Consolidated Interim Financial Report at 30 June 2016

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II. Corporate Boards

Board of Directors

Chairman
Paola Muratorio

Deputy Chairman
Carlo Michelini

Chief Executive Officer
Michele Enrico De Censi

Directors
Matteo Ambroggio
Matias Sebastian Burghardt
Rita Ciccone
Stefano Mion
Luca Galli
Giuseppe Picco Rogantini
Stephan Fedrigo
Rosaria Calabrese

Board of Statutory Auditors

Chairman
Marco Antonio
Modesto Dell'Acqua

Standing auditors
Gian Luigi Gola
Marco Giuliani

Alternate auditors
Andrea Cioccarelli
Giuseppe Panagia

Independent Auditors

PricewaterhouseCoopers S.p.A.

Directors' Report

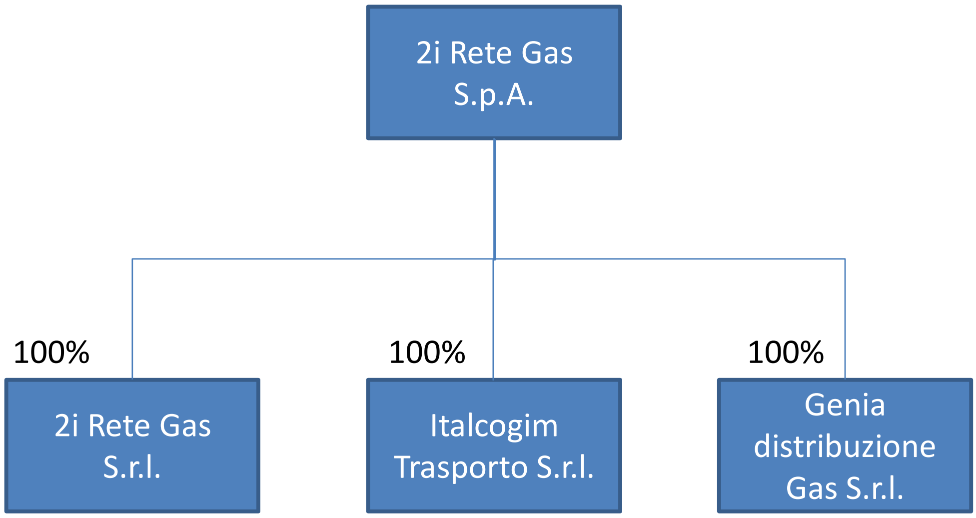
1. Macroeconomic scenario

According to the Bank of Italy's Economic Bulletins for the first two quarters of the year, the cyclical recovery that started in the last quarter of 2015 in Italy continues, driven by the consolidation in consumer spending and the acceleration in investments—albeit at a slower pace than in the previous year.
The latest indicators signal that in early 2016, economic activity reportedly benefited from the revival in manufacturing, as well as the firming recovery in services and construction—which is one of the factors driving new gas connections.
Businesses say they plan to invest more in the current year (from historically low levels relative to GDP), thanks also to improving lending conditions and the tax incentives approved last December. Thus, the favourable signs have extended also to the construction industry.
Finally, consumer price inflation has been negative since February, dragged down by the contraction in energy prices as well as the glut of unused capacity. Analysts estimate that this year inflation will be barely above zero on average.
As for the indicators more relevant to the company's operations, new installations/connection effectively rose compared to 2015.

In the first half of 2016, some territorial tenders issued between the end of 2015 and early 2016 were suspended or postponed; however, municipalities continue asking concession operators for the data required to issue tenders in the future.

2. Group structure and highlights

The following chart presents the situation of the Group at 30 June 2016:



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 2016 compared to the previous year as well as the first half of 2015 alone:

	30.06.2016	31.12.2015	30.06.2015
Active concessions:	1,942	1,940	1,940
Active redelivery points:	3,869,356	3,819,104	3,811,814
Distributed (Natural and LPG) gas in millions of m^3:	3,040	5,409	3,183
EBITDA in millions of euro:	192.8	389.7	195.1
Net profit in millions of euro:	60.8	88.0	41.5
Km of pipelines operated:	58,068	57,667	57,496

	30.06.2016	31.12.2015	30.06.2015
Net Financial Position in millions of euro:	1,929.1	1,930.9	1,964.3
Net Invested Capital in millions of euro:	2,566.9	2,594.8	2,581.9

3. Significant events during the reporting period

On 1 January 2016, pursuant to the resolutions of the shareholders' meetings held in December 2015, Gp Gas S.r.l. was merged into 2i Rete Gas S.p.A. As a result, effective 1 January 2016, 2i Rete Gas S.p.A. has taken over all assets and liabilities of the merged company.

In June 2016, as part of the annual ratings review by Standard and Poors and Moody’s, the company disclosed the performance of its business and the key metrics to assess its financial strength to the two ratings agencies. Both agencies maintained their ratings (BBB Outlook Stable and Baa2 Outlook Stable, respectively), and Standard and Poors confirmed the so-called “Liquidity profile” (which focuses on the ratio of debt to liquid assets) as “Strong”.

No acquisitions took place in the first half of the year.

4. Results of the 2i Rete Gas Group

When commenting on its operating and financial 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 financial data, similar considerations apply to net invested capital, the net financial position, the 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 period 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	30.06.2016	30.06.2015	Change
Revenues	**430.4**	**407.2**	**23.2**
Transport and sale of methane gas and LPG	272.4	281.1	(8.7)
Connection and ancillary fees	10.3	9.4	0.9
Other sales and services	10.2	10.3	(0.1)
Revenues from intangible assets/assets under cor	95.2	71.3	23.9
Other revenues	42.3	35.1	7.2
Operating costs	**(237.7)**	**(212.1)**	**(25.6)**
Labour costs	(59.6)	(61.3)	1.7
Raw materials and inventories	(39.9)	(27.5)	(12.4)
Services	(93.3)	(94.9)	1.6
Other costs	(37.8)	(24.2)	(13.7)
Allocations to provisions for risks and charges	(7.1)	(4.4)	(2.7)
Increase in fixed assets not subject to IFRIC 12	-	0.0	(0.0)
EBITDA	**192.8**	**195.1**	**(2.4)**
Amortisation, depreciation and impairment losse	**(77.9)**	**(78.4)**	**0.5**
Amortisation, depreciation and impairment losses	(77.9)	(78.4)	0.5
EBIT	**114.9**	**116.8**	**(1.9)**
Net financial income (expenses) and income (expe	(22.2)	(22.8)	0.6
Pre-tax profit (loss)	**92.7**	**93.9**	**(1.2)**
Income tax expense for the year	(31.9)	(52.5)	20.6
Net profit (loss) from continuing operations	**60.8**	**41.5**	**19.3**
Net profit (loss) from discontinued operations	**-**	**-**	**-**
Net profit (loss) for the year	**60.8**	**41.5**	**19.3**

IFRIC 12, which represents the basis of presentation of the consolidated interim financial statements, does not affect profitability, and only requires to recognise 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	30.06.2016 without IFRIC 12	30.06.2015 without IFRIC 12	Change
Revenues	**335.2**	**335.9**	**(0.7)**
Transport and sale of methane gas and LPG	272.4	281.1	(8.7)
Connection and ancillary fees	10.3	9.4	0.9
Other sales and services	10.2	10.3	(0.1)
Revenues from intangible assets/assets under cor	-	-	-
Other revenues	42.3	35.1	7.2
Operating costs	**(142.5)**	**(140.8)**	**(1.7)**
Labour costs	(35.6)	(45.0)	9.4
Raw materials and inventories	(3.6)	(4.5)	0.9
Services	(58.7)	(63.0)	4.4
Other costs	(37.5)	(23.9)	(13.6)
Allocations to provisions for risks and charges	(7.1)	(4.4)	(2.7)
Increase in fixed assets not subject to IFRIC 12	-	0.0	(0.0)
EBITDA	**192.8**	**195.1**	**(2.4)**

Concerning the two tables above, revenues, which amounted to 430.4 million euro, were up 23.2 million euro, largely as a result of higher revenues from intangible assets; meanwhile, revenues from natural gas and LPG distribution totalled 272.4 million euro, down 8.7 million euro.

The decline in transport revenues was mainly the result of the change in the weighted average cost of capital following the Resolution 583/2015/R/, as well as 5.1 million euro in tariff compensation for the first half of 2015.

The volumes for the first half of 2016 amounted to 3,040 million cubic metres of gas (natural plus LPG), slightly down from 3,183 million cubic metres at 30 June 2015.

Connection and ancillary fees totalled 10.3 million euro, up 0.9 million euro compared to the prior-year period (9.4 million euro) as well as the fuller year 2015 thanks to the cyclical recovery mentioned above.

Revenues from other sales and services, totalling 10.2 million euro, were in line with the previous year.

Revenues other than the above amounted to 42.3 million euro, rising 7.2 million euro compared to the previous year; In the first half of 2015, the Group had recognised the 7.2 million euro awarded to it by the arbitrators deciding the dispute between the Company and

GDF Suez Italia following the acquisition of G6 Rete gas, whereas in 2016 windfall gains amounted to just 0.9 million euro.

Therefore, the positive difference excluding the above item would amount to approximately 13.5 million euro. This was attributable to 8.5 million euro in higher revenues from Energy Efficiency Certificates as a result of the increase in the value and number of certificates purchased during the period. In addition, technical quality incentive bonuses for the first six months of 2016 were up nearly 1 million euro from the previous year, and the Group also reported a 4 million euro rise in gains on the sale of assets thanks to the settlement of the dispute concerning the “Lariano Triangle” and the end of two concession arrangements (Caronno Varesino and Paderno Dugnano) for which the compensation to be paid to the outgoing operator was defined.

Finally, the increase in investments made during the first half of 2016, mainly in electronic meters, resulted in the recognition of 95.2 million euro in revenue (in accordance with IFRIC 12) under "revenues from intangible assets / assets under construction”, up 23.9 million euro compared to the prior-year period.

Operating costs, totalling 237.7 million euro, increased by 25.6 million euro, with an overall impact on the various costs from IFRIC 12 of 95.2 million euro for the current year (71.3 million in the previous year). Excluding the above, operating costs were up 1.7 million euro.

More specifically, gross labour costs, totalling 59.6 million euro including the impact from IFRIC 12, declined 1.7 million euro compared to the prior-year period, which included also some costs associated with the departure of personnel. As for labour costs excluding the impact from IFRIC 12, they were down a significant 9.4 million euro at 30 June 2016, mainly because of the increase in the capitalisation of costs for internal works.

The cost of raw materials declined by 12.4 million euro; excluding the impact of IFRIC 12, the change would be a positive 0.9 million euro, from 4.5 million euro in the first half of 2015 to 3.6 million euro in the same period of 2016.

Consolidated costs for services fell by 1.6 million euro.
Excluding the impact from IFRIC 12, costs for services were down 4.4 million euro, from 63.0 million euro to 58.7 million euro in the first half of 2016. This improvement was largely attributable to efficiency gains and the reduction in lease costs.
Other Costs rose as a result of the higher amount of Energy Efficiency Certificates purchased during the first half of 2016 compared to the prior-year period (up 8.7 million euro) as well as the increase in capital losses associated with the large-scale replacement of conventional meters and the renovation of the network (up 4.2 million euro from 2015).
After deducting 7.1 million euro in net provisions for risks concerning the review of the agreed concession fees proposed by a number of municipalities as well as ongoing legal disputes, EBITDA amounted to 192.8 million euro, down 2.4 million euro compared to 2015 (195.1 million euro) as a result of the decline in transport revenues as well as labour costs and costs for services (excluding the impact from IFRIC 12) and the increase in net provisions.

Amortisation, depreciation and impairment losses totalled 77.9 million euro, in line with the first half of 2015. They referred mainly to the amortisation of fixed assets.

Therefore, EBIT totalled 114.9 million euro, compared to 116.8 million euro in the first six months of 2015. The same considerations for EBITDA apply also to EBIT.

Financial Income and Expenses were negative to the tune of 22.2 million euro, improving by 0.6 million euro compared to 2015 because of the conditions of the loan agreement entered into with the European Investment Bank at the end of 2015, which allowed to reduce the average debt rate.

The Group reported 92.7 million euro in profit before tax, down 1.2 million euro. This was largely because of the same factors that affected EBITDA.

The negative impact from the income tax expense for the period on the Group's accounts totalled 31.9 million euro, significantly down compared to 2015. In the same period last year, this item included the impact of the adjustment made to deferred tax assets and liabilities in accordance with ruling no. 10/2015 of Italy's Constitutional Court, which found that the so-called Robin Hood Tax was unconstitutional.

As a result, the Group posted a 60.8 million euro profit for the period, up 19.3 million euro compared to the prior-year period thanks to the lower tax impact.

The financial position for the period 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	30.06.2016	31.12.2015	Change
	A	B	A-B
Net fixed assets	**2,597.9**	**2,578.4**	**19.5**
Property, plant and equipment	38.6	42.6	(4.0)
Intangible assets	2,819.3	2,796.6	22.7
Investments	3.4	3.3	0.0
Other non-current assets	36.6	32.0	4.5
Other non-current liabilities	(299.9)	(296.1)	(3.8)
Fair value of derivatives			-
Net working capital:	**27.8**	**68.5**	**(40.7)**
Inventories	17.0	13.8	3.2
Trade receivables due from third parties and t	131.0	239.5	(108.5)
Net income tax receivables/(payables)	(3.3)	8.7	(12.0)
Other current assets	160.1	146.2	13.9
Trade payables due to third parties	(151.0)	(169.3)	18.4
Other current liabilities	(126.1)	(170.4)	44.3
Gross invested capital	**2,625.6**	**2,646.8**	**(21.2)**
Other provisions	**58.7**	**52.1**	**6.7**
Post-employment and other employee benefit:	49.7	47.2	2.5
Provisions for risks and charges	81.0	73.7	7.3
Net deferred taxes	(72.0)	(68.8)	(3.2)
Net invested capital	**2,566.9**	**2,594.8**	**(27.8)**
Assets held for sale	**-**	**-**	**-**
Liabilities held for sale	**-**	**0.0**	**(0.0)**
Equity	**637.9**	**663.9**	**(26.0)**
Outstanding debt for IRS Unwinding	**-**	**-**	**-**
Net Financial Position	**1,929.1**	**1,930.9**	**(1.8)**

Net fixed assets, which mainly consist of intangible assets related to gas distribution concessions, totalled 2,597.9 million euro, up 19.5 million euro compared to 31 December 2015, as noted below.

The 22.7 million euro rise in “Intangible assets” was the net result of 101.7 million euro in new investments, 7.3 million euro in decreases, 1.8 million euro in positive reclassifications, and 73.5 million euro in amortisation for the period.

The 4.0 million euro decrease in “Property, plant and equipment” was the result to new investments (0.7 million euro), disposals (0.4 million euro), negative reclassifications (1.8 million euro), and depreciation (2.5 million euro).

Equity investments remained all but unchanged at 3.4 million euro, while "other non-current liabilities" were up 3.8 million euro due to the higher medium–long-term accrued liabilities for connection, property development, equipment transfer, and network extension fees.

At 27.8 million euro, net working capital was significantly down by approximately 40.7 million euro compared to 31 December 2015, mainly as a result of the seasonal pattern of trade receivables. Trade payables declined as well, but the impact of seasonality on them is negligible. Other current liabilities were down as well—although not by enough to offset the decrease in trade receivables—mainly as a result of the reduction in the amount owed to CSEA.

Therefore, as a result of the changes in net fixed assets and net working capital, gross invested capital fell by 21.2 million euro, from 2,646.8 million euro in the previous year to 2,625.6 million euro as at 30 June.

Sundry provisions, totalling a positive 58.7 million euro, were up 6.7 million euro overall, largely because of the change in the provision for risks and charges—and specifically, the provision for litigation and disputes. Meanwhile, the provision for post-employment and other employee benefits offset the increase in net deferred taxes.

Therefore, net invested capital decreased by 27.8 million euro, from 2,594.8 million euro in the previous year to 2,566.9 million euro.

Equity fell by 26 million euro, from 663.9 million euro in 2015 to 637.9 million euro at 30 June 2016, due to the net impact of the following changes:

- 85.0 million euro decrease following the ordinary dividend payout;
- 1.8 million euro decrease as a change in IAS reserves due to the discounting, net of the tax impact, of the liabilities arising from the closure of the “Gas Provision” as well as post-employment and other benefits payable to employees at the end of their employment relationship, as required by IAS 19;
- 60.8 million euro increase following the recognition of the result at 30 June 2016.

The net financial position was down from 1,930.9 million euro in 2015 to 1,929.1 million euro at 30 June 2016 because of, among other things, the payment of the dividend for 2015 in light of the positive performance in the first half of the year and 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:

Millions of euro		30.06.2016	31.12.2015	Change
Medium/long-term bank loans	25	(200.0)	(200.0)	-
Medium/long term bonds	25	(1,890.0)	(1,890.0)	-
Cash and cash equivalents with third parties	21	173.1	160.5	12.6
Short-term financial receivables	19	3.6	0.3	3.3
Other current financial assets	20	0.0	0.0	0.0
Short-term payables due to banks	30	-	-	-
Non-current financial assets	15	0.9	0.9	(0.0)
Non-current financial liabilities	28	-	-	-
Current financial liabilities	35	(33.4)	(21.4)	(12.0)
Adjusted Net Financial Position		**(1,945.8)**	**(1,949.6)**	**3.8**
Non-current financial assets - loan costs	15	3.7	4.3	(0.6)
Adjustment of payables due to loan costs (IAS 39)	31	-	-	-
Current portion of medium/long-term loans	31	-	-	-
Adjustment of payables due to loan costs (IAS 39)	25	13.0	14.4	(1.4)
Loan fees due	25	-	-	-
Net Financial Position		**(1,929.1)**	**(1,930.9)**	**1.8**
Positive fair value of derivatives	20	-	-	-
Negative fair value of derivatives	35	-	-	-
Outstanding debt for IRS Unwinding - short-term portion	35	-	-	-
Outstanding debt for IRS Unwinding - long-term portion	28	-	-	-
Accounting net financial debt		**(1,929.1)**	**(1,930.9)**	**1.8**

5. Regulatory and tariff framework

In the first half of 2016, the Group continued applying the distribution and metering tariffs in accordance with the principles introduced for the fourth regulatory period (2014-2019) as amended by Resolution 583/2015/R/com of 2 December 2015, especially with reference to the revised method for calculating the weighted average cost of capital (WACC), which concerned all regulated infrastructure services in the electricity and gas sectors. Due to these new provisions, the WACC for the distribution and metering of natural gas for the 2016-2018 period is 6.1% and 6.6%, respectively.

Furthermore, in each municipality, the Group continued exercising the option pursuant to Resolution 455/2014/R/gas regarding the treatment of the so-called "grant stock" (i.e. the grants received up to 2011), for which there are two methods: under the first method, the grants do not decrease over time, and depreciation and amortisation are calculated gross of the grants; under the second one, grants decrease gradually, and depreciation and amortisation are calculated excluding the decreased grants.

Most concession operators have chosen the second option.

Meanwhile, the grants received after 2011 are accounted for as a deduction from fixed assets for the purposes of calculating both the RAB (Regulatory Asset Base) and the tariff amortisation charges.

In November, the Group will prepare the “final” annual report of its investments in order to determine the net capital invested in distribution and metering operations for 2016 by calculating the changes from the previous year (“t-1”). This will allow to update the RAB

based mainly on the actual or budgeted costs for distribution operations, the standard costs for metering operations, and the parametric costs for centralised assets.
As for the definition of the criteria for recognising the costs associated with investments, the Authority intends to implementing the regulatory valuation method based on standard costs starting from the tariff year 2019. To this end, it has opened a consultation on, among other things, a potential review of the method for recognising the investments made in start-up locations starting from the tariff year 2018.
In August, the Authority, in response to the requests from the associations concerned, published its conclusions, announcing it would abandon the hypothesis of the "price cap" method and adopt the hypothesis of standard costs— monitoring whether the new method is effective.
This is applicable starting from the tariff year 2019, and therefore for the recognition of the investments that have become operational in 2018.
The annual operating costs recognised based on the initial operating costs established in the resolution, which are measured according to the company's size and the density of the service provided, were adjusted for inflation and subject to a "compression" x-factor of 1.7% for the distribution service and 0% for the metering and marketing service. This x-factor will be reviewed in 2017.
As for regulatory changes concerning tariffs, in the first half of 2016, with the Resolution 98/2016/R/gas, the Authority recalculated the tariffs of some concession operators for the years 2009-2014 after completing the review launched with the Resolution 14/2013/E/gas of the investments made to replace cast iron pipes with lead and jute pipe joints and accepting the requests to adjust and supplement the financial and physical data received before 15 February 2016.
In addition, with Resolution 99/2016/R/GAS, the Authority determined the "final" reference tariffs for gas distribution and metering services for 2015. Finally, with Resolution 173/2016/R/gas, it determined the "provisional" reference tariffs for natural gas distribution and metering services for 2016.

6. Concession development and operation

The competitive bidding market for methane gas distribution service concessions during the first half of 2016 saw:

- the issuing of three new ATEM [minimum territorial area] tenders (Lodi 1 - North, Biella, and Udine 3 - South) after the 13 ATEM tenders issued in the second half of 2015. To date, the regional administrative court (TAR) has suspended the tender for Venice 1 - Laguna Veneta, and the terms for the following tenders are suspended: Alessandria 2 - Centre, Cremona 2 – Centre and Cremona 3 – South, Massa and Carrara, Biella, Turin 3 -

South West. Finally, the Contracting Authority (Municipality of Lissone) has called off the tender for Monza and Brianza 2 - West.

- the issuing of four tenders for individual concessions, in the municipalities of Pollica (province of Salerno) (GURI [Official Journal of the Republic of Italy] of 20 January 2016), Poggiomarino (province of Naples) (GURI 22 February 2016), Monteverde (province of Avellino) (GURI of 15 April 2016), and Castelvetere Sul Calore (province of Avellino) (GURI of 30 June 2016), which were authorised by the Ministry for Economic Development in derogation of Italian Legislative Decree 93 of 1 June 2011 (known as the "Third Energy Package").

The regulatory framework for the ATEM tenders has recently been finalised with the publication on 14 July 2015 of Italian Ministerial Decree 106 of 20 May 2015. On 30 December 2015, Italian Legislative Decree 201 (enacted into law as amended with Italian Law no. 21 of 25 February 2016 - GU no. 47 of 26 February 2016) was published, extending the terms in article 3, paragraph 1 of the regulation in Ministerial Decree 226/11 concerning the failure to issue the tender pursuant to annex 1 of the regulation, and cancelling the penalties for the municipalities that fail to comply with said terms.
Following said extension, virtually all the 172 ATEM tenders (originally they numbered 177, but some areas have been aggregated) should be issued before the end of 2017. The issued ATEM tender that is most likely to go ahead is therefore the one for the Milan 1 area (city and plant of Milan). The deadline for submitting the offers is October 2016.

6.1 Participation in calls for tenders

Among the four tenders for individual concessions issued in the first half of 2016, 2i Rete Gas S.p.A. submitted an offer for the one issued by the Municipality of Poggiomarino (province of Naples) on 21 April 2016. On 24 June 2016, it was temporarily ranked in second place (Power Gas Distribuzione S.p.A. ended in 1st place).

On 13 May 2016, the Parent Company came second in the tender issued in 2015 (GURI of 6 November 2015) by the Municipality of Roccadaspide (province of Salerno (A.T.I. Metaedil S.r.l. – D'Agostino A.A. Costruzioni ended in 1st place). 2i Rete Gas S.p.A. had submitted its offer on 25 January 2016.

6.2 Concessions awarded

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

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

In addition, concerning the tender for the concession of the gas distribution service in the Municipality of Rozzano (approximately 19,000 users), on 14 March 2016, with ruling no. 984/16, the Italian Council of State upheld the appeal filed by 2i Rete Gas S.p.A., giving the Municipality 120 days to award the concession to the Parent Company and enter into the relevant service agreement.
Furthermore, on 27 June 2016, Milan's regional administrative court issued the ruling no. 1278, dismissing the appeal filed by Distribuzione Gas Naturale s.r.l. and GasPiù Distribuzione s.r.l. The appellants sought to render a number of notices sent from the Municipality of Rozzano pursuant to the mentioned ruling by the Italian Council of State null and void.
Distribuzione Gas Naturale s.r.l. and GasPiù Distribuzione s.r.l. have filed an appeal with the Italian Council of State, seeking to suspend the appealed ruling. No hearing has been scheduled yet.
After the reporting date, on 3 September 2016, the Parent Company started operating the distribution network of the Municipality of Rozzano.
The new agreement for the concession of the Municipality of Castronno (approximately 2,200 end users), which had already been awarded through a tender procedure in 2011, has not yet been signed.

6.3 Concessions lost

Regarding the tender for the concession of the natural gas distribution service issued by the municipality of Pieve Vergonte (province of Verbano-Cusio-Ossola) in association with the municipalities of Anzola d'Ossola, Ornavasso, Piedimulera, Premosello Chiovenda, and Vogogna (a total of approximately 5,800 end users), Molteni S.p.A. has yet to sign the relevant service agreement, even though the concession was awarded in October 2011. 2i Rete Gas therefore continues operating it, pursuant to art. 14 paragraph 7 of Italian Legislative Decree 164/2011.

Concerning the tender for the concession of the natural gas distribution service issued by the municipality of Manfredonia (province of Foggia) (approximately 16,000 end users), Apulia's regional administrative court, in its ruling no. 1150 of 29 July 2015, upheld the appeal filed by the Parent Company, reinstating it in the tender process and stripping Gasman S.r.l. of the concession. Said company filed an appeal with the Italian Council of State, which, with court order no. 1826 of 5 May 2016, appointed an expert witness (C.T.U., *consulenza tecnica di ufficio*) to answer additional technical questions besides the ones already asked of the Auditor (AEEGSI, the Italian Regulatory Authority for Electricity Gas and Water) at the first instance hearing, which ended in favour of 2i Rete gas S.p.A..

6.4 Activities on "ATEM" tenders

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

7. Support for gas transport activities

7.1 Main Regulatory Changes

In the first half of 2016, AEEGSI issued a number of important decisions concerning the operations of the "Network Commercial Services" function:

- Resolution 100/2016/R/com of 10 March 2016 as amended and supplemented, containing provisions about the issuing of the final bill for the termination of power and natural gas supply and the relevant monitoring.
- Resolution 102/2016/R/com of 10 March 2016 as amended and supplemented, containing provisions for the acquisition of ownership of an active redelivery point by an end user (transfer of contract).

Concerning specifically the Company, the regulatory changes introduced by Resolutions 100/2016/R/com and 102/2016/R/com were successfully implemented. These establish specific time frames for taking and providing the reading for the purposes of activating a contract, and reviewing the reading in case the contract is transferred, as well as automatic compensation mechanisms in the event of failure to provide the reading for the purposes of issuing the final bill within the required time frame.
The Company continues implementing the processes related to the above provisions, which will become effective 1 December 2016, concerning the reading for the purposes

of activating a contract, regardless of whether a valid self-reading is available, as well as the implementation of the transfer process, including the transfer with switching.

7.2 Relations with Traders and Customer Care

Commercial quality

The level of commercial quality is measured by means of a general company index showing the percentage of services not carried out within the standard time frames set by AEEGSI with reference to connections, reconnections, disconnections, quotations, and the execution of both simple and complex work.
The general company index of "non-standard" services of a specific level, for the purposes of calculating service quality indicators, for the first half of 2016 was 0.08%.
Specifically, the final values of the specific indicators for “non-standard” services are as follows:

• Connections	0.06%
• Disconnection upon customer request	0.01%
• Execution of simple work	0.49%
• Quotations for complex work	0.13%
• Quotations for simple work	0.03%
• Reconnections for delinquent customers	0.51%
• Reconnection following emergency service	0.14%
• Request of technical data from smart meters [M01]	0.00%
• On-time appointments	0.03%
• Other technical data [M02]	0.00%
• Smart meter testing	3.33%
• Smart meter replacement	0.00%
• Pressure testing	5.00%
• Pressure restoring	0.00%

The progressive general quality index, pursuant to the provisions of Resolution 574/2013, was 0.08% for the specific levels and 0.58% for the general levels.

Complaints Management

Requests for information and/or complaints from End Users concerned mainly the following:

- Verifying readings and providing consumption details, specifically with reference to new installations of electronic meters;
- Information regarding the ownership of the Redelivery Point.

In the first half of 2016, the 2i Rete Gas Group managed 1,838 written complaints and requests for information as well as one request from AEEGSI received through authorised gas sales companies.
The Group replied to 170 requests from "AEEGSI-Consumer Point of Contact" for complaints it received directly. This service was created in 2009 to handle requests and reports by end users.
The use of the online settlement tool for disputes with regulated sector operators by End Users increased steadily; it is possible that the filing of a written complaint with the Consumer Point of Contact may be partially replaced with an online settlement session.
Finally, the Group handled 1,302 requests for technical data that could be obtained by reading smart meters (M01) and 2,265 requests for other technical data (M02).

7.3 Front Office

In the first half of 2016, as in 2015, the Group managed the commercial services requested by the sales companies almost exclusively through the Four portal; most sales companies have now adopted this tool—both the "web" and the "application to application" solutions.

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.
Indeed, sales companies can terminate the supply contract with the end customer, even without the cessation or interruption of service due to technical and/or economic reasons, by exercising their right to terminate their ownership and transfer it to the competent service provider of last resort—in this specific case, the default service provider.
At 30 June 2016, the number of connections of last resort services activated in the first half was 6,000, including 3,205 Fui and 2,795 Default connections.

As in 2015, the Group kept on discontinuing the service to the Redelivery Points under the Default Service in accordance with applicable laws.
During the first half of 2016, the Group discontinued the service to 1,205 Redelivery Points.
The Group is increasingly automating the “default” service by integrating new IT tools in the application map to manage the process end-to-end.

The Group revised the End Customer relationship management process by overhauling the Commercial Call Centre service effective 1 April 2016. The aim is to improve the perceived level of service concerning the services rendered by the distributor to the End Customer.

In the first half of 2016, there were on average 37,500 requests to switch providers per month, for a total of approximately 224,923 switching requests, of which 184,660 were accepted (30,700 per month on average).

Effective 1 January 2016, the Group has changed the time required to activate the switch and manage disconnections for late payments, in accordance with Resolution 258/2015/R/com.
In addition, the regulatory changes introduced by Resolution 418/2015/R/com concerning the "on condition" updating of the Official Central Register [RUC, *Registro Centrale Ufficiale*] and the management within the integrated IT system [SII, *Sistema Informativo Integrato)* of the monthly TISG master records were successfully implemented. Meanwhile, the Group continues implementing the processes related to the provisions that will become effective in the second half of 2016 concerning the annual TISG master records, the automatic compensation mechanisms in the event of failure to communicate the outcome of the switching process to the SII on time, and the additional requirements concerning the constant update of the RCU.

7.4 Gas Invoicing and Balancing

Invoicing of Transport and Services

The first part of the "Zero Print" project for the Service Invoicing Area is now complete. It has allowed, in accordance with applicable laws, to change the delivery method for the letters and the relevant attachments concerning the compensation owed to Traders in the event of failure to comply with the provisions of Resolution 547/13. Now, these are sent through Certified Electronic E-Mail, ensuring and speeding up their delivery as well as curbing mailing costs.
This process will continue in the second half of 2016, extending the project to the invoices for commercial services issued to Traders and End Customers.
Transport and commercial services were invoiced on a monthly and regular basis and during the first six months of the year.
The Group is also pursuing the "Invoice Consolidation" project, which will significantly reduce the number and volume of tax documents generated for transport service invoices.
In addition, the Group will also change how it deliver documents to Sales Companies: besides sending them via Certified Electronic E-Mail, as it already does, it will publish them on the FOUR portal.

Gas Balances

In the first half of 2016, the Group finished handing over to National/Regional Transporters the data for the multi-year adjustment referring to the calendar years 2013 and 2014.
The Group carried out the monthly activities associated with calculating the balance within the deadlines envisaged by applicable laws.

7.5 Metering

Besides systematically implementing the regulatory changes introduced by Resolution 102/2016/R/com concerning the time frame for taking and providing the reading, during the period the Group finalised the reading of the metering performance data in accordance with AEEGSI Resolution 574/2013.

8. Plant construction, environment and safety

8.1 Gas distribution plants

In the first half of 2016, the 2i Rete Gas Group laid approximately 57 km of gas pipes, of which over 95% in HDPE.
Furthermore, as part of the plan to replace cast iron pipes with lead and jute pipe joints, it restored/removed approximately a further 130 metres of the 350 metres outstanding at 31 December 2015 in the municipality of Salò.

In addition, the Group finished renovating the first-stage pressure reduction station in the municipality of Cantello (province of Varese) as required by the concession agreement.

8.2 Service continuity and safety

As usual, by 31 March 2016 the Group prepared a report on the technical standards for the year 2015 in compliance with the rules established by the AEEGSI in its Resolution 574/13, which in 2014 superseded the Resolution 120/08 concerning the continuity and safety of the service. The main parameters concern services that determine the concession operator's ability to promptly intervene in potentially dangerous situations (number of emergency interventions, intervention time), or to organise and carry out preventative checks in order to properly monitor safety conditions (percentage of network inspected, gas odorisation, percentage of network with cathodic protection).

Overall, as in previous years, the report confirmed a high quality of service relative the minimum standards established in the above resolution.
In particular, concerning the scheduled inspection of the distribution network, the Group inspected around 80% of High- and Medium-Pressure piping and over 65% of Low-Pressure piping.
As for gas odorisation tests carried out in the field in order to thoroughly monitor the actual level of odorisation, the reported values were higher than the minimum requirements (around 17,000 chromatography tests) compared to the minimum value required by AEEGSI (around 3,200 tests).

8.3 Resolution 155/08 – (Smart meters)

In the first half of 2016, the Group continued the large-scale roll out of mass market meters, which involves over 500 Municipalities in Italy.
In the meantime, it continued working as planned on both the pilot projects in Biella and Perugia, which concern the installation of integrated domestic meters as well as the concentrators required to submit the readings to the central systems, and the "Gas G4-G6 Remote Reading Project" to support the large-scale roll out of domestic meters and govern the development of new technologies, standardise procedures and processes, and ensure the gradual commissioning of the meters installed.
In the first half of 2015, the Group installed over 340,000 mass market meters, bringing the total number of electronic mass market meters installed to over 800,000.
Finally, concerning high-end "industrial" class meters, in 2016 the Group continued conforming G10-class meters to the relevant Directives; it does not anticipate any problems in reaching and exceeding the targets set by the Authority by the end of the year, i.e. commissioning at least 50% of the meters in this class.

8.4 Planning activities

In the first half of 2016, planning activities focused mainly on the analysis of the first tenders, published in the last few months of 2015, and the relevant technical documentation.
Meanwhile, during the period the Group made further progress—albeit at a slower pace, in light of the above—on the technical activities in preparation of the upcoming ATEM tenders. These consist in gathering detailed information in order to perform technical tests on the Group's plants.
These activities are still under way and mainly concern calibrating the network's distribution settings and testing the reduction plant's potential, as well as preparing the technical documentation and/or tools required to facilitate or speed up planning activities.

9. Water Sector

The Parent Company continued operating the potable water service in the 10 municipalities where it is still present, with 16,670 users connected at 30 June 2016.
During the first half of 2016, it distributed an estimated 1,800,000 cubic metres of water. Tariffs vary widely across the various concessions according to the type of service rendered (water collection, distribution, purification, and sewerage management), the volumes managed, and the decisions taken by each Optimal Territorial Area (ATO, *Ambito Territoriale Ottimale*).
Finally, during the period there were no significant changes in the scope of water concessions, but the Group continues with the preparations for the handover of the mentioned operations to the various Single Operators of the SII of the competent ATOs.

10. Quality, Safety and Environment

In the first six months of 2016, the Group's internal auditors carried out 29 audits of compliance with the Integrated Management System, so as to monitor the alignment with the relevant requirements. 6 of the audits carried out concerned Office facilities, and 22 concerned all Departments as well as most of the underlying Territorial Areas.
In May, the Certification Body performed the certification audits required to confirm the fulfilment of the requirements for maintaining the Integrated System certification in accordance with UNI EN ISO 9001:2008, UNI EN ISO 14001:2004, and BS-OHSAS 18001:2007.
The audit concerned the following departments: Northwest (Cremona Office and the Piacenza Area), North (Tradate Office and the Biella Area), and South West (Caserta Office and the Caserta Area)—as well as the following Office Organisational Structures: Procurement and Services, Regulatory Affairs, Electronic Metering, Operation, Engineering, Human Resources, Network Commercial Services, IT Systems, and the Quality, Safety and Environment structure, including also the Prevention and Protection Service.
The final report confirmed the System as compliant and renewed the Certifications.
The summary report indicates that the Integrated Management System has remained active and compliant with the relevant regulations; customers are satisfied; the Group has identified and regularly monitors key performance indicators, including those established by AEEGSI; and the Group effectively manages health and safety at all organisational levels.

The Certification Body reported that the System's performance shows several strengths, such as the active participation of offices, staff and personnel at all levels; the sense of belonging and the technical expertise of the personnel surveyed; the use of the Integrated Management System as a tool to address critical problems; initiatives to encourage employees to report near misses and analyse them; the scheduling and management of internal audits.

The report included also some recommendations/opportunities for improvement (totalling 11) that require to plan some targeted actions. Before the audit scheduled for next year, the Group will have to provide evidence that these actions have been implemented and are effective.

10.1 Prevention and Protection Service

As for the new risk assessments, Work-Related Stress, electrical risk, and the risk of falling from a height, the Heads of the Prevention and Protection Service (RSPP), in collaboration with Employers and Occupational Physicians and informing the Workers' Safety Representatives, for the respective office and territorial business units, have updated the Risk Assessment Document for each Business Unit.

Workplace injuries:

In the first half of 2016, workplace injuries were up compared with the previous year.

While in the first half of 2015 there had been 8 “non-serious” injuries (i.e. with an initial recovery time of less than 30 days), in the first six months of 2016 there were 11 such injuries.

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

During 2016, workplace health monitoring continued, ensuring the implementation of the relevant programme according to the findings of the risk assessment and based on the relevant health protocol. Preval, a company based in Frosinone, monitored workplace health up to 30 June 2016. Effective 1 July 2016, it was replaced by SAPRA, a company based in Arezzo that won the contract for the 2016/2018 period.

10.2 Environmental issues

The QSA structure constantly monitors material environmental aspects and ensures the Company is aligned with changes in environmental regulations.
The Company has updated its Environmental Analysis—the key document for assessing its environmental impacts.
It continues removing asbestos from buildings, analysing on-site airborne fibres in collaboration with the Head of the Prevention and Protection Service.
Special emphasis is placed on managing the acoustic impact of pressure regulating and metering (REMI) stations and pressure-reduction units (GRF), preventing as well as

promptly taking action to mitigate those rare cases in which acoustic zoning limits were exceeded.

Concerning REMI stations, the Company is now addressing the environmental and safety issue concerning the presence of MMVFs (man-made vitreous fibres).

Regarding emissions into the atmosphere, the Company submitted the Fgas certification pursuant to Italian Presidential Decree 43/12 concerning the emissions of fluorinated greenhouse gases for the A/C systems of the buildings that fall under said regulation. 100% of the pre-heating sections of the REMI stations underwent performance audits, even though these were not required by the applicable regulations, and the Company is continuing to remedy the anomalies found.

The Company is registered in the SISTRI (Waste Tracking System) for the purposes of managing its own hazardous special waste. The Group handles the non-hazardous and hazardous special waste it generates using state-of-the-art processes, tracking it by keeping waste acceptance and deposit records as well as digitally using the "Atlantide" application.

10.3 Annual report on the Quality of the Distribution Service

In accordance with the rules and deadlines established by AEEGSI with the Resolution 574/13, which defines the general requirements and standards for the commercial quality of gas distribution services, in March 2016 the Company submitted the data on the services rendered in 2015 by 2iReteGas S.p.A., GP Gas, and Genia Distribuzione.

The information submitted to AEEGSI is aggregated on a regional basis and concerns:

- the number of end customers served at 31 December 2015
- the number of services required to comply with specific levels of quality. The Company distinguishes between the services that were performed within standard time frames and those that were not, with or without compensating customers for delays caused by the Company
- the number of services required to comply with general levels of quality.

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

11. Human resources

In the first half of 2016, the Company has planned for and implemented the first stages of innovative projects deriving from the improvement action plan based on the findings of the work-related stress assessment. Specifically, the projects concerned developing employee potential, gradually extending the performance appraisal process, improving internal communication, defining the Charter of Values, organising team-building and employee engagement initiatives, optimising the reporting process, implementing more advanced and effective IT systems, and reviewing and streamlining the organisation of certain structures.

Concerning the development of operational and management skills, the Company has launched assessment and training projects concerning relationship management, communication, problem solving, and time management, as well as the management of motivational meetings with employees. In addition, the Group has launched a training project for those who joined it in the last three years to promote a deeper understanding of corporate processes and structures.

Concerning technical-operating skills, the Group has provided courses on Emergency Service (nearly 800 participants), regulation and maintenance, remote control, and specific equipment.

As for safety, it has organised risk prevention and First Aid training sessions.

In addition, in the first half of the year the Group hired new employees to fill the vacancies in Network Commercial Services and Procurement and Services, bolster Internal Auditing, and strengthen the Electronic Metering unit as well as some Area and Department structures.

In the first six months of 2016, the Company held several meetings/discussions with trade unions at both the national and local level. Maintaining peaceful and cooperative industrial relations has allowed to enter into agreements with trade unions to optimise work processes and organisation by regulating the introduction of geolocation systems, as well as transfer territorial areas and travel hours. In addition, the parties laid the foundation for a new industrial relationship protocol and a multi-year agreement on performance bonuses.

In early 2016, the Company also completed the groundwork to integrate the new staff members in Como that joined 2i Rete Gas S.p.A. after the Company was awarded a tender.

At the end of March 2016, the Company launched the “SAP HCM” project to create a database of all its employees in order to manage attendance, travel and expenses. The project will become operational on 1 January 2017 and aims to: foster a culture of decentralised control, improve the IT support provided to employees, reducing paper documents, and creating a platform that could be potentially extended to future system integration processes.

12. IT systems

In 2016, the Company launched a major project that involved all applications and allowed to implement into the IT system the integration of GP GAS, which was merged into 2i Rete Gas S.p.A, the incorporation of the former transport network of Italcogim Trasporto (following its reclassification from transport network to distribution network), the transfer of the plant in Cinisello to 2i Rete Gas S.r.l. (which became operational in late 2015), and the territorial restructuring of the North East Department (by integrating the Sarego Area into the areas of Rovigo, Bergamo and Mira).
In the first half of 2016, the plants in Mirabello, Como and San Fermo della Battaglia were migrated from the systems of the outgoing concession operators into the Company's IT system after 2i Rete Gas S.p.A. took over their operation. The Company is continuing the preparations for the handover of the plant in Rozzano, which is scheduled for the third quarter.

Concerning regulations, in 2016 the Company continued conforming its systems to AEEGSI resolutions; besides finishing to implement the changes required by Resolution 117/15, by adopting the new meter reading calendar, and Resolution 258/15, by introducing the new late payment process, it also carried out and/or planned initiatives to integrate its operations with the Integrated IT System (SII) and ensure the compliance of Application-to-Application communication with sales companies through the FOUR portal.

As for the initiatives seeking to increase the operational efficiency of Territorial Areas, in February the Company finished rolling out to all areas the new maintenance planning system based on SAP PM. This has allowed to automate and make plant operation and maintenance planning more efficient. Meanwhile, the Group has also finished launching and consolidating the Automatic Calculation process implemented during stage 1 of the "WFM Full" project. This will allow to reduce the technical staff's workload by entering the information gathered by operational staff on the field into the IT system.
Stage 2 is scheduled for the second half of this year and will consist in extending the Mobile application to contractors, boosting the efficiency of the work planning and scheduling process as well as of the gathering of the final data and their registration into the IT system by integrating the plant operation and maintenance management system and making multimedia content (documents, voice recordings, drawings, etc.) available on site.

In the first half of 2016, the IT System Structure, in collaboration with the Electronic Metering Structure, has put considerable effort into making the remote reading and management system fully operational. There are still points of attention attributable to the differences between communication protocols and the presence of central system functions to be optimised—especially as far as the integration of the control flow with the data transmission network is concerned. The Group has analysed and addressed these issues in order to achieve the goals concerning the commissioning of the installed meters.

In the first six months of the year, the Group has finished insourcing the monitoring and control service for the remote surveillance of the cathodic protection. In this regard, it has started modernising equipment in order to store the readings taken on the field.

As for ICT operations, the Group made progress on new and existing initiatives seeking to increase the security of Workstations and the network as well as make them more resilient against external attacks.

13. Research and development

No research and development took place during the period.

14. 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 separate and consolidated financial statements.

14.1 Operational risks

Operating natural gas distribution networks involves the risks of malfunction or unanticipated interruption of the service, due to factors that are not under the Group's control, such as accidents, breakdowns or malfunctions of equipment or control systems, underperformance of the plants, and extraordinary events such as explosions, fires, earthquakes, landslides, and other natural disasters. These events can result in an interruption of the service, significant damage to people or property as well as the environment, and/or economic and social turmoil.
Any service interruptions, underperformance, or inadequacy of the Group structures and/or the consequent obligations to provide compensation could result in a reduction in revenues, an increase in costs, and/or regulatory action. 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.

14.2 Regulatory risks

The Group may be exposed to risks related to changes in the tariffs for regulated natural gas distributions activities. For example, a change in the regulatory variables or in the method used for regulation—including, but not limited to, in how the grants received to

develop the network and infrastructure are included in the tariff in each regulated period—will impact the tariffs applicable to the Group's business, with negative repercussions on revenues and profits.
The regulatory period is six years, and the WACC (weighted average cost of capital) is reviewed every three years.

14.3 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 aimed at satisfying current uses of natural gas with different means might constitute a risk that might determine less penetration of the market and, in perspective, a eduction of the infrastructure competitiveness.

14.4 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 domestic and European Union laws and regulations that govern health and safety to protect the public and employees.
As part of its operations, the Group uses potentially hazardous products and sub-products, and the work sites in which it operates are subject to laws and regulations (including zoning laws) regarding pollution, environmental protection, and the use and disposal of hazardous substances and waste.
These laws and regulations expose the Group to costs and liabilities associated with its operations and plants, including in relation to waste disposal.
The costs for any future environmental restoration obligations involve uncertainty as to the extent of the contamination, the appropriate corrective actions, and the Group's responsibility—which are often hard to estimate.
To mitigate this risk, the Group has taken out specific insurance policies covering both the cost of containing a potential contamination as well as of the relevant restoration and damage caused.

15. Outlook

In 2016, the Group will continue improving operational efficiency and curbing costs. Currently, the profitability for 2016 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 of operational structures;
- continue monitoring and preparing ATEM tenders in order to promptly seize the best market opportunities;
- pursue and improve the use of IT tools in order to boost efficiency;
- take full advantage of the new functionalities given by innovation to pursue and better all the processes and compay systems and to create new opportunities.

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

Consolidated Interim Report

Financial Statements

III. Income Statement

Thousands of euro	Notes	30.06.2016	of which from related parties	30.06.2015	of which from related parties
Revenues					
Revenues from sales and services	5.a	292,899	0	300,817	
Other revenues	5.b	42,317	250	35,131	
Revenues from intangible assets/assets under construc	5.c	95,226		71,292	
Sub-Total		**430,442**		**407,241**	
Costs					
Raw materials and consumables	6.a	39,897		27,463	
Services	6.b	93,286		94,878	
Personnel costs	6.c	59,576	1,253	61,252	4,003
Amortisation, depreciation and impairment losses	6.d	77,857		78,381	
Other operating costs	6.e	44,932	172	28,512	62
Capitalised costs for internal work	6.f	-		(1)	
Sub-Total		**315,548**		**290,484**	
EBIT		**114,894**		**116,757**	
Income (expenses) from equity investments	7	141	141	205	205
Financial income	8	105		552	
Financial expenses	8	(22,460)		(23,596)	
Sub-Total		**(22,214)**		**(22,838)**	
Pre-tax profit (loss)		**92,679**		**93,918**	
Taxes	9	31,903		52,456	
Net profit (loss) from continuing operations		**60,777**		**41,463**	
Net result from discontinued operations	10	-		-	
NET PROFIT (LOSS) FOR THE PERIOD		**60,777**		**41,463**	

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

IV. Statement of Comprehensive Income

Thousands of euro	30.06.2016	30.06.2015
Net profit (loss) recognised in profit or loss	**60,777**	**41,463**
- Net profit (loss) for the period attributable to owners of the parent		
- Net profit (loss) for the period attributable to non-controlling interests		
Other comprehensive income		
Items which will never be reclassified to profit/(loss):		
Revaluations of net defined benefit liabilities/assets - owners of the parent	(2,501)	767
Revaluations of net defined benefit liabilities/assets - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified in profit / (loss) - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified in profit / (loss) - owners of the parent	715	(483)
	(1,786)	284
Items which may subsequently be reclassified to profit/(loss):		
Change in fair value of hedging derivatives - owners of the parent	-	-
Change in fair value of hedging derivatives - non-controlling interests		
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		
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - owners of the parent	-	-
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interests		
	-	-
Total other comprehensive income	**(1,786)**	**284**
Total comprehensive income	**58,990**	**41,747**
Total comprehensive income attributable to:		
- Owners of the Parent	58,990	41,747
- Non-controlling Interests	0.00	-

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

V. Statement of Financial Position

Thousands of euro	Notes	30.06.2016	of which from related parties	31.12.2015	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	38,574		42,555	
Intangible assets	12	2,819,252		2,796,578	
Net deferred tax assets	13	71,990		68,835	
Investments	14	3,375	2,858	3,334	2,817
Non-current financial assets	15	4,588		5,213	
Other non-current assets	16	36,563		32,048	
	Total	**2,974,342**		**2,948,562**	
Current assets					
Inventories	17	17,030		13,810	
Trade receivables	18	131,017	1,405	239,501	1,166
Short-term financial receivables	19	3,605	375	323	315
Other current financial assets	20	27		8	
Cash and cash equivalents	21	173,107		160,541	
Income tax receivables	22	8,805		9,940	
Other current assets	23	160,089		146,170	
	Total	**493,680**		**570,293**	
Non-current assets and disposal groups held for sale					
Non-current assets and disposal groups held for sale	37	-		-	
	Total	**-**		**-**	
TOTAL ASSETS		**3,468,023**		**3,518,855**	

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

Thousands of euro	Notes	30.06.2016	of which from related parties	31.12.2015	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent	24				
Share capital		3,639		3,639	
Treasury shares		-		-	
Other reserves		493,368		494,375	
Retained earnings (accumulated losses)		80,076		77,913	
Profit (loss) for the period		60,777		87,974	
Total equity - Owners of the Parent		**637,859**		**663,901**	
Equity - Non-controlling Interest					
Non-controlling Interests		-		-	
Profit (loss) for the period - Non-controlling Interests		-		-	
Total equity - Non-controlling Interests		**-**		**-**	
TOTAL EQUITY		**637,859**		**663,901**	
Non-current liabilities					
Long-term loans	25	2,077,000		2,075,571	
Post-employment and other employee benefits	26	49,700		47,202	
Provision for risks and charges	27	14,379		10,637	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	-		-	
Other non-current liabilities	29	299,913	8	296,142	8
	Total	**2,440,993**		**2,429,552**	
Current liabilities					
Short-term loans	30	-		-	
Short-term payables due to banks	31	-		-	
Short-term portion of long-term and short-term provisions	32	66,625		63,054	
Trade payables	33	150,963	434	169,330	329
Income tax payables	34	12,087		1,266	
Current financial liabilities	35	33,403		21,394	
Other current liabilities	36	126,093	0	170,360	0
	Total	**389,171**		**425,403**	
Non-current liabilities and disposal groups held for sale					
Non-current liabilities and disposal groups held for sale	37	-		-	
	Total	**-**		**-**	
TOTAL LIABILITIES		**2,830,164**		**2,854,954**	
TOTAL EQUITY AND LIABILITIES		**3,468,023**		**3,518,855**	

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

VI. Statement of Cash Flows

Thousands of euro		30.06.2016	31.12.2015
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	**21**	**160,541**	**108,506**
Cash flow from operating activities			
Pre-tax profit (loss)		92,679	186,895
Tax expense for the period	9	(31,903)	(98,921)
Net profit (loss) from discontinued operations	10	-	-
1. Net profit (loss) for the period		**60,777**	**87,974**
Adjustments for:			
Depreciation	6.d	75,966	152,931
Write-downs/(Revaluations)	6.d	1,891	1,523
Capital gains/(losses)	5.b/6.e	2,397	9,546
Allocations to provisions for risks and charges and post-employment benefits		11,161	28,554
Financial (income)/expenses	7 and 8	22,214	48,359
2. Total adjustments		**113,629**	**240,914**
Change in net working capital			
Inventories	17	(3,220)	(6,016)
Trade receivables	18	106,979	(27,366)
Trade payables	33	(18,367)	(14,872)
Other current assets	23	(14,306)	16,932
Other current liabilities	36 and 37	(44,267)	27,178
Net tax receivables/(payables)	22 and 34	11,957	13,002
Increase/(decrease) in provisions for risks and charges and post-employment benefits	:6, 27 and 3	(3,850)	(14,741)
Increase/(decrease) in provisions for deferred tax assets and liabilities	13	(2,441)	43,320
Other non-current assets	16	(4,515)	(8,269)
Other non-current liabilities	29	3,771	12,800
Financial income/(expenses) other than for financing activities	8	(498)	(250)
3. Total change in net working capital		**31,243**	**41,720**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**205,650**	**370,607**
Cash flow from (used in) investing activities			
Net fixed assets		(97,057)	(195,510)
Acquisition of subsidiary and income from equity investments	7 and 14	100	224
Cash acquired through company acquisition		-	-
C) CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		**(96,957)**	**(195,286)**
D) FREE CASH FLOW (B+C)		**108,693**	**175,322**
Cash flow from (used in) financing activities			
Dividend distribution		(85,032)	(65,020)
Change in reserves		-	(0)
Change in amortised cost	.5, 25 and 3	2,038	5,783
Financial income from financing activities	8	75	188
Financial expense from financing activities	8	(21,932)	(48,526)
New loan	25		200,000
Loan settlement	25		(210,000)
Interest payable	25		(4,132)
Change in short-term financial debt	30	-	(7,791)
Change in other non-current financial assets	15	17	(224)
Change in other financial receivables	19 and 20	(3,301)	652
Change in other financial payables	35	12,009	5,784
E) CASH FLOW FROM (USED IN) FINANCING ACTIVITIES		**(96,127)**	**(123,287)**
F) CASH FLOW FOR THE PERIOD (D+E)		**12,566**	**52,035**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**21**	**173,107**	**160,541**

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

VII. Statement of Changes in Equity

Thousands of euro	Share capital and reserves									
	Share capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net profit (loss) for the period	Total - Owners of the Parent	Total - Non-controlling Interests	Total Consolidated Equity
Total 31 December 2014	**3,636**	**351,567**	**620**	**0**	**288,136**	**(16,019)**	**12,021**	**639,961**	**896**	**640,857**
Allocation of result for 2014:										
Allocation of result	-	-	-	-	-	12,021	(12,021)	-	-	-
- Increase in legal reserve	-	-	108	-	(108)	-	-		-	
Contribution from shareholders and payments to them as shareholders								-		-
- Distribution of Share premium reserve	-	(65,020)	-	-	-	-	-	(65,020)	-	(65,020)
Total contribution from shareholders and payments to them as shareholders								*(65,020)*		*(65,020)*
- Other changes (merger of 2iRete gas)	2	-	-	-	(85,128)	86,021	-	896	(896)	(0)
- Other changes	-	-	-	(0)	4,111	(4,110)	-	0	-	0
- Change in IAS reserves	-	-	-	-	90	-	-	90	-	90
- Net profit (loss) for the period recognised in profit or loss	-	-	-	-	-	-	87,974	87,974		87,974
Total 31 December 2015	**3,639**	**286,546**	**728**	**-**	**207,101**	**77,913**	**87,974**	**663,901**	**-**	**663,901**
Allocation of result for 2015:										
Allocation of result	-	-	-	-	-	87,974	(87,974)	-	-	-
Contribution from shareholders and payments to them as shareholders								-		-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
Total contribution from shareholders and payments to them as shareholders								*(85,032)*		*(85,032)*
- Other changes (merger of GP GAS)	-	-	-	-	779	(779)	-	-	-	-
- Change in IAS reserves	-	-	-	-	(1,786)	-	-	(1,786)	-	(1,786)
- Net profit (loss) for the period recognised in profit or loss	-	-	-	-	-	-	60,777	60,777		60,777
Total 30 June 2016	**3,639**	**286,546**	**728**	**0**	**206,094**	**80,076**	**60,777**	**637,859**	**0**	**637,859**

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

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

On 23 September 2016, the Directors of 2i Rete Gas S.p.A. approved this condensed consolidated interim financial 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 23 September 2016.
This condensed consolidated interim financial report is audited by PricewaterhouseCoopers S.p.A on a voluntary basis.

2. Compliance with IFRS/IAS

This condensed consolidated interim financial report at 30 June 2016 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 financial report has been prepared in compliance with IAS 34 - Interim Financial Reporting. The above standards and interpretations are hereinafter referred to as “IFRS-EU”.

3. Basis of presentation

The consolidated interim financial 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 expenses, while the Statement of Cash Flows is presented using the indirect method.
The consolidated interim financial report is presented in euro (the 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.

4. Accounting policies and measurement bases

In preparing the consolidated interim financial report, the Group has used the same accounting policies as those used in preparing the consolidated financial statements for the year ended 31 December 2015.
The European Union has not endorsed any further accounting standards, amendments or interpretations issued by the IASB.
At 30 June 2016, the IASB and IFRIC had not issued new standards and interpretations other than those indicated in the notes at 31 December 2015.

As from 1 January 2016, some amendments to specific paragraphs of the International Accounting Standards already adopted by the Group in previous years have become effective. None of them had a significant impact on the Group’s financial position and performance or the basis of presentation compared to 31 December 2015. The main changes are set out below.

• IFRS 11 “Joint Arrangements”: the amendment to the standard provides guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a "business" as defined in IFRS 3 "Business Combinations". The amendment is effective for annual periods beginning on or after 1 January 2016;

• IAS 1 "Presentation of Financial Statements": the amendment to the standard concerned was issued by the IASB on 18 December 2014 and is effective for annual periods beginning on or after 1 January 2016. It explicitly clarifies that an entity need not provide a specific disclosure required by an IFRS if the information is not material. The amendment also intends to provide clarification about the aggregation or disaggregation of line items that are significant or "material". In addition, concerning the information to be presented in the statement of financial position, the amendment clarifies that some line items required by paragraphs 54 (Financial position) and 82 (Income statement) of IAS 1 should be disaggregated;

• IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": the amendment to these two standards clarifies that revenue-based depreciation for property, plant and equipment is not appropriate, as this method is based on factors (for example sales volumes and prices) that do not represent the actual pattern of consumption of the economic benefits of the underlying asset. This prohibition has been included also in IAS 38. Following the amendment, a revenue-based amortisation method is appropriate only if it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated.

• IAS 27 Revised "Separate Financial Statements": the amendment to the standard concerned was issued by the IASB on 12 August 2014 and is effective for annual periods beginning on or after 1 January 2016. It allows an entity to use the equity method to account for investments in subsidiaries, joint ventures and associates in its separate financial statements;

• Annual Improvements to IFRSs 2012-2014 Cycle: on 25 September 2014, the IASB issued a series of amendments to some international accounting standards, which are effective for annual periods beginning on or after 1 January 2016. The amendments concern:

- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IFRS 7 "Financial instruments: Disclosures";
- IAS 19 "Employee Benefits";
- IAS 34 "Interim Financial Reporting".

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

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

5. Use of estimates

The preparation of the consolidated interim financial report requires management to make 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 financial 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 2015.

IX. Information on the Income Statement

Revenues

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 uniqueness of its business.

5.a Revenues from sales and services – *292,899 thousand euro*

"Revenues from sales and services" amounted to 292,899 thousand euro and mainly referred to gas transport operations and connection fees.

Here is the breakdown of “Revenues from sales and services”:

Thousands of euro

	30.06.2016	30.06.2015	2016-2015
Sales and services			
Third parties:			
Gas and LPG transport	273,710	283,411	(9,701)
Provision for risks	(1,285)	(2,283)	999
Connection fees	7,452	6,737	715
Ancillary fees	2,808	2,671	136
Revenues from the sale of water	956	1,502	(546)
Ancillary services – water sector	161	222	(61)
Revenues from customer operations	28	51	(23)
Revenues from purification/sewerage management	415	524	(109)
Sundry revenues and other sales and services	8,655	7,984	671
Total revenues from sales and services	**292,899**	**300,817**	**(7,919)**

Revenues from gas transport totalled 273,710 thousand euro and largely consisted of the portion for the first half of the 2016 Tariff Revenue Cap for natural gas (267,641 thousand euro) and LPG (274 thousand euro).
The decline compared to the previous year was attributable to both the reduction in the regulatory WACC effective 1 January 2016 and the positive tariff compensation for the 2014 Revenue Cap recognised in the prior year.

Connection fees totalled 7,452 thousand euro, up 715 thousand euro from the first half of 2015 thanks to the moderate recovery in new connections, among other things.

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

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

Revenues from the sale of water were influenced by the issuing of new water concessions wherever the opportunity arises.
The positive 671 thousand euro change in "Sundry revenues and other sales and services" was mainly due to the suspension and reconnection of customers in arrears at the request of the sales companies.

5.b Other revenues – *42,317 thousand euro*

"Other revenues" totalled 42,317 thousand euro (35,131 thousand euro in the prior-year period), up 7,186 thousand euro.
This was largely attributable to higher revenues from Energy Efficiency Certificates as a result of the increase in both the number of certificates purchased during the period and their average value, as well as higher gains on sales of assets, which totalled 4,853 thousand euro (683 thousand euro in June 2015), following the final settlement of the dispute over the value attributable to the concessions of the so-called "Lariano Triangle". These were only partially offset by the lower windfall gains compared to the previous year, when the Group recognised the gain arising from the end of the arbitration with GDF Suez Italia.
Another contribution came from the 1,091 rise in the estimated revenues from the so-called "technical quality".

5.c Revenues from intangible assets / assets under construction – *95,226 thousand euro*

As from 1 January 2010, the Group has been recognising these revenues pursuant to IFRIC 12 "Service Concession Arrangements".
Compared to the same period last year, they were up 23,934 thousand euro.

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

Costs

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

6.a Raw materials and consumables – *39,897 thousand euro*

"Raw materials and consumables" essentially include the cost for the purchase of materials used to lay gas pipelines as well as vehicle fuel; the amount at 30 June 2016 was significantly higher than in the prior-year period (27,463 thousand euro) due to the company's effort to replace conventional meters with mass market electronic ones, which are currently being rolled out.

6.b Services – 93,286 thousand euro

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

Thousands of euro	30.06.2016	30.06.2015	2016 - 2015
Costs for services			
Third parties:			
Maintenance, repair and construction of assets	32,232	31,149	1,083
Costs for electricity, power and water	1,464	2,176	(712)
Gas (for internal use)	2,235	2,545	(310)
Telephone and data transmission costs	1,523	1,490	34
Insurance premiums	2,419	2,587	(169)
Costs for services and other expenses relating to persc	2,456	2,445	11
Fees	469	550	(81)
Legal and notary fees	874	172	702
Costs for company acquisitions and disposals	5	1	4
Staff and other services	-	754	(754)
Advertising	42	31	12
IT services	2,915	3,369	(453)
Meter reading service	2,363	1,879	484
Audit fees	210	160	50
Availability, maintenance and emergency services	2,276	1,086	1,190
Plant certifications resolution no. 40	282	280	3
Gas transport by third parties	294	366	(72)
Professional and other services and consulting	1,950	2,033	(83)
Other costs for services	3,267	3,958	(691)
Leases	2,724	3,789	(1,065)
Rentals	3,564	3,086	478
Other leasehold costs	1,020	956	65
Fee for temporary occupation of public space (C.o.s.a.ı	639	625	14
Municipal gas concession fees	28,062	29,391	(1,329)
Total	**93,286**	**94,878**	**(1,591)**
- of which capitalised for intangible assets	34,629	31,869	2,759

Costs for services decreased by 1,591 thousand euro compared to the same period last year. Also in this case, please note 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 down 4,351 thousand euro.

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

- 1,083 thousand euro increase in the costs for maintaining, repairing and building assets, due to the intense work on the network during the first six months of the year;
- 1,022 thousand euro decrease in costs for electricity, water and gas for internal use as a result of the revision of most contracts;
- approximately 702 thousand euro increase in legal costs, especially because of the intense work on cases of default;
- the cancellation of staff services that previously referred to transport contracts with Enel S.p.A.;
- the decrease in IT costs compared to the prior-year period thanks to further efficiency gains;
- approximately 1,190 thousand euro increase in costs for availability, maintenance and emergency services as a result of the higher number of service visits.
- the decrease in rental and lease costs as a result of the rationalisation of office space (1,065 thousand euro) and the lower payments made to Municipalities concerning business development activities (1,329 thousand euro).

6.c Personnel costs - 59,576 thousand euro

Personnel “costs” include all expenses incurred on an ongoing basis that directly or indirectly concern employees. They were down 1,676 thousand euro.
In the prior-year period, personnel costs included also the impact of the former Chief Executive Officer's departure from the company.
In the current year, there was an increase attributable to new hiring for the concession in Como, as well as to the turnover due to retirement.

The table below shows the changes for the first half of 2016 by category.

	Executives	ddle Manage	Clerks	Blue Collar	Total
Personnel at 31 December 2015	**33**	**110**	**1,127**	**693**	**1,963**
Increase	-	3	26	18	**47**
Decrease	(2)	(2)	(9)	(1)	**(14)**
Change in category	-	1	(1)	-	**-**
Personnel at 30 June 2016	**31**	**112**	**1,143**	**710**	**1,996**

6.d Amortisation, depreciation and impairment losses – *77,857 thousand euro*

Depreciation and amortisation decreased by 1,146 thousand euro compared to the previous year.
This change reflected the normal life cycle of property, plant and equipment and intangible assets, while the impact of the provisions for doubtful debts recognised through profit or loss increased by 622 thousand euro due to the review of the estimated recoverability of certain receivables.

This item is broken down as follows:

Thousands of euro

	30.06.2016	30.06.2015	2016 - 2015
Depreciation	2,512	2,277	235
Amortisation	73,454	74,835	(1,381)
Impairment losses:			
- Write-down of trade receivables	1,891	1,269	622
	77,857	**78,381**	**(524)**

6.e Other operating costs – *44,932 thousand euro*

"*Other operating costs*", which 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, were up 16,420 thousand euro from the prior-year period.
The increase was the result of the higher number as well as price of the certificates purchased (+8,703 thousand euro) and the greater losses arising from the write-off and sale of assets (7,251 thousand euro, compared to 2,519 thousand euro in June 2015). These mainly referred to the campaign to replace conventional meters (+4,248 thousand euro) and net provisions for risks and charges (+2,747 thousand euro).
The breakdown of the relevant provisions is provided in the comments on liabilities.

6.f Capitalised costs for internal work – *0 thousand euro*

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work. For this reason, the item now includes only any residual costs that can be capitalised but do not concern concessions.

7. Income/(Expenses) from equity investments - *141 thousand euro*

The item includes the income from investments in associates and other companies. Specifically, at 30 June 2016 this item included the carrying amount of the equity-accounted investments in MEA S.p.A. and CBL Distribuzione S.r.l..

8. Financial income/(expenses) - *(22,355) thousand euro*

Here below is the breakdown:

Thousands of euro

	30.06.2016	30.06.2015	2016-2015
Financial income			
- Interest income from loans to employees	0	-	0
- Interest on arrears receivable	-	130	(130)
- Interest income from bank and postal current accounts	75	97	(22)
- Interest income from receivables due from customers	23	102	(79)
- Other interest and financial income	6	223	(217)
Total income	**105**	**552**	**(448)**
Financial expenses			
- Interest expense on medium/long-term loans	555	1,660	(1,105)
- Other expense on medium/long-term loans from banks	787	785	2
- Financial expense on bonds	18,551	18,447	104
- Financial expense from amortised cost	2,038	2,299	(261)
- Discounting of post-employment and other employee benefits	479	290	189
- Expense for discounting of payables	5	-	5
- Interests on taxes and duties	1	96	(96)
- Other interest and financial expense	43	18	25
Total expense	**22,460**	**23,596**	**(1,136)**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(22,355)**	**(23,043)**	**688**

The Group reported 22,355 thousand euro in financial expenses, mainly because of the financial expenses on the bond, the expenses related to the loan outstanding, and the amortised cost of both loans. The improvement was largely attributable to the renegotiation of the terms of the bank loan in December 2015, which had a positive impact on 2016.

9. Taxes– *31,903 thousand euro*

This item is broken down as follows:

Thousands of euro	30.06.2016	30.06.2015	2016 - 2015
Current taxes			
Current income taxes: IRES	28,656	24,160	4,496
IRES substitute tax on exemption	-	-	-
Current income taxes: IRAP	5,811	5,372	440
Total current taxes	**34,467**	**29,532**	**4,936**
Adjustments for income tax expense for prior years			
Negative adjustments for income tax expense for prior years	136	556	(420)
Positive adjustments for income tax expense for prior years	(146)	(1,178)	1,032
Total adjustments for income tax expense for prior years	**(11)**	**(622)**	**612**
Deferred tax assets and liabilities		-	
Deferred tax liabilities (use) / provision	(2,346)	(3,923)	1,577
Deferred tax assets (provision) / use	(203)	4,389	(4,592)
Total current deferred tax assets and liabilities	*(2,549)*	*466*	**(3,016)**
Adjustments to deferred tax liabilities from prior years due to tax rate change	1	(21,507)	21,508
Adjustments to deferred tax assets from prior years due to tax rate change	(5)	44,588	(44,593)
Total adjusted deferred tax assets and liabilities	*(4)*	*23,080*	*(23,084)*
Total deferred tax assets and liabilities	**(2,554)**	**23,546**	**(26,100)**
TOTAL TAXES	**31,903**	**52,456**	**(20,553)**

The income tax expense for the first half of 2016 totalled 31,903 thousand euro.
Specifically, it referred to:

- the recognition of the liability for current taxes for the year, including 28,656 thousand euro in IRES (the Italian corporate income tax) and 5,811 thousand euro in IRAP (the Italian regional tax on productive activities);
- 11 thousand euro in negative net adjustments to the income tax expense for prior years;
- the changes in deferred tax assets and liabilities. In 2015, these had been revised after the so-called Robin Hood Tax was declared unconstitutional; in 2016, they 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 – 0 thousand euro

The result from discontinued operations was zero, as in the previous year, since no operation was classified as “Discontinuing” in the financial statements for the period.

X. Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – *38,574 thousand euro*

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

The breakdown of, and changes in, property, plant and equipment for the years 2014, 2015 and 2016 are reported below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Leasehold improvements	Assets under construction and progress payments	Total
Historical cost	14,673	35,845	112	21,947	46,206	9,770	2,691	131,244
Accumulated depreciation	-	(24,409)	(3)	(19,708)	(38,627)	(7,672)	-	(90,420)
Balance at 31.12.2014	**14,673**	**11,436**	**108**	**2,239**	**7,579**	**2,098**	**2,691**	**40,825**
Investments	-	34	503	472	994	1,762	1,190	4,955
Commissioning	-	40	-	-	1,022	1,607	(2,669)	-
Disposals	-	-	(3)	(15)	(11)	-	-	(29)
Reclassifications	10	79	1,802	-	-	(0)	-	1,891
Impairment losses	-	-	-	-	-	-	-	-
Depreciation	-	(1,107)	(89)	(677)	(2,208)	(1,006)	-	(5,087)
Total changes	**10**	**(954)**	**2,214**	**(219)**	**(204)**	**2,363**	**(1,479)**	**1,730**
Historical cost	14,683	36,009	4,168	22,152	47,800	13,139	1,212	139,163
Accumulated depreciation	-	(25,527)	(1,846)	(20,132)	(40,425)	(8,678)	-	(96,608)
Balance at 31.12.2015	**14,683**	**10,481**	**2,322**	**2,020**	**7,375**	**4,462**	**1,212**	**42,555**
Investments	-	20	115	217	241	94	42	728
Commissioning	-	939	-	-	-	107	(1,046)	-
Disposals	(332)	(76)	-	(0)	(16)	-	-	(424)
Reclassifications	(10)	(76)	(1,687)	-	-	-	-	(1,774)
Impairment losses	-	-	-	-	-	-	-	-
Depreciation	-	(530)	(41)	(370)	(1,045)	(525)	-	(2,512)
Total changes	**(342)**	**276**	**(1,613)**	**(153)**	**(820)**	**(325)**	**(1,004)**	**(3,982)**
Historical cost	14,341	36,400	2,295	22,341	47,370	13,339	207	136,294
Accumulated depreciation	-	(25,642)	(1,586)	(20,475)	(40,815)	(9,203)	-	(97,721)
Balance at 30.06.2016	**14,341**	**10,758**	**709**	**1,866**	**6,555**	**4,137**	**207**	**38,574**

At 30 June 2016, the item decreased by 3,982 thousand euro compared to 31 December 2015; this fall was due to the net balance of 728 thousand euro in investments, (1,774) thousand euro in reclassifications, (424) thousand euro in disposals, and (2,512) thousand euro in depreciation.

12. Intangible assets – *2,819,252 thousand euro*

Following the introduction of IFRIC 12, intangible assets include also those assets that are tied to gas distribution concessions. The breakdown of, and changes in, intangible assets for the years 2014, 2015 and 2016 are reported below:

Thousands of euro	Patents and intell. property rights	Concessions and similar rights	Concessions and similar rights - Assets under construction and progress payments	Assets under construction and progress payments	Other intangible assets	Goodwil	Total
Historical cost	86,661	5,067,685	10,246	1,233	67,844	142,974	**5,376,643**
Accumulated amortisation	(71,146)	(2,496,546)	-	-	(43,675)		**(2,611,367)**
Balance at 31.12.2014	**15,515**	**2,571,139**	**10,246**	**1,233**	**24,169**	**142,974**	**2,765,276**
Investments	1,304	161,961	8,772	1,562	19,994	-	**193,593**
Commissioning	-	9,118	(9,118)	-	-	-	**-**
Decreases	-	(12,546)	(11)	-	-	-	**(12,556)**
Reclassifications	19	(1,892)	10	-	(29)	-	**(1,891)**
Impairment losses	-	-	-	-	-	-	**-**
Amortisation	(6,534)	(132,842)	-	-	(8,468)	-	**(147,844)**
Total changes	**(5,211)**	**23,800**	**(346)**	**1,562**	**11,497**	**-**	**31,301**
Historical cost	87,994	5,185,599	9,900	2,795	87,735	142,974	**5,516,997**
Accumulated amortisation	(77,690)	(2,590,660)	-	-	(52,069)		**(2,720,420)**
Balance at 31.12.2015	**10,304**	**2,594,939**	**9,900**	**2,795**	**35,666**	**142,974**	**2,796,578**
Investments	323	88,632	9,633	3,067	5	-	**101,660**
Commissioning	-	6,483	(6,483)	(1,395)	1,395	-	**0**
Decreases	-	(7,306)	-	-	-	-	**(7,306)**
Reclassifications	-	1,774	-	-	-	-	**1,774**
Impairment losses	-	-	-	-	-	-	**-**
Amortisation	(3,003)	(65,517)	-	-	(4,934)	-	**(73,454)**
Total changes	**(2,680)**	**24,066**	**3,150**	**1,672**	**(3,534)**	**0**	**22,674**
Historical cost	88,315	5,255,347	13,051	4,467	89,017	142,974	**5,593,170**
Accumulated amortisation	(80,690)	(2,636,342)	-	-	(56,885)	-	**(2,773,918)**
Balance at 30.06.2016	**7,624**	**2,619,005**	**13,051**	**4,467**	**32,132**	**142,974**	**2,819,252**

Intangible assets increased by 22,674 thousand euro compared to 31 December 2015; this was due to the net balance of 101,660 thousand euro in new investments, (7,306) thousand euro in decreases, 1,774 thousand euro in reclassifications, and (73,454) thousand euro in amortisation.

The item “Concessions and similar rights” is divided into fixed assets and fixed assets under construction, which in 2015 totalled 2,594,939 thousand euro and 9,900 thousand euro, respectively; during the reporting period, fixed assets increased by 24,066 thousand euro and fixed assets under construction by 3,150 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 increase in concessions was also attributable to the acquisition of the concessions in Como, San Fermo della Battaglia, and Mirabello.

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 2016, "Assets under construction and progress payments" totalled 4,467 thousand euro, up from the prior-year largely as a result of the costs incurred to upgrade software packages. These increased by 3,067 thousand euro, and combined with (1,395) thousand euro in commissioning compared to 31 December 2015.

"Other intangible assets" amounted to 32,132 thousand euro and concerned the software used by the Group.

"Goodwill" totalled 142,974 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.

Goodwill was tested for impairment at 31 December 2015. In the first half of 2016, there were no impairment indicators, therefore the company will test goodwill for impairment at 31 December 2016.

13. Deferred tax assets – *172,249 thousand euro* and Deferred tax liabilities – *100,759 thousand euro*

Deferred tax assets and deferred tax liabilities are determined based on the tax rates that have been enacted at the reporting date. Deferred tax assets totalled 172,749 thousand euro (171,943 thousand euro at 31 December 2015), while deferred tax liabilities totalled 100,759 thousand euro (109,109 thousand euro at 31 December 2015).

Deferred tax assets and liabilities at 30 June 2016 were determined using the tax rates that have been enacted: 27.5% 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 31.12.2015	Adjustments to UNICO	At 01.01.2016	Increases recognised through		Decreases recognised through		Other changes		Reclassifications (if any)	Balance at 30.06.2016
				Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity		
Deferred income tax assets:											
allocation to provisions for risks and charges with deferred deductibility	17,298	(0)	17,297	1,538	-	(137)	-	(301)	-		**18,397**
allocation to provisions for exit and stock option	473	-	473	-	-	(87)	-	-	-		**386**
allocation to provisions for disputes	3,938	-	3,938	1,856	-	(119)	-	(808)	-		**4,867**
allocation to obsolescence allowance	3,231	-	3,231	30	-	(37)	-	-	-		**3,224**
impairment losses with deferred deductibility (write-down of receivables)	2,557	-	2,557	314	-	(0)	-	-	-		**2,870**
impairment losses with deferred deductibility (write-down of plants)	1,901	-	1,901	93	-	-	-	-	-		**1,993**
depreciation and amortisation with deferred deductibility	76,379	23	76,402	5,107	-	(877)	-	(16)	-		**80,617**
separation of land/buildings and component analysis	114	-	114	-	-	-	-	-	-		**114**
start-up costs	2,232	-	2,232	-	-	-	-	-	-		**2,232**
Post-employment and other employee benefits	2,324	-	2,324	637	-	(612)	-	-	-		**2,349**
Taxes and duties deductible on a cash basis	12	-	12	-	-	-	-	(1)	-		**11**
proceeds subject to deferred taxation (connection fees)	33,583	-	33,583	19	-	(565)	-	(239)	-		**32,798**
charges with deferred deductibility	24,963	(136)	24,827	1	-	(5,671)	-	-	-		**19,157**
Goodwill	1,136	-	1,136	-	-	-	-	-	-		**1,136**
Post-employment benefits - Italian Accounting Body (OCI)	1,799	-	1,799	-	714	-	-	-	-		**2,513**
for losses recoverable in future years	3	-	3	-	-	(3)	-	-	-		**0**
other consolidation adjustments	3	-	3	79	0	-	-	(0)	-	2	**84**
Total	**171,943**	**(113)**	**171,831**	**9,674**	**714**	**(8,107)**	**-**	**(1,365)**	**-**	**2**	**172,749**
Deferred income tax liabilities:											
differences on property, plant and equipment and intangible assets – additional depreciation and amortisation	26,785	-	26,785	177	-	(454)	-	-	-		**26,508**
differences on intangible assets – goodwill	5,853	-	5,853	-	-	(117)	-	(5)	-	372	**6,103**
separation of land/buildings and component analysis	3,829	-	3,829	-	-	-	-	-	-		**3,829**
allocation to assets of costs relating to company mergers	44,664	-	44,664	-	-	(1,326)	-	-	-		**43,337**
Post-employment benefits	887	-	887	-	-	-	-	-	-		**887**
proceeds subject to deferred taxation	983	-	983	-	-	(319)	-	-	-		**664**
others…	2,172	-	2,172	19	-	(141)	-	-	-	(372)	**1,678**
ASEM - Italian Accounting Body (OCI)	1	-	1	-	-	-	(1)	-	-		**0**
recognition of deferred tax liabilities due to merger	16,945	-	16,945	28	-	(211)	-	-	-	989	**17,750**
other consolidation adjustments	988	-	988	-	-		-	-	-	(988)	**0**
5% dividends received allocated to future years on an accrual basis	2	-	2	1	-	(2)	-	-	-		**1**
Total	**103,109**	**-**	**103,109**	**225**	**-**	**(2,571)**	**(1)**	**(5)**	**-**	**2**	**100,759**
Net deferred tax assets	**68,835**	**(113)**	**68,722**	**9,449**	**714**	**(5,536)**	**1**	**(1,360)**	**-**	**0**	**71,990**

14. Equity investments – 3,375 thousand euro

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	Increases for the period	Disposals	Other increases	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
									at 30.06.2016		
Associates											
Equity Method											
Melegnano Energie Ambiente SpA	2,466	40.00%	39					2,451	39	2,490	40.00%
CBL Distribuzione Srl	351	40.00%	8					360	8	368	40.00%
Other Companies											
Cost Method											
Interporto di Rovigo S.p.A.	42	0.30%						42		42	0.30%
Fingranda S.p.A.	26	0.58%						26		26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.27%						33		33	0.27%
Industria e Università S.r.l.	11	0.09%						11		11	0.09%
Azienda Energetica Valtellina Valchiavenna S.p.A.	405	3.37%						405		405	3.37%
Terme di Offida Spa	1	0.19%						1		1	0.19%
Asogas S.p.A. in liquidazione	-	9.00%						-		-	9.00%
Alpifiere S.r.l. in fallimento	-	3.00%						-		-	3.00%
TOTAL EQUITY INVESTMENTS	**3,334**		**47**	**-**	**-**	**-**	**-**	**3,329**	**47**	**3,375**	

The following tables show the list of equity investments in the Group's investees at 30 June 2016:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenues (euro)	Profit/loss latest year (euro)	Reporting date	% ownership	Consolidated carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	6,476,039	5,666,314	310,682	31.12.2015	40.00%	2,490,416
CBL Distribuzione Srl	Mede (PV)	170,000	919,536	3,170,370	42,162	31.12.2015	40.00%	367,815

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenues (euro)	Profit/loss latest year (euro)	Reporting date	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	8,575,489	5,855,404	1,310,814	(508,589)	31.12.2015	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,852,874	39,504	(219,260)	31.12.2015	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,806,073	947,771	81,438	31.12.2015	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,247,629	-	(32,046)	31.12.2015	0.09%	10,989
Azienda Energetica Valtellina Valchiavenna S.p.A.	Tirano (SO)	1,803,562	19,773,704	9,737,732	1,768,375	31.12.2015	3.37%	405,000
Terme di Offida Spa	Offida (AP)	141,384	132,720	-	(8,711)	31.12.2015	0.19%	548
Asogas S.p.A. in liquidazione	Amandola (FM)	104,000	2,182	159,506	155,153	31.12.2015	9.00%	-
Alpifiere S.r.l. in fallimento	Morbegno (SO)	10,330	-	-	-	31.12.1998	3.00%	-

15. Non-current financial assets – *4,588 thousand euro*

The item mainly represents the prepayment of transaction costs incurred to obtain credit lines that were granted but had still not been used at 30 June 2016.

16. Other non-current assets – *36,563 thousand euro*

This item increased by 4,515 thousand euro compared to 31 December 2015.

Guarantee deposits totalled 3,507 thousand euro and referred to receivables for work to be performed on distribution plants as well as from customer contracts.

The 678 thousand euro receivable for grants to be received was attributable to recognition of the medium/long-term portion of receivables for grants related to plants to be received.

Receivables for tax refund claims amounted to 2,079 thousand euro, including 821 thousand euro related to the refund claimed pursuant to article 6 of Italian Legislative Decree 185/2008 (Deduction of IRES from the IRAP portion for labour costs and interest expense).

Other non-current assets included also 15,258 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 14,991 thousand euro (up 5,247 thousand euro) in tender fees paid in advance to contracting authorities ahead of ATEM tenders (5,917 thousand euro) and receivables concerning the losses incurred in replacing conventional meters with electronic ones (8,129 thousand euro).

Current assets

17. Inventories – *17,030 thousand euro*

Closing inventories of raw materials rose 3,220 thousand euro from the prior-year period.
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 305 thousand euro obsolescence allowance set aside to take into account the inventories that are unlikely to be used in the future. In the first six months of the year, the Group used 113 thousand euro and set aside 104 thousand euro.
The Group uses the weighted average cost method.

18. Trade receivables – *131,017 thousand euro*

Trade receivables were down 108,484 thousand euro compared to 31 December 2015.
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.

Here below is the breakdown:

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
Third-party customers:			
Receivables due from customers	146,042	253,155	(107,113)
- Provision for doubtful debts	(15,024)	(13,653)	(1,371)
Total	**131,017**	**239,501**	**(108,484)**

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.

Here below is the breakdown of the changes in the provision for doubtful debts.

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
At 31 December 2015	**13,653**	**16,365**	**(2,712)**
Allocations	1,675	3,091	(1,415)
Releases	(171)	(1,605)	1,434
Uses	(133)	(4,198)	4,064
At 30 June 2016	**15,024**	**13,653**	**1,371**

The Group operated exclusively in Italy.

19. Short-term financial receivables – *3,605 thousand euro*

Short-term financial receivables consisted of financial receivables due from Gestore dei Mercati Elettrici and included 375 thousand euro in receivables for dividends to be received.

The receivables due from GME amounted to 3,230 thousand euro and referred to the liquidity deposited with GME in order to trade on the exchange for energy efficiency certificates. The item was up 3,282 thousand euro overall compared to the end of the previous year.

20. Other current financial assets – *27 thousand euro*

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

21. Cash and cash equivalents – *173,107 thousand euro*

Cash and cash equivalents rose 12,566 thousand euro as a result of the positive cash flows for the period, even when accounting for the dividend payout.

The Group holds 12,383 thousand euro in bank current accounts and 182 thousand euro in postal and cash deposits.

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

22. Income tax receivables – *8,805 thousand euro*

Income tax receivables due from Italian tax authorities consisted mainly of 3,938 thousand euro in IRES receivables for the excess estimated tax payments related to the Robin Hood Tax, 4,767 thousand euro in the IRES refund that the Group claimed for the failure to deduct the IRAP on personnel costs (pursuant to Italian Legislative Decree 201/2011), and 40 thousand euro in IRAP receivables. Compared to the prior-year period, income tax receivables were down 1,135 thousand euro, largely as a result of the IRES estimated tax payment made in June.

23. Other current assets – *160,089 thousand euro*

Other current assets rose 13,920 thousand euro compared to 31 December 2015, mainly as a result of:

- 9,602 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";

- 1,490 thousand euro decline in receivables due from Municipalities after settling a number of disputes;
- 1,148 thousand euro increase in payables for insurance premiums and a 5,458 thousand euro rise in sundry payables due to the seasonal pattern of prepayments of insurance and concession fees paid to Municipalities.

The item is broken down as follows:

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
Other tax receivables:			
VAT receivables claimed for refund	885	1,084	(199)
Other tax receivables	429	412	16
Other receivables:			
due from pension and insurance agencies	1,994	2,928	(934)
for grants related to plants to be received	1,673	1,729	(55)
from CSEA	138,278	128,676	9,602
from municipalities for disposals of assets due to expiration of concessions	3,844	5,333	(1,490)
- Provision for other doubtful debts	(386)	-	(386)
from municipalities	246	246	-
from suppliers	1,403	1,352	51
Sundry receivables	4,809	4,270	539
- Provision for other doubtful debts	(1,152)	(1,152)	-
Accrued income	1	1	-
Prepayment of sundry multi-year fees	51	51	-
Prepayment of real estate lease fees	342	190	153
Prepayment of promotional expenses	17	-	17
Prepayment of insurance premiums	1,250	101	1,148
Other prepayments	6,406	948	5,458
Total	**160,089**	**146,170**	**13,920**

Liabilities

Equity

24. Equity – 637,859 thousand euro

Equity fell by 26,042 thousand euro as a result of the following changes:

- 85,032 thousand euro decline due to the ordinary dividend payout;
- 1,786 thousand euro decrease in IAS reserves;
- 60,777 thousand euro increase in the profit for the period.

Share capital – 3,639 thousand euro

The share capital at 30 June 2016 amounted to 3,639 thousand euro and was entirely subscribed and paid up; the item was unchanged during the period.

Share premium reserves – *286,546 thousand euro*

The reserve was established in 2009 at the time of the capital increase, and did not change during the period.

Legal reserve – 728 thousand euro

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

Sundry reserves – 206,094 thousand euro

Sundry reserves were down (1,007) thousand euro from the prior-year period. This was due to the reclassification of the reserves referring to the changes in equity arising from the merger between 2i Rete Gas S.p.A. and the subsidiary GP Gas S.r.l. on 1 January 2016, as well as the recognition of the change in IAS reserves after accounting for the impact of the revision of defined benefit obligations in accordance with IAS 19.

Retained earnings – 80,076 thousand euro

Retained earnings rose 2,613 thousand euro from the prior-year period as a result of the recognition of the 87,974 thousand euro profit for the year ended 31 December 2015, the distribution of (85,032) thousand euro in dividends, and (779) thousand euro arising from the reclassification of the reserves for the mentioned merger with Gp Gas S.r.l..

Profit for the period – 60,777 thousand euro

The profit for the first half of 2016 was up 19,314 thousand euro compared to the prior-year period.

Non-current liabilities

25. Long-term loans (including portions due within the next 12 months) – *2,077,000 thousand euro*

The item refers to the three instalments of the long-term bond the company issued in 2014 as part of the overhaul of its financial structure, as well as the 200,000 thousand euro loan outstanding with the European Investment Bank.

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	Carrying amount 30.06.2016	Carrying amount 31.12.2015	Notional amount 30.06.2016	Notional amount 31.12.2015	Interest rate in force	Interest rate effective
Floating rate debt	200,000	200,000	200,000	200,000	Eur3+0.59%	0.41%
Bond maturity 2019	750,000	750,000	750,000	750,000	1.75%	1.89%
Bond maturity 2020	540,000	540,000	540,000	540,000	1.13%	1.35%
Bond maturity 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Costs associated with loan (long term)	(13,000)	(14,429)	(13,000)			
TOTAL	**2,077,000**	**2,075,571**	**2,077,000**	**2,090,000**		

The contract maturity schedule for this loan and for the three instalments of the bond is set out below.

Thousands of euro	Notional at 30.06.2016	Notional at 31.12.2015	1 year	2 - 5 years	beyond 5 years
Medium/long-term financial liabilities					
Loan	200,000	200,000	-	27,273	172,727
Medium/long term bonds	1,890,000	1,890,000	-	1,290,000	600,000
Total	2,090,000	2,090,000	-	1,317,273	772,727

The terms of the bond, which was issued for a market of institutional investors, do not include covenants.

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

Thus, the Company still has 100 million euro in cash credit lines, and 300 million euro in credit lines for investments.

The loan has 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 2016, the company met all covenants under this facility.

26. Post-employment and other employee benefits – *49,700 thousand euro*

The Group provides employees with various types of benefits, including post-employment benefits, health benefits, payments in lieu of notice (*Indennità Sostitutive del Preavviso - ISP*) and payments in lieu of the energy discount.

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 is an analysis of the main items.

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 national collective agreement for executives in the industrial sector, executives have the right to supplemental health care in addition to the one provided by the National 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.

Gas Fund

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

The balance of the Fund, which amounts to 11,848 thousand euro, is the best estimate at the time of the preparation of these financial statements of the liability arising from this law.

27. Provisions for risks and charges – *14,379 thousand euro*

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes, without taking into account the 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 7,314 thousand euro overall compared to 31 December 2015.
The table below shows the total provisions for risks and charges (both the short-term and medium/long-term portions). The short-term portion is disclosed separately.

Thousands of euro	31.12.2015	Of which current portion	Of which non-current portion	Allocations	Releases	Uses	Other changes	30.06.2016	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	7,517	-	7,517	6,492	(2,519)	(371)	-	11,118	-	11,118
Provision for taxes and duties	1,301	-	1,301	35	-	(3)	-	1,334	-	1,334
Provisions for disputes with personnel	100	-	100	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	75	-	75
Provision for disputes on concessions	18,511	18,511	-	3,159	(207)	(84)	-	21,378	21,378	-
Other provisions for risks and charges	44,714	43,070	1,644	2,223	(801)	(340)	-	45,796	44,044	1,752
Total	**72,217**	**61,580**	**10,637**	**11,909**	**(3,527)**	**(798)**	**-**	**79,801**	**65,422**	**14,379**
Provisions for charges for voluntary redund	1,473	1,473	-	-	-	(270)	-	1,203	1,203	-
Total	**73,690**	**63,054**	**10,637**	**11,909**	**(3,527)**	**(1,068)**	**-**	**81,004**	**66,625**	**14,379**

The provisions for risks and charges amounted to 81,004 thousand euro (short-term portion: 66,625 thousand euro) and were broken down as follows:

- The "Provision for litigation and disputes" covers 11,118 thousand euro in contingent liabilities arising largely from ongoing disputes and litigation with certain customers for damage; during the period, the item rose 6,492 thousand euro as a result of additional allocations, mainly because of the risk of avoidance actions threatened by Genia S.p.A. in liquidation concerning the equity investment purchased, offset by 2,891 thousand euro in uses and releases;
- The “Provision for taxes and duties”, amounting to 1,334 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;
- The “Provision for disputes with personnel”, totalling 100 thousand euro, referred to the estimated costs arising from disputes with the staff of a company acquired in previous years. The Group did not consider it necessary to change this item in these financial statements;

- The "Provision for future charges", amounting to 75 thousand euro.
- The “Provision for disputes on Concessions”, totalling 21,378 thousand euro, rose 3,159 thousand euro as a result of the claims made by municipalities relating to the review of the agreed concession fees; the Group used 84 thousand euro and released 207 thousand euro for settled disputes;
- "Other provisions for risks and charges", totalling 45,796 thousand euro, cover mainly the risk of a recalculation of certain tariff components.
- The “Provision for risks and charges for voluntary redundancy”, totalling 1,203 thousand euro, covers the liabilities that could probably arise from the agreements entered into with trade unions in 2014 and 2015 as part of the Company's restructuring. 270 thousand euro were used during the period.

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

28. Non-current financial liabilities – *0 thousand euro*

There were no changes in this item during the period.

29. Other non-current liabilities – *299,913 thousand euro*

This item increased by 3,771 thousand euro compared to the previous year. The breakdown is set out below.

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
payables due to pension and insurance agencies	1,984	1,984	-
other payables	361	361	-
Deferred grants related to plants	49,608	50,466	(859)
Deferred connection, property development, equipment transfer and network extension fees	247,961	243,331	4,630
Total deferred income	**299,913**	**296,142**	**3,771**

The deferred income for grants related to plants fell as a result of the portion accrued during the period, while the 4,630 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 – *0 thousand euro*

There were no changes in this item compared to the previous year.

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

There were no changes in this item compared to the previous year.

32. Current portion of long-term provisions and short-term provisions – *66,625 thousand euro*

The current portion of long-term provisions amounted to 66,625 thousand euro. Comments and details on this item are provided in the section on the provisions for risks and charges (note 27).

33. Trade payables – *150,963 thousand euro*

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

This item decreased by 18,367 thousand euro compared to 31 December 2015.

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

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
Suppliers	150,963	169,330	(18,367)
Total	**150,963**	**169,330**	**(18,367)**

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 difference compared to 31 December 2015 was attributable to the seasonal pattern of the investments in networks and meters, which are usually rolled out in the final months of the year.

34. Income tax payables – *12,087 thousand euro*

Income tax payables are presented net of the first estimated tax payment made in June 2016.

35. Current financial liabilities – *33,403 thousand euro*

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

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
Accrued liabilities for interest on short-term bank loans and bank expenses	32,862	20,905	11,958
Other current financial payables	541	490	51
Total	**33,403**	**21,394**	**12,009**

36. Other current liabilities – *126,093 thousand euro*

Other current liabilities are set out below.

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
other tax payables	7,491	13,534	(6,043)
payables to welfare and social security agencies	11,451	11,033	418
other payables	91,051	131,577	(40,526)
accrued liabilities	4,288	3,886	402
deferred income	11,812	10,330	1,481
Total	**126,093**	**170,360**	**(44,267)**

Other tax payables are set out below:

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
due to Italian tax authorities for VAT	4,890	10,011	(5,120)
due to Italian tax authorities for employee withholding taxes	2,392	3,351	(959)
due to Italian tax authorities for withholding taxes	81	122	(40)
other payables due to Italian tax authorities	127	50	78
Total	**7,491**	**13,534**	**(6,043)**

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

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
due to INPS	9,969	9,149	820
due to other agencies	1,483	1,885	(402)
Total	**11,451**	**11,033**	**418**

Other payables are set out below:

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
Payables due to employees	16,250	13,629	2,620
Payables due to municipalities for rights and fees	3,938	4,181	(243)
Payables for connections and other payables due to customers	2,284	2,288	(4)
User guarantee deposits and advances	1,978	1,921	57
Payables due to CSEA	59,745	95,888	(36,143)
Other payables	6,856	13,669	(6,813)
Total	**91,051**	**131,577**	**(40,526)**

The 59,745 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 36,143 thousand euro decrease from 31 December 2015 was mainly related to the seasonal pattern of invoicing in 2016, given the already defined Tariff Revenue Cap.
Accruals and deferrals are set out below:

Thousands of euro

	30.06.2016	31.12.2015	2016 - 2015
Accrued liabilities			
Additional monthly accrual due to employees	3,276	3,037	239
Other accrued liabilities	1,012	849	163
Total accrued liabilities	**4,288**	**3,886**	**402**
Deferred income			
Deferred grants related to plants	2,289	2,257	32
Deferred connection, property development, equipment transfer and network extension fees	8,009	7,588	421
Other deferred income	1,514	485	1,028
Total deferred income	**11,812**	**10,330**	**1,481**
Total accrued liabilities and deferred income	**16,100**	**14,216**	**1,884**

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

The liabilities held for sale in the first half of 2016 amounted to zero, as in the previous year.

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 most significant trade payables and receivables concern the receivables due from CBL Distribuzione.

The dividends distributed, totalling 64,922 thousand euro, refer to the distribution of the 2014 results to F2i - Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa), F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa), Finavias Sarl, Axa Infrastructure Holding S.r.l..

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 2016

Thousands of euro	Trade Receivables	Trade Payables	Trade Costs	Trade Revenues
F2i sgr Spa	-	-	-	-
CBL Distribuzione	1,350	295	-	251
MEA S.p.A	55	-	-	-
Key management personnel, including directors		148	1,426	
Total	**1,405**	**443**	**1,426**	**251**

31 December 2015

Thousands of euro	Trade Receivables	Trade Payables	Trade Costs	Trade Revenues
F2i sgr Spa		24	40	
CBL Distribuzione	1,111	296		515
MEA S.p.A	55			18
Key management personnel, including directors		19	5,292	
Total	**1,166**	**338**	**5,331**	**533**

Financial transactions

30 June 2016

Thousands of euro	Financial Receivables	Financial Payables	Financial Costs	Financial Revenues	Dividend payment
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
CBL Distribuzione				17	
MEA S.p.A	375			124	
Total	**375**	**-**	**-**	**141**	**84,981**

There were also 2,858 thousand euro in Equity investments in related parties: 368 thousand euro referred to CBL Distribuzione, and 2,490 thousand euro to MEA S.p.A.

31 December 2015

Thousands of euro	Financial Receivables	Financial Payables	Financial Costs	Financial Revenues	Dividend payment
CBL Distribuzione				11	
MEA S.p.A	315			194	
Total	**315**	**-**	**-**	**205**	**-**

In 2015, there were also 2,817 thousand euro in Equity investments in with related parties: 351 thousand euro referred to CBL Distribuzione, and 2,466 thousand euro to MEA S.p.A.

38. Contractual commitments and guarantees

The Group provided 101,519 thousand euro in guarantees to third parties. These guarantees include 86,411 thousand euro in bank guarantees and 15,108 thousand euro in insurance and other guarantees.
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.
Finally, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

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, excluding the impact of IFRIC 12 and highlighted in note 5.c as well as the section on costs.

Contingent liabilities and assets

Contingent liabilities

There were no contingent liabilities at 30 June 2016.

Contingent assets

At 30 June 2016, the Group recognised a contingent asset referring to the tax incentive known as "Super depreciation", which is applicable to a series of operating assets purchased between 15 October 2015 and 31 December 2016 and that are used in the Group's operations. The Group is currently measuring this benefit.

6. Market, credit, liquidity, and interest rate risk

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.

6.1 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.

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

The notional amount of a derivative is the contractual amount on the basis of which spreads are traded. This amount can be expressed as a value or a quantity (for example in tonnes, converted into euro by multiplying the notional amount by the agreed price). Any amounts denominated in currencies other than the euro are translated into euro at the exchange rate at the end of the reporting period.

The notional amounts of derivatives reported below do not represent amounts traded between the parties, and therefore they are not a measure of the Group's credit exposure.

As for the risk of a change in interest rates, the Company seeks to minimise interest rate risk.

Some of the 2i Rete Gas Group's loans are at interest rates indexed to the reference rate (EURIBOR). In order to limit the risk associated with interest rate volatility, the 2i Rete Gas Group evaluates from case to case the use of Interest Rate Swaps to balance fixed-rate and floating-rate debt.

At 30 June 2016, the Group had no derivatives held for trading.

6.2 Credit risk

The 2i Rete Gas Group provides its distribution services to over 150 sales companies, chief among them Enel Energia S.p.A.

There were no significant cases of default by counterparties in 2016.

User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of AEEGSI, establishes the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of default by sales companies.

As part of gas distribution operations, as far as credit lines to external counterparties are concerned, the selection of said counterparties is carefully monitored by assessing the relevant credit risk and requiring adequate collateral and/or guarantee deposits to ensure an appropriate level of protection against the risk of default by the counterparty.

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 provision for doubtful debts. At 30 June 2016, the Group’s maximum exposure to credit risk amounted to 521.7 million euro (598.4 million euro at 31 December 2015):

Millions of euro	30.06.2016	31.12.2015	2016 - 2015
Third parties:			
Non-current financial assets	4.6	5.2	(0.6)
Other non-current assets (gross of provision for doubtful det	36.7	32.2	4.5
Trade receivables (gross of provision for doubtful debts)	146.0	253.2	(107.1)
Cash and cash equivalents	173.1	160.5	12.6
Other receivables (gross of provision for doubtful debts)	161.2	147.3	13.9
Total	**521.7**	**598.4**	**(76.7)**

The receivables from the Compensation Fund for Energy Efficiency Certificates included under "Other receivables", with maturity beyond 2016, have been measured at their redemption value as set by AEEGSI.

6.3 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.
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 2016 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 30 June 2016			
Long-term loans		27.3	172.7
Medium-long term bonds		1,290.0	600.0
Short-term loans			
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	33.4		
Total	**33.4**	**1,317.3**	**772.7**

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

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

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

Besides the bonds issued in 2014, at 30 June 2016 the company had 400 million euro in lines of credit granted to the Parent Company in July of the same year, as well as a 200 million Euro loan agreement with the European Investment Bank.

It should be noted that this loan has consolidated financial covenants that the Company must meet every six months.

At 30 June 2016, the Company has met all of the covenants.

For an in-depth analysis of long-term loans, see note 24 in these financial statements.

Finally, in June 2014 the Parent Company was rated as “investment grade” by two ratings agencies, and this rating has been confirmed ever since—most recently in 2016. Both ratings agencies have maintained the rating assigned in 2014 (BBB Outlook Stable and Baa2 Outlook Stable, respectively), confirming the stability of the company's trajectory.

The company’s growth plan requires refinancing existing debt, but given the company's excellent performance, the rating obtained, and the ongoing compliance with the financial covenants established by the lending banks, currently the Group does not face any problems in obtaining said refinancing.
The Group constantly monitors opportunities to optimise its financial structure.

6.4 Interest rate risk

The purpose of managing the market, and specifically interest rate risk, is to achieve a debt structure such as to reduce the amount of financial debt subject to changes in interest rates and minimise funding costs over time, thereby limiting volatility in the company's performance.

In particular, by issuing the fixed-rate bond in three instalments during the year, the company has achieved both goals (reducing the debt subject to changes in interest rates and minimising funding cost) as well as extended maturities and, most importantly, diversified the repayment dates of the individual instalments issued.

Therefore, at 30 June 2016 the Group had a negligible exposure to changes in interest rates. In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value. The company has no held-to-maturity or available for sale financial assets nor financial assets held for trading.

Thousands of euro	Notes	Derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
					-	
Financial assets not measured at fair value						
Non-current financial assets	15		4,588		4,588	4,588
Other non-current assets	16		36,365		36,365	36,365
Trade receivables	18		131,017		131,017	131,017
Short-term financial receivables	19		3,605		3,605	3,605
Other current financial assets	20		27		27	27
Cash and cash equivalents	21		173,107		173,107	173,107
Other current assets	23		152,023		152,023	152,023
TOTAL ASSETS		**-**	**500,733**	**-**	**500,733**	**500,733**
Financial liabilities measured at fair value						
IRS Derivatives	35				-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			200,000	200,000	200,000
Medium/long term bonds	25			1,877,000	1,877,000	2,039,723
Financial liabilities for IRS Unwinding	28-35			-	-	-
Other non-current liabilities	29			361	361	361
Short-term loans	30			-	-	-
Trade payables	33			150,963	150,963	150,963
Current financial liabilities	35			32,862	32,862	32,862
Other current liabilities	36			114,281	114,281	114,281
TOTAL LIABILITIES		**-**	**-**	**2,375,467**	**2,375,467**	**2,538,190**

For the sake of comparison, here below is the same table for the previous year:

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

Concerning the financial assets not measured at fair value, as well as trade payables and other current liabilities, the carrying amount is considered to be a reasonable approximation of fair value, as showed in the above tables.

To determine the fair value of the bond, the Group used the market valuations at 30 June 2016.

7. Significant events after the reporting period

On 4 August 2016, the 2i Rete Gas entered into 5 forward starting swaps totalling 500 million euro with 5 different European banks. This deal forms part of the Group's long-term refinancing strategy, which seeks to benefit from the favourable interest rate situation to optimise funding costs for the next few years.

In addition, on 5 August 2016, the Company obtained a 245 million euro line of credit from a pool of 7 major banks, replacing the previous facility granted in 2014. This is a revolving line of credit and will remain available for the next 5 years, with the option to extend it for another year.

The terms and conditions of the facility will result in additional savings for the Group starting from the next semester.

On 24 August 2016, an earthquake hit Central Italy in a number of areas where some Group's plants are located. The Company is working to ensure the continuity of the

service to the affected areas and estimate the damage to the network, in particular in the Amatrice municipality.
Finally, on 3 September 2016 the 2i Rete Gas took over the operation of the concession in Rozzano (approximately 19,000 users).

Direction and coordination

The Group directs and coordinates the subsidiaries Italcogim Trasporto S.r.l., Genia Distribuzione S.p.A., and 2i Rete Gas S.r.l. No company directs or coordinates 2i Rete Gas S.p.A.

XI. Corporate Governance

Organisational and Management Model

Italian Legislative Decree 231 of 8 June 2001, which concerns the "administrative responsibility of legal persons, companies and associations, including those without legal personality," introduced for the first time in Italian law a form of administrative responsibility of legal persons for crimes committed by individuals who are permanent employees of the entity.

The central aspect of the Decree is represented by the adoption and actual implementation, in order to exempt the company from liability, of an “Organisation, Management and Control Model” that establishes "in relation to the nature and size of the organisation, as well as the type of business carried out, appropriate measures to guarantee that the business is carried out in full compliance with the law, promptly identifying and eliminating any risk situations" (article 7 paragraph 3).

The Company resolved to adopt the Organisation, Management and Control Model on 23 December 2014, with effective date of 1 January 2015 and has been implemented, as stated in the Model, also by the controlled companies.

The adoption of the current model became necessary as the subsidiary 2i Rete Gas S.p.A., tax identification number, VAT number, and Milan Business Register number 00736240151, the second largest gas distribution operator in Italy, was merged into the holding F2i Reti Italia S.r.l. effective the same date. As a result, F2i Reti Italia S.r.l. transformed from a limited liability company into a joint-stock company, and took on the name of the merged company "2i Rete Gas S.p.A.".

The model seeks to monitor sensitive or risky corporate processes and the relevant organisational safeguards, precautions and controls in place, which aim to eliminate the so-called risk of crime. The model is intended to ensure that the company is managed according to the principles of lawfulness, fairness, transparency and accountability, according to efficient work practices that comply with the law.

The Model consists of a “General Section” and individual “Special Sections” for the different types of crimes listed in Italian Legislative Decree 231/2001 as amended.

The Model requires identifying the operational areas considered “at risk” of crime pursuant to Italian Legislative Decree 231/2001 and defining the relevant procedures, as well as monitoring them to promptly take action in order to prevent or combat such crimes.

The Board of Directors of 2i Rete Gas on 18 March 2016, approved a first update of the Model, adapting the content to the organization of the Company and the most recent changes made to the Legislative Decree 08/06/2001 No. 231, OJ 19/06/2001 (the Decree), which introduced of new offenses regarding administrative liability of the legal entity. In particular, coming to the "Special Parts" of the model, on the one hand "Special Part L" has been added, following the introduction of the criminal offense of self-laundering in article 25-octies of Legislative Decree no. 231/2001 and on the other hand (i) "Special Part K" have been amended, following the introduction of new criminal offenses against the environment in Art. 25-j of Legislative Decree no. 231/2001 and (ii) the "Special Part E" on the subject of the offenses connected to the sphere of the “market abuse”, as a result of the placement by the Company of bonds listed on Irish market.

Subsequently, on July 29, 2016, the Board of Directors has approved a further update of Model 231 of the Group, with some formal amendments (designed to incorporate references to the European rules on waste and the provision for the crime of criminal association aimed at committing crimes against the environment), as well as with the modification of the previous evaluation of theorical non-applicability of some cases of environmental crimes.

Code of Ethics

The Code of Ethics, which is inspired by the awareness of the social and environmental impact of the operations of the Group companies as well as of the importance of adopting a cooperative approach with stakeholders, sets out in detail the principles of ethics and conduct that the company, its subsidiaries and their employees and collaborators are required to adopt and comply with in carrying out their work. In particular, the core principle of the Group’s Code of Ethics is to affirm as the primary interest of the Company’s actions maintaining and enhancing the fiduciary relationship with its stakeholders, fostering investments by shareholders and investors as well as customer loyalty, attracting the best talent, engaging in a stable and strong relationship with suppliers, and being a reliable borrower, as well as—internally—promoting a peaceful and stimulating work environment, so as to fully harness the Group’s human potential and allow to assess, take and implement strategic and organisational decisions with clarity, fairness, honesty, and speed.
The Code of Ethics, which the Board of Directors approved on 23 December 2014 together with the Model, with effective date of 1 January 2015, has been adopted also by controlled companies, has been slightly modified on 18 March 2016 in order to reflect the change of the registered offices of the Company within the municipality of Milan from via Paolo da Cannobio 33 to via Alberico Albricci 10.

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

XII. Report of the Independent Auditors

REVIEW REPORT ON CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the board of directors of
2i Rete Gas SpA

Foreword

We have reviewed the accompanying consolidated interim financial statements of 2i Rete Gas SpA and its subsidiaries (2i Rete Gas Group) as of 30 June 2016, comprising the income statement, statement of comprehensive income, balance sheet, cashflow statement, statement of changes in shareholders' equity and related notes. The directors of 2i Rete Gas SpA are responsible for the preparation of the consolidated interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of review

We conducted our work in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of 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 consolidated interim financial statements.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements of Group as of 30 June 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 29 September 2016

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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