium/long-term loans	1,924	2,068	(144)
- Other expense on medium/long-term loans from banks	386	263	123
- Financial expenses on debenture loans	28,603	23,032	5,570
- Financial expenses from amortised cost	1,536	1,235	301
- Interest expense on current bank accounts	0	0	0
- Discounting of post-employment and other employee benefits	378	356	22
- Interests on taxes	1	3	(2)
- Change in fair value of hedging derivatives reclassified from comprehensive income	(612)	-	(612)
- Other financial and interest expense	46	141	(95)
- Financial Expenses IFRS16	229	-	229
<b>Total expenses</b>	<b>32,491</b>	<b>27,099</b>	<b>5,392</b>
<b>TOTAL FINANCIAL INCOME AND (EXPENSES)</b>	<b>(31,430)</b>	<b>(27,064)</b>	<b>(4,367)</b>

The Group reported 31,430 thousand euro in financial expenses, largely arising from the recognition of the financial expenses on the debenture loan net of the current hedging, the costs related to the outstanding loan, and the amortised cost of both of them.

During the second half of 2018, the parent company, taking advantage of the favourable market, issued a new debenture loan tranche for a value of 500 million euro and a seven-year duration.

In the first half of 2019 there was also interest expense relating to this final tranche, which was not present in the previous first half.

## 9. Taxes for the period

This item is broken down as follows:

<b>Thousands of euro</b>	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>2019 - 2018</b>
<b>Current taxes</b>			
Current income taxes: IRES	29,240	30,570	(1,330)
IRES substitute tax on exemption	17,727	-	17,727
Current income taxes: IRAP	6,704	7,934	(1,230)
<b>Total current taxes</b>	<b>53,672</b>	<b>38,503</b>	<b>15,168</b>
<b>Adjustments for income taxes relating to previous years</b>			
Negative adjustments for income taxes relating to previous years	(98)	-	(98)
Positive adjustments for income taxes relating to previous years	(4)	(106)	102
<b>Total adjustments for income taxes relating to previous years</b>	<b>(102)</b>	<b>(106)</b>	<b>3</b>
<b>Deferred and prepaid taxes</b>			
Deferred taxes (use) / allocation	(1,676)	(1,871)	195
Prepaid taxes (allocation) / use	(33,980)	(3,626)	(30,354)
<i>Total current deferred and prepaid taxes</i>	<i>(35,656)</i>	<i>(5,497)</i>	<i>(30,158)</i>
<b>Total deferred and prepaid taxes</b>	<b>(35,656)</b>	<b>(5,497)</b>	<b>(30,158)</b>
<b>TOTAL TAXES</b>	<b>17,913</b>	<b>32,900</b>	<b>(14,987)</b>
Current taxes on assets held for sale	195		
<b>TOTAL TAXES ON DISCONTINUED OPERATIONS</b>	<b>195</b>		

The income tax expense for the first half of 2019 totalled 17,913 thousand euro. The positive difference of 14,987 thousand euro was due to the redemption of the goodwill created in 2i Rete Gas Impianti S.p.A. given the merger in 2018 between the company and the direct parent company 2i Rete Gas Impianti S.r.l.

In the half it was arranged to pay the related substitute tax for 17,727 thousand euro and to allocate deferred tax assets for 26,591 thousand euro, equal to 24% of the amount redeemed.

The changes in deferred tax assets and liabilities reflected normal operations as well as the impact of exemption.

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

There is separate setting out of the tax impact relating to the disposal of discontinued operations, for the comment on which reference should be made to the following section.

## 10. Discontinued operations

In the half the sale was completed of some concessions in the provinces of Bari and Foggia in compliance with the requirements set out in 2018 by the Anti-trust Authority in order to authorise the purchase of the companies of the Naturgy Group in Italy. The operation entailed the sale of 100% of Murgia Reti Gas S.r.l. to Centria S.p.A., a company in the Estra Group. Discontinued operations therefore include the result of this operation, equal to a capital gain of 16,244 thousand euro. This section also includes the estimate of the tax impact connected to the operation, of 194 thousand euro.

## XIII. Information on the Statement of Financial Position

### Assets

#### Non-current assets

#### 11. Property, plant and equipment

Following the introduction of IFRIC 12, property, plant and equipment include only those fixed assets that are not related to gas distribution concessions. The breakdown of, and changes in, property, plant and equipment for the years 2017, 2018 and 2019 are reported below:



Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	12,750	33,570	6,838	22,684	49,004	13,505	2	138,352
Accumulated depreciation	-	(24,459)	(1,870)	(20,888)	(42,928)	(10,748)	-	(100,894)
<b>Balance at 31.12.2017</b>	<b>12,750</b>	<b>9,111</b>	<b>4,968</b>	<b>1,796</b>	<b>6,076</b>	<b>2,756</b>	<b>2</b>	<b>37,458</b>
Contribution from change in the scope of consolidation:	-	3,210	80	0	2,263	91	-	5,644
<i>Gross value</i>	-	10,583	1,017	9	5,367	445	-	17,421
<i>Acc. Depr.</i>	-	(7,373)	(938)	(9)	(3,104)	(354)	-	(11,777)
Increases (including Fixed assets classified as assets available for sale)	-	160	2,504	175	1,367	23	2	4,231
Entry into service	-	-	-	-	-	(0)	0	-
<i>Gross value</i>	-	-	-	-	-	(0)	0	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(803)	(1,035)	-	0	(9)	(19)	-	(1,865)
<i>Gross value</i>	(803)	(3,981)	-	(8)	(51)	(283)	-	(5,126)
<i>Acc. Depr.</i>	-	2,946	-	8	42	265	-	3,261
Reclassifications	-	-	(7)	102	(60)	-	-	35
<i>Gross value</i>	-	-	(933)	2,055	1,358	-	-	2,480
<i>Acc. Depr.</i>	-	-	926	(1,954)	(1,418)	-	-	(2,446)
Impairment losses	-	(395)	-	-	-	-	-	(395)
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	(395)	-	-	-	-	-	(395)
Fixed assets classified as assets available for sale	-	-	(70)	-	(2)	-	-	(72)
<i>Gross value</i>	-	-	(71)	-	(30)	-	-	(101)
<i>Acc. Depr.</i>	-	-	2	-	28	-	-	30
Depreciation	-	(809)	(434)	(488)	(2,929)	(1,065)	-	(5,724)
<b>Total changes</b>	<b>(803)</b>	<b>1,131</b>	<b>2,074</b>	<b>(211)</b>	<b>630</b>	<b>(970)</b>	<b>2</b>	<b>1,854</b>
Historical cost	11,947	40,332	9,355	24,916	57,015	13,688	4	157,257
Accumulated depreciation	-	(30,090)	(2,313)	(23,330)	(50,309)	(11,902)	-	(117,945)
<b>Balance at 31.12.2018</b>	<b>11,947</b>	<b>10,242</b>	<b>7,042</b>	<b>1,585</b>	<b>6,706</b>	<b>1,786</b>	<b>4</b>	<b>39,312</b>
Increases (including Fixed assets classified as assets available for sale)	-	-	1,095	84	3,666	-	79	4,925
Entry into service	-	-	-	-	-	-	-	-
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(972)	(421)	(7)	(23)	(128)	-	-	(1,552)
<i>Gross value</i>	(972)	(2,892)	(7)	(51)	(2,142)	-	-	(6,065)
<i>Acc. Depr.</i>	-	2,471	-	28	2,014	-	-	4,513
Reclassifications	-	18	311	-	(311)	-	17	35
<i>Gross value</i>	-	18	1,310	-	(1,310)	-	17	35
<i>Acc. Depr.</i>	-	(0)	(999)	-	999	-	-	(0)
Impairment losses	-	-	-	-	-	-	-	-
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Fixed assets classified as assets available for sale	-	-	-	-	-	-	-	-
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Depreciation	-	(946)	(328)	(206)	(2,289)	(510)	-	(4,279)
<b>Total changes</b>	<b>(972)</b>	<b>(1,349)</b>	<b>1,071</b>	<b>(144)</b>	<b>938</b>	<b>(510)</b>	<b>96</b>	<b>(870)</b>
Historical cost	10,974	37,458	11,753	24,949	57,229	13,688	100	156,152
Accumulated depreciation	-	(28,565)	(3,641)	(23,508)	(49,585)	(12,412)	-	(117,710)
<b>Balance at 30.06.2019</b>	<b>10,974</b>	<b>8,893</b>	<b>8,113</b>	<b>1,441</b>	<b>7,644</b>	<b>1,277</b>	<b>100</b>	<b>38,442</b>

The item at 30.06.2019 decreased compared to 31.12.2018 by 870 thousand euro; this change was largely due to the net balance of investments for 4,925 thousand euro, disposals for 1,552 thousand euro, reclassifications for 35 thousand euro, and depreciation for 4,279 thousand euro. There were no events in the period worthy of note.

## 12. Rights of use IFRS 16

Following the application of IFRS 16, hire, rent and lease contracts which up to 2018 had a single representation with the impact of the fees paid in the year on the income

statement (under Fees for use of third-party assets in costs for services), are represented in this item as rights of use of a particular asset. On initial recognition the Group has determined which contracts corresponded to the characteristics required by IFRS 16 and assessed their value on the basis of the residual fees to be paid at 1.1.2019, duly discounted.

For this reason, under assets a new item has been created to include the value of these rights. Under liabilities in these financial statements there is a financial payable for a similar amount. For better disclosure of the process applied to determine the opening value and to manage such assets, reference should be made to the specific paragraph 19 (Accounting standards, evaluation criteria and use of estimates), in the section dedicated to IFRS 16.

Here below is the table of changes in assets for 2019.

Thousands of euro	Properties IFRS 16	Vehicles IFRS 16	ICT IFRS 16	Total
Historical cost	-	-	-	-
Accumulated depreciation	-	-	-	-
<b>Balance at 31.12.2018</b>	-	-	-	-
<i>First application of IFRS 16 at 1 January 2019</i>	20,318	4,828	-	<b>25,146</b>
Gross value	20,318	4,828	-	<b>25,146</b>
Acc. Depr.	-	-	-	-
Increases (including Fixed assets classified as assets available for sale)	5,144	684	-	<b>5,828</b>
Depreciation	(2,028)	(1,120)	-	<b>(3,148)</b>
<b>Total changes</b>	<b>23,435</b>	<b>4,392</b>	-	<b>27,827</b>
Historical cost	25,462	5,512	-	<b>30,975</b>
Accumulated depreciation	(2,028)	(1,120)	-	<b>(3,148)</b>
<b>Balance at 30.06.2019</b>	<b>23,435</b>	<b>4,392</b>	-	<b>27,827</b>

### 13. Intangible assets

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions. The breakdown of, and changes in, intangible assets for the years 2017, 2018 and 2019 are reported below:

Thousands of euro	Patent and intell. prop. rights	Concessions and similar rights	Concessions and similar rights - Fixed assets under construction and advances	Fixed assets under construction and advances	Others	Goodwill	Total
Historical cost	91,644	5,510,257	14,467	3,278	110,595	142,974	<b>5,873,215</b>
Accumulated depreciation	(87,081)	(2,774,412)	-	-	(74,362)	-	<b>(2,935,855)</b>
<b>Balance at 31.12.2017</b>	<b>4,563</b>	<b>2,735,845</b>	<b>14,467</b>	<b>3,278</b>	<b>36,233</b>	<b>142,974</b>	<b>2,937,360</b>
Contribution from change in the scope of consolidation:	-	570,554	-	-	2,421	125,735	<b>698,709</b>
<i>Gross value</i>	-	1,049,037	-	-	15,005	125,735	<b>1,189,778</b>
<i>Acc. Depr.</i>	-	(478,483)	-	-	(12,585)	-	<b>(491,068)</b>
Increases (including Fixed assets classified as assets available for sale)	2,806	247,383	18,594	3,432	11,373	-	<b>283,587</b>
Entry into service	856	8,544	(8,544)	(2,689)	1,833	-	<b>(0)</b>
<i>Gross value</i>	856	8,544	(8,544)	(2,689)	1,833	-	<b>(0)</b>
<i>Acc. Depr.</i>	-	-	-	-	-	-	<b>-</b>
Decreases	-	(21,726)	(26)	-	(317)	-	<b>(22,069)</b>
<i>Gross value</i>	-	(61,592)	(26)	-	(2,344)	-	<b>(63,962)</b>
<i>Acc. Depr.</i>	-	39,866	-	-	2,027	-	<b>41,893</b>
Reclassifications	(29)	(4)	-	-	(2)	-	<b>(35)</b>
<i>Gross value</i>	(30)	988	-	-	(15)	-	<b>943</b>
<i>Acc. Depr.</i>	1	(992)	-	-	13	-	<b>(978)</b>
Impairment losses	-	(1)	(17)	-	-	-	<b>(17)</b>
<i>Gross value</i>	-	(1)	(17)	-	-	-	<b>(18)</b>
<i>Acc. Depr.</i>	-	0	-	-	-	-	<b>0</b>
Fixed assets classified as assets available for sale	-	(31,028)	(667)	-	-	-	<b>(31,696)</b>
<i>Gross value</i>	-	(62,108)	(667)	-	-	-	<b>(62,775)</b>
<i>Acc. Depr.</i>	-	31,079	-	-	-	-	<b>31,079</b>
Amortisation	(3,607)	(165,543)	-	-	(14,428)	-	<b>(183,578)</b>
<b>Total changes</b>	<b>25</b>	<b>608,178</b>	<b>9,340</b>	<b>743</b>	<b>879</b>	<b>125,735</b>	<b>744,902</b>
Historical cost	95,275	6,692,509	23,807	4,022	136,446	268,709	<b>7,220,768</b>
Accumulated depreciation	(90,687)	(3,348,485)	-	-	(99,334)	-	<b>(3,538,506)</b>
<b>Balance at 31.12.2018</b>	<b>4,588</b>	<b>3,344,023</b>	<b>23,807</b>	<b>4,022</b>	<b>37,113</b>	<b>268,709</b>	<b>3,682,262</b>
Contribution from change in the scope of consolidation:	-	0	-	-	-	-	<b>0</b>
<i>Gross value</i>	-	0	-	-	-	-	<b>0</b>
<i>Acc. Depr.</i>	-	-	-	-	-	-	<b>-</b>
Increases (including Fixed assets classified as assets available for sale)	107	103,114	29,300	3,452	106	-	<b>136,079</b>
Entry into service	-	8,926	(8,926)	(2,126)	2,126	-	<b>-</b>
<i>Gross value</i>	-	8,926	(8,926)	(2,126)	2,126	-	<b>-</b>
<i>Acc. Depr.</i>	-	-	-	-	-	-	<b>-</b>
Decreases	-	(10,877)	(470)	-	-	-	<b>(11,348)</b>
<i>Gross value</i>	-	(32,953)	(470)	-	-	-	<b>(33,423)</b>
<i>Acc. Depr.</i>	-	22,075	-	-	-	-	<b>22,075</b>
Reclassifications	-	52	(88)	-	-	-	<b>(35)</b>
<i>Gross value</i>	-	37	(88)	-	15	-	<b>(35)</b>
<i>Acc. Depr.</i>	-	15	-	-	(15)	-	<b>0</b>
Impairment losses	-	(3)	-	-	-	-	<b>(3)</b>
<i>Gross value</i>	-	(3)	-	-	-	-	<b>(3)</b>
<i>Acc. Depr.</i>	-	0	-	-	-	-	<b>0</b>
Fixed assets classified as assets available for sale	-	(2,951)	(2)	-	-	-	<b>(2,954)</b>
<i>Gross value</i>	-	(3,685)	(2)	-	-	-	<b>(3,688)</b>
<i>Acc. Depr.</i>	-	734	-	-	-	-	<b>734</b>
Amortisation	(1,116)	(83,722)	-	-	(7,713)	-	<b>(92,550)</b>
<b>Total changes</b>	<b>(1,008)</b>	<b>14,539</b>	<b>19,813</b>	<b>1,326</b>	<b>(5,481)</b>	<b>-</b>	<b>29,190</b>
Historical cost	95,383	6,767,945	43,620	5,348	138,693	268,709	<b>7,319,699</b>
Accumulated depreciation	(91,803)	(3,409,383)	-	-	(107,062)	-	<b>(3,608,247)</b>
<b>Balance at 30.06.2019</b>	<b>3,580</b>	<b>3,358,563</b>	<b>43,620</b>	<b>5,348</b>	<b>31,632</b>	<b>268,709</b>	<b>3,711,451</b>

Intangible assets increased by 29,190 thousand euro compared to 31.12.2018; this was due to the net balance of 136,079 thousand euro in new investments, 14,340 thousand euro in decreases including reclassifications also to assets held for sale and impairment losses, and 92,550 thousand euro in amortisation.

The item "Concessions and similar rights" is divided into fixed assets and fixed assets under construction, which in 2018 totalled 3,334,023 thousand euro and 23,807 thousand euro, respectively; during the reporting period, fixed assets increased by 14,539 thousand euro (already including the 2,951 decrease for reclassifications to assets held for sale) and fixed assets under construction by 19,813 thousand euro. In general, the item refers to the recognition of the Group's rights over fixed assets as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions.

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

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

At the end of the period, "Assets under construction and progress payments" totalled 5,348 thousand euro. The first half increase totalled 3,452 thousand euro, and combined with 2,126 thousand euro in commissioning.

"Other intangible assets" of 31,632 thousand euro represent the software used, while the amortisation for the year was 7,713 thousand euro.

"Goodwill" totalled 268,709 thousand euro. It referred to the deficit from the merger of former subsidiaries into the Group. This item was recognised in agreement with the Board of Statutory Auditors.

Thousands of euro	30.06.2019	31.12.2018	2019 - 2018
<i>Natural Gas goodwill</i>	2,885	2,885	-
<i>Argengas goodwill</i>	8	8	-
<i>Sicardi goodwill</i>	3,616	3,616	-
<i>Italgestioni goodwill</i>	44	44	-
<i>Simeo goodwill</i>	572	572	-
<i>G6 Rete Gas goodwill</i>	82,040	82,040	-
<i>F2i reti Italia 2 goodwill</i>	53,792	53,792	-
<i>Genia Distribuzione goodwill</i>	19	19	-
<i>Compagnia Generale Metanodotti goodwill</i>	401	401	-
<i>Cilento Reti Gas goodwill</i>	851	851	-
<i>2i Rete Gas Impianti goodwill</i>	122,269	122,269	-
<i>2i Rete Gas Servizi goodwill</i>	2,214	2,214	-
<b>Total</b>	<b>268,709</b>	<b>268,709</b>	<b>-</b>

Goodwill was tested for impairment as at 31.12.2018.

Up to the reporting date, there were no impairment indicators, therefore the company will test goodwill for impairment as at 31.12.2019.

#### 14. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date.

Deferred tax assets totalled 239,965 thousand euro (205,814 thousand euro as at 31.12.2018), while deferred tax liabilities totalled 121,307 thousand euro (123,099 thousand euro as at 31.12.2018).

Deferred tax assets and liabilities at 30 June 2019 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

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

Thousands of euro	At 31.12.2018	Equity contributions from extraordinary operations during the year	Total	Increases recognised in		Decreases recognised in		Other changes		Reclassifications (if any) under the item Available for sale	Adjustments (if any) under the item Available for sale	Balance at 30.06.2019
				Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity			
<b>Deferred income tax assets:</b>												
allocation to provisions for risks and charges, deferred deductibility	26,423	(51)	26,372	4,071	-	(3,305)	-	(16)	-	-	-	27,123
allocation to provisions for incentives to leave and stock options	673	51	723	-	-	(85)	-	9	-	-	-	647
allocation to provisions for disputes	4,037	-	4,037	367	-	(352)	-	(17)	-	-	-	4,036
allocation to provisions for inventory obsolescence	3,298	-	3,298	60	-	(13)	-	(4)	-	-	-	3,341
impairment losses on assets, deferred deductibility (receivables write-downs)	2,554	-	2,554	74	-	(202)	-	-	-	-	-	2,426
impairment losses on assets, deferred deductibility (plant write-downs)	1,899	-	1,899	-	-	-	-	(2)	-	-	-	1,897
depreciation and amortisation of tangible and intangible assets, deferred deductibility	109,110	(0)	109,110	4,892	-	(1,839)	-	(8)	-	174	-	112,329
separation of land / buildings and component analysis	114	-	114	-	-	-	-	(0)	-	-	-	114
start-up costs	2,225	-	2,225	-	-	-	-	(0)	-	-	-	2,224
Post-employment and other employee benefits	3,940	13	3,953	599	-	(435)	-	(4)	-	-	-	4,113
cash deductible taxes and duties	(0)	-	(0)	-	-	-	-	-	-	-	-	(0)
proceeds subject to deferred taxation (connection fees)	34,618	-	34,618	62	-	(265)	-	(33)	-	-	-	34,383
deferred deductibility charges	13,434	-	13,434	-	-	(1,115)	-	(16)	-	-	-	12,303
goodwill	1,133	-	1,133	31,600	-	(79)	-	(22)	-	-	-	32,632
post-employment benefits - Italian Accounting Body (OCI)	2,238	(12)	2,226	-	-	-	-	-	(3)	-	-	2,223
for losses recoverable in future years	1	0	1	-	-	(1)	-	-	-	-	-	1
other consolidation adjustments	118	(1)	117	1	-	55	-	-	-	-	-	173
<b>Total</b>	<b>205,814</b>	<b>0</b>	<b>205,814</b>	<b>41,728</b>	<b>-</b>	<b>(7,635)</b>	<b>-</b>	<b>(113)</b>	<b>(3)</b>	<b>174</b>	<b>-</b>	<b>239,965</b>
<b>Deferred income tax liabilities:</b>												
differences on tangible and intangible assets – additional depreciation and amortisation	23,030	-	23,030	157	-	(418)	-	(0)	-	31	-	22,800
differences on intangible assets – goodwill	5,481	(372)	5,109	-	-	-	-	(1)	-	-	-	5,107
separation of land / buildings and component analysis	3,826	-	3,826	-	-	-	-	(5)	-	-	-	3,821
allocation to assets of costs relating to company mergers	37,991	372	38,363	-	-	(1,122)	-	(55)	-	-	-	37,185
post-employment benefits	1,114	-	1,114	-	-	-	-	-	(0)	-	-	1,113
proceeds subject to deferred taxation	3,352	-	3,352	604	-	(111)	-	(0)	-	-	-	3,845
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	2,856	-	2,856	97	-	-	(147)	-	-	-	-	2,805
other	1,480	-	1,480	19	-	(106)	-	(2)	-	-	-	1,392
derivative financial instruments and ASEM - Italian Accounting Body (OCI)	59	-	59	-	-	-	-	-	(0)	-	-	58
recognition of deferred taxes due to merger	43,772	139	43,912	27	-	(737)	-	(23)	-	-	-	43,179
other consolidation adjustments	139	(139)	(0)	-	-	-	-	-	-	-	-	(0)
5% dividends received allocated to future years on an accrual basis	0	-	0	-	-	-	-	-	-	-	-	0
<b>Total</b>	<b>123,099</b>	<b>-</b>	<b>123,099</b>	<b>905</b>	<b>-</b>	<b>(2,494)</b>	<b>(147)</b>	<b>(87)</b>	<b>(0)</b>	<b>31</b>	<b>-</b>	<b>121,307</b>
<b>Net deferred tax assets</b>	<b>82,715</b>	<b>-</b>	<b>82,715</b>	<b>40,823</b>	<b>-</b>	<b>(5,141)</b>	<b>147</b>	<b>(26)</b>	<b>(3)</b>	<b>143</b>	<b>-</b>	<b>118,659</b>

## 15. Equity investments

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

Thousands of euro	Carrying amount	% ownership	Contribution from change in the scope of consolidation:	Increases for the period	Disposals	Other increases	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	31.12.2018				Changes in 2019					at 30.06.2019		
<b>Associates</b>												
<b>Equity Method</b>												
Melegnano Energia Ambiente SpA	3,336	40.00%		4					2,451	888	3,340	40.00%
<b>Other companies</b>												
<b>Valuation at cost</b>												
Interporto di Rovigo S.p.A.	42	0.30%							42		42	0.30%
Fingrandia S.p.A.	26	0.58%							26		26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.27%							33		33	0.27%
Industria e Università S.r.l.	11	0.09%							11		11	0.09%
Terme di Offida SpA	1	0.19%							1		1	0.19%
Asogas S.p.A. in liquidazione	-	9.00%							-		-	9.00%
Banca Popolare Pugliese	11	0.00%									11	0.00%
<b>TOTAL EQUITY INVESTMENTS</b>	<b>3,459</b>		<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,564</b>	<b>888</b>	<b>3,463</b>	

The following tables show the list of equity investments in the Group's investees at 30 June 2019:

<b>B) Associates</b>	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Consolidated carrying amount (euro)
<b>Melegnano Energie Ambiente SpA</b>	Melegnano (MI)	4,800,000	8,539,951	5,518,155	200,674	31.12.2018	40.00%	3,339,820

<b>C) Other companies</b>	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
<b>Interporto di Rovigo S.p.A.</b>	Rovigo	5,836,159	5,541,759	1,452,858	73,167	31.12.2018	0.30%	41,634
<b>Fingrandia S.p.A.</b>	Cuneo	2,662,507	1,588,716	1,544	(144,851)	31.12.2017	0.58%	25,822
<b>Agenzia di Pollenzo S.p.A.</b>	Bra (CN)	24,319,920	23,962,113	955,698	14,153	31.12.2018	0.27%	33,082
<b>Industria e Università S.r.l.</b>	Varese	13,440,528	11,157,312	-	(30,308)	31.12.2018	0.09%	10,989
<b>Terme di Offida Spa</b>	Offida (AP)	141,384	32,969	1	(3,519)	31.12.2017	0.19%	548
<b>Asogas S.p.A. in liquidazione</b>	Amandola (FM)	2,182	(6,822)	1	(6,173)	31.12.2018	9.00%	-
<b>Banca Popolare Pugliese</b>	Parabita (Le)	184,828,872	312,914,069	131,896,327	9,550,873	31.12.2018	0.01%	11,231

## 16. Non-current financial assets

The item, equal to 1,635 thousand euro, mainly includes the prepayment of transaction costs incurred to obtain credit lines that were granted but had still not been used as at 30 June 2019.

## 17. Other non-current assets

This item increased by 1,568 thousand euro compared to 31 December 2018.

Guarantee deposits totalled 3,484 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

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

Tax receivable reimbursements applied for of 1,598 thousand euro relate to reimbursement requests pursuant to art. 6, Leg. Decree 185/2008 (Deduction from IRES of the IRAP portion for labour costs and interest expense).

Sundry non-current assets totalled 15,968 thousand euro (16,416 thousand euro as at 31.12.2018) and largely referred to fees paid in advance to contracting authorities in preparation of ATEM tenders (11,134 thousand euro).

The same line item included also 6,099 thousand euro in receivables due from Municipalities for plants sold at the end of the concession arrangement and that are the subject of ongoing disputes concerning the final calculation of the compensation, as well as the balance of long-term CSEA receivables concerning the recovery of the losses incurred in replacing conventional meters with electronic ones (31,618 thousand euro).

## Current assets



## 18. Inventories

Closing inventories of raw materials in the reporting period stood at 25,341 thousand euro and rose compared to the previous year by 1,393 thousand euro.

Specifically, closing inventories of raw and ancillary materials and consumables mainly consist of materials for the construction and maintenance of gas and water distribution plants.

The increase in the half was due to the installation of new smart meters which entailed greater use of inventories and a simultaneous need for further material procurement.

The item included the 755 thousand euro obsolescence allowance set aside to take into account the inventories that are unlikely to be used in the future.

The Company uses the weighted average cost method.

## 19. Trade receivables

Trade receivables were down 72,321 thousand euro compared to 31.12.2018.

Receivables due from third-party customers consist of trade receivables and receivables from operations, and largely include receivables related to gas distribution operations and, to a lesser extent, the billing for water plant operations.

This item is broken down as follows:

<b>Thousands of euro</b>			
	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>2019 - 2018</b>
Receivables due from customers	165,687	240,443	(74,757)
- Bad debt provision	(8,848)	(9,288)	440
Receivables for returns under warranty	4,109	2,114	1,995
- Provision for receivables for returns under warranty	(646)	(646)	0
<b>Total</b>	<b>160,303</b>	<b>232,624</b>	<b>(72,321)</b>

Receivables from third-party customers are affected by the seasonality of the Group's business, and therefore saw a significant but inevitable decrease at the reporting date.

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

<b>Thousands of euro</b>			
	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>2019 - 2018</b>
<b>At 31 December 2018</b>	<b>9,288</b>	<b>9,057</b>	<b>230</b>
Contribution from change in the scope of consolidation	-	1,896	(1,896)
Allocations	557	978	(420)
Releases	(749)	(879)	131
Uses	(249)	(1,765)	1,516
<b>At 30 June 2019</b>	<b>8,848</b>	<b>9,288</b>	<b>(440)</b>

The Group operated exclusively in Italy.

#### **20. Short-term financial receivables**

Short-term financial receivables, equal to 12,788 thousand euro, are almost entirely financial receivables due from Gestore dei Mercati Elettrici (GME).

The receivables due from GME amounted to 11,426 thousand euro and referred to the liquidity deposited with GME in order to trade on the exchange for Energy Efficiency Certificates.

#### **21. Other current financial assets**

Other current financial assets, equal to 764 thousand euro, consisted of accrued income on interest-bearing bank deposits.

#### **22. Cash and cash equivalents**

Cash and cash equivalents of 766,873 thousand euro rose by 80,520 thousand euro; operations in the half guaranteed positive cash flows net of distribution of the dividend for 93,000 thousand euro.

Bank deposits amounted to 766,504 thousand euro and postal and cash deposits were down by 370 thousand euro.

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

#### **23. Income tax receivables**

Income tax receivables for 6,964 thousand euro mainly refer to receivables for IRES corporation tax due from the tax authorities relating to the excess payments on account made relating to the additional Robin Hood Tax and further payments on account made and for IRES corporation tax requested for reimbursement directly by the Group, mainly due to the non-deduction of staff and similar costs (under former Leg. Decree 201/2011). Compared to the previous year, receivables were down 7,669 thousand euro for the normal trend in advances and balances.

## 24. Other current assets

Other current assets rose by 117,204 thousand euro compared to 31.12.2018, mainly as a result of:

- a fall in receivables for VAT for a total of 7,410 thousand euro is due to normal use;
- 116,676 thousand euro increase in receivables due from the Compensation Fund. This was largely attributable to the increase in receivables for the energy saving goals achieved with reference to the Energy Efficiency Certificates purchased. The item is correlated with the payables due to the Compensation Fund reported in note 40 "Other current liabilities";
- 1,018 thousand euro increase in prepayments for insurance premiums and a 5,099 thousand euro rise in sundry payables due to the seasonal pattern of prepayments of concession fees paid to Municipalities.

The item is broken down as follows:

<b>Thousands of euro</b>	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>2019 - 2018</b>
<b>Other tax receivables:</b>			
VAT receivables reimbursements applied for	9,341	9,337	4
Receivables due from tax authorities for VAT	4,465	11,874	(7,410)
Other tax receivables	9	131	(122)
<b>Other receivables:</b>			
from social security and insurance agencies	1,613	1,161	451
for plant contributions	2,930	2,854	76
from CSEA	288,972	172,296	116,676
from municipalities for disposals of assets due to expiration of concessions	1,899	1,299	600
from municipalities	246	246	-
from suppliers	4,095	3,497	598
Other receivables	5,399	5,185	214
Provision for other doubtful debts	(2,913)	(3,039)	126
Accrued income	65	83	(17)
Deferred expenses relating to other multi-year charges	22	23	(1)
Deferred expenses relating to real estate lease fees	450	555	(104)
Prepayment of promotional expenses	25	26	(1)
Deferred insurance premiums	1,075	57	1,018
Other deferred expenses	7,239	2,141	5,099
<b>Total</b>	<b>324,930</b>	<b>207,726</b>	<b>117,204</b>

## 25. Assets held for sale

In the year the following were classified as assets held for sale for a total of 2,954 thousand euro: assets relating to the concessions of San Gillio and Givoletto, both belonging to the ATEM Turin 2 which was awarded to another distributor. It is likely that the handover of the plant will take place in the current year. In the previous year the item instead included assets relating to the concessions in the provinces of Bari and Foggia which were disposed of in the first half of 2019.

## Liabilities

## Equity

### 26. Equity

Equity amounted overall to 841,088 thousand euro, up by 15,389 thousand euro, due to:

- 93,000 thousand euro decline due to the ordinary dividend payout;
- 482 thousand euro decrease in IAS reserves;
- positive contribution due to the recording of the minority interest of the subsidiary Cilento Reti Gas for 20 thousand euro;
- 108,852 thousand euro increase in the profit for the period.

### Share Capital

The share capital as at 30.06.2019 amounted to 3,639 thousand euro and was entirely subscribed and paid up; the item was unchanged during the period.

### Share premium reserves

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

### Legal reserve

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

### Reserve for valuation of derivatives

The reserve for the valuation of derivatives includes the valuation of a hedging derivative with a notional amount of 500 million euro. In the period there was a fall of 465 thousand euro owing to the classification to the income statement of the hedge on the debenture loan issued.

### Other reserves

Other reserves were down compared to the previous year by 75 thousand euro owing to the reclassification from retained earnings of 58 thousand euro following extraordinary operations to reorganise the Group and the recording of the change in the IAS reserves from the revision of the value of defined benefit obligations in accordance with IAS 19 for -17 thousand euro.

### Retained earnings (accumulated losses)

Retained earnings rose 62,520 thousand euro from the prior-year period as a result of the recognition of the 155,457 thousand euro profit for the year ended 31.12.2018, the distribution of 93,000 thousand euro in dividends, and 64 thousand euro arising from the

reclassification of sundry reserves following extraordinary Group restructuring operations.

### Net income for the year

The Group result for the first half of 2019, of 108,872 thousand euro, compared to the prior year period saw an increase of 33,254 thousand euro; the result as at 30.06.2018, of 75,598 thousand euro, included only *pro rata temporis* the results of the companies acquired in the year.

### Non-current liabilities

#### 27. Long-term loans (including portions due within the next 12 months)

The item refers to the four instalments of the long-term debenture loan the company issued as from 2014 as part of the overhaul of its financial structure, as well as the 425,000 thousand euro loan outstanding with the European Investment Bank.

The EIB loans have some covenants that the company must meet every six months to continue using the credit lines. The covenants concern the following indicators: Total net financial debt, RAB (Regulatory Asset Base), EBITDA, and Net Financial Expenses.

As at 30.06.2019, the company met all covenants under this facility.

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

	Thousands of euro		Notional Value		Interest rate in force	Interest rate effective
	Balance 30.06.2019	Balance 31.12.2018	30.06.2019	31.12.2018		
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	190,909	200,000	190,909	200,000	Eur+0,59%	0.35%
Debenture loan expiring 2020	-	267,100	-	267,100		
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2025	500,000	500,000	500,000	500,000	2.20%	2.29%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs linked to loans (long term)	(11,739)	(13,243)				
<b>LONG TERM TOTAL</b>	<b>2,669,170</b>	<b>2,943,857</b>	<b>2,680,909</b>	<b>2,957,100</b>		
Floating rate debt	9,091	-	9,091	-	Eur+0,59%	0.35%
Debenture loan expiring 2019	362,793	362,793	362,793	362,793	1.75%	1.89%
Debenture loan expiring 2020	267,100		267,100		1.13%	1.35%
Other bank payables	-	58	-	58		
Financial lease payables	49	99	49	99		
Costs connected to loans (short term)	(360)	(299)				
<b>TOTAL</b>	<b>638,673</b>	<b>362,650</b>	<b>639,033</b>	<b>362,950</b>		

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

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	at 30.06.2019	at 31.12.2018			
<b>Short- /Medium- /long-term bank loans and debenture loans</b>					
Financing - Medium-/long-term Capex Line	415,909	425,000	-	72,727	343,182
Financing - Short-term Capex Line	9,091	-	9,091	-	-
Medium-/long-term debenture loans	2,265,000	362,793	-	-	2,265,000
Debenture loans within next year	629,893	2,532,100	629,893	-	-
Other payables	49	157	49	-	-
<b>Total</b>	<b>3,319,942</b>	<b>3,320,050</b>	<b>639,033</b>	<b>72,727</b>	<b>2,608,182</b>

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

In addition, the company has a bank loan of 245 million euro outstanding from a pool of seven leading credit institutions. At the reporting date, the company had not used this facility.

## 28. Post-employment and other employee benefits

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

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

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

Here below are comments on the main items making up the aggregate, which at 30.06.2019 totalled 44,421 thousand euro.

### Post-employment benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive post-employment benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.

Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of post-employment benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

## Health benefits

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

## Fondo Gas

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

The balance of the fund, which amounts to 10,188 thousand euro, is the best estimate at the time of the preparation of these financial statements of the liability arising from this law.

## 29. Provisions for risks and charges

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

Provisions for risks and charges (considering both the short-term and the medium-/long-term portion) increased by 2,667 thousand euro overall compared to 31.12.2018.

The table below shows the total provisions for risks and charges (both the short-term and the medium-/long-term portion). The short-term portion is disclosed separately.

	Of which current portion		Of which non-current portion		Allocations	Releases	Uses	Other changes	Of which current portion		Of which non-current portion	
Thousands of euro												
	31.12.2018				30.06.2019							
Provisions for litigation and disputes	8,236	-	8,236	1,093	(530)	(1,068)	-	7,731	-	7,731	-	7,731
Provision for taxes and duties	1,505	-	1,505	-	(65)	(8)	-	1,433	-	1,433	-	1,433
Provisions for disputes with personnel	100	-	100	-	-	-	-	100	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	75	-	75	-	75
Provision for disputes on concessions	25,075	25,075	-	4,065	-	(1,021)	0	28,119	28,119	-	-	-
Other provisions for risks and charges	73,044	73,044	-	10,404	(2,296)	(7,819)	(0)	73,333	73,333	-	-	-
<b>Total</b>	<b>108,036</b>	<b>98,119</b>	<b>9,916</b>	<b>15,562</b>	<b>(2,891)</b>	<b>(9,916)</b>	<b>-</b>	<b>110,791</b>	<b>101,452</b>	<b>9,338</b>	<b>-</b>	<b>9,338</b>
Provisions for charges pertaining to incentives to leave	2,356	2,356	-	-	-	(298)	210	2,268	2,268	-	-	-
<b>Total</b>	<b>110,392</b>	<b>100,476</b>	<b>9,916</b>	<b>15,562</b>	<b>(2,891)</b>	<b>(10,214)</b>	<b>210</b>	<b>113,059</b>	<b>103,720</b>	<b>9,338</b>	<b>-</b>	<b>9,338</b>

The provisions for risks and charges amounted to 113,059 thousand euro (short-term portion: 103,721 thousand euro) and were broken down as follows:

“Provision for litigation and disputes” addresses, for 7,731 thousand euro, the liabilities deriving mainly from some ongoing legal disputes for potentially damaging events; in the half it fell by 505 thousand euro owing to further allocations for cases regarding, among other things, tender contracts from past years (1,093 thousand euro), counterbalanced by uses and releases for a total of 1,598 thousand euro;

“Provision for taxes and duties”, amounting to 1,433 thousand euro, referred mainly to disputes about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;

“Provision for disputes with personnel”, amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in these financial statements;

“Provision for future charges”, amounting to 75 thousand euro;

“Provision for disputes on concessions”, 28,119 thousand euro, rose by 4,065 thousand euro following the requests made by municipalities relating to the review of the agreed concession fees, while the half saw a use of 1,021 thousand euro;

“Other provisions for risks and charges”, totalling 73,333 thousand euro, cover mainly the risk of a recalculation of certain tariff components linked to concessions where third-party property is present. Regarding this risk, the parent company won both an initial appeal to the Regional Administrative Court against ARERA’s decision to review the aforementioned tariffs for some concessions and the ARERA’s, appeal to the Council of State against this sentence. At the date of preparing this report, however, the sentence of the Council of State may still be appealed. This provision also includes the assessment of the risk regarding the non-correspondence of some smart meters to the company standards and the possible impact in the case the repair or replacement of these meters is necessary.

“Provision for charges pertaining to incentives to leave”, totalling 2,268 thousand euro, addresses possible liabilities that may arise from agreements already finalised or being negotiated concerning early retirement incentives. The Group used 298 thousand euro of this provision during the period.



The fiscal position of the Parent company has been defined up to 2013.

### 30. Non-current financial liabilities

There were no changes in this item during the period.

### 31. IFRS 16 Non-current financial liabilities

This item, which is included for the first time this year, represents the long-term share of financial liabilities following the recognition made to adjust the accounting of rental and hire costs to the provisions of IFRS 16. To view the overall impact of the related payable, it is necessary to add to the value of the item also that of “Current financial liabilities IFRS 16”. The balance as at 30.06.2019 was 21,388 thousand euro.

Here below is the time breakdown of the future cash flow which make up the financial liabilities under IFRS 16, for both the long term and the short term. There is also a breakdown of the non-discounted contractual flows with the same time division.

Thousands of euro								
	Present value of cash flows IFRS 16 30.06.2019	1 year	2 - 5 years	beyond 5 years	Present value of expected future cash flows IFRS 16 30.06.2019	1 year	2 - 5 years	beyond 5 years
<b>ST/LT IFRS 16 Financial liabilities</b>								
<b>IFRS 16 Non-current financial liabilities</b>	<b>21,388</b>	-	<b>12,575</b>	<b>8,813</b>	<b>26,492</b>	-	<b>15,897</b>	<b>10,595</b>
Properties IFRS 16			10,391	8,751			12,735	10,497
Vehicles IFRS 16			2,184	62			3,162	98
ICT IFRS 16								
<b>Current IFRS 16 financial liabilities</b>	<b>5,993</b>	<b>5,993</b>	-	-	<b>6,793</b>	<b>6,793</b>	-	-
Properties IFRS 16		3,983				4,425		
Vehicles IFRS 16		2,010				2,368		
ICT IFRS 16								
<b>Total</b>	<b>27,382</b>	<b>5,993</b>	<b>12,575</b>	<b>8,813</b>	<b>33,285</b>	<b>6,793</b>	<b>15,897</b>	<b>10,595</b>

### 32. Other non-current liabilities

This item increased by 18,573 thousand euro compared to the previous year. The breakdown is set out below:

Thousands of euro			
	30.06.2019	31.12.2018	2019- 2018
payables to social security and insurance agencies	2,137	2,137	-
other payables	361	361	-
Deferred income for plant contributions	45,321	43,018	2,303
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	279,196	262,927	16,269
<b>Total deferred income</b>	<b>327,015</b>	<b>308,442</b>	<b>18,573</b>

The deferred income for grants related to plants fell as a result of the portion accrued during the period, while the 16,269 thousand euro increase in deferred income for connection fees was mostly attributable to the fees received during the year.



## Current liabilities

### 33. Short-term loans

The item was 638,673 thousand euro and included 629,893 thousand euro for the debenture loan tranches which expire within the next 12 months.

### 34. Current portion of medium/long-term bank loans

There were no changes in this item during the period.

### 35. Current portion of long-term and short-term provisions

Comments and details on this item are provided in the section on the provisions for risks and charges (note 29).

### 36. Trade payables

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

This item decreased by 3,758 thousand euro compared to 31.12.2018.

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

### 37. Income tax payables

Income tax payables refer largely to the payable for IRES and IRAP.

### 38. Current financial liabilities

Current financial liabilities referred to accrued interest expenses on the Bond and the bank loan, which are due within 12 months. These rose at 30.06.2019 due to the normal rolling effect caused by the expiries of the interest on the debenture loan.

**Thousands of euro**

	30.06.2019	31.12.2018	2019 - 2018
Accrued liabilities for interest on short-term bank loans and bank expenses	49,513	22,343	27,169
Other current financial payables	678	623	56
<b>Total</b>	<b>50,191</b>	<b>22,966</b>	<b>27,225</b>

**39. IFRS 16 Current financial liabilities**

The item, which was created in 2019, includes the short-term amount of the financial liabilities generated by the application of IFRS 16. The balance on the items of 5,993 thousand euro must be added to the medium and long-term amount which has already been commented on in paragraph 31 in order to obtain a complete picture of the impact on financial debt of the new accounting standard.

**40. Other current liabilities**

Other current liabilities are set out below:

**Thousands of euro**

	30.06.2019	31.12.2018	2019 - 2018
other tax payables	4,250	4,009	241
payables to social security and pension agencies	12,280	12,170	110
other payables	313,726	181,348	132,378
accrued liabilities	4,535	4,088	447
deferred income	5,187	21,420	(16,232)
<b>Total</b>	<b>339,978</b>	<b>223,036</b>	<b>116,943</b>

Other tax payables are set out below:

**Thousands of euro**

	30.06.2019	31.12.2018	2019 - 2018
VAT payables	1,233	412	821
Employee withholding taxes	2,974	3,538	(564)
Withholding taxes	44	59	(15)
Other taxes	0	0	-
<b>Total</b>	<b>4,250</b>	<b>4,009</b>	<b>241</b>

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

**Thousands of euro**

	30.06.2019	31.12.2018	2019 - 2018
due to INPS	10,627	10,036	592
due to other agencies	1,652	2,135	(482)
<b>Total</b>	<b>12,280</b>	<b>12,170</b>	<b>110</b>

Other payables are set out below:

**Thousands of euro**

	30.06.2019	31.12.2018	2019 - 2018
Payables to employees	17,056	15,705	1,351
Payables to municipalities for rights and fees	357	686	(329)
Payables for connections and other payables due to customers	2,071	2,083	(12)
User security deposits and advances	2,979	2,168	811
Payables to CSEA	282,057	153,798	128,259
Other payables	9,206	6,908	2,298
<b>Total</b>	<b>313,726</b>	<b>181,348</b>	<b>132,378</b>

The 282,057 thousand euro payable due to the Compensation Fund consists of payables for the items transferred through the invoicing mechanism to the trading companies, which are then paid into the Compensation Fund. The 128,259 thousand euro increase from 31 December 2018 was related to the seasonal pattern of invoicing in 2018, given the already defined Tariff Revenue Cap.

Accruals and deferrals are set out below:

**Thousands of euro**

	30.06.2019	31.12.2018	2019 - 2018
<b>Accrued liabilities</b>			
Additional monthly accrual for employees	3,516	3,343	173
Other accrued liabilities	1,019	746	274
<b>Total accrued liabilities</b>	<b>4,535</b>	<b>4,088</b>	<b>447</b>
<b>Deferred income</b>			
Deferred income for plant contributions	2,185	11,132	(8,947)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	1,963	10,201	(8,237)
Other deferred income	1,039	87	952
<b>Total deferred income</b>	<b>5,187</b>	<b>21,420</b>	<b>(16,232)</b>
<b>Total accrued liabilities and deferred income</b>	<b>9,722</b>	<b>25,508</b>	<b>(15,786)</b>

## 25. Liabilities held for sale

Liabilities held for sale of 132 thousand euro include the liabilities relating to the concessions of San Gillio and Givoletto, both belonging to ATEM Turin 2 which was awarded to another distributor. It is likely that the handover of the plant will take place in the current year. Last year the item instead included the assets relating to the concessions in the provinces of Bari and Foggia which were disposed of in the first half of 2019.

### Related party disclosures

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

The dividends paid to related parties, totalling 92,945 thousand euro, refer to the distribution of the 2017 results to F2i - Fondo Italiano per le Infrastrutture (managed by F2i sgr S.p.A.), F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr S.p.A.), and Finavias S.à.r.l.

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

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

## Trade and other transactions

30 June 2019

Thousands of euro	Trade Receivables	Payables	Trade Costs	Revenue
APG Infrastructure Pool 2017 II	-	20	20	-
Bonatti Spa	217	4,497	3,801	3
F2i SGR S.p.A	-	20	31	-
MEA SPA	4	-	-	4
Professionisti Associati Srl	-	13	14	-
Key management personnel, including directors and statutory auditors	-	277	1,372	-
<b>Total</b>	<b>221</b>	<b>4,828</b>	<b>5,239</b>	<b>7</b>

31 December 2018

Thousands of euro	Trade Receivables	Payables	Trade Costs	Revenue
F2i sgr Spa	-	20	86	-
MEA S.p.A	27	-	-	9
Software Design S.p.A.	-	223	360	-
Maepa Srl	-	-	4	-
APG Infrastructure Pool 2017 II	-	31	31	-
Bonatti SPA	-	714	4	-
Key management personnel, including directors and statutory auditors	-	523	2,975	-
<b>Total</b>	<b>27</b>	<b>1,511</b>	<b>3,459</b>	<b>9</b>

## Financial transactions

30 June 2019

Thousands of euro	Financial Receivables	Payables	Financial Costs	Revenue	Dividends paid
F2i – Terzo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	59,427
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	7,540
Finavias S.à.r.l.	-	-	-	-	25,978
MEA SPA	-	-	-	76	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76</b>	<b>92,945</b>

In addition, equity investments with related parties are included for MEA S.p.A. for a total of 3,340 thousand euro.

31 December 2018

Thousands of euro	Financial		Costs	Financial Revenue	Dividends paid
	Receivables	Payables			
F2i – Terzo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S.à.r.l.	-	-	-	-	23,752
MEA S.p.A	-	-	-	1,183	-
Bonatti SPA	-	-	13	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>1,183</b>	<b>84,981</b>

#### 41. Contractual commitments and guarantees

The Company provided 136,674 thousand euro in guarantees to third parties. These guarantees include 93,479 thousand euro in bank guarantees and 43,194 thousand euro in insurance and other guarantees.

These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.

Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

#### Operating segment reporting

The Group is managed as a single business unit operating mainly in natural gas distribution through networks, and therefore management analyses the Group's operations as a whole.

The reporting format used by management to take operating decisions is aligned with the formats used in the consolidated financial statements shown herein, excluding the impact of IFRIC 12 and highlighted in note 5.c as well as in the section on costs.

#### Contingent liabilities and assets

##### Contingent liabilities

There were no contingent liabilities as at 30.06.2019.

##### Contingent assets

There were no contingent liabilities as at 30.06.2019.



## Market, credit, liquidity, and interest rate risk

### Credit risk

The 2i Rete Gas Group provides its distribution services to around 320 sales companies, the most significant of which is Enel Energia S.p.A.

In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in the first half of 2019.

The rules for the access of users to the gas distribution service are governed by the Network Code, which, in compliance with the provisions of the Regulatory Authority for Electricity and Gas, regulates the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.

As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.

Outstanding guarantees and security deposits on trade receivables totalled 206,780 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant bad debt provision.

As at 30 June 2019, the Group's maximum exposure to credit risk amounted to 1,316.4 million euro:

<b>Millions of euro</b>	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>2019- 2018</b>
Non-current financial assets	1.6	1.0	0.6
Other non-current financial assets (gross of bad debt provision)	59.4	57.9	1.6
Trade receivables (gross of bad debt provision)	169.8	242.6	(72.8)
Other current financial assets	13.6	1.6	12.0
Cash and cash equivalents	766.9	686.4	80.5
Other receivables (gross of bad debt provision)	305.2	186.5	118.6
<b>Total</b>	<b>1,316.4</b>	<b>1,175.9</b>	<b>140.5</b>

### Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, the 2i Rete Gas Group is able to autonomously meet the financial requirements of its ordinary operations and ensure business continuity.

Besides the bonds issued as from 2014, the Group still has the 245 million euro line of credit that the Parent Company received in 2016 from a syndicate of 7 leading banks, as well as two loans entered into with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used as at 30.06.2019), improving the duration and interest rate compared to previous bank loans.

In order to properly disclose liquidity risk as required by IFRS 7, here below are the characteristics of the company's debt.

The contractual maturities of the financial liabilities outstanding at 30 June 2019 and, for comparative purposes, 31 December 2018, are set forth below:

Millions of euro	1 year	1 - 5 years	beyond 5 years
<b>Financial liabilities at 30 June 2019</b>			
Long-term loans	-	72.7	343.2
Medium-/long-term debenture loans	-	-	2,265.0
Short-term debenture loans	629.9		
Short-term loans	9.1		
Other short-term financial liabilities	50.2		
IFRS 16 Non-current financial liabilities	21.4		
IFRS 16 Current financial liabilities	6.0		
<b>Total</b>	<b>716.6</b>	<b>72.7</b>	<b>2,608.2</b>

Millions of euro	1 year	1 - 5 years	beyond 5 years
<b>Financial liabilities at 31 December 2018</b>			
Long-term loans	-	72.7	352.3
Medium-/long-term debenture loans		267.1	2,265.0
Short-term debenture loans	362.8		
Short-term loans	0.2		
Other short-term financial liabilities	23.0		
<b>Total</b>	<b>385.9</b>	<b>339.8</b>	<b>2,617.3</b>

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.

It should be noted that loans are subject to a periodical check on the compliance with some financial parameters at consolidated level.

As at 30.06.2019, the Company has met all of the covenants.

The "Medium/long-term debenture loans" for a total of 2,265 million euro refer to the aforementioned four bond instalments issued by 2i Rete Gas and with 5, 6, 9 and 10-year expiries.

The Group's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance with the financial parameters established by the lending banks, currently the Group does not face any problems in obtaining said refinancing.

The Group constantly monitors opportunities to optimise its financial structure.

For an in-depth analysis of long-term loans, see note 27 in this consolidated interim financial report.

## Market risk

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

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

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

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

Thousands of euro	Notes	carrying amount				Total	Fair value
		Designated at fair value	Receivables	Available for sale	Other financial liabilities and payables		
<b>Financial assets measured at fair value</b>							
Non-current financial assets	16					-	-
<b>Financial assets not measured at fair value</b>							
Non-current financial assets	16		1,635			1,635	1,635
Other non-current assets	17		59,180			59,180	59,180
Trade receivables	19-25		160,303			160,303	160,303
Short-term financial receivables	20		12,788			12,788	12,788
Other current financial assets	21		764			764	764
Cash and cash equivalents	22		766,873			766,873	766,873
Other current assets	24		316,119			316,119	316,119
<b>TOTAL ASSETS</b>			<b>1,317,662</b>	-	-	<b>1,317,662</b>	<b>1,317,662</b>
<b>Financial liabilities not measured at fair value</b>							
Long-term loan	27				415,909	415,909	415,909
Medium-/long-term debenture loans	27				2,253,261	2,253,261	2,405,456
Short-term debenture loans	33				629,533	629,533	631,839
IFRS 16 Non-current financial liabilities	31	21,388				21,388	21,388
Other non-current liabilities	32				361	361	361
Short-term loans	33-34				9,140	9,140	9,140
Trade payables	36-25				203,850	203,850	203,850
Current financial liabilities	38				49,513	49,513	49,513
IFRS 16 Current financial liabilities	39	5,993				5,993	5,993
Other current liabilities	40				334,791	334,791	334,791
<b>TOTAL LIABILITIES</b>			-	-	<b>3,896,358</b>	<b>3,923,740</b>	<b>4,078,241</b>

In order to enable comparison, we propose the same table as the one used in 2018:

Thousands of euro	Notes	carrying amount				Total	Fair value
		Designated at fair value	Receivables	Available for sale	Other financial liabilities and payables		
<b>Financial assets measured at fair value</b>							
Non-current financial assets	15					-	-
<b>Financial assets not measured at fair value</b>							
Non-current financial assets	15		1,025			1,025	1,025
Other non-current assets	16		57,600	112		57,712	57,712
Trade receivables	18-37		232,624			232,624	232,624
Short-term financial receivables	19		1,394			1,394	1,394
Other current financial assets	20		187			187	187
Cash and cash equivalents	21		686,353			686,353	686,353
Other current assets	23		204,924			204,924	204,924
<b>TOTAL ASSETS</b>			<b>1,184,107</b>	<b>112</b>	<b>-</b>	<b>1,184,219</b>	<b>1,184,219</b>
<b>Financial liabilities not measured at fair value</b>							
Long-term loan	25				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,518,857	2,518,857	2,862,599
Other non-current liabilities	29				361	361	361
Short-term loans	30				362,651	362,651	362,651
Trade payables	33-37			529	207,608	208,137	208,137
Current financial liabilities	35				22,343	22,343	22,343
Other current liabilities	36			270	201,616	201,886	201,886
<b>TOTAL LIABILITIES</b>			<b>-</b>	<b>799</b>	<b>3,738,436</b>	<b>3,739,235</b>	<b>4,082,977</b>

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

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

### Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts, and specifically interest rate swaps.

As at 30 June 2019 the debt structure was 2,965 million euro, out of the 3,320 million euro in the financial statements and subject to interest rate risk; at that date the Group had not signed any hedge.

As set out in the paragraph relating to “Significant events after the reporting period”, in July 2019 a further 5 hedges were signed for “Forward Starting Interest Rate Swaps” for a total of 500 million euro in notional value.

### Significant events after the reporting period

On 18 July 2019 the parent company 2i Rete Gas S.p.A., as part of the financial planning aimed at limiting the implicit interest rate risk in future refinancing, undertook a Forward Starting Swap with 5 leading banks for a total notional value of 500 million euro. The effective date of the swaps was set at 30 September 2023. These hedges are all equipped with a mandatory break clause in the case of refinancing and a 10-year expiry from the effective date and enable the hedging of a notional debt value of the same amount.

## Direction and coordination

The Group directs and coordinates the subsidiaries 2i Rete Gas S.r.l., 2i Rete Gas Impianti S.p.A, Cilento Reti Gas S.r.l. No company directs or coordinates 2i Rete Gas S.p.A.

## Corporate Governance

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

## XIV. Report of the Independent Auditors



**2I RETE GAS SPA**

**REVIEW REPORT ON CONDENSED CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS  
AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**



## **REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**

To the board of directors of  
2i Rete Gas SpA

### **Foreword**

We have reviewed the accompanying condensed consolidated interim financial statements of 2i Rete Gas SpA and its subsidiaries (2i Rete Gas Group) as of and for the six-month period ended 30 June 2019, comprising the statement of financial position, the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in shareholders' equity and related notes. The directors of 2i Rete Gas SpA are responsible for the preparation of the condensed consolidated interim financial statements that give a true and fair view in accordance with international accounting standard applicable to interim financial reporting (IAS34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### **Scope of review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of 2i Rete Gas Group as of and for the six-month period ended 30 June 2019 are not prepared, in all material respects, in accordance with international accounting standard applicable to interim financial reporting (IAS34) as adopted by the European Union.

Milan, 27 September 2019

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini  
(Partner)

*This report is an English translation of the original report, which was issued in Italian. This report has been prepared solely for the convenience of international readers.*

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### **PricewaterhouseCoopers SpA**

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