

A background illustration of a complex gas pipeline network. It consists of multiple grey pipes of varying thicknesses that intersect, branch, and curve. Each pipe is equipped with several valves, represented by small grey and brown mechanical components. The network is set against a plain white background.

ANNUAL
FINANCIAL
REPORT
at 31 December 2018

I Contents

I	Contents.....	2
II	Corporate Boards.....	5
III	Directors' Report.....	7
1.	Foreword.....	8
2.	Group structure and highlights.....	10
3.	Significant events during the reporting period.....	13
4.	Results of the 2i Rete Gas Group.....	15
5.	Regulatory and tariff framework.....	23
5.1	Regulation.....	23
5.2	Other significant events and/or aspects.....	30
5.3	Tariff framework.....	31
6.	Concession development and operation.....	35
6.1	Participation in tenders called by individual municipal administrations.....	35
6.2	Activities on "ATEM tenders".....	36
6.3	Concessions awarded.....	37
6.4	Concessions lost.....	37
6.5	Participation in tenders for the acquisition of companies.....	37
6.6	Recovery of sums arising from the transfer of plants.....	37
6.7	Assets held for sale.....	38
7.	Support for gas transport activities.....	39
7.1	Main regulatory changes.....	39
7.2	Relations with Traders and Customer Care.....	39
7.3	Gas Invoicing and Balancing.....	40
7.4	Metering.....	41
7.5	Commercial Development.....	42
8.	Plant construction, environment and safety.....	44
8.1	Gas distribution plants.....	44
8.2	Network and plant design.....	44

8.3	Service continuity and safety.....	45
8.4	Smart meters (Resolution 155/08).....	45
8.5	Regulatory oversight.....	46
8.6	Study of biomethane.....	46
9.	Quality, Safety and Environment.....	47
9.1	Management of the Integrated Quality, Safety and Environment (QSE) System.....	47
9.2	Prevention and Protection Service.....	48
9.3	Workplace injuries.....	49
9.4	Environmental issues.....	49
9.5	Technical and Commercial Quality, communication of commercial data to ARERA.....	50
9.6	Coordination of Safety at Worksites.....	51
10.	Water sector.....	51
11.	Human resources.....	52
11.1	Company organisation.....	52
11.2	Relations with trade unions.....	52
11.3	Selection.....	52
11.4	Training and development.....	53
11.5	Staff administration.....	54
12.	IT systems.....	55
13.	Research and development.....	56
14.	Risk management.....	57
14.1	Operational risks.....	57
14.2	Risks linked to the development of the legal and regulatory context.....	57
14.3	Risks deriving from future changes in natural gas consumption.....	57
14.4	Environmental and safety risks.....	58
15.	Main features of the risk management and internal control systems in relation to financial disclosure.....	59
15.1	Foreword.....	59
15.2	Bodies supporting the B.o.D. which operate with a view to financial disclosure.....	60
15.3	Description of the main features of the risk management and internal control system in relation to financial disclosure.....	63
16.	Outlook.....	69

17.	Key figures of the Parent Company.....	70
17.1	Reclassified Income Statement	70
17.2	Reclassified Statement of Financial Position	71
18.	Reconciliation of Equity and Net Income for the year	72
IV	Consolidated Financial Statements of the 2i Rete Gas Group.....	73
1.	Income Statement.....	74
2.	Statement of Comprehensive Income	75
3.	Statement of Financial Position	76
4.	Statement of Cash Flows.....	78
5.	Statement of Changes in Equity	79
6.	Notes to the Consolidated Financial Statements.....	80
V	Report of the Board of Statutory Auditors	152
VI	Report of the Independent Auditors.....	153
VII	Bilancio di esercizio 2i Rete Gas S.p.A.	154
1.	Income Statement.....	155
2.	Statement of Comprehensive Income	156
3.	Statement of Financial Position	157
4.	Statement of Cash Flows.....	159
5.	Statement of Changes in Equity	160
6.	Notes to the Statutory Financial Statements of 2i Rete Gas S.p.A.	161
7.	Proposed profit allocation for the year.....	213
VIII	Report of the Board of Statutory Auditors	214
IX	Report of the Independent Auditors.....	215

I Corporate Boards

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



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III Directors' Report

1. Foreword

According to the recent economic bulletin issued by the Bank of Italy in January 2019¹ and referring to 2018, the expansion of Italy's economy saw a slow-down since the start of the third quarter due to a fall in domestic demand.

The value of gross domestic product improved by around 1.0% year-on-year, however, the worsening of the economic indicators in the final quarter significantly influenced the annual trend: planned investments, business confidence and industrial output all showed negative signals.

The trend in the growth of the gas distribution network and new connections to it, although showing a slight rise in the number of active customers, is still influenced by the lower level of optimism among construction companies. On the basis of these hypotheses and the most recent economic figures, the main forecast for GDP growth is 0.6 per cent in 2019 and 0.9 and 1.0 per cent in 2020 and 2021.

Although not impacting directly on the Group's Income Statement, the 2018 report of the Italian Ministry of Economic Development on gas balancing shows a decrease in gross domestic gas consumption at the national level. In December 2018, gas consumption was 72,666 million cubic metres, -3.3% compared to 75,148 million cubic metres in the previous year.

As for 2i Rete Gas Group operations, an important acquisition was completed in 2018, which made it possible to further expand the Group's scope of action. For this reason, the numbers presented in the Consolidated Financial Report at 31 December 2018 cannot be immediately compared with the same values for 2017; where possible, the differences due to the change in scope have been duly commented on.

In 2018, the Group has therefore better operating figures compared to the same figures for 2017, with a further recovery in transported volumes and a significant increase in the number of Redelivery Points managed thanks to the acquisitions made; from the economic viewpoint, the Report shows a significant increase in terms of EBITDA.

Financial expenses rose significantly last year, entirely due to the repurchase and reissue of the existing debenture loan (the so-called liability management exercises), which were successfully completed by the Parent Company; they extended the duration of the Group's debt, thus improving the financial structure.

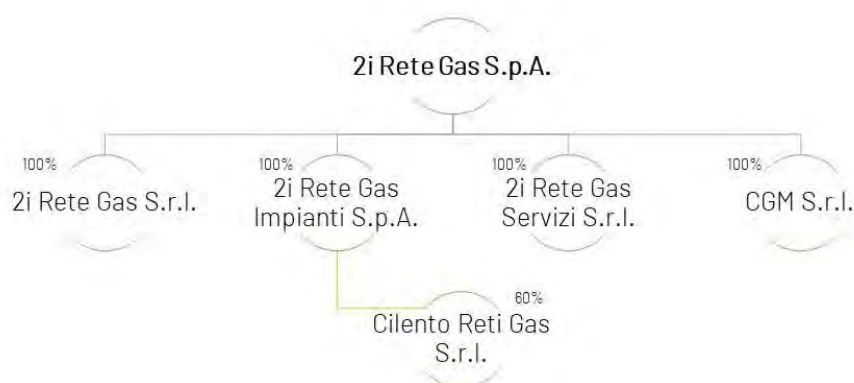
Net income was, therefore, 155.4 million euro, a strong improvement on the previous year also due to the lower impact of financial expenses for the aforementioned liability management exercises.

¹ Bank of Italy - Economic Bulletin No. 1 2019 dated 18 January 2019.

Finally, the increase in the net financial position was exclusively linked to the acquisitions made in the year.

2. Group structure and highlights

The following diagram sets out the Group's equity investments at 31 December 2018:



As for the Group's highlights, the following table shows the key operating, income statement and statement of financial position indicators of the Group:

	31.12.2018	31.12.2017	2018 - 2017
Active concessions:	2,150	1,943	207
Active redelivery points:	4,395,955	3,918,100	477,855
Distributed Gas (Natural gas and LPG) in millions of cubic metres:	6,040	5,743	297
EBITDA in millions of euro:	461.2	408.3	53
Net income in millions of euro:	155.4	121.6	34
Managed networks in kilometers:	66,263	58,589	7,674

	31.12.2018	31.12.2017	2018 - 2017
Net financial position in millions of euro:	2,640.5	2,009.2	631
Net invested capital in millions of euro:	3,440.5	2,769.3	671

In order to better appreciate the development of some fundamental parameters for the Group over time, 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 "Results of the 2i Rete Gas Group":

Trend in EBITDA from 2016 to 2018:



Trend in Net Invested Capital and Net Financial Position from 2016 to 2018:



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:



The slight increase in the ratio between Net Financial Position and Net Invested Capital arose from the acquisition which was fully financed through the bond issue at the end of 2017 at particularly favourable market conditions.

3. Significant events during the reporting period

In 2018, the Group was involved in a series of operations aimed at improving its competitiveness in Italy.

The main operation in the year was the purchase of the whole share capital of Nedgia S.p.A. and Gas Natural Italia S.p.A. from the Naturgy Group.

This agreement, subject to a condition precedent, i.e. the positive opinion of the Italian Competition Authority, was finalised on 1 February 2018.

The Group, therefore, saw the inclusion of 223 concessions, almost 460 thousand customers and a distribution network of around 7,300 km., as well as around 250 staff within its scope.

Following the acquisition, a series of organisational and corporate changes were completed to make the Group's set-up more efficient as quickly as possible, while awaiting the right moment to merge the two main newly acquired companies.

For this reason and in order to deploy all the Group's resources in an integrated way on all the concessions, without distinguishing among the various affiliations, a reverse merger was quickly implemented between the corporate vehicle used for the acquisition and 2i Rete Gas Impianti S.p.A. (formerly Nedgia), immediately followed by a demerger with the simultaneous transfer 2i Rete Gas Impianti S.p.A. (formerly Nedgia) business unit, largely

consisting of the staff of the purchased company, to the Parent Company.

In connection to the same operation, as required by the Italian Competition Authority as part of the acquisition authorisation process, a tender was called in the first half of the year to assign some concessions for Bari 2 and Foggia 1 territorial areas to a third party. In July 2018, the agreement to sell the business was signed with Centria S.r.l., which won the tender for the disposal procedure and the share capital of which is held in full by the multi-utility, Toscana ESTRA.

As per the agreement to sell, the completion of the disposal is envisaged in April 2019.

2018 also saw the acquisition of a further small company, Compagnia Generale Metanodotti S.r.l. which held a single concession, 60 km. of network and around 3,000 users.

At the date of drawing up these consolidated financial statements, the two entities' purchase price allocation process is considered complete; it is possible to find the related disclosure required by IFRS 3 in the notes.

From the financial operations viewpoint, instead, in September 2018, the Parent Company arranged a further

bond issue on the existing EMTN Programme (European Medium-Term Notes Programme).

A further 500 million euro was issued in a 7-year debenture loan to finance the company and guarantee adequate funding for optimal management of the short and medium-term maturities.

As in 2017, also in 2018, as part of the annual rating review by both Standard and Poor's and Moody's, the Company

disclosed the performance of its business and the key metrics for the two ratings agencies to assess its financial strength. On 25 July 2018, both agencies confirmed the rating attributed in previous years (BBB Outlook Stable and Baa2 Outlook Stable, respectively); as already announced last year, following the acquisition of the Naturgy Group companies, Standard and Poor's assessed the so-called "Liquidity profile" as "Adequate".

4. Results of the 2i Rete Gas Group

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, ESMA financial position, adjusted financial position, and accounting net financial debt, which are broken down in the following tables. As the measures used by the Group are not defined in the reference accounting standards, their definitions may not be aligned with those adopted by other companies/groups, and therefore they may not be comparable.

Millions of euro	31.12.2018	31.12.2017	Change
Revenue	985.6	867.3	118.2
Transport and sale of methane gas and LPG	639.4	562.3	77.1
Connection fees and accessory rights	15.0	14.7	0.3
Other sales and services	28.1	23.3	4.8
Revenue from intangible assets / assets under construction	265.9	238.1	27.9
Other revenue	37.2	28.9	8.2
Operating costs	(524.4)	(459.0)	(65.4)
Labour costs	(125.5)	(110.3)	(15.2)
Raw materials and inventories	(78.4)	(79.0)	0.6
Services	(268.0)	(239.1)	(28.9)
Other costs	(39.9)	(27.2)	(12.7)
Allocations to provisions for risks and charges	(13.4)	(4.6)	(8.9)
Increase in fixed assets not subject to IFRIC 12	0.8	1.1	(0.3)
EBITDA	461.2	408.3	52.9
Amortisation, depreciation and write-downs	(189.8)	(161.2)	(28.6)
Amortisation, depreciation and impairment losses	(189.8)	(161.2)	(28.6)
EBIT	271.4	247.1	24.3
Net financial income (expenses) and income (expenses) from equity investments	(54.8)	(73.0)	18.2
Pre-tax income	216.5	174.1	42.4
Income taxes for the year	(61.1)	(52.5)	(8.6)
Net income (expenses) from continuing opera	155.4	121.6	33.8
Net income (expenses) from discontinued ope	-	-	-
Net income for the year	155.4	121.6	33.8

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 that conform to international practice and reporting the costs for the purchase of energy efficiency certificates net of the related revenue.

The scope of consolidation changed significantly during the year. All the data set out in the 2018 Group's consolidated financial statements therefore shows the values relating to 12 months for the companies that were already included in the scope of consolidation at 31 December 2017, but only those relating to the 1 February 2018 - 31 December 2018 period, i.e. 11 months, for the companies acquired during the year from the Naturgy Group, and to the 11 May 2018 - 31 December 2018 for CGM S.r.l.

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 entail an impact on profits, but only the recognition of equal revenues and costs, which totalled 265.6 million euro in the year and relate to the construction of the distribution network infrastructure; therefore, for the purposes of easier analysis of any operational deviations, the income statement showing the consolidated revenue and costs, net of the impact of the application of the aforementioned interpretation, is also set out below.

Millions of euro	31.12.2018 without IFRIC 12	31.12.2017 without IFRIC 12	Change
Revenue	719.6	629.3	90.3
Transport and sale of methane gas and LPG	639.4	562.3	77.1
Connection fees and accessory rights	15.0	14.7	0.3
Other sales and services	28.1	23.3	4.8
Revenue from intangible assets / assets under construction	(0.0)	-	(0.0)
Other revenue	37.2	28.9	8.2
Operating costs	(258.4)	(221.0)	(37.5)
Labour costs	(67.8)	(56.7)	(11.1)
Raw materials and inventories	(7.7)	(5.5)	(2.2)
Services	(131.3)	(128.9)	(2.4)
Other costs	(39.0)	(26.4)	(12.6)
Allocations to provisions for risks and charges	(13.4)	(4.6)	(8.9)
Increase in fixed assets not subject to IFRIC 12	0.8	1.1	(0.3)
EBITDA	461.2	408.3	52.9

Revenue totalled 719.6 million euro, increasing by 90.3 million euro. Revenue from natural gas and LPG transport, which stood at 639.4 million euro, reported an increase of 77.1 million euro, mainly due to the expansion of the scope of consolidation as well as to the normal impact of the tariff revenue cap, given the investments made in the previous years.

Connection fees and accessory rights of 15 million euro rose in the year by 0.3 million euro compared to the previous year, when they totalled 14.7 million euro, so recording a minor change.

Revenue from other sales and services totalled 28.1 million euro and was up compared to the previous year, mainly due to the trend in revenue for the suspension and reconnection of customers in arrears, offset by ever lower revenue from the water sector as a consequence of the asset disposal programme the Group launched in the past years.

As already noted previously, the values for energy efficiency certificates are shown net, as the difference between revenue and related costs, including any allocation to the provisions for risks. For this reason, other revenue, unlike in previous years, does not include revenue for energy efficiency certificates this year, which has been set against related costs. The 2017 balance of revenue and costs was therefore restated for the sake of understanding.

The biggest contribution to the item, therefore, came from revenue under Resolution 574/13, in line with the previous year, and totalled 14.1 million euro, as well as from revenue from operations with defaulting end customers (5.1 million euro), and from repayments from suppliers and from revenue for checking the safety of plants (Resolution 40/04).

Operating costs totalled 258.4 million euro and rose by 37.5 million euro, mainly due to the new scope.

Labour costs totalled 67.8 million euro net of capitalisation, an increase of 11.1 million euro compared to the previous year also due to the new scope.

Specifically, other costs include the trend in net costs for energy efficiency certificates which rose by 7.3 million euro overall, as well as higher accelerated capital losses for 1.7 million euro.

Finally, net allocations to provisions for risks and charges rose by 8.9 million euro compared to the previous year. Net allocation for risks of plant malfunction and the related repair costs accounted for 5.3 million euro of the overall increase, while a further 2.4 million euro was due to the allocations for costs for minimum territorial areas (ATEM, *Ambito Territoriale Minimo*) tenders.

EBITDA was, therefore, 461.2 million euro, a further increase of 52.9 million euro compared to the figure for the previous year (408.3 million euro) thanks to the

change in scope during the year which led to a marked increase in revenue and efficiency from organic Group operations despite the extraordinary costs due to the merger.

Amortisation, depreciation and write-downs, up on the previous year, totalled 189.8 million euro and were significantly impacted by the change in scope. The values, which were mainly due to amortisation, also include the amortisation of the purchase price allocation in the year.

EBIT totalled, therefore, 271.4 million euro while in 2017 it amounted to 247.1 million euro.

Financial income and expenses, with a negative balance of 54.8 million euro, showed a sharp rise compared to the previous year, when the impact of the liability management exercise was included in the item, entailing one-off costs for the buy-back of a portion of the previous debenture loan.

Pre-tax profit totalled 216.5 million euro and was thus up by 42.4 million euro compared to 2017, both due to the expansion of the scope and to higher one-off financial expenses in the previous year.

The Group's income taxes for the year amounted to 61.1 million euro (they amounted to 52.5 million euro in 2017). Net of the change in scope, this was in line with the normal tax trend, taking account of the pre-tax profit.

As a consequence of the above, the net income for the year was 155.4 million euro, up by 33.8 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 statement of financial position in accordance with operational criteria.

Millions of euro	31.12.2018	31.12.2017	Change
	A	B	A-B
Net fixed assets	3,474.3	2,739.2	735.1
Property, plant and equipment	39.2	37.5	1.8
Intangible assets	3,682.3	2,937.4	745.0
Equity investments	3.5	3.1	0.4
Other non-current assets	57.7	51.8	5.9
Other non-current liabilities	(308.4)	(311.4)	3.0
Fair value of derivatives	-	21.0	(21.0)
Net working capital:	39.4	89.0	(49.6)
Inventories	23.9	19.0	4.9
Trade receivables from third parties and the Group	232.6	273.9	(41.3)
Net receivables/(payables) for income taxes	5.8	19.3	(13.6)
Other current assets	207.7	172.4	35.4
Trade payables to third parties	(207.6)	(208.1)	0.5
Other current liabilities	(223.0)	(187.5)	(35.6)
Gross invested capital	3,513.7	2,828.2	685.5
Other provisions	73.3	58.9	14.4
Post-employment and other employee benefits	45.6	46.0	(0.4)
Provisions for risks and charges	110.4	86.3	24.1
Net deferred taxes	(82.7)	(73.4)	(9.4)
Net invested capital	3,440.5	2,769.3	671.1
Assets held for sale	32.7	2.1	30.5
Liabilities held for sale	6.9	2.3	4.6
Equity	825.7	759.9	65.8
Net Financial Position	2,640.5	2,009.2	631.3

Net fixed assets, which mainly represent intangible assets related to gas distribution concessions, totalled 3,474.3 million euro, up 735.1 million euro compared to 31 December 2017 thanks to the aforementioned acquisitions.

At consolidated level, equity investments increased by 0.4 million euro due to the combined effect of the increase in the carrying amount of the investment in MEA and the exercise of the right to withdraw the shares in Azienda Elettrica Valtellina e Valchiavenna, while the increase in "other non-current assets" and the decrease in "other non-current liabilities", of 5.9 million euro and 3 million euro respectively, was due, in the former case, to the increase in receivables due from the Fund for Energy and Environmental Services (CSEA) while, for the latter, it was due to lower medium-/long-term deferred income for connection fees, property subdivision, plant transfer and network extension fees.

Finally, the fair value of derivatives in the year was zero, following the closure of the derivatives together with the issue of the final instalment of the debenture loan, as planned.

Net working capital totalled 39.4 million euro and fell by 49.6 million euro compared to the previous year.

Specifically, trade receivables fell by 41.3 million euro since they are linked to the trend in volumes transported in the last few months of the year compared to the previous year. The increase in other current assets and liabilities, with a negligible impact on net working capital, was mainly linked to the new scope.

Trade payables remained in line with the previous year, despite the increase in scope, while the reduction in income tax receivables improved net working capital by 13.6 million euro.

Finally, there was a positive change in inventories in the year of 4.9 million euro.

Therefore, due to the combined effect of the changes in net fixed assets and net working capital, gross invested capital increases by 685.5 million euro from 2,828.2 million euro in the previous year to 3,513.7 million euro at 31 December 2018.

Other provisions, the total balance of which was 73.3 million euro, rose by 14.4 million euro overall, mainly due to the change in the provision for risks and charges (24.1 million euro), only partially offset by the provision for deferred taxes, which fell by 9.4 million euro.

Therefore, net invested capital increased from 2,769.3 million euro in the previous year to 3,440.5 million euro, up by 671.1 million euro.

Assets and liabilities held for sale included a total of 25.8 million euro for entries regarding the business unit of employees and concessions which are being disposed of with reference to "Bari 2" and "Foggia 1", while in the previous year this item included the assets and liabilities regarding the water concessions of Villasanta and Moscufo, which were then sold during 2018.

Equity rose from 759.9 million euro in 2017 to 825.7 million euro at 31 December 2018, due to the net impact of the following changes:

- 85 million euro decrease following the ordinary dividend payout;
- 1.4 million euro increase for the recognition of the minority interest in Cilento Reti Gas;
- 6.1 million euro negative change in the reserves for derivative instruments and other reserves, net of the relevant tax impact;
- 155.4 million euro increase following the recognition of the result at 31 December 2018.

The table below shows the breakdown of the items that make up the accounting net financial position, the adjusted net financial position and the ESMA net financial position:

The net financial position moves from 2,009.2 million euro in 2017 to 2,640.5 million euro at 31 December 2018. The adjusted net financial position instead went from 2,022.6 million euro to 2,654.1 million euro, mainly due to the acquisition.

		Notes		
Millions of euro		31.12.2018	31.12.2017	Changes
Medium-/long-term bank loans	25	(425.0)	(425.0)	-
Medium-/long-term debenture loans	25	(2,532.1)	(2,394.9)	(137.2)
Cash and cash equivalents with third parties	21	686.4	816.1	(129.8)
Short-term financial receivables	19	1.4	0.0	1.4
Other current financial assets	20	0.2	0.0	0.2
Short-term payables due to banks	30	(362.7)	-	(362.7)
Non-current financial liabilities	28	0.0	-	0.0
Current financial liabilities	35	(23.3)	(19.6)	(3.7)
ESMA net financial position		(2,655.1)	(2,023.3)	(631.8)
Non-current financial assets	15	0.7	0.7	(0.0)
Adjusted net financial position		(2,654.4)	(2,022.6)	(631.8)
Non-current financial assets - costs on loan	15	0.3	0.5	(0.1)
Adjustment of payables due to costs on ST loan (IAS 39)	35	0.3	-	0.3
Current portion of medium-/long-term loans	31	-	-	-
Adjustment of payables due to costs on MLT loan (IAS 39)	25	13.24	12.91	0.33
Net Financial Position		(2,640.5)	(2,009.2)	(631.3)
Positive fair value of derivatives	15	-	21.0	(21.0)
Accounting net financial debt		(2,640.5)	(1,988.2)	(652.3)

The statement of cash flows enables representation of the change in adjusted net financial position determined in accordance with the criteria used mainly by rating agencies.

The cash flows in the year were deeply affected by the acquisition, both as regards the net financial position and as regards operations.

Cash flows in 2018 were influenced by the change in scope in the year and, therefore, the values shown are not immediately comparable with the previous year.

Millions of euro	31.12.2018	31.12.2017
A) Adjusted NFP	(2,022.6)	(1,996.2)
A) Acquired NFP	2.8	
EBITDA	461.2	408.3
Write-down of receivables	(0.1)	(2.8)
Capital (gains)/losses	20.8	19.2
Income taxes for the period	(61.1)	(52.5)
B) GROSS CASH FLOW	420.8	372.2
Change in net working capital	83.9	18.7
Change in provisions (risks and charges, post-employment benefits, deferred tax assets and liabilities)	2.4	(6.6)
Change in other non-current assets	(5.3)	(6.7)
Change in other non-current liabilities	(0.2)	8.3
C) OPERATIVE CASH FLOW	501.6	386.0
Net investments	(283.2)	(253.4)
Investments in financial assets	(722.7)	0.4
D) FREE CASH FLOW	(504.4)	133.0
Financial income/(expenses)	(57.4)	(73.1)
Adjustment for changes in amortised cost and payable for fees	(0.5)	(1.2)
Payment of dividends	(85.0)	(85.0)
Change in equity reserves	0.0	(0.0)
Hedging derivative sale	12.7	
E) CASH FLOW FROM FINANCING ACTIVITIES	(130.2)	(159.3)
F) CHANGE IN DEBT (D+E)	(634.6)	(26.4)
G) FINAL NFP - Adjusted (A+F)	(2,654.4)	(2,022.6)
IAS adjustment to cost of debt	13.9	13.4
NET FINANCIAL POSITION	(2,640.5)	(2,009.2)

5. Regulatory and tariff framework

Natural gas distribution is regulated by applicable laws and regulations and, specifically, by the *Autorità di Regolazione per Energia Reti e Ambiente* (the Regulatory Authority for Energy, Networks and the Environment) - ARERA (a name adopted as from 01 January 2018 as a result of Italian Law no. 205 of 27 December 2017 - "2018 Budget Law"). The Authority regulates the sectors it is responsible for through specific provisions, which specifically involve determining and updating infrastructure service tariffs, as well as defining the supply levels of these services and the rules for non-discriminatory access and use of the infrastructure.

In addition, the Authority has an advisory role with the Parliament and the Government, to which it can provide indications and proposals.

5.1 Regulation

During 2018, ARERA intervened in accordance with the guidelines that had already been set out in the 2015-2018 Strategic framework, but also in light of the end of the third term of the Authority. Until the start of August, pending the appointment of the new members, the Board, whose term expired on 11 February 2018, nonetheless continued to operate under a specific extension in relation to matters of ordinary administration and not deferrable and urgent matters.

Until the new Board took over on 30 August 2018, the activity of the previous Authority Board after 11 February 2018 was therefore inevitably limited by its functions being reduced to matters of ordinary administration and not deferrable and urgent matters.

With the start of the new term, as from September and up to the end of the year, the Board's regular activity gradually restarted, with the related issue of provisions.

Despite the limitations arising for much of the year from the extension of the term of the previous Board, during 2018, the Authority issued numerous provisions that affected the Group and regarded the gas sector; among these, specifically gas distribution, there were various provisions on tariffs, energy efficiency targets and the contribution to obtain energy efficiency certificates from distributors who have taken on obligations, regulation of the quality of the metering service and of smart gas meters; access to the gas distribution service and the rules as set out in the network code and gas settlement; data exchange among operators and with the Integrated Information System (known as SII, *Sistema Informativo Integrato*), regulation of arrears in the electricity, natural gas and water sectors; the default gas distribution service, as well as isolated LNG (Liquefied Natural Gas) networks and the update of the directives for connecting

biomethane production plants to natural gas networks; the protection of end customers and the regulation to settle disputes between end customers and operators or managers; the social bonus (electricity, gas and water) and reliefs on electricity, gas and water bills for the communities struck by the earthquakes in Central Italy in August and October 2016, checks in regard to operators, in application of the regulation implementing the tenders to assign the gas distribution service. The Authority also issued provisions on water services, which affect the Group's residual water management situations.

Regulation on tariffs for the gas distribution and metering service

As part of the provisions in force for the 2016-2021 regulatory period, for the weighted average cost of capital (WACC) for all regulated infrastructure services of the electricity and gas sectors, in the final months of 2018, the Authority took steps for the interim update of the WACC base parameters which are common to all the regulated infrastructure services of the electricity and gas sectors, as well as the level of gearing. Following the publication of a specific consultation document on the issue at the start of November 2018, at the start of December (Resolution 639/2018/R/com of 6 December 2018) the Authority arranged, for the interim update of the base parameters for determining the WACC which are common to the regulated services of the electricity and gas sectors for the

2019-2021 period and then the update of the WACC for these services for the 2019-2021 period (for the gas sector only for 2019, given that the regulatory periods for the related individual services will start as from 2020, with specific sector parameters which may impact the WACC level). Owing to the update, the weighted average cost of capital for natural gas distribution and metering services for 2019 was set at 6.3% and 6.8%, respectively (the previous values were 6.1% and 6.6%, respectively).

The Authority also started (Resolution 529/2018/R/gas) proceedings to review the provisions on tariffs and the quality of the gas distribution and metering services for the fifth regulatory period (2020-2025). This proceeding also includes that already underway to adopt tariff assessment methods at standard costs for new investments in natural gas distribution networks, establishing that 2019 investments will still be assessed with the criteria envisaged by the current tariff regulations and applied so far. The start of the recognition of new investments in gas distribution at standard costs was therefore put back a further year (starting from 2020 investments, the first year of the new tariff regulation period); this was also due to the need for further analyses on the development of a reference price-list, as part of the technical work group with trade associations of distribution companies, which was set up in 2017.

In 2018, the Authority also set the final tariffs for distribution and metering

services for 2017 (Resolution 149/2018/R/gas) on the basis of the definitive financial data for 2016 as communicated by the companies, the provisional tariffs for 2018, on the basis of the provisional data for 2017 (Resolution 177/2018/R/gas), the usual periodic updates of some tariff components (general system charges for the natural gas sector and tariffs for other gases) and, at year end, the mandatory tariffs and bi-monthly equalisation payments on account for natural gas distribution and metering services for 2019. Further information on tariffs is set out in section 5.3 "Tariff framework".

Energy efficiency targets

As for energy efficiency targets and the corresponding obligations to acquire the so-called white certificates (EECs) by subjects who have taken on obligations, in January, with Determination 1/2018 - DMRT, the data relating to the primary energy saving targets for 2018 set for electricity and natural gas distributors was determined. The companies in the 2i Rete Gas Group were overall assigned a target corresponding to around 630,000 white certificates: 594,222 for 2i Rete Gas S.p.A. and 35,270 for 2i Rete Gas Impianti S.p.A. In April, the Authority expressed its opinion (Resolution 265/2018/I/efr) on the draft decree prepared by MiSE together with the Ministry of the Environment and Protection of the Land and Sea (MATTM) setting out changes to the interministerial decree of 11 January

2017 regarding EECs, in order to re-balance the market situation that had been evident during the last two years (the ministerial Decree was then issued by the competent Ministries on 10 May 2018 and published in the Official Gazette on 10 July 2018).

In addition, in June, Determination 4/2018 - DMRT established, on the basis of the means of definition in force, the value of the definitive tariff contribution for 2017 (311.45 €/EEC) and the value of the reference tariff contribution for 2018 (250.54 €/EEC).

Following publication of the Ministerial Decree of 10 May 2018 amending the Ministerial Decree of 11 January 2017 (regarding the eligibility of energy efficiency projects and the method for recognising the savings achieved and the related EECs), at the end of September, the Authority, after consultation in July and August, amended the rules (Resolution 487/2018/R/efr), which had already been revised in 2017, for the definition of the fee payable to electricity and natural gas distributors subject to energy efficiency obligations, in order to offset the costs they incurred for meeting their targets. This revision was then followed by approval of the corresponding change in the market operating rules and the regulation for bilateral transactions within the scope of the white certificate mechanism (Resolution 501/2018/R/efr).

Regulation on the quality of the gas smart metering service

Following the updates to the regulation on the metering service for redelivery points connected to the natural gas distribution networks adopted in 2017 (Resolution 522/2017/R/gas), in July, the Authority provided some clarification on the application of the provisions adopted as from 1 January 2018 on fulfilling meter reading obligations and automatic compensation in the event of failure to record the reading data for accessible meters. This also had implications for the plan relating to the installation of smart gas meters.

At the end of September, the Authority approved (Resolution 488/2018/R/gas) provisions relating to the centralised management of metering data under the integrated information system, with reference to the gas sector. With Resolution 669/2018/R/gas, the obligations were also updated to install and commission class G4+G6 smart gas meters for distributors with over 50,000 end customers, establishing targets for the years after 2018 (smart meter commissioning for at least 85% of redelivery points), to be achieved by 2020 for distribution companies with over 200,000 end customers, by 2021 for companies with 100,000 to 200,000 end customers and by 2023 for companies with 50,000 to 100,000 end customers (extension of the obligations to companies with less than 50,000 end customers was postponed to a subse-

quent provision, to be adopted following the definition of the Authority's new strategic framework).

Access to the gas distribution service and rules pursuant to the network code and gas settlement

Concerning the relationships between distribution companies, network users (retailers who use the distribution networks and wholesalers who use the transport network) and the balancing manager for gas volumes on the transport network, the Authority, with a consultation carried out in March and April, envisaged the end of the current mapping of commercial relationships between retailers and wholesalers in favour of a system which envisages the single allocation of the off-take of each end customer to the wholesaler, with changes also to the process of transferring capacity to exit and redelivery points on the transport network, through the integrated information system. The consultation has not yet been followed by the related implementing provision.

At the start of the year, the Authority Board approved the reform of switching for the related process in the natural gas retail market through use of the integrated information system (Resolution 77/2018/R/gas) and, as for gas settlement (commercial balancing and regulation of the gas system), the reform of the provisions to regulate the physical and financial items of the natural gas balancing service, which will be

in force as from 1 January 2020 (Resolution 72/2018/R/gas); subsequently, the Authority set provisions on divergence fees under the adjustment sessions for 2013-2019.

In addition, the Authority arranged (Resolution 3/2018 - DMEA) the usual annual update of the percentages needed to define the standard usage profiles for 2018-19.

Data exchange among operators and with the Integrated Information System (SII)

Also, in 2018, the Authority continued the adoption of provisions aimed at the gradual extension, also to the gas sector, of the SII, 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. As already noted, with reference to the gas sector, as from 1 November 2018, the regulation in the switching process through use of the SII was established, together with the management of contract termination and the activation of last resort services. In addition, following the reform of withdrawal and switching processes in electricity and natural gas retail markets, at the end of the year, the provisions of the Consolidated act on measures to confirm electricity and/or natural gas supply contracts and voluntary service restoration (TIRV) were updated, with impacts

also on distribution companies (Resolution 684/2018/R/com).

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

In March, with Resolution 190/2018/R/gas, the Authority integrated the detailed rules defined in 2017 for the evaluation - on a standard basis - of requests to pay part or none of the penalties assessed on distribution companies for the failure to discontinue the service to redelivery points under the default distribution service. In particular, some specific standard cases were integrated on the occurrence of which, in relation to judicial actions taken to disconnect the redelivery point, distribution companies can automatically benefit from partial exemption, confirming that the time needed to undertake the judicial proceedings is not accounted for the purposes of assessing compliance with the deadline to carry out the physical disconnection of the redelivery points. In addition, the coming into force of the regulation of the compensation system to safeguard sale companies and managed within the SII has been resolved for the electricity and natural gas sectors (Resolution 406/2018/R/com) from 1 December 2018 and 1 June 2019, respectively.

The Authority then approved (Resolution 407/2018/R/gas) the regulation of the procedures to identify natural gas last resort suppliers and default service suppliers as from 1 October 2018,

also updating the regulation to supply the same services.

Regulation on isolated LNG networks

As regards LNG-powered isolated networks, the Authority, in order to implement the provisions of art. 14 of Italian Legislative Decree 257/16, continued the proceedings started in 2017, opening a consultation (DCO 216/2018/R/gas) on tariff profiles to cover the costs of the infrastructure needed to distribute LNG through these networks in 2018. However, the relevant provisions have not been implemented yet.

Directives for the connection of biomethane production plants to natural gas networks

As for the regulation regarding the injection of biomethane in the network, with the cancellation of the standstill provision following the publication of CEN EN 16723-1, implemented in Italy with the publication of UNI EN 16723-1, the Authority started proceedings to implement the provisions of Ministerial Decree of 2 March 2018 regarding incentives for the production of biomethane, which also includes the proceedings started in 2017 to update the directives for the connection of biomethane plants to natural gas networks.

Protection of end customers and regulation to settle disputes with operators or managers

As regards the protection of end customers, the Authority approved provisions (Resolution 355/2018/R/com) to increase efficiency and harmonise the regulations on procedures for out-of-court settlement of disputes between customers and operators or managers in regulated sectors, envisaging, among other things, specific interventions regarding the mechanism to involve the distributor for technical support.

During the year, the Authority also adopted provisions to implement Italian Law 205/2017 on invoicing amounts on the electricity and natural gas retail market and the biennial setting of these amounts. In this regard, at the end of 2018 (Resolutions 569/2018/R/com and 683/2018/R/com), provisions were approved, with effect as from 1 January 2019, to protect gas customers in cases of invoicing of amounts referring to consumption that dates back more than two years, with possible impacts also for distribution companies.

Finally, the CP fee was updated as from 1 January 2019 (Resolution 601/2018/R/gas) to cover the costs arising from insurance in favour of gas end customers.

Regulation on the social bonus (electricity, gas and water)

During 2018, some changes were approved (Resolutions 10, 12 and 16/2018 - DACU) on the means of applying the compensation schemes for expense incurred by indigent domestic customers for electricity, gas and water supplies. In addition, the means were defined (Resolution 227/2018/R/idr) for applying the water social bonus for the supply of water to domestic users in a state of social and economic difficulty.

Relief measures concerning the earthquakes occurred in Central Italy in August and October 2016

Following the provisions which were adopted in 2016 and 2017, the Authority approved further reliefs on electricity, gas and water bills for the communities struck by the earthquakes started in August 2016 with operational implications for the management of such reliefs by distributors and sellers (Resolutions 81/2018/R/com, 312/2018/R/com and 587/2018/R/com). Revenue compensation mechanisms were also activated (397/2018/R/com) in favour of natural gas and other gas distribution companies, which, following the earthquakes, saw a significant reduction in the number of redelivery points compared to 31 December 2015.

Provisions enabling the regulation for gas distribution service tenders

In June 2018, the Authority approved (Resolution 6/2018 - DIEU) the update of the standard stratification of the amount of the repayment for 2016 and 2017 while, in August 2018, the operating methods (Resolution 12/2018 - DIEU) to determine the value of net fixed assets for natural gas distribution in case of misaligned values compared to the sector averages were established, in order to check any differences between the residual industrial value and the RAB and to estimate the remeasured values for publication in the call for tenders. At the end of the year, the reference values for 2017 and 2018 (Resolution 15/2018 - DIEU) were updated in order to calculate the relevant indices for the purposes of checking the differences between the residual industrial value and the RAB.

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 (minimum territorial areas).

Checks on operators

As regards checks on operators, the Authority organised the usual annual campaign of 50 telephone checks and inspections of gas distribution companies in regard to the regulation on the gas emergency service, as well as the usual campaign of 60 technical con-

trols on the level of odourisation, the effective gross calorific value and the gas pressure, to be carried out between 1 October 2018 and 30 September 2019. The Authority also organised a programme of 5 inspections regarding service safety recoveries relating to data for 2017 addressed to natural gas distribution companies from among those which receive the largest incentives or which have not yet been inspected, to be carried out by 30 June 2019.

It also approved a programme of four inspections of electricity and natural gas sale and distribution companies and regarding the requirements connected to the use of the SII, to be carried out by 31 December 2018.

Water services

As regards water services, in 2018, the Authority adopted different provisions regarding the regulation of tariffs and the quality of the integrated water service as well as other aspects (such as limiting overdue payments and extending to the water sector the system of safeguards for consumers and for out-of-court settlement of disputes which is already active in the electricity and gas sectors), with impacts also on the remaining water services managed by the 2i Rete Gas S.p.A. Group.

5.2 Other significant events and/or aspects

Following the checks carried out in 2016, in 2018, the Authority did not

complete the calculation of the bonuses and penalties for the safety levels recorded in 2015 by natural gas distributors. For this year, pending completion of the related proceedings and also following specific requests made by operators, at the start of August, the possibility of recognition as an advance of 80% of the total net amount of the bonuses due (sum of bonuses and penalties) on the basis of the results of the preliminary investigation carried out by the Authority was introduced. The approval and supply of the incentives referring to 2015 should be completed in the first few months of 2019, with the subsequent start of the work to determine the amounts of the bonuses/penalties also for subsequent years, as from 2016.

With the aim of coordinating its regulation with the innovations on electronic invoicing introduced by Italian Law 205/2017, the Authority, at the end of the year (Resolution 712/2018/R/com), established measures to manage, among other things, the invoicing documents and related attachments regarding the gas distribution service issued to sale companies.

With a view to developing an output-based regulation, the Authority, at the end of September, approved (Resolution 468/2018/R/gas) provisions for the consultation on the long-term development plans for the natural gas transport network and the minimum requirements to prepare plans and for

the cost-benefit analysis of the activities, which involved also distribution companies.

As for Resolution 626/2016/R/gas of November 2016 (with which, for some locations with assets owned by local authorities and following the analyses undertaken after the inspection made in June 2011, the official redetermination of the reference tariffs for some years starting from 2009 was decided) and following publication of the ruling of Lombardy's Regional Administrative Court - Milan Section no. 733/2018 which annulled the resolution and the other provisions challenged by the Parent Company, the Authority filed an appeal (Resolution 166/2018/C/gas of 29 March 2018) to the Council of State against the ruling of the Regional Administrative Court. 2i Rete Gas consequently defended its arguments, which had already been recognised as valid by Lombardy's Regional Administrative Court.

With Resolution 281/2018/S/gas the Authority, in execution of the ruling of the Council of State, Section VI, 911/18 of February, reduced by two thirds (from 450,000 to 150,000 euro) the sanction applied with Resolution VIS 33/10, in May 2010, on Enel Rete Gas S.p.A. (now 2i Rete Gas S.p.A.) for a disputed violation regarding the gas emergency service, against which the Parent Company had appealed to the Regional Administrative Court and, after the latter's ruling, had appealed to the Council of State.

During 2018, the Authority performed numerous consultations on issues regarding gas distribution and the Company or its subsidiaries, with the publication of documents in regard to which to the Company has put forward its observations and proposals on all the issues which it considers relevant.

Provisions and/or other events subsequent to 31 December 2018

After 31 December 2018, the Authority, in compliance with ruling 4825/2016 of the Council of State cancelling Resolution ARG/gas 89/10 and following specific consultation in October and November 2018, in order to regulate the means of compensating sellers for the price difference in raw material for 2010-2012, adopted provisions on the basis of which the sum to be returned to the sale companies requesting it will be collected through a sub-component of the UG2 distribution tariff component to be applied, starting from 1 April 2019, to all the redelivery points relating to customers who have a gas supply with consumption up to 200,000a Sm³/per annum.

No further significant facts and/or aspects have been noted relating to the regulation of the relevant Authority at the reporting date.

5.3 Tariff framework

In 2018, the distribution and metering tariffs continued to apply in accordance with the principles established in Resolution 367/2014/R/gas for the

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

As a result of these resolutions, the WACC for natural gas distribution and metering for 2016-2018 was set to 6.1% and 6.6%, respectively.

The invested capital of the distribution companies (RAB) continues to be broken down into two categories:

- localised invested capital;
- centralised invested capital.

The valuation criterion for localised invested capital in distribution and metering is based essentially on the revised historical cost method. For the purposes of the 2018 tariffs, the new investments in metering (G6 or below smart meters) are determined as the average of the effective costs and the

standard cost set by the Authority while, starting from the 2019 tariffs, the new investments in metering will be determined as the weighted average of the effective cost and the standard costs, weighting 60% and 40%, respectively. With Resolution 904/2017/R/gas, the Authority envisaged valuation of the new 2019 investments in distribution on the basis of standard costs, subject to establishing the related price-list, to be applied on the 2020 tariffs. However, as at the reporting date, the aforementioned price-list has not been published yet.

The valuation criterion for centralised invested capital is based on a parametric method, except for assets regarding remote metering/remote management/concentrator systems, which are valued at effective cost. Starting from the 2018 tariffs, the invested capital of such assets takes account of a ceiling that includes the remuneration of capital and the recognition of operating costs.

As for the other updates as set out in Resolutions 775/2016/R/gas and 904/2017/R/gas, operating costs, which are recognised by the Authority on the basis of the opening levels of the operating costs and established in Resolution 367/2014/R/gas, were updated with inflation and subjected to an X-factor of 1.7% for the distribution service and 0% for the metering and marketing service for the 2017-2019 three-year period. In relation to metering checks, final recognition of the costs effectively incurred is envisaged for 2018 and 2019.

The annual "final" recognition of investments for the purposes of determining the net invested capital for distribution and metering for 2018 took place on 19 November by calculating the changes of the previous year ("t-1") in order to update the RAB value. The Authority should publish the "final" 2018 tariffs including the above-mentioned changes in the first months of 2019, and CSEA will apply them to the equalisation. In addition, within the deadline set by the Authority, i.e. 7 September 2018, the collection of requests for the tariff compensation of the costs of remote metering/remote management concentrator systems incurred by natural gas distribution companies in 2011-2016, which adopted a "buy" or "hybrid" type approach, was completed.

During 2018, the Authority determined the "definitive" tariffs for gas distribution and metering services for 2017 and redetermined the tariffs of some operators for 2009-2017 with Resolutions 148/2018/R/gas and 645/2018/R/gas. In addition, with Resolution 177/2018/R/gas, the Authority set the "provisional" reference tariffs for natural gas distribution and metering services for 2018.

In December, the Authority published, with Resolution 667/2018/R/gas, the 2019 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.

In addition, during 2018, the Authority published Resolution 12/2018 of 7 August 2018, defining the methods for determining the value of net fixed assets for natural gas distribution should those values not be aligned with the sector averages, in order to check differences between the residual industrial value and the RAB and for publication in the call for tenders. Regarding the same matter, on 27 December 2018, the Authority sent to trade associations a request for further information. This should end with the publication of a new resolution providing clarification and additions to the previous one.

By 31 October 2018, feedback was provided on the request for clarification in relation to the Authority's investigation on operators and regarding the application of the provisions envisaged by the tariff regulation on disposals of meters, in implementation of the Directives for the commissioning of gas meters.

With Resolution 639/2018/R/com, the Authority arranged the interim update of the WACC base parameters which are common to all the regulated electric and gas infrastructure services. With the same Resolution, the 2019 WACC values for natural gas distribution and metering were approved and set at 6.3% and 6.8%, respectively.

Finally, with Resolution 529/2018/R/gas, the Authority started

to draft provisions on tariffs and quality for the supply of gas distribution and metering services in the fifth regulatory period.

As for activities directly regarding the Group, the Authority, with Resolution 541/2017/R/gas, redetermined retrospectively from 2009 (and up to 2013 or 2015) the tariffs for a list of locations managed by 2i Rete Gas S.p.A. where the local authorities hold stakes in the methane gas distribution networks, in execution of Resolution 626/2016/R/gas. This recognised the values already reported by the authorities only as from the year following the submission of the mandatory accounting information by the local authority. In reference to the findings of the inspection carried out in June 2011, the Parent Company appealed to Lombardy's Regional Administrative Court which, with ruling no. 733 of 15 March 2018, upheld the appeal and the additional grounds, cancelling Resolution 626/2016/R/gas and considering as valid the grounds put forward by the

Company in court to show that the adjustment imposed by the Authority was illegitimate and improper, given that the financial data contained in the tariff and reported by the local authorities in 2009 was substantially confirmed also by the mandatory accounting information collected and submitted to the Authority following the inspection. It is also worth recalling that the current regulations, i.e. Italian Legislative Decree 118/2011 as amended and supplemented, allow local authorities to take action to complete the inventory entries for owned assets, including methane gas networks, until the closing of the 2016 or 2017 financial statements, depending on the size and/or choice of the municipalities.

The ruling of Lombardy's Regional Administrative Court was challenged by the Authority, which appealed to the Council of State. The public hearing took place on 14 March 2019 and the results of this hearing are still to be communicated.

6. Concession development and operation

During 2018, the competitive bidding market for methane gas distribution service concessions saw just one ATEM tender (Valle d'Aosta – Contracting Authority City of Aosta) out of the 25 issued between 2015 and 2018 and the republication of the ATEM tender Udine 2 – City of Udine and Centre, which was initially issued in 2015.

Specifically, besides the completed tender set out above, during 2018, the following were published:

- four further ATEM tenders (10 August 2018 Como 1 - Triangolo Lariano and Brianza Comasca, 31 July 2018 Bergamo 3 – surrounding area west of Bergamo appendix, 17 December 2018 Vicenza 3 Valli Astico Leogra and Timonchio, 22 December 2018 Brescia 1 – North - West), in addition to the first 20 already issued in previous years;
- a project financing an individual concession in the Municipality of Cellole (province of Caserta) (Official Journal of the European Community of 1 March 2018), authorised by the Ministry of Economic Development departing from the provisions of Italian Legislative Decree no. 93 of 1 June 2011 (known as the “Third Energy Package”);
- a tender called by the Municipality of Malo (province of Vicenza) for the sale of the methane gas networks and distribution plants that it owns (Official Journal of the Republic of Italy of 30 April 2018);

- a tender for the 12-year management of the LPG distribution network in the Municipality of Cagliari (Official Journal of the European Community of 9 May 2018 – 32,000 active final users, contract value 105.6 million euro) with the obligation of conversion to natural gas as soon as the resource is available on the island. On 13 July 2018, the Municipality notified the suspension of the tender in question following Suspension Order 204/2018 issued by the Regional Administrative Court, which upheld the application for relief made by Mediterranea Energia S.c.a.r.l., the parent company of the outgoing operator ISGAS;
- a non-ATEM tender, authorised by the Ministry of Economic Development departing from the provisions of Italian Legislative Decree no. 93 of 1 June 2011 (known as the “Third Energy Package”), called by Alto Cilento’s Central Purchasing Body for the assignment of the natural gas distribution service in the Municipality of Torchiara (province of Salerno) which was previously issued on 2 August 2016 and for which there were no bidders.

6.1 Participation in tenders called by individual municipal administrations

As for non-ATEM tenders, 2i Rete Gas S.p.A. submitted an offer for the tender called by the Consortium of Media Valtellina for gas transport regarding

the assignment of the technical management service for the methane gas network and transport systems in Alta Valtellina, a service which was already managed by 2i Rete Gas S.p.A. due to the assignment under the previous procedure, which occurred on 1 January 2015.

The tender was provisionally assigned to the Company on 20 December 2018, and the final assignment in order to sign the contract is still pending.

On the other hand, as for the tender called in 2016 by the Municipality of Poggiomarino (province of Naples), the final assignment to another distributor was published on 9 July 2018 in the Official Gazette.

6.2 Activities on "ATEM tenders"

2i Rete Gas S.r.l., a company subject to direction and coordination by 2i Rete Gas S.p.A., following the presentation of the offer for the ATEM tender Milan 1 - City and Plant of Milan, which took place on 16 January 2017, was informed on 3 September 2018 of the final assignment to Unareti S.p.A. (a company in the A2A group).

Following this assignment, on 3 October 2018, 2i Rete Gas S.r.l. appealed against the assignment of the Milan tender to Unareti S.p.A., the tender documents and the Contracting Authority's refusal to grant complete access to the documents of the successful bidder. At the moment, the date of the hearing on the merits has not been set while, following the hearing in closed session of 7 February 2019, with

order no. 300 of 13 February 2019, the Regional Administrative Court upheld the appeal against the denial of access to the documents, granting the possibility to see the bid presented by Unareti S.p.A. in full.

The latter company, however, requested a precautionary measure to immediately suspend 2i Rete Gas S.r.l.'s right of access in order to prevent the possible disclosure of the documents.

As regards the Belluno tender, for which 2i Rete Gas S.p.A. submitted a bid on 1 September 2017, the Regional Administrative Court of Venice, with ruling no. 78 of 24 January 2018, rejected the appeal against tender call filed by Erogasmet S.p.A., holding that the Contracting Authority had acted in compliance with the regulation.

The Council of State, with ruling no. 570 of 22 January 2019, confirmed the ruling of the Regional Administrative Court of Venice, rejecting Erogasmet's appeal. The company is waiting the appointment by the Tender Committee and the opening of the offers made by the bidders.

Also, during 2018, 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. The information will have to be updated, if necessary, when the actual tender takes place, and is required by art. 4 (Disclosure obligations for operators) and art. 5 (Compensation to the outgoing operator) of Italian Ministerial Decree 226/2011.

6.3 Concessions awarded

2i Rete Gas S.p.A., following the final assignment on 24 November 2017 of the tender for the management of the natural gas distribution public service called by the Municipality of San Nicola in Baronia (province of Avellino), as leading municipality also on behalf of the municipalities of Carife, Castel Baronia, San Sossio Baronia, Campitella, Trevico, Vallata and Vallesaccarda, signed the related service contract on 23 April 2018.

The outgoing operator SIDIGAS SPA notified on 12 March 2018 a writ of summons before the Court of Benevento to seek the condemnation of the Municipality or of 2i Rete Gas S.p.A. to pay the reimbursement value of the gas plants, which is not included in the tender call. On 22 March 2018, the same company appealed to the Council of State against the Regional Administrative Court of Salerno's ruling no. 276 of 21 February 2018, which had rejected on grounds of lack of jurisdiction the appeal the company had made against the acts of the tender called by the Municipality of San Nicola Baronia. With ruling no. 3217 of 29 May 2018, the Council of State upheld the appeal made by SIDIGAS SPA against the aforementioned ruling of the Regional Administrative Court, recognising the jurisdiction and referring back to the Court of Salerno the decision on the merits of the appeal.

6.4 Concessions lost

In 2018, no gas distribution concessions left the Group's scope following a lost tender.

6.5 Participation in tenders for the acquisition of companies

On 11 May 2018, 2i Rete Gas S.p.A. signed with the shareholders of Compagnia Generale Metanodotti S.r.l. an agreement for the purchase of 100% of the share capital of the company, which distributes natural gas in the Municipality of Cadeo (province of Piacenza) (around 3,000 end users for almost 60 km of network managed), for which it had signed a non-binding expression of interest 21 December 2017. 2i Rete Gas S.p.A. also took part, by submitting an offer on 24 October 2018, in a public auction for the purchase of 100% of the share capital of Rete Gas Fidenza S.r.l., a company that manages the natural gas distribution service in the Municipality of Fidenza (around 12 thousand end users for just over 200 km of network managed).

The procedure ended with the final assignment to GP Infrastrutture S.r.l. on 26 November 2018. 2i Rete Gas S.p.A., which was ranked third after Ireti S.p.A. (IREN group), following the appeal to Emilia Romagna's Regional Administrative Court by Italgas Reti S.p.A. (ranked fourth), decided to join the appeal.

6.6 Recovery of sums arising from the transfer of plants

During the year, the whole final amount for the sale of the plants of the Municipality of Sabbioneta, under the agreement signed with the Municipality in 2017, was collected.

6.7 Assets held for sale

In the year, the assets and liabilities relating to the business unit including the concession managed by the company in the ATEM of Foggia 1 and some of those managed in the ATEM of Bari 2 were classified as assets held for sale. These are being disposed of as requested by the Antitrust Authority at the end of the authorisation process for the acquisition of Nedgia S.p.A. (now 2i Rete Gas Impianti S.p.A.).

On 6 July 2018, the agreement to sell the business with Centria S.r.l., the successful bidder for the disposal procedure arranged by 2i Rete Gas S.p.A., was signed. The multi-utility, Toscana ESTRA holds 100% of its share capital.

In execution of the agreement to sell, the investment in the special purpose vehicle created to Centria S.r.l. will be sold in April.

7. Support for gas transport activities

7.1 Main regulatory changes

As regards gas transport, also during 2018, ARERA issued several measures which are set out and explained in brief in section 5.2.

From the operational viewpoint, the implementation of all the regulatory changes in force in the year was completed.

7.2 Relations with Traders and Customer Care

Major customers

In 2017, the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sales 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 10% of the total during the year were:

- Enel Energia S.p.A
- Engie Italia S.p.A.

Commercial quality

The level of commercial quality is measured by means of a general company index showing the percentage of services not carried out within the standard time frames set by ARERA, pursuant to the provisions of Resolution 574/2013 and with reference to

connections, reconnections, disconnections, quotations, and the execution of both simple and complex work.

The overall general quality index, pursuant to the provisions of Resolution 574/2013, amounted to 0.14% and was 0.14% - temporarily up compared to the prior year (0.09%) following the acquisition of Nedgia - for the specific levels and 0.67% for the general levels (0.83% in the prior year).

Front Office

During 2018, the management of commercial services required by the sales companies took place, in line with the information provided in the previous years, almost exclusively through the Four portal; this instrument has now been adopted by most of the sales companies, both in the "web" solution as well as in its "application to application" solution.

The processes for the connection of last resort services, supply of last resort (Fui) and default service (Default), remained high also compared to the previous year, mainly because end customers delayed payments to the respective sales companies.

The number of last resort services activated was 15,604, including 7,849 Fui and 7,755 Default connections.

In addition, the calculation method for penalties in case of failure to supply to the redelivery point was updated in the company information systems by virtue of the update of the system for calculating partial payment, pursuant to the new provisions introduced by ARERA

Resolution 190/2018/R/gas of 29 March 2018.

Following ARERA's publication of clarification relating to this resolution, the methods for applying the provision were defined, also in reference to periods prior to the coming into force of ARERA Resolution 513/2017/R/gas.

In 2018, the requests to change supplier that had been successfully completed totalled 307,731.

Requirements of the Integrated Information System

During 2018, the processes and related information flows were updated in application of the provisions of ARERA Resolution 850/2017/R/gas of 5 December 2017 in terms of increasing and updating the information and data of the Official Central Register (RCU) made available to the Integrated Information System.

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

In addition, the provisions of Resolution ARERA 77/2018/R/gas relating to switching and ownership processes were implemented, with the final at-

tribution of greater process responsibilities to the Integrated Information System on access to the network and verification of the availability of capacity at the city gate.

These provisions came into force as from 1 November 2018.

Therefore, on the same date, the obligation to make metering data directly available to sale companies ended.

7.3 Gas Invoicing and Balancing

Invoicing of Transport and Services

During 2018, work was completed to manage the requirements envisaged by ARERA Resolution 252/2017/R/com, relating to the earthquakes of 24 August 2016 and the subsequent tremors.

As part of the processes for invoicing transport and services, the provision introduced specific benefits for holders of service agreements at the dates of the 3 seismic events (24 August, 26 October 2016 and 18 January 2017), establishing how and when the outstanding balance with the sales companies, that are the holders of the service agreements eligible for relief, will be settled.

With the publication of Resolution 587/2018/R/gas, an extension was introduced to the validity of the benefits, up to 31 December 2020, for users located in the so-called "red zones".

As part of the judicial actions undertaken pursuant to applicable laws concerning the discontinuation of the service to the Redelivery Points under default, the

Group has continued charging back the legal costs it incurred for such proceedings.

The third part of the "Zero Printing" project was completed for the Service Invoicing Section, in relation to the management of compensation; this project enabled a change in the means of sending payment letters and the related attachments regarding compensation paid to sales companies, adding to the possibility of using certified email, publication on the FOUR portal, with a consequent benefit in terms of certainty of receipt and clarity in the transmission of information. The first part of the "Electronic invoicing between private entities" project was completed. This was introduced by the Stability Law for 2018 and has been in force since 1 January 2019. It involved adjusting back-office applications and modifying the exchange of invoices with commercial counterparties.

The activities will continue during 2019. In addition, analyses of the requirements introduced by primary and sector provisions relating to statute barring exemptions raised by end customers, the so-called "short statute barring" (in force since 1 January 2019), were started.

Ordinary transport, commercial services and compensation activities were invoiced on a monthly and regular basis and during 2018.

Gas Balances

During 2018, in February and July respectively, in compliance with Resolution

229/2012/R/gas - TISG, the Group completed the following activities:

- handover to national/regional transporters of data relating to the 2013, 2014, 2015 and 2016 adjustment sessions;
- handover to national/regional transporters of data relating to the 2017 adjustment session.

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

7.4 Metering

The installation of new smart meters, envisaged by Resolution 631/2013/R/gas (which replaced the previous Resolution ARG/gas 155 of 22 October 2008), is making a significant difference to the work of taking meter readings; due to the coming into service of smart meters that can transmit metering data autonomously, manual metering at redelivery points that still have traditional meters was significantly reduced.

Owing to the publication of the consultation document ARERA 570/2018/R/gas, the relevant implementing Resolution of which is expected by the end of 2018 and which has not been published yet, the framework is still developing. This will regulate the distributor's requirements the objection to the so-called "short statute barring" by end customers.

7.5 Commercial Development

2i Rete Gas S.p.A. scope of consolidation

In 2018, following the analyses of the "Commercial Development" project, some important initiatives were launched at 2i Rete Gas S.p.A. to provide incentives for the use of methane gas in the territories with most potential in terms of customers who are not served and redelivery points that were created but not activated.

For Municipalities with a high potential in terms of customers who are not served, following agreement with local administrations, reliefs on realisation and basic connection fees were introduced.

For Municipalities with a high potential in terms of redelivery points created but never activated, incentive campaigns on activation grants and document checks have been introduced by discounting these fees for users of the distribution and consequently the end customers.

The local departments affected by these initiatives were the South East Department, the South West Department and the North Department with over 90 municipalities involved.

During 2018, these initiatives overall led to the creation of 3,102 new redelivery points, 1,120 of which were activated during 2018, and the activation of a further 1,405 redelivery points which had not been previously activated.

In addition, further incentives were launched during 2018 in municipalities involved in the installation of new methane gas networks, involving all the Departments with over 80 initiatives launched.

In addition, in order to raise the awareness of citizens with properties in the areas with new methane gas networks, information material on the benefits of connecting to the gas network was distributed.

Incorporation of 2i Rete Gas Impianti S.p.A.

The incorporation of 2i Rete Gas Impianti S.p.A. required some important organisational and operational changes and an update of the information systems of the Parent Company, in order to implement the estimate request management process, the creation of new connections, from customers through installation companies ("Installers"), which operate on behalf of the company.

Installers, 130 companies in 2018, are subjects who, acting under a specific agreement defined with the distributor, look for potential new customers to offer natural gas as an energy source, setting out all its advantages, providing assistance in the various stages, from estimate request for a new connection up to the activation of redelivery points, if any.

Therefore, it was necessary to update various processes, from estimate provision to handling the relationship with the Installer, in order to allow continuity in the activities carried out by those companies.

Consequently, training sessions were organised involving both internal staff and the Installers, so that they can use the corporate systems and operate in compliance with the new procedures implemented.

During 2018, the work of the Installers allowed the creation of 5,317 new redelivery points, 3,997 of which are active.

Cilento Project

Cilento Reti Gas S.r.l. is a special purpose vehicle of which 2i Rete Gas Impianti S.p.A. holds 60%, as the operating shareholder. The company is engaged in the creation of the natural gas distribution system in the 31 municipalities that signed the agreement in 2010, located in the area of Bussento, Lambro and

Mingardo, and in the areas of Gelbison and Cervati, and Alento and Monte Stella.

Currently the municipalities with an active gas supply are Sapri, Camerota and Vibonati, while in the remaining municipalities the construction of the network is underway and the end of the project, with the supply of gas to the final municipalities, is envisaged for 2023.

In 2018, a careful analysis was undertaken in order to define a strategy of commercial activities, promoting the use of natural gas, with the aim of adding value to the investments also given the restrictions envisaged by ARERA Resolution 704/16/R/gas of 1 December 2016. This introduces a maximum ceiling for the investments recognised in the tariff for locations being developed in relation to the number of active customers.

The results of a communication campaign in September 2018 in the municipality of Vibonati alone, the last of the municipalities supplied with gas, contributed 45% to the overall annual growth.

8. Plant construction, environment and safety

8.1 Gas distribution plants

During the period, over 330 km of piping was laid in total (in line with 2017).

In line with the past years and in keeping with the Company's technological decisions, around 98% of the piping laid in the year was in HDPE (high-density polyethylene) which is a technologically advanced material widely used by the main international gas operators and has lower operating and laying costs compared to traditional coated steel.

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

The total length of piping managed by the 2i Rete Gas Group at 31 December 2018 was over 66,200 km, servicing over 2,100 municipalities.

In addition, 1,284 primary substations are included in the amount. Upstream of the distribution networks which the Group manages, they reduce, measure and odourise the gas from the national transport networks.

Specifically, the network consists for around 80 % of steel piping, 19 % of HDPE pipes, while a residual amount of around 1% consists of cast iron pipes.

On the network there are about 17,000 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

In 2018, design work for preparing territorial tenders continued and, to this end, work continued to examine the technical details for the preparation of the technical proposals to be submitted during the tender along with the related design work for some areas of potential interest. During the year, in keeping with the work budgeted by the local units, some projects were also developed aimed at:

- extending the gas networks to areas/locations without gas service such as, for example, in the Municipality of Misterbianco (province of Catania), extension of over 5 km to connect the Humanitas oncology centre, in the Municipality of Ardea (province of Rome), extension of over 6 km for new users and extension of over 20 km for the introduction of methane gas to the holiday resorts on the Lecce - San Cataldo stretch;
- allowing the input of biomethane into distribution networks following requests from producers in the Municipality of Volta Mantovana, Ferrere and Brugine;
- optimising the operation of the existing plants, as well as verifying their correct operation in view or in light of new requests;
- verifying the feasibility of introducing methane gas to municipalities as an

extension from others which already have a gas network.

8.3 Service continuity and safety

During the year, the Group carried out checks on the data concerning service continuity and safety processes as set out in Resolution 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 odourisation, percentage of network with cathodic protection).

By the first six months of 2019, the Group will publish the data on the 2018 technical standards. To this end, it retrieved the data the local units entered directly into the IT systems during the year, verifying whether they are correct and consistent as needed.

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

In terms of constant attention to the safety of 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 odourisation of the gas distributed, which were carried out in the field in order to provide a complete check on the real level of odourisation of such gas, data was recorded (around 15,000 gas chromatography tests) well above the minimum value required by ARERA (around 3,000 tests), a sign of the particular attention paid to service safety.

8.4 Smart meters (Resolution 155/08)

Also, in 2018 installation of smart meters continued, as well as of infrastructure for reading data, one of the Group's main projects, both from the viewpoint of innovative and technological content and in terms of investment. The installation and use of new generation smart meters enable more accurate metering, precise calculation of real consumption, as well improvement in the effectiveness of corporate processes thanks to the remote management of the equipment.

The Group's targets in 2018, also in compliance with the Authority's Resolutions, were achieved.

Besides the installation of meters with point-to-point technology (transmission of data through a SIM card), the project envisages, in the most important cities and in the highly urbanised areas, the implementation of data transmission infrastructure through concentrators. These make it possible to collect incoming signals from smart meters with point-to-multipoint technology.

In 2018, the number of installed concentrators reached 2,842.

8.5 Regulatory oversight

Also during 2018, 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.

8.6 Study of biomethane

During 2018, a working group was set up to define and support the technical solutions to enable the highest possible number of positive responses to requests for the supply of biomethane.

In particular, it was decided to analyse, involving other subjects in the supply chain, the possibility of using the transport network (SNAM) to store biomethane (the production of which is constant over time) which cannot be taken by distribution networks in periods of low consumption by end customers – typically at night and/or in the summer.

The work group (which involved, besides the Group's and Snam's technical staff, also experts from a leading equipment manufacturer) drew up a technical solution which enables the measurement, compression, filtering if necessary and consequent transfer to the transporter's networks of the quantities of gas exceeding the acquisition capacity of the distributor's plant.

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

During 2018, thirty-five checks (internal audits) were planned aimed at ensuring the alignment of the Quality Safety and Environment System to the relevant standards, UNI EN ISO 9001 and 14001, BS OHSAS 18001. At the end of year, also in relation to the change in scope, there were 48 internal audits on Quality, Safety and Environment compliance, of which: 7 in regard to head office structures, 6 on department structures, 24 on the main offices of the operational areas and the remaining 11 on peripheral area offices.

All the checks made it possible to assess the organisation's alignment to the relevant standards, without finding any Serious Non-Compliance cases and with a significant overall reduction in the number of findings compared to 2017 (-73% in Minor Non-Compliance cases and -40% in simple remarks). In May, this situation was validated through a third-party audit carried out directly by the Accredited Body, which certified the three-year renewal of the certifications and at the same time of the key models to the new versions of UNI EN ISO 9001:2015, UNI EN ISO 14001:2015 (while the model for Health and Safety currently refers to 18001:2007). The final report confirmed the System as compliant and renewed the Certifications; no evidence of non-compliance was found.

The overall assessment the management system compliance and effectiveness by

the certification body stated that the integrated Quality, Safety and Environment management system is established and documented in relation to the certified processes and is adequate for the requirements of ISO 9001 and ISO 14001 of 2015. Employees are aware of, and involved in, the Company's operations.

The management system is compliant with the reference standards; the targets for improvement have been duly set in line with the corporate policy's principles regarding quality, the environment, and safety.

The documentation examined clearly defines the corporate mission and the context in which the organisation works; the stakeholders have been identified (regulatory body, granting body, sale companies, end customers, non-consumer customers, communities and bodies which depend on the serviced territory, union representatives and workers, contractors and suppliers, shareholders) and for each of these the related needs and expectations have been defined. The correlations between operating stages and the directly and indirectly involved stakeholders are duly set out.

The identification of the risks and opportunities is conducted with a focus on three macro business processes (acquisition, management and release of the plant); with reference to the aforementioned scope, the validity of the approach followed is recognised. It consists of subsequent analyses which have led - within the work groups formed "by area of competence" - to identification of the sub-processes and the individual activities/elementary aspects. The resulting output

represented the basis for the risk analysis.

The risks/opportunities identified were weighted on the basis of the probability of their occurrence and the severity of the consequences.

For the significant risks, the mitigating activities were correctly identified and – on the basis of their effectiveness – the residual risks were calculated. The reference practices for managing and reassessing the actions undertaken were correctly defined.

The following strengths of the Integrated Management System were identified: the Management commitment, the competence and awareness of the interviewed staff, the involvement of the company management in identifying the risks associated with processes, the control over worksites and the monitoring of out-sourcers.

The report included also some recommendations/opportunities for improvement (totalling 16), mainly referring to timing aspects that require to plan targeted actions. During the audit scheduled for the first half of 2019, the Group will provide evidence that these actions have been implemented and are effective.

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

The Certification Body was engaged also to certify compliance continuity of the quality management systems of 2i

Rete Gas S.r.l. and the integrated QSE management of 2i Rete Gas Impianti.

The periodic check to certify the Quality Management System of 2i Rete Gas S.r.l. as compliant was carried out in March, with the simultaneous transition of the certificate to the new version of UNI EN ISO 9001:2015; this made it possible to obtain renewal of the validity up to May 2021. The system was compliant without any findings.

For the certification of 2i Rete Gas Impianti, it was necessary to intervene in various stages: the first made it possible, upon closing the acquisition in February, to allow the new certification body “Certiquality” to take over from the previous body AENOR, maintaining the validity of the certificates of conformity 9001:2015, 14001:2015 and 18001:2007 which were held previously. In the second stage, which was completed at the end of June, through a third-party audit which involved plants in the areas of Catania, Bari and the offices of Acquaviva delle Fonti, the certificates were validated and confirmed up to August 2020. In this case, too, the audits were completed without any findings of non-compliance.

9.2 Prevention and Protection Service

In January and February 2019, the annual meetings about 2018 operations required by art. 35 of Italian Legislative Decree 81/08 were held. All Business Units discussed safety-related issues based on the events of 2018. The following issues were discussed at the

meetings: the trend in injuries and work-related illnesses; review of the Risk Assessment Document ("RAD"); verification of the suitability and effectiveness of protective equipment; assessment of training programmes; analysis of workplace health monitoring.

In November, the final update of the Risk Assessment Document was issued in all the Business Units.

In particular, a new assessment chapter was included, "Risk from outdoor work". It was arranged to update some chapters: assessment of "Manual movement of loads", "Healthcare protocol" and "Risk of aggression", as approved by the workers' safety representatives.

9.3 Workplace injuries

As for injuries to operational staff, 2018 saw figures in line with the previous year.

In 2017, there were 16 "non-serious" injuries (i.e. with an initial recovery time of less than 30 days). In 2018, there were 16 injuries; 2 injuries were unfortunately due to acts of aggression on our staff by users of the network during activities at the redelivery point.

There was just one injury at the end of the year among clerks, in line with 2017. Besides the above injuries, in 2018, there were also 2 and 6 commuting accidents involving operational staff and clerks, respectively; in 2017, there were 6 commuting accidents among clerks and 1 among operational staff.

In conclusion, the overall trend in injuries in 2018 was 1 unit up on the previous year owing to a commuting accident, recording 25 injuries compared to 24 in 2017. On the other hand, there was a reduction in the severity and frequency of injuries.

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

In 2018, workplace health monitoring ensured the implementation of the planned programme according to the findings of the risk assessment and based on the healthcare protocol approved by employers and by company doctors. Workplace health monitoring involved 580 Middle Managers/Clerks and 715 Manual Workers.

9.4 Environmental issues

The QSE structure constantly monitors material environmental aspects and ensures the Group is aligned with changes in environmental regulations. The Corporate Environmental Analysis, the main document for the assessment of corporate environmental impacts, was updated to align it to the requirements of the new version of UNI EN 14001:2015 and to the other system documents.

From an operational viewpoint, it continues removing asbestos from buildings as a preventative action, analysing on-site airborne fibres in collaboration with the Head of the Prevention and Protection Service.

In addition, in the context of environmental system indicators, the transition to the new regulatory model allowed revision of the goals set and which were divided between parameters to monitor regulatory compliance and objectives for continuous improvement.

In the first case, a check was made of the capacity for control by the organisation of the environmental aspects linked to the management of the companies' worksites (generation of noise and vibrations, handling of land and rocks/waste/spills), the management of waste products by 2i Rete Gas, the management of asbestos in properties in compliance with Italian Law 257/92 as amended and supplemented and Regional Regulations, the correct management of the authorisation process for water discharges (Italian Legislative Decree 152/06 as amended and supplemented), and compliance with environmental restrictions in the planning and construction stages.

As for the improvement goals, parameters were introduced to control consumption of raw materials and natural resources (consumption of fuel for operational vehicles, consumption of paper for printing and orientation to use recycled paper as an alternative to "virgin" paper, primary energy consumption for technological purposes in the

decompression process and in the cathodic protection process), atmospheric emissions (emissions from the car fleet, raising efficiency in Thermal Plants for preheating of gas, prevention of release of asbestos fibres with preventative work on structures where asbestos is present, optimisation of handling of special waste).

All the environmental parameters were in line with expectations, except for the general trend in paper consumption and the trend to favour recycled paper, an aspect which will be covered by an information campaign to promote its use with checks on consumption in the next period.

The Group companies registered in the SISTRI System for the purposes of managing its own hazardous special waste. The companies handle the non-hazardous and hazardous special waste they generate using state-of-the-art processes, tracking it by keeping waste acceptance and deposit records as well as digitally using a specific application.

9.5 Technical and Commercial Quality, communication of commercial quality data to ARERA

Also during 12018, 12 plants were checked. The check aimed to verify the quality of the documents certifying the service safety and continuity (management of the emergency service, management of leaks, management of

checks on the level of odourisation of the gas distributed, management of the cathodic protection system) which were guaranteed during 2018.

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

As for the events for Safety and Continuity, the QSE/SGL unit has ensured 8 inspections for 2018 aimed at determining the compliance of the registrations of the commercial quality of the service, carried out on samples selected on the basis of the Province's territory. The results recorded made it possible to certify, with some confidence, a low level of risk related to data non-compliance.

9.6 Coordination of Safety at Worksites

During 2018, corporate provisions were guaranteed regarding proper safety management for core and non-core business activities which fall under art. 26 of Italian Legislative Decree 81/08 and under Title IV of Italian Legislative Decree 81/08, which saw company representatives in the role of employer-principal, principal and head of works, as well as established a single conduct to be adopted in the approach to safety issues on the Group's worksites.

Company documents relating to the definition of roles and responsibilities of the above figures were updated in implementation of the above.

As for safety coordination management in the executive stage at worksites, the activities undertaken by the internal and external safety coordinators involved throughout the whole company scope were monitored.

All the safety coordinators adopted the same format to report on worksite visits in order to adopt a uniform approach in carrying out checks and, in 2018, produced a total of 5,252 reports, highlighting 1,015 non-compliance cases. These were all dealt with following the actions adopted by the companies on order of the safety coordinators.

10. Water sector

On 29 December 2017, 2i Rete Gas S.p.A. signed an agreement with Brianzacque S.r.l. for the transfer of the business unit relating to the drinking water distribution service in the Municipality of Villasanta, arranging for the effective transfer of management as from 3 January 2018.

As from 24 January 2018, the management of the drinking water distribution service relating to the concession of Moscufo was sold to ACA S.p.A. in House Providing, the sole manager Pescara local area no. 4.

With the acquisition of 2i Rete Gas Impianti S.p.A., the Group also took over management of three water plants in Sicily.

Therefore, the residual water management business after the end of 2018 includes, just for drinking water distribution, the plants of Carate Urlo, Riva Ligure and Santo Stefano al Mare while, for the

supply service, it includes the municipalities of Ventimiglia di Sicilia, Ciminna and Baucina.

11. Human resources

11.1 Company organisation

The year was characterised by work and efforts to integrate 2i Rete Gas Impianti S.p.A. and 2i Rete Gas Servizi S.p.A., with consequent analysis and re-engineering of processes and assessment of the specific skills for the suitable allocation of staff within the organisation of the Group. The analysis of the integration activities, moreover, made it possible to review some corporate processes by setting up specialist centres, the first of which was the centre dedicated to monitoring corporate remote-control systems.

As part of the review of the positions, the Job Evaluation project was continued and focussed on technical/operational positions in the Operational Area with the aim of creating an outstanding organisational-operational reference model for all local situations.

In addition, in continuity with the process of organisational/logistic department streamlining, the programme to increase the efficiency of local offices was implemented.

11.2 Relations with trade unions

In 2018, various meetings with trade unions took place. Following the development of a series of projects for local reorganisation and office optimisation, as well as within the integration process of 2i Rete Gas Impianti S.p.A. and 2i Rete Gas Servizi S.p.A., numerous meetings were held with the competent union organisations, aimed at finding the best solutions to manage the impacts on the people involved in the operation and in relocations, where envisaged. Relations with trade unions during the year saw a series of meetings at regional and national level with union representatives, aimed at making national agreements on operations to integrate and harmonise the newly acquired companies in the Group. In addition, during the year, an agreement was signed on corporate welfare linked to the results bonus paid in 2018. Moreover, work continued to define the criteria for renewal of union representation as well as the protocol on work relations.

11.3 Selection

During 2018, 38 selection processes were completed aimed both at taking on staff and at staff leasing.

Thanks to the integration of 2iRG Impianti S.p.A. and the relocation of its staff promoting their skills, in-house cover of some positions was possible in structures where extra staff were envisaged. External selection, therefore,

mainly concerned recruitment to replace staff who left owing to resignation/retirement, transfers through job postings or maternity leave.

The recruitment plan for 2018 continued to respond to the needs to strengthen operating structures and the head office where, over the years, a significant process has been implemented to achieve insourcing, completion of the skills of local departments and consolidation of highly specialist structures, such as those for smart meters, operational processes, engineering, and development of the network of commercial services.

As for recruitment through internal job postings, as well as successfully completing 5 recruitment processes which started in 2017, recruitment for a further 9 positions was started, with a total of 14 candidacies received.

In 2018, the objective was achieved to digitise the whole staff recruitment process, thanks to the implementation, on the SAP portal "SuccessFactors", of the new IT tool which collects and traces each step of the process: from viewing open positions and candidates loading their curricula, to the screening of applications, to calling the most interesting candidates, to managing and assessing interviews, up to final recruitment.

The breakdown of staff average balance at 31 December 2018 is provided below:

	2018	2017
Executives	33	30
Middle Managers	113	106
Clerks	1,183	1,110
Manual Workers	693	692
Total	2,022	1,937

11.4 Training and development

On the training front, different trainings were developed in 2018, focussing both on management and specialist themes, as well as on technical and safety themes.

As for the managerial area, training was provided on the main soft skills: communication, relationships, and self-empowerment. A public speaking programme was organised and some coaching courses dedicated to key figures continued.

Regarding the specialist issues aimed at supporting employees in carrying out their duties, we may note in particular the organisation and supply of sessions on the most common applications software and the completion of a course relating to negotiating and to economic assessments in case of company acquisitions.

In addition, a course on negotiating strategies and tactics was organised for the heads of the purchasing and services function as well as a specific course on the Code for Tenders (Italian Legislative Decree 50/2016) specifically dedicated to the heads of planning, technical monitoring and development of local plants.

Training/information was arranged for all company staff on the New Regulation on Privacy, on Decree 38 and on the basic elements of Italian Legislative Decree 231, with meetings held in all local departments with the legal department as in-house teacher. Finally, training initiatives continued to teach the proper use of the various company systems.

On the side of technical/operational training, the two most important projects were the initiative on Emergency Response, which followed that organised in 2016 for operatives and which this year was instead held for around 350 technical staff, and the package of courses defined, organised and supplied in-house to around 700 people relating to the CIG 14 Guidelines and as preparation for the professional qualification of staff responsible for the supervision of distribution plants in application of UNI 11632.

In addition, training courses on cathodic protection were provided, regarding, on the one hand, renewal of current licences and, on the other, the Webprocat application.

A specific training project was arranged for all the staff of 2i Rete Gas Impianti S.p.A. on change management.

In addition, all eligible staff attended a specific course focused on company welfare. This offered an overview on the benefits of the welfare system and

the operation of the specific platform implemented.

In addition, in partnership with QSE, the Group organised and provided, as far as Workplace Safety is concerned, First aid courses (basic and refresher training) for nearly 140 employees across the country; individual courses for the new CSEs, also including basic (120 hours) or refresher (40 hours) training; fire prevention courses for around 80 employees across the country; courses regarding the Safety Manager, supplied at all Departments and at the Branch Office; the annual refresher training for Workers' Safety Representatives.

The provision of the general and specialist course on safety continued via e-learning, which started in 2017 and to which 1200 employees took part during the year.

Finally, departmental and head office QSE staff attended preparatory courses for internal auditor qualifications relating to Quality (ISO 9001), Safety (ISO 18001) and the Environment (ISO14001).

11.5 Staff administration

During the second half of 2018, the project to integrate the attendance of manual workers, which allows the exchange of information between company attendance systems, became operational and is active in all departments.

The staff management activities planned for the incorporation of 2i Rete Gas Impianti S.p.A. ended on 30 June 2018.

The same aforementioned activities were carried out in November and December also for 2i Rete Gas Servizi S.p.A.

12. IT systems

The activities relating to information systems during 2018 were sharply focussed, in the first half, on the inclusion of the companies acquired from the Naturgy Group (formerly Gas Natural Fenosa), in particular as regards the integration of the operational activities of 2i Rete Gas Impianti S.p.A.

The main activities concerned the integration in terms of infrastructure (connection of the new offices, adjustment of work stations to Group standards, the reconfiguration of connections with Naturgy Data Centres), starting from the acquisition date, data migration from Naturgy's systems to the Group's systems and the implementation of the functions in use at the companies acquired and which are not present in the Group's information system. Given the integration of 2i Rete Gas Impianti, it was necessary to deploy a new local organisation, which was implemented on systems at the same time as the integration work on 30 June 2018, as well as a system to manage inter-company activities. This now makes it possible to manage operations as if the

different companies were a single entity, albeit maintaining their separate corporate identities.

In the second half, activities were launched to migrate the historic data and to migrate the remote alarm systems for the meters and cabins of the acquired companies.

In addition, the first functions were implemented to support the management of the methane gas project in Cilento (relaunched in the final quarter of 2018 by the subsidiary Cilento Reti Gas) and the activities to launch Cilento Reti Gas as a company operating in gas distribution, with direct management of the plants of Sapri, Camerota and Vibonati as from 1 January 2019.

Also in 2018, the activities relating to regulatory and legislative compliance required a significant contribution from the information systems, in particular the update for electronic invoicing which was duly launched at the start of 2019.

A strong commitment was seen in terms of the systems supporting the replacement and management of smart meters: a revision of infrastructure was undertaken in order to increase the reliability of remote metering and management processes, given the growth in volumes, for example enabling the functions of mass deployment and reprogramming of the RF 169 MHz network. Important activities were carried out on the monitoring and control systems, making dashboards available for analysing the effectiveness of

the meters which, integrated with the management system, make it possible, among other things, to dynamically re-program the switching on of the smart meters, so as to optimise the number of reactivations of meters, at the same time guaranteeing the windows for meter reading and remote management. Finally, advanced analysis functions were issued which enable identification of meters that have acted anomalously, directing recovery work in the field.

2018 saw the implementation of many functions supporting Asset Management, which were designed in the second half of 2017. Leveraging the Big Data and Analytics infrastructure implemented in other areas, programmes were developed to support analysis of the 4 views (physical, accounting, tariffs, and management), used in order to support the analyses aimed at the network renewal plan.

Planning was completed for the updating of the technical (AUG) and mapping (SIR) system, which is also included in the Asset Management programme, given the affinity with the project for technical accounting of the works, reviewed as part of the programme in order to guarantee the closest possible alignment and sharing of information on the plants realised.

As for initiatives aimed at increasing the operational efficiency of the local areas, during 2018, the tablet-based functions were extended to all operational staff as a support for all the obligations regarding the administrative

management of staff (from requesting holidays and leave, to justifying absences or overtime, showing availability, etc.), integrated with the system to manage field work reviewing, at the same time, the management of the Online Agenda.

During 2018, activities continued as part of the cybersecurity programme, with the activation of modules to support the protection of data under the GDPR, in particular in terms of Data Loss Prevention.

Finally, as for infrastructure, activities were started for the infrastructure renewal of Data Centres, implementing the new storage system and arranging the renewal of the server factory.

13. Research and development

During the year, research and development was undertaken in the IT sector and on the smart meter management system.

14. Risk management

This section concerning Enterprise Risk Management describes the main operational risks that characterise the sector in which the 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 revenue, 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.

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

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 government interventions 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 "B.o.D."), 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.

Specifically, 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.

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 jeopardise, in full or in part, the achievement of the objectives of trust-

worthiness, accuracy, reliability and timeliness of the above-mentioned disclosure.

In general reference to the whole Internal Control System and, in particular, to the Parent Company's financial disclosure, the B.o.D. 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 B.o.D. which operate with a view to financial disclosure

In order to be able to concretely act on the indications in the previous point, the B.o.D. interacts with the various institutional control bodies, such as the Board of Statutory Auditors, the Supervisory Body (hereafter the "S.B.") pursuant to Italian Legislative Decree 231/2001 and the independent auditors, drawing on the support of the CFO and Internal Audit and ensuring that they have the powers and means suitable to carrying out the 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. Since the Parent Company is a "Body of public interest", on the basis of article 19 of Italian Legislative Decree 39/2010, the Board of Statutory Auditors also takes on the role of "internal control and audit committee", with duties to oversee:

- 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 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 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: description of the aims of the Special Part, identification of the types of relevant crime, list of the potentially sensitive processes connected to

the specific types of crime, general principles of conduct and implementation, specific procedural principles, powers of the Supervisory Body and 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 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 B.o.D. appointed the new Supervisory Body as the collective body responsible for overseeing the operation and compliance with the Organisational, Management and Control Model adopted, as well as its update, consisting respectively of:

- Attorney Daniela Mainini, Chairwoman of the S.B.;
- Marco Antonio Modesto Dell'Acqua 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:

- supervision of the operation and compliance with the Organisational Model adopted;
- 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 231/2001;
- monitoring of the effective implementation of the Organisational Model, pursuant to art. 7 para. 4 lett. a) of Italian Legislative Decree 231/2001, understood as the prolonged correspondence of this document to institutional and organisational arrangements, as well as to the core business;
- 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;
- 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. 11 of Regulation (EU) no. 537/2014, the Independent Auditors will submit to the Board of Statutory Auditors, in its role as the "committee for internal control and audit", 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 B.o.D. 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 acts as the Head of Internal Audit.

The Head of Internal Audit reports to the B.o.D. 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 also has direct access to all the information needed to perform his 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 2017 - 2019 audit plan was prepared on a rolling annual basis following a structured and comprehensive risk analysis. This analysis, which is updated every year in order to identify the most important areas to audit, enables the AI department to define the most appropriate areas and level of analysis to carry out "third line of

defence" controls (process audit, compliance audit), 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 B.o.D., so that, should there be any weaknesses or potential weakness in the Internal Control System, they can be put right with suitable preventative/corrective measures required by AI, which are duly assigned, scheduled and monitored until their full completion. As from 2017, following this monitoring - the main aim of which is confirming the complete implementation of the aforementioned measures - systematic and related follow-up started in order to confirm whether the aforementioned plan effectively introduced the improvements to the internal control systems as hoped for during the audit.

The CFO and the Administration, Finance and Control Department

The System for risk management and internal control over financial disclosure is governed by the Chief Financial Officer (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 financial 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, submitting 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 financial disclosure

Given that the Parent Company, in setting up its own Internal Control System, has adhered to the indications on the matter included in the relevant laws and regulations, including the Italian Civil Code, Italian Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance), specifically arts. 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 Central Bank of Ireland, Italian Legislative Decree No. 231/2001 (Organisational and Management Model under Italian Legislative Decree 231/2001), Italian Legislative Decree 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 Co.SO Report framework.

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 these favourable corporate governance conditions, 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 access 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 Group 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 that the Company has made available to them (e.g. the aforementioned Organisational and

Management Model pursuant to Italian Legislative Decree 231/2001 - General part).

Risk assessment

This is the activity promoted, developed and managed by Internal Audit, on the indication of the B.o.D. (2017-2019 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 risks.

In fact, the primary objective of Risk Analysis - which is undertaken making precise and timely reference to the most common international best practices, 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.

As noted, the Risk Analysis process is carried out each year by the Company (Risk Analysis sessions were started in 2014 and annually updated in 2015 and

2016); also in 2017, there was an update of the risks, 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 all 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" them on their 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 ("risk tolerance and control weaknesses").

As already happened in the Risk Analysis of previous years, the 2017 update took as a reference very broad unacceptable areas (especially for legislative and regulatory compliance risks) in order to reach a particularly cautious risk assessment 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 corporate objectives.

The results of the 2017 risk analysis, besides triggering a remediation plan process with prioritised interventions, enable the identification and scheduling of audit activities over the next three years (2018-2020 Audit Plan, endorsed by the Chief Executive Officer and to be approved by the B.o.D.).

Also in 2018, the method was applied across the head office departments and local areas and enabled - as usual - a broad analysis of potential risks and the related controls under way, of which only a small percentage resulted not to be adequately managed and therefore subject to preventative/corrective 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, Safety and Environment Department, the Administration 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 231/01, the external auditor).

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, their traceability 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:

- 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 preparation of 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 continuous audit, managed by the IA department, in order to improve the internal control system to prevent and/or identify any cases of non-compliance with the law and/or internal regulations, which can be assessed in all the main corporate processes (accounts receivable, accounts payable, finance and cash management, human resources). This approach - defined on the basis of 54 red flags - can periodically "analyse" the

whole company database in order to systematically record "all possible situations requiring closer analysis and scrutiny".

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, 2016/2018, 2017/2019 and 2018/2020), the audit was conducted as follows:

- 2014, start of Cogitek S.r.l. business: targeted audits on local corporate processes which, on the basis of the risk analysis, represented the greatest audit risk/weakness, with a consequent request for implementation, updating and gradual completion of the corporate operational and regulatory framework.
- Years from 2015 to 2017: after completing the gradual normalisation of the Internal Control System, the Group performed behavioural audits on operators 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 S.B., regulatory aspects), also through the more and more massive use of «continuous auditing/anti-fraud». Gradual closing to total "coverage audit", in other words the completion of audits of local and Head Office corporate processes, in order to assess

- at least once during the entire period, the operation of the controls embedded in these processes. Monitoring of the timely implementation of the preventative/corrective plans requested during the audit and assigned to the various competent corporate departments.
- 2018-2020 Plans: Completion of "coverage audit". The Group followed up on especially significant issues for its business to ascertain that the preventative/corrective plans put in place by the above-mentioned Departments meet the necessary operational requirements and actually deliver the results expected for the improvement of the Internal Control System. Complete introduction of «Continuous auditing/anti-fraud» and launch of Continuous Monitoring.

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 operations have adequate knowledge of the elements that are essential for managing their area of responsibility. In the Group, this disclosure takes place in accordance with the planning, budgeting and periodic reporting process (e.g. *Tableau de Bord*) and extends through 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 B.o.D. - at least annually - with an assessment 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

During 2019 the work, which started in 2018, will continue to make the Group increasingly efficient and optimise the use of resources, at the same time guaranteeing cost containment.

The profitability expected for 2019 will reflect not only the regulator's work and the market trends, but also all those economies of scale and cost efficiencies that can be achieved by the Group.

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

- continue reducing the number of workplace injuries by improving work quality and safety across its operations;
- optimise its presence and act with ever increasing effectiveness;
- concentrate resources on the highest value-added network operations through increasingly focused and specialised operational structures;
- enhance the gas distribution infrastructure in order to offer to the greatest number of prospects the possibility of connecting to the network and using methane, the fossil fuel with the lowest environmental impact and with great flexibility also thanks to its scalable use, as well as promote the use and injection of renewable fuels such as biomethane and synthetic gas from power-to-gas in the network.

17. Key figures of the Parent Company

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

17.1 Reclassified Income Statement

Millions of euro	31.12.2018	31.12.2017	2018 - 2017
Revenue	887.8	860.5	27.3
Transport and sale of methane gas and LPG	556.4	555.5	0.9
Connection fees and accessory rights	14.1	14.6	(0.5)
Other sales and services	39.3	23.2	16.1
Revenue from intangible assets / assets under construction	240.0	237.0	3.0
Other revenue	38.0	30.2	7.8
Operating costs	(488.6)	(454.9)	(33.7)
Labour costs	(117.5)	(110.2)	(7.3)
Raw materials and inventories	(75.6)	(79.0)	3.4
Services	(250.6)	(235.6)	(15.1)
Other costs	(34.4)	(27.0)	(7.3)
Allocations to provisions for risks and charges	(11.3)	(4.2)	(7.1)
Increase in fixed assets not subject to IFRIC 12	0.8	1.1	(0.3)
EBITDA	399.2	405.6	(6.4)
Amortisation, depreciation and write-downs	(160.7)	(159.9)	(0.8)
Amortisation, depreciation and impairment losses	(160.7)	(159.9)	(0.8)
EBIT	238.5	245.7	(7.2)
Net financial income (expenses) and income (expenses)	(55.8)	(72.9)	17.1
Pre-tax income	182.7	172.8	9.9
Income taxes for the year	(53.1)	(52.1)	(1.0)
Net income (expenses) from continuing operations	129.7	120.7	8.9
Net income (expenses) from discontinued operations	-	-	-
Net income for the year	129.7	120.7	8.9

17.2 Reclassified Statement of Financial Position

Millions of euro	31.12.2018	31.12.2017	2018 - 2017
	A	B	A-B
Net fixed assets	3,508.9	2,737.6	771.3
Property, plant and equipment	34.9	37.4	(2.5)
Intangible assets	2,980.1	2,922.7	57.4
Equity investments	747.0	15.1	732.0
Other non-current assets	53.9	51.7	2.2
Other non-current liabilities	(307.1)	(310.3)	3.3
Fair value of derivatives	-	21.0	(21.0)
Net working capital:	41.8	93.6	(51.8)
Inventories	23.9	19.0	5.0
Trade receivables from third parties and the Group	231.5	272.3	(40.8)
Net receivables/(payables) for income taxes	3.7	19.4	(15.7)
Other current assets	167.8	169.1	(1.3)
Trade payables to third parties and the Group	(200.2)	(202.1)	1.9
Other current liabilities	(184.9)	(184.1)	(0.9)
Gross invested capital	3,550.7	2,831.2	719.5
Other provisions	59.8	59.1	0.7
Post-employment and other employee benefits	45.3	46.0	(0.7)
Provisions for risks and charges	99.6	85.8	13.8
Net deferred taxes	(85.1)	(72.7)	(12.4)
Net invested capital	3,490.9	2,772.1	718.8
Assets held for sale	32.7	2.1	30.5
Liabilities held for sale	6.9	2.3	4.6
Equity	798.1	758.3	39.9
Net Financial Position	2,718.5	2,013.6	704.9

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 2018 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 through profit or loss 2018	Equity 31.12.2018
Separate financial statements of 2i Rete Gas S.p.A.	129,653	798,147
Surplus or shareholders' equity from financial statements or subsidiaries used for the purposes of consolidation, compared to the carrying values of the equity investments in subsidiaries	25,120	23,709
Derecognition of income from intercompany liquidation		
Consolidation adjustments for:		
Consolidation difference allocated to concessions	(10)	488
Consolidation difference allocated to goodwill		2,906
Consolidation difference allocated to other items		
Valuation of equity investments with the equity method	783	884
Intercompany margins	(159)	(424)
Deferred and prepaid taxes	53	(11)
Consolidated financial statements of 2i Rete Gas S.p.A.	155,440	825,699
Non-controlling interests	17	(1,403)
Consolidated financial statements of 2i Rete Gas S.p.A. - owners of the Parent	155,457	824,296

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

Consolidated financial statements of the 2i Rete Gas
Group

1. Income Statement

Thousands of euro	Notes	31.12.2018	of which from related parties	31.12.2017	of which from related parties
Revenue					
Revenue from sales and services	5.a	682,457		600,313	
Other revenue	5.b	37,159	9	28,948	18
Revenue from intangible assets / assets under construction	5.c	265,949		238,065	
	Sub-Total	985,566		867,325	
Costs					
Raw materials and consumables	6.a	78,410		79,026	
Services	6.b	268,014	364	239,096	646
Personnel Costs	6.c	125,502	2,635	110,257	1,819
Amortisation, depreciation and impairment losses	6.d	189,813		161,203	
Other operating costs	6.e	53,313	461	31,753	426
Capitalised costs for internal work	6.f	(843)		(1,099)	
	Sub-Total	714,208		620,237	
EBIT		271,358		247,089	
Income (expenses) from equity investments	7	2,179	(1,183)	87	62
Financial income	8	515		769	0
Financial expenses	8	(57,528)	13	(73,855)	
	Sub-Total	(54,834)		(72,998)	
Pre-tax income		216,524		174,091	
Taxes for the period	9	61,084		52,466	
Net income (expenses) from continuing operations		155,440		121,624	
Net income (expenses) from discontinued operations		10	-	-	
NET INCOME FOR THE YEAR		155,440		121,624	
Net income for the year attributable to:					
- Owners of the Parent		155,457		121,624	
- Non controlling interests		(17)		0	

2i Rete Gas S.p.A.
Chief Executive Officer
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2. Statement of Comprehensive Income

Thousands of euro	31.12.2018	31.12.2017
Net income recognised through profit or loss	155,440	121,624
- Net income attributable to owners of the Parent	155,457	
- Net income attributable to non-controlling interests	(17)	
Other comprehensive income		
<i>Items which will never be reclassified through profit/(loss):</i>		
Revaluations of net liabilities / assets for defined benefits - owners of the Parent	753	292
Revaluations of net liabilities / assets for defined benefits - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified through profit/(loss) - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified through profit/(loss) - owners of the Parent	(216)	(83)
	538	208
<i>Items which may be reclassified subsequently through profit/(loss):</i>		
Change in fair value of hedging derivatives - owners of the Parent		
Change in fair value of hedging derivatives - non-controlling interests	(8,280)	3,591
Change in fair value of hedging derivatives reclassified in profit for the period - owners of the Parent		
Change in fair value of hedging derivatives reclassified in profit for the period - non-controlling interests	(403)	-
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	1,987	(862)
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 interest	97	-
	(6,599)	2,729
Total other comprehensive income	(6,061)	2,937
Total comprehensive income	149,379	124,562
Total comprehensive income attributable to:		
- Owners of the Parent	149,396	124,562
- Non controlling interests	(17)	0

Earnings per share: 0.4105 euro

Diluted earnings per share: 0.4105 euro

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

3. Statement of Financial Position

Assets

Thousands of euro	Notes	31.12.2018	of which from related parties	31.12.2017	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	39,312		37,458	
Intangible assets	12	3,682,262		2,937,360	
Net deferred tax assets	13	82,716		73,360	
Equity investments	14	3,459	3,336	3,070	2,553
Non-current financial assets	15	1,025		22,180	
Other non-current assets	16	57,710		51,796	
	<i>Total</i>	3,866,484		3,125,224	
Current assets					
Inventories	17	23,948		19,008	
Trade receivables	18	232,624	27	273,880	18
Short-term financial receivables	19	1,394		8	
Other current financial assets	20	187		9	
Cash and cash equivalents	21	686,353		816,138	
Income tax receivables	22	14,633		19,358	
Other current assets	23	207,726		172,370	
	<i>Total</i>	1,166,865		1,300,772	
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	32,681		2,141	
	<i>Total</i>	32,681		2,141	
TOTAL ASSETS		5,066,030		4,428,137	

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

Liabilities

Thousands of euro	Notes	31.12.2018	of which from related parties	31.12.2017	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent					
	24				
Share Capital		3,639		3,639	
Treasury Shares		-		-	
Other Reserves		505,388		510,161	
Retained earnings/(accumulated losses)		159,812		124,508	
Net income for the year		155,457		121,624	
Total equity - Owners of the Parent		824,296		759,932	
Equity - non-controlling interests					
Non-controlling interests		1,420		-	
Net income for the year - non-controlling interests		(17)		-	
Total equity - non-controlling interests		1,403		-	
TOTAL EQUITY		825,699		759,932	
Non-current liabilities					
Long-term loans	25	2,943,857		2,806,984	
Post-employment and other employee benefits	26	45,606		46,036	
Provision for risks and charges	27	9,916		9,870	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	-		-	
Other non-current liabilities	29	308,442		311,429	
	<i>Total</i>	3,307,821		3,174,319	
Current liabilities					
Short-term loans	30	362,651		-	
Current portion of long-term loans	31	-		-	
Short-term portion of long-term and short-term provisions	32	100,476		76,387	
Trade payables	33	207,608	1,291	208,103	780
Income tax payables	34	8,851		24	
Current financial liabilities	35	22,966		19,559	
Other current liabilities	36	223,036	220	187,482	
	<i>Total</i>	925,586		491,555	
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	6,923		2,332	
	<i>Total</i>	6,923		2,332	
TOTAL LIABILITIES		4,240,331		3,668,206	
TOTAL EQUITY AND LIABILITIES		5,066,030		4,428,137	

2i Rete Gas S.p.A.
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4. Statement of Cash Flows

Thousands of euro		31.12.2018	31.12.2017
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	21	816,138	183,197
Cash flow from operating activities			
Pre-tax income		216,524	174,091
Taxes for the period	9	(61,084)	(52,466)
1. Net income for the period		155,440	121,624
Adjustments for:			
Depreciation and amortisation	6.d	189,302	158,304
Write-downs/(Write-ups)	6.d	511	2,900
Capital (gains)/losses	5.b/6.e	20,814	19,181
Allocations to provisions for risks and charges and post-employment benefits		25,599	11,741
Financial (income)/expenses	7 and 8	54,834	72,998
2. Total adjustments		291,059	265,124
Change in net working capital			
Inventories	17	(2,901)	1,285
Trade receivables	18	70,528	(41,765)
Trade payables	33	(12,760)	43,698
Other current assets	23	(10,633)	7,362
Other current liabilities	36 and 37	15,091	30,469
Net tax receivables/(payables)	22 and 34	24,507	(25,070)
Increase/(decrease) in provisions for risks and charges and post-employment benefits	26, 27 and 32	(12,158)	(11,915)
Increase/(decrease) in provisions for deferred tax assets and liabilities	13	(11,081)	(6,412)
Other non-current assets	16	(5,331)	(6,745)
Other non-current liabilities	29	(196)	8,309
Financial income/(expenses) other than for financing	8	(856)	(283)
3. Total change in net working capital		54,210	(1,066)
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		500,709	385,682
Cash flow (used in)/generated by investing activities			
Net fixed assets		(283,231)	(253,384)
Purchase of subsidiary and income from equity investments	7 and 14	(722,722)	393
Cash acquired through company acquisition		1,916	-
C) CASH FLOW (USED IN)/GENERATED BY INVESTING ACTIVITIES		(1,004,037)	(252,991)
D) FREE CASH FLOW (B+C)		(503,328)	132,691
Cash flow from financing activities			
Dividend payout		(85,032)	(85,032)
Change in reserves		0	(14)
Change in amortised cost	15, 25 and 31	(502)	(1,202)
Financial income/(expenses) relating to the Fv of the derivative instrument from comprehensive income	7 and 8	(403)	0
Financial income for financing activities	8	400	55
Financial (expenses) for financing activities	8	(56,557)	(72,858)
New loan	25	0	155,000
Receipts from debenture loan issues	25	500,000	1,165,000
Debenture loan settlements	25		(660,107)
Change in short-term financial debt	30	(562)	-
Current portion of long-term loans	31	(17)	0
Change in amortised cost	28	(72)	0
Change in other current financial payables	35	0	0
Change in other non-current financial assets	15	12,744	35
Change in other financial receivables	19 and 20	137	913
Change in other financial payables	35	3,407	(1,540)
E) CASH FLOW FROM FINANCING ACTIVITIES		373,543	500,250
F) CASH FLOW FOR THE PERIOD (D+E)		(129,785)	632,941
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	21	686,353	816,138

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

	Share capital and reserves									Total consolidated equity
	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year	Total - Owners of the Parent	Total - Non-controlling interests	
Thousands of euro										
Total 31 December 2016	3,639	286,546	728	13,219	206,744	80,076	129,464	720,416	-	720,416
<i>Allocation of income for 2016:</i>										
Distribution of income	-	-	-	-	-	129,464	(129,464)	-	-	-
- Increase in legal reserve	-	-	-	-	-	-	-	-	-	-
<i>Contribution from shareholders and payments to them as shareholders</i>										
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
<i>Total contribution from shareholders and payments to them as shareholders</i>								(85,032)		(85,032)
- Net income for the year recognised in equity	-	-	-	-	(14)	-	-	(14)	-	(14)
- Change in IAS reserves	-	-	-	2,729	208	-	-	2,937	-	2,937
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	121,624	121,624	-	121,624
Total 31 December 2017	3,639	286,546	728	15,948	206,939	124,508	121,624	759,932	-	759,932
<i>Allocation of income for 2017:</i>										
Distribution of income	-	-	-	-	-	121,624	(121,624)	-	-	-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
<i>Total contribution from shareholders and payments to them as shareholders</i>								(85,032)		(85,032)
- Other changes	-	-	-	-	1,275	(1,275)	-	-	-	-
- Other changes	-	-	-	-	14	(14)	-	-	1,420	1,420
- Net income for the year recognised in equity	-	-	-	-	-	-	-	-	-	-
- Change in IAS reserves	-	-	-	(6,599)	538	-	-	(6,061)	-	(6,061)
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	155,457	155,457	(17)	155,440
Total 31 December 2018	3,639	286,546	728	9,349	208,765	159,812	155,457	824,296	1,403	825,699

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 25 March 2019, 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 23 March 2018.

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 2018 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to Regulation (EC) 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 of the accounting standards set out below for all the years shown.

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's normal operating cycle or in the twelve months following the reporting period; current liabilities are those expected to be settled during the Group's normal operating cycle or in 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 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 consolidating the data of the Parent Company and of the investee companies it controls, directly or indirectly, on a line-by-line basis. Control exists when the Group is exposed to variable returns arising from its relationship with the Company, or has rights over such returns, and at the same time has the ability to affect them by exercising its power over the Company. 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 when it effectively obtains control of the purchased company. In this regard, reference should be made to the section "Business combinations" below.

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 among shareholders in their role as shareholders.

In the case of loss of control, the Group derecognises 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 derecognised, as well as costs and revenues of all significant transactions among the companies included in the scope of consolidation. Unrealised profits are also derecognised, as well as capital gains and losses arising from transactions among 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 reporting period. The estimates and the related assumptions are based on previous experience and other factors considered reasonable in the circumstances. They are adopted when the carrying amount of financial statement items cannot be easily deduced from other sources. The actual results might therefore differ from these estimates. The estimates and assumptions are periodically revised and the effect of each change is reflected in profit or loss, should that revision relate only to the year in question. Should the revision relate to both current and future years, the change is recorded in the year in which it is carried out and in the related future periods.

Revenue recognition

Revenue from gas transport is 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 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 revenue 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 VRT calculation on an asset recognition 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 ARERA 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 factors for estimating such recoverable values 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 historical 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 are 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 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 assumed are measured at their respective fair values at the acquisition date. Any surplus 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 identifiable 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.

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

Combinations of entities under common control

Business combinations under which the participating companies are definitively controlled by the same company or 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 recognise assets and liabilities from any combinations of entities 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 common controlling entity. Where the transfer values are higher than the historical 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 treatment of fixed assets. 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 linked to the dismantling and removal of assets is recognised, 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 the asset are identifiable.

Some assets, which were 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.

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
Others	4, 5

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:

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 no longer recognised as tangible assets 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 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 the asset 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 tested at least annually for impairment.

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 authorities (municipalities, municipality groups and mountain communities). Through service agreements, local authorities can set 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 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 93/11 can proceed with such tenders. In all the other cases, tenders are suspended until municipalities are ready to call them on a territorial basis. In the meantime, the 2i Rete Gas Group is continuing with the management of the network in the same way as prior to the expiry.

Should the concession not be re-assigned 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 laws.

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, their 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 asset.

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.

The 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 derecognised when: i) the contractual rights to receive cash flows end; 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 asset and has substantially transferred all the risks and benefits of ownership of the financial asset, or has transferred control over the financial asset.

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

The Group derecognises 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 valuation technique. 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 financial assets 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 subsequent 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 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 office 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 fair value at the settlement date, 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 equity reserve, 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 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 con-

tract or when the contract is renegotiated so that it 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 measurements are performed by independent actuaries. Following the adoption of IAS 19 (2011), the actuarial gains/losses that emerge following these measurements 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 funding in relation to timing and, if applicable, the specific risks of the obligation. If the amount is discounted, the periodic adjustment of the present value due to timing is recognised as a financial expense in profit or loss.

Contributions

Whether they are from public entities or third parties operating in the private sector, contributions 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.

Revenue and costs

Revenue is recognised using the following criteria depending on the type of transaction:

- revenue from sales of asset is recognised when the significant risks and rewards of ownership of the assets sold are transferred to the buyer and their amount can be reliably determined and collected;
- revenue from gas transport is accrued on the basis of the tariffs and the related restrictions envisaged by legal provisions and by the provisions of ARERA, in force during the reporting period. The introduction of the new formula for gas transport revenue recognition, which was applied as from 2009, with the coming into force of Resolution ARG/gas 159/08, and largely reconfirmed in ARERA Resolutions 573/13 and 367/14, led to the introduction of an equalisation mechanism which enables the relevant distribution companies'

revenue to be calculated in order to remunerate the invested capital and the operating costs attributable to the gas distribution and metering service, regardless of the volumes distributed;

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

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 their future benefit.

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 estimated 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 2018 and of potential interest for the Group.

In the following sections, 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 2018, 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 2018, some additions 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:

- IFRS 9, endorsed with regulation no. 2016/2067 issued by the European Commission on 22 November 2016, was adopted as from 1 January 2018.

As regards the classification and measurement of the Group's financial assets, there was no significant impact from the application of the new standard. Pursuant to IFRS 9, the business model adopted by the Group to manage financial assets aims to hold financial instruments in order to collect contractual cash flows; therefore, financial assets such as trade, financial and other receivables, and financial liabilities such as trade, financial and other payables, continue to be measured at amortised cost.

With reference to the impairment model based on the expected credit loss set forth by IFRS 9, the Group has determined the risk of receivables due from customers from their creation and gradually updated on the basis of their ageing. This information has always been used by the Group in determining the bad debt provision in accordance with the impairment model based on expected credit loss.

The Group operates in a regulated sector from which its revenue arises and most of the receivables relate to highly reliable customers or are, in any case, covered by a significant guarantee.

In addition, the rules for user access to the gas distribution service are set forth by the Network Code and set out contractual rules which reduce the risks of customer default; on the basis of the Network Code (i.e. the collection of conditions regulating transactions be-

tween sale companies and distributors), gas sale companies, in order to access the gas distribution service, are required to issue specific guarantees under the form of bank or insurance guarantees or guarantee deposits.

On the basis of the above, the application of the new impairment model did not entail any changes at 1 January 2018 and, therefore, no effect was recognised in equity.

- IFRS 15 - Revenue from contracts with customers and clarifications to IFRS 15 - The new IFRS 15 defines the criteria for recognising and measuring revenue from contracts with customers.

In particular, IFRS 15 envisages that the recognition of revenue is based on the following 5 steps: (i) identifying the contract with the customer; (ii) identifying performance obligations (i.e., contractual promises to transfer goods and/or services to a customer); (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; and (v) revenue recognition when the related performance obligation is met.

In addition, IFRS 15 supplements the financial statement disclosure to be provided with reference to the nature, amount, timing and uncertainty of revenue and the related cash flows.

This standard, which has been endorsed by the European Union, applies as from 1 January 2018. No impact emerged on the Group's results or equity following implementation of the new standard.

- On 26 February 2018, the European Commission endorsed the document "Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2" while, on 14 March 2018, it endorsed the document "Transfers of Investment property - Amendments to IAS 40" and, on 28 March 2018, the document "IFRIC 22 Foreign Currency Transaction and Advance Consideration". None of these revisions had an impact on the Group's financial statements.
- The document "Annual Improvements to IFRS Standards 2014-2016 Cycle" was also endorsed by the European Commission on 7 February 2018 and implements the amendments to some standards as part of the annual improvement process (including: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interest in Other Entities, IAS 28 Investments in Associates and Joint Venture). The amendments to IFRS 1 and IAS 28 apply as from the years starting on 1 January 2018 or subsequently, while the amendments to IFRS 12 apply as from the years starting on 1 January 2017 or subsequently.

International accounting standard and/or interpretations issued but still not in force in 2018

As required by IAS 8 "Accounting policies, changes in accounting estimates and errors", the new standards or interpretations which have already been issued, but which have still not come into force or have still not been endorsed by the European Union at 31 December 2018, and are therefore not applicable, are indicated below.

- IFRS 16 - Leases - The new standard on leases, which will replace the current IAS 17, provides a single lessee accounting model requiring to recognise assets and liabilities for all leases. The concept of operating lease disappears.

The lessee must recognise the leased asset under tangible assets and at the same time recognise financial liabilities equal to the current value of future payments. The only exceptions allowed are short-term leases (for no more than 12 months) and leases of small assets (e.g., office furniture, computers) for which the accounting treatment remains similar to that currently adopted for operating leases. If a lease includes a service, the latter cannot be capitalised. This standard, which has been endorsed by the European Union, applies as from 1 January 2019.

The company largely completed the analysis relating to the changes to be introduced in the financial statements as from 1 January 2019.

The method which will be applied for recognition is the so-called "Modified retrospective approach", as allowed by the standard, integrated with some considerations on small assets and on the residual duration of some lease contracts. In the mapping carried out, three main cases were identified which are of interest in the Group's contracts:

- Vehicle hire
- Property lease
- ICT services entailing exclusive use of the underlying assets

The Company organised and categorised these contracts, recording the relevant clauses for the purposes of IFRS 16 accounting, as well as establishing an incremental borrowing rate curve, which mirrors the real rate to which the Company would be subject in case of use of capital markets.

The estimated impact in terms of asset recognition in the "right of use" category and the corresponding recognition of "lease payable-IFRS 16" at 1 January 2018 was 26.1 million euro.

Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

5.a Revenue from sales and services – 682,457 thousand euro

"Revenue from sales and services" mainly refers to the gas transport activity and the connection fees.

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

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Sales and services			
Third parties:			
Gas and LPG transport	639,542	564,071	75,471
Provision for risks	(152)	(1,767)	1,615
Connection fees	8,591	8,882	(291)
Ancillary fees	6,387	5,831	557
Revenue from the sale of water	804	1,188	(384)
Ancillary services - water sector	120	296	(176)
Revenue from customer operations	46	247	(201)
Revenue from purification / sewage management	-	226	(226)
Sundry revenue and other sales and services	27,118	21,339	5,779
Total revenue from sales and services	682,457	600,313	82,144

Revenue from gas transport totalled 639,524 thousand euro and mainly refers to the 2018 Tariff Revenue Cap for natural gas and LPG, together with revenue from adjustments relating to previous years.

This figure was calculated on the basis of ARERA Resolution 367/2014/R/gas which is valid for the fourth regulatory period up to 2019.

Net of the effect of the further allocation to the provision for risks regarding a possible tariff review of some concessions where there are plants partly owned by third parties, the item in question rose by 77,086 thousand euro in the year, almost exclusively due to the expansion of the scope of consolidation of 2i Rete Gas Impianti S.p.A.

Connection fees, which totalled 8,591 thousand euro, fell by 291 thousand euro compared to the previous year due to lower activity in the year, despite the increase in scope.

Revenue from the sale of water decreased by 987 thousand euro overall, following the strategy of gradual disposal of the water concessions managed by the Company.

“Sundry revenue and other sales and services” included revenue associated with the suspension and reactivation of customers in arrears at the request of the sales companies, which totalled around 7,293 thousand euro, as well as 10,319 thousand euro in revenue relating to the TCol tariff component, compared to 9,706 thousand euro in the previous year.

Revenue from readings was 4,938 thousand euro owing to Resolution 102/2016/R/com and the related revenue recognised to distributors for the reading of meters during the transfer phase.

5.b Other revenue – 37,159 thousand euro

“Other revenue” rose by 8,212 thousand euro and was as follows:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Other revenue			
Third parties:			
Revenue from plant contributions	2,326	2,264	62
Revenue from contributions - R&S tax credit	1,765	-	1,765
Contingent assets	309	1,683	(1,374)
Revenue from Resolution 574/13	14,126	14,066	60
Rental income	540	695	(154)
Capital gains from assets	1,399	1,305	94
Compensation for damages	1,180	102	1,078
Other revenue and income and services	15,009	8,833	6,176
Other revenue from water business	504	-	504
Total other revenue	37,159	28,948	8,212

In 2017, the item included revenue relating to the recognition of energy efficiency certificates, thus being particularly exposed to market fluctuations with, however, a decidedly modest impact in terms of profits, given the formula with which ARERA recognises revenue from the derecognition of white certificates.

For this reason, as from this year, revenue, costs and allocations for energy efficiency certificates are recognised in aggregate form, thus presenting only the net margin (positive or negative) for the year.

The item has been restated for 2017, in order to allow better understanding and comparison of data.

As in previous years, revenue as per Resolution 574/2013/R/gas concerning the quality of gas distribution and metering services testifies to the Company's focus on the technical quality of its services. The result depends on both the number of gas chromatography tests undertaken by the distributor (a parameter that 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). The estimate for this item is in line with the previous year.

Capital gains from the disposal of assets largely arise from disposals of water concessions and are in line with the previous year.

Finally, "Other revenue and income and services" were up 6,176 thousand euro both because of the increase in revenue from operations with defaulting end customers, whose administrative management was delegated to the gas distributor and thanks to the activation of guarantees on some malfunctioning plants.

5.c Revenue from intangible assets / assets under construction - 265,957 thousand euro

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Revenue from intangible assets / assets under construction			
Revenue from intangible assets / assets under construction	265,957	238,065	27,892
Total revenue from intangible assets / assets under construction	265,957	238,065	27,892

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

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

Costs

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

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 standard.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Costs relating to revenue from intangible assets / assets under construction			
Raw materials and consumables	5,852	5,003	849
Costs for services	136,699	110,180	26,519
Other operating costs	865	815	50
Capitalised costs for materials, personnel and services	122,540	122,067	473
Total costs relating to revenue from intangible assets / assets under construction	265,957	238,065	27,891

6.a Raw materials and consumables - 78,410 thousand euro

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

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	3,142	2,784	359
Stationery and printed materials	266	193	73
Various materials	77,864	74,764	3,100
(Change in inventories of raw materials)	(2,863)	1,285	(4,148)
Total costs of raw materials and consumables	78,410	79,026	(616)
- of which capitalised for intangible assets	70,704	73,497	(2,793)
- of which capitalised for other internal work	841	1,097	(256)

"Costs of raw materials and consumables" essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes; compared to the previous year, these costs decreased by 616 thousand euro overall, despite the expansion of the scope of consolidation.

6.b Services – 268,014 thousand euro

“Costs for services” are broken down as follows:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	131,072	103,768	27,305
Costs for electricity, power and water	3,392	3,202	190
Gas (for internal use)	3,585	3,339	246
Telephone and data transmission costs	3,198	2,193	1,005
Insurance premiums	4,483	4,241	242
Costs for services and other expenses relating to personnel	5,694	4,260	1,433
Fees	689	744	(55)
Legal and notary costs	1,966	2,219	(253)
Costs for company acquisitions and disposals	305	115	190
Staff and other services	535	-	535
Advertising	87	111	(25)
IT services	9,554	7,113	2,440
Meter reading service	4,911	6,477	(1,566)
Audit fees	769	552	217
Repairs and emergency service	6,356	4,913	1,444
Plant certifications Resolution no. 40	466	604	(138)
Gas transport by third parties	2,469	3,554	(1,085)
Professional and other services	5,028	7,789	(2,761)
Other costs for services	7,603	7,878	(275)
Costs for the use of third-party assets			
Leases	5,362	4,976	387
Rentals	4,613	6,463	(1,850)
Other costs for the use of third-party assets	1,925	1,781	145
Fee for temporary occupation of public space (C.o.s.a.p.)	1,238	1,246	(8)
Municipal gas concession fees	62,714	61,559	1,156
Total	268,014	239,096	28,918
- of which capitalised for intangible assets	136,699	110,180	26,519

The aggregate figure of costs for services (including also the costs for the use of third-party assets) rose compared to the previous year both due to the increase in the scope

of consolidation, and due to the higher amount of assets than can be capitalised on the basis of IFRIC 12 (26,519 thousand euro).

The most significant changes from last year concerned the following:

- 27,305 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;
- 1,441 thousand euro increase in the costs for utilities (electricity, water, gas, phone), following the expansion of the scope of consolidation and despite a further improvement in the financial terms of phone contracts;
- 2,440 thousand euro increase in costs for IT services, which in the year were particularly affected the migration and integration of the new scope;
- meter reading service with lower costs compared to the previous year owing to the greater percentage of remotely read meters (down by 1,566 thousand euro);
- this year, the costs for professional consulting services, which in the previous year were negatively affected by the preparatory activities for the liability management exercise and the acquisition completed at the end of 2018, fell by 2,761 thousand euro;
- as for costs for the use of third-party assets, rentals, leases and hire charges fell overall by 1,318 thousand euro thanks to an improvement in the efficiency of lease management, while concession fees rose by 1,156 thousand euro mainly owing to the change in the scope of consolidation.

As already noted, it should be remembered that, in the year, capitalisation of costs for services according to IFRIC 12 interpretation rose by 26,519 thousand euro thanks to the extra work on networks and meters.

6.C Personnel costs – 125,502 thousand euro

Personnel costs are broken down as follows:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Wages and salaries	90,582	81,942	8,640
Social security charges	27,584	24,359	3,225
Post-employment benefits	6,005	5,415	590
Asem/Fisde	(8)	1	(9)
Other personnel costs	368	(1,460)	1,829
Total personnel costs	124,532	110,257	14,275
Non-recurring personnel costs			
Incentives to leave	970	-	970
Total non-recurring personnel costs	970	-	970
Total personnel costs	125,502	110,257	15,245
- of which capitalised for intangible assets	57,689	53,573	4,116
- of which capitalised for other internal work	2	(2)	3

"Personnel costs" include all the costs incurred on a continuous basis which, directly or indirectly, concern staff and rose by 15,245 thousand euro; the item was negatively impacted by personnel costs arising from the acquisition.

In addition, it should be noted the rise in the capitalisation of personnel costs thanks also to the campaign to install smart meters and replace the obsolete network (57,689 thousand euro capitalised vs. 53,573 thousand euro last year).

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

	Executives	Middle Managers	Office Employees	Manual Workers	Total
Personnel at 31 December 2017	30	104	1,113	682	1,929
Change in the scope of consolidation	3	22	166	60	251
Internal mobility within Group:	-	-	(3)	3	-
Increase	1	1	24	2	28
Decrease	-	(9)	(43)	(42)	(94)
Change in category	1	4	(4)	(1)	-
Personnel at 31 December 2018	35	122	1,253	704	2,114

In the year, there was an overall increase in staff owing to the acquisitions made, while the natural trend in staff saw a negative balance with 94 people leaving compared to 28 new recruits.

6.d Amortisation, depreciation and write-downs – 189,813 thousand euro

Depreciation, amortisation and write-downs amounted to 189,816 thousand euro, up by 28,609 thousand euro compared to the previous year.

This change relates to the effect of the increase in scope which led to higher depreciation and amortisation, with specific reference to the amortisation of the purchase price allocated to intangible assets.

Instead, the write-downs of trade receivables improved by 2,669 thousand euro.

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

This item is broken down as follows:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Depreciation	5,725	4,922	803
Amortisation	183,578	153,382	30,195
Impairment losses:			-
- Impairment of tangible assets	395	76	319
- Impairment of intangible assets	17	56	(39)
- Write-down of trade receivables	98	2,767	(2,669)
	189,813	161,203	28,609

6.e Other operating costs – 53,513 thousand euro

“Other operating costs” increased by 21,559 thousand euro compared to last year and are broken down as follows:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Other operating costs			
Third parties:			
Remuneration of Auditors, Supervisory Body and Committees	247	116	131
Remuneration of members of the Board of Directors	296	335	(40)
Association fees	539	432	107
Contribution to the Supervisory Authority	314	197	117
Compensation to customers	566	254	312
Municipal tax on property	531	450	81
CCIAA (chamber of commerce) fees and duties	506	506	(0)
Net costs for energy efficiency certificates	7,915	628	7,288
Tax on the occupation of public space (Tosap)	1,664	1,850	(186)
Capital losses on the disposal of assets	22,113	20,486	1,627
Capital losses on the sale of assets	101	-	101
Local and sundry taxes	2,053	991	1,062
Other costs	3,024	951	2,073
(Net) provision for risks and charges	13,444	4,558	8,886
Total other operating costs	53,313	31,753	21,559
- of which capitalised for intangible assets	865	815	50

The increase in other operating costs mainly depends on:

- 7,288 thousand euro increase in the net costs for energy efficiency certificates for the 2017 and 2018 target, mainly because prices rose during 2018. The recognition, as from 2018, of the charges relating to these certificates takes place net of the related revenue and also 2017 was restated in this sense to enable a better comparison;
- 1,627 thousand euro rise in capital losses from the disposal of assets of, mainly due to the work to replace conventional meters with smart ones as well as the obsolete network; The total, amounting to 22,113 thousand euro, shows that replacement was particularly demanding this year, too. Please note that part of the losses, where concerning meters that had not been fully amortised through tariffs at the date of their replacement, are repaid through tariffs based on yearly instalments;
- higher charges for provisions for risks of 8,886 thousand euro. The breakdown of the relevant provisions is shown in the comments on liabilities.

6.f Capitalised costs for internal work - (843) 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. In the specific case, the value mainly refers to capitalisations of concentrators, equipment for the communication network of the new smart meters which are not part of the assets linked to the concessions.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Internal services	(2)	(2)	0
Other capitalised costs	(0)	(0)	(0)
Materials	(841)	(1,097)	256
Total capitalised costs for internal work	(843)	(1,099)	256

7. Income/(Expenses) from equity investments - 2,179 thousand euro

The item in question includes the recognition in equity of the investee MEA as well as the dividends and initial recognition of the implicit capital gain on the right of withdrawal exercised in the year on the investment in Azienda Elettrica Valtellina e Valchiavenna. At the reporting date, the final amount of this right was still not available.

8. Financial income/(expenses) - (57,013) thousand euro

This item is broken down as follows:

Thousands of euro			
	31.12.2018	31.12.2017	2018-2017
Financial income			
- Interest income from loans to employees	1	1	-
- Interest income from current accounts and post office deposits	400	55	345
- Interest income from receivables from customers	11	83	(72)
- Other financial interest and income	103	630	(527)
Total income	515	769	(254)
Third parties:			
- Interest expense on medium-/long-term loans	3,791	4,055	(264)
- Other expense on medium-/long-term loans from banks	525	520	4
- Financial expenses on debenture loans	49,675	62,782	(13,107)
- Financial expenses from amortised cost	2,555	5,493	(2,937)
- Interest expense on short-term bank loans	-	8	(8)
- Interest expense on current bank accounts	12	1	11
- Discounting of post-employment and other employee benefits	764	915	(152)
- Interests on taxes	1	2	(1)
- Other financial and interest expense	206	79	127
Total expenses	57,528	73,855	(16,327)
TOTAL FINANCIAL INCOME AND (EXPENSES)	(57,013)	(73,086)	16,072

Net financial expenses of 57,013 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 2018, the Group had 3,320,050 thousand euro in loans outstanding, including 2,894,893 thousand euro in the six instalments of the debenture loan issued between 2014 and 2018, as well as 425,000 thousand euro in three credit lines from the European Investment Bank.

Since 2014, the structure of the Group's debt has almost entirely moved to a fixed rate thanks to the debenture loan, lengthening the average duration of the existing debt and reducing the cost of the debt itself at the same time.

In 2017, the Group completed an important liability management exercise for the buy-back of part of the short-term debenture loan refinancing it with longer expiries, thus benefiting from an extremely limited cost of debt and actually hedging against the risk of a potential interest rate hike. However, the exercise had an impact on the financial costs for the year in the short term.

9. Taxes - (61,084) thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Current taxes			
Current income taxes: IRES	58,686	47,217	11,469
Current income taxes: IRAP	13,680	11,629	2,051
Total current taxes	72,366	58,846	13,520
Income and expenses from tax consolidation			
(Income)/expenses from tax consolidation	(28)		(28)
Total income and expenses from tax consolidation	(28)		(28)
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	0	62	(62)
Positive adjustments for income taxes relating to previous years	(135)	(30)	(104)
Total adjustments for income taxes relating to previous years	(134)	32	(167)
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(4,439)	(2,138)	(2,301)
Prepaid taxes (allocation)/use	(6,870)	(4,273)	(2,597)
<i>Total current deferred and prepaid taxes</i>	<i>(11,309)</i>	<i>(6,412)</i>	<i>(4,898)</i>
Adjustments to deferred taxes of previous years due to tax rate change	149	-	149
Adjustments to prepaid taxes of previous years due to tax rate change	41	-	41
<i>Total adjusted deferred and prepaid taxes</i>	<i>190</i>	<i>-</i>	<i>190</i>
Total deferred and prepaid taxes	(11,119)	(6,412)	(4,707)
TOTAL TAXES	61,084	52,466	8,618

The Group's income taxes for 2018 totalled 61,084 thousand euro, up 8,618 thousand euro year-on-year.

Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES of 58,686 thousand euro and IRAP of 13,680 thousand euro.

Deferred and prepaid taxes followed the normal course of the business.

For more in-depth notes on this item, 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 134 thousand euro; these adjustments arose following the definitive calculation of the taxes during the payment in June 2018.

The tax impact of IRES for 2017 is equal to 27.8%.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in force during the year to pre-tax profit, without taking into account the adjustments from previous years:

Thousands of euro

	31.12.2018	31.12.2017
Pre-tax profit	216,524	174,091
Theoretical IRES taxes	49,096	41,815
Lower taxes:		
- capital gains from exempt equity investments	225	-
- release of contributions taxed in prior years	1,870	1,920
- use of provisions	4,666	4,924
- release of provisions	576	980
- reversal of statutory amortisation / depreciation not deducted in prior years	1,526	3,493
- deducted tax amortisation	4,961	1,034
- capital gains by instalments	-	17
- others	3,013	2,808
Higher taxes:		
- allocations to provisions	8,640	7,079
- amortisation / depreciation on amounts that are not recognised for tax purposes	2,717	2,338
- statutory amortisation / depreciation exceeding the fiscal limits	12,547	8,957
- reversal of excess fiscal amortisation / depreciation deducted in prior years	779	820
- capital losses on the disposal / sale of assets	22	-
- capital gains by instalments	222	222
- partially deductible costs	502	413
- connection fees	158	27
- taxes	370	108
- others	441	615
Total current income taxes (IRES)	58,656	47,217
IRAP	13,680	11,629
Total deferred and prepaid taxes	(11,119)	(6,412)
TOTAL INCOME TAXES	61,217	52,434

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero, as in the previous year.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 39,312 thousand euro

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

The breakdown and changes in property, plant and equipment in 2017 and 2018 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	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
Contribution from change in the scope of consolidation:	-	-	-	-	-	-	-	-
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Investments	-	258	3,467	656	1,228	108	10	5,727
Entry into service	-	18	-	-	-	2	(20)	-
<i>Gross value</i>	-	18	-	-	-	2	(20)	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(766)	(227)	-	(18)	-	-	-	(1,011)
<i>Gross value</i>	(766)	(1,458)	-	(347)	(1,227)	-	-	(3,798)
<i>Acc. Depr.</i>	-	1,231	-	330	1,227	-	-	2,788
Reclassifications	(40)	16	-	-	-	-	(16)	(40)
<i>Gross value</i>	(40)	16	-	-	-	-	(16)	(40)
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Impairment losses	(62)	(10)	-	-	-	-	(4)	(76)
<i>Gross value</i>	(62)	(50)	-	-	-	-	(4)	(116)
<i>Acc. Depr.</i>	-	39	-	-	-	-	-	39
Depreciation	-	(879)	(236)	(501)	(2,285)	(1,020)	-	(4,922)
Total changes	(868)	(824)	3,231	137	(1,058)	(910)	(30)	(322)
Historical cost	12,750	33,570	6,838	22,684	49,004	13,505	2	138,352
Accumulated depreciation	-	(24,459)	(1,870)	(20,888)	(42,928)	(10,748)	-	(100,894)
Balance at 31.12.2017	12,750	9,111	4,968	1,796	6,076	2,756	2	37,458
Contribution from change in the scope of consolidation:	-	3,210	80	0	2,263	91	-	5,644
<i>Gross value</i>	-	10,583	1,017	9	5,367	445	-	17,421
<i>Acc. Depr.</i>	-	(7,373)	(938)	(9)	(3,104)	(354)	-	(11,777)
Increases (including Fixed assets classified as assets available for sale)	-	160	2,504	175	1,367	23	2	4,231
Entry into service	-	-	-	-	-	(0)	0	-
<i>Gross value</i>	-	-	-	-	-	(0)	0	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(803)	(1,035)	-	0	(9)	(19)	-	(1,865)
<i>Gross value</i>	(803)	(3,981)	-	(8)	(51)	(283)	-	(5,126)
<i>Acc. Depr.</i>	-	2,946	-	8	42	265	-	3,261
Reclassifications	-	-	(7)	102	(60)	-	-	35
<i>Gross value</i>	-	-	(933)	2,055	1,358	-	-	2,480
<i>Acc. Depr.</i>	-	-	926	(1,954)	(1,418)	-	-	(2,446)
Impairment losses	-	(395)	-	-	-	-	-	(395)
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	(395)	-	-	-	-	-	(395)
Fixed assets classified as assets available for sale	-	-	(70)	-	(2)	-	-	(72)
<i>Gross value</i>	-	-	(71)	-	(30)	-	-	(101)
<i>Acc. Depr.</i>	-	-	2	-	28	-	-	30
Depreciation	-	(809)	(434)	(488)	(2,929)	(1,065)	-	(5,724)
Total changes	(803)	1,131	2,074	(211)	630	(970)	2	1,854
Historical cost	11,947	40,332	9,355	24,916	57,015	13,688	4	157,257
Accumulated depreciation	-	(30,090)	(2,313)	(23,330)	(50,309)	(11,902)	-	(117,945)
Balance at 31.12.2018	11,947	10,242	7,042	1,585	6,706	1,786	4	39,312

At 31 December 2018, the item rose by 1,854 thousand euro compared to 31 December 2017; this increase was essentially due to the change in scope.

The increase in plant and equipment, on the other hand, was due to the installation of concentrators, data reception and transmission equipment which is part of the smart

meter communication network and is excluded from the scope of application of IFRIC 12 since it is not recognised as service concession assets.

12. Intangible assets - 3,682,262 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions.

The breakdown and changes in intangible assets in 2017 and 2018 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	Other fixed assets	Goodwill	Total
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
Investments	3,027	227,451	10,668	3,054	8,581	-	252,782
Entry into service	-	7,498	(7,281)	(3,451)	3,234	-	-
<i>Gross value</i>	-	7,498	(7,281)	(3,451)	3,234	-	-
<i>Acc. Amort</i>	-	-	-	-	-	-	-
Decreases	-	(23,248)	(47)	-	-	-	(23,295)
<i>Gross value</i>	-	(69,578)	(47)	-	-	-	(69,626)
<i>Acc. Amort</i>	-	46,331	-	-	-	-	46,331
Reclassifications	-	40	-	-	-	-	40
<i>Gross value</i>	-	40	-	-	-	-	40
<i>Acc. Amort</i>	-	-	-	-	-	-	-
Impairment losses	-	(1)	(18)	(38)	-	-	(56)
<i>Gross value</i>	-	(1)	(18)	(38)	-	-	(56)
<i>Acc. Amort</i>	-	0	-	-	-	-	0
Fixed assets classified as assets available for sale	-	(1,373)	(94)	-	-	-	(1,467)
<i>Gross value</i>	-	(5,083)	(94)	-	-	-	(5,176)
<i>Acc. Amort</i>	-	3,710	-	-	-	-	3,710
Amortisation	(3,910)	(137,232)	-	-	(12,240)	-	(153,382)
Total changes	(883)	73,136	3,229	(434)	(425)	0	74,623
Historical cost	91,644	5,510,257	14,467	3,278	110,595	142,974	5,873,215
Accumulated amortisation	(87,081)	(2,774,412)	-	-	(74,362)	-	(2,935,855)
Balance at 31.12.2017	4,563	2,735,845	14,467	3,278	36,233	142,974	2,937,360
Contribution from change in the scope of consolidation:	-	570,554	-	-	2,421	125,735	698,709
<i>Gross value</i>	-	1,049,037	-	-	15,005	125,735	1,189,778
<i>Acc. Amort</i>	-	(478,483)	-	-	(12,585)	-	(491,068)
Increases (including Fixed assets classified as assets available for sale)	2,806	247,383	18,594	3,432	11,373	-	283,587
Entry into service	856	8,544	(8,544)	(2,689)	1,833	-	(0)
<i>Gross value</i>	856	8,544	(8,544)	(2,689)	1,833	-	(0)
<i>Acc. Amort</i>	-	-	-	-	-	-	-
Decreases	-	(21,726)	(26)	-	(317)	-	(22,069)
<i>Gross value</i>	-	(61,592)	(26)	-	(2,344)	-	(63,962)
<i>Acc. Amort</i>	-	39,866	-	-	2,027	-	41,893
Reclassifications	(29)	(4)	-	-	(2)	-	(35)
<i>Gross value</i>	(30)	988	-	-	(15)	-	943
<i>Acc. Amort</i>	1	(992)	-	-	13	-	(978)
Impairment losses	-	(1)	(17)	-	-	-	(17)
<i>Gross value</i>	-	(1)	(17)	-	-	-	(18)
<i>Acc. Amort</i>	-	0	-	-	-	-	0
Fixed assets classified as assets available for sale	-	(31,028)	(667)	-	-	-	(31,696)
<i>Gross value</i>	-	(62,108)	(667)	-	-	-	(62,775)
<i>Acc. Amort</i>	-	31,079	-	-	-	-	31,079
Amortisation	(3,607)	(165,543)	-	-	(14,428)	-	(183,578)
Total changes	25	608,178	9,340	743	879	125,735	744,902
Historical cost	95,275	6,692,509	23,807	4,022	136,446	268,709	7,220,768
Accumulated amortisation	(90,687)	(3,348,485)	-	-	(99,334)	-	(3,538,506)
Balance at 31.12.2018	4,588	3,344,023	23,807	4,022	37,113	268,709	3,682,262

Intangible assets rose 744,902 thousand euro compared to 31 December 2017, mainly as a result of the change in the scope of consolidation.

The item "Concessions and similar rights" totalled 2,735,845 thousand euro in 2017 and 3,344,023 thousand euro in 2018, with a total change of 608,178 thousand euro.

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 change in the scope of consolidation in the year impacted for 570,554 thousand euro on the item, to which investments for 247,383 thousand euro may be added. The change is completed by the disposals made in the year for (21,726) thousand euro, reclassifications for (31,028) thousand euro also due to the recognition as available for sale assets of the concessions involved in the disposal in Bari 2 and Foggia 1 areas and, finally, amortisation for (165,543) thousand euro.

The amortisation of concession charges has been determined on a straight-line basis and on the basis of the estimated realisable value 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 - Fixed assets under construction and advances", totalling 9,340 thousand euro, included investments related to the concessions and not yet completed.

"Fixed assets under construction and advances", totalling 4,022 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, 2,689 thousand euro in fixed assets under construction were completed.

"Other intangible assets" of 37,113 thousand euro include other long-term costs, such as costs linked to the implementation of the remote reading system for smart meters.

"Goodwill" is equal to 268,709 thousand euro and 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 a forecast period of 5 years, consistent with the 2i Rete Gas Group plan approved by the Board of Directors on 18 December 2018 and drafted on the going concern assumption, 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;
- disposal of the concessions relating to the ATEM tenders of Bari 2 and Foggia 1 in 2019.

The discount rates applied, the forecast period over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

Tax Rate	WACC (1)	Cash flow forecast period	TV (g) growth rate
28.6% (2)	3.6%	2019 - 2023	0%

(1) Post-tax WACC is aligned to the average cost of financing of the best-performing peers in the sector

(2) IRAP + IRES rate

The value in use, 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 39%, a percentage which is much higher than the reductions considered possible by the Group.

13. Net deferred tax assets – 82,716 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date. Deferred tax assets totalled 205,814 thousand euro, while deferred tax liabilities totalled 123,099 thousand euro.

Deferred tax assets and liabilities at 31 December 2018 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

As for deferred taxes, the 2,006 thousand euro increase was due to the normal change in the year; on the other hand, decreases were 8,177 thousand euro, and besides the recognition of the effects of mergers (for 4,688 thousand euro), also included a fall of 2,084 thousand euro relating to the recognition of the derivative.

The change in deferred taxes assets for the year refers to increases for 19,661 thousand euro and decreases for 12,868 thousand euro due to regular changes in the year.

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 the tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

Thousands of euro	At 31.12.2017	Contribution from acquisition	Capital contributions from extraordinary operations during the year	Total	Increases recognised in		Decreases recognised in		Other changes		Reclassifications (if any) under the Item Available for sale	Adjustments (if any) under the Item Available for sale	Balance at 31.12.2018
					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	19,329	2,568	-	21,897	7,834	-	(3,310)	-	2	-	-	-	26,423
allocation to provisions for incentives to leave and stock options	710	-	-	710	277	-	(315)	-	0	-	-	-	673
allocation to provisions for disputes	4,138	-	-	4,138	823	-	(922)	-	(2)	-	-	-	4,037
allocation to provisions for inventory obsolescence	3,315	12	-	3,327	47	-	(76)	-	0	-	-	-	3,298
impairment losses on assets, deferred deductibility (receivables write-downs)	3,369	167	-	3,536	36	-	(1,045)	-	0	-	-	27	2,554
impairment losses on assets, deferred deductibility (plant write-downs)	1,900	-	-	1,900	-	-	-	-	(0)	-	-	-	1,899
depreciation and amortisation of tangible and intangible assets, deferred deductibility	86,375	18,045	-	104,421	9,275	-	(3,888)	-	(1)	-	(802)	105	109,110
separation of land / buildings and component analysis	114	-	-	114	-	-	-	-	(0)	-	-	-	114
start-up costs	2,225	-	-	2,225	-	-	-	-	(0)	-	-	-	2,225
post-employment and other employee benefits	2,948	448	-	3,396	1,186	-	(637)	-	(5)	-	-	-	3,940
cash deductible taxes and duties	12	-	-	12	-	-	(12)	-	0	-	-	-	(0)
proceeds subject to deferred taxation (connection fees)	32,194	2,590	-	34,784	123	-	(283)	-	(6)	-	-	-	34,618
deferred deductibility charges	15,661	17	-	15,678	-	-	(2,243)	-	(0)	-	-	-	13,434
goodwill	1,135	132	-	1,267	1	-	(136)	-	(0)	-	-	-	1,133
post-employment benefits - Italian Accounting Body (OC1)	2,252	-	1	2,253	-	-	-	(15)	-	(1)	-	-	2,238
derivative financial instruments (in case of a net negative change in the relevant equity reserve)	-	-	-	-	-	-	-	-	-	-	-	-	-
for losses recoverable in future years	(0)	0	-	(0)	1	-	-	-	-	-	-	-	1
other consolidation adjustments	79	(17)	-	62	58	-	(2)	-	-	-	-	-	118
Total	175,756	23,962		199,719	19,661	-	(12,868)	(15)	(13)	(1)	(802)	132	205,814
Deferred income tax liabilities:													
differences on tangible and intangible assets - additional depreciation and amortisation	25,702	-	-	25,702	314	-	(836)	-	(0)	-	(2,149)	-	23,030
differences on intangible assets - goodwill	5,481	-	-	5,481	-	-	-	-	(0)	-	-	-	5,481
separation of land / buildings and component analysis	3,827	-	-	3,827	-	-	-	-	(1)	-	-	-	3,826
allocation to assets of costs relating to company mergers	40,245	-	-	40,245	-	-	(2,247)	-	(7)	-	-	-	37,991
non-accounting deductions relating to impairment of equity investments, receivables and licenses	-	-	-	-	-	-	-	-	-	-	-	-	-
post-employment benefits	939	-	-	939	-	175	-	-	-	(0)	-	-	1,114
proceeds subject to deferred taxation	2,365	-	-	2,365	1,209	-	(222)	-	(0)	-	-	-	3,352
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	5,036	-	-	5,036	-	-	(97)	(2,084)	-	-	-	-	2,856
other...	1,421	269	-	1,689	39	-	(248)	-	(0)	-	-	-	1,480
derivative financial instruments and ASEM - Italian Accounting Body (OC1)	33	-	-	33	-	25	-	-	-	(0)	-	-	59
recognition of deferred taxes due to merger	17,348	28,626	-	45,973	244	-	(2,441)	-	(4)	-	-	-	43,772
other consolidation adjustments	0	142	-	142	-	-	(3)	-	-	-	-	-	139
5% dividends received allocated to future years on an accruals basis	0	-	-	0	-	-	-	-	-	-	-	-	0
Total	102,396	29,037		131,432	1,805	201	(6,094)	(2,084)	(13)	(0)	(2,149)	-	123,099
Net deferred tax assets	73,360	(5,074)		68,287	17,856	(201)	(6,775)	2,069	(0)	(0)	1,347	132	82,715

14. Equity investments – 3,459 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	Increases for the period	Disposals	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	31.12.2017			Changes in 2018					at 31.12.2018		
Associates											
Equity Method											
Melegnano Energia Ambiente SpA	2,553	40.00%		783				2,451	884	3,336	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%
Aso gas S.p.A. in liquidazione	-	9.00%						-		-	9.00%
Alpifiere S.r.l. in fallimento (removed on 28 January 2018)	-	3.00%						-		-	3.00%
Banca Popolare Pugliese		0.00%	11							11	0.00%
TOTAL EQUITY INVESTMENTS	3,070		11	783	-	(405)	-	2,969	884	3,459	

The tables below show the list of equity investments in associates and their values as recognised in the Group's financial statements at 31 December 2018:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenue (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	9,339,277	5,695,310	2,957,884	31.12.2017	40.00%	3,335,711

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

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,468,592	1,301,407	(281,664)	31.12.2017	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,588,716	1,544	(119,306)	31.12.2017	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,947,959	964,194	85,636	31.12.2017	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,187,621	-	(30,034)	31.12.2017	0.09%	10,989
Terme di Offida Spa	Offida (AP)	141,384	32,969	1	(96,324)	31.12.2017	0.19%	548
Asogas S.p.A. in liquidazione	Amandola (FM)	2,182	(651)	-	(2,229)	31.12.2017	9.00%	-
Alpiflere S.r.l. in fallimento	Removed from the Business Register on 23/01/2018	-	-	-	-	-	0.00%	-
Banca Popolare Pugliese	Parabita (Le)	185,899,896	366,460	885,680	10,148,424	31/12/2017	3,051 ordinary shares	11,231

15. Non-current financial assets – 1,025 thousand euro

The item, in 2017, included the forward starting swap taken out to hedge the interest rate risk for a future issue of an instalment of the debenture loan. For this reason, upon issue of the final instalment of the debenture loan, the swap was closed and liquidated, as planned. Given the structure of the hedge, the positive impact on profit or loss will be recorded on the basis of the corresponding negative impact of financial costs for the loan issued. The item also includes the prepayment of transaction costs incurred to obtain credit lines, unused at 31 December 2018.

Thousands of euro

	31.12.2018	31.12.2017	2018-2017
Non-current prepaid financial expenses	368	531	(163)
Long-term loans to employees	42	50	(8)
Financial receivables due from others	614	614	-
Fair value measurement of IRS derivatives	-	20,984	(20,984)
Total	1,025	22,180	(21,155)

16. Other non-current assets – 57,710 thousand euro

This item increased by 5,914 thousand euro compared to 31 December 2017; it is broken down as follows:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
security deposits	3,381	3,074	307
receivables for plant contributions	560	560	-
tax receivables reimbursements applied for	1,598	1,598	-
prepaid promotional expenses	110	136	(26)
from Municipalities for disposals of assets due to expiration of Concessions	7,131	8,723	(1,592)
Non-current receivables from CSEA	28,662	23,385	5,276
other non-current assets	16,416	14,468	1,949
bad debt provision	(147)	(147)	-
Total	57,710	51,796	5,914

Guarantee deposits totalled 3,381 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The receivable for grants to be received of 560 thousand euro did not change in the year.

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

The receivable due from municipalities for disposals of assets due to the expiration of concessions had a balance of 7,131 thousand euro, further 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 define the amount of the refund owed to the Group as outgoing operator for some concessions which have been ended over the years. This year, too, the Company placed special emphasis on this issue, unlocking a further tranche of receivables.

The balance of non-current receivables due from the Fund for Energy and Environmental Services (CSEA) referred to the amount payable to distribution companies for the conventional meters that must be replaced with smart ones pursuant to Resolution 155/09, but that had not yet been fully amortised through tariffs at the date of their replacement. The marked increase was due to the intense replacement work in 2018.

Finally, the 1,949 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 (11,090 thousand euro at 31 December 2018), as well as the remaining amount of the prepaid expenses for the lease payment paid in advance by the Parent Company to the company API, which owns the networks operated in the municipality of Rozzano (3,250 thousand euro).

Current assets

17. Inventories – 23,948 thousand euro

Closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas and water distribution plants and, in particular, of the new smart meters.

The item, impacted by the change in the scope of consolidation, includes the provision for the write-down of inventories equal to 590 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 – 232,624 thousand euro

Trade receivables were down 41,256 thousand euro compared to 31 December 2017.

This item is broken down as follows:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Third-party customers:			
Receivables due from customers	240,443	280,549	(40,106)
- Bad debt provision	(9,288)	(9,057)	(230)
Receivables for returns under warranty	2,114	5,065	(2,951)
- Provision for receivables for returns under warranty	(646)	(2,677)	2,031
Total	232,624	273,880	(41,256)

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 9,288 thousand euro bad debt provision, compared to 9,057 thousand euro at the beginning of the year.

Changes in the bad debt provision are set out below.

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
At 31 December 2017	9,057	13,821	(4,764)
Contribution from change in the scope of consolidation	1,896	-	1,896
Allocations	978	485	493
Releases	(879)	(1,714)	834
Uses	(1,765)	(3,384)	1,619
Other changes	-	(151)	151
At 31 December 2018	9,288	9,057	230

The bad debt provision at 31 December 2018 was subject to taxes of 9,062 thousand euro (8,724 thousand euro at 31 December 2017).

The Group operated exclusively in Italy.

19. Short-term financial receivables – 1,394 thousand euro

Short-term financial receivables consisted for 1,342 thousand euro of financial receivables arising from the exercise of the right of withdrawal of Azienda Elettrica Valtellina e Valchiavenna. The amount is the estimate based on the preliminary withdrawal value and was challenged by the company. It must be updated on the basis of an expert appraisal which was still ongoing at the reporting date.

20. Other current financial assets – 187 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2018.

21. Cash and cash equivalents – 686,353 thousand euro

Cash and cash equivalents fell by 129,785 thousand euro owing to financial operations in the period, as well as the usual operations.

Cash and cash equivalents are broken down as follows:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Bank deposits	685,721	815,611	(129,890)
Post office deposits	491	372	120
Cash in hand	141	155	(15)
Total	686,353	816,138	(129,785)

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

22. Income tax receivables – 14,633 thousand euro

Income tax receivables concerned both IRES and IRAP, the 4,725 thousand euro decrease in the year was due to the normal change for the payment of advances and balance during 2018.

23. Other current assets – 207,726 thousand euro

Other current assets increased by 35,356 thousand euro compared to 31 December 2017 mainly due to the change in the scope of consolidation that caused a significant change of 24,981 thousand euro in the receivables due to the Group from CSEA; these receivables include the amount which must be recognised for energy efficiency certificates (5,392 thousand euro), the amount arising from the equalisation of the gas distribution service (46,788 thousand euro), receivables for the UG2 components and the Gas Bonus (67,408 thousand euro) and the recognition of Technical Quality (37,799 thousand euro). On the other hand, receivables for energy efficiency certificates fell by 30,417 thousand euro compared to the previous year.

VAT receivables both for the period and for tax reimbursement rose overall by 6,429 thousand euro.

The item is broken down as follows:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Other tax receivables:			
VAT receivables reimbursements applied for	9,337	7,326	2,011
Receivables due from tax authorities for VAT	11,874	7,457	4,418
Other tax receivables	131	122	9
Other receivables:			
from social security and insurance agencies	1,161	361	800
receivables for plant contributions	2,854	1,932	922
from CSEA	172,296	147,315	24,981
from municipalities for disposals of assets due to expiration of concessions	1,299	1,306	(7)
from municipalities	246	246	-
from suppliers	3,497	2,940	557
Other receivables	5,185	3,699	1,486
Provision for other doubtful debts	(3,039)	(2,472)	(567)
Accrued income	83	1	81
Deferred expenses relating to other multi-year charges	23	51	(28)
Deferred expenses relating to real estate lease fees	555	521	34
Prepayment of promotional expenses	26	27	(1)
Deferred insurance premiums	57	14	43
Other deferred expenses	2,141	1,525	616
Total	207,726	172,370	35,356

37. Assets held for sale – 32,681 thousand euro

In the year, the classification of assets held for sale included the concessions relating to the ATEM tenders of Bari 2 and Foggia 1, which will be disposed of by the end of April 2019 based on the agreement to sell signed in June with the counterparty Centria S.r.l. In the previous year, the balance included the assets relating to the water concessions of Villasanta and Moscufo which were subsequently disposed of in 2018.

Liabilities

Equity

24. Equity – 825,699 thousand euro

Equity rose by 65,767 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;
- negative change in IAS reserves for 6,061 thousand euro following the fair value adjustment of derivatives (negative for 6,599 thousand euro) and the recognition of the discounting of defined benefits, positive for 538 thousand euro;
- recording of the minority interest of the subsidiary Cilento Reti Gas for 1,420 thousand euro;
- 155,440 thousand euro increase in profit for the year.

Share capital – 3,639 thousand euro

The share capital at 31 December 2018 consisted of 363,851,660 ordinary shares of Zi 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 amounted to 728 thousand euro and was unchanged, as last year it reached the legal limit.

Reserves for valuation of derivatives – 9,349 thousand euro

The reserve for valuation of derivatives came into being in 2016 following the signing of Forward Starting Interest Rate Swaps; during 2018, the swap was closed as planned, but the impact on profit or loss will be recognised on the basis of the element covered by the derivative, i.e. the interest expense of the debenture loan for the next 10 years; the measurement at 31 December 2018 includes the residual value of the derivative which is no longer subject to fair value fluctuations and will be released to profit or loss over the next 10 years.

Other reserves – 208,765 thousand euro

Other reserves, totalling 208,765 thousand euro, increased by 1,826 thousand euro compared to the previous year, mainly due to the recognition of the impact of the actuarial valuation of the Group's defined benefit plan in equity and the reclassification from Retained earnings of 1,289 thousand euro following extraordinary operations to reorganise the Group.

Retained earnings – 159,812 thousand euro

Retained earnings rose by 35,304 thousand euro compared to the previous year, following profit allocation, the reclassification of 1,289 thousand euro to other reserves following extraordinary operations to reorganise the Group and the dividend distribution in 2018.

Profit for the period – 155,457 thousand euro

The net profit for 2018, compared to 2017 (121,624 thousand euro), rose by 33,833 thousand euro, largely due to the expansion of the scope of consolidation and the impact of financial charges for the liability management exercise last year.

Non-current liabilities**25. Long-term loans – 2,943,857 thousand euro**

The item refers to the six instalments of the long-term debenture loan the Group issued between 2014 and 2018 as well as 425 million euro in three credit lines received from the European Investment Bank used between 2015 and 2017.

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

	Thousands of euro		Notional Value		Interest rate in force	Interest rate
	Balance 31.12.2018	Balance 31.12.2017	31.12.2018	31.12.2017		
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	200,000	200,000	200,000	200,000	Eur+0,59%	0.32%
Debenture loan expiring 2019	362,793	362,793	0	362,793	0.00%	0.00%
Debenture loan expiring 2020	267,100	267,100	267,100	267,100	1.13%	1.35%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2025	500,000	500,000	500,000	500,000	2.20%	2.29%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs linked to loans (long term)	(13,243)	(12,909)				
TOTAL LONG TERM	2,943,857	2,806,984	2,957,100	2,819,893		

The maturity schedule of financial liabilities, whether medium-/long-term (2,957,100 thousand euro notional) or short-term (362,950 thousand euro – see point 30 of these notes), is shown in the following table:

Thousands of euro	Notional		1 year	1 - 5 years	beyond 5 years
	at 31.12.2018	at 31.12.2017			
Medium-/long-term financial liabilities					
Financing	425,000	425,000	-	72,727	352,273
Medium-/long-term debenture loans	2,532,100	2,394,893	-	267,100	2,265,000
Debenture loans due within next year	362,793		362,793	-	-
Other payables	157		157		
Total	3,320,050	2,819,893	362,950	339,827	2,617,273

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

The loans taken out with the European Investment Bank are subject to some covenants 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;
- Net Financial Expenses.

At 31 December 2018, the company met all covenants under this facility.

26. Post-employment and other employee benefits – 45,606 thousand euro

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

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

Pursuant to IAS 19 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			
	31.12.2018	31.12.2017	2018 - 2017
Post-employment benefits	33,269	33,372	(103)
ASEM health service	1,716	1,787	(70)
Fondo GAS	10,621	10,878	(257)
	45,606	46,036	(430)

An analysis of the main items is provided below.

Post-employment benefits

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

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

Health benefits

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

Fondo Gas

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

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 of current employees for the purposes of Fondo Gas.

The main assumptions in the actuarial estimates of employee benefit liabilities (Gas Provision and post-employment benefits) are set out below.

	31.12.2018	31.12.2017
Actuarial assumptions		
Discount rate	1.50%	1.50%
Annual rate of increase in cost of living	1.50%	1.50%
Rate of increase in cost of health spending	2.50%	2.50%
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 – 9,916 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 24,136 thousand euro overall, of which 8,182 thousand euro due to the new scope of consolidation, compared to 31 December 2017.

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

Thousands of euro	Of which current portion		Of which non-current portion		Contribution from changes in the scope of consolidation	Allocations	Releases	Uses	Other changes	Of which current portion		Of which non-current portion	
	31.12.2017		31.12.2018							31.12.2017		31.12.2018	
Provisions for litigation and disputes	8,033	-	8,033	1,906	2,364	(1,249)	(2,418)	(400)	8,236	-	8,236	-	8,236
Provision for taxes and duties	1,661	-	1,661	65	161	(363)	(18)	-	1,505	-	1,505	-	1,505
Provisions for disputes with personnel	100	-	100	-	-	-	-	-	100	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	-	75	-	75	-	75
Provision for disputes on concessions	21,748	21,748	-	-	4,994	(3,424)	(75)	1,833	25,075	25,075	-	-	-
Other provisions for risks and charges	52,152	52,152	-	6,211	22,223	(6,074)	(35)	(1,433)	73,044	73,044	-	-	-
Total	83,769	73,899	9,870	8,182	29,742	(11,110)	(2,547)	-	108,036	98,119	9,916	-	9,916
Provisions for charges pertaining to incentives to leave	2,487	2,487	-	-	970	-	(1,101)	-	2,356	2,356	-	-	-
Total	86,256	76,387	9,870	8,182	30,712	(11,110)	(3,648)	-	110,392	100,476	9,916	-	9,916

Provisions for risks and charges amounted to 110,392 thousand euro overall. They consisted of a 100,476 thousand euro short-term portion and a 9,916 thousand euro long-term portion, and were broken down as follows:

- “Provisions for litigation and disputes”, 8,236 thousand euro, to cover contingent liabilities mainly arising from ongoing litigation cases;
- “Provision for taxes and duties”, amounting to 1,505 thousand euro, mainly refers to disputes or possible challenges about the tax on the occupation of public

space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;

- "Provision for disputes with personnel", amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in the year;
- "Provision for disputes on concessions", totalling 25,075 thousand euro, generally includes the estimated costs associated with various disputes with municipalities. This line item rose by a net 1,572 thousand euro following the requests made by municipalities to revise the agreed concession fees; during the year the Company used 15 thousand euro;
- "Other provisions for risks and charges", amounting to 73,044 thousand euro, cover the costs that could potentially arise from the need for maintenance or replacement of meters not fully compliant with corporate standards, as well as the risk of some tariff reviews related to concessions owned by third parties; the Parent Company's appeal filed last year against ARERA's decision to revise said tariffs for a number of concessions is still under discussion. Finally, the provision also includes the allocation for the risk that the contribution to derecognise energy efficiency certificates does not cover the cost to purchase such certificates in order to comply with regulatory obligations up to May 2019;
- "Provision for charges pertaining to incentives to leave", totalling 2,356 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 during the year and are still under way.

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

28. Non-current financial liabilities – 0 thousand euro

At 31 December 2018, as in the previous year, the Company did not have any non-current financial liabilities.

29. Other non-current liabilities – 308,442 thousand euro

This item decreased by 2,987 thousand euro compared to the previous year. The breakdown is set out below:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
payables to social security and insurance agencies	2,137	1,984	153
other payables	361	361	-
Deferred income for plant contributions	43,018	47,030	(4,012)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	262,927	262,054	872
Total deferred income	308,442	311,429	(2,987)

The change in deferred income is part of normal operations. The item must be read together with the short-term portion of "Other current liabilities".

Current liabilities

30. Short-term loans – 362,651 thousand euro

The item in question mainly refers to the portion of the debenture loan due in 2019, as well as current account payables.

Specifically:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
short-term payables due to banks	157	-	157
short-term debenture loans	362,494	-	362,494
Total	362,651	-	362,651

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

At 31 December 2018, 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 – 100,476 thousand euro

The current portion of long-term provisions amounted to 100,476 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 27).

33. Trade payables – 207,608 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 2017, the item fell by 495 thousand euro.

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

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Suppliers	207,608	208,103	(495)
Total	207,608	208,103	(495)

The balance at 31 December 2018 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 – 8,851 thousand euro

At 31 December 2018, income tax payables amounted to 8,851 thousand euro due to the trend in the payments made on account.

35. Current financial liabilities – 22,966 thousand euro

Current financial liabilities mostly refer to the interest expense accrued and not yet paid relating to the three instalments of the debenture loan issued between 2014 and 2018.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Accrued liabilities for interest on short-term bank loans and bank expenses	22,343	18,984	3,359
Other current financial payables	623	575	48
Total	22,966	19,559	3,407

36. Other current liabilities – 223,036 thousand euro

Other current liabilities rose in the year by 35,554 thousand euro, mainly due to the fall in "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. The change in scope had a negative impact on the item, increasing the payable due to CSEA. This must be read also in light of the relevant receivables due from CSEA included under Other current assets.

Other current liabilities are set out below:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
other tax payables	4,009	3,963	46
payables to social security and pension agencies	12,170	10,025	2,145
other payables	181,348	158,747	22,601
accrued liabilities	4,088	4,066	22
deferred income	21,420	10,680	10,740
Total	223,036	187,482	35,554

Other tax payables, amounting to 4,009 thousand euro, are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
VAT payables	412	431	(19)
Employee withholding taxes	3,538	3,271	267
Withholding taxes	59	210	(151)
Other taxes	0	50	(50)
Total	4,009	3,963	46

Payables to welfare and social security agencies, amounting to 12,170 thousand euro due to the increase in the scope of consolidation, are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
due to INPS	10,036	9,019	1,016
due to other agencies	2,135	1,006	1,129
Total	12,170	10,025	2,145

Other payables, amounting to 181,348 thousand euro, are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Payables to employees	15,705	12,716	2,989
Payables to municipalities for rights and fees	686	3,312	(2,626)
Payables for connections and other payables due to customers	2,083	2,100	(17)
User security deposits and advances	2,168	2,136	32
Payables to CSEA	153,798	131,970	21,827
Other payables	6,908	6,513	395
Total	181,348	158,747	22,601

Payables to the Fund for Energy and Environmental Services (CSEA) consist of 76,005 thousand euro payables for the entries that are transferred to the trading companies through the invoicing mechanism and then paid to CSEA, generally on a bi-monthly basis (UG1, UG2, UG3, Re, Gs and Rs) and residual payables mainly relating to the amount of equalisation for previous years and the current year totalling 63,107 thousand euro. Accruals and deferred income, amounting to 25,508 thousand euro, are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Accrued liabilities			
Additional monthly accrual for employees	3,343	3,054	289
Other accrued liabilities	746	1,013	(267)
Total accrued liabilities	4,088	4,066	22
Deferred income			
Deferred income for plant contributions	11,132	2,202	8,929
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	10,201	8,298	1,903
Other deferred income	87	180	(92)
Total deferred income	21,420	10,680	10,740
Total accrued liabilities and deferred income	25,508	14,747	10,762

37. Liabilities held for sale - 6,923 thousand euro

At 31 December 2018, the item included liabilities relating to the concessions of the ATEM tenders of Bari 2 and Foggia 1 which will be disposed of by the end of April 2019, as envisaged by the agreement to sell signed in 2018 with Centria S.r.l. In the previous year, the item included the liabilities relating to the water concession of Villasanta, which was then sold in 2018.

Information on business combinations

Acquisition of 2i Rete Gas Impianti S.p.A.

On 1 February 2018, 2i Rete Gas Impianti S.r.l., subsidiary of 2i Rete Gas S.p.A., acquired 100% of Nedgia S.p.A. (now 2i Rete Gas Impianti S.p.A.) share capital from the Naturgy group. The acquisition took place by paying a fee, net of the subsequent price adjustment, of 717.4 million euro.

For the purposes of consolidation, the assets acquired and the liabilities assumed were included as from 1 February 2018.

The following table summarises the amounts of the assets acquired and the liabilities assumed, including all the assets and liabilities of the 60%-owned subsidiary Cilento Reti Gas, recognised at the date of the first consolidation:

Identifiable assets acquired and liabilities assumed	
Millions of euro	
ASSETS	
Property, plant and equipment	4.9
Intangible assets	572.4
Equity investments	0.0
Other non-current assets	0.7
Inventories	2.0
Trade receivables	28.4
Income tax receivables	10.9
Short-term financial receivables	1.7
Cash and cash equivalents	1.8
Other current assets	24.5
Total assets acquired	647.4
LIABILITIES	
Equity - non-controlling interests	1.4
post-employment and other employee benefits	3.5
Provision for risks and charges	8.2
Deferred tax liabilities	5.1
Non-current financial liabilities	0.1
Other non-current liabilities	0.2
Short-term loans	4.1
Trade payables	10.3
Income tax payables	0.3
Current financial liabilities	(0.0)
Other current liabilities	19.2
Total liabilities assumed	52.4
Total Fair Value net identifiable assets	595.1
Total transferred amount	717.4
Goodwill generated by the acquisition	122.3

The goodwill recognised after the acquisition totalled 122.3 million euro, as the difference between the 717.4 million euro fee paid and the fair value of net identifiable assets at the date of acquisition of control (1 February 2018). The goodwill arising from the acquisition, which is not currently exempted from taxes, mainly refers to the development forecasts and the synergies expected from the integration of the acquired company into the Group.

The determination of the fair value of the assets acquired and the liabilities assumed was completed at the date of drafting these financial statements.

The intangible assets set out above include the 0.9 million euro goodwill relating to the subsidiary Cilento Reti Gas.

Acquisition of 2i Rete Gas Servizi S.p.A

On 1 February 2018, 2i Rete Gas S.p.A. acquired 100% of Gas Natural Italia S.p.A. (now 2i Rete Gas Servizi S.p.A.) share capital from the Naturgy Group. The acquisition took place by paying a total fee of 5.9 million euro.

For the purposes of consolidation, the assets acquired and the liabilities assumed were included as from 1 February 2018.

The following table summarises the amounts of the assets acquired and the liabilities assumed recognised in the financial statements at the date of first consolidation:

Assets acquired and liabilities assumed	
Millions of euro	
ASSETS	
Property, plant and equipment	0.7
Intangible assets	0.4
Deferred tax assets	0.2
Other non-current assets	0.0
Trade receivables	0.9
Income tax receivables	0.4
Short-term financial receivables	3.4
Cash and cash equivalents	0.0
Other current assets	0.2
Total assets acquired	6.2
LIABILITIES	
post-employment and other employee benefits	0.3
Trade payables	0.7
Income tax payables	0.0
Other current liabilities	1.5
Total liabilities assumed	2.5
Total Fair Value net identifiable assets	3.7
Total transferred amount	5.9
Goodwill generated by the acquisition	2.2

The goodwill recognised after the acquisition totalled 2.2 million euro, as the difference between the fee paid and the fair value of the net identifiable assets at the date of acquisition of control (1 February 2018). The goodwill arising from the acquisition, which is not currently exempted from taxes, mainly refers to the forecasts of synergies expected from the integration of the company acquired into the Group.

The determination of the fair value of the assets acquired and the liabilities assumed was completed at the date of drafting these financial statements.

Acquisition of Compagnia Generale Metanodotti S.r.l.

On 11 May 2018, 2i Rete Gas S.p.A. acquired 100% of Compagnia Generale Metanodotti S.r.l share capital. The acquisition took place by paying a fee of 1.3 million euro.

For the purposes of consolidation, the assets acquired and the liabilities assumed were included as from 1 June 2018.

The following table summarises the amounts of the assets acquired and the liabilities assumed recognised in the financial statements at the date of first consolidation:

Assets acquired and liabilities assumed	
Millions of euro	
ASSETS	
Property, plant and equipment	0.0
Intangible assets	1.0
Other non-current assets	0.0
Trade receivables	0.0
Income tax receivables	0.0
Cash and cash equivalents	0.0
Other current assets	0.0
Total assets acquired	1.2
LIABILITIES	
Deferred tax liabilities	0.1
Current portion of long-term loans	0.0
Trade payables	0.0
Income tax payables	0.0
Other current liabilities	0.1
Total liabilities assumed	0.3
Total Fair Value net identifiable assets	0.9
Total transferred amount	1.3
Goodwill generated by the acquisition	0.4

The goodwill recognised after the acquisition totalled 0.4 million euro, as the difference between the fee paid and the fair value of the net identifiable assets at 1 June 2018. The goodwill arising from the acquisition, which is not currently exempted from taxes, mainly refers to the development forecasts and the synergies expected from integration of the acquired company into the Group.

For the purposes of drafting these financial statements, the fair values of the assets acquired and the liabilities assumed were estimated on the basis of the information available.

In line with what is allowed by IFRS 3 revised, the accounting of the acquisition will be reviewed, if the new information obtained over a year from the date of consolidation, relating to facts and circumstances existing at the date of acquisition by 2i Rete Gas S.p.A., will lead to adjustments in the amounts indicated or in any existing provision at the date of acquisition.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

The following were defined as related parties for 2018:

- 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 Sarl
- Maepa Srl
- APG Infrastructure Pool 2017 II
- Melegnano Energia Ambiente S.r.l. (MEA S.p.A.)
- Software Design S.p.A.

The definition of related parties includes key management personnel, 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. Key management personnel 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 2018

Thousands of euro	Trade		Costs	Trade	
	Receivables	Payables		Costs	Revenue
F2i sgr Spa	-	20	86	-	-
MEA S.p.A	27	-	-	-	9
Software Design S.p.A.	-	223	360	-	-
Maepa Srl	-	-	4	-	-
APG Infrastructure Pool 2017 II	-	31	31	-	-
Key management personnel, including directors and statutory auditors	-	523	2,969	-	-
Total	27	797	3,450		9

Year 2017

Thousands of euro	Trade		Costs	Trade	
	Receivables	Payables		Costs	Revenue
F2i sgr Spa	-	10	40	-	-
MEA S.p.A	18	-	-	-	18
Software Design S.p.A.	-	487	646	-	-
Key management personnel, including directors and statutory auditors	-	283	2,205	-	-
Total	18	780	2,891		18

Financial transactions

Year 2018

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

Year 2017

Thousands of euro	Receivables	Payables	Costs	Revenue	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
MEA S.p.A	-			62	
Total	-	-	-	62	84,981

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no significant extraordinary events or operations during the year which have not already been disclosed in this document.

Positions or transactions arising from atypical and/or unusual operations

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

Fees for Directors, auditors and key management personnel

In 2018, the fees for directors, auditors and key management personnel, totalling 2,969 thousand euro, included 123 thousand euro in Auditors' fees, 295 thousand euro in Directors' fees and the rest refers to key personnel's fees.

Remuneration of the Independent Auditors

The 2018, remuneration of the independent auditors totalled 769 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 ARERA, the audits relating to the new scope of consolidation and the related statements in the year, and, to a lesser extent, specific consulting services.

Public grants received

With reference to the changes introduced by Italian Law 124 of 4 August 2014 "Annual competition law", art. 1 para. 125-129, the Group companies received the following grants from public bodies during 2018:

2i Rete Gas S.p.A.

Euro			
Name	Prov.	31.12.2018	Type
MUNICIPALITY OF CASTELLALTO	TE	7,602	PLANT CONTRIBUTIONS ABRUZZO RL 25/1995
MUNICIPALITY OF BASCIANO	TE	16,876	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CANZANO	TE	18,260	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTEL CASTAGNA	TE	15,592	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTELLALTO	TE	13,440	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTELLI	TE	8,624	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CERMIGNANO	TE	12,035	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF ISOLA DEL GRAN SASSO D'ITALIA	TE	13,894	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF LUCOLI	AQ	210,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORNIMPARTE	AQ	7,656	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TOSSICA	TE	8,934	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CAPPELLE SUL TAVO	PE	17,300	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORANO NUOVO	TE	5,638	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF POLLUTRI	CH	25,680	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF RIPA TEATINA	CH	18,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF PICO	FR	25,205	PLANT CONTRIBUTIONS Additional act 761 of 25.07.2007
Total public contributions collected		424,737	

2i Rete Gas Impianti S.p.A.

Euro			
Name	Prov.	31.12.2018	Type
Municipality of Oricola	AQ	237,157	PLANT CONTRIBUTIONS
Municipality of Tagliacozzo	AQ	859,219	PLANT CONTRIBUTIONS
Electricity Service Operator		129,450	
Total public contributions collected		1,225,826	

Contractual commitments and guarantees

The Company provided 121,794 thousand euro in guarantees to third parties. These guarantees include 89,173 thousand euro in bank guarantees and 32,621 thousand euro in insurance and other guarantees.

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

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

Operating segment reporting

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

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

Contingent liabilities and assets

Contingent liabilities

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 2018.

User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes 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 210,827 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 2018, the Group's maximum exposure to credit risk amounted to 1,175.9 million euro:

Millions of euro	31.12.2018	31.12.2017	2018-2017
Third parties:			
Non-current financial assets	1.0	22.2	(21.2)
Other non-current financial assets (gross of bad debt provision)	57.9	51.9	5.9
Trade receivables (gross of bad debt provision)	242.6	285.6	(43.1)
Other current financial assets	1.6	0.0	1.6
Cash and cash equivalents	686.4	816.1	(129.8)
Other receivables (gross of bad debt provision)	186.5	157.8	28.7
Total	1,175.9	1,333.7	(157.8)

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 between 2014 and 2018, the Company entered into two loans with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used at 31 December 2018). The 2017 liability management exercise enabled the Company to further improve the duration and the interest rate compared to the previous situation.

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

The contractual maturities of the financial liabilities outstanding at 31 December 2018 are set forth below:

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

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2017 are set forth below:

Millions of euro	1 year	1 - 5 years	beyond 5 years
Financial liabilities at 31 December 2017			
Long-term loans		54.5	370.5
Medium-/long-term debenture loans		629.9	1,765.0
Short-term loans	-		
Current portion of long-term loans	-		
Current portion of medium/long-term debenture loans			
Other long-term financial liabilities			
Other short-term financial liabilities	19.6		
Current financial liabilities			
Total	19.6	684.4	2,135.5

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

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

At 31 December 2018, the Company has met all of the covenants.

"Medium-/long-term debenture loans", totalling 2,894 million euro, refer to the aforementioned instalments issued by 2i Rete Gas and expiring between 2019 and 2027.

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

During 2018 the Parent Company closed and liquidated 5 Forward Starting Interest Rate Swaps, as planned.

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

Thousands of euro	Carrying amount						Fair value
	Notes	Derivatives	Loans and receivables	Available for sale	Other financial liabilities and payables	Total	
Financial assets measured at fair value							
Non-current financial assets	15	-				-	-
Financial assets not measured at fair value							
Non-current financial assets	15		1,025			1,025	1,025
Other non-current assets	16		57,600			57,600	57,600
Trade receivables	18-37		232,624	112		232,736	232,736
Short-term financial receivables	19		1,394			1,394	1,394
Other current financial assets	20		187			187	187
Cash and cash equivalents	21		686,353			686,353	686,353
Other current assets	23		204,924			204,924	204,924
TOTAL ASSETS		-	1,184,107	112	-	1,184,219	1,184,219
Financial liabilities measured at fair value							
IRS Derivatives	35	-				-	-
Financial liabilities not measured at fair value							
Long-term loan	25				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,518,857	2,518,857	2,862,599
Other non-current liabilities	29				361	361	361
Short-term loans	30				362,651	362,651	362,651
Trade payables	33-37			4,774	207,608	212,382	212,382
Current financial liabilities	35				22,343	22,343	22,343
Other current liabilities	36				201,616	201,616	201,616
TOTAL LIABILITIES		-	-	4,774	3,738,436	3,743,210	4,086,952

In order to enable comparison, we propose the same table as the one used in 2017:

Thousands of euro	Carrying amount						Fair value
	Notes	Derivatives	Loans and receivables	Available for sale	Other financial liabilities and payables	Total	
Financial assets measured at fair value							
Non-current financial assets	15	20,984				20,984	20,984
Financial assets not measured at fair value							
Non-current financial assets	15		1,196			1,196	1,196
Other non-current assets	16		51,660			51,660	51,660
Trade receivables	18-37		273,880	541		274,421	274,421
Short-term financial receivables	19		8			8	8
Other current financial assets	20		9			9	9
Cash and cash equivalents	21		816,138			816,138	816,138
Other current assets	23		170,233			170,233	170,233
TOTAL ASSETS		20,984	1,313,124	541	-	1,334,649	1,334,649
Financial liabilities measured at fair value							
IRS Derivatives	35	-				-	-
Financial liabilities not measured at fair value							
Long-term loan	25-31				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,381,984	2,381,984	2,515,946
Financial liabilities for unwinding IRS	28-35				-	-	-
Other non-current liabilities	29				361	361	361
Short-term loans	30				-	-	-
Trade payables	33-37			2,332	208,103	210,436	210,436
Current financial liabilities	35				18,984	18,984	18,984
Other current liabilities	36				176,801	176,801	176,801
TOTAL LIABILITIES		-	-	2,332	3,211,234	3,213,566	3,347,528

With regard to financial assets not measured at fair value, as well as 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.

For the purposes of determining 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 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, 3,120 million euro out of a reported 3,320 million euro were not exposed to interest rate risk at 31 December 2018.

Significant events after the reporting period

In order to increase the Group's efficiency, on 1 January 2019, the merger of the subsidiaries Compagnia Generale Metanodotti S.r.l. and 2i Rete Gas Servizi S.p.A. into the Parent Company was completed.

Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

**REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018**

To the Shareholders of 2i RETE GAS S.p.A.,

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

The consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with the valuation and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure of referred to in art. 6 of the (EC) Regulation n. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and, where compatible, by the rules of the Civil Code.

Pursuant to art. 37 of D. Lgvo. No. 39 of 10/27/2010, the accounting control was delegated to the Independent Auditors PricewaterhouseCoopers S.p.A. which did not report to the Board of Statutory Auditors critical or reprehensible facts relating to the content of the consolidated financial statements.

The 2018 consolidated financial statements include 4 Companies, including 2i Gas Network SpA. The scope of consolidation consists of the following Companies:

- 2i Rete Gas SpA

- 2i Rete Gas Srl

- 2i Rete Gas Impianti SpA

- 2i Rete Gas Servizi S.p.A.

- Cilento Reti Gas S.p.A. (60% owned)

- Compagnia Generale Metanodotti S.r.l.

The related consolidation criteria are contained in paragraph 6 of the notes to the consolidated financial statements for the year 2018.

The financial statements of the subsidiaries, consolidated by the 2i Rete Gas Group, have been prepared by adopting, for each accounting period, the same accounting standards as the parent company and using, where applicable, the financial statements of the companies approved by the respective shareholders' meetings or, failing this, on the basis of draft report approved by the respective administrative bodies.

The Consolidated Financial Statements consist of the Balance Sheet, Income Statement and Notes to the Financial Statements, accompanied by the Report on Operations and summarizes the following results, expressed in thousands of euro:

		31.12.2018	31.12.2017
Thousands of euro	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	11	39,312	37,458
Intangible assets	12	3,682,262	2,937,360
Net deferred tax assets	13	82,716	73,360
Equity investments	14	3,459	3,070
Non-current financial assets	15	1,025	22,180
Other non-current assets	16	57,710	51,796
	<i>Total</i>	3,866,484	3,125,224
Current assets			
Inventories	17	23,948	19,008
Trade receivables	18	232,624	273,880
Short-term financial receivables	19	1,394	8
Other current financial assets	20	187	9
Cash and cash equivalents	21	686,353	816,138
Income tax receivables	22	14,633	19,358
Other current assets	23	207,726	172,370
	<i>Total</i>	1,166,865	1,300,772
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	32,681	2,141
	<i>Total</i>	32,681	2,141
TOTAL ASSETS		5,066,030	4,428,137

Thousands of euro	Notes	31.12.2018	31.12.2017
EQUITY AND LIABILITIES			
Equity - Owners of the Parent			
	24		
Share Capital		3,639	3,639
Treasury Shares		-	-
Other Reserves		505,388	510,161
Retained earnings/(accumulated losses)		159,812	124,508
Net income for the year		155,457	121,624
Total equity - Owners of the Parent		824,296	759,932
Equity - non-controlling interests			
Non-controlling interests		1,420	-
Net income for the year - non-controlling interests		(17)	-
Total equity - non-controlling interests		1,403	-
TOTAL EQUITY		825,699	759,932
Non-current liabilities			
Long-term loans	25	2,943,857	2,806,984
Post-employment and other employee benefits	26	45,606	46,036
Provision for risks and charges	27	9,916	9,870
Deferred tax liabilities	13	-	-
Non-current financial liabilities	28	-	-
Other non-current liabilities	29	308,442	311,429
	<i>Total</i>	3,307,821	3,174,319
Current liabilities			
Short-term loans	30	362,651	-
Current portion of long-term loans	31	-	-
Short-term portion of long-term and short-term provisions	32	100,476	76,387
Trade payables	33	207,608	208,103
Income tax payables	34	8,851	24
Current financial liabilities	35	22,966	19,559
Other current liabilities	36	223,036	187,482
	<i>Total</i>	925,586	491,555
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	6,923	2,332
	<i>Total</i>	6,923	2,332
TOTAL LIABILITIES		4,240,331	3,668,206
TOTAL EQUITY AND LIABILITIES		5,066,030	4,428,137

Thousands of euro	Notes	31.12.2018	31.12.2017
Revenue			
Revenue from sales and services	5.a	682,457	600,313
Other revenue	5.b	37,159	28,948
Revenue from intangible assets / assets under construction	5.c	265,949	238,065
	Sub-Total	985,566	867,325
Costs			
Raw materials and consumables	6.a	78,410	79,026
Services	6.b	268,014	239,096
Personnel Costs	6.c	125,502	110,257
Amortisation, depreciation and impairment losses	6.d	189,813	161,203
Other operating costs	6.e	53,313	31,753
Capitalised costs for internal work	6.f	(843)	(1,099)
	Sub-Total	714,208	620,237
		EBIT	271,358
		271,358	247,089
Income (expenses) from equity investments	7	2,179	87
Financial income	8	515	769
Financial expenses	8	(57,528)	(73,855)
	Sub-Total	(54,834)	(72,998)
		Pre-tax income	216,524
		216,524	174,091
Taxes for the period	9	61,084	52,466
		Net income (expenses) from continuing operations	155,440
		155,440	121,624
Net income (expenses) from discontinued operations	10	-	-
		NET INCOME FOR THE YEAR	155,440
		155,440	121,624
Net income for the year attributable to:			
- Owners of the Parent		155,457	121,624
- Non controlling interests		(17)	0

The Board acknowledges the compliance of the consolidated financial statements with the facts and information of which it is aware following the participation of the corporate bodies, the exercise of its supervisory duties and its inspection and control powers.

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

Milan, 03/04/2019

The Board of Statutory Auditors

Dott. Marco Antonio Dell'Acqua (President)

Dott. Marco Giuliani (Effective Member)

Dott. Nicola Gaiero (Effective Member)

Report of the Independent Auditors



2I RETE GAS SPA

**INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE 39/2010
AND ARTICLE 10 OF REGULATION (EU) 537/2014**

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018



Independent auditor's report

in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of 2i Rete Gas SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of 2i Rete Gas SpA and its subsidiaries (2i Rete Gas group), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2018, 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, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of 2i Rete Gas SpA (the Company) based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters

How our audit addressed the key audit matter

Capital expenditure for gas distribution network under service concession agreements

Note 12 of the Annual Financial Report – consolidated accounts - intangible assets

As of 31 December 2018 gas distribution service concessions and similar rights amount to € 3,344 million, representing the 66% of total assets. Costs capitalised during the year amount to € 256 million.

The group operates in the gas distribution industry. The industry is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA).

Revenue from gas distribution activities are determined each year in accordance with the regulatory approved tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs.

Considering the magnitude of the capital expenditure made by the group, the proper capitalisation of costs related to service concession agreements in accordance with IFRIC12 represented a key matter in the audit of the consolidated financial statements.

We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification and testing of key controls.

We assessed the accounting policy adopted by the group in relation to the capitalisation of costs.

We performed detailed tests analysing, on a sample basis, the supporting documentation of costs capitalised to verify the accuracy, completeness and the proper period.



Key Audit Matters**How our audit addressed the key audit matter**

Provisions for risks and charges

Note 27 of the Annual Financial Report – consolidated accounts section - provisions for risks and charges

As of 31 December 2018 provisions for risks and charges amount to € 110 million and include probable liabilities as a result of past events for which the outflow can be reasonably estimated at the balance sheet date.

Provisions for risks and charges mainly relate to costs associated with various disputes with municipalities, costs that could potentially arise from maintenance or replacement of defective measurement equipment, as well as the risk of a revision of some tariffs for concessions partially owned by third parties.

Given the magnitude of the accrued balances and the use of estimates made, the measurement of the provisions for risks and charges was a key audit matter for the audit of the consolidated financial statements.

We have carried out the understanding and evaluation of key controls in place over the provisions for risks and charges measurement process.

We have tested, on a sample basis, the documentation supporting the most significant accruals made to assess the adequacy of the provisions for risks and charges.

We obtained written confirmations from external lawyers appointed by the group, indicating the individual positions in place and their assessment of the risk of potential liability.

We discussed with management the conclusions reached on the criteria for quantifying the provisions for risks and charges.

We verified the accuracy and completeness of the disclosure made in the notes to the consolidated financial statements.

Key Audit Matters
How our audit addressed the key audit matter

Acquisition of the Italian gas distribution network of Naturgy group

Note Business combinations of the Annual Financial Report – consolidated accounts section

On 1 February 2018 the Group acquired the Italian gas distribution network of Naturgy Group for a consideration of € 723 million.

The transaction has been accounted for in accordance with IFRS3R “Business Combinations” which requires the recognition, at the acquisition date, of assets, liabilities and contingent liabilities acquired at their fair values, together with the goodwill paid.

Given the magnitude of the transaction, the economic and financial effect on the Group’s consolidated financial statements and the level of complexity of the initial recognition of individual assets, liabilities and contingent liabilities, the acquisition of the Italian gas distribution network of Naturgy group was a key audit matter for the audit of the consolidated financial statements.

We have verified, with the assistance of experts of the PwC network:

- the correct application of the relevant accounting standard IFRS3R “Business Combinations”;
- the correct determination of the purchase price paid in accordance with the contractual terms;
- the process for identifying assets, liabilities and contingent liabilities acquired;
- the reasonableness of the methods used by management to determine the initial recognition of individual assets, liabilities and contingent liabilities;
- the mathematical accuracy of the calculation model used;
- the correct accounting of assets, liabilities, contingent liabilities acquired and goodwill at the acquisition date;
- the accuracy and completeness of the disclosure made in the notes to the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is 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, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is



necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the group ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate 2i Rete Gas SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the group financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit 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 group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are



- based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
 - we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of 2i Rete Gas SpA at the general meeting held on 29 April 2015 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2015 through 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared in accordance with article 11 of the aforementioned Regulation.



Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/2010

Management of 2i Rete Gas SpA is responsible for preparing a report on operations of 2i Rete Gas group as of 31 December 2018, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations with the consolidated financial statements of the 2i Rete Gas group as of 31 December 2018 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the consolidated financial statements of the 2i Rete Gas group as of 31 December 2018 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254/2016

Management of 2i Rete Gas SpA is responsible for the preparation of the non-financial disclosure in accordance with Legislative Decree 254/2016. We have verified that the non-financial disclosure was approved by the board of directors.

In accordance with article 3, paragraph 10, of Legislative Decree 254/2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 3 April 2019

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

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

7. Income Statement

Euro	Notes				
		31.12.2018	of which from related parties	31.12.2017	of which from related parties
Revenue					
Revenue from sales and services	5.a	609,765,337	1,060,482	593,267,089	
Other revenue	5.b	38,039,522	19,076,932	30,245,572	1,463,138
Revenue from intangible assets / assets under cons	5.c	239,985,075		237,003,541	
	Sub-Total	887,789,935		860,516,202	
Costs					
Raw materials and consumables	6.a	75,576,150	1,695,900	78,963,585	
Services	6.b	250,630,819	2,719,649	235,573,744	746,379
Personnel Costs	6.c	117,506,563	2,439,126	110,157,303	1,818,658
Amortisation, depreciation and impairment losses	6.d	160,683,323		159,908,885	
Other operating costs	6.e	45,688,567	378,225	31,286,065	426,159
Capitalised costs for internal work	6.f	(839,064)		(1,092,718)	
	Sub-Total	649,246,358		614,796,865	
EBIT		238,543,577		245,719,337	
Income/(expenses) from equity investments	7	1,395,774	400,000	206,609	173,556
Financial income	8	457,810		782,373	13,673
Financial expenses	8	(57,684,152)	(200,891)	(73,891,029)	(37,070)
	Sub-Total	(55,830,568)		(72,902,047)	
Pre-tax income		182,713,009		172,817,290	
Taxes for the period	9	53,060,148		52,089,378	
Net income (expenses) from continuing operations		129,652,861		120,727,912	
Net income (expenses) from discontinued operations	10	-		-	
NET INCOME FOR THE YEAR		129,652,861		120,727,912	

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

8. Statement of Comprehensive Income

Euro

	31.12.2018	31.12.2017
Net income recognised through profit or loss	129,652,861	120,727,912
Other comprehensive income		
<i>Items which will never be reclassified through profit/(loss):</i>		
Revaluations of net liabilities/assets for defined benefits	746,820	291,599
Deferred tax assets and liabilities on items which will never be classified through profit / (loss)	(213,782)	(83,322)
	533,038	208,277
<i>Items which may be reclassified subsequently through profit/(loss):</i>		
Change in fair value of hedging derivatives	(8,279,620)	3,590,669
Change in fair value of hedging derivatives reclassified in the income for the year	(402,617)	-
Deferred tax (assets)/liabilities from change in fair value	1,987,109	(861,760)
Deferred tax (assets)/liabilities from change in fair value of hedging derivatives reclassified in the income for the year	96,628	-
	(6,598,500)	2,728,908
Total other comprehensive income	(6,065,462)	2,937,185
Total comprehensive income / (loss) recognised in the year	123,587,399	123,665,097

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

9. Statement of Financial Position

Assets

Euro	Notes				
ASSETS		31.12.2018	of which from related parties	31.12.2017	of which from related parties
Non-current assets					
Property, plant and equipment	11	34,927,086		37,430,474	
Intangible assets	12	2,980,127,854		2,922,737,865	
Net deferred tax assets	13	85,111,601		72,701,248	
Equity investments	14	747,023,639	746,911,562	15,053,260	14,536,184
Non-current financial assets	15	1,024,669		22,179,891	
Other non-current assets	16	53,901,690		51,701,595	
	<i>Total</i>	3,902,116,539		3,121,804,333	
Current assets					
Inventories	17	23,948,486		18,964,188	
Trade receivables	18	231,465,913	22,823,892	272,271,718	1,736,660
Short-term financial receivables	19	1,393,718		2,529,500	2,521,373
Other current financial assets	20	186,681		8,704	
Cash and cash equivalents	21	676,977,507		815,062,866	
Income tax receivables	22	6,778,767	192,095	19,456,277	98,469
Other current assets	23	167,787,303		169,095,616	5,842
	<i>Total</i>	1,108,538,376		1,297,388,867	
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	32,681,259		2,140,962	
	<i>Total</i>	32,681,259		2,140,962	
TOTAL ASSETS		5,043,336,173		4,421,334,162	

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

Liabilities

Euro	Notes				
EQUITY AND LIABILITIES		31.12.2018	of which from related parties	31.12.2017	of which from related parties
Equity	24				
Share Capital		3,638,517		3,638,517	
Treasury Shares		-		-	
Other Reserves		505,383,889		510,139,777	
Retained earnings/(accumulated losses)		159,471,525		123,775,746	
Net income for the year		129,652,861		120,727,912	
TOTAL EQUITY		798,146,791		758,281,951	
Non-current liabilities					
Long-term loans	25	2,943,857,013		2,806,984,124	
post-employment and other employee benefits	26	45,263,316		45,994,797	
Provision for risks and charges	27	7,878,296		9,857,340	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	-		-	
Other non-current liabilities	29	307,056,015		310,312,271	
	<i>Total</i>	3,304,054,640		3,173,148,532	
Current liabilities					
Short-term loans	30	431,295,921	68,802,104	5,867,466	5,867,466
Current portion of long-term loans	31	-		-	
Short-term portion of long-term and short-term provisions	32	91,749,093		75,921,249	
Trade payables	33	200,214,429	4,325,934	202,088,226	780,145
Income tax payables	34	3,056,243		61,125	61,125
Current financial liabilities	35	22,965,457		19,558,721	
Other current liabilities	36	184,930,446	203,261	184,074,556	
	<i>Total</i>	934,211,589		487,571,344	
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	6,923,153		2,332,336	
	<i>Total</i>	6,923,153		2,332,336	
TOTAL LIABILITIES		4,245,189,382		3,663,052,211	
TOTAL EQUITY AND LIABILITIES		5,043,336,173		4,421,334,162	

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

10. Statement of Cash Flows

Euro		31.12.2018	31.12.2017
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	21	815,062,866	181,883,225
A) CASH AND CASH EQUIVALENTS ACQUIRED THROUGH COMPANY ACQUISITION		1,022,707	
Cash flow from operating activities			
Pre-tax income		182,713,009	172,817,290
Taxes for the period	9	(53,060,148)	(52,089,378)
Net income from <i>discontinued operation</i>	10	-	-
1. Net income for the period		129,652,861	120,727,912
Adjustments for:			
Depreciation	6.d	160,759,159	156,852,731
Write-downs/(Write-ups)	6.d	(75,836)	3,056,154
Capital (gains)/losses	5.b/6.e	17,794,779	19,087,345
Allocations to provisions for risks and charges and post-employment benefits	6.c/6.e	22,868,685	11,427,049
Financial (income)/expenses	7 and 8	55,830,568	72,902,047
2. Total adjustments		257,177,354	263,325,326
Change in net working capital			
Inventories	17	(4,977,107)	1,229,085
Trade receivables	18	43,080,864	(41,241,885)
Trade payables	33	(3,740,209)	42,255,653
Other current assets	23	2,578,493	8,326,048
Other current liabilities	36	(471,317)	28,909,601
Net tax receivables/(payables)	22 and 34	15,733,575	(24,714,626)
Increase/(decrease) in provisions for risks and charges and post-employment t	26, 27 and 32	(8,078,534)	(11,871,819)
Increase/(decrease) in provisions for deferred tax assets and liabilities	13	(8,947,407)	(6,252,800)
Other non-current assets	16	(2,239,233)	(6,733,421)
Other non-current liabilities	29	(572,788)	8,192,829
Financial income/(expenses) other than for financing	8	(873,831)	(281,962)
3. Total change in net working capital		31,492,507	(2,183,296)
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		418,322,722	381,869,942
Cash flow (used in)/generated by investing activities			
Net fixed assets		(256,960,348)	(252,306,617)
Equity investments	7 and 14	(735,703,321)	3,424,236
From discontinued operations		-	-
C) CASH FLOW (USED IN)/GENERATED BY INVESTING ACTIVITIES		(992,663,669)	(248,882,381)
D) FREE CASH FLOW (B+C)		(574,340,946)	132,987,561
Cash flow from financing activities			
Payment of dividends		(85,032,133)	(85,032,133)
Change in amortised cost	15, 25 and 31	(501,922)	(1,201,585)
Financial income for financing activities	8	393,703	68,625
Financial (expenses) for financing activities	8	(57,148,831)	(72,895,320)
Change in short-term and long-term financial debt	25 and 30	62,934,638	1,673,061
New loan	25	-	155,000,000
Receipts from debenture loan issues	25	500,000,000	1,165,000,000
Debenture loan settlements	25	-	(660,107,000)
Other non-current financial assets	15	12,744,231	34,918
Change in other financial receivables	19 and 20	(1,563,464)	(808,114)
Change in other current financial payables	35	3,406,658	(1,540,371)
E) CASH FLOW FROM FINANCING ACTIVITIES		435,232,880	500,192,080
F) CASH FLOW FOR THE PERIOD (D+E)		(139,108,066)	633,179,641
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	21	676,977,507	815,062,866

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

11. Statement of Changes in Equity

Euro	Share capital and reserves						Net income for the year	Total
	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)		
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
Allocation of income for 2016:								
Distribution of income						129,013,192	(129,013,192)	-
Payment of dividends						(85,032,133)		(85,032,133)
Total contribution from shareholders and payments to them as shareholders								<i>(85,032,133)</i>
Net income for the year recognised in equity				2,728,908	208,277			2,937,185
Net income for the year recognised in profit or loss							120,727,912	120,727,912
Total 31 December 2017	3,638,517	286,546,491	727,703	15,947,882	206,917,700	123,775,746	120,727,912	758,281,951
Allocation of income for 2017:								
Distribution of income						120,727,912	(120,727,912)	-
Payment of dividends						(85,032,133)		(85,032,133)
Total contribution from shareholders and payments to them as shareholders								(85,032,133)
- Other changes (merger of Genia distribuzione)					1,309,574			1,309,574
Net income for the year recognised in equity				(6,598,500)	533,038			(6,065,462)
Net income for the year recognised in profit or loss							129,652,861	129,652,861
Total 31 December 2018	3,638,517	286,546,491	727,703	9,349,381	208,760,313	159,471,525	129,652,861	798,146,791

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

12. Notes to the Statutory 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 Company consists of six departments.

The departmental offices are:

- North West Department - Via Gazzoleto, 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 25 March 2019, 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 25 March 2019.

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

Compliance with IFRS/IAS

The statutory financial statements for the year ended 31 December 2018 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to Regulation (EC) 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.

When there is 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 through profit or loss.

Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

5.a Revenue from sales and services – 609,765 thousand euro

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

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

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Sales and services			
Third parties:			
Gas and LPG transport	556,552	557,274	(722)
Provision for risks	(152)	(1,767)	1,615
Connection fees	8,543	8,852	(309)
Ancillary fees	5,552	5,741	(190)
Revenue from the sale of water	804	1,188	(384)
Ancillary services - water sector	120	296	(176)
Revenue from customer operations	43	245	(202)
Revenue from purification/sewage management	-	226	(226)
Sundry revenue and other sales and services	21,394	21,211	182
Group companies:			
Sundry revenue and other sales and services	16,909		16,909
Total revenue from sales and services	609,765	593,267	16,498

Revenue from gas transport totalled 556,552 thousand euro and mainly refer to the 2018 Tariff Revenue Cap for natural gas and LPG.

This figure was calculated following publication of ARERA Resolution 367/2014/R/gas which indicated the means for calculating the tariffs for the fourth regulatory period. Net of the effect of the further allocation to the provision for risks regarding a possible tariff review of some concessions where there are plants partly owned by third parties, the item in question rose by 893 thousand euro in the year.

Connection fees, totalling 8,543 thousand euro, fell by 309 thousand euro compared to the previous year owing to lower direct business in the year.

Revenue from the sale of water (967 thousand euro overall) were influenced by the gradual disposal in water concessions.

“Sundry revenue and other sales and services” included revenue associated with the suspension and reactivation of customers in arrears at the request of the sales companies, which totalled around 6,386 thousand euro (6,304 thousand euro in the prior year), as well as 9,846 thousand euro in revenue relating to the TCol tariff component, compared to 9 thousand euro in the previous year.

Revenue from readings was 4,727 thousand euro, in line with the previous year, owing to Resolution 102/2016/R/com and the related revenue recognised to distributors for the reading of meters during the transfer phase.

“Sundry revenue and other sales and services” from Group companies included all the amounts charged back by the Parent Company to subsidiaries as a result of operations and staff services provided in the year. The intercompany model in place since 1 July 2018 envisages that the Parent Company operates in an integrated way also on behalf of the subsidiaries, charging back a fee in line with the market for the services provided.

5.b Other revenue – 38,040 thousand euro

“Other revenue” in the previous financial statements also included the revenue from energy efficiency certificates, thus being particularly exposed to fluctuations in the market of energy efficiency certificates with decidedly more limited impact in terms of profits, given the formula for recognising the cancellation of these certificates.

For this reason, as from this year, revenue, costs and allocations for energy efficiency certificates are set out in aggregate form, showing only the (positive or negative) margin for the year.

The item was, therefore, restated in this way also for 2017, in order to facilitate comparison.

“Other revenue” in 2018 totalled 38,040 thousand euro (30,246 thousand euro in 2017), increasing by 7,794 thousand euro, and are broken down as follows:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Other revenue			
Third parties:			
Revenue from plant contributions	2,211	2,264	(53)
Revenue from contributions - R&S tax credit	1,765		1,765
Contingent assets	309	1,681	(1,372)
Revenue from Resolution 574/13	13,144	14,042	(898)
Rental income	359	695	(336)
Capital gains from assets	1,399	1,302	97
Compensation for damages	1,160	102	1,058
Other revenue and income and services	14,472	8,715	5,757
Group companies:			
Other revenue and services	3,219	1,445	1,774
Total other revenue	38,040	30,246	7,794

As in previous years, revenue as per Resolution 574/2013/R/gas concerning the quality of gas distribution and metering services testifies to the Company's focus on the technical quality of its services. The result depends on both the number of gas chromatography 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). This year, the estimate for this item fell slightly compared to the previous year.

"Other revenue and income and services" were up 5,757 thousand euro. The item mainly consists of revenue from operations with defaulting end customers, whose administrative management was delegated to the gas distributor and also includes reimbursements from suppliers for equipment under guarantee.

Finally, "Other revenues and services" referred to intercompany balances concerning a series of services that the Parent Company provides to its subsidiaries.

5.c Revenue from intangible assets / assets under construction - 239,985 thousand euro

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Revenue from intangible assets / assets under construction			
Revenue from intangible assets / assets under construction	239,985	237,004	2,982
Total revenue from intangible assets / assets under constr	239,985	237,004	2,982

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

Revenue from intangible assets and assets under construction represents the proportion of revenue directly attributable to the construction and enhancement of gas distribution networks held under concession. Since it is not possible to identify is revenue is estimated to as the extent of on terms of 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 standard.

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Costs relating to revenue from intangible assets / assets under construction			
Raw materials and consumables	5,734	4,989	746
Costs for services	124,604	109,683	14,920
Other operating costs	846	801	45
Capitalised costs for materials, personnel and services	108,801	121,531	(12,730)
Total costs relating to revenue from intangible assets / assets under construction	239,985	237,004	2,981

6.a Raw materials and consumables – 75,576 thousand euro

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

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	3,036	2,784	253
Stationery and printed materials	189	193	(4)
Various materials	75,628	74,757	870
Group companies:			
Other costs	1,700		1,700
(Change in inventories of raw materials)	(4,977)	1,229	(6,206)
Total costs of raw materials and consumables	75,576	78,964	(3,387)
- of which capitalised for intangible assets	62,037	73,160	(11,123)
- of which capitalised for other internal work	836	1,091	(255)

"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.

In the year, 2i Rete Gas S.p.A. acquired the stocks of the subsidiaries (1,700 thousand euro), with a view to greater efficiency to guarantee centralised management of material.

6.b Services – 250,631 thousand euro

"Costs for services" are broken down as follows:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	123,747	103,450	20,297
Costs for electricity, power and water	3,068	3,182	(114)
Gas (for internal use)	3,226	3,274	(49)
Telephone and data transmission costs	2,231	2,180	50
Insurance premiums	3,999	4,216	(217)
Costs for services and other expenses relating to persc	4,925	4,260	666
Fees	657	734	(77)
Legal and notary costs	1,647	2,156	(509)
Costs for company acquisitions and disposals	305	115	190
Advertising	85	111	(26)
IT services	7,692	7,122	569
Meter reading service	4,455	6,431	(1,976)
Audit fees	585	530	55
Repairs and emergency service	5,625	4,897	729
Plant certifications Resolution no. 40 40	466	604	(138)
Gas transport by third parties	2,396	3,554	(1,158)
Professional and other services	4,755	7,771	(3,016)
Other costs for services	6,992	7,883	(891)
Group companies:			
Other costs for services	2,356	100	2,256
Costs for the use of third-party assets			
Third parties:			
Leases	4,893	4,976	(82)
Rentals	4,580	6,463	(1,883)
Other costs for the use of third-party assets	1,790	1,780	11
Fee for temporary occupation of public space (C.o.s.a.r)	1,233	1,227	6
Municipal gas concession fees	58,922	58,557	365
Total costs for services	250,631	235,574	15,057
- of which capitalised for intangible assets	124,604	109,683	14,920

The aggregate figure of costs for services (also including costs for the use of third-party assets) grew compared to the previous year (235,574 thousand euro) due to these factors:

- 20,297 thousand euro rise resulting from the increased maintenance activity on distribution networks in the year by third parties (for a better understanding of the phenomenon, it should be noted that the capitalisations for intangible assets grew in terms of the total costs for services by 14,920 thousand euro overall);
- a further decline of 112 thousand euro in the costs for utilities (electricity, water, gas, phone) compared to the previous year following further optimisations in the use of resources;
- a fall in costs related to meter reading and emergency service for a total of around 1,976 thousand euro, to be associated with the respective revenue;
- 3,016 thousand euro decline in costs for professional services: in the previous year, the item was significantly higher because of consulting services linked to the liability management exercise and to the preparation of plans and the financial structure to enable the Group to undertake the acquisitions completed in 2018;
- rental, lease and hire costs fell by a further 1,966 thousand euro compared to the previous year thanks to the streamlining of the car fleet and local offices;
- finally, concession fees were in line with those recognised in 2017.

6.C Personnel costs – 117,507 thousand euro

Personnel costs are broken down as follows:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Wages and salaries	84,996	81,866	3,130
Social security charges	25,916	24,340	1,576
Termination benefits	5,635	5,410	225
Asem/Fisde	(8)	1	(9)
Other personnel costs	(2)	(1,459)	1,457
Total personnel costs	116,537	110,157	6,379
Non-recurring personnel costs			-
Incentives to leave	970	-	970
Total non-recurring personnel costs	970	-	970
Total personnel costs	117,507	110,157	7,349
- of which capitalised for intangible assets	52,498	53,360	(861)
- of which capitalised for other internal work	2	(2)	3

"Personnel costs" include all expenses incurred on an ongoing basis that, directly or indirectly, involve employees. They were up by 7,349 thousand euro.

The capitalisation for intangible assets fell slightly compared to the previous year. However, as from 1 July 2018 all the staff of the subsidiary 2i Rete Gas Impianti S.p.A. joined the Parent Company and, from that date, a model to centralise operations on the Parent Company has been in operation. It provides for charging back the related costs, including those relating to staff and the subsidiaries.

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

	Executives	Middle Managers	Office Employees	Manual Workers	Total
Personnel at 31 December 2017	30	104	1,112	681	1,927
Merger contribution	-	-	1	1	2
Internal mobility within Group:	2	9	126	63	200
Increase	1	1	24	2	28
Decrease	-	(6)	(40)	(42)	(88)
Change in category	1	4	(4)	(1)	-
Personnel at 31 December 2018	34	112	1,219	704	2,069

6.d Amortisation, depreciation and impairment losses - 160,683 thousand euro

Depreciation, amortisation and impairment losses totalled 160,683 thousand euro, against 159,909 thousand euro in the previous year.

It should be noted that, with the introduction of IFRIC 12, amortisation mainly concerns the rights over concessions in which the Company manages the gas distribution networks.

This item is broken down as follows:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Depreciation	5,149	4,916	233
Amortisation	155,610	151,937	3,673
Impairment losses:			
Impairment of tangible assets	395	76	319
Impairment of intangible assets	17	56	(39)
Write down of trade and other receivables	(487)	2,924	(3,411)
Total depreciation, amortisation and impairment losses	160,683	159,909	774

6.e Other operating costs - 45,689 thousand euro

"Other operating costs" rose by 14,403 thousand euro, 7,170 thousand euro of which for the recognition of the net overall economic impact for the purchase of energy efficiency certificates. As from 2018, the costs relating to these certificates are set out net of the related revenue and, thus, they were restated also 2017 to facilitate comparison.

As for the capital losses on the disposal of assets, the slightly lower values compared to the previous year (-1,294 thousand euro) are due to a more careful disposal policy, but are still of a significant amount because they are 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 the losses, where concerning meters that had not been fully amortised through tariffs at the date of their replacement, are repaid through tariffs based on yearly instalments.

The other significant item to explain the increase in the year is the allocation to provisions for risks and charges (up by 7,064 thousand euro); for a more detailed description of these allocations, reference should be made to point 27 (Provisions for risks and charges) of these notes.

In detail, the costs were as follows:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Other operating costs			
Third parties:			
Remuneration of statutory auditors and Supervisory Bod	98	98	(0)
Remuneration of members of the Board of Directors	296	335	(40)
Association fees	464	432	32
Contribution to the Supervisory Authority	280	195	85
Compensation to customers	406	241	165
Municipal tax on property	437	448	(12)
CCIAA (chamber of commerce) fees and duties	479	496	(17)
Net costs for energy efficiency certificates	7,798	628	7,170
Tax on the occupation of public space (Tosap)	1,505	1,844	(340)
Capital losses on the disposal of assets	19,095	20,389	(1,294)
Capital losses on the sale of assets	99	-	99
Local and sundry taxes	886	983	(97)
Other costs	2,534	948	1,586
(Net) provision for risks and charges	11,313	4,249	7,064
Total other operating costs	45,689	31,286	14,403
- of which capitalised for intangible assets	846	801	45

6.f Capitalised costs for internal work – (839) 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. In the specific case, the value mainly refers to capitalisations of concentrators, equipment for the communication network of the new smart meters which are not part of the assets linked to the concessions.

7. Income/(Expenses) from equity investments - 1,396 thousand euro

The item in question includes the income from investments in subsidiaries, associates and other companies. The balance of the item was due for 400 thousand euro to the dividend paid by the investee MEA, for 59 thousand euro to the dividends paid by Azienda Elettrica Valtellina e Valchiavenna and for 937 thousand euro to the recognition of the capital gain included in the opening value of the right of withdrawal exercised in the year by the company on the investment in Azienda Elettrica Valtellina e Valchiavenna S.p.A. At the reporting date, the final value for this right was still not available since the technical expert had still not expressed their opinion following the Company's challenge to the values in June 2018.

8. Financial income/(expenses) - (57,226) thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Financial income			
<i>Third parties:</i>			
- Interest income from loans to employees	1	1	-
- Interest income from current accounts and post office deposits	394	55	339
- Interest income from receivables from customers	11	83	(72)
- Other financial interest and income	53	630	(578)
<i>Group companies:</i>			
- Interest income	-	13	(13)
Total income	458	782	(325)
Financial expenses			
<i>Third parties:</i>			
- Interest expense on medium/long-term loans	3,791	4,055	(264)
- Other expense on medium/long-term loans from banks	525	520	4
- Financial expenses on debenture loans	49,675	62,782	(13,107)
- Financial expenses from amortised cost	2,555	5,493	(2,937)
- Interest expense on short-term bank loans	-	8	(8)
- Interest expense on current bank accounts	-	1	(1)
- Discounting of post-employment and other employee benefits	741	915	(174)
- Interests on taxes	1	2	(1)
- Change in fair value of Interest Rate Swaps	403	-	403
- Change in fair value of hedging derivatives reclassified from compr	(403)	-	(403)
- Other financial and interest expense	196	79	117
<i>Group companies:</i>			
- Interest expense	201	37	164
Total expenses	57,684	73,891	(16,207)
TOTAL FINANCIAL INCOME AND (EXPENSES)	(57,226)	(73,109)	15,882

Net financial expenses of 57,226 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 2018, the Company had 3,319,893 thousand euro in loans outstanding, including 2,894,893 thousand euro in the six instalments of the debenture loan issued between 2014 and 2018, as well as 425,000 thousand euro in three credit lines 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 debenture loan, lengthening the average duration of the existing debt and reducing the cost of the debt itself at the same time.

In the year, the Company issued a further instalment of the debenture loan amounting to 500 million euro and due in 2025, thus ensuring the resources necessary to complete the envisaged financial operations.

9. Taxes – 53,060 thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Current taxes			
Current income taxes: IRES	50,098	46,755	3,343
Current income taxes: IRAP	11,642	11,555	87
Total current taxes	61,740	58,310	3,430
Income and expenses from tax consolidation			
(Income)/expenses from tax consolidation	0		0
Total income and expenses from tax consolidation	0		0
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	0	62	(62)
Positive adjustments for income taxes relating to previous years	(106)	(30)	(75)
Total adjustments for income taxes relating to previous years	(106)	32	(138)
Deferred and prepaid taxes			
Deferred taxes (use) / allocation	(2,300)	(2,100)	(199)
Prepaid taxes (allocation) / use	(6,275)	(4,152)	(2,122)
<i>Total current deferred and prepaid taxes</i>	<i>(8,574)</i>	<i>(6,253)</i>	<i>(2,322)</i>
Adjustments to deferred taxes of previous years due to tax rate change	(13)	-	(13)
Adjustments to prepaid taxes of previous years due to tax rate change	13	-	13
<i>Total adjusted deferred and prepaid taxes</i>	<i>0.1</i>	<i>-</i>	<i>0</i>
Total deferred and prepaid taxes	(8,574)	(6,253)	(2,322)
TOTAL TAXES	53,060	52,089	971

Income taxes for 2018 totalled 53,060 thousand euro, up 971 thousand euro year-on-year. Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES of 50,098 thousand euro and IRAP of 11,642 thousand euro.

Deferred and prepaid taxes followed the normal course of the business.

For more in-depth notes on this item, 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 106 thousand euro; these adjustments arose following the definitive calculation of the taxes during the payment in June 2018.

The tax impact of IRES for 2017 is equal to 27.4%.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in force during the year to pre-tax profit, without taking into account the adjustments from previous years:

Thousands of euro

	31.12.2018	31.12.2017
Pre-tax profit	182,713	172,817
Theoretical IRES taxes - 2018:	43,851	41,476
Lower taxes:	14,172	15,065
- capital gains from exempt equity investments	225	-
- release of contributions taxed in prior years	1,763	1,916
- use of provisions	4,326	4,851
- release of provisions	485	980
- reversal of statutory amortisation / depreciation not deducted in prior	1,507	3,474
- deducted tax amortisation	4,960	1,024
- capital gains by instalments	-	17
- others	907	2,803
Higher taxes:	20,419	20,344
- allocations to provisions	7,820	6,984
- amortisation / depreciation on amounts that are not recognised for tax	-	2,304
- statutory amortisation / depreciation exceeding the fiscal limits	10,660	8,855
- reversal of excess fiscal amortisation / depreciation deducted in prior	779	820
- capital losses on the disposal / sale of assets	22	-
- capital gains by instalments	222	222
- partially deductible costs	432	413
- connection fees	36	27
- taxes	92	108
- others	358	613
Total current income taxes (IRES)	50,098	46,755
IRAP - 2018:	11,642	11,555
Total deferred and prepaid taxes	(8,574)	(6,253)
TOTAL INCOME TAXES	53,166	52,057

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 – 34,927 thousand euro

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

The breakdown and changes in property, plant and equipment in 2017 and 2018 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	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 31.12.2016	13,617	9,935	1,737	1,628	7,134	3,666	32	37,749
Investments	-	258	3,448	656	1,228	108	10	5,707
Entry into service	-	18	-	-	-	2	(20)	-
<i>Gross value</i>	-	18	-	-	-	2	(20)	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(766)	(227)	-	-	-	-	-	(993)
<i>Gross value</i>	(766)	(1,458)	-	(264)	(1,227)	-	-	(3,716)
<i>Acc. Depr.</i>	-	1,231	-	264	1,227	-	-	2,722
Reclassifications	(40)	16	-	-	-	-	(16)	(40)
<i>Gross value</i>	(40)	16	-	-	-	-	(16)	(40)
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Impairment losses	(62)	(10)	-	-	-	-	(4)	(76)
<i>Gross value</i>	(62)	(50)	-	-	-	-	(4)	(116)
<i>Acc. Depr.</i>	-	39	-	-	-	-	-	39
Depreciation	-	(879)	(236)	(496)	(2,285)	(1,020)	-	(4,916)
Total changes	(868)	(824)	3,211	160	(1,058)	(910)	(30)	(319)
Historical cost	12,750	33,570	6,818	22,657	48,981	13,505	2	138,282
Accumulated depreciation	0	(24,459)	(1,870)	(20,869)	(42,905)	(10,748)	-	(100,851)
Balance at 31.12.2017	12,750	9,111	4,948	1,788	6,076	2,756	2	37,430
Merger contribution:	-	-	20	8	-	-	-	28
<i>Gross value</i>	-	-	20	30	1	-	-	50
<i>Acc. Depr.</i>	-	-	(0)	(22)	(1)	-	-	(23)
Business unit Contribution	-	-	-	78	613	-	-	691
<i>Gross value</i>	-	-	-	179	1,882	-	-	2,061
<i>Acc. Depr.</i>	-	-	-	(101)	(1,269)	-	-	(1,370)
Increases (including Fixed assets classified as assets available for sale)	-	160	2,494	168	1,356	23	2	4,202
Entry into service	-	-	-	-	-	(0)	0	-
<i>Gross value</i>	-	-	-	-	-	(0)	0	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(803)	(1,035)	-	-	-	-	-	(1,837)
<i>Gross value</i>	(803)	(3,981)	-	(8)	-	-	-	(4,791)
<i>Acc. Depr.</i>	-	2,946	-	8	-	-	-	2,954
Reclassifications	-	-	-	-	29	-	-	29
<i>Gross value</i>	-	-	-	-	30	-	-	30
<i>Acc. Depr.</i>	-	-	-	-	(1)	-	-	(1)
Impairment losses	-	(395)	-	-	-	-	-	(395)
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	(395)	-	-	-	-	-	(395)
Fixed assets classified as assets available for sale	-	-	(70)	-	(2)	-	-	(72)
<i>Gross value</i>	-	-	(71)	-	(30)	-	-	(101)
<i>Acc. Depr.</i>	-	-	2	-	28	-	-	30
Depreciation	-	(763)	(428)	(465)	(2,464)	(1,029)	-	(5,149)
Total changes	(803)	(2,033)	2,016	(211)	(468)	(1,007)	2	(2,503)
Historical cost	11,947	29,749	9,261	23,025	52,220	13,527	4	139,732
Accumulated depreciation	0	(22,671)	(2,297)	(21,448)	(46,612)	(11,778)	-	(104,805)
Balance at 31.12.2018	11,947	7,078	6,964	1,577	5,608	1,749	4	34,927

At 31 December 2018, this line item included the 4,202 thousand euro increase in investments made during the year, but also the increases deriving from extraordinary operations involving the contribution and merger of a business unit totalling 719 thousand euro, which were offset by 1,873 thousand euro in disposals for the sale of unused properties, 438 thousand euro in impairment losses and reclassifications also for assignment to

negative available for sale financial assets, and 5,149 thousand euro in depreciation charges.

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

Thousands of euro	31.12.2018	31.12.2017
Increases for internal services	2	1
Increases for materials	836	1,091
Increases for external acquisitions / services	3,364	4,615
Total	4,202	5,707

As part of the increases for acquisitions, in the year, Other Assets included a 795 thousand euro increase in costs incurred for the purchase of servers and personal computers, as well as 210 thousand euro due to the purchase of IT security equipment.

The increase in plant and equipment, on the other hand, was due to the installation of concentrators, data reception and transmission equipment which is part of the smart meter communication network and is excluded from the scope of application of IFRIC 12 since it is not recognised as concession assets.

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

LAND		LAND CONC	
Revaluation Law 576/75	20	Revaluation Law 576/75	1
Revaluation Law 72/83	12	Revaluation Law 72/83	15
Revaluation Law 413/91	331	Revaluation Law 413/91	0
Revaluation Law 350/03	3,391	Revaluation Law 350/03	77
Total revaluations of land and buildings	3,754	Total revaluations of land and buildings	93
BUILDINGS		BUILDINGS CONC	
Revaluation Law 576/75	19	Revaluation Law 576/75	16
Revaluation Law 72/83	5	Revaluation Law 72/83	96
Revaluation Law 413/91	440	Revaluation Law 413/91	138
Revaluation Law 350/03	5,225	Revaluation Law 350/03	2,162
Total revaluations of land and buildings	5,689	Total revaluations of land and buildings	2,412
PLANT AND EQUIPMENT CONC		INDUSTRIAL AND COMMERCIAL EQUIPMENT	
Revaluation Law 576/75	2,386	Revaluation Law 576/75	1
Revaluation Law 72/83	18,777	Revaluation Law 72/83	10
Revaluation Law 413/91	67	Revaluation Law 350/03	6
Revaluation Law 342/00	8,905	Total revaluations of industrial and commel	17
Revaluation Law 350/03	497,200		
Total revaluations of plant and equipment	527,335		
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 – 2,980,128 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions.

The breakdown and changes in intangible assets in 2017 and 2018 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 fixed assets	Goodwill	Total
Historical cost	89,816	5,317,929	9,949	3,713	105,953	142,956	5,670,314
Accumulated depreciation	(84,377)	(2,668,991)	-	-	(69,294)	-	(2,822,662)
Balance at 31.12.2016	5,438	2,648,938	9,949	3,713	36,658	142,956	2,847,651
Increases	3,027	226,628	10,430	3,054	8,581	-	251,721
Entry into service	-	7,331	(7,114)	(3,451)	3,234	-	-
Gross value	-	7,331	(7,114)	(3,451)	3,234	-	-
Acc. Depr.	-	-	-	-	-	-	-
Decreases	-	(23,168)	(47)	-	-	-	(23,215)
Gross value	-	(69,363)	(47)	-	-	-	(69,410)
Acc. Depr.	-	46,195	-	-	-	-	46,195
Reclassifications	-	40	-	-	-	-	40
Gross value	-	40	-	-	-	-	40
Acc. Depr.	-	-	-	-	-	-	-
Impairment losses	-	(1)	(18)	(38)	-	-	(56)
Gross value	-	(1)	(18)	(38)	-	-	(56)
Acc. Depr.	-	0	-	-	-	-	0
Fixed assets classified as assets available for sale	-	(1,373)	(94)	-	-	-	(1,467)
Gross value	-	(5,083)	(94)	-	-	-	(5,176)
Acc. Depr.	-	3,710	-	-	-	-	3,710
Depreciation	(3,906)	(135,791)	-	-	(12,240)	-	(151,937)
Total changes	(878)	73,667	3,158	(434)	(425)	-	75,086
Historical cost	92,843	5,477,481	13,106	3,278	117,768	142,956	5,847,432
Accumulated depreciation	(88,283)	(2,754,876)	-	-	(81,535)	-	(2,924,694)
Balance at 31.12.2017	4,560	2,722,605	13,106	3,278	36,233	142,956	2,922,738
Merger contribution:	3	7,143	-	-	-	19	7,165
Gross value	41	14,240	-	-	12	19	14,312
Acc. Depr.	(38)	(7,098)	-	-	(12)	-	(7,148)
<i>Increases (including Fixed assets classified as assets available for sale)</i>	2,636	225,023	14,983	3,432	10,570	-	256,644
Entry into service	856	8,544	(8,544)	(2,689)	1,833	-	(0)
Gross value	856	8,544	(8,544)	(2,689)	1,833	-	(0)
Acc. Depr.	-	-	-	-	-	-	0
Decreases	-	(19,042)	(26)	-	-	-	(19,067)
Gross value	-	(51,112)	(26)	-	-	-	(51,138)
Acc. Depr.	-	32,070	-	-	-	-	32,070
Reclassifications	(29)	-	-	-	-	-	(29)
Gross value	(30)	-	-	-	-	-	(30)
Acc. Depr.	1	-	-	-	-	-	1
Impairment losses	-	-	(17)	-	-	-	(17)
Gross value	-	-	(17)	-	-	-	(17)
Acc. Depr.	-	-	-	-	-	-	0
Fixed assets classified as assets available for sale	-	(31,028)	(667)	-	-	-	(31,696)
Gross value	-	(62,108)	(667)	-	-	-	(62,775)
Acc. Depr.	-	31,079	-	-	-	-	31,079
Depreciation	(3,602)	(138,405)	-	-	(13,603)	-	(155,610)
Total changes	(137)	52,235	5,730	743	(1,200)	19	57,390
Historical cost	96,346	5,612,068	18,836	4,022	130,183	142,974	6,004,429
Accumulated depreciation	(91,923)	(2,837,229)	-	-	(95,149)	-	(3,024,301)
Balance at 31.12.2018	4,423	2,774,839	18,836	4,022	35,034	142,974	2,980,128

Intangible assets rose thanks to an important investment campaign in 2018 of 256,644 thousand euro, as well as thanks to the merger at the start of the year of 7,165 thousand euro, decreases of 19,067 thousand euro, reclassifications of 31,724 thousand euro (31,696 due to the classification as "Available for sale" of the assets relating to the ATEM

tender for Bari 2 and Foggia 1 business unit – the previous year, 1,467 thousand euro was reclassified in the same way for the Villasanta business unit and the concession of Moscufo, now sold) as well as amortisation and write-downs for a total of 155,627 thousand euro.

“Patent and intellectual property rights” included 2,626 thousand euro investments, mostly in software licences, and 3,602 thousand euro amortisation charges.

The item “Concessions and similar rights” includes the amounts relating to the recognition of the Company’s rights as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions. 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 2,793,676 thousand euro.

The amortisation of concession charges was determined on a straight-line basis and on the basis of 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 4,022 thousand euro, mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company.

"Other intangible assets" of 35,034 thousand euro include other long-term costs, such as capitalised costs linked to the implementation of the remote reading system for smart meters.

"Goodwill" is equal to 142,974 thousand euro and 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 a forecast period of 5 years, consistent with the 2i Rete Gas Group plan approved by the Board of Directors on 18 December 2018 and drafted on the going concern assumption, 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;
- sale of the concessions relating to the ATEM tenders for Bari 2 and Foggia 1 in 2019.

The discount rates applied, the forecast period over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

Tax Rate	WACC (1)	Cash flow forecast period	TV (g) growth rate
28.6% (2)	3.6%	2019 - 2023	0%

(1) Post-tax WACC is aligned to the average cost of financing of the best-performing peers in the sector

(2) IRAP + IRES rate

The value in use, 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 39%, a percentage which is much higher than the reductions considered possible by the Company.

13. Net deferred tax assets – 85,112 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date. Deferred tax assets totalled 180,873 thousand euro, while deferred tax liabilities totalled 95,761 thousand euro.

Deferred tax assets and liabilities at 31 December 2018 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

As for deferred taxes, the change concerns increases for 1,816 thousand euro, while decreases totalled 8,161 thousand euro, 2,084 thousand euro of which were due to the change, impacting on equity, in the derivative value in the year.

The change in deferred taxes assets for the year refers to increases for 18,092 thousand euro (486 thousand euro due to extraordinary operations during the year) and decreases for 12,160 thousand euro due to regular changes in the year.

Considering, among other things, the flows estimated in the most recent business plans, the Company 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 the tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

Thousands of euro	At 31.12.2017	Merger contribution	Capital contributions from extraordinary operations during the year	Total	Increases recognised in		Decreases recognised in		Other changes		Reclassifications (if any) under the Item Available for sale	Adjustments (if any) under the Item Available for sale	Balance at 31.12.2018
					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	19,314	15	-	19,329	7,260	-	(2,722)	-	2	-	-	-	23,868
allocation to provisions for incentives to leave and stock options	710	-	-	710	277.03	-	(315)	-	0	-	-	-	673
allocation to provisions for disputes	4,021	-	-	4,021	444	-	(913)	-	(2)	-	-	-	3,550
allocation to provisions for inventory obsolescence	3,314	0	-	3,314	47	-	(63)	-	0	-	-	-	3,298
impairment losses on assets, deferred deductibility (receivables w	3,363	5	-	3,368	35.85	-	(1,044)	-	0	-	-	27	2,387
impairment losses on assets, deferred deductibility (plant write-do	1,900	-	-	1,900	-	-	-	-	(0)	-	-	-	1,899
depreciation and amortisation of tangible and intangible assets, de	85,729	47	-	85,776	8,357	-	(3,139)	-	(1)	-	(802)	105	90,296
separation of land / buildings and component analysis	114	-	-	114	-	-	-	-	(1)	-	-	-	113
start-up costs	2,225	-	-	2,225	-	-	-	-	(0)	-	-	-	2,225
post-employment and other employee benefits	2,948	1	239	3,188	1,186	-	(574)	-	(5)	-	-	-	3,794
cash deductible taxes and duties	12	-	-	12	-	-	11.53	-	0	-	-	-	(0)
proceeds subject to deferred taxation (connection fees)	32,112	42	-	32,155	-	-	(175)	-	(6)	-	-	-	31,973
deferred deductibility charges	15,659	1	-	15,660	-	-	(2,239)	-	(0)	-	-	-	13,421
goodwill	1,135	-	-	1,135	-	-	135.03	-	(0)	-	-	-	1,000
post-employment benefits - Italian Accounting Body (OCI)	2,252	-	135	2,387	-	-	-	(13)	-	(1)	-	-	2,374
for losses recoverable in future years	-	0	-	0	-	-	-	-	-	-	-	-	0
Total	174,807	112	374	175,294	17,606	0	(11,331)	(13)	(14)	(1)	(802)	132	180,872
Deferred income tax liabilities:													
differences on tangible and intangible assets – additional depreciation and amortisation	25,702	-	-	25,702	314	-	(836)	-	(0)	-	(2,149)	-	23,030
differences on intangible assets – goodwill	5,109	-	-	5,109	-	-	-	-	(0)	-	-	-	5,109
separation of land / buildings and component analysis	3,827	-	-	3,827	-	-	-	-	(1)	-	-	-	3,826
allocation to assets of costs relating to company mergers	40,328	-	-	40,328	-	-	(2,208)	-	(7)	-	-	-	38,113
post-employment benefits	939	-	-	939	-	175	-	-	-	(0)	-	-	1,114
proceeds subject to deferred taxation	2,364	0	-	2,364	1,208	-	(222)	-	(0)	-	-	-	3,350
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	5,036	-	-	5,036	-	-	(97)	(2,084)	-	-	-	-	2,856
other...	1,421	-	-	1,421	39	-	(211)	-	(0)	-	-	-	1,248
Derivative financial instruments and ASEM - Italian Accounting Body (OCI)	33	-	-	33	-	25	-	-	-	(0)	-	-	59
recognition of deferred taxes due to merger	17,348	-	-	17,348	55	-	(341)	-	(4)	-	-	-	17,057
5% dividends received allocated to future years on an accruals basis	-	-	-	-	-	-	-	-	-	-	-	-	0
Total	102,106	0	0	102,106	1,615	200.54	(3,915)	(2,084)	(13)	(0)	(2,149)	-	95,761
Net deferred tax assets	72,701	112	374	73,187	15,991	(201)	(7,416)	2,071	(1)	(0)	1,347	132	85,111

14. Equity investments – 747,024 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 investments in Genia Gas Distribuzione S.r.l. and in 2i Rete Gas Impianti S.r.l. were cancelled, in the former case following the company's merger with the Parent Company, in the latter case owing to the reverse merger with 2i Rete Gas Impianti S.p.A.

In addition, following this merger, 2i Rete Gas Impianti S.p.A. became a direct equity investment of the Company.

A further two investments were made in the year, i.e. Compagnia Generale Metanodotti S.r.l. and 2i Rete Gas Servizi S.p.A.

The list of equity investments and the change in their value during 2018 are reported on the following page.

Thousands of euro	Carrying amount	% ownership	Increases for the period	Disposals	Other changes	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	at 31.12.2017						at 31.12.2018			
A) Subsidiaries										
Genia Distribuzione gas Srl	5,129	100%			(5,129)		5,129	(5,129)	-	
Zi Rete Gas Impianti Srl (merged into Zi Rete Gas Impianti S)	50	100%	730,000		(730,050)		50	(50)	-	
Zi Rete Gas Impianti SpA	-	100%			730,385		-	730,385	730,385	100%
Compagnia Generale Metanodotti Srl	-	100%	1,253				-	1,253	1,253	100%
Zi Rete Gas Servizi SpA	-	100%	5,915				-	5,915	5,915	100%
Zi Rete Gas Srl	6,906	100%					6,906	-	6,906	100%
Total subsidiaries	12,085		737,169	-	(4,793)	-	12,085	732,375	744,460	
B) Associates										
Melegnano Energie Ambiente SpA	2,451	40.00%					2,451	-	2,451	40%
Total associates	2,451		-	-	-	-	2,451	-	2,451	
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	(405)	-	
Terme di Offida Spa	1	0.19%					1	-	1	0.19%
Asogas S.p.A. (in liquidazione)	-	9.00%					-	-	-	9.00%
Total other companies	517		-	-	(405)	-	517	(405)	112	
TOTAL EQUITY INVESTMENTS	15,053		737,169	-	(5,198)	-	15,053	731,970	747,024	

The following tables show the list of equity investments in subsidiaries and their values as recognised in the Company's financial statements at 31 December 2018:

A) Subsidiaries	Registered office	Share Capital (euro)	Equity (euro)	Profit / (Loss)	End of the reporting period	% ownership	Carrying amount	Equity (ITA GAAP) (euro)
Zi Rete Gas SRL	Milan	50,000	7,254,425	(82,872)	31.12.2018	100.00%	6,906,000	7,254,425
Zi Rete Gas Impianti SpA	Acquaviva delle Fonti	33,073,130	744,129,745	15,272,106	31.12.2018	100.00%	730,385,369	744,129,745
Zi Rete Gas Servizi SpA	Milan	120,000	3,698,772	70,547	31.12.2018	100.00%	5,915,448	3,698,772
Compagnia Generale Metanodotti Srl	Milan	10,200	479,743	59,897	30.06.2018	100.00%	1,253,278	479,743

As regards associates, on the other hand, the values at 31 December 2018 were as follows:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	9,339,277	5,695,310	2,957,884	31.12.2017	40.00%	2,451,467

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

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,468,592	1,301,407	(281,664)	31.12.2017	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,588,716	1,544	(119,306)	31.12.2017	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,947,959	964,194	85,636	31.12.2017	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,187,621	0	(30,034)	31.12.2017	0.09%	10,989
Terme di Offida Spa	Offida (AP)	141,384	32,969	1	(96,324)	31.12.2017	0.19%	548
Asogas S.p.A. (in liquidazione)	Amandola (FM)	2,182	(651)	0	(2,229)	31.12.2017	9.00%	-
Alpiflere S.r.l. in fallimento			Removed from the Business Register on 23/01/2018				0.00%	

15. Non-current financial assets – 1,025 thousand euro

In 2017, the item included the forward starting swap taken out to hedge the interest rate risk for a future issue of an instalment of the debenture loan. For this reason, upon issue of the final instalment of the debenture loan, the swap was closed and liquidated, as planned. Given the structure of the hedge, the positive impact on the income statement will be recorded on the basis of the corresponding negative impact of financial costs for the loan issued. The item also includes the prepayment of transaction costs incurred to obtain credit lines, unused at 31 December 2018.

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Non-current prepaid financial expenses	368	531	(163)
Long-term loans to employees	42	50	(8)
Financial receivables due from others	614	614	-
Fair value measurement of IRS derivatives	-	20,984	(20,984)
Total	1,025	22,180	(21,155)

16. Other non-current assets – 53,902 thousand euro

The item includes the following entries:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
security deposits	3,104	3,073	32
receivables for plant contributions	560	560	-
tax receivables reimbursements applied for	1,598	1,598	-
prepaid promotional expenses	110	136	(26)
from municipalities for disposals of assets due to expiration of concessions Concessions	7,131	8,723	(1,592)
Non-current receivables from CSEA	25,548	23,324	2,224
other non-current assets	15,998	14,435	1,563
bad debt provision	(147)	(147)	-
Total	53,902	51,702	2,200

Guarantee deposits totalled 3,104 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 the medium-/long-term portion of receivables for plant contributions to be received.

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

The receivable due from municipalities for disposals of assets due to the expiration of concessions had a balance of 7,131 thousand euro. This was the result of similar disputes or proceedings ongoing with various municipalities in order to define the amount of the refund owed to the Company as outgoing operator for some concessions already ended. This year, too, the Company placed special emphasis on this issue, unlocking a further tranche of receivables by reaching out-of-court settlements.

The balance of non-current receivables due from CSEA, totalling 25,548 thousand euro, referred to the amount payable to distribution companies for the conventional meters that must be replaced by smart meters under Resolution 155/09 but that had not yet been fully amortised through tariffs at the date of their replacement. The considerable amount is due to the intense replacement work in 2018 and previous years.

Finally, the 1,563 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 (10,684 thousand euro at 31 December 2018), 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 (3,250 thousand euro).

Current assets

17. Inventories – 23,948 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 plants and, in particular, of the new smart meters.

The item has a balance 4,984 thousand euro higher than the previous year, also due to the operating model which has been active since 2018 and under which only the Parent Company holds inventories, with a view to greater efficiency.

The item includes the provision for the write-down of inventories equal to 590 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 – 231,466 thousand euro

Trade receivables are broken down as follows:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Third-party customers:			
Receivables due from customers	214,029	277,199	(63,170)
- Bad debt provision	(6,829)	(9,028)	2,199
Receivables for returns under warranty	2,114	5,059	(2,945)
- Provision for receivables for returns under warranty	(646)	(2,677)	2,031
Total	208,669	270,553	(61,885)
Group companies:			
Receivables due from subsidiaries	22,797	1,719	21,079
Total	22,797	1,719	21,079
TOTAL	231,466	272,272	(40,806)

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.

Such receivables are recognised net of a 6,829 thousand euro bad debt provision.

As for the impact assessment pursuant to IFRS 9, the company did not consider it had to update its assessments since the guarantees hedging receivables significantly reduce the risk of insolvency.

Receivables for returns under warranty, which are recognised net of the relevant bad debt provision, concern receivables due from manufacturers of meters for non-functioning assets which have long-term warranties. The amount is stated net of the bad debt provision to take account of changed contractual conditions and findings which lead to the belief that the receivable is no longer collectible.

Changes in the bad debt provision are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
At 31 December 2017	9,028	13,593	(4,565)
Merger contributions	22	-	22
Allocations	265	482	(216)
Releases	(750)	(1,554)	804
Uses	(1,736)	(3,341)	1,605
Other changes		(151)	151
At 31 December 2018	6,829	9,028	(2,199)

The bad debt provision at 31 December 2018 was subject to taxes of 6,713 thousand euro.

The breakdown of receivables due from subsidiaries is as follows:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Receivables due from subsidiaries:			-
2I Rete Gas Impianti S.r.l.	-	2	(2)
2I Rete Gas S.r.l.	2,688	1,605	1,083
Genia Distribuzione gas S.r.l.	-	112	(112)
2I Rete Gas Servizi S.p.A.	1,137		1,137
2I Rete Gas Impianti S.p.A.	18,899		18,899
Cilento Reti Gas S.r.l.	17		17
Compagnia Metanodotti Salentini S.rl.	57		57
TOTAL	22,797	1,719	21,079

All the Company's operations are in Italy.

19. Short-term financial receivables - 1,394 thousand euro

Short-term financial receivables consisted for 1,342 thousand euro of financial receivables arising from the exercise of the right of withdrawal of Azienda Elettrica Valtellina e Valchiavenna. The amount is the estimate based on the preliminary withdrawal value and was challenged by the company. It must be updated on the basis of an expert appraisal which was still ongoing at the reporting date.

20. Other current financial assets - 187 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2018.

21. Cash and cash equivalents – 676,978 thousand euro

Cash and cash equivalents fell by 138,085 thousand euro owing to financial operations in the period, as well as the usual operations.

Cash and cash equivalents are broken down as follows:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Bank deposits	676,348	814,539	(138,192)
Post office deposits	491	372	120
Cash in hand	138	152	(13)
Total	676,978	815,063	(138,085)

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

22. Income tax receivables – 6,779 thousand euro

Income tax receivables for IRES and IRAP totalled 6,738 thousand euro (192 thousand euro of which for receivables relating to the tax consolidation contract) and 40 thousand euro, respectively.

23. Other current assets – 167,787 thousand euro

The item is broken down as follows:

Thousands of euro

	31.12.2018	31.12.2017	2018 - 2017
Other tax receivables:			
VAT receivables reimbursements applied for	9,326	7,326	2,000
Receivables due from tax authorities for VAT	10,427	6,831	3,596
Other tax receivables	122	122	0
Other receivables:			
from social security and insurance agencies	1,111	353	757
receivables for plant contributions	1,943	1,932	11
from CSEA	134,779	144,668	(9,889)
from municipalities for disposals of assets due to expiration of concessions	1,299	1,306	(7)
Concessions			
from municipalities	246	246	-
from suppliers	3,356	2,940	415
Other receivables	5,010	3,699	1,312
Provision for other doubtful debts	(2,472)	(2,472)	-
Accrued income	-	1	(1)
Deferred expenses relating to other multi-year charges	23	51	(28)
Deferred expenses relating to real estate lease fees	555	521	34
Prepayment of promotional expenses	26	27	(1)
Deferred insurance premiums	15	14	1
Other deferred expenses	2,021	1,524	497
Other current receivables - Group			
Other current receivables - Group	-	6	(6)
Total	167,787	169,096	(1,308)

The item fell by 1,308 thousand euro mainly due to the 9,899 thousand euro fall in receivables due from CSEA compared to the previous year; these receivables include, in addition to the amount which must be recognised for energy efficiency certificates (5,392 thousand euro), the amount arising from the equalisation of the gas distribution service (32,194 thousand euro), receivables for the UG2 components and the Gas Bonus (56,931 thousand euro) and the recognition of Technical Quality (33,678 thousand euro).

On the other hand, receivables for energy efficiency certificates fell by 30,417 thousand euro compared to the previous year.

VAT receivables both for the period and for tax reimbursement rose overall by 5,596 thousand euro.

37. Assets held for sale - 32,681 thousand euro

In the year, the classification of assets held for sale included the concessions relating to the ATEM tenders of Bari 2 and Foggia 1, which will be disposed of by the end of April 2019 based on the agreement to sell signed in June with the counterparty Centria S.r.l. In the previous year, the balance included the assets relating to the water concessions of Villasanta and Moscufo which were subsequently disposed of in 2018.

Liabilities

Equity

24. Equity – 798,147 thousand euro

Equity rose by 39,865 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;
- increases owing to the merger of Genia Distribuzione S.p.A. for 1,310 thousand euro;
- decrease in reserves for valuation of derivatives (6,599 thousand euro relating to the fair value measurement of the derivative) and increase in other reserves (for 533 thousand euro relating to the discounting of defined benefits) owing to the profit for the year recognised directly in equity;
- 129,653 thousand euro increase in profit for the year.

Share capital – 3,639 thousand euro

The share capital at 31 December 2018 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 – 9,349 thousand euro

The reserve for valuation of derivatives came into being in 2016 following the signing of Forward Starting Interest Rate Swaps; during 2018, the swap was closed as planned, but the impact on profit or loss will be recognised on the basis of the element covered by the derivative, i.e. the interest expense of the debenture loan for the next 10 years. The measurement at 31 December 2018 includes the residual value of the derivative which is no longer subject to fair value fluctuations and will be released to profit or loss over the next 10 years.

Other reserves – 208,760 thousand euro

Other reserves changed by 1,843 thousand euro compared to the previous year, owing to the merger of Genia Distribuzione S.p.A. into the Company and the recognition of the impact of the actuarial valuation of the Company's defined benefit plan in equity.

Retained earnings – 159,472 thousand euro

Retained earnings rose 35,696 thousand euro from the previous year as the general meeting resolved to distribute part of the profit for 2017 and allocate the rest to this reserve.

Profit for the period – 129,653 thousand euro

The net profit for 2018, compared to 2017 (120,728 thousand euro), increased by 8,925 thousand euro; the previous year was strongly impacted by financial charges for the liability management exercise.

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	104,040,856	A,B	104,040,856	
Reserves other than FTA	(86,021,234)		(86,021,234)	
Reserves other than post-employment benefit (TFI)	(4,855,947)		(4,855,947)	
Reserves other than derivative measurement	9,349,381		9,349,381	
Retained earnings (accumulated losses)	159,471,525	A,B,C	159,471,525	
Net income for the year	129,652,861	A,B,C	129,652,861	
Total	798,146,792		793,780,572	4,366,220

Key:

A: Available for Share Capital Increase

B: Available to cover losses

C: Available to shareholders payment

Non-current liabilities**25. Long-term loans – 2,943,857 thousand euro**

The item refers to the six instalments of the long-term debenture loan the Group issued between 2014 and 2018 as well as 425 million euro in three credit lines received from the European Investment Bank used between 2015 and 2017.

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.

	Balance		Notional Value		Interest rate	Interest rate
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	in force	interest rate
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	200,000	200,000	200,000	200,000	Eur+0,59%	0.32%
Debenture loan expiring 2019		362,793		362,793		
Debenture loan expiring 2020	267,100	267,100	267,100	267,100	1.13%	1.35%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2025	500,000		500,000		2.20%	2.29%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs connected to loans (long term)	(13,243)	(12,909)				
TOTAL LONG TERM	2,943,857	2,806,984	2,957,100	2,819,893		

The maturity schedule of financial liabilities, whether medium-/long-term (2,957,100 thousand euro notional) or short-term (362,950 thousand euro – see point 30 of these notes), is shown in the following table:

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	31.12.2018	31.12.2017			
Bank lenders and ST/ML-Term debenture loans					
Financing - Capex Line	425,000	425,000	-	72,727	352,273
Medium-/long-term debenture loans	2,532,100	2,394,893	-	267,100	2,265,000
Debenture loans due within next year	362,793		362,793	-	-
Total	3,319,893	2,819,893	362,793	339,827	2,617,273

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

The loans taken out with the European Investment Bank are subject to some covenants 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;
- Net Financial Expenses.

At 31 December 2018, the company met all covenants under this facility.

26. Post-employment and other employee benefits – 45,263 thousand euro

The Company provides employees with various types of benefits, including post-employment benefits, health benefits, payment in lieu of notice (Indennità Sostitutiva of the Preavviso - ISP) and payment in lieu of energy discount (Indennità Sostitutiva Sconto Energia).

As from 1 July 2018, following the transfer of a business unit from the subsidiary 2i Rete Gas Impianti S.p.A., the staff of the subsidiary joined the Parent Company.

The debit balances at 31 December 2018 also include this operation.

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

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

In detail, the plans provided for the following benefits:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Post-employment benefits	32,926	33,330	(405)
ASEM health service	1,716	1,787	(70)
Fondo GAS	10,621	10,878	(257)
TOTAL	45,263	45,995	(731)

An analysis of the main items is provided below.

Post-employment benefits

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

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

Health benefits

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

Fondo Gas

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

The Company set aside an additional amount during the year after revising the estimate based on the more accurate data available on the average seniority of current employees for the purposes of Fondo Gas.

The main assumptions in the actuarial estimates of employee benefit liabilities (Gas Provision and post-employment benefits) are set out below.

	31.12.2018	31.12.2017
Financial scenarios		
Discount rate	1.60%	1.50%
Annual rate of increase in cost of living	1.50%	1.50%
Rate of increase in cost of health spending	2.50%	2.50%
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 – 7,878 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 the medium-/long-term portion). The long-term portion is disclosed separately.

Thousands of euro	at 31.12.2017		at 31.12.2018							at 31.12.2018	
	Of which current portion	Of which non-current portion	Merger contribution	Allocations	Releases	Uses	Other changes	Of which current portion	Of which non-current portion		
Provisions for litigation and disputes	8,033	-	8,033	-	1,554	(907)	(2,287)	-	6,393	-	6,393
Provision for taxes and duties	1,649	-	1,649	12.18	30	(363)	(18)	-	1,310	-	1,310
Provisions for disputes with personnel	100	-	100	-	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	-	75	-	75
Provision for disputes on concessions	21,381	21,381	-	-	4,630	(3,422)	(15)	-	22,574	22,574	-
Other provisions for risks and charges	52,053	52,053	-	52	20,790	(6,042)	(35)	(0)	66,819	66,819	-
Total	83,291	73,434	9,857	64	27,004	(10,733)	(2,356)	(0)	97,271	89,393	7,878
Provisions for charges pertaining to incentives to leave	2,487	2,487	-	-	970	-	(1,101)	-	2,356	2,356	-
Total	85,779	75,921	9,857	64	27,974	(10,733)	(3,457)	(0)	99,627	91,749	7,878

Provisions for risks and charges amounted to 99,627 thousand euro overall. They consisted of a 91,749 thousand euro short-term portion and a 7,878 thousand euro long-term portion, and were broken down as follows:

- “Provisions for litigation and disputes”, 6,393 thousand euro, to cover contingent liabilities mainly arising from ongoing litigation cases.
- “Provision for taxes and duties”, amounting to 1,310 thousand euro, mainly refers to disputes or possible challenges about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;
- “Provision for disputes with personnel”, amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in the year;

- “Provision for disputes on concessions”, totalling 22,574 thousand euro, generally includes the estimated costs associated with various disputes with municipalities. This line item rose by a net 1,209 thousand euro following the requests made by municipalities to revise the agreed concession fees in view of a marginal use during the year;
- “Other provisions for risks and charges”, amounting to 66,819 thousand euro, cover the costs that could potentially arise from the need for maintenance or replacement of meters not fully compliant with corporate standards, as well as the risk of some tariff reviews related to concessions owned by third parties; the appeal against ARERA's decision to revise said tariffs for a number of concessions is still under discussion. Finally, the provision also includes the allocation for the risk that the contribution to derecognise energy efficiency certificates does not cover the cost to purchase such certificates in order to comply with regulatory obligations up to May 2019;
- “Provision for charges pertaining to incentives to leave”, totalling 2,356 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 during the year and are still under way.

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

28. Non-current financial liabilities – 0 thousand euro

At 31 December 2017, as in the previous year, the Company did not have any non-current financial liabilities.

29. Other non-current liabilities – 307,056 thousand euro

The item includes the following entries:

Thousands of euro	31.12.2018	31.12.2017	2018 - 2017
Deferred income:			
payables to social security and insurance agencies	2,137	1,984	153
other payables	361	361	-
Deferred income for plant contributions	43,018	47,030	(4,012)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	261,540	260,938	603
Total other non-current liabilities	307,056	310,312	(3,256)

The change in deferred income is part of normal operations. The item must be read together with the short-term portion of “Other current liabilities”.

Current liabilities

30. Short-term loans – 431,296 thousand euro

The item in question mainly refers to the portion of the debenture loan due in 2019, as well as current account payables.

Specifically:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
intercompany financial payables	68,802	5,867	62,935
short-term debenture loans	362,494		362,494
Total	431,296	5,867	425,428

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

At 31 December 2018, 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 – 91,749 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 – 200,214 thousand euro

This item includes all trade and operating liabilities of certain amount and timing. This item decreased by 1,874 thousand euro compared to the previous year.

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

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Suppliers	196,367	202,088	(5,721)
Total	196,367	202,088	(5,721)
Payables due to subsidiaries	3,847	-	3,847
Total	3,847	-	3,847
Total	200,214	202,088	(1,874)

Payables due to third-party suppliers rose, compared to the previous year, by 5,721 thousand euro under normal operating trends. The balance at 31 December 2018 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			
	31.12.2018	31.12.2017	2018 - 2017
Subsidiaries:			
2I Rete Gas Impianti S.p.A.	1,985	-	1,985
2I Rete Gas Servizi S.p.A.	1,862	-	1,862
TOTAL	3,847	-	3,847

34. Income tax payables – 3,056 thousand euro

At 31 December 2018, the Company had a debit balance due to the trend in the payments made on account.

35. Current financial liabilities – 22,965 thousand euro

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

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Accrued liabilities for interest on short-term bank loans	22,343	18,984	3,359
Other current financial payables	623	575	48
Total	22,965	19,559	3,407

36. Other current liabilities – 184,930 thousand euro

Other current liabilities rose in the year by 856 thousand euro, mainly due to the fall in "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 and the increase in deferred income.

Other current liabilities are set out below:

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
other tax payables	3,968	3,961	7
payables to social security and pension agencies	12,097	10,022	2,075
other payables	143,530	155,378	(11,848)
accrued liabilities	3,955	4,063	(109)
deferred income	21,381	10,651	10,730
Total	184,930	184,075	856

Other tax payables, amounting to 3,968 thousand euro, are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
VAT payables	375	431	(56)
Employee withholding taxes	3,538	3,271	267
Withholding taxes	56	209	(154)
Other taxes	0	50	(50)
Total	3,968	3,961	7

Payables to welfare and social security agencies, amounting to 12,097 thousand euro, are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
due to INPS	9,956	9,016	940
due to other agencies	2,141	1,006	1,135
Total	12,097	10,022	2,075

Other payables, amounting to 143,530 thousand euro, are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Payables to employees	15,096	12,704	2,391
Payables to municipalities for rights and fees	686	3,312	(2,626)
Payables for connections and other payables due to customers	2,081	2,098	(17)
User security deposits and advances	1,890	2,053	(163)
Payables to CSEA	119,789	128,710	(8,921)
Other payables	3,987	6,500	(2,512)
Total	143,530	155,378	(11,848)

Payables to the Fund for Energy and Environmental Services (CSEA) consist of 73,622 thousand euro payables for the entries that are transferred to the trading companies through the invoicing mechanism and then paid to CSEA, generally on a bi-monthly basis (UG1, UG2, UG3, Gs, Re and Rs), 13,381 thousand euro payables relating to the equalisation

amount for the current year and 30,316 thousand euro payables relating to the equalisation amount for previous years mainly due to equalisation adjustments. This item must be read also in light of the relevant receivables due from CSEA included under Other current assets.

Accruals and deferred income, amounting to 25,335 thousand euro, are set out below.

Thousands of euro			
	31.12.2018	31.12.2017	2018 - 2017
Accrued liabilities			
Additional monthly accrual for employees	3,256	3,051	205
Other accrued liabilities	699	1,013	(314)
Total accrued liabilities	3,955	4,063	(109)
Deferred income			
Deferred income for plant contributions	11,132	2,202	8,929
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	10,166	8,269	1,897
Other deferred income	83	180	(96)
Total deferred income	21,381	10,651	10,730
Total accrued liabilities and deferred income	25,335	14,714	10,622

37. Liabilities held for sale - 6,923 thousand euro

At 31 December 2018, the item included liabilities relating to the concessions of the ATEM tenders of Bari 2 and Foggia 1 which will be disposed of by the end of April 2019, as envisaged by the agreement to sell signed in 2018 with Centria S.r.l. In the previous year, the item included the liabilities relating to the water concession of Villasanta, which was then sold in 2018.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

The following were defined as related parties for 2018:

- 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")
- 2i Rete GAS Impianti SPA
- 2i Rete Gas Servizi SPA
- MEA S.p.A
- Cilento Reti Gas Srl
- 2i Rete GAS S.r.l.
- C.G.M. Srl
- Software Design S.p.A.
- Maepa Srl
- APG Infrastructure Pool 2017 II

The definition of related parties also includes key management personnel, 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. Key management personnel 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 and Auditors.

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 2018

Thousands of euro	Trade		Costs	Trade	
	Receivables	Payables		Costs	Revenue
F2i sgr Spa	-	20	86	-	-
2I Rete GAS Impianti SPA	18,899	1,985	1,627	17,410	-
2I Rete Gas Servizi SPA	1,137	1,862	2,363	1,295	-
MEA S.p.A	27	-	-	9	-
Cilento Reti Gas Srl	17	-	-	17	-
2i Rete GAS S.r.l.	2,688	-	62	1,358	-
C.G.M. Srl	57	-	-	49	-
Software Design S.p.A.	-	223	360	-	-
Maepa Srl	-	-	4	-	-
APG Infrastructure Pool 2017 II	-	31	31	-	-
Key management personnel, including directors and statutory auditors	-	409	2,700	-	-
Total	22,824	4,529	7,233	20,137	

Year 2017

Thousands of euro	Trade		Costs	Trade	
	Receivables	Payables		Costs	Revenue
F2i sgr Spa	-	10	40	-	-
Italcogim Trasporto S.r.l.	-	-	-	15	-
MEA S.p.A	18	-	-	18	-
Genia Distribuzione Gas S.r.l.	118	-	100	612	-
2i Rete GAS S.r.l.	1,605	-	-	816	-
Software Design S.p.A.	-	487	646	-	-
2I Rete GAS Impianti S.r.l.	2	-	-	2	-
Key management personnel, including directors and statutory auditors	-	283	2,205	-	-
Total	1,743	780	2,991	1,463	

Financial transactions

Year 2018

Thousands of euro	Receivables	Financial Payables	Costs	Financial Revenue	Dividends paid
F2i – Terzo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S. à r.l.	-	-	-	-	23,752
2i Rete GAS Impianti SPA	-	64,292	165	-	-
MEA S.p.A	-	-	-	400	-
2i Rete GAS S.r.l.	192	4,510	36	-	-
Total	192	68,802	201	400	84,981

Year 2017

Thousands of euro	Receivables	Financial Payables	Costs	Financial Revenue	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.	-	-	15	174	-
MEA S.p.A	-	-	-	0	-
Genia Distribuzione Gas S.r.l.	2,521	61	-	13	-
2i Rete GAS S.r.l.	98	5,867	22	-	-
Total	2,620	5,929	37	187	84,981

Key information regarding subsidiaries are shown below:

Equity investments

2i Rete Gas S.r.l.

Share capital - 50,000 euro

Registered office: Milan

Equity investment: 100%

Genia Distribuzione is the concession operator of the natural gas distribution service in the municipality of Cinisello Balsamo.

The financial statements at 31 December 2018 showed net loss of 83 thousand euro and equity of 7,254 thousand euro.

2i Rete Gas Servizi S.p.A.

Share capital - 120,000 euro

Registered office: Milan

Equity investment: 100%

Genia Distribuzione is the concession operator of the natural gas distribution service in the municipality of Cinisello Balsamo.

The financial statements at 31 December 2018 showed a profit of 71 thousand euro and equity of 3,699 thousand euro.

2i Rete Gas Impianti S.p.A.

Share capital - 33,073,130 euro

Registered office: Milan

Equity investment: 100%

The financial statements at 31 December 2018 showed a profit of 15,341 thousand euro and equity of 744,199 thousand euro.

Compagnia Generale Metanodotti S.r.l.

Share capital - 10,200 euro

Registered office: Milan

Equity investment: 100%

The financial statements at 31 December 2018 showed a profit of 0.3 thousand euro and equity of 480 thousand euro.

Cilento Reti Gas S.r.l.

Share capital - 50,000 euro

Registered office: Acquaviva of the Fonti

Equity investment: 60%

The financial statements at 31 December 2018 showed net loss of 178 thousand euro and equity of 3,385 thousand euro.

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no significant extraordinary events or operations during the year which have not already been disclosed in this document.

Positions or transactions arising from atypical and/or unusual operations

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

Fees for Directors, auditors and key management personnel

In 2018, the fees for directors, auditors and key management personnel, totalling 2,700 thousand euro, included 57 thousand euro in Auditors' fees, 295 thousand euro in Directors' fees and the rest refers to key personnel's fees.

Public grants received

With reference to the changes introduced by Italian Law 124 of 4 August 2014 "Annual competition law", art. 1 para. 125-129, during 2018, the following grants relating to the construction of gas networks were received from public bodies .

Euro			
Name	Prov.	31.12.2018	Type
MUNICIPALITY OF CASTELLALTO	TE	7,602	PLANT CONTRIBUTIONS ABRUZZO RL 25/1995
MUNICIPALITY OF BASCIANO	TE	16,876	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CANZANO	TE	18,260	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTEL CASTAGNA	TE	15,592	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTELLALTO	TE	13,440	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTELLI	TE	8,624	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CERMIGNANO	TE	12,035	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF ISOLA DEL GRAN SASSO D'ITALIA	TE	13,894	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF LUCOLI	AQ	210,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORNIMPARTE	AQ	7,656	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TOSSICA	TE	8,934	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CAPPELLE SUL TAVO	PE	17,300	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORANO NUOVO	TE	5,638	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF POLLUTRI	CH	25,680	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF RIPA TEATINA	CH	18,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF PICO	FR	25,205	PLANT CONTRIBUTIONS Additional act 761 of 25.07.2007
Total public contributions collected		424,737	

Contractual commitments and guarantees

The Company provided 98,261 thousand euro in guarantees to third parties. These guarantees include 83,341 thousand euro in bank guarantees and 14,920 thousand euro in insurance and other guarantees.

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

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

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 2018.

User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes 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 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 196,784 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 2018, the Group's maximum exposure to credit risk amounted to 1,120.3 million euro (of which 677 million euro for liquidity risk).

Millions of euro

	31.12.2018	31.12.2017	2018 - 2017
Third parties:			
Non-current financial assets	1.0	22.2	(21.2)
Other non-current financial assets (gross of bad debt provision)	54.0	51.8	2.2
Trade receivables (gross of bad debt provision)	216.1	282.3	(66.1)
Other current financial assets	1.6	0.0	1.6
Cash and cash equivalents	677.0	815.1	(138.1)
Other receivables (gross of bad debt provision)	147.7	155.1	(7.4)
Group companies:			
Trade receivables	22.8	1.7	21.1
Other receivables (gross of bad debt provision)	-	0.0	(0.0)
Short-term financial receivables	-	2.5	(2.5)
Total	1,120.3	1,330.8	(210.4)

Liquidity risk

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

Besides the debenture loans issued from 2014 to 2018, the Company entered into two loans with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used at 31 December 2018). The aforementioned liability management exercise enabled the Company to further improve, during the year, the duration and the interest rate compared to the previous situation.

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

The contractual maturities of the financial liabilities outstanding at 31 December 2018 are set forth below:

Millions of euro	1 year	2 - 5 years	beyond 5 years
Financial liabilities at 31 December 2018			
Long-term loans		72.7	352.3
Medium-/long-term debenture loans		267.1	2,265.0
Short-term debenture loans	362.8		
Short-term loans	68.5		
Other short-term financial liabilities	23.0		
Total	454.3	339.8	2,617.3

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2017 are set forth below:

Millions of euro	1 year	1 - 5 years	beyond 5 years
Financial liabilities at 31 December 2017			
Long-term loans		54.5	370.5
Medium-/long-term debenture loans		629.9	1,765.0
Short-term loans	5.9		
Other short-term financial liabilities	19.6		
Total	25.4	684.4	2,135.5

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

It should be noted that loans are subject to regular checks on the compliance with some financial covenants at consolidated level.

At 31 December 2018, the Company has met all of the covenants.

"Medium-/long-term debenture loans", totalling 2,265 million euro, refer to the aforementioned instalments issued by 2i Rete Gas and expiring between 2020 and 2027.

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 covenants 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 did not hold any derivatives at 31 December 2018.

In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value at 31 December 2018. The Company has no financial assets held to maturity or available for sale nor financial assets held for trading.

Thousands of euro	Notes	Derivatives	Loans and receivables	Available for sale	Other financial liabilities and payables	Total	Fair value
Financial assets measured at fair value							
Non-current financial assets	15	-				-	-
Financial assets not measured at fair value							
Non-current financial assets	15		1,025			1,025	1,025
Other non-current assets	16		53,792	112		53,904	53,792
Trade receivables	18-37		231,466			231,466	231,578
Short-term financial receivables	19		1,394			1,394	1,394
Other current financial assets	20		187			187	187
Cash and cash equivalents	21		676,978			676,978	676,978
Other current assets	23		165,147			165,147	165,147
TOTAL ASSETS		-	1,129,988	112	-	1,130,100	1,130,100
Financial liabilities measured at fair value							
IRS Derivatives	35	-				-	-
Financial liabilities not measured at fair value							
Long-term loan	25-31				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,518,857	2,518,857	2,862,599
Other non-current liabilities	29				361	361	361
Short-term loans	30				431,296	431,296	431,296
Trade payables	33-37			529	200,214	200,743	200,743
Current financial liabilities	35				22,343	22,343	22,343
Other current liabilities	36			270	163,550	163,820	163,820
TOTAL LIABILITIES		-	-	799	3,761,621	3,762,420	4,106,162

In order to enable comparison, we propose the same table as the one used in 2017:

Thousands of euro	Notes	Derivatives	Loans and receivables	Available for sale	Other financial liabilities and payables	Total	Fair value
Financial assets measured at fair value							
Non-current financial assets	15	20,984				20,984	20,984
Financial assets not measured at fair value							
Non-current financial assets	15		1,196			1,196	1,196
Other non-current assets	16		51,565			51,565	51,565
Trade receivables	18-37		272,272	541		272,812	272,812
Short-term financial receivables	19		2,529			2,529	2,529
Other current financial assets	20		9			9	9
Cash and cash equivalents	21		815,063			815,063	815,063
Other current assets	23		166,958			166,958	166,958
TOTAL ASSETS		20,984	1,309,592	541	-	1,331,117	1,331,117
Financial liabilities measured at fair value							
IRS Derivatives	35	-				-	-
Financial liabilities not measured at fair value							
Long-term loan	25-31				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,381,984	2,381,984	2,515,946
Financial liabilities for unwinding IRS	28-35				-	-	-
Other non-current liabilities	29				361	361	361
Short-term loans	30				5,867	5,867	5,867
Trade payables	33-37			2,332	202,088	204,421	204,421
Current financial liabilities	35				18,984	18,984	18,984
Other current liabilities	36				173,424	173,424	173,424
TOTAL LIABILITIES		-	-	2,332	3,207,709	3,210,041	3,344,003

With regard to financial assets not measured at fair value, as well as 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.

For the purposes of determining the fair value of the debenture 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 during the year, and specifically interest rate swaps.

Concerning the current debt structure, 2,757 million euro out of a reported 2,957 million euro were not exposed to interest rate risk at 31 December 2018.

The Group has ended and repaid 5 forward start Interest Rate Swap derivative contracts (with start date in 3 years and maturity in 10 years from the start date) entered into with 5 leading banks.

Significant events after the reporting period

On 1 January 2019, the merger of the subsidiaries Compagnia Generale Metanodotti S.r.l. and 2i Rete Gas Servizi S.p.A. was completed with a view to increasing the Group's efficiency.

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.
- 2i Rete Gas Impianti S.p.A.
- 2i Rete Gas Servizi S.p.A.
- Compagnia Generale Metanodotti S.r.l.
- Cilento Reti Gas S.r.l.

13. Proposed profit allocation for the year

In relation to the above, we propose to:

- approve the Financial Statements of 2i Rete Gas S.p.A. at 31 December 2018, which show a profit of 129,652,861.06 euro and the accompanying Directors' Report;
- distribute, in regard to the profit for the year and taking into account that the legal reserve has reached 20% of the share capital, 0.2556 euro for each of the 363,851,660 shares, equal to a total of 93,000,484.30 euro;
- carry forward the residual 36,652,376.76 euro of the profit.

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

Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS AT THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018 IN ACCORDANCE WITH ART. 2429, CO. 2, C.C.

To the Shareholders of 2i RETE GAS S.p.A.,

this report was approved unanimously and in time for its filing at the company's registered office, within 15 days prior to the date of the call for the shareholders' meeting to approve the financial statements subject to comment.

The Board of Directors has thus made available the following documents approved on March 25, 2019, relating to the year ended December 31, 2018:

- draft financial statements, complete with explanatory notes;
- management report.

GENERAL INTRODUCTION

KNOWLEDGE OF THE COMPANY, ASSESSMENT OF RISKS AND REPORT ON ASSIGNMENTS

Taking into account the consolidated knowledge that the Board of Statutory Auditors declares to have regarding the company and regarding:

- i) the type of activity performed;
- ii) its organizational and accounting structure;

also taking into account the size and problems of the company, we reiterated that the "planning" phase of the supervisory activity - in which it's necessary to assess the intrinsic risks and the critical issues with respect to the two parameters mentioned above - was implemented through the positive proof of what was already known based on information acquired over time.

It was therefore possible to confirm that:

- the typical activity carried out by the company has not changed during the year in question and is consistent with the provisions of the corporate purpose;
- the organizational structure and the endowment of IT structures have remained substantially unchanged;

- the aforementioned finding is indirectly confirmed by comparing the results of the values expressed in the income statement for the last two years, ie the one in question (31.12.2018) and the previous one (31.12.2017). It is also possible to see how the company operated in 2018 in terms that are comparable to the previous year and, consequently, our controls were carried out on these assumptions having verified the substantial comparability of the values and the homogeneity of the results with those of the previous year.

The activities carried out by the Board concerned, temporally, the entire year and during the same year the meetings pursuant to art. 2404 c.c. have been held, and of these meetings specific reports were duly signed for unanimous approval.

ACTIVITY PERFORMED

During the periodic audits, the Board continued to note the evolution of the activity carried out by the company, paying particular attention to contingent and/or extraordinary problems, in order to identify the economic and financial impact on the operating result and on the capital structure, as well as any risks such as those deriving from credit losses, that were monitored with constant frequency.

The auditing company PriceWaterhouseCoopers SpA, during the interviews held, did not report any problems.

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

Relations with personnel operating in the aforementioned structure - directors, executives and external consultants - were inspired by mutual collaboration in respect of the roles assigned to each, having clarified those of the Board of Statutory Auditors.

For the entire duration of the year it was found that:

- the administrative staff in charge of recording company facts has not substantially changed compared to the previous year;
- the level of its technical preparation remains adequate with respect to the type of ordinary corporate facts to be noted and demonstrates a sufficient knowledge of company problems;
- consultants and external professionals in charge of accounting, tax, corporate and employment law assistance have not changed. Therefore they have all been able to develop a historical knowledge of

the activity carried out and of the extraordinary management problems that have influenced the results of this report.

The information required by art. 2381, co. 5, of the Italian Civil Code, were provided by the Chief Executive Officer both during the meetings held and through the contacts/information flows: from all the above it follows that the Board of Directors, in substance and in form, complied with the requirements imposed by the cited standard.

In conclusion, as far as possible during the activity carried out during the year, the Board of Statutory Auditors can state that:

- the decisions taken by the administrative body were compliant with the law and the company by-laws and were not clearly imprudent or such as to compromise definitively the integrity of company assets;
- sufficient information were acquired on the general performance of the management and its foreseeable evolution, as well as on the most significant transactions, by size or characteristics, performed by the company;
- the operations carried out were also compliant with the law and the company by-laws and not in potential conflict with the resolutions adopted by the shareholders' meeting or such as to compromise the integrity of the company assets;
- there are no specific remarks regarding the adequacy of the company's organizational structure, nor regarding the adequacy of the administrative and accounting system, nor about the reliability of the latter in correctly representing the management facts;
- during the course of the supervisory activity, as described above, no further significant facts emerged such as to require reporting in this report;
- during the 2018 financial year, and more precisely on 1 February, the company acquired the companies Nedgia S.p.A. and Gas Natural Servizi S.p.A. ;
- following this acquisition, in Nedgia S.p.A. (now 2i Rete Gas Impianti S.p.A.) was carried out a spin-off of a business unit mainly concerning the personnel that was transferred to 2i Rete Gas SpA
- no action had to be taken for omissions by the administrative body pursuant to art. 2406 of the Civil Code;
- no complaints have been received pursuant to art. 2408 c.c.;
- no complaints have been made pursuant to art. 2409, co. 7, c.c ..

OBSERVATIONS AND PROPOSALS ON THE BUDGET AND TO ITS APPROVAL

The draft financial statements for the year ended December 31, 2018 were approved by the Board of Directors on March 25, 2019 and consisted of the balance sheet, the income statement and the notes to the financial statements.

The Board of Directors has also prepared the management report pursuant to art. 2428 c.c ..

These documents were delivered to the Board of Statutory Auditors in time for them to be deposited at the company's headquarters accompanied by this report, regardless of the deadline set by art. 2429, co. 1, c.c ..

It is hereby acknowledged that the Board of Statutory Auditors had a number of meetings and exchanges of information also with the "PWC SpA" auditing firm on matters of their respective competence, and no relevant facts that it is considered appropriate to report here emerged from these exchanges. Finally, the Board of Statutory Auditors had a meeting with the Independent Auditors on the statutory audit plan for 2018 with particular reference to the changes introduced by Legislative Decree 139/2015 and EU Regulation No. 537/2014. This also in view of the supervisory function attributed to the Board - as "internal audit and audit committee" - by article 19 of Legislative Decree No. 39/2010 on the statutory audit.

The Board of Statutory Auditors has acknowledged that the annual report of the Independent Auditors, pursuant to art. 14 Legislative Decree 27 January 2010, n. 39, to the financial statements for the year ended December 31, 2018, in implementation of the aforementioned regulatory changes, contains both the judgment on the compliance of the management report with the legal requirements, and the declaration that it does not present significant errors such as to prejudice its truthfulness and correctness .

The report that does not highlight any significant deviations, or negative judgments or impossibility to express an opinion or information requirements and therefore the judgment released is positive.

In addition to the audit report, which is without qualifications or references to requirement of information, the Independent Auditors have communicated to the Board of Statutory Auditors the "additional report" pursuant to art. 11 of the cited EU Regulation n. 537/2014. This report, which will be duly submitted to the administrative body, contains, among other things, the declaration of independence of the auditing company, a summary of the significant issues identified during the

statutory audit, as well as the confirmation that they have not been detected "significant deficiencies" in the system of internal controls on the financial reporting process.

The Independent Auditors included the declaration of their independence in the additional report pursuant to art. 11 of the cited EU Regulation n. 537/2014: the Board of Statutory Auditors verified, also continuously, the existence of this requirement.

Finally, it does not appear to the Board that the Company has conferred tasks on subjects or companies linked to the "PWC S.p.A." by ongoing relations.

The draft financial statements were then examined, for which the following additional information is provided:

- the valuation criteria of the assets and liabilities items subject to this mandatory requirement have been checked and have not been substantially different from those adopted in previous years, in accordance with the provisions of art. 2426 c.c. ;
- the entry of the goodwill took place with the consent of the Board of Statutory Auditors;
- attention was paid to the draft of the report, to its general compliance with the law in its formation and structure, and in this regard there are no observations that should be highlighted in this report;
- compliance with the law concerning the preparation of the management report has been verified and in this regard there are no comments that should be highlighted in this report;
- in the preparation of the financial statements, the administrative body has not derogated from the provisions of the law pursuant to art. 2423, co. 4, c.c. ;
- the compliance of the financial statements with the facts and information that was known following the fulfilment of the typical duties of the Board of Statutory Auditors was verified and no other observations are highlighted in this regard;
- the accuracy of the information contained in the notes to the financial statements regarding the absence of active and passive financial and monetary positions that originally arose in currencies other than the euro was verified;
- information was acquired from the Supervisory Body (Organismo di Vigilanza) and no critical issues emerged with respect to the organizational model, which was constantly updated, which should be highlighted in this report;
- about the proposal of the Board of Directors regarding the utilization of the net result for the year shown at the end of the management report, the board has nothing to observe, clarifying, however, that the decision on the matter lies with the Shareholders' meeting.

RESULTS OF THE YEAR

The net result ascertained by the administrative body for the year ended December 31, 2018, as evident also from the reading of the financial statements, is positive for euro 129,652,861.

CONCLUSIONI

Based on the foregoing and to the extent brought to the attention of the Board of Statutory Auditors and on what has been verified by the periodic checks that were carried out, it is unanimously considered that there are no reasons impeding your approval of the draft financial statements for the year closed on 31 December 2018, as drafted and proposed by the Board of Directors and the consequent proposal to allocate the profit for the year.

Milan, 3 April 2019

The Board of Statutory Auditors

dott. Marco Antonio Dell'Acqua (President)

dott. Marco Giuliani (Effective Member)

dott. Nicola Gaiero (Effective Member)

Report of the Independent Auditors



2I RETE GAS SPA

**INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE 39/2010
AND ARTICLE 10 OF REGULATION (EU) 537/2014**

SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018



Independent auditor's report

in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of 2i Rete Gas SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of 2i Rete Gas SpA (the "Company"), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, 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, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Separate Financial Statements of this report. We are independent of the Company based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters**How our audit addressed the key audit matter**

Capital expenditure for gas distribution network under service concession agreements

Note 12 of the Annual Financial Report – statutory financial statements - intangible assets

As of 31 December 2018 gas distribution service concessions and similar rights amount to € 2,775 million, representing the 55% of total assets. Costs capitalised during the year amount to € 234 million.

The Company operates in the gas distribution industry. The industry is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA).

Revenue from gas distribution activities are determined each year in accordance with the regulatory approved tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs.

Considering the magnitude of the capital expenditure made by the Company, the proper capitalisation of costs related to service concession agreements in accordance with IFRIC12 represented a key matter in the audit of the separate financial statements.

We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification and testing of key controls.

We assessed the accounting policy adopted by the Company in relation to the capitalisation of costs.

We performed detailed tests analysing, on a sample basis, the supporting documentation of costs capitalised to verify the accuracy, completeness and the proper period.



Key Audit Matters

How our audit addressed the key audit matter

Provisions for risks and charges

Note 27 of the Annual Financial Report – statutory financial statements - provisions for risks and charges

As of 31 December 2018 provisions for risks and charges amount to € 100 million and include probable liabilities as a result of past events for which the outflow can be reasonably estimated at the balance sheet date.

Provisions for risks and charges mainly relate to costs associated with various disputes with municipalities, costs that could potentially arise from maintenance or replacement of defective measurement equipment, as well as the risk of a revision of some tariffs for concessions partially owned by third parties.

Given the magnitude of the accrued balances and the use of estimates made, the measurement of the provisions for risks and charges was a key audit matter for the audit of the separate financial statements.

We have carried out the understanding and evaluation of key controls in place over the provisions for risks and charges measurement process.

We have tested, on a sample basis, the documentation supporting the most significant accruals made to assess the adequacy of the provisions for risks and charges.

We obtained written confirmations from external lawyers appointed by the Company, indicating the individual positions in place and their assessment of the risk of potential liability.

We discussed with management the conclusions reached on the criteria for quantifying the provisions for risks and charges.

We verified the accuracy and completeness of the disclosure made in the notes to the separate financial statements.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is 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, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.



Management is responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit.

Furthermore:

- we identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit 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 Company internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;



- we evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of 2i Rete Gas SpA at the general meeting held on 29 April 2015 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2015 through 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/2010

Management of 2i Rete Gas SpA is responsible for preparing a report on operations of 2i Rete Gas SpA as of 31 December 2018, including its consistency with the relevant separate financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations with the separate financial statements of the



Company as of 31 December 2018 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the separate financial statements of the Company as of 31 December 2018 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 3 April 2019

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