



**Consolidated Interim Financial
Report
at 30 June 2018**

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II. Corporate Boards

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

Directors' Report

1. Macroeconomic scenario

After the slowdown observed by the Bank of Italy in the first quarter of 2018, in its Economic Bulletin of July 2018 the Bank noted that the short-term prospects for the global economy remain favourable overall.

In the first quarter GDP rose by 0.3%, while in the second quarter the trend was around +0.2% on the prior period. According to the macroeconomic forecasts presented, growth will continue over the next three years, even if the rate of growth will be affected going forward by higher oil prices. On the basis of the annual data, which are not adjusted to the number of working days, GDP will rise by 1.3% in 2018.

For its part, the company will constantly monitor the indicators that are most important for its business, such as new installations of meters and grid connections, which in the half saw a modest slowdown compared to the plan at the start of the year.

2. Significant events during the reporting period

On 1 February 2018 the Group, both through the parent company 2i Rete Gas S.p.A. and through the subsidiary 2i Rete Gas Impianti S.r.l., completed the acquisition of the equity stakes in Nedgia S.p.A., which includes 60% of the investment in Cilento Reti Gas S.r.l., and in Gas Natural Italia S.r.l.

Thanks to this transaction the Group added a further 460 thousand customers over 7,300 km of network to its distribution portfolio, as well as a further 223 concessions, strengthening its presence in Central and South Italy and increasing the number of Minimum Territorial Areas (or ATEMs) in Italy where it is present.

The operation was verified by the Antitrust Authority, which authorised it while requesting some measures to maintain market equilibrium. To this end the Group arranged a tender for the sale of two blocks of concessions which were identified in the areas of Bari and Foggia; at the end of the tender which was held in the first half of 2018, 2i Rete Gas S.p.A. assigned to Centria S.r.l, a subsidiary of Estra S.p.A., the plants of the ATEMs of Foggia 1 North and Bari 2 South which were being disposed of.

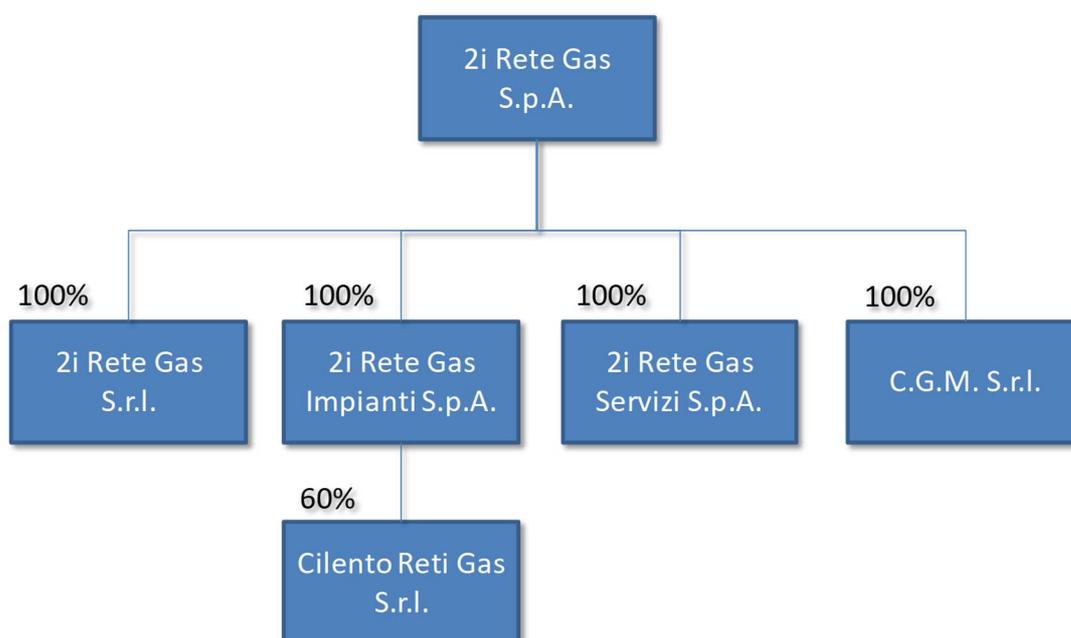
Once the acquisitions were completed on 1 February, the plan immediately started for the corporate and organizational integration into the Group of the new companies that were acquired across all the business areas; with the first half the goal was achieved to complete local integration of the operational activities into the parent company in an extremely challenging timeframe.

Through management and coordination instruments and service contracts, all the service and head office work for the Group and for Edison Energie, formerly Gas Natural Vendita, was also coordinated.

On 11 May 2018 the Group then acquired through the parent company 2i Rete Gas S.p.A. a distribution company in the province of Piacenza, Compagnia Generale Metanodotti S.r.l. (C.G.M. S.r.l.). The acquisition introduced a further concession into the scope of consolidation (Municipality of Cadeo).

3. Group structure and highlights

The following chart presents the situation of the Group at 30 June 2018:



Regarding the Group's operating and financial highlights, the following table shows the key operating, economic and financial indicators of the Group at 30 June 2018 compared to the previous year as well as the first half of 2017 alone:

	30.06.2018	31.12.2017	30.06.2017
Active concessions:	2,150	1,943	1,943
Active redelivery points:	4,383,451	3,918,100	3,904,154
Distributed Gas (Natural gas and LPG) in millions of cu	3,605	5,743	3,242
EBITDA in millions of euro:	226.0	408.3	195.5
Net income in millions of euro:	75.6	121.6	48.0
Managed networks in kilometers:	66,064	58,589	58,356

	30.06.2018	31.12.2017	30.06.2017
Net financial position in millions of euro:	2,711.5	2,009.2	2,045.3
Net invested capital in millions of euro:	3,434.0	2,769.3	2,736.1

4. The scope of consolidation

Following the operation set out in the previous paragraph, the scope of consolidation of the 2i Rete Gas Group underwent a marked change in the reporting period. In particular, from the viewpoint of the companies it controls, the Group now includes 2i Rete Gas Impianti S.p.A., 2i Rete Gas Servizi S.p.A. and (60%) Cilento Reti Gas and C.G.M. S.r.l., as well as the companies held at 31 December 2017.

While not changing the Group's scope, on 1 January 2018 Genia Distribuzione S.p.A. was merged into the parent company 2i Rete Gas S.p.A., while 2i Rete Gas Impianti S.r.l., a special purpose company used to buy two of the three aforementioned companies from the Gas Natural Fenosa Group, was reverse-merged into 2i Rete Gas Impianti S.p.A. in the first half of 2018.

In terms of timeframes, the first three aforementioned companies joined the scope of consolidation as from 1 February 2018, while C.G.M. as from 11 May 2018 and so from those dates the related costs and benefits have been recorded in the consolidated financial statements. The allocation of the purchase price for all the companies acquired, which should be considered as provisional in this interim report, was calculated with reference to the same date.

5. Results of the 2i Rete Gas Group

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

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

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

Millions of euro	30.06.2018	30.06.2017	Change
Revenue	552.6	494.4	58.2
Transport and sale of methane gas and LPG	316.8	278.5	38.3
Connection fees and accessory rights	7.4	8.3	(1.0)
Other sales and services	13.7	11.9	1.7
Revenue from intangible assets / assets under construction	122.3	98.0	24.3
Other revenue	92.5	97.7	(5.2)
Operating costs	(326.6)	(298.9)	(27.8)
Labour costs	(63.1)	(57.1)	(5.9)
Raw materials and inventories	(33.4)	(35.4)	2.0
Services	(127.4)	(102.7)	(24.8)
Other costs	(96.6)	(97.9)	1.3
Allocations to provisions for risks and charges	(6.5)	(6.3)	(0.2)
Increase in fixed assets not subject to IFRIC 12	0.3	0.5	(0.2)
EBITDA	226.0	195.5	30.4
Amortisation, depreciation and write-downs	(91.6)	(76.5)	(15.2)
Amortisation, depreciation and impairment losses	(91.6)	(76.5)	(15.2)
EBIT	134.3	119.1	15.3
Net financial income (expenses) and income (expenses)	(25.8)	(49.1)	23.3
Pre-tax income	108.5	69.9	38.6
Income taxes for the year	(32.9)	(22.0)	(10.9)
Net income (expenses) from continuing operations	75.6	48.0	27.6
Net income (expenses) from discontinued operations	-	-	-
Net income for the year	75.6	48.0	27.6

IFRIC 12, which represents the basis of presentation of the consolidated interim financial statements, does not affect profitability, and only requires recognising revenues and costs relating to the construction of distribution network infrastructure; for the sake of a better understanding of operating changes, here below is a summary table that shows consolidated revenues and costs excluding the impact of IFRIC 12.

Millions of euro	30.06.2018 without IFRIC 12	30.06.2017 without IFRIC 12	Change
Revenue	430.3	396.4	33.8
Transport and sale of methane gas and LPG	316.8	278.5	38.3
Connection fees and accessory rights	7.4	8.3	(1.0)
Other sales and services	13.7	11.9	1.7
Revenue from intangible assets / assets under cor	(0.0)	-	(0.0)
Other revenue	92.5	97.7	(5.2)
Operating costs	(204.3)	(200.9)	(3.4)
Labour costs	(34.9)	(33.3)	(1.6)
Raw materials and inventories	(1.6)	(3.1)	1.5
Services	(65.5)	(61.3)	(4.2)
Other costs	(96.1)	(97.4)	1.4
Allocations to provisions for risks and charges	(6.5)	(6.3)	(0.2)
Increase in fixed assets not subject to IFRIC 12	0.3	0.5	(0.2)
EBITDA	226.0	195.5	30.4

As set out in the paragraph regarding the scope of consolidation, in terms of timing this scope includes the impact on the Income Statement of the companies bought during the year: the Income Statement thus consists of 6 months' results from 2i Rete Gas and the companies which were its subsidiaries at the start of the period, but just 5 months' results (from February to June) as regards 2i Rete Gas Servizi, 2i Rete Gas Impianti and the subsidiary Cilento Reti Gas, and one month for C.G.M.

Concerning the above tables, revenues, which amounted to 552.6 million euro including the impact of IFRIC 12, increased by 58.2 million euro: revenues from intangible assets contributed approximately 24.3 million euro.

In the half, the contribution to revenues due to the increase in the scope of consolidation was 52.6 million euro.

Revenues from natural gas and LPG transport totalled 316.8 million euro, up by 38.3 million euro of which 35.8 million were due to the change in the scope of consolidation.

Connection fees and accessory rights of 7.4 million euro fell by 1.0 million euro compared to the prior-year period, when the figure was 8.3 million euro, showing a lower result essentially owing to a different accounting treatment which was adopted to better connect the impact on the income statement of the contribution and that of the asset to which it relates.

Revenues for other sales and services, which totalled 13.7 million euro, grew compared to the previous year, largely thanks to the contribution from the business of the newly acquired 2i Rete Gas Servizi S.p.A.

Revenues other than the above amounted to 92.5 million euro, falling 5.2 million euro compared to the previous year; this item was significantly affected by revenues arising from

the purchases of white certificates as well as by the lower number of certificates acquired during the period (negative for 7.1 million euro).

Technical quality incentive bonuses were instead higher than those realised in the first half of the previous year for around 1.0 million euro (0.5 million euro from the change in scope); the capital gains on the disposal of assets were in line with the prior period, while reimbursements for compensation for damages were boosted by the compensation for the damage caused by the Amatrice earthquake of 2016 (0.9 million euro).

Lastly, with reference to the first table, increase in investments made during the first half of the year, mainly in electronic meters and in relation to obsolete network replacement works, resulted in the recognition of 122.3 million euro in revenue (in accordance with IFRIC 12) under "Revenues from intangible assets / assets under construction", up by 24.3 million euro compared to the prior-year period. The change in scope contributed 9.9 million euro.

Operating costs, totalling 326.6 million euro in the version with IFRIC 12, increased by 27.8 million euro, with an overall impact on the various costs from IFRIC 12 of 122.3 million euro for the current year (98 million in the previous year). Net of this effect, there was an increase in operating costs for 3.4 million euro, due partly to the increase in the cost of labour caused by the expansion in the scope of consolidation and partly to the increase in costs for services, offset by a lower cost for raw materials and for energy efficiency certificates.

More specifically, gross labour costs, totalling 63.1 million euro including the impact from IFRIC 12, increased 5.9 million euro compared to the prior-year period. As for labour costs excluding the impact from IFRIC 12, they were up 1.6 million euro at 30 June 2018.

The cost of raw materials declined by 2 million euro; excluding the impact of IFRIC 12, the change would be a negative 1.5 million euro, from 3.1 million euro in the first half of 2017 to 1.6 million euro in the same period of 2018 thanks to the improved procurement policy also.

Consolidated costs for services increased by 24.8 million euro.

The analysis net of the effect caused by IFRIC 12, however, shows higher overall costs for services of 4.2 million euro. This increase was due largely to the contribution of the new scope of consolidation and to maintenance costs, as well as costs for telephony and meter reading, availability and emergency services.

On the other hand, other costs fell by 1.4 million euro also thanks to the lower purchases of Energy Efficiency Certificates in the first half of 2018 compared to the prior-year period (down 4.3 million euro), higher costs for local and other taxes for 1.0 million euro due to the tax on financial transactions paid after the acquisition of the companies of the Gas Natural Fenosa Group and greater capital losses following the campaign for the mass replacement of traditional meters and renewal of the network (0.5 million euro more than in 2017).

EBITDA, after net allocations to the provision for risks of 6.5 million euro, was 226.0 million euro, up by 30.4 million euro compared to the previous year (195.5 million euro), following the combined effect of higher revenues from transport, the lower level of other revenues

and operating costs which, net of the recognition in accordance with IFRIC 12, grew only slightly.

Amortisation, depreciation and write-downs totalled 91.6 million euro, up by 15.2 million euro compared to the first half of 2017. The increase was due for 11.8 million euro to the different scope of consolidation and includes the amortisation of the capital gain allocated to the concessions acquired.

Therefore, EBIT totalled 134.3 million euro, compared to 119.1 million euro in the first six months of 2017. The same considerations for EBITDA apply also to EBIT.

Financial Income and Expenses were negative to the tune of 25.8 million euro, below the figure of 49.1 million euro compared to the previous period, affected by the liability management exercise and the extension of maturities, which had brought forward the economic impact of the partial settlement of some bonds.

Pre-tax profit, at 108.5 million euro, consequently rose by 38.6 million euro due for 15.3 million euro to better performance from operations and expansion of the scope and for 23.3 million euro to lower financial expenses.

The negative impact from the income tax expense for the period on the Group's accounts totalled 32.9 million euro, significantly up compared to 2017 due to higher pre-tax profit.

The result for the period is therefore positive by 75.6 million euro, with a 27.6 million euro improvement compared to the same period in the previous year.

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

Millions of euro	30.06.2018	31.12.2017	Change
	A	B	A-B
Net fixed assets	3,442.1	2,739.2	702.9
Property, plant and equipment	40.5	37.5	3.1
Intangible assets	3,643.8	2,937.4	706.5
Equity investments	3.9	3.1	0.8
Other non-current assets	55.1	51.8	3.3
Other non-current liabilities	(316.5)	(311.4)	(5.0)
Fair value of derivatives	15.3	21.0	(5.7)
Net working capital:	62.3	89.0	(26.7)
Inventories	26.0	19.0	7.0
Trade receivables from third parties and the G	145.9	273.9	(128.0)
Net receivables/(payables) for income taxes	(7.5)	19.3	(26.8)
Other current assets	267.2	172.4	94.8
Trade payables to third parties	(198.0)	(208.1)	10.1
Other current liabilities	(171.3)	(187.5)	16.2
Gross invested capital	3,504.4	2,828.2	676.2
Other provisions	70.4	58.9	11.5
Post-employment and other employee benefits	47.9	46.0	1.9
Provisions for risks and charges	99.1	86.3	12.8
Net deferred taxes	(76.6)	(73.4)	(3.2)
Net invested capital	3,434.0	2,769.3	664.7
Assets held for sale	31.5	2.1	29.4
Liabilities held for sale	6.6	2.3	4.2
Equity	747.5	759.9	(12.4)
Net Financial Position	2,711.5	2,009.2	702.3

Net fixed assets, which mainly consist of intangible assets related to gas distribution concessions, totalled 3,442 million euro, up 702.9 million euro overall compared to 31 December 2017.

The rise recorded in the item “Intangible assets” of 706.5 million euro was the net result of the new scope of consolidation for 706.2 million euro, new investments of 129.5 million euro, in addition to decreases of 40.5 million euro (30.6 million euro of which were due to the reclassification of Bari and Foggia concessions available for sale) and impairment losses and amortisation in the year totalling 88.7 million euro.

The 3.1 million euro increase in “Property, plant and equipment” was the result of the new scope of consolidation (5.6 million euro), new investments (2.5 million euro), disposals (1.6 million euro), impairment losses (0.4 million euro), and depreciation (3.0 million euro).

Equity investments were up by 0.8 million euro, recording the related value increase of the investee MEA S.p.A. The 3.3 million euro increase in “other non-current assets” was mainly

the result of the rise in medium- and long-term receivables due from the Fund for Energy and Environmental Services (CSEA), while “other non-current liabilities” were up 5.0 million euro due to the increase in medium/long-term deferred income for connection fees, property subdivision, plant transfer and network extension fees.

Finally, the value of the derivatives fell compared to 31 December 2017 by 5.7 million euro owing to the trend in market interest rates compared to the previous year.

Net working capital totalled 62.3 million euro, down nearly 26.7 million euro from 31 December 2017. The most significant changes concerned trade receivables, which were affected by seasonality and decreased by around 128 million euro, and other current assets, with receivables due from CSEA up sharply. Meanwhile payables, even though they declined, were affected only to a minimal extent by seasonal factors.

Therefore, due to the combined effect of the changes in the net long-term fixed assets and the net working capital, the gross invested capital increased by 676.2 million euro from 2,828.2 million euro in the previous year to 3,504.4 million euro at 30 June 2018.

Sundry provisions, totalling a positive 70.4 million euro, were up 11.5 million euro overall, largely because of the change of 12.8 million euro in the provision for risks and charges—and specifically, the provision for disputes on concessions and other provisions for risks and charges—whereas the increase in net deferred taxes weighed on the result and the provision for post-employment and other employee benefits increased due to the changed scope of consolidation.

Therefore, net invested capital increased by 664.7 million euro from 2,769.3 million euro in the previous year to 3,434.0 million euro.

Equity fell by 12.4 million euro, from 759.9 million euro in 2017 to 747.5 million euro at 30 June 2018, due to the net impact of the following changes:

- 85.0 million euro decrease following the ordinary dividend payout;
- 4.4 million euro decrease in the reserves for the valuation of derivatives;
- 75.6 million euro increase following the recognition of the result at 30 June 2018.
- the recording of the non-controlling interest of 1.4 million euro.

The net financial position went from -2,009.2 million euro in December 2017 to -2,711.5 million euro at 30 June 2018 following the purchase of the three companies from the Gas Natural Fenosa Group and of C.G.M. S.r.l., the payment of the dividend for 2017 and by virtue of the positive result on operations in the first half, in line with the seasonal trend.

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

Notes				
Millions of euro		30.06.2018	31.12.2017	Changes
Medium-/long-term bank loans	25	(425.0)	(425.0)	0.0
Medium-/long-term debenture loans	25	(2,394.9)	(2,394.9)	0.0
Cash and cash equivalents with third parties	21	120.3	816.1	(695.9)
Short-term financial receivables	19	15.7	0.0	15.7
Other current financial assets	20	0.0	0.0	(0.0)
Short-term payables due to banks	30	(0.7)	-	(0.7)
Non-current financial liabilities	28	(0.0)	-	(0.0)
Current portion of medium/long-term loans	31	(0.0)	-	(0.0)
Current financial liabilities	35	(39.6)	(19.6)	(20.1)
ESMA net financial position		(2,724.3)	(2,023.3)	(701.0)
Non-current financial assets	15	0.7	0.7	(0.0)
Adjusted net financial position		(2,723.6)	(2,022.6)	(701.0)
Non-current financial assets - costs on loan	15	0.4	0.5	(0.1)
Adjustment of payables due to costs on MLT loan (IAS 39)	25	11.7	12.9	(1.2)
Net Financial Position		(2,711.5)	(2,009.2)	(702.3)
Positive fair value of derivatives	15	15.3	21.0	(5.7)
Accounting net financial debt		(2,696.2)	(1,988.2)	(708.0)

6. Regulatory and tariff framework

6.1 Regulation

As for the activities concerning 2i Rete Gas, the interventions of the *Autorità di Regolazione per Energia, Reti e Ambiente* - ARERA (the Regulatory Authority for Energy, Networks and the Environment, as renamed as from 1 January 2018 with the assignment of responsibility also for the regulation and control of the waste cycle, as a result of Law no. 205 of 27 December 2017) during the first half of 2018 were developed in line with the guidelines already established in the Strategic Framework for the period 2015-2018, but also in light of the end of the third term of the Authority. Pending the appointment of the new members, the current Board, whose term expired on 11 February 2018, as from 12 February nonetheless continued to operate under a specific extension in relation to matters of ordinary administration and not deferrable and urgent matters.

In any case, in the period in question, the Authority issued orders concerning the company and its subsidiaries and regarding the gas sector and water services; among these, in particular, were some orders on tariffs and energy efficiency targets for 2018, the reform of gas settlement and the switching process on the natural gas retail market, as well as on the distribution default service and on biomethane.

Tariffs for the gas distribution and metering service:

In March (Resolution 149/2018/R/gas) definitive reference tariffs were approved for gas distribution and metering services for 2017, on the basis of the final data for 2016 and, again in March, (Resolution 177/2018/R/gas) the provisional reference tariffs were set for gas distribution and metering services for 2018, on the basis of the provisional data for 2017.

As for Energy Efficiency Certificates (EEC), in January, with Resolution 1/2018 DMRT, the data on the primary energy saving targets for 2018 assigned to electricity and natural gas distributors were defined (and submitted to Italy's Ministry of Economic Development - MiSE as well as Gestore dei Servizi Energetici - a publicly-owned company promoting and supporting renewable energy sources in Italy). The companies in the 2i Rete Gas Group were given overall a target of around 630,000 white certificates, i.e. approximately 595,000 for 2i Rete Gas S.p.A. and approximately 35,000 for 2i Rete Gas Impianti S.p.A.

In addition, in April the Authority expressed its opinion (Resolution 265/2018/l/efr) on the draft decree prepared by MiSE together with the Ministry of the Environment and Protection of the Land and Sea (MATTM) setting out changes to the interministerial decree of 11 January 2017 regarding energy efficiency certificates, in order to rebalance the market situation that had been evident for over a year (ministerial decree then issued by the competent Ministries on 10 May 2018 and published in the Official Gazette on 10 July 2018).

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

Gas settlement:

With Resolution 72/2018/R/gas of 8 February 2018 the reform was approved of the provisions to regulate the physical and financial items of the natural gas balancing service, which will be in force as from 1 January 2020, while, regarding switching for end users, the reform was approved of the related process which is valid on the natural gas retail market.

In regard to the distribution default service, in March (Resolution 190/2018/R/gas), the regulation was supplemented for the assessment – on a standard basis – of requests for partial payment or exemption from payment of the penalties envisaged in the case of failure by distribution companies to disconnect redelivery points.

Biomethane:

The Authority has started proceedings to implement the provisions of the Ministerial Decree of 2 March 2018 regarding incentives for the production of biomethane, which also includes the proceedings to update the directives for the connection of biomethane plants to natural gas networks.

Regarding the activities relating to ATEM tenders, during the first half of the year ARERA approved the observations on the reimbursement value for the ATEMs of Vicenza 3, Livorno and Genoa 1 (Resolution 69/2018/R/gas, 283/2018/R/gas and 284/2018/R/gas) and the observations on the tender documentation sent by the contracting authority of ATEM Turin 1 – City of Turin (with Resolution 30/2018/R/gas of 25 January 2018, which has not yet been published).

As for the 2i Rete Gas Group directly:

- in reference to Resolution 626/2016/R/gas of November 2016 (with which, for some locations with assets owned by the local authorities and given the further analyses undertaken following the inspection carried out in June 2011, the recalculation was ordered of the reference tariffs for some years starting from 2009) and following the publication of the sentence of the Regional Administrative Court of Lombardy – Milan section no. 733/2018 which annulled the resolution and the other orders challenged by the company, the Authority ordered (Resolution 166/2018/C/gas of 29 March 2018) an appeal to be made to the Italian Council of State against the Regional Administrative Court's sentence. 2i Rete Gas consequently defended its arguments, which had already been recognised as valid by the Regional Administrative Court of Lombardy;
- in relation to Resolution 704/2016/R/gas, with which the Authority, starting from the investments for 2017, had introduced a limit to the recognition in the tariff of the costs for the individual locations that are being put into operation, Cilento Reti Gas S.r.l. appealed to the Council of State against the sentence of the Regional Administrative Court of Lombardy – Milan Section, of 2018 regarding a previous appeal made against the same resolution;
- with resolution 281/2018/S/gas the Authority, in execution of the sentence of the Council of State, Section VI, 911/18 of February, reduced by two thirds (from 450,000 to 150,000 euro) the sanction applied with Resolution VIS 33/10, in May 2010, on Enel Rete Gas S.p.A. (now 2i Rete Gas S.p.A.) for a disputed violation regarding the gas emergency service, against which the company had appealed to the Regional Administrative Court and, after the latter's sentence, had appealed to the Council of State. The company is therefore awaiting the sum it had paid in excess to be returned.

Provisions and/or other events subsequent to 30 June 2018

After 30 June 2018 the Authority:

- at the request of CSEA, which notified the need to complete some IT updates, put back from 31 July to 30 September 2018 the deadline for the communication of data to calculate total adjustments for 2017 (Resolution 389/2018/R/gas of 19 July 2018);
- in relation to the mechanisms to encourage the technical quality of the service for 2015, after making available to companies for verification in mid-July the results relating to

the bonuses and penalties calculated during the preliminary stage, ordered (Resolution 421/2018/R/gas of 2 August 2018) an advance payment of 80% of the overall net value of the bonus due, which CSEA will arrange to pay by 30 September;

- started proceedings to adopt sanctions and prescriptions on the safety of the natural gas distribution service against Compagnia Generale Metanodotti S.r.l., a company bought by 2i Rete Gas S.p.A. and which joined the Group as from May, for events which occurred before it was bought. Should any sanction be applied, in any case the corresponding guarantees envisaged by the contract to buy the company can be activated.

As mentioned above, on 10 July 2018 the decree of 10 May 2018 regarding energy efficiency certificates was published in the Official Gazette (no. 158). Following the publication of the ministerial decree, the Authority, with document 385/2018/R/gas of 12 July 2018, arranged a consultation regarding its approach to the consequent, necessary adjustment to the rules establishing the tariff contribution to cover the costs incurred by distributors that are subject to the obligations of the mechanisms for energy efficiency certificates.

There were no further significant events.

6.2 Tariffs

In the first half of 2018, the distribution and metering tariffs continued to apply in accordance with the principles established in Resolution 367/2014/R/gas for the fourth regulatory period (2014-2019), in which the revenue elements related to remuneration and amortisation and depreciation are determined on the basis of the annual update of the net invested capital (RAB), taking account of the (net) investments made in the year t-1. The principles of the aforementioned Resolution were partially amended by Resolution 583/2015/R/com, which introduced a revised method for calculating the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors and partially by Resolutions 775/2016/R/gas and 904/2017/R/gas in reference to operating costs, the costs of meter checks, the costs for the remote reading/remote management/concentrator system ("TEL" and "CON") and to the standard costs of investments in G6 or below meters.

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

The invested capital of the distribution companies (RAB) continues to be broken down into localised invested capital and centralised invested capital.

The valuation criterion for localised invested capital in distribution and metering is based essentially on the revised historical cost method.

For the 2018 tariffs, the new investments in metering (G6 or below smart meters) are determined as the average of the effective cost and the standard cost set by the Authority.

The valuation criterion for centralised invested capital is based on a parametric method, except for assets regarding remote metering/remote management/concentrator systems,

which are valued at effective cost. Starting from the 2018 tariffs, the invested capital of such assets takes account of a ceiling that includes the remuneration of capital and the recognition of operating costs.

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

The metering checks are remunerated on the basis of the costs effectively incurred.

The annual “final” recognition of investments for the purposes of determining the net invested capital for distribution and metering for 2018 will take place in November by calculating the changes of the previous year (“t-1”) in order to update the RAB value.

From the viewpoint of the work on resolutions, during the first half of 2018 the Authority proceeded with resolution 148/2018/R/gas to redetermine the tariffs of some operators for 2009-2016 and with resolution 149/2018/R/gas, integrated with resolution 209/2018/R/gas, to determine the “final” reference tariffs for gas distribution and metering services for 2017. In the same period, with resolution 177/2018/R/gas, the Authority set the “provisional” reference tariffs for natural gas distribution and metering services for 2018.

On 28 June the Authority published resolution 359/2018/R/com, with which it confirmed the tariff components destined to cover the system costs of the gas sector (RE, RS, UG1, GS) in force as from 1 January 2018, while resolution 365/2018/R/gas as from 1 July 2018 updated the tariff component UG3 used to cover the costs for late payment.

7. Concession development and operation

The delay continued in the calling of ATEM tenders in Italy by the Contracting Authorities, despite the regulatory interventions (Resolution 344/2017/R/gas and Resolution 905/2017/R/gas) aimed at simplifying respectively the process for analysing VIR-RAB divergences and the process for assessing reimbursement values and tender calls in regard to the assignment of the natural gas distribution service.

As for the ATEM tenders, at 31 December 2017 three were entirely completed: Milan 1 – City of Milan, Turin 2 – Plant of Turin and Belluno.

During the first half of 2018, the following tenders were called:

- on 28 March ATEM Valle d’Aosta (approximately 20,000 active end users, value of the contract 67.6 million euro for the management of the main city Aosta and a further 24 municipalities);

- on 26 June, subject to reopening of the deadlines, ATEM Udine 2 (approximately 91,000 active end users, value of the contract 128.3 million euro for the management of the main city Udine and a further 17 municipalities).

As for operations regarding municipal concessions, the tender was called in the first half for 12 years of the LPG distribution network (propane air mixes) in the Municipality of Cagliari (32,000 active end users, value of the contract 105.6 million euro), including the obligation to change to natural gas as soon as it is available on the island. On 13 July 2018, the Contracting Authority communicated that the Administrative Court for Sardinia has suspended the effect of the tender call and the related acts, accepting the application for relief made by *Mediterranea Energia S.c.a.r.l.*, setting the hearing on the merits of the appeal on 3 October 2018.

7.1 Participation in non-ATEM tenders

The parent company, which had submitted a bid for the tender issued by the Municipality of Poggiomarino (province of Naples) in 2016, was ranked in second place. The final award was published on 9 July 2018 on the Official Gazette.

7.2 Activities on ATEM tenders

2i Rete Gas S.p.A. made its offer on 1 September 2017 for the Belluno tender and, through its subsidiary 2i Rete Gas S.r.l., on 16 January 2017 for the Milan – City and the Milan Plant tender.

As regards the tender of Milan 1 – City of Milan, after completion of the analysis of the two offers received (from 2i Rete Gas S.p.A. and from Unareti S.p.A.), the Tender Commission arranged to verify the anomaly pursuant to art. 16 of Ministerial Decree 226/2011.

The Commission, after requesting and obtaining from the parties a further extension to the validity of the offers up to 12 January 2019, summonsed the parties on 27 July 2018 to inform them – after completing the above verification – of the suitability of both offers and to confirm the final scores indicating an advantage of around 5 points for Unareti S.p.A., deferring the final assignment to a subsequent and separate administrative act.

With Executive Order no. 61/18 of 3 September 2018, which was transmitted to the bidders on the same date, the Contracting Authority notified the final assignment of the tender to the operator Unareti S.p.A.

On receiving the above communication, 2i Rete gas S.r.l. prepared a request to access the acts for the tender procedure with a view to defending its interests.

As for the open tender of Belluno, after the aforementioned presentation of the offers on 1 September 2017, the publication of the nomination of the members of the Tender Commission is still awaited and then it can start its work.

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

7.3 Concessions awarded

2i Rete Gas S.p.A., following the definitive assignment on 24 November 2017 of the tender called by the Municipality of San Nicola in Baronia (AV), as the lead municipality also for the municipalities of Carife, Castel Baronia, San Sossio Baronia, Campitella, Trevico, Vallata and Vallesaccarda, on 23 April 2018 signed the tender contract relating to the concession of the natural gas distribution service in the aforementioned municipalities, subject to completion of the design and construction of the plants.

The outgoing operator SIDIGAS SPA notified on 12 March 2018 a writ of summons before the Court of Benevento to seek the condemnation of the Municipality or of 2iRG to pay the reimbursement value of the gas plants, which is not included in the tender call.

On 22 March 2018, the same company appealed to the Council of State against the sentence of the Regional Administrative Court of Salerno no. 276 of 21 February 2018, which had rejected on grounds of jurisdiction the appeal the company had made against the acts of the tender called by the Municipality of San Nicola Baronia.

With its sentence no. 3217 of 29 May 2018, the Council of State accepted the appeal recognising the administrative jurisdiction, which had been rejected by the Regional Administrative Court of Salerno, and referred back to the same Court the decision on the merits of the appeal.

7.4 Concessions lost

In the reporting period, no concession was lost.

7.5 Acquisition of companies

Besides what has already been reported on the acquisition from the Gas Natural Fenosa Group of the three companies involved in distribution and services in Italy, on 11 May 2018 2i Rete Gas S.p.A. signed with shareholders representing the entire share capital of Compagnia Generale Metanodotti S.r.l. the final agreement to buy 100% of the share capital of the aforementioned company, which manages the natural gas distribution service in the Municipality of Cadeo (PC) in the ATEM Piacenza 2 (approximately 2,700 end users and just over 60 km of network managed).

8. Support for gas distribution activities

8.1 Main Regulatory Changes

During the month of December 2017 and the first half of 2018, the ARERA issued numerous regulations.

We note the following due to their significance to the activities carried out by the "Network Commercial Services":

- Resolution 670/2017/R/gas of 5 October 2017, which, by introducing reform of the settlement process, establishes the provisions to be applied as part of adjustment sessions in reference to the years as from 2013 and until the coming into force of the new regulation for gas settlement;
- Resolution 782/2017/R/gas of 23 November 2017, which supplements the provisions of Resolution 670/2017/R/gas on carrying out adjustment sessions, in reference to the years as from 2013;
- Decision 14/2017 DIMEA of 14 December 2017, which defines the means and the related formats for the transmission to ARERA of information regarding the divergence fees pursuant to the Resolution of ARERA 782/2017/R/gas of 23 November 2017;
- Resolution 850/2017/R/gas of 5 December 2017, which establishes the provisions regarding the extension and updating of the data contained in the official central registry of the Integrated Information System, with reference to the natural gas sector, the provisions of which are applied as from 1 April 2018;
- Resolution 72/2018/R/gas of 8 February 2018, which reforms the provision of gas settlement;
- Resolution 77/2018/R/gas of 8 February 2018, which reforms the switching process on the natural gas retail market;
- Resolution 97/2018/R/com of 22 February 2018, which, for the natural gas sector, starts the proceedings for complete implementation of the provisions of Law 205/2017 on invoicing and metering;
- Resolution 190/2018/R/gas of 29 March 2018, which supplements the detailed procedure for the assessment of requests for partial payment or exemption from payment of the amount envisaged in the case of failure to disconnect redelivery points provided under the distribution default service;
- Resolution 223/2018/R/gas of 5 April 2018, which establishes the determination of the divergence fees for 2013-2019 on gas settlement;

The implementation has been completed of the regulatory changes envisaged as from 1 January 2018; on the other hand, the implementation of the regulatory changes envisaged by the Resolutions, which will come into force subsequently, is ongoing.

8.2 Relations with Traders and Customer Care

Major customers

In the first half of 2018, the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sale companies or traders).

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

- Enel Energia S.p.A. with 37.8%
- Engie Italia S.p.A. with 10.6%
- E.ON Energia S.p.A. with 7.5%
- Edison Energie S.p.A. with 6.4%

Commercial quality

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

The index of "non-standard" services, for the purposes of the service's quality parameters envisaged by ARERA with Resolution 574/2013/R/gas, achieved during the first half of 2018 for the specific quality levels was 0.06% for 2i Rete Gas S.p.A. and 2i Rete Gas S.r.l. and 0.99% for 2i Rete Gas Impianti S.p.A.

For the general quality levels, the overall result was respectively 0.32% for 2i Rete Gas S.p.A. and 2i Rete Gas S.r.l. and 33.77% for 2i Rete Gas Impianti S.p.A.

8.3 Portal for End Customers

In May 2017, the Group made available an Internet Portal to end customers and the installers working on their behalf: these can access a reserved area to submit activation documents pursuant to ARERA Resolution 40/2014/R/gas as well as check the progress.

During the first half of 2018, confirming the effectiveness of this implementation, it was found that 56% of documentation came via digital channels.

8.4 Front Office

In the period, the management of commercial services required by the sales companies took place, in line with the information provided in the previous years, almost exclusively through

the Four portal; this instrument has now been adopted by most of the sales companies, both in the "web" solution as well as in its "application to application" solution.

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

The number of activations in the period for last resort services at Group level was 7,343, of which 3,116 were Fui and 4,227 Default.

In the same period the requests to change supplier that had been successfully completed totalled 162,164 for the 2i Rete Gas Group.

8.5 Commercial Call Centre

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

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

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

8.6 Requirements of the Integrated Information System

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

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

In addition, developments are underway prior to implementation of the provisions of Resolution 77/2018/R/gas relating to switching and ownership processes, with the final attribution to the Integrated Information System of greater process responsibilities which are currently held by the distribution company, on access to the network and verification of the availability of capacity at the city gate.

The provisions will come into force as from 1 November 2018.

8.7 Gas Invoicing and Balancing

Invoicing of Transport and Services

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

Concerning transport invoicing, the amounts to be invoiced to the companies that sell service to end customers and were the holders of service agreements in force at the dates of the 3 seismic events were reduced to zero.

As for service invoicing, the fees for the connection and activation of emergency accommodations as well as for the deactivation of the redelivery points included in the areas affected by earthquakes and their subsequent reactivation were reduced to zero.

The resolution also established how to invoice the so-called relief measures at the request of the end customer, as well as how and when the outstanding balance with the sales companies, that are the holders of the service agreements eligible for relief, will be settled.

The project “Zero Printing” was completed for the Service Invoicing Section, in relation to the management of compensation; this project enabled a change in the means of sending payment letters and the related attachments regarding compensation paid to sales companies, adding to the possibility of using certified email, publication on the FOUR portal, with a consequent benefit in terms of certainty of receipt and clarity in the transmission of information.

Analysis was started regarding the impact of the introduction of the so-called “Electronic Invoicing between private entities”, envisaged as from 1 January 2019 by the Stability Law for 2018.

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

Gas Balances

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

28 February 2018 saw completion of the production and delivery to national/regional transporters and interconnected distributors of the data relating to the so-called “Multi-year Adjustment Session” for 2013-2016.

The changes introduced by Resolutions 670/2017/R/gas and 782/2017/R/gas and by Decision 14/2017/R/gas, issued following a long discussion among those in the sector and ARERA, in which 2i Rete Gas had an active role, made changes necessary to the process and to the supporting information systems.

The work was undertaken in compliance with the envisaged regulatory deadlines; in particular, 23 requests for clarification/verification pursuant to Art. 5.1. of Resolution 670/2017/R/gas were received and then dealt with by 15 March 2018.

The publication by the Balancing Manager of the definitive results of the Multi-year Session, which was originally planned for 18 June, was extended to the end of August 2018, following further, numerous notifications sent by Balancing Users to the Balancing Manager, with operational impacts on the distributor's activities.

8.8 Metering

Owing to the putting into service of smart meters, the number of redelivery points covered by direct reading fell significantly compared to the past.

The Group has completed all the developments required in Resolution 434/2017/R/gas of 15 June 2017, which governs the management of readings as part of the Integrated IT System with reference to the gas sector. As from 1 June 2018, all the data from readings is regularly sent to the sale companies and made available on the Integrated Information System.

8.9 Commercial development

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

For municipalities with a high potential in terms of customers who are not served, following agreement with local administrations, campaigns were introduced to encourage their realisation and activation.

9. Plant construction, environment and safety

9.1 Gas distribution plants

During the first half of the year, a total of around 100 km of piping was laid by the Group companies, of which 41% was high to medium pressure and 59% low pressure.

In line with the company's technical guidelines, the piping laid in the period by the Group companies was around 98% done in HDPE (high-density polyethylene) which is a technologically advanced material widely used by the main international gas operators and has lower operating costs compared to traditional coated steel.

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

The overall size of the network managed by the companies of the 2i Rete Gas Group, at 30 June 2018, was around 66,000 km, of which 7,350 km for 2i Rete Gas Impianti. The Group's networks serve 2,169 municipalities, of which 223 municipalities referring to 2i Rete Gas Impianti.

In addition, over 1,200 primary substations are active which, upstream of the distribution networks that the Group manages, reduce, measure and odourise the gas from the national transport networks. On the network there are also over 15,500 secondary reduction groups with a capacity of at least 120 sm³/h used to reduce pressure between the medium and low pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.

9.2 Service continuity and safety

By March 2018, the Group published the data on the 2017 service safety and continuity technical standards. This work was done by extracting data from the corporate IT systems recorded by the local units during the year. The necessary accuracy and suitability controls were carried out before the data was sent to ARERA.

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

Overall, for the companies of the Group, in terms of constant attention to the safety of plants and end customers, campaigns were undertaken regarding the preventative search for leaks: relating to the planned inspection on the distribution network, equal to over 70% of the high and medium pressure piping and over 60% of the low pressure piping.

As regards checks on the level of gas odourisation, which were carried out in the field in order to provide a complete check on the real level, data was recorded (around 28,000 chromatographic gas tests, of which 11,000 related to the company 2i Rete Gas Impianti) well above the minimum value required by the ARERA (around 3,600 tests), a sign of the particular attention paid to service safety.

In the first six months of the year, consistently with applicable laws and corporate procedural guidelines, the Group started checking the data concerning service Continuity and Safety processes pursuant to Resolution 574/2013/R/gas for the year 2018.

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

9.3 Resolution 155/08 – (Smart meters)

At 30 June 2018, around 1,700,000 smart meters were in service, with the plan to reach the target for 2018 envisaged by ARERA of 50% of the company's total installed meters by the end of the year.

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

The work continued to approve the new meter models, also through new supporting IT instruments, as did the work prior to launching specific tests at the laboratory created to this end in Cremona.

9.4 Planning activities

Despite the continuation of the delay in calling ATEM tenders, work continued to prepare, check and update the detailed technical elements, relating above all to the plants that were previously managed by 2i Rete Gas, for the preparation of technical proposals to be put forward during the tender stage.

In addition, work was directed, besides at the plants for which the Contracting authorities have already made available the technical documentation, also at the plants of 2i Rete Gas which are part of the ATEM tenders with significant documentation. On these plants, it is possible to draw up technical solutions that are presumably more coherent with the final version.

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

10. Water Sector

During the first part of 2018, management of the water service continued in the 3 municipalities where the company is still present. On 23 January 2018, management of the plant at Moscufo (PE) (approximately 1,500 end users) came to an end and was transferred as from 24 January 2018 to A.C.A. S.p.A. In House Providing, a company that manages the integrated water service in the Pescara ATO (Optimal Territorial Area). With the acquisition of 2i Rete Gas Impianti S.p.A., 3 water supply service contracts became part of the Group's operations.

11. Quality, Safety and Environment

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

During 2018 thirty-five checks (internal audits) were planned aimed at ensuring the alignment of the Quality Safety and Environment System to the relevant standards, UNI EN ISO 9001 and 14001, BS OHSAS 18001.

In the first half of the year, 22 of these checks were guaranteed by company internal auditors, of which: 7 were aimed at office facilities, 3 concerned departmental organisation and the remaining 12 underlying Territorial Areas. All the checks made it possible to assess how the organisation is aligned to the relevant standards; in May this situation was validated through a third-party audit carried out directly by the Accredited Body, which certified the three-year renewal of the certifications and at the same time of the key models to the new versions of

UNI EN ISO 9001:2015, UNI EN ISO 14001:2015 (while the model for Health and Safety currently refers to 18001:2007).

The final report confirmed the System as compliant and renewed the Certifications; no evidence of non-compliance was found.

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

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

The Certification Body was engaged also to certify continuity in conformity of the quality management systems of 2i Rete Gas S.r.l. and the integrated QSE management of 2i Rete Gas Impianti.

The periodic check to certify the Quality Management System of 2i Rete Gas S.r.l. as compliant was carried out in March, with the simultaneous transition of the certificate to the new version of UNI EN ISO 9001:2015; this made it possible to obtain renewal of the validity up to May 2021.

The system was compliant without any findings.

In this case too the audits were completed without any findings of non-compliance.

11.1 Prevention and Protection Service

In the first half of 2018, it was arranged to update the Risk Assessment Document for the North West Production Unit, owing to the new territorial organisation, and for the Central Production Unit with the justification of “termination of water distribution work”. For the other production units the Risk Assessment Documents remain valid as updated in October 2017. The new assessments regarding “heatstroke” and “posture” are being drafted/updated.

Safety Management System of the subsidiaries 2i Rete Gas Servizi S.p.A. and 2i Rete Gas Impianti S.p.A.

Following the acquisition, in February 2018, of the two companies 2i Rete Gas Servizi S.p.A. (formerly Gas Natural Italia S.p.A.) and 2i Rete Gas Impianti S.p.A. (formerly Nedgia S.p.A.), it was necessary to realign the safety documents of the new organisation and the system of delegations and proxies.

The work was completed in the timeframes set by the regulatory provisions and reconfigured the two production units, introducing the model of the parent company taking care to maintain the particular features of the individual companies.

In line with the new model, new criteria were introduced to manage and mitigate risks as well as personal protective equipment, arranging at the same time to rebrand the clothing provided to operational staff.

Finally, in May and June obligatory training was again provided with particular attention to the figure of safety managers in line with the obligations of article 37, Leg. Decree 81/08 and the State-Regions agreement.

Workplace injuries:

The overall situation of injuries in the 2i Rete Gas Group shows a total of 9 injuries.

As for, specifically, the situation regarding staff of 2i Rete Gas S.p.A. for whom a comparison with the prior-year period is possible, in the first half there was a downward trend compared to 2017.

Compared to the first half of 2017 in which a total of 12 “non-serious” injuries occurred (i.e. with an initial recovery time of less than 30 days), of which 9 related to operational staff and 3 to clerks, in 2018 the first half overall recorded 9 “non-serious” injuries, of which 7 related to operational staff and 2 to clerks.

All the injuries occurred in the first half, specifically, to operational staff cannot be connected to the work itself and occurred on completion of the main work for reasons not directly related to operations.

For the subsidiaries 2i Rete Gas Servizi S.p.A. and 2i Rete Gas Impianti S.p.A. the situation in the first half was as follows: 2i Rete Gas Servizi S.p.A. did not experience any injuries, while 2i Rete Gas Impianti S.p.A. in the period recorded just one injury to operational staff.

Also for the subsidiary 2i Rete Gas Impianti S.p.A., in relation to the type of injuries the same is true as stated previously for the parent company, i.e. all the events causing injuries cannot be directly related to the work itself.

In this regard, 2i Rete Gas S.r.l. and the newly acquired Cilento Reti Gas do not have any staff.

In order to pursue the objective of “zero injuries” the QSE structure, to support the activities conducted by the prevention and protection service, continued the internal check on workplace safety, at territorial structures, with workers and worksites where contracting companies work. The results of the internal audit work are pooled and help assess the soundness of the choices made in the Risk Assessment Document.

During 2018, workplace health monitoring continued, ensuring the implementation of the relevant programme according to the findings of the risk assessment and based on the relevant health protocol. Up to 30 June healthcare monitoring did not highlight any situations

of people being unfit for their duties that might be serious cases; in the same period no requests for work-related illness were recorded.

As regards the subsidiaries, healthcare monitoring continued in line with the annual plan, ensuring the correspondence of the monitoring to the healthcare protocols defined for the individual companies.

11.2 Environmental issues

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

The Corporate Environmental Analysis, the main document for the assessment of corporate environmental impacts, was updated in May 2018 to harmonise it to the requirements of the new version of UNI EN 14001:2015 and to the other system documents.

It continues removing asbestos from buildings, analysing on-site airborne fibres in collaboration with the Head of the Prevention and Protection Service.

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

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

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

All the environmental parameters for the first half were in line with expectations with the sole exception of the orientation to use recycled paper, an aspect that will be subject to an information campaign in the second half.

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

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

During the first half 3 plants were checked.

The check aimed to verify the quality of the documents certifying the service safety and continuity (management of the emergency service, management of leaks, management of checks on the level of odourisation of the gas distributed, management of the cathodic protection system) which were guaranteed during 2017.

The overall assessment in reference to the selected sample makes it possible to express a judgment of low or no risk, in relation to the likelihood of being sanctioned in the case of verification of the data by ARERA. The proposed corrective or preventative actions, once implemented by the structures concerned, allow to further improve the confidence on compliance of the audited data where necessary.

As for the events for Safety and Continuity, the QSE/SGI structure has planned 7 inspections for 2018 aimed at determining the conformity of the registrations of the commercial quality of the service, carried out on samples selected on the basis of the provincial territory.

11.4 Control over worksite safety

Last year 2i Rete Gas S.p.A. set up the Worksite Safety Control unit which in the DOP/QSE structure deals with, among other things, the monitoring of supervision and control of worksites falling within the application of the provisions of Section IV Leg. Decree 81/08 to protect the figures who guarantee safety.

In the first half of the year, this unit monitored work on 65 network construction and maintenance contracts which came fully into operation at the end of 2017, on which by territorial competence there are 44 coordinators to ensure the safety of the works (CSEs).

The level of control implemented by the CSEs included a high number of inspections with related minutes.

Given the analysis of the data produced from the minutes and the outcomes of the checks carried out by Local Healthcare Authorities or the Provincial Labour Inspectorate on our worksites, the QSE/CSC unit has redistributed information on conduct and new good practice to all the people who are involved in the supervisory process, holding specific meetings locally.

12. Human resources

12.1 Company organization

The first half of 2018 was characterised by work and efforts to integrate 2i Rete Gas Impianti, with consequent analysis and re-engineering of processes and assessment of the specific skills for the most suitable allocation of staff within the organisation of the Group.

Work continued on the job evaluation project relating to technical/operational activities with the aim of surveying the activities in greater detail and so of optimising the most specialised and operational skills of our business with the aim of defining the optimal operational organisational model for all territories.

In keeping with the process to simplify the organisation and logistics of departments and local offices, 11 offices were closed, with the transfer of staff to existing offices.

12.2 Relations with trade unions

The first half of the year saw the conclusion of national agreements relating to the corporate operations for the merger, integration and harmonisation of 2i Rete Gas Impianti into the Group.

Subsequently, in addition, an agreement was signed on corporate welfare linked to the results bonus paid in 2018.

Work continued to define the criteria for renewal of union representation as well as the protocol on work relations.

12.3 Selection

In the first half, the recruitment of 26 new staff was completed through external selection, divided almost equally between processes that started in 2017 and new processes started in 2018.

Given the operation to integrate the staff of 2i Rete Gas Impianti, external recruitment did not involve changing the workforce except marginally, but was almost entirely due to replacement of staff who left their position owing to resignation/retirement, transfers through job postings or maternity leave.

Most of the recruitment came through staff leasing.

As for recruitment through internal job postings, as well as successfully completing 5 recruitment processes which started in 2017, recruitment for a further 6 positions was started, of which 3 positions have currently been filled.

12.4 Training and development

On the training front, efforts in the first half of 2018 were focussed both on management and on specialist themes, as well as on technical and safety themes.

As for the managerial area, training was carried out on some of the main issues such as improving personal dynamics, the ability to collaborate, the management of projects, and the ability to evaluate workers.

As for specialist issues, aimed at supporting employees in carrying out their duties, we may note in particular the organisation and provision of sessions on basic applications.

A specific training project was started for all the staff of 2i Rete Gas Impianti, aimed at training on the IT processes and systems of 2i Rete Gas S.p.A.

Then for all the company staff a training/information session was provided on the New Regulation on Privacy and on Decree 38, with meetings held in all the local departments, and teaching provided by Legal and Corporate Affairs. Finally, training initiatives continued to teach various company systems.

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

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

- first aid courses (basic and refresher training) for nearly 140 employees in some Departments;
- individual courses for 3 new CSEs, including basic (120 hours) or refresher (40 hours) training.
- courses regarding the Safety Manager, supplied at local level;
- a completion course of the course for the Head of the Prevention and Protection Service (RSPP), for two people.

In addition, the provision of the general and specialist course on safety continued via e-learning, which started in 2017 and which in the first half saw it completed by 889 employees.

12.5 Staff administration

During the first half of 2018, the project for the integrated management of the attendance of manual workers became operational and is in operation throughout the whole North department and partially in the North West and South East departments. Its extension is planned to all the national territory by the end of the year.

The activities planned for placement of staff in the structure of 2i Rete Gas Impianti, which entailed analysis of the individual contractual items and the migration of all data relating to the company's staff, were completed on 30 June 2018. As from July, all the employees of the Group are managed by the centralised HR administration.

13. IT systems

The first half of 2018 saw, as regards the information system, a sharp focus on the integration of the companies bought from the Gas Natural Fenosa Group.

The main commitment concerned the integration on the infrastructure side, the migration of data from the systems of Gas Natural to the systems of 2i Rete Gas and the implementation of the functions in use at the companies acquired and not present on the Group information system.

In general, the integration work will continue also in the second half, not only as post-integration support, but also in order to complete the migration of the historic data.

As for smart meters, during the first half an infrastructure review was conducted to guarantee the maximum reliability given the growth in volumes of data managed, implementing the “mass” use and reprogramming of the RF 169 MHz network. Together with this work, the model for “dynamic” reprogramming was also implemented, making use of the system to monitor the effectiveness of mass-market meters for the triggering of smart meters. Finally, advanced analysis functions were issued which enable identification of meters that have acted anomalously, directing recovery work in the field through the tablet supplied to the intervention teams.

The implementation stage was started for the Asset Management project, based on the Business BluePrint realised in the second half of 2017. This project will enable the prior identification of any problems on the asset database. Again, within the scope of the project, functions are being developed to manage the database of concessions (laws, conditions, contributions, etc.) and to optimise the processes for establishing tariffs. During the first few months, the project was also started to redo the technical (AUG) and cartographical (SIR) system.

In the first half important work was completed as part of the Cybersecurity program as well as preparing for technological renewal of the storage and document systems to be implemented in the second half.

14. Research and development

No research and development took place during the period.

15. Risk management

As stated in the Directors’ Report, in the section concerning Enterprise Risk Management, here below are the main financial risks that characterise the sector in which the 2i Rete Gas Group operates. Regarding liquidity, credit and market risks, reference should be made to the relevant section in the notes to the consolidated financial statements.

15.1 Operational risks

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

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

15.2 Regulatory risks

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

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

15.3 Risks deriving from future changes in natural gas consumption

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

15.4 Environmental and safety risks

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

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

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

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

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

16. Outlook

In 2018, the Group will continue improving operational efficiency and curbing costs. Currently, the profitability for 2018 is expected to be in line with the first half of the year.

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

- continue reducing the number of workplace injuries by improving work quality and safety across its operations;
- concentrate resources on the highest value-added network operations through increasingly focused and specialised operational structures;
- complete the integration of the newly acquired companies and the related staff in the Group also for service staff;
- pursue the extraordinary maintenance programme for gas networks approaching the end of their useful life;
- monitor and prepare for ATEM tenders in order to be ready to take up the best market opportunities promptly;
- improve the use of IT tools in order to boost efficiency;
- leverage the functionalities made available by innovation to pursue and improve corporate processes and systems as well as open up new opportunities.

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The Chief Executive Officer
Michele Enrico De Censi

Consolidated Interim Report

Financial Statements

III. Profit or Loss

Thousands of euro	Notes	30.06.2018	of which from related parties	30.06.2017	of which from related parties
Revenue					
Revenue from sales and services	5.a	337,820		298,768	0
Other revenue	5.b	92,454	4	97,658	266
Revenue from intangible assets / assets under construc	5.c	122,326		97,979	
		Sub-Total		494,406	
Costs					
Raw materials and consumables	6.a	33,375		35,420	
Services	6.b	127,449	268	102,674	247
Personnel Costs	6.c	63,052	1,163	57,108	1,180
Amortisation, depreciation and impairment losses	6.d	91,633		76,453	
Other operating costs	6.e	103,087	223	104,203	151
Capitalised costs for internal work	6.f	(316)		(512)	
		Sub-Total		375,346	
EBIT					
		134,320		119,060	
Income / (expenses) from equity investments	7	1,242	1,183	65	65
Financial income	8	35		685	0
Financial expenses	8	(27,099)		(49,890)	
		Sub-Total		(49,140)	
Pre-tax income					
		108,499		69,920	
Taxes for the period	9	32,900		21,956	
Net income from continuing operations					
		75,598		47,963	
Net income from discontinued operations					
	10	-		-	
NET INCOME FOR THE YEAR					
		75,598		47,963	
Net income for the year attributable to:					
- Owners of the Parent		75,605			
- Non controlling interests		(7)			

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IV. Statement of Comprehensive Income

Thousands of euro	30.06.2018	30.06.2017
Net income recognised through profit or loss	75,598	47,963
- Net income attributable to owners of the Parent	75,605	
- Net income attributable to non-controlling interests	(7)	
Other comprehensive income		
<i>Items which will never be reclassified through profit/(loss):</i>		
Revaluations of net liabilities/assets for defined benefits - owners of the Parent	(74)	107
Revaluations of net liabilities/assets for defined benefits - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified through profit / (loss) - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified through profit / (loss) - owners of the Parent	21	(31)
	(53)	77
<i>Items which may be reclassified subsequently through profit/(loss):</i>		
Change in fair value of hedging derivatives - owners of the Parent		
Change in fair value of hedging derivatives - non-controlling interests	(5,709)	9,668
Change in fair value of hedging derivatives reclassified in profit for the period - owners of the Parent		
Change in fair value of hedging derivatives reclassified in profit for the period - non-controlling interests	-	-
Change in fair value of hedging derivatives (tax effect) - owners of the Parent		
Change in fair value of hedging derivatives (tax effect) - non-controlling interests	1,370	(2,320)
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - owners of the Parent		
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interest	-	-
	(4,339)	7,347
Total other comprehensive income	(4,392)	7,424
Total comprehensive income	71,207	55,387
Total comprehensive income attributable to:		
- Owners of the Parent	71,214	55,387
- Non controlling interests	(7)	-

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V. Statement of Financial Position

Thousands of euro	Notes	30.06.2018	of which from related parties	31.12.2017	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	40,546		37,458	
Intangible assets	12	3,643,824		2,937,360	
Net deferred tax assets	13	76,606		73,360	
Equity investments	14	3,864	3,336	3,070	2,553
Non-current financial assets	15	16,386		22,180	
Other non-current assets	16	55,103		51,796	
	<i>Total</i>	3,836,329		3,125,224	
Current assets					
Inventories	17	25,989		19,008	
Trade receivables	18	145,915	22	273,880	18
Short-term financial receivables	19	15,693	400	8	
Other current financial assets	20	7		9	
Cash and cash equivalents	21	120,257		816,138	
Income tax receivables	22	26,108		19,358	
Other current assets	23	267,191		172,370	
	<i>Total</i>	601,159		1,300,772	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	37	31,547		2,141	
	<i>Total</i>	31,547		2,141	
TOTAL ASSETS		4,469,035		4,428,137	

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Thousands of euro	Notes	30.06.2018	of which from related parties	31.12.2017	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent					
Share Capital	24	3,639		3,639	
Treasury Shares		-		-	
Other Reserves		507,058		510,161	
Retained earnings / (accumulated losses)		159,812		124,508	
Net income for the year		75,605		121,624	
Total equity - Owners of the Parent		746,113		759,932	
Equity - non-controlling interests					
Non-controlling interests		1,420		-	
Net income for the year - non-controlling interests		(7)		-	
Total equity - non-controlling interests		1,413		-	
TOTAL EQUITY		747,527		759,932	
Non-current liabilities					
Long-term loans	25	2,808,154		2,806,984	
Post-employment and other employee benefits	26	47,939		46,036	
Provision for risks and charges	27	16,306		9,870	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	31		-	
Other non-current liabilities	29	316,467		311,429	
	<i>Total</i>	3,188,896		3,174,319	
Current liabilities					
Short-term loans	30	706		-	
Current portion of long-term loans	31	17		-	
Short-term portion of long-term and short-term provisions	32	82,749		76,387	
Trade payables	33	198,040	373	208,103	780
Income tax payables	34	33,613		24	
Current financial liabilities	35	39,631		19,559	
Other current liabilities	36	171,277	1,163	187,482	
	<i>Total</i>	526,034		491,555	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	37	6,578		2,332	
	<i>Total</i>	6,578		2,332	
TOTAL LIABILITIES		3,721,508		3,668,206	
TOTAL EQUITY AND LIABILITIES		4,469,035		4,428,137	

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VI. Statement of Cash Flows

Thousands of euro		30.06.2018	31.12.2017
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	21	816,138	183,197
Cash flow from operating activities			
Pre-tax income		108,499	174,091
Taxes for the period	9	(32,900)	(52,466)
1. Net income for the period		75,598	121,624
Adjustments for:			
Depreciation	6.d	91,709	158,304
Write-downs / (Write-ups)	6.d	(76)	2,900
Capital (gains) / losses	5.b/6.e	9,422	19,181
Allocations to provisions for risks and charges and post-employment benefits		9,635	11,741
Financial (income) / expenses	7 and 8	25,822	72,998
2. Total adjustments		136,512	265,124
Change in net working capital			
Inventories	17	(4,942)	1,285
Trade receivables	18	157,806	(41,765)
Trade payables	33	(22,487)	43,698
Other current assets	23	(71,218)	7,362
Other current liabilities	36 and 37	(36,660)	30,469
Net tax receivables / (payables)	22 and 34	37,232	(25,070)
Increase / (decrease) in provisions for risks and charges and post-employment benefits	26, 27 and 32	(5,826)	(11,915)
Increase / (decrease) in provisions for deferred tax assets and liabilities	13	(5,497)	(6,412)
Other non-current assets	16	(2,723)	(6,745)
Other non-current liabilities	29	7,645	8,309
Financial income / (expenses) other than for financing	8	(474)	(283)
3. Total change in net working capital		52,856	(1,066)
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		264,966	385,682
Cash flow (used in) / generated by investing activities			
Net fixed assets		(128,368)	(253,384)
Purchase of subsidiary and income from equity investments	7 and 14	(730,064)	393
Cash acquired through company acquisition		1,916.03	-
C) CASH FLOW (USED IN) / GENERATED BY INVESTING ACTIVITIES		(856,517)	(252,991)
D) FREE CASH FLOW (B+C)		(591,551)	132,691
Cash flow from financing activities			
Dividend payout		(85,032)	(85,032)
Change in reserves		-	(14)
Change in amortised cost	15, 25 and 31	1,235	(1,202)
Financial income for financing activities	8	9	55
Financial (expenses) for financing activities	8	(26,599)	(72,858)
New loan	25	-	155,000
Receipts from debenture loan issues	25	-	1,165,000
Debenture loan settlements	25	-	(660,107)
Change in short-term financial debt	30	(13)	-
Current portion of long-term loans	31	-	-
Change in amortised cost	28	(42)	-
Change in other current financial payables	35	-	-
Change in other non-current financial assets	15	20	35
Change in other financial receivables	19 and 20	(13,982)	913
Change in other financial payables	35	20,072	(1,540)
E) CASH FLOW FROM FINANCING ACTIVITIES		(104,331)	500,250
F) CASH FLOW FOR THE PERIOD (D+E)		(695,882)	632,941
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	21	120,257	816,138

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VII. Statement of Changes in Equity

Thousands of euro	Share capital and reserves							Total - Owners of the Parent	Total - Non-controlling interests	Total consolidated equity
	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year			
Total 31 December 2016	3,639	286,546	728	13,219	206,744	80,076	129,464	720,416	-	720,416
<i>Allocation of income for 2016:</i>										
Distribution of income	-	-	-	-	-	129,464	(129,464)	-	-	-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
<i>Total contribution from shareholders and payments to them as shareholders</i>								<i>(85,032)</i>		<i>(85,032)</i>
- Net income for the year recognised in equity	-	-	-	-	(14)	-	-	(14)	-	(14)
- Change in IAS reserves	-	-	-	2,729	208	-	-	2,937	-	2,937
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	121,624	121,624	-	121,624
Total 31 December 2017	3,639	286,546	728	15,948	206,939	124,508	121,624	759,932	-	759,932
<i>Allocation of income for 2017:</i>										
Distribution of income	-	-	-	-	-	121,624	(121,624)	-	-	-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
<i>Total contribution from shareholders and payments to them as shareholders</i>								<i>(85,032)</i>		<i>(85,032)</i>
- Other changes	-	-	-	-	1,275	(1,275)	-	-	-	-
- Other changes	-	-	-	-	14	(14)	-	-	1,420	1,420
- Net income for the year recognised in equity	-	-	-	-	-	-	-	-	-	-
- Change in IAS reserves	-	-	-	(4,339)	(53)	-	-	(4,392)	-	(4,392)
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	75,605	75,605	(7)	75,598
Total 30 June 2018	3,639	286,546	728	11,609	208,174	159,812	75,605	746,113	1,413	747,527

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

1. Format and contents of the Financial Statements

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

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

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

On 25 September 2018, the Directors of 2i Rete Gas S.p.A. approved this condensed consolidated interim report prepared on a voluntary basis.

For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 25 September 2018.

This condensed consolidated interim report is subject, on a voluntary basis, to a limited audit by PricewaterhouseCoopers S.p.A.

2. Conformity to IFRS/IAS and basis of presentation

This condensed consolidated interim report at 30 June 2018 has been prepared in compliance with (i) the International Accounting Standards (IAS) or the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at the end of the period, (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. In particular, this condensed consolidated interim report has been prepared in compliance with IAS 34 - Interim Financial Reporting. The above standards and interpretations are hereinafter referred to as "IFRS-EU".

Basis of presentation

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

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

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

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

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

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

This consolidated interim financial report has been prepared on a going concern basis, as detailed in the Directors’ Report.

3. Accounting standards, valuation criteria and use of estimates

In preparing the consolidated interim report, the Group has used the same accounting policies as those used in preparing the consolidated financial statements for the year ended 31 December 2017.

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

On 29 March 2018 the IASB issued the document “Amendments to References to the Conceptual Framework in IFRS Standards”, the provisions of which are effective as from years starting on or after 1 January 2020, except for any subsequent postponement established during approval by the European Commission. The document envisages the updating of the references in the international accounting standards, in order to transpose the changes introduced by the revised version of the “Conceptual Framework for Financial Reporting”, issued by the IASB on the same date. The main changes introduced in the new version of the Conceptual Framework largely regard:

- (i) new guidance for assessment, elimination, presentation and disclosure;
- (ii) new definitions of assets and liabilities;

- (iii) clarification of some important concepts, such as the prudence principle and stewardship.

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission in force as from 1 January 2018

On 28 March 2018, Regulation (EU) 2018/519 adopted IFRIC 22 *“Foreign currency transactions and advance consideration”*. The document establishes that when foreign currency transactions occur for which the payment is made or received in advance, the exchange rate to apply for initial recognition of the assets, costs or revenues which will be generated by the transaction for which advance payment/receipt was envisaged, corresponds to the exchange rate in force at the date of advance payment or advance itself. These provisions are effective as from years starting on or after 1 January 2018.

On 22 March 2018, the regulatory provisions included in the document *“Prepayment features with negative compensation – Amendments to IFRS 9”* were approved, as issued by the IASB on 12 October 2017. The document allows the measurement at amortised cost or at fair value through other comprehensive income (OCI) of a financial asset characterised by an option for advance settlement in the case of negative compensation. In addition, the document clarified that, in the case of changes in cash flows arising from the change or exchange of financial liabilities that have not been derecognised, the profit or loss arising from the change or exchange of a financial liability must be recognised through profit or loss.

On 14 March 2018, the Regulation (EU) 2018/400 adopted the changes to IAS 40 *“Investment property – Transfers of investment property”*. The changes clarify that an entity must reclassify a property to or from the category regarding investment property if, and only if, there is evidence of a change in use of the property; a change in the management’s intended use of the property does not represent in itself evidence of a change in use. These provisions are effective as from years starting on or after 1 January 2018.

On 31 October 2017, the regulatory provisions were approved contained in IFRS 16 *“Leases”*, issued by the IASB on 13 January 2016. The new standard on leases, which will replace the current IAS 17, provides for the lessee a single accounting model on the basis of which all leases must be recognised on the statement of financial position and at the same time financial liabilities must be recorded equal to the present value of the future payments. The concept of operating lease disappears. The only exceptions allowed are short-term leases (for no more than 12 months) and leases of small assets (e.g., office furniture, computers) for which the accounting treatment remains similar to that currently adopted for operating leases. If a lease includes a service, the latter cannot be capitalised.

On 26 February 2018 Regulation (EU) 2018/289 adopted the amendments to IFRS 2 *“Share based payments”* aimed at clarifying the accounting treatment of some types of payments based

on shares. The main amendments to IFRS 2 concern the accounting treatment of the ‘vesting conditions’ and “non-vesting conditions” for a transaction with a share-based payment settled in cash; the classification of a transaction with a share-based payment settled net of the obligation for withholding taxes; the recognition should a change in the terms and conditions of a transaction with a share-based payment change its classification from settled for cash to settled with equity instruments.

Companies may apply the changes, at the latest, as from the start date of their first financial year starting on or after 1 January 2018.

On 7 February 2018 Regulation (EU) 2018/182 adopted the annual improvements to the IFRS 2014-2016 which entail amendments to IAS 28 “*Investments in associates and joint ventures*”, to IFRS 1 “*First-time adoption of the International Financial Reporting Standard*” and to IFRS 12 “*Disclosure of interests in other entities*”. The objective of the annual improvements is that of resolving non-urgent issues relating to inconsistencies found in the IFRS or providing clarification of terminology, which were discussed by the IASB during the planning cycle. The companies may apply the amendments to IAS 28 and to IFRS 1, at the latest, as from the start date of their first financial year starting on or after 1 January 2018. The companies may apply the amendments to IFRS 12, at the latest, as from the start date of their first financial year starting on or after 1 January 2017.

On 22 September 2016 Regulation (EU) 2016/1905 adopted IFRS 15 “*Revenue from contracts with customers*”, which intends to improve the accounting recognition of revenue and hence overall the comparability of revenue in the financial statements. The new IFRS 15 defines the criteria for recognising and assessing revenue from contracts with customers. In particular, IFRS 15 envisages that the recognition of revenue is based on the following 5 steps: (i) identifying the contract with the customer; (ii) identifying performance obligations (i.e., contractual promises to transfer goods and/or services to a customer); (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; and (v) revenue recognition when the related performance obligation is met. In addition, IFRS 15 supplements the financial statement disclosure to be provided with reference to the nature, amount, timing and uncertainty of revenue and the related cash flows. This standard, which has been endorsed by the European Union, applies as from 1 January 2018.

Currently, no significant effects are expected from the application of the new standards to the Group’s consolidated financial statements.

Use of estimates

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

The critical judgements made in preparing this consolidated interim report, as well as the key sources of estimation uncertainty, are the same as those in the financial statements for the year ended 31 December 2017.

4. Business combinations

On 1 February 2018, the process was completed to acquire 100% of the equity in Nedgia S.p.A., which includes the 60% stake of Cilento Reti Gas, and Gas Natural Italia S.p.A.

On 11 May 2018, the acquisition process ended for 100% of the stake in Compagnia Generale Metanodotti S.r.l.

With these operations the Group is continuing its growth strategy through integration processes for 2i Rete Gas, aimed at guaranteeing increased service quality, ever higher safety standards, high levels of technological innovation and cost effective operations, so as to be able to compete in more tenders and generate important synergies, economies of scale and density, while at the same time creating value from the resources of the target companies.

The value of the assets and liabilities acquired is largely in line with the book value at the acquisition date, with the exception of the gas distribution concessions, for which it has been arranged to align this amount to the fair value calculated on the basis of the expected and discounted future cash flows at the acquisition date. The fair value of the concessions is shown in the table of intangible assets (note 12). From the process of the provisional purchase price allocation for the acquisitions, goodwill has emerged which is highlighted under intangible assets (note 12) and representative of the synergies envisaged for the respective operations.

Currently no potential liabilities have emerged or become known to the company which are not reflected in the financial statements or potential assets present at the acquisition date.

IX. Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

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

5.a Revenue from sales and services

"Revenues from sales and services" amounted to 337,820 thousand euro in the period and mainly referred to gas transport operations and connection fees.

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

Thousands of euro	30.06.2018	30.06.2017	2018 - 2017
Sales and services			
<i>Third parties:</i>			
Gas and LPG transport	316,892	279,372	37,520
Provision for risks	(76)	(884)	808
Connection fees	4,335	5,518	(1,182)
Ancillary fees	3,019	2,823	196
Revenue from the sale of water	346	824	(478)
Ancillary services - water sector	48	178	(129)
Revenue from customer operations	30	33	(2)
Revenue from purification/sewage management	-	352	(352)
Sundry revenue and other sales and services	13,225	10,554	2,671
Total revenue from sales and services	337,820	298,768	39,052

Revenue from gas transport totalled 316,892 thousand euro and mainly refer to the first half of portion of the 2018 Tariff Revenue Cap for natural gas and LPG.

This figure rose compared to the previous year almost exclusively due to the change in scope of consolidation, which totalled 35,777 thousand euro.

Connection fees totalled 4,335 thousand euro, down 1,182 thousand euro from the prior-year period despite the contribution from the expanded scope. As from the financial statements at 31 December 2017 the method for recognising contributions has changed in

order to better set out the relationship between contributions and assets, therefore introducing a discontinuity in the values shown.

The connection fee is indeed an amount defined through a specific quotation according to the type of service requested and consists of:

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

Unlike the first half of the previous year, in order to ensure a better representation of the correlation between the invoiced fee and the asset to which it refers, since the 2017 financial statements, it has been agreed not to separate the share of the fee which was calculated to cover overhead costs, but to proceed to the total allocation of the fee to capitalised costs, thus deferring the whole sum on the basis of the length of the amortisation of the asset.

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

In “sundry revenues and other sales and services” the positive change for 2,671 thousand euro was mainly due to the change in scope, and in particular to the revenue from the business of 2i Rete Gas Servizi S.p.A.

5.b Other revenues

“Other revenues” totalled 92,454 thousand euro (97,658 thousand euro in the prior-year period), down by 5,204 thousand euro.

This was largely attributable to lower revenues from Energy Efficiency Certificates as a result of the decrease in the number of certificates purchased during the period. The Group made 7,147 thousand euro less in gains on white certificates during the reporting period. This line item must be considered together with the purchase price of the certificates: under the current regulatory framework, these are assigned a price by GSE based on the average of the prices observed in the market for energy efficiency certificates and the cap imposed on them in June 2018.

Under reimbursements for compensation for damages, the positive difference compared to the prior period was largely due to the reimbursement by the insurance company of the damage sustained during the Amatrice earthquake in 2016.

“Other revenues and income and services” rose 1,713 thousand euro, as the handling of customers in default made a further contribution to revenues. The company recognises the relevant costs as incurred.

The estimated revenues for the so-called “technical quality” (Resolution 574/13) rose marginally by 971 thousand euro, with a total value of 5,535 thousand euro for the item, also thanks to the contribution from the scope to the consolidated accounts.

5.c Revenue from intangible assets / assets under construction

As from 1 January 2010, the Company has been recognising this revenue, equal to 122,326 thousand euro, pursuant to IFRIC 12 “Service Concession Arrangements”.

Compared to the prior-year period, there was an increase of 24,346 thousand euro, of which 9,927 thousand euro from the inclusion in the scope of 2i Rete Gas Impianti S.p.A.

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

Costs

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

6.a Raw materials and consumables

“Raw materials and consumables”, equal to 33,375 thousand euro, essentially include the cost for the purchase of materials used to lay gas pipelines as well as vehicle fuel; the amount at 30 June 2018 was down from the prior-year period because of the improved terms and conditions for the supply of some basic materials such as mass-market electronic meters, which are currently being rolled out.

6.b Services

“Costs for services”, amounting to 127,449 thousand euro, are set out below.

Thousands of euro

	30.06.2018	30.06.2017	2018 - 2017
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	59,233	39,552	19,681
Costs for electricity, power and water	1,662	1,641	22
Gas (for internal use)	1,882	2,161	(279)
Telephone and data transmission costs	2,024	1,095	929
Insurance premiums	2,446	2,124	323
Costs for services and other expenses relating to persc	2,818	2,238	580
Fees	350	405	(55)
Legal and notary costs	1,273	488	785
Costs for company acquisitions and disposals	14	115	(101)
Staff and other services	290	-	290
Advertising	27	51	(24)
IT services	3,696	3,085	611
Meter reading service	3,286	3,850	(565)
Audit fees	310	201	109
Repairs and emergency service	3,271	2,459	813
Plant certifications Resolution no. 40	292	265	28
Gas transport by third parties	934	815	119
Professional and other services	2,391	1,909	482
Other costs for services	4,065	2,886	1,180
Costs for the use of third-party assets			
Third parties:			
Leases	2,616	2,622	(6)
Rentals	2,415	3,614	(1,199)
Other costs for the use of third-party assets	1,048	902	147
Fee for temporary occupation of public space (C.o.s.a.ř)	658	635	23
Municipal gas concession fees	30,447	29,561	885
Total	127,449	102,674	24,775
- of which capitalised for intangible assets	61,937	41,404	20,533

Costs for services increased by 24,775 thousand euro compared to the same period last year. For this item, the effect of the contribution from the scope led to an increase of 11,344 thousand euro at 30 June 2018. Please note, also, that as from 2010, all costs relating to the operation of the concessions include network construction costs in accordance with IFRIC 12. Excluding this item, costs for services were up by 4,243 thousand euro.

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

- increase in costs for maintenance, repair and realisation of assets by 19,681 thousand euro, due to the activity performed by the Group during the half; of this 5,502 thousand euro came from the companies acquired in the half;
- energy, water and gas costs in line with the prior-year period despite the scope expansion;
- increase in telephony and transmission costs due almost exclusively to the change in scope;
- increase in legal costs linked to extraordinary operations completed in the half, the change in scope did not have a significant impact on the figure;
- falling costs for the meter reading service despite a significant contribution from the companies acquired; these costs are falling over time thanks to the campaign to replace traditional meters with smart meters which have remote reading;
- higher costs for fees and consideration paid to municipalities for the business development activity (885 thousand euro). Around half of the costs come from the increase in the scope of consolidation (459 thousand euro).

6.c Total personnel costs

Personnel costs of 63,052 thousand euro include all charges incurred on an ongoing basis which, directly or indirectly, concern employees. The item increased by 5,944 thousand euro. Excluding the contribution from the new scope of consolidation of 6,336 thousand euro, the cost fell slightly compared to the previous period (down by 392 thousand euro)

The table below shows the change in the first half of 2018 of employees by category, including of course the contribution from the acquisition of the companies from the Gas Natural Fenosa Group.

	Executives	Middle Management	Operative Employees	Other	Total
Personnel at 31 December 2017	30	104	1,113	682	1,929
Change in the scope of consolidation	3	22	166	60	251
Increase	-	-	10	-	10
Decrease	-	(4)	(24)	(21)	(49)
Personnel at 30 June 2018	33	122	1,265	721	2,141

6.d Amortisation, depreciation and impairment losses

The item, amounting to 91,633 thousand euro in the period, increased by 15,180 thousand euro compared to the previous year.

This change reflects for 11,836 thousand euro the contribution from the scope of consolidation and the remainder from the normal life cycle of intangible and tangible assets, while the impact on the Income Statement of impairment sees an increase of 539 thousand euro owing to the write-downs of some assets for 357 thousand euro and the revision of the estimates of recoverability of some receivables for 182 thousand euro.

This item is broken down as follows:

Thousands of euro			
	30.06.2018	30.06.2017	2018 - 2017
Depreciation	3,015	2,441	574
Amortisation	88,694	74,627	14,067
Impairment losses:			
- Impairment of tangible assets	395	-	395
- Impairment of intangible assets	-	38	(38)
- Write-down of trade receivables	(471)	(653)	182
	91,633	76,453	15,180

6.e Total other operating costs

“Other operating costs”, amounting to 103,087 thousand euro at 30 June, largely consisted of the costs for the purchase of Energy Efficiency Certificates, losses on the disposal of assets, and net provisions for risks and charges, and were down 1,117 thousand euro from the prior-year period.

The decrease was the result of the lower number of certificates purchased (negative for 4,317 thousand euro) and the greater losses arising from the write-off and sale of assets amounting to 9,964 thousand euro (9,508 thousand euro at June 2017), because of the programme to overhaul obsolete networks as well as replace conventional meters, and 88 thousand euro (31 thousand euro at June 2017), respectively.

Local and other taxes rose by 977 thousand euro mainly due to the recording of the tax on financial transactions (the so-called “Tobin tax”) due on the company acquisition made.

Net provisions for risks and charges increased slightly too (201 thousand euro).

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

6.f Capitalised costs for internal work

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

For this reason, the item now includes only any residual costs that can be capitalised but do not concern concessions. In June, this item totalled 316 thousand euro.

7. Income / (Expenses) from equity investments

The item, amounting to 1,242 thousand euro in the reporting period, includes the income from investments in associates and other companies. Specifically, at 30 June 2018, this item included the carrying amount of the equity-accounted investments in MEA S.p.A.

8. Financial income/ (expenses)

This item is broken down as follows:

Thousands of euro	30.06.2018	30.06.2017	2018-2017
Financial income			
- Interest income from loans to employees	0	0	-
- Interest income from current accounts and post office deposits	9	31	(22)
- Interest income from receivables from customers	5	27	(23)
- Other financial interest and income	21	626	(605)
Total income	35	685	(649)
Financial expenses			
- Interest expense on medium/long-term loans	2,068	1,807	261
- Other expense on medium/long-term loans from banks	263	260	3
- Financial expenses on debenture loans	23,032	43,157	(20,125)
- Financial expenses from amortised cost	1,235	4,262	(3,027)
- Interest expense on current bank accounts	0	-	0
- Discounting of post-employment and other employee benefits	356	370	(13)
- Interests on taxes	3	1	2
- Other financial and interest expense	141	33	108
Total expenses	27,099	49,890	(22,791)
TOTAL FINANCIAL INCOME AND (EXPENSES)	(27,064)	(49,205)	22,142

The Group reported 27,064 thousand euro in financial expenses, largely arising from the recognition of the financial expenses on the debenture loan, the costs related to the outstanding loan, and the amortised cost of both of them.

During the first half of 2017, the parent company had undertaken a complex liability management exercise to extend the average maturity of its debt, taking advantage of favourable market conditions.

The company refinanced over half of the bond expiring in 2019 and that expiring in 2020, thus bringing forward the related economic impact and guaranteeing the stability of its cash flows in regard to its stock of debt up to 2026.

For this reason, at 30 June 2018 there was a marked positive change in the item, which in the half did not have any extraordinary operations.

9. Taxes for the period

This item is broken down as follows:

Thousands of euro	30.06.2018	30.06.2017	2018 - 2017
Current taxes			
Current income taxes: IRES	30,570	20,311	10,259
IRES substitute tax on exemption	-	-	-
Current income taxes: IRAP	7,934	5,623	2,311
Total current taxes	38,503	25,934	12,570
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	-	0	(0)
Positive adjustments for income taxes relating to previous years	(106)	(74)	(32)
Total adjustments for income taxes relating to previous years	(106)	(74)	(32)
Deferred and prepaid taxes			
Deferred taxes (use) / allocation	(1,871)	(1,802)	(70)
Prepaid taxes (allocation) / use	(3,626)	(2,102)	(1,524)
<i>Total current deferred and prepaid taxes</i>	<i>(5,497)</i>	<i>(3,904)</i>	<i>(1,594)</i>
Adjustments to deferred taxes of previous years due to tax rate change	-	-	-
Adjustments to prepaid taxes of previous years due to tax rate change	-	-	-
<i>Total adjusted deferred and prepaid taxes</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total deferred and prepaid taxes	(5,497)	(3,904)	(1,594)
TOTAL TAXES	32,900	21,956	10,944

The income tax expense for the first half of 2018 totalled 32,900 thousand euro.

Specifically, it referred to:

- the recognition of the liability for current taxes for the year, including 30,570 thousand euro in IRES (the Italian corporate income tax) and 7,934 thousand euro in IRAP (the Italian regional tax on productive activities);
- 106 thousand euro in negative net adjustments to the income tax expense for prior years;
- the changes in deferred tax assets and liabilities reflected normal operations.

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

10. Discontinued operations

There were no discontinued operations to report.

X. Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not related to gas distribution concessions. The breakdown of, and changes in, property, plant and equipment for the years 2016, 2017 and 2018 are reported below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	13,617	34,786	3,371	22,375	49,004	13,395	32	136,579
Accumulated depreciation	-	(24,851)	(1,634)	(20,716)	(41,870)	(9,728)	-	(98,799)
Balance at 31.12.2016	13,617	9,935	1,737	1,659	7,134	3,666	32	37,780
Investments	-	258	3,467	656	1,228	108	10	5,727
Entry into service	-	18	-	-	-	2	(20)	-
<i>Gross value</i>	-	18	-	-	-	2	(20)	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(766)	(227)	-	(18)	-	-	-	(1,011)
<i>Gross value</i>	(766)	(1,458)	-	(347)	(1,227)	-	-	(3,798)
<i>Acc. Depr.</i>	-	1,231	-	330	1,227	-	-	2,788
Reclassifications	(40)	16	-	-	-	-	(16)	(40)
<i>Gross value</i>	(40)	16	-	-	-	-	(16)	(40)
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Impairment losses	(62)	(10)	-	-	-	-	(4)	(76)
<i>Gross value</i>	(62)	(50)	-	-	-	-	(4)	(116)
<i>Acc. Depr.</i>	-	39	-	-	-	-	-	39
Depreciation	-	(879)	(236)	(501)	(2,285)	(1,020)	-	(4,922)
Total changes	(868)	(824)	3,231	137	(1,058)	(910)	(30)	(322)
Historical cost	12,750	33,570	6,838	22,684	49,004	13,505	2	138,352
Accumulated depreciation	-	(24,459)	(1,870)	(20,888)	(42,928)	(10,748)	-	(100,894)
Balance at 31.12.2017	12,750	9,111	4,968	1,796	6,076	2,756	2	37,458
Contribution from change in the scope of consolidation:	-	3,210	80	0	2,263	91	-	5,644
Increases (including Fixed assets classified as assets available for sale)	-	20	929	88	1,259	-	161	2,458
Entry into service	-	-	-	-	-	-	-	-
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(742)	(810)	-	-	(2)	(2)	-	(1,555)
<i>Gross value</i>	(789)	(2,378)	-	(0)	(14)	(66)	-	(3,247)
<i>Acc. Depr.</i>	47	1,569	-	0	12	64	-	1,692
Reclassifications	-	-	-	-	-	-	-	-
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Impairment losses	-	(395)	-	-	-	-	-	(395)
<i>Gross value</i>	-	(564)	-	-	-	-	-	(564)
<i>Acc. Depr.</i>	-	169	-	-	-	-	-	169
Fixed assets classified as assets available for sale	-	-	(49)	-	-	-	-	(49)
<i>Gross value</i>	-	-	(51)	-	-	-	-	(51)
<i>Acc. Depr.</i>	-	-	2	-	-	-	-	2
Depreciation	-	(555)	(194)	(241)	(1,488)	(537)	-	(3,015)
Total changes	(742)	1,472	766	(154)	2,032	(448)	161	3,088
Historical cost	11,961	41,231	8,734	22,780	55,616	13,884	163	154,369
Accumulated depreciation	47	(30,649)	(3,000)	(21,138)	(47,508)	(11,575)	-	(113,823)
Balance at 30.06.2018	12,008	10,583	5,734	1,642	8,108	2,309	163	40,546

At 30 June 2018, this line item was up 3,088 thousand euro from 31 December 2017; this increase was mainly due to the 5,644 thousand euro contribution to the scope of consolidation and the net balance of 2,458 thousand euro in investments, in addition to 1,555 thousand euro in disposals, 395 thousand euro in impairment losses, and 3,015 thousand euro in depreciation charges.

12. Intangible assets

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions. The breakdown of, and changes in, intangible assets for the years 2016, 2017 and 2018 are reported below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets under construction and advances	Fixed assets under construction and advances	Other intangible assets	Goodwill	Total
Historical cost	88,616	5,349,930	11,238	3,713	98,780	142,974	5,695,251
Accumulated amortisation	(83,171)	(2,687,221)	-	-	(62,121)	-	(2,832,513)
Balance at 31.12.2016	5,445	2,662,709	11,238	3,713	36,658	142,974	2,862,738
Investments	3,027	227,451	10,668	3,054	8,581	-	252,782
Entry into service	-	7,498	(7,281)	(3,451)	3,234	-	-
Gross value	-	7,498	(7,281)	(3,451)	3,234	-	-
Acc. Amort.	-	-	-	-	-	-	-
Decreases	-	(23,248)	(47)	-	-	-	(23,295)
Gross value	-	(69,578)	(47)	-	-	-	(69,626)
Acc. Amort.	-	46,331	-	-	-	-	46,331
Reclassifications	-	40	-	-	-	-	40
Gross value	-	40	-	-	-	-	40
Acc. Amort.	-	-	-	-	-	-	-
Impairment losses	-	(1)	(18)	(38)	-	-	(56)
Gross value	-	(1)	(18)	(38)	-	-	(56)
Acc. Amort.	-	0	-	-	-	-	0
Fixed assets classified as assets held for sale	-	(1,373)	(94)	-	-	-	(1,467)
Gross value	-	(5,083)	(94)	-	-	-	(5,176)
Acc. Amort.	-	3,710	-	-	-	-	3,710
Amortisation	(3,910)	(137,232)	-	-	(12,240)	-	(153,382)
Total changes	(883)	73,136	3,229	(434)	(425)	-	74,623
Historical cost	91,644	5,510,257	14,467	3,278	110,595	142,974	5,873,215
Accumulated amortisation	(87,081)	(2,774,412)	-	-	(74,362)	-	(2,935,855)
Balance at 31.12.2017	4,563	2,735,845	14,467	3,278	36,233	142,974	2,937,360
Contribution from change in the scope of consolidation:	-	574,113	-	-	2,421	129,690	706,223.55
Gross value	-	1,057,112	-	-	15,005	129,690	1,201,808
Acc. Amort.	-	(483,000)	-	-	(12,585)	-	(495,585)
Increases (including Fixed assets classified as assets available for sale)	1,816	104,090	18,255	2,423	2,925	-	129,508.49
Entry into service	856	5,178	(5,178)	(2,695)	1,840	-	0.00
Gross value	856	5,178	(5,178)	(2,695)	1,840	-	0.00
Acc. Amort.	-	-	-	-	-	-	-
Decreases	-	(9,993)	-	-	(6)	-	(9,999)
Gross value	-	(25,379)	-	-	(103)	-	(25,482)
Acc. Amort.	-	15,386	-	-	97	-	15,484
Reclassifications	-	-	-	-	-	(0)	(0)
Gross value	-	-	-	-	-	(0)	(0)
Acc. Amort.	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	0
Gross value	-	-	-	-	-	-	0
Acc. Amort.	-	-	-	-	-	-	0
Fixed assets classified as assets available for sale	-	(30,226)	(351)	-	-	-	(30,576)
Gross value	-	(61,631)	(351)	-	-	-	(61,982)
Acc. Amort.	-	31,406	-	-	-	-	31,406
Amortisation	(1,926)	(79,584)	-	-	(7,184)	-	(88,694)
Total changes	746	563,578	12,726	(273)	(4)	129,690	706,463
Historical cost	94,315	6,589,627	27,193	3,006	130,262	272,665	7,117,067
Accumulated amortisation	(89,007)	(3,290,204)	-	-	(94,033)	-	(3,473,244)
Balance at 30.06.2018	5,308	3,299,423	27,193	3,006	36,229	272,665	3,643,824

Intangible assets rose compared to 31 December 2017 by 706,463 thousand euro; this increase was due to the contribution from the change in scope for 706,224 thousand euro (of which 129,690 thousand euro relating to goodwill following the purchase price allocations) as well as due to the net balance on new investments for 129,508 thousand euro, divestments for 9,999 thousand euro, reclassifications of assets held for sale for 30,576 thousand euro and amortisation for 88,694 thousand euro.

The item "Concessions and similar rights" is divided into fixed assets and fixed assets under construction, which in 2017 totalled 2,735,845 thousand euro and 14,467 thousand euro, respectively; during the reporting period, fixed assets increased by 563,578 thousand euro (574,113 thousand euro from contribution and minus 30,226 thousand euro for reclassifications to assets held for sale) and fixed assets under construction by 12,726 thousand euro. In general, the item refers to the recognition of the Group's rights over fixed assets as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions.

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

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

In the first six months of 2017, "Assets under construction and progress payments" totalled 3,006 thousand euro, up from the prior-year period largely as a result of the costs incurred to upgrade the remote reading and accounting software packages. The first half increase totalled 2,423 thousand euro, and combined with minus 2,695 thousand euro in commissioning.

"Other intangible assets" of 36,229 thousand euro represent the software used, while the contribution from the new scope was 2,421 thousand euro.

"Goodwill" totalled 272,665 thousand euro. It referred to the deficit from the merger of former subsidiaries into the Group. This item was recognised in agreement with the Board of Statutory Auditors.

Thousands of euro	30.06.2018	31.12.2017	2018-2017
<i>Natural Gas goodwill</i>	2,885	2,885	-
<i>Argengas goodwill</i>	8	8	-
<i>Sicardi goodwill</i>	3,616	3,616	-
<i>Italgestioni goodwill</i>	44	44	-
<i>Simeo goodwill</i>	572	572	-
<i>G6 Rete Gas goodwill</i>	82,040	82,040	-
<i>F2i reti Italia 2 goodwill</i>	53,792	53,792	-
<i>Genia Distribuzione goodwill</i>	19	19	-
<i>Compagnia Generale Metanodotti goodwill</i>	401		401
<i>Cilento Reti Gas goodwill</i>	851		851
<i>2i Rete Gas Impianti goodwill</i>	126,224		126,224
<i>2i Rete Gas Servizi goodwill</i>	2,214		2,214
Total	272,665	142,974	129,690

Goodwill was tested for impairment at 31 December 2017.

In the first half of 2018 the positive change of 129,960 thousand euro was caused by the purchase price allocation of the new companies that are part of the scope; up to the reporting date no impairment indicators were noted and so the company will arrange to do the test again on closure of the financial statements at 31 December 2018.

13. Deferred tax assets and deferred tax liabilities

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

Deferred tax assets totalled 202,723 thousand euro (175,756 thousand euro at 31 December 2017), while deferred tax liabilities totalled 126,117 thousand euro (102,396 thousand euro at 31 December 2017).

Deferred tax assets and liabilities at 30 June 2018 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

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

Thousands of euro	At 31.12.2017	Contribution from acquisition	At 01.01.2018	Increases recognised in		Decreases recognised in		Other changes		Reclassifications (if any) under the item Available for sale	Adjustments (if any) under the item Available for sale	Balance at 30/06/2018
				Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity			
Deferred income tax assets:												
allocation to provisions for risks and charges, deferred deductibility	19,329	2,507	21,837	1,604	-	(78)	-	-	-	-	-	23,363
allocation to provisions for incentives to leave and stock options	710	-	710	-	-	(63)	-	-	-	-	-	648
allocation to provisions for disputes	4,138	-	4,138	430	-	(624)	-	-	-	-	-	3,944
allocation to provisions for inventory obsolescence	3,315	12	3,327	48	-	(33)	-	-	-	-	-	3,342
impairment losses on assets, deferred deductibility (receivables write-downs)	3,369	167	3,536	-	-	(97)	-	-	-	-	27	3,466
impairment losses on assets, deferred deductibility (plant write-downs)	1,900	-	1,900	-	-	-	-	-	-	-	-	1,900
depreciation and amortisation of tangible and intangible assets, deferred deductibility	86,375	18,141	104,516	5,001	-	(1,793)	-	-	(811)	-	107	107,020
separation of land / buildings and component analysis	114	-	114	-	-	-	-	-	-	-	-	114
start-up costs	2,225	-	2,225	-	-	-	-	-	-	-	-	2,225
post-employment and other employee benefits	2,948	431	3,379	905	-	(472)	-	1	-	-	-	3,814
cash deductible taxes and duties	12	-	12	-	-	-	-	-	-	-	-	12
proceeds subject to deferred taxation (connection fees)	32,194	2,590	34,784	8	-	(92)	-	-	-	-	-	34,700
deferred deductibility charges	15,661	17	15,678	9	-	(1,121)	-	-	-	-	-	14,566
goodwill	1,135	132	1,267	8	-	(20)	-	-	-	-	-	1,256
post-employment benefits - Italian Accounting Body (OCI)	2,252	-	2,252	-	21	-	-	-	-	-	-	2,273
derivative financial instruments (in case of a net negative change in the relevant equity reserve)	-	-	-	-	-	-	-	-	-	-	-	-
for losses recoverable in future years	(0)	0.00	(0)	-	-	-	-	-	-	-	-	(0)
other consolidation adjustments	79	-	79	5	-	(1)	-	(1)	-	-	-	82
Total	175,756	23,997	199,753	8,019	21	(4,393)	-	-	-	(811)	134	202,723
Deferred income tax liabilities:												
differences on tangible and intangible assets – additional depreciation and amortisation	25,702	-	25,702	166	-	(406)	-	-	-	(2,150)	-	23,313
differences on intangible assets – goodwill	5,481	-	5,481	-	-	(273)	-	-	-	-	-	5,208
separation of land / buildings and component analysis	3,827	-	3,827	-	-	-	-	-	-	-	-	3,827
allocation to assets of costs relating to company mergers	40,245	-	40,245	-	-	(865)	-	-	-	-	-	39,379
non-accounting deductions relating to impairment of equity investments, receivables and licenses	-	-	-	-	-	-	-	-	-	-	-	-
post-employment benefits	939	-	939	-	-	-	-	-	-	-	-	939
proceeds subject to deferred taxation	2,365	-	2,365	873	-	(111)	-	-	-	-	-	3,127
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	5,036	-	5,036.17	-	-	-	(1,370)	-	-	-	-	3,666
other...	1,421	269	1,689	16	-	(92)	-	-	-	-	-	1,614
derivative financial instruments and ASEM - Italian Accounting Body (OCI)	33	-	33	-	-	-	-	-	-	-	-	33
recognition of deferred taxes due to merger	17,348	28,702	46,049	23	-	(906)	-	-	-	-	-	45,167
other consolidation adjustments	0	142	142	-	-	(301)	-	-	-	-	-	(159)
5% dividends received allocated to future years on an accruals basis	0	-	0	5	-	-	-	-	-	-	-	5
Total	102,396	29,113	131,509	1,083	-	(2,954)	(1,370)	-	-	(2,150)	-	126,117
Net deferred tax assets	73,360	(5,116)	68,244	6,936	21	(1,439)	1,370	-	-	1,339	134	76,606

14. Equity investments

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

Thousands of euro	Carrying amount	% ownership	Contribution from change in the scope of consolidation:	Increases for the period	Disposals	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
Associates											
Equity Method											
Melegnano Energia Ambiente SpA	2,553	40.00%		783				2,451	884	3,336	40.00%
Other companies											
Valuation at cost											
Interporto di Rovigo S.p.A.	42	0.30%						42		42	0.30%
Fingranda S.p.A.	26	0.58%						26		26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.27%						33		33	0.27%
Industria e Università S.r.l.	11	0.09%						11		11	0.09%
Azienda Energetica Valtellina Valchiavenna S.p.A.	405	3.37%						405		405	3.37%
Terme di Offida SpA	1	0.19%						1		1	0.19%
Asogas S.p.A. in liquidazione	-	9.00%						-		0	9.00%
Banca Popolare Pugliese		0.00%	11							11	0.00%
TOTAL EQUITY INVESTMENTS	3,070		11	783	-	-	-	2,969	884	3,864	

The following tables show the list of equity investments in the Group's investees at 30 June 2018:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Consolidated carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	9,339,277	5,695,310	2,957,884	31/12/2017	40.00%	3,335,711
C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,571,811	1,151,895	(281,664)	31/12/2016	0.30%	41,634
Fingrandia S.p.A.	Cuneo	2,662,507	1,733,568	10,221	(119,306)	31/12/2016	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,219,920	23,891,709	953,464	85,636	31/12/2016	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,187,621	-	(30,034)	31/12/2017	0.99%	10,989
Azienda Energetica Valtellina Valchiavenna S.p.A.	Tirano (SO)	1,803,562	21,777,765	9,111,345	1,917,616	31/12/2017	3.37%	405,000
Terme di Offida Spa	Offida (AP)	141,384	36,487	-	(96,324)	31/12/2016	0.19%	548
Asogas S.p.A. in liquidazione	Amandola (FM)	2,182	(47)	100	(2,229)	31/12/2016	9.00%	0
Banca Popolare Pugliese	Parabita (LE)	185,899,896	366,460	885,680	10,148,424	31/12/2017	0.00%	11,231

15. Non-current financial assets

The item largely included the fair value measurement (15,275 thousand euro) of the outstanding interest rate hedging derivative, with a notional amount of 500 million euro, and the prepayment of transaction costs incurred to obtain credit lines that were granted but had still not been used at 30 June 2018.

16. Other non-current assets

This item increased by 3,307 thousand euro compared to 31 December 2017.

Guarantee deposits totalled 3,386 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

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

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

Sundry non-current assets totalled 15,697 thousand euro (14,468 thousand euro at 31 December 2017) and largely referred to fees paid in advance to contracting authorities in preparation of ATEM tenders (10,045 thousand euro).

The same line item included also 1,572 thousand euro in receivables due from Municipalities for plants sold at the end of the concession arrangement and that are the subject of ongoing disputes concerning the final calculation of the compensation, as well as the balance of long-term receivables concerning the losses incurred in replacing conventional meters with electronic ones (26,428 thousand euro).

Current assets

17. Inventories

Closing inventories of raw materials in the reporting period stood at 25,989 thousand euro and rose compared to the previous year by 6,980 thousand euro (2,039 thousand euro connected to the increase in scope).

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

The increase during the period was due to the roll out of the new electronic meters, which required the Group to secure additional stock.

The item included the 744 thousand euro obsolescence allowance set aside to take into account the inventories that are unlikely to be used in the future.

The Company uses the weighted average cost method.

18. Trade receivables

Trade receivables were down 127,965 thousand euro compared to 31 December 2017.

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

This item is broken down as follows:

Thousands of euro			
	30.06.2018	31.12.2017	2018 - 2017
Third-party customers:			
Receivables due from customers	150,562	280,549	(129,987)
- Bad debt provision	(10,161)	(9,057)	(1,104)
Receivables for returns under warranty	8,190	5,065	3,126
- Provision for receivables for returns under warranty	(2,677)	(2,677)	-
Total	145,915	273,880	(127,965)

Receivables from third-party customers are affected by the seasonality of the Group's business, and therefore saw a significant but inevitable decrease at the reporting date. For comparative purposes, in the first half of 2017 receivables due from customers net of the relevant bad debt provision amounted to 113,857 thousand euro and didn't include the contribution from the acquired companies in the first half of the year.

Here below is the breakdown of the changes in the bad debt provision.

Thousands of euro

	30.06.2018	31.12.2017	2018 - 2017
At 31 December 2017	9,057	13,821	(4,764)
Contribution from change in the scope of consolidation	1,896	-	1,896
Allocations	106	485	(379)
Releases	(577)	(1,714)	1,137
Uses	(322)	(3,384)	3,062
Other changes	-	(151)	151
At 30 June 2018	10,161	9,057	1,104

The Group operated exclusively in Italy.

19. Short-term financial receivables

Short-term financial receivables are almost entirely financial receivables due from Gestore dei Mercati Elettrici (GME).

The receivables due from GME amounted to 15,660 thousand euro and referred to the liquidity deposited with GME in order to trade on the exchange for Energy Efficiency Certificates.

20. Other current financial assets

Other current financial assets consisted of accrued income on interest-bearing bank deposits.

21. Cash and cash equivalents

Cash and cash equivalents of 120,257 thousand euro fell by 695,882 thousand euro; this change was due to the use of cash in the period for the acquisition of the companies on 1 February and 11 May 2018, and for the dividend paid for 85,032 thousand euro.

Bank deposits amounted to 120,042 thousand euro and postal and cash deposits were down by 215 thousand euro.

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

22. Income tax receivables

Income tax receivables due from Italian tax authorities, for 26,108 thousand euro, consisted mainly of:

- IRES receivables for the excess estimated tax payments related to the Robin Hood Tax and further prepayments;
- IRES refund that the Group claimed for the failure to deduct the IRAP on personnel costs (pursuant to Italian Law Decree 201/2011).

Compared to the previous year, they were up 6,750 thousand euro due to the change in the scope of consolidation.

23. Other current assets

Other current assets rose by 94,820 thousand euro compared to 31 December 2017, mainly as a result of:

- a fall in VAT receivables for a total of 9,944 thousand euro both due to normal use and for the reimbursement in the half of the VAT receivables accumulated in the previous year;
- 91,001 thousand euro increase in receivables due from the Compensation Fund. This was largely attributable to the increase in receivables for the energy saving goals achieved with reference to the Energy Efficiency Certificates purchased. The item is correlated with the payables due to the Compensation Fund reported in note 36 "Other current liabilities";
- 1,114 thousand euro increase in prepayments for insurance premiums and a 5,924 thousand euro rise in sundry prepayments due to the seasonal pattern of prepayments for third-party software licensing costs and the concession fees paid to Municipalities.

The item is broken down as follows:

Thousands of euro	30.06.2018	31.12.2017	2018 - 2017
Other tax receivables:			
VAT receivables reimbursements applied for	897	7,326	(6,429)
Receivables due from tax authorities for VAT	3,941	7,457	(3,516)
Other tax receivables	118	122	(4)
Other receivables:			
from social security and insurance agencies	1,171	361	810
for plant contributions	2,029	1,932	97
from CSEA	238,316	147,315	91,001
from municipalities for disposals of assets due to expiration of concessions	1,777	1,306	471.23
from municipalities	760	246	514.73
from suppliers	4,036	2,940	1,096
Other receivables	7,450	3,699	3,751
Provision for other doubtful debts	(2,472)	(2,472)	-
Accrued income	1	1	-
Deferred expenses relating to other multi-year charges	51	51	-
Deferred expenses relating to real estate lease fees	525	521	4
Prepayment of promotional expenses	14	27	(14)
Deferred insurance premiums	1,128	14	1,114
Other deferred expenses	7,449	1,525	5,924
Total	267,191	172,370	94,820

37. Assets held for sale

In the year assets relating to the concessions of Bari and Foggia were classified as held for sale for a total of 31,547 thousand euro, which are being disposed of as requested by the Antitrust Authority at the end of the authorisation process for the acquisition of Nedgia S.p.A. (now 2i Rete Gas Impianti S.p.A.). Last year the item included the assets relating to the water concessions of Villasanta and Moscufo, which were then sold in the first few months of 2018.

Liabilities

Equity

24. Equity

Equity amounted overall to 746,113 thousand euro, down by 13,818 thousand euro, due to:

- 85,032 thousand euro decline due to the ordinary dividend payout;
- 4,392 thousand euro decrease in IAS reserves;
- positive contribution due to the recording of the minority interest of the subsidiary Cilento Reti Gas for 1,420 thousand euro;
- 75,598 thousand euro increase in the profit for the period.

Share Capital

The share capital at 30 June 2018 amounted to 3,639 thousand euro and was entirely subscribed and paid up; the item was unchanged during the period.

Share premium reserves

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

Legal reserve

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

Reserve for valuation of derivatives

The reserve for the valuation of derivatives includes the valuation of a hedging derivative with a notional amount of 500 million euro. The reserve decreased by 4,339 thousand euro during the period as a result of the change in the Fair Value of derivative instruments.

Other reserves

Other reserves were up compared to the previous year by 1,236 thousand euro owing to the reclassification from retained earnings of 1,289 thousand euro following extraordinary operations to reorganise the Group and the recording of the change in the IAS reserves from the revision of the value of defined benefit obligations in accordance with IAS 19 for minus 53 thousand euro.

Retained earnings (accumulated losses)

Retained earnings rose 35,304 thousand euro from the prior-year period as a result of the recognition of the 121,624 thousand euro profit for the year ended 31 December 2017, the distribution of 85,032 thousand euro in dividends, and minus 1,289 thousand euro arising from the reclassification of sundry reserves following extraordinary Group restructuring operations.

Net income for the year

The net income for the first half of 2018 of 75,598 thousand euro presents, compared to the net income for the prior-year period, an increase of 27,635 thousand euro; the previous period was negatively influenced by the aforementioned liability management operation, while the current result is due also to the pro rata inclusion of the newly acquired companies.

Non-current liabilities

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

The item refers to the four instalments of the long-term debenture loan the company issued between 2014 and 2017 as part of the overhaul of its financial structure, as well as the 425,000 thousand euro loan outstanding with the European Investment Bank.

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

At 30 June 2018, the company met all covenants under this facility.

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

	Thousands of euro		Notional Value		Interest rate in force	Effective interest rate
	30.06.2018	Balance 31.12.2017	30.06.2018	31.12.2017		
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	200,000	200,000	200,000	200,000	Eur+0,59%	0.32%
Floating rate debt	17	17	17	17	Eur+1,00%	0.68%
Debenture loan expiring 2019	362,793	362,793	362,793	362,793	1.75%	1.89%
Debenture loan expiring 2020	267,100	267,100	267,100	267,100	1.13%	1.35%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs linked to loans (long term)	(11,739)	(12,909)	-	-		
TOTAL	2,808,171	2,806,984	2,819,910	2,819,893		

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

	Thousands of euro		1 year	1 - 5 years	beyond 5 years
	Notional at 30.06.2018	Notional at 31.12.2017			
Medium-/long-term financial liabilities					
Financing	425,017	425,000	17	63,636	361,364
Medium-/long-term debenture loans	2,394,893	2,394,893	-	629,893	1,765,000
Total	2,819,910	2,819,893	17	693,529	2,126,364

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

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

26. Post-employment and other employee benefits

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

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

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

Here below are comments on the main items making up the aggregate, which at 30 June 2018 totalled 47,939 thousand euro.

Post-employment benefits

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

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

Health benefits

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

Fondo Gas

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

The balance of the fund, which amounts to 11,241 thousand euro, is the best estimate at the time of the preparation of these financial statements of the liability arising from this law. The change in the scope of consolidation increased the fund by 965 thousand euro.

27. Provisions for risks and charges

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

Provisions for risks and charges (considering both the short-term and the medium-/long-term portion) increased by 12.799 thousand euro overall compared to 31 December 2017.

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

Thousands of euro	31.12.2017		30.06.2018		Of which current portion	Of which non-current portion				
	Of which current portion	Of which non-current portion	Contribution from change in the scope of consolidation:	Allocations			Releases	Uses		
Provisions for litigation and disputes	8,033	-	8,033	1,906	548	(638)	(1,554)	8,295	-	8,295
Provision for taxes and duties	1,661	-	1,661	65	-	-	(0)	1,725	-	1,725
Provisions for disputes with personnel	100	-	100	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	75	-	75
Provision for disputes on concessions	21,748	21,748	-	-	3,295	-	-	25,042	25,027	-
Other provisions for risks and charges	52,152	52,152	-	6,001	3,397	-	-	61,550	55,454	6,111
Total	83,769	73,899	9,870	7,971	7,240	(638)	(1,554)	96,787	80,481	16,306
Provisions for charges pertaining to incentiv	2,487	2,487	-	-	-	-	(220)	2,268	2,268	-
Total	86,256	76,387	9,870	7,971	7,240	(638)	(1,774)	99,055	82,749	16,306

The provisions for risks and charges amounted to 99,055 thousand euro (short-term portion: 82,749 thousand euro) and were broken down as follows:

- The "Provisions for litigation and disputes" contain 8,295 thousand euro as potential liabilities mainly arising from disputes and litigation underway with certain customers due to damaging events; during the reporting period there was a movement of net 262 thousand euro in this item for additional allocations to some disputes relating to previous years' tenders (548 thousand euro), offset by uses and releases, with a total of 2,192 thousand euro; the balance includes the contribution from the new consolidated companies for 1,906 thousand euro;
- "Provision for taxes and duties", amounting to 1,725 thousand euro, referred mainly to disputes about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;
- "Provision for disputes with personnel", amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in these financial statements;
- "Provision for future charges", amounting to 75 thousand euro;
- "Provision for disputes on concessions", 25,042 thousand euro, rose by 3,295 thousand euro following the requests made by municipalities relating to the review of the agreed concession fees. The provision increased given the increase in the number of concessions following the acquisition of 2i Rete Gas Impianti;
- "Other provisions for risks and charges", totalling 61,550 thousand euro, cover mainly the risk of a recalculation of certain tariff components linked to concessions where third-party property is present. Regarding this risk, the parent company won an initial appeal to the Regional Administrative Court against ARERA's decision to review the aforementioned tariffs for some concessions; ARERA, on its side, has already appealed to the Council of State against this sentence. The further change is largely due to the contribution of provisions from the change in scope.
- "Provision for charges pertaining to incentives to leave", totalling 2,268 thousand euro, addresses possible liabilities that may arise from agreements already finalised or being negotiated concerning early retirement incentives. The Group used 220 thousand euro of this provision during the period.

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

28. Non-current financial liabilities

There were no changes in this item during the period.

29. Other non-current liabilities

This item increased by 5,038 thousand euro compared to the previous year. The breakdown is set out below:

Thousands of euro

	30.06.2018	31.12.2017	2018 - 2017
payables to social security and insurance agencies	1,984	1,984	-
other payables	514	361	153
Deferred income for plant contributions	46,285	47,030	(744)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	267,684	262,054	5,629
Total deferred income	316,467	311,429	5,038

The deferred income for grants related to plants fell as a result of the portion accrued during the period, while the 5,629 thousand euro increase in deferred income for connection fees was mostly attributable to the fees received during the year net of the portion recognised through profit or loss to cover the operating costs incurred.

Current liabilities

30. Short-term loans

The item was 706 thousand euro and included 599 thousand euro for a loan supplied by the minority shareholder to Cilento Reti Gas.

31. Current portion of medium/long-term bank loans

The item consists of the residual amount of a loan of C.G.M. S.r.l., which will be closed by the end of 2018.

32. Current portion of long-term and short-term provisions

Comments and details on this item are provided in the section on the provisions for risks and charges (note 27).

33. Trade payables

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

This item decreased by 10,063 thousand euro compared to 31 December 2017.

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

34. Income tax payables

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

35. Current financial liabilities

Current financial liabilities referred to accrued interest expenses on the Debenture loan and the bank loan, which are due within 12 months.

Thousands of euro

	30.06.2018	31.12.2017	2018 - 2017
Accrued liabilities for interest on short-term bank loans and bank expenses	39,005	18,984	20,021
Other current financial payables	626	575	51
Total	39,631	19,559	20,072

36. Other current liabilities

Other current liabilities are set out below:

Thousands of euro

	30.06.2018	31.12.2017	2018 - 2017
other tax payables	4,328	3,963	365
payables to social security and pension agencies	11,182	10,025	1,157
other payables	142,405	158,747	(16,342)
accrued liabilities	4,626	4,066	560
deferred income	8,736	10,680	(1,944)
Total	171,277	187,482	(16,204)

Other tax payables are set out below:

Thousands of euro

	30.06.2018	31.12.2017	2018 - 2017
VAT payables	1,776	431	1,345
Employee withholding taxes	2,445	3,271	(826)
Withholding taxes	57	210	(153)
Other taxes	50	50	-
Total	4,328	3,963	365

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

Thousands of euro

	30.06.2018	31.12.2017	2018 - 2017
due to INPS	9,820	9,019	801
due to other agencies	1,362	1,006	356
Total	11,182	10,025	1,157

Other payables are set out below:

Thousands of euro

	30.06.2018	31.12.2017	2018 - 2017
Payables to employees	16,206	12,716	3,490
Payables to municipalities for rights and fees	2,957	3,312	(355)
Payables for connections and other payables due to customers	2,085	2,100	(15)
User security deposits and advances	2,228	2,136	92
Payables to CSEA	105,337	131,970	(26,634)
Other payables	13,592	6,513	7,079
Total	142,405	158,747	(16,342)

The 105,337 thousand euro payable due to the Compensation Fund consists of payables for the items transferred through the invoicing mechanism to the trading companies, which are then paid into the Compensation Fund. The decrease of 26,634 thousand euro compared to 31 December 2017 is related to the seasonal performance of the invoicing for 2017, given an already defined Tariff Revenue Cap.

Accruals and deferrals are set out below:

Thousands of euro

	30.06.2018	31.12.2017	2018 - 2017
Accrued liabilities			
Additional monthly accrual for employees	3,652	3,054	598
Other accrued liabilities	974	1,013	(38)
Total accrued liabilities	4,626	4,066	560
Deferred income			
Deferred income for plant contributions	1,906	2,202	(297)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	5,720	8,298	(2,578)
Other deferred income	1,110	180	930
Total deferred income	8,736	10,680	(1,944)
Total accrued liabilities and deferred income	13,362	14,747	(1,384)

37. Liabilities held for sale

The liabilities held for sale of 6,578 thousand euro include the liabilities relating to some concessions of the areas of Bari and Foggia, which are being disposed of as requested by the Antitrust Authority at the end of the authorisation process for the acquisition of Nedgia S.p.A. (now 2i Rete Gas Impianti S.p.A.). Last year the item included assets relating to the water concessions of Villasanta and Moscufo, which were then sold during the first few months of 2018.

Related party disclosures

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

The dividends paid to related parties, totalling 84,981 thousand euro, refer to the distribution of the 2017 results to F2i - Fondo Italiano per le Infrastrutture (managed by F2i sgr S.p.A.), F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr S.p.A.), and Finavias Sàrl.

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

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

Trade and other transactions

30 June 2018

Thousands of euro	Trade		Costs	Trade	
	Receivables	Payables		Revenue	Revenue
F2i sgr Spa	-	-	-	-	-
MEA S.p.A	22	-	-	-	4
Software Design S.p.A.	-	224	239	-	-
Key management personnel, including directors and statutory auditors	-	1,312	1,415	-	-
Total	22	1,536	1,654	4	4

31 December 2017

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

Financial transactions

30 June 2018

Thousands of euro	Financial		Costs	Financial	
	Receivables	Payables		Revenue	Dividends paid
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S. à r.l.	-	-	-	-	23,752
MEA S.p.A	400	-	-	1,183	-
Total	400	-	-	1,183	84,981

In addition, equity investments with related parties are included for MEA S.p.A. for a total of 2,451 thousand euro.

31 December 2017

Thousands of euro	Financial		Costs	Financial	
	Receivables	Payables		Revenue	Dividends paid
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S. à r.l.	-	-	-	-	18,112
Axa Infrastructure Holding S. à r.l.	-	-	-	-	5,640
MEA S.p.A	-	-	-	62	-
Total	-	-	-	62	84,981

In 2017 there were also equity investments with related parties for 2,451 thousand euro in reference to MEA S.p.A.

38. Contractual commitments and guarantees

The Company provided 118,914 thousand euro in guarantees to third parties. These guarantees include 88,044 thousand euro in bank guarantees and 30,871 thousand euro in insurance and other guarantees.

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

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

Operating segment reporting

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

Contingent liabilities and assets

Contingent liabilities

There were no contingent liabilities at 30 June 2018.

Contingent assets

There were no contingent liabilities at 30 June 2018.

Market, credit, liquidity, and interest rate risk

Credit risk

The 2i Rete Gas Group provides its distribution services to over 290 sales companies, the most significant of which is Enel Energia S.p.A.

In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in the first half of 2018.

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

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

Outstanding guarantees and security deposits on trade receivables totalled 212,229 thousand euro.

Therefore, the credit risk is mitigated.

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

At 30 June 2018, the Group's maximum exposure to credit risk amounted to 621.9 million euro:

Millions of euro	30.06.2018	31.12.2017	2018- 2017
Third parties:			
Non-current financial assets	16.4	22.2	(5.8)
Other non-current financial assets (gross of bad debt provision)	55.3	51.9	3.3
Trade receivables (gross of bad debt provision)	158.8	285.6	(126.9)
Other current financial assets	15.7	0.0	15.7
Cash and cash equivalents	120.3	816.1	(695.9)
Other receivables (gross of bad debt provision)	255.5	157.8	97.7
Total	621.9	1,333.7	(711.8)

Liquidity risk

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

Besides the bonds issued during 2014 and 2017, the Group still has the 245 million euro line of credit that the Parent Company received in 2016 from a syndicate of 7 leading banks, as well as two loans entered into with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used at 30 June 2018), improving the duration and interest rate compared to previous bank loans.

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

The contractual maturities of the financial liabilities outstanding at 30 June 2018 and, for comparative purposes, 31 December 2017, are set forth below:

Financial liabilities			
Millions of euro	1 year	1 - 5 years	beyond 5 years
Financial liabilities at 30 June 2018			
Long-term loans	0.0	63.6	361.4
Medium-/long-term debenture loans		629.9	1,765.0
Short-term loans	0.7		
Current portion of long-term loans	0.0		
Current portion of medium/long-term debenture loans	-		
Other long-term financial liabilities	0.0		
Other short-term financial liabilities	39.6		
Total	40.4	693.5	2,126.4

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

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

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

At 30 June 2018, the Company has met all of the covenants.

The “Medium/long-term debenture loans” for a total of 2,395 million euro refer to the aforementioned four bond instalments issued by 2i Rete Gas and with 5, 6, 9 and 10-year expiries.

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

The Group constantly monitors opportunities to optimise its financial structure.

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

Market risk

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

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

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

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

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

Thousands of euro	carrying amount					Total	Fair value
	Notes	Derivatives	Loans and receivables	Available for sale	Other financial liabilities and payables		
Financial assets measured at fair value							
Non-current financial assets	15	15,275				15,275	15,275
Financial assets not measured at fair value							
Non-current financial assets	15		1,111			1,111	1,111
Other non-current assets	16		54,967			54,967	54,967
Trade receivables	18-37		145,915	111		146,026	146,026
Short-term financial receivables	19		15,693			15,693	15,693
Other current financial assets	20		7			7	7
Cash and cash equivalents	21		120,257			120,257	120,257
Other current assets	23		258,025			258,025	258,025
TOTAL ASSETS		15,275	595,974	111	-	611,360	611,360
Financial liabilities measured at fair value							
IRS Derivatives	35	-				-	-
Financial liabilities not measured at fair value							
Long-term loan	25				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,383,154	2,383,154	2,453,321
Financial liabilities for unwinding IRS	28-35				31	31	-
Other non-current liabilities	29				514	514	514
Short-term loans	30				706	706	706
Current portion of medium/long-term bank loans	31				17	17	17
Trade payables	33-37			4,428	198,040	202,468	202,468
Current financial liabilities	35				39,005	39,005	39,005
Other current liabilities	36				162,541	162,541	162,541
TOTAL LIABILITIES		-	-	4,428	3,209,009	3,213,437	3,283,573

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

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

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

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

Interest rate risk

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

Concerning the current debt structure, 2,395 million euro out of a reported 2,860 million euro were not exposed to interest rate risk at 30 June 2018.

At 30 June 2018, there were also 5 “Forward Starting Interest Rate Swap” hedging instruments with a notional amount of 500 million euro.

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

The forward starting Interest Rate Swap derivative contracts (with a start date in 1 year, mandatory break clause in case of refinancing and expiring after 10 years from the start date) entered into with 5 leading banks allow to hedge a debt notional amount of 500 million euro. The Group has tested the effectiveness of the outstanding derivatives and confirmed that they qualify as hedging instruments.

The following table breaks down the derivatives by maturity.

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	at	at			
	30.06.2018	31.12.2017			
Cash flow hedge derivatives					
<i>Forward Start Interest Rate Swap</i>	500,000	500,000	500,000	-	-
Total Interest Rate Derivatives	500,000	500,000	500,000	-	-

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

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

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

Therefore, the *fair value* of the financial derivatives generally reflects the estimated amount the Group would pay or receive should it terminate the contracts at the reporting date.

The following table shows the notional amount and fair value of the interest rate derivatives at 30 June 2018.

Thousands of euro	Notional		Fair value		Fair value asset		Fair value liability	
	at	at	at	at	at	at	at	at
	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Cash flow hedge derivatives								
<i>Forward Start Interest Rate Swap</i>	500,000	500,000	15,275	20,984	15,275	20,984	-	-
Total Interest Rate Derivatives	500,000	500,000	15,275	20,984	15,275	20,984	-	-

Lastly, the fair value of the above derivatives, excluding the fluctuation due to the change in creditworthiness, amounted to 20,039 and 10,452 thousand euro, respectively, assuming a 0.10% negative or positive shock in the relevant interest rate curves.

Significant events after the reporting period

As set out in more detail in the specific section on ATEM tenders, on 3 September the definitive assignment to Unareti S.p.A. was announced for the tender for ATEM Milan 1. 2i Rete Gas S.r.l., which had taken part in the tender for the Group, has asked for access to the acts in order to protect its own interests.

On 4 September 2018, the parent company 2i Rete Gas S.p.A. made a new issue of the debenture loan called “€3,500,000,000 Euro Medium Term Notes” for a total amount of 500 million euro, to be placed exclusively with qualified investors and the use of which is to refinance the bond tranches that expire in July 2019 and January 2020.

At the same time, as envisaged in the contractual conditions of the existing derivatives, these were completely closed. The income from such closure, since the derivatives were underwritten to cover the current emission, will be accounted for over the next 10 years to reduce the cost of the underlying debenture loan, thus achieving cover of this part of the Group’s debt.

The Market Value at the closure date of the liquidated derivatives was 12.7 million euro.

Direction and coordination

The parent company directs and coordinates the subsidiaries 2i Rete Gas S.r.l., 2i Rete Gas Impianti S.p.A, 2i Rete Gas Servizi S.p.A., Cilento Reti Gas S.r.l., and C.G.M. S.r.l., while there is no company directing and coordinating 2i Rete Gas S.p.A.

Corporate Governance

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

XI. Report of the Independent Auditors



2I RETE GAS SPA

**REVIEW REPORT ON CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**



REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

To the board of directors of
2i Rete Gas SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of 2i Rete Gas SpA and its subsidiaries (2i Rete Gas Group) as of and for the six-month period ended 30 June 2018, comprising the statement of financial position, the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in shareholders' equity and related notes. The directors of 2i Rete Gas SpA are responsible for the preparation of the condensed consolidated interim financial statements that give a true and fair view in accordance with international accounting standard applicable to interim financial reporting (IAS34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of 2i Rete Gas Group as of and for the six-month period ended 30 June 2018 are not prepared, in all material respects, in accordance with international accounting standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 28 September 2018

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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