2012 Annual Report
Enel Rete Gas Group

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II. Company directors and auditors

Board of Directors

Chairman
Livio Gallo

Deputy Chairman
1 Angelo Ferrari

Chief Executive Officer
Gianclaudio Neri

Directors
Carlo Michelini
Matteo Ambroggio
Matias Sebastian Burghardt
Stefano Mion
Luca Galli
Paola Muratorio
Mario Francesco Anaclerio
Andrea Angelino

Board of Statutory Auditors

Chairman
Marco Antonio Modesto Dell'Acqua

Standing statutory auditors
Ugo Venanzio Gaspari
Giancarlo Fornaciari

Substitute statutory auditors
Andrea Cioccarelli
Ilaria Fornaciari

Independent Auditors

KPMG S.p.A.

Directors' Report

2 Foreword

The Enel Rete Gas Group's operating results for 2012 were largely in line with the figures for 2011.
The number of concessions, the active redelivery points and transported gas in the year were mostly unchanged on the previous year, while the gas distribution network managed by the company increased in line with the ordinary growth trend of recent years. The significant regulatory changes in the sector the "Decreto Ambiti" concerning the gas distribution service concession on an area basis followed by the "Decreto Salvaguardia Occupazionale" which provides for protection of employees and, subsequently, in February 2012, by the so-called "Decreto Criteri", all aimed at improving the rearrangement of natural gas distribution concessions in Italy) did not result in any major changes in the sector's structure during the year.
No new tenders for local areas were in fact called on the basis of these criteria, despite many municipalities activating the procedures to request essential data from operators in order to proceed with an assignment by means of an area tender.

From a macroeconomic perspective the Italian economic situation in 2012 had a significant impact on both the construction sector (on which the growth trend of the gas distribution network and new connections to the network depend) and on gas consumption (on which both the invoicing trend and the growth in the number of active customers depends). According to the Economic Bulletin published by the Bank of Italy in January 2013, GDP declined by just over 2 per cent for 2012 as a whole; nonetheless, weak signs of stabilisation emerged and the prolonged period of deterioration in business confidence as regards the outlook for the economy came to an end.
At national level, the downward trend in gross domestic gas consumption recorded in the first half of the year was confirmed at the end of 2012 (-3.9% compared to the end of 2011); consumption decreased from 77,917 million cubic metres in 2011 to 74,916 million cubic metres as at 31 December 2012.

3 Key figures

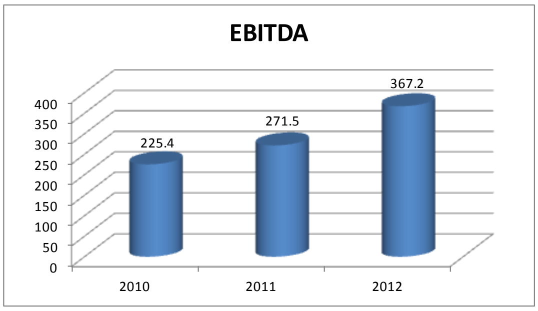
The key figures for the Enel Rete Gas Group at 31 December 2012 may be summarised as follows:

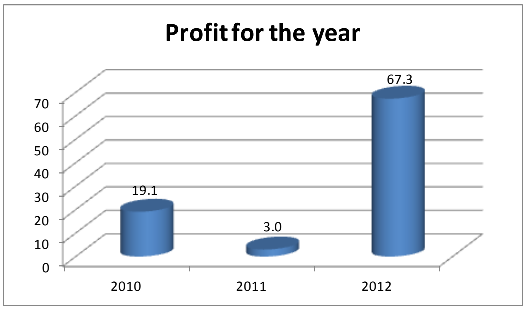
	31.12.2012	31.12.2011
Active concessions:	1,962	1,970
Active redelivery points:	3,816,960	3,816,416
Distributed Gas (Natural gas and LPG) in millions of cubic metres:	5,813	5,893
EBITDA in millions of euro:	367.2	271.5
Profit for the year in millions of euro:	67.3	3.0
Managed networks in kilometers:	57,237	56,833

	31.12.2012	31.12.2011
Adjusted net financial debt in millions of euro:	(1,584.1)	(1,653.9)
Net invested capital in millions of euro	2,438.3	2,535.7

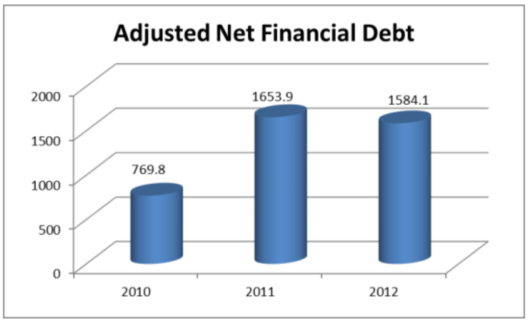
The diagrams below show the trend in the Group's main income statement and statement of financial position data. For an analysis of these trends, reference should be made to section 6 "The Results of the Enel Rete Gas Group":

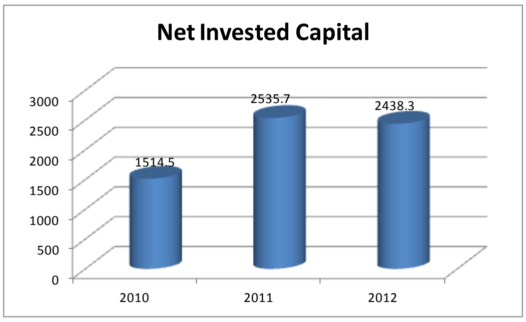
Income statement data in millions of euro:



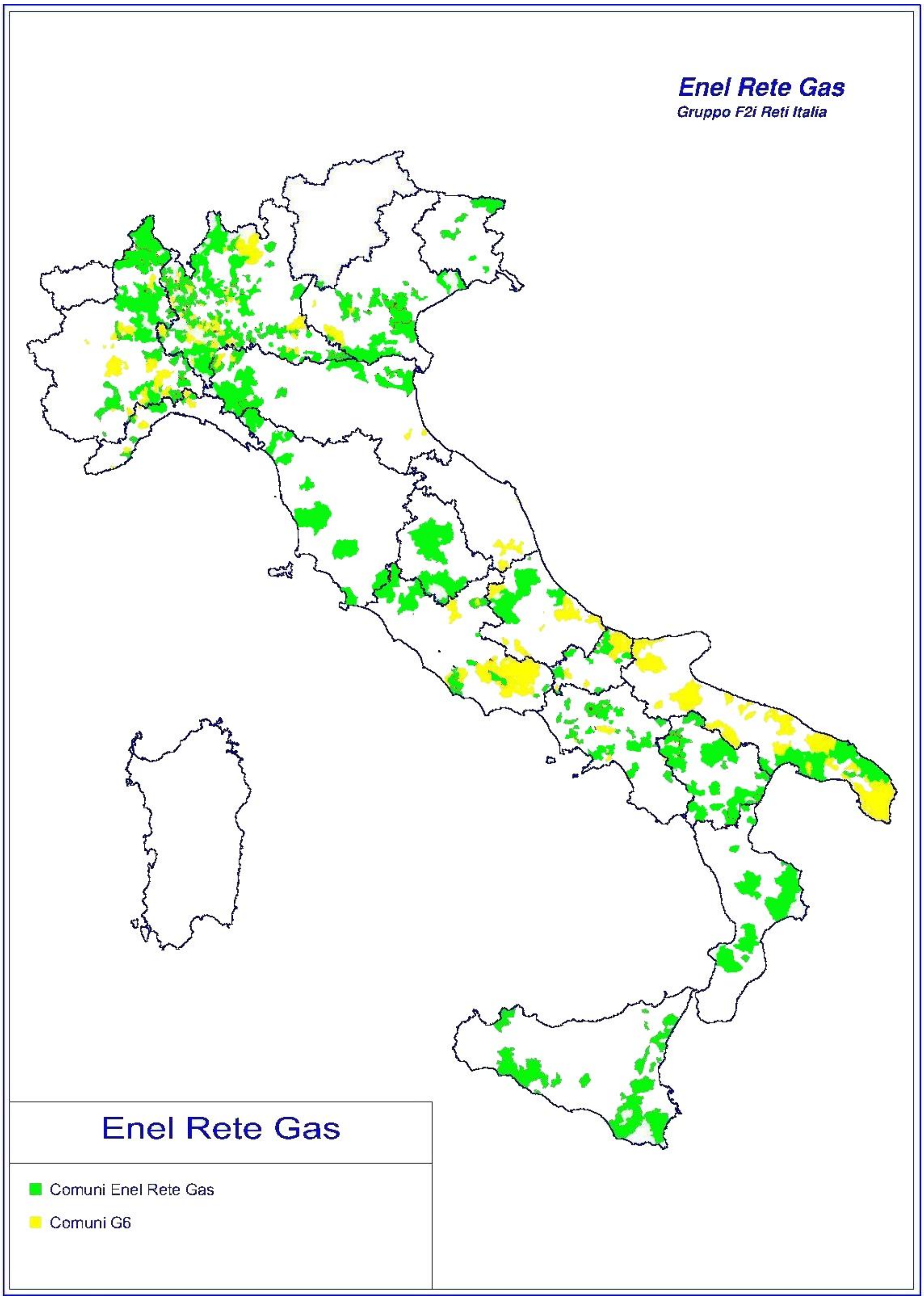


Statement of financial position in millions of euro:





4 Enel Rete Gas Group: local distribution



5 Significant share capital transactions during the year

In January 2012 the share capital increase which was approved in the previous year was subscribed by the controlling shareholder, F2i Reti Italia S.r.l., for its own share by using a receivable which it claimed from Enel Rete Gas (105.1 million euro) and by injecting fresh liquidity into the company for an amount of 101.2 million euro.

6 2012 consolidation scope

The consolidated financial statements of the Enel Rete Gas Group at 31 December 2012 include 7 companies: Enel Rete Gas S.p.A., GP Gas s.r.l. and Reti Gas Scarl in liquidation, G6 Rete Gas S.p.A., Italcogim Velino S.r.l., Italcogim Trasporto S.r.l. and CBL Distribuzione Gas S.r.l. and are compared to the 2011 financial statements which, as regards income, included the results for the year of Enel Rete Gas S.p.A., GP Gas S.r.l. and Reti Gas Scarl and the results for 3 months of F2i Reti Italia 2 S.r.l., F2i 5 Reti S.r.l., 2iGas Infrastruttura Italiana Gas S.r.l., G6 Rete Gas S.p.A., Italcogim Velino S.r.l., Italcogim Trasporto S.r.l. and CBL Distribuzione Gas S.r.l. (the latter consolidated on a proportionate basis since it is jointly controlled by virtue of the outstanding shareholders' agreements).

F2i Reti Italia 2 S.r.l., F2i 5 Reti S.r.l. and 2iGas Infrastruttura Italiana Gas S.r.l. (collectively hereafter referred to as the "2iGas chain") were merged into Enel Rete Gas on 30 September 2012 with accounting and tax effect as from 1 January 2012.

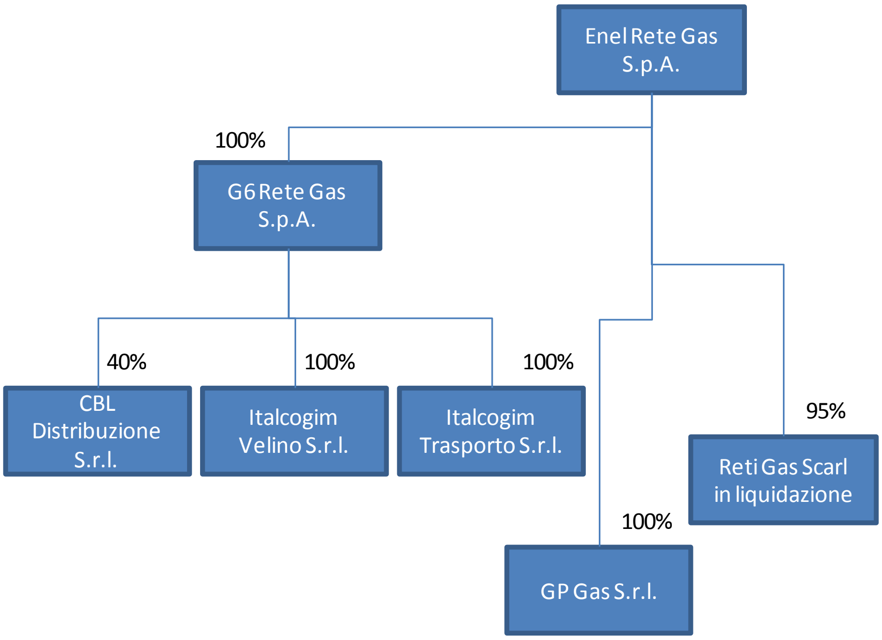
For explanatory purposes, the expression "differing periods of consolidation" has been used in the document to provide an indication of the differences due to the different periods of consolidation in 2011 and 2012.

Therefore, in order to make the comparison between 2012 and 2011 results of operations easier, the main income statement items are compared with 2011 income statement figures which are provided merely for internal management purposes and are based on various simplifications (mainly the non-recognition of impacts arising from the application of IFRIC 12 and the estimate of the effects related to the acquisition of the G6 Rete Gas group and of the 2iGas chain, simulating the impacts arising from allocation of the purchase price as if it had incurred on 1 January 2011).

Finally, having achieved its corporate purpose, Reti Gas S.c.a.r.l. was put into liquidation.

During 2012 no acquisitions were made by the Group.

The following diagram sets out the Group's equity investments at 31 December 2012:



7 Results of the Enel Rete Gas Group

The consolidated financial statements at 31 December 2012 have been prepared in compliance with the accounting policies established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure as set out in art. 6 of Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002.

In 2012 Group revenue totalled 848.5 million euro and were affected, as in the previous year, by the impact of the application of IFRIC12 while the figure at 31 December 2011 totalled 584.4 million euro. On a closer analysis, net of the 18.6 million euro change in revenue from intangible assets, the improvement at consolidated level was due for around 49.8 million euro to a real net improvement which includes 28 million euro for higher revenue from energy efficiency certificates, while the remaining difference is due to the differing periods of consolidation in the previous year.
Revenue amounts to 592.4 million euro and refers largely to the transport of natural gas and LPG (379.9 million euro in 2011), while the total gas volume for the year including natural gas and LPG was 5,813 million cubic metres.
The figure for revenue derives partly from the formula for revenue recognition applied as from July 2009, and which came into force under Resolution ARG/gas 159/08 of 6 November 2008; this led to the introduction of an equalisation mechanism which enables the relevant distribution companies' revenue to be

calculated largely on the basis of the investments made (Regulatory Asset Base - RAB) and the average number of redelivery points actually served and invoiced regardless of the volumes distributed.
Connection fees and accessory rights totalled 24.0 million euro and increased further compared to the figures recorded in the prior-year period, amounting to 19.6 million euro. The impact of the differing periods of consolidation was around 2.3 million euro, while 2.1 million euro was the actual improvement in the item in the year.
Other revenue amounted to 79.5 million euro and included a significant increase in revenue from energy efficiency certificates as a result of increased purchases of white certificates in the year compared to 2011 and, consequently, an increase in the revenue set aside in relation to the energy efficiency certificates purchased. Moreover, it should be noted that last year this item included two significant non-recurring entries totalling 31.8 million euro: the receipt of the insurance payment for the damage suffered in the L'Aquila earthquake in April 2009 (17.8 million euro) and the gain due to the settlement of the outstanding dispute with the Municipality of Pescara for compensation to be paid for the plant handed over in 2006, which improved the revenue of the previous year by 14 million euro. For further details reference should be made to the specific note in the section "Other revenue" of these financial statements.

Operating costs totalled 481.3 million euro and rose by 168.4 million euro compared to the previous year (312.9 million euro), of which around 30.8 million euro was due to the aforementioned purchasing policy for energy efficiency certificates, 18.6 million euro was due to higher costs for intangible assets and 5.4 million euro for other operating costs (mainly for allocations to provisions) and the remainder was due to the differing periods of consolidation.

EBITDA was 367.2 million euro, significantly higher than the figure recognised in 2011 (271.5 million euro). This difference was due for approximately 14 million euro to better operational performance and the rest to the differing periods of consolidation compared to the previous year. In addition, it should be recalled that, as explained in more detail in section 14 "Financial results", 2011 benefitted from two non-recurring items, i.e. the insurance payment for the damage suffered in the L'Aquila earthquake and the settlement with the Municipality of Pescara for a total of 27.6 million euro. The improvement was therefore equal to 41.6 million euro, excluding non-recurring items from the figure for 2011.

Amortisation, depreciation and impairment losses totalled 150.8 million euro compared to 108.6 million euro in the previous year. Disregarding the differing periods of consolidation, there were only minor changes in this item.

EBIT was, therefore, 216.4 million euro while in 2011 it totalled 162.8 million euro. The difference, due to better operating performance, amounted to 15 million euro by virtue of lower amortisation and depreciation, while for the remainder it was due to the differing periods of consolidation.

Net financial expense stood at 90.7 million euro, improving compared to 2011 by 40.6 million euro, mainly due to the impact in the previous year of the elimination of the interest rate hedge that was in place until October 2011 and linked to the previous loan.

Pre-tax income was 125.7 million euro.
In 2011 this item totalled 31.5 million euro and included the positive impact of the insurance payment for the L'Aquila earthquake and the settlement with the Municipality of Pescara, as noted above. The difference of 94.2 million euro was therefore due to better operating performance (68.5 million euro) and to the improvement in net financial expense, while the remainder was due to the differing periods of consolidation.

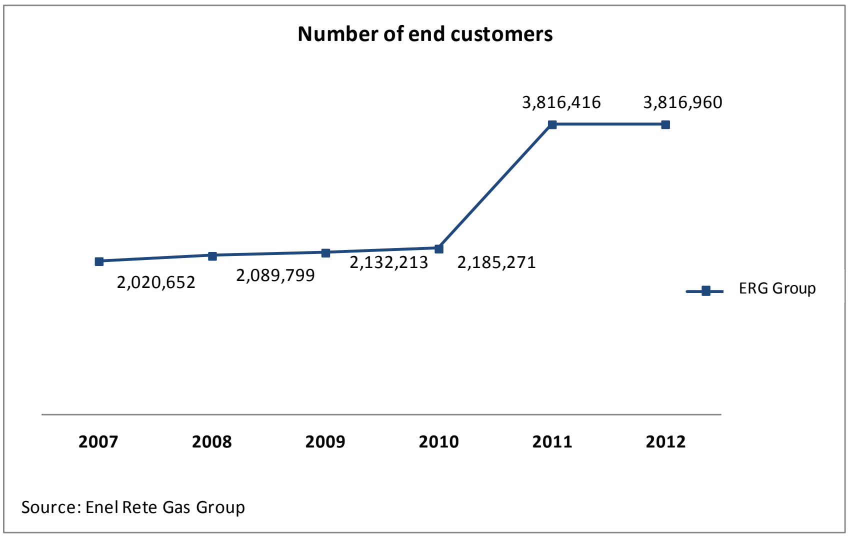
The estimated tax impact at 31 December 2012 was 58.5 million euro and included the corporate income tax surcharge, otherwise known as "Robin Hood Tax", which raised by 10.5% the tax burden on gas distribution companies for the 2011-2013 period.

The profit for the year was, therefore, 67.3 million euro at 31 December 2012.

Finally, note should be taken of the excellent cash generation in terms of free cash flow of around 230 million euro, with investments of over 125 million euro (net of disposals).

For more detailed analysis of the aforementioned results, reference should be made to the specific section 14 "Financial results".

The number of active end customers (or Redelivery points) increased by 544 units. At 31 December 2012 this figure stood at 3,816,960 users compared to 3,816,416 in the previous year. Moreover, it should be recalled that in 2012 the Group was provisionally classified first with Enel Rete Gas in the tenders called by the municipalities of Como, San Fermo della Battaglia and Manfredonia for a total of 50,600 end customers who are currently not included in the final figure for customers in 2012.



Managed networks at 31 December 2012 reached 57,237 kilometres compared to 56,833 at 31 December 2011.

In addition, with reference to concessions and awards, it should be noted that at 31 December 2012 the Enel Rete Gas Group held 1,962 concession contracts for the management of gas distribution (compared to 1,970 at the end of December 2011).

8 Development activities and management of concessions

The tender market for the award of distribution services in 2012 saw a quite limited number of tenders published for individual municipal authority concessions compared to 2011, as a result of the following legal provisions:

- the Ministerial Decree of 19 January 2011 (Official Gazette no. 74 of 31 March 2011) in force as from 1 April 2011, which identifies 177 areas for the award of the gas distribution service;
- the Ministerial Decree of 18 October 2011 (Official Gazette no. 252 of 28 October 2011) in force as from 29 October 2011, which includes the list of the municipalities belonging to each area;
- Legislative Decree no. 93 of 1 June 2011 which essentially prevents the calling of new tenders by individual municipalities or group of municipalities and requires local authorities to award distribution services through area tenders.

Management of existing concessions

As for the management of existing concessions and, in particular, the definition of the agreed amount due to Enel Rete Gas Group at the end of the concession period for

the plant it owns, this amount was formalised with 70 municipal authorities for a total of 153,000 customers. These values will be used to calculate, for the related area tenders, the cost for any new successful tenderers to purchase distribution plant and will be paid to Enel Rete Gas Group upon signature of the contract, as provided for by the current regulations.
Among the entities involved are large municipalities such as Chieti (province of Chieti) (around 25,400 end customers), Mira (province of Venice) (around 17,000 end customers), the grouping of Chiampo and Arzignano (province of Vicenza) (around 16,800 end customers) and Massafra (province of Brindisi) (around 9,900 end customers).
Compensation was also agreed following the arbitration proceedings with the municipalities of San Giorgio in Bosco (province of Padua) (950 end customers), Sumirago (province of Varese) (2,300 end customers), and the arbitration board responsible for deciding the award for Due Ville (province of Padua) (6,200 end customers) gave its final judgment.
Moreover, additional agreements are being formalised with another 10 municipal authorities and there are 48 technical committees still at work.

Award of concessions

Regarding involvement in tenders to award the gas distribution service in municipalities managed by other distributors, in 2012 Enel Rete Gas, at the end of the procedures subsequent to the award of the related tenders, signed new contracts for award of the gas distribution service, and took over management of the corresponding plant, in the municipalities of Aielli and Cerchio (province of L'Aquila) (around 1,900 end customers), following the final award in its favour in 2011.
G6 Rete Gas S.p.A., for its part, following award of the related tender and the agreement of the corresponding contract, acquired from Enel Rete Gas S.p.A., as from 3 April 2012, the management (for 12 years) of the new concessions of Ceresara (province of Mantua) and Casaloldo (province of Mantua) (around 1,880 end customers).

Re-award of concessions

As for municipalities where it already manages the service, Enel Rete Gas, at the end of the procedures subsequent to the award of the related tenders, signed new contracts for the award of the gas distribution service, and at the same time took over distribution plant in the municipalities of Grancona (province of Vicenza) (around 500 end customers), Nibionno (province of Lecco), Molteno (province of Lecco), Rogeno (province of Lecco), Garbagnate Monastero (province of Lecco), Costa Masnaga (province of Lecco) and Bosisio Parini (province of Lecco) (in total around 8,800 end customers), for which it received communication of the final award in

2012, and in the municipalities of Perugia (province of Perugia) (around 75,000 end customers), Somma Lombardo (province of Varese), Arsago Serpio (province of Varese), Vizzola Ticino (province of Varese) (in total around 10,400 end customers), Arizzano (province of Verbano-Cusio-Ossola), Vignone (province of Verbano-Cusio-Ossola), Miazzina (province of Verbano-Cusio-Ossola), Cambiasca (province of Verbano-Cusio-Ossola), Bee (province of Verbano-Cusio-Ossola), San Bernardino Verbano (province of Verbano-Cusio-Ossola) (in total around 4,100 end customers), Casorate Sempione (province of Varese) (around 2,700 end customers) and Cossogno (province of Verbano-Cusio-Ossola) (around 408 end customers), Pozzaglio ed Uniti and Corte De' Frati (province of Cremona) (around 1,000 end customers) for which it received communication of the final award in 2011.
On 1 January 2012 G6 Rete Gas S.p.A. started new plant management in the municipality of Cadorago (province of Como) (3,415 end customers); the tender was re-awarded on 7 November 2011, due to outgoing operator.

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

The final award to the Enel Rete Gas Group of the tenders called by the municipalities of Mirabello (province of Ferrara) (around 1,650 end customers) and Solofra (province of Avellino) (around 3,500 end customers), was followed respectively by the cancellation of the tender as ordered by the regional administrative court (TAR) of Emilia for reasons largely relating to the opening of the sealed bids in a joint meeting and the cancellation ordered by the TAR of Campania following the appeal made by another distributor against the award of the tender for reasons regarding admission requirements.

The final award of the tender called by the municipality of Marmirolo (province of Mantua) in favour of another distributor (around 3,200 end customers), which was previously managed by Enel Rete Gas, was followed by the cancellation of the tender as ordered by the TAR of Lombardy; the period for challenging the order is currently still open.

It should be noted that in May the final ranking was drawn up which saw Enel Rete Gas classified first in the tender called by the municipalities of Como and San Fermo della Battaglia (province of Como) (around 44,600 end customers).
Finally, in December the ranking was published, which saw Enel Rete Gas classified first in the tender called by the municipalities of Manfredonia (province of Foggia) (around 16,000 end customers).

Transfer of concessions to another operator

As for the new tenders called by municipalities where the Company already managed the gas distribution service:

- on 2 January 2012, following the award in 2011 of the tender called by the municipalities of Truggio and Albiate (province of Monza Brianza), (around 6,700 end customers) to another distributor, Enel Rete Gas had to hand over the gas distribution plant to the other distributor for consequent takeover of operations;
- on 1 February 2012, following the award in 2011 of the tenders called by the municipalities of Bareggio (province of Milan) (around 8,200 end customers) and Bregnano (province of Como) (around 2,600 end customers) to other distributors, Enel Rete Gas had to hand over gas distribution plant to these distributors for consequent takeover of operations;
- on 27 February 2012, Enel Rete Gas received communication of final award to another distributor of the tender called by the municipalities of Grumello Cremonese ed Uniti (province of Cremona), Volongo (province of Cremona), Acquanegra Cremonese (province of Cremona), Bordolano (province of Cremona), Corte De' Cortesi con Cignone (province of Cremona) and Martignana di Po' (province of Cremona) (a total of around 3,200 end customers);
- on 29 February 2012, Enel Rete Gas received communication of final award to another distributor of the tender called by the municipality of Caronno Varesino (province of Varese) (around 2,100 end customers);
- on 13 March 2012, Enel Rete Gas received communication of final award to another distributor of the tender called by the municipalities of Triangolo Lariano di Barni (province of Como), Bellagio (province of Como), Caglio (province of Como), Canzo (province of Como), Caslino d'Erba (province of Como), Castelmarte (province of Como), Eupilio (province of Como), Lasnigo (province of Como), Magreglio (province of Como), Proserpio (province of Como), Pusiano (province of Como), Rezzago (province of Como), Sormano (province of Como) and Valbrona (province of Como) (around 11,700 end customers);
- on 2 April 2012, following award of the tender called in 2011 to G6 Rete Gas S.p.A., 100% owned by Enel Rete Gas, the latter handed over to G6 Rete Gas S.p.A. the plant of the municipalities of Ceresara (province of Mantua) and Casaloldo (province of Mantua) (around 1,880 end customers);
- on 4 April 2012 Enel Rete Gas received the communication with which the TAR of Milan rejected the appeal made by the company against the award to another distributor of the tender called by the municipality of Lainate (province of Milan) (around 11,610 end customers); the judgment of the Italian administrative court Council of State (*Consiglio di Stato*) is pending;
- on 27 April 2012, Enel Rete gas received communication of final award to another distributor of the tender called by the municipality of Paderno Dugnano (province

of Milan) (around 21,700 end customers); the judgment of the TAR of Lombardy on the appeal filed by Enel Rete Gas is pending;

- on 31 August 2012, following award of the tender called by the municipalities of Chiampo (province of Vicenza), Arzignano (province of Vicenza), Altissimo (province of Vicenza), Crespadoro (province of Vicenza), Nogarole Vicentino (province of Vicenza) and San Pietro Mussolino (province of Vicenza), (around 17,000 end customers) to another distributor, which was awarded the tender called in March 2011, Enel Rete Gas had to hand over the gas distribution plant to the other distributor for the consequent takeover of operations;
- on 05 December 2012, Enel Rete Gas received communication of final award in its favour of the tender called by the municipality of Polla (province of Salerno), (around 1,500 end customers).

As for the other tenders called by municipalities where G6 Rete Gas S.p.A. already managed the gas distribution service during the year:

- on 3 August 2011 the tender was awarded to ACSM-AGAM for the gas distribution service in the municipality of Lomazzo (province of Como) (4,350 customers); G6 Rete Gas S.p.A. (the outgoing operator) appealed against this award (appeal no. 1357/2011 to the TAR of Lombardy – Milan) to challenge the award procedure; with ruling no. 1171/2012 the TAR of Lombardy – Milan accepted the appeal and cancelled the tender procedure. With order no. 803/2013 filed on 12 February 2013, the Council of State referred to the full bench of the Council of State the issue relating to the enforceability of art. 84, paragraphs 4 and 10, of Legislative Decree 163/2006 to the tenders for the award of the natural gas distribution service, since it held that there were differing opinions between the sections of the *Consiglio di Stato* in this regard. The hearing is set for 22 April 2013;
- on 16 March 2011 the tender was awarded for the gas distribution service in the municipality of Velletri (province of Rome) (8,980 customers) to Italgas SpA; G6 Rete Gas S.p.A. (the outgoing operator) appealed against this award (appeal no. 3466/2011 to the TAR of Lazio – Rome) to challenge the award procedure; the hearing was set for 26 April 2012. Subsequently, an appeal was filed before the Council of State by Italgas and by the municipality of Velletri against the ruling of the TAR of Lazio no. 6418/12 which annulled and suspended the tender. At the hearing of 22 January 2013 the application for interim relief were not discussed and the Council of State deferred the discussion to 28 May 2013.

As for new tenders called by municipalities whose gas distribution service was managed by another distributor, in 2012 Enel Rete Gas:

- on 11 December received the communication with which the Council of State accepted its appeal beyond usual terms against the final award to another distributor of the tender called by the municipality of Valenza (province of Alessandria) (around 10,000 end customers);
- received on various dates communication of the final award to another distributor of the tenders called by the municipalities of Offlaga (province of Brescia) (around 1,700 end customers), Pomigliano D'Arco (province of Naples) (around 10,572 end customers), Calolziocorte (province of Lecco) (around 6,300 end customers), Tezze sul Brenta (province of Vicenza) (around 5,200 end customers) and Verbania (province of Verbano-Cusio-Ossola) (around 18,000 end customers).

As for the municipality of Verbania, on 18 April 2013 the discussion will take place before the TAR of Turin on the appeal filed by Enel Rete Gas against the final award of the concession for the distribution service to Molteni and on the judgment on the invalidity of any contract which may be signed. It should be noted that Enel Rete Gas ranked second in the tender for the aforementioned concession.

In 2012 in addition:

- there was a positive conclusion for G6 Rete Gas S.p.A. to the case brought by Italgas S.p.A. regarding the tender called by the municipality of Pratola Peligna (province of L'Aquila);
- proceedings were started by G6 Rete Gas against the municipality of Spinete (province of Campobasso) for compensation for damages as a result of the tender procedure being declared unlawful both in the first and second instances;
- arbitration proceedings were started by the same company to establish the residual industrial value of the plant in the municipality of Cormano (province of Milan);
- G6 challenged the award regarding the industrial value of the plant at San Martino Buon Albergo and the first hearing is set for 21 March 2013. On 10 January 2013 the order enforcing the award was filed.

8.1 Regulatory framework

As for gas distribution, the activities of the AEEG (Regulatory Authority for Electricity and Gas) during 2012 focussed on initiatives/objectives that had already been partly set out in previous years and were partly set during the year taking into account the development of the sector.
The AEEG started consultations to establish the tariff regulation and the quality of distribution services and the gas metering service for the new regulatory period 2013-2016, the launch of which was then postponed to 2014, and it often intervened with

orders to supplement and change provisions regarding the installation plan for meters with requirements concerning remote reading/management, as set out in Resolution ARG/gas 155/08.
The AEEG also held consultations to adopt provisions implementing (rules as set out in Ministerial Decree 226/2011) on the tender criteria for new awards of the gas distribution service by local areas; these provisions concern: the definition of the size of the one-off amount to cover tender costs, the provision of technical sheets and IT support for the transmission of data on the plant, the definition of the operational procedures to assess investments in energy efficiency and the preparation of a standard service. After the consultations the AEEG adopted the corresponding provisions, except for the operational procedures to assess the investments in energy efficiency, for which only a preliminary consultation was undertaken. The standard service contract, which was submitted to the Ministry of Economic Development, was approved and published on 5 February 2013.
In relation to the new responsibilities for water services, in 2012 the AEEG also adopted the first provisions regarding regulation of the integrated water service, regarding in particular the tariffs for 2012 and 2013 and the transparency of the invoicing documents.

In the reporting period, the AEEG issued and published over 420 provisions, more than half of which (over 230) concerned the gas sector, including in particular, provisions directly involving gas distribution, various resolutions on tariffs, access to the data distribution and/or exchange service between operators, new regulation of the settlement service, quality of the service and safety of plant, gas metering, protection of end customers, last resort services (default services), completion of the regulation for tenders to award gas distribution services, accounting and administrative separation, energy efficiency, checks on operators, institutional functions and strategic guidelines. The AEEG also issued around ten provisions regarding the water sector.
In addition, the AEEG undertook numerous consultations regarding gas distribution and released documents on which to make observations and proposals. The company made observations on all the issues concerning the gas distribution business.
For detailed information, reference should be made to section XIV "Regulatory Appendix".

Other significant events

By means of Resolution 368/2012/R/gas of 20 September 2012, the economic incentives were assigned for the service safety levels achieved by gas distributors and confirmed by the Authority for 2010, the second year of application of sanctions as well as incentives and the first year in which the incentive mechanism became

mandatory (mandatory as from 2010 for distributors with more than 50,000 end customers).
Enel Rete Gas, which with over 50 Italian gas distribution companies was subject to this premium/sanction mechanism in 2010, was awarded the highest premium of 4.6 million euro (0.7 million euro for gas odorisation checks and 4.0 million euro for leak reduction).
As part of the proceedings started by the AEEG with Resolution VIS 162/10, against 10 gas distribution companies (including Enel Rete Gas, G6 Rete Gas and 2iGas) for possible violations of the metering of natural gas transport at the delivery points on the respective networks (ReMi substations), on 9 May 2012 Enel Rete Gas received, from the Legal Affairs and Disputes Department, a request for further information and documentation. With the same communication the AEEG also requested Snam Rete Gas to produce a copy of the metering records relating to the ReMI substations subject to proceedings for the period concerned. Similar communications, requesting only the metering records from Snam Rete Gas but without requesting further information, were copied also to G6 Rete Gas and 2iGas, relating to the ReMi substations for which they are respectively responsible.
Enel Rete Gas sent the information and documents requested on 29 May 2012, to support what the Group had already set out in February 2011 concerning the fact that the alleged violations never occurred. In order to provide further information in addition to the contents of the notes and briefs sent on the issue, in December Enel Rete Gas produced additional documentation on its three ReMi substations involved and on the substation which previously belonged to 2iGas.
Finally, on 7 February 2013 Enel Rete Gas received communication of the results of the investigation which foreshadowed the application of a fine (both for Enel Rete Gas and for 2iGas) for failing to maintain equipment in ReMi substations, respectively in two cases for Enel Rete Gas and in one case for 2iGas. The final hearing before the Board of the Authority, prior to the order which will bring to an end the proceedings, at which Enel Rete Gas will once again set out its arguments, should be held in the first half of the year.
Following the inspection undertaken by the AEEG in June 2011 regarding the correct application of the tariff provisions for the 2009-2012 regulatory period, the AEEG, with its communications of 13 February 2012 and 30 August 2012, requested further information and additional documentation, which Enel Rete Gas prepared and sent as per the indications it received.
In December the Association of distribution companies, Anigas (of which Enel Rete Gas and G6 Rete Gas are members) appealed against the AEEG's Resolution 436/2012/R/gas which extended the tariff regulation of the 2009-2012 period to 2013, and which changed the adjustment procedures for the weighted average cost of capital (WACC) without updating it to the extent which operators consider necessary to ensure continuity with the regulations previously in force.

With rulings 3227/2012, 3228/2012, 3229/2012, 3230/2012, 3231/2012, 3232/2012, 3233/2012, 3234/2012, 3235/2012, issued on 28 December 2012, and 3272/2012, 3273/2012, 3274/2012 and 3296/2012, published on 29 December 2012, the TAR of Lombardy - Milan accepted the appeals made by various companies (belonging to Federutility) and cancelled the provisions regarding the default service as set out in Resolutions ARG/gas 99/11, 166/2012/R/gas and 352/2012/R/gas, in short holding that the default service introduced by the AEEG contradicts the principle – at EU and national level – of the separation between gas distribution and supply activities and that such a service cannot be included, as, however, the Authority believes, in the settlement service.
Among the key provisions involving the company issued by the other authority which also oversees the energy market (the Antitrust Authority), provision no. 23794 of 2 August 2012 should be taken into account, which imposed administrative sanctions on Linea Group Holding S.r.l. and Linea Distribuzione S.r.l., jointly, and E.On Italia S.p.A. and 2iGas Infrastruttura Italiana Gas S.r.l. (formerly E.On Rete S.r.l.), again jointly, respectively for 129,675 euro and 1,205,308 euro for having implemented an agreement, by setting up a temporary consortium, which was considered anti-competitive since it aimed at the territorial division of the concessions subject to a tender called by the municipality of Casalmaggiore and by another 7 municipalities in the Province of Cremona in July 2010. An appeal has been made against this provision regarding events which occurred in 2010 (therefore prior to the purchase of E.On Rete S.r.l. by the Group).

8.2 Tariff framework

In 2012 application of the new tariff regime continued for the third regulatory period (1 January 2009 – 31 December 2012) as introduced by Resolution ARG/Gas no. 159/08. In particular, the Council of State proceedings regarding the appeal made in 2009 by some operators against Resolution ARG/gas no. 159/08 came to an end.
With ruling no. 2521/2012 the TAR cancelled the provisions of the tariff regulation on constant productivity recovery (x-factor) for the whole duration of the tariff regulation period, on the application of a staggered mechanism based on the aggregate value at national level, and on extension of the determination of mandatory tariffs to all areas served by the distributor in the case of incomplete documentation.
In order to comply with the Council of State ruling, in August 2012 the AEEG issued Resolution 315/2012/R/gas in reference to the tariffs for 2009 and 2010. In addition, the AEEG started to draw up provisions on the tariff regulation of gas distribution and metering services, (fourth regulatory period for gas distribution and metering) by publishing the consultation document 341/2012, which contains the initial assumptions.

The possibility of extending the period of validity of the current tariff and quality regulation throughout 2013 is currently under review. The Authority intends also to assess the possibility of extending the regulatory period up to a maximum duration of five/six years, also as regards the possibility of introducing interim update mechanisms for some of the parameters used, such as the rate of return on risk-free assets. The adoption of the final provision to regulate the fourth regulatory period is scheduled for the end of October 2013.
The extension to 31 December 2013 of the provisions currently in force was made official with Resolution 436/2012/R/Gas which also contains slight changes to the WACC of distribution activities for 2013 which is set at 7.7% (7.6% until 2012), while the WACC of metering activities was confirmed at 8%, the recovery in productivity for distribution activities was 2.4% and for metering activities was 2.8%.
The development in regulations continued with the publication on 6 November 2012 of Resolution 450/2012/R/Gas by which the Authority set the tariffs for the years 2011 and 2012, in compliance with the Council of State ruling 2521/12. Although not impacting negatively on revenue, it should be noted that on 17 December 2012 the tariffs were published with all their components on the website reserved for operators, including the so-called RAB (Regulatory Asset Base) on which it is held that the Authority has used criteria that are different from those for the tariffs for 2009 and 2010 which were published in August.
Therefore, on 4 January 2013 Enel Rete Gas decided to appeal against Resolution 450/2012/R/Gas and Resolution 553/2012/R/GAS published on 24 December 2012 with which the Authority set the tariffs for 2013.

As for tariffs regarding metering, during the year the AEEG, as a consequence of the consultation documents DCO 17/11 and DCO 40/11, published Resolution 28/2012/R/gas which introduces new rules for the remuneration of metering work in the regulatory period 2013-2016. The main changes concern the remuneration for investments in meters which are to be assessed according to an average of the actual and standard costs, the introduction of specific operating costs for remote metering and a new plan to replace meters which is extended over a longer period compared to the plan provided for by Resolution ARG/Gas no. 155/08.
In particular for “residential” meters the new deadlines for the replacement of 60% of all meters have been set at 31 December 2018 and by this deadline the meters with an expired stamp should be replaced too.
Nonetheless, the AEEG notes that, since Law 99/09 has come into force, despite the provisions of Resolution ARG/Gas no. 159/08, it is not possible to allow the envisaged tariff compensation for the replaced meters. Anigas (National Association of Gas Companies) appealed against the aforementioned Resolution to the TAR of Milan.
In its turn, the AEEG published Resolutions 246/2012/R/gas and 316/12/R/gas partly modifying the contents of the previous provisions, but these changes did not fully satisfy operators.

Anigas has, therefore, decided to continue its appeal also against the orders which modify Resolution 28/2012/R/gas.

8.3 Regulatory framework

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

9 Support for gas transport activities

9.1 Commercial quality

The commercial quality level is measured by means of a general index which shows the percentage of services not carried out within the standard times set by the Regulatory Authority for Electricity and Gas, in reference to connections, reconnections, disconnections, quotes and execution of both simple and complex work.

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

	ERG	G6
Connections	0.20%	0.52%
Execution of simple work	0.51%	1.56%
Quotes	0.33%	0.54%
Reconnections for delinquent customers	0.71%	4.22%
Disconnections at customer request	0.49%	0.18%
Execution of complex work (not subject to compensation)	0.22%	0.55%

The final result of G6 Rete Gas, moreover, was partly affected by the number of occasions on which the maximum time limit to provide a service was exceeded solely due to the time taken by sales companies to make an appointment to provide the service requested.
This phenomenon, which occurred as from October 2012, negatively affected above all reconnections for delinquent customers, for which the maximum time to complete the service is limited and based on the number of working days.
In order to limit the number of cases of failure to comply with the maximum time limit for reconnection for delinquent customers, the criterion for planning interventions is being redefined: upon request for an appointment from the sales company, the system will automatically set the next working day as the proposed date. This intervention will also involve the introduction of the necessary procedural adjustments by operators responsible for the actual planning of interventions.

9.2 Management of complaints

In 2012, the Enel Rete Gas Group handled 3,523 written complaints and information requests, with 19 non-compliant services, 52 information requests from the AEEG received via authorised sales companies and 33 information requests from authorised sales companies to change supplier.
In addition, replies were prepared to 3,035 requests from the AEEG-Consumers Affairs Department for complaints which the latter had received directly. This service has been operating since 2009 to assess complaints, requests and notifications made by end customers.
Finally, there were 2,439 requests for technical data which can be acquired through a meter reading (M01), with 18 non-compliant services, and 4,311 requests for other technical data (M02), with 47 non-compliant services.

9.3 Invoicing of gas transport

During 2012 the invoicing of gas transport was adjusted to the new provisions of resolution AEEG 166/12/R/gas, with the introduction of a new tariff component (UG3) to cover the costs connected to work to interrupt supply.
Particular attention has been paid to minimising waste in the invoicing process to ensure the highest possible level of completeness and timeliness. In addition, invoices started to be sent electronically to Eni-Gas&Power.
The invoicing system for LPG was redesigned to make it similar to that used for natural gas.
G6 Rete Gas also entrusted to the supplier M.B.S. Group the work to meter, prepare and deliver invoices for the water service.

9.4 Gas network commercial field

The "Four" portal was further disseminated among sales companies. It is a state-of-the-art communication tool developed for service and switching requests. Currently 205 companies out of 239 are accredited to use Four.
As regards service requests, sales companies have shown interest in the use of the communication channel through the Application to Application mode, which is already used by Enel Energia, and which was realised in 2012 with GDF Suez Energia Italia.

With a view to improving relations with sales companies, two meetings were held with gas sales companies: on 19 June in Milan, with the involvement of the companies from the centre-north and on 12 July, at the Enel office in Rome, with a further fifty sales companies from the centre-south. During the meetings issues were addressed regarding the development of the AEEG regulatory framework, the new functions of the Front-Office FOUR web portal were set out and the portals of 2iGas Infrastruttura Italiana Gas and G6 Rete Gas S.p.A. were presented.

Work continued to analyse and validate gas bonus requests submitted by end customers to municipalities in order to obtain tariff reductions. Action was taken in order to reduce the negative outcome for some requests due to the differences between the data held in the databases of the sales companies and that held by the Enel Rete Gas Group.

As for the new requirements introduced by the latest provisions of the AEEG, among the most important are the new text on gas arrears (TIMG – comprehensive gas arrears document), with the related initial implementations established by resolution 166/12/R/gas, with changes to the front office processes for the interruption and restoration of supply.

Extensive activities were undertaken with sales companies to align data on redelivery points, in accordance with the AEEG Resolutions ARG/com 146/11 and 131/12/R/com.

The new website of the Enel Rete Gas Group was created and upgraded with a new look and contents for customers and sales companies.

10 Plant construction, environment and safety

10.1 Gas distribution plant

During 2012 around 249 km of piping were laid for new constructions and around 86 km for plant renewal/maintenance.
This work arises from the improvement needed to maintain levels of service and acquisition of new customers as well as to meet the concession obligations deriving from the agreements with the competent authorities.
Enel Rete Gas completed and put into operation a stretch of piping of around 2.5 km to connect Villa di Chiavenna to the networks of G6 Rete Gas in order to provide gas to the municipality.
In addition, during 2012 the following primary substations were modified, improved and/or put into service:

- Aielli, Cerchio, Aragona, Castellanza, Chiuduno, Oppido Lucano, Mottegiana, the modernisation of which was necessary to satisfy the new requirements of the plant;
- Taranto-Lido Azzurro in compliance with prior commitments.

As part of the work to enhance, modernise and increase the safety of ReMi substations of the G6 Rete Gas network during 2012:

The award of the tender was completed for the reconstruction or modernisation of 63 electrical lighting and power supply systems for equipment and earthing systems, work which will be completed in the 2013-2014 period.
For 29 primary substations (ReMi substations) documentation was updated regarding the classification of dangerous areas as well as the document on protection against atmospheric discharges with the related design documentation.
The plan to remove and dispose of roofing containing asbestos continued with the replacement of 6 roofs containing fibre cement (Eternit), the disposal of which took place with plans approved by the competent local authorities, in full compliance with laws in force; during 2013 the remaining replacement will be completed to conclude the plans started in previous years.

Again with reference to G6 Rete Gas, in the first half of 2012, as planned, the ReMi substation of Tricase in Alessano was activated and added to the current pool which already includes the ReMi substations of Sanarica, Melpignano and Soleto.
As planned, during the second half of the year the ReMi substation at Taviano was activated and connected to the aforementioned pool, thus completing the grid of networks to serve the Salento area.
In June the plant in the municipality of Fumone (province of Frosinone) came into operation as a secondary plant compared to the existing one at Alatri: the plant potentially has 400 redelivery points.
In September 2012, work was finished relating to the methane gas network for the municipalities of Amatrice, Micigliano and Posta, as part of the initiatives financed by Law 266/97 for the methane gas network plan in Italy. Therefore, the plant powered by the ReMi substation located in the municipality of Antrodoco (province of Rieti) was activated and will serve a potential pool estimated at around 1,300 end customers.
In Valtellina the plant at Torre S. Maria was completed with the laying of around 200 meters of 'fine' paving. In addition, work continued to build plant at Chiesa Val Malenco for a total of 1,200 meters, pending start of the works for a methane gas network in the boroughs of Primolo and Curlo which would complete the tender project.
At the same time, with reference to the feeder network which supplies the plant at Chiesa Val Malenco, work continued to build the plant relating to the tender awarded for the municipalities of Lanzada and Caspoggio which will complete the area of the Mountain Community of Val Malenco.

Also for the plant at San Giacomo Filippo, the methane gas network work was completed and currently construction of the connection to the municipality of Chiavenna is pending, which Enel Rete Gas should complete by June 2013. In the meantime work has started to set up the construction site on the SS 36 road, the so-called “Spluga”, which is necessary to connect the municipality of Campo Dolcino. This would complete the work planned in the area of the Mountain Community of Val Chiavenna.

As part of the work to enhance, modernise and increase the safety of cathodic protection systems during 2012:

- 113 initiatives were completed to partly or wholly replace cathodic protection systems, in order to guarantee protection against corrosion of steel pipes, thus avoiding gas leaks from them.
- 334 standard electric switchboards were installed to serve the cathodic protection control units.

As part of the work to enhance, modernise and increase the safety of secondary reduction plant during 2012 note should be taken of:

- the modernisation/enhancement of equipment, valves and fittings or construction parts in around 60 secondary substations (final reduction units), both because they are now obsolete (and moreover have been fully depreciated), and to guarantee gas pressure levels to customers.

10.2 Gas remote alarm

Also during 2012 the system worked efficiently, with an operating rate for primary substations of over 95%, maintaining the reduction trend in periodic inspections for each substation which were previously undertaken by the company’s staff (a saving of around 60 hours per year compared to plant which does not have a remote alarm system).
It should be recalled that the system, which was launched in 2006, is based on the monitoring of the main operating parameters for all the primary substations and some of the secondary substations identified on the basis of their importance in the operation of the networks they are part of.
During 2012 G6 Rete Gas continued to enhance the remote control system for networks and gradually increased the plant monitored, partly also in compliance with the obligations arising from tenders won in previous years.

10.3 Service continuity and safety

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

By March 2013 the reporting activity will be completed on the technical standards for 2012, by extracting the data held in the company's IT systems. The adoption of this system enables the reporting process to be more efficient and to improve monitoring during the year of technical activities connected to service continuity and safety.

In general, the data recorded and to be reported, in keeping with what has happened in previous years, showed a high level of performance in terms of quality compared both to the minimum performance required and the competitors' performance.

As part of the constant attention to the safety of plant and end customers, preventative leak checks were carried out on over 70% of the existing network, instead of the minimum 25/30% required by the resolutions of the AEEG, and around 8,000 gas chromatography controls were undertaken on the network to thoroughly check the effective odorisation of distributed gas.

10.4 Funded work

During 2012, 93 municipalities took advantage of public grants for the construction of gas distribution networks, which were built for various reasons, for a total of grants related to assets already received of 29.6 million euro with previous work-in-progress certificates (SAI). Of these municipalities, 37 received funds from the Ministry of Economy and Finance – Treasury Department under Law no. 784/80 – General methane gas network plan for Southern Italy; the other municipalities by virtue of regional plans that make use of European Union grants. During the year 14.9 million euro in grants related to assets was received.

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

Resolution ARG/gas 155/08 introduced, with costs to be borne by distributors, the gradual adoption of innovative metering systems to allow the remote reading of consumption by end customers as well as, for the lower meters generally made available to residential users, their adjustment with an electro valve for remote management.

The timeframes established by the AEEG envisage that, over 6 years as from 2010, distribution companies adjust their meters according to the Resolution provisions, complying with intermediate steps starting with larger meters.
In Resolution 28/12/R/Gas, issued by the AEEG on 28 February 2012, this adjustment was further extended in terms of time and measurements, moving the goal to 2018 for the installation of 60% of the smart meters for residential users and therefore for G4 and G6 meters.
During 2012 other regulatory provisions came into force which further clarified and modified the contents of AEEG Resolutions 155/08 and 28/12.
In particular, Resolution 193/2012 of 18 May, Resolution 246/2012 of 14 June, Resolution 316/2012 of 26 July and, finally, Resolution 575/2012 of 28 December were published. The AEEG, as a result of the data collected on 31 July 2012 on progress in upgrading meters to satisfy Resolution 155/08, took note of the delay in the upgrade and undertook further investigations with manufacturers and distribution companies which led to the extended timeframes set out in Resolution 575/12 at the end of the reporting period.

Due to the impact of the aforementioned provisions the standard costs approved by the AEEG for the installation and activation of new smart meters on the basis of their size and year of activation were set and updated, and, as mentioned, the timeframes were revised for the upgrading of meters of size G10 and above.
In particular, the deadline for upgrading G40 meters was moved to the end of 2014 and to the end of 2015 for the upgrading of G16 and G25 meters; for G10 meters a minimum threshold of 15% by the end of 2014 was established and the subsequent expiries were deferred to the new regulatory period.

In November 2012 the AEEG also published consultation document 478/12 “Selection procedure and criteria for investments admitted to testing of joint remote reading/management of natural gas meters of size G6 and below and metering of redelivery/withdrawal points of other commodities” to which a reply was sent within the required timeframe.

The Italian Gas Committee (CIG), in accordance also with recent regulatory developments in Europe, confirmed the choice of the frequency and radio communication protocol for residential users with G4 and G6 size meters, taking account also of the tests carried out on various radio frequency communication technologies by the Enel Rete Gas Group and by the main natural gas distribution companies.

During 2012 the CIG, which initially required regulations being developed to be issued by December 2012, informed the AEEG of the difficulties encountered in carrying out and completing the work it was responsible for and, following clarification with the AEEG, set March 2013 as a target for completion of the necessary provisions.

During 2012 the upgrading of redelivery points with G40 meters was completed, in accordance with corporate plans.

In addition, during 2012 work was completed to establish the technical specification for integrated smart meters, with the use of various commercially available metering technologies, for meters between G10 and G40 and a European call for tender was published for the supply of G25 integrated smart meters, which requires the presentation of offers by interested manufacturers by the end of January 2013.
Finally, work started to define the technical specifications of G4 and G6 integrated smart meters.

10.6 Plan to replace traditional meters

The replacement of traditional meters which have been in operation for over 25 years continued in the first quarter of 2012, with the replacement of around 14,000 meters, 86% of which was done by external companies.
The work was interrupted subsequent to publication of Resolution AEEG 28/2012/R/gas, which extends Resolution AEEG ARG/gas 155/08.

10.7 ISO certifications

In December the meeting took place of the Enel Rete Gas Occupational Safety and Health Committee and at the same time the Integrated Management System as at 30 September 2012 was reviewed in order to make evaluations over a similar time period (taking into account the recent merger of 2iGas).
In September the first stage ended of the project to review and update the documents relating to the Integrated Management System for Quality of Enel Rete Gas (SGQI) with an analysis of the activities carried out from January to September 2012. The project is ongoing and activities have been planned up to December 2013.

It should also be noted that in the first half of 2012 the certification body CERTIQUALITY completed the periodic inspection of the Integrated Management System for Quality, Safety and the Environment of Enel Rete Gas. The final outcome was very positive and better than the previous year.
No cases of non-compliance were reported.

Finally, G6 Rete Gas holds system certification linked to three standards:
- UNI EN ISO 9001:2008, Quality Management System, valid until 28 January 2015;
- UNI EN ISO 14001:2004, Environmental Management System, valid until 7 June 2014;
- BS-OHSAS 18001:2007, Health and Safety Management System, valid until 6 June 2014.

Certification work is entrusted to DNV - Det Norske Veritas Italia S.r.l., an ACCREDIA accredited body, and this has already been agreed by contract for the work required by the key standards for the entire period of validity of the aforementioned certification.
During the second half of 2012 the certification body undertook its periodic check which ended positively with no findings of non-compliance and with consequent conformation of the validity of the certificates of compliance to the key standards.

10.8 SOA certification

In 2012 (already in the first half of the year) there was a successful conclusion to the procedures for the renewal of Enel Rete Gas' SOA certification which will be valid for the next five years (expiring on 27 February 2017 – without prejudice to the three-year interim check at 27 February 2015) and which is a necessary prerequisite to take part in tenders for the award of the gas distribution service. The OG6 category (methane networks and water mains) was confirmed in relation to the design and realisation of works for unlimited amounts (the highest available in the category). In the G6 category, on the other hand, the positive verification carried out by the certification body "La Soatech S.p.A." enabled the issue in November 2012 of the SOA Certificate which is valid until 15 September 2014.

10.9 Work certification issued for SOA purposes

With the support of the Authority for the Supervision of Public Contracts for works, services and supplies (AVCP) IT platform, in 2012 work continued to validate work certificates or CEL (which were issued by Enel Rete Gas and by other companies –

including 2iGas – acquired in previous years) and the issue of new work certificates for companies carrying out the works. In 2012 38 new work certificates were issued, while 29 were verified at the request of SOA or AVCP companies.

10.10 Water sector

Management of the potable water service continued for 13 concessions; management of the Massa concession continued until 30 September 2012 and ended due to the natural expiry of the twenty-year concession. Following this expiry the approximate 37,000 users under this concession as well as its 38 employees came under the management of Gaia S.p.A. (the sole operator of the local authority for Northern Tuscany – ATO Toscana Nord).
During 2012 management of the Robecchetto concession also came to an end.
The pool of users served at 31 December 2012 was therefore around 48,210 customers.
The investments made in the water sector in 2012 were in line with plans.
Negotiations were also started with the municipality of Lonate Ceppino for the reassignment of the water sector, since the concession expired on 20 November 2012, but was officially extended by the Province of Varese, pending appointment of the new sole operator for the local authority (ATO).
Contacts have also been initiated with the municipality of San Giovanni Teatino and with A.C.A. S.p.A. (the sole operator of the local authority – ATO) for the reassignment of the water service for S.Giovanni Teatino, since the twenty-year concession expired on 31 December 2012.

11 Human resources

For the Enel Rete Gas Group 2012 was a year characterised by extraordinary operations undertaken to implement the project to integrate and merge the 2igas chain into Enel Rete Gas.
The significant analysis and planning activities which this entailed highlighted the need and case for including 12 trainees in various company departments; the particular nature of the period allowed the trainees to look closely at the issues and acquire working methods that were, on the one hand, useful for their training and, on the other, for their professional development.
As for staff departures, the outflow was strongly impacted by the transfer of the concession for the water plant at Massa due to its natural expiry, which led to the end of employment relationships with 38 employees.
The outflow for other reasons (retirement, resignation, etc.) is to be considered normal, while, pending definition of the new Group policy for planning workforces and for establishing the instruments to manage employment levels, the definition and

payment of leaving incentives was temporarily suspended and deferred to the following year.
Below is the breakdown of staff of the Group at 31 December 2012:

	Executives	Middle Managers	Office Employees	Workers	Total
Personnel at 31 December 2011	**30**	**102**	**1,134**	**846**	**2,112**
Internal mobility within Group:					
Increase	**2**	**1**	**21**	**3**	**27**
Decrease		**(5)**	**(49)**	**(42)**	**(96)**
Change in category			**4**	**(4)**	
Personnel at 31 December 2012	**32**	**98**	**1,110**	**803**	**2,043**

Staff changes in the Enel Rete Gas Group

11.1 Relations with trade unions

During 2012, given the particular nature of the year, numerous meetings were held with unions which resulted in agreements on the following issues:

- framework agreement which, on the one hand, governs the stages and instruments for company restructuring and integration, and, on the other, defines the levels of dialogue and establishes the issues regarding the reorganisation between national and local union levels;
- agreement on union consultation for the merger of 2igas into the incorporating company Enel Rete Gas;
- the method and amounts to be paid for the performance bonus for 2012;
- the envisaged tax breaks on additional pay granted in relation to productivity increases;
- managerial training and change management projects to support completion of the integration project, financed by Fondimpresa.

11.2 Selection

Above all, the second part of 2012 was characterised by intensive work to select and recruit new high potential junior staff, largely using traineeships; new recruits were mainly allocated to departments in the new Group, in order to allow continuity of operations in the new organisation.
In particular, the recruitment plan which was launched in the year was aimed at preparing the company for the expiry of the outstanding service contracts with the

Enel Group; therefore it focussed on increasing staff where considered necessary and on acquiring specific competences which could guarantee full operations right from the start of 2013.
In addition, the recruitment of staff belonging to protected categories continued, in compliance with legislative restrictions.

11.3 Training and development

In 2012 the Enel Rete Gas Group provided intensive training and development for its employees, with a total of 11,372 training hours.
The whole organisation, both at the level of organisational departments and geographical areas, was involved and the issues most commonly addressed were:

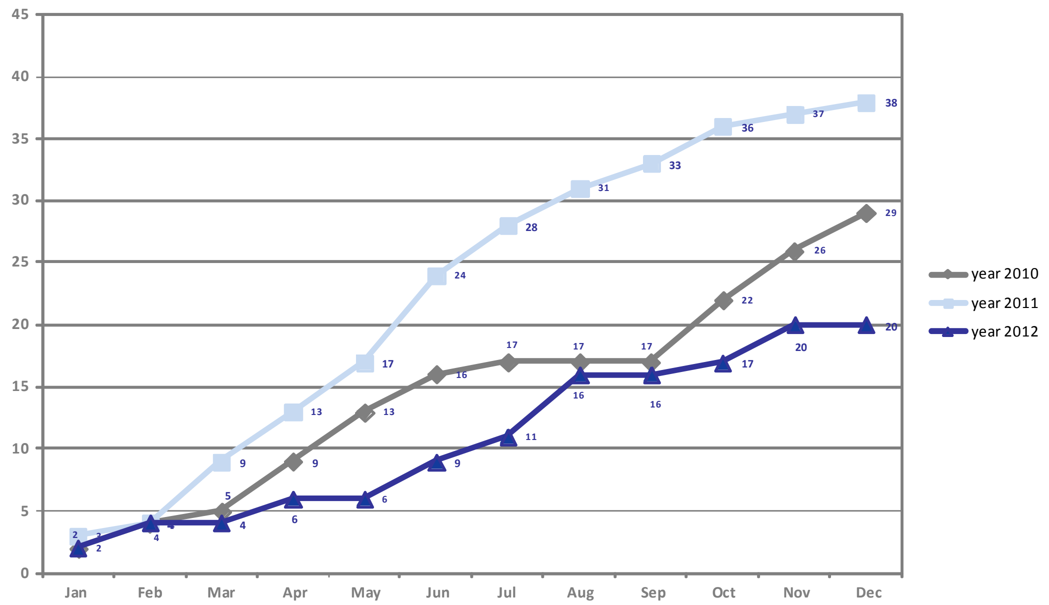
- safety, in particular with the launch of a project relating to Safe Driving which involved part of the geographical areas (the remaining part will be involved in the first half of 2013) and also fire protection courses, training for worksite safety coordinators and other sessions aimed at fulfilling various legal obligations;
- work-related stress, with the planning and launch of various analyses, investigations and information-giving/awareness-raising activities at the level of departments and geographical areas;
- new recruits, with the continuation of the process defined in previous years, including issues such as organisation, problem-solving, team work and communication;
- technical issues, such as training courses on welding, AutoCad, cathodic protection and temperature regulation.

12 Quality, Safety and Environment

On 1 October 2012 the planned merger of the 2iGas chain took place, with the consequent inclusion of the plant and resources in the consolidation scope of Enel Rete Gas.
This event started the process of bringing under the Integrated Quality Safety Environment system all the former 2iGas staff, a necessary requirement to maintain the certificates that expire in May 2013.

As for injuries to staff in the Enel Rete Gas Group, the result achieved in 2012 was an improvement on the previous year in terms of “non-serious” injuries (i.e. less than a 30-day prognosis), while the number of “serious” injuries (i.e. more than a 30-day prognosis) remained at zero.

The Group staff rose considerably thanks to the two acquisitions in October 2011, and so the fact that the number of injuries was stable in the year is a significant success in terms of injuries per person.
The Group's policy towards the "zero injuries" target is unchanged.



Trend in injuries in the Enel Rete Gas Group

13 Information systems

In keeping with previous years, 2012 also saw significant work on the information system, both in order to incorporate and put into operation the regulatory adjustments issued by the Regulatory Authority for Electricity and Gas, and to optimise the processes being managed. During the year upgrades were implemented through releases which ensured that software underpinning the application systems of the Enel Rete Gas Group was kept updated and guaranteed the maintenance of products and the growth in volumes and performance.
Alongside the updates to systems, there were analyses and feasibility studies following the publication of new resolutions by the Supervisory Committees.
In addition, data models were prepared for reporting to Authorities: excise duty report, commercial and technical quality report, AEEG 2012 survey, tariffs for 2011.
On the issue of the new corporate structure, an automatic interface was set up to extract/import the 2iGas systems into the systems of the Enel Rete Gas Group and work started on the complete corporate integration of 2iGas which is planned for the

first half 2013 and was started in 2012 with extension of the emergency service system and the integration of the company postal system.
The 2013 plan for the complete integration of G6 Rete Gas was also presented together with the territorial reorganisation of the whole company consolidation scope and the launch of the system to optimise assignments and to allow work teams to view the job lists on mobile devices.

Below are the most important initiatives regarding regulatory updates:

- the calculation engine for the invoicing system in order to introduce the invoicing of LPG in compliance with Resolution AEEG 159/08 was updated;
- the management of compensation in accordance with Resolution AEEG 145/10 was updated;
- extensive updates to the commercial details of distribution companies' redelivery points by trader were completed in compliance with the introduction of Resolutions AEEG 146/11 and 131/12;
- it was arranged to update the processes regarding the management of customer arrears to the provisions of Resolution AEEG 99/11 and subsequent update with Resolution 166/12;
- the new regulation of the physical and economic items of the natural gas settlement service was introduced as per Resolution AEEG 229/12;
- updates started on the Front Office system in order to regulate administrative service suspension due to arrears as required by Resolution AEEG 353/12 and for reasons other than arrears as per Resolution AEEG 153/12 and 352/12;
- a functional analysis was made in regard to the implementation of Ministerial Decree 37/08 which provides for the time frames within which the end customer must deliver the statement of compliance following service activation;
- a feasibility study was submitted for the realisation of a system which will allow an assessment as to whether to participate in an area tender and to establish the offer to be made in compliance with the tender criteria and the criteria for the assessment of the offer for the natural gas distribution service introduced by Ministerial Decree no. 226 of 12 November 2011;
- an analysis was delivered aimed at the complete management of integrated meters ranging from the G10 to the G25 category in accordance with the provisions of Resolution AEEG 155/08.

14 Research and development

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

The Enel Rete Gas Group directly manages the training of its staff operating in the field of cathodic protection by means of specific training courses organised at a special training centre at the Operating Unit in Perugia featuring specially equipped classrooms and a testing ground for the practical part of courses.

15 Financial results

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

Millions of euro	31.12.2012	31.12.2011	Change
Revenue	**848.5**	**584.4**	**264.1**
Transport and sale of methane gas and LPG	592.4	379.9	212.5
Connection fees and accessory rights	24.0	19.6	4.4
Other sales and services	19.7	11.3	8.5
Revenue from development of distribution infrastructure	133.0	114.3	18.6
Other revenue	79.5	59.3	20.2
Operating costs	**(481.3)**	**(312.9)**	**(168.4)**
Personnel expense	(110.3)	(75.3)	(34.9)
Raw materials and inventories	(31.4)	(38.1)	6.7
Services	(256.8)	(175.5)	(81.2)
Other costs	(64.5)	(22.7)	(41.7)
Allocations to provisions for risks and charges	(20.1)	(1.8)	(18.3)
Increase in non-current assets not subject to IFRIC 12	1.7	0.6	1.1
EBITDA	**367.2**	**271.5**	**95.8**
Amortisation, depreciation and impairment losses	**(150.8)**	**(108.6)**	**(42.2)**
Amortisation, depreciation and impairment losses	(150.8)	(108.6)	(42.2)
EBIT (Operating profit)	**216.4**	**162.8**	**53.6**
Net financial income (expense) and income (expense) from equity investments	(90.7)	(131.3)	40.6
Pre-tax profit	**125.7**	**31.5**	**94.2**
Income taxes	(58.5)	(28.5)	(29.9)
Profit (loss) from continuing operations	**67.3**	**3.0**	**64.3**
Profit (loss) from discontinued operations	**0.0**	**0.0**	**0.0**
Profit for the year	**67.3**	**3.0**	**64.3**

It should be noted that the comparison with the previous year is made using 2011 figures which have been restated to take account of the change in the purchase price allocation which occurred during 2012 in the 12-month period in which, under IFRS 3, it is possible to review such an allocation.

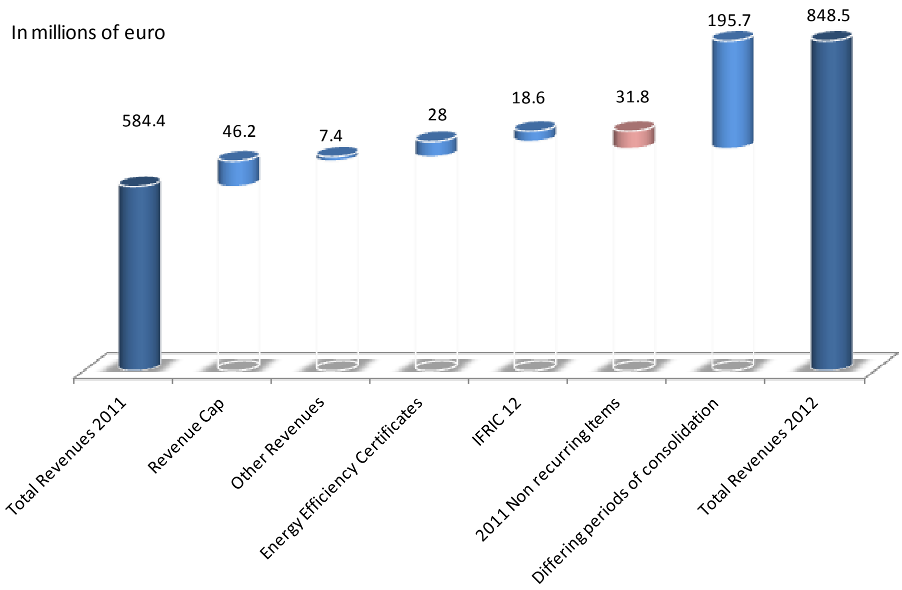
In addition, it should be stressed that the data relating to the previous year had an impact on the income statement for just 3 months for the companies F2i Reti Italia 2 S.r.l., F2i 5 Reti S.r.l., 2iGas Infrastruttura Italiana Gas S.r.l., G6 Rete Gas S.p.A., Italcogim Velino S.r.l., Italcogim Trasporto S.r.l. and CBL Gas Distribuzione S.r.l., while the same companies had an impact on the consolidated income statement for 12 months in 2012 (the so-called “differing periods of consolidation”).

Revenue of 848.5 million euro rose by 264.1 million euro and was largely due to revenue from the transport of natural gas worth 592.4 million euro. The figure is compared with an amount for 2011 of 584.4 million euro. A more detailed analysis, net of the change of 18.6 million euro for revenue from development of distribution infrastructure, shows an improvement at consolidated level which is attributable for around 49.8 million euro to an effective net improvement, including 28 million euro for higher recorded revenue from energy efficiency certificates, while the remaining difference was due to the differing periods of consolidation.

Revenue from gas transport totalled 592.4 million euro and rose by 212.5 million euro compared to 2011 (when they amounted to 379.9 million euro). This difference was due for around 46.2 million euro to an actual increase and for the rest to the differing periods of consolidation.

The connection fees and accessory rights totalled 24.0 million euro, up by 4.4 million euro compared to the previous year (19.6 million euro). The change was due for around 2.1 million euro to an actual improvement, while the remainder was due to the differing periods of consolidation.

Remaining revenue totalled 232.2 million euro in 2012 compared to 184.9 million euro in 2011. The difference was due to an increase in revenue from intangible assets by 18.6 million euro, an increase in the purchase of energy efficiency certificates by 28 million euro and an increase in revenue for technical quality and other items by around 7.4 million euro, and finally a decrease in revenue from non-recurring items for 2011 by 31.8 million euro. The remaining difference was due to the differing periods of consolidation.



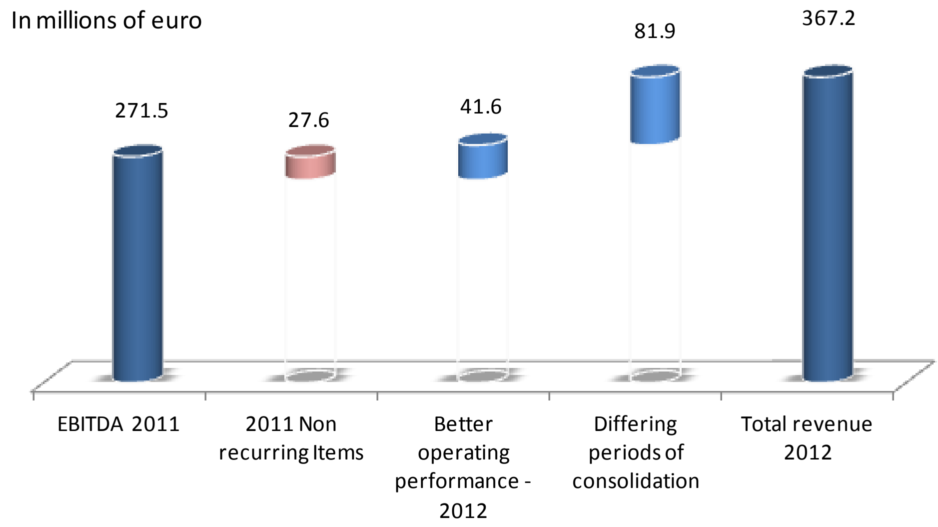
Operating costs totalled 481.3 million euro and rose by 168.4 million euro compared to the previous year (312.9 million euro), due for around 30.8 million euro to the aforementioned policy to purchase energy efficiency certificates adopted in 2012, 18.6 million euro for costs for intangible assets and, finally, 5.4 million euro for management costs, mainly for allocations to the provision for risks as described in detail below; the remaining difference was due to the differing periods of consolidation.

Personnel expense totalled 110.3 million euro, up by 34.9 million euro compared to the previous year. The item, taking into account the same period of consolidation, saw an improvement of around 3 million euro in the two years under consideration.

Costs for services rose by 81.2 million euro. Net of the change due to differing periods of consolidation, equal to 47.1 million euro, and 23.5 million euro for the capitalisation of costs, costs for services rose by 10.6 million euro. It should be recalled that 2011 was significantly affected by costs for acquisitions, legal and notary costs.

Allocations to provisions for risks and charges totalled 20.1 million euro, up by 18.3 million euro compared to the previous year. This item is shown in the financial statements net of releases of the provision, which in 2012 totalled 1.1 million euro following the settlement of some disputes regarding contracts and concessions.
The increase was mainly due to the allocation for the risk on the brokerage margin of energy efficiency certificates for which there is a purchase obligation approved by the AEEG, to the allocation for risks on concession fees and the differing periods of consolidation.

EBITDA thus amounted to 367.2 million euro, significantly higher (by 95.8 million euro) than the 2011 figure (271.5 million euro).
Net of the change in the differing periods of consolidation, EBITDA in 2011 would have been around 353.6 million euro. Therefore, the improvement of around 14 million euro can be attributed to better operational performance.
In addition, it should be recalled that EBITDA in 2011 also included the positive impact of the aforementioned non-recurring operations relating to the dispute with the municipality of Pescara and to the earthquake in L'Aquila. Excluding these non-recurring items, from an operational point of view EBITDA improved by 41.6 million euro, net of the difference from the aforementioned differing periods of consolidation.



Amortisation, depreciation and impairment losses totalled 150.8 million euro compared to 108.6 million euro in the previous year. Net of the differing periods of consolidation, this item was subject to minor changes.

EBIT totalled, therefore, 216.4 million euro while in 2011 it amounted to 162.8 million euro. In this case too the difference was due for around 15 million euro to better operating performance, while the rest was due to differing periods of consolidation.

Net financial expense totalled 90.7 million euro, decreasing by 40.6 million euro as opposed to the previous year.
This item, totalling 68.1 million euro, mainly includes interest expense accrued on loans, amortised cost relating to these loans and current account overdrafts; it should be recalled that in 2011 this item included the costs for the closure of the previous

loan, mainly in reference to the fair value of the derivatives taken out in 2009, calculated upon closure of the previous loan and totalling 51.6 million euro.

Pre-tax profit was 125.7 million euro and rose by 94.2 million. In order to make the data comparable, note should be taken of the information provided on EBITDA. The impact of the differing periods of consolidation was around 25.7 million euro, while the effective improvement in operations can be quantified at 68.5 million euro.

Income taxes for the year totalled 58.5 million euro (28.5 million euro in 2011).

Profit for the year was, therefore, 67.3 million euro.

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

Milions of euro	31.12.2012	31.12.2011	Change
	A	B	A-B
Non current assets	**2,381.2**	**2,512.7**	**(131.5)**
Property, plant and equipment	33.7	34.7	(1.0)
Intangible assets	2,701.1	2,720.5	(19.5)
Equity investments	2.8	2.7	0.1
Other non-current assets	6.9	10.0	(3.2)
Other non-current liabilities	(259.7)	(233.2)	(26.6)
Fair value of derivatives	(103.5)	(22.1)	(81.4)
Net working capital:	**62.4**	**55.4**	**7.0**
Inventories	7.7	9.0	(1.3)
Trade receivables from third parties and the Group	212.6	213.6	(1.0)
Net income tax assets (liabilities)	3.3	(8.2)	11.5
Other current assets	135.3	140.8	(5.6)
Trade payables to third parties	(167.0)	(172.9)	5.8
Other current liabilities	(129.4)	(126.9)	(2.4)
Gross invested capital	**2,443.6**	**2,568.1**	**(124.4)**
Other provisions	**5.3**	**32.4**	**(27.0)**
Post-employment and other employee benefits	34.3	34.9	(0.6)
Provisions for risks and charges	31.1	13.2	17.8
Net deferred taxes	(60.1)	(15.7)	(44.3)
Net invested capital	**2,438.3**	**2,535.7**	**(97.4)**
Liabilities held for sale	**0.0**	**0.0**	**0.0**
Equity	**818.0**	**838.2**	**(20.1)**
Residual payable for IRS unwinding	**36.2**	**43.6**	**(7.4)**
Adjusted net financial debt	**1,584.1**	**1,653.9**	**(69.9)**

Non-current assets, mainly consisting of intangible assets for gas distribution concessions, totalled 2,381.2 million euro, down by 131.5 million euro compared to 31 December 2011, as noted below.

The fall recorded in the item "Intangible assets" of 19.5 million euro was the net result of new investments of 148.8 million euro, decreases mainly due to gas distribution concessions of 22.6 million euro, amortisation in the year of 145.1 million euro and impairment losses of 0.3 million euro.

The decrease in the item "Property, plant and equipment" of 1 million euro was mainly due to new investments (1.9 million euro) and depreciation (3 million euro).

The decrease in “Other non-current assets” of 3.2 million euro was largely due to the decrease of 2.6 million euro in the medium/long-term share of receivables due from the Compensation Fund for the electric sector for energy efficiency certificates, against the payment of the certificates relating to the 2010 obligation which was made by 31 December 2012 by the Compensation Fund for the electric sector.

The increase in “Other non-current liabilities” of 26.6 million euro was due to the higher medium/long-term deferred income for connection fees, property subdivision, plant transfer and network extension contributions of 29.1 million euro, and lower deferred income for energy efficiency certificates of 2.6 million euro.

In 2011 the fair value loss on outstanding derivatives gross of the tax effect amounted to 22.1 million euro and in 2012 continued to be a loss at 103.5 million euro. It should be recalled that the hedges for 2011 and 2012 are different since they are the result of the debt consolidation of the merged companies, as noted above.
The theoretical fair value of these derivatives depends on the drop in the Euribor rate during 2012.

Net working capital, amounting to 62.4 million euro, increased by around 7 million euro, compared to the prior year mainly due to:

- the decrease in trade payables of 5.8 million euro;
- the increase in net income tax assets of 11.5 million euro;
- the decrease in other current assets of 5.6 million euro;

Therefore gross invested capital decreased from 2,568.1 million euro in the previous year to 2,443.6 million euro, down by 124.4 million euro.

Other provisions, which totalled a negative 5.3 million euro, fell by 27 million euro, mainly due to the negative changes in the item “Net deferred taxes” of 44.3 million euro and, with the opposite effect, the higher allocations made to the provisions for risks and charges for 17.8 million euro.

Therefore net invested capital decreased from 2,535.7 million euro in the previous year to 2,438.3 million euro, down by 97.4 million euro.

Equity fell from 838.2 million euro in 2011 to 818 million euro in 2012, due to the net impact of the following changes:

- decrease of 34 million euro following the payment of ordinary dividends;

- decrease of 53.3 million euro following the recognition of the adverse change of the fair value of derivatives, net of taxes;
- an increase of 67.3 million euro following recognition of the 2012 profit.

Adjusted net financial debt went from 1,653.9 million euro in 2011 to 1,584.1 million euro at 31 December 2012, while net financial debt, which also includes the fair value loss on derivatives, increased from 1,719.7 million euro in 2011 to 1,723.8 million euro in 2012.

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

Millions of euro		**31.12.2012**	**31.12.2011**
Non current bank loans	24	(1,751.2)	(1,773.2)
Cash and cash equivalents with third parties	20	134.3	61.1
Current loan assets	18	0.0	0.0
Other current financial assets	19	0.0	29.1
Current bank loans and borrowings	30	(0.0)	(0.0)
Current portion of non current loans and borrowings	31	(2.0)	(1.9)
Transaction costs on loan (IAS 39)	31	2.0	1.9
Non-current financial assets	14	0.2	0.1
Non-current financial liabilities	28	0.0	(0.0)
Current financial liabilities	35	(0.2)	(19.0)
Transaction costs on loan (IAS 39)	24	44.1	61.2
Loan fees due	24	(11.3)	(13.3)
Adjusted net financial debt		**(1,584.1)**	**(1,653.9)**
Derivative assets	19		
Derivative liabilities	35	(103.5)	(22.1)
Residual liability for IRS unwinding, current portion	35	(6.0)	(7.4)
Residual liability for IRS unwinding, non current portion	28	(30.2)	(36.2)
Net financial debt		**(1,723.8)**	**(1,719.7)**

As for the Group’s cash generation, it should be recalled that 2011 was particularly affected by acquisitions and the related loan. Once the cash flows in the two years are shown excluding transactions involving equity investments, the cash flow for 2012 net of equity investments was 200.9 million euro, while the figure for 2011 was around 78.6 million euro; the figures cannot be compared since the 2011 consolidation scope included, as already noted, results for 12 months for Enel Rete Gas, Gp Gas and Reti Gas and just three months of 2iGas chain, G6 Rete Gas, Italcogim Velino and Italcogim Trasporto.

16 Business risk management

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

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

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

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

Risks connected to regulation of the business sector in which the Group operates: the Enel Rete Gas Group operates in a sector subject to regulation. The directives and the regulatory provisions issued in this area by the European Union and Italian Government as well as the decisions of the Regulatory Authority for Electricity and Gas may have a significant impact on operations and on the Group’s financial position and results of operations. Future changes in the regulatory policies adopted by the European Union or in Italy might have unexpected repercussions on the key regulatory framework and, as a consequence, on the Group’s financial position and results of operations.

However, assuming that the new tenders will concern local areas which are much larger than individual municipalities, it is reasonable to believe that the Enel Rete Gas Group, given the size of the Group and of the concessions managed as well as the financial resources available, will be able to maintain at least a similar number of customers to those it currently serves.
Moreover, the uncertainty which is still inherent in a regulatory framework such as that described above has never been such as to create doubts about the ability of the Enel Rete Gas Group to continue with its business on a going concern basis.

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

17 Outlook

During 2013, work will continue to improve operational efficiency and to contain costs. The forecast profit for 2013 will reflect regulatory measures, market trends, the economies of scale and cost efficiency which can be achieved given the size of the customer base.
In particular, for the Enel Rete Gas Group the action undertaken will aim to:

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

18 Reconciliation of equity and profit for the year shown in the financial statements at 31 December 2012 of Enel Rete Gas S.p.A. and the corresponding amounts in the consolidated financial statements

Below is the reconciliation of equity and profit for the year in the statutory and consolidated financial statements at 31 December 2012:

Thousands of euro	Profit for the year recognised in profit or loss (2012)	Equity at 31.12.2012	Profit for the year recognised in profit or loss (2011)	Equity at 31.12.2011
Separate financial statements of Enel Rete Gas S.p.A.	**46,710**	**799,547**	**12,194**	**852,274**
Effects of subsidiaries' contribution to the consolidated accounts (difference between subsidiaries' equity as included in the reporting package and carrying amounts of the equity investments in subsidiaries)	17,764	(49,018)	(7,923)	(78,836)
Consolidation adjustments:				
Consolidation adjustments allocated to concessions	3,925	92,090	283	88,166
Consolidation adjustments allocated to goodwill	0	12,016	0	12,016
Consolidation adjustments allocated to other items	716	(2,396)	204	(3,112)
Deferred taxes	(1,855)	(34,201)	(1,761)	(32,346)
Consolidated financial statements of Enel Rete Gas S.p.A.	**67,260**	**818,038**	**2,997**	**838,162**
Non-controlling interests	**4**	**(7)**	**1**	**(11)**
Consolidated financial statements of Enel Rete Gas S.p.A. - owners of the Parent	**67,264**	**818,031**	**2,998**	**838,151**

The main effects recorded as “Consolidation adjustments” at 31 December 2012 derive largely from the consolidation of the equity investment in G6 Rete Gas, which entailed the recognition of higher amounts allocated to concessions and goodwill, as well as to the related tax impact, compared to the amounts previously recorded in the reporting package prepared for consolidation purposes by G6 Rete Gas.
The change compared to the previous year in surplus equity in the financial statements of subsidiaries compared to the carrying amounts of equity investments is due to the merger of the 2iGas chain into Enel Rete Gas S.p.A..

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

Consolidated financial statements

Financial statements

III. Income Statement

Thousands of euro	Notes	31.12.2012	31.12.2011	2012 - 2011
Revenue				
Revenue from sales and services	5.a	636,121	410,758	225,363
Other revenue	5.b	79,452	59,283	20,169
Revenue from development of distribution infrastructure	5.c	132,960	114,346	18,614
Sub-total		**848,533**	**584,387**	**264,146**
Costs				
Raw materials and consumables	6.a	31,391	38,092	(6,701)
Services	6.b	256,782	175,548	81,235
Personnel expense	6.c	110,262	75,328	34,934
Amortisation, depreciation and impairment losses	6.d	150,831	108,648	42,183
Other operating costs	6.e	84,566	24,553	60,013
Internal work capitalised	6.f	(1,703)	(601)	(1,102)
Sub-total		**632,129**	**421,567**	**210,562**
Operating profit		**216,404**	**162,821**	**53,583**
Income (expense) from equity investments	7	0	43	(43)
Financial income	8	1,133	759	374
Financial expense	8	(91,817)	(132,093)	40,275
Sub-Total		**(90,684)**	**(131,290)**	**40,606**
Pre-tax income		**125,720**	**31,530**	**94,190**
Income taxes	9	58,460	28,533	29,927
				0
Profit from continuing operations		**67,260**	**2,997**	**64,263**
Profit (loss) from discontinued operations	10	0	0	0
PROFIT FOR THE YEAR		**67,260**	**2,997**	**64,263**

Enel Rete Gas S.p.A.
Chief Executive Officer
Gianclaudio Neri
(Signed on the original)

IV. Statement of Comprehensive Income

Thousands of euro	31.12.2012	31.12.2011
Profit for the year recognised in Income Statement	67,260	2,997
Other comprehensive income		
Change in fair value of hedging derivatives	(81,378)	(22,136)
Change in fair value of hedging derivatives reclassified to profit or loss	0	25,794
Deferred tax assets from change in fair value	28,115	7,080
Deferred tax assets from change in fair value of hedging derivatives reclassified to profit or loss	0	(5,989)
Total other comprehensive income	(53,263)	4,750
Total comprenensive income for the year	**13,997**	**7,747**
Total comprehensive income attributable to:		
- Owners of the Parent	14,001	7,747
- Non-controlling interests	(4)	(1)

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

V. Statement of Financial Position

Thousands of euro	Notes	31.12.2012	31.12.2011
ASSETS			
Non-current assets			
Property, plant and equipment	11	33,723	34,712
Intangible assets	12	2,701,073	2,720,533
Deferred tax assets	27	211,432	177,091
Equity investments	13	2,783	2,710
Non-current financial assets	14	224	99
Other non-current assets	15	6,859	10,025
	Total	**2,956,095**	**2,945,170**
Current assets			
Inventories	16	7,700	9,016
Trade receivables	17	212,623	213,595
Current loan assets	18	8	8
Other current financial assets	19	0	29,138
Cash and cash equivalents	20	134,284	61,143
Income tax assets	21	5,413	6,051
Other current assets	22	135,256	140,847
Non-current assets (or assets included in disposal groups) held for sale		0	0
	Total	**495,283**	**459,797**
TOTAL ASSETS		**3,451,378**	**3,404,967**

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

Thousands of euro	Notes	31.12.2012	31.12.2011
EQUITY AND LIABILITIES			
Equity - Owners of the Parent	23		
Share capital		71,950	54,139
Treasury shares		(545)	(545)
Other reserves		667,760	771,801
Retained earnings		11,602	9,758
Profit for the year		67,264	2,998
Total equity - Owners of the Parent		**818,031**	**838,151**
Equity - non-controlling interests			
Non-controlling interests		11	11
Profit for the year - non-controlling interests		(4)	(1)
Total equity - non-controlling interests		**7**	**11**
TOTAL EQUITY		**818,038**	**838,162**
Non-current liabilities			
Non-current loans and borrowings	24	1,718,382	1,725,346
Post employment and other employee benefits	25	34,298	34,865
Provision for risks and charges	26	11,918	4,281
Deferred tax liabilities	27	151,367	161,350
Non-current financial liabilities	28	30,171	36,210
Other non-current liabilities	29	259,736	233,185
	Total	**2,205,871**	**2,195,237**
Current liabilities			
Current loans and borrowings	30	2	19
Current bank loans and borrowings	31	0	0
Current portion of non-current and current provisions	32	19,175	8,968
Trade payables	33	167,036	172,861
Income tax liabilities	34	2,151	14,294
Current financial liabilities	35	109,749	48,479
Other current liabilities	36	129,356	126,948
Liabilities held for sale	37	0	0
	Total	**427,469**	**371,569**
TOTAL LIABILITIES		**2,633,340**	**2,566,806**
TOTAL EQUITY AND LIABILITIES		**3,451,378**	**3,404,967**

Enel Rete Gas S.p.A.
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VI. Statement of Cash Flows

Thousands of euro		31.12.2012	31.12.2011
A) TOTAL CASH AND CASH EQUIVALENTS		**61,143**	**40,989**
Cash flows from operating activities			
Pre-tax profit		125,720	31,530
Income taxes for the period	9	(58,460)	(28,533)
Profit from discontinued operations	10		0
1. Profit for the year		**67,260**	**2,997**
Adjustments for:			
Amortisation/Depreciation	6.d	148,161	107,802
Impairment losses/(Reversal of impairment losses)	6.d	2,669	581
Gains/(losses) on sales of assets	5.b/6.e	(3,188)	(11,417)
Allocations to provisions for risks and charges and post-employment benefits		25,311	5,398
Net financial income	7 and 8	90,684	131,290
2. Total adjustments		**263,637**	**233,655**
Change in net working capital			
Inventories	16	1,316	3,991
Trade receivables	17	(1,425)	(36,105)
Trade payables	33	(5,825)	(12,509)
Other current assets	22	5,592	38,772
Other current liabilities	36 and 37	2,407	(437)
Net tax assets/(liabilities)	21 and 34	(11,504)	(30,312)
Increase/(decrease) in provisions for risks and charges and post-employment benefits	25, 26 e 32	(8,034)	(8,432)
Increase/(decrease) in provisions for deferred tax assets and liabilities	27	(16,210)	(25,827)
Other non-current assets	15	3,167	5,355
Other non-current liabilities	29	26,551	7,988
Net financial expense other than for financing	7 and 8	(1,233)	(441)
3. Total change in net working capital		**(5,200)**	**(57,958)**
B) CASH FLOWS FROM OPERATING ACTIVITIES (1+2+3)		**325,697**	**178,695**
Cash flows from investing activities			
Net non-current assets		(124,797)	(109,500)
Financial non-current assets	13	29,064	(506,793)
Cash acquired through company acquisition		0	9,392
C) CASH FLOWS USED IN INVESTING ACTIVITIES		**(95,732)**	**(606,901)**
D) FREE CASH FLOW (B+C)		**229,965**	**(428,206)**
Cash flows from financing activities			
Dividends distribution		(33,990)	(103,496)
Share capital increase		0	0
Payment for future share capital increase		0	206,300
Change in reserves		(131)	(216)
Change in the hedging reserve		(53,263)	4,750
Change in amortised cost	24 and 31	15,049	(26,869)
Fair value gains/(losses) on the hedging derivatives	19 and 35	81,378	(3,658)
Change in deferred taxes arising from the fair value gain/(loss) on of the hedging derivatives	27	(28,115)	(1,091)
Net financial expense for financing activities	7 and 8	(89,451)	(130,849)
Change in financial debt	24 and 30	(22,030)	445,234
Change in non-current financial liabilities	28	(6,039)	36,210
Change in other non-current financial assets	14	(125)	(0)
Change in other loan assets	18 and 19	(0)	8
Change in other loans and borrowings	35	(20,107)	22,038
E) CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(156,824)**	**448,359**
F) CASH FLOWS FOR THE YEAR (D+E)		**73,141**	**20,153**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE		**134,284**	**61,143**

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VII. Statement of Changes in Equity

Thousands of euro	Share capital and reserves													
	Share capital	Treasury shares	Revaluation reserve	Legal reserve	Reserve for grants related to assets	Extraordinary reserve	Other reserves	Hedging reserve	Other IAS reserves	Retained earnings	Profit for the year	Total - Owners of the Parent	Total - Non-controlling interests	Total equity
Total at 31 December 2010	**54,139**	**(545)**	**409,145**	**20,248**	**99,697**	**-**	**98,281**	**(12,505)**	**(405)**	**57,515**	**19,120**	**744,691**	**11**	**744,702**
Allocation of profit for 2010:														
Allocation of profit										19,120	(19,120)	**0**		**0**
Profit for the year and payments to them as shareholders														
- Dividends										(19,262)		**(19,262)**		**(19,262)**
- Distribution of other reserves							(36,620)					**(36,620)**		**(36,620)**
- Retained earnings distribution										(47,614)		**(47,614)**		**(47,614)**
- Shareholdering actions												**0**		**0**
- Shareholdering actions for future share capital increase							206,300					**206,300**		**206,300**
- Distribution of extraordinary reserve												**0**		**0**
Total profit for the year and payments to them as shareholders												*102,804*		*102,804*
-Contributions from change in scope of consolidation							(9,549)	(7,301)				**(16,851)**		**(16,851)**
Other changes							(241)					**(241)**		**(241)**
Purchase of treasury shares												**0**		**0**
Profit for the year recognised in equity												**0**		**0**
Change in IAS reserves								4,750				**4,750**		**4,750**
Profit for the year recognised in profit or loss											2,998	**2,998**	**(1)**	**2,997**
Total at 31 December 2011	**54,139**	**(545)**	**409,145**	**20,248**	**99,697**	**0**	**258,172**	**(15,056)**	**(405)**	**9,758**	**2,998**	**838,151**	**11**	**838,162**
Allocation of profit for 2011:														
Allocation of profit							(11,175)			14,173	(2,998)	**0**		**0**
Profit for the year and payments to them as shareholders														
- Dividends										(12,192)		**(12,192)**		**(12,192)**
- Distribution of other reserves							(21,798)					**(21,798)**		**(21,798)**
- Retained earnings distribution														
- Shareholder actions	0						5					**6**		**6**
- Share capital increase	17,810						(17,810)					**0**		**0**
- Shareholdering actions for future share capital increase												**0**		**0**
- Distribution of extraordinary reserve												**0**		**0**
Total profit for the year and payments to them as shareholders												*(33,985)*		*(33,985)*
Goodwill arising on merger												**0**		**0**
Other changes										(137)		**(137)**		**(137)**
Purchase of treasury shares												**0**		**0**
Profit for the year recognised in equity												**0**		**0**
Change in IAS reserves								(53,263)				**(53,263)**		**(53,263)**
Profit for the year recognised in profit or loss											67,264	**67,264**	**(4)**	**67,260**
Total at 31 December 2012	**71,950**	**(545)**	**409,145**	**20,248**	**99,697**	**0**	**207,394**	**(68,319)**	**(405)**	**11,602**	**67,264**	**818,031**	**7**	**818,038**

VIII. Notes

1. Structure and contents of the consolidated financial statements

The Enel Rete Gas Group operates in the gas distribution sector. The parent Enel Rete Gas S.p.A. has the legal form of a public limited company and is located in Milan, Via San Giovanni sul Muro, 9. Pursuant to art. 3 of the Articles of Association, the company's duration is envisaged up to 2050.

On 3 April 2013 the Directors approved the consolidated and statutory financial statements and agreed to make them available to shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code. The statutory financial statements will be submitted for approval to the shareholders' meeting on 24 April 2013 and will be filed within the deadlines set forth in art. 2435 of the Italian Civil Code. The shareholders' meeting has the power to make changes to these financial statements. For the purposes of IAS 10.17, the date taken into consideration by directors in preparing the financial statements is 3 April 2013, the date of approval by the Board of Directors.

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

2. Compliance with IFRS

The financial statements as at and for the year ended 31 December 2012 have been prepared in compliance with (i) the International Accounting Standards (IAS) or the International Financial Reporting Standards (IFRS) issued by the International Accounting Board (IASB), as endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at the end of the year, (ii) the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as (iii) the interpretations of the Standing Interpretations Committee (SIC), effective at the same date. The aforementioned key standards and interpretations are hereafter collectively referred to as "IFRS-EU".

3. Basis of presentation

The consolidated financial statements consist of the Income statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes.

The assets and liabilities reported in the Statement of Financial Position are classified on a "current/non current basis" with separate reporting of assets and liabilities held for sale.

Current assets, which include cash and cash equivalents, are those intended to be realised, sold or used during the normal Enel Rete Gas Group operating cycle or in the twelve months following the reporting period; current liabilities are those expected to be settled during the normal company operating cycle or within the twelve months following the reporting period.

The Income Statement items are classified on the basis of the nature of costs, while the Statement of Cash Flows is presented using the indirect method.

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

The consolidated financial statements have been prepared using the historical cost method, except for those financial statement items which, in accordance with the IFRS-EU, are measured at fair value, as indicated in the accounting policies for the individual items.

These consolidated financial statements have been prepared on a going-concern basis, as set out more in detail in the Directors' Report.

4. Consolidation criteria

The Group adopts as its consolidation criterion the line-by-line method and the elimination of the carrying amounts of equity investments against the related equity item.

The difference between the purchase price of equity investments and the related equity at the purchase date has been charged as an adjustment to assets up to the present value of the same assets at the same date. The positive difference which is not charged to the assets is recorded among assets under "goodwill" and periodically subject to impairment. For a more detailed examination on the allocation, reference should be made to the specific section below.

Payables and receivables, costs and revenue and all significant transactions between the companies included in the consolidation are eliminated. Unrealised profits are also eliminated as well as gains and losses arising from transactions between Group companies.

Finance leases are recognised using the finance method, showing property, plant and equipment covered by the contract at their contractual value and a payable equal to the residual capital payable.

The share of interest expense for the year is recognised in profit or loss under interest expense. The cost of non-current assets is amortised using the same criteria applied to owned assets.

Other non-controlling interests, which are measured at cost, are indicated in note 13.

Purchase Price Allocation

The recognition of the Purchase Price Allocation (PPA), which was made following the acquisition of 2iGas Infrastruttura Italiana Gas by F2i 5 Reti (both merged into Enel Rete Gas in 2012) and the acquisition of G6 Rete Gas by Enel Rete Gas, was applied definitively in the year as required by IFRS 3 in order to prepare these Consolidated financial statements; the detailed analysis of the cash flows arising from the individual concessions, or aggregates of them, was completed in the year.

Business combinations which fall under IFRS 3 must be accounted for using the acquisition method (IFRS 3.4), where the purchaser allocates the cost of the business combination to the assets acquired and liabilities taken on, expressed at their fair value (IFRS 3.10), which is the amount at which an asset can be exchanged or a liability settled in a free transaction between informed and independent parties.

The allocation of the cost of the combination occurs at the level of each cash-generating unit; this unit is defined by IAS 36 as the smallest identifiable group of assets which generates incoming cash flows independently from the incoming flows generated by other assets or groups of assets.

Among the assets acquired all the identifiable intangible assets are recognised separately from goodwill (IFRS 3.B31-B33).

The recognition of the goodwill acquired in a business combination is represented by the excess in the total cost of the combination over the amount of any non-controlling interests in the acquired company, compared to the fair value of the acquired company's identifiable assets and liabilities (IFRS 3.32b). Goodwill is, therefore, determined as the residual cost of the combination and is an asset that represents the future economic benefits arising from other assets acquired under the business combination which cannot be identified individually and recorded separately (IFRS 3.ApdxA).

Goodwill previously recorded by the acquired company is not a separate intangible asset for the purposes of the accounting treatment of the combination in the financial statements of the acquiring company.

The measurement of the companies acquired adopted by Enel Rete Gas in order to quantify the purchase price is based on the method of discounted cash flows from operations: the method is based on a forecasting model concerning the financial data of the target for the explicit period given by the framework of the business plan used during the acquisition plus a residual value.
Consequently, the method used for the purchase price allocation, in keeping also with market practice, is based on income and on the calculation of the Net Present Value

of the future income from use of the asset, net of taxes (NOPAT – net operating profit after taxes) and of contributory asset charges (CAC).

For each of the concessions, the total income value is broken down into two components: the first deriving from the continuous use of the assets during the period of legal validity of the right, while the second is associated with the amount of compensation on expiry, that falls on the new operator in accordance with the means established by the law and the best possible estimates. The business plan, and therefore the forecasting model, aggregates the data of the individual management concessions in order to represent the aggregate growth of the overall portfolio of the companies being acquired.

Restatement of 2011 figures following the closure of the PPA

As set out in the section "Purchase Price Allocation" following the final purchase price allocation during 2012, the balances shown in statement of equity and income statement at 31 December 2011 were restated taking into consideration the reduction in the purchase price for G6 Rete Gas as a result of the definitive registration of the price adjustment concerning the settlement of disputes in the arbitration proceedings with Gaz de France Italia which started in August 2012.

No changes were made to the opening statement of financial position at 1 January 2011 since the acquisitions of 2iGas Infrastruttura Italiana Gas by F2i 5 Reti (both merged into Enel Rete Gas in 2012) and of G6 Rete Gas occurred respectively in April 2011 and October 2011.

Below are the main changes in the statement of financial position between the restated balance and that expressed in the consolidated financial statements approved at 31 December 2011:

- recognition of loan assets due from Gaz de France (29.1 million euro) due to the aforementioned price adjustment, which resulted in an improvement of the adjusted net financial debt for 2011 as shown in the Directors' Report;
- reduction in intangible assets by 36.5 million euro mainly attributable to the fall in the amounts of concession rights (18.4 million euro) and to the decrease in goodwill (18.1 million euro);
- increase in deferred tax assets by 7.1 million euro;
- reduction in deferred tax liabilities of 0.5 million euro.

The impact on the Group's income statement was positive for 0.2 million euro and was mainly due to the consequent lower amortisation and the related release of deferred tax assets.

5. Use of estimates

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

5.1 Revenue recognition

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

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

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

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

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

5.2 Pensions and other post-employment benefits

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

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

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

5.3 Recoverability of non-current assets

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

5.4 Disputes

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

5.5 Allowance for impairment of receivables

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

6. Accounting policies

6.1 Equity investments in subsidiaries and associates

Subsidiaries and consolidated companies comprise those entities for which Enel Rete Gas S.p.A. has the direct or indirect power to determine their financial and operating policies for the purposes of obtaining the benefits arising from their activities. Associates comprise those entities on which Enel Rete Gas has a significant influence. In assessing the existence of a situation of control or significant influence, account is also taken of potential voting rights that are effectively exercisable or convertible.
Equity investments in associates are initially measured at purchase cost, and subsequently using the equity method. The consolidated financial statements include the share of profits or losses attributable to the owners of the parent of the investees accounted for using the equity method, net of the adjustments needed to align the accounting standards to those of the Group, as from the date when the considerable influence or joint control starts and until the date on which this influence or control ends.

If the loss pertaining to the Company exceeds the carrying amount of the equity investment and the investing company has committed to performing the legal or implicit obligations of the investee company or, in any event, to covering its losses, any excess with respect to the carrying amount is recognised in liabilities under a specific provision for risks and charges.

Joint ventures mean all the companies in which the Group exercises control over business operations jointly with other companies. These equity investments are consolidated on a pro-rata basis, and the assets, liabilities, revenue and expense are recognised on a line-by-line basis in proportion to the Group's share, from the date on which the joint control starts and up to the date on which it ends.

The transfer of equity stakes which implies the loss of joint control entails the recognition in profit or loss of any gain (or loss) on disposal, as well as the accounting effects arising from the fair value measurement, at the transfer date, of any residual equity investment.

In these consolidated financial statements at 31 December 2012, by virtue of the outstanding shareholders' agreements, the equity investment in C.B.L. Distribuzione S.r.l. is considered as a joint venture.

6.2 Business combinations

Business combinations subsequent to 1 January 2010 and involving companies or businesses (also through merger or transfer) are recognised using the purchase method. The purchase cost is allocated by recognising the assets, liabilities and contingent liabilities of the investee company at the related fair values. Any excess in the purchase cost over the fair value of the net assets acquired is accounted for as goodwill or, if a deficit, recognised in profit or loss. Should it be possible to determine the fair value of the assets, liabilities and contingent liabilities only provisionally, the business combination is recognised using these provisional amounts. Any adjustment arising from the completion of the measurement process is recognised within 12 months of the acquisition date.
The transaction costs, other than those relating to the issue of debt securities and equity, which are incurred by the Group to make a business combination are recognised as operating costs when incurred.

6.3 Property, plant and equipment

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

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

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

Property, plant and equipment not relating to concessions are recognised at historical cost, including directly attributable ancillary costs necessary for the asset to be ready for the use for which it was acquired; subject to any legal or implicit obligations, the cost may be increased by the present value of the cost estimated for the dismantling and removal of the assets. The corresponding liability is recognised in liabilities under a specific provision for future risks and charges. Currently no liability is recorded in the statement of financial position linked to the dismantling and removal of assets, since there are no legal or implicit obligations which justify such recognition.

The purchase or production cost includes the financial expense relating to loans connected to the purchase of property, plant and equipment, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of assets are identifiable.
Some assets which are remeasured at the date of transition to the IFRS-EU or in previous periods have been recognised on the basis of the remeasured cost, considered as deemed cost.
Should significant parts of individual property, plant and equipment have different useful lives, the identified components are recognised and depreciated separately.
Subsequent costs are recognised as an increase in the carrying amount of the asset to which they refer when it is probable that future economic benefits deriving from the cost will flow to the 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 amount of the asset to which it refers and is depreciated over its useful life; the carrying amount of the replaced unit is recognised in profit or loss, with recognition of any loss.
Property, plant and equipment are reported net of accumulated depreciation and any impairment losses determined as set out below.

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

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

Description	Useful life
Land	-
Non-industrial buildings	34 years
Industrial buildings	18-50 years
Miscellaneous equipment	10 years
Office furniture and equipment	9 years
Electronic devices	5 years
Vehicles	5 years
Cars	4 years

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

6.4 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 non-current assets.

Since the Group's companies are subject to demand risk, the correct accounting model to be applied is that of intangible assets: any infrastructures which are owned and obtained under a concession contract are no longer accounted for as property, plant and equipment but classified as intangible assets.

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

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

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

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

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

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

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

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

provisions included in the so-called "Decreto Ambiti" and "Decreto Criteri" issued last year. For this reason, currently only the municipalities which had called tenders for the assignment of gas distribution concessions prior to publication of Legislative Decree no. 93/11 can proceed with the aforementioned tenders. In all the other cases, tenders are suspended until municipalities are ready to call them on an area basis. In the meantime Enel Rete Gas is continuing with the management of the network in the same way as prior to the expiry.
Should the concession not be renewed, the new holder of the concession may be asked for compensation equal to the present value of the assets subject to the concession with a minimum valuation equal to the current RAB; alternatively, it may be envisaged that on the expiry date the distribution networks are transferred at no charge to the municipalities in their normal operating conditions.
These assets, which comprise the gas distribution networks, are recorded under "Concessions" and are depreciated over the useful life of the concession. 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.

6.5 Impairment losses

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

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

6.6 Inventories

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

6.7 Financial instruments

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

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

Loans and receivables
This category includes financial and trade receivables, including non-derivative debt securities, with fixed or determinable payments that are not quoted on an active market and that the 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 expected future cash flows, discounted at the original effective interest rate.

Trade receivables falling due in line with generally accepted trade conditions are not discounted.
Receivables relating to Energy Efficiency Certificates refer to contributions which will be awarded by the Compensation Fund for the Electricity Sector for long-term certificates which have already been certified by Enel Rete Gas. Other current assets include receivables relating to the 2011 target, while other non-current assets include grants which the Compensation Fund for the electric sector will provide to the Company for the cancellation of the certificates relating to current and future years.
The related contributions, if they refer only to the targets for the year, are recorded under "Other revenue", otherwise they are discounted again and contribute to determine the income statement for the year in relation to achievement of annual targets.

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

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

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

Financial liabilities

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

Derivatives

Derivatives are recognised at fair value and are designated as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge is high (based on a periodical assessment).

Recognition of fair value gains and losses depends on the type of hedge accounting adopted.

When the derivatives are used to hedge the risk of changes in the fair value of hedged assets or liabilities (fair value hedge), any fair value gains and losses of the hedging instrument are recognised in profit or loss; likewise, adjustments to the fair values of the hedged assets or liabilities are also recognised in profit or loss.

When the derivatives are used to hedge the risk of changes in cash flows of hedged items (cash flow hedge), the changes in the fair value that are considered effective are recognised in other comprehensive income, and presented in a specific reserve in equity, and subsequently reclassified to profit or loss in line with the economic effects produced by the hedged transaction.

The ineffective portion of the fair value of the hedging instrument is directly recognised in profit or loss.

Changes in the fair value of derivatives that no longer qualify for hedge accounting under IFRS-EU are recognised in profit or loss.

Such instruments are recognised at the trade date.

Financial and non-financial contracts (where they have not already been measured at fair value) are assessed to determine whether they contain any embedded derivatives that need to be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that significantly changes the original associated cash flows.

Fair value is determined using the official prices for instruments traded on regulated markets. For instruments not traded on regulated markets fair value is determined by discounting expected cash flows on the basis of the market interest rate curve at the reporting date and translating amounts in currencies other than the euro at year-end exchange rates.

6.8 Employee benefits

Liabilities related to employee benefits paid upon or after leaving employment in connection with defined benefit plans or other long-term benefits granted during the employment period are determined separately for each plan, using actuarial assumptions to estimate the amount of the future benefits that employees have accrued at the reporting date. The liability is recognised on an accrual basis over the

vesting period of the related rights. These appraisals are performed by independent actuaries.
Where the Group's companies show a demonstrable commitment, with a formal plan without realistic possibility of withdrawal, to a termination before retirement eligibility has been reached, the benefits due to employees in respect of the termination are recognised as a cost and measured on the basis of the number of employees that are expected to accept the offer.

6.9 Provisions for risks and charges

Allocations to provisions for risks and charges are recognised when at the reporting date there is a legal or implicit obligation towards third parties, as a result of a past event, the settlement of which is expected to result in an outflow of resources whose amount can be reliably estimated. Where the effect is significant, allocations are determined by discounting expected future cash flows using a pre-tax discount rate that reflects the current market value of the time value of money and, if applicable, the specific risks of the obligation. If the amount is discounted, the periodic adjustment of the present value due to the time value of money is recognised as a financial expense in profit or loss.
If the liability is connected to the dismantling and/or repair of property, plant and equipment, the provision is recognised against the asset to which it refers and the charge is recognised in profit or loss by depreciating the asset to which the charge refers.
Currently no liability is recorded in the statement of financial position linked to the dismantling and removal of assets, since there are no legal or implicit obligations which justify such recognition.
Changes in estimates are recognised in profit or loss in the year in which the changes occur, except for those relating to the costs envisaged for dismantling, removal and restoration which arise from changes in the timeframes and uses of the economic resources needed to fulfil the obligation or which arise from a change in the discount rate. These changes are used to increase or decrease the related assets and are recognised in profit or loss through amortisation/depreciation. If they are used to increase the amount of the asset, an assessment is also made as to whether the new carrying amount of the asset may not be fully recovered; in this case an impairment loss of the asset is confirmed and the non-recoverable amount is estimated. The loss deriving from this impairment loss is recognised in profit or loss.
If the changes in estimates reduce the amount of the asset, this decrease is recorded against the asset up to the amount of its carrying amount; the excess is immediately recognised in profit or loss.

6.10 Grants

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

6.11 Revenue

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

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

6.12 Financial income and expense

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

6.13 Dividends

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

6.14 Income taxes

Current income taxes for the year, recognised as "income tax liabilities" net of advances paid or as "income tax assets" if the net balance is positive, are determined on the basis of the estimate of the taxable income and in accordance with the current tax regulations.
Deferred tax liabilities and assets are calculated based on the temporary differences between the carrying amounts recorded in the financial statements and their corresponding amounts 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 each reporting date.
Taxes relating to components that are directly recognised in equity are also recognised in equity.

6.15 Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale rather than ongoing use are classified as held for sale and

shown separately from the other assets and liabilities in the Statement of financial position. Non-current assets (or disposal groups) classified as held for sale are initially recognised according to the appropriate IAS or IFRS that is applicable to each asset and liability and subsequently at the lower of their carrying amount and their fair value, net of selling costs. Any subsequent impairment loss is directly recognised against any non-current assets (or disposal groups) classified as held for sale 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 operations;
- is part of a coordinated plan for the disposal of a significant branch or geographical area of operations or is a subsidiary that was purchased only to be resold.

Profit or loss 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 amounts for the previous year, if any, are reclassified and recognised separately in profit or loss, net of tax effects, for comparative purposes.

6.16 Recently issued accounting standards

First-time adoption and applicable standards

The Group implemented the following first-time adoption provisions at 1 January 2012.

On 23 November 2011 the European Commission endorsed the “Amendments to IFRS 7 – Disclosures about transfer of financial assets”. The amendments aim to allow users of financial statements to better assess the exposure to risks connected to the transfer of financial assets and the effects of these risks on the Group’s financial position, in particular on securitisation operations.

Standards which have yet to be adopted and applied

During 2012 the European Union endorsed the following new standards or interpretations, the application of which shall be mandatory for annual periods subsequent to 31 December 2012. The standards or interpretations which could have impacts for the Group are set out below.

By means of Regulation no. 475/2012, on 5 June 2012 the European Commission endorsed IAS 19 (2011), with which, compared to the standard applied for the purposes of these financial statements, the definitions of short-term employee benefits and other long-term employee benefits were modified, in order to clarify the difference between these two types. In addition, in the case of defined benefit plans, IAS 19 (2011) eliminated the possibility of accounting for actuarial gains and losses using the corridor method, which is currently adopted by the Group. The adoption of IAS 19 (2011) is obligatory for annual periods beginning on or after 1 January 2013. On the basis of actuarial estimates, it is held that the adoption of IAS 19 (2011) will entail the recognition of higher liabilities for employee benefits as a separate component of equity at the date the changes to the international accounting standard come into force, for a total amount of around 3.1 million euro.

By means of Regulation no. 1254/2012, on 29 December 2012 the European Commission endorsed IFRS 10 "Consolidated Financial Statements" and the updated version of IAS 27 "Separate Financial Statements": these standards establish, respectively, the principles to be adopted to present and prepare the consolidated financial statements and the statutory financial statements. By means of the same Regulation, the European Commission also endorsed the updated version of IAS 28 "Investments in Associates and Joint Ventures" and IFRS 11 "Joint Arrangements" which deals with joint arrangements and joint ventures and establishes the accounting treatment to recognise them in the financial statements, and IFRS 12 "Disclosures of Interests in Other Entities". These standards shall apply retrospectively. Taking into account the date of endorsement by the European Union, these standards shall be applicable for annual periods beginning on 1 January 2014.

Again by means of Regulation no. 1254/2012, on 29 December 2012 the European Commission endorsed IFRS 13 "Fair Value Measurement" which provides for a single framework for fair value measurements, which are required or allowed by other IFRS, and their disclosure. This standard shall be applied on a prospective basis. Taking into account the date of endorsement by the European Union, this standard shall be applicable for annual periods beginning on or after 1 January 2013.

By means of Regulation no. 1254/2012, on 29 December 2012 the European Commission endorsed the "*Amendments to IAS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*" and "*Amendments to IAS 32 – Financial instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*". In short, amendments to IFRS 7 introduce new disclosure obligations for financial assets and liabilities which have been offset in the Statement of financial position and for those which have been subject to enforceable offsetting framework agreements or similar. The amendments to IAS 32 provide clarification on the criteria which must be satisfied in order to offset financial assets and liabilities. The amendments to IFRS 7 and IAS 32 are effective for annual periods beginning on or after 1 January 2013 and 1 January 2014 respectively.

The Group is assessing the impact of the possible future application of the new provisions mentioned above.

The International Accounting Standard Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) published new standards and interpretations which, at 31 December 2012, had still not been endorsed by the European Commission. The main ones are set out below.

On 17 May 2012, the IASB issued the document "Annual Improvements to IFRS – the 2009-2011 cycle" which includes basically technical and formal amendments to the international accounting standards.
On 28 June 2012, the IASB issued the document "*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)*" which introduces clarification and simplification with reference to first-time adoption of IFRS 10, IFRS 11 and IFRS 12. This document shall be applicable retrospectively, subject to endorsement, as from annual periods beginning on 1 January 2013.

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

7. Risk management

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

Market Risk

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

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

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

The notional amount of a derivative is the contractual amount on the basis of which differentials are exchanged. This amount can be expressed as a value or a quantity (for example tons, converted into euro by multiplying the notional amount by the agreed price). Any amounts denominated in currencies other than the euro are converted into euro at the exchange rate prevailing at the reporting date.
The notional amounts of derivatives reported below do not represent amounts exchanged between the parties and therefore they do not represent the Group's credit risk exposure. As for the risk of a change in interest rates, it should be noted that the Enel Rete Gas Group pursues the objective of minimising interest rate risk.
Some of the Group loans include interest rates which are index-linked to the benchmark (EURIBOR). In order to limit the risk connected to interest rate volatility, the Group uses Interest Rate Swaps to offset fixed-rate and floating-rate debt.
The Enel Rete Gas Group does not hold derivatives for trading purposes, nor does it hold derivatives for speculative purposes.

Credit risk

The Enel Rete Gas Group provides its distribution services to more than 150 sales companies, the most important of which is Enel Energia S.p.A.. The Group is, therefore, characterised by a concentration of credit risk in regard to this company.
No significant cases of non-compliance by the counterparties were found in 2012.
The rules for the access of users to the gas distribution service are governed by the Network Code, which, in compliance with the provisions of the Regulatory Authority for Electricity and Gas, regulates the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.
For the gas distribution through credit lines to external counterparties, the selection of the latter is carefully monitored through assessment of the credit risk associated with them and the requirement for appropriate guarantees and/or guarantee deposits aimed at ensuring an adequate level of protection from the risk of counterparty default.

The credit risk is therefore moderate.

A summary quantitative indication of the maximum exposure to credit risk is provided by the carrying amount of the financial assets gross of the related allowance for impairment.
At 31 December 2012, the Group's maximum exposure to credit risk amounted to 502.9 million euro (465.9 million euro at 31 December 2011):

Millions of euro	31.12.2012	31.12.2011	2012 - 2011
Third parties:			
Non-current financial assets	0.2	0.1	0.1
Other non-current assets	6.9	10.0	(3.2)
Trade receivables	225.1	223.8	1.3
Other current financial assets	0.0	29.1	(29.1)
Cash and cash equivalents	134.3	61.1	73.1
Other current assets	136.4	141.7	(5.3)
Total	**502.9**	**465.9**	**36.9**

The Enel Rete Gas Group considers that the economic impact in subsequent years of any insolvency of its counterparties is not significant.

Amounts due from the Compensation Fund for Energy Efficiency Certificates which will become due after 2012, are measured at the repayment amount set by the AEEG for 2012, it being difficult to apply the algorithm provided by the AEEG for the years after 2012 as it includes parameters that are not yet known or cannot be forecasted for future years.
Nonetheless, the credit risk relating to a change in the estimate of these receivables is limited.

Liquidity risk

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

The contractual maturities of the financial liabilities as at 31 December 2012 are set forth below:

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

For comparative purposes, the contractual maturities of the financial liabilities at 31 December 2011 are set forth below:

Millions of euro	Within one year	Between 2 and 5 years	After 5 years
Financial liabilities at 31 December 2011			
Non-current loans	0.0	0.0	1,773.2
Current loans	0.0	0.0	0.0
Other non-current financial liabilities	0.0	25.3	10.9
Other current financial liabilities	7.4	0.0	0.0
Current financial liabilities	0.0	0.0	0.0
Total	**7.4**	**25.3**	**1,784.1**

Forecasting of liquidity requirements is carried out on the basis of expected cash flows from ordinary operations.

Since September 2011 the Group has had available a loan granted for a total of 2,113 million euro issued by a pool of 12 leading banks and divided into various credit lines, some of which have been used or can be used also by other Group companies.

The overall total amount used by Group companies at the time of the acquisition of the 2iGas chain and the G6 Rete Gas Group was 1,773.2 million euro.

In April 2012, following the payment of around 28 million euro by Gaz de France Italia due to the purchase price allocation procedure for the equity investment in G6 Rete Gas, an amount of around 22 million euro was transferred as a prepayment to the pool of banks.

As with the previous financing of 2009, a credit line was also established for a total of 300 million euro to finance investments on the grid for future years (unused at 31 December 2012), and a revolving credit line of 40 million Euro for management of working capital (unused at 31 December 2012).

It should be noted that this loan is subject to a half-yearly check on some financial parameters at consolidated level. At 31 December 2012 these parameters were fully complied with.

The non-current debt of 1,751.2 million euro therefore refers to the aforementioned loan signed by Enel Rete Gas, which expires in the 84th month from its start date, i.e. 26 September 2018. The Group development plan, at the end of this period, requires a new loan, but currently, given the Group's excellent performance and its continued ability to meet the financial parameters set by the lending banks, no problems should arise. For an in-depth analysis of the features of the non-current loans, see note 25.

Interest rate risk

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

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

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

The Group has one outstanding interest rate swap (with a 7-year maturity) with 11 of the 12 leading banks which also granted the financing for a total of 2,113 million euro upon conclusion of the contract of sale for G6 Rete Gas. The derivative contracts signed allow to hedge 75% of the exposure to changes in interest rates on the existing loan.

The following table shows the derivatives by maturity.

Thousands of euro	**Notional amount**		**1 year**	**Between 2 and 5 years**	**After 5 years**
	at 31.12.2012	**at 31.12.2011**			
Cash flow hedges					
Interest Rate Swaps	1,329,900	1,329,900	0	0	1,329,900
Total interest rate swaps	1,329,900	1,329,900	0	0	1,329,900

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

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

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

Accordingly, the fair value of the financial derivatives generally reflects the estimated amount that the Company would have to pay or receive in order to settle the contracts at the reporting date.
The following table provides, at 31 December 2012, the notional and fair value of the interest rate swaps with a comparison to 31 December 2011.
The value is shown net of loan fees which are paid on a quarterly basis as part of the cash flows on the derivative.

Thousands of euro	Notional amount		Fair value		Asset fair value		Liability fair value	
	at 31.12.2012	at 31.12.2011	at 31.12.2012	at 31.12.2011	at 31.12.2012	at 31.12.2011	at 31.12.2012	at 31.12.2011
Cash flow hedges derivative								
Interest Rate Swaps	1,329,900	1,329,900	(103,514)	(22,136)	0	0	103,514	22,136
Total interest rate swaps	1,329,900	1,329,900	(103,514)	(22,136)	0	0	103,514	22,136

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

The table below shows the undiscounted cash flows expected in future years based on the implicit interest rate curve as published by Telerate at 31 December 2012.

Thousands of euro	Notional amount		2013	2014	2015	2016	2017	2018
	at 31.12.2012	at 31.12.2011						
Cash flow hedges derivative								
Interest Rate Swap 7y	1,329,900	1,329,900	(25,613)	(24,686)	(21,910)	(16,347)	(11,789)	(4,541)
Total	1,329,900	1,329,900	(25,613)	(24,686)	(21,910)	(16,347)	(11,789)	(4,541)

(*) Based on the curve for implicit 3-month EUR rates at 31 December 2012

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

Thousands of euro	Notional amount		Estimated cash flows in the event of a shock +/- 0.10% (*)					
			2013	2014	2015	2016	2017	2018
	at 31.12.2012	at 31.12.2011						
Cash flow derivatives								
Rate increase +0.10%	1,329,900	1,329,900	(24,265)	(23,337)	(20,562)	(14,998)	(10,444)	(3,540)
Current position	1,329,900	1,329,900	(25,613)	(24,686)	(21,910)	(16,347)	(11,789)	(4,541)
Rate decrease -0.10%	1,329,900	1,329,900	(26,961)	(26,034)	(23,259)	(17,695)	(13,134)	(5,542)

(*) Based on the curve for implicit 3-month EUR rates at 31 December 2012

The main risk element is connected to the total variable rate debt which is not hedged against interest rate risk, due to the impact which might be recognised in profit or loss subsequent to an increase in market rates.
Below is an estimate of the impact of contractual interest expense relating to the floating-rate non-current loan:

Thousands of euro	Notional amount		Estimated cash flows (*)					
			2013	2014	2015	2016	2017	2018
	at 31.12.2012	at 31.12.2011						
Non current financial liabilities								
Financing - Main credit line	1,751,187	1,773,200	39,627	42,485	50,902	63,585	79,976	69,920
Total	1,751,187	1,773,200	39,627	42,485	50,902	63,585	79,976	69,920

(*) Based on the curve for implicit 3-month EUR rates at 31 December 2012

At 31 December 2012 24% of the non-current debt was not covered by the aforementioned Interest Rate Swaps; the Group is therefore subject to the risk of interest rate rises only for this part of cash flows.
In the event of an increase or decrease by 0.10% (10 basis points) in the interest rate curve, the effect on the total loan would be as follows:

Thousands of euro	Notional aumount		Estimated cash flows in the event of a shock +/- 0.10% (*)					
			2013	2014	2015	2016	2017	2018
	at 31.12.2012	at 31.12.2011						
Rate increase +0.10%								
Financing - Main credit line	1,751,187	1,773,200	41,364	44,236	52,653	65,336	81,723	71,220
Change in interest rate			(1,737)	(1,751)	(1,751)	(1,751)	(1,746)	(1,300)
Rate decrease -0.10%								
Financing - Main credit line	1,751,187	1,773,200	37,891	40,734	49,151	61,833	78,230	68,620
Change in interest rate			1,737	1,751	1,751	1,751	1,746	1,300

(*) Based on the curve for implicit 3-month EUR rates at 31 December 2012

IX. Information on the Income Statement

Revenue

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

5.a Revenue from sales and services – *636,121 thousand euro*

The "Revenue from sales and services" item which amounted to 636,121 thousand euro mainly refers to the gas transport activity and the connection fees.

"Revenue from sales and services" is broken down as follows:

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Sales and services			
Gas and LPG transport	592,362	379,885	212,477
Connection fees	16,281	13,630	2,651
Accessory rights	7,729	5,990	1,739
Revenue from the sale of water	6,646	4,490	2,157
Accessory services – water sector	1,815	1,678	137
Revenue from customer operations	268	268	(0)
Revenue from sewerage/purification	1,009	516	493
Other revenue and other sales and services	10,010	4,301	5,709
Total revenue from sales and services	**636,121**	**410,758**	**225,363**

Revenue from gas transport totalled 592,362 thousand euro and mainly refers to the 2012 tariff revenue cap for natural gas and LPG.

This figure was calculated taking into account the uncertainty relating to equalisation adjustments for the fourth regulatory period, which are still ongoing.

Although not impacting on the tariff revenue cap, it should be noted that in the year the Group injected 5,813 million cubic metres of gas. The negative trend in volumes in 2012, which was caused by the sharp drop in the market, partly due to the economic crisis, brought the level of consumption below the record low recorded in 2009.
Revenue from gas transport, therefore, increased by 212,477 thousand euro, due to higher revenue from tariffs (around 46.2 million euro), while the remaining amount was due to the differing periods of consolidation.

The growth impact caused by the formula for revenue recognition that came into force with Resolution ARG/gas no. 159/08 of 6 November 2008 remains significant; this provision in fact led to the introduction of an equalisation mechanism which enables the relevant distribution companies' revenue to be calculated on the basis of the average number of redelivery points which are actually served and invoiced.

Connection fees, totalling 16,281 thousand euro, rose compared to those recorded in the previous year by around 2,651 thousand euro, also thanks to the contribution from the differing periods of consolidation.

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

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

The revenue relating to the sale of water rose compared to the previous year by 2,157 thousand euro due to differing periods of consolidation. Moreover, it should be recalled that in September 2012 the largest water concession held by the Group (the concession in the municipality of Massa) expired and was therefore handed over to the entity which will manage it.

In “Other revenue and other sales and services” the positive change of 5,709 thousand euro was almost entirely due to a greater amount of work to suspend and reactivate customers in arrears at the request of the sales companies.

5.b Other revenue – *79,452 thousand euro*

“Other revenue” totalled 79,452 thousand euro (59,283 thousand euro in 2011), increasing by 20,169 thousand euro and is broken down as follows:

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Other revenue			
Third parties:			
Energy efficiency certificates	54,111	13,796	40,314
Grant related to assets	2,924	3,174	(249)
Contingent assets	1,101	18,113	(17,013)
Revenue from Resolution 120	7,393	3,189	4,204
Rental income	315	265	50
Gains on sales of assets	8,083	17,350	(9,267)
Compensation for damages	112	102	9
Seconded personnel	1	49	(48)
Other revenue and income and services	5,410	3,000	2,409
Other revenue from the water business	3	244	(241)
Group companies:		0	0
Total other revenue	**79,452**	**59,283**	**20,169**

The item was significantly affected by the differing periods of consolidation, net of which the increase in the item was largely due to the following changes:

- increase in revenue by 40,314 thousand euro relating to energy efficiency certificates, mainly due to the more aggressive purchasing policy adopted by the Group compared to the previous year and the allocation of the related revenue for around 28 million euro;
- decrease in contingent assets by 17,013 thousand euro. It should be noted that this item in 2011 included the impact of the compensation received from Assicurazioni Generali for the earthquake in L'Aquila of April 2009;
- higher revenue from the quality of gas distribution and metering services (Resolution no. 120/08 - former Resolution no. 168/04). The item includes the allocation for the period of possible revenue from incentives relating to the number of gas chromatography analyses undertaken by the distributor (a parameter which can be checked by the Group) and to the reduction in leaks on the distributor's plant (a parameter which cannot be directly regulated by the distributor);
- decrease in gains on sales of assets by 9,267 thousand euro;
  In 2011 this amount was significantly affected by revenue amounting to 14,000 thousand euro obtained through a complex settlement regarding the assets of the municipality of Pescara;

Revenue from energy efficiency certificates refer to the completion of the target for 2010 and the partial achievement of the specific energy saving target for 2011 (totalling 451,901 TOE – Tonnes of Oil Equivalent), the completion of which occurred in January 2013, and for 2012 (499,148 TOE). It should be noted that the target for

2011 must be achieved by May 2013, while as regards the target for 2012, at least 60% of the requested energy efficiency certificates must be cancelled by May 2013.
In this regard, it should be noted that Enel Rete Gas, at the end of the reporting period, reported no problems in achieving these targets in compliance with relevant laws and regulations.

5.c Revenue from development of distribution infrastructure – *132,960 thousand euro*

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Revenue from developlment of distribution infrastructure			
Revenue from development of distribution infrastructure	132,960	114,346	18,614
Total revenue from development of distribution infrastructure	**132,960**	**114,346**	**18,614**

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

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

Costs

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

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Costs relating to revenue from development of distribution infrastructure			
Raw materials and consumables	19,814	28,934	(9,120)
Services	91,713	68,142	23,571
Other operating costs	252	423	(171)
Personnel expense	21,181	16,847	4,335
Total costs relating to revenue from development of distribution infrastructure	**132,960**	**114,346**	**18,614**

6.a Raw materials and consumables – *31,391 thousand euro*

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

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Raw materials and consumables			
Costs for the purchase of gas	683	1,271	(588)
Costs for the purchase of water	465	1,141	(676)
Fuel and lubricants	4,217	2,441	1,776
Stationery and printed materials	392	255	137
Various materials	24,317	30,780	(6,463)
(Change in inventories of raw materials)	1,316	2,203	(887)
Total cost for raw materials and consumables	**31,391**	**38,092**	**(6,701)**
- of which capitalised under/as intangible assets	19,814	28,934	(9,120)
- of which capitalised	-	1	(1)

The costs of "Raw materials and consumables" essentially comprise the cost for the purchase of the materials used in the process of laying the pipes and the fuel for motor vehicles; compared to the previous year these costs decreased by 6,701 thousand euro.
It should be recalled that, as from 2010, all the costs relating to the management of concessions are affected by the cost items relating to the construction of networks in accordance with IFRIC 12.

The purchase cost of gas (683 thousand euro) fell compared to the previous year by 588 thousand euro, due to differing periods of consolidation.

Specifically, other materials acquired in the year decreased by 6,463 thousand euro due to a lower impact, at Group level, arising from the purchase and installation of new traditional style meters, while the change in "Inventories of raw and ancillary materials" was negative (887 thousand euro).

6.b Services - 256,782 thousand euro

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

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Services			
Maintenance, repair and construction of assets	97,474	69,004	28,470
Costs for electricity, power and water	6,652	2,366	4,286
Gas (for internal use)	6,535	2,538	3,997
Telephone and data transmission costs	3,077	1,545	1,531
Insurance premiums	7,187	5,527	1,660
Services and other expenses relating to personnel	4,999	3,962	1,037
Fees	1,144	942	203
Legal and notary costs	842	978	(136)
Costs for company acquisitions and disposals	43	4,170	(4,127)
Personnel and other services	19,040	18,585	456
Advertising	425	509	(84)
IT services	10,502	7,505	2,996
Meter reading service	6,850	4,560	2,291
Audit fees	562	859	(297)
Repairs and immediate intervention service	3,289	2,217	1,072
Plant certifications resolution no. 40	1,021	668	353
Gas transport by third parties	1,527	1,864	(336)
Professional, consulting and other services	7,780	4,478	3,301
Other costs for services	4,362	3,045	1,318
Use of third party assets			
Leases	6,135	4,016	2,119
Rentals	6,548	3,658	2,890
Other costs for the use of third party assets	2,022	837	1,185
Fee for temporary occupation of public space (C.o.s.a.p.)	1,207	881	326
Trademark licence	0	32	(32)
Municipal gas concession fees	57,558	30,802	26,755
Total services	**256,782**	**175,548**	**81,235**
- of which capitalised as/under intangible assets	91,713	68,142	23,571

Costs for services (including the costs for the use of third party assets) increased by 81,235 thousand euro compared to the previous year. In this case too it should be recalled that, as from 2010, all the costs relating to the management of concessions are affected by cost items for the construction of networks in accordance with IFRIC 12.

In detail, the increase in the costs for services, which is broken down in the table below, is mainly due to the following changes:

- increase in costs for maintenance, repair and costruction of assets by 28,470 thousand euro, mainly due to the differing periods of consolidation;

- increase in costs for electricity and gas by 4,286 thousand euro and 3,997 thousand euro respectively, mainly due to the differing periods of consolidation;
- increase in IT services, also due to changes in some contracts with the two former parents of Enel Rete Gas and G6 Rete Gas;
- decrease in costs for company acquisitions by 4,127 thousand euro. It should be noted in this regard that the costs connected to the acquisition of G6 Rete Gas and the 2igas chain were recorded under this item in 2011;
- increase in costs for the meter reading service by 2,291 thousand euro;
- increase in professional, consulting and other services due to legal and operational/organisational business combinations. In 2012 the item totalled 7,780 thousand euro, up by 3,301 thousand euro compared to the previous year;
- increase in municipal gas concession fees by 26,755 thousand euro, mainly due to the differing periods of consolidation, the business development and, in general, the payment of higher fees to some municipalities.

6.c Personnel expense - *110,262 thousand euro*

Personnel expense is broken down as follows:

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Wages and salaries	80,870	54,939	25,930
Social security charges	25,222	18,329	6,894
Termination benefits	5,136	3,539	1,597
Asem/Fisde health service	62	80	(18)
Loyalty bonus	2	(15)	17
Compensation due instead of notice of dismissal	0	0	0
Incentive plans	0	46	(46)
Stock options	0	0	0
Other personnel expense	(1,030)	(1,499)	469
Total personnel expense	**110,262**	**75,419**	**34,843**
Non-recurring personnel expense			
Incentives to leave	0	(91)	91
Total non-recurring personnel expense	**0**	**(91)**	**91**
Total personnel expense	**110,262**	**75,328**	**34,934**
- of which capitalised as/under intangible assets	**21,181**	**16,847**	**4,335**
- of which capitalised	**1,703**	**600**	**1,103**

Personnel expense of 110,262 thousand euro include all charges incurred on an ongoing basis which, directly or indirectly, concern employees. The item increased by 34,934 thousand euro.

In the year no particular changes in personnel were noted compared to the normal turnover as people reach retirement age. The increase in personnel expense is clearly due to the differing periods of consolidation, which in 2012 took into consideration personnel expense at G6 Rete Gas and 2iGas for an additional 9 months compared to the previous year. Net of the impact of the differing periods of consolidation, personnel expense fell by around 3 million euro. In the year some incentives to leave were paid using the provision which had been set aside in the previous year.

This policy was temporarily suspended by virtue of the reorganisation process which is underway throughout the Group.

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

	Executives	Middle Managers	Office Employees	Workers	Total
Personnel at 31 December 2011	**30**	**102**	**1,134**	**846**	**2,112**
Internal mobility within Group:					
Increase	**2**	**1**	**21**	**3**	**27**
Decrease		**(5)**	**(49)**	**(42)**	**(96)**
Change in category			**4**	**(4)**	
Personnel at 31 December 2012	**32**	**98**	**1,110**	**803**	**2,043**

6.d Amortisation, depreciation and impairment losses – *150,831 thousand euro*

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to 150,831 thousand euro, up by 42,183 thousand euro compared to the previous year, largely due to the differing periods of consolidation.
This change is mainly due to an increase in amortisation of intangible assets by 39,896 thousand euro and to an increase in depreciation of property, plant and equipment by 463 thousand euro. With the introduction of IFRIC 12, the amortisation of intangible assets mainly concerns the rights over concessions in which the Group's companies manage the gas distribution networks.
Impairment losses, totalling 2,669 thousand euro, fell slightly compared to the previous year for intangible assets, while impairment losses recognised on trade receivables totalled 2,397 thousand euro.

This item is broken down as follows:

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Depreciation of property, plant and equipment	3,030	2,567	463
Amortisation of intangible assets	145,132	105,236	39,896
Impairment losses:		0	0
- Property, plant and equipment	0	0	0
- Intangible assets	272	581	(309)
- Trade receivables	2,397	264	2,133
Total depreciation, amortisation and impairment losses	**150,831**	**108,648**	**42,183**

6.e Other operating costs – *84,566 thousand euro*

"*Other operating costs*" increased by 60,013 thousand euro compared to last year and are broken down as follows:

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Other operating costs			
Non-recurring (prior year) expense	341	1,572	(1,231)
Remuneration of statutory auditors and Compliance Committee	294	434	(140)
Remuneration of members of the Board of Directors	531	341	189
Association fees	384	334	50
Contribution to the Supervisory Authority	97	92	5
Compensation to customers	436	320	115
Municipal tax on property	426	210	216
CCIAA (chamber of commerce) fees and duties	501	325	176
Purchase of energy efficiency certificates	53,092	9,989	43,103
Tax on the occupation of public space (Tosap)	1,434	1,002	432
Losses on the disposal of assets	4,304	5,986	(1,681)
Losses on the sale of assets	590	102	489
Local and sundry taxes	793	574	219
Difficulties in checks pursuant to Resolution no. 40	32	33	(1)
Other costs	1,198	1,398	(200)
(Net) provision for risks and charges	20,111	1,840	18,271
Total other operating costs	**84,566**	**24,553**	**60,013**
- of which capitalised as intangible assets	252	423	(171)

The increase in other operating costs is mainly attributable to the differing periods of consolidation and the increased purchase of energy efficiency certificates as well as the creation of a provision for risks relating to the possible impact on profitability due to the obligation to purchase energy efficiency certificates approved by an AEEG Resolution.

Other factors also had an impact on this item:

- decrease in non-recurring (prior year) expense by 1,231 thousand euro; the amount recorded in 2011 was largely due to the costs incurred by Enel Rete Gas in order to settle the dispute with the municipality of Pescara;
- increase in costs for the purchase of energy efficiency certificates for the target for 2011 by 43,103 thousand euro, which was attributable in part to the impact of aforementioned increased purchase in the year compared to the past and in part to the differing periods of consolidation;

- decrease in losses on the disposal of assets; the amount recorded in 2011 was due to the recognition of the loss caused by the removal of the plant held in the red zone of L'Aquila, which is no longer considered recoverable;
- increase in the provision for risks and charges by 18,271 thousand euro following the allocations made essentially to take into account the risk relating to the obligation to purchase energy efficiency certificates and any disputes over concession fees. The breakdown of the related provisions is provided in the comment on liabilities recognised in the Statement of financial position.

6.f Internal work capitalised – *1,703 thousand euro*

Following the introduction of IFRIC 12, accounting for internal work capitalised no longer occurs as in the past for those costs which are directly connected to network construction operations under concession. For this reason the item now only includes those residual costs which can be capitalised but do not concern concessions.
Compared to 2011, the item rose by 1,102 thousand euro.

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Internal services	1,703	600	1,103
Materials	0	1	(1)
Total internal work capitalised	**1,703**	**601**	**1,102**

7. Income (expense) from equity investments - *0 thousand euro*

This item includes the gains/losses resulting from the disposal of equity investments held in other companies; there were no transactions during the year involving equity investments and causing changes in this item.

8. Financial income/(expense) - *(90,684) thousand euro*

In detail:

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Financial income			
- Income from equity investments in other companies	145	43	102
- Interest and other income from non-current financial assets	0	0	0
- Interest income on loans to employees	1	1	(0)
- Other interest and income	0	0	0
- Other financial income	0	0	0
- Interest income from discounting of receivables	91	93	(2)
- Default interest income	307	320	(13)
- Interest income from current accounts and post office deposits	226	114	113
- Interest income from trade receivables	250	195	55
- Other financial interest and income	114	37	76
Total income	**1,133**	**802**	**331**
Financial expense			
- Interest expense on non-current loans	68,066	67,369	697
- Other expense on non-current bank loans and borrowings	2,398	2,033	364
- Financial expense concerning derivative contracts	18,992	9,651	9,341
- Interest expense on current bank loans and borrowings	0	0	0
- Financial expense on current credit lines	210	0	210
- Interest expense on bank current accounts	12	5	7
- Discounting of post-employment and other employee benefits	1,540	995	545
- Interest on extension of payment of substitute tax for the settlement of reserves	0	141	(141)
- Interest on taxes	10	302	(292)
- Financial costs for closure of previous derivative	0	51,630	(51,630)
- Other financial and interest expense	589	(36)	625
Total expense	**91,817**	**132,092**	**(40,275)**
TOTAL NET FINANCIAL EXPENSE	**(90,684)**	**(131,290)**	**40,606**

Net financial expense of 90,684 thousand euro was largely due to the recognition of interest expense accrued in the year on the non-current loan signed in 2011 with a pool of leading European banks.

The decrease by 40,606 thousand euro was mainly due to the fair value losses recognised in the previous year (51,630 thousand euro) on outstanding derivatives to hedge the previous loan; these derivatives were extinguished when the new ones were taken out and the related fair value loss was recognised in profit or loss.

Interest expense for last year includes, following the closure of the previous loan which was repaid in September 2011, the residual amortised cost of the loan, for a total additional impact of around 14.5 million euro.

The increase in non-current debt compared to the previous year, on the other hand, had an impact on the increase in interest expense, including expense for related derivatives.

9. Income taxes – *58,460 thousand euro*

This item is broken down as follows:

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Current taxes			
Current income taxes: IRES	64,602	43,334	21,267
Current income taxes: IRAP	16,814	11,122	5,692
Total current taxes	**81,416**	**54,457**	**26,959**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	327	(640)	967
Positive adjustments for income taxes relating to previous years	(7,132)	554	(7,685)
Total adjustments for income taxes relating to previous years	**(6,805)**	**(86)**	**(6,718)**
Deferred tax assets and liabilities			
Deferred taxes (use)/allocations	(9,791)	(428)	(9,363)
Deferred tax assets (allocation)/use	(6,360)	(21,555)	15,195
Total current deferred tax assets and liabilities	(16,151)	(21,984)	5,832
Adjustments to deferred tax of previous years due to tax rate change	0	11,423	(11,423)
Adjustments to deferred tax assets of previous years due to tax rate change	0	(15,276)	15,276
Total adjusted deferred tax assets and liabilities	0	(3,853)	3,853
Total deferred tax assets and liabilities	**(16,151)**	**(25,837)**	**9,686**
TOTAL INCOME TAXES	**58,460**	**28,533**	**29,927**

Income taxes for 2012 are negative for 58,460 thousand euro.
They refer to:

- the recognition of costs for current taxes in the year, including IRES amounting to 64,602 thousand euro (also including the corporate income tax surcharge known as Robin Hood Tax) and IRAP amounting to 16,814 thousand euro; although income before taxes was much higher than in 2011, the total deductibility of interest expense offset the impact of tax expense compared to the previous year;
- net adjustments for income taxes relating to previous years, which totalled (86) thousand euro in the previous year, in the current year totalled (6,805) thousand euro owing to the impact of Law Decree 201/2011 which provided for and approved, as from the tax year at 31 December 2012, the deductibility of IRAP relating to personnel and similar costs from IRES taxable income; at the same time art. 2, paragraph 1-quater allowed the company to recover the higher income taxes which were calculated without deducting the IRAP amounts also for previous years (up to 2007). The difference in this item compared to 2011 was therefore due to the tax refund claim which the company filed in March 2013, as provided for by the law.

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

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

Thousands of euro	31.12.2012	31.12.2011
Pre-tax profit	125,720	31,286
Theoretical IRES taxes - 2012: 38%	**48,168**	**16,308**
Lower taxes:		
- gains from exempt equity investments	0	0
- impairment loss of prior years	0	(26)
- release of contributions taxed in prior years	(2,224)	(1,449)
- use of provisions	(2,904)	(3,021)
- release of provisions	(477)	(563)
- reversal of ordinary amortisation/depreciation not deducted in prior years	(5,464)	(989)
- deducted fiscally-driven amortisation/depreciation	(531)	(366)
- deductible interest expense for previous years	(6,878)	0
- deferred gains by instalments	(1,476)	(9,350)
- other	(3,326)	(678)
Higher taxes:		
- impairment losses for the year	68	201
- allocations to provisions	11,174	3,362
- amortisation/depreciation on amounts that are not recognised for tax purposes	3,100	2,306
- ordinary amortisation/depreciation exceeding the fiscal limits	17,719	11,555
- reversal of excess fiscally-driven amortisation/depreciation deducted in prior yea	594	282
- losses on the disposal/sale of assets	788	0
- deferred gains	2,806	3,084
- partially deductible costs	676	128
- connection fees	16	3,274
- taxes	151	61
- other	2,622	19,215
Total current income taxes (IRES)	**64,602**	**43,334**
IRAP - 2012: 4.56%	**16,814**	**11,122**
Total deferred taxes	**(16,151)**	**(21,984)**
TOTAL INCOME TAXES	**65,265**	**32,472**

10. Discontinued operations – *0 thousand euro*

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

X. Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – *33,723 thousand euro*

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

The breakdown and changes in property, plant and equipment in 2012 and 2011 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Non-current assets under construction and payments on account	Total
Historical cost	14,431	22,338	0	14,624	24,753	5,700	132	**81,979**
Accumulated depreciation	0	(13,974)	0	(12,642)	(24,143)	(4,440)	0	**(55,200)**
Balance at 31.12.2010	**14,431**	**8,364**	**0**	**1,982**	**610**	**1,260**	**132**	**26,779**
Contributions from acquisitions	154	6,734	0	1,104	2,175	0	5	**10,173**
Investments	0	87	0	300	399	63	0	**848**
Entry into service	0	110	0	0	5	0	(115)	**0**
Disposals	0	(29)	0	(5)	(28)	0	0	**(62)**
Reclassifications	(112)	(347)	0	0	0	0	0	**(459)**
Impairment losses	0	0	0	0	0	0	0	**0**
Depreciation	0	(1,068)	0	(573)	(541)	(384)	0	**(2,567)**
Total changes	**42**	**5,486**	**0**	**826**	**2,011**	**(322)**	**(110)**	**7,933**
Historical cost	14,473	34,964	0	20,699	40,573	5,763	22	**116,494**
Accumulated depreciation	0	(21,114)	0	(17,892)	(37,952)	(4,825)	0	**(81,782)**
Balance at 31.12.2011	**14,473**	**13,850**	**0**	**2,807**	**2,621**	**938**	**22**	**34,712**
Investments	0	111	0	333	839	108	521	**1,913**
Entry into service	0	(161)	0	0	4	0	0	**(158)**
Disposals	(5)	0	0	(58)	(25)	0	0	**(88)**
Reclassifications	0	0	373	0	0	0	0	**373**
Impairment losses	0	0	0	0	0	0	0	**0**
Depreciation	0	(1,267)	0	(676)	(953)	(134)	0	**(3,030)**
Total changes	**(5)**	**(1,316)**	**373**	**(401)**	**(135)**	**(26)**	**521**	**(989)**
Historical cost	14,468	34,681	3,440	20,568	40,841	5,871	543	**120,412**
Accumulated depreciation	0	(22,147)	(3,067)	(18,162)	(38,354)	(4,959)	0	**(86,689)**
Balance at 31.12.2012	**14,468**	**12,534**	**373**	**2,406**	**2,486**	**913**	**543**	**33,723**

The item at 31 December 2012 fell compared to 31 December 2011 by 989 thousand euro; this decrease was due to the net balance of investments for 1,913 thousand euro, disposals for 88 thousand euro, and depreciation for 3,030 thousand euro.

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

Thousands of euro	31.12.2012	31.12.2011
Increases for internal services	-	
Increases for materials	-	
Increases for external acquisitions/services	1,912	848
Total	**1,912**	**848**

12. Intangible assets – *2,701,073 thousand euro*

It should be recalled that, following the introduction of IFRIC 12, intangible assets also include those assets which are tied to gas distribution concessions.
The breakdown and changes in intangible assets in 2012 and 2011 are shown below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Non-current assets under development and payments on account	Non-current assets under development and payments on account	Other intangible assets	Goodwill	Total
Historical cost	57,805	3,065,005	15,761	3,089	14,596	7,124	**3,163,380**
Accumulated amortisation - closing	(34,782)	(1,380,285)	0	0	(11,222)	0	**(1,426,289)**
Balance at 31.12.2010	**23,023**	**1,684,720**	**15,761**	**3,089**	**3,375**	**7,124**	**1,737,091**
Contributions from acquisitions	1,575	797,931	27,126	530	5,675	135,832	**968,669**
Investments	5,494	115,458	9,621	1,561	1,143	0	**133,277**
Entry into service	0	27,706	(27,541)	(1,048)	883	0	**(0)**
Decreases	(8)	(12,766)	(0)	(10)	(2)	(1)	**(12,787)**
Reclassifications	0	2,391	0	0	(2,291)	0	**100**
Impairment losses	0	(519)	(11)	(50)	0	0	**(581)**
Amortisation	(9,340)	(93,644)	0	0	(2,252)	0	**(105,236)**
Total changes	**(2,279)**	**836,558**	**9,195**	**982**	**3,156**	**135,831**	**983,442**
Historical cost	77,150	4,748,082	24,956	4,071	34,673	179,499	**5,068,431**
Accumulated amortisation - final	(56,407)	(2,226,804)	0	0	(28,142)	(36,544)	**(2,347,898)**
Balance at 31.12.2011	**20,744**	**2,521,278**	**24,956**	**4,071**	**6,530**	**142,955**	**2,720,533**
Investments	7,511	126,776	8,381	3,796	2,334	0	**148,797**
Entry into service	381	23,368	(23,219)	(419)	47	0	**158**
Decreases	0	(22,623)	0	0	(17)	0	**(22,640)**
Reclassifications	0	(358)	(15)	0	2	0	**(371)**
Impairment losses	(16)	(52)	(25)	0	(179)	0	**(272)**
Amortisation	(10,515)	(131,290)	0	0	(3,328)	0	**(145,132)**
Total changes	**(2,639)**	**(4,179)**	**(14,878)**	**3,377**	**(1,141)**	**0**	**(19,460)**
Historical cost	84,977	4,820,966	10,078	7,447	38,080	179,499	**5,141,047**
Accumulated amortisation - final	(66,872)	(2,304,803)	0	0	(31,755)	(36,544)	**(2,439,973)**
Balance at 31.12.2012	**18,105**	**2,516,164**	**10,078**	**7,447**	**6,325**	**142,955**	**2,701,074**

Intangible assets decreased by 19,460 thousand euro compared to 31 December 2011; this decrease is due to the net balance among new investments of 148,797 thousand euro, decreases totalling 22,640 thousand euro, impairment losses of 272 thousand euro and amortisation of 145,132 thousand euro.

The net decrease in the item “Patent and intellectual property rights” by 2,639 thousand euro, refers to new acquisitions (7,511 thousand euro) and to amortisation (10,515 thousand euro).
Investments of the year of 7,511 thousand euro mainly concern the upgrading of the Group companies’ IT systems, such as FOUR (Front Office Unico Rete - Front Office Single Network), FIVE Isu Gas, and SAP R/3 Gas, with a range of implementation on all the system modules and other minor systems.

The item “Concessions and similar rights” is divided between intangible assets and intangible assets under development and totalled 2,521,278 thousand euro (intabgible assets) and 24,956 thousand euro (intangible assets under development) in 2011; in 2012 the total was 2,516,164 thousand euro for intangible assets and 10,078 thousand euro for intangible assets under development; the item relates to the recognition of rights which Group companies claim as concessionaires and operators of the gas distribution service, as well as one-off fees for the acquisition of concessions for natural gas distribution.

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

Duration of concessions is measured using the same criteria adopted in the previous year. For a detailed examination of the issue, reference should be made to section 6.3 of the Directors’ Report.

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

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

The item "Assets under development and payments on account" totalling 7,447 thousand euro mainly consisted of costs for the smart meter project and one-off amounts paid to municipalities for concessions assigned at 31 December 2012. Investments totalled 3,796 thousand euro and relate to software which is to be used.

The item "Other intangible assets" amounted to 6,325 thousand euro, refers to miscellaneous deferred costs and includes, among others, energy efficiency certificates with deferred maturities corresponding to targets set by AEEG for the 2009-2013 period.

The item "Goodwill" totalled 142,955 thousand euro and relates to the deficit from the mergers made in 2012 and in previous years and from the final allocation of the purchase price of the companies acquired during 2011.
Balances for the individual merged or acquired companies are set out below.

Thousands of euro	**31.12.2012**	**31.12.2011**
Natural Gas goodwill	2,885	2,885
Argengas goodwill	8	8
Sicardi goodwill	3,616	3,616
Italgestioni goodwill	44	44
Simeo goodwill	572	572
PPA G6 goodwill	82,040	82,040
F2i reti Italia 2 goodwill	53,792	53,792
Total	**142,956**	**142,956**

The estimate of the recoverable amount 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. In detail, cash flows are considered for an explicit period of 10 years, consistent with the Enel Rete Gas plan drafted on the assumption of a going concern, plus the terminal value calculated with the perpetual income algorithm. The duration of the concessions held by the Group as well as the normal time horizon for the distribution sector and the formula used by the AEEG to remunerate the capital invested by distribution companies make the choice of using an explicit period of 10 years the most suitable in order to best analyse the cash flows from the business.

In this framework, the two main assumptions are:

- continuity in concessions, starting with the consideration that both the legal expiry of the concessions on 31 December 2009 and the redefinition of the relevant local areas are 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 further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years.

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

Tax Rate	WACC (1)	Explicit cash flow period	TV (g) growth rate
42.6 and '38.6% (2)	5.9%	2013-2022	2.00%

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

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

(amounts in millions of Euro)

Difference between Enterpise Value and Net Invested Capital

		Wacc				
		5.70%	5.80%	5.90%	6.00%	6.10%
Growth Rate	1.50%	920	833	750	671	595
	1.75%	1,092	996	904	816	733
	2.00%	1,287	1,180	1,077	980	888
	2.25%	1,511	1,389	1,274	1,166	1,063
	2.50%	1,769	1,631	1,501	1,378	1,262

The recoverability of the Group’s invested capital was also confirmed by a further sensitivity analysis undertaken by simulating possible changes in the key assumptions included in the business and financial plan used for the impairment test. The simulation of a worse scenario was achieved by varying the tariff revenue cap which is subject to regulation by the AEEG, in other words the most important parameter which cannot be directly controlled by the Group. 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 regulatory changes such as to reduce the revenue cap by over 12.5%, a percentage which is much higher than the reductions considered possible by the Group.

27. Deferred tax assets – 211,433 thousand euro and Deferred tax liabilities – *151,367 thousand euro*

Deferred tax assets and deferred tax liabilities are determined on the basis of the tax rates in force at the reporting date. Deferred tax assets totalled 211,433 thousand euro (177,091 thousand euro at 31 December 2011), while deferred tax liabilities totalled 151,367 thousand euro (161,350 thousand euro at 31 December 2011).

Deferred tax assets and liabilities at 31 December 2011 were determined applying the following tax rates in force: 38% for IRES and 4.50% for IRAP (compared to 4.56% in the previous year).

Deferred tax assets increased by 34,342 thousand euro compared to the previous year. This change was due to net increases in the year (37,897 thousand euro) and to decreases for other changes (3,454 thousand euro) and, finally, to adjustments (101 thousand euro) to reduce the deferred tax assets recognised in the financial statements at 31 December 2011 compared to the income tax return. It should be noted that this item includes the tax impact of the fair value of cash flow hedge derivatives entered into in 2011 by the Group, equal to 33,737 thousand euro.

Deferred tax liabilities decreased by 9,982 thousand euro compared to the previous year. This change was mainly due to net decreases in the year of 8,322 thousand euro (the item was also affected by the deferred tax on the amortisation of the PPA) and for (433) thousand euro to adjustments to reduce the deferred taxes recognised in the financial statements at 31 December 2011 compared to the income tax return.
In light also of the flows set forth in the most recent business plans, it is believed that the Group can use deferred tax assets in the ordinary course of its business.

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

Thousands of euro	At 31.12.2011	Adjustments to Tax Declaration 2012	01.01.2012	Increases recognised in		Decreases recognised in		Other changes	Balance at 31.12.2012
				Profit or loss	Equity	Profit or loss	Equity		
Deferred tax assets:									
Allocation to provisions for risks and charges, deferred deductibility	2,320	0	2,320	4,877	0	760	0	(208)	**6,229**
Allocation to provisions for exit and stock option	1,083	0	1,083	0	0	0	0	(48)	**1,034**
Allocation to provisions for disputes	1,547	(2)	1,544	3,176	0	436	0	(70)	**4,214**
Allocation to allowance for inventory obsolescence	4,830	0	4,830	(170)	0	207	0	0	**4,453**
Impairment losses on deferred deductibility assets (impairment losses on receivables write-downs)	2,377	5	2,382	526	0	6	0	0	**2,902**
Impairment losses on deferred deductibility assets (impairment losses on plant write-downs)	1,910	0	1,910	61	0	4	0	0	**1,967**
Depreciation and amortisation of property, plant and equipment and intangible assets, deferred deductibility	49,231	(174)	49,058	9,093	0	1,229	0	(2,653)	**54,268**
Separation of land/buildings and component analysis	128	0	128	0	0	0	0	0	**128**
Plant costs	690	0	690	2,515	0	221	0	11	**2,995**
Post-employment and other employee benefits	1,085	70	1,155	525	0	520	0	(3)	**1,156**
Cash deductible taxes and duties	11	0	11	8	0	1	0	0	**17**
Income subject to deferred taxation (connection fees)	52,276	0	52,276	16	0	2,399	0	0	**49,893**
Other consolidation adjustments	35,640	0	35,640	2,314	0	1,758	0	0	**36,196**
Deferred deductibility charges	16,884	(0)	16,883	1,630	0	7,245	0	(482)	**10,786**
Derivatives (in case of net negative change in the specific equity reserve)	7,080	0	7,080	0	33,737	0	5,622	0	**35,195**
Total	**177,091**	**(101)**	**176,990**	**24,570**	**33,737**	**14,787**	**5,622**	**(3,454)**	**211,433**
Deferred tax liabilities:									
Differences on property, plant and equipment and intangible assets – additional depreciation and amortisati	26,400	(205)	26,195	(2,475)	0	2,140	0	(162)	**21,417**
Differences on intangible assets – goodwill	2,403	0	2,403	546	0	(0)	0	(564)	**2,385**
Separation of land/buildings and component analysis	5,172	0	5,172	0	0	0	0	0	**5,172**
Allocation to assets of costs relating to company mergers	45,115	(26)	45,089	0	0	2,708	0	(529)	**41,853**
Off book deductions relating to impairment losses on equity investments, receivables and licenses	0	0	0	0	0	0	0	0	**-**
Post-employment benefits	1,369	0	1,369	0	0	34	0	(10)	**1,325**
Other consolidation adjustments	67,428	0	67,428	126	0	0	0	37	**67,591**
Income subject to deferred taxation	9,477	(202)	9,276	1,064	0	2,486	0	0	**7,853**
Derivatives (in case of net negative change in the specific equity reserve)	0	0	0	0	0	0	0	0	**-**
Others	3,985	0	3,985	8	0	222	0	0	**3,770**
Total	**161,350**	**(433)**	**160,917**	**(731)**	**0**	**7,590**	**0**	**(1,228)**	**151,367**

13. Equity investments – *2,784 thousand euro*

The following table shows the changes in the year for each equity investment, with the corresponding amounts at the beginning and end of the year, as well as the list of equity investments held in “Other companies” which are not included in the scope of consolidation.

Thousands of euro	Historical cost	Impairment losses/reversals of impairment losses	Carrying amount	% ownership	Contributions from change in scope of consolidation	Acquisitions	Disposals	Other decreases	Adjustments	Historical cost	Impairment losses/reversals of impairment losses	Carrying amount	% ownership
	at 31.12.2011				Changes in 2012					at 31.12.2012			
Other companies													
Measured at cost													
Interporto di Rovigo S.p.A.	42	0	42	0.30%		0	0	0	0	42	0	42	0.30%
Fingranda S.p.A.	26	0	26	0.63%		0	0	0	0	26	0	26	0.63%
Agenzia di Pollenzo S.p.A.	68	(35)	33	0.27%		0	0	0	0	68	0	33	0.27%
Industria e Università S.r.l.	11	0	11	0.10%		0	0	0	0	11	0	11	0.10%
FISAP	19	(19)	0	2.48%		0	0	0	0	0	0	-	2.48%
Equity accounted													
Azienda Sondriese Multiservizi Srl	386	20	406	3.94%		0	0	0	0	406	0	406	3.94%
Melegnano Energia Ambiente SpA	2,193	0	2,193	40.00%		0	0	0	0	2,193	73	2,266	40.00%
TOTAL EQUITY INVESTMENTS	**2,745**	**(35)**	**2,711**		**0**	**0**	**0**	**0**	**0**	**2,745**	**73**	**2,784**	

The following tables show the list of equity investments in subsidiaries and other companies at 31 December 2012:

C) Other companies	Registered office	Share capital (euro)	Equity (euro)	Revenue (euro)	Profit/loss latest year (euro)	Reporting Date	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	8,575,489	7,369,736	1,807,765	(69,624)	31.12.2011	0.30%	41,634
Agenzia di Pollenzo S.p.A.	Bra (CN)	25,610,365	24,747,553	924,462	54,046	31.12.2011	0.27%	33,082
Fingranda S.p.A.	Cuneo	4,129,393	2,481,044	(10,541)	(392,984)	30.06.2012	0.63%	25,822
Industria e Università S.r.l.	Varese	13,005,000	10,939,993	100	(31,361)	31.12.2011	0.10%	10,989
F.I.S.A.P. S.p.A (in liquidation)	Cittadellla (PD)	1,020,000	(121,809)	0	(9,250)	31.12.2011	2.48%	0
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	5,666,017	6,535,155	183,733	31.12.2011	40.00%	2,266,407
Azienda Sondriese Multiservizi Srl	Sondrio	5,834,000	10,239,000	21,949,000	1,702,000	31.12.2010	3.94%	405,548

14. Non-current financial assets – *224 thousand euro*

This item includes loans issued to employees to purchase housing.

15. Other non-current assets – *6,859 thousand euro*

This item decreased compared to 31 December 2011 by 3,167 thousand euro; it is broken down as follows:

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Guarantee deposits	2,952	2,696	256
Grants related to assets	1,234	1,504	(271)
Grants from CCSE for energy efficiency certificates	360	2,955	(2,596)
Tax credit reimbursements applied for	821	861	(39)
Prepaid promotional expense	311	348	(37)
Other non-current assets	1,328	1,816	(488)
Allowance for impairment	(147)	(155)	9
Total	**6,859**	**10,025**	**(3,167)**

Receivables from the CCSE (Compensation Fund for the Electricity Sector) refer to Energy Efficiency Certificates.

Receivables for Energy Efficiency Certificates for the 2011 and 2012 target are recognised at the repayment value set by the Regulatory Authority for those years, amounting to 93.68 euro/TOE and 86.98 euro/TOE.

Receivables for Energy Efficiency Certificates expiring after 2011 are valued at the repayment value set by the Regulatory Authority in Resolution EEN 12/11 of 24 November 2011 for 2012 of 86.98 euro/TOE.

Guarantee deposits totalled 2,952 thousand euro and refer to receivables for work to be done on distribution plant and user contracts.

The 1,234 thousand euro contribution receivables refer to recognition of the non-current portion of grants relted to assets. In the year work was started to recover those receivables which were pending payment by public administrations. The amount is constantly falling.

Tax credit reimbursements applied for (821 thousand euro) refer to the reimbursement claim as for art. 6 of Decree Law no. 185/2008 – deduction from IRES of part of the IRAP pertaining to personnel expense and interest.

Prepayments of 311 thousand euro include prepaid promotional expense.

Receivables for other non-current assets of 1,328 thousand euro relate to receivables due from municipalities generated by concessions and are recognised at their realisable amount. The allowance for impairment is shown separately.

Current assets

16. Inventories – *7,700 thousand euro*

Closing inventories of raw materials fell compared to the previous year by 1,316 thousand euro.

In detail, closing inventories of raw materials, supplies and consumables mainly consist of materials for construction and maintenance of gas and water distribution plant.

The item includes the allowance for the write-down of inventories equal to 633 thousand euro. The allowance was set up to take into account inventories with unlikely future use.

The cost method adopted is weighted average purchase cost.

17. Trade receivables – *212,623 thousand euro*

Trade receivables amounted to 212,623 thousand euro, down by 972 thousand euro compared to 2011.

The item includes 225,136 thousand euro in trade receivables.

The breakdown is set out below.

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Third party customers:			
Trade receivables	225,136	223,832	1,304
- Allowance for impairment	(12,512)	(10,237)	(2,276)
Total	**212,623**	**213,595**	**(972)**

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

Receivables due from third-party customers are recognised net of a 12,512 thousand euro allowance for impairment, compared to 10,237 thousand euro at the beginning of the year. Changes in the allowance for impairment are set out below.

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
At 1 January	**10,237**	**8,083**	**2,153**
Contributions from acquisitions		2,936	(2,936)
Allocations	2,397	13	2,384
Releases	0	0	0
Uses	(121)	(1,009)	888
Other changes	(0)	213	(213)
At 31 December	**12,512**	**10,237**	**2,276**

All the Group's operations are in Italy.

18. Current loan assets – *8 thousand euro*

Current loan assets of 8 thousand euro consisted of loan assets due from employees.

19. Other current financial assets – *0 thousand euro*

Other current financial assets include any fair value gains at the reporting date on the outstanding hedges. At 31 December 2012 this amount was a loss and therefore is not included here. In the 2011 pro-forma financial statements this item, on the other hand, included the receivable claimed by Enel Rete Gas from Gaz de France for the price adjustment obtained following activation of the specific contractual clause.

20. Cash and cash equivalents – *134,284 thousand euro*

Cash and cash equivalents increased by 73,141 thousand euro, attributable to the net effect of the increase in bank deposits by 73,725 thousand euro, the decrease in post office deposits by 589 thousand euro and a 5 thousand euro increase in cash in hand.

Cash and cash equivalents are broken down as follows.

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Bank deposits	133,641	59,916	73,725
Post office deposits	537	1,125	(589)
Cash in hand	106	101	5
Total	**134,284**	**61,143**	**73,141**

Operating cash is held in bank and post office deposits.

21. Income tax assets – *5,413 thousand euro*

Income tax assets totalled 5,413 thousand euro and include IRES assets due from the tax consolidating company F2i Reti Italia S.r.l. amounting to 1,469 thousand euro; compared to the previous year these assets fell by 638 thousand euro.

22. Other current assets – *135,256 thousand euro*

Other current assets fell compared to 31 December 2011 by 5,592 thousand euro; the decrease was mainly the net result of:

- an increase by 1,406 thousand euro in income and other tax assets for which reimbursement has been requested;
- higher receivables for grants related to assets following the final testing of some new methane gas networks that were completed in the year;
- a fall in receivables due from the Compensation Fund (3,354 thousand euro) and from municipalities for the disposal of assets due to the expiry of concessions (1,352 thousand euro);
- a fall in the prepayment of insurance premiums given a new means of paying such premiums which is closer to the current needs of the Group companies.

The item is broken down as follows:

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Other tax assets:			
VAT assets	1,407	1,592	(186)
Tax asset reimbursements applied for	1,975	568	1,406
Other tax assets	341	306	36
Other assets:			
Pension and insurance agencies	264	124	139
Grants related to assets	6,125	2,958	3,167
Compensation Fund	95,948	99,302	(3,354)
Municipalities for disposals of asset due to expiration of concessions	22,956	24,308	(1,352)
Municipalities	291	312	(21)
Suppliers	1,686	1,440	246
Sundry	3,587	3,454	134
- Allowance for impairment	(1,115)	(855)	(260)
Accrued income	1	26	(24)
Deferred expenses relating to other deferred charges	696	1,331	(635)
Deferred expenses relating to real estate lease fees	418	339	79
Deferred promotional expense	42	168	(126)
Deferred insurance premiums	232	5,152	(4,920)
Other deferred expense	402	322	80
Total	**135,256**	**140,847**	**(5,592)**

Liabilities

Equity

23. Equity – *818,038 thousand euro*

Equity amounted to 818,038 thousand euro, down by 20,124 thousand euro in the year, due to:

- decrease in the ordinary dividend pay-out for 33,990 thousand euro;
- decrease in the hedging reserve for 53,263 thousand euro;
- increases for the shareholder injection for increases in share capital, of 6 thousand euro;
- increase from profit for the year for 67,264 thousand euro;
- decrease in other items for 137 thousand euro.

Share capital – *71,950 thousand euro*

The share capital at 31 December 2012 was 71,950 thousand euro and consisted of 145,383,653 ordinary shares, entirely subscribed and paid up and which increased during the year due to subscribing by shareholders of the share capital increase that started in the previous year; as a result the share capital rose by 17,811 thousand euro.

Treasury shares reserve – *(545) thousand euro*

The reserve for the purchase of treasury shares of 545,190 thousand euro was set up, in accordance with the provisions of IAS 1, in 2010 following the purchase of Enel Rete Gas shares from some withdrawing shareholders.

Other reserves – *667,760 thousand euro*

Revaluation reserves – *409,145 thousand euro*

Revaluation reserves amounted to 409,145 thousand euro, including 72 thousand euro in reserve pursuant to Law no. 413/91, 408,980 thousand euro in reserve pursuant to Law no. 350/03, and 94 thousand euro in reserve pursuant to Law no. 342/00. These reserves were unchanged compared to the previous year.

Legal reserve – *20,248 thousand euro*

The legal reserve amounted to 20,248 thousand euro, unchanged compared to 31 December 2011.

Reserve for grants related to assets – 99,697 *thousand euro*
Reserve for grants related to assets amounted to 99,697 thousand euro, unchanged compared to 31 December 2011.

Other reserves – *207,394 thousand euro*
Other reserves amounted to 207,394 thousand euro and fell compared to the previous year by 50,778 thousand euro, following the partial use of these reserves to pay the dividend for 2011, use of the reserve for future share capital increase in order to subscribe the current increase in the first few months of 2012 and the reclassification of part of the profit for 2011 (11,175 thousand euro).

Hedging reserve – *(68,319) thousand euro*
The hedging reserve, which was created during 2011 following the measurement of the new derivatives outstanding as from October 2011, has a negative balance of 68,319 thousand euro. The contractual derivatives at 25 and 26 October 2011 are measured at fair value in accordance with IAS 39 Cash Flow Hedging rules, net of the related tax effect. The negative change by 53,263 thousand euro was the result of recognising the hedging reserve; the amount relates to the effective fair value component of derivatives designated as "Cash Flow Hedges" and recognised in the statement of comprehensive income for 81,378 thousand euro and expressed net of the tax effect for a total of 28,115 thousand euro.

Retained earnings – *11,602 thousand euro*
Retained earnings totalled 11,602 thousand euro and increased compared to the previous year by 1,844 thousand euro due to the combined effect of the positive reclassification of part of profit for the year ended 31 December 2011 (14,173 thousand euro) and part of the payment of a dividend during 2012 (12,192 thousand euro).

Profit for the year – *67,264 thousand euro*
Profit amounted to 67,264 thousand euro in 2012, up by 64,266 thousand euro from 2,988 thousand euro in 2011. It should be noted that profit was significantly affected by the tax burden due to the introduction in the year of the corporate income tax surcharge, the so-called "Robin Hood Tax".

Non-current liabilities

24. Non-current loans (including portions falling due within the next 12 months) – *1,718,382 thousand euro*
The item refers to the non-current loan from a pool of 12 leading European banks granted to Enel Rete Gas when the Enel Rete Gas Group acquired the shares of G6 Rete Gas.

The table below shows non-current debt expressed in the original currency and the relevant interest rate. The loans' notional amount is the same as the carrying amount.

Thousands of euro	Balance		Fair value		Notional Amount		Interest rate	Effective interest
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	in force	rate
Floating rate debt	1,751,187	1,773,200	1,751,187	1,773,200	1,751,187	1,773,200	Eur3+2,10%	4.95%
Financing costs	(32,805)	(47,854)	(32,805)	(47,854)				
TOTAL	**1,718,382**	**1,725,346**	**1,718,382**	**1,725,346**	**1,751,187**	**1,773,200**		

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

Thousands of euro	Notional amount		1 year	2 - 5 years	after 5 years
	at 31.12.2012	**at 31.12.2011**			
Non current loans and borrowing					
Loan	1,751,187	1,773,200	0	0	1,751,187
Capex Line	0	0	0	0	0
Total	1,751,187	1,773,200	0	0	1,751,187

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

25. Post-employment and other employee benefits – *34,298 thousand euro*

The Group's companies provide employees with various types of benefits, including post-emplyment benefits, health service benefits, compensation due instead of notice of dismissal (*Indennità Sostitutive del Preavviso* - ISP) and compensation due instead of energy discount.
The item includes provisions for post-employment benefits, including defined benefit plans and other long-term benefits due to employees by law or contract.

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

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Post-employment benefits	32,484	33,218	(734)
Incentive plans	0	-	0
ASEM health service	1,704	1,647	57
Loyalty bonus	0	-	0
Compensation due instead of notice of dismissal (ISP)	87	-	87
Compensation due instead of energy discount	23	-	23
TOTAL	**34,298**	**34,865**	**(567)**

Below is an analysis of the main items.

Post-employment

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

Health service

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

Changes during the year in actuarial liabilities and their reconciliation with the previous year are set out below:

Thousands of euro

	31.12.2012	31.12.2011
Benefits due upon termination of employment relationship and other long-term benefits	0	0
Actuarial liabilities at the beginning of the year	**27,456**	**33,819**
Merger contribution		
Transfers from/to companies	(617)	0
Normal cost	120	91
Actuarial (gains) losses	4,037	(476)
Unrecognised accumulated actuarial (gains) losses	**(3,218)**	**826**
Financial expense	1,475	932
Disbursement	(1,742)	(1,970)
Other changes	47	(5)
Liabilities recognised at year-end	**32,484**	**33,218**
Benefits due upon termination of employment relationship - defined benefits	**0**	**0**
Actuarial liabilities at the beginning of the year	**1,418**	**1,507**
Merger contribution	0	0
Transfers from/to companies	0	0
Normal cost	35	36
Actuarial (gains) losses	84	(159)
Unrecognised accumulated actuarial (gains) losses	**136**	**229**
Financial expense	66	64
Disbursement	(35)	(29)
Other changes	0	0
Liabilities recognised at year-end	**1,704**	**1,647**
Reconciliation of the carrying amount	**0**	**0**
Actuarial liabilities at the end of the year	37,270	33,810
Unrecognised accumulated actuarial (gains) losses	(3,082)	1,055
Liabilities recognised at year-end	**34,188**	**34,865**

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

	31.12.2012	31.12.2011
Discount rate	3.20%	4.70%
Rate of wage increase	3.00%	3.00%
Rate of health expenses increase	3.00%	3.00%

26. Provisions for risks and charges – *11,918 thousand euro*

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

Provisions for risks and charges (both the current and the non-current portion) increased by 17,844 thousand euro compared to 31 December 2011.
The table below shows total provisions for risks and charges (both the current and non-current portions) with a separate column for the current portion.

Thousands of euro	31.12.2011	Of which current portion	Of which non-current portion	Allocations	Releases	Uses	Other changes	31.12.2012	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	3,293	141	3,152	2,468	(172)	(1,063)	120	4,646	316	4,330
Provision for taxes and duties	494	0	494	0	0	(16)	216	694	0	694
Provisions for disputes with personnel	113	13	100	0	0	(3)	(10)	100	0	100
Provision for future charges	0	0	0	760	(89)	(4)	168	835	0	835
Provision for disputes on concessions	4,027	3,627	400	7,585	(558)	(804)	(115)	10,135	6,437	3,698
Other provisions for risks and charges	2,114	1,979	135	10,436	(316)	(252)	(379)	11,603	9,341	2,262
Total	**10,042**	**5,761**	**4,281**	**21,249**	**(1,135)**	**(2,142)**	**(0)**	**28,013**	**16,095**	**11,918**
Provisions for charges pertaining to leaving incentives	3,208	3,208	0	0	0	(127)	0	3,081	3,081	0
Total	**13,249**	**8,968**	**4,281**	**21,249**	**(1,135)**	**(2,269)**	**(0)**	**31,093**	**19,175**	**11,918**

Provisions for risks and charges amounted to 31,093 thousand euro (current portion: 19,175 thousand euro) broken down as follows:

- "Provisions for litigation and disputes", 4,646 thousand euro, to cover contingent liabilities mainly arising from several ongoing litigation cases with customers for harmful events;
- "Provision for taxes and duties", 694 thousand euro, mainly for litigation relating to the tax on the occupation of public space (Tosap), the municipal tax on property (ICI), and other local taxes;
- "Provisions for disputes with personnel", 100 thousand euro, to cover expected charges arising from disputes with personnel of a company acquired in previous years. It was not considered necessary to change it in these financial statements;
- "Provision for disputes on concessions", 10,135 thousand euro, rose by 7,585 thousand euro following some requests made by municipalities relating to the review of the agreed concession fees; it was released for disputes that are no longer current for 558 thousand euro and was used for 804 thousand euro;
- "Other provisions for risks and charges" 11,603 thousand euro, to cover the estimate of costs for international arbitration proceedings, the risk due to the obligation to purchase energy efficiency certificates in the amount set by AEEG for 2012 (7,489 thousand euro) and the risk that Enel Rete Gas and G6 Rete Gas may be fined a total of 950 thousand euro for some infractions that were challenged by the AEEG in the year.
- "Provisions for charges pertaining to leaving incentives" totalling 3,081 thousand euro; they address the liabilities that may arise from agreements with the unions signed in 2012 as part of the corporate restructuring process.

The tax position of companies belonging to the Enel Rete Gas Group is settled through to the end of 2007.

27. Deferred tax liabilities – 151,367 thousand euro

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

28. Non-current financial liabilities – *30,171 thousand euro*

This item, which decreased by 6,039 thousand euro compared to the previous year, includes the part of non-current debt arising from the closure of the derivatives connected to the loan outstanding until October 2011. The amount of these derivatives in fact is recognised in company's financial statements as a non-current debt which will be settled in 7 years, equal to the duration of the new interest rate swaps.

29. Other non-current liabilities – *259,736 thousand euro*

This item increased by 26,551 thousand euro compared to the previous year. The breakdown is set out below.

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Other payables	555	500	55
Deferred income for grants related to assets	51,556	47,996	3,560
Deferred income for connection fees, for property subdivision, plant transfer and network extension contributions	207,266	181,734	25,531
Deferred income for energy efficiency certificates	359	2,955	(2,596)
Total other non-current liabilities	**259,736**	**233,185**	**26,551**

The increase in deferred income for connection fees, property subdivision, plant transfer and network extension contributions by 25,531 thousand euro, is mostly attributable to contributions received during the year net of the portion recognised in profit or loss to cover operating costs incurred. Deferred income for Energy Efficiency Certificates decreased due to the normal recognition in profit or loss of the accrued portion of non-current contracts concluded in previous years. During 2012 no further non-current contracts for the purchase of such certificates were concluded.

Current liabilities

30. Current loans – *2 thousand euro*
The breakdown of the item is provided in the following table:

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Current bank loans and borrowings	2	19	(16)
Total	**2**	**19**	**(16)**

31. Current portion of non-current bank loans – *0 thousand euro*
The current portion of non-current bank loans was completely cancelled at 31 December 2012 by the equivalent but opposite impact of the current portion of the implicit debt in the structure of the Interest Rate Swaps that were taken out and the lower debt arising from the recognition of the adjustment to the amortised cost regarding the loan hedged by the IRS.

32. Current portion of non-current provisions and current provisions – *19,175 thousand euro*
The current portion of non-current provisions amounted to 19,175 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 26).

33. Trade payables – *167,036 thousand euro*
This item includes all trade and operating liabilities whose amount and due date are certain. All the payables arise from Italian transactions.

The item decreased by 5,825 thousand euro compared to 31 December 2011.

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

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Suppliers	167,036	172,861	(5,825)
Total	**167,036**	**172,861**	**(5,825)**

Payables due to third-party suppliers fell compared to the previous year by 5,825 thousand euro. The balance at 31 December 2012 mainly consists of residual amounts payable to companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from personnel and operating support services, and from the purchase of electricity and gas service for internal use.

34. Income tax liabilities – *2,151 thousand euro*

Income tax liabilities compared to the previous year fell by 12,143 thousand euro (in the previous year the item amounted to 14,294 thousand euro). The item includes IRES liabilities due to the consolidating company F2i Reti Italia relating to the tax consolidation totalling 1,002 thousand euro.

35. Current financial liabilities – *109,749 thousand euro*

Current financial liabilities refer to the fair value of derivatives at 31 December 2012 (103,514 thousand euro) following the revised valuation based on the estimated rate curves at 31 December 2012, as well as interest expense accrued on the loan (195 thousand euro) and the spread of derivatives. Finally, it is necessary to note the impact on the debt position of the current financial liabilities arising from the closure of the previous derivative, which the Group companies will pay to the pool of banks over the next 7 years over the life of the new derivatives, for a total of 6,039 thousand euro.

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Accrued expenses for interest on current bank loans and borrowings	195	18,966	(18,770)
Fair value of cash flow hedges	103,514	22,136	81,378
Current portion of financial liabilities	6,039	7,376	(1,337)
Total	**109,749**	**48,479**	**61,271**

36. Other current liabilities – *129,356 thousand euro*

Other current liabilities are set out below.

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Other tax liabiities	8,268	6,692	1,576
Social security contributions	7,628	7,732	(104)
Other liabilities	99,215	89,269	9,947
Accrued expenses	4,432	5,591	(1,159)
Deferred income	9,812	17,666	(7,853)
Total	**129,356**	**126,948**	**2,407**

Other tax liabilities, amounting to 8,268 thousand euro, are set out below.

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
VAT liabilities	4,972	3,472	1,500
Employee withholding taxes	2,973	2,809	164
Withholding taxes	91	222	(131)
Other taxes	233	188	44
Total	**8,268**	**6,692**	**1,576**

Social security contributions, amounting to 7,628 thousand euro, are set out below.

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
due to INPS	6,639	6,591	48
due to other agencies	989	1,141	(152)
Total	**7,628**	**7,732**	**(104)**

Other liabilities, amounting to 99,215 thousand euro, are set out below.

Thousands of euro	31.12.2012	31.12.2011	2012 - 2011
Payables due to employees	9,090	9,092	(2)
Payables due to municipalities for rights and fees	8,331	7,548	783
Connection contribution and other payables due to customers	5,601	3,927	1,674
User guarantee deposits and advances	1,634	1,500	134
Payables due to compensation Fund	67,445	56,614	10,832
Payables due to municipalities for tariffs	547	547	0
Other payables	6,567	10,042	(3,474)
Total	**99,215**	**89,269**	**9,947**

Liabilities to the Compensation Fund consist of payables for the entries that are transferred through the invoicing mechanism to the trading companies and then paid to the Compensation Fund generally on a two-monthly basis (45,450 thousand euro), payables relating to the amount of equalisation for 2009, 2010 and 2011 (16,153 thousand euro) which was still not finalised at the reporting date and, for the remainder, payables relating to the advances received for the equalisation for 2012.
Accrued expenses and deferred income, amounting to 14,245 thousand euro, are set out below.

Thousands of euro

	31.12.2012	31.12.2011	2012 - 2011
Accrued expenses			
Additional monthly accrual for employees	4,402	4,908	(506)
Other accrued expenses	30	683	(653)
Total accrued expenses	**4,432**	**5,591**	**(1,159)**
Deferred income			
Grants related to assets	1,794	3,191	(1,397)
Property subdivision contributions	2,354	2,003	352
Connection fees	4,416	11,694	(7,278)
Plant transfer contributions	222	165	57
Other deferred income	1,026	613	413
Total deferred income	**9,812**	**17,666**	**(7,853)**
Total accrued expenses and deferred income	**14,245**	**23,257**	**(9,012)**

As already noted, at 31 December 2012 the Group had outstanding contracts to hedge the interest rate risk.

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

The liabilities held for sale in 2012 were zero as in the previous year.

Related party disclosures

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

The related parties are:

- F2i Reti Italia S.r.l.;
- Enel S.p.A.;
- Enel Distribuzione S.p.A.;
- Enel Energia S.p.A.;
- Enel Servizi S.p.A.;
- Enel Servizio Elettrico.

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

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

The most important trade receivables concern receivables due from Enel Energia (89,381 thousand euro), mainly relating to the transport activity undertaken for the Enel Group gas sales company.

The main trade payables refer to payables due to the Enel Group, in particular to the service company Enel Servizi (11,556 thousand euro), Enel Energia (6,705 thousand euro), Enel Distribuzione (4,882 thousand euro) and Enel S.p.A. 716 thousand euro; the amounts due to Enel Servizi and Enel S.p.A. concern contracts for services provided by these Enel Group companies.

The dividend payment of 33,973 thousand euro refers to the distribution of profit for 2011 to F2I Reti Italia S.r.l. and Enel Distribuzione S.p.A..

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

Trading, financial and other transactions involving the Group, its parents, subsidiaries, other Group companies and the parents' other related parties are detailed below.

Trading and other transactions

Year 2012

Thousands of Euro	Trade Receivables	Payables	Costs	Trade Revenue
Enel Distribuzione	386	(4,882)	16,160	11,402
Enel Energia	89,663	(6,705)	5,771	271,895
Enel S.p.A.		(716)		
Enel Servizi		(11,556)	19,684	
Enel Servizio Elettrico	151	(3)	4	
Enel Sì			3,439	
Enel Green Power				
F2i Reti Italia S.r.l.				
F2i sgr S.p.A		(20)	40	
Total	**90,199**	**(23,881)**	**45,099**	**283,297**

Year 2011

Thousands of euro	Trade Receivables	Payables	Costs	Trade Revenue
Enel Distribuzione	262	(2,312)	14,670	235
Enel Energia	84,202	(5,651)	4,471	263,301
Enel S.p.A.		(920)	182	
Enel Servizi		(7,533)	20,586	
Enel Servizio Elettrico	149	(1)		
F2i Reti Italia S.r.l.				
F2i sgr Spa		(24)		
Total	**84,612**	**(16,441)**	**39,910**	**263,536**

Financial transactions

Year 2012

Thousands of Euro	Financial Loan Assets	Financial Loan and Borrowings	Financial Expense	Financial Revenue	Dividends
Enel Distribuzione					5,034
Enel Energia					
Enel S.p.A.					
Enel Servizi					
Enel Servizio Elettrico					
Enel Sì					
Enel Green Power					
F2i Reti Italia S.r.l.	1,469	(1,002)			28,940
F2i sgr S.p.A					
Total	**1,469**	**(1,002)**	**0**	**0**	**33,973**

Year 2011

Thousands of Euro	Financial Loan Assets	Financial Loan and Borrowings	Financial Expense	Financial Revenue	Dividends
Enel Distribuzione					20,582
Enel Energia					
Enel S.p.A.					
Enel Servizi					
Enel Servizio Elettrico					
F2i Reti Italia S.r.l.	5,362	(67)			82,846
F2i sgr S.p.A					
Total	**5,362**	**(67)**	**0**	**0**	**103,428**

38. Contractual commitments and guarantees

Guarantees provided totalled 121,073 thousand euro and referred to guarantees provided to third parties. These guarantees refer to bank guarantees (92,158 thousand euro) and to insurance guarantees (28,915 thousand euro).
These guarantees were granted in favour of maintenance and extension work for the distribution network and participation in tenders for gas distribution service management.
Finally, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements which have not been mentioned in the financial statements and that would generate significant effects on the Group's financial statements.

Contingent liabilities and assets

Contingent liabilities

There were no contingent liabilities notified at 31 December 2012.

Contingent assets

There were no contingent assets notified at 31 December 2012.

Independent auditors' fees

The fees for 2012 recognised to the independent auditors totalled 562 thousand euro and relate to the audit of the separate financial statements, the consolidated financial statements, and of the financial statements pursuant to Resolution no. 11/08.

Management and coordination

F2i Reti Italia S.r.l. has exercised management and coordination over the Enel Rete Gas Group since 1 October 2009.
Below are the key figures from the financial statements of F2i Reti Italia S.r.l. at 31 December 2011.

Thousands of euro	31/12/2011
Statement of Financial Position	
Non current assets	717,496
Current assets	40,813
Prepayments and accrued income	0
Equity	589,678
Provision for risks and charges	398
Post-employment benefits	0
Payables	168,232
Accrued expenses and deferred income	0

	31/12/2011
Income Statement	
Production revenues	0
Production costs	(776)
Financial income	35,816
Financial expense	(12,581)
Extraordinary income	
Extraordinary expense	(16)
Income taxes	3,158
Profit for the year	25,601

XI. Corporate Governance

Organisational and Management Model

Legislative Decree no. 231 of 8 June 2001, entitled “Administrative liability of legal entities, companies, and associations, including without legal personality”, and subsequent amendments introduced corporate administrative liability for several specific crimes (extortion, bribery, fraud against public officials in Italy and abroad, corporate crimes, environmental crimes, etc.) committed by natural persons who represent, direct, manage or administer a company or by natural persons subject to their management or supervision.
On 16 March 2011 the Parent’s Board of Directors - in consideration of the company leaving the scope of consolidation of the ENEL Group and the opportunity to reflect the contribution, experience and underlying principles provided by the new controlling shareholder F2i Reti Italia S.r.l. – approved and issued, in implementation of the provisions of art. 6 of Legislative Decree no. 231/2001 of 8 June 2001, its own independent and distinct “Organisational and Management Model” (in place of the Organisational and Management Model of the Enel Group that had previously been adopted by Resolution of the Board of Directors on 18 December 2002). It also appointed the company Supervisory Body to monitor implementation, ongoing updating, effectiveness of and compliance with the Organisational and Management Model under Legislative Decree no. 231/2001, jointly and with autonomous powers of initiative and control in the persons of the internal audit manager Angelo Santo Bargigia, the Chairman of the Board of Statutory Auditors, Marco Antonio Modesto Dell’Acqua, and Daniela Mainini, the latter being appointed Chairwoman of the Supervisory Body.

The purpose of the model is the construction and the fine-tuning of a structured and comprehensive system of control procedures and activities, to be implemented also as a pre-emptive measure, aimed at preventing the types of crimes listed in the Decree, in particular through identification of "operational areas at risk” and the setting up of procedures for them.
The model consists of a “general section” and individual “special sections” detailing the different types of crimes listed in Legislative Decree no. 231/2001 and subsequent amendments.

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

Code of Ethics

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

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

XII. Report of the Board of Statutory Auditors

ENEL RETE GAS S.P.A.

STATUTORY AUDITORS REPORT ON CONSOLIDATED

FINACIAL STATEMENT AS OF 31.12.2012

To the Shareholders.

The Board of Directors has given to this Board the consolidated financial statements of the ENEL RETE GAS Group.

The consolidated financial statements for the year ended 31 December 2012 has been prepared in accordance with accounting policies and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under the procedure art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and, where applicable, by the rules of the Civil Code.

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

The consolidated financial statements for the year 2012 include 7 companies, including Enel Rete Gas SpA.

The consolidation perimeter consists of the following companies:

- G6 Rete Gas S.p.a.
- Italcogim Velino S.r.l.
- Italcogim Trasporto S.r.l.
- CBL Gas Distribution S.r.l.
- Gas Networks S.ca.r.l. in liquidation

- G.P. Gas S.r.l.

The criteria for consolidation are contained in section 4 of the notes to the consolidated financial statements for 2012.

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

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

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

Milan, April 8, 2013

Board of Statutory Auditors

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

(signed on the original)

Dott. Giancarlo Fornaciari (Standing statutory auditor)

(signed on the original)

Dott. Ugo Gaspari (Standing statutory auditor)

(signed on the original)

XIII. Report of the Independent Auditors

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

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

To the shareholders of
Enel Rete Gas S.p.A.

1 We have audited the consolidated financial statements of the Enel Rete Gas Group as at and for the year ended 31 December 2012 comprising the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, in accordance with the requirements of IFRS 3 "Business combinations", the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such financial statements and issued our report thereon on 29 May 2012. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2012.

3 In our opinion, the consolidated financial statements of the Enel Rete Gas Group as at and for the year ended 31 December 2012 comply with the International Financial Reporting Standards endorsed by the European Union. Therefore, they are clearly stated and give a true and fair view of the financial position of the Enel Rete Gas Group as at 31 December 2012, the results of its operations and its cash flows for the year then ended.

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

5 The directors of Enel Rete Gas S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the directors' report with the financial statements to which it refers, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report is consistent with the consolidated financial statements of the Enel Rete Gas Group as at and for the year ended 31 December 2012.

Milan, 8 April 2013

KPMG S.p.A.

(signed on the original)

Massimo Maffeis
Director of Audit

XIV. Regulatory Appendix

on tariffs

- start of proceedings to establish the provisions to regulate the new 2013-2016 tariff cycle (the start of which, as noted previously, was then deferred by one year to 2014, extending to 2013 the provisions of the 2009-2012 regulatory period);
- change in the tariff regulation for the 2009-2012 period in regard to the aspects considered illegitimate by the TAR and the Council of State following the appeals made by some operators, so as to be able to redetermine the tariffs for 2009 and 2010 and subsequently approve the tariffs for 2011 and 2012 (and also 2013 as a year's extension of the 2009-2012 regulatory period);
- amendments to tariff regulation for the metering service on natural gas distribution networks to be introduced in relation to the obligations provided for by Resolution ARG/gas 155/08 concerning the installation of remotely read meters;
- update of the reference rate to calculate the interest on arrears to be applied to operators in the case of non-payment or only partial payment of the sums due to the Compensation Fund for the Electric Sector;

Rules for access to gas distribution networks and standards for communication and/or exchange of data between operators

- implement the initial alignment of the registration data for redelivery points between sales companies and distribution companies;
- introduce a regulation for the handling of complaints made by operators against an operator of a transmission, transport, storage, LNG or distribution system, in relation to the provisions of Legislative Decree no. 93/11 (the so-called "third energy package");
- start proceedings to assess the setting up and operation of a database on contractual non-compliance by end customers in the energy sector;
- issue the new so-called "settlement" regulation, in other words the new process of settlement of natural gas, into force from 1st January 2013, starting from communications used for allocations made by distribution companies to the leading transport company (Snam Rete Gas), envisaging monthly settlement sessions (during which distribution companies send the leading transport company metering data) and an annual adjustment session (under which the adjustment of economic items between transport network users is carried out on the basis of the further metering data that has reached distribution companies in the meantime);

Rules for quality and security for gas services

- completion of the determination of the starting levels for the mechanism providing incentives for safety improvements envisaged by the Regulation on Gas Distribution Quality (RQDG) as set out in Resolution ARG/gas 120/08 for natural gas distribution companies with more than 50,000 end customers (which have been obliged to adopt the mechanism as from 2010), so as to be able to approve the bonuses and/or penalties for 2010, and then also for companies with between 10,000 and 50,000 end customers and with fewer than 10,000 end customers (which have been obliged to adopt the mechanism as from 2011 and 2012 respectively);

- verify the need for further extension of the waiver to simplified procedures of activation of supply for the municipalities of the Abruzzo region hit by the 6 April 2009 earthquake;
- commencement of proceedings to review the provisions on service quality for the 2013-2016 regulatory period (the start of which, as for the tariff regulation period, was then deferred by one year, to 2014, extending to 2013 the provisions for the 2009-2012 regulatory period);

on gas metering

- remodulate the timeframes of the smart meter installation plan as set out in Resolution ARG/gas 155/08, and at the same time review some aspects of the tariff regulation relating to the metering service, introducing in particular standard costs for the assessment of new investments and related profit/loss sharing mechanisms;

on protection of end customers:

- introducing preventative and recovery measures in cases of unsolicited contracts and activations of supplies of electricity and/or natural gas;
- complete the system for data collection on the compensation paid by (sale and distribution) companies;
- introduce a reconciliation service for energy customers;
- adopt urgent measures in favour of the populations of the municipalities of Emilia-Romagna and surrounding regions affected by the earthquake of 20 May 2012;
- adopt urgent measures in favour of the contact point for energy users at the Single Buyer to handle complaints;

on last resort services:

- adoption, pending the decisions of the TAR of Lombardy on the appeals against the default service on the distribution network introduced by Resolution ARG/gas 99/11 (ruling no. 3228/2012 was then issued on 28 December 2012, cancelling the service), of measures for:
- initial implementation of the regulation on gas arrears, introducing new procedures to assess monthly and weekly capacities for work to suspend supply due to arrears which distribution companies must guarantee to users of their networks and a mechanism, for the same distribution companies, to cover the costs connected to the work to interrupt supply (so-called “column cut-off”);
- completion of the regulation of the default service, defining the related remuneration and the possibility for the distribution company to delegate the

undertaking of this service to a temporary supplier identified by means of a public procedure;

- adopt provisions to guarantee the settlement of the transport system in relation to offtakes at redelivery points in the absence of the customer, introducing a "default" service relating to the transport network;

on tenders for the assignment of the gas distribution service:

- start proceedings for the adoption of the implementing provisions on the tender criteria envisaged by the Decree of the Ministry of Economic Development no. 226 of 12 November 2011 (definition of the electronic format for data on the status of consistency, the one-off charge to cover tender costs, the standard service contract and identification of the operating methods to assess the investments offered on energy efficiency) and implementation of relevant provisions;

Regulation on accounting and administrative separation for operators (unbundling):

- introduce mechanisms to discourage failure to comply with the obligations for operational separation and/or obligations for accounting separation;
- continue with the proceedings started with resolution ARG/com 115/11 to review the regulation of administrative and accounting separation, in order to extend and coordinate its application to all the sectors for which the AEEG is competent.

on energy efficiency

- update the regulation of the mechanism of energy efficiency certificates in reference to the economic support for high-yield cogeneration;
- approve, as part of the activities to implement the provisions regarding the Ministerial Decrees of 20 July 2004 as amended and supplemented, the design and measurement proposals for energy efficiency projects submitted by operators;

on transport of gas on the national gas pipeline and storage (with impact on distribution)

- issue new provisions for 2012 on the contribution mechanism to contain natural gas consumption pursuant to the Ministerial Decrees of 11 September 2007 and 29 December 2011;
- approve updates to the network code;

on checks on operators

- strengthen the control activity, arranging an increasing number of checks on operators;
- commence formal investigations against some operators, also imposing sanctions.

XV. "Regulatory framework" Appendix

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

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

The Ministerial Decree identifies various implementing provisions:

- standard service contract (Ministry on the proposal of the AEEG pursuant to art. 14, paragraph 1 of Legislative Decree no. 164/2000; approval by means of Resolution 514/2012/R/gas of 6 December 2012 of the proposed standard contract model to be put to the Ministry of Economic Development;
- standard plant data report (AEEG pursuant to art. 4 of Ministerial Decree no. 226/2011); the AEEG, by Resolution no. 532/2012/R/GAS of 13 December 2012, prepared the single electronic format which must be used as from 1 January 2013 and, up to that date, the printed formats prepared and attached to the same Resolution must be used;
- pricing scale for investment assessment (AEEG pursuant to art. 5, Ministerial Decree no. 226/2011);
- calculation of tender costs (AEEG pursuant to art. 8, Ministerial Decree no. 226/2011); the AEEG, by Resolution no. 407/2012//R/gas of 11 October 2012, identified the related criteria;

- procedures relating to energy efficiency investments subject to tender (AEEG pursuant to art. 13 of Ministerial Decree no. 226/2011);
- Monitoring and support with program to calculate the realisable amount of concessions (VIR) (Ministry pursuant to art. 17 of Ministerial Decree no. 226/2011).

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

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

In the Official Bulletin of the Lombardy Region no. 16 of 20 April 2012, the Regional Law of Lombardy no. 7 was published on the "Measures for growth, development and employment" (*"Misure per la crescita, lo sviluppo e l'occupazione"*); in order to streamline the updating process of the registry of the subsoil, art. 42 point 3 provides for that all subjects who manage infrastructure on the subsoil, must, by 30 June, provide the competent local offices with cartographic documentation, on a digital support, of the infrastructure managed, with an indication of its location and size. The same obligation is incumbent on the implementing party during work to build or lay the foundations of new civilian infrastructure. It also established that the Regional Council, by means of its own resolution, shall establish the means of implementing the provision.
Failure to comply with these obligations at point 4 of art. 42, entails a minimum penalty of 5 to a maximum of 15 euro for every linear meter of infrastructure, as well as a ban on issuing new construction permits for the realisation of infrastructure on the subsoil of the same territory. In this regard a subsequent Regulation with implementing and executive provisions will be issued.

Law Decree no. 83 (Urgent measures for the country's growth) was published in the Official Journal (of the Italian Republic) of 26 June 2012; art. 37 of the Law Decree

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

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