2i Rete Gas

Gruppo F2i Reti Italia

2013 Annual Report

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II. Company directors and auditors

Board of Directors	Board of Statutory Auditors	Independent Auditors
Chairman Paola Muratorio	**Chairman** Marco Antonio Modesto Dell'Acqua	KPMG S.p.A.
Deputy Chairman Angelo Ferrari	**Standing statutory auditors** Ugo Venanzio Gaspari Giancarlo Fornaciari	
Chief Executive Officer Gianclaudio Neri	**Substitute statutory auditors** Andrea Cioccarelli Ilaria Fornaciari	
Directors Carlo Michelini Matteo Ambroggio Matias Sebastian Burghardt Stefano Mion Luca Galli Mario Francesco Anaclerio Giuseppe Picco Rogantini Stephan Fedrigo		

Directors' Report

1. Foreword

The contraction in the Italian economy came to an end in the third quarter of 2013. On the basis of surveys and the trend in industrial output, growth was just above zero in the fourth quarter thanks to support from exports and the change in inventories. The construction sector (on which the growth trend of the gas distribution network and new connections to the network depend) and gas consumption (on which both the invoicing trend and the growth in the number of active customers depend) remained under strong pressure for the most part of the year. According to the Economic Bulletin published by the Bank of Italy in January 2014, GDP contracted by a further 1.8 per cent for 2013 in comparison with last year average; nonetheless, signs of a modest business recovery emerged and the prolonged period of deterioration in business confidence as regards the outlook for the economy came to an end.
At national level, the downward trend in gross domestic gas consumption recorded in the first half of the year was confirmed at the end of 2013 (-6.5% compared to the end of 2012); consumption decreased from 74,915 million cubic metres in 2012 to 70,069 million cubic metres at 31 December 2013.

2i Rete Gas Group's operating results for 2013 were largely in line with the figures for 2012; from an operating perspective, on the other hand, it improved compared with 2012 mainly due to the containment of costs through the internationalization of some service contracts and better margins on Energy Efficiency Certificates.
No new tenders for local areas were called in 2013, despite many municipalities activating the procedures to request essential data from operators in order to proceed with an assignment by means of an area tender.

2. Key figures

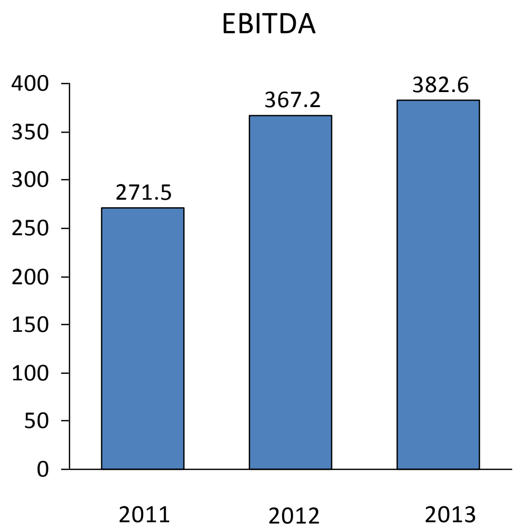
The key figures for the 2i Rete Gas Group at 31 December 2013 may be summarised as follows:

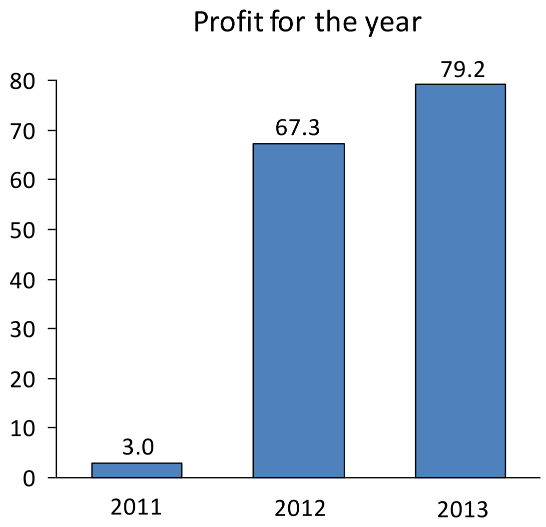
	31.12.2013	31.12.2012	2013 - 2012
Active concessions:	1,941	1,962	(21)
Active redelivery points:	3,812,883	3,807,390	5,493
Distributed Gas (Natural gas and LPG) in millions of cubic metres:	5,868	5,813	54
EBITDA in millions of euro:	382.6	367.2	15
Managed networks in kilometers:	57,124	57,237	(112)

	31.12.2013	31.12.2012 restated	2013 - 2012
Adjusted net financial debt in millions of euro:	1,587.8	1,584.1	4
Net invested capital in millions of euro:	2,456.2	2,436.3	20

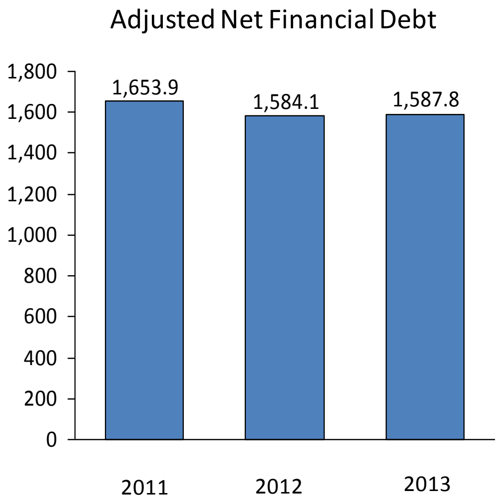
The diagrams below show the trend in the Company's main income statement and statement of financial position data. For an analysis of these trends, reference should be made to section 5 "The Results of the 2i Rete Gas Group":

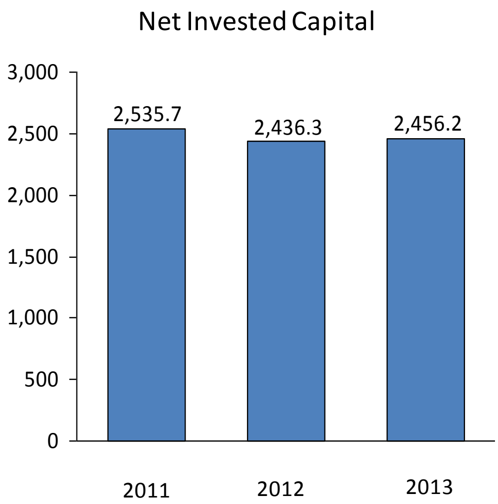
Income statement data in millions of euro:





Statement of financial position in millions of euro:



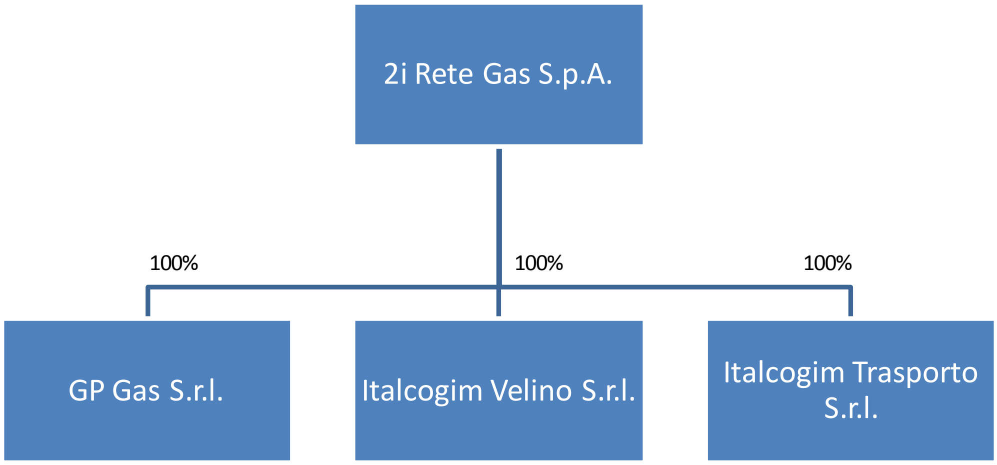


3. Significant share capital transactions during the year

During 2013 there were no further transactions involving the share capital of 2i Rete Gas S.p.A. ("the Parent" or "the Company").
On 21 December 2013 Enel Distribuzione sold its equity investment in the Parent to F2i Reti Italia 2 S.r.l..
On 10 March 2014 a Shareholders' Meeting was called to pass a resolution on change of name of Enel Rete Gas S.p.A., approving the Board of Directors' proposal for the name and so, with effect from 19 March 2014, changing the name to the current "2i Rete Gas S.p.A".

4. Significant transactions involving equity investments during the year

During 2013 no acquisitions were made.
The following diagram sets out the Group's equity investments at 31 December 2013:



5. Results of the 2i Rete Gas Group

The financial statements at 31 December 2013 have been prepared in compliance with the accounting policies established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure as set out in art. 6 of Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002.

In 2013 Group revenue totalled 846.3 million euro and were affected, as in the previous year, by the impact of the application of IFRIC 12 (116.4 million euro) which required all the purchases made by the Group in relation to its gas distribution network construction activity to be accounted for under revenue and expense.
The figure is compared with an amount for 2012 of 848.0 million euro, including an IFRIC 12 amount of 133.0 million euro.
Revenue was largely due to revenue from the transport of natural gas and LPG worth 590.9 million euro (591.6 million euro in 2012) with a non-significant decrease of around 0.7 million euro due to tariff adjustments of previous years.
The total gas volume for the year including natural gas and LPG was 5,868 million cubic metres.
The figure for revenue derives partly from the formula for revenue recognition applied as from July 2009, and which came into force under Resolution ARG/gas 159/08 of 6 November 2008; this led to the introduction of an equalisation mechanism which enables the relevant distribution companies' revenue to be

calculated largely on the basis of the investments made (Regulatory Asset Base - RAB) and the average number of redelivery points actually served and invoiced regardless of the volumes distributed.
Connection fees and accessory rights totalled 22.4 million euro and decreased slightly, due to the continuing economic recession of the country, compared to the previous year (24.0 million euro).
Other revenue amounted to 93.3 million euro and included a significant increase in revenue from energy efficiency certificates equal to around 10.0 million euro as a result of increased purchases of white certificates in the year compared to 2012 and of the corresponding increase in the related allocation of revenue. For further details reference should be made to the specific note in the section “Other revenue” of these financial statements.

Operating costs totalled 463.6 million euro and decreased by 17.2 million euro compared to 2012 (when they amounted to 480.8 million euro). Operating costs also, as already mentioned, were impacted by the application of IFRIC12.

EBITDA was 382.6 million euro, higher than the figure recognised in 2012 (367.2 million euro).

Amortisation, depreciation and impairment losses totalled 144.2 million euro and relate for 137.6 million euro to amortisation and depreciation on non-current assets, 1.4 million euro to impairment losses recognised on non-current assets and 5.1 million euro to impairment losses recognised on some receivables. They decreased due to the end of the amortisation on some concessions which were handed over to other operators.

EBIT totalled, therefore, 238.5 million euro while in 2012 it amounted to 216.4 million euro.

Net financial expense totalled 86.8 million euro, decreasing by 3.8 million euro as opposed to the previous year, thanks to an interbank rate decrease.

Pre-tax income was therefore 151.6 million euro.
In 2012 it amounted to 125.7 million euro.

The estimated tax impact at 31 December 2013 was 72.4 million euro and included the corporate income tax surcharge, otherwise known as “Robin Hood Tax”, which raised by 10.5% the tax burden on gas distribution companies for the 2011-2013 period.

The profit for the year was, therefore, 79.2 million euro at 31 December 2013.

Finally, note should be taken of the excellent cash generation in terms of free cash flow, which was higher than 170.5 million euro.

For more detailed analysis of the aforementioned results, reference should be made to the specific section 13 “Financial results”.

The number of active end customers (or Redelivery points) was essentially in line with 2012. At 31 December 2013 this figure stood at 3,812,883 users compared to 3,807,390 in the previous year.

Managed networks at 31 December 2013 reached 57,124 kilometres compared to 57,237 at 31 December 2012. This was the result of the handover to another operator of some concessions, partially offset by 250 km of new network laid in the year.

In addition to this, with reference to concessions and awards, it should be noted that at 31 December 2013 the 2i Rete Gas Group held 1,941 concession contracts for the management of gas distribution (compared to 1,962 at the end of December 2012).

6. Development activities and management of concessions

The tender market for the award of methane gas distribution services in 2013, as in 2012, saw a quite limited number of tenders published for individual concessions, also in light of Legislative Decree no. 93/11 (the so-called “third energy package”) which prevents the calling of new tenders other than on an area basis (Ambiti Territoriali Minimi - ATEM). Given that there are still some regulatory gaps awaiting clarification and given also the lack of any implementing resolutions issued by the AEEG (Regulatory Authority for Electricity and Gas), no tender for local areas has so far been called.

Participation in tenders

During 2013, in consideration of the above, only two tenders were called for the assignment of the methane gas distribution service: in the municipality of Mignano Monte Lungo (province of Caserta) (around 800 end customers) and in the municipality of Palomonte (province of Salerno) (around 100 end customers).
The 2i Rete Gas Group has not bid on either of the two tenders.

Re-award of concessions

As for municipalities where it already manages the service, the 2i Rete Gas Group, at the end of the procedures subsequent to the award of the related tenders, in 2013 started the new gas distribution service management in the municipalities of Bosisio Parini (province of Lecco) (around 1,500 end customers), Camponogara (province of Venezia) (around 4,800 end customers), Buttapietra (province of Venice) (around 2,800 end customers), Polla (province of Salerno) (around 1,500 end customers) and Marmirolo (province of Mantua) (around 3,200 end customers).
On 20 May 2013, 2i Rete Gas received communication of final award in its favour of the natural gas distribution service in the municipalities of Trissino, Brogliano and Cornedo Vicentino (province of Vicenza) (around 8,700 end customers), following expiry of award in favour of Pasubio Group S.p.A..
On 26 June 2013 2i Rete Gas, being the sole participant, sent notification of withdrawal of the bid it had made for the tender called by the municipality of Ghiffa (province of Verbano – Cusio - Ossola), (with around 1,600 end customers), since the tender had not been definitively awarded within the validity period of the bids established by the tender specifications. Management of the service therefore continues pursuant to art. 14, paragraph 7 of Legislative Decree no. 164/00.
The 2i Rete Gas Group, moreover, signed the new contract for the management of the methane gas distribution service, and at the same time took over distribution plant in the municipality of Lainate (province of Milan) (around 11,500 end customers), for which it received communication of the final award on 19 July 2013, following acceptance by the Council of State *(Consiglio di Stato)* of the appeal made by 2i Rete Gas against the prior final award in favour of Italgas S.p.A..
For the concession of the municipality of Castronno (around 2,200 end customers), which had been re-awarded by tender in 2011, the execution of the new contract has still not taken place.

Awards of concessions to the 2i Rete Gas Group which are to be decided due to pending disputes

Regarding the tender called by the municipality of Solofra (province of Avellino) (around 3,500 end customers), which was awarded to 2i Rete Gas in 2011 and cancelled by the TAR (regional administrative court) of Campania with its sentence of 15 February 2012, 2i Rete Gas appealed to the Council of State and the latter held the appeal inadmissible with its sentence of 6 March 2013.
Regarding the tender called by the municipality of Mirabello (province of Ferrara) (around 1,650 end customers), awarded to 2i Rete Gas in 2011 and cancelled by the TAR of Emilia with its sentence of 12 April 2012, on 19 July 2012 2i Rete Gas appealed to the Council of State and is still awaiting setting of the hearing.

On 28 June 2013, the 2i Rete Gas Group received communication of final award in its favour of the natural gas distribution service in the municipalities of Como and San Fermo della Battaglia (around 44,600 end customers). The final award was followed by the appeal made by ACSM-AGAM Reti Gas S.p.A., which was, however, excluded by the TAR of Lombardy with its sentence of 24 December 2013 due to the incidental appeal made by 2i Rete Gas for reasons regarding the requirements for participation in the procedure.
The Company is waiting for the Council of State to set the date for the hearing to discuss the appeal against the sentence of the TAR of Lombardy.

Awards of concessions to third parties

On 26 June 2013, 2i Rete Gas notified withdrawal of its bid for the tender called by the municipality of Pieve Vergonte (province of Verbano - Cusio - Ossola), in association with the municipalities of Anzola d'Ossola, Ornavasso, Piedimulera, Premosello Chiovenda and Vogogna (in total around 5,800 end customers) with final award in 2011 to Molteni S.p.A. which has still not signed the related service contract.
On 19 July 2013, the 2i Rete Gas Group notified withdrawal of its bid for the tender called by the municipality of Caronno Varesino (province of Varese) (around 2,100 end customers) with final award in 2012 to Pomilia Gas S.c.a.r.l. which has still not signed the related service contract.

Awards of concessions to third parties which are to be decided due to pending disputes

2i Rete Gas, after making its offer for the award of the service in the municipality of Manfredonia (province of Foggia) (around 16,000 end customers) for which it had been, albeit provisionally, ranked first, was excluded from the tender procedure by the executive resolution of 9 July 2013 since, following verification of anomalies pursuant to Legislative Decree no. 163/06, the commission deemed its bid "anomalous, incongruous and not viable".
The Company arranged to promptly challenge said resolution.
On 24 June 2014 the discussion will take place before the TAR of Puglia - Bari on the appeal filed by 2i Rete Gas against the exclusion from the tender. At the same hearing discussion will take place also on the appeal made by Gas Natural S.p.A. (which ranked second in the tender following exclusion of the 2i Rete Gas Group) against final award to Gasman S.c.p.a..
On 14 January 2014 the ruling of the TAR of Lombardy was deposited and it rejected the appeal made by 2i Rete Gas to annul the final award of the tender called by the municipality of Paderno Dugnano (province of Milan) (around 21,700 end customers) to Italgas S.p.A..
2i Rete Gas' appeal to the Council of State is being prepared.

Transfer of concessions to another operator

As for the new tenders called by municipalities where the Company already managed the gas distribution service, the 2i Rete Gas Group:

- on 16 January 2013 handed over to Linea Distribuzione S.r.l. the plant and management of the gas distribution service in the municipalities of Acquanegra Cremonese, Bordolano, Corte de' Cortesi con Cignone, Grumello Cremonese, Martignana di Po and Volongo (province of Cremona) (around 3,100 end customers);
- on 27 June 2013 signed the acceptance report related to the plant and the management of the gas distribution service, with the latter starting as from 1 July 2013, to be managed by ACSM-AGAM Reti Gas S.p.A., for the municipalities of the Larian Triangle of Barni, Bellagio, Caglio, Canzo, Caslino d'Erba, Castelmarte, Eupilio, Lasnigo, Magreglio, Proserpio, Pusiano, Rezzago, Sormano and Valbrona (province of Como) (around 11,700 end customers). Following the favourable ruling of the Council of State on the Company's appeal, checking recommenced for any anomalies in the offer made by ACSM-AGAM Reti Gas S.p.A.. The Company is awaiting the outcome of this procedure.

On 17 May 2013, the 2i Rete Gas Group, in implementation of the order of the TAR of Basilicata no. 149 of 21 March 2013, handed over the plant and management of the gas distribution service in the municipality of Lagonegro (province of Potenza) (around 1,300 end customers) to AMG S.c.p.a..

Suspended and annulled tenders

As for the tenders called by municipalities where the 2i Rete Gas Group already managed the gas distribution service:

- on 3 August 2011 the tender was awarded to ACSM-AGAM Reti Gas S.p.A. for the gas distribution service in the municipality of Lomazzo (province of Como) (4,350 customers). The 2i Rete Gas Group (the outgoing operator) appealed against this award before the TAR of Lombardy – Milan to challenge the award procedure: with ruling of 20 April 2012 the TAR of Lombardy – Milan upheld the appeal and cancelled the tender procedure.

  ACSM-AGAM Reti Gas S.p.A. appealed the ruling before the Council of State, which, with ruling of 7 May 2013 of the full bench of the Council of State rejected the appeal and definitively cancelled the tender procedure. On 3 July 2013 the municipality sent a new invitation letter against which 2i Rete Gas appealed. The Council of State, with its sentence of 25 September 2013, suspended the procedure, pending the case being addressed by the TAR of

Lombardy – Milan. On 25 March 2014 the latter issued a ruling annulling the challenged documents with which the municipality of Lomazzo had renewed the invitation to participate in the tender for award of the gas distribution service.

- on 16 March 2011 the tender was awarded to Italgas S.p.A. for the gas distribution service in the municipality of Velletri (province of Rome) (around 9,000 end customers). 2i Rete Gas (the outgoing operator) appealed against this award before the TAR of Lazio– Rome, which with ruling of 13 July 2012 cancelled the tender procedure. Italgas S.p.A. and the municipality of Velletri appealed the ruling before the Council of State, which, with ruling of 27 December 2013 rejected both appeals and definitively cancelled the tender procedure. Management of the service therefore continues pursuant to art. 14, paragraph 7 of Legislative Decree no. 164/00.
- During 2013 the Prefect of Campobasso announced that they would arrange to quantify the damage due to 2i Rete Gas, noting that the Council of State, with its ruling of 22 November 2013, had upheld the compliance order of the TAR of Molise of 29 March 2013 against the municipality of Spinete (province of Campobasso) for compensation for the damage suffered by the 2i Rete Gas Group following implementation of the tender procedure which was declared unlawful both in the first and second (and final) instances.

Transfer of water sector concessions to another operator

As regards the water portfolio, the 2i Rete Gas Group:

- on 6 June 2013 signed with the municipality of San Giovanni Teatino (province of Chieti) (around 4,100 end customers) the agreement to transfer the distribution service for potable water and sewerage to the integrated water service company of the Pescara local authority (Ambito Territoriale Ottimale - ATO), ACA In House Providing S.p.A.. On the same date it signed the acceptance report for the above plant, starting as from 7 June 2013;
- on 6 December 2013 signed with the municipality of Lonate Ceppino (province of Varese) (around 2,000 end customers) the agreement for termination of the potable water collection and distribution service in the municipality starting on 31 December 2013. On 18 December 2013 it signed the acceptance report for the plant and the management of the potable water distribution service which as from 1 January 2014 will be managed by AGESP S.p.A..

6.1 Regulatory framework

As regards gas distribution, the interventions of the Regulatory Authority for Electricity and Gas (AEEG) during 2013 involved activities/objectives which had already been largely outlined during 2012.

As regards tariffs, the AEEG continued and completed its consultations (it organised three separate consultations during the year after the first one which was completed in 2012) to define the regulation for the new regulatory period starting as from 2014. A parallel consultation process (with the two consultations organised in 2013 after that completed in 2012 and that held over the end of 2012 and the start of 2013) was undertaken in order to define the provisions on the quality of gas distribution and metering services for the new regulatory period starting in 2014, together with that relating to tariffs.
In December, at the end of the long process to consult all the interested parties, the provisions were approved (respectively Resolutions 573/2013/R/gas and 574/2013/R/gas) which establish the provisions on tariffs and service quality for the next regulatory period (2014-2019), the length of which was extended from four to six years.
In approving the new tariff provisions which are valid as from 1 January 2014, the AEEG postponed to a subsequent provision to be adopted – in accordance with its indications – by the end of March 2014, following further analyses and a consultation process, the definition of some specific tariff elements for area operations which will start after the holding of the tenders for local areas (among these, in particular, definition of the means of recognising in the tariff the difference between the realisable amount of concessions and the Regulated Asset Base (RAB)).

As regards the plan to install and put into service meters with requirements concerning remote reading/management as set out in Resolution ARG/gas 155/08, at the end of the year the AEEG introduced changes and additions to the provisions regarding the obligations to install and put into service so-called smart gas meters, readjusting the timeframes for putting the new smart meters into service, in particular the G4, G6 and G10 meters, and abrogated all the previous provisions in this regard which were replaced by the new resolution (Resolution 631/2013/R/gas) and by the new annexes "*Directives for putting into service gas meters featuring the minimum operational requirements*".

The AEEG intervened several times with provisions to supplement and amend the provisions regarding the so-called "default service" on distribution networks, arranging through Resolution 241/2013/R/gas (which was followed by Resolution 533/2013/R/gas for some final aspects) for the award of the supply of this service to one or more sales companies identified through a public procedure and no longer to the distribution company. The distribution company has, however, been given primary responsibility as regards operations to suspend and interrupt supply due to customers being in arrears and is penalised in case of failure to close down the redelivery point, even if this does not depend on its own responsibility.

The AEEG also adopted some provisions implementing the rules as set out in Ministerial Decree no. 226/2011 on the tender criteria for new awards of the gas distribution service by local areas; these provisions concern: integration of the criteria for definition of the size of the one-off amount to cover tender costs and the format for the presentation, by the commissioning bodies, of any changes to the tender and to the standard specifications. The standard service contract arranged by the AEEG at the end of 2012 was also approved by the Ministry of Economic Development by its decree of 5 February 2013.

On the other hand, the provision is still pending on how to measure investments in energy efficiency which are included in the tender bid and for which only a preliminary consultation was undertaken in the last few months of 2012. The adoption of this provision was delayed by the transfer to Gestore dei Servizi Energetici (GSE), starting at the beginning of 2013 in application of the Ministerial Decree of 28 December 2012, of responsibilities that were previously held by the AEEG. The transfer of the responsibilities on energy efficiency from the AEEG to GSE has also delayed the definition of the new criteria to determine the tariff contribution to achieve energy efficiency objectives on the part of relevant parties as from 2013, the approval of which occurred only in January 2014, after a consultation aimed at all the interested parties and which was held on the matter in November 2013.

The AEEG then introduced new provisions, with some simplifying elements, on how to apply the rules for the electricity and gas bonus, which sees gas distribution companies also involved in its management.

In relation to the new responsibilities for water services, in 2013 the AEEG adopted provisions regarding regulation of the integrated water service, concerning in particular: the tariffs for 2012 and 2013 and the tariff regulation (*Metodo Tariffario Idrico* – MTI) for 2014 and 2015 (completing the first regulatory period 2012–2015), the regulation of the guarantee deposit in force as from 1 January 2014 (this deadline was then deferred to 1 July 2014), and the regulation of end customers' arrears.
In relation to the new responsibilities for the water sector, in December 2013 the AEEG, as provided for by Law Decree no. 145/13, took the new name *Autorità per l'energia elettrica, il gas ed il sistema idrico* (Regulatory Authority for Electricity, Gas and Water), a name that became definitive on conversion of the Law Decree on 21 February 2014.

Besides the consultations regarding the provisions which were subsequently issued, the AEEG also undertook consultations aimed at adopting subsequent provisions:

- on obligations of accounting separation for operators of water services and the revision and simplification of accounting separation (unbundling) provisions;
- on the amount of administrative costs arising from disclosure obligations of regulated parties;
- to integrate the recent regulation on settlement;
- to amend and supplement the regulation on checks on the safety of gas plant (due to the coming into force of the provisions regarding modified or reactivated plant);

- on assessment of the performance of the metering service.

In the reporting period, the AEEG issued a total of almost 650 provisions, including resolutions, consultation documents and decisions, of which around 500 were resolutions over half of which concerned the Company or its subsidiaries, since they regard the gas sector (around 200) or that of water services (around 50). These include, in particular, various resolutions specifically affecting gas distribution, on tariffs, access to the data distribution and/or exchange service between operators, new regulation of the settlement service, service quality and plant safety, gas metering, protection of end customers, last resort service (default services), completion of the regulation for tenders to award the gas distribution service, energy efficiency, checks on operators and on administrative costs and the simplification of obligations.

Given the numerous consultations undertaken by the AEEG on issues affecting gas distribution and the Company or its subsidiaries, with the publication of documents on which to make observations and proposals, the Company always provided a document with its comments on all the issues it considered relevant.

Other significant events

- By means of Resolution 14/2013/E/gas of 24 January 2013 an investigation was launched into the data transmitted for tariff purposes by distribution companies to the AEEG, regarding investments made in the period 2009-2011. The 2i Rete Gas Group was also involved in the investigation with a request made in March for information and data which were sent to the AEEG in April. Under Resolution 496/2013/S/gas of 7 November 2013, the investigation ended for companies which provided full replies to the information requests (including 2i Rete Gas), but will continue until 30 June 2014 for companies which did not provide full answers and for which further analyses of their stated data were arranged.
- By means of Resolution 229/2013/R/gas of 30 May 2013, the economic incentives were assigned for the service safety levels achieved by gas distributors and confirmed by the AEEG for 2011, the third year of application of sanctions as well as incentives and the second year in which the incentive mechanism became mandatory (mandatory as from 2010 for distributors with more than 50,000 end customers and as from 2011 also for distributors with less than 50,000 and at least or more than 10,000 end customers). Without taking into consideration the premium assigned to G6 Rete Gas, 2i Rete Gas, which together with over 100 Italian gas distribution companies was subject to this premium/sanction mechanism in 2011, was awarded the highest premium of 6.3 million euro (0.8 million euro for gas odorisation checks and 5.5 million euro for leak reduction). G6 Rete Gas was awarded a premium of 1.5 million euro (0.3 million for the component linked to gas odorisation checks and 1.2 million for leak reduction),

the third highest after 2i Rete Gas and Italgas. The 2i Rete Gas Group was therefore awarded a total premium of 7.8 million euro, corresponding to over 30% of the total incentives provided.

- As part of the 6 checks planned on the service safety improvements for 2012, established by Resolution 234/2013/E/gas of 30 May 2013 in regard to a similar number of natural gas distribution companies from among those which receive the highest incentives or which have still not been checked, following notices received respectively on 27 June and 4 July, the Regulatory Authority for Electricity and Gas staff, respectively on 4-5 July and 11-12 July, undertook two inspections involving G6 Rete Gas and 2i Rete Gas. The inspections concerned information and data regarding safety of plant under management, for the purposes of applying the premium/sanction mechanisms for the safety levels achieved in 2012.

  Neither during the checks by the relevant staff nor subsequently were findings or challenges raised; therefore the incentives due for 2012 should be calculated and provided without any reduction (which, on the other hand, could be applied in the case of any non-compliance found during the checks). Approval and payment of the incentives for 2012 is envisaged by the end of the first half of 2014.
- As part of the proceedings started by the AEEG with Resolution VIS 162/10 against 10 gas distribution companies (including 2i Rete Gas, G6 Rete Gas and 2iGas) for possible violations of the metering of natural gas transport at delivery points on the respective networks (ReMi substations), on 7 February 2013 2i Rete Gas and G6 Rete Gas received notification of the results of the investigation, which for 2i Rete Gas and for the incorporated 2iGas foreshadowed the application of a fine for failing to promptly proceed with the maintenance of equipment in ReMi substations, respectively in two cases for 2i Rete Gas and in one case for 2iGas. For G6 Rete Gas, on the other hand, no violations were noted and the circumstances argued by the Company were acknowledged without recording any non-compliance. For G6 Rete Gas, therefore, it was arranged to close proceedings without any fine being applied (by means of Resolution 346/2013/S/gas of 1 August 2013). 2i Rete Gas was summoned for the final hearing before the Board of the AEEG which took place on 27 September 2013, both for the accusation regarding its own ReMi substations and for that regarding the substation pertaining to 2iGas. At the hearing 2i Rete Gas, on the basis of what had been shown in the documentation produced during the proceedings, stressed that, in its view, the alleged violation did not exist, given that the alleged delayed maintenance did not affect the measurement of gas volumes, which was always guaranteed, recorded and provided to entitled parties, as envisaged by the distribution and transport network codes. At the end of the hearings the AEEG allowed the possibility of depositing final briefs within 10 days, following which measures to close the investigation will be taken, with the

possible application of a fine. For further information, reference should be made to the following section "Events after the reporting period".

- On 23 July 2013 the 2i Rete Gas Group received notification of the findings of the inspection commenced by the AEEG in June 2011 regarding the correct application of tariff provisions for the 2009-2012 regulatory period and on other issues (provisions envisaged by the Network Code on accessory services and the law relating to the so-called gas bonus). The notification highlights that the accounting documentation produced to support assets owned by municipalities in some areas (around 100) does not comply with the regulatory prescriptions and, for these areas, notes the possible application of the mandatory tariff, unless further elements or documentation are provided to support what has already been produced. On 16 September 2013, on the basis of the clarification received from the offices of the AEEG regarding the elements considered as still missing from the documentation presented, the AEEG was informed of the time needed to recover, from the municipalities concerned, the further information considered necessary (2 months). On 14 November 2013 the documentation collected from the municipalities was then forwarded to the AEEG, containing information on the distribution networks owned by the municipalities which was previously considered missing or incomplete. The final assessment of the Authority is now pending.
- By means of Resolution 241/2013/R/gas of 6 June 2013 the AEEG reorganised regulation of the default distribution service, envisaging that the responsibility for the gas supply be assigned to a subject other than the distribution company (one or more sales companies identified through a public procedure), while the responsibilities relating to the correct recognition of offtakes and the physical disconnection of redelivery points remain the responsibility of the distribution company, for which significant penalties are introduced – with provisions of doubtful legitimacy – in the case of failure to interrupt the supply, even when this failure is not the company's fault. The obligation is also introduced for the distribution company to proceed with legal action to obtain access to the meter and so be able to shut it down and interrupt the supply. Against Resolution 241/2013/R/gas, and in particular against the provisions which introduce unfair penalties for the distributor, 2i Rete Gas appealed before the TAR of Lombardy – Milan. By means of subsequent Resolution 533/2013/R/gas of 21 November 2013, some changes and additions were introduced to the regulation of the default service on the distribution network as amended by Resolution 241/2013/R/gas, which, however, do not resolve the main aspects relating to sanctions and charges for distribution companies.
- By means of Resolution 177/2013/S/gas of 24 April 2013, at the end of the proceedings started with Resolution VIS 96/11 for alleged violations on the disclosure of metering data in regard to sales operators, the Authority imposed a 27,000 euro fine on G6 Rete Gas. Due to similar irregularities and at the end of

similar proceedings, Italgas, AGSM Distribuzione and AcegasAps S.p.A. were also fined.

Events after the reporting period

On 13 January 2014 the AEEG, at the hearing before the 6th and 10th Committees of the Chamber of Deputies, presented its brief 1/2014/I/com "Draft law 'Conversion into law of Law Decree no. 145 of 23 December 2013, setting out urgent measures to implement the *'Destinazione Italia'* Law Decree plan, in order to limit electric and gas tariffs, reduce car insurance premiums, boost internationalisation, the growth and digitalisation of companies, as well as measures for the realisation of public works and 'Expo 2015'". In the brief the AEEG gave its view regarding the provision as set out in art. 16, paragraph 1, of the Law Decree which:

- envisages assimilating the realisable amount of concessions to the RAB, should the contracts or the agreements to assign the service not include anything about establishing the repayment amount for the outgoing operator at the end of the concession;

- the deduction of all private contributions from the repayment amount due to the outgoing operator;

and indicated that the impact of tariff limitation derived from detracting private contributions seems certain and significant and, therefore, considers it should be confirmed; the provision should determine with greater certainty the cases in which the assessment of the repayment amount is equal to the regulatory amount.

During its conversion into law, the provision was then amended in the Chamber so that, should the assignment contracts not include any detail on determination of the repayment amount, the calculation of the realisable amount of concessions is done using the methodology as set out in the guidelines issued by the Ministry of Economic Development, alongside confirmation of the deduction in all cases of private contributions. It was then established that the AEEG will check the realisable amount of concessions as established by the granting local bodies, in all cases where this is 10% higher than the RAB; a provision was also included that the contracting authority must take account of any observations made by the AEEG for the purposes of determining the repayment amount to be included in the tender.

In order to encourage the calling of area tenders, a provision was also included that outgoing operators must advance to the contracting authority an equivalent amount to the one-off charge to cover tender costs, establishing that this amount be repaid, plus interest, by the incoming concessionaire on award of the service, in the manner established by the AEEG.

On 13 February 2014 with Resolution 58/2014/I/gas, while the provision was being discussed in the Senate, the AEEG sent the Italian Government and Parliament an additional note on the issue of concessions for the gas distribution service in reference to the repayment amount to be recognised to operators, as envisaged by the conversion into law of the "*Destinazione Italia*" Law Decree, highlighting the problems arising from the amended provision and importance of provisions which do not create uncertainty regarding the real value of the networks subject to tender, also in relation to the consequent possible dispute which could arise.

The conversion into law of Law Decree no. 145/13 "*Destinazione Italia*" ended on 21 February (the final deadline or all the provisions in the decree shall have expired) with approval by the Senate, without any changes, of the text approved by the Chamber and with the publication in the Official Journal (of the Italian Republic) of the conversion law (Law no. 9 of 21 February 2014) and the text of the Law Decree coordinated with the conversion law.

In addition, the AEEG issued a very significant provision for the gas distribution sector and for companies regarding, in terms of energy efficiency, the definition of the tariff contribution to cover the costs incurred by distributors subject to the obligations on energy efficiency certificates as from 2013 (Resolution 13/2014/R/efr).

The new means of defining the contribution envisage setting an initial contribution in June of each mandatory year, in order to provide preliminary price indications, and the final tariff contribution by 30 June of the year following the mandatory year.

The final contribution is determined by adding to the estimated contribution part of the difference between the average weighted market amount of the energy efficiency certificates recorded in the mandatory year and the estimated amount of the contribution, a difference which is recognised for at least 85% and which increases as the difference between the average market amount and the estimated contribution increases.

For 2013, the first year for which the new methods apply, an estimated tariff contribution amount has been provisionally set at 96.43 euro per energy efficiency certificate.

The AEEG, with Resolution 40/2014/R/gas of 6 February 2014, also issued new provisions regarding checks on safety of gas plant (as set out in Resolution 40/04) and approved the regulation on checks on plant which has been modified or transformed, which is in force as from 1 July 2014.

Finally, in the consultation document 53/2014/R/gas of 13 February 2014 the AEEG's approach was set out as regards the tariff regulation of gas distribution and metering services to be applied with reference to future area-based operations.

Given that the changes and additions to the regulation of the default service on distribution networks introduced by Resolution 533/2013/R/gas of 21 November 2013 do not resolve the main aspects that penalise distribution companies and of doubtful legitimacy introduced by the previous 241/2013/R/gas, on 21 January 2014 also Resolution 533/2013/R/gas, after 241/2013/R/gas, was challenged on additional grounds. It will, therefore, be necessary to await the ruling of the TAR in this regard. The hearing set for 20 February to discuss the appeal against Resolution 241/2013/R/gas was postponed to a date to be decided in order to allow the counterparty to present a defence also in regard to the new challenges.

On 10 February 2014 the Company was notified by fax of Resolution 31/2014/S/gas of 6 February 2014, which was published on the AEEG's website on 11 February 2014, with which, at the end of the proceedings started with Resolution VIS 162/10 regarding measurement of natural gas transport at ReMi substations of some distribution companies, a fine of 12,500 euro was imposed on 2i Rete Gas for, in the Authority's judgment, failing to promptly proceed with the maintenance at 2 ReMi substations of some newly installed remote metering equipment which had shown some anomalies, albeit without in any way prejudicing the integrity of the gas metering process. On 17 February 2014, after the related notification again by fax, Resolution 49/2014/S/gas of 13 February 2014 was published, with which, at the end of the same proceedings started against E.On Rete S.r.l. (which then became 2i Gas Infrastruttura italiana gas S.r.l. and was subsequently merged into 2i Rete Gas) and for similar reasons in reference to one ReMi substation, a fine of 8,125 euro was imposed on 2i Rete Gas.

6.2 Tariff framework

The tariff regime established under Resolution Arg/Gas 159/08 (RTDG), in force in the third regulation period 2009-2012, was extended to 31 December 2013. The extension was made official by Resolution 436/2012/R/Gas which contains a slight increase in the WACC for distribution work set at 7.7% (7.6% until 2012) and a decreasing productivity recovery (x-factor) applied to operating costs. The reference tariffs and the mandatory tariffs for 2013, which were approved with Resolution 553/2012/R/gas of 20 December 2012, were redetermined by Resolution 328/2013/R/gas of 25 July 2013 and they take account also of the changes for recognised costs deriving from unforeseeable and exceptional events, from changes

in the regulatory framework and from the change in obligations relating to the universal service.
By means of this Resolution the AEEG also completed an investigation that started with Resolution 14/2013/E/GAS of 24 January 2013 into the data declared by companies in the period 2008-2011, referring to some types of asset and contributions no longer used. The breakdown of the reference tariffs reserved for operators was made available in January 2014.
During 2013 the consultation process continued regarding the new rules to be applied to determine tariffs for the next regulatory period: after DCO 341/12/R/GAS of 2 August 2012, the AEEG published DCO 56/2013/R/GAS of 14 February 2013, DCO 257/2013/R/GAS of 13 June 2013, DCO 359/2013/R/GAS of 7 August 2013 and the information notice of 21 November 2013.

Finally, on 12 December 2013 the AEEG published Resolution 573/2013/R/GAS definitively approving the new principles to apply to the distribution and metering tariffs for the fourth regulation period (2014-2019), which changed for the first time from four to six years. The provision also envisages a three-yearly review of the x-factor and every two years of the WACC.
In reference to the latter, the rate of return on risk-free assets will be reviewed on the basis of the trend in 10-year treasury bonds (BTPs) over the last 12 months. The WACC was set for the first two-year period at 6.9% for distribution work and 7.2% for metering. Resolution 573/2013/R/GAS contains further innovations as regards the recording of net investments for the purposes of determining the local invested capital, since as from the 2014 tariffs also the preliminary investments of the previous year (t-1) are calculated, as well as final investments for the year prior to that (t-2), as previously.
This mechanism enables better representation of investments and of the amount of the RAB, also in light of the participation in future area tenders. The centralised capital costs are determined on the basis of a single parametric fee at national level.
The new regulation also introduced some changes regarding the treatment of contributions, distinguishing the new contributions which were received as from 2012 from those present at 31 December 2011 ("stock of contributions"). The new provision envisages that the contributions received as from 2012 are set against the amount of non-current assets both to establish the RAB and to calculate amortisation and depreciation. As regards the "stock of contributions" at 31 December 2011 operators can choose (art. 2.2), by 28 February 2014, whether to continue without deteriorating the contributions (option a) or to opt for a gradual deterioration of the contributions (option b) in accordance with a new formulation. Also the calculation of operating costs has seen changes. In particular, the initial levels of operating costs relating to the distribution service are established on the basis of the effective average costs found in the unbundling accounts for 2011 weighted with the costs recognised for tariff purposes in the previous regulatory period, differentiating the

operators on the basis of size and density. On 27 December 2013 the AEEG published Resolution 633/2013/R/GAS with which it approved the mandatory tariffs for invoicing in 2014 and the total recognised amount of higher costs deriving from concession fees which were approved by around a hundred municipalities and which will be invoiced during 2014.
In light of the new area tenders it is the AEEG's intention to issue a further provision on the tariff elements which, on the one hand, cover the difference between the realisable amount of concessions and the RAB and, on the other, the tariff discount which the operator can include on presenting its bid. The AEEG's provision, which was preceded by the consultation document 53/2014/R/GAS of 13 February 2014, is expected in the late spring 2014.

6.3 Regulatory framework

For the regulatory framework reference should be made to appendix XIV "Regulatory framework".

7. Support for gas transport activities

7.1 Commercial quality

The commercial quality level is measured by means of a general index which shows the percentage of services not carried out within the standard times set by the Regulatory Authority for Electricity and Gas, in reference to connections, reconnections, disconnections, quotes and execution of both simple and complex work.
The general index for "non-compliant" services, for the purposes of the service quality parameters, which was recorded in 2013 (including the contribution of G6 Rete Gas) was 0.40%

Specifically the final values of the specific indicators for "non-compliant" services are as follows:

- Connections 0.22%
- Execution of simple work 0.78%
- Quotes 0.38%
- Reconnections for delinquent customers 1.13%
- Disconnections at customer request 0.30%
- Execution of complex work (not subject to compensation) 1.08%

In addition, the monitoring of processes regulated by Resolution 574/13 shows that the indicator of "Keeping appointments" stands at 0.05% (160 non-compliant cases) out of 326,573 services provided.

7.2 Management of complaints

In 2013, the 2i Rete Gas Group handled 1,401 written complaints and information requests (with just 16 cases of non-compliance in terms of response times established by the service quality regulation) as well as 29 information requests from the Regulatory Authority for Electricity and Gas via authorised gas sales companies.
Replies were prepared to 1,245 requests from the AEEG-Consumers Affairs Department for complaints which the latter had received directly. This service was created in 2009 to assess complaints, requests and notifications made by end customers.
Finally, there were 1,476 requests for technical data which can be acquired through a meter reading (so-called M01), with 14 "non-compliant" services, and 3,984 requests for other technical data (so-called M02), with 3 "non-compliant" services.

7.3 Invoicing of gas transport

During 2013 the invoicing of gas transport for the 2i Rete Gas Group, which was processed on a unified IT platform, took place in compliance with the planned deadlines, by the end of the month following that in which the related service took place.

Since January 2013, the gas settlement process was changed following Resolution AEEG 229/2012/R/gas and called the "Natural gas settlement service (settlement)". It envisages the communication to national gas transporters of the volumes that have transited each "City-gate", divided by sales company and aggregated by offtake profile and by type of metering (half-yearly/annual, monthly, daily). The process of "balancing" volumes (reconciling data with how much has transited at the "City-gates") is no longer performed by the distributor, but carried out by the "Settlement manager" (Snam Rete Gas).
During 2013 the processing of gas balances was handled on an IT platform, thus unifying the data of the acquired companies.

In 2013 also the estimating and invoicing of accessory services requested by sales companies and end customers were integrated into the commercial and administrative information systems of the 2i Rete Gas Group in order to include the operations undertaken on the distribution networks of G6 Rete Gas.

7.4 Gas network commercial field

During 2013 the Front Office unit of the 2i Rete Gas Group integrated into its own commercial processes those of the previously merged companies 2I Gas and G6 Rete Gas.
The dissemination of the software F.o.u.r. (Front Office portal) continued at sales companies: it is now used to manage commercial services – switching and other accessory transport services – by around 90% of the sales companies (around 250) which operate on the network of the 2i Rete Gas Group.

The "Application to Application" channel was opened up to other customers who request to use it: it represents the best available technology for service requests and enables the direct exchange of data between the information systems of the 2i Rete Gas Group and customer companies.
The service aimed at end customers was consolidated. It works through a dedicated call centre that can be reached via a free phone number, in order to request quotes, reconnections and to check progress on cases, including post-metering document checks.

In regards to the Gas bonus envisaged by the Italian Government to support low-income and large households, during 2013 requests for tariff reductions were processed, including renewal requests, as per Resolution ARG/gas 88/09 as amended and supplemented.

In reference to the management of last resort services (last resort/default supplier), following also the conclusion of the tender processes to award the activities handled by the Single Buyer, the roles of Eni S.p.A. and Enel Energia S.p.A. have been consolidated as the companies responsible for their respective services for the thermal year 2013-14, except for the period February – May 2013. Around 3,500 supplies are the responsibility of the default supplier and 3,000 of the last resort supplier.

As in previous years and for the purposes of improving the perception of Customer Service Satisfaction, meetings were held with gas sales companies in order to provide updates on regulatory changes, outline the most significant IT upgrading and stimulate discussion with operators.

8. Plant construction, environment and safety

8.1 Gas distribution plant

During 2013 around 250 km of piping was laid, of which around 50% was high to medium pressure and 50 % low pressure.

By extending the operating methods already in use for some years at the 2i Rete Gas Group to the newly integrated companies, the piping laid in the year was 85% done in pipes in HDPE (high density polyethylene) which is a technologically advanced material which is widely used by the main international gas operators and has lower operating and laying costs compared to traditional coated steel.

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

The total length of piping managed by the 2i Rete Gas Group at 31 December 2013 was, therefore, over 57,123 km, servicing around 2,000 municipalities. In addition, 1,132 primary substations are active which, at the level of the distribution networks managed, reduce, measure and odorise the gas from the national transport networks.

8.2 Network and plant design

Also 2013, as the previous year, saw a slowdown in the design work aimed at preparing the technical proposals to be attached to the bid for the award of services. This slowdown is a consequence of the failure to organise area tenders (ATEM) which, with the issue of Decree no. 226, should have been called, as from 2013, no longer on the basis of an individual municipality, but aggregated by minimum local areas (*Ambiti Territoriali Minimi*, hence ATEM).

The design work was, therefore, aimed at prior planning and preparation for the envisaged area tenders consequent to the issue and gradual adoption of Decree no. 226 as set out above.

During the year further detailed technical elements were added and a check was made on those already included in Company systems, in order to draw up the best possible technical proposals to be put forward in the tender stage and to automate as far as possible the related design work.

In 2013 this work, which is still on-going, involved 28 ATEMs of key interest for the 2i Rete Gas Group, out of 177 identified in total by the aforementioned Decree at national level. The work undertaken concerned the recovery and checks of information relating to the 775 municipalities managed by the 2i Rete Gas Group and included in the aforementioned areas.

Since a heavy workload was planned and this was assumed to be carried out at the same time, the selection process continued to identify suitable external companies to support and integrate the Group's staff in future work on preparing area tenders.

8.3 Service continuity and safety

Also in 2013 the 2i Rete Gas Group carried out checks on the data concerning service continuity and safety processes as set out in Resolution 120/08 issued by the relevant AEEG (expiring in 2012, but extended also for 2013). The main monitored parameters relate to services showing the distributor's ability to promptly intervene in potentially dangerous situations (emergency interventions, intervention time), or to organise and carry out preventative checks to ensure correct monitoring of safety conditions (percentage of network subject to inspection, odorisation of gas, percentage of network with cathodic protection).

By the end of March 2014 the reporting will be completed on the technical standards for 2013, extracting, for the scope of 2i Rete Gas prior to the acquisition of G6 Rete Gas, the data recorded directly during the course of the year in the Company IT systems through the extraction and aggregation system (SAP-BW), while for the former scope of G6 Rete Gas, which during 2013 recorded corresponding data in its own IT systems, the information will be mass-exported to the aforementioned Company system (SAP-BW), in order to enable single reporting of the same, as well as the undertaking of automatic controls on the correctness and congruity of the reported data.

The adoption of this instrument, which, as from 1 January 2014, is also the data reference and input system for the former scope of G6 Rete Gas, will enable to enhance reporting and monitoring during the year on technical activities relating to the continuity and safety of the service over the whole Company scope.

In general, in relation to the new overall scope, the adoption of standard criteria ahead of the actual organisational integration of the companies has highlighted that the data recorded for future reporting, in line with the experience in previous years, confirm high performance quality both compared to the minimum performance requested and in relation to that of competitors.

As part of the constant attention to the safety of plant and end customers, preventative leak checks were carried out on around 60% of the high and medium pressure piping (compared to the minimum value of 30% set by the AEEG) and around 55% of the low pressure piping (compared to the minimum value of 20% set by the AEEG).

Also as regards checks on the level of odorisation of distributed gas which were carried out in the field in order to provide a complete check on the real level of odorisation of the gas distributed, data was recorded (around 14,000 gas chromatography controls) well above the minimum value required by the AEEG (around 4,300 controls), a sign of the particular attention paid to service safety.

During 2013 the QSE department established the means of carrying out checks to oversee the process of collecting and reporting data regarding the commercial quality, safety and continuity of the gas distribution service, in line with the rules established by the AEEG in the "Quality and tariff code for gas distribution and metering services".

The work, in coordination with the Engineering and Transport Departments, took the form of checks at local plant in order to guarantee the documentary conformity of the data recorded and reported.

The identified aim was to reduce uncertainty in the case of checks carried out directly by the AEEG while undertaking its control functions over the data reported or used for the purposes of accessing the bonus system.

The checks, which were conducted on samples of cases using the same concepts and techniques envisaged by the AEEG, involved all the departments and saw the recording of an adequate level of alignment in the documentary evidence with the data recorded in Company information systems. Where areas for improvement were identified, corrective action was assessed together with the competent departments.

8.4 Adoption of the new call centre for emergency calls

On 27 December the new call centre for the gas emergency service was opened, bringing together under a new single supplier the call handling service which was previously provided through Enel Distribuzione for the municipalities managed by former companies ERG and 2iGas, and by Europ Assistance for those previously managed by the former company G6 Rete Gas.

The staff of the new supplier were adequately trained in the weeks immediately prior to the launch of the service in order to guarantee the utmost service quality and continuity.

The integration of the service enabled, among other things, the standardisation of conduct criteria, thus encouraging the dissemination of similar behaviours and methods both inside the Company and in regard to end customers.

Performance monitoring, which was carried out in the days following the launch of the service and which is constantly active, shows that, besides complying with the service levels required by the Authority, a further improvement has been made on the levels that were previously guaranteed.

8.5 Technical and cartographic systems

Following the integration of the former companies 2igas and G6 Rete Gas during the year, in accordance with the new territorial reorganisation that has been adopted, the Company implemented cartographic systems and related technical databases in the Geographic Information System (GIS) which was already in use at the 2i Rete Gas Group and in which numerous technical operational activities are integrated and automated.
Likewise, integration started on remote reading and metering equipment to bring them into a single management system (SGMG for remote metering, TLA for remote checks).
In addition, remote monitoring was also extended to the plant of the former company G6 Rete Gas for the cathodic protection systems which will enable operating benefits by reducing the need for checks by an operator, as well as the prompt monitoring of the state of protection of steel pipes.
The work, which started in the last few months of 2013 and which entails the installation in the field of around 1,600 items of remote monitoring equipment, will be completed by the end of March 2014.

8.6 Resolution no. 155/08 – (Smart meters)

During the first half of 2013 the scheduling of installation of smart meters was reviewed, as a consequence of the publication by the Regulatory Authority for Electricity and Gas of Resolution 575/2012/R/gas of 28 December 2012 which rescheduled the timetable for the adjustment of meters of size G10 and above.
Work continued, but was not completed, to draft the regulations and clarification the issue of which was awaited by both the Italian Gas Committee, relating to the standardisation of communication protocols and the interchangeability of meters of size G6 and below, and by the Ministry of Economic Development, in regard to the manner and deadlines for periodic checks on new integrated meters over G6.
In particular, in November the public inquiry stage ended of the UNI TS 11291-11 "Gas metering systems - Devices to meter gas on an hourly basis – Part 11: Inter-changeability of meters (<G10) and equipment making up point-multipoint networks", but at the end of 2013 the regulation had not been published. This technical provision is important so that the manufacturers of mass market G4 and G6 meters can start production and so allow distributors to proceed with systematic installations of such meters.
During 2013 the AEEG set out its position to define a final rollout plan for the mass market to take account of the timeframes envisaged for the undertaking of tenders and considered it appropriate to study, in specific meetings with operators, issues relating to the fine-tuning of the final rollout plan for the mass market, before

formulating a new draft regulation. The work of the AEEG and the result of meetings with operators led to the publication, at the end of the year, of Resolution 631/2013/R/GAS of 27 December 2013 “Amendments and supplements to the obligations for putting smart gas meters into service” which, as an attachment, contains the “Directives for putting into service gas meters featuring the minimum operational requirements”.

The resolution highlights, in the introduction, that the AEEG has been informed by manufacturers that in 2014 the meters will be available and that it has received from the Italian Gas Committee notification that the aforementioned part of UNI/TS 11291 will be made available at the start of 2014. For the AEEG, this is the basis for defining intermediate implementation stages as from 2014.

Therefore, the new Directives attached to 631/13 have confirmed the existing deadlines set for the year 2018 and introduced intermediate deadlines which entail for distribution companies with more than 200,000 end customers at 31 December 2013, such as the 2i Rete Gas Group, the installation of 3% of mass market smart meters by 31 December 2014 and of 10% by 31 December 2015, as well as the activation of 3% of them by 31 December 2015 and 60% by 31 December 2018.

Fulfilment of said requirements makes it necessary for the 2i Rete Gas Group to draw up a plan for laying piping that matches the effective availability of equipment on the market as well as compliance with the indicated deadlines. The Company will arrange to draw up this plan as soon as it can confirm the availability of sufficient supplies to fulfil the obligations.

The work in 2013 was, in any case, characterised by the start of the upgrading of G10 meters with integrated meters and continuation of the upgrading of G25 meters, although for most of the year, since integrated meters were still not available in the first three quarters, the upgrade could only take place using the traditional technological solution which envisages the installation of the so-called add-on (corrector and modem). Only in the last quarter of 2013 the tenders for procurement in Europe made G25 integrated meters available and so it was possible to proceed with adjusting the number of the G25 meters, both with the add-on solution and with the new integrated meters, to the extent necessary to comply with the AEEG’s obligations.

In the first half of 2013 the Avogadro Project started which envisages the trial installation of mass market integrated meters in Biella; in particular the organisation of the Project was established and the numerous activities prior to actual installation (in October) of the meters in the field were started; at the end of the year around 1,600 meters had been installed and the communication tests between the meters and the concentrators started. The Project, which was presented to the AEEG in April and to the municipality of Biella at the start of August, is the largest in Italy in terms of size of intervention and the number of meters being upgraded and at the end of 2013 it was proceeding in line with plans.

8.7 Funded work

In 2013 the 2i Rete Gas Group continued to take forward works which are eligible for public grants and received 4.1 million euro.
In addition, at 31 December 2013 there was a residual amount of grants to be received of 10.6 million euro, of which 3.9 million euro was for grants which are expected to be received during 2014.
In the period 2015-2023 it is expected to receive the remaining 6.7 million euro, which consists of 3.5 million euro for grants to be paid in annual instalments until 2023, 1.0 million euro for grants relating to works which have been completed and on which final technical/administrative tests are being performed, 1.6 million euro for cases involving recovery of receivables and 0.6 million euro for on-going work for which work-in-progress certificates are to be issued.

8.8 SOA certification

In 2013 there was a positive conclusion to the procedures to update the SOA certification of the 2i Rete Gas Group, which became necessary following the renewal of corporate quality certificates. This certification, which is an essential element in order to participate in tenders for the award of gas distribution services, is valid until 27 February 2017 and will be subject to an interim three-year check on 27 February 2015.

8.9 Activities to improve operations

During the year work was undertaken to study and verify technologies aimed at checking the quality of works and new materials. In particular the following were analysed:

- Forecasting methods in order to analyse the reliability of steel piping based on the interference generated by a magnetic field with covered underground steel pipes. This enables any problems in the structure of the piping to be highlighted. The method has not been standardised for various reasons linked to the limited number of actual applications, the high cost of the application, and the need for technological upgrades which the supplier involved has so far not arranged;
- Non-invasive checks on the welding of polyethylene pipes based on the propagation of ultrasound in the polymer. By measuring the interference caused by the piping it is possible to identify welding defects which can currently only be found using invasive checks. The procedure, which is at the prototype stage, needs to be developed in order to be included in the Company’s control and testing methods.

8.10 Regulatory oversight

Also in 2013 the 2i Rete Gas Group took active part in regulatory oversight at both national level, in numerous working groups and committees of the UNI-CIG (Italian Gas Committee), and in Europe.

8.11 ISO certifications

Every year, in order to maintain certification standards, a maintenance and/or recertification check is carried out by the certification body for the individual group companies. In particular, these refer to the system certifications linked to the standards UNI EN ISO 14001:2004, Environmental Management System, BS-OHSAS 18001:2007, Health and Safety Management System and UNI EN ISO 9001:2008, Quality Management System.

Merger of G6 Rete Gas into 2i Rete Gas S.p.A.

Following the merger of G6 Rete Gas into 2i Rete Gas, which took effect on 1 October 2013, the QSE (Quality, Safety, Environment) department sought a new cooperation offer for the expanded scope.
The tender proceedings involved long-established suppliers of both companies.
The tender procedure was carried out in December and led to the identification of CERTIQUALITY as the sole supplier for the new organisation of the 2i Rete Gas Group for the certification of the integrated Quality Safety and Environment system for the 2014/2016 period.
The previous certification remains in force without solution of continuity.

Below are the activities undertaken by the Group during 2013, with a separate indication of the specific activities undertaken on G6 Rete Gas.

The 2i Rete Gas Group

In the first half of 2013 the Certification body CERTIQUALITY completed the periodic certification check for the 2i Rete Gas Group together with the check to extend certification for the scope of the former 2i Gas, in regard of the integrated Quality, Safety and Environment management system.
The final outcome was very positive and better than the previous year.
No cases of non-compliance were reported.
The overall assessment on the conformity and effectiveness of the corporate management system is as follows.

The integrated QSE management system is active, compliant with the relevant regulations and capable of achieving customer satisfaction. Safety management is effective and disseminated at all levels of the organisation. The improvement targets have been identified and pursued, taking account of the growth of the organisation. The indicators prescribed by the AEEG have been complied with.

Strengths identified:

- Active participation of managers and staff at all levels.
- Sense of belonging and technical expertise of the staff interviewed.
- Training.
- Systematic use of the integrated management system as an essential tool for organisational integration.
- Consistency and application of procedures throughout the area covered and also applied to the new plant included in the extended scope.

Point for attention:

- Updating of the documentation, also by drawing on the document review project that was started in 2011.

It is an activity which envisages the review and updating of the documents of the integrated management system of the 2i Rete Gas Group with the aim of identifying a new hierarchy for documents, defining contents which are divided by type of document and standardising the management system through the total integration of the requirements of the 3 regulations (Quality, Safety, Environment) within individual documents.

G6 Rete Gas

Also for G6 Rete Gas, the company which was later merged into 2i Rete Gas, in the first half of 2013 the periodic check process on maintenance of the integrated QSE system came to an end, with an inspection by the certifying body DNV.
No cases of non-compliance were reported.
The final outcome was very positive and better than the previous year.

8.12 Environment

The QSE department guarantees, among other things, regulatory compliance at both corporate and national level as regards environmental aspects, with particular regard for those considered "significant".

The restoration program was guaranteed for sites where the presence of asbestos was recorded, giving priority to those cases where the results of the environmental investigations, which have already been carried out, showed more serious degradation of the covering material.
At the same time environmental investigations for airborne fibres continued at the surveyed sites as per the plans.
In addition, work continued to map the noise characteristics of ReMi substations throughout the group scope and to monitor noise impact in accordance with the manner and timeframes envisaged by company regulations. Any anomalies were handled by the relevant company departments through appropriate actions and/or initiatives to mitigate the environmental impact.
As regards the application of Presidential Decree no. 43/12 (handling of fluorinated greenhouse gases), the survey was completed which was carried out in accordance with the aforementioned regulatory provision.
During 2014, in compliance with the envisaged timeframes, statements will be issued setting out the quantity of emissions into the atmosphere of fluorinated gases which are in the air-conditioning equipment which services directly managed properties.
In relation to waste management, work continued on recovery/disposal with the suppliers and criteria in force, in compliance with the group's objectives, pending new information regarding the implementation of the SISTRI system.

Organisation of the Prevention and Protection Service

In line with the responsibilities established in Organisational Provisions no. 1 of 1 January 2013 and no. 11 of 31 May 2013, new managers were identified and appointed for the new central and local production units. Consequently the risk assessment documents were drawn up and formalised for each individual production unit. The merger of G6 Rete Gas into 2i Rete Gas as from 1 October made it necessary to draw up a new Risk Assessment Document which, in compliance with Legislative Decree no. 81, was made more streamlined and user-friendly. The new document was drawn up "on a certified date" in all the departments within the envisaged deadline of the end of December 2013. In relation to the above, new representatives of the employer were appointed and all operational staff were provided with individual protection devices, in line with the choices made as regards safety for the 2i Rete Gas Group.

8.13 Water sector

Management of the potable water service continued in the 13 municipalities where the Company is still present.
The investments made in the water sector in 2013 were in line with plans.

On 6 June 2013 the Company signed with the municipality of San Giovanni Teatino (province of Chieti) (around 4,100 end customers) an agreement to transfer the potable water distribution service and the sewerage service to the Pescara local authority (ATO), while on 6 December 2013 it signed with the municipality of Lonate Ceppino (province of Varese) (around 2,000 end customers) an agreement to end the potable water collection and distribution service in the municipality.
As from 1 January 2014 the management of these services is handled by AGESP S.p.A..

9. Human resources

2013 was a year characterised by extraordinary transactions undertaken to implement a new integrated organisational model, the launch of single Group processes and procedures, and the completion of the corporate integration process which ended with the merger of G6 Rete Gas into 2i Rete Gas S.p.A..

The implementation of the new organisational structure in 2013 was characterised by three fundamental stages: in January the new general management was set up; in June the first level of local organisation was implemented with the establishment and launch of the departments; in November the local structure underpinning the departments was activated, with the establishment of the areas.

The centralisation in the department for planning, monitoring, coordination and support processes, which is aimed at operational efficiency, entailed the need to move staff to the department office and also to create new professional positions.

The in-depth analysis and planning activities which this entailed highlighted the need and case for including 11 trainees in various company departments; the particular nature of the period allowed the trainees to look closely at the issues and acquire working methods that were, on the one hand, useful for their training and, on the other, for their professional development.

As for staff departures, the outflow was impacted by the transfer of the concession for 2 gas plants and 1 water plant due to its natural expiry, which led to the end of employment relationships with 10 people.
The outflow for other reasons (retirement, resignation, etc.) is to be considered normal, while, pending definition of the new Group policy for planning workforces and for establishing the instruments to manage employment levels, the payment of leaving incentives was deferred to the following years.

Below is the breakdown of staff at 31 December 2013 and related changes during the year:

	Executives	Middle Managers	Office Employees	Workers	Total
Personnel at 31 December 2012	**32**	**98**	**1,110**	**803**	**2,043**
Increase	4	3	40	0	**47**
Decrease	(2)	(2)	(28)	(16)	**(48)**
Change in category	0	1	0	(1)	**0**
Personnel at 31 December 2013	**34**	**100**	**1,122**	**786**	**2,042**

Average number of employees of the 2i Rete Gas Group

	2013
Executives	33
Middle Managers	99
Office Employees	1,119
Workers	794
Total	**2,046**

9.1 Relations with trade unions

During 2013, given the particular nature of the year, numerous meetings were held with unions on several issues:

- Renewal of the sector national collective labour agreement.
- Local reorganisation, effects and management of transfers to set up the departments.
- Local reorganisation, effects and management of transfers to set up and/or rearrange the areas.
- Analysis and comparison of the contractual treatment and provisions in the various parts of the Group in order to find solutions for the best possible harmonisation of the same.
- Analysis and definition of a new organisational model of operations (Palmtop project) characterised by the scheduling on the IT system of actions through use of a palmtop.
- Analysis and definition of solutions to optimise employment balance.
- Agreement on union consultation for the merger of G6 Rete Gas into 2i Rete Gas.

- Managerial training, change management, corporate information systems/process development projects; all to support completion of the integration project financed by Fondimpresa.
- Training projects linked to the key issues of safety, financed by Fondimpresa.

9.2 Selection

2013 was characterised by the selection and recruitment of 11 new high potential junior staff, largely using traineeships; new recruits were allocated both to departments and line functions, in order to allow continuity of operations in the new organisation.
Besides this group of trainees, further staff selection and recruitment took place, in particular for the Administration, Finance and Control divisions (mainly on temporary work contracts, in Milan and Verona) and the Purchases and Services divisions (with, in this case, also more senior staff who already have skills that can be immediately deployed independently in the new roles).

9.3 Training and development

In 2013 the Human Resources division was directly involved by taking part in an inter-departmental Working Group to design, manage and supply all the training to update employees of the former 2igas and G6 Rete Gas on the procedures and IT systems already used by the staff of 2i Rete Gas (called "Trilogy").
The training took place in various locations at the same time and the recipients were all the workers and technical staff of all the operating divisions of the two former companies: total participants numbered 825 people.
Within these training sessions time was also dedicated to information/training regarding the issue of corporate liability pursuant to Legislative Decree no. 231/01, which was run by the heads of department of 2i Rete Gas.
The whole organisation, both at the level of organisational departments and geographical areas, was then involved in numerous initiatives related to Occupational safety, including:
- completion of the project relating to Safe Driving;
- fire-prevention course (second session);
- basic first aid course (second session);
- ASPP (Protection and Prevention Service Personnel) course, both module A and B for 6 ERG employees;
- course for representatives of employers (for the Milan offices);
- training course for in-house trainers on safety.

Finally:

-training was designed and provided to pilot staff and subsequently to all local operators as regards the new “Mobile Light” technology and equipment;
- the design was completed of a managerial training course on cultural integration involving all the top levels of the Group as from March 2014.

10. Quality, Safety and Environment

In 2013 the number of “serious” injuries (i.e. more than a 30-day prognosis) remained at zero, while in terms of “non-serious” injuries (i.e. less than a 30-day prognosis) the result achieved in 2013 was a slight improvement on the previous year totalling 14 injuries, one less compared to the prior-year period.

The QSE department, in collaboration with the Protection and Prevention Service Managers (RSPP), in order to achieve the “zero injuries” target, is continuing with the internal check on occupational safety at local departments and checks are on-going on worksites run by contracting companies.

In September the activities linked to the “Safety walk” project came to an end. This aimed to increase the culture of safety in the company.
The activities undertaken at local units were supported, as necessary, by central and departmental divisions.

Trend in injuries in the 2i Rete Gas Group

11. Information systems

During 2013 the internal ICT department of the 2i Rete Gas Group was mainly involved in an important program, called “Trilogy Project”, aimed at completing the

process of integrating the information systems of 2iGas (merged into 2i Rete Gas in 2012) and G6 Rete Gas in the scope of the 2i Rete Gas Group.
In compliance with the deadlines set by the Trilogy project, in May and October 2013, the migration of accounting and operating data to the systems of the 2i Rete Gas Group was completed. This data came respectively from applications of 2iGas and G6 Rete Gas; by agreement the operating model was extended to the whole corporate scope.
The integration program principally involved, beyond the scope of applications, all infrastructure aspects; it was thus arranged to build interoperable networks, which enabled the connection of all the peripheral sites of 2iGas and G6 Rete Gas to the network of the 2i Rete Gas Group, at the same time as renewing the personal computer inventory. This enabled G6 Rete Gas to terminate the outsourcing contract for ICT infrastructure services, which were supplied by the Gdf Suez Group, two months ahead (31 October 2013) of its natural expiry planned for 31 December 2013.

At the same time as the integration project, the first stage was completed, called "Mobile Light", of a mobile application to support operating processes managed by local staff using smart phones connected to the centralised information system.
During the second half of 2013 there was a particular boost to the activities to support the Avogadro project which aims to test run remote gas metering in the municipality of Biella and provided for the implementation of IT infrastructure and applications to support processes to install and manage G4 and G6 smart meters.
The remaining activities relating to information systems, in keeping with previous years, also saw significant work both in order to incorporate and put into operation the regulatory adjustments issued by the Regulatory Authority for Electricity and Gas, and to optimise the processes being managed.
The adjustments made to guarantee support for and continuity of the application were backed by analyses and feasibility studies following the publication of new resolutions by the AEEG.

Finally, during the last quarter the technical and business negotiations were completed with Enel Servizi for early termination of the ICT services contract, with the acquisition of the licence for information system applications and design services to support the migration of applications, services and infrastructure from Enel Servizi to the 2i Rete Gas Group.
The migration project is part of a broader program aimed at bringing in-house the ICT service, which is currently supplied mainly through the ICT department of Enel Servizi, through the organisation of a dedicated department for independent management of the information system, covering all its applications and infrastructure.

12. Research and development

In the year no research was undertaken. Development, on the other hand, was directed at the adoption and implementation of new technologies aimed at improving the safety and reliability of plant.

13. Financial results

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

Millions of euro	31.12.2013	31.12.2012 restated	Change
Revenue	**846.3**	**848.0**	**(1.7)**
Transport and sale of methane gas and LPG	590.9	591.6	(0.7)
Connection fees and accessory rights	22.4	24.0	(1.6)
Other sales and services	23.2	19.7	3.5
Revenue from development of distribution infrastructure	116.4	133.0	(16.5)
Other revenue	93.3	79.6	13.7
Operating costs	**(463.6)**	**(480.8)**	**17.2**
Personnel expense	(111.3)	(110.2)	(1.0)
Raw materials and inventories	(32.0)	(31.4)	(0.6)
Services	(226.4)	(256.3)	29.9
Other costs	(76.3)	(64.4)	(11.9)
Allocations to provisions for risks and charges	(18.5)	(20.1)	1.6
Increase in non-current assets not subject to IFRIC 12	0.9	1.7	(0.8)
EBITDA	**382.6**	**367.2**	**15.5**
Amortisation, depreciation and impairment losses	**(144.2)**	**(150.8)**	**6.6**
Amortisation, depreciation and impairment losses	(144.2)	(150.8)	6.6
EBIT (Operating profit)	**238.5**	**216.4**	**22.1**
Net financial income (expense) and income (expense) from equity investments	(86.8)	(90.7)	3.8
Pre-tax profit	**151.6**	**125.7**	**25.9**
Income taxes	(72.4)	(58.4)	(13.9)
Profit (loss) from continuing operations	**79.2**	**67.3**	**12.0**
Profit (loss) from discontinued operations	**-**	**-**	**-**
Profit for the year	**79.2**	**67.3**	**12.0**

Revenue of 846.3 million euro fell by 1.7 million euro and were largely due to the revenue for the transport of natural gas of 590.9 million euro; the fall in this item, although not significant, was due to the effect of some adjustments to items from previous years. The total volume for the year was 5,868 million cubic metres (including natural gas and LPG).

Accounting based on the method required by IFRIC 12 implied the recognition of revenue for 116.4 million euro in the item “Revenue from development of distribution infrastructure”, thus recording a lower amount compared to the previous year (133.0 million euro), due to slowdowns in investments given the difficult economic situation which affected most of the year.
This revenue is completely offset by the costs incurred to build gas distribution networks and so do not contribute any additional profit.

The connection fees and accessory rights totalled 22.4 million euro, down by 1.6 million euro compared to the previous year (24.0 million euro). Also for this change the previous comment made on revenue from development of distribution infrastructure.

Revenue from other sales and services totalled 23.2 million euro and increased compared to the previous year by 3.5 million euro.
Other revenue totalled 93.3 million euro, and compared to the prior year rose by 13.7 million euro, largely due to the combined effect of:
- higher revenue for energy efficiency certificates confirmed in the year (for 10.0 million euro) in relation to achievement of the target for 2011 and 2012;
- higher prior year assets for around 2.0 million euro;
- higher revenue in regard to AEEG Resolution no. 120/08 (“Quality and tariff code for gas distribution and metering services ”) of 1.9 million euro;
- lower gains on sales of assets, also due to the relative inactivity in area tenders which have still not been activated, for around 3.4 million euro.

Operating costs, totalling 463.6 million euro, fell by 17.2 million euro, with a total impact on miscellaneous costs given by IFRIC 12 of 116.4 million euro for the current year (133.0 million in the previous year). Total operating costs, net of the effects connected to IFRIC 12, were therefore in line with the previous year, but it is clear that, taking into account the policy of purchasing energy efficiency certificates during the year, the other costs set out here, above all with reference to costs for services, fell significantly, also thanks to the first positive impact of the ongoing corporate restructuring.

Gross personnel expense totalled 111.3 million euro, up by 1 million euro compared to the previous year (+0.9%).

Costs for services fell by 29.9 million euro compared to those recorded in the previous year mainly due to bringing in-house some service contracts. It should be noted that this item is affected by the application of IFRIC 12.

Allocations to provisions for risks and charges totalled 18.5 million euro, down by 1.6 million euro compared to the previous year. This item is shown in the financial statements net of releases of the provision, which in 2013 totalled 4.8 million euro following the revised estimate of the risk in the purchase and cancellation of energy efficiency certificates following the new Resolution to recognise the tariff contribution.

EBITDA thus amounted to 382.6 million euro, significantly higher (by 15.5 million euro) than the 2012 figure (367.2 million euro).

Amortisation, depreciation and impairment losses totalled 144.2 million euro and mainly relate to the amortisation/depreciation of non-current assets. Compared to the previous year, this item fell mainly due to lower amortisation/depreciation owing to the handover of some concessions to another operator following tenders which the Group had not won.

EBIT totalled, therefore, 238.5 million euro while in 2012 it amounted to 216.4 million euro.

Net financial expense totalled 86.8 million euro, decreasing by 3.8 million euro as opposed to the previous year.
This item mainly includes interest expense accrued on loans, amortised cost relating to these loans and current account overdrafts totalling 88.4 million euro, and improved in the year thanks to the constant lowering of the short-term interest rate curves.

Pre-tax profit was 151.6 million euro and consequently up by 25.9 million euro due to the aforementioned impact of financial expense, lower amortisation/depreciation and better performance in the year.

Income taxes for the year totalled 72.4 million euro (58.4 million euro in 2012).

Profit for the year was, therefore, 79.2 million euro.

The financial position in 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 compliant with international practice.

Milions of euro	31.12.2013	31.12.2012 restated	Charge
	A	B	A-B
Non current assets	**2,388.5**	**2,381.5**	**7.1**
Property, plant and equipment	34.5	33.7	0.8
Intangible assets	2,682.1	2,701.1	(19.0)
Equity investments	3.3	3.1	0.2
Other non-current assets	6.5	6.9	(0.3)
Other non-current liabilities	(272.1)	(259.7)	(12.4)
Fair value of derivatives	(65.8)	(103.5)	37.7
Net working capital:	**97.9**	**62.1**	**35.7**
Inventories	6.3	7.7	(1.4)
Trade receivables from third parties and the Group	284.3	212.5	71.8
Net incame tax assets (liabilities)	(12.8)	4.8	(17.7)
Other current assets	137.0	133.4	3.7
Trade payables to third parties	(148.3)	(167.0)	18.7
Other current liabilities	(168.7)	(129.3)	(39.4)
Gross invested capital	**2,486.4**	**2,443.6**	**42.8**
Other provisions	**30.2**	**7.4**	22.9
Post-employment and other employee benefits	37.2	37.4	(0.2)
Provisions for risks and charges	61.6	31.1	30.5
Net deferred taxes	(68.5)	(61.1)	(7.4)
Net invested capital	**2,456.2**	**2,436.3**	**19.9**
Liabilities held for sale	**0.0**	**0.0**	**0.0**
Equity	**838.2**	**816.0**	**22.2**
Residual payable for IRS unwinding	**30.2**	**36.2**	**(6.0)**
Adjusted net financial debt	**1,587.8**	**1,584.1**	**3.8**

Net non-current assets, mainly consisting of intangible assets for gas distribution concessions, totalled 2,388.5 million euro, up by 7.1 million euro compared to 31 December 2012, as noted below.

The fall recorded in the item "Intangible assets" of 19.0 million euro was the net result of new investments of 132.7 million euro, in addition to negative reclassifications for 0.3 million euro, decreases, mainly due to gas distribution concessions, and impairment losses of 16.8 million euro, and amortisation in the year of 134.5 million euro.

The increase in the item "Property, plant and equipment" of 0.8 million euro was due to new investments (3.5 million euro), positive reclassifications for 0.3 million euro, and depreciation (3.1 million euro).

Equity investments rose by a total of 0.2 million euro in the year following the revision of equity measurement of the investee companies.

The decrease in "Other non-current assets" of 0.3 million euro was largely due to the net effect of the increase in guarantee deposits and to the decrease in the receivables for energy efficiency certificates.

The increase in "Other non-current liabilities" of 12.4 million euro was due to the higher non-current deferred income for connection fees, property subdivision, plant transfer and network extension contributions.

In 2012 the fair value loss on outstanding derivatives gross of the tax effect amounted to 103.5 million euro and in 2013 continued to be a loss at 65.8 million euro. The theoretical fair value of these derivatives depends on the weak recovery of the medium-long term curve in the Euribor rate during 2013.

Net working capital, amounting to 97.9 million euro, increased by around 35.7 million euro, compared to the prior year mainly due to:

- the increase in trade receivables due from customers of 71.8 million euro; during 2013 invoicing, nonetheless, maintained the same qualitative and timing standards achieved in the previous year;
- the decrease in net income tax assets of 17.7 million euro;
- the decrease in trade payables for 18.7 million euro in relation mainly to a reduction in costs for services;
- the increase in other current liabilities for 39.4 million euro, due to the allocation of entries related to the Compensation Fund for the Electric Sector (CCSE) in December 2013.

Therefore gross invested capital increased from 2,443.6 million euro in the previous year to 2,486.4 million euro, up by 42.8 million euro.

Other provisions, which totalled a positive 30.2 million euro, rose by 22.9 million euro, mainly due to the higher allocations made to the provisions for risks and charges for 30.5 million euro and to the increase in the item "Net deferred taxes" of 7.4 million euro.

Therefore net invested capital increased from 2,436.3 million euro in the previous year to 2,456.2 million euro, up by 19.9 million euro.

Equity increased from 816.0 million euro in 2012 to 838.2 million euro in 2013, due to the net impact of the following changes:

- decrease of 82 million euro following the payment of ordinary dividends;
- decrease in the negative hedging reserve, which, following the recognition of the positive change of fair value of derivatives, improved by 24.9 million euro;
- an increase of 79.2 million euro following recognition of the profit for 2013.

Adjusted net financial debt went from 1,584.1 million euro in 2012 to 1,587.8 million euro at 31 December 2013, while net financial debt, which also includes the fair value losses on derivatives and payable for unwinding of previous derivatives, decreased from 1,723.8 million euro in 2012 to 1,683.8 million euro in 2013.

The difference is largely due to the lower fair value losses on derivatives.

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

Millions of euro		**31.12.2013**	**31.12.2012 restated**	**Change**
Non current bank loans	24	(1,751.2)	(1,751.2)	0.0
Cash and cash equivalents with third parties	20	140.6	134.3	6.3
Current loan assets	18	5.7	0.0	5.7
Other current financial assets	19	0.0	0.0	0.0
Current bank loans and borrowings	30	0.0	(0.0)	0.0
Current portion of non current loans and borrowings	31	(2.1)	(2.0)	(0.1)
Transaction costs on loan (IAS 39)	31	2.1	2.0	0.1
Non-current financial assets	14	0.3	0.2	0.0
Non-current financial liabilities	28	0.0	0.0	0.0
Current financial liabilities	35	(0.4)	(0.2)	(0.2)
Transaction costs on loan (IAS 39)	24	26.4	44.1	(17.7)
Loan fees due	24	(9.2)	(11.3)	2.1
Adjusted net financial debt		**(1,587.8)**	**(1,584.1)**	**(3.8)**
Derivative assets	19			
Derivative liabilities	35	(65.8)	(103.5)	37.7
Residual liability for IRS unwinding, current portion	35	(6.2)	(6.0)	(0.1)
Residual liability for IRS unwinding, non current portion	28	(24.0)	(30.2)	6.2
Net financial debt		**(1,683.8)**	**(1,723.8)**	**40.0**

As for the Company’s cash generation, the cash flow for 2013 net of investments was 170.5 million euro.

14. Business risk management

The 2i Rete Gas Group operates in methane gas distribution in Italy. As part of business risk management the main risks managed by the 2i Rete Gas Group are as follows:

- *market risk,* arising from exposure to fluctuations in interest rates;
- *credit risk,* arising from the possibility of default by a counterparty;
- *liquidity risk,* arising from the lack of financial resources to meet current commitments;
- *operational risk,* arising from the possibility that there may occur accidents, malfunctions, and breakdowns which cause damage to people and the environment, with an impact on the financial position and results of operations.

As for the first three risks mentioned above, reference should be made to the disclosures in paragraph 6 of the notes to the financial statements.
As for operational risk, below are the main issues with which this is associated:

Risk arising from malfunction of plant: the management of a complex gas distribution network system entails a series of risks of malfunction and unexpected service interruptions for which the 2i Rete Gas Group is not responsible, such as those caused by accidents, breakdowns, malfunction of equipment or control systems, lower plant efficiency and extraordinary events such as explosions, fire, earthquake, landslides or other similar events which are beyond the control of the 2i Rete Gas Group. These events could also cause significant damage to people, objects or the environment. Any service interruptions and compensation obligations caused by these events could lead to a fall in revenue and/or an increase in costs. Since the 2i Rete Gas Group has agreed specific insurance contracts to cover some of these risks, it is not deemed probable that the related insurance cover might be insufficient to meet all the losses incurred, the compensation obligations or the additional costs.

Risks connected to regulation of the business sector in which the Company operates: the Company operates in a sector subject to regulation. The directives and the regulatory provisions issued in this area by the European Union and Italian Government as well as the decisions of the Regulatory Authority for Electricity and Gas may have a significant impact on operations and on the group's financial position and results of operations. Future changes in the regulatory policies adopted by the European Union or in Italy might have unexpected repercussions on the key regulatory framework and, as a consequence, on the Group's financial position and results of operations.
On the basis of the provisions in force, the tenders for the new awards of the gas distribution service will be no longer organised on the basis of an individual

municipality, but solely by local areas as determined by the Ministerial Decrees of 19 January 2011 and 18 October 2011.
With the gradual calling of the tenders, the 2i Rete Gas Group might therefore not be awarded one or more of the new concessions, or could be awarded them at less favourable conditions than the current ones, with possible negative impacts on the group's financial position, results of operations and cash flows, without prejudice, in the case there is no award and relating to the municipalities previously managed by the Group, to the receipt of the reimbursement value envisaged in favour of the outgoing operator.
Given the size of the aforementioned local areas – much bigger than those of the individual municipalities – it is nonetheless reasonable to believe that the 2i Rete Gas Group, considering the size of the Group and the financial resources it has available, may be able to maintain a number of customers which is at least similar to the current number.
Therefore, the uncertainty which is still inherent in a regulatory framework such as that described above has never been such as to create doubts about the ability of the Company to continue with its business on a going concern basis.

Risks deriving from the future trend in natural gas consumption: following the introduction of Law no. 159/08, as from 1 January 2009 the revenue of the 2i Rete Gas Group no longer depend on the gas volumes actually transported. This risk, therefore, no longer significantly affects the operating results of the 2i Rete Gas Group.

15. Outlook

During 2014, work will continue to improve operational efficiency and to contain costs. The forecast profit for 2014 will reflect regulatory measures, market trends, the economies of scale and cost efficiency which can be achieved given the size of the customer base.
In particular, for the 2i Rete Gas Group the action undertaken will aim to:

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

16. Reconciliation of equity and profit for the year

Reconciliation of equity and profit for the year shown in the financial statements at 31 December 2013 of 2i Rete Gas S.p.A. and the corresponding amounts in the consolidated financial statements are as follows:

Thousands of euro	Profit for the year recognised in profit or loss 2013	Equity at 31.12.2013	Profit for the year recognised in profit or loss 2012	Equity at 31.12.2012
Separate financial statements of 2i Rete Gas S.p.A.	78,902	829,866	46,710	798,035
Effects of subsidiaries' contribution to the consolidated accounts (difference between subsidiaries' equity as included in the reporting package and carrying amounts of the equity investments in subsidiaries)	432	(614)	17,603	(49,701)
Consolidation adjustments:				
Consolidation adjustments allocated to concessions	(932)	21,556	3,925	92,090
Consolidation adjustments allocated to goodwill		(2,502)	0	12,016
Consolidation adjustments allocated to other items	426	(1,796)	716	(2,396)
Measurement of equity investments at equity method	225	225	161	161
Deferred taxes	177	(8,551)	(1,855)	(34,201)
Consolidated financial statements of 2i Rete Gas S.p.A.	79,230	838,184	67,260	816,004
Non-controlling interests	**0**	**0**	**4**	**(7)**
Consolidated financial statements of 2i Rete Gas S.p.A. - owners of the Parent	**79,230**	**838,184**	**67,264**	**815,997**

The main effects recorded as “Consolidation adjustments” at 31 December 2013 derive largely from the consolidation of the equity investment in GP Gas, which entailed the recognition of higher amounts allocated to concessions and goodwill, as well as to the related tax impact, compared to the amounts previously recorded in the reporting package prepared for the purposes of the consolidation by GP Gas.

The change compared to the previous year in the effects of subsidiaries’ contribution to the consolidated accounts is due to the merger of G6 Rete Gas into 2i Rete Gas S.p.A..

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

Consolidated financial statements

Financial Statements

III. Income Statement

Thousands of euro	Notes	31.12.2013	31.12.2012 restated
Revenue			
Revenue from sales and services	5.a	636,507	635,371
Other revenue	5.b	93,310	79,632
Revenue from development of distribution infrastructure	5.c	116,436	132,960
Sub-total		**846,254**	**847,963**
Costs			
Raw materials and consumables	6.a	31,954	31,387
Services	6.b	226,424	256,344
Personnel expense	6.c	111,267	110,233
Amortisation, depreciation and impairment losses	6.d	144,189	150,825
Other operating costs	6.e	94,843	84,517
Internal work capitalised	6.f	(878)	(1,703)
Sub-total		**607,799**	**631,603**
Operating profit		**238,454**	**216,359**
Income (expense) from equity investments	7	242	176
Financial income	8	1,310	988
Financial expense	8	(88,393)	(91,817)
Sub-Total		**(86,840)**	**(90,653)**
Pre-tax income		**151,614**	**125,706**
			0
Income taxes	9	72,384	58,446
			0
Profit from continuing operations		**79,230**	**67,260**
Profit (loss) from discontinued operations	10	0	0
PROFIT FOR THE YEAR		**79,230**	**67,260**

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

Thousands of euro	31.12.2013	31.12.2012 restated
Profit for the year recognised in Income Statement	**79,230**	**67,260**
Other comprehensive income		
Items which will never be subsequently reclassified to profit or loss:		
Revaluations of net liabilities/assets for defined benefits	254	(4,130)
Deferred tax assets and liabilities on items which will never be classified to profit or loss	(86)	1,404
	167	(2,726)
Items which may be reclassified subsequently to profit loss:		
Change in fair value of hedging derivatives	37,722	(81,378)
Change in fair value of hedging derivatives reclassified to profit or loss		0
Deferred tax assets from change in fair value	(12,826)	28,115
Deferred tax assets from change in fair value of hedging derivatives reclassified to profit or loss		0
	24,897	(53,263)
Total other comprehensive income	**25,064**	**(55,989)**
Total comprenensive income for the year	**104,294**	**11,271**
Total comprehensive income attributable to:		
- Owners of the Parent	104,294	11,275
- Non-controlling interests	0	(4)

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V. Statement of Financial Position

Thousands of euro	Notes	31.12.2013	31.12.12 restated
ASSETS			
Non-current assets			
Property, plant and equipment	11	34,499	33,714
Intangible assets	12	2,682,107	2,701,073
Deferred tax assets	27	197,676	212,527
Equity investments	13	3,329	3,103
Non-current financial assets	14	253	224
Other non-current assets	15	6,535	6,855
	Total	**2,924,399**	**2,957,497**
Current assets			
Inventories	16	6,344	7,700
Trade receivables	17	284,323	212,536
Current loan assets	18	5,669	8
Other current financial assets	19	0	0
Cash and cash equivalents	20	140,554	134,284
Income tax assets	21	6,800	6,975
Other current assets	22	137,031	133,372
Non-current assets (or assets included in disposal groups) held for sale		0	0
	Total	**580,721**	**494,875**
TOTAL ASSETS		**3,505,120**	**3,452,372**

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Thousands of euro	Notes	31.12.2013	31.12.12 restated
EQUITY AND LIABILITIES			
Equity - Owners of the Parent	23		
Share capital		71,950	71,950
Treasury shares		(634)	(545)
Other reserves		679,101	665,726
Retained earnings		8,537	11,602
Profit for the year		79,230	67,264
Total equity - Owners of the Parent		**838,184**	**815,997**
Equity - non-controlling interests			
Non-controlling interests		0	11
Profit for the year - non-controlling interests		0	(4)
Total equity - non-controlling interests		**0**	**7**
TOTAL EQUITY		**838,184**	**816,004**
Non-current liabilities			
Non-current loans and borrowings	24	1,733,921	1,718,382
Post employment and other employee benefits	25	37,151	37,376
Provision for risks and charges	26	11,192	11,918
Deferred tax liabilities	27	129,156	151,413
Non-current financial liabilities	28	24,020	30,171
Other non-current liabilities	29	272,131	259,736
	Total	**2,207,572**	**2,208,995**
Current liabilities			
Current loans and borrowings	30	0	2
Current bank loans and borrowings	31	0	0
Current portion of non-current and current provisions	32	50,397	19,175
Trade payables	33	148,290	166,960
Income tax liabilities	34	19,621	2,137
Current financial liabilities	35	72,323	109,749
Other current liabilities	36	168,733	129,349
Liabilities held for sale	37	0	0
	Total	**459,364**	**427,373**
TOTAL LIABILITIES		**2,666,936**	**2,636,368**
TOTAL EQUITY AND LIABILITIES		**3,505,120**	**3,452,372**

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VI. Statement of Cash Flows

Thousands of euro		31.12.2013	31.12.2012 restated
A) TOTAL CASH AND CASH EQUIVALENTS	**20**	**134,284**	**61,121**
Cash flows from operating activities			
Pre-tax income		151,614	125,706
Income taxes	9	(72,384)	(58,446)
Profit from discontinued operations	10	-	-
1. Profit for the year		**79,230**	**67,260**
Adjustments for:			
Amortisation/Depreciation	6.d	137,631	148,156
Impairment losses/(Reversal of impairment losses)	6.d	6,558	2,669
Gains/(losses) on sales of assets	5.b/6.e	(1,203)	(3,188)
Allocations to provisions for risks and charges and post-employment benefits		42,539	25,311
Net financial income	7 and 8	86,840	90,653
2. Total adjustments		**272,366**	**263,601**
Change in net working capital			
Inventories	16	1,355	1,316
Trade receivables	17	(76,907)	(1,952)
Trade payables	33	(18,670)	(5,624)
Other current assets	22	(3,659)	7,451
Other current liabilities	36 and 37	39,384	2,372
Net tax assets/(liabilities)	21 and 34	17,659	(13,021)
Increase/(decrease) in provisions for risks and charges and post-employment benefits	25, 26 and 32	(12,267)	(3,906)
Increase/(decrease) in provisions for deferred tax assets and liabilities	27	(20,231)	(17,614)
Other non-current assets	15	320	3,163
Other non-current liabilities	29	12,394	26,551
Net financial expense other than for financing	7 and 8	(832)	(1,233)
3. Total change in net working capital		**(61,454)**	**(2,497)**
B) CASH FLOWS FROM OPERATING ACTIVITIES (1+2+3)		**290,142**	**328,364**
Cash flows from investing activities			
Net non-current assets		(119,684)	(124,815)
Financial non-current assets	7,8 and 13	17	29,274
C) CASH FLOWS USED IN INVESTING ACTIVITIES		**(119,667)**	**(95,541)**
D) FREE CASH FLOW (B+C)		**170,475**	**232,823**
Cash flows from financing activities			
Dividends		(82,018)	(33,990)
Change in reserves		160	(2,857)
Purchase of treasury shares		(89)	0
Change in the hedging reserve		24,897	(53,263)
Change in amortised cost	24 and 31	15,539	15,049
Fair value gains/(losses) on the hedging derivatives	19 and 35	(37,722)	81,378
Change in deferred taxes arising from the fair value gain/(loss) on of the hedging derivatives	27	12,826	(28,115)
Net financial expense for financing activities	7 and 8	(86,250)	(89,561)
Change in financial debt	24 and 30	(2)	(22,030)
Change in non-current financial liabilities	28	(6,150)	(6,039)
Change in other non-current financial assets	14	(30)	(125)
Change in other loan assets	18 and 19	(5,662)	(0)
Change in other loans and borrowings	35	296	(20,107)
E) CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		(164,205)	(159,660)
F) CASH FLOWS FOR THE YEAR (D+E)		**6,270**	**73,163**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE		**140,554**	**134,284**

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VII. Statement of Changes in Equity

Thousands of euro	Share capital	Treasury shares	Revaluation reserve	Legal reserve	Reserve for grants related to assets	Extraordinary reserve	Other reserves	Hedging reserve	Other IAS reserves	Retained earnings	Profit for the year	Total - Owners of the Parent	Total - Non-controlling interests	Total equity
	Share capital and reserves													
Total at 31 December 2011 restated	**54,139**	**(545)**	**409,145**	**20,248**	**99,697**	**0**	**258,172**	**(15,056)**	**287**	**9,758**	**2,998**	**838,843**	**11**	**838,854**
Allocation of profi for 2011:														
Allocation of profit							(11,175)			14,173	(2,998)	0		0
Profit for the year and payments to them as shareholders														
- Dividends										(12,192)		(12,192)		(12,192)
- Distribution of other reserves							(21,798)					(21,798)		(21,798)
- Shareholdering actions	0						5					6		6
- Share capital increase	17,810						(17,810)					0		0
Total profit for the year and payments to them as shareholders												*(33,985)*		*(33,985)*
-Contributions from change in scope of consolidation												0		0
Other changes										(137)		(137)		(137)
Profit for the year recognised in equity												0		0
Change in IAS reserves								(53,263)	(2,726)			(55,989)		(55,989)
Profit for the year recognised in profit or loss											67,264	67,264	(4)	67,260
Total 31 December 2012 restated	**71,950**	**(545)**	**409,145**	**20,248**	**99,697**	**0**	**207,394**	**(68,319)**	**(2,439)**	**11,602**	**67,264**	**815,997**	**7**	**816,004**
Allocation of profit for 2012:														
Allocation of profit							0			67,264	(67,264)	0		0
Profit for the year and payments to them as shareholders														
- Dividends										(46,706)		(46,706)		(46,706)
- Distribution of other reserves							(35,313)					(35,313)		(35,313)
- Distribution of extraordinary reserve												0		0
Total profit for the year and payments to them as shareholders												*(82,018)*		*(33,985)*
-Contributions from change in scope of consolidation												0		0
Other changes		(89)					23,624			(23,624)		(89)		(89)
Purchase of treasury shares in portfolio												0		0
Profit for the year recognised in equity								24,897	167			25,064		25,064
Change in IAS reserves												0	(7)	(7)
Profit for the year recognised in profit or loss											79,230	79,230	0	79,230
Total at 31 December 2013	**71,950**	**(634)**	**409,145**	**20,248**	**99,697**	**0**	**195,705**	**(43,423)**	**(2,272)**	**8,537**	**79,230**	**838,184**	**(0)**	**838,184**

2i Rete Gas S.p.A.
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VIII. Notes

1. Structure and contents of the consolidated financial statements

The 2i Rete Gas Group operates in the gas distribution sector. The Parent 2i Rete Gas S.p.A. has the legal form of a public limited company and is located in Milan, Via Paolo da Cannobio, 33. Pursuant to art. 3 of the Articles of Association, the parent's duration is envisaged up to 2050.

On 11 April 2014 the Parent's Directors approved the statutory and consolidated financial statements and agreed to make them available to shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code. The statutory financial statements will be submitted for approval to the shareholders' meeting on 12 May 2014 and will be filed within the deadlines set forth in art. 2435 of the Italian Civil Code.
The shareholders' meeting has the power to make changes to these financial statements. For the purposes of IAS 10.17, the date taken into consideration by Directors in preparing the financial statements is 11 April 2014, the date of approval by the Board of Directors.
These consolidated financial statements are audited by KPMG S.p.A..

2. Compliance with IFRS

The Consolidated financial statements as at and for the year ended 31 December 2013 have been prepared in compliance with (i) the International Accounting Standards (IAS) or the International Financial Reporting Standards (IFRS) issued by the International Accounting Board (IASB), as endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at the end of the year, (ii) the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as (iii) the interpretations of the Standing Interpretations Committee (SIC), effective at the same date. The aforementioned key standards and interpretations are hereafter collectively referred to as "IFRS-EU".

3. Basis of presentation

The consolidated financial statements consist of the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes.
The assets and liabilities reported in the Statement of Financial Position are classified on a "current/non-current basis" with separate reporting of assets and liabilities held for sale.

Current assets, which include cash and cash equivalents, are those intended to be realised, sold or used during the normal Group operating cycle or in the twelve months following the reporting period; current liabilities are those expected to be settled during the normal Group operating cycle or within the twelve months following the reporting period.
The Income Statement items are classified on the basis of the nature of costs, while the Statement of Cash Flows is presented using the indirect method.
The consolidated financial statements are presented in euro (the Company's functional currency) and the amounts shown in the notes are expressed in thousands of euro, unless otherwise stated.
The consolidated financial statements have been prepared using the historical cost method, except for those financial statement items which, in accordance with the IFRS-EU, are measured at fair value, as indicated in the accounting policies for the individual items.
These consolidated financial statements have been prepared on a going-concern basis, as set out more in detail in the Directors' Report.

4. Consolidation criteria

The consolidated financial statements are prepared applying the line-by-line method to the data of the Parent and of the investee companies over which the Parent holds control, directly or indirectly. Control exists when the Group is exposed to variable returns arising from its relationship with the company, or can exercise rights over such returns, and at the same time has the ability to influence these rights by exercising its power over the company itself. The financial statements of subsidiaries are included in the consolidated financial statements from the date the Parent starts to exercise control until the date when such control ends.
The Group accounts for business combinations by applying the acquisition method on the date on which it effectively obtains control of the purchased company. In this regard reference should be made to section 6.2 below.
In drawing up the consolidated financial statements, payables and receivables are eliminated, as well as expense and revenue and all significant transactions between the companies included in the scope of consolidation. Unrealised profits are also eliminated as well as gains and losses arising from transactions between Group companies.
Other non-controlling interests, which are measured at cost, are indicated in note 13.

5. Use of estimates

Preparing the financial statements under the IFRS-EU requires the use of estimates and assumptions which impact the carrying amounts of assets and liabilities and disclosure on contingent assets and liabilities at the reporting date, as well as on total revenue and expense in the reporting period. The estimates and the related assumptions are based on previous experience and other factors considered reasonable in the circumstances. They are adopted when the carrying amount of financial statement items cannot be easily deduced from other sources. The actual results might therefore differ from these estimates. The estimates and assumptions are periodically revised and the effect of each change is reflected in profit or loss, should that revision relate only to the year in question. Should the revision relate to both current and future years, the change is recorded in the year in which it is carried out and in the related future periods.

5.1 Revenue recognition

Revenue from gas transport are determined annually, as from 2009, on the basis of the new criterion introduced by Resolution no. 159/08 to establish the VRT (tariff revenue cap) which is allowed for each gas distribution company.

This figure for revenue is accounted for in the invoicing of gas transport to sales companies and, to complement the VRT amount, in the Compensation Fund equalisation element.

Since it is necessary to base the calculations for the VRT on a recognition of assets which is updated to two years previously, the company must also estimate a growth rate for its average active redelivery points to enable the updating of the figure for the year just ended.

Therefore the amount indicated also includes an estimated element, which is largely insignificant, connected to the increase in the average number of active redelivery points.

When the balance is calculated, the amount of the VRT annually communicated by the AEEG by means of a specific resolution may be subject to change depending on the actual average number of redelivery points served and invoiced.

5.2 Pensions and other post-employment benefits

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

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

These estimates can significantly differ from actual developments owing to changes in economic and market conditions, increases or decreases in withdrawal rates and the lifespan of participants, as well as changes in the actual cost of medical care. Such differences can have a substantial impact on the quantification of pension costs and other related expense.

5.3 Recoverability of non-current assets

The carrying amount of non-current assets and assets held for sale is reviewed periodically and wherever circumstances or events suggest that more frequent review is necessary.
Where the carrying amount of a group of non-current assets is considered to be impaired, it is written down to its recoverable amount, as estimated on the basis of the use of the assets and their future disposal, in accordance with the Company's most recent plans.
The estimates of such recoverable amounts are considered reasonable. Nevertheless, possible changes in the estimation factors on which the calculation of such recoverable amounts is based could generate different results.

5.4 Disputes

The 2i Rete Gas Group is involved in various legal disputes relating mainly to labour cases and litigation with some granting bodies.
Given the nature of these disputes, it is not always objectively possible to foresee the final outcome of these proceedings, some of which could end with a negative outcome.
Provisions have been set up to cover all the significant liabilities for cases where lawyers have noted a likely negative outcome and made a reasonable estimate of the amount of the loss.

5.5 Allowance for impairment of receivables

This allowance reflects the estimates of losses on the Company's receivables portfolio. Allocations have been made for forecast losses on receivables, estimated on the basis of past experience in reference to receivables with similar credit risk, to current and historic unpaid amounts, write-offs and receipts as well as careful monitoring of the quality of the receivables portfolio and the current and forecast state of the economy and key markets.
Although the allowance allocated is adequate, the use of different assumptions or a change in the economic circumstances could result in changes to the allowance for impairment of receivables and, therefore, have an impact on profit.
The estimates and the assumptions are periodically revised and the impact of each change is reflected in profit or loss in the relevant year.

6. Accounting policies

6.1 Change in accounting policies

As from 1 January 2013, the Group has adopted for the first time the accounting standards and amendments listed below, including consequent amendments to the other accounting standards.

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 13 Fair value measurement
- Amendments to IAS 1 Presentation of items of other comprehensive income
- IAS 19 (2011) Employee benefits
- Annual improvements to the IFRS (2009–2011 cycle).

In particular, as regards the presentation of items of other comprehensive income, due to the amendments to IAS 1, the Company has changed said presentation in its statement of comprehensive income in order to present separately the items which can be reclassified subsequently in the profit or loss for the year from those which will never be reclassified. The comparative information has consequently been reclassified.
The adoption of the amendment to IAS 1 has not had any impact on the Group's assets, liabilities and statement of comprehensive income.

The formal amendments and clarification made to the IFRS-EU by the "Annual Improvements to IFRS 2009 – 2011 Cycle" document have not led to any changes in the preparation of this consolidated financial statement.

Other amendments due to the introduction of the other accounting standards listed above are set out in the specific following sections.

6.2 Restatement of comparative figures

As mentioned above, the first application of IAS 19 (2011) Employee benefits and IFRS 11 Joint arrangements entailed the restatement of comparative data at 31 December 2012 which, except for as mentioned above, had no significant impact on these consolidated financial statements.
Below are the main equity changes between the restated balance at 31 December 2012 and that expressed in the financial statements approved at 31 December 2012:

- increase in equity investments for 0.3 million euro (0.4 million euro at 1 January 2012) due to the recognition, using the equity method, of the equity investment in the joint venture in CBL Distribuzione S.r.l.;
- increase in liabilities for "Post-employment and other employee benefits" for 3.1 million euro (1.1 million euro at 1 January 2012) due to the application of IAS 19 (2011) and the full recognition of actuarial gains/losses;
- increase in deferred tax assets by 1.1 million euro (0.4 million euro at 1 January 2012).

Due to the above, the restated consolidated equity at 31 December 2012 was 2 million euro less than in the consolidated financial statements approved at 31 December 2012 (0.7 million euro at 1 January 2012).

As regards the changes in the results between that restated at 31 December 2012 and that expressed in the consolidated financial statements approved at 31 December 2012, there were lower revenue for 0.6 million euro due to the consolidation of CBL Distribuzione S.r.l., which was previously consolidated on a proportionate basis and is now recognised using the equity method.

6.3 Equity investments in associates and jointly controlled companies

Equity investments in associates mean those in which the 2i Rete Gas Group has a significant influence over the financial and management policies. In assessing the existence of a situation of significant influence, account is also taken of potential voting rights that are actually exercisable or convertible.
Companies subject to joint control (joint ventures) are companies over whose financial and management policies the Group exercises control jointly with other entities under specific agreements.
Equity investments in associates and in joint ventures are initially recorded at cost and subsequently recorded using the equity method. The cost of the investment includes transaction costs. The consolidated financial statements include the share of profits or losses attributable to the owner of the parent in the investees accounted for using the equity method, until the date on which said considerable influence or joint control ends.

6.4 Business combinations

Business combinations subsequent to 1 January 2010 and involving companies or businesses are recognised using the purchase method. The purchase cost is allocated by recognising the assets, liabilities and contingent liabilities of the investee company at the related fair values. Any excess in the purchase cost over the fair value of the net assets acquired is accounted for as goodwill or, if a deficit, recognised in profit or loss. The carrying amount of any goodwill is subject to annual impairment testing in order to identify any impairment losses.

Should it be possible to determine the fair value of the assets, liabilities and contingent liabilities only provisionally, the business combination is recognised using these provisional amounts. Any adjustment arising from the completion of the measurement process is recognised within 12 months of the acquisition date.

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

Combinations of entities under common control

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

These transactions are not regulated by IFRS 3 or by other IFRS. In the absence of a relevant international accounting standard, in compliance with the principle of prudence which entails application of the criterion of continuity of carrying amounts for the net assets acquired, the Company has opted to record assets and liabilities from any combinations of entities under common control at the carrying amount which these assets and liabilities had in the financial statements of the seller/investee or in the consolidated financial statements of the common controlling entity. Where the transfer amounts are higher than the historic amounts, the surplus is eliminated by reducing the equity of the purchasing company.

6.5 Property, plant and equipment

In compliance with IFRIC 12, effective as from 1 January 2010, the Company analysed its outstanding concessions at 31 December 2010 and made changes to the accounting method for non-current assets.

The Company expected to apply IFRIC 12 only prospectively since it is not possible to make a retroactive measurement of existing infrastructure given the history and long-standing existence of the concessions; in fact the Company took over many of these concessions from other concessionaires, including through the takeover of companies and subsequent merger, thus making retrospective application potentially unreliable.

Since the Company is subject to demand risk, the correct accounting model to be applied is that of intangible assets: any infrastructure obtained under a concession are no longer recorded as property, plant and equipment, but classified under intangible assets.

Property, plant and equipment not relating to concessions are recognised at historical cost, including directly attributable ancillary costs necessary for the asset to be ready for the use for which it was acquired; subject to any legal or implicit obligations, the cost may be increased by the present value of the cost estimated for the dismantling and removal of the assets. The corresponding liability is recognised in liabilities under a specific provision for future risks and charges. Currently no liability is recorded in the statement of financial position linked to the dismantling and removal of assets, since there are no legal or implicit obligations which justify such recognition.
The purchase or production cost includes the financial expense relating to loans connected to the purchase of property, plant and equipment, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of assets are identifiable.
Some assets which are remeasured at the date of transition to the IFRS-EU or in previous periods have been recognised on the basis of the remeasured cost, considered as deemed cost.
Should significant parts of individual items of property, plant and equipment have different useful lives, the identified components are recognised and depreciated separately.
Subsequent costs are recognised as an increase in the carrying amount of the asset to which they refer when it is probable that future economic benefits deriving from the cost will flow to the Company and the cost of the item can be reliably determined. All other costs are recognised in profit or loss in the year in which they are incurred.
The cost of replacing part or all of an asset is recognised as an increase in the carrying amount of the asset to which it refers and is amortised over its useful life; the carrying amount of the replaced unit is recognised in profit or loss, with recognition of any loss.
Property, plant and equipment are reported net of accumulated depreciation and any impairment losses determined as set out below.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life – which is reviewed annually – and any changes are applied on a prospective basis. Depreciation begins when the asset is ready for use.
The cost includes the financial expense relating to the loans connected to the purchase of property, plant and equipment, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of assets are identifiable.

The estimated useful life of the main items of property, plant and equipment is as follows:

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

Land, both unbuilt and with industrial and non-industrial buildings, is not depreciated as it has an indefinite useful life, except for the land which is transferred for free at the end of the concession.
It should be recalled that, as specified above, following application of IFRIC 12, those assets which were previously considered as item of property, plant and equipment are now reclassified as intangible assets.

6.6 Intangible assets

As noted above, in compliance with IFRIC 12, effective as from 1 January 2010, the Company analysed its outstanding concessions at 31 December 2010 and made changes to the accounting method for non-current assets.

Since the Company is subject to demand risk, the correct accounting model to be applied is that of intangible assets: any owned infrastructure obtained under a concession agreement are no longer accounted for as property, plant and equipment, but classified as intangible assets.

Intangible assets are measured at purchase or internal production cost, when it is likely that the use of such assets will generate future economic benefits and the related cost can be reliably determined.
The cost includes any directly attributable ancillary costs necessary to make the assets ready for use. The cost includes the financial expense relating to the loans connected to the purchase of intangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of assets are identifiable.

Intangible assets, which have a finite useful life, are shown net of accumulated amortisation and any impairment losses, determined as follows.

Amortisation is calculated on a straight-line basis over the item's estimated useful life, which is reviewed at least annually; any changes in amortisation methods are applied on a prospective basis.
Amortisation begins when the intangible asset is ready for use.
The estimated useful life of the main intangible assets is as follows:

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

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

Intangible assets which have an indefinite useful life are not systematically amortised but are subject to an impairment test on an annual basis at least.

The item "Energy Efficiency Certificates", recorded under "Other intangible fixed assets", includes the costs incurred to acquire energy efficiency projects contributing to meet obligations for future years, as set out in the regulation on the distributor's obligations for energy efficiency grants. The amortisation of these assets occurs over a maximum of 5 years on the basis of achievement of the annual target.

As for concessions, the 2i Rete Gas Group holds the concession for the gas distribution service assigned by tender for a maximum period of 12 years by municipalities (municipalities, municipality groups and mountain communities). Through service agreements, the municipalities can regulate the terms and conditions for the distribution service, as well as the quality levels to be achieved. The concessions are allocated on the basis of the financial conditions, quality and safety standards, investment plans and the technical and managerial capabilities offered.
As was the case also in the previous Annual Report, it should be highlighted that a significant number of concessions obtained by the 2i Rete Gas Group for gas distribution were terminated on the basis of their natural expiry or by law at 31 December 2010.
It should be recalled that since the publication of Legislative Decree no. 93/11 on 29 June 2011 municipalities can no longer call new tenders except within the provisions included in the so-called "Decreto Ambiti" and "Decreto Criteri" issued in 2011. For

this reason, currently only the municipalities which had called tenders for the assignment of gas distribution concessions prior to publication of Legislative Decree no. 93/11 can proceed with the aforementioned tenders. In all the other cases, tenders are suspended until municipalities are ready to call them on an area basis. In the meantime the 2i Rete Gas Group is continuing with the management of the network in the same way as prior to the expiry.
Should the concession not be renewed, the new holder of the concession may be asked for compensation equal to the present value of the assets subject to the concession with a minimum valuation equal to the current RAB; alternatively, it may be envisaged that on the expiry date the distribution networks are transferred at no charge to the municipalities in their normal operating conditions.
These assets, which comprise the gas distribution networks, are recorded under "Concessions" and are depreciated over the useful life of the concession. In case of concessions expired at the reporting date and whose expiration date has been postponed, the residual value is reviewed taking into account the relevant expiration postponement.

6.7 Impairment losses

Property, plant and equipment and intangible assets are reviewed at least once a year to determine whether there is evidence of impairment. If such evidence exists, the recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with an indefinite useful life, if any, as well as that of intangible assets not yet available for use is estimated at least annually.
For an asset which does not generate fully independent cash flows, including goodwill, the recoverable amount is determined in relation to the cash generating unit (CGU) to which this asset belongs.
The recoverable amount is the higher of an asset's fair value, net of cost to sell, and its value in use.
In determining the value in use, the forecast cash flows are discounted using a discount rate gross of tax which reflects the cost of money and the Company's debt structure, which takes into account the investment period and the specific risks of the asset.
An impairment loss is recognised in profit or loss if the carrying amount of an asset or of the CGU to which it is allocated, is higher than its recoverable amount.
An impairment loss on a CGU is first charged against the carrying amount of any goodwill allocated to the CGU, then proportionally to reduce the other assets which make up the CGU.

Impairment losses are reversed if the impairment loss has been reduced or is no longer present or there has been a change in the assumptions used to determine the recoverable amount.
Impairment of goodwill can never be reversed in future years.

6.8 Inventories

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

6.9 Financial instruments

The initial recognition of non-derivative financial assets and liabilities takes place, for loans, receivables and debt securities issued at the moment when they come into being, while for all the other financial assets and liabilities it takes place on the trading date.
Financial assets are eliminated from the financial statements when: i) the contractual rights to receive financial flows have expired; ii) when the Group has maintained the right to receive financial flows from the asset, but has taken on the contractual obligation to pay them in full and immediately to a third party; or iii) when the Group has transferred the right to receive financial flows from the asset and has substantially transferred all the risks and benefits of ownership of the financial asset, or has transferred control over the financial asset.
Any residual involvement in the transferred asset which is originated or maintained by the Group is recorded as a separate asset or liability.
The Group derecognises financial liabilities when the obligation specified in the contract has been fulfilled or cancelled or has expired.

Financial assets at fair value through profit or loss
This category includes any debt securities held for trading or measured at fair value through profit or loss at the time of initial recognition and any equity investments in entities other than subsidiaries, associates and joint ventures (if classified as measured at "fair value through profit or loss").
Such assets are initially recognised at fair value. Attributable transaction costs are recognised in profit or loss when they are incurred. Fair value gains and losses are recognised in profit or loss.

Held-to-maturity financial assets

This category includes non-derivative financial instruments quoted in an active market that do not represent equity investments, which the Company can and intends to hold until maturity. They are initially recognised at fair value as measured at the trade date, including any transaction costs; subsequently, they are measured at amortised cost using the effective interest rate method, net of impairment losses.
Impairment losses are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate.

Loans and receivables

This category includes financial and trade receivables, including non-derivative debt securities, with fixed or determinable payments that are not quoted on an active market and that the Company does not originally intend to sell.
Such assets are initially recognised at fair value, adjusted for any transaction costs, and subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment losses. Such impairment losses are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted at the original effective interest rate.
Trade receivables falling due in line with generally accepted trade conditions are not discounted.
Receivables relating to energy efficiency certificates refer to contributions which will be awarded by the Compensation Fund for the Electric Sector for certificates held in the 2i Rete Gas Group's portfolio. Other current assets include receivables relating to the 2012 target, while other non-current assets include grants which the Compensation Fund for the Electric sector will provide to the Company for the cancellation of the certificates relating to current and future years.
The related contributions, if they refer only to the targets for the year, are recorded under “Other revenue”, otherwise they are accrued and contribute to determine the profit or loss for the year in relation to achievement of annual targets.

Available-for-sale financial assets

This category includes debt securities, equity investments in other entities (if classified as “available for sale”) and financial assets that cannot be classified in other categories. Such assets are initially recognised at fair value, increased by any transaction costs. After initial recognition, these instruments are recorded at fair value against items of other comprehensive income.
At the time of sale, retained earnings and accumulated losses are reclassified from other comprehensive income to profit or loss.
Where there is objective evidence that such assets have suffered an impairment loss, the accumulated loss is recognised in profit or loss.
Such impairment losses, which cannot be subsequently reversed, are calculated as the difference between the carrying amount of the asset and the present value of

expected future cash flows discounted at the market interest rate for similar financial assets.
When the fair value cannot be reliably determined, these assets are recognised at cost adjusted for any impairment losses.

Cash and cash equivalents

This category is used to record cash and cash equivalents that are available on demand or at very short term, clear successfully and do not incur collection costs.
For the statement of cash flows, cash and cash equivalents comprise bank and post deposits and cash in hand.

Trade payables

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

Financial liabilities

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

Derivatives

Derivatives are recognised at fair value and are designated as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge is high (based on a periodical assessment).
Recognition of fair value gains and losses depends on the type of hedge accounting adopted.
When the derivatives are used to hedge the risk of changes in the fair value of hedged assets or liabilities (fair value hedge), any fair value gains or losses on the hedging instrument are recognised in profit or loss; likewise, adjustments to the fair values of the hedged assets or liabilities are also recognised in profit or loss.
When the derivatives are used to hedge the risk of changes in cash flows of hedged items (cash flow hedge), the changes in the fair value that are considered effective are recognised in other comprehensive income, and presented in a specific reserve in equity, and subsequently reclassified to profit or loss in line with the economic effects produced by the hedged transaction.
The ineffective portion of the fair value of the hedging instrument is directly recognised in profit or loss.
Changes in the fair value of derivatives that no longer qualify for hedge accounting under IFRS-EU are recognised in profit or loss.
Such instruments are recognised at the trade date.

Financial and non-financial contracts (where they have not already been measured at fair value) are assessed to determine whether they contain any embedded derivatives that need to be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that significantly changes the original associated cash flows.
Fair value is determined using the official prices for instruments traded on regulated markets. For instruments not traded on regulated markets fair value is determined by discounting expected cash flows on the basis of the market interest rate curve at the reporting date and translating amounts in currencies other than the euro at year-end exchange rates.

6.10 Employee benefits

Liabilities related to employee benefits paid upon or after leaving employment in connection with defined benefit plans or other long-term benefits granted during the employment period are determined separately for each plan, using actuarial assumptions to estimate the amount of the future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period of the related rights. These appraisals are performed by independent actuaries. Following adoption of IAS 19 (2011), the actuarial gains/losses which emerge following this measurement are immediately recorded in other comprehensive income.
Where the Company shows a demonstrable commitment, with a formal plan without realistic possibility of withdrawal, to a termination before retirement eligibility has been reached, the benefits due to employees in respect of the termination are recognised as a cost and measured on the basis of the number of employees that are expected to accept the offer.

6.11 Provisions for risks and charges

Allocations to provisions for risks and charges are recognised when at the reporting date there is a legal or implicit obligation towards third parties, as a result of a past event, the settlement of which is expected to result in an outflow of resources whose amount can be reliably estimated. Where the effect is significant, allocations are determined by discounting expected future cash flows using a pre-tax discount rate that reflects the current market value of the time value of money and, if applicable, the specific risks of the obligation. If the amount is discounted, the periodic adjustment of the present value due to the time value of money is recognised as a financial expense in profit or loss.
If the liability is connected to the dismantling and/or repair of property, plant and equipment, the provision is recognised against the asset to which it refers and the

charge is recognised in profit or loss by depreciating the asset to which the charge refers.
Currently no liability is recorded in the statement of financial position linked to the dismantling and removal of assets, since there are no legal or implicit obligations which justify such recognition.
Changes in estimates are recognised in profit or loss in the year in which the changes occur, except for those relating to the costs envisaged for dismantling, removal and restoration which arise from changes in the timeframes and uses of the economic resources needed to fulfil the obligation or which arise from a change in the discount rate. These changes are used to increase or decrease the related assets and are recognised in profit or loss through amortisation/depreciation. If they are used to increase the amount of the asset, an assessment is also made as to whether the new carrying amount of the asset may not be fully recovered; in this case an impairment loss on the asset is confirmed and the non-recoverable amount is estimated. The loss deriving from this impairment loss is recognised in profit or loss.
If the changes in estimates reduce the amounts of the asset, this decrease is recorded against the asset up to the amount of its carrying amount; the excess is immediately recognised in profit or loss.

6.12 Grants

Grants or contributions, whether they are from public entities or third parties operating in the private sector, are recognised at fair value when it is reasonably certain that they will be received and that the conditions for their recognition will be met.
Grants received for specific expenditures are systematically recognised among other liabilities in profit or loss over the period in which the related costs are incurred.
Government grants (grants related to assets) received for specific assets recognised under property, plant and equipment and intangible assets are recognised under other liabilities in profit or loss over the amortisation/depreciation period of the assets they refer to.
Private contributions (connection fees, including property subdivision contributions) are recorded under a specific liability item in the statement of financial position and recognised in profit or loss in relation to the amortisation/depreciation period of the assets they refer to.
However, in consideration of the fact that the aforementioned contribution also contributes to the operating costs relating to the realisation of the investment, it should be noted that the revenue percentage for contributions collected from customers to be allocated for the coverage of the aforementioned structural costs supplemental to the investment is fully recognised in profit or loss in the period in which the investment is made.

6.13 Revenue

Revenue is recognised using the following criteria depending on the type of transaction:
- revenue from sales is recognised when the significant risks and rewards of ownership of the assets sold are transferred to the buyer and its amount can be reliably determined and collected;
- revenue from gas transport refer to the quantities distributed for the period, even if not invoiced; it is determined by adding appropriately calculated estimates to the amounts recorded using pre-set metering schedules. This revenue is based, where applicable, on the tariffs and the related restrictions envisaged by legal provisions and by the provisions of the Regulatory Authority for Electricity and Gas which are in force during the reporting period; in addition, the introduction of the new formula for the recognition of revenue, which was applied in 2009 and came into force under Resolution ARG/gas 159/08 of 6 November 2008, led to the introduction of an equalisation mechanism which enables the relevant distribution companies' revenue to be calculated on the basis of the average number of redelivery points which are actually served and invoiced, regardless of the volumes distributed;
- revenue from the rendering of services is recognised in line with the stage of completion of the services. Should it not be possible to reliably determine the amount of revenue, it is recognised up to the amount of the costs incurred expected to be recovered.

6.14 Financial income and expense

Financial income and expense are recognised on an accruals basis in line with interest accrued on carrying amount of the related financial assets and liabilities using the effective interest rate method and including fair value gains and losses on financial instruments at fair value through profit or loss and fair value gains and losses on derivatives related to financial transactions.

6.15 Dividends

Dividends from equity investments are recognised when the right of the shareholders to receive the dividend payment is established.
The dividends payable to third parties are recognised as a change in equity on the date on which they are approved by the shareholders’ meeting.

6.16 Income taxes

Current income taxes for the year, recognised as "income tax liabilities" net of advances paid or as "income tax assets" if the net balance is positive, are determined on the basis of the estimate of the taxable income and in accordance with the current tax regulations.
Deferred tax liabilities and assets are calculated based on the temporary differences between the carrying amounts recorded in the financial statements and their corresponding amount recognised for tax purposes by applying the tax rates effective on the date the temporary difference will be settled, based on the tax rates that are in force or essentially in force at the end of the reporting period.
Deferred tax assets are recognised when recovery is likely, i.e. when sufficient future taxable income is expected to be available to recover the assets.
Recoverability of deferred tax assets is re-examined at each reporting date.
Taxes relating to components that are directly recognised in equity are also recognised in equity.

6.17 Discontinued operations and non-current assets held for sale

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

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

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

6.18 Recently issued accounting standards

Standards which have yet to be adopted and applied

During 2013 the European Union endorsed various new standards or interpretations, the application of which shall be mandatory for annual periods subsequent to 31 December 2013. The standards or interpretations which could have impacts for the Company are set out below.

By means of Regulation no. 1254/2012, on 29 December 2012 the European Commission endorsed the "Amendments to IAS 32 – Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities". In summary, the amendments to IAS 32 provide clarification on the criteria which must be satisfied in order to offset financial assets and liabilities. Amendments to IAS 32 are effective, respectively, as from the years beginning on 1 January 2014.

On 29 May 2013, the IASB published the amendment to IAS 36 "Recoverable amount disclosures for non-financial assets", which introduces amendments to the additional disclosure obligations regarding the recoverable amount of assets or cash generating units (CGU), applicable in the case of recognition of impairment losses.

In June 2013, the IASB published the amendment to IAS 39 "Novation of derivatives and continuation of hedge accounting", adding an exception to the pre-existing provisions regarding the ending of hedge accounting, in situations where a derivative designed as a hedging instrument is subject to novation by an original counterparty to a central counterparty, in consequence of the existence or introduction of laws or regulations, so that the hedge accounting may continue, regardless of the novation.

It is held that the adoption of these amendments will not entail significant effects on the Company's financial statements.
The International Accounting Standard Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) published new standards and interpretations which, at 31 December 2013, had still not been endorsed by the European Commission. The main ones are set out below.

In December 2013, the IASB approved the amendments to IAS 19 (2011) clarifying that the contributions to the defined benefit plans for employees and for third parties which are connected to a service rendered must be attributed to the periods in which the service is rendered. It is held that the adoption of these amendments will not entail significant effects on the Company's financial statements.

Again in December 2013, the IASB issued the document "Annual Improvements to IFRS – 2010-2012 cycle" and "Annual Improvements to IFRIS 2011-2013 cycle" which include basically technical and formal amendments to the international accounting standards.

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

7. Risk management

As stated in the Directors' Report, in the section concerning company risk, below are described the main financial risks that are typical of the sector in which the 2i Rete Gas Group operates.

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, due to 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.

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

The notional amount of a derivative is the contractual amount on the basis of which differentials are exchanged. This amount can be expressed as a value or a quantity (for example tons, converted into euro by multiplying the notional amount by the agreed price). Any amounts denominated in currencies other than the euro are converted into euro at the exchange rate prevailing at the reporting date.
The notional amounts of derivatives reported below do not represent amounts exchanged between the parties and therefore they do not represent the Company's

credit risk exposure. As for the risk of a change in interest rates, it should be noted that the Company pursues the objective of minimising interest rate risk.
Some of the 2i Rete Gas Group loans include interest rates which are index-linked to the benchmark (EURIBOR). In order to limit the risk connected to interest rate volatility, the 2i Rete Gas Group uses Interest Rate Swaps to offset fixed-rate and floating-rate debt.
The Group does not hold derivatives for trading purposes, nor does it hold derivatives for speculative purposes.

Credit risk

The 2i Rete Gas Group provides its distribution services to more than 150 sales companies, the most important of which is Enel Energia S.p.A..
No significant cases of non-compliance by the counterparties were found in 2013.
The rules for the access of users to the gas distribution service are governed by the Network Code, which, in compliance with the provisions of the Regulatory Authority for Electricity and Gas, regulates the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.
For the gas distribution through credit lines to external counterparties, the selection of the latter is carefully monitored through assessment of the credit risk associated with them and the requirement for appropriate guarantees and/or guarantee deposits aimed at ensuring an adequate level of protection from the risk of counterparty default.

The credit risk is therefore moderate.

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

At 31 December 2013, the Group’s maximum exposure to credit risk amounted to 587.0 million euro (500.9 million euro at 31 December 2012):

Millions of euro	31.12.2013	31.12.2012 restated
Third parties:		
Non-current financial assets	0.3	0.2
Other non-current assets	6.5	6.9
Trade receivables	301.5	225.0
Other current financial assets	0.0	0.0
Cash and cash equivalents	140.6	134.3
Other current assets	138.1	134.5
Total	**587.0**	**500.9**

Amounts due from the Compensation Fund for Energy Efficiency Certificates under the "Other receivables" item, which will become due after 2013, are measured at the repayment amount set by the Authority for 2013, it being difficult to apply the algorithm provided by the Authority for the years after 2013 as it includes parameters that are not yet known or cannot be forecasted for future years.
Nonetheless, the credit risk relating to a change in the estimate of these receivables is limited.

Liquidity risk

The 2i Rete Gas Group is able, based on the current financial structure and the cash flows expected and set forth in the business plans, to autonomously provide for the financial needs of its ordinary operations and to ensure business continuity.
The credit lines granted in September 2011 to the Company by a pool of 12 leading banks have been backed by further short-term credit lines in order to improve the Company's flexibility in daily management of working capital.
For the purposes of correct statement of liquidity risk as required by IFRS 7, the features of Company debt are set out below.

The contractual maturities of the financial liabilities at 31 December 2013 are set forth below:

Financial liabilities			
Millions of euro	**Within one year**	**Between 2 and 5 years**	**After 5 years**
Financial liabilities at 31 December 2013			
Non-current loans	0.0	1,751.2	0.0
Current loans	0.0	0.0	0.0
Other non-current financial liabilities	0.0	24.0	0.0
Other current financial liabilities	6.5	0.0	0.0
Current financial liabilities	0.0	0.0	0.0
Total	**6.5**	**1,775.2**	**0.0**

For comparative purposes, the contractual maturities of the financial liabilities at 31 December 2012 are set forth below:

Financial liabilities			
Millions of euro	**Within one year**	**Between 2 and 5 years**	**After 5 years**
Financial liabilities at 31 December 2012			
Non-current loans	0.0	0.0	1,751.2
Current loans	0.0	0.0	0.0
Other non-current financial liabilities	0.0	25.3	4.9
Other current financial liabilities	6.2	0.0	0.0
Current financial liabilities	0.0	0.0	0.0
Total	**6.2**	**25.3**	**1,756.1**

Forecasting of liquidity requirements is carried out on the basis of expected cash flows from ordinary operations.
Since September 2011 the Group has had available a loan granted for a total of 2,113 million euro issued by a pool of 12 leading European banks.
At the time of the acquisition of the 2iGas chain and the G6 Rete Gas Group on 3 October 2011, the overall total amount used to finance the Group's existing debt and for the acquisition itself was 1,773.2 million euro.
In addition to this, a credit line was also established for a total of 300 million euro to finance investments on the grid for future years (unused at 31 December 2013), and a revolving credit line of 40 million euro for management of working capital (unused at 31 December 2013).
It should be noted that this loan is subject to a half-yearly check on some financial parameters at consolidated level. At 31 December 2013 these parameters were fully complied with.

The non-current debt of 1,751.2 million euro therefore refers to the aforementioned loan signed by the 2i Rete Gas Group, which expires in the 84th month from its start date, i.e. 26 September 2018. The Company development plan, at the end of this

period, requires a new loan, but currently, given the Company's excellent performance and its continued ability to meet the financial parameters set by the lending banks, no problems should arise.
The Group constantly monitors the possibilities of optimising its financial structure.
For an in-depth analysis of the features of the non-current loans, see note 24.

Interest rate risk

The management of interest rate risk aims to achieve a balanced debt structure, decreasing the financial debt that is subject to changes in interest rates while minimising the cost of loans, thereby limiting the volatility of the results. To this end, derivative contracts, and interest rates swaps in particular, are used.

Interest rate swaps are used to reduce the amount of debt exposed to changes in interest rates and to reduce the volatility of borrowing costs. In an interest rate swap, the 2i Rete Gas Group enters into an agreement with a counterparty to exchange at specified intervals floating-rate interest flows for fixed-rate interest flows (as agreed between the parties), both of which are calculated on the basis of a notional principal amount.

For the purposes of correct statement of interest rate risk as required by IFRS 7, the features of the Company's outstanding contracts are set out below.

The Company has one outstanding interest rate swap (with a 7-year maturity) with 11 leading banks, which include some of those which also granted the financing for a total of 2,113 million euro upon conclusion of the contract of sale for G6 Rete Gas. The derivative contracts signed allow to hedge 75% of the exposure to changes in interest rates on the existing loan.

The following table shows the derivatives by maturity.

Thousands of euro	Notional amount		1 year	Between 2 and 5 years	After 5 years
	at 31.12.2013	**at 31.12.2012**			
Cash flow hedges					
Interest Rate Swaps	1,329,900	1,329,900	0	1,329,900	0
Total interest rate swaps	1,329,900	1,329,900	0	1,329,900	0

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

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

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

Accordingly, the fair value of the financial derivatives generally reflects the estimated amount that the Company would have to pay or receive in order to settle the contracts at the reporting period date.
The following table provides, at 31 December 2013, the notional and fair value of the interest rate swaps with a comparison to 31 December 2012. The amount is shown net of loan fees which are paid on a quarterly basis as part of the cash flows on the derivative.

Thousands of euro	Notional amount		Fair value		Asset fair value		Liability fair value	
	at 31.12.2013	at 31.12.2012	at 31.12.2013	at 31.12.2012	at 31.12.2013	at 31.12.2012	at 31.12.2013	at 31.12.2012
Cash flow hedges								
Interest Rate Swaps	1,329,900	1,329,900	(65,792)	(103,514)	0	0	65,792	103,514
Total interest rate swaps	1,329,900	1,329,900	(65,792)	(103,514)	0	0	65,792	103,514

The cash flows from these outstanding derivatives are expected every calendar quarter for the entire duration of the contracts in existence until 2018, the maturity date of the outstanding IRSs, with effects recognised in profit or loss in each quarter.

The table below shows the undiscounted cash flows expected in future years based on the implicit interest rate curve as published by Telerate at 31 December 2013.

Thousands of euro	Notional amount		Estimated cash flow (*)				
			2014	2015	2016	2017	2018
	at 31.12.2013	at 31.12.2012					
Cash flow hedges							
Interest Rate Swaps 7y	1,329,900	1,329,900	(24,028)	(21,112)	(13,802)	(7,547)	(306)
Total	1,329,900	1,329,900	(24,028)	(21,112)	(13,802)	(7,547)	(306)

(*) Based on the curve for implicit 3-month EUR rates at 31 December 2013

In the event of an increase or decrease by 0.10% (10 basis points) in the interest rate curve, the impact on future flows from the aforementioned IRS would be as follows:

Thousands of euro	Notional amount at 31.12.2013	Notional amount at 31.12.2012	Estimated cash flows in the event of +/- 0.10% (*) 2014	2015	2016	2017	2018
Cash flow derivatives							
Rate increase +0.10%	1,329,900	1,329,000	(22,680)	(19,764)	(12,454)	(6,202)	695
Current position	1,329,900	1,329,000	(24,028)	(21,112)	(13,802)	(7,547)	(306)
Rate decrease -0.10%	1,329,900	1,329,000	(25,376)	(22,460)	(15,151)	(8,891)	(1,307)

(*) Based on the curve for implicit 3-month EUR rates at 31 December 2013

The main risk element is connected to the total floating-rate debt which is not hedged against interest rate risk, due to the impact which might be recognised in profit or loss subsequent to an increase in market rates.

Below is an estimate of the impact of contractual interest expense relating to the floating-rate non-current loan:

Thousands of euro	Notional amount at 31.12.2013	Notional amount at 31.12.2012	Estimated cash flows (*) 2014	2015	2016	2017	2018
Non current financial liabilities							
Financing - Main credit line	1,751,187	1,751,187	43,224	51,939	66,889	85,486	75,420
Total	1,751,187	1,751,187	43,224	51,939	66,889	85,486	75,420

(*) Based on the curve for implicit 3-month EUR rates at 31 December 2013

At 31 December 2013 24% of the non-current debt was not covered by the aforementioned interest rate swaps; the Company is therefore subject to the risk of interest rate rises only for this part of cash flows.

In the event of an increase or decrease by 0.10% (10 basis points) in the interest rate curve, the effect on the total loan would be as follows:

Thousands of euro	Notional amount at 31.12.2013	Notional amount at 31.12.2012	Estimated cash flows in the event of a shock +/- 0,10% (*) 2014	2015	2016	2017	2018
Rate increase +0.10%							
Financing - Main credit line	1,751,187	1,751,187	44,971	53,690	68,640	87,232	76,720
Change in interest rate			(1,746)	(1,751)	(1,751)	(1,746)	(1,300)
Rate decrease -0.10%							
Financing - Main credit line	1,751,187	1,751,187	41,478	50,187	65,138	83,739	74,120
Change in interest rate			1,746	1,751	1,751	1,746	1,300

(*) Based on the curve for implicit 3-month EUR rates at 31 December 2013

In accordance with the provisions of IFRS 7, below is a table summarising the financial assets and liabilities with an indication of the carrying amount and the related fair value. The Company does not hold any financial assets which are held to maturity, are available for sale, or held for trading.

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

For the purposes of comparison, the same table is provided for 2012:

Thousands of euro	Notes	Fair Value gains or losses on hedging derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
					-	
Financial assets not measured at fair value						
Non-current financial assets	14		224		224	224
Other non-current assets	15		6,544		6,544	6,544
Trade receivables	17		212,536		212,536	212,536
Current loan assets	18		8		8	8
Other current financial assets	19		0		0	0
Cash and cash equivalents	20		134,284		134,284	134,284
Other current assets	22		131,584		131,584	131,584
TOTAL ASSETS		**-**	**485,180**	**-**	**485,180**	**485,180**
Financial liabilities measured at fair value						
Hedging derivatives	35	103,514			103,514	103,514
Financial liabilities not measured at fair value						
Non-current loan	24-31			1,718,382	1,718,382	1,795,607
Financial liabilities for Unwinding IRS	28-35			36,210	36,210	37,526
Other non-current liabilities	29			555	555	555
Current loan and borrowings	30			2	2	2
Trade payables	33			166,960	166,960	166,960
Current financial liabilities	35			195	195	195
Other current liabilities	36			119,538	119,538	119,538
TOTAL LIABILITIES		**103,514**	**-**	**2,041,843**	**2,145,358**	**2,223,899**

In reference to the financial assets which are not measured at fair value, as well as trade payables and other current liabilities, the carrying amount is considered a reasonable approximation of the fair value, as shown in the tables above.

Cash flow hedges and non-current loans and borrowings, whose fair value is shown above, can both be classified as “level 2” fair value (measurement made on the basis of directly or indirectly observable market data).

In order to determine the fair value of cash flow hedges and non-current loans and borrowings, the Group has used the discounted cash flow method, using market parameters at the reporting date.

IX. Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.
Segment reporting pursuant to the requirements of IFRS 8 (Segment Reporting) was not provided due to the uniqueness of the business.

5.a Revenue from sales and services – 636,507 thousand euro

The "Revenue from sales and services" item which amounted to 636,507 thousand euro mainly refers to the gas transport activity and the connection fees.

“Revenue from sales and services” is broken down as follows:

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Sales and services			
Third parties:			
Gas and LPG transport	609,569	591,643	17,926
Provision for risks	(18,671)		(18,671)
Connection fees	14,914	16,265	(1,352)
Accessory rights	7,449	7,715	(266)
Revenue from the sale of water	4,145	6,646	(2,501)
Accessory services – water sector	868	1,815	(947)
Revenue from customer operations	333	268	65
Revenue from sewerage/purification	1,123	1,009	115
Other revenue and other sales and services	16,777	10,009	6,768
Total revenue from sales and services	**636,507**	**635,371**	**1,136**

Revenue from gas transport totalled 609,569 thousand euro and mainly refers to the 2013 tariff revenue cap for natural gas and LPG, together with revenue from contingent assets related to previous years.
This figure was calculated taking into account the uncertainty relating to equalisation adjustments for the fourth regulatory period, which are still ongoing. To this end the Company has decided to allocate a provision for risks determined on the basis of calculations made using the formula for revenue recognition under Resolution ARG/gas

159/08 and which highlights discrepancies compared to what has been communicated by the CCSE.
Revenue from gas transport are essentially in line with the previous year, once account is taken of the aforementioned provision for risks.

Connection fees, totalling 14,914 thousand euro, fell by 1,352 thousand euro compared to those recorded in the previous year; the cause is the further slowdown in the economy which impacted on most of the year, thus causing slowdowns in investments.

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

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

The analysis undertaken enabled the separation of the percentage of revenue for fees received from customers to be used to cover overhead costs which are accessory to the investment activity (around 26.8%), and therefore not to be deferred, from that to be attributed to capitalised costs which are therefore to be deferred on the basis of the length of the amortisation period of the asset.

The revenue relating to the sale of water decreased compared to the previous year by around 2,051 thousand euro, mainly due to expiry and reassignment, in September 2012, of the largest water concession held by the Group (the concession related to the municipality of Massa).

In “Other revenue and other sales and services” the positive change of 6,768 thousand euro was almost entirely due to the combined effect of a decrease in the revenue linked to work to suspend and reactivate customers in arrears at the request of the sales companies, and of an increase in invoicing referred to the recovery of higher charges for concession fees.

5.b Other revenue – 93,310 thousand euro

“Other revenue” totalled 93,310 thousand euro (79,632 thousand euro in 2012), increasing by 13,678 thousand euro and is broken down as follows:

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Other revenue			
Third parties:			
Energy efficiency certificates	64,140	54,111	10,029
Grant related to assets	3,403	2,924	479
Connection fees, property subdivision	0	0	0
Contingent assets	3,000	1,025	1,975
Revenue from Resolution 120	9,261	7,393	1,868
Rental income	820	315	505
Gains on sales of assets	4,729	8,083	(3,354)
Compensation for damages	339	112	227
Seconded personnel	416	1	415
Other revenue and income and services	7,178	5,665	1,513
Other revenue from the water business	24	3	21
Total other revenue	**93,310**	**79,632**	**13,678**

The increase in the item is largely due to the following main changes:

- increase in revenue by 10,029 thousand euro relating to energy efficiency certificates, mainly due to the more aggressive purchasing policy adopted by the Group compared to the previous year, the allocation of the related revenue and the increase in tariff contribution recognised by Gestore del Mercato Elettrico S.p.A. (GME) on purchases made for 2013;
- increase in contingent assets by 1,975 thousand euro;
- higher revenue from the quality of gas distribution and metering services (Resolution no. 120/08 - former Resolution no. 168/04). These incentives depend mainly on the number of gas chromatography analyses undertaken by the distributor (a parameter which can be checked by the Company) and to the reduction in leaks on the distributor's plant (a parameter which cannot be directly regulated by the distributor);
- decrease in gains on sales of assets by 3,354 thousand euro.
  With the general freeze on tenders imposed since the creation of minimum local areas, the only gains are those generated following a handover of some concessions which had already been lost prior to last year.

Revenue from energy efficiency certificates refer to the completion of the target for 2012 in January 2013 and the partial achievement of the specific energy saving target for 2013. It should be noted that 100% of the target for 2012 must be achieved by May 2014, while as regards the target for 2013, at least 50% of the requested energy efficiency certificates must be cancelled by May 2014.

In this regard, it should be noted that the 2i Rete Gas Group, at the reporting date, has already achieved these targets in compliance with relevant laws and regulations.

5.c Revenue from development of distribution infrastructure – 116,436 thousand euro

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Revenue from development of distribution infrastructure			
Revenue from development of distribution infrastructure	116,436	132,960	(16,524)
Total revenue from development of distribution infrastructure	**116,436**	**132,960**	**(16,524)**

This revenue has been recognised in the financial statements following application, as from 1 January 2010, of IFRIC 12 "Service concession arrangements".

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

Costs

As already noted, all costs recorded in order to adopt the accounting model proposed by IFRIC 12 are divided by nature within the pre-existing cost items.
The following table provides a summary of the items relating to the company's operating costs in order to ensure their compliance with the aforementioned principle.

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Costs relating to revenue from development of distribution infrastructure			
Raw materials and consumables	18,991	19,814	(823)
Services	75,982	91,713	(15,731)
Other operating costs	238	252	(14)
Personnel expense	21,226	21,181	45
Total costs relating to revenue from development of distribution infrastructure	**116,436**	**132,960**	**(16,524)**

6.a Raw materials and consumables – 31,954 thousand euro

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

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Raw materials and consumables			
Costs for the purchase of gas	1,466	683	782
Costs for the purchase of water	557	465	91
Fuel and lubricants	4,280	4,216	64
Stationery and printed materials	258	392	(134)
Various materials	24,038	24,314	(276)
(Change in inventories of raw materials)	1,355	1,316	39
Total cost for raw materials and consumables	**31,954**	**31,387**	**567**
- of which capitalised under/as intangible assets	18,991	19,814	(823)
- of which capitalised	-	-	

The costs of "Raw materials and consumables" essentially comprise the cost for the purchase of the materials used in the process of laying the pipes and the fuel for motor vehicles; compared to the previous year these costs increased by 567 thousand euro.
It should be recalled that, as from 2010, all the costs relating to the management of concessions are affected by the cost items relating to the construction of networks in accordance with IFRIC 12.

Specifically, other materials acquired in the year decreased by 276 thousand euro due to a lower impact arising from the purchase and installation of new traditional style meters, while the change in "Inventories of raw and ancillary materials" was positive (39 thousand euro).

6.b Services – 226,424 thousand euro

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

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Services			
Third parties:			
Maintenance, repair and construction of assets	74,883	97,419	(22,536)
Costs for electricity, power and water	5,964	6,642	(679)
Gas (for internal use)	5,414	6,535	(1,121)
Telephone and data transmission costs	2,849	3,075	(226)
Insurance premiums	5,211	7,183	(1,971)
Services and other expenses relating to personnel	5,759	4,998	761
Fees	1,278	1,144	134
Legal and notary costs	179	841	(661)
Costs for company acquisitions and disposals	149	43	106
Personnel and other services	7,957	19,040	(11,083)
Advertising	119	424	(305)
IT services	12,282	10,500	1,782
Meter reading service	5,793	6,850	(1,057)
Audit fees	744	560	184
Repairs and immediate intervention service	4,018	3,289	729
Plant certifications resolution no. 40	805	1,021	(216)
Gas transport by third parties	1,610	1,527	82
Professional, consulting and other services	5,887	7,735	(1,849)
Other costs for services	6,146	4,362	1,784
Use of third party assets			
Leases			
Rentals	7,174	6,133	1,041
Other costs for the use of third party assets	5,691	6,548	(857)
Fee for temporary occupation of public space (C.o.s.a.p.)	2,563	1,708	855
Trademark licence	1,338	1,207	131
Municipal gas concession fees	62,610	57,558	5,052
Total services	**226,424**	**256,344**	**(29,920)**
- of which capitalised as/under intangible assets	75,982	91,713	(15,731)

Costs for services (including the costs for the use of third party assets) decreased by 29,920 thousand euro compared to the previous year. In this case too it should be recalled that, as from 2010, all the costs relating to the management of concessions are affected by cost items for the construction of networks in accordance with IFRIC 12.

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

- lower costs for maintenance, repair and construction of assets for 22,536 thousand euro; this difference is the most significant and arises both from less work being done on the network and optimisation of the work itself;
- decrease in costs for electricity and gas by 679 thousand euro and 1,121 thousand euro respectively;
- reduction in Group insurance premiums caused by optimisation of the insurance coverage for 1,971 thousand euro;
- a marked fall of 11,083 thousand euro in the item "personnel and other services", mainly due to the expiry of most external staff contracts and the bringing in-house of activities which were previously provided by staff of the Enel Group;
- increase in the costs for IT services due to the integration of the systems of 2iGas and G6 Rete Gas in the year. These services were provided both by the Enel Group and by specialist companies in the sector;
- increase in municipal gas concession fees by 5,052 thousand euro, mainly due to the business development which led to changes in some contracts with the relevant municipalities.

6.c Personnel expense – 111,267 thousand euro

Personnel expense is broken down as follows:

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Wages and salaries	80,180	80,850	(670)
Social security charges	25,622	25,215	408
Post employment benefits	5,274	5,135	139
Asem/Fisde health service	47	62	(15)
Loyalty bonus	0	2	(2)
Other personnel expense	144	(1,030)	1,174
Total personnel expense	**111,267**	**110,233**	**1,034**
- of which capitalised under/as intangible assets	**21,226**	**21,181**	**45**
- of which capitalised	**878**	**1,703**	**(825)**

Personnel expense of 111,267 thousand euro include all charges incurred on an ongoing basis which, directly or indirectly, concern employees. The item increased by 1,034 thousand euro.
In the year no particular changes in personnel were noted compared to the normal turnover as people reach retirement age.

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

	Executives	Middle Managers	Office Employees	Workers	Total
Personnel at 31 December 2012	**32**	**98**	**1,110**	**803**	**2,043**
Increase	4	3	40	0	**47**
Decrease	(2)	(2)	(28)	(16)	**(48)**
Change in category	0	1	0	(1)	**0**
Personnel at 31 December 2013	**34**	**100**	**1,122**	**786**	**2,042**

6.d Amortisation, depreciation and impairment losses – *144,189 thousand euro*

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to 144,189 thousand euro, down by 6,635 thousand euro compared to the previous year.
This change is mainly due to a decrease in amortisation of intangible assets by 10,591 thousand euro and to an increase in depreciation of property, plant and equipment by 67 thousand euro. With the introduction of IFRIC 12, the amortisation of intangible

assets mainly concerns the rights over concessions in which the Company manages the gas distribution networks.
Impairment losses, totalling 6,558 thousand euro, mainly concern the impairment losses recognised on trade receivables for the water sector and part of the receivables for the default service in the year for a total of 5,120 thousand euro.

This item is broken down as follows:

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Depreciation of property, plant and equipment	3,090	3,024	67
Amortisation of intangible assets	134,541	145,132	(10,591)
Impairment losses:			
- Intangible assets	1,438	272	1,165
- Trade receivables	5,120	2,397	2,723
	144,189	**150,825**	**(6,635)**

6.e Other operating costs – *94,843 thousand euro*

"Other operating costs" increased by 10,326 thousand euro compared to last year and are broken down as follows:

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Other operating costs			
Third parties:			
Non-recurring (prior year) expense	656	329	327
Remuneration of statutory auditors and Compliance Committee	266	290	(24)
Remuneration of members of the Board of Directors	426	506	(80)
Association fees	417	384	33
Contribution to the Supervisory Authority	133	97	35
Compensation to customers	115	430	(315)
Municipal tax on property	456	426	29
CCIAA (chamber of commerce) fees and duties	514	501	13
Purchase of energy efficiency certificates	66,622	53,092	13,530
Tax on the occupation of public space (Tosap)	1,507	1,434	73
Losses on the disposal of assets	2,611	4,304	(1,693)
Losses on the sale of assets	915	590	324
Local and sundry taxes	834	792	41
Difficulties in checks pursuant to Resolution no. 40	29	32	(3)
Other costs	798	1,198	(401)
(Net) provision for risks and charges	18,547	20,111	(1,564)
Total other operating costs	**94,843**	**84,517**	**10,326**
- of which capitalised as intangible assets	238	252	(14)

The increase in other operating costs is mainly attributable to:

- the increase in costs for the purchase of energy efficiency certificates for the target for 2012 and 2013 by 13,530 thousand euro, which was attributable mainly to the impact of increased purchases of certificates;
- the lower losses from the disposal of assets and the loss of concessions for 1,369 thousand euro, also due to the freeze on tenders for the award of concessions;
- the decrease in the provision for risks and charges of 1,564 thousand euro due to the net effect of the provisions made essentially to take into account the risk of a review of some tariff components and due to new legal disputes which arose during the year, and whose outcome is not clear, and the release (2,227 thousand euro) of the provision for risks for energy efficiency certificates which was allocated in the previous year. The

breakdown of the related provisions is provided in the comment on liabilities recognised in the statement of financial position.

6.f Internal work capitalised – 878 thousand euro

Following the introduction of IFRIC 12, accounting for internal costs capitalised no longer occurs as in the past for those costs which are directly connected to construction operations of the network under concession. For this reason the item now only includes those residual costs which can be capitalised but do not concern concessions.
Compared to 2012, the item decreased by 825 thousand euro.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Internal services	878	1,703	(825)
Other capitalised costs	0	0	0
Materials	0	0	0
Total internal work capitalised	**878**	**1,703**	**(825)**

7. Income (expense) from equity investments - 242 thousand euro

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

8. Financial income/(expense) - (87,083) thousand euro

In detail:

Thousands of euro	31.12.2013	31.12.2012 restated	2013-2012
Financial income			
- Interest income on loans to employees	-	1	(1)
- Interest income from discounting of receivables	-	91	(91)
- Default interest income	299	307	(8)
- Interest income from current accounts and post office deposits	700	226	474
- Interest income from trade receivables	311	250	61
- Other financial interest and income	0	114	(114)
Total income	**1,310**	**988**	**322**
Financial expenses			
- Interest expense on non-current loans	58,595	68,066	(9,472)
- Other expense on non-current bank loans and borrowings	2,385	2,398	(13)
- Financial expense concerning derivative contracts	25,971	18,992	6,979
- Financial expense on current credit lines	-	210	(210)
- Interest expense on bank current accounts	0	12	(12)
- Discounting of post-employment and other employee benefits	1,166	1,540	(374)
- Interest on taxes	9	10	(1)
- Other financial and interest expense	267	589	(322)
Total expenses	**88,393**	**91,817**	**(3,424)**
TOTAL FINANCIAL EXPENSE	**(87,083)**	**(90,829)**	**3,746**

Net financial expense of 87,083 thousand euro was largely due to the recognition of interest expense accrued in the year on the non-current loan agreed in 2011 with a pool of leading European banks.
The decrease by 3,424 thousand euro was mainly due to the lowering of the short-term interest rate curves.
In detail, the 9,472 thousand euro decrease in interest expense on loans bearing floating interest rates was partially offset by the higher financial expense (up by 6,979 thousand euro) on the derivative contracts. It should be noted that the derivative contracts hedge only 76% of the existing non-current loan.

9. Income taxes – *72,384 thousand euro*

This item is broken down as follows:

Thousands of euro	31.12.2013	31.12.2012 restated	2013 - 2012
Current taxes			
Current income taxes: IRES	77,443	64,587	12,856
IRES substitute tax on exemption	-	-	-
Current income taxes: IRAP	18,876	16,814	2,062
Total current taxes	**96,319**	**81,402**	**14,918**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	1,609	327	1,282
Positive adjustments for income taxes relating to previous years	(4,287)	(7,132)	2,845
Total adjustments for income taxes relating to previous years	**(2,677)**	**(6,805)**	**4,127**
Deferred tax assets and liabilities			
Deferred taxes (use)/allocations	(7,547)	(9,791)	2,244
Deferred tax assets (allocation)/use	(13,712)	(6,360)	(7,352)
Total current deferred tax assets and liabilities	(21,259)	(16,151)	(5,107)
Adjustments to deferred tax of previous years due to tax rate change	-	-	-
Adjustments to deferred tax assets of previous years due to tax rate change	-	-	-
Total adjusted deferred tax assets and liabilities	-	-	-
Total deferred tax assets and liabilities	**(21,259)**	**(16,151)**	**(5,107)**
TOTAL INCOME TAXES	**72,384**	**58,446**	**13,938**

Income taxes for 2013 are negative for 72,384 thousand euro.
They refer to:

- the recognition of costs for current taxes in the year, including IRES amounting to 77,433 thousand euro (also including the corporate income tax surcharge known as Robin Hood Tax) and IRAP amounting to 18,876 thousand euro;
- net adjustments for income taxes relating to previous years, which totalled (6,805) thousand euro in the previous year, in the current year totalled (2,677) thousand euro; these adjustments, which arose following the final calculation of taxes to be paid in June 2013, mainly refer to lower current taxes (2,983 thousand euro), the recognition of a receivable due to the sale of assets whose carrying amount was brought into line with their tax base by paying the substitute tax (701 thousand euro) and the adjustment of deferred tax assets and liabilities (935 thousand euro). In the previous year this item reflected the impact of Law Decree no. 201/2011 which provided for and approved, as from the fiscal year 2012, the deducibility from IRES taxable income of IRAP relating to personnel expense, whether employees or similar.

The effective IRES rate for 2013 was 51.1%, while the figure for 2012 was 49.8%.

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

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

Thousands of euro	2013	2012 restated
Pre-tax profit	151,614	125,706
Theoretical IRES taxes - 2013: 38%	**57,626**	**48,154**
Lower taxes:		
- release of contributions taxed in prior years	(2,282)	(2,224)
- use of provisions	(3,587)	(2,904)
- release of provisions	(2,212)	(477)
- reversal of ordinary amortisation/depreciation not deducted in prior years	(1,970)	(5,464)
- deducted fiscally-driven amortisation/depreciation	(490)	(531)
- deductible interest expense for previous years	(10,122)	(6,878)
- deferred gains by instalments	0	(1,476)
- other	(4,843)	(3,326)
Higher taxes:		
- impairment losses for the year	1	68
- allocations to provisions	19,378	11,174
- amortisation/depreciation on amounts that are not recognised for tax purposes	3,178	3,100
- ordinary amortisation/depreciation exceeding the fiscal limits	14,248	17,719
- reversal of excess fiscally-driven amortisation/depreciation deducted in prior year:	1,681	594
- losses on the disposal/sale of assets	580	788
- deferred gains	3,134	2,806
- partially deductible costs	735	676
- connection fees	16	16
- taxes	121	151
- other	2,252	2,622
Total current income taxes (IRES)	**77,443**	**64,587**
IRAP - 2013: 4.56%	**18,876**	**16,814**
Total deferred taxes	**(21,259)**	**(16,151)**
TOTAL INCOME TAXES	**75,061**	**65,250**

10. Discontinued operations – 0 thousand euro

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

X. Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 34,499 thousand euro

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

The breakdown and changes in property, plant and equipment in 2012 and 2013 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Non-current assets under construction and payments on account	Total
Historical cost	14,473	34,964	-	20,681	40,548	5,763	22	**116,451**
Accumulated depreciation	-	(21,114)	-	(17,889)	(37,941)	(4,825)	-	**(81,769)**
Balance at 1.01.2012 restated	**14,473**	**13,850**	**-**	**2,792**	**2,607**	**938**	**22**	**34,682**
Contributions from acquisitions	-	-	-	-	-	-	-	**-**
Investments	-	111	-	333	839	108	521	**1,913**
Entry into service	-	(161)	-	-	4	-	-	**(158)**
Disposals	(5)	-	-	(44)	(24)	-	-	**(72)**
Reclassifications	-	-	373	-	-	-	-	**373**
Impairment losses	-	-	-	-	-	-	-	**-**
Depreciation	-	(1,267)	-	(676)	(948)	(134)	-	**(3,024)**
Total changes	**(5)**	**(1,316)**	**373**	**(386)**	**(128)**	**(26)**	**521**	**(968)**
Historical cost	14,468	34,681	3,440	20,564	40,817	5,871	543	**120,384**
Accumulated depreciation	-	(22,147)	(3,067)	(18,158)	(38,339)	(4,959)	-	**(86,669)**
Balance at 31.12.2012 restated	**14,468**	**12,534**	**373**	**2,405**	**2,478**	**913**	**543**	**33,714**
Investments	-	1,126	8	466	825	809	314	**3,548**
Entry into service	-	-	-	0	(0)	521	(521)	**-**
Disposals	-	-	-	-	(18)	-	-	**(18)**
Reclassifications	205	(205)	-	-	(28)	373	-	**345**
Impairment losses	-	-	-	-	-	-	-	**-**
Depreciation	-	(1,207)	(101)	(634)	(777)	(372)	-	**(3,090)**
Total changes	205	**(286)**	**(93)**	**(167)**	**2**	**1,331**	**(207)**	**785**
Historical cost	14,673	35,602	3,448	21,170	41,264	9,277	335	**125,770**
Accumulated depreciation	-	(23,354)	(3,168)	(18,931)	(38,784)	(7,034)	-	**(91,270)**
Balance at 31.12.2013	**14,673**	**12,248**	**281**	**2,238**	**2,481**	**2,243**	**335**	**34,499**

The item at 31 December 2013 rose compared to 31 December 2012 by 785 thousand euro; this growth was due to the net balance of investments for 3,548 thousand euro, disposals for 18 thousand euro, positive reclassifications for 345 thousand euro and depreciation for 3,090 thousand euro.

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

Thousands of euro	31.12.2013	31.12.12 restated
Increases for internal services	-	-
Increases for materials	191	-
Increases for external acquisitions/services	3,357	1,912
Total	**3,548**	**1,912**

12. Intangible assets – 2,682,107 thousand euro

It should be recalled that, following the introduction of IFRIC 12, intangible assets also include those assets which are tied to gas distribution concessions.
The breakdown and changes in intangible assets in 2012 and 2013 are shown below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Non-current assets under development and payments on account	Non-current assets under development and payments on account	Other intangible assets	Goodwill	Total
Historical cost	77,150	4,748,082	24,956	4,071	34,670	179,499	**5,068,428**
Accumulated amortisation - closing	(56,407)	(2,226,804)	0	0	(28,142)	(36,544)	**(2,347,898)**
Balance at 01.01.2012 restated	**20,744**	**2,521,278**	**24,956**	**4,071**	**6,528**	**142,955**	**2,720,530**
Investments	7,511	126,776	8,381	3,796	2,334	0	**148,797**
Entry into service	381	23,368	(23,219)	(419)	47	0	**158**
Decreases	0	(22,623)	0	0	(14)	0	**(22,637)**
Reclassifications	0	(358)	(15)	0	2	0	**(371)**
Impairment losses	(16)	(52)	(25)	0	(179)	0	**(272)**
Amortisation	(10,515)	(131,290)	0	0	(3,328)	0	**(145,132)**
Total changes	**(2,639)**	**(4,179)**	**(14,878)**	**3,377**	**(1,138)**	**0**	**(19,457)**
Historical cost	84,977	4,820,966	10,078	7,447	38,080	179,499	**5,141,047**
Accumulated amortisation	(66,872)	(2,304,803)	0	0	(31,755)	(36,544)	**(2,439,973)**
Balance at 31.12.2012 restated	**18,105**	**2,516,164**	**10,078**	**7,447**	**6,325**	**142,955**	**2,701,074**
Investments	11,435	106,917	10,555	713	3,090	0	**132,710**
Entry into service	0	9,445	(8,626)	(6,306)	5,486	0	**0**
Decreases	0	(15,246)	(6)	(101)	0	0	**(15,353)**
Reclassifications	(2,008)	2,196	0	0	(532)	0	**(345)**
Impairment losses	0	(1,438)	0	0	0	0	**(1,438)**
Amortisation	(7,308)	(124,201)	0	0	(3,032)	0	**(134,541)**
Total changes	**2,118**	**(22,327)**	**1,923**	**(5,693)**	**5,013**	**0**	**(18,967)**
Historical cost	83,748	4,906,294	12,001	1,754	50,364	179,499	**5,233,660**
Accumulated amortisation	(63,526)	(2,412,457)	0	0	(39,026)	(36,544)	**(2,551,553)**
Balance at 31.12.2013	**20,223**	**2,493,837**	**12,001**	**1,754**	**11,338**	**142,955**	**2,682,107**

Intangible assets decreased by 18,967 thousand euro compared to 31 December 2012; this decrease is due to the net balance among new investments of 132,710 thousand euro, decreases totalling 15,353 thousand euro, impairment losses of 1,438 thousand euro, negative reclassifications for 345 thousand euro and amortisation of 134,541 thousand euro.

The net increase in the item "Patent and intellectual property rights" by 2,118 thousand euro, refers to investments (11,435 thousand euro), to reclassifications under the "Concessions and similar rights" item (2,008 thousand euro) and to amortisation (7,308 thousand euro).
Investments in the year of 11,435 thousand euro mainly concern the upgrading of the IT systems and software licenses acquired by the Company.

The item "Concessions and similar rights" is divided between intangible assets and assets under development and totalled 2,516,164 thousand euro (intangible assets) and 10,078 thousand euro (assets under development) in 2012; in 2013 the total was 2,493,837 thousand euro for intangible assets and 12,001 thousand euro for assets under development; the item relates to the recognition of rights which the Company claims as concessionaires and operators of the gas distribution service, as well as one-off fees for the acquisition of concessions for natural gas distribution.

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

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

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

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

The item "Assets under development and payments on account", totalling 1,754 thousand euro, mainly consisted of costs for the Trilogy project. The entry into service affected this item for 6,306 thousand euro, thus reducing the related balance for 2012.

The item "Other intangible assets" amounted to 11,338 thousand euro, refers to miscellaneous deferred costs and includes, among others, costs which can be capitalised for the corporate integration process.

The item "Goodwill" totalled 142,955 thousand euro and relates to the deficit from the consolidation of former subsidiaries. The recognition of the item took place with the agreement of the Board of Statutory Auditors.

Balances for the individual acquired companies are set out below.

Thousands of euro	31.12.2013	31.12.2012 restated
Natural Gas goodwill	2,885	2,885
Argengas goodwill	8	8
Sicardi goodwill	3,616	3,616
Italgestioni goodwill	44	44
Simeo goodwill	572	572
G6 Rete Gas goodwill	82,040	82,040
F2i reti Italia 2 goodwill	53,792	53,792
Total	**142,955**	**142,955**

The estimate of the recoverable amount of goodwill recorded in the financial statements is based on the fair value, net of transaction costs, determined with reference to the terms of the transaction to acquire 14.8% of the share capital of the Parent by F2I Reti Italia 2 S.r.l. and Axa Infrastructure Holding S.a.r.l., which was completed in December 2013.

In order to estimate the recoverable amount of Net Invested Capital, the amount paid was increased by a minority discount, then the 100% value was calculated as a proportion and summed to net financial debt at the reporting date.
Based on this process, and assuming a market average minority discount (between 10% and 20%), the implicit Fair Value of Net Invested Capital of the Group would be higher than the carrying amount by 80 to 200 million euro.

27. Deferred tax assets – 197,676 thousand euro and Deferred tax liabilities – 129,156 thousand euro

Deferred tax assets and deferred tax liabilities are determined on the basis of the tax rates in force at the reporting date. Deferred tax assets totalled 197,676 thousand euro (212,527 thousand euro at 31 December 2012), while deferred tax liabilities totalled 129,156 thousand euro (151,413 thousand euro at 31 December 2012).

Deferred tax assets and liabilities at 31 December 2013 were determined applying the following tax rates in force: 38% for IRES and 4.56% for IRAP (compared to 4.56% in the previous year).

Deferred tax assets decreased by 14,851 thousand euro compared to the previous year. This change was due to net increases in the year (1,411 thousand euro) and to decreases for other changes for 16,843 thousand euro (this balance is impacted for 16,227 thousand euro by the reclassifications following the merger of G6 Rete Gas) and, finally, to adjustments (581 thousand euro) to increase the deferred tax assets recognised in the financial statements at 31 December 2012 compared to the income tax return. It should be noted that this item includes the tax impact of the fair value of hedging derivatives entered into in 2011 by the Group, equal to 22,369 thousand euro.

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

Deferred tax liabilities decreased by 22,257 thousand euro compared to the previous year. This change was due to net decreases in the year (7,327 thousand euro), as well as to other changes for 16,446 thousand euro (amount due mainly to the aforementioned reclassifications) and to adjustments (1,517 thousand euro) to increase the deferred taxes recognised in the financial statements at 31 December 2012 compared to the income tax return.

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

Thousands of euro	At 31.12.2012	Adjustments to Tax Declaration 2013	At 01.01.2013	Increases recognised in		Decreases recognised in		Other changes	Balance at 31.12.2013
				Profit or loss	Equity	Profit or loss	Equity		
Deferred tax assets:									
Allocation to provisions for risks and charges, deferred deductibility	6,229	5	6,233	12,756	0	(2,260)	0	(1,983)	**14,747**
Allocation to provisions for exit and stock option	1,034	0	1,034	1,238	0	0	0	13	**2,285**
Allocation to provisions for disputes	4,214	116	4,331	1,572	0	(599)	0	700	**6,003**
Allocation to allowance for inventory obsolescence	4,453	(0)	4,453	210	0	(252)	0	28	**4,438**
Impairment losses on deferred deductibility assets (impairment losses on receivables write-downs)	2,902	103	3,005	1,272	0	0	0	5	**4,282**
Impairment losses on deferred deductibility assets (impairment losses on plant write-downs)	1,967	(29)	1,938	489	0	0	0	10	**2,437**
Depreciation and amortisation of property, plant and equipment and intangible assets, deferred deductibility	54,268	278	54,546	12,328	0	(3,177)	0	20,648	**84,345**
Separation of land/buildings and component analysis	128	(0)	128	0	0	0	0	0	**128**
Plant costs	2,995	0	2,995	0	0	0	0	(11)	**2,983**
Post-employment and other employee benefits	1,156	76	1,233	810	0	(607)	0	(353)	**1,083**
Cash deductible taxes and duties	17	0	17	0	0	0	0	(1)	**16**
Income subject to deferred taxation (connection fees)	49,893	47	49,939	8	0	(1,806)	0	177	**48,318**
Deferred deductibility charges	10,786	(14)	10,772	0	0	(9,057)	0	(14)	**1,702**
Goodwill		0	0	1,531	0	0	0	0	**1,531**
Post employment benefits - Italian Accounting Body (OCI)	1,094	0	1,094	0	0	0	(86)	0	**1,008**
Derivatives (in case of net negative change in the specific equity reserve)	35,195	0	35,195	0	0	0	(12,826)	0	**22,369**
Other consolidation adjustments	36,196		36,196			(133)		(36,063) -	**0**
Total	**212,527**	**581**	**213,108**	**32,213**	**0**	**(17,890)**	**(12,912)**	**(16,843)**	**197,676**
Deferred tax liabilities:									
Differences on property, plant and equipment and intangible assets – additional depreciation and amortisation	21,417	274	21,692	0	0	(2,219)	0	19,442	**38,914**
Differences on intangible assets – goodwill	2,385	(933)	1,451	0	0	0	0	(0)	**1,451**
Separation of land/buildings and component analysis	5,172	0	5,172	0	0	0	0	0	**5,172**
Allocation to assets of costs relating to company mergers	41,853	185	42,037	0	0	(2,654)	0	30	**39,413**
Off book deductions relating to impairment losses on equity investments, receivables and licenses	0	0	0	0	0	0	0	0	**-**
Post-employment benefits	1,325	1	1,326	0	0	0	0	(69)	**1,256**
Income subject to deferred taxation	7,853	1,991	9,844	0	0	(3,142)	0	148	**6,850**
Derivatives (in case of net negative change in the specific equity reserve)	0	0	0	0	0	0	0	0	**-**
Others	3,770	0	3,770	0	0	0	0	(121)	**3,650**
ASEM - Italian Accounting Body (OCI)	46	0	46	0	0	0	0	0	**46**
Recognition of deferred taxes due to merger		0		1,384	0	(402)	0	22,744	**23,726**
Other consolidation adjustments	67,591		67,591	1		(295)		(58,619)	**8,678**
Total	**151,413**	**1,517**	**152,930**	**1,385**	**0**	**(8,712)**	**0**	**(16,446)**	**129,157**

13. Equity investments – 3,329 thousand euro

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

Thousands of euro	Historical cost	Impairment losses/reversals of impairment losses	Carrying amount	%ownership	Acquisitions	Disposals	Other decreases	Adjustments	Historical cost	Impairment losses/reversals of impairment losses	Carrying amount	%ownership
	al 31.12.2012 restated				Changes in 2013				at 31.12.2013			
Other companies												
Measured at cost												
Interporto di Rovigo S.p.A.	42	0	42	0.30%					42	0	42	0.30%
Fingranda S.p.A.	26	0	26	0.63%					26	0	26	0.58%
Agenzia di Pollenzo S.p.A.	68	(35)	33	0.27%					68	(35)	33	0.27%
Industria e Università S.r.l.	11	0	11	0.10%					11	0	11	0.10%
FISAP (wound up)	19	(19)	0	2.48%					19	(19)	0	0.00%
Azienda Energetica Valtellina Valchiavenna S.p.A.	863	(458)	405	3.94%					405	0	405	3.37%
Terme di Offida SpA	1	0	1	0.10%					1	0	1	0.19%
Equity accounted												
Melegnano Energia Ambiente SpA	2,193	73	2,266	40.00%				185	2,266	185	2,451	40.00%
Cbl Distribuzione Srl	232	88	320	40.00%				40	320	40	360	40.00%
TOTAL EQUITY INVESTMENTS	**3,454**	**(350)**	**3,104**		**0**	**0**	**0**	**225**	**3,157**	**171**	**3,329**	

The following tables show the list of equity investments in other companies at 31 December 2013:

C) Other companies	Registered office	Share capital (euro)	Equity (euro)	Revenue (euro)	Profit/loss latest year (euro)	Reporting date	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	8,575,489	7,138,674	1,838,621	(231,061)	31.12.2012	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	2,500,368	48,594	(189,172)	30.06.2013	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	25,610,365	24,865,671	981,290	118,118	31.12.2012	0.27%	33,082
Industria e Università S.r.l.	Varese	13,005,000	10,909,622	-	(30,371)	31.12.2012	0.10%	10,989
F.I.S.A.P. S.p.A (wound up)	Cittadellla (PD)	-	-	0	-	-	0.00%	-
Azienda Energetica Valtellina Valchiavenna S.p.A.	Sondrio	3,120,000	8,796,577	31,058,928	317,543	31.12.2012	3.37%	405,000
Terme di Offida Spa	Offida (AP)	277,029	184,836	-	(6,616)	31.12.2012	0.19%	548
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	6,128,668	5,843,360	218,909	31.12.2013	40.00%	2,451,467
CBL Distribuzione Srl	Mede (PV)	170,000	900,188	2,973,273	106,112	31.12.2013	40.00%	360,075

14. Non-current financial assets – 253 thousand euro

This item includes loans issued to employees to purchase housing.

15. Other non-current assets – 6,535 thousand euro

This item decreased compared to 31 December 2012 by 320 thousand euro; it is broken down as follows:

Thousands of euro	**31.12.2013**	**31.12.2012 restated**	**2013 - 2012**
Guarantee deposits	3,066	2,949	117
Grants related to assets	1,234	1,234	-
Grants from CCSE for energy efficiency certificates	0	360	(359)
Tax credit reimbursements applied for	821	821	-
Prepaid promotional expense	309	311	(1)
Other non-current assets	1,252	1,328	(76)
Allowance for impairment	(147)	(147)	-
Total	**6,535**	**6,855**	**(320)**

Guarantee deposits totalled 3,066 thousand euro and refer to receivables for work to be done on distribution plant and user contract and increased thanks to the merger already mentioned.

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

Tax credit reimbursements applied for (821 thousand euro) refer to the reimbursement claim as for art. 6 of Law Decree no. 185/2008 (Deduction from IRES of part of the IRAP pertaining to personnel expense and interest).
Prepayments of 309 thousand euro include prepaid promotional expenses incurred in previous years and in 2013.

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

Current assets

16. Inventories – 6,344 thousand euro

Closing inventories of raw materials fell compared to the previous year by 1,355 thousand euro.
In detail, closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas and water distribution plant.
The item includes the allowance for the write-down of inventories equal to 584 thousand euro. The allowance was set up to take into account inventories with unlikely future use.
The cost method adopted is weighted average purchase cost.

17. Trade receivables – 284,323 thousand euro

Trade receivables amounted to 284,323 thousand euro, up by 71,786 thousand euro compared to 2012.

The breakdown is set out below.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Third party customers:			
Trade receivables	301,496	225,049	76,448
- Allowance for impairment	(17,174)	(12,512)	(4,661)
Total	**284,323**	**212,536**	**71,786**

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

Receivables due from third-party customers are recognised net of a 17,174 thousand euro allowance for impairment, compared to 12,512 thousand euro at the beginning of the year. The increase in the year is based both on a more careful review of the balance of water sector receivables and in consideration of the difficulty in recovering some receivables linked to default service work which the Company undertook during the year. Changes in the allowance for impairment are set out below.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
At 1 January	**12,512**	**10,237**	**2,276**
Allocations	5,129	2,397	2,732
Releases	(1)	0	(1)
Uses	(467)	(121)	(346)
At 31 December	**17,174**	**12,512**	**4,661**

The allowance for impairment at 31 December 2013 was taxed for 11,646 thousand euro (7,905 thousand euro at 31 December 2012).

All the Company's operations are in Italy.

18. Current loan assets – 5,669 thousand euro

Current loan assets of 5,669 thousand euro consisted of loan assets due from GME. These are deposits made to be able to take part in the trade of Energy Efficiency Certificates. Compared to the previous year, there was an increase of 5,662 thousand euro.

19. Other current financial assets – 0 thousand euro

Other current financial assets include any fair value gains at the reporting date on the outstanding hedges. At 31 December 2013 this amount was a loss and therefore is not included here.

20. Cash and cash equivalents – 140,554 thousand euro

Cash and cash equivalents increased by 6,270 thousand euro, attributable to the net effect of the increase in bank deposits by 6,343 thousand euro, the decrease in post office deposits by 101 thousand euro and a 27 thousand euro increase in cash in hand.

Cash and cash equivalents are broken down as follows.

	31.12.2013	31.12.2012 restated	2013 - 2012
Bank deposits	139,985	133,641	6,343
Post office deposits	436	537	(101)
Cash in hand	133	106	27
Total	**140,554**	**134,284**	**6,270**

Operating cash is held in bank and post office deposits.

21. Income tax assets – 6,800 thousand euro

Income tax assets totalled 6,800 thousand euro and mainly included IRES assets whose repayment has been requested due to the failure to deduct IRAP relating to personnel expense, whether employees or similar (pursuant to Law Decree no. 201/2011), of which 1,284 thousand euro was requested for repayment directly by the tax consolidating company F2i Reti Italia S.r.l.; compared to the previous year it fell by 175 thousand euro.

22. Other current assets – 137,031 thousand euro

Other current assets rose compared to 31 December 2012 by 3,659 thousand euro; the increase was mainly the net result of:

- an increase in amounts due from the Compensation Fund for 9,736 thousand euro owing to the trend in invoicing in 2013 given a VRT (tariff revenue cap) which has already been defined. The item must be linked to the payables due to the Compensation Fund set out in note 36 “Other current liabilities”;
- a fall of 6,430 thousand euro in amounts due from municipalities for the disposal of assets due to the expiry of concessions. In the year some receivables were received relating to plant handed over in past years and the amounts of which was definitively set and repaid in the year;
- an increase of 2,713 thousand euro in prepayments for insurance premiums following payment of part of the amount relating to the subsequent year in December 2013.

The item is broken down as follows:

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Other tax assets:			
VAT assets	1,068	1,325	(257)
Tax asset reimbursements applied for	158	388	(230)
Other tax assets	411	341	70
Other assets:			
Pension and insurance agencies	1,190	264	927
Grants related to assets	4,196	6,125	(1,928)
Compensation Fund	105,684	95,948	9,736
Municipalities for disposals of asset due to expiration of concessions	16,526	22,956	(6,430)
Municipalities	291	291	0
Suppliers	2,374	1,686	687
Sundry	2,419	3,375	(956)
- Allowance for impairment	(1,115)	(1,115)	0
Accrued income	1	1	0
Deferred expenses relating to other deferred charges	51	696	(645)
Deferred expenses relating to real estate lease fees	0	418	(418)
Deferred promotional expense	42	42	0
Deferred insurance premiums	2,945	232	2,713
Other deferred expense	790	400	390
Total	**137,031**	**133,372**	**3,659**

Liabilities

Equity

23. Equity – 838,184 thousand euro

Equity amounted to 838,134 thousand euro, up by 22,187 thousand euro in the year, due to:

- decrease in the ordinary dividend pay-out for 82,018 thousand euro;
- increase in hedging reserves for 24,897 thousand euro;
- decreases in payments of expense linked to the purchase of treasury shares for 89 thousand euro;
- increase in other reserves by 167 thousand euro;
- increase from profit for the year for 79,230 thousand euro.

Share capital – 71,950 thousand euro

The share capital at 31 December 2013 consisted of 145,383,653 ordinary shares and amounted to 71,950 thousand euro, entirely subscribed and paid up; the item was unchanged compared to the previous year.

Treasury Shares reserve – (634) thousand euro

The reserve for the purchase of treasury shares of 634 thousand euro was set up, in accordance with the provisions of IAS 1, in 2010 following the purchase of the Parent's shares from some withdrawing shareholders and changed in the year for 89 thousand euro following the settlement of a dispute on the amount of the shares with withdrawing shareholders.

Other reserves – 679,101 thousand euro

Revaluation reserves – 409,145 thousand euro

Revaluation reserves amounted to 409,146 thousand euro, including 72 thousand euro in reserve pursuant to Law no. 413/91, 408,980 thousand euro in reserve pursuant to Law no. 350/03, and 94 thousand euro in reserve pursuant to Law no. 342/00. These reserves were unchanged compared to the previous year.

Legal reserve – 20,248 thousand euro

The legal reserve amounted to 20,248 thousand euro, unchanged compared to 31 December 2012.

Reserve for grants related to assets – 99,697 thousand euro

The reserve for grants related to assets amounted to 99,697 thousand euro, unchanged compared to 31 December 2012.

Other reserves – 195,705 thousand euro

Other reserves amounted to 195,705 thousand euro and fell compared to the previous year by 11,689 thousand euro, following the partial use of these reserves to pay the dividend for 2012.

Hedging reserve – (43,423) thousand euro

The hedging reserve which was created during 2011 following the measurement of the new derivatives outstanding as from October 2011, has a negative balance of 43,423 thousand euro. The contractual derivatives at 25 and 26 October 2011 are measured at fair value in accordance with IAS 39 Cash Flow Hedging rules, net of the related tax effect. The positive change of 24,897 thousand euro relates to the effective fair value component of derivatives designated as "Cash Flow Hedges" and recognised in the statement of comprehensive income for 24,897 thousand euro and expressed net of the tax effect for a total of 12,826 thousand euro.

Other IFRS Reserves – (2,272) thousand euro

The reserve increased in the year by 167 thousand euro.

Retained earnings – 8,537 thousand euro

Retained earnings totalled 8,537 thousand euro and decreased compared to the previous year by 3,065 thousand euro due to the combined effect of the recognition of profit for the year ended 31 December 2012 (67,264 thousand euro), part of the payment of a dividend during 2012 (46,706 thousand euro), and reallocation to other reserves (23,624 thousand euro).

Profit for the year – 79,230 thousand euro

Profit amounted to 79,230 thousand euro in 2013, up by 11,966 thousand euro from 67,264 thousand euro in 2012. It should be noted that profit was significantly affected by the tax burden due to the introduction in the year of the corporate income tax surcharge, the so-called "Robin Hood Tax".

Non-current liabilities

24. Non-current loans (including portions falling due within the next 12 months) – 1,733,921 thousand euro

The item refers to the non-current loan from a pool of 12 leading European banks.
The table below shows non-current debt expressed in the original currency and the relevant interest rate. The loans' notional amount is the same as the carrying amount.

Thousands of euro	Balance		Notional amount		Interest rate	Effective interest
	31.12.2013	31.12.2012 restated	31.12.2013	31.12.2012 restated	in force	rate
Floating rate debt	1,751,187	1,751,187	1,751,187	1,751,187	Eur 3+2,10%	4.95%
Financing costs	(17,266)	(32,805)				
TOTAL	**1,733,921**	**1,718,382**	**1,751,187**	**1,751,187**		

It should be noted that under the contract, the spread on the loan will be 2.40% as from 30 September 2014, 2.60% as from 30 September 2015, 3.25% as from 30 September 2016 and 3.75% as from 30 September 2017.
The maturity schedule for this loan is set out below.

Thousands of euro	Notional amount at 31.12.2013	Notional amount al 31.12.2012 restated	1 year	2 - 5 years	After 5 years
Non current loans and borrowing					
Loan	1,751,187	1,751,187	-	1,751,187	
Capex Line					
Total	1,751,187	1,751,187	-	-	-

The loan is subject to some conditions that as from 30 June 2012 the Company must meet every six months to continue using the credit lines. The covenants concern the following basic elements:
Total net financial debt, RAB (Regulatory Asset Base), EBITDA, and net financial expense.
At 31 December 2013 all the covenants had been complied with.

25. Post-employment and other employee benefits – 37,151 thousand euro

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

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

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

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Post-employment benefits	35,522	35,698	(176)
Incentive plans			
ASEM health service	1,629	1,568	61
Compensation due instead of notice of dismissal (ISP)	-	87	(87)
Compensation due instead of energy discount	-	23	(23)
	37,151	**37,376**	**(225)**

Below is an analysis of the main items.

Post-employment benefits

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

Health service

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

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

	31.12.2013	31.12.2012
Discount rate	3.20%	3.20%
Rate of wage increase	3.00%	3.00%
Rate of health expenses increase	3.00%	3.00%

26. Provisions for risks and charges – 11,192 thousand euro

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

Provisions for risks and charges (both the current and the non-current portion) increased by 30,497 thousand euro compared to 31 December 2012.
The table below shows total provisions for risks and charges (both the current and non-current portions) with a separate column for the current portion.

Thousands of euro	31.12.2012 restated	Of which current portion	Of which non-current portion	Contributions from change in scope of consolidation	Allocations	Releases	Uses	Other changes	31.12.2013	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	4,646	316	4,330		4,117	(515)	(1,409)	2,318	9,157	-	9,157
Provision for taxes and duties	694	-	694		1,166	-	-	-	1,860	-	1,860
Provisions for stock option costs	-	-	-		-	-	-	-	-	-	-
Provisions for disputes with personnel	100	-	100		-	-	-	-	100	-	100
Provision for transaction costs with staff	-	-	-		-	-	-	-	-	-	-
Provision for future charges	835	-	835		-	-	-	(760)	75	-	75
Provision for disputes on concessions	10,135	6,437	3,698		4,964	(525)	(473)	(356)	13,745	13,745	-
Other provisions for risks and charges	11,603	9,341	2,262		28,107	(3,739)	(4,839)	(1,202)	29,930	29,930	-
Total	**28,013**	**16,095**	**11,918**	**-**	**38,355**	**(4,778)**	**(6,721)**	**-**	**54,868**	**43,676**	**11,192**
Provisions for charges pertaining to leaving incentives	3,081	3,081	-		3,641	-	-	-	6,722	6,722	-
Total	**31,093**	**19,175**	**11,918**	**-**	**41,996**	**(4,778)**	**(6,721)**	**-**	**61,590**	**50,397**	**11,192**

Provisions for risks and charges amounted to 61,590 thousand euro (current: 50,397 thousand euro) broken down as follows:

- "Provisions for litigation and disputes", 9,157 thousand euro, to cover contingent liabilities mainly arising from several ongoing litigation cases with customers for harmful events;
- "Provision for taxes and duties", 1,860 thousand euro, mainly for litigation relating to the tax on the occupation of public space (Tosap), Cosap, the municipal tax on property (ICI), and other local taxes;
- "Provisions for disputes with personnel", 100 thousand euro, to cover expected charges arising from disputes with personnel of a company acquired in previous years. It was not considered necessary to change it in these financial statements;
- "Provision for disputes on concessions", 13,745 thousand euro, rose by 4,964 thousand euro following some requests made by municipalities relating to the review of the agreed concession fees; releases were made for disputes that are no longer current for 525 thousand euro and was used for 473 thousand euro;

- "Other provisions for risks and charges", 29,930 thousand euro, to cover mainly the risk of changes to some tariff components, the estimate of costs for international arbitration proceedings, and finally the risk due to the obligation to purchase Energy Efficiency Certificates in the amount set by AEEG for 2012 and 2013.
- "Provisions for charges pertaining to leaving incentives", 6,722 thousand euro, to cover liabilities that may arise from agreements with the unions signed in 2012 and in 2013 as part of the corporate restructuring process.

The tax position of the Company is settled through to the end of 2008.

27. Deferred tax liabilities – 129,156 thousand euro

This item is commented on together with the deferred tax assets in the specific paragraph under assets.

28. Non-current financial liabilities – *24,020 thousand euro*

This item, which decreased by 6,150 thousand euro compared to the previous year, includes the part of non-current debt arising from the closure of the derivatives connected to the loan outstanding until October 2011. The amount of these derivatives is recognised in Company's financial statement as a non-current debt which will be settled in 7 years, equal to the duration of the new interest rate swaps subscribed in October 2011 and currently outstanding.

29. Other non-current liabilities – 272,131 thousand euro

This item increased by 12,394 thousand euro compared to the previous year. The breakdown is set out below.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Other payables	362	555	(194)
Deferred income for grants related to assets	51,559	51,556	3
Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions	220,210	207,266	12,945
Deferred income for energy efficiency certificates	-	359	(359)
Total other non-current liabilities	**272,131**	**259,736**	**12,394**

The increase in deferred income for connection fees by 12,945 thousand euro is mostly attributable to contributions received during the year net of the portion recognised in profit or loss to cover operating costs incurred.

Current liabilities

30. Current loans – 0 thousand euro

At 31 December 2012 a liability was recorded for the automatic cash pooling system with the cancellation of balances in regard to the subsidiary G6 Rete Gas. Following the aforementioned merger, the balance on this account was set to zero.

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

The current portion of non-current bank loans was completely cancelled at 31 December 2013 by the equivalent but opposite impact of the current portion of the implicit debt in the structure of the outstanding Interest Rate Swaps and the lower debt arising from the recognition of the adjustment to the amortised cost regarding the loan hedged by the IRS.

32. Current portion of non-current provisions and current provisions – 50,397 thousand euro

The current portion of non-current provisions amounted to 50,397 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 26).

33. Trade payables – 148,290 thousand euro

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

The item decreased by 18,670 thousand euro compared to 31 December 2012.

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

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Suppliers	147,567	166,960	(19,393)
Payable due to owners of the Parent	724	0	724
Total	**148,290**	**166,960**	**(18,670)**

Payables due to suppliers fell compared to the previous year by 19,393 thousand euro. The balance at 31 December 2013 mainly consists of residual amounts payable to companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from personnel and operating support services, and from the purchase of electricity and gas service for internal use.

34. Income tax liabilities – 19,621 thousand euro

Income tax liabilities compared to the previous year rose by 17,484 thousand euro (in the previous year the item amounted to 2,137 thousand euro). The item includes IRES liabilities due to the consolidating company F2i Reti Italia S.r.l. relating to the tax consolidation, totalling 13,866 thousand euro.

35. Current financial liabilities – 72,323 thousand euro

Current financial liabilities refer to the fair value of derivatives at 31 December 2013 (65,792 thousand euro) following the revised valuation based on the estimated rate curves at 31 December 2013, as well as interest expense accrued on the loan (381 thousand euro) and the spread of derivatives. Finally, it is necessary to note the impact on the debt position of the financial liabilities arising from the closure of the previous derivatives which were repaid in October 2011, which the Company will pay to the pool of banks over the next 7 years over the life of the new IRS subscribed in October 2011 and currently outstanding.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Accrued expenses for interest on current bank loans and borrowings	381	195	185
Fair value of cash flow hedges	65,792	103,514	(37,722)
Current portion of financial liabilities	6,150	6,039	111
Total	**72,323**	**109,749**	**(37,426)**

36. Other current liabilities – 168,733 thousand euro

Other current liabilities are set out below.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Other tax liabiities	7,241	8,266	(1,025)
Social security contributions	9,100	7,625	1,475
Other liabilities	137,981	99,215	38,766
Accrued expenses	2,965	4,432	(1,467)
Deferred income	11,445	9,811	1,634
Total	**168,733**	**129,349**	**39,384**

Other tax liabilities, amounting to 7,241 thousand euro, are set out below.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
VAT liabilities	3,951	4,972	(1,021)
Employee withholding taxes	2,997	2,972	25
Withholding taxes	107	89	18
Other taxes	185	233	(47)
Total	**7,241**	**8,266**	**(1,025)**

Social security contributions, amounting to 9,100 thousand euro, are set out below.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Due to INPS	7,861	6,637	1,224
Due to other agencies	1,240	989	251
Total	**9,100**	**7,625**	**1,475**

Other liabilities, amounting to 137,981 thousand euro, are set out below.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Payables due to employees	10,902	9,090	1,813
Payables due to municipalities for rights and fees	6,921	8,331	(1,410)
Connection contribution and other payables due to customers	6,426	5,601	824
User guarantee deposits and advances	2,106	1,634	472
Payables due to compensation Fund	100,345	67,445	32,900
Payables due to board of statutory auditors	12	0	12
Payables due to municipalities for tariffs	547	547	0
Other payables	10,722	6,567	4,155
Total	**137,981**	**99,215**	**38,766**

Liabilities to the Compensation Fund consist of payables for the entries that are transferred through the invoicing mechanism to the trading companies and then paid to the Compensation Fund generally on a two-monthly basis (around 81,682 thousand euro), payables relating to the amounts of equalisation for 2009 and 2010 (9,634 thousand euro) which the Company considers not finalised at reporting date whereas, for the remainder, payables relating to the advances received for the equalisation for 2013 and payables for the default service.

Accrued expense and deferred income, amounting to 14,411 thousand euro, are set out below.

Thousands of euro

	31.12.2013	31.12.2012 restated	2013 - 2012
Accrued expenses			
Additional monthly accrual for employees	2,965	4,402	(1,438)
Other accrued expenses	1	30	(29)
Total accrued expenses	**2,965**	**4,432**	**(1,467)**
Deferred income			
Grants related to assets	2,217	1,794	423
Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions	7,578	6,992	586
Other deferred income	1,650	1,025	625
Total deferred income	**11,445**	**9,811**	**1,634**
Total accrued expenses and deferred income	**14,411**	**14,243**	**168**

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

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

Related party disclosures

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

Taking account of the fact that only on 21 December 2013 did Enel Distribuzione sell its stake in the Parent to F2i Reti Italia 2 S.r.l., for 2013 the following were defined as related parties:

- F2i Reti Italia S.r.l.
- F2i Reti Italia 2 S.r.l.
- Enel S.p.A.
- Enel Distribuzione S.p.A.
- Enel Energia S.p.A.
- Enel Servizi S.p.A.
- Enel Servizio Elettrico S.p.A.
- Enel Si S.p.A.
- Enel Green Power S.p.A.

The definition of related parties includes executives with strategic responsibilities, including their close relatives, of the company and of F2i Reti Italia S.r.l. as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the company exercises considerable influence. Executives with strategic responsibilities are those who have direct and indirect power and responsibility for planning, management, and control of company operations, including directors.

As was the case in previous financial years, the 2i Rete Gas Group continued its technical and trading cooperation with its shareholder Enel Distribuzione S.p.A., its subsidiaries, and other Enel Group companies.

The most important trade receivables concern receivables due from Enel Energia (110,148 thousand euro), mainly relating to the transport activity undertaken for the Enel Group gas sales company.

The main trade payables refer to payables due to the Enel Group, in particular to the service company Enel Servizi (5,687 thousand euro), Enel Energia (6,712 thousand euro) and Enel Distribuzione S.p.A. (2,778 thousand euro); the amounts due to Enel Servizi and Enel S.p.A. concern service contracts outstanding with these Enel Group companies.

The dividend payment of 81,978 thousand euro refers to the distribution of profit for 2012 to F2I Reti Italia S.r.l. and Enel Distribuzione S.p.A..

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

It should be noted that there were no transactions with F2i Reti Italia 2 S.r.l. and below are the trading, financial and other transactions involving the Group and its parents and subsidiaries.

Trading and other transactions

Year 2013

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

Year 2012

Thousands of euro	Trade		Trade	
	Receivables	Payables	Costs	Revenue
Enel Distribuzione	386	(4,882)	16,160	11,402
Enel Energia	89,663	(6,705)	5,771	271,895
Enel S.p.A.	-	(716)	-	-
Enel Servizi	-	(11,556)	19,684	-
Enel Servizio Elettrico	151	(3)	4	0
Enel Trade	3,147	-	-	11,969
Enel Sì	-	-	3,439	-
Enel Green Power	-	-	0	-
F2i Reti Italia S.r.l.	-	-	-	-
F2i sgr S.p.A.	-	(20)	40	-
CBL	967	-	-	802
Total	**94,314**	**(23,881)**	**45,099**	**296,068**

Financial transactions

Year 2013

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

Year 2012

Thousands of Euro	Financial Loan Assets	Financial Loan and Borrowings	Expense	Revenue	Dividends
Enel Distribuzione	-	-	-	-	5,034
Enel Energia	-	-	-	-	
Enel S.p.A.	-	-	-	-	
Enel Servizi	-	-	-	-	
Enel Servizio Elettrico	-	-	-	-	
Enel Trade	-	-	-	-	
Enel Sì	-	-	-	-	
Enel Green Power	-	-	-	-	
F2i Reti Italia S.r.l.	1,469	(1,002)	-	-	28,940
F2I Reti Italia	-	-	-	-	
F2i sgr S.p.A.	-	-	-	-	
CBL	-	-	-	-	20
Total	**1,469**	**(1,002)**	**0**	**0**	**33,993**

In short, here is the main information relating to the subsidiaries:

Gas sector

GP Gas S.r.l.
Quota capital: (10,400 euro)
Registered office: Milan.
Equity investment: 100%.
The company is a concessionaire of the natural gas distribution service in 8 municipalities in the province of Pavia.
The financial statements as at and for the year ended 31 December 2013 show a profit for the year of 355 thousand euro, with revenue of 1,101 thousand euro and equity of 4,050 thousand euro.

Italcogim Trasporto S.r.l.
Quota capital: (10,000 euro)
Registered office: Milan.
Equity investment: 100%.
Italcogim Trasporto offers a regional natural gas transport service through a gas pipeline which is about 15 km long.
The network managed guarantees the power supply of some companies and three natural gas distribution plants which service six municipalities in the province of Ascoli Piceno. The financial statements as at and for the year ended 31 December 2013 show a profit for the year of 208 thousand euro, with revenue of 302 thousand euro and equity of 2,820 thousand euro.

Italcogim Velino S.r.l.
Quota capital: (300,000 euro)
Registered office: Milan.
Equity investment: 100%.
In the year the company ended the construction of the first installation network for two municipalities in the province of Rieti. The financial statements as at and for the year ended 31 December 2013 show a profit for the year of 29 thousand euro, with revenue of 1,987 thousand euro and equity of 464 thousand euro.

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

The fees for directors and the board of statutory auditors of the Parent for 2013, totalling 596 thousand euro (532 thousand euro in 2012), refer to statutory auditors' fees for 170 thousand euro and directors' fees for 426 thousand euro.

38. Contractual commitments and guarantees

Guarantees provided totalled 115,329 thousand euro and referred to guarantees provided to third parties. These guarantees refer to bank guarantees (92,296 thousand euro) and to insurance guarantees (23,033 thousand euro).
These guarantees were granted in favour of maintenance and extension work for the distribution network and participation in tenders for gas distribution service management.
Finally, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements which have not been mentioned in the financial statements and that would generate significant effects on the Group's financial statements.

Contingent liabilities and assets

Contingent liabilities

There were no contingent liabilities notified at 31 December 2013.

Contingent assets

There were no contingent assets notified at 31 December 2013.

Significant events after the reporting period

There were no significant events after 31 December 2013.

Independent auditors' fees

The fees for 2013 recognised to the independent auditors totalled 744 thousand euro and include the fees for the audit of the separate financial statement, the consolidated financial statements of 2i Rete Gas S.p.A. and of the financial statements pursuant to Resolution no. 11/08, as well as 225 thousand euro for fees relating to the work carried out pursuant to 2501-bis, paragraph six, of the Italian Civil Code, for the merger of G6 Rete Gas S.p.A. and to the work undertaken to issue their opinion pursuant to 2437-ter of the Italian Civil Code following some amendments to the Articles of Association of 2i Rete Gas S.p.A..

Management and coordination

F2i Reti Italia S.r.l. has exercised management and coordination over the 2i Rete Gas Group since 1 October 2009.
Below are the key figures from the financial statements of F2i Reti Italia S.r.l. at 31 December 2012.

Thousands of euro	31/12/2012
Statement of Financial Position	
Non current assets	717,887
Current assets	81,705
Prepayments and accrued income	0
Equity	621,839
Provision for risks and charges	960
Post-employment benefits	0
Payables	176,792
Accrued expenses and deferred inco	0

	31/12/2012
Income Statement	
Production revenues	0
Production costs	(1,069)
Financial income	69,850
Financial expense	(13,306)
Extraordinary income	18
Extraordinary expense	(11)
Income taxes	2,983
Profit for the year	58,465

XI. Corporate Governance

Organisational and Management Model

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

On 16 March 2011 the Parent's Board of Directors - in consideration of the company leaving the scope of the Enel Group and the opportunity to reflect the contribution, experience and underlying principles provided by the new controlling shareholder F2i Reti Italia S.r.l. – approved and issued, in implementation of the provisions of art. 6 of Legislative Decree no. 231/2001 of 8 June 2001, its own independent and distinct "Organisational and Management Model" (in place of the Organisational and Management Model of the Enel Group that had previously been adopted by Resolution of the Board of Directors on 18 December 2002). It also appointed the company Supervisory Body to monitor implementation, ongoing updating, effectiveness of and compliance with the Organisational and Management Model under Legislative Decree no. 231/2001, jointly and with autonomous powers of initiative and control in the persons of the internal audit manager Angelo Santo Bargigia, the Chairman of the Board of Statutory Auditors, Marco Antonio Modesto Dell'Acqua, and Daniela Mainini, the latter being appointed Chairman of the Supervisory Body itself.

During the Parent's Board of Directors' meeting on 23 December 2013 some revisions to the Parent's Organisational and Management Model were approved, on the basis of the need to standardise the contents of the Model with its new institutional and organisational structure, following the merger of 2iGas Infrastruttura Italiana Gas S.r.l. and G6 Rete Gas S.p.A. and to align its contents to some specific features of the gas distribution business.

The purpose of the model is the construction and the fine-tuning of a structured and comprehensive system of control procedures and activities, to be implemented also as a pre-emptive measure, aimed at preventing the types of crimes listed in the Decree, in particular through identification of "operational areas at risk" and the setting up of procedures for them.

The model consists of a "general section" and individual "special sections" detailing the different types of crimes listed in Legislative Decree no. 231/2001 and subsequent amendments.

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

Code of Ethics

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

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

XII. Report of the Board of Statutory Auditors

2i RETE GAS S.P.A.

STATUTORY AUDITORS REPORT ON CONSOLIDATED

FINACIAL STATEMENT AS OF 31.12.2013

To the Shareholders.

The Board of Directors has given to this Board the consolidated financial statements of the 2i Rete Gas Group.

The consolidated financial statements for the year ended 31 December 2013 has been prepared in accordance with accounting policies and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under the procedure art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and, where applicable, by the rules of the Civil Code.

Pursuant to art. 37 of Legislative Decree No. 39 of 27/10/2010 audit procedures have been entrusted to KPMG SpA which has not reported to the Board of Statutory Auditors critical or important events that are reprehensible as to the content of the consolidated financial statements.

The consolidated financial statements for the year 2013 include 4 companies, including 2i Rete Gas SpA.

The consolidation perimeter consists of the following companies:

- 2i Rete Gas S.p.a.
- Italcogim Velino S.r.l.
- Italcogim Trasporto S.r.l.
- G.P. Gas S.r.l.

The criteria for consolidation are contained in section 4 of the notes to the consolidated financial statements for 2013.

The financial statements of subsidiaries, consolidated by the 2i Rete Gas Group, were prepared, in each accounting period, following the same accounting principles of the parent company and using, where applicable, the financial statements of companies approved by the respective shareholders or, failing that, on the basis of financial statements approved by the respective governing bodies.

The Board acknowledges that it has verified that the consolidated financial statements are consistent with the facts and information of which it has knowledge as a result of the participation to the governing bodies, of the exercise of their supervisory duties and of their powers of inspection and control.

Finally, the Board acknowledges that it has verified the compliance and consistency of the Management Report with the data and results of the consolidated financial statements.

Milan, April 23, 2014

Board of Statutory Auditors

Dott. Marco Antonio Dell'Acqua (Chairman of the Board of Statutory Auditors)

(signed on the original)

Dott. Giancarlo Fornaciari (Standing statutory auditor)

(signed on the original)

Dott. Ugo Gaspari (Standing statutory auditor)

(signed on the original)

XIII. Report of the Independent Auditors

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

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

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

1 We have audited the consolidated financial statements of the 2i Rete Gas Group as at and for the year ended 31 December 2013 comprising the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards issued by the Italian Accounting Profession and recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in note 6.2 "Restatement of comparative figures", the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such financial statements and issued our report thereon on 8 April 2013. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2013.

3 In our opinion, the consolidated financial statements of the 2i Rete Gas Group as at and for the year ended 31 December 2013 comply with the International Financial Reporting Standards endorsed by the European Union. Therefore, they are clearly stated and give a true and fair view of the financial position of the Enel Rete Gas Group as at 31 December 2013, the results of its operations and its cash flows for the year then ended.

4 As required by the law, the parent disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its consolidated financial statements. Our opinion on the financial statements of the 2i Rete Gas Group does not extend to such data.

5 The directors of 2i Rete Gas S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the directors' report with the financial statements to which it refers, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report is consistent with the consolidated financial statements of the 2i Rete Gas Group as at and for the year ended 31 December 2013.

Milan, 23 April 2014

KPMG S.p.A.

(signed on the original)

Massimo Maffeis
Director of Audit

XIV. "Regulatory framework" Appendix

As for the rules which govern the business undertaken by the Group, it should be noted that in the Official Journal (of the Italian Republic) - General Series no. 252 of 28 October 2011 the decree of the Ministry of Economic Development of 18 October 2011 was published containing the precise list of the municipalities which fall within each of the 177 areas for the assignment through tender competitions of the natural gas distribution service, as set out in the Ministerial Decree of 19 January 2011 "The local areas in the natural gas distribution sector", most recently corrected by the communication of the Ministry of Economic Development published in the Official Journal (of the Italian Republic) no. 303 of 30 December 2011.
Both decrees were challenged before the TAR of Lazio by some municipalities and by some distributors. The hearing to discuss the appeals is set for 27 February 2014.

In the Ordinary Supplement of the Official Journal (of the Italian Republic) no. 22 of 27 January 2012 the Decree of the Ministry of Economic Development no. 226 of 12 November 2011 was published, setting out the Regulation for the tender criteria for the assignment of the gas distribution service.
The Regulation comes into force on the fifteenth day following publication, as specified in art. 19.
The Ministerial Decree introduces detailed regulation for the pre-tender stage (articles 2/4) and in particular regulates the means of aggregating the granting bodies and the disclosure obligations for outgoing operators, the compensation due to the latter (articles 5/8), the carrying out of tenders (articles 9/16), and the monitoring of the effects of the Decree (articles 17/19).

The Ministerial Decree identifies various implementing provisions:

- standard service contract (Ministry, on the proposal of the AEEG, pursuant to art. 14, paragraph 1 of Legislative Decree no. 164/2000; with Ministerial Decree of 5 February 2013 the Ministry of Economic Development approved the standard service contract); standard plant data report (AEEG pursuant to art. 4 of Ministerial Decree no. 226/2011); the AEEG, by Resolution no. 532/2012/R/GAS of 13 December 2012, prepared the single electronic format which must be used as from 1 January 2013;
- pricing scale for investment assessment (AEEG pursuant to art. 5 of Ministerial Decree no. 226/2011), to be issued;
- calculation of tender costs (AEEG pursuant to art. 8 of Ministerial Decree no. 226/2011); the AEEG, by Resolution no. 407/2012/R/gas of 11 October 2012, identified the related criteria;
- procedures relating to energy efficiency investments subject to tender (AEEG pursuant to art. 13 of Ministerial Decree no. 226/2011), to be issued;

- Monitoring and support with program to calculate the realisable amount of concessions (VIR) (Ministry pursuant to art. 17 of Ministerial Decree no. 226/2011), to be issued.

The AEEG, by means of its Resolution 113/2013/R/GAS of 21 March 2013, approved preparation of the form to notify any divergences from typical tenders and from tender specifications by contracting bodies, as envisaged by art. 9, paragraph 1 and 2 of Ministerial Decree no. 226/2011. The notification form to be used was subsequently approved with the resolution of the Infrastructure, Unbundling and Certification Department of the AEEG no. 2/13 of 7 June 2013.
Ministerial Decree no. 226/2011 was challenged before the TAR of Lazio by the municipality of Caserta and the hearing, which was originally set for 5 October 2012, was postponed to 27 February 2014.

In regard to the tender procedures by local areas, the Constitutional Court, with ruling no. 134 of 7 June 2013, confirmed the legitimacy of art. 24, paragraph 4 of Legislative Decree no. 93/2011 in relation to art. 76 of the Italian Constitution.

In the Ordinary Supplement of the Official Journal (of the Italian Republic) no. 71 of 24 March 2012, art. 25 of Law Decree no. 1/2012 was converted into law unchanged, in the part concerning the regulation of the disclosure obligations of operators of public services (currently paragraphs 6 and 7); the law comes into force the day after publication.
Art. 25 creates an obligation on concessionaires and contractors of local public services, following a specific request, to provide local authorities which decide to call tenders for the assignment of the service, data concerning:

- the technical characteristics of plant and infrastructure,
- their carrying amount at the start of the reporting period, in accordance with market parameters, revaluations and accumulated amortisation and
- any other information necessary to prepare the tenders.

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

In the Official Bulletin of the Lombardy Region no. 16 of 20 April 2012, the Regional Law of Lombardy no. 7 was published on the "Measures for growth, development and employment" ("*Misure per la crescita, lo sviluppo e l'occupazione*"); in order to streamline the updating process of the registry of the subsoil, art. 42 point 3 provides for that all subjects who manage infrastructure on the subsoil, must, by 30 June, provide the competent local offices with cartographic documentation, on a digital support, of the infrastructure managed, with an indication of its location and size. The same obligation is incumbent on the implementing party during work to build or lay

the foundations of new non-industrial infrastructure. It also established that the Regional Council, by means of its own resolution, shall establish the means of implementing the provision.
Failure to comply with these obligations at point 4 of art. 42, entails a minimum fine of 5 to a maximum of 15 euro for every linear meter of infrastructure, as well as a ban on issuing new construction permits for the realisation of infrastructure on the subsoil of the same territory. In this regard a subsequent Regulation with implementing and executive provisions will be issued.

Law Decree no. 83 (Urgent measures for the country's growth) was published in the Official Journal (of the Italian Republic) of 26 June 2012; art. 37 of the Law Decree amends articles 14 and 15 of Legislative Decree no. 164/00 and provides for the possibility of taking part in the initial distribution tenders for direct holders of assignments (prior to the Letta Decree), even if they manage local public services other than natural gas distribution by virtue of direct award.
In addition, there is no prejudice to the provisions of art. 46-bis of Law Decree no. 159/07 and the gas distribution areas established pursuant to the same article, on the basis of which tenders must be carried out in compliance with art. 24, paragraph 4 of Legislative Decree no. 93/11.
This Law Decree was converted into Law no. 134 of 7 August 2012, which did not entail any changes to the aforementioned art. 37.

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

Law Decree no. 69 of 21 June 2013 was published in the Official Journal (of the Italian Republic) no. 144 of 21 June 2013; it was converted into Law no. 98 of 9 August 2013, published in the Official Journal (of the Italian Republic) no. 194 of 20 August 2013, containing urgent measures for economy recovery.
Art. 4 established the mandatory nature of the deadlines as set out in art. 3 of Ministerial Decree no. 226/2011 for the commencement of the area tender procedures, envisaging an extension of the terms as set out in annex I of the aforementioned Ministerial Decree for the appointment of the contracting authority relating to areas falling within groupings I and II, as well as the intervention, first of the Region and then also of the Ministry for Economic Development, should the deadlines pass without action being taken. The same article provides for penalties applicable to municipalities which do not comply with the aforementioned timeframes, to the extent of 20% of the remuneration of the local capital and the related annual amortisation which the area operator is required to pay to the

municipalities to the extent set out in the tender, pursuant to art. 8, paragraph 4 of Ministerial Decree no. 226/2011.

Law Decree no. 145/2013 was published in the Official Journal (of the Italian Republic) no. 300 of 23 December 2013; it is in force as from 24 December 2013 and shall be converted into law by 21 February 2014. Art. 1, paragraph 16 introduces a change to art. 15, paragraph 5 of Legislative Decree no. 164/2000, establishing that for concessions which existed at the time Legislative Decree no. 164/2000 came into force, the repayment amount due from the new operator is calculated in compliance with that established in the agreements or contracts and, for any matter which cannot be settled through the goodwill of the parties, "*using the calculation methods as set out in art. 14, paragraph 8. In any case any private contributions relating to local assets, measured in accordance with the method of the tariff regulation in force are detracted from the repayment as set out in this paragraph*".