Annual Financial Report at 31 December 2016

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II Corporate Boards

Board of Directors	Board of Statutory Auditors	Independent Auditors
Chairwoman Paola Muratorio **Deputy Chairman** Carlo Michelini **Chief Executive Officer** Michele Enrico De Censi **Directors** Matteo Ambroggio Matias Sebastian Burghardt Rita Ciccone Stefano Mion Luca Galli Giuseppe Picco Rogantini Stephan Fedrigo Rosaria Calabrese	**Chairmen** Marco Antonio Modesto Dell'Acqua **Standing auditors** Gian Luigi Gola Marco Giuliani **Alternate auditors** Andrea Cioccarelli Giuseppe Panagia	PricewaterhouseCoopers S.p.A.

Milan Office

III Directors' Report

1. Foreword

According to the recent Economic Bulletin issued in January 2017[1] by the Bank of Italy, in 2016 the Italian economy showed gradual signs of recovery.
Considering the rise in industrial production, electricity consumption and freight transport, as well as the strong business confidence surveys, in the fourth quarter of 2016 GDP is estimated to have grown by nearly 0.2 percent compared to the previous period. The projections for Italy's economy, based on the most recent trends, suggest that GDP growth averaged 0.9 percent in 2016, and is estimated at 0.9 percent also in 2017 and 1.1 percent in both 2018 and 2019.

Economic activity was driven by resurgent investment and growing household spending. The construction industry – and especially the housing segment – showed further signs of stabilising.

The housing sector strengthened, while public construction slowed down.
This trend, which is crucial for the development of the gas distribution network and new connections to it, as well as gas consumption in general, caused the number of active customers to rise.
Although not impacting directly on the Group's Income Statement, the 2016 report of the Ministry of Economic Development on gas balancing shows a further increase nationally in gross domestic gas consumption. In December 2016, gas consumption was up +5.0% to 70,914 million cubic metres, compared to 67,523 million cubic metres in the previous year.

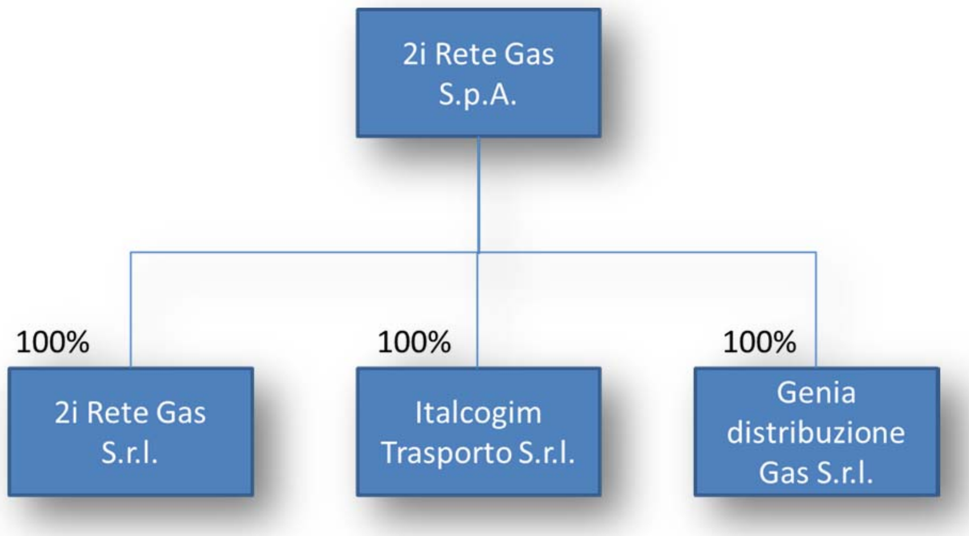
For 2016 the 2i Rete Gas Group has operating figures which show a strong improvement on the same figures for 2015, with a slight recovery in transported volumes and a rise in the number of Redelivery Points supplied; from the economic viewpoint, there was a clear increase in the results both in terms of revenues and EBITDA, despite the decline in revenues from gas transport.
Financial expenses were particularly limited for the year thanks to the new financial structure. A significant positive contribution came from tax expense compared to the previous year, when this item included the adjustment of the provisions for deferred tax assets and liabilities following the Robin Hood Tax being declared unconstitutional and the 2016 Stability Law approved at the end of 2015.
Net income thus rose steadily year-on-year.
The increase in the net financial position was largely attributable to the significant investments made during the year as well as the purchases of energy efficiency certificates.
During 2016, local authorities issued 6 more territorial tenders, bringing the total number of active tenders to 19; at 31 December 2016, none of them had been awarded, and the only tender progressing according to schedule was the one for the Milan 1 minimum

[1] Bank of Italy - Economic Bulletin No. 1 2017 dated 20 January 2017.

territorial area (known as ATEM, *Ambito Territoriale Minimo*). More tenders are expected to reach the bidding phase during 2017.

2. Group structure and key figures

The following diagram sets out the Group's equity investments at 31 December 2016:



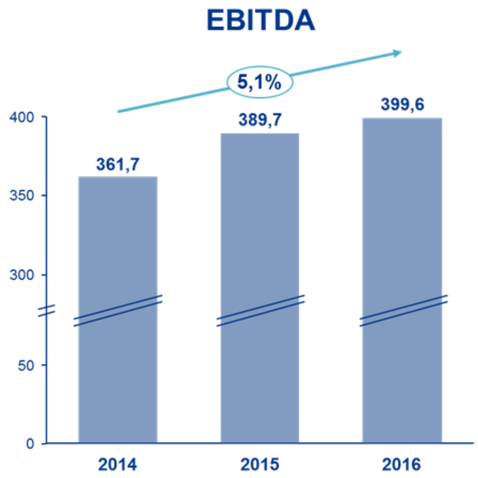
Regarding the Group key figures, the following table shows the key operating, income statement and statement of financial position indicators of the Group:

	31.12.2016	31.12.2015	2016 - 2015
Active concessions:	1,943	1,940	3
Active redelivery points:	3,900,186	3,819,104	81,082
Distributed Gas (Natural gas and LPG) in millions of cubic metres:	5,455	5,409	46
EBITDA in millions of euro:	399.6	389.7	10
Net income in millions of euro:	129.5	88.0	41
Managed networks in kilometers:	58,244	57,667	577

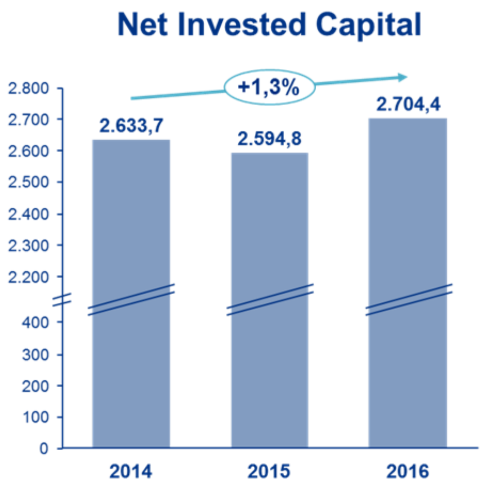
	31.12.2016	31.12.2015	2016 - 2015
Net financial position in millions of euro:	1,984.0	1,930.9	53.2
Net invested capital in millions of euro:	2,704.4	2,594.8	109.7

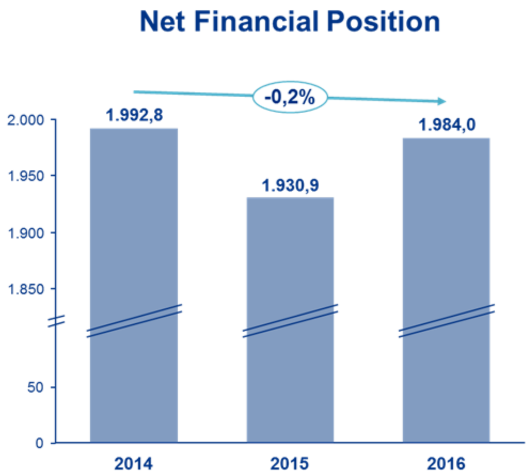
In order to better appreciate the development over time of some fundamental parameters for the Group, the diagrams below show the trend in the main income statement and statement of financial position indicators. For an analysis of the reported figures, reference should be made to section "The Results of the 2i Rete Gas Group":

Trend in EBITDA from 2014 to 2016:

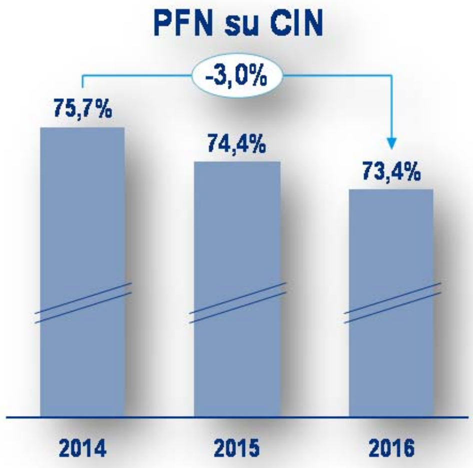


Trend in Net Invested Capital and Net Financial Position from 2014 to 2016:





In order to better appreciate the asset trend over the years, the diagram below shows the ratio of the Net Financial Position to Net Invested Capital:



3. Significant events during the reporting period

On 1 January 2016, pursuant to the resolutions of the shareholders' meetings held in December 2015, GP Gas S.r.l. was merged into 2i Rete Gas S.p.A. As a result, effective 1 January 2016, 2i Rete Gas S.p.A. has taken over all assets and liabilities of the merged company.
On 1 January 2016, 2i Rete Gas S.p.A. also bought the whole gas transport network from Italcogim Trasporto, reclassifying it as a gas distribution network.

In June 2016, as part of the annual rating review by Standard and Poor’s and Moody’s, the company disclosed the performance of its business and the key metrics to assess its financial strength to the two ratings agencies. Upon completion of that review, both agencies confirmed the rating attributed in previous years (BBB Stable Outlook and Baa2 Stable Outlook, respectively), and Standard and Poor’s confirmed the so-called “Liquidity profile” (which focuses on the ratio of debt to liquid assets) as “Strong”.

No acquisitions took place during the year.

4. Results of the 2i Rete Gas Group

When commenting on its income statement and statement of financial position data, the Group consistently uses over time certain popular non-IAS/IFRS measures. In particular, the income statement presents intermediate measures, such as EBITDA and EBIT, which are the algebraic sum of the items preceding them. As for statement of financial position data, similar considerations apply to net invested capital, net financial position, adjusted financial position, and accounting net financial debt, which are broken down in the following tables. As the measures used by the Group are not defined in the reference accounting standards, their definitions may not be aligned with those adopted by other companies/groups, and therefore they may not be comparable.

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

Millions of euro	31.12.2016	31.12.2015	Change
Revenues	**930.5**	**862.9**	**67.6**
Transport and sale of methane gas and LPG	558.1	575.8	(17.7)
Connection fees and accessory rights	19.5	18.0	1.6
Other sales and services	21.0	20.9	0.1
Revenues from intangible assets/assets under cor	207.1	170.0	37.0
Other revenues	124.7	78.2	46.5
Operating costs	**(530.9)**	**(473.2)**	**(57.7)**
Labour costs	(118.3)	(131.1)	12.8
Raw materials and inventories	(83.5)	(63.2)	(20.3)
Services	(207.6)	(208.3)	0.7
Other costs	(112.7)	(64.0)	(48.7)
Allocations to provisions for risks and charges	(9.0)	(6.5)	(2.5)
Increase in fixed assets not subject to IFRIC 12	0.2	0.0	0.2
EBITDA	**399.6**	**389.7**	**9.8**
Amortisation, depreciation and write-downs	**(155.9)**	**(154.5)**	**(1.5)**
Amortisation, depreciation and impairment losses	(155.9)	(154.5)	(1.5)
EBIT	**243.6**	**235.3**	**8.4**
Net financial income (expenses) and income (expenses) from equity investments	(47.4)	(48.4)	0.9
Pre-tax income	**196.2**	**186.9**	**9.3**
Income taxes for the year	(66.7)	(98.9)	32.2
Net result from continuing operations	**129.5**	**88.0**	**41.5**
Net result from discontinued operations	-	-	-
Net income for the year	**129.5**	**88.0**	**41.5**

The interpretation of IFRIC 12, on which the presentation of the tables for the statutory and consolidated financial statements of the 2i Rete Gas Group is based, does not impact on profits, but only on the equal measurement of revenues and costs, which totalled 207.1 million euro in the year and which relate to the construction of the distribution network infrastructure; therefore, for the purposes of easier analysis of any operational deviations, the income statement is set out below showing the consolidated revenues and costs, net of the impact of the application of the aforementioned interpretation.

Millions of euro	31.12.2016 without IFRIC 12 adjustment	31.12.2015 without IFRIC 12 adjustment	Change
Revenues	**723.4**	**692.9**	**30.5**
Transport and sale of methane gas and LPG	558.1	575.8	(17.7)
Connection fees and accessory rights	19.5	18.0	1.6
Other sales and services	21.0	20.9	0.1
Revenues from intangible assets/assets under construction	-	-	-
Other revenues	124.7	78.2	46.5
Operating costs	**(323.8)**	**(303.1)**	**(20.7)**
Labour costs	(70.8)	(94.3)	23.5
Raw materials and inventories	(6.7)	(9.4)	2.7
Services	(125.5)	(129.5)	4.0
Other costs	(112.1)	(63.4)	(48.6)
Allocations to provisions for risks and charges	(9.0)	(6.5)	(2.5)
Increase in fixed assets not subject to IFRIC 12	0.2	0.0	0.2
EBITDA	**399.6**	**389.7**	**9.8**

Revenues totalled 723.4 million euro, increasing by 30.5 million euro. Specifically, revenues from natural gas and LPG transport were down 17.7 million euro to 558.1 million euro, largely because of the lower weighted average cost of capital (WACC) set by AEEGSI (the Italian Regulatory Authority for Electricity, Gas and Water) for the 2016-2018 period, which became effective on 1 January 2016.

Connection fees and accessory rights totalled 19.5 million euro, up by 1.6 million euro compared to the same period of the previous year (18.0 million euro) as requests from new customers rebounded and the company received fees for concessions sold.

Revenues from other sales and services totalled 21 million euro and were broadly in line with the previous year, with higher revenues for the connection and reconnection of customers in arrears offset by lower revenues from the water sector as the company launched an asset disposal programme.
Other revenue mainly includes revenue for energy efficiency certificates and totalled 124.7 million euro, with a clear increase on the previous year of 46.5 million euro. This performance was essentially attributable to the purchase of 90.8 million euro's worth of

certificates during the year (compared to 50.3 million euro in the previous year), as well as 15.2 million euro in revenues pursuant to resolution 574/13. This line item also included 5.4 million euro in gains on the sale of assets, as the Group handed over a number of concessions to new operators: in the previous year, the Group had recognised 7.4 million euro in contingent assets after the end of the arbitration with Gaz de France, which had started in 2011.

Operating costs totalled 323.8 million euro and rose by 20.7 million euro.

Gross labour costs totalled 70.8 million euro, net of capitalisation, and were down 23.5 million euro compared to the previous year, when the company recognised the Fondo Gas; in addition, this year capitalisation rose due to the installation of smart meters, which was carried out in-house.
The cost of raw materials and inventories was decreasing compared to the previous year (-2.7 million euro) once the capitalised element was stripped out.

At the consolidated level, costs for services were down 4.0 million euro overall, thanks to the decline in the costs for utilities (-2.6 million euro), staff services brought in-house during the year (-0.9 million euro), and IT services (-1.0 million euro). These were offset by the increase in the costs for availability and meter reading services outsourced to third parties (-2.6 million euro) and legal operations associated with the default service (-1.9 million euro). Meanwhile, leasehold costs (leases, rentals, other) and other costs for services were down 3.8 million euro overall.

Other costs rose 48.6 million euro, largely because the cost for the acquisition of energy efficiency certificates was up 41.7 million euro year-on-year and the company recognised higher accelerated capital losses as a result of the campaign to replace conventional meters (-5.9 million euro).

Finally, net allocations to provisions for risks and charges increased by 2.5 million euro because of the usual changes in the provisions as well as the additional amounts set aside for a dispute over the purchase price of Genia Distribuzione.

EBITDA thus totalled 399.6 million euro, up by 9.8 million euro compared to the previous year (389.7 million euro) following a further squeezing of operating costs and the capitalisation of the activities to replace conventional meters with smart ones.
The Group achieved this result despite the decline in the regulatory WACC and the relevant tariff revenues.

Amortisation, depreciation and write-downs, in line with the previous year, totalled 155.9 million euro, and they are mainly relating to the amortisation of intangible fixed assets.

EBIT totalled, therefore, 243.6 million euro while in 2015 it amounted to 235.3 million euro.

Financial Income and Expenses, negative for 47.4 million euro, is in line with the previous year despite the one-off expense incurred for the renegotiation of the cost, term and type of some credit lines.

Pre-tax income totalled 196.2 million euro (up by 9.3 million euro compared to 2015), due only to the improvement in the result from operations in 2016.

Income taxes for the year had a 66.7 million euro impact on the Group's results (compared to a negative 98.9 million euro in 2015). In the previous year, a significant impact came from the adjustment of the provisions for deferred tax assets and liabilities after the Robin Hood Tax was declared unconstitutional. In addition, the 2016 Stability Law approved in December 2015 lowered the corporate income tax rate (IRES) to 24% starting from 2017.

As a consequence of the above, the net income for the year was 129.5 million euro, up by 41.5 million euro compared to the previous year.

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

Millions of euro	31.12.2016	31.12.2015	Change
	A	B	A-B
Net fixed assets	**2,663.2**	**2,578.4**	**84.8**
Property, plant and equipment	37.8	42.6	(4.8)
Intangible assets	2,862.7	2,796.6	66.2
Equity investments	3.4	3.3	0.0
Other non-current assets	45.1	32.0	13.0
Other non-current liabilities	(303.1)	(296.1)	(7.0)
Fair value of derivatives	17.4		17.4
Net working capital:	**106.0**	**68.5**	**37.5**
Inventories	20.3	13.8	6.5
Trade receivables from third parties and the Group	234.1	239.5	(5.4)
Net receivables/(payables) for income taxes	(5.7)	8.7	(14.4)
Other current assets	181.1	146.2	34.9
Trade payables to third parties	(166.7)	(169.3)	2.6
Other current liabilities	(157.0)	(170.4)	13.3
Gross invested capital	**2,769.2**	**2,646.8**	**122.3**
Other provisions	**64.7**	**52.1**	**12.7**
Termination and other employee benefits	48.1	47.2	0.9
Provisions for risks and charges	84.7	73.7	11.0
Net deferred taxes	(68.0)	(68.8)	0.8
Net invested capital	**2,704.4**	**2,594.8**	**109.7**
Assets held for sale	**-**	**-**	**-**
Liabilities held for sale	**-**	**0.0**	**(0.0)**
Equity	**720.4**	**663.9**	**56.5**
Residual payable for Unwinding IRS	**-**	**-**	**-**
Net Financial Position	**1,984.0**	**1,930.9**	**53.2**

Net fixed assets, which mainly represent intangible assets related to gas distribution concessions, totalled 2,663.2 million euro, up 84.8 million euro compared to 31 December 2015, as noted below.

The rise recorded in the item “Intangible assets” of 66.2 million euro was the net result of new investments of 230.4 million euro, in addition to decreases of 17.0 million euro, reclassifications of 1.8 million euro and impairment losses and amortisation in the year totalling 148.9 million euro.

The 4.8 million euro decrease in “Property, plant and equipment” was the result of new investments (3.7 million euro), disposals (1.5 million euro), reclassifications (1.8 million euro), and depreciation and impairment losses (5.2 million euro).

At consolidated level equity investments were unchanged at 3.4 million euro, while the increase in “other non-current assets” and “other non-current liabilities”, of 13 million euro and 7.0 million euro respectively, was due, in the former case, to the recognition of the advances paid to the contracting authorities which requested them for ATEM tenders as well to the estimate of the receivable arising from the replacement of conventional meters which are not fully amortized with smart meters, while, for the latter, it was due to higher medium/long-term deferred income for connection fees, property subdivision, plant transfer and network extension fees.

At 106.0 million euro, net working capital was up 37.5 million euro compared to 31 December 2015, mainly as a result of the steady increase in receivables for energy efficiency certificates (34.9 million euro), the 6.5 million euro rise in inventories – offset by the decline in trade receivables (-5.4 million euro) and trade payables (2.6 million euro) –, the 13.3 million euro decrease in other current liabilities, thanks to the fall in payables due to the Fund for Energy and Environmental Services (known as CSEA, *Cassa per i servizi energetici e ambientali*), and the 14.4 million euro increase in income tax payables.

Therefore, due to the combined effect of the changes in the net long-term fixed assets and the net working capital, the gross invested capital increases by 122.3 million euro from 2,646.8 million euro in the previous year to 2,769.2 million euro as at 31 December 2016.

Other provisions, totalling a positive 64.7 million euro, were up 12.7 million euro overall, largely because of the change in the provision for risks and charges.

Therefore net invested capital increased from 2,594.8 million euro in the previous year to 2,704.4 million euro, up by 109.7 million euro.

Equity fell from 663.9 million euro in 2015 to 720.4 million euro at 31 December 2016, due to the net impact of the following changes:

- 85 million euro decrease following the ordinary dividend pay-out;
- 13.2 million euro change in the reserves for derivative instruments and other reserves, net of the relevant tax impact;
- 1.1 million euro decrease in other reserves;
- 129.5 million euro increase following the recognition of the result at 31 December 2016.

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

Millions of euro		31.12.2016	31.12.2015	Changes
Medium/long-term bank loans	25	(270.0)	(200.0)	(70.0)
Medium/long-term debenture loans	25	(1,890.0)	(1,890.0)	-
Cash and cash equivalents with third parties	21	183.2	160.5	22.7
Short-term financial receivables	19	0.9	0.3	0.6
Other current financial assets	20	0.0	0.0	0.0
Short-term payables due to banks	30	-	-	0.0
Non-current financial assets	15	0.8	0.9	(0.2)
Non-current financial liabilities	28	-	-	-
Current financial liabilities	35	(21.1)	(21.4)	0.3
Net financial position - Adjusted		**(1,996.2)**	**(1,949.6)**	**(46.6)**
Non-current financial assets - costs on loan	15	0.6	4.3	(3.7)
Adjustment of payables due to costs on loan (IAS 39)	31	-	-	-
Current portion of medium/long-term loans	31	-	-	-
Adjustment of payables due to costs on loan (IAS 39)	25	11.6	14.4	(2.9)
Loan fees due	25	-	-	-
Net Financial Position		**(1,984.0)**	**(1,930.9)**	**(53.2)**
Positive fair value of derivatives	20	17.4	-	17.4
Negative fair value of derivatives	35	-	-	-
Outstanding debt for IRS Unwinding - short-term portion	35	-	-	-
Outstanding debt for IRS Unwinding - long-term portion	28	-	-	-
Accounting net financial debt		**(1,966.6)**	**(1,930.9)**	**(35.8)**

The net financial position moves from 1,930.9 million euro in 2015 to 1,984.0 million euro at 31 December 2016. The Adjusted Net Financial Position moves from 1,949.6 million euro to 1,996.2 million euro due to the increase in net working capital. Net of the amortised cost and the amount of the derivative, accounting net financial debt totalled 1,966.6 million euro, compared to 1,930.9 million euro in the previous year.

Millions of euro	31.12.2016	31.12.2015
A) NFP Adjusted	**(1,949.6)**	**(2,017.4)**
A) NFP acquired		
EBITDA	399.6	389.7
Write down of receivables	(1.8)	(1.5)
Capital gains/ (losses)	11.2	9.5
Income taxes for the period	(66.7)	(98.9)
B) GROSS CASH FLOW	**342.3**	**298.8**
Change in net working capital	(37.5)	10.4
Change in provisions (risks and charges, TFR, deferred tax assets and liabilities)	7.4	57.1
Change in other non-current assets	(13.0)	(8.3)
Change in other non-current liabilities	7.0	12.8
C) OPERATIVE CASH FLOW	**306.1**	**370.9**
Net investments	(226.8)	(195.5)
Investments in financial assets	0.1	0.2
D) FREE CASH FLOW	**79.5**	**175.6**
Financial income/(expenses)	(47.6)	(48.6)
Adjustment for variation of amortised cost and payable for fees	6.6	5.8
Payment of dividends	(85.0)	(65.0)
E) CASH FLOW FROM FINANCING ACTIVITIES	**(126.1)**	**(107.8)**
F) CHANGE IN DEBT (D+E)	**(46.6)**	**67.7**
G) FINAL NFP - Adjusted (A+F)	**(1,996.2)**	**(1,949.6)**
IAS adjustment to cost of debt	12.2	18.7
NET FINANCIAL POSITION	**(1,984.0)**	**(1,930.9)**

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

In 2016, cash flow was negative by nearly 46.6 million euro, compared to the approximately 67.7 million euro rise in the prior year.

The main differences were largely due to an increase in working capital associated with the purchases of energy efficiency certificates, significantly greater investments in the network and meters, and the higher dividends paid out.

Specifically, Gross Cash Flow amounted to approximately 342.3 million euro, compared to nearly 298.8 million euro in 2015. When comparing the two items, the tax expense for the year and the change in the provision for deferred taxes must be considered. In 2015, this line item included the change in the tax rate following the repeal of the Robin Hood Tax and the new 24% corporate income tax rate (IRES) for the year 2017 introduced by the 2016 Stability Law. Specifically, in 2015 “Change in provisions” included a net 43.4 million euro increase in receivables for prepaid taxes. Excluding this change, the 2015 Gross Cash Flow would have been in line with the current year.

As for Free Cash Flow, in 2016 it was affected by the negative 41 million euro change in purchases and collections of energy efficiency certificates (the increased investment in energy efficiency certificates will be recognised in 2017), the rise in receivables for the disposal of meters not yet amortised with tariffs (11.7 million euro), the 4 million euro

advance payment of the concession fee for the network in the municipality of Rozzano, the tender fees paid in advance (2.6 million euro), and the over 31.2 million euro increase in net investment.
The rest of the annual change in the Group's debt was attributable to the 20 million euro increase in dividends paid out compared to the prior year.

5. Regulatory and tariff framework

5.1 Regulation

As regards the business perimeter of 2i Rete Gas, the interventions of the *Autorità per l'energia elettrica, il gas ed il sistema idrico* (AEEGSI) during 2016 developed along the lines and targets which had been largely outlined during 2015.
In the period in question, the AEEGSI issued numerous provisions affecting the Group and regarding the gas or water services sectors; among these in particular, of specific interest to gas distribution, various resolutions on tariffs, regulation of the metering service, regulation of the quality and safety of the distribution service, regulation of arrears in the electricity and gas sectors, regulation of last resort services in the gas sector (supply of last resort - FUI and default service), accounting unbundling, contribution to obtain energy efficiency certificates by distributors which have taken on obligations, insurance in favour of gas end users, exchange of data between operators, regulation implementing tenders to assign the gas distribution service, reliefs on electricity, gas and water bills for the communities struck by the earthquakes in Central Italy in August and October 2016, and checks in regard to operators.

Tariffs for the gas distribution and metering service

After the provisions adopted at the end of 2013, along with those on service quality, for the new 2014-2019 regulatory period, and completed in 2014 with Resolution No. 367/2014/R/gas (RTDG), as well as after revising the method for calculating the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors in late 2015, the Authority carried out and eventually completed in late 2016 – by passing Resolution No. 775/2016/R/gas of 22 December 2016 – the process for the interim revision (to be performed halfway through the regulatory period) of the tariff regulation for gas distribution and metering services for the 2017-2019 period. As part of this revision, besides confirming the annual reduction rate for the recognised operating costs (*X-factor*) used in the first three years of the regulatory period, it introduced some changes concerning the recognised operating costs and the tariffs covering meter testing expenses, as well as the recognition of the costs of remote reading and management systems and concentrators. In addition, it also set the standard investment costs for the smart metering units for 2017, including also G4 and G6 gas smart meters for the first time.

The Authority arranged to set the final tariffs for 2015, on the basis of the definitive financial data for 2014 as communicated by the companies, the provisional tariffs for 2016 and, at year end, the obligatory tariffs for 2017 and the related equalisation payments to be paid every two months for the natural gas distribution and metering services.

In addition, during 2016 the AEEGSI, through two consultations, carried on with the process to introduce new criteria for the tariff compensation for new investments in gas distribution that had started with Resolution No. 573/2013/R/gas. Among the different options outlined during the consultation phase (standard costs, price cap, or mixed solutions), in late 2016 the AEEGSI confirmed with Resolution No. 704/2016/R/gas a standard-cost based approach, launching a technical round table with businesses and their Associations in order to agree to a common standard cost structure. In addition, it decided that the new accounting based on standard costs would be effective from the tariff year 2019 with respect to investments made in 2018 on the basis of a provision to be implemented by the end of 2017, also after another public consultation on the conclusions of the technical round table.

Furthermore, the Authority also defined mechanisms for monitoring whether the implementation of standard costs is effective. Based on the findings, it may consider adopting mixed solutions (standard costs/price cap) according to the supply of methane to the area concerned.

The Authority is expected to launch the round table in the new year.

Regulation regarding the metering of natural gas at Redelivery Points of the distribution network

A number of changes were made to this regulation in 2015, concerning specifically the meter reading frequencies, how and when the readings are made available to sale companies, and the management of remote readings. During 2016, the relevant authorities introduced new provisions (Resolutions No. 100/2016/R/com and 463/2016/R/com) requiring distribution companies to automatically compensate the seller in the event of failure to make the readings available as agreed.

Installation and putting into service for remote reading/management

With Resolution No. 631/2013/R/gas (which replaced the previous Resolution No. ARG/gas 155/08 in late 2013), concerning the remote management of gas smart meters, and based on some technical studies the Italian Gas Committee (known as CIG*, Comitato Italiano Gas*) is currently conducting, in late December the AEEGSI passed the Resolution No. 821/2016/R/gas, allowing natural gas distributors to defer the remote management of the switch-off of the electrovalve on the G4 and G6 smart meters until 1 January 2018.

Service quality and safety

The Authority has set the bonuses and penalties for the years 2013 and 2014 concerning the level of service safety achieved by natural gas distributors. 2i Rete Gas was awarded an approximately 7.3 million euro bonus for 2013 (1.2 million euro concerning gas odorisation measurements and 6.1 million euro for the reduction in gas leaks) and a 12.1 million euro bonus for 2014 (nearly 3.9 million euro concerning gas odorisation measurements and 8.2 million euro for the reduction in gas leaks). This Group was awarded this bonus because it constantly maintains and analyses its networks significantly more often than the minimum required by AEEGSI.

During the year, with Resolution No. 413/2016/R/com, the Authority introduced some changes to the Regulations on the quality of gas distribution and metering services (known as RQDG, *Regolazione della qualità dei servizi di distribuzione e misura del gas*) as per Resolution No. 574/2013/R/gas concerning the availability of the technical data requested by the seller, reducing response times, raising the compensation due for the failure to comply with the standard, and adopting a standard complaint classification that applies also to distribution companies.

Regulation of arrears in the electricity and natural gas sectors and the default service for gas distribution

The Authority has started a process to define the criteria for examining the documents attached to the requests submitted by distribution companies to pay part or none of the amount required for the failure to discontinue the service to redelivery points under the default distribution service. The process was still ongoing at the end of 2016, but during the year it resulted in some changes to the regulation for the default service. Distribution companies are no longer required to take legal action to discontinue the service to redelivery points due to late payments if the annual usage is less than 500 Sm3, thus relieving them from paying any potential penalties for the failure to discontinue the service.

In early December, the AEEGSI also started an additional process to improve the regulation of arrears in retail electricity and natural gas markets. This will likely be completed in the first few months of 2017 following a consultation launched at the end of 2016.

Unbundling

AEEGSI supplemented (with Resolution No. 137/2016/R/com) the Consolidated Law on Accounting Unbundling (known as TIUC, *Testo integrato unbundling contabile*) with the provisions concerning the requirement to keep separate accounts for the water sector.

Energy efficiency certificates (EEC)

The Authority, in application of the means for establishing the fee to cover the costs incurred by distributors (including 2i Rete Gas) who are under obligations as established at the start of 2014, set the value of the final tariff fee for 2015 (114.83 €/EEC) and the estimated tariff fee for 2016 (118.37 €/EEC).

The Authority also published an opinion on the draft ministerial decree setting national quantitative energy savings goals for the years between 2017 and 2020 as well as the approval of the new White Certificate Guidelines, which were supposed to be issued by the end of 2016 and are expected to be published in late 2017.

Insurance in favour of gas end users

The Authority approved new provisions concerning the new insurance coverage for the 2017-2020 four-year period, which will benefit the system.

Exchange of data between operators

Also in 2016 the AEEGSI continued the adoption of provisions aimed at the gradual extension, also to the gas sector, of the so-called Integrated Information System, which has already been launched for the electricity sector and aimed, in the intention of the Authority, to facilitate information flows between energy distributors and sellers in many of the processes that they manage. Changes and additions were also introduced to the methods to be followed and to the tracking of information flows between distribution companies and sellers (communication standard introduced as from 2008 with Resolution No. ARG/gas 185/08), specifically after introducing the rules for the transfer process in the natural gas sector.

Provisions enabling the regulation for gas distribution service tenders

The Authority adopted a number of measures that concerned, among other things, the update of the interest rate for the purposes of refunding outgoing operators for the advance one-off payment of tender fees as well as the standard stratification of the amount of the repayment for tariff purposes, so as to more clearly specify how the provisions of the Rules on the tariffs of gas distribution and metering services (known as RTDG, *Regolazione delle tariffe dei servizi di distribuzione e misura del gas*) apply to territorial tenders. In addition, it also adopted measures concerning observations on the amount of the repayment and/or the tender documentation presented by the contracting authorities for some ATEM.

Earthquakes occurred in Central Italy in August and October 2016

The Authority adopted provisions enabling reliefs on electricity, gas and water bills for the communities affected.

5.2 Other significant events

- As part of the program of 5 inspections regarding service safety recoveries for 2015, which were established by Resolution No. 294/2016/E/gas of 9 June 2016 for natural gas distribution companies from among those which receive the highest level of incentives or which have not yet been inspected, on 2-3 August the AEEGSI carried out an inspection on the data regarding safety and on the plant managed, in order to apply the bonus/penalty mechanisms for the safety levels achieved in 2015.

No findings or challenges were raised either during the checks undertaken by the inspection staff or subsequently. The approval and payment of the incentives for 2015 is expected during 2017.

- Based on the studies conducted by the Authority following the inspection carried out in June 2011 on the implementation, among other things, of the tariff provisions for the 2009-2012 regulatory period in some areas with assets owned by local authorities, the AEEGSI, with Resolution No. 626/2016/R/gas dated 4 November 2016, in spite of the considerations submitted multiple times by the company, recalculated the reference tariffs for a number of years starting from 2009 (largely from 2009 to 2013 or from 2009 to 2015, depending on the area) for the areas concerned, deferring the approval of the revised tariffs to a subsequent measure to be adopted by 30 April 2017.

Given the length of the process – which started in 2011 and lasted until 2016 – the Authority allows to submit an instalment repayment plan (through the CSEA) with a term consistent with the length of the process, excluding any interest expense.

Nonetheless, in December 2016 2i Rete Gas S.p.A. appealed against the measure adopted by the Authority.

Finally, please note that in the last few years the company had set up a provision for risks to cover any resulting liabilities.

The Authority has not adopted any material measures for the sectors concerned after 31 December 2016.

5.3 Tariff framework

In 2016, the distribution and metering tariffs continued to apply in accordance with the principles established in Resolution No. 367/2014/R/gas for the fourth regulatory period (2014-2019). These were partially amended by Resolution No. 583/2015/R/com, which introduced a revised method for calculating the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors. As a result, the WACC for natural gas distribution and metering for the 2016-2018 three-year period was set to 6.1% and 6.6%, respectively. In addition, the option for the accounting of contributions exercised with Resolution No. 455/2014/R/gas continued applying based on the area, therefore there are currently two methods to amortise the “stock” of contributions received up to December 2011. The contributions received after said date can be deducted from net fixed assets for the purposes of calculating both the RAB and the annual amortisation. The operating costs recognised based on the initial operating costs established in the Resolution, which are measured according to the company's size and the density of the service provided, were adjusted for inflation and subject to an x-factor of 1.7% for the distribution service and 0% for the metering and marketing service.

The "provisional" reference tariffs for natural gas distribution and metering services for 2016, which are calculated on the basis of provisional data relating to 2015 (t-1), were approved at the start of April with Resolution No. 173/2016/R/gas.
In November 2016, the Company reported the final data for the year 2015 and the provisional data for the year 2016 to the Authority, so as to allow it to update the so-called RAB (Regulatory Asset Base) for the “final” 2016 tariffs and the “provisional” 2017 tariffs, respectively. The Authority will publish said reference tariffs in the first half of 2017, and the CSEA will apply them to the equalisation, which is scheduled to be calculated and settled by the end of the second half of 2017.

In the final days of 2016 the Authority published, with Resolution No. 774/2015/R/gas, the 2017 mandatory tariffs for invoicing natural gas distribution and metering services, the amount of the bi-monthly equalisation payments on account, and the tariff options for gas other than natural gas. The same Resolution also approved the maximum amount that can be recognised in the tariff for higher costs arising from concession fees (COL) to be paid to municipalities pursuant to art. 46 bis of Italian Law Decree No. 159/07. The Authority published the distribution and metering tariffs for gases other than natural gas that concern the company on 26 January 2017 with Resolution No. 29/2017/R/gas.

In late 2016, the Authority also issued the Resolution No. 775/2016/R/gas, defining the criteria for the interim update – for the 2017-2019 three-year period – of the tariff regulation for gas distribution and metering services.
The measure maintains the annual reduction rate for the distribution service unchanged in 2017 (1.7% for the cluster of entities to which the company belong). it also maintains the reduction rate for both the metering (0%) and marketing services (0%) unchanged for all concession operators, while raising the unit cost for the marketing service.
The amount of ΔCVER is provisional pending the collection of data from distributors, to be completed by November 2017. The Resolution extends to 2017 the accounting of costs actually incurred in 2016 for both the *“tel”* and *“con”* components as well as small smart meters, introducing an investment spending cap for both.
In the consultation document No. 456/2016/R/gas, the Authority said it looks forward to introducing new criteria for the measurement of new investments based on *standard costs* starting from 2018. In addition, it introduced a cap for the investments made since 2017 in the areas where the natural gas service is “starting up”.

6. Development work and management of concessions

The competitive bidding market for methane gas distribution service concessions during 2016 saw:

- the issuing of five new ATEM tenders (Lodi 1 – North, Biella, Udine 3 – South, Belluno and Lucca) as well as the 13 ATEM tenders issued in the second half of 2015. To date, the regional administrative court has suspended the tender for Venice 1 – Venice Lagoon, and the terms for the following tenders are suspended: Alessandria 2 – Centre, Cremona 2 – Centre and Cremona 3 – South, Massa and Carrara, Biella, Turin 3 – South West. Finally, the Contracting Authority (Municipality of Lissone) has called off the tender for Monza and Brianza 2 – West;

- the issuing of twelve tenders for individual concessions, in the municipalities of Pollica (province of Salerno) (Official Journal of the Italian Republic 20.01.2016), Poggiomarino (province of Naples) (Official Journal of the Italian Republic 22.02.2016), Monteverde (Province of Avellino) (Official Journal of the Italian Republic 15.04.2016), Castelvetere Sul Calore (province of Avellino) (Official Journal of the Italian Republic 30.06.2016), Montecorice (province of Salerno), (Official Journal of the European Community 19.07.2016), Torchiaria (province of Salerno) (Entity Register 02.08.2016), Postiglione (province of Salerno) (Authority's Register 08.08.2016), San Mauro Cilento (province of Salerno) (Official Journal of the Italian Republic 19.08.2016), Castel San Lorenzo (province of Salerno) (Official Journal of the Italian Republic 30.08.2016), Felitto (province of Salerno) (Official Journal of the European Community 31.08.2016), Gagliato (province of Catanzaro) (Official Journal of the Italian Republic 03.10.2016), Cusano Mutri (province of Belluno) (Official Journal of the Italian Republic 03.10.2016) which were authorised by the Ministry for Economic Development in derogation of Italian Legislative Decree 93 of 1 June 2011 (known as the "Third Energy Package").

The regulatory framework for the ATEM tenders has been finalised with the publication on 14 July 2015 of Italian Ministerial Decree 106 of 20 May 2015. On 30 December 2015, Italian Legislative Decree 210 (converted into a law, after amendment, by Italian Law No. 21 of 25 February 2016 – Official Journal No. 47 of 26 February 2016) was published,

- extending the terms in article 3, paragraph 1 of the regulation in Italian Ministerial Decree 226/11 concerning the failure to issue the tender pursuant to annex 1 of the regulation;
- cancelling the penalties for the municipalities that fail to comply with said terms.

Following said extension, virtually all the 172 ATEM tenders should be issued before the end of 2017.

6.1 Participation in non-ATEM tenders

Among the twelve tenders for individual concessions issued in 2016, 2i Rete Gas S.p.A. submitted an offer for the one issued by the Municipality of Poggiomarino (province of Naples). It was temporarily ranked in second place.

On 13 May 2016, 2i Rete Gas came second in the tender issued in 2015 (Official Journal of the Italian Republic 6.11.2015) by the Municipality of Roccadaspide (province of Salerno). 2i Rete Gas S.p.A. had submitted its offer on 25 January 2016.

6.2 Activities on ATEM tenders

Also during 2016, the Group has been preparing and transmitting all the necessary documentation to the Municipal Administrations and/or the Contracting Authorities that requested it in order to draft and subsequently issue the call for tenders. This information will have to be updated if necessary when the actual tender takes place, and is required by article 4 (Disclosure obligations for operators) and article 5 (Compensation to the outgoing operator) of Italian Ministerial Decree 226/2011.

6.3 Concessions awarded

Concerning the tender for the concession of the natural gas distribution service in the Municipality of Mirabello (approximately 1,650 end users), on 24 March 2016 2i Rete Gas entered into the Gas Distribution Service Agreement, and on 31 March 2016 signed the relevant Plant Handover Report, taking over the operation of the concession starting from 1 April 2016.

Concerning the tender for the concession of the natural gas distribution service in the Municipalities of Como and San Fermo Della Battaglia (approximately 44,600 end users), on 26 April 2016 2i Rete Gas entered into the Service Agreement with said Municipalities, and on 29 April 2016 signed the relevant Plant Handover Reports, taking over the operation of the concessions starting from 1 May 2016.

Concerning the tender for the concession of the gas distribution service in the Municipality of Rozzano (approximately 19,000 users), on 14 March 2016, with ruling No. 984/16, the Italian Council of State upheld the appeal filed by 2i Rete Gas, giving the Municipality 120 days to award the concession to 2i Rete Gas and enter into the relevant service agreement. On 2 September 2016, the Municipality of Rozzano, API Rozzano S.r.l. in liquidation (in its capacity as the owner of the networks, hereinafter referred to as “API”), and 2i Rete Gas entered into the Service Agreement. GasPiù did not attend the meeting on 2 September 2016 for the formal handover of the networks and plants. Therefore, the Municipality accessed the facilities and handed them over to 2i Rete Gas for the beginning of the concession operation on 3 September 2016.

GasPiù has 2 appeals pending with the Italian Council of State (GR 5657/2016 and 6608/2016) concerning the fulfilment of the above ruling no. 984/2016. A hearing is yet to be scheduled.
In addition, there is a case pending with the Court of Milan (GR 44062/2016) brought by GasPiù. The plaintiff seeks to be recognised as the owner of the right to operate the gas networks under the agreement it entered into in 2011 and, in the event the Municipality of Rozzano and 2i Rete Gas already finalised a new concession agreement, GasPiù demands to be recognised as the owner of the right to operate the networks assigned to 2i Rete Gas, declare the agreement entered into null and void, and order 2i Rete Gas to hand over the networks to GasPiù.
The plaintiff is also seeking damages from API and 2i Rete Gas for the amount it paid to API as an advance concession fee for the period during which GasPiù could not access the networks, plus interest and revaluation. The first hearing on 18 January 2017 was adjourned to 26 April 2017 to allow the parties to reach a settlement, as Api and GasPiù are currently in negotiations.

As for the concession of the Municipality of Castronno (approximately 2,200 end users), which had already been awarded through a tender in 2011, 2i Rete Gas was invited to sign the new service agreement on 28 February 2017 and started operating the concession on 1 March 2017.

6.4 Concessions lost

Concerning the tender for the concession of the natural gas distribution service issued 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 (a total of approximately 5,800 end users), Molteni S.p.A. has yet to sign the relevant service agreement, even though the concession was awarded in October 2011. 2i Rete Gas therefore continues operating it, pursuant to art. 14 paragraph 7 of Italian Legislative Decree 164/2000.

Concerning the tender for the concession of the natural gas distribution service issued by the municipality of Manfredonia (province of Foggia) (approximately 16,000 end users), Apulia's regional administrative court, in its ruling No. 1150 of 29 July 2015, upheld the appeal filed by 2i Rete Gas reinstating it in the tender process and stripping Gasman S.r.l. of the concession. Said company filed an appeal with the Italian Council of State, which, with court order No. 1826 of 5 May 2016, appointed an expert witness to answer additional technical questions besides the ones already asked of the Auditor (AEEGSI) at the first instance hearing, which ended in favour of 2i Rete gas S.p.A. With a court order dated 8 August 2016, the Italian Council of State postponed the hearing scheduled for 8 September 2016 to 24 November 2016. With ruling No. 258 of 23 January 2017, the Italian Council of State upheld Gasman's appeal and reversed the decision of Apulia's regional administrative court, which raised no objections to 2i Rete Gas's bid and therefore allowed 2i Rete Gas to participate in the call for tenders.

6.5 Participation in tenders for the acquisition of companies

On 2 August 2016, 2i Rete Gas submitted a bid to acquire 100% of the company Pasubio Group S.p.A. On 12 September 2016 2i Rete Gas was ranked in second place (Ascopiave S.p.A. ended in 1st place). On 4 October 2016, 2i Rete Gas appealed to Veneto's regional administrative court to suspend the process, declare the challenged deeds null and void, and award the tender to 2i Rete Gas or, alternatively, either hold a new call for tender or award damages. Subsequently, 2i Rete Gas submitted additional arguments on 9 November 2016.

Ascopiave filed a complaint on 24 November 2016 to object to the jurisdiction of the regional administrative court, claiming that the ordinary court has jurisdiction over the case instead, and therefore demanded to dismiss 2i Rete Gas's appeal as inadmissible because 2i Rete Gas would have no right to subscribe for the offer.

On 7 December 2016, the court acknowledged the administrative jurisdiction, but dismissed 2i Rete Gas's application for interim relief. 2i Rete Gas challenged the interim relief dismissal issued by Venice's regional administrative court by applying for an interim suspension; the Italian Council of State dismissed the challenge on 2 February 2017.

6.6 Recovery of sums arising from the transfer of plants

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

7. Support for gas transport activities

7.1 Main Regulatory Changes

During 2016, AEEGSI issued several important measures concerning commercial operations:

- Resolution No. 100/2016/R/com of 10 March 2016 as amended and supplemented, containing provisions about the issuing of the final bill for the termination of electricity and natural gas supply and the relevant monitoring;
- Resolution No. 102/2016/R/com of 10 March 2016 as amended and supplemented, containing provisions for the acquisition of ownership of an active redelivery point by an end user (transfer of contract);

- Resolution No. 413/2016/R/com of 21 July 2016 as amended and supplemented, approving a new consolidated act for the regulation on the commercial quality of sales services and amending aspects of the regulation for the quality of electricity and gas distribution services;
- Resolution No. 463/2016/R/com of 4 August 2016 as amended and supplemented, approving the "Consolidated act of the provisions of the Regulatory Authority for Electricity, Gas and Water concerning the billing of retail sales service for electricity and natural gas customers (TIF)" and introducing compensation to be paid by, as well as additional metering requirements for, distribution companies;
- Resolution No. 465/2016/R/com of 4 August 2016, establishing the public procedures to identify the last resort providers and default service providers starting from 1 October 2016 as well as introducing specific measures concerning the rules for late payments, the provision of last resort services, and transfers.

7.2 Relations with Traders and Customer Care

Major customers

In 2016 the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sale companies or traders).

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

- ENEL ENERGIA S.p.A. with 42.4%
- GDF SUEZ Energie S.p.A. with 9.5%
- E.ON Energia S.p.A. with 8.4%

Commercial quality

The level of commercial quality is measured by means of a general company index showing the percentage of services not carried out within the standard time frames set by AEEGSI with reference to connections, reconnections, disconnections, quotations, and the execution of both simple and complex work.

The general index of "non-standard services" of a specific level, for service quality parameters purposes, achieved in 2016 was equal to 0.10%.

The general quality index, pursuant to the provisions of Resolution No. 574/2013, was 0.10% for the specific levels (0.15% in the prior year) and 0.72% for the general levels (1.13% in the prior year).

End customer relationship management

Requests for information and/or complaints from End Customers concerned mainly the verification of readings and the provision of consumption details, specifically with reference to the replacement of conventional meters with new smart ones pursuant to Resolution No. 631/2013/R/gas of 27 December 2013.

In 2016, the 2i Rete Gas Group managed 3,271 written complaints and requests for information, in addition to a request for information from the AEEGSI, which were received through companies authorized to sell gas.

The Group replied to 330 requests from "AEEGSI – Consumer Point of Contact" for complaints it received directly. This service was created in 2009 to handle requests and reports by end customers.

The use of the online settlement tool for disputes with regulated sector operators by End Customers increased steadily; starting from 1 January 2017, the regulations will potentially allow to replace almost all the written complaint to the Consumer Point of Contact with an online settlement session, which will become the “second decision-making level” as defined by the AEEGSI.

Finally, the Group handled 2,552 requests for technical data that could be obtained by reading smart meters (M01) and 5,748 requests for other technical data (M02).

Front Office

In 2016, the management activities referring to commercial services required by the sales companies took place, in continuation of the information provided in the previous years, almost exclusively through the Four portal; this communication instrument has now been adopted by most of the sales companies, both in the "web" solution as well as in its "application to application" solution.

The processes for the connection of last resort services, i.e. the supply of last resort (known as FUI, *fornitura di ultima istanza*) and the default service (Default), remained high also compared to the previous year, mainly because end customers delayed payments to the respective sales companies.

Indeed, sales companies can terminate the supply contract with the end customer, even without the cessation or interruption of service due to technical and/or economic reasons, by exercising their right to terminate their ownership and transfer it to the competent last resort service provider – in this specific case, the default service provider.

At 31 December 2016, the number of last resort services activated was 12,695, including 4,613 FUI and 8,082 Default connections.

As in previous years, the Group kept on discontinuing the service to the Redelivery Points under Default in accordance with applicable laws, discontinuing the service to 2,673 Redelivery Points during 2016.

As a result of Resolution No. 465/2016/R/com of 4 August 2016, the penalties for delays in discontinuing the service will no longer be assessed if the annual consumption associated with the redelivery point is less than 500 Sm3. This will reduce the number of legal actions.

The Group revised the End Customer relationship management process by overhauling the Commercial Call Centre service effective 1 April 2016. The aim is to improve the perceived level of service concerning the services rendered by the distributor to the End Customer.
Specifically, on 21 July 2016, the Group launched a service dedicated to handle calls about smart meters. In addition, in December 2016 the Group introduced a service to schedule an appointment with the Call Centre to replace the meter for end users who received a letter notifying them in advance of the large-scale replacement of conventional meters with smart ones.

In 2016, there were approx. 35,000 requests for a supplier change per month on the average, totalling about 420,670 switching requests, of which 358,928 were accepted.

Effective 1 January 2016, the Group has changed the time required to activate the switch and manage disconnections for late payments, in accordance with Resolution No. 258/2015/R/com.
In addition, the Group has successfully implemented the regulatory changes introduced by Resolution No. 418/2015/R/com of 6 August 2015 concerning the “on condition” updating of the Official Central Register (known as RUC, *Registro Centrale Ufficiale*) and the management within the integrated IT system (known as SII, *Sistema Informativo Integrato*) of the monthly and annual Consolidated Gas Settlement Act (known as TISG, *Testo Integrato Settlement Gas*) master records effective 1 February 2016 and 1 July 2016, respectively. In addition, it has also implemented the automatic compensation mechanisms in the event of failure to communicate the outcome of the switching process to the SII on time, as well as the additional requirements concerning the constant update of the RUC effective 1 October 2016.
Effective 1 December 2016, the Group has launched the contractual transfer service through the SII, in accordance with Resolution No. 102/2016/R/com of 10 March 2016 as amended and supplemented.

Meeting with sales companies

As in the previous years, in November the Network Commercial Services Department met the representatives of the sales companies operating on the gas distribution network of companies in the 2i Rete Gas Group, in two separate meetings held in Rome and Milan.
The main issues discussed concerned all those involved: the development of the regulatory framework in the gas distribution sector, and the most significant changes the Network Commercial Services Department made to processes and systems to comply with new regulations and streamline the processes of the Front Office, Transport Invoicing, and Service, Settlement and Metering Invoicing Services. The discussion also focused on the

organisational changes at 2i Rete Gas S.p.A. occurred in 2016 and the relevant projects effective 1 January 2016.
The meetings saw the involvement of 100 sales companies and their contact persons.

7.3 Gas Invoicing and Balancing

Invoicing of Transport and Services

The invoicing of the transport service and commercial services was done monthly and regularly during 2016.

Following the earthquake on 24 August 2016, the Group suspended the transport invoicing for nearly 12,500 redelivery points, pending the relevant AEEGSI's measure. The suspension concerns only the municipalities included in the area affected by the earthquake (*Cratere Sismico*), as defined by Italian legislative decree No. 189 of 17 October 2016.

The first part of the "Zero Print" project for the Service Invoicing Area is now complete. It has allowed to change the delivery method for the letters and the relevant attachments concerning the compensation owed to Traders in the event of failure to comply with the provisions of Resolution No. 547/13, moving from despatch via the postal service to the use of certified email, ensuring and speeding up their delivery as well as curbing mailing costs.

Gas Balances

During 2016, respectively in February and July, in compliance with the Resolution No. 229/2012/R/gas – TISG, the Group completed the following activities:

- handover to national/regional transporters of data relating to the 2013 and 2014 adjustment sessions;
- handover to national/regional transporters of data relating to the 2015 adjustment session.

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

7.4 Metering

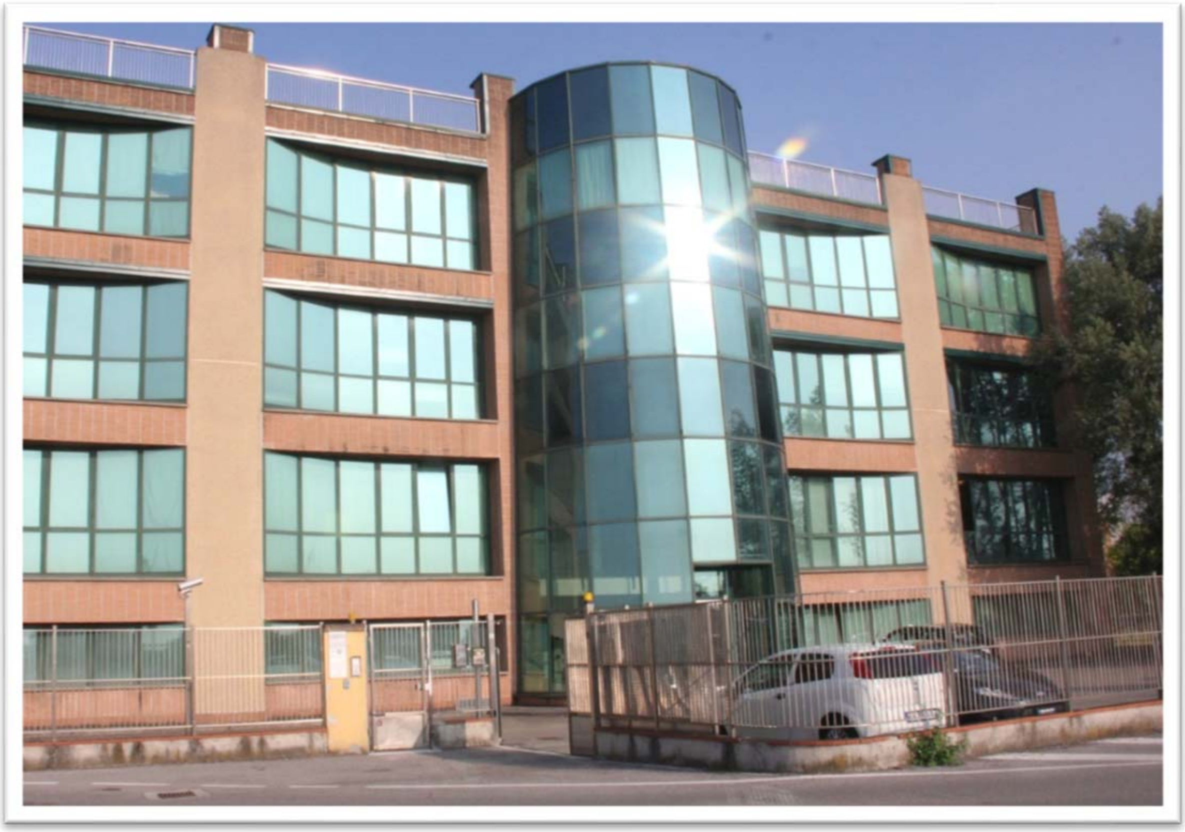
During 2016, the Group finalised the collection of the metering performance data in accordance with AEEGSI Resolution No. 574/2013.

The Group successfully implemented the regulatory changes introduced by Resolution No. 102/2016/R/com, which required updating the supporting IT systems so as to assign the fieldwork to collect the metering data for transfer readings. Initially, this task was assigned to the in-house staff of the operational areas, and then, starting from 1 August 2016, to external reading companies.

The reading acquisition plan submitted by 2i Rete Gas S.p.A. and its subsidiaries, approved by AEEGSI in 2015 with resolution No. 117/2015/R/gas, is to be considered an improvement and raised the number of reading attempts required by new regulations by approximately 30%.

The Group is working on the measures and internal actions to implement the processes required by the regulatory changes in Resolution No. 463/2016. Specifically, this requires the distributor to compensate the sellers in the event of failure to make the cycle readings available in the agreed time frame.

The measure is effective 1 January 2017.



North West – Cremona Territorial Department

8. Plant construction, environment and safety

8.1 Gas distribution plants

During the year, a total of around 170 km of piping was laid, of which around 48% was high to medium pressure and 52% low pressure.
In general the piping laid in the year was around 96% done in HDPE (high-density polyethylene) which is a technologically advanced material widely used by the main international gas operators and has lower operating costs compared to traditional coated steel.
This work arises from the improvement needed to maintain levels of service and acquisition of new customers as well as to meet the concession obligations deriving from the agreements with the relevant Entities.

The total length of piping managed by the 2i Rete Gas Group at 31 December 2016 was, therefore, around 58,244 km, servicing over 1,900 municipalities.
The network operated by the Group expanded during the year also as a result of the acquisition of the plants in Como and San Fermo, Mirabello, and Rozzano, whose network measures approximately 430 Km. In addition, 1,138 primary substations are active which, upstream of the distribution networks which the Group manages, reduce, measure and odorise the gas from the national transport networks. Specifically the network consists of around 48,000 km in steel piping (of which around 28,000 km at low pressure and around 20,000 km at medium pressure) and around 10,300 km in HDPE (around 5,800 km at low pressure and around 4,500 km at medium pressure). On the network there are also over 14,000 secondary reduction groups with a capacity of at least 120 sm3/h to reduce pressure between the medium and low pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.

8.2 Network and plant design

During 2016, design work focused mainly on territorial tenders (ATEM). To ensure a structure capable of participating in a higher number of tenders at the same time, the Group entered into agreements with new external providers, collaborating on design processes and procedures with them. Then, the new providers examined the technical details for the preparation of the technical proposals to submit during the tender along with the relevant design work. Following the publication of some tenders in the first months of the year, starting from January, work was aimed at analysing these tenders and their related technical documentation, if available. Flagship projects, if any, were also analysed, which, besides being a mandatory document for the Contracting Authorities in which the main local needs and/or expectations or technical failings are indicated by the

Contracting Authority, are an essential element to better direct design choices and are initial technical and economic means of identifying the main work needed.

8.3 Service continuity and safety

The 2i Rete Gas Group carried out checks on the data concerning service continuity and safety processes as set out in Resolution No. 574/2013/R/gas.
The main monitored parameters relate to services showing the distributor’s ability to promptly intervene in potentially dangerous situations (emergency interventions, intervention time), or to organise and carry out preventative checks to ensure correct monitoring of safety conditions (percentage of network subject to inspection, level of gas odorisation, percentage of network with cathodic protection).
By March 2017, the Group will publish the data on the 2016 technical standards. To this end, it will retrieve the data the local units entered directly into the IT systems during the year, verifying whether they are correct and consistent as needed.
Overall, in line with previous years, it is already possible to say that the quality of the Group's performance was high relative to the minimum requirements.
In terms of constant attention to the safety of plants and end customers, campaigns were undertaken regarding the preventative search for leaks: relating to the planned inspection on the distribution network, equal to over 70% of the high and medium pressure piping and over 60% of the low pressure piping.
As regards checks on the level of odorisation of the gas distributed which were carried out in the field in order to provide a complete check on the real level of odorisation of such gas, data was recorded (around 17,000 chromatographic gas tests) well above the minimum value required by the AEEGSI (around 3,300 tests), a sign of the particular attention paid to service safety.

On 24 November 2016, the AEEGSI published the Resolution No. 686/2016/R/gas “Calculation of bonuses and penalties for improvements in the safety of the natural gas distribution service for the year 2014”. The bonus awarded to the 2i Rete Gas Group for the work on gas leaks (decrease in the number of gas leaks reported by third parties) and odorisation (number of odorisation tests performed on the network) amounted to approximately 12 million euro.

8.4 Technical and cartographic systems

As part of the constant development of the technical systems supporting operations, during the year the Group finished rationalising the technical data on the mechanical equipment of the pressure regulating and metering stations and pressure-reduction units. This action laid the groundwork for the release of a new version of the technical system for operating the Group's assets, which will be completed during 2017 and will allow for more flexibility in maintenance operations.

Concerning the tests of gas odorisation levels, the Group finished developing a new integrated IT tool that will allow to plan and schedule the chromatographic gas tests performed throughout the year across the network. This tool will enable the territorial units to conduct chromatographic gas tests more efficiently.

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

8.5 Smart meters (Resolution No. 155/08)

Following the publication by the AEEGSI of Resolution No. 631/2013/R/gas of 27 December 2013 “Changes and additions to the obligations for putting smart gas meters into service”, with the attachment “Directives for putting into service gas meters featuring the minimum operational requirements” which made important changes to the directives started with Resolution No. 155 of 2008, 2i Rete Gas established the plan relating to the installation of smart meters.

The Authority has been gradually updating the plan for the replacement of gas meters, taking implementation challenges into account. The current target is to reach 50% of G4-G6 smart gas meters activated by 2018, completing the installation of higher class smart gas meters by that date.

During 2016, the Group continued the large-scale installation plan of domestic meters, which involves over 500 municipalities in Italy. In addition, in early 2016 the installation of individual mass market smart meters was extended to all the municipalities where the 2i Rete Gas Group is the concession operator.

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

Concerning the installation of mass market meters, during 2016 the Group installed more than 760,000 meters; by the end of the year, the number of meters brought into service exceeded 540,000 units.

In 2016, the Group extended to more than 100 cities the construction of the 169 MHz infrastructure, allowing to communicate with point-to-multipoint meters by using dedicated concentrators.

Finally, as for the higher class “industrial” meters, in 2016 the Group continued conforming G10 class meters to applicable regulations, comfortably exceeding the 50% target set by the Authority for the end of 2016.

At the end of 2016 over 71,000 industrial meters had been adjusted and remotely read overall, both through the add-on solution and with the integrated meters.

8.6 Regulatory oversight

Also during 2016 the 2i Rete Gas Group took active part in regulatory oversight both at national level, in numerous working groups and committees of the UNI-CIG (Italian Gas Committee), and in Europe.

9. Quality, Safety and Environment

9.1 Management of the Integrated Quality, Safety and Environment (QSE) System

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

In 2016, the Group's internal auditors carried out 72 audits of compliance with the Integrated Management System, so as to keep monitored the alignment with the relevant requirements. 6 of the audits carried out concerned Head Office facilities, and 66 concerned all Departments as well as most of the underlying Territorial Areas. These audits also ensured the rules concerning operations, plant monitoring and the oversight of outsourced operations were properly implemented.

In May, the Certification Body performed the certification audits required to confirm the fulfilment of the requirements for maintaining the Integrated System certification in accordance with UNI EN ISO 9001:2008, UNI EN ISO 14001:2004, and BS-OHSAS 18001:2007.
The audit involved inspecting three of our departments, thoroughly examining the operations performed by a specific Area for each department, as well as interviewing the heads of the following Head Office Organisational Structures: Procurement and Services, Regulatory Affairs, Electronic Metering, Operation, Engineering, Human Resources, Network Commercial Services, IT Systems, and the Quality, Safety and Environment structure, including also the Prevention and Protection Service.
The final report confirmed the System as compliant and efficient, and renewed the Certifications of Quality, Health, Safety and Environment, and no evidence of non-compliance was found. The report included a number of recommendations that were addressed with specific improvements. The Internal Audits have already verified the implementation and effectiveness of said improvements.

The summary report confirms that the Integrated Management System has remained active and compliant with the relevant regulations; customers are satisfied; the Group has identified and regularly monitors key performance indicators, including those established by AEEGSI; and the Group effectively manages health and safety at all organisational levels.
The Certification Body reported that the System's performance shows several strengths, such as the active participation of offices, staff and personnel at all levels; the sense of belonging and the technical expertise of the personnel surveyed; the use of the Integrated Management System as a tool to address critical problems; initiatives to encourage employees to report near misses and analyse them; the scheduling and management of internal audits.

During 2015, ISO published the new version of the certification standards ISO 9001 and ISO 14001; the new standards envisage a three-year transition period, during which certificates issued against the previous edition of ISO 9001:2008 and ISO 14001:2004 will remain valid.
The current certification issued to 2i Rete Gas S.p.A. is therefore confirmed up to June 2017, the deadline by which the renewal must be made.
Until this deadline, a routine check will be carried out annually by the Certification Body aimed at confirming the existence of the requirements expected by the certification standards referring to UNI EN ISO 14001:2004 Environmental Management System, BS-OHSAS 18001:2007 Safety Management System and UNI EN ISO 9001:2008 Quality Management System.
The transition to the new versions, which entails the need to assess changes made necessary by the new revisions of the 9001 Standard and the 14001 Standard and to identify gaps in regard to the new requirements, will in any case be planned to coincide with the renewal of certification in 2017.

Certification of 2i Rete Gas S.r.l.'s Quality System

In the last few months of 2015, following the setting-up of 2i Rete Gas S.r.l., the Group launched a project to implement a Quality Management System compliant with the requirements in UNI EN ISO 9001:2008, which applies to the company's operating processes.
After QSE carried out a number of internal audits, and Certiquality performed a pre-assessment of the documentation, in early March 2016 the system underwent compliance testing and formal certification.
Certiquality found the management model to be compliant and effective relative to system requirements, issuing the Certificate on 10 March 2016. This will be valid through 14 September 2018; then, the system will need to be certified again by said date, this time against the most recent version of UNI EN ISO 9001:2015.

9.2 Prevention and Protection Service

As for the changes introduced by some organisational provisions about the restructuring of territorial areas and the Head Office, and new risk assessments – concerning work-related stress, electrical risk, and the risk of falling from a height – the Prevention and Protection Service worked together with Employers to update the Risk Assessment Documents for each Business Unit, performing 11 updates. During 2016, the Group also prepared a new Noise Risk assessment by aligning the criteria across the whole territory. This will be presented at the meetings as per art. 35 of Italian Legislative Decree 81/08 and incorporated in the Risk Assessment Documents of the individual business units.

9.2.1 Trend in injuries

Although the total number of injuries suffered by operational staff increased slightly, at the end of 2016 the balance was essentially in line with the previous year, while there was a sharp decline in recovery time.

Concerning specifically operational staff, during 2016 there were 13 “non-serious” accidents (i.e. with an initial recovery time of less than 30 days) – the same number as in 2015.
As for clerical staff, in 2016 there were 3 “non-serious” accidents (2 in 2015).

In 2016, there was 1 accident involving operational staff and 11 accidents involving clerical staff attributable to commuting accidents. In 2015, these numbered 0 and 6, respectively.
Overall, in 2016 there were 28 accidents, compared to 22 in 2015.

As for work accidents, in 2016 days of absence from work declined by 344 year-on-year (547 days in 2016 compared to 891 in 2015). This was because the injuries were less serious, resulting in shorter recovery times. This improvement included 166 days lost because of the continuation or extension of the recovery time for accidents occurred in 2015.

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

During 2016, workplace health monitoring continued, ensuring the implementation of the relevant programme according to the findings of the risk assessment and based on the relevant health protocol.

9.2.2 Environmental issues

The QSE structure constantly monitors material environmental aspects and ensures the Group is aligned with changes in environmental regulations.
The Group periodically updates its Environmental Analysis – the key document for assessing its environmental impacts.
The Group places special emphasis on managing the acoustic impact of pressure regulating and metering (REMI) stations and pressure-reduction units (GRF), preventing as well as promptly taking action to mitigate those rare cases in which noise levels were near the limits set by local acoustic zoning plans.
Concerning REMI stations, the Group is now addressing the environmental and safety issue concerning the presence of MMVFs (man-made vitreous fibres). This type of material, which is routinely used for thermal insulation in construction and plumbing, was classified as a potential health hazard. The Group has surveyed operations and facilities across Italy where MMVFs are used. As MMVFs are quarantined, there is no risk of airborne fibres at the company's facilities (i.e. the REMI stations), with the exception of potential maintenance operations; for these, the Group has prepared specific documentation in compliance with applicable laws.
Regarding emissions into the atmosphere, the Group submitted the F-Gas certification pursuant to Italian Presidential Decree No. 43/12 concerning the emissions of fluorinated greenhouse gases for the A/C systems of the buildings that fall under said regulation. 100% of the pre-heating sections of the REMI stations underwent performance audits, even though these were not required by the applicable regulations, and the Group is continuing to remedy the anomalies found.
The Company is registered in the SISTRI System for the purposes of managing its own hazardous special waste. The Company handles the non-hazardous and hazardous special waste it generates tracking it by keeping waste acceptance and deposit records as well as digitally using the "Atlantide" application.

9.3 Technical and Commercial Quality, communication of commercial quality data to AEEGSI

In accordance with the rules and deadlines established by AEEGSI on 12 December 2013 with the Resolution No. 574/13/R/gas, which defines the general requirements and standards for the commercial quality of gas distribution services for 2014-2019, in March 2016 the Group submitted the data on the services rendered in 2015 by 2i Rete Gas S.p.A., GP Gas (now merged into 2i Rete Gas S.p.A.), and Genia Distribuzione.

The information provided to AEEGSI, which is aggregated on a regional basis, concerns the number of end customers served at 31 December 2015, the services required to comply with specific levels of quality, and the number of services subject to general levels of quality.

Overall, as in previous years, the report showed that the quality of the services is aligned with the minimum requirements established in said resolution.

During 2016, the Group examined the Areas on a test basis to verify the quality of the documents certifying the service safety and continuity as well as commercial quality in accordance with the provisions in the document establishing the RQDG for the 2014-2019 regulatory period.

The overall assessment, referring to the selected sample, allows to issue a good opinion on the operations carried out. Any proposed corrective or preventative actions, once implemented by the structures concerned, allow to further improve the confidence on compliance of the audited data.

10. Water sector

The management of the potable water in 9 municipalities in which the company is still present continued. It is hereby noted that to this end, on 30 December 2016 2i Rete Gas S.p.A. signed with GESTIONE ACQUA S.p.A., the single operator of ATO 6 "Alessandrino", an agreement for the disposal of the integrated water service plants in the municipality of Castellazzo Bormida (province of Avellino) (approximately 1,640 end customers) and the launch of the new management by GESTIONE ACQUA S.p.A. beginning on 1st January 2017.

11. Human resources

11.1 Company organization

In 2016, the Group designed and implemented innovative projects as part of an important improvement plan to develop the potential of its resources, gradually extend the performance appraisal process, improve internal communication, outline the corporate Values, organise team building initiatives to consolidate the Group spirit and loyalty, streamline the relevant reporting process, implement more advanced and effective IT systems, and overhaul and streamline a number of structures.

In 2016, the function handled the onboarding for all the employees transferred after acquiring the concessions in Como and Rozzano.

It examined and launched projects to streamline the organisational structure, seeking to distribute workloads among territorial areas in a more balanced way as well as centralising activities that are more specialised and/or can generate economies of scale through activity grouping at the Area units.

As for the objective of surveying, consolidating and developing employee management skills, the Group consolidated the Performance Appraisal System and process – considered to be a way to develop employees' potential as well as analyse and examine performance – which concerned all employees at the Head Office and departmental structures, with the aim of gradually extending the system to a larger proportion of resources in the operational Areas. This required extending training activities on staff Appraisal Techniques to middle human resource managers.

As for internal communication initiatives, 2i Rete Gas prepared its Charter of Values, to be published in early 2017. The Group held meetings across the country to consult employees on ethical topics, and these provided ideas, insights and advice for the purpose of defining the Corporate Values.

The Group introduced several improvements to the intranet, making the intranet portal more useful. This now features new services and conventions.

Finally, starting from March 2016, human resources management focused on the project to implement SAP HR. The new ERP software, which adds several new functions, went live in January 2017.

11.2 Relations with trade unions

During 2016, the Group held several meetings with trade unions at both the national and local level. Maintaining peaceful and cooperative industrial relations has allowed to enter into agreements with trade unions:

- at the national level, the Group has entered into agreements governing the introduction of geolocation systems and functions on both company vehicles and company-issued smartphones, as well as the transfer territorial areas and travel hours, to optimise work processes and organisation;
- the meetings at the local level sought to implement organisational changes at territorial departments and areas. This process is to be completed in early 2017.

In addition, the parties laid the foundation for a new industrial relationship protocol and a multi-year agreement on performance bonuses.

11.3 Selection

In 2016 the Group hired new employees to fill the vacancies in Network Commercial Services and Procurement and Services structures, to bolster Internal Auditing, and strengthen the Smart Metering unit as well as some Area and Department structures.

The outflows, excluding those associated with resignation incentive plans and the disposal of plants, are to be considered normal.

The breakdown of staff at 31 December 2016 is provided below:

	Executives	Middle Managers	Office Employees	Workers	Total
Personnel at 31 December 2015	**33**	**110**	**1,127**	**693**	**1,963**
Increase	0	3	39	19	**61**
Decrease	(3)	(4)	(24)	(10)	**(41)**
Change in category	0	3	(2)	(1)	**0**
Personnel at 31 December 2016	**30**	**112**	**1,140**	**701**	**1,983**

Average number of employees of the 2i Rete Gas Group

	2016	2015
Executives	31	33
Middle Managers	111	105
Office Employees	1,119	1,107
Workers	701	702
Total	**1,962**	**1,947**

11.4 Training and development

In 2016, a group of high-performing employees completed a training course concerning relationship management, communication, problem solving, and time management skills.
In addition, the Group provided a three-day course on soft skill management.

Aided by all the Group's managers, 2i Rete Gas designed and created an in-depth training course for the employees arrived in recent years to promote a deeper understanding of corporate processes and structures, the technical-operational management of the territory, and distribution operations throughout the entire natural gas value chain.

The Group promoted the development of technical-operational skills by activating the course on Emergency Service, which involved nearly 800 people; concerning technical

aspects, it also provided courses on regulation and maintenance, remote control, and specific equipment.
It organised and provided specific vocational training to the supervisors of construction work and work safety.
As for safety, it organised risk prevention and first aid training sessions. In partnership with QSE, the Group organised and provided the following Workplace Safety training initiatives:

- a course to prevent the risk of aggression
- a course for the Supervisors of Closed Spaces
- First Aid and Antigas Mask courses

12. IT systems

In 2016, the Group worked intensively on the IT system to support and implement organisational and corporate changes, such as the integration of Gp Gas into 2i Rete Gas S.p.A., the incorporation of Italcogim Trasporto's former transport network (following its downgrade from transport network to distribution network) with the transfer of the plant in Cinisello to the company 2i Rete Gas S.r.l. (which become operational in late 2015), and the territorial restructuring of the North-East Department.
In the first half of 2016, the plants in Mirabello, Como, and San Fermo della Battaglia were migrated from the systems of the outgoing concession operators into the Group IT system after 2i Rete Gas took over their operation. In the second half of 2016, also the plant in Rozzano was migrated into the IT system, and the Group laid the groundwork for the territorial restructuring of the North, North-West and South-East Departments, which became operational in early January 2017.

The Group has made significant efforts to improve the remote management system for G4/G6 meters to overcome most issues related to the inconsistency of communication protocols and the need to optimise the central application infrastructure. This allowed to bring nearly over 540,000 smart meters into service by the end of the year.

2016 saw also important initiatives to make the Territorial Areas and head offices more efficient.
As for Territorial Areas, the Group rolled out the new planned maintenance system (SAP PM) and implemented actions to optimise the commercial estimate process as well as extend the WFM system to manage fieldwork.

As for the head offices, the Default process became fully operational and the Group integrated the procurement platform with the control and testing system for the purpose of calculating the Vendor Rating.

The Group implemented the new Cash Management system and the employee attendance and travel management system, as well as revised the SAP IS/U system for the invoicing of transport services.
Finally, the Management Reporting project implemented in an efficient and automated manner the first monthly books on the progress of the financial/economic performance and operations.

As for ICT activities, in 2016 the Group optimised the management of Data Centres, closing the Naples Data Centre in October and consolidating all operations at the Data Centres in Rozzano and Cesano.
It also implemented the basis Control Room services to supervise the main operational services and processes. In addition, it set up an open Big Data platform, on which it developed processes to monitor the remote reading of G4/G6 smart meters.
Finally, the Group launched a programme to increase cyber security resilience, improving the security of Workstations and networks to make them more resilient to external attacks. The actions taken in 2016 represent the first step of a complex programme to advance and strengthen the company's infrastructure, which will continue into 2017.

13. Research and development

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

Chieti Office

14. Risk management

This section concerning Enterprise Risk Management describes the main operational risks that characterise the sector in which the 2i Rete Gas Group operates. Regarding liquidity, credit and market risks, reference should be made to the relevant section in the notes to the separate and consolidated financial statements.

14.1 Operational risks

Operating natural gas distribution networks involves the risks of malfunction or unanticipated interruption of the service, due to factors that are not under the Group's control, such as accidents, breakdowns or malfunctions of equipment or control systems, underperformance of the plants, and extraordinary events such as explosions, fires, earthquakes, landslides, and other natural disasters. These events can result in an interruption of the service, significant damage to people or property as well as the environment, and/or economic and social turmoil.
Any service interruptions, underperformance, or inadequacy of the Group structures and/or the consequent obligations to provide compensation could result in a reduction in revenues, an increase in costs, and/or regulatory actions.
To prevent these risks, and specifically the risk of natural events damaging the networks, the Group has entered into specific insurance policies that are considered adequate for the types and amount of damage that could be incurred or caused.
Despite the several earthquakes occurred during the year, only the earthquake of 24 August 2016 caused significant damage to the network in the Municipality of Amatrice.

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

The Group may be exposed to risks related to changes in the tariffs for regulated natural gas distributions activities. For example, a change in the regulatory variables or in the method used for regulation – including, but not limited to, in how the contributions received to develop the network and infrastructure are included in the tariff in each regulated period – will impact the tariffs applicable to the Group's business, with negative repercussions on revenues and margin.
The regulatory period has a six-year duration, and the WACC (weighted average cost of capital) is reviewed every three years.

14.3 Risks deriving from future changes in natural gas consumption

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

14.4 Environmental and safety risks

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

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

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

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

To mitigate this risk, the Group has taken out specific insurance policies covering both the cost of containing a potential contamination as well as of the relevant restoration and damage caused.

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

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

15.1 Foreword

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

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

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

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

- the guidelines so that the Company adopts an Internal Control System which refers directly to the models envisaged by relevant international best practice (i.e. the "Co.SO Report");
- the initiatives necessary so that the strategic, operational and legislative compliance risks of the Company and of the Group are adequately measured, monitored, managed and assessed through a suitable and structured risk analysis method;
- the methods and contents with which the adequacy, effectiveness and actual operation of the Internal Control System is periodically tested based on the approval of the Audit Plan and verification of the audit work undertaken by the Audit Bodies.

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

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

Board of Statutory Auditors

The Board of Statutory Auditors carries out the supervisory and control functions envisaged by the Italian Civil Code. Given that the Parent Company is a "Public interest body", on the basis of art. 19 of Italian Legislative Decree No. 39/2010, the Board of Statutory Auditors also acts as the "internal control and audit committee", with supervisory responsibilities over:
a) the financial disclosure process;
b) effectiveness of the internal control, audit (if applicable) and risk management systems;
c) audit of the annual accounts and consolidated accounts;
d) independence of the statutory auditor or of the independent auditors, in particular as regards the provision of non-audit services to the body whose accounts must be audited.

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

The Organisational Model is organised in the following terms:

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

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

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

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

- Attorney Daniela Mainini (formerly Chairman of the SB serving at 2i Rete Gas S.p.A.), Chairman of the SB;
- Marco Antonio Modesto Dell'Acqua (formerly member of the SB serving at 2i Rete Gas S.p.A.); and
- Attorney Maria Cristina Fortunati, Head of the Legal and Corporate Affairs Department, under the General Affairs Directorate of the Company.

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

- a supervisory role over the operation and compliance with the Organisational Model adopted;
- the verification of the real suitability and adequacy of the Organisational Model adopted, in other words its real ability to prevent the commission of predicate crimes to a potential administrative liability of the Company, pursuant to Italian Legislative Decree No. 231/2001;
- monitoring the effective implementation of the Organisational Model, pursuant to art. 7, paragraph 4, letter a) of Italian Legislative Decree No. 231/2001, understood as the continuing correspondence of this document to the institutional and corporate organisational arrangements, as well as to the ordinary business of the Company;
- consultancy aimed at updating, integrating or changing the Organisational Model and the Code of Ethics adopted, on the basis of regulatory changes or new corporate needs;
- the collection, examination and maintenance of all the information flows received or sent. In this regard, the Supervisory Body examines the reports sent every four months by the heads/contact persons pursuant to the Model, including the central Administration, Finance and Control Department.

Independent Auditors

The Shareholders' Meeting of 2i Rete Gas S.p.A., on 29 April 2015, appointed PricewaterhouseCoopers S.p.A. as its Independent Auditors for the years 2015-2023.

As provided for by art. 19, paragraph 3, of Italian Legislative Decree No. 39/2010, the Independent Auditors will present the Board of Statutory Auditors, in its role as the “committee for internal control and audit”, with a report on fundamental issues arisen during the audit, and in particular on the significant failings found in the Internal Control System with reference to the financial disclosure process.

Internal Audit

The BoD outsourced to COGITEK S.r.l. the Internal Audit and Risk Analysis work as of 1 January 2015, under the coordination of Pierantonio Piana who was appointed Head of Internal Audit.

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

In 2016, the Group started insourcing the Internal Audit department by hiring two professionals that operate under the supervision of Pierantonio Piana.

The audit plan (which has a horizon of three years) is prepared on a “rolling” annual basis following a structured and comprehensive risk analysis, which is updated every year, in order to identify the most important areas to audit, enabling the IA department to establish the most appropriate means to carry out “three-line-of-defence” controls, as well as to optimise the use of the dedicated resources.

The results of the risk analysis and the audit, as they are gradually carried out, are systematically illustrated to senior management, with a periodic summary for the BoD, so that, should there be any weaknesses present or potentially present in the Internal Control System, they can be put right with suitable preventative/corrective measures, which are duly assigned, scheduled and monitored until their full completion.

The CFO and the Administration, Finance and Control Department

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

In carrying out his/her activities, the CFO:

- interacts with the Independent Auditors and with Internal Audit;
- is supported by the Department Heads involved who, in relation to their own area of responsibility, ensure the completeness and reliability of the information flows to the CFO for the purposes of preparing the accounting disclosure;
- coordinates the activities undertaken by the Administrative Heads of relevant subsidiaries, who are responsible for the implementation, within their own company, together with the delegated bodies, of an adequate accounting control system to oversee administrative and accounting processes and assess their effectiveness over

time, setting out the results to the Parent Company through an internal certification process.

Other corporate departments involved

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

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

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

Control environment

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

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

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

Likewise, third parties (and in particular suppliers, who have undergone an increasingly intensive form of "pre-approval" to ensure they do not engage in non-transparent or incorrect conduct, including by calculating ethical ratings) are required to comply with the ethical principles in the aforementioned documents, agreeing to specific clauses in the contracts they enter into with the Company and sharing them.

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

Risk assessment

This is the activity promoted, developed and managed by Internal Audit, on the indication of the BoD (2016-2018 Audit Plan) which aims to identify, evaluate and manage strategic, operational, financial and legislative/regulatory compliance risks that the Company may encounter. This activity also includes critical assessment of the system of "company defences" against the aforementioned forms of risk.

In fact, the primary objective of Risk Analysis – which is undertaken making precise and timely reference to the most common best practices internationally, such as ERM-Enterprise Risk Management and CRSA-Control Risk Self-Assessment – is to make the Company aware, in a structured and complete way, of the aforementioned potential threats and the related weaknesses of the existing defences, as well as deploying, with a rigorous approach to priority interventions and with precise responsibilities and timeframes, the most suitable preventative/corrective action plans aimed at remedying the potential weaknesses that have been identified.

Given that the Risk Analysis process is an exercise which, as noted, is carried out each year by the Company, in 2016 there was an update of the risks from 2015, deriving both from organisational, regulatory and legislative and/or business changes which have characterised this year and from other or further risk conditions which emerged in the period.

As for the assessment – subject to updating the mapping of Company processes where necessary – the Group decided to have the various company heads (Top Management and process owners) self-assess risks, while the assessment of the controls adopted to combat such risks has been carried out by the Internal Audit Department (on the basis of the information gathered and the experiences gradually "accrued" from the audit work undertaken up to that moment).

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

The assessments, updated in 2016, of the aforementioned risks and related controls have given rise to "plotting" the same on respective diagrams represented by the "theoretical risk profile" (risk appetite) and by the "control profile". These profiles – in agreement with Top Management – have been divided into acceptable and unacceptable areas ("tolerance of risks and weaknesses in controls").
As already happened in the 2015 Risk Analysis, the 2016 update took as a reference very broad unacceptable areas (especially for legislative and regulatory compliance risks) in order to reach a particularly cautious assessment of risks for the business.

The comparison between potential risks and related controls highlights the so-called "residual risks", in other words the unacceptable risks which have not been adequately managed by the controls and which may have an impact of any degree on various company objectives.

As noted above, the results of the risk analysis for 2016, besides triggering a remediation plan process with prioritised interventions, enable the identification and scheduling of audit activities over the next three years (2017-2019 Audit Plan to be approved by the BoD).

The methodology was applied across the head office departments and local areas and enabled a broad analysis of potential risks and the related controls, of which only a small percentage resulted not to be adequately regulated by the existing controls and therefore subject to preventative/corrective action plans, which moreover had already been completed or had made significant progress.

Control activity

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

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

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

- the Managerial Procedures, Operational Procedures, Operational Instructions and Technical Specifications;
- the Quality manual;
- the Accounting and Administrative Control System, through IT procedures on SAP;
- the Group Accounting Manual and chart of accounts – a document which aims to promote the development and implementation of standard accounting criteria within the Group as regards the recognition, classification and measurement of operations;
- the Operational Instructions for financial statements and reporting and year-end timetables – documents which aim to inform the various departments of the detailed operating methods to manage the work to prepare the financial statements within the established and agreed deadlines;
- the Administrative and Accounting Procedures – documents which establish the responsibilities and control rules to follow with particular reference to administrative and accounting processes;
- the three-year Audit Plan and the audit manuals.

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

Specifically, as for the various three-year Plans (2014/2016, 2015/2017, and 2016/2018), the audit was conducted as follows:

- year 2014, start of Cogitek S.r.l. outsourcing operations: the Group performed a "comprehensive" risk analysis to rapidly identify the main weaknesses of the Internal Control System; it performed "field" tests based on the priorities identified by the risk analysis to ascertain the presence, fitness and consistency of existing rules and procedures (with reference to "core" and "supporting" corporate processes);
- years 2015 and 2016: after completing the gradual normalisation of the Internal Control System, the Group performed behavioural audits to ensure compliance with the rules (strategies, policies, procedures, requirements as per Italian Legislative Decree No. 231/01, in partnership with and/or on behalf of the SB, regulatory aspects). In 2015 and 2016, the Group also carried out "continuous auditing" with an increasing level of detail over the various reporting cycles to retrieve information automatically from the company databases, so as to identify – based on specific red flags – all situations requiring closer analysis and scrutiny, e.g. cases of non-compliance with laws or procedures. This approach, which exploits a new and all-encompassing best practice methodology for analysis, focussing

directly on pre-set situations that are objectively worth analysing, enables rapid repeated and detailed analyses on broad company areas, notably increasing the operational effectiveness of the controls, compared to the traditional logic of sampling. Although the Company is not subject to the provisions as set out in art. 154 bis and ter of the TUF, the continuous auditing approach will also be used to broadly confirm the soundness of the administrative and accounting processes for the purposes of financial disclosure;

- years 2014, 2015, 2016: monitored the implementation of the improvements proposed during the audit to enhance corporate control systems as needed.

Finally, concerning the 2017-2019 Plan: the Group completed the “coverage audit” to assess at least once during the entire 2014-2019 period the operation of the controls embedded in all corporate processes. The Group followed up on especially significant issues for its business to ascertain whether the preventative/corrective plans put in place by the Departments meet the necessary operational requirements and actually deliver the results expected for the improvement of the Internal Control System.

Information and communication

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

Monitoring

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

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

16. Outlook

In 2017, the Group will continue improving operational efficiency and curbing costs. The forecast profit for 2017 shall reflect regulatory measures, market trends, the economies of scale and cost efficiency which can be achieved given the size of the customer base.

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

- concentrate resources on the highest-value-added network operations through increasingly focused and specialised operational structures;
- create significant synergies at local level to optimise its presence and act increasingly effectively;
- pursue and improve the use of IT tools, in particular in dealings with customers, in order to achieve greater efficiency;
- continue reducing the number of workplace injuries by improving work quality and safety across its operations.

17. Key figures of the Parent Company

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

17.1 Reclassified Income Statement

Millions of euro	31.12.2016	31.12.2015	2016 - 2015
Revenues	**924.1**	**859.3**	**64.8**
Transport and sale of methane gas and LPG	551.5	572.8	(21.3)
Connection fees and accessory rights	19.4	17.9	1.5
Other sales and services	21.0	20.7	0.2
Revenues from intangible assets / assets under construction	204.1	169.2	34.9
Other revenues	128.1	78.6	49.5
Operating costs	**(526.8)**	**(471.2)**	**(55.6)**
Labour costs	(118.2)	(130.9)	12.7
Raw materials and inventories	(83.5)	(62.9)	(20.6)
Services	(204.0)	(207.0)	3.1
Other costs	(112.5)	(63.9)	(48.7)
Allocations to provisions for risks and charges	(8.8)	(6.6)	(2.2)
Increase in fixed assets not subject to IFRIC 12	0.2	0.0	0.2
EBITDA	**397.3**	**388.1**	**9.2**
Amortisation, depreciation and write-downs	**(154.3)**	**(153.8)**	**(0.5)**
Amortisation, depreciation and impairment losses	(154.3)	(153.8)	(0.5)
EBITDA	**243.0**	**234.2**	**8.8**
Net financial income (expenses) and income (expenses) from equity investments	(47.5)	(48.4)	0.9
Pre-tax income	**195.5**	**185.9**	**9.6**
Income taxes for the year	(66.5)	(99.0)	32.5
Net result from continuing operations	**129.0**	**86.9**	**42.1**
Net result from discontinued operations	-	-	-
Net income for the year	**129.0**	**86.9**	**42.1**

17.2 Reclassified Statement of Financial Position

Millions of euro	31.12.2016	31.12.2015	2016 - 2015
	A	B	A-B
Net fixed assets	**2,663.9**	**2,571.0**	**92.9**
Property, plant and equipment	37.7	40.7	(3.0)
Intangible assets	2,847.7	2,776.1	71.6
Equity investments	18.3	17.2	1.1
Other non-current assets	45.0	32.0	12.9
Other non-current liabilities	(302.1)	(295.0)	(7.1)
Fair value of derivatives	17.4		17.4
Net working capital:	**109.5**	**68.9**	**40.6**
Inventories	20.2	13.8	6.4
Trade receivables from third parties and the Group	233.2	238.2	(5.1)
Net receivables/(payables) for income taxes	(5.3)	8.7	(14.1)
Other current assets	178.7	145.4	33.4
Trade payables to third parties and the Group	(162.2)	(168.0)	5.8
Other current liabilities	(155.2)	(169.2)	14.1
Gross invested capital	**2,773.4**	**2,639.9**	**133.5**
Other provisions	**65.0**	**51.2**	**13.8**
Termination and other employee benefits	48.0	47.1	0.9
Provisions for risks and charges	84.5	73.6	10.8
Net deferred taxes	(67.5)	(69.6)	2.0
Net invested capital	**2,708.4**	**2,588.6**	**119.8**
Assets held for sale	**-**	**7.7**	**(7.7)**
Liabilities held for sale	**-**	**0.8**	**(0.8)**
Equity	**719.6**	**662.8**	**56.8**
Net Financial position	**1,988.7**	**1,932.8**	**56.0**

18. Reconciliation of Equity and Net Income for the year

The reconciliation of Equity and Net Income for the year shown in the financial statements at 31 December 2016 of 2i Rete Gas S.p.A. and the corresponding values in the consolidated financial statements are as follows:

Thousands of euro	Net income for the year recognised in profit or loss 2016	Equity 31.12.2016
Separate financial statements of 2i Rete Gas S.p.A.	129,013	719,649
Surplus of shareholders' equity from financial statements of subsidiaries used for the purposes of the consolidation, compared to the carrying values of the equity investments in subsidiaries	602	892
Consolidation adjustments for:		
Consolidation difference allocated to concessions	0	0
Consolidation difference allocated to goodwill		19
Valuation of equity investments with the equity method	41	47
Intercompany margins	(271)	(271)
Deferred and prepaid taxes	78	80
Consolidated financial statements of 2i Rete Gas S.p.A.	129,464	720,416
Non-controlling interests		
Consolidated financial statements of 2i Rete Gas S.p.A. - owners of the Parent	**129,464**	**720,416**

The main impacts shown as "Consolidation adjustments" at 31 December 2016 derived largely from the elimination of the intercompany margins arising from the sale of Italcogim Trasporto's distribution network to the parent company.

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

IV Consolidated financial statements of the 2i Rete Gas Group

1. Income Statement

Thousands of euro	Note	31.12.2016	of which from related parties	31.12.2015	of which from related parties
Revenues					
Revenues from sales and services	5.a	598,654	1	614,619	2
Other revenues	5.b	124,748	479	78,240	531
Revenues from intangible assets / assets under construction	5.c	207,061		170,040	
Sub-Total		**930,463**		**862,899**	
Costs					
Raw materials and consumables	6.a	83,547		63,203	
Services	6.b	207,619	1,199	208,313	40
Personnel costs	6.c	118,303	2,605	131,137	5,036
Amortisation, depreciation and impairment losses	6.d	155,920		154,455	
Other operating costs	6.e	121,670	422	70,538	351
Capitalised costs for internal work	6.f	(234)		(1)	
Sub-Total		**686,826**		**627,645**	
EBIT		**243,637**		**235,254**	
Income / (expenses) from equity investments	7	171	141	229	205
Financial income	8	214		740	
Financial expenses	8	(47,810)		(49,328)	
Sub-Total		**(47,426)**		**(48,359)**	
Pre-tax income		**196,211**		**186,895**	
Taxes	9	66,747		98,921	
Net result from continuing operations		**129,464**		**87,974**	
Net result from discontinued operations	10	-		-	
NET INCOME FOR THE YEAR		**129,464**		**87,974**	

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

2. Statement of Comprehensive Income

Thousands of euro	31.12.2016	31.12.2015
Net income recognised in profit or loss	**129,464**	**87,974**
Net income attributable to owners of the parent		
Net income attributable to non controlling interests		
Other comprehensive income		
Items which will never be reclassified in profit/(loss):		
Revaluations of net liabilities/assets for defined benefits - owners of the parent	(1,589)	1,162
Revaluations of net liabilities/assets for defined benefits - non controlling interests		
Deferred tax assets and liabilities on items which will never be classified in profit / (loss) - non controlling interests		
Deferred tax assets and liabilities on items which will never be classified in profit / (loss) - owners of the parent	453	(1,073)
	(1,136)	90
Items which may be reclassified subsequently in profit/(loss):		
Change in fair value of hedging derivatives - owners of the parent		
Change in fair value of hedging derivatives - non controlling interests	17,393	
Change in fair value of hedging derivatives reclassified in the income for the period - owners of the parent		
Change in fair value of hedging derivatives reclassified in the income for the period - non controlling interests	-	
Change in fair value of hedging derivatives (tax effect) - owners of the parent		
Change in fair value of hedging derivatives (tax effect) - non-controlling interests	(4,174)	
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - owners of the parent		
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interests	-	
	13,219	-
Total other comprehensive income	**12,083**	**90**
Total comprehensive income	**141,547**	**88,064**
Total comprehensive income attributable to:		
- Owners of the Parent	141,547	88,064
- Non controlling interests	-	0.00

Earnings per share: 0.3558 euro

Diluted earnings per share: 0.3558 euro

2i Rete Gas S.p.A

Chief Executive Officer

Michele Enrico De Censi

3. Statement of Financial Position

Assets

Thousands of euro	Notes	31.12.2016	of which from related parties	31.12.2015	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	37,780		42,555	
Intangible assets	12	2,862,738		2,796,578	
Net deferred tax assets	13	68,027		68,835	
Equity investments	14	3,375	2,858	3,334	2,817
Non-current financial assets	15	18,756		5,213	
Other non-current assets	16	45,051		32,048	
	Total	**3,035,727**		**2,948,562**	
Current assets					
Inventories	17	20,293		13,810	
Trade receivables	18	234,104	1,636	239,501	1,166
Short-term financial receivables	19	917	100	323	315
Other current financial assets	20	14		8	
Cash and cash equivalents	21	183,197		160,541	
Income tax receivables	22	8,196		9,940	
Other current assets	23	181,053		146,170	
	Total	**627,773**		**570,293**	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	37	-		-	
	Total	**-**		**-**	
TOTAL ASSETS		**3,663,499**		**3,518,855**	

2i Rete Gas S.p.A
Chief Executive Officer
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Liabilities

Thousands of euro	Note	31.12.2016	of which from related parties	31.12.2015	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent	24				
Share capital		3,639		3,639	
Treasury shares		-		-	
Other reserves		507,237		494,375	
Retained earnings (accumulated losses)		80,076		77,913	
Net income for the year		129,464		87,974	
Total equity - Owners of the Parent		**720,416**		**663,901**	
Equity - non-controlling interests					
Non-controlling interests		-		-	
Net income for the year - non-controlling interests		-		-	
Total equity - non-controlling interests		**-**		**-**	
TOTAL EQUITY		**720,416**		**663,901**	
Non-current liabilities					
Long-term loans	25	2,148,424		2,075,571	
Termination and other employee benefits	26	48,086		47,202	
Provision for risks and charges	27	13,586		10,637	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	-		-	
Other non-current liabilities	29	303,120	10	296,142	8
	Total	**2,513,217**		**2,429,552**	
Current liabilities					
Short-term loans	30	-		-	
Current portion of medium/long-term bank loans	31	-		-	
Current portion of long-term provisions and short-term provisions	32	71,084		63,054	
Trade payables	33	166,737	1,363	169,330	355
Income tax payables	34	13,932		1,266	
Current financial liabilities	35	21,099		21,394	
Other current liabilities	36	157,013	630	170,360	0
	Total	**429,866**		**425,403**	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	37	-		-	
	Total	**-**		**-**	
TOTAL LIABILITIES		**2,943,083**		**2,854,954**	
TOTAL EQUITY AND LIABILITIES		**3,663,499**		**3,518,855**	

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

4. Statement of Cash Flows

Thousands of euro		31.12.2016	31.12.2015
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	**21**	**160,541**	**108,506**
Cash flow from operating activities			
Pre-tax income		196,211	186,895
Income taxes for the period	9	(66,747)	(98,921)
Net result from discontinued operations	10	-	-
1. Net income for the year		**129,464**	**87,974**
Adjustments for:			
Amortisation	6.d	153,910	152,931
Write-downs/(Write-ups)	6.d	2,010	1,523
Capital (gains)/losses	5.b/6.e	11,203	9,546
Allocations to provisions for risks and charges and termination benefits		20,630	28,554
Financial (income)/expenses	7 and 8	47,426	48,359
2. Total adjustments		**235,179**	**240,914**
Change in net working capital			
Inventories	17	(6,483)	(6,016)
Trade receivables	18	4,030	(27,366)
Trade payables	33	(2,592)	(14,872)
Other current assets	23	(35,269)	16,932
Other current liabilities	36 and 37	(13,347)	27,178
Net tax receivables/(payables)	22 and 34	14,410	13,002
Increase/(decrease) in provisions for risks and charges and termination benefits	26, 27 and 32	(10,354)	(14,741)
Increase/(decrease) in provisions for deferred tax assets and liabilities	13	(2,914)	43,320
Other non-current assets	16	(13,003)	(8,269)
Other non-current liabilities	29	6,978	12,800
Financial income/(expenses) other than for financing	8	(1,066)	(250)
3. Total change in net working capital		**(59,610)**	**41,720**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**305,033**	**370,607**
Cash flow (used in) generated by investing activities			
Net fixed assets		(226,754)	(195,510)
Purchase of subsidiary and income from equity investments	7 and 14	129	224
Cash acquired through company acquisition		-	-
C) CASH FLOW (USED IN) GENERATED BY INVESTING ACTIVITIES		**(226,625)**	**(195,286)**
D) FREE CASH FLOW (B+C)		**78,408**	**175,322**
Cash flow generated by financing activities			
Payment of dividends		(85,032)	(65,020)
Change in reserves		-	-
Change in amortised cost	15, 25 and 31	6,551	5,783
Financial income for financing activities	8	130	188
Financial (expenses) for financing activities	8	(46,660)	(48,526)
New loan	25	70,000	200,000
Repayment of loan	25		(210,000)
Interest payables	25		(4,132)
Change in short-term financial debt	30	-	(7,791)
Change in other non-current financial assets	15	154	(224)
Change in other financial receivables	19 and 20	(599)	652
Change in other financial payables	35	(295)	5,784
E) CASH FLOW FROM FINANCING ACTIVITIES		**(55,752)**	**(123,287)**
F) CASH FLOW FOR THE PERIOD (D+E)		**22,656**	**52,035**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**21**	**183,197**	**160,541**

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Chief Executive Officer
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5. Statement of Changes in Equity

Thousands of euro	Share capital and reserves Share capital	Share premium reserves	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings	Net income for the year	Total - Owners of the Parent	Total - Non-controlling interests	Total consolidated equity
Total 31 December 2014	**3,636**	**351,567**	**620**	**0**	**288,136**	**(16,019)**	**12,021**	**639,961**	**896**	**640,857**
Allocation of result for 2014:										
Allocation of result	-	-	-	-	-	12,021	(12,021)	-	-	-
- Increase in legal reserve	-	-	108	-	(108)	-	-		-	
Contribution from shareholders and payments to them as shareholders								-		-
- Distribution of Share premium reserve	-	(65,020)	-	-	-	-	-	(65,020)	-	(65,020)
Total contribution from shareholders and payments to them as shareholders								*(65,020)*		*(65,020)*
- Other changes (merger of 2iRete gas)	2	-	-	-	(85,128)	86,021	-	896	(896)	(0)
- Other changes	-	-	-	(0)	4,111	(4,110)	-	0	-	0
- Change in IAS reserves	-	-	-	-	90	-	-	90	-	90
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	87,974	87,974		87,974
Total 31 December 2015	**3,639**	**286,546**	**728**	**-**	**207,101**	**77,913**	**87,974**	**663,901**	**-**	**663,901**
Allocation of result for 2015:										
Allocation of result	-	-	-	-	-	87,974	(87,974)	-	-	-
Contribution from shareholders and payments to them as shareholders								-		-
- Payment of dividends	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
Total contribution from shareholders and payments to them as shareholders								*(85,032)*		*(85,032)*
- Other changes (merger of GP GAS)	-	-	-	-	779	(779)	-	-	-	-
- Change in IAS reserves	-	-	-	13,219	(1,136)	-	-	12,083	-	12,083
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	129,464	129,464		129,464
Total 31 December 2016	**3,639**	**286,546**	**728**	**13,219**	**206,744**	**80,076**	**129,464**	**720,416**	**-**	**720,416**

2i Rete Gas S.p.A

Chief Executive Officer

Michele Enrico De Censi

6. Notes to the Consolidated Financial Statements

Format and contents of the Financial Statements

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

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

- North-West Department - Via Gazzoletto, 16/18 - 26100 Cremona (province of Cremona)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (province of Varese)
- North-East Department - Via Serassi, 17/Rs - 24124 Bergamo (province of Bergamo)
- Central Department - Via Morettini, 39 - 06128 Perugia (province of Perugia)
- South-West Department - Via Paul Harris, 63 - 81100 Caserta (province of Caserta)
- South-East Department - Via Enrico Mattei - 72100 Brindisi (province of Brindisi)

The Directors of 2i Rete Gas S.p.A. on 17 March 2017 approved these consolidated financial statements and agreed to make them available to Shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.
For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 17 March 2017.
These consolidated financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The consolidated financial statements for the year ended 31 December 2016 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Board (IASB), as endorsed by the European Union pursuant to EC Regulation No. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The above standards and interpretations are hereinafter referred to as “IFRS-EU”.

Reporting and valuation criteria

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

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”, separately disclosing the 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 Group normal operating cycle or in the twelve months following the reporting period; current liabilities are those expected to be settled during the Group normal operating cycle or within the twelve months following the reporting period.
Items in the Income Statement are classified based on the nature of expenses, while the Statement of Cash Flows is presented using the indirect method.
The consolidated financial statements are presented in euro (the functional currency) and the values shown in the notes are expressed in thousands of euro, unless otherwise stated.
The consolidated financial statements have been prepared using the historical cost method, except for those financial statement items which, in accordance with the IFRS-EU, are measured at fair value, as indicated in the valuation criteria for the individual items.
These consolidated financial statements have been prepared on a going-concern basis, as set out more in detail in the Directors’ Report.

Consolidation criteria

The consolidated financial statements are prepared applying the line-by-line method of consolidation of the data of the Parent Company and of the investee companies over which the Parent Company holds control, directly or indirectly. Control exists when the Group is exposed to variable returns arising from its relationship with the company, or can boast rights over such returns, and at the same time has the ability to influence these rights by exercising its power over the company itself. The financial statements of subsidiaries are included in the consolidated financial statements from when the Parent Company starts to exercise control until the date when such control ends.
The Group accounts for business combinations by applying the acquisition method on the date in which it effectively obtains control of the purchased company. In this regard reference should be made to section below “Business combinations”.
Third-party equity investments are valued in proportion to the related share of net identifiable assets of the purchased company at the acquisition date. The changes in the Group’s stake in a subsidiary which do not entail loss of control are recognised as transactions between shareholders in their role as shareholders.

In the case of loss of control, the Group eliminates the subsidiary's assets and liabilities, any third-party equity investments and other equity items relating to the subsidiaries. The profit or loss arising from the loss of control is recognised through profit or loss. Any residual equity investment held in the former subsidiary is measured at fair value at the date of loss of control.

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

Use of estimates

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

Recognition of revenues

Revenues from gas transport are determined annually on the basis of the tariff regulation in force, which, as from 2009, sets forth the definition of the tariff revenue cap (known as VRT, *Vincolo dei Ricavi Tariffari*) which is allowed for each gas distribution company. On the basis of Resolution No. 573/2013/R/gas of December 2013, parameters which regulate the calculation of the VRT for the years from 2014 to 2019 (Fourth Regulatory Period) have been defined.

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

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

Therefore the value indicated also includes an estimated element, whose impact is largely insignificant, connected to the increase in the average number of active Redelivery Points.

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

Pensions and other post-employment benefits

Some Company employees participate in pension plans which offer benefits based on their wage trend and years of service. In addition, some employees benefit from other post-employment benefit schemes.
The expenses and liabilities associated with these plans are calculated on the basis of estimates made by our actuarial consultants, who use a combination of statistical and actuarial elements, including statistics relating to past years and forecasts of future costs. Estimates are also made of death and withdrawal rates, assumptions on the future trend in discount rates, the rates of wage increases and trends in the cost of medical care.
These estimates can significantly differ from actual results, 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 charges.

Recoverability of non-current assets

The carrying amount of non-current assets and assets held for sale is periodically tested for impairment and wherever circumstances or events suggest that more frequent test is necessary.
Where the carrying amount of a group of fixed assets is considered to be impaired, it is written down to its recoverable value, as estimated on the basis of the use of the assets and their future disposal, in accordance with the Company's most recent plans.
The estimates of such recoverable values are considered reasonable. Nevertheless, possible changes in the estimation factors on which the calculation of such recoverable values is based could generate different results. For further details on the means of carrying out the impairment test and its results, reference should be made to the specific section.

Disputes

The 2i Rete Gas Group is involved in various legal disputes relating mainly to labour cases and litigation with some granting bodies.
Given the nature of these disputes, it is not always objectively possible to foresee the final outcome of these proceedings, some of which could end with a negative outcome.
The estimate of the provisions is the result of a complex process which entails subjective assessments by management. The provisions for risks recorded in the financial statements have been estimated to cover all the significant liabilities for cases where lawyers have noted a likely negative outcome and made a reasonable estimate of the amount of the loss.

Bad debt provision

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

Equity investments in associates and companies subject to joint control

Equity investments in associates means those in which the 2i Rete Gas Group has considerable influence over the financial and operational policies, although not holding control or joint control.
Companies subject to joint control or joint ventures are companies where the Group, by virtue of an agreement, claims rights over the net assets.
Equity investments in associates and in joint ventures are initially recognised at cost and subsequently recognised on an equity basis. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of profits or losses of the investee companies accounted for using the equity method, until the date on which said considerable influence or joint control ends.

Business combinations

Business combinations subsequent to 1 January 2010 are recognised using the acquisition method envisaged by IFRS 3 (Revised). The identifiable assets acquired and the liabilities taken over are measured at their respective fair values at the acquisition date. Any excess in the purchase cost over the fair value of the net assets acquired is accounted for as goodwill or, if a deficit, recognised in profit or loss. The carrying value of any goodwill is subject to annual impairment testing in order to identify any impairment.
Should it be possible to determine the fair value of the assets, liabilities and acquired contingent liabilities only provisionally, the business combination is recognised using these provisional values. Any adjustment arising from the completion of the valuation process is recognised within 12 months of the acquisition date.
The transaction costs, other than those relating to the issue of debt securities and equity, which are incurred by the Group to make a business combination are recognised as operating costs when incurred.

Combinations of bodies under common control

Business combinations under which the participating companies are definitively controlled by one company or by companies both before and after the combination, and this control is not temporary, are regarded as “under common control” transactions.
These transactions are not regulated by IFRS 3 or by other IFRSs. In the absence of a relevant international accounting standard, in compliance with the principle of prudence which entails application of the criterion of continuity of values for the net assets acquired, the Group has opted to record assets and liabilities from any combinations of bodies under common control at the carrying value which these assets and liabilities had in the financial statements of the seller/acquiree or in the consolidated financial statements of the controlling common body. Where the transfer values are higher than the historic values, the surplus is eliminated by writing down the Group’s equity.

Property, plant and equipment

In compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting method for fixed assets. It should be recalled that, as better specified below, following application of IFRIC 12, some fixed assets which were previously considered as tangible are now reclassified as intangible.

Property, plant and equipment not relating to gas distribution concessions are recognised at historical cost, including directly attributable ancillary costs necessary for the asset to be ready; subject to any legal or implicit obligations, the cost may be increased by the present value of the cost estimated for the dismantling and removal of the asset. The corresponding liability is recognised in liabilities under a specific provision for future risks and charges. Currently no liability is recorded in the statement of financial position linked to the dismantling and removal of assets, since there are no legal or implicit obligations which justify such recognition.
The purchase or production cost includes the financial expenses relating to loans connected to the purchase of tangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of assets are identifiable.
Some assets which are revalued at the date of transition to the IFRS-EU or in previous periods have been recognised on the basis of the revalued cost, considered as deemed cost.
Should significant parts of individual tangible assets have different useful lives, the identified components are recognised and depreciated separately.

The costs incurred subsequent to the purchase are recognised as an increase in the carrying amount of the asset to which they refer, when it is probable that future economic benefits deriving from the cost will flow to the Group and the cost of the item can be reliably determined. All other costs are recognised in profit or loss in the year in which they are incurred.
The cost of replacing part or all of an asset is recognised as an increase in the value of the asset to which it refers and is depreciated over its residual useful life; the net carrying amount of the replaced unit is recognised in profit or loss, with recognition of any capital loss.
Property, plant and equipment are recognised 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; any changes are applied on a prospective basis. Depreciation begins when the asset is ready for use.

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

Description	Useful Life
Land	-
Non-industrial buildings	50
Industrial buildings	50
Miscellaneous equipment	10
Office furniture and equipment	5, 10
Electronic devices	5
Vehicles	5
Cars	5

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

Intangible assets

As noted above, in compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting treatment of fixed assets. In particular, since the Group is subject to demand risk, the accounting treatment which it considered correct to apply is that of intangible assets: all the proprietary infrastructure obtained under a concession contract is therefore no longer recognised as property, plant and equipment but classified as intangible assets.

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

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

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

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

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

As for concessions, the 2i Rete Gas Group holds the concession for the gas distribution service assigned by tender for a maximum period of 12 years by local bodies (municipalities, municipality groups and mountain communities). Through service agreements, local bodies 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 in the previous Report, it should be highlighted that a significant number of concessions obtained by the 2i Rete Gas Group for gas distribution were terminated on the basis of their natural expiry or by law at 31 December 2010.

It should be recalled that since the publication of Italian Legislative Decree No. 93/11 on 29 June 2011 local authorities can no longer call new tenders except within the provisions included in the so-called “Decreto Ambiti” and “Decreto Criteri” issued in 2011. For this reason, currently only the local authorities which had called tenders for the assignment of gas distribution concessions prior to publication of Italian 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 a territorial basis. In the meantime 2i Rete Gas Group is continuing with the management of the network in the same way as prior to the expiry.

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

Impairment losses

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

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

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

In this regard, please note that the Group as a whole is considered to be a CGU.

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

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

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

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

Impairment losses are reversed if the impairment has been reduced or is no longer present or there has been a change in the assumptions used to determine the recoverable amount.

Impairment of goodwill can never be reversed in future years.

Inventories

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

Financial instruments

The initial recognition of non-derivative financial assets and liabilities takes place, for loans, receivables and debt securities issued, at the moment when they originated, while for all the other financial assets and liabilities it takes place on the trading date.
Financial assets are eliminated from the financial statements when: i) the contractual rights to receive cash flows are exhausted; ii) when the Group has maintained the right to receive cash flows from the asset, but has taken on the contractual obligation to pay them in full without any delay to a third party; or iii) when the Group has transferred the right to receive cash flows from the assets and has substantially transferred all the risks and benefits of ownership of the financial asset, or has transferred control over the financial asset.
Any residual involvement in the transferred asset which is originated or maintained by the Group is recorded as a separate asset or liability.
The Group provides for the accounting elimination of a financial liability when the obligation specified in the contract was fulfilled or cancelled or had expired.

Fair Value Hierarchy under IFRS 13

In accordance with IFRS 13, assets and liabilities recognised at fair value in the consolidated financial statements are measured and classified based on the fair value hierarchy outlined by the standard, which consists in three levels based on the observability of the inputs to the corresponding measurement method. Fair value hierarchy levels are based on the type of inputs used to determine fair value:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (e.g. quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; market-corroborated inputs).

Level 3: unobservable data for the asset or liability, reflecting the assumptions that market participants should use in pricing the asset or liability, including the risk assumptions (of the model and the inputs used).

The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire fair value measurement requires judgement, taking into account factors specific to the asset or liability.

A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.
If an observable input requires an adjustment using unobservable inputs and that adjustment is material to the measurement, the resulting measurement would be categorised within the same level as the lowest level input used.
The Group has implemented adequate controls to monitor all measurements, including those received from third parties. If those checks show that the measurement cannot be considered as market corroborated, the instrument must be categorised within level 3.

Financial assets measured at fair value through profit or loss

This category includes any debt securities held for trading or measured at fair value through profit or loss at the time of initial recognition.
Such assets are initially recognised at their fair value. The attributable transaction costs are recognised in profit or loss when they are incurred. Profit and losses from changes in their fair value are recognised in profit or loss.

Financial assets held to maturity

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

Loans and receivables

This category includes financial and trade receivables, including non-derivative debt securities, with fixed or determinable payments that are not quoted on an active market and that the Group does not originally intend to sell.
Such assets are initially recognised at fair value, adjusted for any transaction costs, and subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment losses. Such impairment losses are calculated as the difference

between the carrying amount of the asset and the present value of future cash flows, discounted at the original effective interest rate.
Trade receivables falling due in line with generally accepted trade conditions are not discounted.
Receivables relating to energy efficiency certificates refer to contributions which will be awarded by the Fund for Energy and Environmental Services (CSEA) for certificates in the 2i Rete Gas Group's portfolio.

Financial assets available for sale

This category includes debt securities, equity investments in other entities (if classified as "available for sale") and financial assets that cannot be classified in other categories. Such assets are initially recognised at fair value increased by any transaction costs. After initial recognition, these instruments are measured at fair value against the other components of the statement of comprehensive income.
At the time of sale, retained earnings and accumulated losses are reclassified from other comprehensive income to profit or loss.
Where there is objective evidence that such assets have suffered an impairment loss, the accumulated loss is recognised in profit or loss. Such impairment losses, which cannot be subsequently reversed, are calculated as the difference between the carrying amount of the asset and the present value of future cash flows, discounted at the market interest rate for similar financial assets.
When the fair value cannot be reliably determined, these assets are recognised at cost adjusted for any impairment losses.

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Derivative financial instruments

Derivatives, if any, are recognised at fair value and are designated as hedging instruments when the relationship between the derivative financial instrument and the hedged item is

formally documented and the effectiveness of the hedge is high (based on a periodical assessment).
Recognition of the result of measurement at fair value depends on the type of hedge accounting adopted.
When the derivatives are used to hedge the risk of changes in the fair value of hedged assets or liabilities (fair value hedge), any changes in the fair value of the hedging instrument are recognised in profit or loss; likewise, adjustments to the fair values of the hedged assets or liabilities are also recognised in profit or loss.
When the derivatives are used to hedge the risk of changes in cash flows of hedged items (cash flow hedge), the changes in the fair value that are considered effective are recognised in other comprehensive income, and presented in a specific reserve in equity, and subsequently reclassified to profit or loss in line with the economic effects produced by the hedged transaction.
The ineffective portion of the fair value of the hedging instrument is directly recognised in profit or loss.
Changes in the fair value of derivatives that no longer qualify for hedge accounting under IFRS-EU are recognised in profit or loss.
The accounting for such instruments is done at the trading date.
Financial and non-financial contracts (where they have not already been measured at fair value) are assessed to determine whether they contain any embedded derivatives that need to be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that significantly changes the original associated cash flows.
Fair value is determined using the official prices for instruments traded on regulated markets. For instruments not traded on regulated markets, fair value is determined by discounting expected cash flows on the basis of the market interest rate curve at the end of the reporting period and translating amounts in currencies other than the euro at period-end exchange rates.

Employee benefits

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

cost and measured on the basis of the number of employees that are expected to accept the offer.

Provisions for risks and charges

Allocations to provisions for risks and charges are recognised when at the 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 cost of money in relation to time and, if applicable, the specific risks of the obligation. If the amount is discounted, the periodic adjustment of the present value due to the time value of money is recognised as a financial expense in profit or loss.

Contributions

Contributions, whether they are from public entities or third parties operating in the private sector, are recognised at fair value when it is reasonably certain that they will be received and that the conditions for their recognition will be met.
Contributions received for specific expenditures are systematically recognised among other liabilities and taken to profit or loss over the period in which the related costs are incurred.
Public contributions (plant contributions) received for specific assets whose value is recognised among tangible and intangible assets are recognised among other liabilities and taken to profit or loss over the amortisation/depreciation period of the assets they refer to.
Private contributions (connection fees, including property subdivision contributions) are recognised in a specific liability item in the statement of financial position and taken to 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 pays the operating costs relating to the activity required for the carrying out of the investment, it should be noted that the revenues percentage for contributions collected from customers to cover overhead costs which are accessory to the investment activity is fully recognised in profit or loss in the period in which the investment is made.

Revenues and costs

Revenues are recognised using the following criteria depending on the type of transaction:
- revenues from sales of asset are recognised when the significant risks and rewards of ownership of the assets sold are transferred to the buyer and their amount can be reliably determined and collected;
- revenues from gas transport is accrued on the basis of the tariffs and the related restrictions envisaged by legal provisions and by the provisions of the AEEGSI, in force during the period in question. The introduction of the new formula for the recognition of

revenues for gas transport, which was applied as from 2009, with the coming into force of Resolution ARG/gas No. 159/08 and largely reconfirmed in the AEEGSI Resolutions No. 573/13 and 367/14, led to the introduction of an equalisation mechanism which enables the relevant distribution companies' revenues to be calculated in order to remunerate the invested capital and the operating costs attributable to the gas distribution and metering service, regardless of the volumes distributed;

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

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

Financial income and expenses

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

Dividends

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

Income taxes

Current income taxes for the year, recognised as "income tax payables" net of advances paid or as "income tax receivables" if the net balance is positive, are determined on the basis of the estimate of the taxable income and in accordance with the current fiscal regulations or the fiscal regulations essentially in force at the end of the reporting period.
Deferred tax liabilities and assets, which are set out in the tables as the net impact of the two items under assets, are calculated based on the temporary differences between the carrying amounts recorded in the financial statements and their corresponding values recognised for tax purposes by applying the tax rates effective on the date the temporary difference will be settled, based on the tax rates that are in force or essentially in force at the reporting date.

Deferred tax assets are recognised when recovery is likely, i.e. when sufficient future taxable income is expected to be available to recover the assets. Recoverability of deferred tax assets is re-examined at the end of each reporting period.
Taxes relating to components that are directly recognised in equity are also recognised in equity.

Discontinued operations and non-current assets held for sale

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

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

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

Recently issued accounting standards

Pursuant to IAS 8, the following section “Accounting standards, amendments and interpretations applicable by the Group as from this year” sets out the main features of the amendments to the International Accounting Standards in force as from 1 January 2016 and of potential interest for the Group.
In the following sections “Accounting standards, amendments and interpretations endorsed by the European Union but applicable after 31 December 2016” and “Accounting standards, amendments and interpretations not yet endorsed by the European Union”, there is an indication of the accounting standards and interpretations which have already been issued, but not yet come into force, or which have not yet been endorsed by the European Union and are therefore not applicable for the drafting of the financial statements at 31 December 2016, the impact of which may be included as from the financial statements for subsequent years.

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

As from 1 January 2016 some additions to standards have been applied consequent to specific sections of the international accounting standards which have already been adopted by the Group in previous years, none of which has had a significant impact on the Group's economic and financial results.

The main changes are set out below.

- IAS 19 Revised "Employee benefits": the changes made to IAS 19 on 21 November 2013 allow (but do not require) to recognise a reduction in the "current service cost" for those contributions paid by employees or by third parties which are not related to the number of years of service, instead of allocating such contributions over the period of time in which the employment service has been provided.
  The conditions to be able to apply this provision are that the contributions: (i) are indicated in the formal conditions of the plan; (ii) are connected to the service provided by the employee; (iii) are independent from the employee's number of years of service. The changes are applicable as from 1 February 2015;

- with the annual improvement cycle for 2012, the IASB issued amendments to the following accounting standards:
  - IFRS 2 "Share-based payments": the amendment clarifies the definition of "vesting condition" and separately defines "performance conditions" and "service conditions";
  - IFRS 3 "Business combinations": the standard has been changed in order to clarify that the obligation to pay a contingent consideration falls under the definition of financial instrument and must be classified as a financial liability or as an item of equity on the basis of the indications in IAS 32. In addition, it was clarified that obligations to pay contingent consideration, other than those which fall under the definition of equity instrument, are measured at fair value at each reporting date, with changes taken to profit or loss;
  - IFRS 8 "Operating segments": the standard has been changed with the introduction of a new disclosure obligation, requiring a short description of the operating segments which have been aggregated and of the economic indicators which have been used for the aggregation;
  - IFRS 13 "Fair value measurement": the amendment clarifies that the exemption which allows an entity to measure at fair value groups of financial assets and liabilities applies to all contracts, including non-financial contracts;
  - IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": both the standards have been changed in order to clarify how the recoverable value and the useful life are treated should the entity make a revaluation;

- with the annual improvement cycle for 2014, the IASB issued amendments to the following accounting standards:
  - IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” concerning disposal methods;
  - IFRS 7 “Financial Instruments: Disclosures” (and the resulting amendments to IFRS 1) concerning servicing contracts;
  - IAS 19 “Employee Benefits” concerning the applicable discount rates;
  - IAS 34 “Interim Financial Reporting” concerning disclosures.

  In particular, as for IFRS 7, the amendment concerned establishes that if an entity transfers a financial asset under conditions which allow the transferor to derecognise the asset, the entity shall disclose any continuing involvement it might still have in the transferred asset if, under a servicing contract, it retains an interest in the future performance of the transferred financial assets.

  The proposed amendment to IAS 19 clarifies that the discount rate for post-employment benefit obligations shall be determined by reference to market yields on high quality corporate bonds. In countries where there is no “deep market” in such high quality corporate bonds, the market yields on government bonds shall be used;

- IFRS 10 “Consolidated Financial Statements”: the change to the standard was issued on 18 December 2014 and regards exemption from presentation of consolidated financial statements should the parent company have investments in “investment entities” which measure their subsidiaries at fair value. The amendment to the standard is applicable as from 1 January 2016;

- IFRS 11 “Joint Arrangements”: the amendment to the standard provides guidance on the accounting for the acquisition of an interest in a joint arrangement that constitutes a “business” as defined in IFRS 3 “Business Combinations”.

- IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”, on depreciation and amortisation. This amendment to the two aforementioned standards clarifies that a depreciation process based on revenues cannot be applied in reference to the elements of property, plant and equipment, since this method is based on factors (for example sale volumes and prices) which do not represent actual consumption of the economic benefits of the underlying asset. This prohibition has been included also in IAS 38. Following the amendment, a revenue-based amortisation method is appropriate only if it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated.

- IAS 27 “Separate Financial Statements” on the equity method. The amendments allow entities to use the equity method to account for investments in subsidiaries, joint venture and associates in their separate financial statements.

- IAS 1 “Presentation of Financial Statements” on the improvements to disclosures in financial reporting.
  The amendments are part of the IASB's initiatives to improve presentation and disclosure in financial reports. The amendment explicitly clarifies that an entity need not provide a specific disclosure required by an IFRS if the information is not material. The amendment also intends to provide clarification about the aggregation or disaggregation of line items that are significant or “material”. In addition, concerning the information to be presented in the statement of financial position, the amendment clarifies that some line items required by paragraphs 54 (Financial position) and 82 (Income statement) of IAS 1 should be disaggregated.

Accounting standards, amendments and interpretations endorsed by the European Union but applicable after 31 December 2016

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

- IFRS 9 “Financial Instruments”: this standard represents the first part of a process in stages to replace IAS 39 “Financial Instruments: Recognition and Measurement” in its entirety, and introduces new criteria to classify and measure financial assets and liabilities. The main changes introduced by IFRS 9 can be summarised as follows: financial assets can be classified in only two categories – at “fair value” or at “amortised cost”.
  The classification in the two categories takes place on the basis of the business model of the entity and in relation to the characteristics of the cash flows generated by the assets themselves. A financial asset is valued at amortised cost if both the following requirements are met: the business model of the entity envisages that the financial asset is held to collect the related cash flows (and so in essence not to realise trading profits) and the characteristics of the cash flows of the asset correspond solely to the payment of capital and interest. If this is not so, the financial asset must be measured at fair value. The rules for the recognition of embedded derivatives have been simplified: it is no longer required to recognise separately the embedded derivative and the financial asset which is “host” to it.
  All the equity instruments – both listed and unlisted – must be measured at fair value.
  IFRS 9 does not allow reclassification between the two categories of financial assets except in rare cases where there is a change in the business model of the entity. In this case the effects of the reclassification are applied prospectively.
  Finally, the disclosure required in the notes has been adjusted to the classification and measurement rules introduced by IFRS 9. On 19 November 2013 the IASB

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

- the substantial review of hedge accounting, which will allow companies to better reflect their risk management activities in the financial statements;
- the change is allowed in the accounting treatment of liabilities measured at fair value: in particular the effects of a worsening in companies' credit risk will no longer be recognised in profit or loss;

the effective date of the standard, originally set for 1 January 2015, is now 1 January 2018;

- IFRS 15 "Revenue from Contracts with Customers": the standard, which was issued by the IASB on 28 May 2014, is the result of an attempt at convergence between the IASB and the FASB ("Financial Accounting Standard Board", the body responsible for the issue of new accounting standards in the United States) in order to achieve a single model for the recognition of revenues applicable in both IFRS and US GAAP. The new standard will be applicable to all contracts with customers, including contract work in progress, and therefore will replace the current IAS 18 – Revenues and IAS 11 – Construction Contracts and all the related interpretations. The standard in question is applied when the following criteria occur together:
    - the parties have approved the contract and have agreed to carry out the respective obligations;
    - the rights of each of the parties regarding the goods and services to be transferred as well as the payment terms have been identified;
    - the contract signed has commercial substance (the risks, the timeframe or the total future cash flows of the entity may be changed as a result of the contract);
    - there is the likelihood of receiving and paying the amounts connected to execution of the contract.

  IFRS 15 also includes disclosure obligations which are significantly broader than the existing standard, in regard to the nature, amounts, timeframes and uncertainty of the revenues and cash flows arising from contracts with customers.
  On 11 September 2015 the IASB issued an amendment to the standard in question, deferring its effective date to 1 January 2018.

Standards which have yet to be adopted and applied

The following standards and amendments to existing standards are still being endorsed by the European Union and therefore cannot be applied by the Group.

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

- IAS 7 “Cash flows”. The changes are applicable as from 1 January 2017.
- IFRS 2 “Share-based payments”. The changes are applicable as from 1 January 2018.
- IFRS 16 “Leasing”. The changes introduced by this standard, which replaces the current accounting under IAS 17, are material, especially as far as lessee accounting is concerned. IAS 17 required lessees to distinguish between a finance lease (on-balance sheet) and an operating lease (off-balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting all future lease payments and “right-of-use” assets for virtually all leases. The changes are applicable as from 1 January 2019.
- With the annual improvement cycle for 2014-2016, the IASB issued amendments to the following accounting standards:
    - IFRS 1 “First Time Adoption”, concerning the elimination of the exemptions for first-time adopters concerning IFRS 7, IAS 19, and IFRS 10. The effective date is 1 January 2018.
    - IFRS 12 “Disclosure of Interests in Other Entities” concerning a clarification on the scope of the standard. The amendments must be applied retrospectively for years beginning on or after 1 January 2017.
    - IAS 28 “Investments in Associates and Joint Ventures” concerning the measurement of an associate or joint venture at fair value. It is effective for years beginning on or after 1 January 2018.

Information on the Income Statement

Revenues

The transport of methane gas takes place exclusively within Italy.

5.a Revenues from sales and services – 598,654 thousand euro

"Revenues from sales and services" mainly refer to the gas transport activity and the connection fees.

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

Thousands of euro

	31.12.2016	31.12.2015	2016- 2015
Sales and services			
Third parties:			
Transport of gas and LPG	560,744	579,884	(19,139)
Allocation to provision for risks	(2,666)	(4,128)	1,462
Connection fees	13,477	12,343	1,134
Accessory rights	6,068	5,618	450
Revenues from the sale of water	1,818	2,533	(715)
Accessory services – water sector	240	486	(246)
Revenues from customer operations	44	58	(14)
Revenues from sewerage/purification	749	905	(156)
Other revenues and other sales and services	18,181	16,921	1,260
Total revenues from sales and services	**598,654**	**614,619**	**(15,965)**

Revenues from gas transport totalled 560,744 thousand euro and mainly refer to the 2016 tariff revenue cap (VRT) for natural gas and LPG, together with revenues from adjustments in previous years.
This figure was calculated on the basis of AEEGSI Resolution No. 367/2014/R/gas which is valid for the fourth regulatory period up to 2019.
During the year it was arranged to set aside a further provision for the risk that the tariffs of some concessions may be reviewed where there is plant partly owned by third parties.
The figure for transport revenue fell compared to the previous year by 17,677 thousand euro, after excluding the impact of 1,462 thousand euro in the two years for the allocation and release of the aforementioned risk provision.

This difference was mainly the result of the change in the weighted average cost of capital following Resolution No. 583/2015/R/com, as well as the tariff compensation received in the first half of 2015 for about 5.1 million euro.

Connection fees totalled 13,477 thousand euro, up 1,134 thousand euro from the prior year. This increase was the result of both the economic recovery, which positively affected 2016, and the recognition through profit or loss of part of the fees related to concessions handed over to the incoming operators.

As in the prior year, the Group calculated the prepayments relating to these fees. Specifically, the connection fee is a set amount defined through a specific quote according to the type of service requested, and consists of:

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

The analysis undertaken enabled the separation of the revenues percentage for contributions collected from customers to cover overhead costs which are accessory to the investment activity (around 17% of private contributions and 0.9% of network transfer and connection fees), and therefore not to be deferred, from that to be attributed to the costs which are capitalised and therefore to be deferred on the basis of the length of the amortisation of the asset.

Revenues from the sale of water decreased by 715 thousand euro overall, following the strategy of gradual disposal in the water concessions managed by the Company.

In “Other revenues and other sales and services”, the positive change of 1,260 thousand euro was mainly due to the increase in revenues linked to the work to suspend and reactivate customers in arrears at the request of the sales companies. Specifically, at 31 December 2016 this line item included 9,984 thousand euro in revenues from ancillary fees and expenses as well as 6,384 thousand euro in revenues from the suspension and reactivation of customers in arrears.

5.b Other revenues – 124,748 thousand euro

“Other revenues” totalled 124,748 thousand euro (78,240 thousand euro in 2015), increasing by 46,508 thousand euro and are broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Other revenues			
Third parties:			
Revenues from energy efficiency certificates	90,802	50,254	40,548
Revenues from plant contributions	2,260	2,348	(89)
Contingent assets	833	8,294	(7,461)
Revenues from Resolution no. 574/13	15,214	9,224	5,990
Rental income	2,172	691	1,481
Capital gains from assets	5,405	809	4,596
Compensation for damages	889	543	346
Other revenues and income and services	7,174	6,077	1,097
Total other revenues	**124,748**	**78,240**	**46,508**

The increase was essentially attributable to the 40,548 thousand euro increase in revenues from the sale of energy efficiency certificates as a result of the trend in market purchase prices, which determines the value the electric market operator (GME) assigns to the certificates, as well as the rise in revenues arising from the recognition of the incomplete amortisation of the conventional meters replaced pursuant to Resolution No. 574/13 through tariffs (5,990 thousand euro) and the capital gains from assets (4,596 thousand euro) after the Group settled a number of disputes with some municipalities over the value and ownership of the plants concerned. The previous year benefited from an increase in contingent assets due to the amount received from Gaz de France Italia following the end of the international arbitration (approximately 7.3 million euro).

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

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

Finally, “Other revenues and income and services” included 2,869 thousand euro in revenues from the default service, which is the responsibility of the distributor, and 2,132 thousand euro in revenues as per Resolution No. 40/04.

5.c Revenues from intangible assets / assets under construction – 207,061 thousand euro

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Revenues from intangible assets / assets under construction			
Revenues from intangible assets/assets under construction	207,061	170,040	37,021
Total revenues from intangible assets / assets under construction	**207,061**	**170,040**	**37,021**

As from 1 January 2010, the Group has been recognising these revenues pursuant to IFRIC 12 “Service Concession Arrangements”.

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

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.
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	31.12.2016	31.12.2015	2016 - 2015
Costs relating to revenues from intangible assets / assets under construction			
Raw materials and consumables	4,549	4,133	416
Costs for services	82,089	78,808	3,282
Other operating costs	590	555	36
Capitalised costs for materials, personnel and services	119,832	86,545	33,288
Total costs relating to revenues from intangible assets / assets under construction	**207,061**	**170,040**	**37,021**

6.a Raw materials and consumables – 83,547 thousand euro

“Costs of raw materials and consumables” and the changes thereto compared to the previous year are detailed below:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	2,877	4,042	(1,165)
Stationery and printed materials	264	299	(36)
Various materials	86,890	64,877	22,013
(Change in inventories of raw materials)	(6,483)	(6,016)	(468)
Total cost for raw materials and consumables	**83,547**	**63,203**	**20,345**
- of which capitalised for intangible assets	76,843	53,834	23,009
- of which capitalised	234	-	

The costs for "raw materials and consumables" essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes; compared to the previous year these costs increased by 20,345 thousand euro.

Specifically, this increase was due to the ongoing campaign to replace conventional meters with new smart ones. This campaign started in the final months of 2015 and has resulted in around 760,000 meters being replaced during the year, i.e. nearly an additional 20% of total meters.

6.b Services – 207,619 thousand euro

"Costs for services" are broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	78,277	77,146	1,131
Costs for electricity, power and water	3,278	4,020	(742)
Gas (for internal use)	3,333	3,844	(511)
Telephone and data transmission costs	2,835	3,837	(1,002)
Insurance premiums	4,852	5,171	(319)
Costs for services and other expenses relating to personnel	4,863	5,332	(470)
Fees	882	659	223
Legal and notary costs	2,285	392	1,893
Costs for company acquisitions and disposals	11	1	10
Staff and other services	5	1,439	(1,434)
Advertising	64	108	(44)
IT services	6,563	7,611	(1,048)
Meter reading service	5,236	3,968	1,269
Audit fees	407	388	19
Repairs and immediate intervention service	4,866	3,180	1,686
Plant certifications - Resolution no. 40	630	720	(90)
Transport of gas by third parties	2,478	2,248	230
Professional and other services	4,661	4,564	97
Other costs for services	6,824	7,894	(1,070)
Costs for the use of third-party assets			
Leases	5,547	6,809	(1,262)
Rentals	6,797	6,472	325
Other costs for the use of third-party assets	1,862	2,525	(663)
Fee for temporary occupation of public space (C.o.s.a.p.)	1,268	1,262	6
Municipal gas concession fees	59,794	58,722	1,072
Total	**207,619**	**208,313**	**(694)**
- of which capitalised for intangible assets	82,089	78,808	3,282

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

The most significant changes from last year concerned the following:

- 1,131 thousand euro rise in the costs for maintenance, repair and realisation of assets as a result of the increased activity on the networks, entering into a higher number of contracts with external companies;
- 2,255 thousand euro decline in the costs for utilities (electricity, water, gas, phone) following the negotiation of new agreements with the main providers and the recognition of credit balances on electricity accumulated during the year;
- 1,893 thousand euro increase in legal costs, essentially due to lawsuits concerning default (offset by the revenues from the default service as resolved by AEEGSI);
- 1,434 thousand euro decline in staff services: the property management operations that were part of agreements in 2015 are now carried out with in-house staff;
- 1,048 thousand euro decrease in IT platform management costs, also thanks to the renegotiation of servicing agreements during the year;
- a nearly 2,955 thousand euro increase resulting from the change in work organisation compared to the previous year for the meter reading and emergency services;
- rental and lease costs, including other costs for the use of third-party assets, were down 522 thousand euro year-on-year thanks to the rationalisation of the Group's offices and the end of the agreements with the Enel Group. These costs savings are reported net of the 1,072 thousand euro rise in concession fees and the 325 thousand euro increase in rental costs during 2016.

6.c Personnel costs – 118,303 thousand euro

Personnel costs are broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Wages and salaries	82,750	81,628	1,122
Social security charges	25,829	29,376	(3,547)
Termination benefits	5,492	5,491	1
Asem/Fisde	5	9	(4)
Fondo Gas	-	11,386	(11,386)
Other personnel costs	539	2,248	(1,709)
Incentives lo leave	3,688	1,000	2,688
Total personnel costs	**118,303**	**131,137**	**(12,834)**
- of which capitalised for intangible assets	**47,538**	**36,843**	**10,695**
- of which capitalised	**-**	**1**	**(1)**

"Personnel costs" include all charges incurred on an ongoing basis that concern employees, either directly or indirectly. The item decreased by 12,834 thousand euro exclusively because last year the Group accounted for the impact of the abolition, as from 1 December 2015, of the so-called "Fondo Gas" which caused the Group to recognise in 2015 the full discounted impact of the 240 instalments to be paid each month to employees and the additional contribution to be paid into the funds of INPS (the Italian Social Security Agency) in order to make good the cash deficit for 2015 (11,386 thousand euro).

In addition, the rise is noted in the figure for the capitalisation of personnel costs thanks also to the campaign to install smart meters (10,695 thousand euro).

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

	Executives	Middle Managers	Office Employees	Workers	Total
Personnel at 31 December 2015	**33**	**110**	**1,127**	**693**	**1,963**
Increase	0	3	39	19	**61**
Decrease	(3)	(4)	(24)	(10)	**(41)**
Change in category	0	3	(2)	(1)	**0**
Personnel at 31 December 2016	**30**	**112**	**1,140**	**701**	**1,983**

In the year the turnover of staff was normal, with 61 new recruits, while 41 employees left the company. Of the 61 new hires, 34 joined the Group following the acquisition of the concession in Como during the year.

6.d Amortisation, depreciation and impairment losses – 155,920 thousand euro

Depreciation of tangible assets, amortisation of intangible assets and impairment losses amounted to 155,920 thousand euro, up by 1,465 thousand euro compared to the previous year.
This change was due to the 979 thousand euro increase in amortisation and depreciation as well as the 487 thousand euro rise in impairment losses.
With the introduction of IFRIC 12, the amortisation of intangible assets mainly concerns the rights over concessions in which the Group manages the gas distribution networks.
Impairment losses, totalling 2,010 thousand euro, included 256 thousand euro arising from the remeasurement of some fixed assets and 1,754 thousand euro from the write-down of trade receivables. In particular, in 2016 it was necessary to write down the receivable for 1,086 thousand euro claimed from Libera Energia awaiting the admittance of the latter to an arrangement with creditors.

This item is broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Depreciation of tangible assets	5,007	5,087	(80)
Amortisation of intangible assets	148,903	147,844	1,059
Impairment losses:			
- Impairment of tangible assets	210	-	210
- Impairment of intangible assets	47	-	47
- Write down of trade receivables	1,754	1,523	230
	155,920	**154,455**	**1,465**

6.e Other operating costs – 121,670 thousand euro

“Other operating costs” increased by 51,132 thousand euro compared to last year and are broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Other operating costs			
Third parties:			
Remuneration of statutory auditors and Supervisory Body	114	149	(35)
Remuneration of members of the Board of Directors	364	256	108
Association fees	413	444	(31)
Contribution to the Supervisory Authority	163	158	6
Compensation to customers	184	649	(464)
Municipal tax on property	465	472	(7)
CCIAA (chamber of commerce) fees and duties	460	426	34
Purchase of energy efficiency certificates	89,880	48,211	41,669
Tax on the occupation of public space (Tosap)	1,588	1,624	(35)
Capital losses on the disposal of assets	16,023	10,114	5,909
Capital losses on the sale of assets	584	242	343
Local and sundry taxes	1,022	587	435
Difficulties in checks pursuant to Resolution no. 40	-	0	(0)
Other costs	1,411	667	744
(Net) provision for risks and charges	8,997	6,540	2,457
Total other operating costs	**121,670**	**70,538**	**51,132**
- of which capitalised for intangible assets	590	555	36

The decrease in other operating costs mainly depends on:

- 41,669 thousand euro increase in the costs for the purchase of energy efficiency certificates for the 2015 and 2016 objective, mainly because prices rose during the second half of 2016;
- higher capital losses on the disposal of assets for 5,909 thousand euro, mainly due to the work to replace conventional meters with smart ones, and higher capital losses on the sale of assets for 343 thousand euro as a result of some sales carried out during the year;
- higher charges for provisions for risks of 2,457 thousand euro. The net increase for the year referred mainly to the provision for new legal disputes that arose during the year, whose outcome is not certain and for which the risk of defeat is probable; the provision for the dispute over the purchase price of the equity investment in Genia Distribuzione S.p.A.; and the provision for measurement checks on the smart meters installed. The breakdown of the relevant provisions is provided in the comments on liabilities.

6.f Capitalised costs for internal work – 234 thousand euro

The item includes those costs which can be capitalised but do not concern concessions.
This line item was up 234 thousand euro from 2015 because of the installation of equipment outside of the scope of concession agreements.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Internal services	-	1	(1)
Materials	234	-	234
Total capitalised costs for internal work	**234**	**1**	**232**

7. Income / (expenses) from equity investments – 171 thousand euro

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

8. Financial income/(expenses) – (47,596) thousand euro

This item is broken down as follows:

	31.12.2016	31.12.2015	2016-2015
Financial income			
- Interest earned from loans to employees	1	1	(0)
- Interest income from discounting of receivables	-	75	(75)
- Interest income on delayed payments	-	129	(129)
- Interest income from current accounts and post office deposits	130	188	(58)
- Interest income from receivables from customers	45	122	(77)
- Other financial interest and income	38	225	(187)
Total income	**214**	**740**	**(526)**
Financial expenses			
- Interest expense on medium/long-term loans	983	2,435	(1,452)
- Other expense on medium/long-term loans from banks	1,164	1,581	(417)
- Financial expenses on debenture loans	37,304	37,200	104
- Financial expenses from amortised cost	7,208	7,308	(101)
- Interest expense on current bank accounts	-	1	(1)
- Discounting of termination and other employee benefits	958	601	357
- Expense for discounting of payables	129		129
- Interests on taxes	1	97	(96)
- Other financial and interest expense	62	104	(42)
Total expenses	**47,810**	**49,328**	**(1,518)**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(47,596)**	**(48,588)**	**992**

The Group reported 47,596 thousand euro in financial expenses, arising largely from the interest expense on the debenture loans issued during 2014 and the 200 million euro loan received from the EIB in December 2015.

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

After replacing the 400 million euro investment and revolving line of credit in August 2016 with a 245 million euro revolving line, which is better suited to the Group's actual needs, 2i Rete Gas Group also entered into 5 forward starting swap contracts to set in advance the price of the new debenture loan issue that it will likely launch to replace the existing instalments with maturity in 2019 and 2020. These contracts do not currently impact financial expenses because they are classified as hedging instruments.

9. Taxes – (66,747) thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Current taxes			
Current income taxes: IRES	58,151	44,903	13,248
Current income taxes: IRAP	11,719	11,227	491
Total current taxes	**69,869**	**56,130**	**13,739**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	177	556	(379)
Positive adjustments for income taxes relating to previous years	(211)	(1,179)	968
Total adjustments for income taxes relating to previous years	**(34)**	**(623)**	**589**
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(3,183)	(7,022)	3,839
Prepaid taxes (allocation) / use	(1,062)	22,208	(23,270)
Total current deferred and prepaid taxes	*(4,245)*	*15,185*	*(19,431)*
Adjustments to deferred taxes of previous years due to tax rate change	(531)	(34,051)	33,519
Adjustments to prepaid taxes of previous years due to tax rate change	1,688	62,279	(60,592)
Total adjusted deferred and prepaid taxes	*1,156*	*28,228*	*(27,072)*
Total deferred and prepaid taxes	**(3,089)**	**43,414**	**(46,503)**
TOTAL TAXES	**66,747**	**98,921**	**(32,175)**

Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES (corporate tax) of 58,151 thousand euro and IRAP (regional production tax) of 11,719 thousand euro, up from the previous year because of the increase in income before taxes.

The net adjustments for income taxes relating to previous years are negative for 589 thousand euro; these adjustments arose following the definitive calculation of the taxes during the payment in June 2016.

The tax impact of IRES for 2016 on income before taxes is equal to 29.6%. Concerning the changes in prepaid and deferred taxes, last year these line items were significantly affected by the adjustments that became necessary after the repeal of the Robin Hood Tax and the approval of the 2016 Stability Law, which set the IRES rate for 2017 at 24%.

For the notes on prepaid and deferred taxes, reference should be made to the relevant section of the notes to the Statement of financial position.

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

Thousands of euro	31.12.2016	31.12.2015
Income before taxes	196,211	186,895
Theoretical IRES taxes - 2016	**54,021**	**51,430**
Lower taxes:		
- release of contributions taxed in prior years	1,428	962
- use of provisions	2,978	2,821
- release of provisions	1,213	1,593
- reversal of statutory amortisation/depreciation not deducted in prior	4,269	2,044
- deducted tax amortisation	630	2,501
- deductible interest expense for previous years	4,410	17,941
- capital gains by instalments	1,289	19
- others	4,063	3,325
Higher taxes:		
- write-downs for the year	22	-
- allocation to provisions	8,059	5,637
- amortisation/depreciation on amounts that are not recognised for tax purposes	2,820	3,015
- statutory amortisation/depreciation exceeding the fiscal limits	10,311	11,438
- reversal of excess fiscal amortisation/depreciation deducted in prior years	1,003	1,051
- capital losses on the disposal/sale of assets	51	113
- capital gains by instalments	870	2,229
- partially deductible costs	550	673
- connection fees	38	24
- taxes	137	104
- others	549	394
Total current income taxes (IRES)	**58,150**	**44,903**
IRAP - 2016:	**11,719**	**11,227**
Total deferred and prepaid taxes	**(3,089)**	**43,414**
TOTAL INCOME TAXES	**66,781**	**99,544**

10. Discontinued operations – 0 thousand euro

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

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 37,780 thousand euro

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not tied to gas distribution concessions. Such assets are now regarded as intangible.

The breakdown and changes in property, plant and equipment in 2015 and 2016 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	14,673	35,845	112	21,947	46,206	9,770	2,691	131,244
Accumulated depreciation	-	(24,409)	(3)	(19,708)	(38,627)	(7,672)	-	(90,420)
Balance at 31.12.2014	**14,673**	**11,436**	**108**	**2,239**	**7,579**	**2,098**	**2,691**	**40,825**
Investments	-	34	503	472	994	1,762	1,190	4,955
Entry into service	-	40	-	-	1,022	1,607	(2,669)	-
Gross value	-	40	-	-	1,022	1,607	(2,669)	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	-	-	(3)	(15)	(11)	-	-	(29)
Gross value	-	-	(113)	(267)	(422)	-	-	(802)
Acc. Depr.	-	-	111	252	411	-	-	774
Reclassifications	10	79	1,802	-	-	(0)	-	1,891
Gross value	10	90	3,666	-	-	(0)	-	3,766
Acc. Depr.	-	(11)	(1,864)	-	-	-	-	(1,875)
Impairment losses	-	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-	-
Acc. Depr.	-	-	-	-	-	-	-	-
Depreciation	-	(1,107)	(89)	(677)	(2,208)	(1,006)	-	(5,087)
Total changes	**10**	**(954)**	**2,214**	**(219)**	**(204)**	**2,363**	**(1,479)**	**1,730**
Historical cost	14,683	36,009	4,168	22,152	47,800	13,139	1,212	139,163
Accumulated depreciation	-	(25,527)	(1,846)	(20,132)	(40,425)	(8,678)	-	(96,608)
Balance at 31.12.2015	**14,683**	**10,481**	**2,322**	**2,020**	**7,375**	**4,462**	**1,212**	**42,555**
Investments	-	65	1,191	329	1,918	146	36	3,686
Entry into service	-	1,106	-	-	-	109	(1,216)	-
Gross value	-	1,106	-	-	-	109	(1,216)	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	(846)	(608)	-	-	(16)	-	-	(1,470)
Gross value	(846)	(2,304)	-	(107)	(714)	-	-	(3,972)
Acc. Depr.	-	1,697	-	107	698	-	-	2,502
Reclassifications	(10)	(76)	(1,687)	-	-	-	-	(1,774)
Gross value	(10)	(90)	(1,988)	-	-	-	-	(2,088)
Acc. Depr.	-	14	301	-	-	-	-	314
Impairment losses	(210)	-	-	-	-	-	-	(210)
Gross value	(210)	-	-	-	-	-	-	(210)
Acc. Depr.	-	-	-	-	-	-	-	-
Depreciation	-	(1,034)	(89)	(690)	(2,144)	(1,051)	-	(5,007)
Total changes	**(1,066)**	**(546)**	**(585)**	**(361)**	**(242)**	**(795)**	**(1,180)**	**(4,775)**
Historical cost	13,617	34,786	3,371	22,375	49,004	13,395	32	136,579
Accumulated depreciation	-	(24,851)	(1,634)	(20,716)	(41,870)	(9,728)	-	(98,799)
Balance at 31.12.2016	**13,617**	**9,935**	**1,737**	**1,659**	**7,134**	**3,666**	**32**	**37,780**

At 31 December 2016, this line item was down 4,775 thousand euro from 31 December 2015; this decline was due to the net balance of 3,686 thousand euro in investments, 1,470 thousand euro in disposals, 1,774 thousand euro in reclassifications, 210 thousand euro in impairment losses, and 5,007 thousand euro in depreciation charges.

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

Thousands of euro	31.12.2016	31.12.2015
Increases for internal services	-	1
Increases for materials	234	1,688
Increases for external acquisitions/services	3,452	3,266
Total	**3,686**	**4,955**

12. Intangible assets – 2,862,738 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets that are tied to gas distribution concessions.
The breakdown and changes in intangible assets in 2015 and 2016 are shown below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets under construction and advances	Fixed assets under construction and advances	Other intangible assets	Goodwill	Total
Historical cost	86,661	5,067,685	10,246	1,233	67,844	142,974	5,376,643
Accumulated amortisation	(71,146)	(2,496,546)	-	-	(43,675)		(2,611,367)
Balance at 31.12.2014	**15,515**	**2,571,139**	**10,246**	**1,233**	**24,169**	**142,974**	**2,765,276**
Investments	1,304	161,961	8,772	1,562	19,994	-	193,593
Entry into service	-	9,118	(9,118)	-	-	-	-
Gross value	-	9,118	(9,118)	-	-	-	-
Acc. Amort.	-	-	-	-	-	-	-
Disposals	-	(12,546)	(11)	-	-	-	(12,556)
Gross value	-	(49,459)	(11)	-	(3)	-	(49,473)
Acc. Amort.	-	36,913	-	-	3	-	36,916
Reclassifications	19	(1,892)	10	-	(29)	-	(1,891)
Gross value	29	(3,706)	10	-	(100)	-	(3,766)
Acc. Amort.	(10)	1,814	-	-	71	-	1,875
Impairment losses	-	-	-	-	-	-	-
Amortisation	(6,534)	(132,842)	-	-	(8,468)	-	(147,844)
Total changes	**(5,211)**	**23,800**	**(346)**	**1,562**	**11,497**	**-**	**31,301**
Historical cost	87,994	5,185,599	9,900	2,795	87,735	142,974	5,516,998
Accumulated amortisation	(77,690)	(2,590,660)	-	-	(52,069)		(2,720,420)
Balance at 31.12.2015	**10,304**	**2,594,939**	**9,900**	**2,795**	**35,666**	**142,974**	**2,796,578**
Investments	622	208,735	8,917	3,471	8,610	-	230,355
Entry into service	-	7,533	(7,533)	(2,553)	2,553	-	-
Gross value	-	7,533	(7,533)	(2,553)	2,553	-	-
Acc. Amort.	-	-	-	-	-	-	-
Disposals	-	(17,019)	(1)	-	-	-	(17,020)
Gross value	-	(54,023)	(1)	-	(118)	-	(54,142)
Acc. Amort.	-	37,004	-	-	118	-	37,123
Reclassifications	-	1,774	-	-	-	-	1,774
Gross value	-	2,088	-	-	-	-	2,088
Acc. Amort.	-	(314)	-	-	-	-	(314)
Impairment losses	-	(1)	(45)	-	-	-	(47)
Gross value	-	(3)	(45)	-	-	-	(48)
Acc. Amort.	-	2	-	-	-	-	2
Amortisation	(5,481)	(133,252)	-	-	(10,170)	-	(148,903)
Total changes	**(4,859)**	**67,770**	**1,337**	**918**	**993**	**-**	**66,159**
Historical cost	88,616	5,349,930	11,238	3,713	98,780	142,974	5,695,251
Accumulated amortisation	(83,171)	(2,687,221)	-	-	(62,121)	-	(2,832,513)
Balance at 31.12.2016	**5,445**	**2,662,709**	**11,238**	**3,713**	**36,658**	**142,974**	**2,862,738**

Intangible assets increased by 66,159 thousand euro compared to 31 December 2015; this increase is due to the net balance of new investments of 230,355 thousand euro, decreases totalling 17,020 thousand euro, reclassifications of 1,774 thousand euro and amortisation and impairment losses of 148,950 thousand euro.

The net 4,859 thousand euro decrease in “Patent and intellectual property rights” was the result of 622 thousand euro in investments and 5,481 thousand euro in amortisation charges.
Increases in the year mainly concern some software licences which the Company has acquired.

The item "Concessions and similar rights" totalled 2,594,939 thousand euro in 2015 and 2,662,709 euro in 2016. The item refers to the recognition of the Group's rights over fixed assets as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions.

The amortisation of the charges linked to the concessions has been determined on a straight-line basis and on the basis of the realisable value estimated at the end of the concession.
The Group determined the terms of the concessions using the same criteria adopted in the previous year.

For concessions which have expired at the reporting date and therefore are operating in an extension regime (*prorogatio*), the residual value has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that pursuant to the Italian Ministry of Economic Development’s Decree of 19 January 2011 “Identification of local areas in the natural gas distribution sector” which came into force on 1 April 2011, according to art. 3, paragraph 3 of said 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 Italian 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 Italian Legislative Decree No. 164/2000, “the outgoing operator, pursuant to art. 14, paragraph 7, of Italian 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”.
“Concessions and similar rights”, totalling 9,900 thousand euro, included investments related to the concessions and not yet completed.
“Fixed assets under construction and advances”, totalling 3,713 thousand euro mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company.
During the year, 2,553 thousand euro in fixed assets under construction were completed.

"Other intangible assets" of 36,658 thousand euro includes miscellaneous costs of a multiple-year nature, such as costs linked to the implementation of the remote metering system for smart meters.

"Goodwill" is equal to 142,974 thousand euro and it is related to the deficit from the consolidation and merger of companies which had previously been subsidiaries. This item was recognised in agreement with the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the discounted cash flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use.
For the purposes of this estimate, the whole Group is considered as a Cash Generating Unit, consistently with the corporate vision.
In detail, cash flows are considered for an explicit period of 5 years, consistent with the 2i Rete Gas Group plan described by the Board of Directors on 9 January 2017 and drafted on the assumption of an ongoing concern, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the two main assumptions are:

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

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

Tax Rate	WACC (1)	Explicit cash flow period	"TV (g) growth rate "
28,6% (2)	3.6%	2017 - 2021	0%

(1) WACC is the weighted average cost of capital
(2) IRAP + IRES rate

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

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

In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital) there would have to be damaging changes to the plan such as to reduce the net cash flows by around 37%, a percentage which is much higher than the reductions considered possible by the Group.

13. Net deferred tax assets – 68,027 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates that have been enacted at the reporting date and future tax rates based on their recoverability. Deferred tax assets totalled 171,631 thousand euro (171,943 thousand euro at 31 December 2015), while deferred tax liabilities totalled 103,604 thousand euro (103,109 thousand euro at 31 December 2015).

The value of deferred tax assets and liabilities at 31 December 2016 was therefore determined applying the tax rates in force, i.e. IRES the 24%. For IRAP the rate used was 4.57%.

Net deferred tax assets decreased by 808 thousand euro compared to the previous year. This change is mainly connected to net increases in the year for 12,425 thousand euro (deriving mostly from the different treatment of accumulated amortisation in accordance with art. 102 bis of the Consolidated Income Tax Law (TUIR), the provisions set aside, and the recognition in OCI of the tax impact of the change in the value of derivatives), to net decreases for 11,900 thousand euro (this was affected for 6,688 thousand euro by the use of prepaid taxes due to financial expenses with deferred deductibility) and other negative movements for 1,158 thousand euro mainly due to the readjustment of prepaid taxes following the 2016 Stability Law which introduced the cut in the IRES tax rate to 24% as from 2017.

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

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 31.12.2015	Adjustments to UNICO	Contribution from acquisition	At 01.01.2016	Increases recognised in		Decreases recognised in		Other changes		Reclassifications (if any)	Balance at 31.12.2016
					Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity		
Deferred income tax assets:												
allocation to provisions for risks and charges, deferred deductibility	17,298	(18)	-	17,280	3,592	-	(1,947)	-	(688)	-		**18,237**
allocation to provisions for exit and stock option	473	-	-	473	992	-	(473)	-	(1)	-		**991**
allocation to provisions for disputes	3,938	-	-	3,938	2,311	-	(1,539)	-	(12)	-		**4,698**
allocation to provisions for inventory obsolescence	3,231	-	-	3,231	109	-	(28)	-	(9)	-		**3,303**
impairment losses on deferred deductibility assets (receivables write-downs)	2,557	-	-	2,557	204	-	(1)	-	(118)	-		**2,643**
impairment losses on deferred deductibility assets (plant write-downs)	1,901	-	-	1,901	-	-	-	-	(1)	-		**1,900**
depreciation and amortisation of tangible and intangible assets, deferred deductibility	76,379	(3)	-	76,377	8,999	-	(4,007)	-	(417)	-		**80,952**
separation of land/buildings and component analysis	114	-	-	114	-	-	-	-	(0)	-		**114**
start-up costs	2,232	-	-	2,232	-	-	-	-	(7)	-		**2,225**
termination and other employee benefits	2,324	-	-	2,324	1,143	-	(631)	-	(45)	-		**2,791**
cash deductible taxes and duties	12	-	-	12	-	-	-	-	(0)	-		**12**
proceeds subject to deferred taxation (connection fees)	33,583	-	-	33,583	13	-	(1,081)	-	(134)	-		**32,381**
deferred deductibility charges	24,963	(136)	-	24,827	16	-	(6,688)	-	(254)	-		**17,901**
goodwill	1,136	-	-	1,136	-	-	-	-	(1)	-		**1,135**
termination benefits - Italian Accounting Body (OCI)	1,799	-	-	1,799	-	469	-	-	0	(1)		**2,267**
for losses recoverable in future years	3	-	-	3	-	-	-	-	(3)	-		**(0)**
other consolidation adjustments	3			3	78		(1)	(0)			2	**82**
Total	**171,943**	**(156)**	**-**	**171,787**	**17,457**	**469**	**(16,395)**	**(0)**	**(1,688)**	**(1)**	**2**	**171,631**
Deferred income tax liabilities:												
differences on tangible and intangible assets – additional depreciation and amortisation	26,785	-	-	26,785	329	-	(845)	-	(89)	0		**26,181**
differences on intangible assets – goodwill	5,853	-	-	5,853	-	-	(174)	-	(24)	0	372	**6,027**
separation of land/buildings and component analysis	3,829	-	-	3,829	-	-	-	-	(2)	0		**3,827**
allocation to assets of costs relating to company mergers	44,664	-	-	44,664	-	-	(2,294)	-	(300)	0		**42,070**
Termination benefits	887	-	-	887	-	-	-	-	0	0		**887**
proceeds subject to deferred taxation	983	21	-	1,004	887	-	(616)	-	(17)	0		**1,257**
others..	2,172	-	-	2,172	39	-	(219)	-	(54)	0	(372)	**1,566**
derivative financial instruments and ASEM - Italian Accounting Body (OCI)	1	0.17	-	1	-	4,189	-	-	0	(0)		**4,190**
recording of deferred taxes due to merger	16,945	-	-	16,945	55	-	(347)	-	(45)	0	989	**17,597**
other consolidation adjustments	988			988							(988)	**0**
5% dividends received allocated to future years on an accruals basis	2	(2)	-	0	1	-	-	-	(0)	0	0	**1**
Total	**103,109**	**19**	**0**	**103,128**	**1,311**	**4,189**	**(4,495)**	**-**	**(531)**	**(0)**	**2**	**103,604**
Net deferred tax assets	**68,835**	**(175)**	**-**	**68,660**	**16,146**	**(3,720)**	**(11,900)**	**(0)**	**(1,157)**	**(1)**	**0**	**68,027**

14. Equity investments – 3,375 thousand euro

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

Thousands of euro	Carrying amount	% ownership	Contribution from change in the scope of consolidation:	Investments for the year	Disposals	Other increases	Other decreases	Adjustments	Original cost	Write-downs/Write-ups	Carrying amount	% ownership
	at 31.12.2015		Changes in 2016						at 31.12.2016			
Associates												
Equity Method												
Melegnano Energia Ambiente SpA	2,466	40.00%		39					2,451	39	2,490	40.00%
Cbl Distribuzione Srl	351	40.00%		8					360	8	368	40.00%
Other companies												
Valuation at cost												
Interporto di Rovigo S.p.A.	42	0.30%							42		42	0.30%
Fingranda S.p.A.	26	0.58%							26		26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.27%							33		33	0.27%
Industria e Università S.r.l.	11	0.09%							11		11	0.09%
Azienda Energetica Valtellina Valchiavenna S.p.A.	405	3.37%							405		405	3.37%
Terme di Offida SpA	1	0.19%							1		1	0.19%
Asogas S.p.A. in liquidazione	-	9.00%							-		-	9.00%
Alpifiere S.r.l. in fallimento	-	3.00%							-		-	3.00%
TOTAL EQUITY INVESTMENTS	**3,334**		**-**	**47**	**-**	**-**	**-**	**-**	**3,329**	**47**	**3,375**	

The following tables show the list of equity investments in associates and their values as recognised in the Group financial statements at 31 December 2016:

B) Associates	Registered office	Share capital (euro)	Equity (euro)	Revenues (euro)	Income/loss latest year (euro)	End of the reporting period	% ownership	Consolidated carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	6,476,039	5,666,311	310,682	31.12.2015	40.00%	2,490,416
CBL Distribuzione Srl	Mede (PV)	170,000	919,536	3,170,370	42,162	31.12.2015	40.00%	367,815

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

C) Other Companies	Registered office	Share capital (euro)	Equity (euro)	Revenues (euro)	Income/loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	8,575,489	5,855,404	1,310,814	(508,589)	31.12.2015	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,852,874	39,504	(219,260)	31.12.2015	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,806,073	947,771	81,438	31.12.2015	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,247,629	-	(32,046)	31.12.2015	0.09%	10,989
Azienda Energetica Valtellina Valchiavenna S.p.A.	Tirano (SO)	1,803,562	19,904,336	4,528,089	980,870	30.06.2016	3.37%	405,000
Terme di Offida Spa	Offida (AP)	141,384	132,720	-	(8,711)	31.12.2015	0.19%	548
Asogas S.p.A. in liquidazione	Amandola (FM)	104,000	2,182	159,506	155,153	31.12.2015	9.00%	-
Alpifiere S.r.l. in fallimento	Morbegno (SO)	10,330	-	-	-	31.12.1998	3.00%	-

15. Non-current financial assets – 18,756 thousand euro

This line item included the measurement at 31 December 2016 of the Fair Value of the derivatives entered into in August 2016, which is currently positive to the tune of 17,393 thousand euro. Prepaid financial expenses declined steadily as the Group replaced the relevant line of credit during the year with a new one on more favourable terms.

Thousands of euro	31.12.2016	31.12.2015	2016- 2015
Non-current prepaid financial expenses	690	4,532	(3,843)
Long-term loans to employees	59	67	(8)
Financial receivables due from others	614	614	-
Fair value measurement of IRS derivatives	17,393	-	17,393
Total	**18,756**	**5,213**	**13,542**

16. Other non-current assets – 45,051 thousand euro

This item increased compared to 31 December 2015 by 13,003 thousand euro; it is broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
guarantee deposits	3,493	3,527	(34)
receivables for plant contributions	560	678	(118)
tax receivables reimbursements applied for	1,830	2,079	(249)
prepaid promotional expenses	197	232	(34)
receivables from municipalities for disposals of assets due to expiration of concessions	10,283	16,116	(5,833)
receivables from CSEA	16,005	4,415	11,590
other non-current assets	12,830	5,149	7,682
bad debt provision	(147)	(147)	-
Total	**45,051**	**32,048**	**13,003**

Guarantee deposits totalled 3,493 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The 560 thousand euro contribution receivables refer to recognition of the medium/long-term portion of receivables for plant contributions and decreases in the year due to income received.

“Tax receivables reimbursements applied for” amounted to 1,830 thousand euro, related to the refund claimed pursuant to article 6 of Italian Law Decree 185/2008 (Deduction of IRES from the IRAP portion for labour costs and interest expense).

The receivable due from municipalities for the disposal of assets due to the ending of concessions had a balance of 10,283 thousand euro, significantly down compared to the previous year. This item refers to receivables which are subject to legal challenge or similar ongoing procedures with municipalities in order to obtain the value requested as reimbursement for the outgoing operator for some concessions which have been handed back over the years. During 2016, the Group focused on this issue, settling several lawsuits that had been stalled for years out of court.
Long-term receivables due from CSEA consisted in the portion of receivables due to the Company as compensation for the incomplete amortisation of the conventional meters replaced before the end of their life through tariffs because of the new campaign for the installation of new smart meters.
Finally, the other non-current assets include receivables due from contracting authorities for advances paid following the specific request for the arrangement of ATEM tenders (6,781 thousand euro) as well as the prepayment of the amount paid to the owner of the networks in the Municipality in Rozzano to lease them (4,000 thousand euro).

Current assets

17. Inventories – 20,293 thousand euro

Closing inventories of raw materials rose 6,483 thousand euro from the previous year.
In detail, closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas and water distribution plant, in particular the new smart meters.
The item includes the provision for the write-down of inventories equal to 606 thousand euro. The provision was set up to take into account inventories with unlikely future use.
The Group uses the weighted average cost method.

18. Trade receivables – 234,104 thousand euro

Trade receivables were down 5,398 thousand euro compared to 31 December 2015.

This item is broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Third-party customers:			
Receivables due from customers	247,925	253,155	(5,230)
- Bad debt provision	(13,821)	(13,653)	(168)
Total	**234,104**	**239,501**	**(5,398)**

Receivables due from third-party customers consist of trade receivables and receivables from operations and include receivables relating to gas distribution and to the invoicing of water sales.
Receivables due from customers are recognised net of a 13,821 thousand euro bad debt provision, compared to 13,653 thousand euro at the beginning of the year.

Changes in the bad debt provision are set out below.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
At 31 December 2015	**13,653**	**16,365**	**(2,712)**
Allocations	1,892	3,091	(1,199)
Releases	(525)	(1,605)	1,080
Uses	(1,199)	(4,198)	2,998
At 31 December 2016	**13,821**	**13,653**	**168**

The bad debt provision at 31 December 2016 was set at 10,345 thousand euro (8,980 thousand euro at 31 December 2015).

All the Group's operations are in Italy.

19. Short-term financial receivables – 917 thousand euro

Short-term financial receivables, totalling 917 thousand euro, mainly consist of financial receivables due from associates for dividends which they have approved but not yet paid.

20. Other current financial assets – 14 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2016.

21. Cash and cash equivalents – 183,197 thousand euro

Cash and cash equivalents increased by 22,656 thousand euro, as bank deposits rose by 22,685 thousand euro while post office deposits and cash in hand were down 29 thousand euro.

Cash and cash equivalents are broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Bank deposits	182,784	160,098	22,685
Post office deposits	266	285	(19)
Cash in hand	148	158	(10)
Total	**183,197**	**160,541**	**22,656**

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

22. Income tax receivables – 8,196 thousand euro

Income tax receivables totalled 8,196 thousand euro and mainly included receivables for IRES and IRAP (8,156 thousand euro and 40 thousand euro, respectively).

23. Other current assets – 181,053 thousand euro

Other current assets rose 34,883 thousand euro compared to 31 December 2015, mainly as a result of:

- lower receivables due from pension agencies for 2,588 thousand euro owing to the change made last year in the assets of 2i Rete Gas (formerly F2i Reti Italia) following the merger, which entailed a higher payment in 2015 but also a revision of the amount due to the pension agencies.
- a 38,836 thousand euro increase in receivables due from the Fund for Energy and Environmental Services (CSEA), largely because of the trend in the market price of energy efficiency certificates, based on which GME sets the funding price. During the year, this line item was affected also by the invoices issued in the presence of an already defined tariff revenue cap (VRT), which affected the equalisation for 2016, the UG2 components, and the Gas Bonus. The item must be correlated with the payables due to the Fund for Energy and Environmental Services (CSEA) shown under note 36 "Other current liabilities";
- 2,672 thousand euro decline in receivables due from municipalities after settling a number of disputes during the year.

The item is broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Other tax receivables:			
VAT receivables reimbursements applied for	933	1,084	(152)
Tax receivables reimbursements applied for	117	412	(296)
Other tax receivables:			
from pension and insurance agencies	340	2,928	(2,588)
for plant contributions	1,529	1,729	(200)
from CSEA	168,553	129,717	38,836
from municipalities for disposals of asset due to expiration of concessions	2,662	5,333	(2,672)
- Bad debt provision	-	-	-
from municipalities	246	246	-
from suppliers	1,548	1,352	196
Sundry receivables	4,150	3,229	921
- Bad debt provision	(1,152)	(1,152)	-
Accrued income	1	1	-
Deferred expenses relating to other multi-year charges	51	51	-
Deferred expenses relating to real estate lease fees	713	190	523
Deferred promotional expenses	-	-	-
Deferred insurance premiums	78	101	(23)
Other deferred expenses	1,285	948	337
Total	**181,053**	**146,170**	**34,883**

Liabilities

Equity

24. Equity – 720,416 thousand euro

Equity rose by 56,515 thousand euro as a result of the following changes:

- decrease in the ordinary dividend pay-out for an overall amount of 85,032 thousand euro;
- 12,083 thousand euro change in IAS reserves following the recognition of the fair value of derivatives in OCI;
- increase in the result for the year for 129,464 thousand euro.

Share capital – 3,639 thousand euro

The share capital at 31 December 2016 consisted of 363,851,660 ordinary shares of 2i Rete Gas S.p.A. and amounted to 3,639 thousand euro, entirely subscribed and paid up.

Share premium reserve – 286,546 thousand euro

The share premium reserve did not change in the year.

Legal reserve – 728 thousand euro

The legal reserve is equal to 728 thousand euro and has not changed, as last year it reached the legal limit.

Reserves for valuation of derivatives – 13,219 thousand euro

The Group created the reserve for the valuation of derivatives in 2016 after entering into Forward Starting Interest Rate Swap contracts. Between August and December 2016, the reserve turned positive to the tune of 13,219 thousand euro (see section 15 in these notes).

Other reserves – 206,744 thousand euro

Other reserves, amounting to 206,744 thousand euro, were down 357 thousand euro year-on-year, largely because the Group recognised a change in the Fondo Gas, offset by the reclassification for the merger of GP Gas S.r.l., in equity.

Retained earnings – 80,076 thousand euro

Retained earnings were up 2,163 thousand euro from the previous year as a result of the allocation of the income for the year and the dividend paid out in 2016.

Net income for the year – 129,464 thousand euro

Net income totalled 129,464 thousand euro in 2016 and compared to the net income for 2015 (87,974 thousand euro) rose by 41,490 thousand euro.

Non-current liabilities

25. Long-term loans – 2,148,424 thousand euro

The item refers to the three instalments of the long-term debenture loan the Company issued in 2014 as well as 270 million euro in two floating-rate lines of credit received from the European Investment Bank in 2015 and 2016.
The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

Thousands of euro	Balance		Notional Value		Interest rate	Effective
	31.12.2016	31.12.2015	31.12.2016	31.12.2015		
Fixed rate debt	70,000		70,000		1.392%	1.392%
Floating rate debt	200,000	200,000	200,000	200,000	Eur3+0,59%	0.41%
Debenture loan expiring 2019	750,000	750,000	750,000	750,000	1.75%	1.89%
Debenture loan expiring 2020	540,000	540,000	540,000	540,000	1.13%	1.35%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Costs linked to loans (long term)	(11,576)	(14,429)				
TOTAL	**2,148,424**	**2,075,571**	**2,160,000**	**2,090,000**		

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

Thousands of euro	Notional at 31.12.2015	at 31.12.2014	1 year	2 - 5 years	beyond 5 years
Medium / long-term financial liabilities					
Financing	270,000	200,000	-	36,364	233,636
Medium/long-term debenture loans	1,890,000	1,890,000	-	1,290,000	600,000
Total	2,160,000	2,090,000	-	1,326,364	833,636

The debenture loan regulation, issued for a market of institutional investors, does not provide for covenants.
Besides this loan, the Group still has a bank line of credit with a syndicate of 5 leading lenders. Therefore, the Group still has a 245 million euro line of credit for its cash needs that was unused at the reporting date.
In addition, in December 2016 the Group finalised a 225 million euro loan with the European Investment Bank at particularly favourable rates, significantly curbing the Group funding cost structure.
At 31 December 2016, the Group had drawn down 70 million euro from this credit line.
Then, in January 2017, it drew down the remaining 155 million euro.
Both the EIB loans are subject to some conditions calculated on the basis of the consolidated financial statements that the Group must meet to continue using the credit lines.
The covenants concern the following indicators:
Total net financial debt, RAB (Regulatory Asset Base), EBITDA, and Net Financial Expenses.
At 31 December 2016, the Group met all covenants under this facility.

26. Termination and other employee benefits – 48,086 thousand euro

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

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

Pursuant to IAS 19 Revised, these "defined benefit obligations" were determined using the "Projected Unit Credit Method", which requires to calculate the liability in proportion to the service already rendered at the reporting date, and not the service that could presumably be rendered overall.
In detail, the plans provided for the following benefits:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Termination benefits	34,933	35,061	(128)
ASEM health service	1,820	1,831	(11)
Fondo GAS	11,334	10,310	1,024
	48,086	**47,202**	**885**

An analysis of the main items is provided below.

Termination benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive termination benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.
Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of termination benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

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

Fondo Gas

The Italian Law Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the suppression of the so-called “Fondo Gas” as from 1 December 2015. Such decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to the Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the contribution to the Fondo Gas for 2014, for each full year or any part thereof that the person has been a member of the Fondo Gas. Said amount can be set aside with the employer or paid as a contribution into the supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid into the Fondo Gas shall be paid in a lump sum at the time of the final wage payment.
The Group set aside an additional amount during the year after revising the estimate based on the more accurate data available on the average seniority for the purposes of the Fondo Gas for current employees.

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

	31.12.2016	31.12.2015
Financial scenarios		
Discount rate	1.50%	2.00%
Rate of wage increase	1.50%	1.90%
Rate of increase in cost of health spending	2.50%	2.90%
Demographic scenarios		
Probability of death/invalidity	ISTAT Table 2014	Table RG48
Resignation rate < 50 years of age	2.00%	2.00%
Resignation rate > 50 years of age	nil	nil

27. Provisions for risks and charges – 13,586 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes of the Company, 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 (considering both the short-term and the medium/long-term portion) increased by 10,980 thousand euro overall compared to 31 December 2015.
The table below shows the total provisions for risks and charges (both the short-term and medium/long-term portions). The short-term portion is disclosed separately.

Thousands of euro	31.12.2015	Of which current portion	Of which non-current portion	Allocations	Releases	Uses	Other changes	31.12.2016	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	7,517	-	7,517	7,966	(4,119)	(1,079)	-	10,286	-	10,286
Provision for taxes and duties	1,301	-	1,301	35	(292)	(108)	-	937	-	937
Provisions for disputes with personnel	100	-	100	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	75	-	75
Provision for disputes on concessions	18,511	18,511	-	3,815	(3,117)	(130)	-	19,078	19,078	-
Other provisions for risks and charges	44,714	43,070	1,644	8,881	(1,507)	(1,363)	-	50,725	48,537	2,189
Total	**72,217**	**61,580**	**10,637**	**20,697**	**(9,034)**	**(2,679)**	**-**	**81,201**	**67,614**	**13,586**
Provisions for charges pertaining to incentives to leave	1,473	1,473	-	3,470	-	(1,473)	-	3,470	3,470	-
Total	**73,690**	**63,054**	**10,637**	**24,167**	**(9,034)**	**(4,153)**	**-**	**84,671**	**71,084**	**13,586**

Provisions for risks and charges amounted to 84,671 thousand euro. They consisted of a 71,084 thousand euro short-term portion and a 13,586 thousand euro long-term portion, and were broken down as follows:

- "Provision for litigation and disputes" covers 10,286 thousand euro in contingent liabilities arising largely from ongoing disputes; the change during the year was the result of, among other things, the estimate of the obligation associated with a dispute over the construction of a purification plant in Syria, completed in the 2000s by a company that was then merged into the Group, as well as the estimate of the amount the Company may have to pay because of an outstanding dispute over the purchase value of Genia Distribuzione;
- “Provision for taxes and duties”, amounting to 937 thousand euro, referred mainly to disputes about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;
- “Provisions for disputes with personnel”, amounting to 100 thousand euro, to cover expected charges arising from disputes with personnel of a company acquired in previous financial years. The Group did not consider it necessary to change this item in these financial statements;
- “Provision for disputes on concessions”, totalling 19,078 thousand euro in 2016, generally included the costs associated with various disputes with municipalities. This line item rose by a net 567 thousand euro following the requests made by

municipalities to revise the agreed concession fees; during the year the Group used 130 thousand euro;

- “Other provisions for risks and charges”, amounting to 50,725 thousand euro, cover the costs that could potentially arise from the operation of the network and the regular maintenance of the plants as required by the relevant resolutions, as well as the risk of a revision of some tariffs related to concessions owned by third parties; as for this risk, the Parent Company has appealed against AEEGSI's decision to revise said tariffs for a number of concessions;
- “Provision for charges pertaining to incentives to leave”, totalling 3,470 thousand euro, addresses possible liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started in 2016 and still under way.

The fiscal position of the Company has been defined up to 2011.

28. Non-current financial liabilities – 0 thousand euro

At 31 December 2016, as in the previous year, the Group did not have any non-current financial liabilities.

29. Other non-current liabilities – 303,120 thousand euro

This item increased by 6,978 thousand euro compared to the previous year. The breakdown is set out below.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Payables to pension and insurance agencies	1,984	1,984	-
Other payables	361	361	-
Plant contributions	47,677	50,466	(2,790)
Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions	253,098	243,331	9,767
Total deferred income	**303,120**	**296,142**	**6,978**

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

Current liabilities

30. Short-term loans – 0 thousand euro

At 31 December 2016, as in the previous year, the Group had no short-term loans outstanding.

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

At 31 December 2016 there was no current portion of medium/long-term bank loans, as in the previous year.

32. Current portion of long-term provisions and short-term provisions – 71,084 thousand euro

The current portion of long-term provisions amounted to 71,084 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 27).

33. Trade payables – 166,737 thousand euro

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

Compared to 31 December 2015, this item fell by 2,592 thousand euro despite major investments.

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

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Suppliers	166,737	169,330	(2,592)
Total	**166,737**	**169,330**	**(2,592)**

The balance at 31 December 2016 mainly consists of residual amount payable to companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from staff and operating support services, and from the purchase of electricity and gas service for internal use.

34. Income tax payables – 13,932 thousand euro

At 31 December 2016 there were income tax payables of 13,932 thousand euro, up compared to the previous year by 12,666 thousand euro. The Group companies reported a debit balance as a result of the payments on account.

35. Current financial liabilities – 21,099 thousand euro

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

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Accrued liabilities for interest on short-term bank loan	20,572	20,905	(333)
Other current financial liabilities	527	490	38
Total	**21,099**	**21,394**	**(295)**

36. Other current liabilities – 157,013 thousand euro

Other current liabilities fell in the year by 13,347 thousand euro, mainly due to the fall in “Other payables”, an item which also includes the debt in regard to the Fund for Energy and Environmental Services (CSEA) for the items relating to the various tariff components, and “Other tax payables”, following the VAT payment on account made in December.
Other current liabilities are set out below.

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
other tax payables	12,583	13,534	(951)
payables to welfare and pension agencies	10,234	11,033	(799)
other payables	118,859	131,577	(12,717)
accrued liabilities	4,049	3,886	163
deferred income	11,289	10,330	958
Total	**157,013**	**170,360**	**(13,347)**

Other tax payables, amounting to 12,583 thousand euro, are set out below.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
VAT payables	8,954	10,011	(1,057)
Employee withholding taxes	3,476	3,351	125
Withholding taxes	103	122	(19)
Other taxes	50	50	0
Total	**12,583**	**13,534**	**(951)**

Payables to welfare and pension agencies, amounting to 10,234 thousand euro, are set out below.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
due to INPS	9,429	9,149	280
due to other agencies	805	1,885	(1,080)
Total	**10,234**	**11,033**	**(799)**

Other payables, amounting to 118,859 thousand euro, are set out below.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Payables to employees	14,189	13,629	559
Payables to municipalities for rights and fees	4,022	4,181	(160)
Connection payables and other payables due to customers	2,076	2,288	(212)
User guarantee deposits and advances	2,289	1,921	369
Payables to CSEA	90,022	95,888	(5,865)
Other payables	6,261	13,669	(7,408)
Total	**118,859**	**131,577**	**(12,717)**

Payables to the Fund for Energy and Environmental Services (CSEA) consist for 77,152 thousand euro of payables for the entries that are transferred through the invoicing mechanism to the trading companies and then paid to the Fund for Energy and Environmental Services (CSEA) generally on a two-monthly basis (UG1, UG2, UG3, Re, Gs and Rs) and residual payables relating to the amount of equalisation for previous years which the Group did not consider as finalised at the end of the reporting period.

Accruals and deferred income, amounting to 15,338 thousand euro, are set out below.

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Accrued liabilities			
Additional monthly accrual for employees	3,098	3,037	61
Other accruals	951	849	102
Total accruals	**4,049**	**3,886**	**163**
Deferred income			
Plant contributions	2,953	2,257	696
Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions	8,116	7,588	527
Other deferred income	220	485	(265)
Total deferred income	**11,289**	**10,330**	**958**
Total accruals and deferred income	**15,338**	**14,216**	**1,121**

37. Liabilities held for sale – 0 thousand euro

In 2016, as in the previous year, the Group had no liabilities held for sale.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

The following were defined as related parties for 2016:

- F2i SGR S.p.A. – as the operating company of "F2i – Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" *("F2i – Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato ad investitori qualificati")*
- F2i SGR S.p.A. – as the operating company of "F2i – Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" *("F2i – Secondo Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato a investitori qualificati")*
- Finavias S. à r.l
- Axa Infrastructure Holding S. à r.l.
- Melegnano Energia Ambiente S.p.A. (MEA S.p.A.)
- CBL Distribuzione S.r.l.
- Software Design S.p.A.

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

All the commercial balances are for transactions at market values.

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

Trade and other transactions

Year 2016

Thousands of euro	Trade Receivables	Trade Payables	Trade Costs	Trade Revenues
CBL Distribuzione	1,581	450	152	479
MEA S.p.A	55	-	-	-
Software Design S.p.A.	-	640	1,046	-
Executives with strategic responsibilities, including directors		914	3,028	
Total	**1,636**	**2,004**	**4,226**	**479**

Year 2015

Thousands of euro	Trade Receivables	Trade Payables	Trade Costs	Trade Revenues
F2i sgr Spa		24	40	
CBL Distribuzione	1,111	296		515
MEA S.p.A	55			18
Executives with strategic responsibilities, including directors		45	5,387	
Total	**1,166**	**364**	**5,427**	**533**

Financial transactions

Year 2016

Thousands of euro	Finance Receivables	Finance Payables	Finance Costs	Finance Revenues	Dividend payment
F2i – Fondo Italiano per le Infrastrutture (gestito da F2i sgr Spa)					54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (gestito da F2i sgr Spa)					6,894
Finavias S. à r.l.					18,112
Axa Infrastructure Holding S. à r.l.					5,640
CBL Distribuzione				17	
MEA S.p.A	100			124	
Software Design S.p.A.	-			-	
Total	**100**	**-**	**-**	**141**	**84,981**

Year 2015

Thousands of euro	Finance Receivables	Finance Payables	Finance Costs	Finance Revenues	Dividend payment
F2i – Fondo Italiano per le Infrastrutture (gestito da F2i sgr Spa)					41,548
F2i – Secondo Fondo Italiano per le Infrastrutture (gestito da F2i sgr Spa)					5,271
Finavias S. à r.l.					13,849
Axa Infrastructure Holding S. à r.l.					4,254
CBL Distribuzione				11	
MEA S.p.A	315			194	
Total	**315**	**-**	**-**	**205**	**64,922**

Significant extraordinary events and operations

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

Positions or transactions arising from atypical and/or unusual operations

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

Fees for Directors, auditors and executives with strategic responsibilities

In 2016, the fees for directors, auditors and executives with strategic responsibilities, totalling 3,028 thousand euro, included 58 thousand euro in fees for auditors and 364 thousand euro in fees for directors.

Remuneration of the Independent Auditors

The 2016 fee for the independent auditors totalled 407 thousand euro and included the annual auditing of the statutory and consolidated financial statements, the auditing of the unbundling financial report and the statements required by AEEGSI, and, to a lesser extent, specific consulting services.

Contractual commitments and guarantees

The Group provided 97,726 thousand euro in guarantees to third parties. These guarantees include 82,628 thousand euro in bank guarantees and 15,098 thousand euro in insurance and other guarantees.
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.
Finally, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

Operating segment reporting

The Group is managed as a single business unit operating mainly in natural gas distribution through networks, and therefore management analyses the Group’s operations as a whole.
The reporting format used by management to take operating decisions is aligned with the formats used in the consolidated financial statements shown herein, excluding the impact of IFRIC 12 and highlighted in note 5.c as well as in the section on costs.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Credit, liquidity and market risk

Credit risk

The 2i Rete Gas Group provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.
In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2016.
The rules for the access of users to the gas distribution service are governed by the Network Code, which, in compliance with the provisions of the Regulatory Authority for Electricity and Gas, regulates the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.
As part of its gas distribution operations, the Group closely monitors commercial credit lines to external counterparties by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.
Outstanding guarantees and security deposits on trade receivables totalled 108,969 thousand euro.

Therefore, the credit risk is mitigated.

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

At 31 December 2016, the Group's maximum exposure to credit risk amounted to 678.2 million euro:

Millions of euro	31.12.2016	31.12.2015	2016- 2015
Third parties:			
Non-current financial assets	18.8	5.2	13.5
Other non-current assets (gross of bad debt provision)	45.2	32.2	13.0
Trade receivables (gross of bad debt provision)	247.9	253.2	(5.2)
Other current financial assets	0.9	0.3	0.6
Cash and cash equivalents	183.2	160.5	22.7
Other receivables (gross of bad debt provision)	182.2	147.3	34.9
Total	**678.2**	**598.8**	**79.5**

Liquidity risk

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

Besides the debenture loans issued during 2014, the Group still has the 245 million euro line of credit that the Parent Company received in 2016 from a syndicate of 5 leading banks, as well as two loans entered into with the European Investment Bank in 2015 and 2016, totalling 425 million euro (of which the Group had drawn down 270 million euro at 31 December 2016), improving the duration and interest rate compared to previous bank loans.

In order to properly disclose liquidity risk as required by IFRS 7, the Company's debt is shown below.

The contractual maturities of the financial liabilities outstanding at 31 December 2016 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2016			
Long-term loans		36.4	233.6
Medium/long-term debenture loans		1,290.0	600.0
Short-term loans	-		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	21.1		
Total	**21.1**	**1,326.4**	**833.6**

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2015 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2015			
Long-term loans		18.2	181.8
Medium/long-term debenture loans		1,290.0	600.0
Short-term loans	-		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	21.4		
Total	**21.4**	**1,308.2**	**781.8**

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

It should be noted that these loans are subject to regular check on some financial parameters at consolidated level.

At 31 December 2016, the Group has met all of the parameters.

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

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

The Group constantly monitors opportunities to optimise its financial structure.

For an in-depth analysis of long-term loans, see note 25 in these consolidated financial statements.

Market risk

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

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

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

Conversely, in August 2016 the parent company 2i Rete Gas entered into 5 new “Forward Starting Interest Rate Swap” hedging contracts ahead of the refinancing to be carried out within the next 3 years to replace part or all of the loan instalments near maturity.

For more details, see the “Interest rate risk” section.

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

Thousands of euro	Carrying amount					
	Notes	Derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
Non-current financial assets	15	17,393			17,393	17,393
Financial assets not measured at fair value						
Non-current financial assets	15		1,362		1,362	1,362
Other non-current financial assets	16		27,460		27,460	27,460
Trade receivables	18		234,104		234,104	234,104
Short-term financial receivables	19		917		917	917
Other current financial assets	20		14		14	14
Cash and cash equivalents	21		183,197		183,197	183,197
Other current assets	23		178,925		178,925	178,925
TOTAL ASSETS		**17,393**	**625,978**	**-**	**643,372**	**643,372**
Financial liabilities measured at fair value						
IRS derivatives	35	-			-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			270,000	270,000	270,000
Medium/long-term debenture loans	25			1,878,424	1,878,424	2,017,138
Financial liabilities for Unwinding IRS	28-35			-	-	-
Other non-current liabilities	29			361	361	361
Short-term loan	30			-	-	-
Trade payables	33			166,737	166,737	166,737
Current financial liabilities	35			20,572	20,572	20,572
Other current liabilities	36			145,724	145,724	145,724
TOTAL LIABILITIES		**-**	**-**	**2,481,819**	**2,481,819**	**2,620,532**

In order to enable comparison, we propose the same table as the one used in 2015:

Thousands of euro	Carrying amount					
	Notes	Derivatives	Loans and receivables	Other financial	Total	Fair value
Financial assets measured at fair value						
					-	
Financial assets not measured at fair value						
Non-current financial assets	15		5,213		5,213	5,213
Other non-current assets	16		31,816		31,816	31,816
Trade receivables	18		239,501		239,501	239,501
Short-term financial receivables	19		323		323	323
Other current financial assets	20		8		8	8
Cash and cash equivalents	21		160,541		160,541	160,541
Other current assets	23		144,879		144,879	144,879
TOTAL ASSETS		**-**	**582,282**	**-**	**582,282**	**582,282**
Financial liabilities measured at fair value						
IRS derivatives	35	-			-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			200,000	200,000	200,000
Medium/long-term debenture loans	25			1,875,571	1,875,571	1,977,914
Financial liabilities for Unwinding IRS	28-35			-	-	-
Other non-current liabilities	29			361	361	361
Short-term loan	30			-	-	-
Trade payables	33			169,330	169,330	169,330
Current financial liabilities	35			20,905	20,905	20,905
Other current liabilities	36			154,140	154,140	154,140
TOTAL LIABILITIES		**-**	**-**	**2,420,306**	**2,420,306**	**2,522,649**

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

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

Interest rate risk

The Group manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Group uses derivative contracts, and specifically interest rate swaps.
Concerning the current debt structure, 1,960 million euro out of a reported 2,160 million euro were not exposed to interest rate risk at 31 December 2016.
In August 2016, 2i Rete Gas entered into 5 new “Forward Starting Interest Rate Swap” hedging contracts ahead of the refinancing to be carried out within the next 3 years to replace part or all of the loan instalments near maturity.

To properly disclose interest rate risk as required by IFRS 7, the Company's outstanding contracts are shown below.

Therefore, the Company has 5 forward start Interest Rate Swap derivative contracts outstanding (with start date in 3 years and maturity in 10 years from the start date) with 5 leading banks. These derivative contracts allow the company to hedge a notional amount of 500 million euro.
The Group has tested the effectiveness of the outstanding derivatives and found that they qualify as hedging instruments.

The following table breaks down the derivatives by maturity.

Thousands of euro	Notional		1 year	Between 2 and 5 years	Beyond 5 years
	at 31.12.2016	at 31.12.2015			
Cash flow hedge derivatives					
Forward Start Interest Rate Swap	500,000	-	-	-	500,000
Total Interest Rate Derivatives	500,000	-	-	-	500,000

These contracts were entered into with a notional amount lower than the total to be refinanced and a maturity aligned with that of the underlying financial liability. Therefore, the change in the expected cash flows of these contracts is offset by a corresponding change in the estimated cash flows of the underlying position.

The measurement of the change in the fair value of the hedging derivative and that of the hypothetical derivative is determined by the fluctuation in the interest rate curve occurred since the inception of the instrument (Cumulative Based Test). The present value of the expected future cash flows of the outstanding derivatives is calculated based on the relevant interest rate curves received from a leading financial information provider (Telerate).

The outstanding derivatives can be measured using the inputs (interest rates) that are directly observable in the active interest rate market (Level 2 of the fair value hierarchy as per IFRS 13).

Therefore, the fair value of the financial derivatives generally reflects the estimated amount the Group would pay or receive should it terminate the contracts at the reporting date.
The following table shows the notional amount and fair value of the interest rate derivatives at 31 December 2016.

Thousands of euro	Notional		Fair value		Fair value asset		Fair value liability	
	at 31.12.2016	at 31.12.2015	at 31.12.2016	at 31.12.2015	at 31.12.2016	at 31.12.2015	at 31.12.2016	at 31.12.2015
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	-	17,393	-	17,393	-	-	-
Total Interest Rate Derivatives	500,000	-	17,393	-	17,393	-	-	-

Finally, the fair value of the above derivatives, assuming a 0.10% negative or positive shock in the relevant interest rate curves, is shown below.

Thousands of euro	Notional		-0,10%	Fair Value	+0,10%	-0,10%	Fair Value	+0,10%
	at 31.12.2016	at 31.12.2016		at 31.12.2016			at 31.12.2016	
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	-	12,601	17,393	22,102	-	-	-
Total	500,000	-	12,601	17,393	22,102	-	-	-

Significant events after the reporting period

On 9 January 2017, the Parent Company's Board of Directors decided to launch a “Cash Tender offer” to buy back and then cancel part of the existing debenture loan, replacing it with more favourable facilities allowing for a greater duration.
In January, the Parent Company successfully bought back and cancelled 225 million euro's worth of loan instalments near maturity.
On 18 January 2017, the Parent Company submitted the update to the prospectus for the EMTN Programme (European Medium Term Notes Programme) to the Irish Stock Exchange.
After receiving the approval of the Irish Stock Exchange and the Bank of Ireland, the Parent Company launched an additional offer to purchase the bond instalments with maturity in

2019 and 2020, including an “any and all” option for those with maturity in 2020, to be replaced at said date with an issue of the same nominal amount.
On 28 February 2017, the Parent Company bought back, cancelled and issued a new debenture loan, for a total of 435 million euro.

On 16 January 2017, 2i Rete Gas S.r.l submitted the bid for the concession of the distribution network in the Milan 1 ATEM to the contracting authority – the Municipality of Milan. The contracting authority estimates that the tender could be awarded in the first half of 2017.

V Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE FINANCIAL STATEMENTS CLOSED AS AT 31 DECEMBER 2016 AS PER ARTICLE 2429, CO. 2, C.C.

To the shareholders' meeting of 2i RETE GAS S.p.A .

This report was approved collegially and in time for its filing at the company's registered office, 15 days prior to the date of the General Shareholders Meeting convened to approve these financial statement.
The Board of Directors has thus made available the following documents approved on March 17, 2017 for the year ended December 31, 2016:

- Draft of Financial Statements, with notes;

- Management report.

The approach set out in our report differs from the structure used for previous financial year, as it has been inspired, in addition to legal provisions, to the “Norma n. 7.1” of the "Rules of Conduct of the Board of Statutory Auditors - Principles of Behavior of the Board of Statutory Auditors of Unlisted Companies" issued by the CNDCEC.

GENERAL PRESENTATION SOCIETY KNOWLEDGE, RISK ASSESSMENT AND RELATIONSHIP BETWEEN RELATED AFFAIRS

Bearing in mind the well-established knowledge that the Board of Statutory Auditors claims to have about the company and regarding:

(I) the type of activity carried out;
(II) its organizational and accounting structure;

Taking into account the size and the problems of the company, it must be noted that the "planning" phase of our supervisory activity - in which the intrinsic risks and the critical matters of the two above parameters have to be assessed - has been implemented through the positive feedback on what is already known on the basis of information gained over time.

It has been possible to confirm that:

- the main activity carried out by the company has not changed during the year under review and is consistent with what is provided by the corporate object;

- the organizational set-up and the provision of IT facilities remained largely unchanged;

- the above findings are indirectly confirmed by the comparison of the results of the values expressed in the income statement for the last two financial years, i.e. the one under examination (31.12.2016) and the previous one (31.12.2015). It is also possible to acknowledge that the company operated in 2016 like in the previous year and, as a result, our controls took place on these assumptions, once the substantial comparability of values and results with those of the previous year has been verified.

The activities carried out by the Board relate to the entire reporting period; during the financial year the meetings referred to in art. 2404 c.c. have been regularly held, and appropriate drafts were drawn, duly signed for unanimous approval.

ACTIVITY CARRIED OUT

During the periodic audits, the Board continued to be informed of the evolution of the company activities, paying particular attention to contingent and / or extraordinary issues in order to identify their economic and financial impact on operating results and on the balance sheet structure, as well as any risks such those arising from credit losses, that are monitored on a regular basis.

The audit firm, PWC S.p.A., has not reported any issues during the meetings.

The Board therefore periodically assessed the adequacy of the organizational and functional structure of the company and its possible mutations with respect to the minimum requirements posed by the performance of the company.

Relationships with the people working in the structure – directors and external consultants - have been inspired by mutual collaboration in respect of the assigned roles, being those of the Board of Statutory Auditors clear.

Throughout the year, we found that:

- the administrative staff responsible for recording company events has not materially changed compared to the previous year;

- the level of its technical preparation remains adequate with respect to the ordinary business events to be recorded and has sufficient knowledge of business issues;

- external consultants and outsourcers in accounting, corporate, and law firms have not changed, while the new tax consultants, changed over the course of the year, have received from previous consultants and the company appropriate instructions.

Therefore, they have all been able to gain a historical knowledge of the business activity and of extraordinary management issues that have influenced the results of the Financial Statements.

The information required by art. 2381, co. 5, c.c., were provided by the Chief Executive Officer both during the planned meetings and through contacts / information flows: thus the Board of

Directors has, in substance and form, complied with the requirements imposed by the abovementioned law.

In conclusion, as far as it has been possible to ascertain during the course of the year, the Board of Statutory Auditors can state that:

- the decisions taken by the Board of Directors have been taken in accordance with the law and the articles of association and have not been clearly imprudent or endangering the integrity of the company's assets;

- sufficient information on the overall performance of the management and on its foreseeable evolution as well as on the most significant operations, by size or characteristics, carried out by the company has been obtained;

- the operations carried out have also been in accordance with the law and the articles of association and not in potential conflict with the resolutions adopted by the General Shareholders' meeting or such as to compromise the integrity of the company's assets;

- no specific observations are made as to the appropriateness of the organizational structure of the company, nor on the adequacy of the administrative and accounting system, nor on the reliability of the latter in properly representing the managed events;

- in the course of the supervisory activity, as outlined above, no further significant facts have arisen that require reporting in this report;

- there was no need to intervene on omissions of the administrative body pursuant to art. 2406 c.c .;

- no complaints have been received pursuant to art. 2408 c.c .;

- no complaints were made pursuant to art. 2409, co. 7, c.c ..

COMMENTS AND PROPOSALS FOR FINANCIAL STATEMENTS AND THEIR APPROVAL

The draft Financial Statements for the financial year ended 31 December 2016 were approved by the Board of Directors on March 17, 2017 and consist of the balance sheet, the income statement and the notes to the Financial Statements.

The Board of Directors has also prepared the management report as per art. 2428 c.c .. These documents have been delivered to the Board of Statutory Auditors in good time, so that they were made available at the registered office of the company with this report, irrespective of the deadline provided for in art. 2429, co. 1, c.c ..

The audit of the accounts is entrusted to the PRICEWATERHOUSECOOPERS S.P.A. which has prepared its own report pursuant to art. 14 D.Lgs. January 27, 2010, no. 39, a report that does not highlight any significant deviations, negative judgments or impossibility of expressing a judgment or disclosure, and therefore the issued judgment is positive.

The draft Financial Statements have therefore been examined, and we may provide the following additional information:

- the valuation criteria for assets and liabilities that need to be assessed have been checked and are not substantially different from those adopted in previous years, in accordance with art. 2426 c.c .;

- attention has been paid to the approach given to the drafting of Financial Statements, their general compliance with the law in their setup and structure, and there are no observations in this respect;

- compliance with the law on the preparation of the management report has been verified and there are no observations in this respect;

- in drafting of the Financial Statements, the Board of Directors did not derogate from the statutory provisions of art. 2423, co. 4, c.c .;

- the Financial Statements have been verified with the events and information that have been disclosed to the Board of Statutory Auditors as a result of the carrying out of the duties, and no further observations are made;

- the accuracy of the information contained in the notes to the Financial Statements has been verified as to the absence of active and passive financial and monetary positions originated in currencies other than the Euro;

- information from the Organismo di Vigilanza have been acquired and no issue has emerged to be highlighted in this report with respect to the organizational model;

- the Board of Statutory Auditors has no objection to the proposal of the Board of Directors regarding the allocation of the net result for the year, however noting that this decision pertains to the Shareholders' Meeting.

FISCAL YEAR RESULTS

The net results presented by the Board of Directors for the year ended December 31, 2016, as evident from the reading of the Financial Statements, is positive for Euro 129,013,191.91.

CONCLUSIONS

Based on the foregoing, and on all that has been disclosed of the Board of Statutory Auditors and has been verified by the periodic audits we carried out, it is unanimous that there are no obstacles to the approval of the draft Financial Statements for the year 2016, as it has been drawn up and proposed by the Board of Directors, and of the resulting proposal of allocation of the net results.

Milan, April 4, 2017

The Board of Statutory Auditors

dott. Marco Antonio Dell’Acqua (President)

(Signed on the original)

dott. Marco Giuliani (Member)

(Signed on the original)

prof. Gianluigi Gola (Member)

(Signed on the original)

VI Report of the Independent Auditors

2I RETE GAS SPA

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE 39 OF 27 JANUARY 2010

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE 39 OF 27 JANUARY 2010

To the shareholders of
2i Rete Gas SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of 2i Rete Gas Group, which comprise the statement of financial position as of 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group preparation of consolidated financial statements that give a true and fair view, to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of 2i Rete Gas Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on compliance with other laws and regulations

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

We have performed the procedures required under auditing standard (SA Italia) 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of 2i Rete Gas SpA, with the consolidated financial statements of 2i Rete Gas Group as of and for the year ended 31 December 2016. In our opinion, the report on operations is consistent with the consolidated financial statements of 2i Rete Gas Group as of and for the year ended 31 December 2016.

Milan, 4 April 2017

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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

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

1. Income Statement

Euro	Note	31.12.2016	of which from related parties	31.12.2015	of which from related parties
Revenues					
Revenues from sales and services	5.a	591,941,240	682	611,516,335	202,736
Other revenues	5.b	128,052,218	4,043,577	78,571,787	973,288
Revenues from intangible assets / assets under con	5.c	204,060,068		169,193,001	
Sub-Total		**924,053,526**		**859,281,122**	
Costs					
Raw materials and consumables	6.a	83,525,121		62,875,537	94,248
Services	6.b	203,960,145	1,421,477	207,025,537	39,600
Personnel Costs	6.c	118,185,026	2,605,470	130,873,161	5,035,856
Amortisation, depreciation and impairment losses	6.d	154,265,697		153,811,602	
Other operating costs	6.e	121,350,916	422,133	70,455,068	349,084
Capitalised costs for internal work	6.f	(233,600)		(1,208)	
Sub-Total		**681,053,304**		**625,039,696**	
EBIT		**243,000,222**		**234,241,426**	
Income / (expenses) from equity investments	7	129,449	100,000	223,888	199,600
Financial income	8	220,141	6,673	741,661	2,415
Financial expenses	8	(47,836,440)	(27,598)	(49,325,562)	(4)
Sub-Total		**(47,486,850)**		**(48,360,013)**	
Pre-tax income		**195,513,372**		**185,881,413**	
Taxes	9	66,500,181		98,967,828	
Net result from continuing operations		**129,013,192**		**86,913,586**	
Net result from discontinued operations	10	-		-	
NET INCOME FOR THE YEAR		**129,013,192**		**86,913,586**	

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

2. Statement of Comprehensive Income

Euro

	31.12.2016	31.12.2015
Net income recognised in profit or loss	**129,013,192**	**86,913,586**
Other comprehensive income		
Items which will never be reclassified in profit/(loss):		
Revaluations of net liabilities/assets for defined benefits	(1,589,016)	1,113,487
Deferred tax assets and liabilities on items which will never be classified in profit / (loss)	453,002	(1,058,637)
	(1,136,014)	54,850
Items which may be reclassified subsequently in profit/(loss):		
Change in fair value of hedging derivatives	17,393,386	
Change in fair value of hedging derivatives reclassified in the income for the year	-	-
Deferred tax (assets)/liabilities from change in fair value	(4,174,413)	
Deferred tax (assets)/liabilities from change in fair value of hedging derivatives reclassified in the income for the year	-	-
	13,218,973.36	-
Total other comprehensive income	**12,082,960**	**54,850**
Total comprehensive profit/ (loss) recorded in the year	**141,096,152**	**86,968,436**

2i Rete Gas S.p.A

Chief Executive Officer

Michele Enrico De Censi

3. Statement of Financial Position

Assets

Euro	Note				
ASSETS		**31.12.2016**	**of which from related parties**	**31.12.2015**	**of which from related parties**
Non-current assets					
Property, plant and equipment	11	37,749,187		40,744,150	
Intangible assets	12	2,847,651,476		2,776,051,095	
Net deferred tax assets	13	67,527,201		69,552,680	
Equity investments	14	18,270,887	17,753,810	17,173,561	16,656,485
Non-current financial assets	15	18,755,512		5,213,062	
Other non-current assets	16	44,968,174		32,042,521	
	Total	**3,034,922,436**		**2,940,777,069**	
Current assets					
Inventories	17	20,193,273		13,798,376	
Trade receivables	18	233,174,413	3,334,872	238,235,771	1,485,552
Short-term financial receivables	19	1,716,564	899,846	1,025,096	1,017,050
Other current financial assets	20	13,525		8,554	565
Cash and cash equivalents	21	181,883,225		157,941,449	
Income tax receivables	22	8,569,094	373,595	10,021,234	92,506
Other current assets	23	178,741,664	5,842	145,356,195	5,842
	Total	**624,291,758**		**566,386,675**	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	37	-		7,730,200	
	Total	**-**		**7,730,200**	
TOTAL ASSETS		**3,659,214,195**		**3,514,893,944**	

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

Liabilities

Euro	Note				
EQUITY AND LIABILITIES		**31.12.2016**	**of which from related parties**	**31.12.2015**	**of which from related parties**
Equity	24				
Share Capital		3,638,517		3,638,517	
Treasury Shares		-		-	
Other Reserves		507,202,591		494,340,290	
Retained earnings (accumulated losses)		79,794,687		77,913,234	
Net income for the year		129,013,192		86,913,586	
TOTAL EQUITY		**719,648,987**		**662,805,626**	
Non-current liabilities					
Long-term loans	25	2,148,424,082		2,075,570,817	
Termination and other employee benefits	26	48,045,657		47,137,461	
Provision for risks and charges	27	13,505,647		10,594,549	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	-		-	
Other non-current liabilities	29	302,119,442	10,150	295,029,680	8,477
	Total	**2,512,094,827**		**2,428,332,507**	
Current liabilities					
Short-term loans	30	4,194,405	4,194,405	8,004	8,004
Current portion of medium/long-term bank loans	31	-		-	
Short-term portion of long-term and short-term provisions	32	70,958,451		63,047,126	
Trade payables	33	162,164,908	1,605,534	167,999,386	377,451
Income tax payables	34	13,888,568		1,283,270	19,829
Current financial liabilities	35	21,099,092		21,393,609	
Other current liabilities	36	155,164,955	630,273	169,245,794	223
	Total	**427,470,381**		**422,977,190**	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	37	-		778,620	
	Total	**-**		**778,620**	
TOTAL LIABILITIES		**2,939,565,208**		**2,852,088,317**	
TOTAL EQUITY AND LIABILITIES		**3,659,214,195**		**3,514,893,944**	

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

4. Statement of Cash Flows

Euro		31.12.2016	31.12.2015
A) CASH AND CASH EQUIVALENTS - INITIAL BALANCE	**21**	**157,941,449**	**3,083,049**
A) CASH AND CASH EQUIVALENTS ACQUIRED THROUGH COMPANY ACQUISITION		**924,369**	**103,303,078**
Cash flow from operating activities			
Pre-tax income		195,513,372	185,881,413
Income taxes for the period	9	(66,500,181)	(98,967,828)
Net result from discontinued operations	10	0	0
1. Net income for the year		**129,013,192**	**86,913,586**
Adjustments for:			
Depreciation	6.d	152,446,046	152,304,526
Write-downs/(Write-ups)	6.d	1,819,651	1,507,076
Capital (gains)/losses	5.b/6.e	11,125,181	9,470,446
Allocations to provisions for risks and charges and termination benefits	6.c/6.e	20,452,061	28,583,125
Financial (income)/expenses	7 and 8	47,486,850	48,360,013
2.Total adjustments		**233,329,789**	**240,225,186**
Change in net working capital			
Inventories	17	(6,394,568)	(6,121,471)
Trade receivables	18	4,283,511	(26,204,480)
Trade payables	33	(5,941,961)	(14,951,314)
Other current assets	23	(33,533,472)	16,986,177
Other current liabilities	36 and 37	(14,446,903)	26,831,136
Net tax receivables/(payables)	22 and 34	14,063,563	12,964,945
Increase/(decrease) in provisions for risks and charges and termination benefits	26, 27 and 32	(10,317,060)	(14,591,825)
Increase/(decrease) in provisions for deferred tax assets and liabilities	13	(2,625,337)	43,701,992
Other non-current assets	16	(12,920,395)	(8,271,784)
Other non-current liabilities	29 and 37	6,873,852	12,732,808
Financial income/(expenses) other than for financing	8	(1,064,812)	(247,700)
3. Total change in net working capital		**(62,023,582)**	**42,828,484**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**300,319,399**	**369,967,255**
Cash flow (used in) generated by investing activities			
Net fixed assets		(225,802,821)	(194,646,501)
Equity investments	7 and 14	129,449	213,888
Cash acquired through company acquisition		55,579	
C) CASH FLOW (USED IN) GENERATED BY INVESTING ACTIVITIES		**(225,617,793)**	**(194,432,613)**
D) FREE CASH FLOW (B+C)		**74,701,606**	**175,534,642**
Cash flow from financing activities			
Payment of dividends		(85,032,133)	(65,020,292)
Change in amortised cost	15, 25 and 31	6,550,538	5,783,353
Financial income for financing activities	8	136,051	189,703
Financial (expenses) for financing activities	8	(46,687,538)	(48,525,903)
Change in bank net debt	25 and 30	4,186,402	(7,783,161)
New loan	25	70,000,000	200,000,000
Repayment of loan	25	0	(210,000,000)
Other non-current financial assets	15	153,663	(224,426)
Change in other financial receivables	19 and 20	(696,423)	(50,545)
Change in other current financial payables	35	(294,758)	1,651,950
E) CASH FLOW FROM FINANCING ACTIVITIES		**(51,684,198)**	**(123,979,321)**
F) CASH FLOW FOR THE PERIOD (D+E)		**23,017,408**	**51,555,321**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**21**	**181,883,225**	**157,941,449**

2i Rete Gas S.p.A
Chief Executive Officer
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5. Statement of Changes in Equity

	Share capital and reserves							
Euro	Share Capital	Share premium reserve	Legal Reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year	Total
Total 31 December 2014	**3.636.338**	**351.566.783**	**620.000**	**0**	**202.125.940**	**0**	**77.913.234**	**635.862.295**
Allocation of result for 2014:								
Allocation of result						77.913.234	(77.913.234)	-
- Increase in legal reserve			107.703		(107.703)			
Contribution from shareholders and payments to them as shareholders								-
Payment of dividends								-
- Distribution of Share premium reserve		(65.020.292)						**(65.020.292)**
Total contribution from shareholders and payments to them as shareholders								*(65.020.292)*
- Other changes (merger of 2iRete gas)	2.179				4.993.008			**4.995.187**
- Other changes								-
- Net income for the year recognised in equity								-
Net income for the year recognised in equity					54.850			**54.850**
Net income for the year recognised in profit or loss							86.913.586	**86.913.586**
Total 31 December 2015	**3.638.517**	**286.546.491**	**727.703**	**0**	**207.066.095**	**77.913.234**	**86.913.586**	**662.805.626**
Allocation of result for 2015:								
Allocation of result						86.913.586	(86.913.586)	-
- Increase in legal reserve								
Contribution from shareholders and payments to them as shareholders								-
Payment of dividends						(85.032.133)		**(85.032.133)**
- Distribution of Share premium reserve								-
Total contribution from shareholders and payments to them as shareholders								*(85.032.133)*
- Other changes (merger of 2irete gas)					779.342			**779.342**
- Other changes								-
- Net income for the year recognised in equity								-
Net income for the year recognised in equity				13.218.973	(1.136.014)			**12.082.960**
Net income for the year recognised in profit or loss							129.013.192	**129.013.192**
Total 31 December 2016	**3.638.517**	**286.546.491**	**727.703**	**13.218.973**	**206.709.423**	**79.794.687**	**129.013.192**	**719.648.986**

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

6. Notes to the Financial Statements of 2i Rete Gas S.p.A.

Format and contents of the Financial Statements

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

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

- North-West Department - Via Gazzoletto, 16/18 - 26100 Cremona (province of Cremona)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (province of Varese)
- North-East Department - Via Serassi, 17/Rs - 24124 Bergamo (province of Bergamo)
- Central Department - Via Morettini, 39 - 06128 Perugia (province of Perugia)
- South-West Department - Via Paul Harris, 63 - 81100 Caserta (province of Caserta)
- South-East Department - Via Enrico Mattei - 72100 Brindisi (province of Brindisi)

The Directors of 2i Rete Gas S.p.A. on 17 March 2017 approved these financial statements and agreed to make them available to Shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.
For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 17 March 2017.
These financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The statutory financial statements for the year ended 31 December 2016 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Board (IASB), as endorsed by the European Union pursuant to EC Regulation No. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The above standards and interpretations are hereinafter referred to as “IFRS-EU”.

Reporting and valuation criteria

The statutory financial statements consist of the Income statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes. The financial statements are presented in euro and the values shown in the notes to the statutory financial statements are expressed in thousands of euro.
The reporting and valuation criteria are the same as those adopted to draw up the consolidated annual financial report, to which reference should be made, except as indicated hereafter.
In the statutory financial statements, equity investments in subsidiaries, jointly controlled companies and associates are valued at purchase cost.
Given objective evidence of impairment, the recoverability is checked by comparing the carrying value with the recoverable value represented by the greater of the fair value, net of disposal costs, and the value in use. Should the grounds which caused the impairment no longer exist, the value of the equity investment is restated, up to the limits of the original cost.
The dividends received by subsidiaries and associates are recognised in profit or loss.

Information on the separate financial statements of the merged entities

The income statement and the statement of financial position for 2015 of GP Gas S.r.l. which merged into 2i Rete Gas S.p.A.as from 1 January 2016 are shown below.
The setting out of this data is done to help the reader understand the nature of the merger, which entailed no significant changes in the operations of 2i Rete Gas S.p.A.

Income Statement

Euro

			31.12.2015 subtotals	31.12.2015 totals
A		**Value of production**		
	1)	revenues from sales and services		1,021,378
	4)	increases in fixed assets for internal work		53,481
	5)	other revenues and income		1,576
		Total		**1,076,434**
B		**Cost of production**		
	6)	for raw and ancillary materials, etc.		51,816
	7)	for services		144,424
	8)	for the use of third-party assets		16,899
	9)	for personnel:		-
	a)	*wages and salaries*		
	b)	*social security charges*		
	c)	*termination benefits*		
	e)	*other costs*		
	10)	amortisation, depreciation and write-downs:		125,511
	a)	*amortisation of intangible assets*	-	
	b)	*depreciation of tangible assets*	*119,578*	
	d)	*write down of receivables*	*5,934*	
	11)	change in inventories		1,734
	13)	other provisions		602
	14)	sundry operating costs		11,974
		Total		**352,960**
		Difference between value and costs of production		**723,474**
C		**Financial income and charges**		
	15)	income from equity investments		-
	16)	other financial income		235
	d)	*income other than the above*	*235*	
	17)	interest and other financial expense		(51)
		Total financial income and charges		**184**
D		**Impairment losses on financial assets**		
		Total Impairment losses on financial assets		**-**
E		**Non-recurring income and expenses**		
	20)	non-recurring income		6,969
	21)	non-recurring expenses		(5,000)
		Total non-recurring items		**1,969**
		PRE-TAX INCOME		**725,627**
	22)	current, prepaid and deferred income taxes for the year:		221,747
		current taxes	222,116	
		deferred and prepaid taxes	(368)	
	23)	**NET INCOME FOR THE YEAR**		**503,880**

Statement of Financial Position - Assets

Euro			
ASSETS			**31.12.2015**
A		**Receivables due from shareholders**	
B		**Fixed assets**	
I		**Intangible assets:**	
	4)	concessions, licences, trademarks and similar rights	
	7)	other	-
		Total	**-**
II		**Tangible assets:**	-
	1)	land and buildings	4,773
	2)	plant and equipment	3,163,993
	3)	industrial and commercial equipment	-
	4)	other assets	-
	5)	fixed assets under construction and advances	-
		Total	**3,168,766**
III		**Financial assets:**	
	1)	equity investments in:	
	a)	subsidiaries	
	2)	receivables:	-
	d)	due from others	5,258
		Total	**5,258**
		Total fixed assets	3,174,024
C		**Current assets**	
I		**Inventories:**	
	1)	raw and ancillary materials and consumables	329
		Total	**329**
II		**Receivables:**	
	1)	due from customers	408,997
	4)	due from owners of the parent	8,332
	4bis)	tax receivables	-
	4ter)	receivables for prepaid taxes	60,071
	5)	due from other	233,976
	6)	due from other group companies	-
		Total	**711,377**
III		**Financial assets**	
		Total	**-**
IV		**Cash:**	
	1)	bank and post office deposits	922,601
	3)	cash in hand	1,768
		Total	**924,369**
		Total current assets	**1,636,074**
D		**Accruals and prepaid expenses**	**4,497**
		TOTAL ASSETS	**4,814,594**

Statement of Financial Position - Liabilities

Euro

LIABILITIES				31.12.2015
A		EQUITY		
	I	share capital		10,400
	II	share premium reserve		0
	III	revaluation reserves		0
	IV	legal reserve		8,691
	V	statutory reserves		0
	VI	reserve for treasury shares in the portfolio		0
	VII	other reserves		3,118,236
	VIII	retained gains (losses)		474,879
	IX	net income for the year		503,880
		TOTAL EQUITY		**4,116,087**
B		**Provisions for risks and charges**		
	2)	for taxes, including deferred		0
	3)	other		6,602
		Total provisions for risks and charges		**6,602**
C		**Post-employment benefits**		**0**
D		**PAYABLES**		
	4)	payables due to banks		0
	6)	advances		0
	7)	trade payables		77,737
	11)	payables due to owners of the parent		29,746
	12)	tax payables		14,256
	13)	payables to welfare and pension agencies		0
	14)	other payables		341,435
	15)	other payables due to group companies		0
		TOTAL PAYABLES	**0**	**463,174**
E		**ACCRUALS AND DEFERRED INCOME**		**228,731**
		TOTAL EQUITY AND LIABILITIES		**4,814,594**
		Memorandum accounts		
		Third parties for guarantees and sureties provided		8,000
		Total memorandum accounts		**8,000**

Information on the Income Statement

Revenues

The transport of methane gas takes place exclusively within Italy.

5.a Revenues from sales and services – 591,941 thousand euro

"Revenues from sales and services", which amounted to 591,941 thousand euro, mainly refer to the gas transport activity and the connection fees.

“Revenues from sales and services” are broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Sales and services			
Third parties:			
Transport of gas and LPG	554,216	576,977	(22,761)
Allocation to provision for risks	(2,666)	(4,128)	1,462
Connection fees	13,433	12,327	1,106
Accessory rights	5,974	5,592	382
Revenues from the sale of water	1,818	2,533	(715)
Accessory services – water sector	240	486	(246)
Revenues from customer operations	43	47	(4)
Revenues from sewerage/purification	749	905	(156)
Other revenues and other sales and services	18,134	16,577	1,557
Group companies:			
Management fee	-	201	(201)
Total revenues from sales and services	**591,941**	**611,516**	**(19,575)**

Revenues from gas transport totalled 554,216 thousand euro and mainly refer to the 2016 tariff revenue cap (VRT) for natural gas and LPG, together with revenues from contingent assets relating to previous years.

This figure was calculated following publication by the AEEGSI of Resolution No. 367/2014/R/gas which definitively clarified the means for calculating the tariffs regarding the fourth regulatory period. The provision recognised as a deduction from this line item concerned a provision for risks associated with the potential revision of the tariffs for some concessions involving plants partially owned by third parties.

The 22,761 thousand euro decline was mainly the result of the change in the weighted average cost of capital following Resolution No. 583/2015/R/com, as well as the tariff compensation received in the first half of 2015 for about 5.1 million euro.

Connection fees totalled 13,433 thousand euro, up 1,106 thousand euro from the prior year.
The connection fee is a set amount defined through a specific quote according to the type of service requested, and consists of:

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

As in the prior year, the Company calculated the prepayments relating to these fees. The analysis undertaken enabled the separation of the revenues percentage for contributions collected from customers to cover overhead costs which are accessory to the investment activity (around 17% of private contributions and 0.9% of network transfer and connection fees), and therefore not to be deferred, from that to be attributed to the costs which are capitalised and therefore to be deferred on the basis of the length of the amortisation of the asset.

Revenues from the sale of water (1,818 thousand euro) were influenced by the gradual disposal in water concessions.

“Other revenues and other sales and services” included revenues associated with the suspension and reactivation of customers in arrears at the request of the sales companies, which totalled around 6,346 thousand euro (5,384 thousand euro in the prior year), as well as 9,984 thousand euro in revenues relating to costs on access fees, which were in line with 2015.
The management fees recognised in 2015 resulted from the management of the subsidiary Gp Gas, which was merged into 2i Rete Gas S.p.A during the year.

5.b Other revenues – 128,052 thousand euro

“Other revenues” totalled 128,052 thousand euro (78,572 thousand euro in 2015), increasing by 49,480 thousand euro and are broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Other revenues			
Third parties:			
Revenues from energy efficiency certificates	90,802	50,254	40,548
Revenues from plant contributions	2,260	2,348	(89)
Contingent assets	820	8,287	(7,467)
Revenues from Resolution 574/13	15,111	9,145	5,966
Rental income	2,172	691	1,481
Capital gains from assets	5,405	793	4,612
Compensation for damages	889	543	346
Other revenues and income and services	7,029	6,067	961
Group companies:			
Other revenues and services	3,565	442	3,123
Total other revenues	**128,052**	**78,572**	**49,480**

The most important values under Other Revenues are largely due to the revenues from energy efficiency certificates purchased in the year and which will be “cancelled” (or redelivered against payment to the AEEGSI) in May 2017 on the basis of the annual targets which the AEEGSI itself sets.

Revenues from energy efficiency certificates refer to achieving the objective for 2015 and partially achieving the specific energy saving objective for 2016. In relation to the objective for 2016 it is necessary to have cancelled at least 50% of the certificates requested by May 2017.

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

The steady increase in revenues from energy efficiency certificates was the result of the Company’s efforts to reach the targets ahead of the May 2017 deadline, as well as, and most importantly, the rising market prices, which significantly affected purchases in the second half of the year.

The second most important item, i.e. contingent assets, is connected to the receipt, in the previous year, of around 7.3 million euro from Gaz de France Italia in accordance with the decision of the arbitration panel.

As in previous years, the revenues as per Resolution No. 574/2013/R/gas concerning the quality of gas distribution and metering services testify to the Company's focus on the technical quality of its services. This result depends on both the number of chromatographic gas tests undertaken by the distributor (a parameter which the Company can control) and on the fall in leaks at the distributor’s plant (a parameter which cannot be governed directly by the distributor except through continuous monitoring).

Capital gains from assets referred to the settlement of the dispute concerning the "Lariano Triangle" and the end of two concession arrangements (Caronno Varesino and Paderno Dugnano) for which the compensation to be paid to the outgoing operator was defined.

"Other revenues and income and services" were up 961 thousand euro largely because of the increase in revenues from operations with defaulting end users, whose administrative management was delegated to the gas distributor.

Finally, "Other revenues and services" referred to intercompany balances concerning a series of services that the parent company provides to its two main subsidiaries, Genia Distribuzione S.r.l. and 2i Rete Gas S.r.l. Please note that last year the parent company did not provide services to the latter.

5.c Revenues from intangible assets / assets under construction – 204,060 thousand euro

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Revenues from intangible assets / assets under construction			
Revenues from intangible assets/assets under construction	204,060	169,193	34,867
Total revenues from intangible assets / assets under construction	**204,060**	**169,193**	**34,867**

As from 1 January 2010, the Company has been recognising these revenues pursuant to IFRIC 12 "Service Concession Arrangements".

Revenues from intangible assets and assets under construction represent the proportion of revenues directly attributable to the construction and enhancement of gas distribution networks held under concession. Since it is not possible to identify in the existing tariff system a specific item relating to the network construction service, these revenues are estimated to be exactly the same as the costs incurred for the same end, and so there is no impact in terms of gross margin.
In 2015 this item totalled 169,193 thousand euro.

Costs

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

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	31.12.2016	31.12.2015	2016 - 2015
Costs relating to revenues from intangible assets / assets under construction			
Raw materials and consumables	4,396	4,048	349
Costs for services	80,467	78,504	1,963
Other operating costs	586	553	33
Capitalised costs for materials, personnel and services	118,610	86,088	32,523
Total costs relating to revenues from intangible assets / assets under construction	**204,060**	**169,193**	**34,867**

6.a Raw materials and consumables – 83,525 thousand euro

"Costs of raw materials and consumables" and the changes thereto compared to the previous year are detailed below:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	2,877	4,041	(1,164)
Stationery and printed materials	264	299	(35)
Various materials	86,779	64,657	22,122
(Change in inventories of raw materials)	(6,395)	(6,121)	(273)
Total cost for raw materials and consumables	**83,525**	**62,876**	**20,650**
- of which capitalised for intangible assets	75,615	53,360	22,256

The costs of "Raw materials and consumables" essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes.
Compared to the previous year, there was a sharp increase in the item "various materials" for 22,122 thousand euro due to the significant purchase and installation of new smart meters during the year.

6.b Services – 203,960 thousand euro

"Costs for services" are broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	78,015	76,865	1,149
Costs for electricity, power and water	3,257	4,016	(759)
Gas (for internal use)	3,302	3,825	(523)
Telephone and data transmission costs	2,816	3,820	(1,004)
Insurance premiums	4,842	5,157	(315)
Costs for services and other expenses relating to personnel	4,861	5,330	(469)
Fees	876	655	221
Legal and notary costs	2,219	381	1,838
Costs for company acquisitions and disposals	11	1	10
Staff and other services	5	1,439	(1,434)
Advertising	64	108	(44)
IT services	6,540	7,445	(905)
Meter reading service	5,210	3,946	1,265
Audit fees	372	362	11
Repairs and immediate intervention service	4,852	3,148	1,704
Plant certifications Resolution no. 40	630	720	(90)
Gas transport by third parties	2,478	2,235	243
Professional and other services	4,638	4,509	129
Other costs for services	6,818	7,873	(1,055)
Group companies:			
Other costs for services	223	-	223
Costs for the use of third-party assets			
Third parties:			
Leases	5,547	6,791	(1,244)
Rentals	6,797	6,472	325
Other costs for the use of third-party assets	1,855	2,517	(662)
Fee for temporary occupation of public space (C.o.s.a.p	1,250	1,241	8
Municipal gas concession fees	56,482	58,169	(1,687)
Total costs for services	**203,960**	**207,026**	**(3,065)**
- of which capitalised for intangible assets	80,467	78,504	1,963

The aggregate figure for costs for services (including also costs for the use of third-party assets) improved compared to the previous year (207,026 thousand euro) due to these factors:

- 1,149 thousand euro rise resulting from the increased activity by third parties on our distribution networks;
- 2,286 thousand euro decline in the costs for utilities (electricity, water, gas, phone) following the negotiation of new agreements with the main providers;
- 1,838 thousand euro increase in legal costs due to the lawsuits concerning default (offset by the revenues from the default service as resolved by AEEGSI);
- 1,434 thousand euro decline in staff services: the property management operations that were part of agreements in 2015 are now carried out with in-house staff;
- a nearly 2,969 thousand euro increase resulting from the change in work organisation compared to the previous year for the meter reading and emergency services;
- rental and lease costs were down 1,244 thousand euro year-on-year thanks to the rationalisation of the Company's offices and the end of the agreements with the Enel Group.

6.c Personnel costs – 118,185 thousand euro

Personnel costs are broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Wages and salaries	82,666	81,441	1,226
Social security charges	25,807	29,317	(3,511)
Termination benefits	5,485	5,473	12
Asem/Fisde	5	9	(4)
Fondo Gas	-	11,386	(11,386)
Other personnel costs	534	2,247	(1,714)
Total personnel costs	**114,497**	**129,873**	**(15,376)**
Non-recurring personnel costs			**-**
Incentives lo leave	3,688	1,000	**2,688**
Total non-recurring personnel costs	**3,688**	**1,000**	**2,688**
Total personnel costs	**118,185**	**130,873**	**(12,688)**
- of which capitalised for intangible assets	**47,391**	**36,776**	**10,616**
- of which capitalised for internal work	**-**	**1**	**(1)**

"Personnel costs" of 118,185 thousand euro include all charges incurred on an ongoing basis which, directly or indirectly, concern employees. The item decreased by 12,688 thousand euro.
In this regard, the amount for the previous year was affected by the impact of the closure, as from 1 December 2015, of the "Fondo Gas" and the related recognition in a single year of the amount the Company was required to pay to social security bodies and employees starting from 2016 and over the following years under the national collective bargaining agreement entered into in 2015.
The increase in capitalisation for intangible assets is essentially due to the significant efforts made by in-house staff in installing new smart meters.
The table below shows employee changes in the year by category.

	Executives	Middle Managers	Office Employees	Workers	Total
Personnel at 31 December 2015	**33**	**110**	**1,126**	**691**	**1,960**
Increase	-	3	39	19	**61**
Decrease	(3)	(4)	(24)	(9)	**(40)**
Change in category	-	3	(2)	(1)	**-**
Personnel at 31 December 2016	**30**	**112**	**1,139**	**700**	**1,981**

The rise during the year was significantly affected by the staff 2i Rete Gas S.p.A. acquired with the concession in Como and San Fermo (34 units).

6.d Amortisation, depreciation and impairment losses – 154,266 thousand euro

Depreciation of tangible assets, amortisation of intangible assets and impairment losses totalled 152,446 thousand euro, against 152,305 thousand euro in amortisation and depreciation in the previous year.
It should be noted that with the introduction of IFRIC 12, the amortisation of intangible assets mainly concerns the rights over concessions in which the Company manages the gas distribution networks.
Impairment losses, totalling 1,820 thousand euro, largely concerned the impairment of some receivables of the gas transport service, as well as some minor impairment losses arising from the sale of properties the Company no longer uses.

This item is broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Depreciation of tangible assets	5,001	5,031	(30)
Amortisation of intangible assets	147,445	147,273	172
Impairment losses:			
Impairment of tangible assets	210	-	210
Impairment of intangible assets	37	-	37
Write down of trade and other receivables	1,573	1,507	66
Total depreciation, amortisation and impairment losses	**154,266**	**153,812**	**454**

6.e Other operating costs – 121,351 thousand euro

"Other operating costs" were up 50,896 thousand euro, 41,669 thousand euro of which arose from the purchase of energy efficiency certificates. Their cost rose steadily, especially in the second half of 2016.
As for the capital losses on the disposal of assets, the 5,916 thousand euro increase was the result of the replacement of conventional meters with smart ones in accordance with the relevant resolutions passed by AEEGSI.
Please note that part of these losses, concerning meters that at the date of their replacement had not been fully amortised through tariffs, are repaid through tariffs over the years.
For the details on the provisions for risks in 2016, see section 27 (Provisions for risks and charges) in these notes.

In detail the costs were as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Other operating costs			
Third parties:			
Remuneration of statutory auditors and Supervisory Body	97	142	(45)
Remuneration of members of the Board of Directors	364	256	108
Association fees	413	444	(31)
Contribution to the Supervisory Authority	163	157	6
Compensation to customers	175	643	(468)
Municipal tax on property	464	472	(8)
CCIAA (chamber of commerce) fees and duties	455	422	34
Purchase of energy efficiency certificates	89,880	48,211	41,669
Tax on the occupation of public space (Tosap)	1,588	1,620	(32)
Capital losses on the disposal of assets	15,946	10,030	5,916
Capital losses on the sale of assets	584	234	351
Local and sundry taxes	1,017	582	436
Other costs	1,379	657	722
(Net) provision for risks and charges	8,825	6,587	2,239
Total other operating costs	**121,351**	**70,455**	**50,896**
- of which capitalised for intangible assets	586	553	33

6.f Capitalised costs for internal work – 234 thousand euro

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work.

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

7. Income / (expenses) from equity investments – 129 thousand euro

The item in question includes the income from investments in subsidiaries, associates and other companies. The 95 thousand euro decline from the previous year was due to the lower dividends paid out in 2016 by the associates Mea S.p.A. and CBL Distribuzione S.p.A.

8. Financial income/(expenses) – (47,616) thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Financial income			
Third parties:			
- Interest earned from loans to employees	1	1	(0)
- Interest income from discounting of receivables	-	75	(75)
- Interest income on delayed payments	-	129	(129)
- Interest income from current accounts and post office deposits	129	187	(58)
- Interest income from receivables from customers	45	122	(77)
- Other financial interest and income	38	225	(187)
Group companies:			
- Interest income	7	2	4
Total income	**220**	**742**	**(522)**
Financial expenses			
Third parties:			
- Interest expense on medium/long-term loans	983	2,435	(1,452)
- Other expense on medium/long-term loans from banks	1,164	1,581	(417)
- Financial expenses on debenture loans	37,304	37,200	104
- Financial expenses from amortised cost	7,208	7,308	(101)
- Interest expense on current bank accounts	-	1	(1)
- Discounting of termination and other employee benefits	957	599	358
- Expense for discounting of payables	129		129
- Interests on taxes	1	97	(96)
- Other financial and interest expense	62	104	(42)
Group companies:			
- Interest expense	28	0	28
Total expenses	**47,836**	**49,326**	**(1,489)**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(47,616)**	**(48,584)**	**968**

Net financial expenses of 47,616 thousand euro were mainly due to the recognition in the year of the interests relating to the debenture loans and the related amortised cost. At 31 December 2016, the Company had 2,148,424 thousand euro in loans outstanding, including 1,878,424 thousand euro in the three instalments of the debenture loan issued in 2014 as well as 270,000 thousand euro in two loans from the European Investment Bank.
Since 2014, the structure of the Company's debt has almost entirely moved to a fixed rate thanks to the three instalments of the debenture loan, lengthening the average duration of the existing debt and reducing the cost of the debt itself.
In addition, during 2016 the Company negotiated an additional 245 million euro revolving credit facility to replace an existing unused line of credit. The new facility is still available to the Company and was unused at 31 December 2016.

9. Taxes – 66,500 thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Current taxes			
Current income taxes: IRES	57,674	44,608	13,066
Current income taxes: IRAP	11,660	11,182	479
Total current taxes	**69,334**	**55,790**	**13,545**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	177	556	(379)
Positive adjustments for income taxes relating to previous years	(211)	(1,171)	960
Total adjustments for income taxes relating to previous years	**(34)**	**(615)**	**581**
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(3,143)	(6,985)	3,842
Prepaid taxes (allocation)/use	(817)	22,217	(23,034)
Total current deferred and prepaid taxes	*(3,960)*	*15,232*	(19,192)
Adjustments to deferred taxes of previous years due to tax rate change	(527)	(33,704)	33,177
Adjustments to prepaid taxes of previous years due to tax rate change	1,686	62,265	(60,578)
Total adjusted deferred and prepaid taxes	*1,160*	*28,561*	(27,401)
Total deferred and prepaid taxes	**(2,800)**	**43,793**	**(46,594)**
TOTAL TAXES	**66,500**	**98,968**	**(32,468)**

Income taxes for 2016 totalled 66,500 thousand euro, down 32,468 thousand euro year-on-year.
Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES of 57,674 thousand euro and IRAP of 11,660 thousand euro.
The change in 2015 prepaid and deferred taxes was affected not only by the fall given the repeal of the Robin Hood Tax but also by the adjustment of the provisions for taxes in the 2016 Stability Law which envisages for 2017 a further reduction in the standard IRES rate from 27.5% to 24% (28,561 thousand euro in 2015).
For more in-depth notes on prepaid and deferred taxes, reference should be made to the relevant section of the notes to the Statement of financial position.

The net adjustments for income taxes relating to previous years are negative in this year for 34 thousand euro; these adjustments arose following the definitive calculation of the taxes during the payment in June 2016.

The tax impact of IRES for 2016 is equal to 29.5%.

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

Thousands of euro	31.12.2016	31.12.2015
Income before taxes	195,513	185,881
Theoretical IRES taxes - 2016: 27,5%	**53,766**	**51,117**
Lower taxes:	20,218	31,124
- release of contributions taxed in prior years	1,423	959
- use of provisions	2,974	2,808
- release of provisions	1,213	1,587
- reversal of statutory amortisation/depreciation not deducted in prior y	4,260	2,030
- deducted tax amortisation	630	2,501
- deductible interest expense for previous years	4,410	17,941
- capital gains by instalments	1,289	19
- others	4,019	3,279
Higher taxes:	24,126	24,615
- allocations to provisions	7,985	5,634
- amortisation/depreciation on amounts that are not recognised for tax	2,781	3,015
- statutory amortisation/depreciation exceeding the fiscal limits	10,179	11,406
- reversal of excess fiscal amortisation/depreciation deducted in prior y	1,003	1,051
- capital losses on the disposal/sale of assets	51	113
- capital gains by instalments	870	2,229
- partially deductible costs	550	672
- connection fees	24	0
- taxes	137	104
- others	545	389
Total current income taxes (IRES)	**57,674**	**44,608**
IRAP - 2016: 4,56%	11,660	11,182
Total deferred and prepaid taxes	**(2,800)**	**43,793**
- of which impact of IRES tax rate change	0	0
- of which impact of IRAP tax rate change	0	0
TOTAL INCOME TAXES	**66,534**	**99,583**

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 37,749 thousand euro

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not tied to gas distribution concessions. Such assets are now regarded as intangible.

The breakdown and changes in property, plant and equipment in 2015 and 2016 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost								-
Accumulated depreciation								-
Balance at 31.12.2014	-	-	-	-	-	-	-	-
Merger contribution:	14,673	11,436	108	2,180	7,568	2,098	2,691	40,755
Gross value	14,673	35,845	112	21,814	46,146	9,770	2,691	131,051
Acc. Depr.	0	(24,409)	(3)	(19,634)	(38,577)	(7,672)	-	(90,295)
Investments	-	34	468	472	994	1,762	1,190	4,920
Entry into service	-	40	-	-	1,022	1,607	(2,669)	-
Gross value	-	40	-	-	1,022	1,607	(2,669)	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	-	-	(3)	-	(3)	-	-	(6)
Gross value	-	-	(113)	(244)	(385)	-	-	(742)
Acc. Depr.	-	-	111	244	382	-	-	736
Reclassifications	-	-	106	-	-	(0)	-	106
Gross value	-	-	1,713	-	-	(0)	-	1,713
Acc. Depr.	-	-	(1,607)	-	-	-	-	(1,607)
Impairment losses	-	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-	-
Acc. Depr.	-	-	-	-	-	-	-	-
Depreciation	-	(1,105)	(45)	(669)	(2,206)	(1,006)	-	(5,031)
Total changes	**14,673**	**10,404**	**635**	**1,983**	**7,375**	**4,462**	**1,212**	**40,744**
Historical cost	14,673	35,919	2,180	22,043	47,777	13,139	1,212	136,942
Accumulated depreciation	0	(25,514)	(1,545)	(20,060)	(40,402)	(8,678)	-	(96,198)
Balance at 31.12.2015	**14,673**	**10,404**	**635**	**1,983**	**7,375**	**4,462**	**1,212**	**40,744**
Investments	-	65	1,191	329	1,918	146	36	3,686
Entry into service	-	1,106	-	-	-	109	(1,216)	-
Gross value	-	1,106	-	-	-	109	(1,216)	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	(846)	(608)	-	-	(16)	-	-	(1,470)
Gross value	(846)	(2,304)	-	(107)	(714)	-	-	(3,972)
Acc. Depr.	-	1,697	-	107	698	-	-	2,502
Reclassifications	-	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-	-
Acc. Depr.	-	-	-	-	-	-	-	-
Impairment losses	(210)	-	-	-	-	-	-	(210)
Gross value	(210)	-	-	-	-	-	-	(210)
Acc. Depr.	-	-	-	-	-	-	-	-
Depreciation	-	(1,033)	(89)	(684)	(2,144)	(1,051)	-	(5,001)
Total changes	**(1,056)**	**(469)**	**1,102**	**(355)**	**(242)**	**(795)**	**(1,180)**	**(2,995)**
Historical cost	13,617	34,786	3,371	22,265	48,981	13,395	32	136,446
Accumulated depreciation	0	(24,851)	(1,634)	(20,637)	(41,847)	(9,728)	-	(98,697)
Balance at 31.12.16	**13,617**	**9,935**	**1,737**	**1,628**	**7,134**	**3,666**	**32**	**37,749**

At 31 December 2016, this line item included the 3,686 thousand euro increase in investments made during the year, which was offset by 1,470 thousand euro in disposals for the sale of properties no longer used, 210 thousand euro in impairment losses, and 5,001 thousand euro in depreciation charges.

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

Thousands of euro	31.12.2016	31.12.2015
Increases for internal services	-	1
Increases for materials	234	1,688
Increases for external acquisitions/services	3,452	3,230
Total	**3,686**	**4,920**

In compliance with the provisions of art. 10 of Italian Law No. 72/83, the historical figures (expressed in thousands of euro) are broken down below for the monetary revaluations included in the asset categories and contained in the item in question and in that for intangible assets:

LAND	
Revaluation Law 576/75	24
Revaluation Law 72/83	14
Revaluation Law 413/91	391
Revaluation Law 350/03	4,387
Total revaluations of land and buildings	**4,816**

LAND CONC	
Revaluation Law 576/75	1
Revaluation Law 72/83	15
Revaluation Law 413/91	0
Revaluation Law 350/03	50
Total revaluations of land and buildings	**66**

BUILDINGS	
Revaluation Law 576/75	25
Revaluation Law 72/83	8
Revaluation Law 413/91	539
Revaluation Law 350/03	6,522
Total revaluations of land and buildings	**7,094**

BUILDINGS CONC	
Revaluation Law 576/75	17
Revaluation Law 72/83	101
Revaluation Law 413/91	138
Revaluation Law 350/03	2,162
Total revaluations of land and buildings	**2,418**

PLANT AND EQUIPMENT CONC	
Revaluation Law 576/75	2,396
Revaluation Law 72/83	18,871
Revaluation Law 413/91	9
Revaluation Law 342/00	10,427
Revaluation Law 350/03	514,295
Total revaluations of plant and equipment	**545,998**

INDUSTRIAL AND COMMERCIAL EQUIPMENT	
Revaluation Law 576/75	1
Revaluation Law 72/83	10
Revaluation Law 350/03	6
Total revaluations of industrial and commercial equipment	**17**

OTHER ASSETS	
Revaluation Law 576/75	1
Revaluation Law 72/83	11
Revaluation Law 350/03	7
Total revaluations of other assets	**18**

12. Intangible assets – 2,847,651 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets that are tied to gas distribution concessions.

The breakdown and changes in intangible assets in 2015 and 2016 are shown below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets under construction and advances	Fixed assets under construction and advances	Other intangible assets	Goodwill	Total
Historical cost	-	-	-	-	-	-	-
Accumulated amortisation	-	-	-	-	-	-	-
Balance at 31.12.2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Merger contribution:	15,515	2,556,732	10,228	1,233	24,126	142,955	**2,750,789**
Historical cost	87,902	5,039,000	10,228	1,233	74,870	151,532	**5,364,766**
Accumulated amortisation	(72,387)	(2,482,269)	-	-	(50,744)	(8,577)	**(2,613,977)**
Investments	1,291	161,133	8,754	1,562	19,994	-	**192,734**
Entry into service	-	9,100	(9,100)	-	-	-	-
Gross value	-	9,100	(9,100)	-	-	-	-
Acc. Amort.	-	-	-	-	-	-	-
Disposals	-	(12,461)	(11)	-	-	-	**(12,472)**
Gross value	-	(49,105)	(11)	-	(3)	-	**(49,119)**
Acc. Amort.	-	36,644	-	-	3	-	**36,648**
Reclassifications	-	(96)	-	-	(10)	-	**(106)**
Gross value	-	(1,643)	-	-	(71)	-	**(1,713)**
Acc. Amort.	-	1,546	-	-	61	-	**1,607**
Impairment losses	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-
Acc. Amort.	-	-	-	-	-	-	-
Fixed assets classified as assets held for sale	-	(7,618)	(3)	-	-	-	**(7,621)**
Gross value	-	(14,498)	(3)	-	-	-	**(14,500)**
Acc. Amort.	-	6,880	-	-	-	-	**6,880**
Depreciation	(6,524)	(132,305)	-	-	(8,445)	-	**(147,273)**
Total changes	**10,283**	**2,582,102**	**9,872**	**2,795**	**35,666**	**142,955**	**2,783,672**
Historical cost	89,194	5,143,987	9,869	2,795	94,790	142,956	**5,483,590**
Accumulated amortisation	(78,910)	(2,569,503)	-	-	(59,124)		**(2,707,538)**
Balance at 31.12.2015	**10,283**	**2,574,483**	**9,869**	**2,795**	**35,666**	**142,956**	**2,776,052**
Merger contribution:	-	6,620	-	-	-	-	**6,620**
Gross value	-	10,912	-	-	-	-	**10,912**
Acc. Amort.	-	(4,292)	-	-	-	-	**(4,292)**
Investments	622	209,073	7,628	3,471	8,610	-	**229,404**
Entry into service	-	7,512	(7,512)	(2,553)	2,553	-	-
Gross value	-	7,512	(7,512)	(2,553)	2,553	-	-
Acc. Amort.	-	-	-	-	-	-	-
Disposals	-	(16,942)	(1)	-	-	-	**(16,943)**
Gross value	-	(53,553)	(1)	-	-	-	**(53,554)**
Acc. Amort.	-	36,611	-	-	-	-	**36,611**
Reclassifications	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-
Acc. Amort.	-	-	-	-	-	-	-
Impairment losses	-	(1)	(35)	-	-	-	**(37)**
Gross value	-	(3)	(35)	-	-	-	**(38)**
Acc. Amort.	-	2	-	-	-	-	**2**
Fixed assets classified as assets held for sale	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-
Acc. Amort.	-	-	-	-	-	-	-
Depreciation	(5,467)	(131,808)	-	-	(10,170)	-	**(147,445)**
Total changes	**(4,845)**	**74,455**	**80**	**918**	**993**	**-**	**71,600**
Historical cost	89,816	5,317,929	9,949	3,713	105,953	142,956	**5,670,314**
Accumulated amortisation	(84,377)	(2,668,991)	-	-	(69,294)	0	**(2,822,662)**
Balance at 31.12.2016	**5,438**	**2,648,938**	**9,949**	**3,713**	**36,658**	**142,956**	**2,847,651**

Intangible assets rose due to the 6,620 thousand euro contribution from the merger of GP Gas S.r.l.; besides this increase, the amount at the end of 2016 was the result of 229,404 thousand euro in investments made during the year, 16,943 thousand euro in disposals, and 147,482 thousand euro in amortisation charges and impairment losses.

“Patent and intellectual property rights” included 622 thousand euro in investments and 5, 467 thousand euro in amortisation charges.

The item “Concessions and similar rights” which received the contribution of 6,620 thousand euro from the merger of GP Gas S.r.l., includes the amounts relating to the recognition of rights which the Company claims as concessionaire and operator of the gas distribution service, as well as one-off fees for the acquisition of concessions for natural gas distribution. The figure must be read together with the related item “Fixed assets under construction”. The total of the two items shows a final balance after accumulated amortisation of 2,658,887 thousand euro.

The amortisation of concession charges was calculated using a straight-line method and based on the estimated realisable value at the end of the concession. The Company determined the terms of the concessions using the same criteria adopted in the previous year.

For concessions which have expired at the reporting date and therefore are operating in an extension regime (*prorogatio*), the residual value has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that pursuant to the Italian Ministry of Economic Development’s Decree of 19 January 2011 “Identification of local areas in the natural gas distribution sector” which came into force on 1 April 2011, according to art. 3, paragraph 3 of said 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 Italian 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 Italian Legislative Decree No. 164/2000, “the outgoing operator, pursuant to art. 14, paragraph 7, of Italian 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”.

“Fixed assets under construction and advances”, totalling 3,713 thousand euro, mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company. This line item included also an additional 167 thousand euro in investments to participate in ATEM tenders.

"Other intangible assets" of 36,658 thousand euro includes miscellaneous costs of a multiple year nature such as long-term costs incurred for the implementation of the remote metering system for smart meters.

"Goodwill" is equal to 142,956 thousand euro and it is related to the deficit from the merger of companies which had previously been subsidiaries. This item was recognised in agreement with the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the discounted cash flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use.
For the purposes of this estimate, the whole Group is considered as a Cash Generating Unit, consistently with the corporate vision.
In detail, cash flows are considered for an explicit period of 5 years, consistent with the 2i Rete Gas Group plan described by the Board of Directors on 9 January 2017 and drafted on the assumption of an ongoing concern, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the two main assumptions are:

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

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

Tax Rate	WACC (1)	Explicit cash flow period	"TV (g) growth rate "
28,6% (2)	3.6%	2017 - 2021	0%

(1) WACC is the weighted average cost of capital
(2) IRAP + IRES rate

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

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

In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital) there would have to be damaging changes to the plan such as to reduce the net cash flows by around 37%, a percentage which is much higher than the reductions considered possible by the Company.

13. Net deferred tax assets – 67,527 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates that have been enacted at the reporting date. Deferred tax assets totalled 170,804 thousand euro, while deferred tax liabilities totalled 103,276 thousand euro.

Deferred tax assets and liabilities at 31 December 2016 were determined using the tax rates that have been enacted: 24% for IRES and 4.57% for IRAP.

As for deferred tax liabilities, the 5,500 thousand euro increase included 4,189 thousand euro arising from the recognition in OCI of the tax impact of the fair value measurement of the derivative; the 4,981 thousand euro decline derived from the usual changes occurred during the year as well as the remaining adjustment caused by the 2016 Stability Law.

The change in deferred taxes assets for the year refers to increases for 17,630 thousand euro and decreases for 18,032 thousand euro due both to the change in the year and to the adjustment due to the 2016 Stability Law.

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

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 31.12.2015	Balance after adjustments to Unico	Merger contribution	At 01.01.2016	Increases recognised in		Decreases recognised in		Other changes			Balance at 31.12.2016
					Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity	Classified under available-for-sale assets	
Deferred income tax assets:												
allocation to provisions for risks and charges, deferred deductibility	17,293	(18)	2	17,277	3,579	-	(1,947)	-	(688)	-	-	**18,220**
allocation to provisions for exit and stock option	473	-	-	473	992	-	(473)	-	(1)	-	-	**991**
allocation to provisions for disputes	3,938	-	-	3,938	2,277	-	(1,539)	-	(12)	-	-	**4,665**
allocation to provisions for inventory obsolescence	3,230	-	0	3,230	108	-	(28)	-	(8)	-	-	**3,302**
impairment losses on deferred deductibility assets (receivables wi	2,547	-	1	2,548	163	-	-	-	(118)	-	-	**2,594**
impairment losses on deferred deductibility assets (plant write-dov	1,901	-	-	1,901	-	-	-	-	(1)	-	-	**1,900**
depreciation and amortisation of tangible and intangible assets, deferred deductibility	75,894	(3)	-	75,891	8,885	-	(3,967)	-	(417)	-	-	**80,392**
separation of land/buildings and component analysis	95	-	19	114	-	-	-	-	(0)	-	-	**114**
plant costs	2,232	-	-	2,232	-	-	-	-	(7)	-	-	**2,225**
termination and other employee benefits	2,324	-	-	2,324	1,143	-	(631)	-	(45)	-	-	**2,791**
cash deductible taxes and duties	12	-	-	12	-	-	-	-	(0)	-	-	**12**
proceeds subject to deferred taxation (connection fees)	33,469	-	38	33,506	-	-	(1,076)	-	(133)	-	-	**32,297**
deferred deductibility charges	24,961	(136)	-	24,826	14	-	(6,686)	-	(254)	-	-	**17,899**
goodwill	1,136	-	-	1,136	-	-	-	-	(1)	-	-	**1,135**
termination benefits - Italian Accounting Body (OCI)	1,799	-	-	1,799	-	469	-	-	-	(1)	-	**2,267**
Total	**171,302**	**(156)**	**60**	**171,206**	**17,161**	**469**	**(16,347)**	**-**	**(1,684)**	**(1)**	**-**	**170,804**
Deferred income tax liabilities:												
differences on tangible and intangible assets – additional depreciation and amortisation	26,785	-	-	26,785	329	-	(845)	-	(88)	-	-	**26,181**
differences on intangible assets – goodwill	5,853	-	-	5,853	-	-	(174)	-	(24)	-	-	**5,655**
separation of land/buildings and component analysis	3,829	-	-	3,829	-	-	-	-	(2)	-	-	**3,827**
allocation to assets of costs relating to company mergers	44,664	-	-	44,664	-	-	(2,254)	-	(295)	-	-	**42,115**
non-accounting deductions relating to impairment of equity investments, receivables and licenses	-	-	-	-	-	-	-	-	-	-	-	**-**
Termination benefits	887	-	-	887	-	-	-	-	-	-	-	**887**
proceeds subject to deferred taxation	983	21	-	1,004	887	-	(616)	-	(17)	-	-	**1,257**
others...	1,800	-	-	1,800	39	-	(219)	-	(54)	-	-	**1,566**
Derivative financial instruments and ASEM - Italian Accounting Body (OCI)	1	0	-	1	-	4,189	-	-	-	(0)	-	**4,190**
recording of deferred taxes due to merger	16,945	-	989	17,934	55	-	(347)	-	(45)	-	-	**17,597**
5% dividends received allocated to future years on an accruals basis	2	(2)	-	0	1	-	-	-	(0)	-	-	**1**
Total	**101,749**	**19**	**989**	**102,757**	**1,311**	**4,189**	**(4,455)**	**-**	**(526)**	**(0)**	**-**	**103,276**
Net deferred tax assets	**69,553**	**(175)**	**(929)**	**68,448**	**15,850**	**(3,720)**	**(11,892)**	**-**	**(1,157)**	**(1)**	**-**	**67,527**

14. Equity investments – 18,271 thousand euro

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

The investment in GP Gas was written off following the merger, while the one in 2i Rete Gas S.r.l. rose as a result of the transfer of the assets related to the concession in Cinisello Balsamo to the subsidiary.

The list of equity investments and the change in their value during 2016 are reported on the following page.

Equity investments

Thousands of euro	Carrying amount	% ownership	Merger contribution	Increases for the year	Disposals	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
			Changes in 2016					at 31.12.2016			
A) Subsidiaries											
GP Gas S.r.l.	5,799	100%				(5,799)		5,799	(5,799)	-	100%
Italcogim Trasporto S.r.l.	2,908	100%						2,908	-	2,908	100%
Genia Distribuzione gas Srl	5,129	100%						5,129	-	5,129	100%
2i Rete Gas SRL	10	100%		6,896				10	6,896	6,906	100%
Total subsidiaries	13,845		-	6,896	-	(5,799)	-	13,845	1,097	14,942	
B) Associates											
Melegnano Energie Ambiente SpA	2,451	40.00%						2,451	-	2,451	40.00%
CBL Distribuzione Srl	360	40.00%						360	-	360	40.00%
Total associates	2,812		-	-	-	-	-	2,812	-	2,812	
C) Other companies											
Interporto di Rovigo S.p.A.	42	0.30%						42	-	42	0.30%
Fingranda S.p.A.	26	0.58%						26	-	26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.27%						33	-	33	0.27%
Industria e Università S.r.l.	11	0.09%						11	-	11	0.09%
Azienda Energetica Valtellina Valchiavenna S.p.A.	405	3.37%						405	-	405	3.37%
Terme di Offida Spa	1	0.19%						1	-	1	0.19%
Asogas S.p.A. (in liquidazione)	-	9.00%						0	-	-	9.00%
Alpifiere S.r.l. in fallimento		3.00%									3.00%
Total other companies	517		-	-	-	-	-	517	-	517	
TOTAL EQUITY INVESTMENTS	17,174		-	6,896	-	(5,799)	-	17,174	1,097	18,271	

The following tables show the list of equity investments in subsidiaries and values as recorded in the Company financial statements at 31 December 2016:

A) Subsidiaries	Registered office	Share Capital (euro)	Equity (euro)	Profit/(Loss)	End of the reporting period	% ownership	Carrying amount	Equity (ITA GAAP) (euro)
Italcogim Trasporto S.r.l.	Milan	10,000	3,106,184	174,242	31/12/2016	100.00%	2,907,551	3,106,184
Genia Distribuzione gas Srl	San Giuliano Milanese (MI)	5,316,484	5,830,546	423,010	31/12/2016	100.00%	5,128,716	5,830,546
2i Rete Gas SRL	Milan	50,000	6,902,144	3,310	31/12/2016	100.00%	6,906,000	6,902,144

As regards associates, on the other hand, the values at 31 December 2016 were as follows:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Profit/(Loss)	Income/loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	6,476,039	5,666,311	310,682	31.12.2015	40.00%	2,451,467
CBL Distribuzione Srl	Mede (PV)	170,000	919,536	3,170,370	42,162	31.12.2015	40.00%	360,075

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

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Profit/(Loss)	Income/loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	8,575,489	5,855,404	1,310,814	(508,589)	31.12.2015	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,852,874	39,504	(219,260)	31.12.2015	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,806,073	947,771	81,438	31.12.2015	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,247,629	-	(32,046)	31.12.2015	0.09%	10,989
Azienda Energetica Valtellina Valchiavenna S.p.A.	Tirano (SO)	1,803,562	19,904,336	4,528,089	980,870	30.06.2016	3.37%	405,000
Terme di Offida Spa	Offida (AP)	141,384	132,720	-	(8,711)	31.12.2015	0.19%	548
Asogas S.p.A. (in liquidazione)	Amandola (FM)	104,000	2,182	159,506	155,153	31.12.2015	9.00%	-
Alpifiere S.r.l. in fallimento	Morbegno (SO)	10,330				31.12.1998	3.00%	

15. Non-current financial assets – 18,756 thousand euro

This line item essentially represents the value of the five "forward starting swap" derivatives hedging interest rate risk, which totalled 500 million euro, outstanding at 4 August 2016. At 31 December 2016, they were measured at 17,393 thousand euro. This line item included the prepayment of the transaction costs incurred to obtain credit lines that were unused at 31 December 2016, which declined during the year as part of the existing line was replaced with another facility on more favourable terms.

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Non-current prepaid financial expenses	690	4,532	(3,843)
Long-term loans to employees	59	67	(8)
Financial receivables due from others	614	614	-
Fair value measurement of IRS derivatives	17,393	-	17,393
Total	**18,756**	**5,213**	**13,542**

16. Other non-current assets – 44,968 thousand euro

The item includes the following entries:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
guarantee deposits	3,492	3,522	(30)
receivables for plant contributions	560	678	(118)
tax receivables reimbursements applied for	1,830	2,079	(249)
prepaid promotional expenses	197	232	(34)
receivables due from municipalities for disposals of asset due to expiration of concessions	10,283	16,116	(5,833)
receivables due from CSEA	15,956	4,415	11,541
other non-current assets	12,798	5,149	7,649
bad debt provision	(147)	(147)	-
Total	**44,968**	**32,043**	**12,926**

Guarantee deposits totalled 3,492 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The 560 thousand euro contribution receivables refer to recognition of the medium/long-term portion of receivables for plant contributions.

“Tax receivables reimbursements applied for”, totalling 1,830 thousand euro, refer to the refund claimed pursuant to article 6 of Italian Law Decree 185/2008 (Deduction of IRES from the IRAP portion for labour costs and interest expense).

The receivable due from municipalities for the disposal of assets due to the ending of concessions had a balance of 10,283 thousand euro. This was the result of ongoing disputes or similar proceedings with various municipalities to define the amount of the refund owed to the Company as outgoing operator for some concessions already handed over. In the last year, the Company placed special emphasis on this issue, unlocking a significant amount by reaching out-of-court settlements that satisfied both parties.

The balance of non-current receivables due from the Fund for Energy and Environmental Services (CSEA), totalling 15,956 thousand euro, referred to the amount that AEEGSI decided must be paid to distribution companies for all the conventional meters that must be replaced with smart ones pursuant to Resolution No. 155/09, but that had not yet been fully amortised through tariffs at the date of their replacement. The significant increase was the result of the replacements made during 2016, which are expected to continue in the following year.

Finally, the 7,649 thousand euro increase in other non-current assets included the balance of the advance payments of the fees that distribution companies must pay to contracting authorities for ATEM tenders (6,748 thousand euro at 31 December 2016), as well as the remaining amount of the prepaid expenses for the lease payment paid in advance to the company API, which owns the networks operated in the municipality of Rozzano (4,000 thousand euro).

Current assets

17. Inventories – 20,193 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 and in particular of the new smart meters.
The item includes the provision for the write-down of inventories equal to 603 thousand euro. The provision was set up to take into account inventories with unlikely future use.
The Company uses the weighted average cost method.

18. Trade receivables – 233,174 thousand euro

Trade receivables amounted to 233,174 thousand euro.
This item is broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Third-party customers:			
Receivables due from customers	245,068	251,505	(6,437)
- Bad debt provision	(13,593)	(13,589)	(4)
Total	**231,475**	**237,916**	**(6,441)**
Group companies:			
Receivables due from subsidiaries	1,699	319	1,380
Total	**1,699**	**319**	**1,380**
TOTAL	**233,174**	**238,236**	**(5,061)**

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

Receivables due from third-party customers are recognised net of a 13,593 thousand euro bad debt provision.
Changes in the bad debt provision are set out below.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
At 31 December 2015	**13,589**	**-**	**13,589**
Merger contributions	17	16,317	(16,300)
Allocations	1,709	3,071	(1,362)
Releases	(523)	(1,602)	1,079
Uses	(1,199)	(4,198)	2,998
At 31 December 2016	**13,593**	**13,589**	**4**

The bad debt provision at 31 December 2016 was set at 10,141 thousand euro.

The breakdown of receivables due from subsidiaries is as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Receivables due from subsidiaries:			
2I Rete Gas S.r.l.	1,264	1	1,263
Italcogim Trasporto S.r.l.	3	26	(23)
GP Gas S.r.l.	-	30	(30)
Genia Distribuzione gas S.r.l.	432	262	170
TOTAL	**1,699**	**319**	**1,380**

All the Company's operations are in Italy.

19. Short-term financial receivables – 1,717 thousand euro

Short-term financial receivables, totalling 1,717 thousand euro, consisted of 800 thousand euro in financial receivables due from the subsidiary Genia Distribuzione S.p.A. for an intercompany current account, 100 thousand euro for dividends to be received from the associate Mea S.p.A., and 809 thousand euro in cash held with Gestore dei Mercati Energetici.

20. Other current financial assets – 14 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2016.

21. Cash and cash equivalents – 181,883 thousand euro

Cash and cash equivalents increased by 23,942 thousand euro.

Cash and cash equivalents are broken down as follows:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Bank deposits	181,475	157,493	23,982
Post office deposits	266	300	(34)
Cash in hand	142	149	(6)
Total	**181,883**	**157,941**	**23,942**

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

22. Income tax receivables – 8,569 thousand euro

Income tax receivables due from Italian tax authorities largely included 8,529 thousand euro in receivables for IRES (of which 374 thousand euro deriving from subsidiaries as part of the tax consolidation contract) and 40 thousand euro in receivables IRAP.

23. Other current assets – 178,742 thousand euro

The item is broken down as follows:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Other tax receivables:			
VAT receivables reimbursements applied for	879	879	-
Other tax receivables	117	412	(296)
Other receivables:			
from pension and insurance agencies	330	2,909	(2,580)
for plant contributions	1,529	1,729	(200)
from CSEA	166,301	129,134	37,168
from municipalities for disposals of asset due to expiration of concessions	2,662	5,333	(2,672)
from municipalities	246	246	-
from suppliers	1,547	1,352	195
Sundry receivables	4,150	3,229	921
- Bad debt provision	(1,152)	(1,152)	-
Accrued income	1	1	-
Deferred expenses relating to other multi-year charges	51	46	4
Deferred expenses relating to real estate lease fees	713	190	523
Deferred insurance premiums	78	101	(23)
Other deferred expenses	1,285	941	344
Other current receivables - Group			
Other current receivables - Group	6	6	-
Total	**178,742**	**145,356**	**33,385**

This line item was up 33,385 thousand euro mainly because of the increase in receivables due from the Fund for Energy and Environmental Services (CSEA); these receivables concern both the amount to be paid for energy efficiency certificates (which doubled year-on-year from 32,172 thousand euro to 65,995 thousand euro), and the receivables for the equalisation of the gas distribution service and for the UG2 and UG3 components.
The receivable due from pension agencies was used during the year, while the one due from municipalities declined in 2016 largely as a result of the settlement of the dispute with the municipality of Fontanella and the end of the concession of the plant in Colleferro.

Assets held for sale – 0 thousand euro

The Company had no assets held for sale during the year, while in 2015 this line item included the assets of the business unit represented by the concession in Cinisello Balsamo that the Company transferred in 2016 to the subsidiary 2i Rete Gas S.r.l.

Liabilities

Equity

24. Equity – 719,649 thousand euro

Equity rose by 56,843 thousand euro as a result of the following changes:

- decrease in the ordinary dividend pay-out of 0.2337 euro per share, for an overall amount of 85,032 thousand euro;
- increase in other reserves for 779 thousand euro after the merger with GP Gas S.r.l.;
- increase in other reserves for the net income for the year taken directly to equity for 12,083 thousand euro, mainly following the fair value measurement of outstanding derivatives;
- increase in the result for the year for 129,013 thousand euro;

Share capital – 3,639 thousand euro

The share capital at 31 December 2016 consisted of 363,851,660 ordinary shares and was entirely subscribed and paid up; there were no changes during the year.

Share premium reserve – 286,546 thousand euro

The share premium reserve did not change in the year.

Legal reserve – 728 thousand euro

The legal reserve amounted to 728 thousand euro and was unchanged, as last year it reached the legal limit.

Reserves for valuation of derivatives – 13,219 thousand euro

The Company created the reserve for the valuation of derivatives in 2016 after entering into Forward Starting Interest Rate Swap contracts. Between August and December 2016, the reserve turned positive to the tune of 13,219 thousand euro.

Other reserves – 206,709 thousand euro

Other reserves, amounting to 206,709 thousand euro, were down 357 thousand euro year-on-year, largely because the Company recognised a change in the Fondo Gas, offset by the reclassification for the merger of GP Gas S.r.l., in equity.

Retained earnings – 79,795 thousand euro

Retained earnings rose 1,881 thousand euro from the previous year as the general meeting resolved to distribute part of the income for 2015 and allocate the rest to this reserve.

Net income for the year – 129,013 thousand euro

Net income for the year rose by 42,100 thousand euro compared to the net income for 2015 (86,914 thousand euro).

The table relating to the availability and possibility of distributing equity is shown below:

	Amount	Possibility of use	Amount available	Amount unavailable
Share Capital	3,638,517			3,638,517
Share premium reserve	286,546,491	A,B,C	286,546,491	
Legal reserve	727,703	B	0	727,703
Other reserves	195,596,638	A,B,C	195,596,638	
Reserves other than merger surplus	102,762,190	A,B	102,762,190	
Reserves other than FTA	(86,021,234)		(86,021,234)	
Reserve for valuation of employee severance inde	(5,628,170)		(5,628,170)	
Other reserves from derivative measurement	13,218,973		13,218,973	
Retained earnings (accumulated losses)	79,794,687	A,B,C	79,794,687	
Net income for the year	129,013,192	A,B,C	129,013,192	
Total	**719,648,986**		**715,282,767**	**4,366,220**

Legend:
A: Available for capital increase
B: Available to cover losses
C: Available for dividend to shareholders

Non-current liabilities

25. Long-term loans – 2,148,424 thousand euro

The item refers to the three instalments of the long-term debenture loan the Company issued in 2014 as well as 270 million euro in two floating-rate lines of credit received from the European Investment Bank in 2015 and 2016.

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

Thousands of euro

	Balance		Notional Value		Interest rate	Effective
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	in force	interest rate
Fixed rate debt	70,000		70,000		1.392%	1.392%
Floating rate debt	200,000	200,000	200,000	200,000	Eur3+0,59%	0.41%
Debenture loan expiring 2019	750,000	750,000	750,000	750,000	1.75%	1.89%
Debenture loan expiring 2020	540,000	540,000	540,000	540,000	1.13%	1.35%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Costs connected to loans (long term)	(11,576)	(14,429)				
TOTAL	**2,148,424**	**2,075,571**	**2,160,000**	**2,090,000**		

The maturity schedule for these loans is set out below.

Thousands of euro

	Notional		1 year	2 - 5 years	beyond 5 years
	31.12.2016	31.12.2015			
Medium / long-term financial liabilities					
Financing - Capex Line	270,000	200,000	-	36,364	233,636
Medium/long-term debenture loans	1,890,000	1,890,000	-	1,290,000	600,000
Total	2,160,000	2,090,000	-	1,326,364	833,636

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

Besides this loan, the Company still has a bank line of credit with a syndicate of 5 leading lenders. Therefore, the Company still has a 245 million euro line of credit for its cash needs that was unused at the reporting date.
In addition, in December 2016 the Company finalised a 225 million euro loan with the European Investment Bank at particularly favourable rates, significantly curbing the Company funding cost structure. At 31 December 2016, the Company had drawn down 70 million euro from this credit line.
Then, in January 2017, it drew down the remaining 155 million euro.
Both the EIB loans are subject to some conditions calculated on the basis of the consolidated financial statements that the Company must meet to continue using the credit lines.
The covenants concern the following indicators:
Total net financial debt, RAB (Regulatory Asset Base), EBITDA, and Net Financial Expenses.
At 31 December 2016, the Company met all covenants under this facility.

26. Termination and other employee benefits – 48,046 thousand euro

The Company provides employees with various types of benefits, including termination benefits, health benefits, compensation due instead of notice of dismissal (known as ISP, *Indennità Sostitutive del Preavviso*) and compensation due instead of energy discount (*Indennità Sostitutive Sconto Energia*).

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

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

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Termination benefits	34,892	34,997	(105)
ASEM health service	1,820	1,831	(11)
Fondo GAS	11,334	10,310	1,024
TOTAL	**48,046**	**47,137**	**908**

An analysis of the main items is provided below.

Termination benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive termination benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.
Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of termination benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

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

Fondo Gas

The Italian Law Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the suppression of the so-called “Fondo Gas” as from 1 December 2015. Such decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to the Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the contribution to the Fondo Gas for 2014, for each full year or any part thereof that the person has been a member of the Fondo Gas. Said amount can be set aside with the employer or paid as a contribution into the supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid into the Fondo Gas shall be paid in a lump sum at the time of the final wage payment.
The Company set aside an additional amount during the year after revising the estimate based on the more accurate data available on the average seniority for the purposes of the Fondo Gas for current employees.

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

	31.12.2016	31.12.2015
Financial scenarios		
Discount rate	1.50%	2.00%
Rate of wage increase	1.50%	1.90%
Rate of increase in cost of health spending	2.50%	2.90%
Demographic scenarios		
Probability of death/invalidity	ISTAT Table 2014	ISTAT Table 2014
Resignation rate < 50 years of age	2.00%	2.00%
Resignation rate > 50 years of age	Nil	Nil

27. Provisions for risks and charges – 13,506 thousand euro

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

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

Thousands of euro	al 31.12.2015	Of which current portion	Of which non-current portion	Merger contribution	Allocations	Releases	Uses	Other changes	al 31.12.2016	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	7,517	-	7,517	-	7,966	(4,119)	(1,079)	-	10,286	-	10,286
Provision for taxes and duties	1,289	-	1,289	-	35	(292)	(108)	-	925	-	925
Provisions for disputes with personnel	100	-	100	-	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	-	75	-	75
Provision for disputes on concessions	18,511	18,511	-	-	3,815	(3,117)	(130)	-	19,078	19,078	-
Other provisions for risks and charges	44,677	43,063	1,614	7	8,707	(1,504)	(1,356)	-	50,531	48,411	2,120
Total	**72,168**	**61,574**	**10,595**	**7**	**20,523**	**(9,031)**	**(2,672)**	**-**	**80,994**	**67,488**	**13,506**
Provisions for charges pertaining to incent	1,473	1,473	-	-	3,470	-	(1,473)	-	3,470	3,470	-
Total	**73,642**	**63,047**	**10,595**	**7**	**23,993**	**(9,031)**	**(4,146)**	**-**	**84,464**	**70,958**	**13,506**

Provisions for risks and charges amounted to 84,464 thousand euro. They consisted of a 70,958 thousand euro short-term portion and a 13,506 thousand euro long-term portion, and were broken down as follows:

- "Provision for litigation and disputes" covers 10,286 thousand euro in contingent liabilities arising largely from ongoing disputes; the change during the year was the result of, among other things, the estimate of the obligation associated with a dispute over the construction of a purification plant in Syria, completed in the 2000s by a company that was then merged into the Group, as well as the estimate of the amount the Company may have to pay because of an outstanding dispute over the purchase value of Genia Distribuzione;

- “Provision for taxes and duties”, amounting to 925 thousand euro, referred mainly to disputes about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;
- “Provisions for disputes with personnel”, amounting to 100 thousand euro, to cover expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in these financial statements;
- “Provision for disputes on concessions”, totalling 19,078 thousand euro in 2016, generally included the costs associated with various disputes with municipalities. This line item rose by a net 567 thousand euro following the requests made by municipalities to revise the agreed concession fees; during the year the Company used 130 thousand euro;
- “Other provisions for risks and charges”, amounting to 50,531 thousand euro, cover the costs that could potentially arise from the operation of the network and the regular maintenance of the plants as required by the relevant resolutions, as well as the risk of a revision of some tariffs related to concessions owned by third parties; as for this risk, the Company has appealed against AEEGSI's decision to revise said tariffs for a number of concessions;
- “Provision for charges pertaining to incentives to leave”, totalling 3,470 thousand euro, addresses possible liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started in 2016 and still under way.

The fiscal position of the Company has been defined up to 2011.

28. Non-current financial liabilities – 0 thousand euro

At 31 December 2016, as in the previous year, the Company did not have any non-current financial liabilities.

29. Other non-current liabilities – 302,119 thousand euro

The item includes the following entries:

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Deferred income			
payables to pension and insurance agencies	1,984	1,984	-
other payables	361	361	-
Deferred income for plant contributions	47,677	50,466	(2,790)
Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions	252,098	242,218	9,879
Total other non-current liabilities	**302,119**	**295,030**	**7,090**

The increase of around 7,090 thousand euro is mostly attributable to contributions received during the year, net of the portion recognised in profit or loss to hedge operating costs incurred.

Current liabilities

30. Short-term loans – 4,194 thousand euro

The amounts included in this item refer solely to the payables for the intercompany current account.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
intercompany financial payables	4,194	8	4,186
Total	**4,194**	**8**	**4,186**

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

At 31 December 2016 there was no current portion of medium/long-term bank loans, as in the previous year.

32. Current portion of long-term provisions and short-term provisions – 70,958 thousand euro

The line item represents the current portion of the company's provisions for risks. Comments and details on this item are provided in the section on provisions for risks and charges (note 27).

33. Trade payables – 162,165 thousand euro

This item includes all trade and operating liabilities of certain amount and timing.
If compared with the same item at 31 December 2015, this item fell by 5,834 thousand euro.

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

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Suppliers	161,923	167,977	(6,055)
Total	**161,923**	**167,977**	**(6,055)**
Payables due to subsidiaries	242	22	220
Total	**242**	**22**	**220**
Total	**162,165**	**167,999**	**(5,834)**

Payables due to third-party suppliers fell, compared to the previous year, by 6,055 thousand euro. The balance at 31 December 2016 mainly consists of residual amount payable to companies to which gas distribution plant construction and maintenance is outsourced, to suppliers of materials and for the purchase of electricity and gas service for internal use.
As regards dealings with subsidiaries, the relevant payables are shown below:

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Subsidiaries:			
Italcogim Trasporto S.r.l	-	3	(3)
Genia Distribuzione S.r.l.	242	19	223
TOTAL	**242**	**22**	**220**

34. Income tax payables – 13,889 thousand euro

At 31 December 2016 the Company had a debit balance for IRES tax of 13,393 thousand euro and for IRAP tax of 496 thousand euro due to the trend in the payments made on account.

35. Current financial liabilities – 21,099 thousand euro

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

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Accrued liabilities for interest on short-term bank loans	20,572	20,904	(332)
Other current financial payables	527	490	38
Total	**21,099**	**21,394**	**(295)**

36. Other current liabilities – 155,165 thousand euro

Other current liabilities fell in the year by 14,081 thousand euro, mainly due to the decrease in “Other tax payables” and “Other payables”, an item which also includes the payable due to the Fund for Energy and Environmental Services (CSEA) for the items relating to various tariff components.

Other current liabilities are set out below.

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
other tax payables	12,492	13,517	(1,026)
payables to welfare and pension agencies	10,224	11,021	(797)
other payables	117,141	130,530	(13,389)
accrued liabilities	4,046	3,882	163
deferred income	11,263	10,295	968
Total	**155,165**	**169,246**	**(14,081)**

Other tax payables, amounting to 12,492 thousand euro, are set out below.

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
VAT payables	8,866	9,999	(1,134)
Employee withholding taxes	3,474	3,348	126
Withholding taxes	103	120	(18)
Other taxes	50	50	-
Total	**12,492**	**13,517**	**(1,026)**

Payables to welfare and pension agencies, amounting to 10,224 thousand euro, are set out below.

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
due to INPS	9,425	9,143	283
due to other agencies	799	1,879	(1,080)
Total	**10,224**	**11,021**	**(797)**

Other payables, amounting to 117,141 thousand euro, are set out below.

Thousands of euro	31.12.2016	31.12.2015	2016 - 2015
Payables to employees	14,173	13,615	558
Payables to municipalities for rights and fees	4,022	4,181	(160)
Payables for connections and other payables due to customers	2,056	2,275	(219)
User guarantee deposits and advances	2,289	1,921	369
Payables to CSEA	88,354	94,882	(6,529)
Other payables	6,246	13,656	(7,409)
Total	**117,141**	**130,530**	**(13,389)**

Payables to the Fund for Energy and Environmental Services (CSEA) consist for 77,011 thousand euro of payables for the entries that are transferred through the invoicing mechanism to the trading companies and then paid to the Fund for Energy and Environmental Services (CSEA) generally on a two-monthly basis (UG1, UG2, UG3, Re and Rs) and for 11,343 thousand euro of payables relating to the amount of equalisation for previous years which the Company did not consider as finalised at the end of the reporting period.

Accruals and deferred income, amounting to 15,308 thousand euro, are set out below.

Thousands of euro

	31.12.2016	31.12.2015	2016 - 2015
Accrued liabilities			
Additional monthly accrual for employees	3,095	3,034	61
Other accruals	951	849	102
Total accruals	**4,046**	**3,882**	**163**
Deferred income			
Deferred income for plant contributions	2,953	2,257	696
Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions	8,089	7,552	537
Other deferred income	220	485	(265)
Total deferred income	**11,263**	**10,295**	**968**
Total accruals and deferred income	**15,308**	**14,177**	**1,131**

37. Liabilities held for sale – 0 thousand euro

There were no liabilities held for sale at 31 December 2016. Last year, this line item included the liabilities of the business unit referred to the concession in Cinisello Balsamo that the Company transferred to the subsidiary 2i Rete Gas S.r.l. in 2016.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

The following were defined as related parties for 2016:

- Genia Distribuzione Gas S.r.l.
- Italcogim Trasporto S.r.l.
- 2i Rete Gas S.r.l.
- F2i SGR S.p.A. – as the operating company of “F2i – Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors” *(“F2i – Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato ad investitori qualificati”)*
- F2i SGR S.p.A. – as the operating company of “F2i – Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" *(“F2i – Secondo Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato a investitori qualificati")*
- Finavias S. à r.l
- Axa Infrastructure Holding S. à r.l.
- Melegnano Energia Ambiente S.p.A. (MEA S.p.A.)
- CBL Distribuzione S.r.l.
- Software Design S.p.A.

The definition of related parties also includes executives with strategic responsibilities, including their close relatives, of the Company as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the Company exercises considerable influence. Executives with strategic responsibilities are those who have direct and indirect power and responsibility for planning, management, and control of Company operations, including the chief executive officer and the managers reporting to him, as well as Directors.

The Group has a centralised cash management system equipped with intercompany current accounts as well as a tax consolidation contract which generates financial movements.
All the commercial balances are for transactions at market values.

Trade, financial and other transactions involving the Company, its parent companies and its subsidiaries are shown below.

Trade and other transactions

Year 2016

Thousands of euro	Trade Receivables	Trade Liabilities	Trade Costs	Trade Revenues
Italcogim Trasporto S.r.l.	3	-	-	11
CBL Distribuzione	1,581	450	152	479
MEA S.p.A	55	-	-	-
Genia Distribuzione Gas S.r.l.	438	242	223	1,508
2i Rete GAS S.r.l.	1,264	-	-	2,046
Software Design S.p.A.	-	640	1,046	-
Executives with strategic responsibilities, including directors	-	914	3,028	-
Total	**3,341**	**2,246**	**4,449**	**4,044**

Year 2015

Thousands of euro	Trade Receivables	Trade Liabilities	Trade Costs	Trade Revenues
F2i sgr Spa	-	24	40	-
GP Gas S.r.l.	30	-	-	201
Italcogim Trasporto S.r.l.	26	3	2	85
CBL Distribuzione	1,111	296	-	515
MEA S.p.A	55	-	-	18
Genia Distribuzione Gas S.r.l.	268	19	92	356
2i Rete GAS S.r.l.	1	-	-	1
Executives with strategic responsibilities, including directors	-	45	5,385	-
Total	**1,491**	**386**	**5,519**	**1,176**

Financial transactions

Year 2016

Thousands of euro	Financial Receivables	Financial Liabilities	Financial Costs	Financial Revenues	Dividends paid
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S. à r.l.	-	-	-	-	18,112
Axa Infrastructure Holding S. à r.l.	-	-	-	-	5,640
Italcogim Trasporto S.r.l.	42	2,515	21	-	-
MEA S.p.A	100	-	-	100	-
Genia Distribuzione Gas S.r.l.	932	-	-	7	-
2i Rete GAS S.r.l.	200	1,680	6	0	-
Total	**1,273**	**4,194**	**28**	**107**	**84,981**

Year 2015

Thousands of euro	Financial Receivables	Financial Liabilities	Financial Costs	Financial Revenues	Dividends paid
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	41,548
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	5,271
Finavias S. à r.l.	-	-	-	-	13,849
Axa Infrastructure Holding S. à r.l.	-	-	-	-	4,254
GP Gas S.r.l.	-	8	-	-	-
Italcogim Trasporto S.r.l.	-	11	-	-	-
CBL Distribuzione	-	-	-	20	-
MEA S.p.A	315	-	-	180	-
Genia Distribuzione Gas S.r.l.	795	-	-	2	-
2i Rete GAS S.r.l.	-	8	0	-	-
Total	**1,110**	**28**	**0**	**202**	**64,922**

Key information regarding subsidiaries are shown below:

Equity investments

Italcogim Trasporto S.r.l.

Share capital – 10,000 euro

Registered office: Milan

Equity investment: 100%

On 1 January 2016, Italcogim Trasporto discontinued the regional natural gas transport service through a gas pipeline. After selling its network to the Parent Company, the company now handles the remaining requirements associated with the previous operation.

The financial statements at 31 December 2016 showed income for the year of 174 thousand euro on revenues of 293 thousand euro and equity of 3,106 thousand euro.

Genia Distribuzione Gas S.r.l.

Share capital – 5,316,484 euro

Registered office: San Giuliano Milanese (province of Milan)

Equity investment: 100%

Genia Distribuzione is the concessionaire for the natural gas distribution service in the municipality of San Giuliano Milanese.

The financial statements at 31 December 2016 showed income for the year of 423 thousand euro on revenues of 3,057 thousand euro and equity of 5,831 thousand euro.

2i Rete Gas S.r.l.

Share capital – 50,000 euro

Registered office: Milan

Equity investment: 100%

On 1 January 2016, 2i Rete Gas S.r.l. received the concession in Cinisello Balsamo from the shareholder.

The financial statements at 31 December 2016 showed income for the year of 3 thousand euro on revenues of 6,576 thousand euro and equity of 6,902 thousand euro.

Significant extraordinary events and operations

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

Positions or transactions arising from atypical and/or unusual operations

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

Fees for directors, auditors and executives with strategic responsibilities

In 2016, the fees for directors, auditors and executives with strategic responsibilities, totalling 3,028 thousand euro, included 58 thousand euro in fees for auditors and 364 thousand euro in fees for directors.

Contractual commitments and guarantees

The Group provided 94,510 thousand euro in guarantees to third parties. These guarantees refer to bank guarantees (79,764 thousand euro) and to insurance guarantees (14,745 thousand euro).
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.
Finally, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Credit, liquidity and market risk

Credit risk

2i Rete Gas provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.
In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2016.
The rules for the access of users to the gas distribution service are governed by the Network Code, which, in compliance with the provisions of the Regulatory Authority for Electricity and Gas, regulates the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.
As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.
Outstanding guarantees and security deposits on trade receivables totalled 108,969 thousand euro.

Therefore, the credit risk is mitigated.

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

At 31 December 2016, the Company’s maximum exposure to credit risk amounted to 671.0 million euro:

Millions of euro	31.12.2016	31.12.2015	2016 - 2015
Third parties:			
Non-current financial assets	18.8	5.2	13.5
Other non-current financial assets (gross of bad debt provision)	45.1	32.2	12.9
Trade receivables (gross of bad debt provision)	245.1	251.5	(6.4)
Other current financial assets	0.9	1.0	(0.1)
Cash and cash equivalents	181.9	157.9	23.9
Other receivables (gross of bad debt provision)	176.8	143.9	32.8
Group companies:			
Trade receivables	1.7	0.3	1.4
Other receivables (gross of bad debt provision)	0.0	0.0	-
Short-term financial receivables	0.8	0.7	0.1
Total	**671.0**	**592.8**	**78.2**

Liquidity risk

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

Besides the debenture loans issued during 2014, the Company still has the 245 million euro line of credit that the Company received in 2016 from a syndicate of 5 leading banks, as well as two loans entered into with the European Investment Bank in 2015 and 2016, totalling 425 million euro (of which the Company had drawn down 270 million euro at 31 December 2016), improving the duration and interest rate compared to previous bank loans.

In order to properly disclose liquidity risk as required by IFRS 7, the Company's debt is shown below.

The contractual maturities of the financial liabilities outstanding at 31 December 2016 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2016			
Long-term loans		36.4	233.6
Medium-long term debenture loans		1,290.0	600.0
Short-term loan	4.2		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	21.1		
Current financial liabilities			
Total	**25.3**	**1,326.4**	**833.6**

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2015 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2015			
Long-term loans		18.2	181.8
Medium-long term debenture loans		1,290.0	600.0
Short-term loan	0.0		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	21.4		
Current financial liabilities			
Total	**21.4**	**1,308.2**	**781.8**

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

It should be noted that these loans are subject to regular check on some financial parameters at consolidated level. At 31 December 2016, the Company has met all of the parameters.

The "Medium/long-term debenture loans" for a total of 1,890 million euro refer to the aforementioned three debenture loan instalments issued by 2i Rete Gas and with 5, 6 and 10-year expiries.
The Company's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance with the financial parameters established by the lending banks, currently the Company does not face any problems in obtaining said refinancing.
The Company constantly monitors opportunities to optimise its financial structure.
For an in-depth analysis of long-term loans, see note 25 in these financial statements.

Market risk

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

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

The company does not have derivative contracts held for trading or for speculative purposes.

Conversely, in August 2016 2i Rete Gas entered into 5 new "Forward Starting Interest Rate Swap" hedging contracts ahead of the refinancing to be carried out within the next 3 years to replace part or all of the loan instalments near maturity.
For more details, see the "Interest rate risk" section.

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

Thousands of euro	Notes	Derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
Non-current financial assets	15	17,393			17,393	17,393
Financial assets not measured at fair value						
Non-current financial assets	15		1,362		1,362	1,362
Other non-current assets	16		28,815		28,815	28,815
Trade receivables	18		233,174		233,174	233,174
Short-term financial receivables	19		1,717		1,717	1,717
Other current financial assets	20		14		14	14
Cash and cash equivalents	21		181,883		181,883	181,883
Other current assets	23		176,615		176,615	176,615
TOTAL ASSETS		**17,393**	**623,579**	**-**	**640,973**	**640,973**
Financial liabilities measured at fair value						
IRS Derivatives	35	-			-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			270,000	270,000	270,000
Medium/long term debenture loans	25			1,878,424	1,878,424	2,017,138
Financial liabilities for unwinding IRS	28-35				-	-
Other non-current liabilities	29			361	361	361
Short-term loan	30			4,194	4,194	4,194
Trade payables	33			162,165	162,165	162,165
Current financial liabilities	35			20,572	20,572	20,572
Other current liabilities	36			143,902	143,902	143,902
TOTAL LIABILITIES		**-**	**-**	**2,479,619**	**2,479,619**	**2,618,332**

In order to enable comparison, we propose the same table as the one used in 2015:

Thousands of euro	Notes	Derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
					-	
Financial assets not measured at fair value						
Non-current financial assets	15		5,213		5,213	5,213
Other non-current assets	16		31,811		31,811	31,811
Trade receivables	18		238,236		238,236	238,236
Short-term financial receivables	19		1,025		1,025	1,025
Other current financial assets	20		9		9	9
Cash and cash equivalents	21		157,941		157,941	157,941
Other current assets	23		144,078		144,078	144,078
TOTAL ASSETS		**-**	**578,313**	**-**	**578,313**	**578,313**
Financial liabilities measured at fair value						
IRS Derivatives	35	-			-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			200,000	200,000	200,000
Medium/long term debenture loans	25			1,875,571	1,875,571	1,977,914
Financial liabilities for unwinding IRS	28-35				-	-
Other non-current liabilities	29			361	361	361
Short-term loan	30			8	8	8
Trade payables	33			167,999	167,999	167,999
Current financial liabilities	35			20,904	20,904	20,904
Other current liabilities	36			153,062	153,062	153,062
TOTAL LIABILITIES		**-**	**-**	**2,417,906**	**2,417,906**	**2,520,248**

With regard to the financial assets that are not measured at fair value, and the trade payables and other current liabilities, the book value is considered to be a reasonable approximation of the fair value, as it is set forth in the tables above.
To determine the fair value of the bond loan, the Company has used the market valuations at the end of the reporting period.

Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts, and specifically interest rate swaps.
Concerning the current debt structure, 1,960 million euro out of a reported 2,160 million euro were not exposed to interest rate risk at 31 December 2016.
In August 2016, 2i Rete Gas entered into 5 new “Forward Starting Interest Rate Swap” hedging contracts ahead of the refinancing to be carried out within the next 3 years to replace part or all of the loan instalments near maturity.

To properly disclose interest rate risk as required by IFRS 7, the Company's outstanding contracts are shown below.

Therefore, the Company has 5 forward start Interest Rate Swap derivative contracts outstanding (with start date in 3 years and maturity in 10 years from the start date) with 5 leading banks. These derivative contracts allow the Company to hedge a notional amount of 500 million euro.
The Company has tested the effectiveness of the outstanding derivatives and found that they qualify as hedging instruments.

The following table breaks down the derivatives by maturity.

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	at 31.12.2016	at 31.12.2015			
Cash flow hedge derivatives					
Forward Start Interest Rate Swap	500,000	-	-	-	500,000
Total Interest Rate Derivatives	500,000	-	-	-	500,000

These contracts were entered into with a notional amount lower than the total to be refinanced and a maturity aligned with that of the underlying financial liability. Therefore, the change in the expected cash flows of these contracts is offset by a corresponding change in the estimated cash flows of the underlying position.

The measurement of the change in the fair value of the hedging derivative and that of the hypothetical derivative is determined by the fluctuation in the interest rate curve occurred since the inception of the instrument (Cumulative Based Test). The present value of the expected future cash flows of the outstanding derivatives is calculated based on the relevant interest rate curves received from a leading financial information provider (Telerate).

The outstanding derivatives can be measured using the inputs (interest rates) that are directly observable in the active interest rate market (Level 2 of the fair value hierarchy as per IFRS 13).

Therefore, the fair value of the financial derivatives generally reflects the estimated amount the Group would pay or receive should it terminate the contracts at the reporting date.
The following table shows the notional amount and fair value of the interest rate derivatives at 31 December 2016.

Thousands of euro	Notional		Fair value		Fair value asset		Fair value liability	
	at 31.12.2016	at 31.12.2015	at 31.12.2016	at 31.12.2015	at 31.12.2016	at 31.12.2015	at 31.12.2016	at 31.12.2015
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	-	17,393	-	17,393	-	-	-
Total Interest Rate Derivatives	500,000	-	17,393	-	17,393	-	-	-

Finally, the fair value of the above derivatives, assuming a 0.10% negative or positive shock in the relevant interest rate curves, is shown below.

Thousands of euro	Notional		-0,10%	Fair Value	+0,10%	-0,10%	Fair Value	+0,10%
	at 31.12.2016	at 31.12.2015		at 31.12.2016			at 31.12.2015	
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	-	12,601	17,393	22,102	-	-	-
Total	500,000	-	12,601	17,393	22,102	-	-	-

Significant events after the reporting period

On 9 January 2017, the board of directors decided to launch a “Cash Tender offer” to buy back and then cancel part of the existing debenture loan, replacing it with more favourable facilities allowing for a greater duration.
In January, the Company successfully bought back and cancelled 225 million euro's worth of loan instalments near maturity.
On 18 January 2017, the Company submitted the update to the prospectus for the EMTN Programme (European Medium Term Notes Programme) to the Irish Stock Exchange.
After receiving the approval of the Irish Stock Exchange and the Bank of Ireland, the Company launched an additional offer to purchase the bonds with maturity in 2019 and 2020, including an “any and all” option for those with maturity in 2020, to be replaced at said date with an issue of the same nominal amount.
On 28 February 2017, the Company bought back, cancelled and issued a new debenture loan, for a total of 435 million euro.

Direction and coordination

The company is not subject to direction and coordination, while it provides direction and coordination to the following companies:

- 2i Rete Gas S.r.l.
- Genia Distribuzione Gas S.r.l.
- Italcogim Trasporto S.r.l.

7. Proposed allocation of the financial statements' result

In relation to the above, we propose to:

- approve the Financial Statements of 2i Rete Gas S.p.A. at 31 December 2016, which show a net income of 129,013,191.91 euro and the accompanying Directors' Report;
- distribute, in regard to the net income for the year and taking into account that the Legal Reserve has reached 20% of the share capital, 0.2337 euro for each of the 363,851,660 shares, equal to a total of 85,032,132.94 euro.
- carry forward the residual amount of the net income of 43,981,058.97 euro.

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

VIII Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.
REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE FINANCIAL STATEMENTS CLOSED AS AT 31 DECEMBER 2016 AS PER ARTICLE 2429, CO. 2, C.C.

To the shareholders' meeting of 2i RETE GAS S.p.A .

This report was approved collegially and in time for its filing at the company's registered office, 15 days prior to the date of the General Shareholders Meeting convened to approve these financial statement.
The Board of Directors has thus made available the following documents approved on March 17, 2017 for the year ended December 31, 2016:

- Draft of Financial Statements, with notes;

- Management report.

The approach set out in our report differs from the structure used for previous financial year, as it has been inspired, in addition to legal provisions, to the “Norma n. 7.1” of the "Rules of Conduct of the Board of Statutory Auditors - Principles of Behavior of the Board of Statutory Auditors of Unlisted Companies" issued by the CNDCEC.

GENERAL PRESENTATION SOCIETY KNOWLEDGE, RISK ASSESSMENT AND RELATIONSHIP BETWEEN RELATED AFFAIRS

Bearing in mind the well-established knowledge that the Board of Statutory Auditors claims to have about the company and regarding:

(I) the type of activity carried out;
(II) its organizational and accounting structure;

Taking into account the size and the problems of the company, it must be noted that the "planning" phase of our supervisory activity - in which the intrinsic risks and the critical matters of the two above parameters have to be assessed - has been implemented through the positive feedback on what is already known on the basis of information gained over time.

It has been possible to confirm that:

- the main activity carried out by the company has not changed during the year under review and is consistent with what is provided by the corporate object;

- the organizational set-up and the provision of IT facilities remained largely unchanged;

- the above findings are indirectly confirmed by the comparison of the results of the values expressed in the income statement for the last two financial years, i.e. the one under examination (31.12.2016) and the previous one (31.12.2015). It is also possible to acknowledge that the company operated in 2016 like in the previous year and, as a result, our controls took place on these assumptions, once the substantial comparability of values and results with those of the previous year has been verified.

The activities carried out by the Board relate to the entire reporting period; during the financial year the meetings referred to in art. 2404 c.c. have been regularly held, and appropriate drafts were drawn, duly signed for unanimous approval.

ACTIVITY CARRIED OUT

During the periodic audits, the Board continued to be informed of the evolution of the company activities, paying particular attention to contingent and / or extraordinary issues in order to identify their economic and financial impact on operating results and on the balance sheet structure, as well as any risks such those arising from credit losses, that are monitored on a regular basis.

The audit firm, PWC S.p.A., has not reported any issues during the meetings.

The Board therefore periodically assessed the adequacy of the organizational and functional structure of the company and its possible mutations with respect to the minimum requirements posed by the performance of the company.

Relationships with the people working in the structure – directors and external consultants - have been inspired by mutual collaboration in respect of the assigned roles, being those of the Board of Statutory Auditors clear.

Throughout the year, we found that:

- the administrative staff responsible for recording company events has not materially changed compared to the previous year;

- the level of its technical preparation remains adequate with respect to the ordinary business events to be recorded and has sufficient knowledge of business issues;

- external consultants and outsourcers in accounting, corporate, and law firms have not changed, while the new tax consultants, changed over the course of the year, have received from previous consultants and the company appropriate instructions.

Therefore, they have all been able to gain a historical knowledge of the business activity and of extraordinary management issues that have influenced the results of the Financial Statements.

The information required by art. 2381, co. 5, c.c., were provided by the Chief Executive Officer both during the planned meetings and through contacts / information flows: thus the Board of

Directors has, in substance and form, complied with the requirements imposed by the abovementioned law.

In conclusion, as far as it has been possible to ascertain during the course of the year, the Board of Statutory Auditors can state that:

- the decisions taken by the Board of Directors have been taken in accordance with the law and the articles of association and have not been clearly imprudent or endangering the integrity of the company's assets;

- sufficient information on the overall performance of the management and on its foreseeable evolution as well as on the most significant operations, by size or characteristics, carried out by the company has been obtained;

- the operations carried out have also been in accordance with the law and the articles of association and not in potential conflict with the resolutions adopted by the General Shareholders' meeting or such as to compromise the integrity of the company's assets;

- no specific observations are made as to the appropriateness of the organizational structure of the company, nor on the adequacy of the administrative and accounting system, nor on the reliability of the latter in properly representing the managed events;

- in the course of the supervisory activity, as outlined above, no further significant facts have arisen that require reporting in this report;

- there was no need to intervene on omissions of the administrative body pursuant to art. 2406 c.c .;

- no complaints have been received pursuant to art. 2408 c.c .;

- no complaints were made pursuant to art. 2409, co. 7, c.c ..

COMMENTS AND PROPOSALS FOR FINANCIAL STATEMENTS AND THEIR APPROVAL

The draft Financial Statements for the financial year ended 31 December 2016 were approved by the Board of Directors on March 17, 2017 and consist of the balance sheet, the income statement and the notes to the Financial Statements.

The Board of Directors has also prepared the management report as per art. 2428 c.c .. These documents have been delivered to the Board of Statutory Auditors in good time, so that they were made available at the registered office of the company with this report, irrespective of the deadline provided for in art. 2429, co. 1, c.c ..

The audit of the accounts is entrusted to the PRICEWATERHOUSECOOPERS S.P.A. which has prepared its own report pursuant to art. 14 D.Lgs. January 27, 2010, no. 39, a report that does not highlight any significant deviations, negative judgments or impossibility of expressing a judgment or disclosure, and therefore the issued judgment is positive.

The draft Financial Statements have therefore been examined, and we may provide the following additional information:

- the valuation criteria for assets and liabilities that need to be assessed have been checked and are not substantially different from those adopted in previous years, in accordance with art. 2426 c.c .;

- attention has been paid to the approach given to the drafting of Financial Statements, their general compliance with the law in their setup and structure, and there are no observations in this respect;

- compliance with the law on the preparation of the management report has been verified and there are no observations in this respect;

- in drafting of the Financial Statements, the Board of Directors did not derogate from the statutory provisions of art. 2423, co. 4, c.c .;

- the Financial Statements have been verified with the events and information that have been disclosed to the Board of Statutory Auditors as a result of the carrying out of the duties, and no further observations are made;

- the accuracy of the information contained in the notes to the Financial Statements has been verified as to the absence of active and passive financial and monetary positions originated in currencies other than the Euro;

- information from the Organismo di Vigilanza have been acquired and no issue has emerged to be highlighted in this report with respect to the organizational model;

- the Board of Statutory Auditors has no objection to the proposal of the Board of Directors regarding the allocation of the net result for the year, however noting that this decision pertains to the Shareholders' Meeting.

FISCAL YEAR RESULTS

The net results presented by the Board of Directors for the year ended December 31, 2016, as evident from the reading of the Financial Statements, is positive for Euro 129,013,191.91.

CONCLUSIONS

Based on the foregoing, and on all that has been disclosed of the Board of Statutory Auditors and has been verified by the periodic audits we carried out, it is unanimous that there are no obstacles to the approval of the draft Financial Statements for the year 2016, as it has been drawn up and proposed by the Board of Directors, and of the resulting proposal of allocation of the net results.

Milan, April 4, 2017

The Board of Statutory Auditors

dott. Marco Antonio Dell’Acqua (President)

(Signed on the original)

dott. Marco Giuliani (Member)

(Signed on the original)

prof. Gianluigi Gola (Member)

(Signed on the original)

IX Report of the Independent Auditors

2I RETE GAS SPA

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE 39 OF 27 JANUARY 2010

SEPARATE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE 39 OF 27 JANUARY 2010

To the shareholders of
2i Rete Gas SpA

Report on the financial statements

We have audited the accompanying separate financial statements of 2i Rete Gas SpA, which comprise the statement of financial position as of 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the separate financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The audit procedures selected depend on the auditor professional judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of separate financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the separate financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of 2i Rete Gas SpA as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on compliance with other laws and regulations

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

We have performed the procedures required under auditing standard (SA Italia) 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of 2i Rete Gas SpA, with the separate financial statements of 2i Rete Gas SpA as of and for the year ended 31 December 2016. In our opinion, the report on operations is consistent with the separate financial statements of 2i Rete Gas SpA as of and for the year ended 31 December 2016.

Milan, 4 April 2017

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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