

Annual Report

2017

• cdp • reti

(Translation from the italian original which remains the definitive version)

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COMPANY BODIES AND OFFICERS

BOARD OF DIRECTORS (*)

Carlo Baldocci	<i>Chairman</i>
Leone Pattofatto	<i>Chief Executive Officer</i>
Cristiana Procopio	<i>Director</i>
Yanli Liu	<i>Director</i>
Yunpeng He	<i>Director</i>

BOARD OF AUDITORS (*)

Guglielmo Marengo	<i>Chairman</i>
Benedetta Navarra	<i>Auditor</i>
Paolo Sebastiani	<i>Auditor</i>

INDEPENDENT AUDITORS (**)

PricewaterhouseCoopers S.p.A.

(*) Appointed by the Shareholders' Meeting of 4 May 2017 – in office up to the date of the Shareholders' Meeting called for the approval of the financial statements for the year ended 31 December 2019.

(**) Engagement granted by the Shareholders' Meeting of 24 June 2015 for the period 2015 - 2023.

1. Report on Group Operations

1. PRESENTATION OF THE GROUP

1.1 ROLE AND MISSION OF THE CDP RETI GROUP

PARENT COMPANY

CDP RETI S.p.A. is an investment vehicle, established in October 2012 and converted from an Italian Law limited liability company into an Italian law joint stock company in May 2014, whose shareholders are Cassa depositi e prestiti Spa - Cdp - (59.1%), State Grid Europe Limited - SGEL - (35%), a company within the State Grid Corporation of China group, and certain Italian institutional investors (5.9%, attributable to Cassa Nazionale di Previdenza e Assistenza Forense and 33 Foundations of banking origin). The Company is subject to management and coordination by Cdp.

The share capital is €161,514.00 fully paid up and represented by 161,514 special shares (Cdp: 95,458 category A shares, SGEL: 56,530 category B shares, Others: 9,526 category C shares), without indication of par value.

The corporate purpose of CDP RETI is the holding and ordinary and extraordinary management, direct and/or indirect, of stakes in SNAM (30.10%), ITALGAS (26.04%) and TERNA (29.85%), with the Company acting as a long-term investor with the objective of supporting the development of transport, dispatching, regasification, storage and distribution infrastructures for natural gas, as well as electricity transmission.

More specifically, the Company, as a result of the provisions contained in the Italian Prime Ministerial Decree ("DPCM") of 25 May 2012 which defined the procedures and terms for the ownership unbundling¹ of SNAM S.p.A. from ENI S.p.A. (aimed at making the market more open and thus creating the conditions for greater competition), in 2012 acquired a stake in SNAM from ENI, representing 30% of the voting capital less one share, for €3.47 per share (overall purchase value of approximately €3.5 billion). Consequently to the sale, SNAM is no longer subject to the control and management and coordination of Eni and operates under ownership unbundling in compliance with the provisions of DPCM of 25 May 2012.

Subsequently, on 27 October 2014, with the objective of pooling, within the assets of one party, the stakes in the companies that manage infrastructural networks of strategic national interest, and within the context of opening the share capital of CDP RETI to third-party investors (SGEL and Italian institutional investors), CDP RETI was assigned the entire stake held by Cdp in TERNA, representing 29.851% of the share capital. The assignment of this stake, recorded by Enel S.p.A. in 2005, was carried out in accordance with the pooling of interest method, at the same carrying value (around €1.3 billion) at which it was entered on the Cdp financial statements as at 31 December 2013, enabling CDP RETI to assume the role of sub-holding of reference for the Cdp group as regards the energy infrastructure sector.

On 7 November 2016, following the partial and proportional Demerger of the stake held by SNAM in ITALGAS and the admission to trading on the MTA (Italian Equities Market) of the ITALGAS shares² (Beneficiary Company), CDP RETI was assigned 202,898,297 ITALGAS shares, in proportion to those already held in SNAM on the effective date of the Demerger. The assignment was one ITALGAS share for every five SNAM shares owned.

Lastly, on 19 May 2017 was completed the transfer from CDP to CDP RETI of the stakes in Snam S.p.A. (1.12%) and Italgas S.p.A. (0.97%). The aggregate purchase price for the transaction was determined in the amount of 187.6 million, of which 155.9 million for the transfer of the 1.12% stake in Snam and 31.7 million for the transfer of the 0.97% stake in Italgas. Refer to the subsequent section "Significant events of the 2017 for the sectors/companies" for more details.

¹ Separation between the owner of the natural gas production and/or supply activities and the owner and/or operator of the natural gas transport activities.

² Company incorporated on 01 June 2016 specifically to implement the Demerger, initially ITG Holding S.p.A. and then renamed ITALGAS S.p.A. on submission of the application for admission to listing of ordinary shares on the MTA. On the same date, the operating company ITALGAS S.p.A. took the name of ITALGAS Reti S.p.A..

DIRECT SUBSIDIARIES AND RELATED CONSOLIDATION SCOPE

The **SNAM Group** (“**SNAM**” - “Società Nazionale Metanodotti”) oversees regulated activities in the gas sector in Italy, where manages a national transportation network that is more than 32,500 kilometers long, including 9 storage sites, and 1 regasification plant. Regulation entails tariff systems that enable coverage of the costs incurred by the operator and a fair return on invested capital.

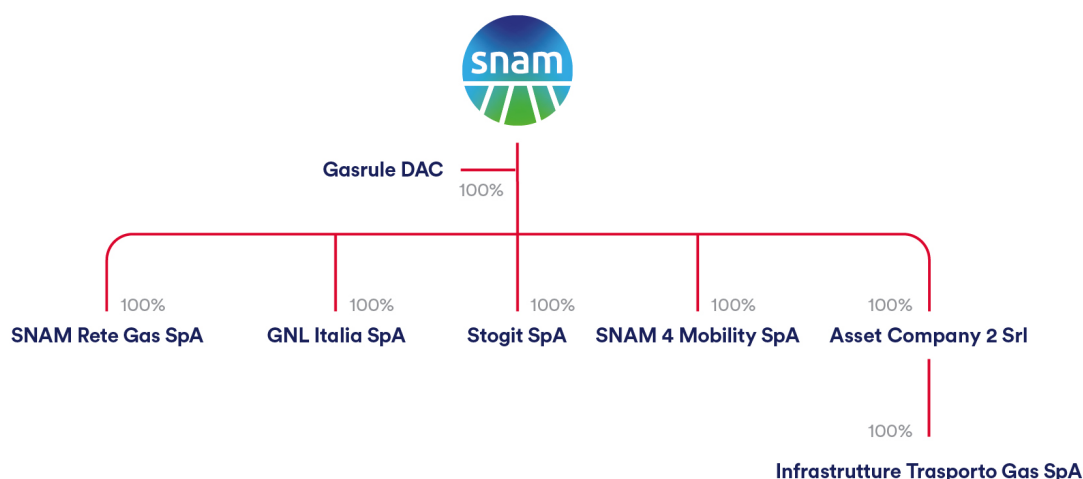
At 31 December 2017 the Group operates in the areas of natural gas transport and dispatching, regasification of liquefied natural gas (GNL), and storage of natural gas. SNAM operates on the domestic market mainly through three operating companies 100%-owned by SNAM S.p.A.: respectively, SNAM Rete Gas (transport and dispatching), GNL Italia (LNG regasification) and Stogit (storage). SNAM is also active in Europe in the construction and integrated management of natural gas infrastructure, where it operates through associated companies in Austria (TAG), France (TIGF), United Kingdom (Interconnector UK), Italia-Albania-Grecia (TAP) and Austria (GCA).

SNAM has been listed on the Borsa Italiana since 2001.

The main operating companies are described below:

- **SNAM RETE GAS** is the leading Italian natural gas transportation and dispatching operator, and owns almost all the transportation infrastructures in Italy. The gas from abroad is injected into the national network via entry points where the network joins up with the import methane pipelines (Tarvisio, Gorizia, Gries Pass, Mazara del Vallo and Gela) and with the LNG regasification terminals (Panigaglia, Cavarzere and Livorno). Once imported or regasified, the gas is transported up to the local distribution network, the Redelivery Points of the Regional Network or large end customers, consisting in thermoelectric power plants or industrial manufacturing plants.
- **GNL ITALIA** owns the Panigaglia terminal (La Spezia), the first regasification plant built in Italy. The process for the extraction of natural gas from the fields, its liquefaction for transportation by ship and subsequent regasification for use by the users, forms the “LNG chain”. The process begins in the country of the exporter, where the natural gas is brought to a liquid state and subsequently loaded onto tankers for shipping to the LNG regasification terminal. At the regasification terminal, the LNG is unloaded, then heated and returned to a gaseous state before being injected into the natural gas transportation network.
- **STOGIT** is the largest storage operator in Italy and one of the major ones in Europe. Natural gas storage activities in Italy take place under a concession regime and serve to offset the various demands of gas provision and consumption (supply has a basically constant profile throughout the year, while gas demand is characterised by high seasonal variability) and to ensure that strategic quantities of gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system.

Below is the consolidation scope of the Snam Group at 31 December 2017.



The variations in the consolidation area of the Snam Group at 31 December 2017 as compared to that at 31 December 2016, related to the entry of the companies: (i) Asset Company 2 S.r.l., a 100% owned subsidiary of Snam S.p.A.; (ii) Infrastrutture Trasporto Gas S.p.A.-ITG, a 100% owned subsidiary of Asset Company 2 S.r.l., pursuant to the acquisition from Edison of 100% of the share capital of the company, effective 13 October 2017; (iii) Snam 4 Mobility S.p.A. (Asset Company 1 S.r.l. up to 13 December 2017), a 100% subsidiary of Snam S.p.A., since the launch of the operational activities of the company.

The companies Snam 4 Mobility S.p.A. (ex Asset Company 1 S.r.l.) and Asset Company 2 S.r.l., although wholly-owned at 31 December 2016, were excluded from the scope of consolidation as at this date due to immateriality, since they are inactive.

The shareholding structure of SNAM S.p.A. at 31 December 2017 (share capital of 3,500,638,294 shares, without par value) is provided below:

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
SNAM S.p.A.	CDP Reti S.p.A.	30.10
	SNAM S.p.A. (treasury shares)	2.45
	other shareholders	67.45

Following the mentioned acquisition of 39,200,638 Snam shares, CDP RETI holds a total of approximately 30.10% in Snam (previously 28.86%).

See the section on "Significant events of the 2017 for the sectors/companies" for more details.

The TERNA Group ("TERNA" – "Trasmissione Elettrica Rete Nazionale") is the largest independent electricity transmission operator in Europe and one of the leading operators in the world by km of managed line (more than 72 thousand km). It is the operator and the main owner of the high-voltage electricity National Transmission Grid ("NTG"). The Company is responsible for the planning, construction and maintenance of the grid. It plays the role of Italian TSO (Transmission System Operator) and ISO (Independent System Operator), carried out with a government granted monopoly based on the rules and regulations defined by the Italian Energy Networks and Environment Regulator ARERA (Autorità di Regolazione per Energia Reti e Ambiente), formerly known as the Italian Regulatory Authority for Electricity Gas and Water (AEEGSI) and the Ministry for Economic Development's guidelines.

The electrical system is composed of:

- **Generation:** conversion of energy obtained from primary sources into electricity.
- **Transmission and Dispatching:** the transfer of energy generated by power plants to the areas of consumption via high-voltage power lines, electric power and transformer stations, and of storage systems that make up the transmission grid, guaranteeing a constant balance between electricity supply and demand; through lines interconnecting with foreign countries, the transmission system allows the exchange of electricity between Italy and other Countries.
- **Distribution:** delivery of medium and low-voltage electricity to end users.

Therefore, Terna operates in the central segment of electricity of production and supply chain.

The Group operates in the segments: (i) Regulated Activities: Transmission and Dispatching of electricity in Italy, (ii) Unregulated Activities, which are divided into private Interconnectors pursuant to Law 99/2009³; services for third party (Engineering, Telecommunications, O&M of Third-Party Plants) and planning, production and commercialisation of power transformers and (iii) International Activities.

TERNA has been listed on the Borsa Italiana since 2004.

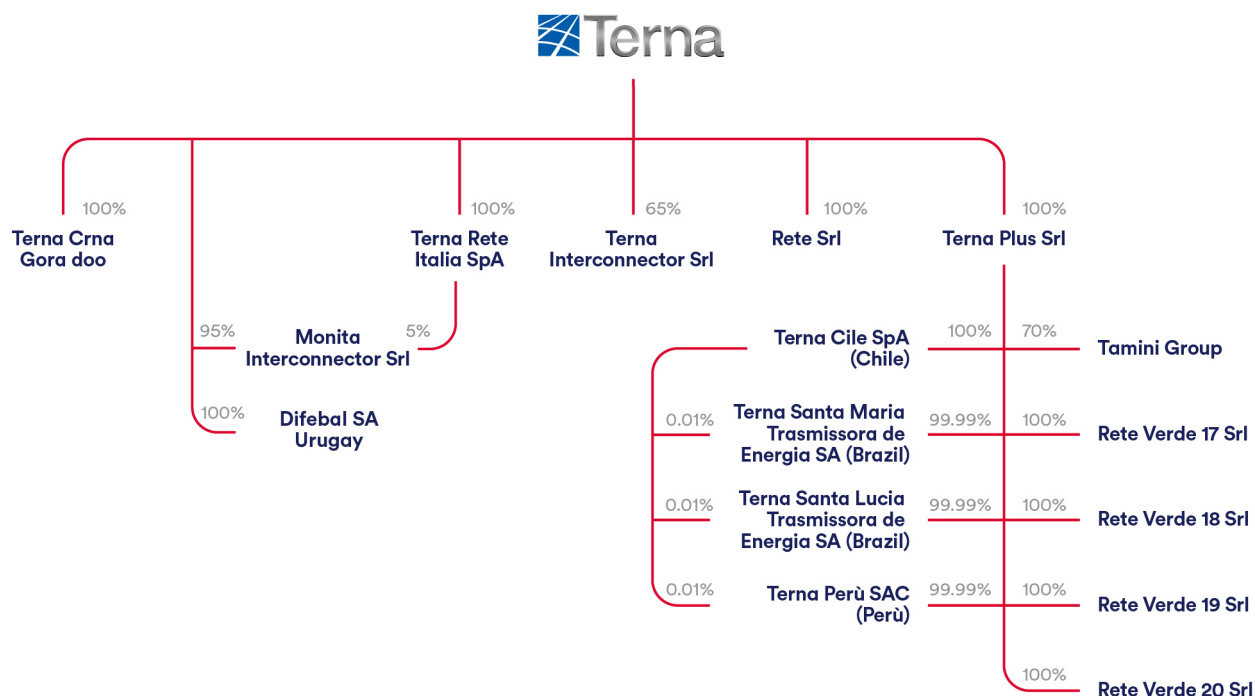
The Companies operating in the Regulatory Activities segment (Terna's traditional core business) are described below:

- *Terna Rete Italia S.p.A.* is tasked with performing all Regulated Activities, ordinary and extraordinary maintenance of the section of the NTG owned, managing and performing work on developing the grid.
- Rete S.r.l. - purchased on December 23, 2015 from Ferrovie dello Stato Italiane S.p.A. - is tasked with the design, construction, management, development, operation and maintenance of power lines.

³ Italian Law that incorporated the European directives and which entrusted to Terna the responsibility of selecting, on a public-tender basis, the Companies (Selected Parties) willing to finance specific interconnections with foreign countries. In particular, the Law states that such Parties, having committed to funding the project, award Terna the mandate to develop and operate the interconnections.

- *Terna Crna Gora d.o.o.* is a company under Montenegrin law that manages the activities in Montenegro related to the construction and operation of the Italy-Montenegro Interconnection.

Below is the consolidation scope of the Terna Group at 31 December 2017:



The change in the Terna Group's scope of consolidation compared with the situation at 31 December 2016 is related:

Acquisitions and new companies incorporated:

- The subsidiary Terna Plus S.r.l. incorporated four limited liability companies - Rete Verde 17 S.r.l. and Rete Verde 18 S.r.l. (on 10 May 2017), and Rete Verde 19 S.r.l. and Rete Verde 20 S.r.l. (on 14 July 2017).
- On 13 June 2017, the subsidiaries Terna Plus S.r.l. and Terna Chile S.p.A. incorporated the Peruvian company Terna Peru S.A.C. (stakes of 99.99% and 0.01% respectively) to build a 138 kV (132 km) transmission line.
- On 26 June 2017, the subsidiary Terna Plus S.r.l. acquired two Brazilian public limited companies - SPE Santa Lucia Trasmittora de Energia S.A. and SPE Santa Maria Trasmittora de Energia S.A.. Terna Plus S.r.l. holds stakes of respectively 99.999998% and 99.999999% in the two companies while the remaining stakes of 0.000002% and 0.000001% respectively are held by Terna Chile S.p.A..
- On 4 July 2017, Terna Interconnector S.r.l. sold the Group's entire stake in the company Piemonte Savoia S.r.l. to the consortium Interconnector Italia S.c.p.a..

Mergers:

- The merger by incorporation into Terna S.p.A. of the wholly-owned subsidiaries Terna Rete Italia S.r.l. and Terna Storage S.r.l. became effective on 31 March 2017.
- Regarding the Tamini Group, the merger by incorporation into Tamini Trasformatori S.r.l. of the wholly-owned subsidiaries T.E.S. Transformer Electro Service S.r.l. and V.T.D. Trasformatori S.r.l. became effective on 8 June 2017.

To conclude, on 15 December 2017, subsequent to the entry of the two new Irish companies SONI Ltd. and EirGrid PLC in the shareholding structure of CORESO S.A., Terna S.p.A. reduced its stake to 15.84%, proportionally with the other shareholders, through the transfer against consideration of a portion of its equity interest, while maintaining, however, the characteristics of an associate.

The shareholding structure of TERNA S.p.A. at 31 December 2017 (share capital of 2,009,992,000 shares, with a par value of €0.22 each) is provided below:

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
TERNA S.p.A.	CDP Reti S.p.A.	29.85
	other shareholders	70.15

The **ITALGAS Group** (“**ITALGAS**”), previously part of SNAM Group following the ITALGAS Reti sale by Eni as at 1 July 2009, is the leading Italian natural gas transportation and dispatching operator, and owns almost all the transportation infrastructures in Italy and the third in Europa. The natural gas distribution business operates on a concession regime through the conferral of this service by local public entities. The gas distribution service is carried out for sales companies authorised to market to end users by the transportation of the gas through city networks. The distribution service consists of transporting gas through local pipeline networks, from points of delivery at the reduction and measurement stations interconnected with the transport networks (“city-gates”) up to the final delivery points to customers (households, enterprises, etc.). Furthermore, Italgas is engaged in metering activities, which consist of determining, gathering, making available and archiving metering data on natural gas withdrawn over the distribution networks.

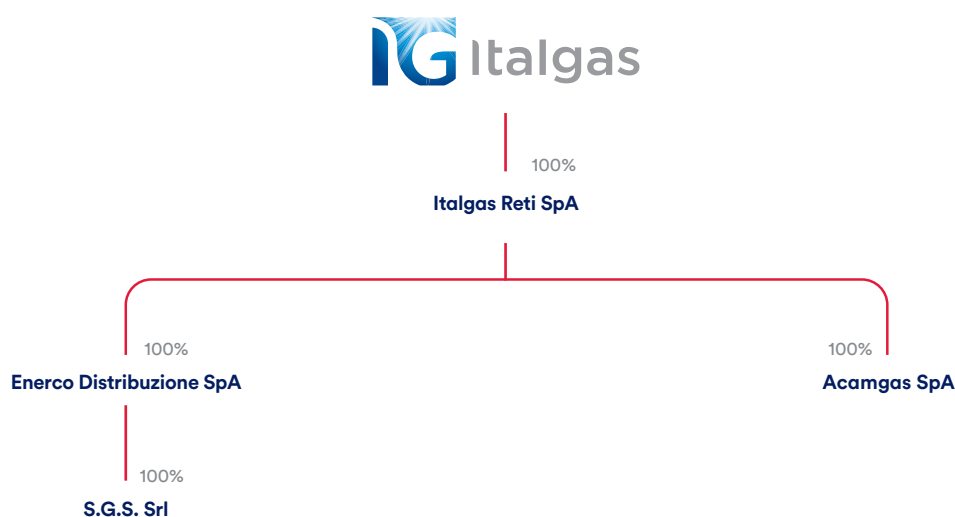
ITALGAS is subject to regulation by ARERA, which defines how the service is supplied and the applicable distribution and metering rates. The gas distribution service is traditionally supplied under concession arrangements, with granting of the service on a municipal basis. Four ministerial decrees were adopted in 2011 to reform the regulations governing the sector. In detail, under one of the decrees, 177 “minimum territorial areas” (ambiti territoriali minimi - ATEM) were created as a basis for the granting of new concessions.

The gas distribution service involves transporting gas on behalf of the companies that are authorised to sell gas to end customers.

The relationship between the distribution companies and the sales companies is governed by a specific document named “Network Code”, which defines the services supplied by the distributor broken down by key services (gas distribution, technical management of the distribution system) and ancillary services (construction of new plants, the activation, deactivation, suspension and re-activation of the supply to the end customer, meter verification on request of end customers, etc.).

ITALGAS has been listed on the *Borsa Italiana* since 2016⁴.

Below is the consolidation scope of the ITALGAS Group at 31 December 2017:



The change in the Italgas Group’s scope of consolidation compared with the situation at 31 December 2016 is related to:

- the entry of Enerco Distribuzione and the subsidiary SGS following the acquisition of a 100% interest in the share capital of Enerco Distribuzione on 6 December 2017;
- the merger by incorporation of Napoletanagas into Italgas Reti as of 1 October 2017. The shareholder structure of Italgas S.p.A. as at 31 December 2017 is shown below (share capital consisting of 809,135,305 shares without par value).

⁴ The shares of ITALGAS Reti were listed on the MTA of Borsa Italiana from 1900 to 2003.

The shareholding structure of ITALGAS S.p.A. at 31 December 2017 (share capital of 809,135,502 shares, without par value) is provided below:

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
ITALGAS S.p.A.	CDP Reti S.p.A. (*)	26,04
	Snam S.p.A.	13,50
	Lazard Asset Management Llc	7,57
	other shareholders	52,89

(*) Effective May 1, 2017, CDP Gas was merged by incorporation into CDP. Subsequently, on May 9, 2017, CDP sold to CDP Reti, inter alia, the equity investment held in Italgas SpA, equal to 0.969% of the share capital of Italgas S.p.A.

Following the mentioned acquisition of 7,840,127 Italgas shares, CDP RETI holds a total of approximately 26.04% in Snam (previously 25.08%).

See the section on "Significant events of the 2017 for the sectors/companies" for more details.

1.2 BACKGROUND SCENARIO

With respect to **SNAM** and to main sectors in which SNAM operates, we note:

- **Natural gas transportation:** in 2017 the natural gas injected into the National Transportation Grid amounted to 74.59 billion cubic metres, an increase of 4 billion (+5.6%) cubic metres over 2016. The growth is mainly attributable to the domestic gas demand (+4.2 billion cubic metres; +6.0%), recorded in all segments, respectively in the thermoelectric segment (+1.9 billion cubic metres; +8.2%), industrial (+1.2 billion cubic metres; +7.3%) and residential and tertiary (+0.6 billion cubic metres; +2.1%). Seasonally adjusted demand for gas was estimated at 75.2 billion cubic metres, an increase of 3.3 billion cubic metres (4.6%), compared with the corresponding figure for 2016 (17.9 billion cubic metres).
- **Regasification of liquefied natural gas (GNL):** during 2017, the Panigaglia (SP) LNG terminal regasified 0.6 billion cubic metres of natural gas, an increase of 0.4 billion cubic metres compared with 2016 (0.2 billion cubic metres) of which 0.1 billion cubic metres were regasified as part of the integrated regasification and storage service.
- **Storage:** during 2017, 19.9 billion cubic metres of natural gas was moved through the storage system, a reduction of 0.1 billion cubic metres (0.4%) on the corresponding period of 2016. The reduction was essentially attributable to lower withdrawals from storage. The reduction was essentially attributable to lower withdrawals from storage (-0.2 billion cubic metres) due mainly to the behaviour of shippers with regard to the changed market conditions. The total storage capacity as at 31 December 2017, including strategic storage, was 16.7 billion cubic metres (+0.2 billion cubic metres compared with 2016).

With respect to the tariff framework, pursuant to Resolution 669/2016/R/gas, published on 17 November 2016, the Authority has approved the revenues recognised in 2017 for the transport and despatching of natural gas. Revenues recognised for the service of transporting, despatching and metering natural gas in 2017 amount to 1,880 million euro.

With regard to **TERNA**, domestic electricity demand in 2017 was stood at 320,438 million kWh (interim data), +2.0% compared with 2016, which ended with an increase of +2% versus the previous year. The monthly trend of domestic energy demand in 2017 compared to the previous year's data shows a higher demand for all months, with the exception of February and April, due solely to calendar effects (one extra day in February 2016 and the Easter holidays in April 2017).

With regard to energy production by source, hydroelectric generation was down (-14%) in 2017, also due to the different weather conditions recorded in the year, in part mitigated by an increase in solar power (+14%). Other renewable sources (wind, biomass, geothermal) remained essentially stable, but were slightly down.

Renewable sources accounting for 32% of demand coverage.

With reference to **ITALGAS**, at 31 December 2017 the company was the holder of a concession for the gas distribution service in 1,500 Municipalities (1,472 at the 31 December 2016) of which 1,484 in operation (1,422 at 31 December 2016),

also due to the acquisition of Enerco on 6 December 2017 and the entry into service of new network structures in 34 municipalities in Campania, Calabria and Sicily.

During 2017, Italgas, currently present in 113 ATEM, continued its activities of preparing and transmitting to the Local Authorities and/or Contractors the information and documentation provided by law, preparatory to offering tenders (Articles 4 and 5 of Ministerial Decree No. 226/11). In this context, activities were continued to achieve the approval for the repayment amounts owed to Group companies.

Within the regulatory framework that provides for assigning gas distribution services by tenders per territory (and not individual municipality) as at 31 December 2017, 20 local tender notices were published (of which five suspended, one cancelled, one with the bid submission deadline already expired but suspended, another two with the bid submission deadlines already expired and currently being awarded, another six with the initial deadline extended and two revoked).

- Gas distributed: as at 31 December 2017, Italgas had distributed 7,767 million cubic metres of gas (7,470 as at 31 December 2016) on behalf of 284 marketing companies.
- Distribution network: the gas distribution network as at 31 December 2017 covered 57,773 km (56,798 km as at 31 December 2016), an increase of 975 km compared with 31 December 2016.
- Metres: as at 31 December 2017, the number of active meters at drop-off points (PdR) amounted to 6.586 million (6.536 as at 31 December 2016).

2. SIGNIFICANT EVENTS OF THE 2017 FOR SECTORS/ COMPANIES

CDP RETI

On 12 April 2017, as part of a larger internal reorganisation project undertaken by the CDP Group, the Board of Directors of CDP RETI resolved to **acquire** 39,200,638 of shares of SNAM and 7,840,127 shares of ITALGAS, representing **1.12%** of **SNAM** and **0.97%** of **ITALGAS**, with the aim of allowing CDP RETI to increase and strengthen its position as majority shareholder. Its parent company, CDP, had obtained these shares through the merger into CDP of its fully owned subsidiary CDP GAS⁵.

Following this transaction, CDP RETI now holds a total interest of approximately 30.10% in SNAM⁶ (previously 28.98%) and of approximately 26.04%⁷ in ITALGAS (previously 25.08%). The purchase price, governed by a specific purchase agreement, was approximately 188 million, of which 156 million for 1.12% of SNAM and 32 million for 0.97% of ITALGAS. The price was formalised by the parties on 16 May 2017, on the basis of the average official stock exchange prices of the securities subject to transfer during the 90 calendar days prior to 16 May, and was settled on 19 May 2017 (the date of closing of the transaction, with the transfer to CDP RETI of ownership of the shares of SNAM and ITALGAS). Furthermore, since the above acquisition qualifies as a transaction between related parties, an independent financial advisor with a sound professional track record was asked to provide an opinion of the determination of the price, and in particular of the identification of a purchase price range. Finally, since the date of closing of the transaction (i.e. 19 May 2017) was prior to the ex-dividend date for the dividends paid by SNAM and ITALGAS drawing on their 2016 net income (i.e. 22 May), CDP RETI collected the dividends distributed on the shares acquired⁸.

As in the case of the financing transaction undertaken by CDP RETI in September 2014, the acquisition of the shares by CDP RETI was fully funded through additional debt (under two new loan contracts). One reason for this was to avoid reducing the cash intended to be distributed to the shareholders as dividends.

The new loans, 55% of the total amount of which was granted by a pool of six banks (approximately 103 million) and the remaining 45% of which was granted by the parent company CDP (approximately 85 million), were contracted on 16 May 2017 and disbursed on 19 May 2017, the date on which the price was paid to CDP. The above loans are unsecured and are to be repaid in bullet form at maturity (in May 2023).

From an accounting standpoint, following the transaction the values of the equity investments in SNAM (2,931 million at 31 December 2016) and ITALGAS (589 million at 31 December 2016) in the financial statements of CDP RETI were increased by an amount equal to the price of purchase of the transferred equity interests. It should also be noted that, in continuity with the previous treatment, CDP RETI has not recognised any deferred tax liabilities on the temporary difference between the book value and tax value of the equity interests in SNAM and ITALGAS, since both of the conditions for non-recognition set out in international accounting standard IAS 12 Income Taxes have been satisfied.

The additional borrowings were initially recognised at their nominal value, net of the initial transaction costs incurred to obtain the loans. The Company decided to include among transaction costs the arrangement fee and upfront fee for the structuring of the loan of approximately 1 million. This amount was therefore taken into consideration when calculating the amortized cost of the financial liability (i.e., the Term Loan) according to the effective interest method⁹.

With regard to **dividends received** from subsidiaries, totalling **388 million (375 million in 2016)**, the following were received during the reporting period: approx. 221 million from SNAM (2016 dividend); approx. 42 million from ITALGAS

5 In 2016 CDP had begun the process of simplifying its portfolio of equity investments. CDP RETI currently holds all of the CDP Group's equity investment in SNAM and ITALGAS.

6 Although the threshold for a mandatory public takeover bid (30%) has been exceeded, CDP RETI believed the conditions triggering the launch of a public bid had not been met, considering that the equity interest indirectly held by CDP, through CDP RETI, remained unchanged and the transfer of the 1.12% interest from CDP to CDP RETI took place between parties under common control.

7 If the interest held by SNAM in ITALGAS (13.5%) is also considered, the total holding amounts to 30.1%.

8 The value of these dividends was included in the consideration that CDP RETI paid to CDP, given that the price was calculated on the basis of cum-dividend share prices.

9 The amortisation charges for these fees will therefore be recognised over the term of the loan, in addition to the interest expense calculated at the nominal rate, and are classified identically in the income statement.

(2016 dividend); and approx. 125 million from TERNA (2016 final dividend of 80 million and 2017 interim dividend of 45 million).

In addition, the Board of Directors of SNAM, in the meeting held on 6 November 2017, approved the distribution of an **interim dividend for 2017**, of which 91 million to CDP RETI (received in January this year).

For more details see the section "Financial position and operating performance of the Company".

With regard to **dividends paid** to shareholders, totalling **425 million (611 million in 2016)**, the following distributions were made during the year:

- the remainder of the 2016 net income (i.e. 101 million¹⁰) was distributed, of which approx. 60 million was paid to CDP and 35 million to State Grid Europe Limited. You are reminded that part (253 million) of the 2016 net income (354 million) was distributed in November 2016 as an interim dividend¹¹ for 2016.
- an interim dividend for 2017¹², amounting to 324 million, of which approx. 191 million paid to CDP and 113 million to State Grid Europe Limited.

In more general terms, it should be noted that since the directors had concluded their term of office, the Shareholders' Meeting held on 4 May 2017 appointed a new Board of Directors consisting of five directors who will remain in office for three financial years and end their term of office on the date of the Shareholders' Meeting that will be convened in 2020 to approve the financial statements for the year ending 31 December 2019. The directors were appointed on the basis of two lists of candidates, one submitted by the shareholder CDP (which holds 59.1% of the Company's shares) and the other by State Grid Europe Limited ("SGEL", which holds 35.0% of the Company's shares).

During that same session, the Board of Statutory Auditors was also re-elected according to the list-based voting system (with a term of office matching that of the Board of Directors).

The following should be noted with regard to relations with investees:

- a) on 31 March 2017 CDP RETI submitted lists of candidates for the offices of director and statutory auditor of TERNA in view of the latter's Shareholders' Meeting;
- b) on 31 March 2017 the Board of Directors resolved to continue not to exercise management and coordination of the subsidiary ITALGAS¹³;
- c) On 31 March 2017 the Board of Directors of CDP RETI resolved on the instructions to be given to members of the Consultation Committee¹⁴, as governed by the ITALGAS Shareholders' Agreement¹⁵, in view of the ordinary Shareholders' Meeting of Italgas S.p.A.;

It should be recalled that, following the conclusion of the merger of CDP GAS into CDP and the subsequent transfer by CDP to CDP RETI of its equity interests in ITALGAS and SNAM, the parties undertook the formalities and notification required by applicable legislation governing shareholders' agreements to give notice of the updated information concerning: (i) the Shareholders' Agreement between CDP RETI, CDP and SNAM governing ITALGAS; and (ii) the Shareholders' Agreement between CDP, State Grid Europe Ltd and State Grid International Development Ltd governing CDP RETI, SNAM, TERNA and ITALGAS.

SNAM (TRANSPORTATION, REGASIFICATION AND GAS STORAGE SECTORS)

- **2017-2021 Business Plan:** updated on 13 March 2018, 2017-2021 Business Plan. The dividend policy with annual growth of 2.5% for 2018 was extended to 2019 and floor in real terms up to the end of the plan. The payment of the interim dividend will continue. In this regard, the payment of the interim dividend corresponding to 40% of the total dividend pertaining to 2018 will be proposed to the Shareholder Meeting in January 2019, with payment of the remaining 60% in June.
- **Equity linked bond loan:** an equity linked bond loan for a nominal amount of €400 million was successfully placed on 14 March 2017 with 5-year bonds issued at par with no interest. The initial conversion price of the bonds was set at €4.8453. The bonds will be reimbursed at their nominal value on 20 March 2022, unless there is an early repayment, or if the bonds have been previously converted or bought back by the Company.

10 Distributed in the amount of 623.43 euro for each of the 161,514 shares.

11 The interim dividend of 1,566.43 per share (for each of the 161,514 shares) was approved on the basis of the Company's accounting situation at 30 June 2016, prepared in accordance with IFRSs. The Company ended the period with a net income of approximately 320 million and available reserves of approximately 3,345 million.

12 Distributed in the amount of 2,006.02 euro for each of the 161,514 shares. The interim dividend was approved (by Bod on 23 November 2017) on the basis of the Company's accounting situation at 30 June 2017, prepared in accordance with IFRSs. The Company ended the period with a net income of approximately 360 million and available reserves of approximately 3,345 million.

13 On 12 April 2016 the Board of Directors had resolved to continue not to exercise management and coordination of the subsidiaries SNAM and TERNA.

14 This committee has five members, four of whom represent CDP RETI (three appointed by CDP and one by SGEL) and one SNAM. The committee is responsible for deciding how the parties to the Shareholders' Agreement are to exercise their voting rights in the ITALGAS Shareholders' Meeting.

15 The parties to the Shareholders' Agreement cast the votes conferred by their shares in ITALGAS as decided by the Consultation Committee, without prejudice to SNAM's rights in respect of Reserved Matters.

- **Renewal of the EMTN Programme to issue bonds:** on 6 October 2017, the Board of Directors of SNAM resolved on the annual renewal of the EMTN programme launched in 2012, for a confirmed maximum overall value of 10 billion euro. The Board has thus decided to issue one or more additional bonds, by 6 October 2018, for a maximum amount of around 1.8 billion - increased by the value of bonds repaid in the same period, to be placed with institutional investors. As at 31 December 2017, the nominal value of outstanding bonds issued within the EMTN programme stood at around 8.2 billion.
- **Repurchase of SNAM bonds issued for an overall nominal value of 607 million:** in October 2017 SNAM was successful in repurchasing bonds on the market for an overall nominal value of 607 million, with an average coupon rate of around 2.5% and a residual maturity of around 4.4 years. The total disbursement was around 656 million, partly funded by a bond issue, for a total of 650 million, with a coupon rate of 1.375% and a duration of 10 years. The effects of the transaction on the 2017 income statement - essentially equal to the costs arising from the higher amount paid to repurchase the bonds from bondholders compared to their value at amortised cost - totalled 56 million.
- **Authorisation to purchase and dispose of treasury shares:** on 11 April 2017 the Shareholders' Meeting, after the revocation of the authorization of 1 August 2016¹⁶, issued a new authorisation with regard to the purchase of treasury shares, in one or more tranches, for a total outlay of €196 million, resulting from the difference between the maximum outlay (€500 million) and that incurred by the Company for the purchases made until the date of the shareholders' meeting resolution (€304 million), all, in any event, up to the maximum limit of 3.5% of the Company's share capital, with regard to the treasury shares already owned by the Company. Authorisation was conferred for a maximum of 18 months from the date on which the resolution was adopted. As at 31 December 2017, Snam purchased 84,788,366¹⁷ treasury shares, representing 2.42% of the share capital, for a total of approximately €313 million. With effect from 12 January 2018, Snam has also concluded an enhanced buyback agreement for a period not exceeding 3 months with a leading intermediary. Snam renewed the appointment to the same intermediary through an enhanced buyback agreement for a period of maximum 2 months from 20 February 2018.
- **Long-term share-based incentive plan (performance share):** on 11 April 2017 the Ordinary Shareholders' Meeting approved the 2017-2019 Long-term share-based incentive plan. This plan is designed for the CEO and a maximum number of 20 executives. The plan provides that at the end of the three-year performance period, if the underlying conditions of the Plan are satisfied, the beneficiary will have the right to receive Company shares free of charge shares of the Company for free. On 20 June 2017, the Board of Directors resolved: (i) to grant the annual incentive to the Chief Executive Officer; (ii) to approve the Regulation of each annual allocation; (iii) to identify Beneficiaries on the basis of specific criteria; (iv) the terms of implementation. The maximum number of shares to service the plan is 3,500,000 for each tax year of the Plan. The Plan will end in 2022. There will also be a two-year lock-up period for the beneficiaries on 20% of the shares for the CEO and other executives.
- **Early retirement agreement - Isopensione:** On 17 November 2017, Snam signed an agreement (hereinafter, the "Plan") with the main trade unions to implement the early retirement scheme for employees (in accordance with the so-called "Legge Fornero"). In relation to said agreement, costs amounting to 15 million were recognised in the income statement in the fourth quarter of 2017, under staff costs.
- **The acquisition of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A. and 7.3% of Adriatic LNG S.r.l.** was completed, on 13 October 2017, for a total amount, net of the price adjustment, of 217 million.

Framework agreement for the development of methane supply stations: on 25 May 2017 Snam and Eni signed a framework agreement for the development of methane supply stations in Italy. The partnership aims to build new compressed natural gas (CNG) and liquefied natural gas (LNG) supply stations within the national network of Eni distributors. The framework agreement comes under Snam's initiatives to promote sustainable mobility.

TERNA (DISPATCHING AND TRANSMISSION OF ELECTRICITY)

- The merger by incorporation of Terna Rete Italia S.r.l. and Terna Storage S.r.l. into Terna S.p.A. became effective on 31 March 2017.
- On 27 April 2017, the Shareholders' meeting of Terna approved the 2016 Financial Statements and appointed the new Board of Directors. At the first meeting of the new Board of Directors Luigi Ferraris was appointed as the new Chief Executive Officer and Catia Bastioli was confirmed as Chairman.

¹⁶ The Shareholders' Meeting authorised the purchase of treasury shares for an outlay of up to €500 million and a maximum limit of 3.5% of the subscribed and released share capital, with regard to the treasury shares already owned by the Company to take place, within 18 months of the effective date of the demerger from Snam of the natural gas distribution business, i.e. by 7 November 2016.

¹⁷ Including 56,010,436 shares bought in 2017 for a total cost of €210 million.

- **Management and development of the NTG:**

- On 14 February 2017 the Ministry of Economic Development issued the new authorisation decree no. EL-146 bis “**Udine Ovest – Redipuglia**”.
- On 31 March 2017 the **Benevento III** electrical substation was activated.
- On 1 June 2017, Terna presented the “**Rationalisation of the high-voltage grid in the areas of Venice and Padua**” project to the Technical Committee for Evaluation of Environmental Impact of the Ministry of the Environment and the Protection of Land and Sea.
- On 27 June 2017, the connection of the Island of **Capri** to the Italian peninsula came into operation.
- The procedure to carry out work on the 132 kV power line “Ca’ Poia-Redipuglia” was initiated in September.
- A Memorandum of Understanding for the completion of Sa.Co.I 3, the infrastructure connecting Sardinia, Corsica and the Italian peninsula, was signed with Électricité de France (EDF) on 11 October 2017.

- **Non-Regulated and International Activities:**

- On 26 May 2017, Terna Plus was awarded the contract put out to tender by Proinversión (state agency for infrastructural investment controlled by the Peruvian Ministry of Energy and Mines) for the construction of a power line in Peru, extending 132 km. Terna Plus signed the contract for the construction of the power line on 8 September. The concession has a thirty-year duration and a value of around 9 million dollars.
- On 2 June 2017 Terna and the **Russian company Rosseti** signed a MoU for a 36-month period, for the exchange of know-how, best practices and cooperation in certain key technological areas in the electricity-transmission sector.
- On 26 June 2017, in **Brazil** an agreement with the Planova Group (a Brazilian company operating in the construction of civil works and infrastructure) was finalised with the aim of acquiring two concessions for the construction and operation for a 30-year period of approximately 500 km of electricity infrastructure.

- **Finance:**

- On 6 March 2017, **Fitch Ratings** confirmed the long-term rating and the rating of the unsecured senior debt of Terna SpA at 'BBB+', with Outlook Stable.
- On 21 June 2017 the **final dividend** for 2016 of € 269,137,928.80 (€ 0.1339 for each of the 2,009,992,000 shares) was made payable.

On 27 June 2017, Terna S.p.A. signed an agreement with the **European Investment Bank (EIB)** for a 22-year loan of € 85 million, in order to support investments for the development of the Capri-Continental connection and the restructuring of the Sorrento Peninsula.
- On 19 July 2017, Terna S.p.A. successfully launched a fixed-rate bond issue for a total value of 1 billion euro. The securities have a 10-year maturity and expire on 26 July 2027. They will pay a coupon rate of 1.375%;
- On 21 July 2017, a loan of 130 million was signed with the European Investment Bank (EIB) as backing for the public portion of the “Piemonte-Savoia” project;
- On 13 October 2017, Terna S.p.A. renewed its programme of EMTN bond issues for 8,000,000,000 euro;
- On 30 October 2017, S&P Global Ratings increased Terna S.p.A.'s long-term rating from 'BBB' to 'BBB+' and confirmed its short term rating of 'A-2' (the outlook is stable).

ITALGAS (DISTRIBUTION SECTOR)

- **Debt structure:** Bonds totalling €2,650 million were issued under the Euro Medium Term Notes Programme, which allowed for the early repayment of the floating-rate bridge to bond¹⁸ bank loan for 2.3 billion.

¹⁸ Granted by a pool of 11 banks as part of the finance package signed by Italgas in October 2016.

- **Merger by incorporation of Napoletanagas S.p.A. into Italgas Reti S.p.A.:** on 1 October 2017, Napoletanagas was incorporated into the parent company Italgas Reti, which had previously acquired the entire share capital of the incorporated company.
- **Acquisition of Enerco Distribuzione:** on 6 December 2017, 100% of the share capital of Enerco Distribuzione (holder of 27 concessions in the provinces of Padua and Vicenza) was acquired. The final amount of the investment was €35.9 million.
- **Agreement with CLP Concordia for the acquisition of 7 concessions gas:** a binding agreement for the acquisition of a portfolio of 7 gas concessions in Campania, Calabria and Sicily, for a total amount of 16 municipalities, was executed on 30 November 2017. The overall valuation of the portfolio under the agreement, was set at €13 million.
- **Entry of Italgas in Sardinia:** by way of the following operations:
 - (i) **Ichnusa** (in implementation of the binding agreement signed on 8 November 2017, Italgas acquired a 100% interest in the share capital of Ichnusa Gas on 28 February 2018: the overall valuation was set at €26.2 million), and
 - (ii) **Medea** (signing on 21 December 2017 of the binding agreement with Hera to transfer 100% of Medea to Italgas; the overall valuation was set at €24.1 million),

Italgas entered the Sardinian market.
- **Tender for gas distribution services:** two bids were submitted for gas distribution services, one for the Turin 2 area (28 June) and the other for the Belluno area (1 September).

CONSOLIDATED FINANCIAL HIGHLIGHTS

INTRODUCTION

First of all, it should be noted that, starting from the financial year ended at 31 December 2016, CDP and CDP RETI consolidate ITALGAS directly in their respective financial statements, after ascertaining their control over the Company, pursuant to the provisions of the international accounting principle IFRS 10 - Consolidated Financial Statements, and also taking into account the composition of the Board of Directors and the allocation of the share capital.

Having said this, as a result of the demerger from Snam concluded on 7 November 2016 (see dedicated section of 2016 Annual Report), SNAM's financial results 2017 not include the results of the natural gas distribution sector.

It follows that the contributions of individual sectors to the 2017 results of the CDP RETI Group cannot be compared like for like with the results of 2016 (in 2016, the performance of the natural gas distribution sector from 1 January to 6 November was reflected in SNAM's results); for more details on the impact on the natural gas distribution business during the separation from gas, see the section "Operating sectors" below.

In addition, as already mentioned in the section "Significant events of the 2017 for sectors/companies", it should be taken into account that, compared to 2016, from May 2017 CDP RETI holds a stake equal to approx. 30.10% in SNAM (previously 28.98%) and approx. 26.04% in ITALGAS (previously 25.08%).

Key financial figures

Items		31/12/2017	31/12/2016
Total revenue	(million of euros)	5,738	5,634
EBITDA	(million of euros)	4,376	4,180
EBITDA margin	(%)	76%	74%
Operating profit (EBIT)	(million of euros)	2,575	2,442
EBIT margin	(%)	45%	43%
Net income	(million of euros)	1,661	1,229
Profit margin	(%)	29%	22%

Key balance sheet and cash flow figures

Items		31/12/2017	31/12/2016
Property, plant and equipment	(million of euros)	34,316	33,671
Intangible assets	(million of euros)	7,877	7,753
Long-term financial liabilities	(million of euros)	26,358	21,477
Equity	(million of euros)	14,904	15,167
- attributable to the parent company CDP RETI	(million of euros)	4,069	4,060
- attributable to minority interests	(million of euros)	10,835	11,107
Net financial debt	(million of euros)	(24,709)	(24,027)

Other key figures

Items		31/12/2017	31/12/2016
Technical investments	(million of euros)	2,590	2,138
Net cash flow for the period	(million of euros)	1,482	452
Average workforce	(numbers)	10,605	10,326
Dividends distributed to shareholders during the period			
- from SNAM S.p.A.	(million of euros)	(718)	(875)
- from TERNA S.p.A.	(million of euros)	(418)	(406)
- from ITALGAS S.p.A.	(million of euros)	(162)	-
- from CDP RETI S.p.A.	(million of euros)	(425)	(611)

Ratios

Items		31/12/2017	31/12/2016
ROE	(%)	11%	8%
Net financial debt/EBIT	(numbers)	9.6	9.8
Net financial debt/Equity	(numbers)	1.7	1.6

With respect to key management data, the following results were posted in 2017:

Total revenues of €5,738 million (€5,634 in 2016), +2% compared to the previous period.

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of €4,376 million (€4,180 million in 2016), accounting for 76% of revenues (74% in 2016), an increase of €196 million (+5%) versus 2016. With respect to overall margin (so-called EBITDA *margin*), SNAM's contribution was 35%, TERNA's 28% and ITALGAS's 14%.

Earnings Before Interest and Taxes (EBIT) amounted to €2,575 million (€2,442 million in 2016), accounting for 45% of revenues, vs. 43% in 2016 (so-called EBIT *margin*). This figure was also impacted by the depreciation and amortisation

resulting from the allocation process for the purchase of SNAM's, TERNA's and ITALGAS's assets and liabilities (so-called *Purchase price allocation or, in brief, PPA*¹⁹).

Net income totalled €1.661 million (€1.229 million in 2016), accounting for 29% of revenues (22% in 2016). The Parent Company's result for the year amounted to €509 million (€348 million in 2016).

Net Financial Debt of €24,709 million increased by €682 million (+3%) over 31 December 2016. The total amount of around €25 billion pertains to SNAM (47%), TERNA (32%) and ITALGAS (15%), and to the Parent Company CDP RETI for the remainder (7%).

Technical investments at 31 December 2017 amounted to €2,590 million and pertain to SNAM (40%), TERNA (40%) and ITALGAS (20%).

Net cash flow for the period negative by approx. €1,482 million (from €1,272 million to €2,754 million), mainly as a result of TERNA (+854 million) and SNAM (+685 million), offset by CDP RETI (-58 million). Operating activities generated financial resources of € 4,076 million while financing activities generated financial resources of 398 million, partly absorbed by investment activities (net of disinvestment) negative by € 2,992 million.

ALTERNATIVE PERFORMANCE MEASURES²⁰

CDP RETI reviews the performance of the Group and its sector segments using certain measure not defined under IFRS. As a result, the determination criterion used may also not be similar to that used by other groups and, as a result, not comparable.

Non-GAAP measures²¹ must be considered as supplementary and do not replace the information drafted in accordance with IFRS.

As required by Consob Communication no. 0092543 of 3 December 2015 which implements the ESMA Guidelines on Alternative Performance Measures (document no. ESMA/2015/1415), the components of each of these measures are described below:

- "EBITDA": is defined as adjusted Net Income of the following items (included in the Consolidated Financial Statements): (i) Net income from discontinued operations, (ii) Taxes for the Year, (iii) Financial Gains/Losses, (iv) Amortisation and Depreciation.
- "EBITDA margin": EBITDA expressed as a percentage of Revenue and income.
- "EBIT": this is equal to EBITDA after deducting depreciation, amortization and impairment.
- "EBIT margin": EBIT expressed as a percentage of Revenue and income.
- "ROE": ROE (Return on equity) is calculated as the ratio between Profit/(loss) for the period (calculated on a 12-month basis, for 1 January - 31 December) and the arithmetic mean of Total Equity at the beginning and end of the reporting period.
- "Net Financial Debt": this is calculated as current and non-current financial debt net of cash and cash equivalents, as well as the short-term financial receivables. See the specific section for further details.
- "Net Financial Debt/Net Equity" ratio: this ratio, which represents the degree of soundness and efficiency of the capital structure in terms of mix between net borrowings and Shareholders' Equity (Company's degree of dependency on external borrowing sources), is calculated as the ratio between the Net financial debt, as monitored by the Group, and Total equity.
- "Net Financial Debt/EBIT" ratio: this is calculated as the ratio between the Net financial debt, as monitored by the Group, and EBIT.

The calculation of these indicators, unchanged with respect to those used at 31 December 2016, is consistent with that recorded in the comparison period.

¹⁹ This allocation, required by IFRS 3 (International Financial Reporting Standard 3 - Business Combinations), must be carried out by the acquiring company, as part of its consolidated financial statements, in order to justify the purchase cost incurred as part of this extraordinary operation.

²⁰ A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Alternative performance measures are usually derived from (or based on) the financial statements prepared in accordance with the applicable financial reporting framework, most of the time by adding or subtracting amounts from the figures presented in financial statements (ESMA Guidelines/2015/1415 – articles 17 and 18).

²¹ Generally accepted accounting principles (GAAP) are a common set of accounting principles that companies must follow when they compile their financial statements.

3. ORGANISATIONAL STRUCTURE

3.1 ORGANISATIONAL STRUCTURE

At 31 December 2017, CDP RETI had 4 employees (in line with 31 December 2016), all under permanent contracts. In light of the additional activities that CDP RETI is actually tasked with performing, on 20 March 2017 a proposal for a new organisational structure of the Company, replacing the previous version (submitted to the Board in March 2015), was submitted to the Board of Directors.

More generally, it is pointed out that the Company makes recourse to the operational support of the parent company CDP based on contractual agreements that provide the Company with all the expertise and services essential for the proper conduct of its business. Within this framework, in the 2017 first half an additional service agreement was entered into governing the outsourcing of internal auditing services to the Internal Auditing Function of the Parent Company CDP (and an employee of the Parent Company was appointed as the Function Head).

Moreover, following the bond issue of 21 May 2015 listed on the Irish Stock Exchange, CDP RETI acquired the status of listed Issuer with Italy as Member State of origin and, therefore, was required, pursuant to Art. 154 – bis of the Consolidated Financial Act, to appoint a Financial Reporting Manager.

The final headcounts of the SNAM, TERNA and ITALGAS groups are detailed below:

SNAM

(average numbers)

Professional category	31/12/2017	31/12/2016
Senior Manager	94	101
Middle Managers	433	429
Office staff	1,632	1,594
Manual workers	721	726
Total	2,880	2,850

TERNA

(average numbers)

Professional category	31/12/2017	31/12/2016
Senior Manager	72	77
Middle Managers	579	560
Office staff	2,024	1,952
Manual workers	1,263	1,212
Total	3,938	3,801

ITALGAS

(average numbers)

Professional category	31/12/2017	31/12/2016
Senior Manager	64	35
Middle Managers	262	221
Office staff	2,046	1,908
Manual workers	1,411	1,391
Total	3,783	3,555

3.2 RISK FACTORS

INTRODUCTION

In the normal course of its business activities, the CDP RETI Group is exposed to various, financial and non-financial, risk factors that, if they were materialised, could have an impact on the economic and financial position of the group.

This section illustrates the main risks to which the CDP RETI group is exposed in the ordinary management of its business activities, as measured and managed at the level of TERNA, SNAM and ITALGAS. For the description of the financial risks, reference is made to the specific "Financial risk management" section of the Consolidated financial statements and the Separate financial statements.

Below, the following key risks that have been identified:

SNAM GROUP

Although it has a limited economic and financial risk profile because most of its operations are in regulated business segments, Snam adopts a structured and systemic approach to governing all risks that could affect value creation.

The system to identify, assess, manage and control risk has three levels, each with different objectives and associated responsibilities. The Board of Directors charges the CEO with giving structure to and maintaining the entire system.

Snam use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to the prevention of fraud and corruption and health, safety, environment and quality.

SNAM has set up a dedicated corporate function, Enterprise Risk Management (ERM), to supervise the integrated management of corporate risks for all group companies.

Using the model described above, the risk assessment cycles were performed on the entire Snam Group in 2017. As at the end of 2017, 136 enterprise risks had been mapped and broken down between all corporate processes.

In 2017 was launched a project that aims to plan and implement an integrated risk assurance model combining the different control models deployed at the group, with a synergistic approach to streamline and boost the efficiency of controls.

Strategic Risk

Regulatory and legislative risk

Regulatory risk for Snam is closely linked to the regulation of activities in the gas sector. The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the Authority and, more generally, changes to the regulatory framework may have a significant impact on the Company's operating activities, financial position and results. It is impossible to predict what impact future changes to legislative and tax policies might have on Snam's business and on the sector in general. Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

Macroeconomic and geo-political risk

Due to the specificity of Snam's business, risks arising from political, social and economic instability in countries that supply natural gas are also significant, with impacts mostly in the gas transportation sector. A large portion of gas transported via the national transportation network is imported from or runs through MENA countries (Middle East and North Africa) and the former Soviet Bloc - regions that are particularly sensitive to political, social and economic change, with underlying currents of instability or that could possibly develop into future crisis scenarios.

Commodity risk with changes in the price of natural gas

Pursuant to the regulatory framework currently in force, changes in the price of natural gas to cover Fuel Gas and network leakages do not represent a significant risk factor for Snam, since all gas for its core activities is provided by Shippers in kind.

Market risk

Regarding the market risk associated with the demand for gas, please note that based on the tariff system which the energy networks and environment Regulator ARERA currently applies to the transportation of natural gas, Snam's

revenues from its directly controlled transportation subsidiaries are in part linked to volumes transported. Changes in the current regulatory framework may have an adverse impact on the business and on the performance and financial position of the Snam group.

Climate change risk

To comply with regulations on greenhouse gases, Snam may in the future be required to upgrade its plants or to control or limit emissions or take other actions that might increase the cost of conforming to regulations in force, thus having adverse effects on the business and on the performance and financial position of the Snam group.

Legal and non-compliance risk

Legal and non-compliance risk concerns the failure to comply, in full or in part, with the European, national, regional and local rules and regulations with which Snam must comply in relation to the activities it carries out. The violation of such rules and regulations may result in criminal, civil and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation. As regards specific cases, the infringement of regulations on the protection of workers' health and safety and of the environment, and the infringement of anti-corruption rules, inter alia, may also result in (possibly significant) sanctions on the Company based on the administrative responsibility of entities (Legislative Decree 231 of 8 June 2001). With regard to the Risk of Fraud and Corruption, Snam believes it is of vital importance to ensure a climate of fairness and transparency in corporate operations and repudiates corruption in all its forms in the widest context of its commitment to abiding by ethical principles. Snam's top management is strongly committed to pursuing an anti-corruption policy, trying to identify possible areas of vulnerability and eliminating them, strengthening its controls and constantly working to increase employees' awareness of how to identify and prevent corruption in various business situations. Snam has been working since 2014 in partnership with Transparency International Italia and joined the Business Integrity Forum (BIF) and, in 2016, became the first Italian company to join the Global Corporate Supporter Partnership.

Operating risk

Operational risks consist mainly in malfunction and unplanned outage of the service due to accidents, failures or malfunctions of equipment or control systems, lower plant yield and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events outside control. Although are taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases. Although Snam has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

The risk related to retaining gas storage concessions, related to the gas storage business in which the subsidiary Stogit operates based on concessions issued by the Ministry of Economic Development. Eight of the ten concessions expired on 31 December 2016 and can be renewed no more than twice for a duration of ten years each time. With regard to these concessions, Stogit submitted the extension request at the Ministry of Economic Development and the proceedings are currently pending before the Ministry. Pending said proceedings the Company's activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures in progress envisaged by the original authorisation, which will be extended automatically on expiry until said completion.

There is also the possibility of the malfunctioning and unforeseen interruption of the service determined by several unknowns linked to operating, economic, regulatory, authorisation and competition factors, outside of Snam's control.

Operating risks also include environmental risks. Snam and the sites in which it operates are subject to the laws and regulations governing pollution, the protection of the environment and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to potential outflows and liabilities linked to its operations and its assets. The costs linked to potential environmental remediation obligations are subject to uncertainty in terms of the extent of the contamination, the appropriate corrective actions and the share of responsibility. They are therefore difficult to estimate.

Legal disputes

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements.

ITALGAS GROUP

The main risks subject to analysis and monitoring by the Italgas group are:

Operating risk

The Italgas group uses specific, certified management systems to oversee corporate processes and activities so as to ensure the health and safety of workers, environmental protection, and quality and energy saving in the services offered. Below the main operating risks.

Risks associated with failures and unforeseen interruption of distribution service

Managing regulated gas activities involves a number of risks of malfunctioning and unforeseeable distribution service disruptions from accidental events, such as accidents, breakdowns or malfunctioning of equipment or control systems; the under-performance of plants; and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events beyond Italgas' control. These events could cause a decrease in revenue and involve substantial damage to persons, property or the environment. Although Italgas has taken out specific insurance policies in line with best practices to cover some of these risks, the related insurance coverage could be insufficient to meet all the losses incurred, the compensation obligations or cost increases.

Risks to the environment and to health and safety

Italgas' activities are subject to Italian and European Union legislation on environmental protection.

Italgas conducts its business in compliance with laws and regulations on environmental protection and occupational health and safety. Nevertheless, it cannot be ruled out with certainty that the group may incur costs or liabilities, even significant ones. It is, in fact, difficult to foresee the economic-financial consequences of any prior environmental damage, also given the possible effects of new environmental protection laws and regulations, the impact of technological innovations for environmental rehabilitation, the possibility of litigation and difficulties in determining its possible consequences, including with regard to the liability of other parties.

Italgas is engaged in the remediation of contaminated sites, mainly old manufactured gas plants; it also performs waste removal and disposal (mainly from the demolition of obsolete plants) and the disposal of asbestos-containing materials.

To cover the estimated costs of compliance with current legislation, a dedicated fund of euro 130 million has been set up.

Risks related to Energy Efficiency Certificates

Article 16.4 of Legislative Decree no. 164/00 on liberalisation of the gas market provides that distributors of natural gas for civil use must pursue energy savings for end users and the development of renewable energy; in exchange for the progress made, distributors are assigned 'Energy Efficiency Certificates', which entitle them to a refund from the Energy and Environmental Services Fund, whose resources come from the ES (Energy Saving) component of distribution tariffs.

Based on the national annual energy savings targets to be pursued through the Energy Efficiency Certificate (also known as "white certificate") scheme, the Authority sets the associated energy saving targets for electricity and natural gas distributors.

There is a potential risk of economic loss due to the possible negative difference between the average purchase value of the certificates and the tariff contribution granted and to the possible failure to achieve the targets set.

Risks associated with the expiry and renewal of gas distribution concessions

The Italgas group's gas distribution activity is performed under concessions granted by individual municipalities. As at 31 December 2017, Italgas managed 1,500 natural gas distribution concessions throughout Italy.

Interministerial Decree no. 226/11 provided that the gas distribution service can only be operated on the basis of tendering procedures covering gas distribution districts (ATEM) most of which coincide with provincial boundaries.

With regard to the tendering procedures launched, there is a possibility that Italgas may not be awarded the new gas distribution concessions, or may be awarded concessions at less favourable conditions than the previous ones, with possible negative impact on its business activities and on its income, balance sheet and cash flow situation. However, should Italgas fail to obtain renewal of previous concessions, it would be entitled to the reimbursement due to the outgoing operator.

Moreover, under the current tendering procedures, Italgas might also be awarded concessions for districts (ATEM) previously managed entirely or partially by other operators. Such awards could generate, at least initially, higher operating costs for the group than its standard operations.

Given the complexity of the regulations governing expiry of the concessions held by Italgas, judicial and/or arbitration disputes might occur, with possible negative effects on the business activities and on the balance sheet, income and cash flow situation of the Italgas group.

Risks associated with the reimbursement amount paid by the new operator

With regard to the gas distribution concessions for which Italgas also owns the networks and facilities, Legislative Decree no. 164/00, as amended and supplemented, provides that the reimbursement amount payable to the outgoing service operators owning the existing contracts and concessions shall be calculated in accordance with the provisions in the agreements, provided that these were concluded before the entry into force of Ministerial Decree no. 226 of 12 November 2011 (i.e., prior to 11 February 2012). Any aspects not specified by the parties, or not governed by those agreements, shall be governed by the Guidelines on criteria and procedures for assessing the reimbursement value prepared by the Ministry of Economic Development on 7 April 2014 and approved by Ministerial Decree no. of 22 May 2014²².

Where there is a disagreement between the Local Authority and the outgoing operator with regard to the reimbursement amount, the tender notice indicates a reference amount to be used for the purpose of the tender, determined as the greater amount between the estimate of the contracting Local Authority and the RAB.

Ministerial Decree no. 226/11, on tender process criteria and bid evaluation, states that the incoming operator shall acquire ownership of the plant by paying the reimbursement to the outgoing operator, with the exception of any portions of the plant that are already owned by the municipality.

Eventually, i.e., in subsequent periods, the reimbursement to the outgoing operator shall be the value of local net fixed assets, net of government grants for capital expenditure and private contributions relating to local assets, calculated on the basis of criteria used by the Authority to determine distribution tariffs (RAB - regulatory asset base).

In light of the new legal framework introduced, it cannot be ruled out that the reimbursement value of the concessions, which might be awarded to a third party following the concession tendering procedure, might be less than the value of the RAB. In that case, it may have negative effects on Italgas' financial position, results and cash flows.

Regulatory risk

Italgas carries out its activities in a gas sector subject to regulation. The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the ARERA and, more generally, changes to the regulatory framework, may have a significant impact on the operating activities, the economic results and financial equilibrium of the group.

Considering the specific nature of its business and the context in which Italgas operates, developments in the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

Future changes to European Union policies or at the national level, which may have unforeseeable effects on the relevant legislative framework and, therefore, on Italgas' operating activities and results, cannot be ruled out.

Legal and compliance risk

Legal and compliance risk concerns the failure to comply, in full or in part, with rules and regulations at the European, national, regional and local level with which Italgas must comply in relation to the activities it performs. The violation of such rules and regulations may result in criminal, civil and/or administrative penalties, as well as damage to its financial position, economic results and/or reputation. As regards specific cases, among other things, the infringement of regulations on the protection of workers' health and safety and of the environment, and the infringement of anti-corruption rules, may also result in (possibly significant) penalties for the Company based on the legislation on the administrative liability of entities (Legislative Decree no. 231/01).

²² In other words, the specific methods provided for in the individual concession agreements entered into and effective prior to 11 February 2012 take precedence over the Guidelines, subject to the limitations set forth in the Guidelines and in the tender criteria regulation (Ministerial Decree no. 226/11).

Litigation and other proceedings

Italgas is a party to civil, administrative and criminal proceedings and to lawsuits linked to the normal conduct of its operations. On the basis of the information presently available and in light of the existing risks, Italgas believes that those proceedings and lawsuits will not produce significant adverse impacts on its consolidated financial statements.

TERNA GROUP

Energy transmission is Terna's core business. It is governed first and foremost by the government concession and by the provisions issued by ARERA, which include the definition of remuneration for Terna's service and the corresponding tariff system. Consequently, Terna is not exposed to common price and market risks, if not marginally and limited only to Unregulated Activities and International Activities, but it is exposed to regulatory and legislative risks. The regulatory risk derives from the possible changes in the parameters used to determine regulated revenue, especially on the occasion of the multi-year review of the regulatory framework. The legislative risk is linked to possible changes in Italian and European rules governing environmental, energy, tax and social matters (work and contracts).

For some time now, the Terna Group has adopted the Enterprise Risk Management (ERM) methodology - adapted accordingly to its role as Grid Operator - to identify, assess, control and monitor company risks. Initially applied only to operating risks, Terna has developed its risk management system with a view to ensuring continual improvement and the integrated management of the different types of risks the Company is exposed to.

Disputes

Ongoing disputes as at 31 December 2017 refer to the parent company Terna S.p.A., the subsidiary Terna Rete Italia S.p.A. and the companies of the Tamini Group (concerning a number of supply contracts). The disputes involving Terna S.p.A. refer to:

- Environmental and town planning disputes: the disputes involving environmental issues linked the construction and operation of power plants under Terna's responsibility refer, in part, to legal actions brought against the alleged adverse effects of exposure to electric and magnetic fields generated by the power lines.
- Disputes concerning the validity of authorisations to build and operate plants: these disputes are linked to owned plants and arise out of legal actions brought before the administrative courts to render null and void authorisations granted to build and operate plants;
- Disputes concerning activities granted under concession arrangements: as the holder of a transmission and despatching concession as of 1 November 2005, Terna S.p.A. is a party to a number of legal proceedings involving such activities - mostly appeals against measures of the energy networks and environment Regulator ARERA and/or the Ministry of Economic Development and/or of Terna itself. Terna has entered an appearance in those cases in which the applicants complain not only of deficiencies in the contested measures but also of the alleged infringement, by Terna, of the rules issued by the aforesaid Regulator or, in cases in which the measure has an impact on Terna.

A more detailed examination of the risks described and other critical aspects can be found in financial annual reports of SNAM, TERNA and ITALGAS.

4. BALANCE SHEET AND ECONOMIC PERFORMANCE OF THE GROUP

In order to facilitate understanding of the results for the period, an analysis of the balance sheet and economic performance at 31 December 2017 is provided below using statements reclassified on the basis of operational criteria.

4.1 RECLASSIFIED CONSOLIDATED BALANCE SHEET

4.1.1 ASSETS

The reclassified and consolidated **assets** of the CDP RETI Group at 31 December 2017 can be grouped into the following aggregates:

Assets

(million of euros)

Items	31/12/2017	31/12/2016
Property, plant and equipment	34,316	33,671
Intangible assets	7,877	7,753
Trade receivables	3,111	3,196
Other assets (1)	4,370	4,060
Cash and cash equivalents	2,754	1,272
TOTAL ASSETS	52,428	49,952

(*) The figures of the consolidated financial statements that are not represented in the reclassified Assets are included in Other assets.

At 31 December 2017, the total assets of the CDP RETI Group amounted to €52,428 million, +5% compared to 31 December 2016, and consisted mainly of “property, plant and equipment” (approximately 65% of the assets), referred mainly to SNAM (€16 billion) and TERNA (€12.8 billion), as well as of the impacts from the consolidation on the item under review (around €5.3 billion²³).

The increase of “property, plant and equipment” (+ €645 million; +2%) compared to 31 December 2016 is mostly due to the changes in SNAM (+ €470 million compared to 31 December 2016²⁴) and TERNA (+ €367 million compared to 31 December 2016), only partly offset by effects of PPA.

In detail, this change refers to investments of:

- SNAM (968 million, mainly in the transportation and storage sectors, respectively equal to 863 million and 96 million), also due the entry of Infrastrutture Trasporto Gas in the scope of consolidation;
- TERNA (994 million, of which 932 million referring to Regulated Activities),

net of related amortisation/depreciation (592 million for SNAM and 465 million for TERNA).

The item “Intangible assets”, mainly ascribable to ITALGAS's service concession agreements (€4.7 billion), analyzed in greater detail in the Notes to the financial statements, increased by €124 million, mainly due to ITALGAS (+190 million²⁵, mainly linked to service concession agreements) and SNAM (+39 million, of which 27 million related to goodwill recognised in the period²⁶), only partially offset by the effects of PPA and changes in TERNA.

²³ Effects linked to the PPA (*Purchase price allocation*) of SNAM, TERNA and ITALGAS

²⁴ SNAM's balance at the end of 2016 (€15,563 million) takes into account Italgas Reti's de-consolidation (€225 million) resulting from the loss of control. This amount, ascribable to ITALGAS, however, is part of the overall value of the consolidated financial statements of the CDP RETI Group, which, as mentioned in the premise, *de facto* controls ITALGAS pursuant to IFRS 10.

²⁵ Also due the effect of the changes in the scope of consolidation (60 million, net of the related accumulated amortisation and provision for impairment) associated with the acquisition of the equity investment in Enerco Distribuzione S.p.A. by Italgas Rete S.p.A..

²⁶ Subsequent to the acquisition by Edison of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A..

This item, moreover, includes goodwill (€861 million), which represents (i) the share (€781 million) recorded as a result of the allocation of the difference between the purchase price of the interests and the relevant net equity and (ii) CDP Reti Group's share of the goodwills posted in TERNA's, SNAM's and ITALGAS's consolidated financial statements.

"Trade receivables", -3% compared to the end of 2016, refer primarily (i) SNAM (1,274 million, net of the bad debt provision amounting to 140 million) and mainly referred to the transportation sector (1,042 million) and storage of natural gas (179 million), and (ii) TERNA (1,266 million, of which 746 for receivables for so-called "pass-through items"²⁷ pertaining to the activities performed by Terna S.p.A.). The decrease (-85 million) refers mainly to TERNA's reduction referring to pass-through energy.

"Other assets", up 8% versus 2016, pertain mainly to (i) the item equity investments (€1,746 million), valued at equity, mainly referring to SNAM's share in (ii) deferred tax assets (€703 million, of which €384 million referred to SNAM, €206 million to ITALGAS, €111 million to TERNA and €2 million to the Parent Company CDP RETI) recorded as at 31 December 2017, (iii) Non-current financial assets (€534 million, a large portion of which, amounting to 373 million, refers to the Shareholders' Loan granted to the associate Trans Adriatic Pipeline by SNAM²⁸), (iv) inventories - compulsory stock²⁹ (€363 million) of SNAM, and (v) current financial assets (359 million) mainly refers to a short-term investment of liquidity by SNAM.

Finally, "Cash and cash equivalents", mainly attributable to TERNA (€1,989 million, of which €1,490 million mainly deposited on bank current accounts and 500 million invested in short term and highly liquid deposits), SNAM (719 million, relating to a short-term investment of liquidity with a bank, repayable in less than three months) and parent Company (€44 million, almost exclusively held on a bank current accounts), show a significant increase by €1,482 million (+117%), as a result of the joint effect of the increase in TERNA (+€854 million) and SNAM (+€685 million), offset by the decrease in the parent Company CDP RETI (-€58 million).

For further details see the net financial debt sections contained in the paragraph "Sector performance".

4.1.2 LIABILITIES AND EQUITY

The reclassified and consolidated **liabilities and equity** of the CDP RETI Group at 31 December 2017 can be grouped into the following aggregates:

Equity and Liabilities

(million of euros)

Items	31/12/2017	31/12/2016
Long-term financial liabilities	26,358	21,477
- non-current (1)	24,150	19,563
- current (2)	2,208	1,914
Current financial liabilities	1,459	4,195
Trade payables	3,215	2,968
Other liabilities (3)	6,492	6,145
Equity	14,904	15,167
- attributable to the parent company CDP RETI	4,069	4,060
- attributable to minority interests	10,835	11,107
TOTAL LIABILITIES	52,428	49,952

(1) In consolidated financial statements: Loans

(2) In consolidated financial statements: Current portion of long-term loans

(3) The figures of the consolidated financial statements that are not represented in the reclassified Equity and Liabilities are included in Other liabilities

The Group's "Long-term financial liabilities" (loans and bond issues) up by €4,881 million (+23%), pertain to SNAM by approx. €11.2 billion (around 43%), to TERNA by approx. €9.8 billion (around 37%), to ITALGAS by approx. €3.6 billion and to CDP RETI by approx. €1.7 billion.

"Current financial liabilities", pertain mainly to SNAM (1,375 million), essentially for floating-rate credit facilities (1,358 million). The decrease (-€2,736 million; -65%) compared to 2016 refers primarily to ITALGAS as a result of the repayment of a loan taken out with a pool of banks (Bridge to Bond) for an original value of 2,300 million.

²⁷ TERNA manages cost and revenue items linked to power sales and purchase transactions perfected with electricity market operations: these are so-called "pass-through items", i.e. items that do not influence TERNA's profitability, as revenues are equal to costs. These items are regulated by AERA's resolutions.

²⁸ Pursuant to the agreements entered into, shareholders are required to fund the project, proportionate to their equity interests, until the pipeline becomes operational.

²⁹ Minimum quantities of natural gas that Storage Companies must hold pursuant to Decree of the President of the Italian Republic no. 22 of 31 January 2001.

For a greater detail of subsidiaries' net financial debt, see the dedicated "Sector trend" section.

"Trade payables", up by €247 million (+8%), pertain mainly to (i) TERNA (€2,498 million vs €2,281 million in 2016) and refer mainly to energy-related payables (€1,603 million, including payables for pass-through energy items; +€77 million compared to 2016) and payables for non-energy items (€874 million; +€139 million, mostly for major investment activities during the final period of 2017) and (ii) SNAM (€406 million vs €433 million in 2016) and mainly related to the transport (€315 million), storage (€29 million) and regassification (€3 million) of natural gas.

"Other liabilities", up by €347 million (+6%), pertain mainly to (i) deferred tax liabilities (€2,837 million vs. €2,978 million in 2016) posted to the financial statements at 31 December 2017, of which €1,859 million mainly from the PPA, (ii) other current liabilities (€1,626 million vs €1,230 million in 2016), mainly due to SNAM, and (iii) provisions for risks and charges (€1,152 million vs €1,176 million in 2016), of which €610 million (€628 million in 2016) of provisions for the decommissioning and remediation of sites purchased by SNAM for anticipated charges for the removal of buildings and the remediation of storage sites (502 million) and the transport of natural gas (106 million).

"Equity", down by around €263 million (-2%), despite benefitting from the income for the period (€1,661 million, of which €509 million for the Parent Company), takes into account (i) the amount of the 2016 dividends distributed in the by SNAM, TERNA and ITALGAS to third-party shareholders (around €798 million in total) and by the Parent Company CDP RETI to its own shareholders (€101 million), (ii) the 2017 interim dividend by the Parent Company CDP RETI to its own shareholders (324 million) and by TERNA and SNAM to third-party shareholders (around €308 million in total) (iii) the increase (€210 million; from 108 million to 318 million) of the negative Provision for treasury shares in the portfolio as a result of the purchase of no. 56,010,436 SNAM shares (equal to 1.6% of the share capital) as part of the share buyback programme started on 7 November 2016.

Of total equity, €4.1 billion is attributable to the parent company (substantially in line with 2016) and €10.8 billion to minority interests.

4.1.3 RECONCILIATION OF CONSOLIDATED EQUITY AND NET INCOME

The reclassified and consolidated liabilities and equity of the CDP RETI Group at 31 December 2017 can be grouped into the following aggregates:

RECONCILIATION OF CONSOLIDATED EQUITY AND NET INCOME

(million of euros)

Items	31/12/2017		
	Net income	Capital and reserves	Total
PARENT COMPANY FINANCIAL STATEMENTS	488	3,016	3,504
Balance from financial statements of fully consolidated companies	1,884	9,318	11,203
Consolidation adjustments:			
- Carrying amount of fully consolidated equity investments	-	(5,267)	(5,267)
- Dividends from fully consolidated companies	(479)	479	-
- Purchase price allocation	(192)	5,582	5,391
- Other adjustments	(40)	114	73
CONSOLIDATED FINANCIAL STATEMENTS	1,661	13,242	14,904
- attributable to the parent company CDP RETI	509	3,560	4,070
- attributable to minority interests	1,153	9,682	10,835

4.2 RECLASSIFIED CONSOLIDATED INCOME STATEMENT

The figures below refer to the CDP RETI Group, and specifically detail the contribution - in terms of operating margins³⁰ - of SNAM, TERNA and ITALGAS. In this regard, it should be noted that consolidation eliminations and adjustments have been highlighted separately.

The **reclassified consolidated income statement** of the CDP RETI group at 31 December 2017 is composed as follows:

Income Statement

(million of euros)

Items	31/12/2017	31/12/2016
Revenues from financial statement	6,338	5,986
- Revenues recognised following application of "IFRIC 12 Service Concession Arrangements" (*)	582	337
- Other Reclassifications (**)	17	16
Total revenues	5,738	5,634
Costs from financial statement (not included Depreciation and Amortization)	(1,962)	(1,806)
- Costs recognised following application of "IFRIC 12 Service Concession Arrangements" (*)	(582)	(337)
- Other Reclassifications (**)	(17)	(16)
Operating costs (not included Depreciation and Amortization)	(1,362)	(1,453)
EBITDA	4,376	4,180
EBITDA margin	76%	74%
- of which SNAM	35%	45%
- of which TERNA	28%	27%
- of which ITALGAS	14%	2%
Depreciation and Amortization	(1,801)	(1,738)
Operating profit (EBIT)	2,575	2,442
EBIT margin	45%	43%
- of which SNAM	23%	29%
- of which TERNA	19%	18%
- of which ITALGAS	7%	1%
- of which consolidation	-5%	-5%
Financial income/expense (including effects by equity method)	(292)	(620)
Taxes	(622)	(594)
Profit from continuing operations	1,661	1,229
NET INCOME	1,661	1,229
- for parent company	509	348
- for minority interests	1,152	881

(*) In Reclassified Income Statement, pursuant to IFRIC 12 "Service Concession Arrangements" are not included:

- (i) for ITALGAS revenues for the construction and upgrading of natural gas distribution infrastructures (480 million in 2017 and 62 million in 2016),
 - (ii) in relation to TERNA, revenues from construction of assets in concession activities (103 million in 2017 and 21 million in 2016);
 - (iii) with regard to SNAM, revenues for the construction and upgrading of natural gas distribution infrastructures (absent in 2017 and 254 million in 2016);
- these revenues are recognised in an amount equal to the costs incurred and are shown as a direct reduction of the respective cost items

(**) Other revenues recognised in an amount equal to the costs incurred and are shown as a direct reduction of the respective cost items and related to (i) net income from Energy Efficiency Certificates, (ii) security recoveries for the gas distribution service and (iii) other recharges

In 2017, the CDP RETI Group, in line with the previous financial year, achieved a positive result of €1,661 million (€509 million pertaining to the Parent Company), and an increase compared to 2016 result (net income of €1,229 million). The change (+€432 million; of which €161 million pertaining to the Parent Company) is due to the increase in operating margins

³⁰ The Parent CDP RETI, as a holding company, has almost no impact on the group's operating margins.

(EBITDA +€196 million; EBIT +€133 million) and the lower impact of net financial expenses³¹ (-€328 million), partially offset by higher taxes for the year (+€28 million).

With respect to sector trends, the CDP RETI Group's result was affected primarily by the higher contribution of the gas sector, of TERNA as well as the contribution of parent company CDP RETI (mainly due to higher revenues from tax consolidation).

For a more detailed understanding of the variances for the two periods at sector level, see the "Sector Trend" paragraph.

"Revenues" of the period, refer mainly to gas sector (approx. €3.6 billion) and to electricity dispatching and transmission sector (approx. €2.1 billion). The increase of 104 million (+2%) compared to 2016 is mainly due to TERNA mostly to revenues in regulated activities, an increase equal to €51 million resulting from the full payment of the Transmission tariff of the national transmission grid (NTG) acquired from the FSI Group at the end of 2015 (+66 million).

"Operating costs" - mostly related to gas sector (approx. 810 million) and to electricity dispatching and transmission sector (543 million) and mainly impacted by costs for services and staff costs - are in reduction compared to 2016 mainly for the minor costs in the gas sector, which derive from the impacts of SNAM's efficiency enhancing Plan.

"Earnings Before Interest, Taxes, Depreciation and Amortisation" (EBITDA), equal to €4,376 million (€4,180 million in 2016) and an increase (€ +196 million) compared to 2016, mainly benefited from the performance of the overall gas sector and the higher revenues achieved by TERNA. The EBITDA margin was 76% (74% in 2016). There was a contribution from SNAM of 35%, of TERNA equal to 28% and for the rest of ITALGAS.

The trend for the Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) and higher depreciation and amortisation and write-downs (1,801 million vs. 1,738 million in 2016, +63 million), mainly referable to (i) reduction of the useful life of traditional meters subject to the replacement plan, initiated by ITALGAS, with electronic ones, and (ii) entry into service of new SNAM and TERNA infrastructures, determined an "Earnings Before Interest and Taxes" (EBIT) of €2,575 million, an increase of €133 million (+5%) compared to €2,442 million in 2016; EBIT margin (ratio over Total Revenues) equal to 45% at 31 December 2017 (43% in 2016).

"Financial income (expense)" was negative by €292 million (€620 million in 2016), showing an improvement (of around 328 million; -53%) on the comparison period, driven mainly by (i) lower net financial charges in the overall gas sector, which benefited from a decrease in average borrowing costs/ decrease in average borrowing in the period and also from the effects of the optimisation actions implemented in 2016 and 2017, in particular the liability management transaction concluded in October 2016³² by Snam and the financing transactions concluded in the period; an improvement (approx. € 14 million) was also recorded for TERNA, mainly due to the re-financing of debt at more competitive interest rates.

Income "taxes", negative for €622 million (€594 million in 2016; +5%) pertain mainly to tax burden of SNAM, TERNA and ITALGAS, partially offset by the effects of deferred tax linked to Purchase price allocation and by the income from tax consolidation of the parent company.

Thanks to the above revenue items, 2017 closed with a "consolidated net income" of approx. €1,661 million (of which €509 million attributable to CDP RETI; €348 million in 2016), compared with figure of €1,229 million for 2016.

The net result for 2017 for CDP RETI's shareholders (€509 million profit) is ascribable to the net income of the Parent Company CDP RETI S.p.A. (€488 million) and the share of the financial results achieved by SNAM (€277 million net income), TERNA (€205 million net income) and ITALGAS (€88 million net income), net of the dividends of the period (€479 million) related to CDP RETI S.p.A. and other effects linked to the consolidation (including Purchase Price Allocation).

4.3 SECTOR TREND

The key income statement, balance sheet and cash flow data are shown below, based on the formats used by SNAM, TERNA and ITALGAS for their financial statements. For the reconciliation of the reclassified financial statements to statutory ones see Companies' documentation.

³¹ Including the effects of equity investments valued with the equity method.

³² Equal to €329 million (€233 million net of tax effects) following repurchase of debt securities on the market for a total book value of EUR 2.75 billion with an average coupon of around 3.3% and a residual maturity of around 3 years.

4.3.1 SNAM (GAS TRANSPORTATION, REGASSIFICATION AND STORAGE)

INTRODUCTION

In order to allow a better evaluation of the performance of the group and a greater comparability of data, Snam management has developed alternative measures of performance that are not required by the IFRS (Non-GAAP measures), represented mainly by the results in the adjusted and pro-forma adjusted configuration.

These results, in addition to excluding special items, because of the elements of discontinuity that have characterised the 2016 financial year and to a limited extent this period, reflect Italgas Group's contribution to continuing operations by applying the relevant participation quota, equal to 13.5%, to Italgas Group's net profit for the whole year.

SNAM Items (million of euros; %)	31/12/2017		31/12/2016	
	Reported (*)	Adjusted	Reported (*)	Pro-forma adjusted
Total Revenue	2,533	2,533	2,501	2,560
- of which regulated	2,434	2,434	2,444	2,444
Total Revenue - net of pass through items	2,441	2,441	2,356	2,415
Operating cost	(526)	(511)	(557)	(573)
Operating cost - net of pass through items	(434)	(419)	(412)	(728)
EBITDA	2,007	2,022	1,944	1,987
EBITDA margin	79%	80%	78%	78%
Depreciation and Amortization	(659)	(659)	(651)	(651)
EBIT	1,348	1,363	1,293	1,336
EBIT margin	53%	54%	52%	52%
Net financial expense	(283)	(227)	(510)	(263)
Income from equity investments	161	150	116	135
Earning before taxes	1,226	1,286	899	1,208
Taxes	(329)	(346)	(308)	(363)
Net income (**)	897	940	591	845
Net Income - discontinued operations (**)	N/A	N/A	270	N/A
Net Income of the Group	897	940	861	845

(*) From the income statement in the legally required format

(**) Entirely attributable to Snam shareholders

TOTAL REVENUES

Total revenues at 31 December 2017 amounted to €2,533 million, in reduction of €27 million (1.1% compared to 2016).

Net of components offset in costs, total revenues amounted to €2,441 million, +26 million, or 1.1% compared with the same period of previous year. The increase is attributable mainly to the higher regulated revenues (+43 million; +1.9%) resulting from continual investments and the higher volumes of gas entering the network, partly offset by the decrease in unregulated revenues (-17 million; -14.7%), chiefly due to lower revenues from services supplied to the Italgas Group.

The revenue regulated (€2,434 million), net of components offset in costs, amounted to €2,342 million, and related to transport (€1,889 million), storage (€435 million) and re-gasification (€18 million).

EARNINGS BEFORE INTEREST AND TAX ADJUSTED (EBIT ADJUSTED)

The **adjusted earnings before interest and tax** amounted to €1,363 million, an increase of €27 million (+2.0%) compared with 2016, mainly reflects to higher revenues to the transportation segment (+€27 million) and the reduction in operating costs (+€9 million), only partially offset by the increase in amortization and depreciation of the period (-8 million) essentially resulting from new infrastructures coming into service.

In terms of business sectors, the increase in adjusted EBIT reflects transportation sector results (+2.6%; +€27 million).

NET INCOME ADJUSTED

Adjusted net income was €940 million, an increase of €95 million (+11%) compared with 2016. The increase, in addition to higher EBIT is mainly due (i) to lower net financial expense (+13.7%; +36 million) which was mainly attributable to the reduction in average debt costs and the decrease in average borrowing in the period, (ii) to net income from equity investments of companies valued using the equity method (+€15 million) and (iii) to lower income taxes (+17 million) due above all to the reduction of the IRES tax rate (from 27.5% to 24.0%) from 1 January 2017.

RECONCILIATION OF NET INCOME ADJUSTED TO THE REPORTED NET INCOME

The income components are classified by SNAM Group under special items, if significant, when: (i) they result from non-recurring events or transactions or from transactions or events which do not occur frequently in the ordinary course of business; or (ii) they result from events or transactions which are not representative of the normal course of business.

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion.

Income items classified under "special items" in 2017 refer to: (i) financial expenses arising from bonds repurchased on the market by Snam in October 2017 as part of the Liability management transaction (56 million; 43 million net of the related tax effect); (ii) expenses recognised under "staff costs" associated with the "Isopensione" early retirement scheme governed by Art. 4, paragraph 1-7 of Law No. 92/2012 (15 million, including exit incentives; 11 million net of the related tax effect); and (iii) income from the lump sum adjustment of deferred taxes of the investee TIGF (11 million).

Items

(million of euros)	31/12/2017	31/12/2016
Shareholders' Equity attributable to the parent company	6,188	6,497
Shareholders' equity including minority interests	6,188	6,497
Net financial debt	11,550	11,056
Net cash flow for the period	685	17
Technical investments (***)	1,034	906

(***) The figure for 2016 relates to continuing operations

EQUITY

The reduction in **equity Group** amounted to €309 million compared to 31 December 2016 and mainly reflects (i) the effects of the 2016 dividend distribution (€718 million) and 2017 interim dividend (€294 million) approved by BoD of Snam S.p.A. in November 2017, (ii) the increase (€210 million) related to the negative reserve for treasury shares following the acquisition – during 2017 - of 56,010,436 Snam shares carried out as part of the share buyback programme approved by Shareholders' Meeting on 11 April 2017³³, only partially offset by net income of the period (€897 million).

At 31 December 2017 Snam held 85,915,616 treasury shares (29,905,180 at 31 December 2016) equal to 2.45% of the share capital, bought for a total of €318 million (€108 million as at 31 December 2016).

NET FINANCIAL DEBT

Net financial debt, after the 2016 dividend payment (718 million) and the treasury share acquisition (210 million), posted an increase of €494 million compared to 31 December 2016 (€11,550 million vs €11,056 million), consisted almost entirely of:

- bonds for €8,672 million (inclusive of the current portion), an increase of €1,062 million compared to the end of 2016, mainly due to the issuing of bond loans, involving: (i) a bond loan of a nominal amount of €500 million, issued on 25 January 2017 at a fixed rate; (ii) a variable rate bond loan³⁴ for a nominal amount of €300 million, issued on 21 February 2017; (iii) an interest-free convertible bond loan³⁵ for a nominal value of €400 million, issued on 20 March; (iv) a variable rate bond³⁶ issued on 2 August 2017 for a nominal amount of 350 million; (v) a fixed rate bond for a nominal amount of 650 million, issued on 25 October 2017, with maturity on 25 October 2027.

These effects were partly offset by the repayment of a bond loan due on 30 June 2017 for a nominal amount of €506 million and the repurchase of fixed rate bonds on the market for an overall nominal value of 607 million, with an

³³ Upon cancellation of its previous resolution adopted on 1 August 2016 to authorise the purchase of own shares for a maximum sum of 500,000,000 euro, the Shareholders' Meeting subsequently authorised the purchase of own shares in one or more tranches over a maximum period of 18 months.

³⁴ The above-mentioned floating rate bond loan was converted to a fixed rate one through an Interest Rate Swap agreement (IRS).

³⁵ The bond loan became convertible following the resolution of the Shareholders' Meeting of 11 April 2017.

³⁶ The variable rate bond is converted into a fixed rate bond by means of an interest rate swap (IRS) derivative.

average coupon rate of around 2.5% and a residual maturity of around 4.4 years. The bonds were repurchased as part of the Liability Management transaction concluded in October 2017 and the total disbursement to repurchase the securities was around 656 million.

- Bank loans for €3,931 million (inclusive of current portion), up by approx. €483 million, due essentially to the Term Loan taken out with a bank for a nominal amount of 500 million and another bank loan funded by the European Investment Bank for a nominal amount of 310 million.

The net cash flow from operations (€1,864 million), allowed to fully cover the financial requirements associated with investments (1,441 million) and also generate a free cash flow³⁷ of €423 million.

At 31 December 2017 cash and cash equivalents amounted to €719 million (€34 million at the end of 2016) and mainly referred to a short-term investment of liquidity with a bank of high credit standing, repayable in less than three months (300 million) and a bank deposit (395 million).

TECHNICAL INVESTMENTS

Technical investments for 2017 amounted to €1,034 million (€906 million in 2016) and mainly referred for €917 million (776 million in 2016) to transportation and for €101 million (117 million in 2016) to natural gas storage.

PROPOSED DIVIDEND

The Net Income 2017 for the parent company Snam S.p.A. totals 677 million, a 84 million reduction, equal to 11%, in respect to the fiscal year 2016 (€761 million) mainly due to lower net revenue from shares (-44 million principally deriving from the dividends distributed by subsidiaries and total €731 million compared to €809 million in 2016).

The Board of Directors will propose to Shareholder's Meeting, convened on 29 April 2018, the distribution of a total **dividend** for 2017 of €21.55 cent per share (€21 cent per share in 2016), of which €8.62 cent per share already paid in January 2018 as 2018 interim dividend.

³⁷ The cash surplus or deficit left over after servicing capital expenditure.

4.3.2 TERNA (ELECTRICITY DISPATCHING AND TRANSMISSION SECTOR)

TERNA			31/12/2017	31/12/2016
Items				
Total revenue	(million of euros)		2,248	2,103
- of which regulated	(million of euros)		1,946	1,895
EBITDA	(million of euros)		1,604	1,545
EBITDA margin	(%)		71%	73%
EBIT	(million of euros)		1,077	1,036
EBIT margin	(%)		48%	49%
Net income	(million of euros)		694	628
Net income of the Group	(million of euros)		688	633

Items		31/12/2017	31/12/2016
Shareholders' Equity attributable to the parent company	(million of euros)	3,803	3,535
Shareholders' equity including minority interests	(million of euros)	3,829	3,555
Net financial debt	(million of euros)	(7,796)	(7,976)
Net cash flow for the period	(million of euros)	854	704
Technical investments	(million of euros)	1,034	854

TOTAL REVENUES

TERNA's total revenues at 31 December 2017 amounted to €2,248 million³⁸ (a €145 million increase, of approx. 7%, vs 2016), mainly due to an improvement in regulated activities (+51 million), resulting from the full payment of the Transmission tariff of the national transmission grid (NTG) acquired from the FSI Group at the end of 2015 and from revenues from International Activities, which increased by €88 million (mainly due to investments linked to activities under concession in Brazil).

Revenues referred primarily CTR³⁹ revenues related to the Parent Company Terna S.p.A. for 1,675 million and to Rete S.r.l. for 129 million. The increase in revenues from the transmission service (+69 million) chiefly reflects the increase in the amount payable to the national transmission grid (NTG) acquired at the end of 2015 from the FSI Group (+66 million), whose remuneration in the comparison period only covered operating costs.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

Higher revenues (+145 million), as mentioned mainly due to the contribution from regulated activities and international activities, partially offset by the increase (i) in operating costs (+86 million, mainly due to the development of business activities in South America, especially Brazil) and (ii) in depreciation and impairment (+18 million, mainly due to the entry into service of new plants), resulting in an Earnings before interest and tax equal to €1,077 million, an increase both in absolute terms (+41 million) and in percentage terms (+4%) compared to 2016, with the EBIT margin slightly down on the previous period (48% vs 49%).

NET INCOME

Net Income, in addition to EBIT, benefits from lower net financial expense (-14 million, chiefly owing to the re-financing of debt at more competitive interest rates, also in view of the general reduction in market rates in 2017) and from the lower (-11 million) tax burden for the period (294 million vs 305 million in 2016), mainly due to the lowering of the IRES tax rate⁴⁰.

³⁸ Amount gross of the revenues from constructing assets under a concession regime (adjustments related to the application of IFRIC 12).

³⁹ Remuneration recognized for the use of the national transmission grid by electricity distributors.

⁴⁰ In 2015, the Stability Law (Italian Law no. 208 of 28 December 2015) introduced the reduction of the IRES (Corporate Income Tax) rate (art. 1 paragraphs 61- 64), effective in 2017, from 27.5% to 24%.

The **Net income** amounted to 694 million (almost entirely pertaining to the group), an increase of 66 million (+11%) compared with 2016.

EQUITY

The increase in equity Group (+274 million) was mainly due to the result for the period (approx. €694 million), only partially offset by the distribution of the 2016 ordinary dividend (€ 269 million) and 2017 interim dividend (€ 149 million) authorised by the Board of Directors of Terna S.p.A. on 10 November 2017 (at a rate of €0.074263 per share and paid out starting from 22 November 2017).

The other changes are mainly related to comprehensive income and in particular to the effects of adjustments at fair value of the hedging derivatives (+6 million) and the exchange rate differences arising from the translation of financial statements in currencies other than the euro (-7 million).

NET FINANCIAL DEBT

Net financial debt, down of €180 million over 31 December 2016 (€7,796 million vs €7,976 million), mainly as a result of operating cash generation and consisted mainly of:

- Bonds (€7,292 million, of which 750 million with maturity in 2018), an increase of approx. €101 million mainly due to the combined effect of the redemption of the Bond (-770 million) on 17 February 2017 and the bond issue on 26 July 2017 for 1,000.0 million, net of the amortised cost adjustment made to the financial instruments;
- Long-term loans (€2,264 million of which 132 with a maturity in 2018), mainly relating to financial payables due to EIB (approx. €1,488) and CDP (€500 million), show an increase of €146 linked to the new EIB loan, net of repayments in the period;
- Cash and cash equivalents for approx. €1,989 million (+854 million over the end of 2016), of which € 500 million invested in short term and highly liquid deposits and € 1,489 million deposited in current bank accounts.

TECHNICAL INVESTMENTS

Technical investments for the period amounted to €1,034 million (€854 million in 2016; +21%) and referred for €994 million to property, plant and equipment (specifically, to transport lines for €645 million and to transformation systems for €308 million) and for €40 million to intangible assets. Approximately 93% (€958 million) of total investments were investments from Regulated activities i.e. remunerated by ARERA. It is particularly worth noting the strategic investments related to activities in progress for the construction of the "Italy-Montenegro" (213 million) and "Italy-France" (63 million).

PROPOSED DIVIDEND

The Parent Company Terna S.p.A. posted net income for the year of 640 million, up by €105 million with respect to net income for 2016 (+19.6%).

The Board of Directors will propose to the Shareholders' Meeting convened on May 4, 2018 (i) the approval of a total **dividend** for the 2017 financial year of € 22 cents per share (20.6 cent in 2016), (ii) the distribution – net of the ordinary interim dividend related to financial year 2017 of € 7.4263 cents per share already payable from November 22, 2017 – of the remaining € 14.5737 cents per share, before any withholdings by law, to be payable from June 20, 2018.

4.3.3 ITALGAS (GAS DISTRIBUTION)

INTRODUCTION

On 7 November 2016, the transaction to hive off 100% of the equity investment in Italgas Reti, which was transferred from Snam to Italgas. Since this date, Italgas has therefore had direct control of Italgas Reti and indirect control of Napoletanagas (99.69%) - merged into Italgas Reti as of 1 October 2017 - and ACAM Gas. Under IFRS 10, said companies are subject to consolidation by the parent company ITALGAS.

In this regard, please note that the 2017 figures of the "consolidated" income statement are compared below with the 2016 figures, which include the balances of Italgas from 1 June 2016 to 31 December 2016 and the balances of the operating companies from 7 November 2016 to 31 December 2016.

Reclassified income statement

Items	31/12/2017	01/06 - 31/12/2016
(million of euros)		
Regulated Revenue Gas Distribution	1,097	187
Other Revenue	27	9
Total Revenue (*)	1,124	196
Operating Costs (*)	(348)	(90)
EBITDA	(358)	106
Depreciation and Amortization	(358)	(77)
EBIT	418	29
Net financial expense	(36)	(123)
Income from equity investments	23	3
Earning (loss) before taxes	405	(91)
Taxes	(112)	18
Net Income (loss) (**)	293	(72)

(*) Net of the effects of IFRIC 12 "Service Concession Arrangements" (480 and 62 million euros respectively in 2017 and in the period between 1 June 2016 and 31 December 2016) and other items relating to (i) net revenue from Energy Efficiency Certificates, (ii) penal security recoveries for the gas distribution service and (iii) other recharges

(**) Net income is attributable to Italgas.

In order to enable a homogeneous comparison between the Italgas Group data for 2017 and the corresponding figures of 2016, the data and figures of the previous period are shown and commented on below, with reference to the aggregate composed of Italgas S.p.A., from the date of its establishment (1 June 2016), and the companies Italgas Reti S.p.A., Napoletanagas S.p.A. and ACAM Gas S.p.A. from 1 January 2016.

ITALGAS

Items		31/12/2017	31/12/2016
Total revenue (*)	(million of euros)	1,124	1,078
- of which regulated	(million of euros)	1,097	1,051
EBITDA	(million of euros)	781	684
EBIT margin	(%)	0	0
Net income (*)	(million of euros)	296	221

(*) Net of the effects of IFRIC 12 "Concession Service Arrangements" (€ 480 and € 316 million respectively in 2017 and other items relating to (i) net revenue from Energy Efficiency Certificates, (ii) penal security recoveries for the gas distribution service and (iii) other recharges

(*) Net income is attributable to Italgas.

Items		31/12/2017	31/12/2016
Shareholders' Equity attributable to the parent company	(million of euros)	1,186	1,063
Shareholders' equity including minority interests	(million of euros)	1,186	1,064
Net financial debt	(million of euros)	(3,720)	(3,617)
Net cash flow for the period	(million of euros)	1	0
Technical investments	(million of euros)	522	378

TOTAL REVENUES

ITALGAS's total revenues at 31 December 2017 amounted to €1,124 million (+€46 compared to 2016) and refer to gas distribution regulated revenue (€1,097 million) and Other revenue (€27 million, referring essentially to water activities, services to third parties and rental income); the most significant annual transport volumes were those relative to the activities performed for ENI S.p.A.

The increase in gas distribution regulated revenue amounted to €46 million, broken down as follows: (i) higher distribution revenue⁴¹ (+€22 million) due to tariff components (+€11 million) and tariff adjustments concerning previous periods (+€12 million); (ii) higher other gas distribution regulated revenue (€+24 million), essentially related to the contribution ex art. 57 of the Resolution ARERA no. 367/14 (+€19 million), as regards the plan of investments for the replacement of the traditional meters with electronic smart ones, as well as higher revenue from ancillary network services and other regulated revenue (+€5 million).

Regulated revenues amounted to 98% of the total revenues.

EARNING BEFORE INTEREST AND TAX ADJUSTED (EBIT ADJUSTED)

Higher revenues (+46 million) analyzed before and the reduction in operating cost of the period (-51 million), mainly due to lower costs for services following a substantial reduction in services received from Snam (-€18 million), lower net provisions for risks and future expenses (-€18 million) and lower net costs related to Energy Efficiency Certificates (-€15 million), allow to absorb the increase in amortization and depreciation (+33 million, following a reduction in the useful life of the traditional meters, subject to the plan for replacement with electronic smart meters, as set out in the ARERA resolutions, as part of the plan for implementing remote meter reading), resulting in an earnings before interest and tax equal to 423 million, an increase both in absolute terms (+64 million) and in change percentage (+18%) with respect to the first half of 2016, with a percentage terms (so-called EBIT margin) in increase with the compared period (38% vs 33%).

NET INCOME ADJUSTED

In addition to the growth in operating profit, the net result was affected by the positive impact from lower net financial expenses (-12 million) mainly as a result of lower expenses related to financial indebtedness and lower financial expenses (-5 million) connected to the discounting of environmental provisions.

These factors were partially offset by higher income taxes (+4 million), due primarily to the increase in the tax base, only partially offset to positive effects in relation to the reduction in the IRES rate from 27.5% to 24%

Net income adjusted amounted to 296 million, an increase of 75 million (+34%) compared to 2016.

RECONCILIATION OF NET INCOME ADJUSTED TO THE REPORTED NET INCOME

The income items are classified by the ITALGAS group among special items, if material, when: (i) they derive from non-recurring events or transactions or from those transactions or facts that are not frequently repeated in ordinary business conditions; or (ii) they derive from extraordinary business events or transactions.

The tax effects correlated with the items excluded from the calculation of adjusted net income are determined based on the nature of each excluded income item component.

The 2017 income items classified as special items included: (i) accruals the provision for exit incentives (5 million; 4 million net of tax effects)

The 2016 income items classified as special items included: (i) accruals the provision for exit incentives (15 million; 10 million net of tax effects); (ii) costs associated with the spin-off transaction and with the listing (8 million; 6 million net of tax effects); (iii) financial expenses deriving from the early repayment of the outstanding loans from the former parent company Snam (119 million; 86 million net of tax effects).

EQUITY

The **equity** attributable to the Group at 31 December 2017 (1,186 million) is composed mainly of share capital (1,001 million), the legal reserve (200 million) and the share premium account (620 million), partly reduced by the consolidation reserve⁴² (-324 million) and by the reserve for business combinations under common control (-350 million⁴³).

⁴¹ Transportation of natural gas for all commercial operators that request access to the distribution companies' networks based on the Network Code (the relationship between the distribution companies and the sales companies is governed by a specific document named "Network Code", which defines the services supplied by the distributor).

⁴² Difference between the acquisition cost of the stake in Italgas Reti S.p.A. (2,967 million) and the group's net equity on the date the transaction was finalized and the price adjustment of the value of the stake in ItalgasReti

⁴³ Recorded subsequent to the purchase by Snam S.p.a. of 38.87% of the stake in Italgas Reti S.p.A., equal to the difference between the consideration for the purchase (€1,503 million) and the carrying amounts of equity investment (€1.153 in continuity of carrying amounts with respect to SNAM).

The change during the period of the **equity attributable to the Group** (approx. +122 million) is mainly due to 2016 dividend distribution (€162 million) resolved by The Shareholders' Meeting on 28 April 2017 (at a rate of €0.20 per share and paid out starting from 24 May 2017), offset by Net income of the period (293 million).

NET FINANCIAL DEBT

Net Financial Debt, equal to 3.720 million (3.617 as at 31 December 2016), an increase of 103 million, is mainly made up of:

- current financial liabilities⁴⁴ (106 million), a decrease of €2,590 million is mainly attributable to the repayment of a bridge to bond syndicate loan for an original amount of 2,300 million (this repayment was made possible thanks to the issuing of bond loans) and to the lower use of credit facilities (-321 million); the extinction of the Bridge to Bond was made possible thanks to the issue of bond loans;
- long-term financial payables (3,617 million), an increase of 2,694 million essentially attributable to the bond issue⁴⁵ which replaced the short-term bank loans mentioned above, and to the new EIB loan taken out on 28 December 2017, for a sum of 360 million, concurrent with the early repayment of another EIB loan for 300 million.

Fixed rate financial liabilities (equal to 0 as at 31 December 2016) stood at 2,652 million and refer to the issuing of bond loans. Floating rate financial liabilities totalled €1,071 million and fell by €2,548 compared with 31 December 2016 mainly as a result of the issuing bond loans.

At 31 December 2017, cash and cash equivalents amounted to 3 million (2 million as at 31 December 2016) and the unused committed long-term credit lines amounting to 1.1 billion.

TECHNICAL INVESTMENTS

Technical investments for the period amounted to 522 million and regard in particular the replacement of traditional meters with smart meters: 1.66 million have been installed.

PROPOSED DIVIDEND

During the year, the parent company Italgas S.p.A. posted net income of 174 million (in line with 2016; €177 million), mainly as a result of dividend income (197 million; 190 million in 2016) distributed by the subsidiary Italgas Reti S.p.A.

The Board of Directors will propose to Shareholders' Meeting, convened on 19 April 2018, the distribution of a total **dividend** for 2017 equal to 20.8 cents per share (20 cents in 2016 distribution), to be paid as from 23 May 2018.

⁴⁴ These include the short-term portions of long-term financial debt.

⁴⁵ During 2017, bonds were issued for a total of 2,650 million with the following characteristics: (i) 1,500 million, subdivided in two tranches, the first at 5 years and the second at 10 years, both with fixed rate, for an amount of 750 million each and an annual coupon of 0.50% and 1.625%, respectively; (ii) 650 million issued on 14 March 2017, with maturity on the 14 March 2024 and annual coupon at a fixed rate of 1.125%; (iii) 500 million issued on 18 September 2017, with maturity on 18 January 2029 and annual coupon at a fixed rate of 1.625%.

4.4 CONSOLIDATED NET FINANCIAL DEBT

The **consolidated net financial position** at 30 June 2017, prepared in accordance with ESMA⁴⁶/2015/1415 Guidelines on Alternative Performance Measures applicable from 3 July 2016, compared with the end of 2016, is composed as follows:

CONSOLIDATED NET FINANCIAL DEBT

(million of euros)

Items	31/12/2017	31/12/2016
A. Cash (1)	1	1
B. Cash equivalent (1)	2,754	1,272
C. Trading securities	-	-
D. Liquidity (A)+(B)+(C)	2,755	1,273
E. Current Financial Receivable (2)	359	11
F. Current Bank debt (5)	1,557	4,183
G. Current portion of non current debt (3)	1,988	1,770
H. Other current financial debt (2) (5) (6)	116	125
I. Current Financial Debt (F)+(G)+(H)	3,661	6,078
J. Net Current Financial Indebtedness (I)-(E)-(D)	547	4,794
K. Non current Bank loans (4)	5,679	4,580
L. Bond Issued (4)	17,549	14,145
M. Other non current loans (4) (6) (7)	933	508
N. Non current Financial Indebtedness (K)+(L)+(M)	24,161	19,233
O. Net Financial Indebtedness (J)+(N)	24,709	24,027

In the consolidated balance sheet :

- (1) Cash and cash equivalents
- (2) Current financial assets
- (3) Current portion of long-term loans
- (4) Loans
- (5) Current financial liabilities
- (6) Non-current financial assets
- (7) Other financial liabilities

Consolidated Net Financial Debt showed a balance €24,709 million attributable to SNAM for €11,550 million, to TERNA for €7,796 million, to ITALGAS for €3,720 million and to the Parent Company CDP RETI for €1,642 million.

For further details about the item under review, see the Sector Trend (for subsidiaries SNAM, TERNA and ITALGAS) and the Parent Company's Report on Operations.

⁴⁶ European Securities and Market Authority.

5. OUTLOOK - PROSPECTS FOR 2018

The constant monitoring of the most effective financial structure of **parent company CDP RETI** has been confirmed in 2018, with a view to optimising said structure in terms of duration and exposure to interest rates. At the same time, activities connected with the implementation of a new organisational structure and the final introduction of the new configuration will continue during 2018.

In terms of operations, in the first half of 2018, the distribution is expected from the subsidiaries of the balance of the 2017 profit, which will offset the payment of the final 2017 dividend to CDP RETI's shareholders, as well as the financial expenses related to the outstanding bond and loans.

In general terms, the group's activities are expected to continue without change in the current sectors of interest (i.e. electricity and gas).

Regarding **SNAM**, current estimates suggests that demand for natural gas in the five-year period 2017 - 2021 will remain more or less unchanged from 2017 levels. In terms of future prospects, SNAM shall invest approximately €5.2 billion in the period 2017-2021 of which €1 billion in 2017, to expand the national network and integrate it with foreign markets, besides for the maintenance of infrastructure. The plan provides for the upgrade of the transport network, thus allowing the completion of the objective to achieve reverse flow capacity towards other European countries and also receive new gas flows from the Caspian region through the TAP pipeline.

Regarding **TERNA**, it is confirmed the engagement in the coming months in implementing the provisions of the 2018-2028 Strategic Plan approved by the Board on March 21, 2018. Rapid technological developments are expected in the electricity sector, which will reduce costs and improve the performance of renewable energy sources and storage systems and provide new opportunities to digitise the system and the network and introduce more efficient systems, technologies and solutions.

With specific reference to the National Transmission Grid, over the next 5 years, activities for an overall value of around 5.3 billion will be completed, increasing by around 30% compared to the past. In 2018, investments are expected to total around 0,9 billion. Among the key electricity infrastructure projects currently underway, the interconnections with Montenegro and France, due to enter into service in 2019, are particularly important.

With reference to Non-Regulated and International Activities, Terna plans to consolidate its position as an Energy Solution Provider and the continuation of the implementation of existing projects in Uruguay, Brazil and Peru.

Regarding **ITALGAS**, finally, it will continue to pursue its strategic objectives, focusing on making investments, streamlining processes and operating costs and optimising the financial structure.

With specific regard to technical investments in tangible and intangible fixed assets, in 2018, Italgas is estimating, considering the same area, an expenditure substantially in line with the figure of the previous year, aimed primarily at maintaining and developing the managed networks, to implementing the ambitious plan for the installation of electronic smart meters, within the scope of the meter-reading activity as well as the completion of the new networks being built.

In addition, in line with the objectives of the Strategic Plan, after the acquisition, in December 2017, of 100% of Enerco Distribuzione S.p.A., it is expected that in 2018 additional initiatives for the development of external lines, which will enable the strengthening of the territorial presence and the competitiveness of Italgas in view of the calls for tender, will be carried out.

Italgas intends to continue to increase its operating efficiency through the implementation of the program for cost reduction and the improvement of the processes and services.

Finally, in 2018, the activities aimed at optimising the financial structure of the Italgas Group, extending the average maturity of payables.

6. SIGNIFICANT EVENTS AFTER 31 DECEMBER 2017

With respect to **parent company** and to the main events of after the end of the year, these include, as already noted, the receipt on 24 January 2017 of the 2017 interim dividend from SNAM of approx. 91 million.

No other significant events have occurred after 31 December 2017 that could affect the financial position and operating performance.

SNAM

- **Joint acquisition by Snam and Fluxys of a 33.5% share of Interconnector UK**

Completed on 12 March 2018, SNAM and Fluxys acquired a share equal to 33.5% held by the Caisse de dépôt et placement du Québec (CDPQ) in Interconnector UK, the company which owns the bi-directional gas pipeline, which connects the United Kingdom to Belgium and the rest of Europe.

Through joint ventures, Gasbridge 1 BV and Gasbridge 2 BV, Fluxys and Snam have agreed to proportionally exercise their pre-emptive rights on the shares held by CDPQ. The total value of the transaction amounts to about GDP 75 million.

Downstream of the finalisation of the equity transfer, Fluxys and Snam have become the sole shareholders of Interconnector UK, passing respectively to 76.32% and to 23.68% of the share capital, as a confirmation of their full support to the company in its new phase of development.

- **Agreement to acquire a controlling interest in TEP Energy Solution (TEP)**

On 23 February 2018 SNAM entered into an agreement to acquire a controlling interest (82%) in TEP Energy Solution (TEP), one of the leading Italian companies in the energy efficiency sector, certified as an Energy Service Company (Esco). The agreement is based on an enterprise value relating to 100% of TEP, equivalent to 21 million euro.

Price adjustments will be made based on performance over the next three financial years and there will be put and call options, to be exercised within 2020.

The acquisition falls within the company's strategic plans to promote decarbonisation and better use of energy in the areas in which it operates.

The closing of the transaction is expected within September 2018 and is subject to obtaining authorisation from the Italian Antitrust Authority.

- **Private placement January 2018**

Within the framework of the Euro Medium Term Notes (EMTN) program approved by the Board of Directors on 6 October 2017, Snam S.p.A. on 22nd January 2018 completed a private placement with primary institutional investors for a total amount of € 350 million, with a duration of 2 years and variable yield equal to 3-month Euribor plus 0.15%.

With the aforementioned issue, Snam continues to optimize its debt structure and continuously improve the cost of capital, in line with its objectives.

TERNA

- **Closing of the acquisition of a 70% interest in a New.Co.**

The closing of the acquisition of a 70% interest in a New.Co. was signed on 15 February 2018, as provided in the agreement signed on 10 October 2017 by Terna via its subsidiary Terna Plus, which now holds the main assets of Avvenia, a leading company in the energy efficiency sector, certified as an Energy Service Company (Esco).

- **ARERA Resolution on output-based incentives**

On 8 March 2018, ARERA published Resolution 129/2018 "Urgent measures relating to output-based incentives for the transmission service. Amendments to the provisions governing the recognition of highrisk projects", which has introduced a series of measures applicable to Terna, including: incentives for the resolution of congestion between internal zones and on interconnections, by investing up to €150 million in new transmission capacity in the period 2019-2023; incentives for development of the grid with the aim of resolving congestion within zones, constraints on the grid affecting voltage regulation and the provision of essential services (the general criteria for quantifying the incentives are based on the expected benefits in terms of potential savings on the DSM as a result

of the above projects, whilst definition of the detailed criteria will be dealt with in a later resolution); the reinstatement of the return on work in progress (calculated by assuming a WACC with a debt-to-equity ratio of four) for highly complex and risky projects with a duration of over 3 years (between obtaining the necessary consents and entry into service) and when expenditure has not already exceeded 50%. The resolution puts off measures regarding other incentives relating to the following issues until later resolutions: grants from grid operators and overseas entities; additional measures designed to improve efficiency, promote market integration and security of supply and support the related research activities; the implementation of initiatives aimed at fostering stakeholder capabilities and building awareness among local authorities of the benefits of infrastructure.

- **2018-2022 Business Plan.**

The 2018-2022 Business Plan was approved on 21 March, which moreover expected a new dividend policy over the period 2018-2022. From 2018 to 2020 dividend per share is expected at an average annual growth rate of 6% compared to the dividend for the year 2017. For 2021 and 2022 a payout of 75% is expected, with a minimum guaranteed dividend equal to the dividend pertaining to the year 2020.

ITALGAS

- On 1 January 2018, the **Company Italgas Acqua** was **established** from the proportional partial spin-off of Italgas Reti in favour of the new company through an assignment to the latter of the so-called “former Napoletanagas water unit”.
- On 26 January 2018, the **business unit Amalfitana Gas**, concerning the distribution activities of natural gas in three ATEMs (minimum geographical areas) in Campania and Basilicata, was **acquired**. The value of the transaction amounted to 21 million.
- The reopening, achieved by Italgas on 30 January 2018, for €250 million of the bond issue originally released on 18 September 2017 (€500 million, maturing 18 January 2029 with a coupon of 1.625%)
- The **acquisition** of the **business unit of AEnergia Reti** related to the distribution network for the Municipality of Portopalo di Capopassero (Siracusa) was concluded on 31 January 2018.
- On 28 February 2018, **100% of the share capital** of the company **Ichnusa Gas** was **acquired**. This is a holding of 12 companies, which in turn controls as many concessions for the construction and operations of gas distribution networks in 81 municipalities of Sardinia.
- The **projects for the merger by incorporation** of ACAM Gas into Italgas Reti were approved, with accounting effectiveness on 1 January 2018.

7. OTHER INFORMATION

APPROVAL OF THE FINANCIAL STATEMENTS

The Shareholders' Meeting to approve the financial statements, as provided for by Article 10.4 of the bylaws of CDP RETI S.p.A., shall be called within 180 days of the close of the financial year.

The use of that time limit rather than the ordinary limit of 120 days from the close of the financial year, permitted under Article 2364, paragraph 2, of the Italian Civil Code, is justified by the fact that the Company is required to prepare consolidated financial statements⁴⁷.

RELATED-PARTY RELATIONS

Details regarding relations with subsidiaries, associates, parents and the companies controlled by them, can be found in the consolidated accounts, and in particular to the section "Related-party transactions".

With particular regard to CDP RETI, the transactions concluded in the period, with exception to the SNAM and ITALGAS transfers (see the specific section "Significant event in 2017"), cannot be classed as atypical or unusual⁴⁸ since they are part of normal operations. Such transactions are settled at market rates, taking into account the features of the services rendered.

During 2017, the aforementioned transactions regarded mainly accounts with the parent company Cassa depositi e prestiti in relation to:

- 1) an interest-bearing deposit account;
- 2) a share custody and administration agreement;
- 3) service agreements for support activities;
- 4) derivative contracts;
- 5) loans;
- 6) receivables from tax consolidation

in addition to the receivable from SNAM for the 2017 interim dividend.

TREASURY SHARES

The parent company CDP RETI does not hold, and has not acquired and/or disposed of, shares or ownership interests in parent companies during the course of 2017, either directly or through trusts or intermediaries.

⁴⁷ Since its debt securities are traded in a public market, CDP RETI S.p.A does not meet the requirements provided for by IFRS 10 - Consolidated Financial Statements for exemption from preparing consolidated financial statements. Moreover, CDP RETI's Articles of Association call for the preparation and approval by the Board of Directors of consolidated financial statements (within 120 days after the reporting date) and of the half-yearly report (within 90 days after 30 June of each period).

⁴⁸ In accordance with Consob Communication DEM/6064293 of 28 July 2006, atypical and/or unusual transactions means "those transactions which, through their significance/importance, the nature of the counterparties, the purposes of the transaction, the procedures for determining the transfer price and the timing of the event (proximity to the closure of the financial year) may give rise to doubts concerning: the accuracy/completeness of the information in the financial statements, conflicts of interest, protecting the company assets, protecting minority shareholders".

At 31 December 2017, SNAM held 85,915,616 treasury shares (29,905,180 as at 31 December 2016), corresponding to 2.45% of share capital, bought for a total of €318 million (€108 million as at 31 December 2016) and entered as a reduction of shareholders' equity.

The acquisition of 84,788,366 Snam shares (equal to 2.42% of the share capital), for a cost of €313 million, was carried out as part of the share buyback programme launched by Snam on 7 November 2016.

The market value of the treasury shares at 31 December 2017, calculated by multiplying the number of treasury shares on such date by the official price at year end of €4.0859 per share, amounted to about €351 million.

The 2017-2019 Long-term share-based incentive plan approved by the Ordinary Shareholders' Meeting on 11 April 2017, involves (if the underlying conditions of the plan are satisfied) the free granting of a maximum number of treasury shares for each tax year of the plan. For more details refer to the "Significant Events in 2017 by sectors / companies".

TERNA does not hold and has not bought or sold (including indirectly) any treasury shares, shares in CDP RETI S.p.A. or in Cassa depositi e prestiti S.p.A. during 2017.

ITALGAS does not hold and has not bought or sold (including indirectly) any treasury shares, shares in CDP RETI S.p.A. or in Cassa depositi e prestiti S.p.A. 2017.

PERFORMANCE OF SNAM, TERNA AND ITALGAS SHARES

Key share price data		SNAM		TERNA		ITALGAS	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Items							
Number of outstanding shares at the end of the period	(million of euros)	3,415	3,471	2,010	2,010	809	809
Official period-end price	(euros)	4.09	3.92	4.88	4.36	5.11	3.73
Market capitalization (1)	(million of euros)	13,953	13,612	9,802	8,764	4,135	3,019
CDP RETI Number of shares	(millions of euros)	1,054	1,014	600	600	211	203
Book Value for CDP RETI	(million of euros)	3,087	2,931	1,315	1,315	621	589
Market capitalization for CDP RETI (2)	(million of euros)	4,305	3,977	2,926	2,616	1,077	757
Maximum official price per share	(euros)	4.49	4.55	5.31	5.08	5.33	3.97
Minimum official price per share	(euros)	3.53	3.45	4.06	3.87	3.51	3.12
Average official price per share	(euros)	4.04	4.10	4.81	4.66	4.50	3.47
Official price at period end (3)	(euros)	4.09	3.92	4.88	4.36	5.11	3.73
Closing price at period end (4)	(euros)	4.08	3.91	4.84	4.35	5.09	3.74

(1) Product of the number of outstanding shares (price number) for the official price per share at period end.

(2) Product of CDP RETI number of shares for the average official price per share.

(3) Average price, weighted for the relevant quantities, of all contracts concluded during the day.

(4) Price at which contracts are concluded at the closing auction.

The **SNAM** share ended 2017 with an official price of €4.09, +4% over the price of €3.92 recorded at the end of the previous year, with an all-time high of €4.49 on 7 November 2017 and a minimum of €3.53 on 30 January 2017. The closing price amounted to €4.08.

In 2017, a total of approx. 2.4 billion shares were traded on the Italian Electronic Stock Exchange, with an average daily trading volume of 9.6 million shares.

Market capitalisation at 31 December 2017 amounted to 13,953 million.

The **TERNA** share ended 2017 with an official price of €4.88, +12% over the price of €4.36 recorded at the end of the previous year, with an all-time high of €5.31 on 14 November 2017 and a minimum of €4.06 on 30 January 2017. The closing price amounted to €4.84.

In 2017, a total of approx. 1.5 billion shares were traded on the Italian Electronic Stock Exchange, with an average daily trading volume of 6 million shares.

Market capitalisation at 31 December 2017 amounted to 9,802 million.

The **ITALGAS** share ended 2017 with an official price of €5.11, +37% over the price of €3.73 recorded at the end of the previous year, with an all-time high of €5.33 on 8 December 2017 and a minimum of €3.51 on 30 January 2017. The closing price amounted to €5.09.

In 2017, a total of approx. 0.6 billion shares were traded on the Italian Electronic Stock Exchange, with an average daily trading volume of 2.3 million shares.

Market capitalisation at 31 December 2017 amounted to 4,135 million.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Parent Company, in view of the nature of the activity performed, does not carry out any R&D activity.

CONSOLIDATED NON-FINANCIAL DISCLOSURE FOR 2017

Legislative Decree no. 254 of 30 December 2016, in application of EU Directive 2014/95/EU, introduced in Italian legislation the obligation for certain public entities⁴⁹ to draw up a non-financial disclosure for each financial year. The non-financial disclosure contains data and information which are relevant in relation to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

Pursuant to Article 6 (1) of Legislative Decree no. 254 of 30 December 2016, the Non-Financial Disclosure has not been prepared by the Company, as it is drawn up by the Parent Company CDP S.p.A. (parent company subject to the same obligations) with registered office in via Goito 4 – 00185 Rome.

SECONDARY OFFICES

In compliance with the provisions of Article 2428, paragraph 4, of the Italian Civil Code, it is noted that, starting from 1 July 2015, the Parent Company has had a secondary office in Via Versilia, 2 (00187 Rome).

HEALTH AND SAFETY

Health and Safety: At 31 December 2017 the parent company CDP RETI ended the obligations imposed by Legislative Decree no. 81/2008 (Consolidated Law on Occupational Health and Safety) both to comply with legal requirements as well as for the purposes of improvement of the process of development of the company culture and knowledge and awareness of the centrality of occupational safety. In this context, the documents provided for by law were prepared, in order to map the business risks and put in place the preventive measures; to such effect, the Risk Assessment Document (RAD, document with aims to make a global and documented assessment of all risks to the health and safety related to the company). In addition, during the year, CDP RETI subscribed, together with the other CDP Group companies with employees at the building located in Via Versilia 2, to the integrated Emergency and Evacuation Plan (fire safety and risk assessment plan with regard to workplaces) for that building. CDP RETI S.p.A., moreover, as at 31 December 2017, had all the figures required by Legislative Decree 81/2008; some of these, such as the Employer, the Workers' Safety Representative and the Emergency and First Aid Officers are in-house, whereas others, such as the Health and Safety Manager and the Company Doctor were identified outside the company. Finally, in accordance with the Consolidated Act mentioned above, staff undergo training courses.

During 2017 no occupational accidents were recorded.

⁴⁹ In this sense, the obligation applies to "public-interest entities" (Italian companies issuing securities admitted to trading on regulated Italian and EU markets, banks, insurance and reinsurance companies) with a workforce in excess of 500 employees and a balance sheet total of at least €20 million or total net revenues of at least €40 million from sales and supply of services.

8. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI PURSUANT TO ARTICLE 123-BIS.2 B) OF THE CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION (TUF)

KEY CHARACTERISTICS OF THE RISK AND INTERNAL CONTROL MANAGEMENT SYSTEMS WITH REGARD TO THE FINANCIAL REPORTING PROCESS

The CDP RETI Group is aware that financial reporting plays a central role in establishing and maintaining positive relationships between the Company and its stakeholders. The internal control system, which oversees the Company's reporting processes, is set up – including at Group level – in such a way as to ensure that information is reliable, accurate and timely, in compliance with the applicable accounting standards.

The Company's control system is structured to comply with the model adopted in the CoSO Report⁵⁰ and is subdivided into five components (control environment, risk assessment, control activity, information and communications, and monitoring) which, depending to their characteristics, operate at the organizational unit and/or operating/administrative process level. In line with the model, the controls are monitored on a periodic basis in order to assess their operational effectiveness and efficiency over time.

The control model is based on an initial company-wide analysis of the control system in order to verify that the environment is, generally speaking, organised to reduce the risk of error or improper conduct with regard to the disclosure of accounting and financial information. This analysis is undertaken by verifying the presence of appropriate elements, ranging from adequate governance systems to ethical and an appropriate risk management policy etc.

At the process level, the approach consists of an assessment phase to identify specific risks which, if the risk event were to occur, might prevent the rapid and accurate identification, measurement, processing and representation of corporate events in the accounts. This process involves the development of risk and control association matrices that are used to analyse processes on the basis of their risk profiles and the associated control activities.

The process level analysis is structured as follows:

- an initial phase identifies risks and defines control objectives in order to mitigate those risks;
- a second phase regards identification and evaluation of controls by: (i) identifying the type of control; (ii) evaluating the potential effectiveness of the control activity in risk mitigation terms; (iii) assessment/presence of control record; (iv) formulation of an overall judgement by correlating the control's potential effectiveness and the traceability of the control; (v) identification of key controls;
- the third phase consists of identifying areas of improvement regarding the control: (i) traceability of the control; (ii) design of the control.

Monitoring the effective operation of the control system is another key component of the CoSO Report; this activity is carried out on a regular basis, addressing the periods covered by the reporting.

The CDP RETI monitoring phase is structured as follows:

- sampling of items for testing;
- test execution;
- weighting of any anomalies detected, and an associated assessment.

Within the CDP RETI Group, the Board of Directors and Board of Auditors are periodically informed of assessments of the internal control system and on the results of tests carried out, in addition to any shortfalls emerging and the initiatives taken for their resolution.

To enable the Financial Reporting Manager and the administrative bodies delegated by the Parent Company to issue the certification pursuant to Article 154-bis of the Consolidated Law on Financial Intermediation, a flow of information to the Financial Reporting Manager of the Parent Company was established, comprising the intra-Group "chain" certification system.

⁵⁰ Committee of Sponsoring Organisations of the Treadway Commission.

INDEPENDENT AUDITORS

CDP RETI's financial statements are audited by PricewaterhouseCoopers S.p.A. ("PwC"). During the course of the financial year, the independent auditors are responsible for verifying that the Company keeps its accounts properly and that it appropriately records events that occur during the year in the Company's accounts. Furthermore, the independent auditors check that the individual and consolidated financial statements are consistent with the records in the accounts and audits conducted, and that these documents comply with applicable regulations.

The independent auditors issue an opinion on the individual and consolidated financial statements, and on the half-year interim report. The independent auditors are appointed by the Shareholders' Meeting in ordinary session, acting on a reasoned proposal put forward by the control body.

The current independent auditors were appointed in execution of a resolution of the June 2015 Shareholders' Meeting, which engaged that firm to audit the financial statements and accounts for the 2015 - 2023 period.

MANAGER RESPONSIBLE FOR THE PREPARATION OF THE COMPANY'S FINANCIAL REPORTS

As noted, following the bond issue in May 2015 listed on the Irish Stock Exchange, CDP RETI acquired the status of listed Issuer with Italy as Member State of origin and, therefore, was required, pursuant to Art. 154 – bis of the Consolidated Financial Act, to appoint a Financial Reporting Manager.

For more information on the experience requirements and methods for appointing and substituting the Financial Reporting Manager, the provisions of Article 19.13 of CDP RETI's Articles of Association are reported below.

Article 19.13 CDP RETI Articles of Association:

The board of directors appoints, subject to the prior favorable opinion of the board of statutory auditors, for a term not lower than the term of office of the same board and not higher than six fiscal years, the manager responsible for the preparation of the corporate accounting documents who shall carry out the tasks and activities provided by art. 154-bis of legislative decree 24 February 1998, n. 58. The manager responsible for the preparation of the corporate accounting documents must possess the requisites of honorability prescribed for directors and cannot hold the offices listed in Paragraph 15.11 of the By-Laws⁵¹. The manager responsible for the preparation of the corporate accounting documents must be chosen based on criteria of professionalism and competence among persons who have at least three-year experience in the administrative area of companies, consulting firms or professional firms. The manager responsible for the preparation of the corporate accounting documents may be revoked by the board of directors, subject to prior consultation with the board of statutory auditors, only for just cause. The manager responsible for the preparation of the corporate accounting documents automatically ceases from office in the absence of the requisites prescribed for the office. The forfeiture is declared by the board of directors within thirty days from the knowledge of the lack of requisites.

In order to ensure that the Manager in charge with preparing the Company's financial reports has resources and powers commensurate with the nature and complexity of the activities to be performed and with the size of the Company, and to ensure that such manager is able to perform the duties of the position, including in relations with other corporate bodies, in June 2017 the Board of Directors approved the "Internal Rules for the Function of the Manager in charge with preparing the Company's financial reports".

Briefly, the Manager in charge with preparing the Company's financial reports is required to certify, jointly with the Chief Executive Officer and through a specific report attached to the financial statements for the year, the consolidated financial statements and the half-yearly report:

- the adequacy and the actual application of the administrative and accounting procedures for the preparation of the condensed half-yearly report, the Parent Company financial statements and the consolidated financial statements;
- the compliance of the documents with IFRS;
- the matching of the documents with the accounting books and records;
- that the documents are suitable to provide a true and fair view of the financial position, performance and cash flows of the issuer and the companies included in the scope of consolidation;
- the reliability of the content of the report on operations and the interim report on operations.

The Manager in charge with preparing the Company's financial reports informs without delay the Board of Statutory Auditors about possible anomalies, deficiencies and critical issues regarding the administrative/accounting system, when deemed to be particularly relevant. Moreover, upon request of the Board of Statutory Auditors, he/she provides information and assistance by taking part in the meeting of the Board when invited.

He/she liaises with the Independent auditors with a view to ensuring constant dialogue and exchange of information concerning the assessment and the effectiveness of the controls on administrative and accounting processes.

The Manager in charge with preparing the Company's financial reports is supported by the Internal Auditing function in periodic testing activities aimed at assessing the actual application and adequacy of the controls included in the

⁵¹ Not entitled to hold any office in the management or control bodies, or management positions, in Eni S.p.A. and its subsidiaries, nor to have any direct or indirect relationship of a professional or economic nature with these companies.

administrative and accounting procedures, and/or in specific test plans, for the preparation of the Parent Company financial statements, the consolidated financial statements and the half-yearly report.

INSIDER REGISTER

During 2017, CDP RETI established the “Register of persons with access to CDP RETI inside information” (hereinafter the “Register”) in compliance with the requirements of European Regulation no. 596/2014 (and the related implementing regulations), which includes the reference regulatory framework concerning market abuse.

The Register - established by CDP RETI in its capacity as issuer of debt securities listed on regulated markets - lists the persons who, owing to their position or the duties that they perform on a regular or occasional basis, have access to inside information directly or indirectly concerning CDP RETI or the related financial instruments. The Register is divided into separate sections, one for each piece of inside information. A new section is added to the Register every time a new piece of inside information is identified. Each section of the Register only reports the details of the people with access to the inside information contemplated in the section. The Register is computerised and password protected, and the notes pertaining to each section are in chronological order. Each note is tracked and cannot be changed.

Establishment and Management of the Register are governed by internal CDP RETI rules also establishing the regulations and procedures for keeping and updating the Register.

CODE OF CONDUCT

CDP RETI, also with reference to its vision in terms of social and environmental responsibility, has adopted specific rules of conduct by transposition of the “Code of Ethics of Cassa Depositi e Prestiti S.p.A. and of Companies subject to management and coordination”.

The Code of Ethics has the objective of declaring and disseminating the values and rules of conduct which the Company intends to refer to in the exercise of its business activities and governs the set of rights, duties and responsibilities that the Company expressly takes vis-a-vis the stakeholders with which it interacts in the course of its activities.

The set of ethical principles and values expressed in the Code of Ethics must underlie the activity of all those who in any way act in the interests of the Company.

INTERNAL AUDIT MANAGER

Having received the opinion of the Board of Statutory Auditors, upon the proposal of the CEO and in agreement with the Chairman, the Board of Directors appoints the Internal Audit Manager. The Internal Auditor Manager’s appointment is open-ended and may be revoked by the Board of Directors.

The Company’s Board of Directors, under the outsourcing of certain services agreements with CDP, including internal auditing service, has appointed starting from 20 March 2017 the CDP RETI Internal Audit Manager, figure belonging to the parent CDP S.p.A. (“CDP”) Chief Audit Officer area.

As part of CDP RETI organizational structure, the Internal Audit Manager is not responsible for any particular operational area, and has direct access to all information that is useful for carrying out his duties and performs fully independent audit activities in accordance with guidelines from the Board of Directors.

His main tasks include:

- the test, both on a continual basis and in relation to specific requirements the functioning and suitability of the internal control and risk management system via an audit schedule, approved by the Board of Directors;
- preparation of periodic reports containing appropriate information on his work, on how risks. These reports contain an evaluation of the suitability of the internal control and risk management system;
- preparation of reports on events of particular importance.

The Internal Audit Manager submits the reports to the Chairpersons of the Board of Statutory Auditors and the Board of Directors, as well as to CEO and to Financial Manager.

On 15 September 2017, the Board of Directors approved the 2017 Audit Plan for the review and assessment of the adequacy and effectiveness of the systems, processes, procedures and control mechanisms of CDP RETI.

SHAREHOLDERS' AGREEMENT IN RESPECT OF ITALGAS SHARES

On 20 October 2016, CDP RETI S.p.A. ("CDP RETI"), CDP Gas S.r.l. ("CDP Gas") and SNAM S.p.A. ("SNAM") signed a shareholders' agreement ("Italgas Shareholders' Agreement") in respect of all the shares which each of them would hold in Italgas S.p.A. subsequent to and starting from the effective date of the partial and proportional spin-off of SNAM into Italgas and the concurrent listing of Italgas shares on the stock exchange, i.e. from 7 November 2016 (Effective Date of the Spin-off). The Italgas Shareholders' Agreement, which came into effect on the Effective Date of the Spin-off, governs, inter alia: the exercise of voting rights conferred by shares tied to the shareholders' agreement; (ii) the set-up of an advisory committee; (iii) the obligations and the methods of presentation of joint lists for the appointment of the Company's Board of Directors; and (iv) restrictions on the sale and purchase of Italgas shares.

The merger by incorporation of CDP Gas into CDP became effective on 1 May 2017. As of that date, CDP became the owner of the Italgas shares⁵² previously owned by CDP Gas and replaced CDP Gas in the Italgas Shareholders' Agreement for all intents and purposes.

On 19 May 2017, CDP transferred to CDP RETI, amongst others, the entire equity investment held by CDP in Italgas⁵³ as a result of the aforesaid merger, equal to 7,840,127 ordinary shares, representing 0.969% of the Italgas share capital with voting rights. As a result of the foregoing transfer: (i) the total number of Italgas shares held by CDP RETI - and locked into the Italgas Shareholders' Agreement by CDP RETI - increased to 210,738,424 ordinary shares, representing 26.045% of the Italgas share capital with voting rights, and (ii) CDP ceased to be a party to the Italgas Shareholders' Agreement, which continues in full force and effect only between CDP RETI and SNAM.

The total number of shares tied to the Italgas Shareholders' Agreement has not changed and remains equal to 319,971,717 ordinary shares, representing 39.545% of the Italgas share capital with voting rights.

No amendments have been made to the individual provisions of the Italgas Shareholders' Agreement.

The main provisions of the Italgas Shareholders' Agreement are provided below:

- an Advisory Committee (Consultation Committee) is established, comprising five members, of whom four will represent CDP RETI (3 members nominated by Cdp and 1 by State Grid Europe Ltd, henceforth, "SGEL") and one SNAM. The Advisory Committee will resolve through simple majority on the exercise of voting rights relating to ITALGAS shares owned by the parties to the Italgas Shareholders' Agreement. The parties to the Italgas Shareholders' Agreement shall cast their votes, by majority vote in proportion to their shares in ITALGAS, on the basis of what is resolved by the Advisory Committee, except for the rights of SNAM relating to Reserved Matters (as defined below);
- in relation to certain resolutions of ITALGAS with an extraordinary nature (the "Reserved Matters")⁵⁴, should the Advisory Committee adopt resolutions with a vote against by the representative designated by SNAM, and the ITALGAS shareholders approve the related Reserved Matter, SNAM shall be able to: (i) sell to potential third-party purchasers its entire equity investment in ITALGAS (in this case CDP RETI shall have a pre-emption right to the equity investment and shall have a right of approval (non mero) concerning the third-party purchaser⁵⁵, it being understood that the third party must enter into the Italgas Shareholders' Agreement instead of SNAM); and (ii) if no sale of the stake occurs within 12 months, to withdraw from the Italgas Shareholders' Agreement resulting in the cancellation of the latter;
- SNAM shall not be able to increase or sell off its equity investment in ITALGAS (the "SNAM Equity Investment") in pieces without affecting the transfer of the entire equity investment, under certain conditions, to entities controlled by SNAM. SNAM may, at any time, sell its equity investment only in its entirety and in compliance with the following rules: (i) CDP RETI shall have a preferential purchase right to this equity investment and not only the right of approval concerning a third-party purchaser⁵⁶, and (ii) the third party must enter into the Italgas Shareholders' Agreement on the same terms and conditions as SNAM; and
- CDP RETI and other parties associated with it shall not be able to acquire additional shares or other financial instruments of ITALGAS only if: (i) these actions will be conferred in the Italgas Shareholders' Agreement, and (ii)

⁵² As described in more detail in the following paragraph, the effects of said transaction apply also to the Snam shares owned by CDP Gas.

⁵³ As described in more detail in the following paragraph, the effects of said transaction apply also to the Snam shares owned by CDP.

⁵⁴ The aforementioned Reserved Matters shall be: (i) capital increases with exclusion or limitation of the option right of shareholders for a total amount exceeding 20% of the shareholders' equity of ITALGAS; (ii) mergers or demergers for a total amount exceeding 20% of the shareholders' equity of Italgas; (iii) wind-up or liquidation of Italgas.

⁵⁵ CDP RETI will be able to reject its option solely for one of the following reasons:

a) the third-party purchaser is a direct competitor of ITALGAS and/or ITALGAS RETI in the Italian territory; and/or
 b) the third-party purchaser is a direct competitor of ITALGAS and/or ITALGAS RETI in the Italian territory; and/or
 c) the third-party purchaser hails from a country against which there are restrictions on free exchange adopted by the competent international organizations; and/or
 d) the purchase of the SNAM equity investment by the third-party purchaser is in violation of the applicable laws; and/or
 e) the Third-Party Purchaser does not have specified size requirements; and/or
 f) conclusion of the potential transaction with the third-party purchaser or the third-party purchaser's adoption of the Shareholders' Agreement generates an obligation for the third-party purchaser, singly or jointly with CDP RETI and CDP GAS, to promote a mandatory initial public offering on the remaining ITALGAS shares.

⁵⁶ See previous note.

these acquisitions would not result in the crossing of the relevant thresholds for the purposes of the rules on the obligation of a public tender offer. In addition, CDP RETI shall not be able to sell the ITALGAS shares that it holds, if the total equity investment attributable to the Italgas Shareholders' Agreement would fall below 30%.

Furthermore, the Italgas Shareholders' Agreement shall provide that CDP RETI and SNAM present a joint list for appointment to the ITALGAS Board of Directors in order to ensure that SNAM designates one candidate and CDP RETI designates the remaining candidates (1 of which will be appointed by SGEL), including the CEO and the chairman, on the assumption that this list would come out first by number of votes obtained in the ITALGAS Shareholders' Meeting.

The Italgas Shareholders' Agreement contains provisions that, subject to the Company's admission to trading the shares, will be relevant pursuant to Art. 122 (1 and 5) Consolidated finance act and, therefore, may be deemed a voting and lock-up agreement. The Italgas Shareholders' Agreement will therefore be subject to the communication obligations provided for by art. 122(1) Consolidated finance act and the associated implementation provisions.

The governance of ITALGAS provides that: (i) the Board of Directors, which will hold office for a period of three years from the appointment (including the year of the appointment) comprises nine members, of whom eight, including the Chairman and CEO, shall be designated by CDP RETI (one shall be designated by SGEL) and one director shall be designated by SNAM. The Board of Directors comprises four independent directors, whereas (ii) after the first renewal, the Board of Directors shall comprise nine members, of whom seven shall be drawn from the first list by number of votes and two shall be drawn from the minority lists, using a proportional mechanism (quotients).

The Italgas Shareholders' Agreement has a term of three years, renewable on expiry for an additional three years in the event SNAM or CDP RETI do not indicate an intention to renew with a notice period of 12 months. Where SNAM indicates its intention not to renew, CDP RETI may exercise a purchase option on the SNAM Equity Investment at fair market value within 9 (nine) months from notification of withdrawal from the Italgas Shareholders' Agreement.

For further details, see the key information published on the Italgas website in relation to the Italgas Shareholders' Agreement.

SHAREHOLDERS' AGREEMENT IN RESPECT OF CDP RETI, SNAM, TERNA AND ITALGAS SHARES

Cdp, SGEL and State Grid International Development Limited⁵⁷ (henceforth, "SGID") were locked into the Shareholders' Agreement entered into when a stake of 35% in CDP RETI was transferred to SGEL on 27 November 2014 ("SGEL Shareholders' Agreement"). Cdp and SGEL made, to the SGEL Shareholders' Agreement, their equity interest participations in the Cdp overall representative networks of 94.10% of the share capital. CDP RETI is a holding company that, at the signing date of the SGEL Shareholders' Agreement, owned equity interests in SNAM and Terna S.p.A. ("TERNA").

The SGEL Shareholders' Agreement provides SGEL with governance rights in order to protect its own investment in CDP RETI. In detail, it contains provisions on the exercise of voting rights and clauses restricting the transfer of shares pursuant to article 122, paragraph 1 and paragraph 5, letter b) of the Consolidated Finance Act, as well as provisions relating to the governance of CDP RETI, SNAM, TERNA and Italgas.

A summary of the amendments made to the SGEL Shareholders' Agreement over time is provided below.

- A) On 19 December 2014, CDP finalised the transfer to SNAM of the equity interest in TRANS AUSTRIA GASLEITUNG GmbH ("TAG"), which it held via CDP GAS S.r.l. ("CDP GAS"). The transaction was linked to an increase in the share capital of SNAM reserved to CDP GAS, which was paid up by means of the transfer of the aforementioned equity interest by CDP GAS (which consequently became the holder of 119,000,000.00 ordinary shares of SNAM, equal to a stake of 3.4% in SNAM's share capital). As a result, CDP RETI's stake in SNAM, albeit consisting of 1,014,491,489 shares, was no longer equivalent to 30.00% of SNAM's share capital but represented around 28.98% as of 19 December 2014.
- B) Successively, on 7 November 2016, (i) a spin-off was finalised to transfer SNAM's stake in Italgas RETI S.p.A. to Italgas S.p.A. and, concomitantly, (ii) the Italgas shares were officially listed on the stock exchange. As a result of the foregoing transaction, CDP RETI became the holder of a 25.076% interest in the share capital of Italgas. Consequently, in order to: a) reflect the new corporate structure of the group headed by CDP RETI; b) extend the applicability of the provisions of the SGEL Shareholders' Agreement also to the new investee Italgas, and c) align the provisions of the SGEL Shareholders' Agreement with the provisions of the Italgas Shareholders' Agreement (with particular regard to the Advisory Committee), CDP, SGEL and SGID amended and supplemented the

⁵⁷ State Grid International Development Limited owns the entire capital of SGEL.

provisions of the SGEL Shareholders' Agreement with effect from 7 November 2016.

- C) To conclude, the merger by incorporation of CDP GAS into CDP became effective on 1 May 2017 and, as of that date, CDP is the owner of the SNAM and Italgas shares previously owned by CDP Gas and replaced CDP Gas in the Italgas Shareholders' Agreement for all intents and purposes. On 19 May 2017, CDP therefore transferred to CDP RETI the entire stake in Italgas (0.969% of Italgas share capital) and the entire stake in SNAM (1.120% of SNAM share capital), which it held subsequent to and as an effect of the aforementioned merger by incorporation of CDP GAS (which was not tied to the SGEL Shareholders' Agreement).

In light of all of the above, it should be noted that:

(i) pursuant to and with effect from the date of transfer to CDP RETI of CDP's equity interest in Italgas, equal to 7,840,127 ordinary shares (representing 0.969% of the Italgas share capital with voting rights), the total number of Italgas shares owned by CDP RETI and locked into the SGEL Shareholders' Agreement by it - and, hence, the total number of Italgas shares tied to the SGEL Shareholders' Agreement - has increased to a total of 210,738,424 ordinary shares of Italgas, representing 26.045% of the Italgas share capital with voting rights; and

(ii) pursuant to and with effect from the date of transfer to CDP RETI of CDP's equity interest in SNAM, equal to 39,200,638 ordinary shares (representing 1.120% of the Italgas share capital with voting rights), the total number of SNAM shares owned by CDP RETI and locked into the SGEL Shareholders' Agreement by it - and, hence, the total number of SNAM shares tied to the SGEL Shareholders' Agreement - has increased to a total of 1,053,692,127 ordinary shares of SNAM, representing 30.100% of the SNAM share capital with voting rights; and

(iii) the number of TERNA shares tied to the SGEL Shareholders' Agreement has not changed and is equal to 599,999,999 ordinary shares, held by CDP RETI, representing 29.851% of the TERNA share capital with voting rights.

The SGEL Shareholders' Agreement has a term of three years from the signing date and is automatically renewed for a further term of three years, unless terminated by one of the parties.

For further details, see the key information published in relation to the SGEL Shareholders' Agreement on the websites of the investees SNAM, TERNA and Italgas.

2. 2017 Consolidated financial statements

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements at 31 december 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and consist of:

- Consolidated balance sheet
- Consolidated income statement
- Statement of consolidated comprehensive income
- Statement of changes in consolidated equity
- Statement of consolidated cash flow
- Notes to consolidated financial statements

The notes to the consolidated financial statements consist of:

- Introduction
- I - Basis of presentation and accounting policies
- II - Notes to the consolidated statement of financial position
- III - Notes to the consolidated income statement
- IV - Business combinations
- V - Transactions with related parties
- VI - Financial risk management
- VII - Share-based payments
- VIII - Segment reporting
- IX - Guarantees and commitments

Furthermore, they are accompanied by:

- Annexes
- Declarations pursuant to article 154 – bis of Legislative decree no. 58/98
- Independent Auditors report

The “Annexes”, which are an integral part of the consolidated financial statements, include the consolidation scope.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

CONSOLIDATED BALANCE SHEET ASSETS

(thousands of euros)

Consolidated assets items	Notes	31/12/2017	of wich from related parties	31/12/2016	of wich from related parties
NON-CURRENT ASSETS					
Property, plant and equipment	1	34,315,593	-	33,671,296	35,800
Inventories - compulsory stock	2	362,713	-	362,713	-
Intangible assets	3	7,877,371	-	7,753,465	-
Equity investments	4	1,745,916	-	1,704,111	-
Non-current financial assets	5	533,683	372,961	576,306	213,386
Deferred tax assets	6	702,974	-	703,973	-
Other non-current assets	7	145,557	23,400	174,824	-
Total non-current assets		45,683,807	396,361	44,946,688	249,186
Non-current assets held for sale	8	11	-	24,949	-
CURRENT ASSETS					
Current financial assets	9	358,812	8,477	42,097	10,990
Income tax receivables	10	62,289	-	96,445	-
Trade receivables	11	3,111,453	1,060,651	3,196,327	989,167
Inventories	12	123,367	-	161,035	-
Other current assets	13	333,732	40,246	211,994	6,365
Cash and cash equivalents	14	2,754,368	1	1,272,421	1
Total current assets		6,744,021	1,109,375	4,980,319	1,006,523
TOTAL ASSETS		52,427,839	1,505,736	49,951,956	1,255,709

CONSOLIDATED BALANCE SHEET LIABILITIES

(thousands of euro)					
Consolidated liabilities and equity items	Notes	31 st 12/2017	of wich from related parties	31 st 12/2016	of wich from related parties
EQUITY	15				
Share capital		162		162	
Issue premium		1,315,158		1,315,158	
Retained earnings		561,194		643,520	
Other reserves		2,029,921		2,026,664	
Valuation reserves		(22,587)		(20,915)	
Interim dividend		(324,000)		(253,000)	
Net income for the year (+/-)		508,715		348,275	
Group equity	15 a	4,068,563		4,059,864	
Non-controlling interests	15 b	10,834,570		11,106,928	
Total Equity		14,903,133		15,166,792	
NON-CURRENT LIABILITIES					
Provisions	16	1,151,629	-	1,175,988	-
Provisions for employee benefits	17	254,537	-	268,293	-
Loans	18	24,150,456	1,258,329	19,562,974	1,174,907
Other financial liabilities	19	29,827	8,415	24,407	11,588
Deferred tax liabilities	20	2,837,431	-	2,978,417	-
Other non-current liabilities	21	587,675	-	451,747	-
Total non-current liabilities		29,011,555	1,266,744	24,461,826	1,186,495
Liabilities directly associated with non-current assets held for sale	22	-	-	5,970	-
CURRENT LIABILITIES					
Short-term loans and current portion of long-term loans	23	2,208,302	4,133	1,913,766	22,047
Trade payables	24	3,214,570	198,586	2,967,793	218,303
Income tax liabilities	25	4,575	-	11,169	-
Current financial liabilities	26	1,459,479	16,828	4,194,878	-
Other current liabilities	27	1,626,225	1,702	1,229,762	2
Total current liabilities		8,513,151	221,249	10,317,368	240,352
TOTAL LIABILITIES AND EQUITY		52,427,839	1,487,993	49,951,956	1,426,847

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

Consolidated income statement items	Notes	31/12/2017	of wich from related parties	31/12/2016	of wich from related parties
REVENUES					
Revenues from sales and services	28	6,187,018	3,905,432	5,786,324	3,917,312
Other revenues and income	29	150,611	24,746	200,055	45,700
Total revenues		6,337,629	3,930,178	5,986,379	3,963,012
OPERATING COSTS					
Raw materials and consumables used	30	(336,844)	(5,511)	(222,950)	(29,000)
Services	31	(776,254)	(78,766)	(753,261)	(110,704)
Staff costs	32	(675,199)	(2,672)	(640,191)	(56)
Amortisation, depreciation and impairment	33	(1,801,231)	-	(1,738,326)	-
Other operating costs	34	(173,355)	(7,428)	(189,537)	(6,000)
Total costs		(3,762,883)	(94,377)	(3,544,265)	(145,760)
OPERATING PROFIT		2,574,746	3,835,801	2,442,114	3,817,252
FINANCIAL INCOME (EXPENSE)					
Financial income	35	59,892	5,271	96,167	2,022
Borrowing expenses	36	(498,344)	(19,222)	(861,350)	(14,050)
Portion of income (expenses) from equity investments valued with the equity method	37	147,308	-	145,596	-
Total financial income (expense)		(291,144)	(13,951)	(619,587)	(12,028)
INCOME BEFORE TAXES		2,283,602	3,821,850	1,822,527	3,805,224
Taxes for the period	38	(622,280)	-	(593,562)	-
NET INCOME FROM CONTINUOUS OPERATIONS		1,661,322	3,821,850	1,228,965	3,805,224
Net income from discontinued operations	39	-	-	-	-
NET INCOME		1,661,322	3,821,850	1,228,965	3,805,224
- for the Group		508,715		348,275	
- for non-controlling interests		1,152,607		880,690	

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(thousands of euros)

Items/Figures	Notes	31/12/2017	31/12/2016
1 - Net income (loss) for the year		1,661,322	1,228,965
Other comprehensive income net of taxes not transferred to income statement		-	-
2 - Property, plant and equipment		-	-
3 - Intangible assets		-	-
4 - Defined benefit plans	15	(2,588)	(529)
5 - Non-current assets held for sale		-	-
6 - Share of valuation reserves of equity investments accounted for using equity method	15	1,148	1,716
7 - Revaluation Law s		-	-
Other comprehensive income net of taxes transferred to income statement		-	-
8 - Hedging of foreign investments		-	-
9 - Exchange rate differences	15	(10,134)	(15,178)
10 - Cash flow hedges	15	2,237	(17,927)
11 - Financial assets available for sale		-	-
12 - Non-current assets held for sale		-	-
13 - Share of valuation reserves of equity investments accounted for using equity method		-	-
14 - Revaluation Law s		-	-
15 - Total other comprehensive income net of taxes		(9,337)	(31,918)
16 - Comprehensive income (item 1+15)		1,651,985	1,197,047
17 - Consolidated comprehensive income attributable to non-controlling interests		1,144,489	861,972
18 - Consolidated comprehensive income attributable to shareholders of the parent company		507,496	335,075

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME: PARENT AND NON-CONTROLLING INTERESTS

(thousands of euros) Items/Figures	Notes	31/12/2017			31/12/2016		
		Pertaining to shareholders of the parent company	Pertaining to non-controlling interests	Total	Pertaining to shareholders of the parent company	Pertaining to non-controlling interests	Total
1 - Net income (loss) for the year		508,715	1,152,607	1,661,322	348,275	880,690	1,228,965
Other comprehensive income net of taxes not transferred to income statement							
2 - Property, plant and equipment							
3 - Intangible assets							
4 - Defined benefit plans	15	(788)	(1,800)	(2,588)	(155)	(374)	(529)
5 - Non-current assets held for sale							
6 - Share of valuation reserves of equity investments accounted for using equity method	15	354	794	1,148	502	1,214	1,716
7 - Revaluation Law s							
Other comprehensive income net of taxes transferred to income statement							
8 - Hedging of foreign investments							
9 - Exchange rate differences	15	(3,057)	(7,077)	(10,134)	(4,437)	(10,741)	(15,178)
10 - Cash flow hedges	15	2,272	(35)	2,237	(9,109)	(8,818)	(17,927)
11 - Financial assets available for sale							
12 - Non-current assets held for sale							
13 - Share of valuation reserves of equity investments accounted for using equity method							
14 - Revaluation Law s							
15 - Total other comprehensive income net of taxes		(1,219)	(8,118)	(9,337)	(13,199)	(18,719)	(31,918)
16 - Comprehensive income (item 1+15)		507,496	1,144,489	1,651,985	335,075	861,972	1,197,047

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2017

(thousands of euros) Items/Figures	Notes	Balance at 31/12/2016	Change in re-opening balances	Balance at 01/01/2017	Allocation of net income for previous year		Changes for the period										Total equity at 31/12/2017	Group equity at 31/12/2017	Equity non-controlling interests at 31/12/2017		
					Reserves	Dividends and other allocations	Operazioni sul patrimonio netto														
							Changes in reserves	Issues of new shares	Purchase of own shares	Advances on dividends	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Change in equity interests	Comprehensive income for 2017					
Share capital		2,957,010		2,957,010													2,900,628	162	2,900,466		
Share premium reserve		2,576,487		2,576,487		(1)												2,550,579	1,315,158	1,235,421	
Reserves		8,887,562		8,887,562	88,678	(190,290)	(64,785)	(112,938)		16,879					79,509			8,704,615	2,591,115	6,113,500	
Valuation reserves		(52,227)		(52,227)		(463)													(62,027)	(22,587)	(39,440)
Equity instruments																					
Advances on dividends	(354,860)	(354,860)		(354,860)	354,660			(632,230)											(632,230)	(324,000)	(308,230)
Treasury shares	(76,346)	(76,346)		(76,346)			(145,164)								1,756				(219,754)		(219,754)
Net income (loss) for the year		1,228,965		1,228,965	(443,338)	(785,627)									1,661,322				1,661,322	508,715	1,152,607
Total Equity	15	15,166,792		15,166,792	-	(785,627)	(190,754)	(209,949)	(632,230)	(112,938)		16,879	(1,024)	1,651,985				14,903,133	4,068,563	10,834,570	
Group equity	15a	4,059,864		4,059,864		(100,693)	(187,667)	(64,785)	(324,000)			5,208		173,140	507,496				4,068,563		
Equity non-controlling interests	15b	11,106,928		11,106,928		(684,934)	(3,087)	(145,164)	(308,230)	(112,938)		11,671	(174,164)	1,144,489				10,834,570		10,834,570	

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2016

(thousands of euros) Items/Figures	Balance at 31/12/2015	Change in re-opening balances	Balance at 01/01/2016	Allocation of net income for previous year		Changes for the period										Total equity at 31/12/2016	Group equity at 31/12/2016	Equity non-controlling interests at 31/12/2016		
				Reserves	Dividends and other allocations	Operazioni sul patrimonio netto														
						Changes in reserves	Issues of new shares	Purchase of own shares	Advances on dividends	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Change in equity interests	Comprehensive income for 2016					
Share capital	2,935,512		2,935,512			30,384										(8,886)	2,957,010	162	2,956,848	
Share premium reserve	2,468,392		2,468,392		(35,529)	147,480										(3,856)	2,576,487	1,315,158	1,261,329	
Reserves	8,466,505		8,466,505	601,294		(162,670)		(30,141)								12,574	8,887,562	2,670,184	6,217,378	
Valuation reserves	(20,309)		(20,309)														(31,918)	(52,227)	(20,915)	(31,312)
Equity instruments																				
Advances on dividends	(98,699)		(98,699)	98,699					(354,660)									(354,660)	(253,000)	(101,660)
Treasury shares	(3,382)		(3,382)					(72,975)										(76,346)		(76,346)
Net income (loss) for the year	1,827,224		1,827,224	(699,993)	(1,127,231)											1,228,965	1,228,965	348,275	880,690	
Total Equity	15,575,243		15,575,243	-	(1,162,760)	15,194	(103,116)	(354,660)								(157)	1,197,047	15,166,792	4,059,864	11,106,928
Group equity	4,338,570		4,338,570		(358,327)	4,905	(30,141)	(253,000)								22,782	335,075	4,059,864		
Equity non-controlling interests	11,236,673		11,236,673		(804,433)	10,289	-	(72,975)	(101,660)							(22,939)	861,972	11,106,928		11,106,928

STATEMENT OF CONSOLIDATED CASH FLOWS

(thousands of euros)

Items/Figures	Notes	31/12/2017	31/12/2016
Net income		1,661,322	1,228,965
Adjustments to net income to reflect cash flow from operating activities:			
Amortisation and depreciation	33	1,773,264	1,702,762
Net write-downs (revaluations) of property, plant and equipment and intangible assets	33	27,967	35,564
Effect of accounting using the equity method	37	(147,308)	(145,596)
Net losses (gains) on disposals, cancellations and eliminations of assets		13,975	27,180
Dividends		(31)	-
Interest income	35	(59,861)	(213,170)
Interest expense	36	498,344	933,930
Income taxes	38	622,280	593,561
Changes in working capital:			
- Inventories		(36,181)	8,667
- Trade receivables		103,434	(1,633)
- Trade payables		181,974	(109)
- Provisions		67,298	105,693
- Other assets and liabilities		265,070	(105,802)
Cash flow from working capital		581,595	6,816
Change in provisions for employee benefits		(61,575)	(26,664)
Dividends received		155,681	148,419
Interest received		355,151	601,547
Interest paid		(549,922)	(997,790)
Income taxes paid net of tax credits reimbursed		(794,962)	(777,249)
Cash flow from operating activities		4,075,920	3,118,276
- <i>with related parties</i>		2,278,341	2,729,571
Investing activities:			
- Property, plant and equipment		(1,812,978)	(1,587,236)
- Intangible assets		(589,073)	(434,365)
- Companies in the scope of consolidation and business units		(202,125)	-
- Equity investments		(299,156)	(170,742)
- Change in payables and receivables relative to investing activities		(156,964)	(111,449)
Cash flow from investing activities		(3,060,296)	(2,303,792)
Divestments:			
- Property, plant and equipment		34,499	14,670
- Intangible assets		428	133
- Equity investments		33,656	4,950
- Change in payables and receivables relative to divestments		(1)	1,606,861
Cash flow from divestments		68,582	1,626,614
Net cash flow from investing activities		(2,991,714)	(677,178)
- <i>with related parties</i>		(381,075)	1,324,080
Assumption of long-term financial debt	18	6,694,936	3,675,206
Repayments of long-term financial debt	18	(1,765,028)	(5,921,099)
Increase (decrease) in short-term financial debt	23-26	(2,645,010)	1,877,682
(Increase) decrease of financial receivables for not operating purposes		(350,000)	-
Net equity capital injections		(209,889)	(103,514)
Dividends distributed to shareholders	15	(1,327,268)	(1,517,660)
Net cash flow from financing activities		397,741	(1,989,385)
- <i>with related parties</i>		12,636	(1,222,548)
Net cash flow for the period		1,481,947	451,713
Cash and cash equivalents at start of year	14	1,272,421	820,708
Cash and cash equivalents at end of year	14	2,754,368	1,272,421

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INTRODUCTION

Form and content of the consolidated financial statements

The consolidated financial statements of the CDP RETI Group (the “Group”) have been prepared in accordance with the IFRS and comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and these notes. They are also accompanied by the Directors’ report on operations.

CDP RETI is required to prepare consolidated financial statements in accordance with the international accounting standard IFRS 10. Indeed, the conditions for the exemption from the preparation of consolidated financial statements due to the fact of being the sub-holding of a holding company (Cassa Depositi e Prestiti S.p.A.) which, in turn, draws up consolidated financial statements, do not apply to entities that issued listed debt instruments on a regulated market.

The financial statements present a clear, true and fair view of the Company’s financial position and performance of operations.

The consolidated financial statements are presented in euro. The consolidated financial statements and the tables of the notes to the consolidated financial statements are expressed in thousands of euros, unless otherwise specified.

In the income statement, revenues are indicated without sign, while costs are shown in brackets.

The rounded amounts for the various items are the sum of the rounded balances of sub-items.

Audit of the consolidated financial statements

The consolidated financial statements of the CDP RETI Group at 31 December 2017 have been audited by PriceWaterhouseCoopers S.p.A. as per the engagement assigned by the shareholders in their meeting of 24 June 2015 to carry out the audit for the 2015-2023 period.

I - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I.1. GENERAL INFORMATION

I.1.1. DECLARATION OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and in force at 31 December 2017, taking into account also the minimum reporting requirements established by the Italian Civil Code, where compatible with the accounting standards adopted.

The international accounting standards include the IFRS issued by the IASB, the IAS still in force issued by the IASC and the interpretations issued by the IFRS Interpretation Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, even earlier, by the Standing Interpretations Committee (SIC).

I.1.2. BASIS OF PRESENTATION

The financial statement formats used to prepare the consolidated financial statements, which coincide with those used in the Annual Financial Report 2016, are consistent with the provisions of IAS 1 – Presentation of Financial Statements (hereinafter, IAS 1).

In particular:

- the items on the consolidated statement of financial position are classified by distinguishing assets and liabilities as “current / non-current”;
- the consolidated income statement has been prepared by classifying costs by their nature, insofar as this form of presentation is deemed the most appropriate for representing the actual situation of the Company, and is consistent with the consolidated practice of firms operating on international markets;
- the consolidated statement of comprehensive income shows income inclusive of revenues and costs recognised directly in equity pursuant to IFRS;
- the consolidated statement of changes in equity presents total income (loss) for the year, transactions with shareholders and other changes in equity;
- the consolidated statement of cash flows is drafted by using the “indirect” method, adjusting net income for the effects of non-cash transactions.

It is believed that these statements present an adequate view of the Group's financial position and performance of operations.

The financial statements have been prepared in accordance with the IFRS issued by the IASB (including the SIC and IFRIC interpretations) and endorsed by the European Commission pursuant to Regulation (EC) 1606 of 19 July 2002, as published in the Italian Official Gazette as Law 243 of 11 September 2002.

For the purposes of interpretation and to provide support in applying these standards, the following documents have also been considered, although they have not been endorsed by the European Commission:

- the Framework for the Preparation and Presentation of Financial Statements (issued by the International Accounting Standards Board in 2001);
- Implementation Guidance, Basis for Conclusions, IFRIC interpretations, and any other documentation prepared by the IASB or IFRIC to supplement the IFRS;
- Interpretation documents concerning the application of the IFRS in Italy, prepared by the Italian Accounting Board (Organismo Italiano di Contabilità - OIC).

Where the information required by international accounting standards is considered inadequate for providing a true and fair view, the Notes to the financial statements also include additional information for such a purpose.

The financial statements have been prepared on an accruals and going-concern basis. The general principles of materiality and significance of information have also been taken into account.

No assets have been offset against liabilities, or revenues against costs, unless expressly required or allowed by accounting standards or a related interpretation.

IFRSs endorsed at 31 December 2017 and in force since 2017

As required by IAS 8 (accounting policies, changes in accounting estimates and errors) details are provided below of the new international accounting standards, or amendments to standards already in force, whose application became mandatory from 1 January 2017:

- Commission Regulation (EU) No 2018/182 of 7 February 2018, published in the Italian Official Gazette as Law 34 of 8 February 2018, amending Commission Regulation (EC) No 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 12. In addition to clarifying that IFRS 12 applies also to an entity's interests that are classified in accordance with IFRS 5, the amendment in question does not require an entity to report economic-financial data in relation to the investments classified in accordance with IFRS 5;
- Commission Regulation (EU) No 2017/1990 of 6 November 2017, published in the Italian Official Gazette as Law 291 of 9 November 2017, amending Regulation (EC) No 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards IFRS 7. The aim of the standard is to improve the financial reporting of financial instruments by addressing concerns that arose in this area during the financial crisis;
- Commission Regulation (EU) No 2017/1989 of 6 November 2017, published in the Italian Official Gazette as Law 291 of 9 November 2017, amending Regulation (EC) No 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards IAS 12. This standard clarifies the recognition of deferred tax assets linked to debt instruments measured at fair value.

The adoption of the above-mentioned changes to the standards did not result in any significant impacts on the consolidated financial statements of the CDP RETI Group.

In any event, a reconciliation of liabilities from financing activities has been prepared in accordance with the amendment to IAS 7.

New accounting standards and interpretations issued and endorsed by the European Union, but not yet in force (date of entry into effect for financial years beginning from 1 January 2018)

Listed below are the new standards and interpretations already issued but not yet in force and therefore not applicable to the preparation of the financial statements at 31 December 2017 (unless, where permitted, it is chosen to adopt them in advance):

- Commission Regulation (EU) 2018/400 of 14 March 2018, published in Official Journal L. 72 of 15 March 2018, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards IAS 40: the aim of the amendments is to strengthen the principle according to which an entity only transfers a property to, or from, investment property when, and only when, there is a change in use of the property and provides examples that prove the change in use of the property;
- Commission Regulation (EU) No 2018/289 of 26 February 2018, published in the Italian Official Gazette as Law 55 of 27 February 2018, amending Regulation (EC) No 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards IFRS 2. These amendments aim to clarify how companies should apply the standard in certain specific cases;
- Commission Regulation (EU) No 2018/182 of 7 February 2018, published in the Italian Official Gazette as Law 34 of 8 February 2018, amending Commission Regulation (EC) No 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards IAS 28 and IFRS 1, whose main amendments concern:
 - IAS 28 – Investments in Associates and Joint Ventures. The aim of the document is to clarify that use of the fair value measurement, as an alternative to the equity method, shall apply separately for each associate or joint venture or for each investment entity associate or joint venture held by an entity other than the investment entity;
 - IFRS 1 - First-time adoption of international financial reporting standards. The amendments eliminate the exemptions from those IFRS applicable over the short term;
- European Commission Regulation (EU) no. 2016/2067 of 22 November 2016, published in the Italian Official Gazette as Law. 323 of 29 November 2016, amending Regulation (EC) no. 1126/2008, adopting certain international

accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards IFRS 9. The standard aims to improve the financial reporting of financial instruments by addressing concerns that arose in this area during the financial crisis. In particular, IFRS 9 addresses the call to move to a more forward-looking model for the recognition of expected losses on financial assets

- Commission Regulation (EU) No 2016/1905 of 22 September 2016, published in the Italian Official Gazette as Law 295 of 29 October 2016, amending Regulation (EC) no. 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards IFRS 15. This standard aims to improve the financial reporting of revenue and, therefore, to improve the comparability of revenue in financial statements.
- Commission Regulation (EU) No 2017/1988 of 3 November 2017, published in the Italian Official Gazette as Law 291 of 9 November 2017, amending Regulation (EC) no. 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards IFRS 4. The amendment aims to correct the temporary accounting effects arising from time lag between the entry into force of IFRS 9 and the entry into force of the new accounting standard IFRS 17 regarding insurance contracts, which will replace IFRS 4.
- Commission Regulation (EU) No 2017/1987 of 31 October 2017, published in the Italian Official Gazette as Law 291 of 9 November 2017, amending Regulation (EC) no. 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards IFRS 15.

IFRS 9: Financial Instruments

The endorsement of IFRS 9 by the European Union completes and ends the process to replace IAS 39. This process is divided into three phases, named: “classification and measurement”, “impairment”, and “hedge accounting”. Revision of the rules for macro hedge accounting still has to be completed, for which the IASB has decided to undertake a separate project from IFRS 9.

In extreme summary, the main innovations wrought by the new standard involve:

- the classification and measurement of debt instruments, based on the contextual analysis of the business model adopted and the characteristics of the contractual cash flows generated by the instrument, envisages three accounting categories: financial assets measured at amortised cost, financial assets measured at fair value through profit and loss (“FVTPL”), and financial assets measured at fair value through other comprehensive income (“FVOCI”). In contrast with the current IAS 39, the portfolios of financial assets available for sale and financial assets held to maturity, and the possibility of separating the embedded derivatives from hybrid contracts for financial assets alone, are eliminated. Instead, the current classification and measurement rules for financial liabilities as given in IAS 39 are confirmed;
- the classification of equity instruments in the FVTPL category, unless the option is exercised to classify the equity instruments not held for trading in the FVOCI category;
- the recognition of “own credit risk” (i.e. the change in value of the financial liabilities designated under the fair value option attributable to the change in the entity’s own credit quality) through other comprehensive income, instead of in the income statement as currently provided by IAS 39;
- the presence of just one impairment model, to be applied to all financial assets not measured at fair value through profit and loss (“FVTPL”), based on the concept of Expected Credit Loss as compared with the previous concept of Incurred Loss. The aim of this new approach to impairment is to ensure more immediate recognition of losses than the present “Incurred Loss” model envisaged in IAS 39, according to which the losses have to be recognised if evidence is found of impairment losses after initial recognition of the asset. In detail, the new model envisages that the financial assets be allocated in three distinct “stages” in increasing order of deterioration of the credit quality:
 - stage 1: this involves the performing financial assets for which no significant credit impairment was recognised in comparison with the date of initial recognition. These assets are recognised on the basis of an expected loss one year out;
 - stage 2: this involves the performing financial assets whose credit quality has deteriorated significantly since initial recognition. These financial assets are also measured based on their lifetime expected credit loss;
 - stage 3: this involves the non-performing financial assets which, having suffered a significant increase in their credit risk since initial recognition, are measured based on their lifetime expected credit loss;
- hedge accounting, with the aim of guaranteeing greater alignment between accounting hedges and operating (or economic) hedge relationships established by the Risk Management Department,
- the impossibility of voluntarily interrupting a hedge accounting relationship if the aim of the hedge by Risk Management remains.

CDP RETI Group adopted IFRS 9 standard since 1 January 2018, in all its rules, with the only exception of those related to hedging account.

The adoption of the standard, based on analyses now nearing completion, caused a preliminary estimate of the expected consolidated impact on the Group net equity immaterial in quantitative terms.

IFRS 15: Revenue from Contracts with Customers

The standard, published by the IASB on 28 May 2014, has introduced a single model for measuring all revenue deriving from contracts with customers and replaces the previous standards/interpretations on revenue (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, SIC 31). According to this model, the entity has to recognise revenue according to the consideration to which it expects to be entitled in exchange for the goods or services provided, determined according to the following five steps:

- identification of the contract, defined as an agreement having commercial substance between two or more equal parties that can generate rights and obligations;
- identification of the performance obligations contained in the contract;
- determination of the transaction price, i.e. the consideration expected for the transfer of goods or services to the customer;
- allocation of the transaction price to each of the performance obligations, by reference to their standalone selling prices;
- recognition of the revenue allocated to the individual obligation when it is satisfied, i.e. when the customer obtains control of the goods and services. This recognition acknowledges the fact that certain services may be provided at a specific time or over a period of time.

CDP RETI Group adopted IFRS 15 standard since 1 January 2018, and the analyses, now nearing completion, of the effects of the first adoption on Group Net equity are showing an impact immaterial in quantitative terms.

New accounting standards and interpretations issued and endorsed by the European Union, but not yet in force (date of entry into effect for financial years beginning from 1 January 2019)

Listed below are the new standards and interpretations already issued but not yet in force and therefore not applicable to the preparation of the financial statements at 31 December 2017 (unless, where permitted, it is chosen to adopt them in advance):

- Commission Regulation (EU) 2018/498 of 22 March 2018, published in Official Journal L. 82 of 26 March 2018, amending Commission Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards IFRS 9: it clarifies the application of the classification rules for financial assets, with regard to early termination, and also introduces transitional provisions regarding the application of prepayment features with negative compensation;
- Commission Regulation (EU) No 2017/1986 of 31 October 2017, published in the Italian Official Gazette as Law 291 of 9 November 2017, amending Regulation (EC) no. 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards IFRS 16.

IFRS 16: Leases

On 13 January 2016, the IASB published IFRS 16 (Leases), which is intended to replace the current accounting standard IAS 17, and the interpretations IFRIC 4 (Determining whether an Arrangement contains a Lease), SIC 15 (Operating Leases – Incentives), and SIC 27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The new standard gives a new definition of lease and introduces a principle based on control (“right of use”) of an asset, to distinguish finance leases from service agreements, by identifying the following as discriminating elements: identification of the asset, the right to substitute the asset, the right to obtain substantially all economic benefits resulting from use of the asset and the right to direct the use of the asset underlying the agreement. The aim is to ensure greater comparability between financial statements due to the different accounting principles applied to operating leases and finance leases. The standard establishes a single model for recognition and measurement of leases by the lessee, which entails recognition of the leased asset, including those held under an operating lease, on the assets side of the balance sheet, with a balancing entry for the financial liability, while also offering the possibility of not recognising as finance leases those agreements whose objects are “low-value assets” and leases whose term is 12 months or less. In contrast, the new standard does not envisage significant changes for the lessors.

Accounting standards, amendments and interpretations that have not yet been endorsed by the European Union at the reporting date of these financial statements

Certain accounting standards, interpretations and amendments have been issued by the IASB but not yet endorsed by the European Union at the approval date of these consolidated financial statements:

- IFRS 14: Regulatory Deferral Accounts (issued on 30 January 2014);
- IFRS 17: Insurance contracts (issued on 18 May 2017);
- IFRIC 22: Foreign currency transactions and advance consideration (issued on 8 December 2016);

- IFRIC 23: Uncertainty over Income Tax Treatments (issued on 7 June 2017);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017);
- Annual improvements to IFRS 2015 - 2017 Cycle (issued on 12 December 2017);
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018).

Other information

The Board of Directors of 27 March 2018 approved the Group's 2017 consolidated financial statements authorizing their publication and disclosure in line with the deadlines and methods envisaged by current regulations applicable to CDP RETI.

I.1.3. SCOPE AND METHODS OF CONSOLIDATION

Subsidiaries are consolidated on a line-by-line basis, while companies subject to joint control or significant influence are accounted for using the equity method. An exception is made for a number of minor controlling interests or subsidiaries in the start-up phase without assets and liabilities, whose contribution to the consolidated financial statements is considered to be irrelevant in fairly representing the performance and financial position of the CDP RETI Group.

The figures of the subsidiaries used for line-by-line consolidation are those as at 31 December 2017, as approved by the competent corporate bodies of the consolidated companies, adjusted as necessary to harmonise them with Group accounting policies.

The following statement shows the companies consolidated on a line-by-line basis.

Wholly-owned equity investments

Denominazioni	Sede operativa	Sede legale	Tipo di rapporto (1)	Rapporto di partecipazione		Disponibilità voti % (2)
				Impresa partecipante	Quota %	
1 ACAM GAS S.p.A.	La Spezia	La Spezia	1	Italgas Reti SpA	100,00%	100,00%
2 ASSET COMPANY 2 S.r.l.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100,00%	100,00%
3 Difebal S.A.	Montevideo (Uruguay)	Montevideo (Uruguay)	1	Terna S.p.A.	100,00%	100,00%
4 Enerco Distribuzione S.p.A.	Padova	Padova	1	Italgas Reti SpA	100,00%	100,00%
5 Gasrule Insurance D.A.C.	Dublino (Irlanda)	Dublino (Irlanda)	1	SNAM S.p.A.	100,00%	100,00%
6 GNL Italia SpA	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100,00%	100,00%
7 Infrastrutture Trasporto Gas S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	ASSET COMPANY 2 S.r.l.	100,00%	100,00%
8 Italgas Reti S.p.A.	Torino	Torino	1	Italgas SpA	100,00%	100,00%
9 Italgas S.p.A.	Milano	Milano	4	CDP RETI S.p.A.	26,04%	26,04%
				SNAM S.p.A.	13,50%	13,50%
10 Monita Interconnector S.r.l.	Roma	Roma	1	Terna S.p.A.	95,00%	95,00%
				Terna Rete Italia S.p.A.	5,00%	5,00%
11 Rete S.r.l.	Roma	Roma	1	Terna S.p.A.	100,00%	100,00%
12 Rete Verde 17 S.r.l.	Roma	Roma	1	Terna Plus S.r.l.	100,00%	100,00%
13 Rete Verde 18 S.r.l.	Roma	Roma	1	Terna Plus S.r.l.	100,00%	100,00%
14 Rete Verde 19 S.r.l.	Roma	Roma	1	Terna Plus S.r.l.	100,00%	100,00%
15 Rete Verde 20 S.r.l.	Roma	Roma	1	Terna Plus S.r.l.	100,00%	100,00%
16 S.G.S. S.r.l.	Padova	Padova	1	Enerco Distribuzione S.p.A.	100,00%	100,00%
17 Snam 4 Mobility S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100,00%	100,00%
18 SNAM RETE GAS S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100,00%	100,00%
19 SNAM S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	4	CDP RETI S.p.A.	30,10%	30,10%
20 SPE Santa Lucia Trasmittora de Energia S.A.	San Paulo	San Paulo	1	Terna Plus S.r.l.	99,99%	99,99%
				Terna Chile S.p.A.	0,01%	0,01%
21 SPE Santa Maria Trasmittora de Energia S.A.	San Paulo	San Paulo	1	Terna Plus S.r.l.	99,99%	99,99%
				Terna Chile S.p.A.	0,01%	0,01%
22 Stogit S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100,00%	100,00%
23 Tamini Transformers USA L.L.C.	Chicago (USA)	Chicago (USA)	1	Tamini Trasformatori S.r.l.	100,00%	100,00%
24 Tamini Trasformatori S.r.l.	Melegnano (MI)	Melegnano (MI)	1	Terna Plus S.r.l.	70,00%	70,00%
25 Terna Chile S.p.A.	Santiago del Cile (RCH)	Santiago del Cile (RCH)	1	Terna Plus S.r.l.	100,00%	100,00%
26 TERNA Crna Gora d.o.o.	Podgorica (Montenegro)	Podgorica (MNE)	1	Terna S.p.A.	100,00%	100,00%
27 Terna Interconnector S.r.l.	Roma	Roma	1	Terna S.p.A.	65,00%	65,00%
				TERNA RETE ITALIA S.p.A.	5,00%	5,00%
28 Terna Peru S.A.C.	Lima	Lima	1	Terna Plus S.r.l.	99,99%	99,99%
				Terna Chile S.p.A.	0,01%	0,01%
29 TERNA PLUS S.r.l.	Roma	Roma	1	Terna S.p.A.	100,00%	100,00%
30 TERNA RETE ITALIA S.p.A.	Roma	Roma	1	Terna S.p.A.	100,00%	100,00%
31 Terna S.p.A.	Roma	Roma	4	CDP RETI S.p.A.	29,85%	29,85%
32 Tes Transformer Electro Service Asia Private Limited	Magarpatta City (India)	Magarpatta City (India)	1	Tamini Trasformatori S.r.l.	100,00%	100,00%

Legenda

(1) Tipo di rapporto:

1 = maggioranza dei diritti di voto nell'Assemblea ordinaria

2 = influenza dominante nell'Assemblea ordinaria

3 = accordi con altri soci

4 = altre forme di controllo

5 = direzione unitaria ex articolo 26, comma 1, del decreto legislativo 87/92

6 = direzione unitaria ex articolo 26, comma 2, del decreto legislativo 87/92

(2) Disponibilità voti nell'Assemblea ordinaria, distinguendo tra effettivi e potenziali

The changes occurred in the scope of consolidation in 2017 are connected to the following transactions:

- as regards the TERNA Group:
 - Terna Plus S.r.l. established a number of limited liability companies - Rete Verde 17, Rete Verde 18, Rete Verde 19 and Rete Verde 20 - to develop initiatives in the renewable energy sector;
 - Terna Plus S.r.l. and Terna Chile S.p.A. established the Peruvian company Terna Peru S.A.C.;
 - Terna Plus S.r.l. acquired two Brazilian public limited companies - SPE Santa Lucia Trasmittora de Energia S.A. and SPE Santa Maria Trasmittora de Energia S.A.;
 - Terna Storage S.r.l. and Terna Rete Italia S.r.l. were merged by incorporation into Terna S.p.A..
 - T.E.S. Transformer Electro Service S.r.l. and V.T.D. Trasformatori S.r.l. were merged by incorporation into Tamini Trasformatori S.r.l.
 - Piemonte di Savoia S.r.l., previously owned by Terna Interconnector, was sold;
- as regards the SNAM Group:
 - Snam 4 Mobility S.p.A., formerly known as ASSET COMPANY 1 S.r.l. and ASSET COMPANY 2 S.r.l., both previously measured at cost, were included in the scope of consolidation;
 - Infrastrutture Trasporto Gas S.p.A., wholly owned by ASSET COMPANY 2 S.r.l., was incorporated and included in the scope of consolidation;
- as regards the ITALGAS Group:

- the entry of Enerco Distribuzione and its subsidiary SGS following acquisition, effective as of 6 December 2017, of the entire share capital of Enerco Distribuzione;
- Napoletanagas S.p.a. was merged into Italgas Reti S.p.A..

Significant assessments or assumptions made to determine the scope of consolidation

Line-by-line consolidation

Line-by-line consolidation involves the line-by-line use of the aggregate amounts on the balance sheets and income statements of the subsidiaries. After the allocation to non-controlling interests, reported as a separate item, of their share of equity and net income, the value of the equity investment is cancelled against the residual value of the equity of the subsidiary.

The book value of equity stakes in entities consolidated on a line-by-line basis held by the Parent Company or other Group companies is offset – against the assets and the liabilities of the investees – as a counterparty of the relevant equity share pertaining to the Group.

Assets and liabilities, off-balance-sheet transactions, income and expenses, as well profits and losses between entities included in the scope of consolidation are fully eliminated, in line with the consolidation method adopted.

A subsidiary's revenues and costs are consolidated starting from the date that control is acquired. Revenues and costs of a divested subsidiary are included in the consolidated income statement up to the divestment date, i.e. until the Group no longer controls the investee. The difference between the disposal price for the subsidiary and the book value of its net assets at the same date is recorded in the income statement.

Interests of other parties are presented in the balance sheet under "Non-controlling interests", separately from liabilities and equity attributable to the Group. Non-controlling interests are also presented separately in the income statement under "Net income (loss) pertaining to non-controlling interests".

Acquisitions of companies are accounted for using the "acquisition method" provided for under IFRS 3, as modified by Regulation 495/2009, under which the identifiable assets acquired and the identifiable liabilities assumed (including contingent liabilities) are recognised at their respective fair values at the acquisition date.

For the newly acquired companies, the difference between the purchase price and equity is provisionally allocated to goodwill if positive or to liabilities under "Other non-current liabilities" if negative, net of any goodwill in the balance sheets of the investees. In accordance with IFRS 3, paragraphs 45 et seq., the differences resulting from the transaction are allocated within twelve months of the acquisition date. If positive, the differences are recognised – after any allocation to the assets and liabilities of the subsidiary – as goodwill or other intangible assets under "Intangible assets". If negative, they are recognised through profit or loss.

The acquisition method is applied from the data of the acquisition, that is from the moment in which control of the investee is effectively acquired.

Accounting for companies using the equity method

Associates and joint operations are accounted for using the equity method.

The equity method involves initial recognition of the equity investment at cost, which is subsequently adjusted on the basis of the share held in the equity of the investee.

The difference between the value of the equity investment and the share held of the equity of the investee is included in the carrying amount of the investee.

The share of profit or loss of the investee is recognised in a specific item on the income statement.

If there is evidence of impairment, the recoverable amount of the equity investment is measured and will be equal to the higher of fair value and value in use (present value of future cash flows that may be generated by the investment, including the final disposal value). If the recoverable value is lower than the carrying amount resulting from the application of the equity method, the difference is recognised through profit or loss.

The consolidation of joint operations and investments in associates was based on the most recent annual or interim figures approved by the companies.

Significant assessments and assumptions to determine whether there is control, joint control or significant influence

The consolidated financial statements of the CDP RETI Group include the balance sheet and income statement figures of the CDP RETI parent company and the companies under its direct or indirect control. The scope of consolidation is defined in accordance with the rules of IFRS 10, IFRS 11, IFRS 12 and IAS 28.

Subsidiaries

Subsidiaries are entities, included structured entities, which are directly or indirectly controlled by the Group. Control over an entity is evidenced by the Group's capacity to exercise power in order to influence variable returns to which the Group is exposed as a result of its relationship with the aforementioned entity.

In order to verify the existence of control, the Group considers the following factors:

- the purpose and structure of the investee, in order to identify the entity's objectives, the activities that generate its revenues and how such activities are governed;
- power, in order to understand whether the Group has contractual rights enabling it to govern relevant activities; to this end, only substantial rights that confer effective governance are considered;
- the exposure to the investee, in order to assess whether the Group has business relationships with the investee whose returns vary as a result of changes in the investee's performance;
- the existence of potential principal-agent relationships.

Where significant activities are governed through voting rights, the following factors show evidence of control:

- direct or indirect ownership – through a subsidiary – of over half of the voting rights of an entity, unless it can be demonstrated – in exceptional cases – that such ownership does not constitute control;
- ownership of half or less of the votes that can be exercised in the Shareholders' Meeting and unilateral ability to govern the main activities through:
 - control of over half of the voting rights by virtue of an agreement with other investors;
 - the power to determine the financial and operational policies of the entity by virtue of a clause in the Articles of Association or an agreement;
 - the power to appoint or remove the majority of the members of the Board of Directors or the equivalent governing body, where management of the business falls under the remit of the aforementioned Board of Directors or body;
 - the power to exercise the majority of the voting rights in the meetings of the Board of Directors or those of the equivalent governing body, where management of the business falls under the remit of the aforementioned Board of Directors or body.

The presence and the effect of potential voting rights, where substantial, are taken into account when assessing whether the power of governing another entity's financial and operational policies exists.

Subsidiaries may include any "structured entities" in which voting rights are not significant with respect to control assessment, including special purpose entities and investment funds.

Structured entities are considered as subsidiaries where:

- the Group has power through contractual rights that enable governance of relevant activities;
- the Group is exposed to variable returns resulting from the aforementioned activities.

Joint arrangements

A joint arrangement is a contractual agreement in which two or more counterparties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

According to IFRS 11, joint arrangements must be classified as a joint operation or joint venture depending on the Group's contractual rights and obligations.

A joint operation is a joint arrangement in which the parties have rights on the assets and obligations on the liabilities of the arrangement.

A joint venture is a joint arrangement in which the parties have rights on the net assets of the agreement.

Equity investments in jointly controlled companies are valued using the equity method.

Associate companies

An associate company is a company which is neither a subsidiary nor a joint venture and over which the owner exercises a significant influence. Significant influence is presumed when the owner:

- owns, directly or indirectly, at least 20% of another company's share capital; or
- can, also through shareholders' agreements, exercise significant influence through:
 - representation in the company's management body;
 - participation in the policy-making process, including in decision-making on dividends or other allocations;
 - existence of significant transactions;
 - exchange of managerial personnel;
 - provision of key know-how.

Equity investments in associate companies are measured using the equity method.

Equity investments in subsidiaries exclusively with significant non-controlling interests

For the purposes of preparing the following tables, an interest was considered significant if:

- non-controlling interests are equal to or greater than 50% of the share capital of the investee;
- the investee's accounts are of material significance for the reader of this report.

Non-controlling interest, availability of non-controlling interest votes and dividends distributed to non-controlling interest

(thousands of euro)		% of non - controlling interests	Availability of votes of non - controlling votes ⁽¹⁾	Dividends paid to non-controlling interests
Company name	Registered office			
1. Italgas S.p.A.	Milan	69.90%	69.90%	112,794
2. SNAM S.p.A.	San Donato Milanese (MI)	69.90%	69.90%	699,799
3. Terna S.p.A.	Rome	70.15%	70.15%	293,508

(1) Available voting rights at Ordinary Shareholders' Meeting.

Equity investments with significant non-controlling interest: accounting data

(thousands of euro)	Non-current assets	Non-current assets held for sale	Current assets	Non-current liabilities	Current liabilities	Equity	Revenues	Net income (loss)	Comprehensive income
Company name									
1. Italgas S.p.A.	5,370,204	11	680,215	4,244,346	620,444	1,185,640	1,621,041	292,766	293,650
2. SNAM S.p.A.	19,643,559		2,556,078	11,806,187	4,205,516	6,187,934	2,532,586	897,224	888,298
3. Terna S.p.A.	13,581,422		3,446,112	9,399,600	3,798,959	3,828,975	2,248,000	694,210	686,619

I.1.4. EVENTS SUBSEQUENT TO THE REPORTING DATE

From the reporting date of the consolidated financial statements to the date of their approval by the Board of Directors no events occurred requiring an adjustment to the figures approved.

Significant events after 31 December 2017

For the analysis of significant events occurred after the reporting date, please refer to the related section of the Report on Group operations.

I.1.5. OTHER ISSUES

Use of estimates

The application of international accounting standards in preparing the consolidated financial statements requires the company to make estimates on the basis of complex and/or subjective judgements that are considered reasonable and realistic based on experience and the information available at the time. Such estimates have an impact on the carrying amount of assets and liabilities and the disclosures on contingent assets and liabilities as at the reporting date, as well as the amounts reported for revenues and costs for the period under review. Actual results may differ from the estimates due to the uncertainty of the assumptions and conditions underlying the estimates. Changes in the conditions underlying the judgements, assumptions and estimates used could also have an impact on future results.

Estimates and assumptions are reviewed periodically and the effects of changes are reflected in the income statement.

The estimations made in the CDP RETI Group's consolidated financial statements of the are mainly linked to the following:

- the recoverable value of property, plant and equipment, intangible assets and goodwill: the assets recognised are periodically analysed to identify signs of impairment. It may be the case that the amount recognised in the financial statements is no longer recoverable due to events or changes in circumstances. The estimated recoverable value of assets is the result of complex assessments based on elements which are often uncertain. Write-downs are determined by comparing the carrying amount with the recoverable value, which is the greater of the fair value, less disposal costs, and the value in use, determined by discounting the cash flows expected from the use of the asset. For assets that do not generate cash flows, irrespective of the existence of other assets, the recoverable value is determined by calculating the recoverable value of the cash generating unit the asset belongs to;
- recoverable value of equity investments: objective evidence that the carrying amount of the equity investments might not be fully recoverable is verified at every annual or interim reporting date. In the presence of the aforementioned evidence, an impairment test is performed to calculate the recoverable amount of the equity investment and this is then compared with its carrying amount to determine any need to recognise impairment losses;
- quantification of employee benefits: the actuarial assessments performed to determine the value of provisions for employee benefits are based on economic and demographic-type assumptions and on assumptions that are considered to be reasonable at the date of the assessment but which may change over time. Changes in actuarial assumptions will result in changes in the value of net liabilities recognised through other comprehensive income or profit or loss, depending on the case;
- quantification of the provisions for risks and charges: the estimation of provisions for risk and charges is the result of complex assessments and subjective judgements by the management team. The assessments are based on many elements, including: the probability and expected timing of disbursements, the discount rates and the interpretation of provisions, regulations and contractual clauses;
- quantification of the bad debt provision, which is estimated on the basis of the present value of expected future cash flows.

The following description of the accounting policies used for the main consolidated financial statement items provides details on the main assumptions and assessments used in preparing the consolidated financial statements.

Intercompany transactions

As the IFRS do not include specific provisions and in accordance with IAS 8 whereby – in the absence of a specific applicable standard – management must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, intercompany transactions are recognised in continuity with the amounts of the acquiree in the acquiror's financial statements.

Consequently, the contribution of the majority investment by CDP in TERNA has been recognised in the consolidated financial statements of CDP RETI since 2014, maintaining the same amounts recognised in the consolidated financial statements of the transferor.

The demerger of ITALGAS from SNAM in 2016 has also been treated in the same way, maintaining the same amounts when determining the carrying amount of the ITALGAS investment in the financial statements of CDP RETI. The pre-merger value of the investment in SNAM has been subdivided between the post-merger value of the investment in SNAM and the value of the investment in ITALGAS in accordance with the relative value criteria, thus taking into account the weight that each CGU had at the acquisition date, based, in particular, on the data analysed at the time of the PPA.

I.2. MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The following pages provide a description of the international accounting standards adopted in preparing the consolidated financial statements.

An asset or liability is classified as "current" when its trading, realisation or settlement are expected within twelve months from the reporting date or within the normal business cycle, if after twelve months; all other assets and liabilities are classified as "non-current".

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes non-current assets which are designated for continuous use in the business activity. These also include assets under finance leases (for the lessee) and operating leases (for the lessor). In order to determine whether a contract contains a lease, the provisions of IFRIC 4 are applied.

Property, plant and equipment (hereinafter also referred to as tangible assets) and other tangible assets used in operations are governed by IAS 16. Investment property (land and buildings) is governed by IAS 40.

Property, plant and equipment includes: (i) with regard to natural gas transportation, the value relating to the quantities of natural gas injected to bring natural gas pipelines into service and (ii) with regard to natural gas storage, the quantity of gas that is reinjected into the storage wells to form cushion gas.

Property, plant and equipment are accounted for at purchase cost, inclusive of any directly attributable costs incurred to make the asset ready for use. This cost is increased by the present value of costs likely to be incurred to dismantle and remove the asset, should legal or implicit obligations so require. The corresponding liability is recognised under provisions for future risks and charges.

The purchase/transfer price or the production cost also includes financial costs directly linked to the acquisition, construction or production of the asset.

Repair and maintenance costs incurred after the acquisition date are recognised as an increase in the carrying amount of the item they refer to if it is probable that future economic benefits associated with that item will flow to the entity and the cost of the item can be reliably measured. All other costs are recognised through profit or loss when incurred.

The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The balance sheet assets also contain items purchased for security or environmental reasons which, although not directly improving the future economic benefits of the existing assets, are necessary to obtain benefits for the other tangible fixed assets.

Property, plant and equipment held under finance leases that substantially transfer all the risks and rewards of ownership to the company, are recognised as company assets at their fair value or, if lower, at the present value of the minimum payments due under the lease, including any amounts payable to exercise the final purchase option. The corresponding liability to lessor is recognised under financial debt.

Property, plant and equipment are stated net of accumulated depreciation and adjustments. The assets are systematically depreciated on a straight line basis over their useful lives, from the date they become available for use in the production process. The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined. The useful life of the asset is reviewed annually and if expectations differ from previous estimates, changes in the depreciation schedule are accounted for prospectively.

Land and buildings are treated as separable assets and therefore accounted for separately even if purchased together. Land is considered to have an indefinite life and, as such, is not depreciated.

The table below shows the average rates used to determine periodic depreciation. These rates are deemed appropriate to reflect the useful life of the items subject to depreciation:

Depreciation rates: breakdown

Items/Figures %	Min.	Max
Buildings	2.0%	3.0%
Movables	6.0%	6.0%
Electrical plant	12.0%	20.0%
Plant and machinery:		
Power lines	2.2%	4.0%
Transformation stations	2.4%	6.7%
Gas pipelines	2.0%	2.0%
Power stations	5.0%	10.0%
Gas reduction and regulation	5.0%	5.0%
Pipelines	2.0%	2.0%
Processing stations	4.0%	20.0%
Compression stations	5.0%	5.0%
Storage wells	1.7%	20.0%
Regasification	4.0%	4.0%
Industrial and commercial equipment	5.0%	35.0%
Other assets	5.0%	33.0%
Other plant and equipment	2.5%	12.5%

Assets under construction and advances are composed of advances or expenses incurred in respect of items of property, plant and equipment that have not been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, depreciation is suspended.

Property, plant and equipment items are derecognised on disposal or when no future economic benefits are expected from their use or disposal; the gain (loss) on disposal is recognised through profit or loss.

INTANGIBLE ASSETS

According to IAS 38, intangible assets are identifiable assets without physical substance that are controlled by an entity and whose cost can be measured reliably and from which future economic benefits are expected to flow to the entity. Intangible assets, as defined above, are held for use over several years or for an indefinite period.

Intangible assets are recognised at purchase or production cost including incidental expenses and are amortised over their estimated useful life (the period over which an asset is expected to be available for use by an entity), which, at the end of each financial year, is reviewed to verify the appropriateness of the estimates. The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined. Borrowing costs directly attributable to the acquisition, construction or production of an intangible asset that qualifies for capitalisation pursuant to IAS 23 are capitalised on the asset as part of its cost.

If, regardless of the amortisation, there is objective evidence that the intangible asset is impaired, a test is performed to determine the adequacy of the carrying amount of the asset. Consequently, the carrying amount of the asset is compared with its recoverable amount, with the latter being the greater of fair value less the costs of disposal, and the associated value in use of the asset (construed as the discounted value of the future cash flows originated by the asset). If the carrying amount is higher than the recoverable amount, the difference is recognised in the income statement. If the reasons for which impairment was recognised cease to exist, the value of the asset is written back. The adjusted value may not exceed the value that the asset would have had, net of the amortisation calculated in the absence of previous impairment.

Intangible assets include assets associated with public-private service concession agreements relating to the development, funding, management and maintenance of infrastructure under concession arrangements, under which the granting authority:

- controls or regulates the services provided through the infrastructure by the operator, and the prices charged;
- controls, by ownership, entitlement to benefits or in other ways, any significant residual interest in the infrastructure at the end of the concession.

This category of assets includes agreements under which the Italgas group supplies the public service of natural gas distribution at the tariff set by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA, formerly AEEGSI), being the holder of the right to use the infrastructure controlled by the granting authority to provide such public

services. It also includes the property, plant and equipment and intangible assets used by the Terna Group to provide electricity under concession arrangements.

Intangible assets include goodwill, regulated by IFRS 3 and defined as the difference between the price paid for a transaction related to a business combination and the fair value of the identifiable net assets acquired. If this difference is negative (badwill) or if the goodwill is not justified by the future earnings capacity of the investee, the difference is recognised in the income statement.

Goodwill generated from the acquisition of subsidiaries is allocated to each identified cash generating unit (CGU). Within the CDP RETI Group, cash generating units correspond to the individual legal entities. By virtue of being an intangible asset having an indefinite useful life, goodwill is not amortised but tested only for the adequacy of its carrying value. An impairment test is performed annually on goodwill, or whenever there is evidence of impairment. This involves comparing the carrying amount of goodwill and the recoverable amount of the CGUs to which the goodwill is attributed. If the carrying amount of goodwill is higher than the recoverable value of the CGU, the difference is recognised in the income statement. Any reversals of impairment of goodwill may not be recognised.

Goodwill in respect of investments in associated companies and companies subject to joint control is included in the carrying amount of such companies. Negative goodwill is recognised in the income statement at the time of the acquisition.

Intangible assets include industrial patent and intellectual property rights, concessions, licenses, trademarks and similar rights and development costs.

The value of storage concessions, consisting of natural gas reserves in the fields ("Cushion Gas"), is determined in accordance with the Decree of 3 November 2005 of the Ministry for Productive Activities and recognised under "Concessions, licenses, trademarks and similar rights". This item is not amortised as the volume of gas is not modified by the storage activity and its economic value is not below the carrying amount.

Assets under development and advances are composed of advances or expenses incurred in respect of intangible assets that have not been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, amortisation is suspended.

Intangible assets are therefore derecognised when future benefits are no longer expected from their use or when sold.

EQUITY INVESTMENTS

The item includes equity interests in joint ventures (IFRS 11) and associates subject to significant influence (IAS 28).

Equity investments are initially recognised at purchase cost at the settlement date and subsequently measured in accordance with the equity method. The same provisions governing business combinations apply to acquisitions. Consequently, the positive difference between the purchase price and the portion of equity acquired and expressed at present value represents goodwill, which is not presented separately but included in the initial carrying amount of the investment. Conversely, any positive difference arising between the value of the portion of the investee's equity and the purchase price of the investment, if not allocated on the basis of the fair value of the associate's identifiable net assets, is recognised as income in the income statement. Application of the equity method also considers the treasury shares held by the investee.

Under the equity method, the subsequent measurement of the investment involves adjusting (increasing or decreasing) the initial cost to reflect changes in the investor's share of the investee's equity.

The existence of objective evidence that the carrying amount of the equity investments might not be fully recoverable is verified at each annual or interim reporting date.

Evidence of impairment, based on the existence of qualitative and quantitative indicators, as illustrated below, and in accordance with the internal policies, differs where these involve investments in companies whose shares are or are not listed on active markets.

In the presence of the aforementioned evidence, an impairment test is performed in accordance with IAS 36 to estimate the investment's recoverable amount, which is then compared with its carrying amount to determine the need to recognise impairment losses.

The following are indicators of possible impairment:

- the recognition of losses or results which are significantly lower than budgeted or forecast in multi-year plans;
- the announcement or commencement of insolvency proceedings or restructuring plans;
- the receipt of a dividend that exceeds the total comprehensive income of the investee for the year or its accumulated income from previous years;
- a carrying amount of the equity investment in the separate financial statements that exceeds the amount, in the consolidated financial statements, of the corresponding portion of equity, including any goodwill.

Moreover, the following is considered evidence of impairment for equity investments in listed companies:

- equity higher than market capitalisation;
- a reduction in the market price exceeding the carrying amount by over 40% or for more than 24 months.

The recoverable amount is the higher of the fair value of the unit, net of any sales costs and value in use, being the present value of the future cash flows that the equity investment may generate, including the final disposal value of the investment.

If this value is lower than the carrying amount, the difference is recognised in the income statement as an impairment loss. If the reasons causing the adjustment cease to exist, the impairments are reversed. These reversals have to be recognised in the income statement up to the amount of the previous write-down. Consequently, the reduction in the previously recognised impairment upon write-back of the value of the equity investment may not exceed the book value that would have existed if no impairment had been previously recognised. Both the reduction and the write-back are recognised as financial income (expenses) under "Portion of income (expenses) from equity investments".

The investor's interest in any losses of the investee that exceed the carrying amount of the equity investment is recognised in a specific provision, to the extent that the investor is committed to meeting the legal or constructive obligations of the investee, or otherwise cover its losses.

Dividends from equity investments measured using the equity method are recognised from the date of the shareholders' resolution accepting them, or when the shareholders' entitlement to receive the payment is established, and the book value of the equity investments is reduced.

Equity investments are derecognised in the balance sheet when the contractual rights to the cash flows deriving from ownership of the equity investments themselves expire or when they are sold, transferring substantially all risks and rewards connected with them.

FINANCIAL ASSETS

The following financial assets are recognised under current and non-current financial assets:

1. loans and receivables;
2. financial assets available for sale;
3. financial assets held to maturity;
4. financial assets at fair value;
5. hedging derivatives.

1. loans and receivables

Financial instruments, including debt securities, that are not quoted on an active market (defined as "loans and receivables" in IAS 39) and from which future cash flows will flow to the entity are recognised when the contract is signed, i.e. upon the unconditional acquisition of the right to payment of the amounts agreed. They are initially measured at fair value, equating to the amount disbursed inclusive of directly related transaction costs and commission.

After initial recognition at fair value, the relationships classified under the loan portfolio are measured at amortised cost, equal to the initial recognition amount plus or minus principal repayments, write-downs and write-backs, and amortisation of the difference between the amount disbursed and the amount repayable on maturity calculated using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future payment flows for the expected duration of the loan, in order to obtain the precise net carrying amount upon initial recognition which includes both directly attributable transaction costs and fees paid or received by the contracting parties. The economic effect of the transaction costs and commissions is spread out over the entire expected life of the loan. The amortised cost method is not used for loans whose short-term duration means that discounting is considered to have a negligible effect. These loans are measured at their historic cost. This measurement rule is also used for loans without a specific expiration date or demand loans.

Interest on loans and on arrears is recognised as interest income and similar revenues, on an accruals basis.

The carrying amount of loans is subject to periodic testing for impairment that could reduce their expected realisable value.

The measurement of writedowns of loans is based on discounting the expected future cash flows of principal and interest net of collection costs, taking account of any guarantees securing the positions and any advances received. The key to determining the value of the future cash flows is in defining the estimated collections, the related timing, and the discount rate to be applied.

The impairment of loans is then reversed only when the quality of the loan improves to the point that there is a reasonable certainty of a greater recovery of principal and interest and/or greater receipts have been recorded than the previously recorded carrying amount of the loan on the consolidated financial statements. In any event, given the method used to

measure impairment losses, as the due dates for credit collection approach with the passing of time, the value of the loan is “written back”, given that there is a reduction in the implicit finance costs previously recognised as a reduction in the value of the loans.

Receivables and loans are derecognised when the contractual rights to the cash flows from the financial instruments have been realised, have expired or have been sold.

2. financial assets available for sale

Financial assets available for sale are non-derivative financial assets (debt securities, equity securities, etc.) that are not classified as (a) loans and receivables, (b) financial assets held for trading or (c) financial assets held to maturity.

Financial assets available for sale are initially recognised on the contract date for all financial assets, with the exception of those for which delivery is governed by conventions on the reference market, for which initial recognition is carried out at the settlement date and on the disbursement date in the case of loans.

The financial assets are initially recognised at fair value, which generally equals the amount paid or received net of transaction costs or income. Where the amount paid is different from the fair value, the financial asset is nonetheless recognised at fair value, and the difference between the two amounts is recognised through profit or loss.

Unrealised gains or losses on available-for-sale securities are recorded in a specific equity reserve, net of tax effects, until the investment is sold or written down.

If the financial instruments are listed on active markets, they are measured subsequently at fair value based on the official prices at the reporting date of the consolidated financial statements. For financial instruments, including equity securities, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in recent similar transactions. If the fair value of financial instruments not listed on active markets cannot be reliably determined, the financial instruments are measured at cost and written down in the event of impairment losses.

Financial assets available for sale undergo impairment testing to determine whether there is objective evidence of impairment. Where the decline in the fair value of a financial asset available for sale with respect to its initial cost value is significant or long lasting, an impairment is recognised through profit or loss, regardless of other measurement considerations. To this end, the “significance” and “durability” of the reduction in fair value are measured separately, setting appropriate materiality thresholds.

When an available-for-sale security is impaired, the cumulative, unrealised change in value recorded in the equity reserve is recognised through profit or loss. The impairment is recognised when the purchase cost (net of any amortisation and repayments of principal) of an available-for-sale financial asset exceeds its recoverable amount. The amount of this loss is measured using specific valuation techniques and models for equity securities. Any writebacks of impairment of investments in equity instruments are not recognised through profit or loss but in an equity reserve, while any writebacks of investments in debt instruments are recognised through profit or loss. The value of the instrument after the writeback shall in any event not exceed the amortised cost that the instrument would have had in the absence of the prior adjustments.

Dividends on equity instruments that are available for sale are recognised as income when the right to receive payment is established.

In addition to the recognition of impairment losses, the cumulative gains or losses in the equity reserve are, as mentioned above, recognised through profit and loss at the time of the sale of the asset. Accordingly, in the event of disposal of an investment in available-for-sale securities, the related cumulative, unrealised change in value recorded in equity is recognised through profit and loss.

Financial assets available for sale are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the transferred financial assets is retained, the asset remains on the financial statements, even if legal title has been effectively transferred.

3. financial assets held to maturity

Financial assets held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

If, following a change in such intention or ability, it is no longer appropriate to continue to classify an investment as held to maturity, it is reclassified under financial assets available for sale.

Financial assets held to maturity are initially recognised at fair value, which is normally equal to the price paid or received. In cases where the price differs from fair value, the financial asset is recognised at fair value and the difference between the price and the fair value is recognised in the income statement.

The value at which such assets are initially recognised includes incidental costs and revenues attributable to the transaction.

Following initial recognition, financial assets held to maturity are measured at amortised cost and undergo impairment testing. The amortised cost of a financial asset is equal to the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or non-recoverability. If the reasons for the previous impairment cease to exist, the value of the assets is restored up to the value that would have resulted from application of the amortised cost if they had not been impaired. Such assets are derecognised when the contractual rights to the cash flows from the assets expire or when the assets are sold by transferring substantially all the risks and rewards connected with ownership of the assets.

4. financial assets at fair value

Financial assets at fair value include, in relation to public-private service concession agreements falling under the scope of "IFRIC 12 - Service Concession Arrangements", the consideration that an operator receives or will receive as the holder of a concession to develop or upgrade infrastructure assets if it has an unconditional contractual right to receive cash or another financial asset from the grantor (or from a third party at the direction of the grantor) and the grantor has no way of avoiding such payment. The grantor is under the contractual obligation to pay the operator specified or determinable amounts or the shortfall, if any, between the amounts received from users of the public service and the specified or determinable amounts established in the agreement and said payments are not dependent on the use of the infrastructure.

Initial recognition of such financial assets is at fair value at the settlement date, which generally equals the transaction price, without considering income and expenses attributable to the transaction, which are instead recognised in the income statement.

After initial recognition, these assets are recognised at fair value, with recognition through profit or loss.

The financial assets at fair value are derecognised when the contractual rights to the cash flows of the business terminate.

5. hedging derivatives

Financial assets include derivatives which have a positive fair value at the reporting date. Derivatives with negative fair value are recognised in the balance sheet under other financial liabilities.

Please refer to the paragraph below on hedging transactions for a description of the accounting standards adopted for the recognition of hedging derivatives.

Hedging transactions

According to the definition given in IAS 39 a hedging instrument is a designated derivative or (limited to the hedging of foreign currency risk) a non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation that (a) exposes the organisation to the risk of a change in fair value or future cash flows and (b) is designated as being hedged. The effectiveness of the hedge is the extent to which the change in fair value or cash flows of the hedged position that is attributable to a hedged risk are offset by the change in fair value or cash flows of the hedging instrument.

When a financial instrument is classified as a hedging instrument, the following are to be formally documented:

- the relationship between the hedging instrument and the position hedged, including the risk management objectives;
- the hedging strategy, which must be in line with established risk management policies;
- the methods to be used in order to verify the effectiveness of the hedge.

Accordingly, both at the inception of the hedge and throughout its life, the change in the fair value of the derivative is analyzed in order to determine whether it is highly effective in offsetting the changes in fair value of the hedged position.

A hedge is deemed to be highly effective if, both at inception and throughout its life, the changes in fair value of the hedged position or in the expected cash flows attributable to the risk being hedged are almost entirely offset by the changes in fair value of the hedging derivative, with the relationship of these changes falling within a range of between 80% and 125%.

If the hedge is not effective as described above, the hedging instrument is reclassified under instruments held for trading, while the hedged item is measured in accordance with the criteria for its category. Hedge accounting also ceases in the event the hedging instrument expires, is sold or exercised or where the hedged item expires, is sold or is repaid.

In the event of hedges designed to neutralise the risk of changes in future cash flows arising from future transactions that are considered as highly probable as at the reporting date (cash flow hedge), the fair value changes of the derivative after initial recognition are recognised, to the extent of the effective portion, under reserves in equity. When the economic effects of the hedged item materialize, the reserve is transferred to operating profit or loss. If the hedge is not perfectly effective, the ineffective portion of the change in the fair value of the hedging instrument is recognised immediately in profit or loss.

If, during the life of a derivative, the expected hedged cash flows are no longer considered as highly probable, the portion of that instrument recognised as reserves in equity is immediately recycled through profit or loss. Conversely, if the hedging instrument is transferred or no longer qualifies as an effective hedge, the item reserves representing the changes in the fair value of the instrument recognised up to that point are retained in equity and reversed to profit or loss in accordance with the classification criterion described above, in conjunction with the manifestation of the financial effects of the transaction originally hedged. If the hedged transaction is no longer considered as probable, the cumulative unrealised gains or losses recognised in equity are immediately recycled through profit or loss.

If the hedging derivatives are fair value hedges, they are measured at fair value with recognition of the effects through profit or loss; accordingly, the hedged instruments are adjusted to reflect the change in fair value of the hedged risk.

TRADE RECEIVABLES

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, net of any impairment losses related to amounts deemed unrecoverable and recognised in specific bad debt provisions. Impairment losses are calculated based on the present value of expected future cash flows, discounted at the original effective interest rate, being the interest rate that aligns the present value of the expected cash flows with the carrying amount at initial recognition.

Receivables due within normal commercial terms are not discounted.

Trade receivables are derecognised when the contractual rights to the associated cash flows have been realised, have expired or have been sold.

INVENTORIES

Inventories, including compulsory stock, are stated at the lower of their purchase or production cost and their net realisable value, represented by the amount that the business expects to obtain from their sale in the normal course of its activities, less selling costs.

Cost is measured as the weighted average cost.

The net realisable value is the selling price in the ordinary course of business less the estimated completion costs and those necessary to sell the good.

Work in progress and semi-finished goods are valued at production cost, excluding financial charges and overheads.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at their nominal amount, which corresponds to the fair value.

This item includes cash in hand, cash in banks and other current financial assets due within three months from purchase, readily convertible into cash with no cashing expenses and subject to an insignificant risk of changes in value.

Cash and cash equivalents take account of the interest accrued on the amounts, albeit not yet paid.

NON-CURRENT ASSETS HELD FOR SALE

The balance sheet items “Non-current assets held for sale” and “Liabilities directly associated with assets held for sale” include the assets or groups of assets/liabilities whose carrying value will be recovered mainly through sale rather than through their continuous use. Disposal processes have been initiated for these assets, whose sale is deemed highly likely.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a major line of business or geographical area of operations;

- is part of a single coordinated plan to dispose of a major line of business or geographical area of operations; or
- is an investment exclusively acquired with a view to resale.

These non-current assets held for sale (or disposal groups) are presented on the balance sheet separately from other assets and other liabilities. Initial recognition is done in compliance with the specific IFRS as applicable to each associated asset and liability while, subsequently, they are recognised at the lower of their carrying amount and fair value, net of sale costs, without any depreciation/amortisation being envisaged. The corresponding balance sheet values for the previous year are not reclassified.

The individual assets of the companies classified as held for sale are not amortised, whereas financial expenses and other expenses attributable to liabilities held for sale continue to be recognised.

Any subsequent impairment losses are recognised directly as an adjustment to the carrying amount of the non-current assets classified as held for sale through profit or loss.

The profits and losses net of tax that can be related to disposal groups of assets and liabilities are shown in the specific income statement item "Net income from discontinued operations".

CURRENT AND DEFERRED TAXATION

Corporate income tax (IRES) and regional tax on business activities (IRAP) are recognised using a realistic estimate of the negative and positive tax components for the year and were calculated on the basis of the tax rates currently in force.

Deferred tax items regard the recognition of the effects of temporary differences between the valuation of accounting items under tax regulations, which are used to determine taxable income, and that under statutory reporting regulations (which seek to quantify the result for the year).

More specifically, "taxable temporary differences" between statutory and tax values are those that will give rise to taxable amounts in future tax periods, while "deductible temporary differences" are those that will give rise to deductible amounts in the future.

Deferred tax assets/liabilities are classified as non-current assets/liabilities pursuant to IAS 1.56. Deferred tax items are therefore recognised as non-current liabilities under "Deferred tax liabilities", where they are related to items that will become taxable in future tax periods. Where they represent assets, i.e. they are related to items that will be deductible in future tax periods, they are recognised as "Deferred tax assets", under non-current assets in the statement of financial position.

If the deferred tax items regard transactions that directly affected equity, they are recognised in equity.

Deferred taxes are determined by using the tax rates expected to be applicable in the years when the differences will be realised or eliminated.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover specific types of liabilities whose existence is certain or probable, but whose amount or accrual date were uncertain at the reporting date.

Provisions are therefore recognised solely under following conditions:

- there is a present (legal or constructive) obligation resulting from a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

When the financial impact of the time factor is significant and the payment dates of the obligations can be estimated reliably, the allowance reflects the present value (at the market rates at the time the consolidated financial statements are prepared) of the future charges, estimated based on the risks associated with the obligation, that are expected to be incurred in order to settle the obligation. Any increase in the provision due the passage of time is recognised in the income statement under "Financial income (expenses)".

If the liability refers to items of property, plant and equipment (e.g. decommissioning and site remediation), the provision is recognised as a balancing entry to the asset it refers to and is recognised in the income statement via the depreciation process. The costs which the entity expects to incur to implement a restructuring plan are recognised in the period in which the plan is formally approved and there is a settled expectation among the affected parties that the restructuring plan will be implemented. Provisions are periodically adjusted to reflect changes in cost estimates, timing and discount rate; the reviewed provision estimates are recognised under the same income statement item in which the provision was previously recognised or, if the liability refers to property, plant and equipment (e.g. decommissioning and remediation work), as a

balancing entry to the asset they refer to, within the limit of the carrying amount; any difference is recognised in the income statement.

Provisions for risks and charges also include liabilities for termination benefits payable to employees as a result of either the company's decision to terminate the employment prior to the retirement date or an employee's decision to accept the company's offer of benefits in exchange for termination of employment. The company recognises such benefits as a liability and a cost when it has implemented a formal detailed plan in relation to the termination of employment and thus has no realistic alternative but to make the payment. Employee termination benefits are discounted if they are not expected to be wholly settled within 12 months from the end of the annual reporting period.

Contingent – not probable – liabilities are not provided for. However, they are disclosed in the notes, unless the probability of an outflow of resources is remote or the event is deemed insignificant.

Accruals to the provision for risks and charges are reversed when the obligation is settled or when it is no longer probable that an outflow of resources will be required to settle the present obligation.

PROVISION FOR EMPLOYEE BENEFITS

The "Provision for employee benefits" includes amounts paid to employees on or after termination of employment and other long term benefits.

The liability for benefits to be paid to employees is recognised net of any plan assets and is determined, separately for each year of the plan, on the basis of actuarial assumptions made to estimate the future benefits that employees have accrued at the reference date. The liability is estimated by independent actuaries. The effects of changes in actuarial assumptions or the effects of experience adjustments are recognised in the income statement.

Employee severance pay (TFR), as per art. 2120 of the Italian Civil Code, includes an estimate, determined using actuarial techniques, of the amount payable to employees upon termination of employment. Severance pay, paid as capital, equals the sum of provisions made, based on the remuneration paid during employment, up to termination of employment.

FINANCIAL LIABILITIES

Non-current and current financial liabilities, including payables for loans and the current portions of long-term loans other than derivatives, are recognised initially at cost at the settlement date, represented by the fair value of the liabilities, less any directly attributable transaction costs. Subsequently, the financial liabilities are measured with the amortised cost criteria, using the effective interest rate method.

Financial liabilities are derecognised when settled or when the obligation specified in the contract has been satisfied, cancelled or has expired.

TRADE PAYABLES

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Trade payables are not discounted if the due dates are line with normal commercial terms.

REVENUES

Depending on the type of transaction, revenues are recognised on the basis of the following specific criteria:

- revenues from the sales of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer and their amount can be measured reliably and collected;
- revenues from services are recognised with reference to the stage of completion of the service. If revenues cannot be reliably measured, they are recognised to the extent of recoverable costs;
- revenues accrued in the period for work in progress are recognised on the basis of the amounts agreed, proportionate to the progress of the work and calculated using the cost-to-cost method. In addition to the amount of revenue agreed in the contract, contract revenue includes variations in contract work, reviewed prices and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Revenues may decrease also as a result of penalties arising from delays caused by group companies.

Revenues from regulated activities are governed by the regulations issued by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA, formerly AEEGSI). Consequently, the financial terms and conditions relating to the services provided are not defined by negotiation but in accordance with the relevant regulatory frameworks and the tariffs are set periodically by the ARERA (formerly AEEGSI) and used as a basis to define the tariff criteria for the reference period.

The rate system establishes in particular that the reference revenue for the formulation of rates is determined so as to cover the costs incurred by the operator and allow for a fair return on invested capital. Three cost categories are recognised:

- the cost of net invested capital for RAB (Regulatory Asset Base) purposes through the application of a rate of return;
- economic and technical amortisation, covering investment costs;
- operating costs.

Payments collected on behalf of third parties, such as fees for other non-Group network owners, as well as fees recognised for the balancing of the national electrical energy system, which do not increase equity, are shown net of the related costs.

FINANCIAL INCOME (EXPENSES)

Financial income (expenses) includes:

- interest income and expense;
- income and expenses associated with hedging activities;
- gains (losses) on disposal or repurchase;
- exchange rate differences.

Interest income and expense is recognised in the income statement for all instruments based on amortised cost using the effective interest rate method. Interest also includes the net positive or negative amount of the differentials and margins related to derivatives.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable financial expenses are those that would not have been incurred if the expense for that asset had not been incurred.

Where funds are borrowed specifically, costs eligible for capitalisation are the actual financial expense incurred for that financing, less any income earned on the temporary investment of such borrowings. In regard to the general pool of assumed debt, the amount of financial expenses that can be capitalised is determined by applying a capitalisation rate to the expenses incurred for that asset which corresponds to the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a year shall in any case not exceed the amount of borrowing costs incurred during that year.

The starting date of capitalisation is the date on which all of the following conditions were met for the first time: (a) the costs for the asset were incurred; (b) the financial expenses were incurred; and (c) the activities necessary to prepare the asset for its intended use or for sale were undertaken.

Capitalisation of the financial expenses ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

OTHER INFORMATION

Share-based payments

The cost of employee service remunerated through stock option plans is measured at the fair value of the options granted to employees at the grant date. The fair value of the options granted is recognised under employee costs over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees will be able to exercise. That estimate is revised where subsequent information indicates that the expected number of equity instruments that will vest differs from the estimate previously carried out, independently of market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (term, price and conditions for exercise, etc.), as well as the value of the underlying security at the grant date, volatility and the yield curve at the grant date, in line with the duration of the plan.

At maturity, the estimate is revised and recognised in the income statement to register the amount corresponding to the number of equity instruments that have effectively vested, independently of whether market conditions have been met.

Grants

Capital grants provided by public entities are recognised if there is reasonable certainty that the entity will satisfy the conditions established by the granting authority to obtain the grant. Their recognition reduces the purchase or transfer price or the production cost of the asset they refer to. Capital grants received from private parties are accounted for in accordance

with the same accounting policies. Grants related to income are recognised in the income statement on an accruals basis when the related costs are incurred.

Grants received in relation to specific assets whose value is recognised under non-current assets are, depending on the year in which the plants enter service, recognised under other liabilities and recognised in the income statement over the depreciation period of the related assets or, alternatively, for new plants in service, the related grants are recognised as a direct reduction of the value of the associated asset.

Grants for operating expenses are recognised in full in the income statement when the conditions for recognition are satisfied.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not in compulsory winding-up or sale below cost) at the measurement date. Fair value is a market measurement criterion that does not refer specifically to the individual business. Underlying the definition of fair value is the assumption that the company is operating its business normally without any intention to liquidate its own assets, significantly reduce the level of its own assets, or settle transactions at unfavourable conditions. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

In accordance with IFRS 13, the CDP RETI Group measures fair value also considering the effect of non-performance risk, including the changes in the counterparty's credit risk and those in its own credit risk.

The fair value of financial instruments is calculated according to a hierarchy of criteria based on the origin, type, and quality of information used. In detail, this hierarchy assigns the highest priority to the prices quoted (and not changed) on active markets and lower importance to unobservable inputs. Three different input levels are identified:

- in the case of financial instruments quoted on active markets, prices on financial markets are used (Level 1);
- in the case of financial instruments not quoted on active markets, valuation techniques which use observable market parameters other than quoted prices for the instrument but connected with its fair value by non-arbitrage relationships shall be used, where possible (Level 2);
- in other cases, internal valuation techniques that also use, as input, parameters that are not observable on the market, and thus are inevitably subjective to some degree, shall be used (Level 3).

Since Level 1 inputs are available for numerous financial assets and liabilities, some of which are traded on more than one active market, the company has to take special care when defining both of the following aspects:

- the principal market for assets or liabilities or, in the absence of a principal market, the most advantageous market for the asset or liability;
- if the company can conclude a transaction involving the asset or liability at that price and on that market at the measurement date.

The CDP RETI Group believes that the principal market of a financial asset or liability can be identified as the market on which the Group normally operates.

A market is considered active if the quoted prices, representing effective and regular market transactions executed during an appropriate reference period, are readily and regularly available through stock exchanges, brokers, intermediaries, specialised firms, quotation services or authorised entities.

In the event of a significant reduction in the volume or in the level of ordinary activity for the asset or liability (or for similar assets or liabilities) flagged by certain indicators (number of transactions, insignificance of the prices given by the market, significant increase in the implicit premiums for liquidity risk, widening or increase in the bid-ask spread, reduction or total absence of a market for new issues, scanty information in the public domain), the transactions or quoted prices are analysed.

In the case of financial instruments that are not quoted on active markets, valuation using Level 2 inputs requires the use of valuation techniques that process market parameters at different levels of complexity. For example, valuation techniques may, in addition to interpolations and extrapolations, involve the specification of stochastic processes that represent market dynamics and the use of simulations or other numerical techniques to determine the fair value of the instruments being measured.

In selecting the valuation techniques to be used in Level 2 measurements, the Group takes account of the following criteria:

- simpler valuation techniques are preferred to more complex techniques, all other conditions being equal and as long as they represent all of the relevant characteristics of the product, ensuring that they are reasonably in line with the practices and results of other sector operators;

- valuation techniques are applied consistently over time to consistent categories of instruments, unless objective grounds for replacement emerge;
- all other conditions being equal, preference is given to standard models whose mathematical structure and implementing procedures are familiar to practitioners and implemented in the Group's systems.

The market parameters used as inputs for Level 2 valuations are selected on the basis of non-arbitrage relationships or comparative relationships that define the fair value of the financial instrument being measured as the relative fair value compared with that of financial instruments quoted on active markets.

In some cases, in determining fair value it is necessary to use valuation techniques that call for inputs that cannot be drawn directly from observable market variables, such as statistical or "expert-based" estimates by the party performing the valuation (Level 3).

Level 3 valuation techniques are also applied consistently over time to consistent categories of instruments, unless objective grounds for replacement emerge. Similarly, parameters that cannot be drawn directly from observable market variables are applied consistently over time.

Business combinations

Business combinations are recognised using the acquisition method. Under that method, the consideration transferred in a business combination is measured at fair value, calculated as the sum of the acquisition-date fair values of the assets transferred and the liabilities assumed and equity instruments issued by the acquirer in exchange for control of the acquiree. Transaction costs are generally recognised in profit or loss at the time they are incurred.

For newly acquired companies, the difference between the acquisition price and equity is provisionally recognised as goodwill, if positive, or under liabilities if negative, net of goodwill, if any, recognised in the financial statements of the acquirees. In accordance with IFRS 3.45 and following, within twelve months of the acquisition date, the differences resulting from the transaction are allocated recognising the acquisition-date fair value of the identifiable assets acquired and liabilities assumed. The following items are an exception and are measured in accordance with their applicable standard:

- deferred tax assets and liabilities;
- assets and liabilities for employee benefits;
- liabilities or equity instruments related to share-based payment transactions involving shares of the acquiree or share-based payment transactions involving shares of the Group issued in replacement of contracts of the acquiree;
- assets held for sale and discontinued operations.

Goodwill is determined as the excess of the aggregate of the consideration transferred in the business combination, the amount of any non-controlling interest in the acquiree and the fair value of any equity interest previously held by the acquirer in the acquiree over the acquisition-date fair value of the net assets acquired and the liabilities assumed. If the acquisition-date fair value of the net assets acquired and the liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any equity interest previously held by the acquirer in the acquiree, the excess is recognised in profit or loss as a gain from the transaction.

At the acquisition date, non-controlling interests are measured at fair value or as a proportionate share of the recognised amounts of the acquiree's identifiable net assets. The measurement method is selected on a transaction basis.

Any contingent consideration provided in the business combination is measured at the acquisition-date fair value and included in the amount of the consideration transferred in the business combination for the purposes of calculating goodwill. Any subsequent changes in that fair value, that qualify as adjustments occurring during the measurement period, are included in goodwill retrospectively. Changes in fair value that can be considered as measurement-period adjustments are those prompted by new information about facts and circumstances that existed at the acquisition date, that has been obtained during the measurement period (which shall not exceed one year from the business combination).

In the case of business combinations achieved in stages, the equity interest previously held by the Group in the acquiree is revalued at the fair value at the date control was acquired and any resulting gain or loss is recognised through profit or loss. Any changes in the value of the previously held equity investment that had been recognised in other comprehensive income are reclassified to the income statement as if the equity investment had been sold. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group shall adjust the provisional amounts to reflect new information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date.

Disposals of non-controlling interests in a subsidiary by way of sale or dilution that do not result in the loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In these circumstances, the carrying amounts of controlling and non-controlling interests must be adjusted to reflect the changes in their interests

in the subsidiary. Any difference between the amount of the adjustment of non-controlling interests and the fair value of the consideration received shall be recognised directly in equity.

Business combinations do not include those transactions aimed at obtaining control of one or more companies that do not constitute a business activity or if the business combination is carried out with reorganisation purposes, and thus between two or more entities already belonging to the same Group, and which do not cause changes in the control structure independently of the percentage of non-controlling interests before and after the transaction (referred to as “business combination under common control”). In fact, these transactions are considered to have no economic substance.

II - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

I. ASSETS

NON-CURRENT ASSETS

1. Property, plant and equipment

Below is a breakdown of the CDP RETI Group's property, plant and equipment, which show a net book value of €34,316 million at 31 December 2017 (€33,671 million at 31 December 2016).

Property, plant and equipment: breakdown

(thousands of euro)	31/12/2017			31/12/2016		
	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Land	373,136	(1,011)	372,125	369,150	(1,083)	368,067
Buildings	2,806,252	(926,239)	1,880,013	2,719,964	(868,750)	1,851,214
Plant and equipment	45,699,543	(17,519,229)	28,180,314	44,294,376	(16,477,247)	27,817,129
Other plant and equipments	1,856,406	(833,101)	1,023,305	1,581,968	(613,027)	968,941
Industrial and commercial equipment	358,593	(253,024)	105,569	371,773	(276,529)	95,244
Other assets	92,945	(63,695)	29,250	277,917	(190,755)	87,162
Assets under development and advances	2,758,042	(33,025)	2,725,017	2,514,046	(30,507)	2,483,539
Total	53,944,917	(19,629,324)	34,315,593	52,129,194	(18,457,898)	33,671,296

The item mainly includes investments made by the TERNA Group in energy transport lines and transformation stations, investments made by the SNAM Group in transport infrastructure, gas storage and regasification, and the investments made by the ITALGAS Group in the gas distribution segment, limited to land and buildings that are not subject to IFRIC12.

During the year, SNAM Group made investments for €968 million, mainly in the transport (€3863 million) and storage (€96 million) sectors.

In the period, TERNA made total investments for €994 million, mainly in relation to transport lines (€645 million) and transformation stations (€308 million).

During the period, investments of the ITALGAS group amounted to €11 million and mainly refer to equipment and assets under construction.

The changes to property, plant and equipment that took place during 2017 are detailed below:

Property, plant and equipment: changes for the year

(thousands of euro)	Land	Buildings	Plant and equipments	Other plant and equipments	Industrial and commercial equipment	Other assets	Assets under development and advances	Total
Items/Figures								
Gross opening balance	369,150	2,719,964	44,294,376	1,581,968	371,773	277,917	2,514,046	52,129,194
Provision for amortisation, depreciation and impairment - opening balance	(1,083)	(868,750)	(16,477,247)	(613,027)	(276,529)	(190,755)	(30,507)	(18,457,898)
Net opening balance	368,067	1,851,214	27,817,129	968,941	95,244	87,162	2,483,539	33,671,296
Gross amount: change for the period								
Investments	714	1,313	10,681	7,506	9,721	1,332	1,951,630	1,982,897
Contributions from business combinations	240	146	181,749	-	-	1,300	174	183,609
Transfers	6,651	95,373	708,729	-	-	1,677	(812,430)	-
Disposals	(425)	(5,064)	(76,668)	(523)	(51,986)	(242)	(10,707)	(145,615)
(Writedowns)/Writebacks	-	-	(6,000)	-	-	-	-	(6,000)
Other changes	(2,139)	(29,275)	(163,893)	17,707	8,322	469	(29,743)	(198,552)
Reclassifications	(1,055)	23,795	750,569	249,748	20,763	(189,508)	(854,928)	(616)
Provision for amortisation, depreciation and impairment - change for the period								
Depreciation for the period	-	(61,881)	(1,120,699)	(40,739)	(25,554)	(9,126)	-	(1,257,999)
Contributions from business combinations	-	(26)	(31,281)	-	-	(1,060)	-	(32,367)
Disposals	-	2,049	64,484	314	50,547	219	-	117,613
(Writedowns)/Writebacks	-	(50)	(1,061)	(1,284)	-	-	(9,914)	(12,309)
Other changes	47	2,409	46,274	(42,259)	(418)	149	7,396	13,598
Reclassifications	25	10	301	(136,106)	(1,070)	136,878	-	38
Gross closing balance	373,136	2,806,252	45,699,543	1,856,406	358,593	92,945	2,758,042	53,944,917
Provision for amortisation, depreciation and impairment - closing balance	(1,011)	(926,239)	(17,519,229)	(833,101)	(253,024)	(63,695)	(33,025)	(19,629,324)
Net closing balance	372,125	1,880,013	28,180,314	1,023,305	105,569	29,250	2,725,017	34,315,593

Changes in the scope of consolidation (€151 million, net of the relevant accumulated depreciation and impairment) refer to the consolidation of Infrastrutture Trasposto Gas S.p.A., following Edison's acquisition, through Asset Company 2 S.r.l., of the entire share capital of the Company.

During the year economic and technical depreciation for a total of € 1,258 million determined on the basis of the useful life of the assets or their remaining possible use has been registered, and it is mainly due to SNAM group (€592 million) and Terna group (€ 465 million) and to Italgas group for the remaining.

Capital grants from public entities and other parties, in a total amount of €467 million (of which €372 million due to SNAM group), are recognized as a reduction of the net value of property, plant and equipment.

2. Inventories - compulsory stock

Compulsory stock: breakdown

(thousands of euro)/(billions of cu.m.)	31/12/2017		31/12/2016	
	Carrying amount	Volumes (billions of cu.m.)	Carrying amount	Volumes (billions of cu.m.)
Compulsory stock	362,713	4.5	362,713	4.5
Total	362,713	4.5	362,713	4.5

Inventories - compulsory stock, equal to €363 million, includes the minimum natural gas quantities that the storage companies are required to hold under Presidential Decree no. 22 of 31 January 2001. The stock of gas, equivalent to approximately 4.5 billion standard cubic metres of natural gas, is determined by the Ministry for Economic Development on an annual basis.

3. Intangible assets

The following table shows the breakdown of "Intangible assets", which at 31 December 2017 amounted to €7,877 million (€7,753 million at 31 December 2016)

Intangible assets: breakdown

(thousands of euro)

Items/Figures	31/12/2017			31/12/2016		
	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Goodwill	860,852	-	860,852	852,510	-	852,510
Service concession agreements	10,777,325	(5,102,191)	5,675,134	10,350,653	(4,804,448)	5,546,205
Industrial patent and intellectual property rights	1,092,884	(884,010)	208,874	1,000,922	(792,732)	208,190
Concessions, licenses, trademarks and similar rights	1,295,057	(313,148)	981,909	1,286,775	(303,471)	983,304
Other intangible assets	380,761	(270,039)	110,722	368,929	(246,917)	122,012
Assets under development and advances	39,880	-	39,880	41,244	-	41,244
Total	14,446,759	(6,569,388)	7,877,371	13,901,033	(6,147,568)	7,753,465

The main component of intangible assets consists of ITALGAS's service concession agreements, which concern public-private agreements relating to the development, financing, maintenance and operation of infrastructures under concession arrangements from the granting entity. The rules on service concession agreements are applicable to ITALGAS in relation to the public service of natural gas distribution, i.e. agreements whereby the operator undertakes to provide the public service of natural gas distribution at the tariff set by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA), with the right to use the infrastructure controlled by the granting authority in order to provide the public service.

In implementation of the "partial goodwill method" for the recognition of goodwill envisaged by IFRS 3, the item "Goodwill" represents the only share belonging to CDP RETI Group for the goodwill recorded in the consolidated financial statements of TERNAL, SNAM, and ITALGAS, as well as the share recorded as a result of allocating the differences between the prices paid for the purchase of equity investments and the relevant equity.

Goodwill recognised in the financial statements as at 31 December 2017 in the amount of €861 million, consists of:

- €365 million for the TERNAL Group;
- €392 million for the SNAM Group;
- €104 million for the ITALGAS Group.

In relation to TERNAL, SNAM and ITALGAS, the CGUs to which goodwill was allocated coincide with the individual legal entities and the recoverable value is equivalent to the market value of the companies determined on the basis of the weighted average prices of the volumes traded in the month of June. The fair value for each of these three companies was higher than the value of their respective net assets, inclusive of the results of the purchase price allocation.

The following table shows the changes in Intangible assets, which increased during the financial year by approx. €124 million:

Intangible assets: changes for the year

(thousands of euro)							
Items/Figures	Goodwill	Service concession agreements	Industrial patent and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible assets	Assets under development and advances	Total
Gross opening balance	852,510	10,350,653	1,000,922	1,286,775	368,929	41,244	13,901,033
Provision for amortisation, depreciation and impairment - opening balance	-	(4,804,448)	(792,732)	(303,471)	(246,917)	-	(6,147,568)
Net opening balance	852,510	5,546,205	208,190	983,304	122,012	41,244	7,753,465
Gross amount: change for the period							
Investments	-	452,134	178	-	41,129	94,259	587,700
Contributions from business combinations	26,657	76,705	2,273	-	601	18	106,254
Transfers	-	23,820	-	-	(23,820)	-	-
Disposals	-	(119,434)	(90)	-	-	-	(119,524)
(Writedowns)/Writebacks	-	(8,000)	-	-	-	-	(8,000)
Other changes	(18,315)	1,447	37,725	34	(6,083)	(36,179)	(21,371)
Reclassifications	-	-	51,876	8,248	5	(59,462)	667
Provision for amortisation, depreciation and impairment - change for the period							
Depreciation for the period	-	(388,954)	(82,641)	(9,420)	(27,765)	-	(508,780)
Contributions from business combinations	-	(16,720)	(1,853)	-	(417)	-	(18,990)
Disposals	-	111,723	9	-	-	-	111,732
(Writedowns)/Writebacks	-	(4,214)	-	-	(2,096)	-	(6,310)
Other changes	-	422	(7,054)	(1)	7,161	-	528
Reclassifications	-	-	261	(256)	(5)	-	-
Gross closing balance	860,852	10,777,325	1,092,884	1,295,057	380,761	39,880	14,446,759
Provision for amortisation, depreciation and impairment - closing balance	-	(5,102,191)	(884,010)	(313,148)	(270,039)	-	(6,569,388)
Net closing balance	860,852	5,675,134	208,874	981,909	110,722	39,880	7,877,371

Investments for the period mainly refer to service concession agreements for the maintenance and development of the remote meter reading network of the ITALGAS group.

Capital grants from public entities and other parties, for a total amount of €29 million, are recognized as a reduction of the net value of service concession agreements.

4. Equity Investments

SNAM, TERNA, and ITALGAS's equity investments are listed below, together with information on the investment relationships.

Equity investments in joint operations, associates and other companies: information on equity relationships

(thousands of euros)						
Items/Figures	Registered office	Equity investment		Voting rights %	Carrying amount	Valuation method
		Investor	% holding			
A.1 Joint ventures						
Trans Austria Gasleitung GmbH ⁽¹⁾	Vienna	SNAM S.p.A.	84.47%	89.22%	507,858	Equity method
ELMED Etudes S.a.r.l.	Tunis	Terna S.p.A.	50.00%	50.00%	-	Equity method
TIGF Holding S.A.S.	Pau	SNAM S.p.A.	40.50%	40.50%	470,907	Equity method
Toscana Energia S.p.A.	Florence	Italgas Reti SpA	48.08%	48.08%	265,365	Equity method
GasBridge 1 B.V.	Rotterdam	SNAM S.p.A.	50.00%	50.00%	27,994	Equity method
Metano S.Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano	Italgas Reti SpA	50.00%	50.00%	2,133	Equity method
Umbria Distribuzione GAS S.p.A.	Terni	Italgas Reti SpA	45.00%	45.00%	13,331	Equity method
GasBridge 2 B.V.	Rotterdam	SNAM S.p.A.	50.00%	50.00%	27,996	Equity method
AS Gasinfrastruktur Beteiligung GmbH	Vienna	SNAM S.p.A.	40.00%	40.00%	129,569	Equity method
A.2 Associates						
CGES A.D.	Podgorica	Terna S.p.A.	22.09%	22.09%	29,961	Equity method
CESI S.p.A.	Milan	Terna S.p.A.	42.70%	42.70%	47,607	Equity method
CORESIO S.A.	Bruxelles	Terna S.p.A.	16.67%	16.67%	384	Equity method
Trans Adriatic Pipeline AG	Baar	SNAM S.p.A.	20.00%	20.00%	222,811	Equity method

(1) At 31 December 2017 Snam S.p.A. owned 84.47% of shares but economic rights are 89.22%.

During the year, the value of equity investments changed as follows:

Equity investments: changes for the period

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
A. Opening balance	1,704,111	1,546,517
B. Increases	235,419	342,655
B.1 Purchases	65,804	135,284
<i>of which business combinations</i>	-	-
B.2 Writebacks	-	-
B.3 Revaluations	158,626	162,979
B.4 Other increases	10,989	44,392
C. Decreases	(193,614)	(185,061)
C.1 Sales	-	-
<i>of which business combinations</i>	-	-
C.2 Writedowns	(14,299)	(18,519)
C.3 Other decreases	(179,315)	(166,542)
D. Closing balance	1,745,916	1,704,111

Acquisitions refer to the capital increase of Trans Adriatic Pipeline AG funded by SNAM S.p.A. during 2017.

Revaluations made during the period mainly concern the investments in Trans Austria Gasleitung GmbH (€84 million), TIGF Holding S.A.S. (€41 million), in AS Gasinfrastruktur Beteiligung GmbH (€11 million) and Toscana Energia S.p.A. (€23 million). Writedowns mainly concern GasBridge 1 B.V. (€5 million), GasBridge 2 B.V. (€5 million), and Trans Adriatic Pipeline AG (€4 million).

The other negative variations mainly refer to decreases for dividends distributed by subsidiaries.

Other information on equity investments

Consistent with the provisions set out in IFRS 12 "Disclosure of interests in other entities", the financial performance of joint operations and associates are summarised below.

Significant equity investments: carrying amount, dividends paid

(thousands of euro) Names	Carrying amount	Total Net equity	Pro quota Net Equity	Goodwill	Other changes	Dividend paid
A.1 Joint ventures						
Trans Austria Gasleitung GmbH	507,858	241,334	215,318	292,922	(381)	88,544
TIGF Holding S.A.S.	470,907	741,734	300,402	170,505	-	38,339
Toscana Energia S.p.A.	265,365	405,270	182,365	-	83,000	13,617
AS Gasinfrastruktur Beteiligung GmbH	129,569	316,683	100,707	25,966	2,896	16,520
A.2 Associates						
Trans Adriatic Pipeline AG	222,811	659,596	131,919	89,500	1,392	-

Economic and financial data of significant equity investments

(thousands of euro) Names	Cash and cash equivalent	Current assets	Non current assets	Current financial liabilities	Non current financial liabilities	Current liabilities	Non current liabilities	Revenues	Interest income	Interest expenses	Depreciation	Income (loss) before taxes on continuing operations	Income (loss) after taxes on continuing operations	Taxes	Net income (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1)+(2)
A.1 Joint ventures																	
Trans Austria Gasleitung GmbH	8,609	51,710	616,122	60,431	261,000	66,714	38,351	319,797	2,059	(3,499)	(55,542)	127,212	-	(31,827)	95,385	148	95,533
TIGF Holding S.A.S.	32,904	103,133	2,431,349	-	1,462,342	64,253	266,153	454,145	-	(36,976)	(131,902)	137,009	-	(36,035)	100,974	873	101,847
Toscana Energia S.p.A.	4,770	96,916	820,461	152,453	225,109	264,084	248,023	139,850	175	(3,340)	(41,902)	54,786	-	(15,826)	38,960	-	38,960
AS Gasinfrastruktur Beteiligung GmbH	6,933	6,933	595,849	-	283,216	2,883	-	-	1,572	(6,172)	-	18,479	-	(1)	18,478	681	19,159
A.2 Associates																	
Trans Adriatic Pipeline AG	-	106,205	2,758,971	-	-	280,664	1,924,916	-	-	-	-	(21,663)	-	-	(21,663)	2,441	19,222

Economic and financial data of not significant equity investments

(thousands of euro) Type of investments	Carrying amount of the investments	Total assets	Total liabilities	Total revenues	Income (loss) before taxes on continuing operations	Income (loss) after taxes on continuing operations	Net income (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1)+(2)
Joint ventures	58,454	127,439	8,564	8,147	(19,572)	-	(19,654)	(6,421)	(26,075)
Associates	77,952	433,917	141,047	161,340	10,160	-	10,160	-	10,160

Obligations relating to equity investments

The main obligations relating to equity investments are set out below:

Trans Adriatic Pipeline AG

SNAM S.p.A. has made commitments to Trans Adriatic Pipeline AG in its capacity as owner responsible for financing the project and for the investment share it possesses, up to the installation and operation of the gas pipeline, whether through a Shareholders' loan, or through the subscription of capital increases.

Restrictions relating to equity investments

With regard to restrictions relating to equity investments, the following should be noted:

TIGF Investissement S.A.S.

The payment of interest calculated on the nominal residual balance of the convertible bond issue of €670 million (of which €272 million underwritten by Snam), may be postponed at the discretion of the issuer, TIGF Investissement. The bond is subordinated to the existing bank loans.

Toscana Energia S.p.A. e Metano Sant'Angelo Lodigiano S.p.A.

Corporate governance rules provide for relevant activities decisions to be made by unanimous consent between the private partner (Italgas Reti S.p.A.) and the public sector party (Municipal Authorities).

5. Non-current financial assets

Non-current financial assets: breakdown and fair value levels

(thousands of euro)	31/12/2017				31/12/2016			
	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Fair value option								
Debt securities	-	-	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-	-	-
Units in collective investment undertakings	-	-	-	-	-	-	-	-
Loans	73,503	-	-	73,503	-	-	-	-
Total	73,503	-	-	73,503	-	-	-	-
Available for sale								
Debt securities	-	-	-	-	-	-	-	-
Equity securities	44,043	90	-	43,953	175	90	-	85
Units in collective investment undertakings	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-
Total	44,043	90	-	43,953	175	90	-	85
Held to maturity								
Debt securities	156	156	-	-	156	156	-	-
Loans	-	-	-	-	-	-	-	-
Total	156	156	-	-	156	156	-	-
Hedging derivatives								
Hedging derivatives	912	-	912	-	344,910	-	344,910	-
Total	912	-	912	-	344,910	-	344,910	-
Loans and receivables								
Debt securities	-	-	-	-	-	-	-	-
Loans and receivables	415,069	-	-	415,069	231,065	-	-	231,065
Total	415,069	-	-	415,069	231,065	-	-	231,065
Total	533,683	246	912	532,525	576,306	246	344,910	231,150

The main components of non-current financial assets (€534 million at 31 December 2017, €576 million at 31 December 2016) are as follows:

- financial assets at fair value recognized in application of IFRIC 12 by the TERNA group, with reference to concessions for the period regarding infrastructures in Brazil amounting to €74 million;
- financial assets classified as available for sale, amounting to €44 million, as a result of the acquisition by the SNAM group of a 7.3% share in the capital of Terminale GNL Adriatico S.r.l.;
- financial receivables from operations (€372 million compared to €213 million at 31 December 2016), posted in the financial statements of SNAM and related to the Shareholders' Loan granted to the associate Trans Adriatic Pipeline AG (TAP), which was taken over by SNAM following the contractual agreements related to the acquisition of the equity investment. With respect to 31 December 2016, the receivables increased by €160 million, including accrued interest, following the cash calls requested by the SNAM investee during the year based on the previously mentioned agreements;
- the deposit made to the Interconnector guarantee fund (€42 million) established for the realisation of interconnections under Article 32 of Law 99/09 and recorded in the consolidated financial statements of the TERNA Group.

6. Deferred tax assets

Deferred tax assets recognised as at 31 December 2017 amount to €703 million (€704million at 31 December 2016), of which €684 million were recorded in the income statement.

Deferred tax assets: breakdown

(thousands of euro)	31/12/2017	31/12/2016
Deferred tax assets		
- recognised in income statement	684,148	693,900
- recognised in equity	18,826	10,073
Total	702,974	703,973

The following table shows the breakdown of the deferred tax assets:

Deferred tax assets: breakdown

(thousands of euro)

Items/Figures	30/06/2017	31/12/2016
Deferred tax assets recognised in income statement	684,148	693,900
- non-repayable grants	68,709	78,444
- misc. impairment	10,288	10,123
- site decommissioning and reinstatement	171,087	176,141
- provisions	101,265	113,881
- write-downs on receivables	35,198	38,160
- property, plant and equipment/intangible assets	234,381	212,789
- employee benefits	39,732	32,503
- other temporary differences	23,488	31,859
Deferred tax assets recognised in equity	18,826	10,073
- financial assets available for sale	2,460	656
- cash flow hedge	4,100	3,285
- other	12,266	6,132
Total	702,974	703,973

The changes in deferred tax assets during the financial year, with the balancing entry in the income statement, are shown below:

Change in deferred tax assets (balancing entry in the income statement)

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
1. Opening balance	693,900	612,125
2. Increases	95,809	144,775
2.1 Deferred tax assets recognised during the year	92,145	96,952
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	92,145	96,952
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,214	47,823
2.4 Business combinations	2,450	-
3. Decreases	(105,561)	(63,000)
3.1 Deferred tax assets derecognised during the year	(99,898)	(62,635)
a) reversals	(65,048)	(37,370)
b) write-downs for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	(34,850)	(25,265)
3.2 Reduction in tax rates	-	-
3.3 Other decreases	(5,663)	(365)
3.4 Business combination transactions	-	-
4. Closing balance	684,148	693,900

The changes in deferred tax assets for the financial year, with the balancing entry in equity, are shown below:

Change in deferred tax assets (balancing entry in equity)

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
1. Opening balance	10,073	11,789
2. Increases	9,954	3,699
2.1 Deferred tax assets recognised during the year	411	2,193
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	411	2,193
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	9,543	1,506
2.4 Business combinations	-	-
3. Decreases	(1,201)	(5,415)
3.1 Deferred tax assets derecognised during the year	(972)	(5,286)
a) reversals	(972)	-
b) write-downs for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	-	(5,286)
3.2 Reduction in tax rates	-	(129)
3.3 Other decreases	(229)	-
3.4 Business combination transactions	-	-
4. Closing balance	18,826	10,073

7. Other non-current assets

Other non-current assets at 31 december 2017 amounted to €146 million (€175 million at 31 December 2016).

Their breakdown is provided in the table below:

Other non current assets: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Accrued income and prepaid expenses from regulated activities	97,586	99,919
Accrued income and prepaid expenses	19,867	24,708
Guarantee deposits	18,341	17,660
Loans and advances to employees	9,265	9,054
Other assets	498	23,483
Total	145,557	174,824

Accrued income and prepaid expenses from regulated activities of €98 million at 31 December 2017, which represent the majority of Other non-current assets, relate to the natural gas transport and distribution services recognised in the financial statements of SNAM and ITALGAS, and mainly concern the lower amounts invoiced compared to the limit set by the Regulator.

8. Non-current assets held for sale

Held-for-sale assets amount to €11 thousand (€25 million at 31 December 2016), decreasing on the previous year as a result of the completion of the contract for the sale of the Real Estate Compound in Via Ostiense, Rome, to Eni S.p.A. by the ITALGAS group.

CURRENT ASSETS

9. Current financial assets

Current financial assets: breakdown and fair value levels

(thousands of euro) Items/Figures	31/12/2017				31/12/2016			
	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Available for sale								
Debt securities	-	-	-	-	-	-	-	-
Equity securities	119	-	-	119	157	-	-	157
Units in collective investment undertakings	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-
Total	119	-	-	119	157	-	-	157
Held to maturity								
Debt securities	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
Hedging derivatives								
Hedging derivatives	-	-	-	-	30,867	-	30,867	-
Total	-	-	-	-	30,867	-	30,867	-
Loans and receivables								
Debt securities	-	-	-	-	-	-	-	-
Loans and receivables	358,693	-	-	358,693	11,073	-	-	11,073
Total	358,693	-	-	358,693	11,073	-	-	11,073
Total	358,812	-	-	358,812	42,097	-	30,867	11,230

Current financial assets at 31 December 2017 amounted to €359 million (€42 million at 31 December 2016) and mainly consisted of financial receivables for €350 million that are not intended to be used in operations, concerning a short-term investment of liquidity of less than six months entered into by the SNAM group with a primary banking institution of high credit standing.

10. Income tax receivables

Income tax receivables recorded in consolidated financial statements at 31 December 2017 amounted to €62 million (€96 million at 31 December 2016) and were broken down as follows:

Income tax receivables: breakdown

(thousands of euro) Items/Figures	31/12/2017	31/12/2016
Income tax receivables		
- Ires receivables	56,336	94,350
- Irap receivables	5,945	2,091
- other tax receivables	8	4
Total	62,289	96,445

11. Trade receivables

Trade receivables recorded in the consolidated financial statements at 31 December 2017 amounted to €3,111 million (€3,196 million at 31 December 2016) and were broken down as follows:

Trade receivables: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Energy-related receivables	772,752	997,819
Grid transport consideration receivables	312,233	323,994
Gas sector trade receivables	1,651,186	1,688,640
Other trade receivables	338,394	124,487
Construction contracts	36,888	61,387
Total	3,111,453	3,196,327

Trade receivables are calculated net of amounts deemed unrecoverable which, therefore, are recorded as an adjustment to the bad debt provision.

The Gas sector trade receivables mainly relate to:

- trade receivables recorded in SNAM's financial statements, mainly relating to natural gas transportation (€1,042 million) and storage (€179 million);
- trade receivables amounting to €604 million, recorded in the financial statements of ITALGAS, mainly relating to gas distribution and related services and including amounts due from Eni S.p.A. (€170 million) and third parties for the remaining.

TERNA's trade receivables amount to €1,266 million and include:

- receivables for "pass-through" items related to the activities performed by Terna S.p.A. (€746 million);
- receivables in respect of the grid transmission fees amounting to €312 million, consisting of the consideration paid for use of the National Transmission Grid by electric power distributors;
- other trade receivables for €181 million that mainly refer to trade receivables from unregulated business clients;
- receivables due from distributors related to fees for use of the national transmission grid (NTG) amounting to €16 million;
- the receivable due from Cassa per i Servizi Energetici e Ambientali (CSEA) related to the ENSR performance assessment recognised during the previous financial year (€10 million).

12. Inventories

Inventories: breakdown

(thousands of euro)

Items/Figures	31/12/2017			31/12/2016		
	Gross amount	Provision for impairment	Net value	Gross amount	Provision for impairment	Net value
Raw materials, supplies and consumables	116,496	(10,857)	105,639	153,474	(10,167)	143,307
Finished products and goods	49,921	(32,193)	17,728	49,921	(32,193)	17,728
Total	166,417	(43,050)	123,367	203,395	(42,360)	161,035

Inventories at 31 December 2017 were recorded for €123 million (€161 million at 31 December 2016) and are recognised net of the provision for impairment of €43 million (€42 million at 31 December 2016).

Raw materials, supplies and consumables mainly consist of natural gas used for transportation activities, spare materials for the gas pipeline network, the distribution network (primarily gas meters related to the substitution plan, equal to €22 million) and natural gas storage facilities. An additional €15 million of this line item consists of materials and equipment for the operation of plants in the electricity sector and fibre optic to be used in non-regulated activities by the Terna group.

Finished products inventories, equal to €18 million in total, net of the relevant provision (identical at 31 December 2016), consist instead of natural gas in the storage network.

13. Other current assets

The composition of Other current assets, which at 31 December 2017 amounted to €334 million (€212 million at 31 December 2016), is shown below.

Other current assets: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Accrued income and prepaid expenses from regulated activities	49,327	39,411
Accrued income and prepaid expenses	28,721	17,862
Guarantee deposits	108	58
Loans and advances to employees	163	157
Receivables for tax withholdings and direct taxes	118,811	56,456
Advances to suppliers	39,339	12,946
Other assets	97,263	85,104
Total	333,732	211,994

The increase on December 2016 is due to the recognition, by the Parent Company CDP RETI, of a receivable (€40 million) due from CDP arising from tax consolidation, and the higher exposure of group companies towards the tax authorities in respect of VAT.

14. Cash and cash equivalents

Cash and cash equivalents, which at 31 December 2017 amounted to €2,754 million (€1,272 million at 31 December 2016) are broken down as follows in the next table, and mainly refer to bank demand deposits and other short term financial investments of SNAM group and TERNA group for €300 million and €499 million respectively.

Cash and cash equivalents: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Current accounts and demand deposits	1,953,816	1,012,945
Short-term financial investments	799,717	258,764
Cash	835	712
Total	2,754,368	1,272,421

II. LIABILITIES

15. EQUITY

15 a: Group Equity

Group equity, for an amount of €4,069 million (€4,060 million at 31 December 2016) consists of the following:

Equity attributable to CDP RETI

(thousands of euros)

Items/Figures	31/12/2017	31/12/2016
Share capital	162	162
Issue premium	1,315,158	1,315,158
Reserves	2,591,115	2,670,184
- Legal reserve	32	32
- Reserve for shareholder payments for investments	2,029,921	2,029,921
- Other reserves	-	(3,257)
- Retained earnings	561,162	643,488
Valuation reserves	(22,587)	(20,915)
- Cash flow hedges	(11,641)	(13,878)
- Exchange rate differences	(4,801)	(1,651)
- Actuarial Profit (Loss) on defined-benefit pension plans	(7,625)	(6,421)
- Share of valuation reserves of equity investments accounted for using equity method	1,480	1,035
Advances on dividends	(324,000)	(253,000)
Net income for the period (+/-)	508,715	348,275
Total	4,068,563	4,059,864

During the period there were no changes to the company's shareholding structure and the number of shares, which remained the same compared to the prior year:

Company's shareholding structure

Member / Number of shares / %	Share category			%
	A	B	C	
CDP	95,458			59.10%
State Grid		56,530		35.00%
Cassa Forense			4,253	2.63%
Foundations and Savings Banks			5,273	3.27%
Total	95,458	56,530	9,526	100.00%

Shares outstanding at reporting date consisted of 161,514 shares without nominal value, fully paid-up.

15 b. Non controlling interests

The following table details the non controlling interests:

Non controlling interests: composition

(thousands of euro)

Names	31/12/2017	31/12/2016
1. Italgas S.p.A.	1,419,785	1,398,275
2. SNAM S.p.A.	6,045,873	6,511,137
3. Terna S.p.A.	3,368,912	3,197,516
Total	10,834,570	11,106,928

NON-CURRENT LIABILITIES

16. Provisions for risks and charges

The provisions for risks and charges recorded in the consolidated financial statements at 31 December 2017 amounted to €1,152 million (€1,176 million at 31 December 2016) and were broken down as follows:

Provisions for risks and charges: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
1. Provision for risks of legal disputes	53,956	46,651
2. Provision for early retirement incentives	81,466	81,410
3. Provision for site decommissioning and reinstatement	609,763	628,822
4. Provision for tax risks	57,263	50,904
5. Provision for environmental risks and charges	131,733	137,159
6. Other provisions	217,448	231,042
Total	1,151,629	1,175,988

The provisions for site decommissioning and remediation, which represent the majority of this item, were recorded by the SNAM Group companies in relation to their natural gas transport and storage activities to cover the costs they will presumably incur to remove and reinstate natural gas storage and transport facilities. The change in the provision during the year can be attributed to a review of the cost estimates (discounting) for decommissioning and remediation.

The changes to the provisions for risks and charges recorded during the year are detailed below:

Provisions for risks and charges: changes for the year

(thousands of euro)

Items/Figures	Provision for risks of legal disputes	Provision for early retirement incentives	Provision for site decommissioning and reinstatement	Provision for tax risks	Provision for environmental risks and charges	Other provisions	Total
Opening balance	46,651	81,410	628,822	50,904	137,159	231,042	1,175,988
Changes for business combinations (+/-)	1,271	-	-	-	-	1,137	2,408
Increases:							
Allocation in the year	14,145	24,999	-	10,138	242	42,972	92,496
Changes due to the passing of time	-	-	10,462	-	486	-	10,948
Changes due to changes to the discount rate	-	-	-	-	-	-	-
Other changes	2,039	156	-	-	-	13,026	15,221
Decreases:							
Use in the financial year	(10,150)	(25,069)	(10,485)	(3,779)	(6,154)	(41,535)	(97,172)
- to charges	(7,058)	(25,069)	(9,363)	(2,490)	(6,130)	(11,515)	(61,625)
- due to surplus	(3,092)	-	(1,122)	(1,289)	(24)	(30,020)	(35,547)
Changes due to changes to the discount rate	-	-	(19,036)	-	-	-	(19,036)
Other changes	-	(30)	-	-	-	(29,194)	(29,224)
Closing balance	53,956	81,466	609,763	57,263	131,733	217,448	1,151,629

17. Provision for employee benefits

Below is the breakdown of the provisions for employee benefits:

Provisions for employee benefits: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Severance pay	145,479	155,331
Long-term service award	4,544	4,525
Supplementary health funds	18,435	18,125
Energy discount	13,030	28,847
Other employee benefits	73,049	61,465
Total	254,537	268,293

The balance of Provisions for employee benefits decreased compared to the previous year (from €268 million at 31 December 2016 to €255 million at 31 December 2017); This change is specifically attributable to the Energy discount provision which decreased by €16 million as a result of adjustments to the pension fund following the pensioner agreement. The staff severance pay (TFR), on the other hand, decreased mainly as a result of the drawdowns connected to generational turnover.

Other employee benefits were increased compared to the previous year, particularly as a result of provisions in respect of Isopensione, which concerns the costs incurred by employers as a result of the application of the implementation agreement, in respect of the pension advancing instrument for employees, as regulated in Article 4 (1-7) of Law no.92/2012 (known as the "Fornero Law").

The changes to the Provisions for employee benefits are shown below:

Provisions for employee benefits: changes for the year

(thousands of euro)

Items/Figures	Severance pay	Long-term service award	Supplementary health funds	Energy discount	Other employee benefits	Totale
Opening balance	155,331	4,525	18,125	28,847	61,465	268,293
Changes for business combinations	628	-	-	-	-	628
Current cost	302	176	599	356	19,664	21,097
Interest expense	1,690	54	225	385	508	2,862
Revaluations:						
- actuarial profit and loss due to changes in financial assumptions	526	-	92	569	(273)	914
- actuarial profit and loss due to changes in demographic assumptions	-	-	-	-	-	-
- effect of past experience	107	-	132	-	1,453	1,692
Other changes	(436)	(211)	(472)	(17,127)	(192)	(18,438)
Paid benefits	(12,669)	-	(266)	-	(9,576)	(22,511)
Closing balance	145,479	4,544	18,435	13,030	73,049	254,537

18. Long-term loans

Long-term loans recorded by the group at 31 December 2017 amounted to €24,150 million (€19,563 million at 31 December 2016) and were broken down as follows:

Loans - long term portion

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Bonds		
- EMTN programme	16,800,715	13,396,576
- other issues	748,556	748,270
Bank loans	5,678,813	4,579,889
Other lenders	922,372	838,239
Total	24,150,456	19,562,974

The item "EMTN programme" in long-term loans relates to bond issues in the period by SNAM (€7.6 billion), TERNA (€6.5 billion) and Italgas (€2.6 billion).

The item "other issues", instead, mainly refers to the placement, concluded in May 2015 by CDP RETI, of an unsubordinated and unsecured fixed-rate bond, for a nominal value of €750 million.

An analysis of bond issues, with an indication of the issuing company, the currency, the interest rate and maturity, is provided below:

Bonds: breakdown

(thousands of euro)

Issuer	Maturity	Currency	Rate	Carrying amount at 31/12/2017	
				Current	Non current
CDP RETI	2022	EUR	1,875%	8,322	748,556
Snam S.p.A.	2018	EUR	3.875%	877,035	-
Snam S.p.A.	2022	EUR	5.250%	10,260	687,864
Snam S.p.A.	2020	EUR	3.500%	19,485	632,105
Snam S.p.A.	2019	EUR	5.000%	24,679	517,918
Snam S.p.A.	2021	EUR	3.375%	9,432	302,198
Snam S.p.A.	2019	YEN	2.717%	149	73,827
Snam S.p.A.	2018	EUR	2.625%	70,280	-
Snam S.p.A.	2024	EUR	3.250%	12,631	409,260
Snam S.p.A.	2023	EUR	1.500%	3,533	345,179
Snam S.p.A.	2019	EUR	1.500%	2,326	224,774
Snam S.p.A.	2023	EUR	1.375%	604	362,182
Snam S.p.A.	2023	EUR	1.500%	1,767	170,040
Snam S.p.A.	2026	EUR	0.875%	2,008	1,241,249
Snam S.p.A.	2020	EUR			498,084
Snam S.p.A.	2025	EUR	1.250%	5,822	496,657
Snam S.p.A.	2022	EUR	0.641%	90	299,001
Snam S.p.A.	2024	EUR	0.936%	57	349,325
Snam S.p.A.	2027	EUR	1.375%	1,641	635,268
Snam S.p.A.	2022	EUR			385,258
ITALGAS SPA	2022	EUR	0,5%	3,555	743,080
ITALGAS SPA	2024	EUR	1,25%	5,850	646,484
ITALGAS SPA	2027	EUR	1,625%	11,553	742,205
ITALGAS SPA	2029	EUR	1,625%	2,315	496,890
Terna Spa	2024	EUR	0,049%		1,013,400
Terna Spa	2023	EUR	0,0273%		692,900
Terna Spa	2019	EUR	0,0488%		638,700
Terna Spa	2026	EUR	0,016%		78,800
Terna Spa	2021	EUR	0,0475%		1,388,700
Terna Spa	2017	EUR	0,0413%		-
Terna Spa	2022	EUR	0,0088%		996,800
Terna Spa	2018	EUR	0,0288%	970,353	-
Terna Spa	2028	EUR	0,01%		740,100
Terna Spa	2027	EUR	0,0138%		992,500

Other loans were broken down as follows:

Loans from banks and other lenders - breakdown

(thousands of euro)				Carrying amount at 31/12/2017	
Loan	Maturity	Currency	Rate	Current	Non current
Loan 2014	2020	EUR	EUR6M+spread	605	750,000
Loan 2017	2023	EUR	EUR6M+spread	257	186,620
UNICREDIT (ottobre 2014) Term Loan	2019	EUR	0.300%	129	250,000
INTESA Term Loan	2019	EUR	0.250%	75	200,000
BNL Term Loan	2019	EUR	0.200%	15	149,855
INTESA Term Loan	2019	EUR			500,000
BEI 300MLN SRG	2029	EUR	0.237%	20,025	220,000
BEI 283MLN STG	2033	EUR	0.669%	768	283,000
BEI 65MLN SRG	2032	EUR	0.556%	4,333	60,307
BEI 200MLN SRG	2035	EUR	0.268%	62	200,000
BEI 373MLN SRG	2035	EUR		21	373,000
BEI 310MLN SRG	2037	EUR	1.498%	1,625	310,000
Regione Emilia Romagna - STOGIT	2019	EUR	0.500%	470	269
ITALGAS BEI	2035	EUR	EUR6M+0,14%		124,000
ITALGAS BEI	2032	EUR	EUR6M+0,47%	51	299,712
ITALGAS BEI	2037	EUR	EUR6M+0,36%	2	359,750
ITALGAS BNL	2019	EUR	EUR3M+0,25%	63	199,785
ENERCO	varie	EUR	varie	1,654	5,138
Finanziamento bancario	2034	EUR	0,0488%		22,500
BEI	2039	EUR	0,0133%		238,600
BEI	2015-2030	EUR	0,0027%	132,400	1,355,900
CDP	2019	EUR	0,0104%		500,000
Finanziamento bancario	2034	EUR	0,0391%		10,100
Leasing	2019-2021-2022	EUR	0,0073%	2,000	2,616

The table below shows a breakdown of loans by maturity date:

Loans - breakdown by future maturity dates

Loans/Bonds	Carrying amount at 31/12/2017		Maturity analysis (years)					Over
	Current	Non current	2019	2020	2021	2022		
CDP RETI	8,322	748,556				748,556		
Loan 2014	605	750,000		750,000				
Loan 2017	257	186,620					186,620	
Snam S.p.A.	877,035	-						
Snam S.p.A.	10,260	687,864				687,864		
Snam S.p.A.	19,485	632,105		632,105				
Snam S.p.A.	24,679	517,918	517,918					
Snam S.p.A.	9,432	302,198			302,198			
Snam S.p.A.	149	73,827	73,827					
Snam S.p.A.	70,280	-						
Snam S.p.A.	12,631	409,260					409,260	
Snam S.p.A.	3,533	345,179					345,179	
Snam S.p.A.	2,326	224,774	224,774					
Snam S.p.A.	604	362,182					362,182	
Snam S.p.A.	1,767	170,040					170,040	
Snam S.p.A.	2,008	1,241,249					1,241,249	
Snam S.p.A.		498,084		498,084				
Snam S.p.A.	5,822	496,657					496,657	
Snam S.p.A.	90	299,001				299,001		
Snam S.p.A.	57	349,325					349,325	
Snam S.p.A.	1,641	635,268					635,268	
Snam S.p.A.		385,258				385,258		
UNICREDIT (ottobre 2014) Term Loan	129	250,000	250,000					
INTESA Term Loan	75	200,000	200,000					
BNL Term Loan	15	149,855	149,855					
INTESA Term Loan		500,000	500,000					
BEI 300MLN SRG	20,025	220,000	20,000	20,000	20,000	20,000	140,000	
BEI 283MLN STG	768	283,000	18,867	18,867	18,867	18,867	207,532	
BEI 65MLN SRG	4,333	60,307	4,333	4,333	4,333	4,333	42,975	
BEI 200MLN SRG	62	200,000		6,667	13,333	13,333	166,667	
BEI 373MLN SRG	21	373,000			24,867	24,867	323,266	
BEI 310MLN SRG	1,625	310,000				10,333	299,667	
Regione Emilia Romagna - STOGIT	470	269	269					
ITALGAS SPA	3,555	743,080				743,080		
ITALGAS SPA	5,850	646,484					646,484	
ITALGAS SPA	11,553	742,205					742,205	
ITALGAS SPA	2,315	496,890					496,890	
ITALGAS BEI		124,000					124,000	
ITALGAS BEI	51	299,712					299,712	
ITALGAS BEI	2	359,750					359,750	
ITALGAS BNL	63	199,785					199,785	
ENERCO	1,654	5,138					5,138	
Terna Spa		1,013,400					1,013,400	
Terna Spa		692,900					692,900	
Terna Spa		638,700	638,700					
Terna Spa		78,800					78,800	
Terna Spa		1,388,700			1,388,700			
Terna Spa		-						
Terna Spa		996,800				996,800		
Terna Spa	970,353	-						
Terna Spa		740,100					740,100	
Terna Spa		992,500					992,500	
Finanziamento bancario		22,500					22,500	
BEI		238,600			4,600	13,300	220,700	
BEI	132,400	1,355,900	96,800	96,800	92,200	83,500	986,600	
CDP		500,000		500,000				
Finanziamento bancario		10,100					10,100	
Leasing	2,000	2,616	2,000	300	200	116		

The table below shows the reconciliation of the liabilities arising from the loans, as required by IAS 7:

(thousands of euro)	No cash flow changes						31/12/2017
	Items/Figures	31/12/2016	Changes from financing cash flows	Effect of changes in foreign exchange rates	Changes in fair value	Changes arising from obtaining or losing control of subsidiaries or other businesses	
Attività finanziarie correnti - Finanziamenti e crediti verso banche	-	(350,000)	-	-	-	(216)	(350,216)
Debiti per finanziamenti - quota non corrente	19,562,974	4,707,252	(6,968)	(124,864)	11,665	397	24,150,456
Debiti per finanziamenti - quota corrente	1,913,766	315,725	-	-	-	(21,189)	2,208,302
Passività finanziarie a breve termine	4,193,943	(2,738,079)	-	-	-	-	1,455,864
	25,670,683	1,934,898	(6,968)	(124,864)	11,665	(21,008)	27,464,406

19. Other non-current financial liabilities

Other non-current financial liabilities, totalling €30 million (€24 million at 31 December 2016), refer to the fair value measurement of the interest rate derivative contracts entered into by the TERNA group for €10 million, CDP RETI for €8 million and SNAM group for €9 million, and of the exchange rate derivative contract entered into by SNAM group for €2 million.

Other non-current financial liabilities: breakdown and fair value levels

(thousands of euro)	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
Fair value-related hedging derivatives	-	-	-	-	-	-
a) interest rate risk	-	-	-	-	-	-
b) exchange rate risk	-	-	-	-	-	-
c) several risks	-	-	-	-	-	-
Cash flow hedge-related derivatives	-	29,827	-	-	24,407	-
a) interest rate risk	-	27,790	-	-	24,407	-
b) exchange rate risk	-	2,037	-	-	-	-
c) other	-	-	-	-	-	-
Derivati di copertura degli investimenti esteri	-	-	-	-	-	-
a) interest rate risk	-	-	-	-	-	-
b) exchange rate risk	-	-	-	-	-	-
c) other	-	-	-	-	-	-
Non-hedging derivatives	-	-	-	-	-	-
Totale	-	29,827	-	-	24,407	-

20. Deferred tax liabilities

Deferred tax liabilities recorded at 31 December 2017 amounted to €2,837 million (€2,978 million at 31 December 2016), and mainly consist of deferred tax liabilities entered as the offsetting item recognised in the income statement as detailed in the following table:

Non-current tax liabilities: breakdown

(thousands of euro)	31/12/2017	31/12/2016
Deferred tax liabilities		
- recognised in income statement	2,837,408	2,978,417
- recognised in equity	23	-
Total	2,837,431	2,978,417

Below is the breakdown of deferred tax liabilities:

Deferred tax liabilities: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Deferred tax liabilities recognised in income statement	2,837,408	2,978,417
- surplus paid in instalments	1,118	1,323
- staff severance pay	3,879	5,038
- leasing	1,305	1,311
- property, plant and equipment	2,655,164	2,823,276
- equity investments	8,826	8,328
- exchange rate differences	4	17
- other temporary differences	167,112	139,124
Deferred tax liabilities recognised in equity	23	-
- other reserves	23	-
Total	2,837,431	2,978,417

The following tables indicate the change in deferred taxes during the year:

Change in deferred tax liabilities (balancing entry in the income statement)

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
1. Opening balance	2,978,417	3,110,039
2. Increases	32,766	45,663
2.1 Deferred tax liabilities recognised during the year	9,294	6,678
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) others	9,294	6,678
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	2,704	38,985
2.4 Business combination transactions	20,768	-
3. Decreases	(173,775)	(177,285)
3.1 Deferred tax liabilities derecognised during the year	(133,089)	(145,153)
a) reversals	(133,089)	(145,153)
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	(35,100)	(27,670)
3.3 Other decreases	(5,586)	(4,462)
3.4 Business combination transactions	-	-
4. Closing balance	2,837,408	2,978,417

Change in deferred tax liabilities (balancing entry in equity)

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
1. Opening balance	-	17
2. Increases	23	-
2.1 Deferred tax liabilities recognised during the year	23	-
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) others	23	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
2.4 Business combination transactions	-	-
3. Decreases	-	(17)
3.1 Deferred tax liabilities derecognised during the year	-	-
a) reversals	-	-
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	(17)
3.4 Business combination transactions	-	-
4. Closing balance	23	-

21. Other non-current liabilities

The table below provides a breakdown of Other non-current liabilities as at 31 December 2017, for a total amount of €588 million (€452 million at 31 December 2016).

Other non-current liabilities: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Accrued liabilities and deferred income	11,393	14,183
Accrued liabilities and deferred income from regulated activities	461,920	284,951
Other liabilities	114,362	152,613
Total	587,675	451,747

Other non-current liabilities mainly consist of the following:

- liabilities from regulated activities of the SNAM Group related to the transport sector (€269 million, of which €224 million are non-current) related to the higher amounts invoiced for the transport of natural gas with respect to the limits set by the Regulator, and to penalties charged to users that exceeded their reserved capacity, subject to reimbursement through tariff adjustments pursuant to ARERA resolution no. 166/05, as well as to the storage sector (€30 million, only the current portion) related to balancing and stock replenishment charges to be reimbursed to service users in accordance with the Authority's resolution no. 50/06;
- deferrals for grants related to plants belonging to Terna S.p.A. (€96 million);
- advance payments from lenders in respect of the Italy-France private Interconnector (€111 million);
- security deposits paid by users of the balancing service, pursuant to resolution ARG/gas 45/11 for €67 million and recorded in SNAM's financial statements.

22. Liabilities directly attributable to available-for-sale assets

Liabilities directly attributable to available-for-sale assets, for an amount of approximately €6 million as at 31 December 2016, concerning environmental provisions for expenses for remediation work on a building complex classed under available-for-sale assets, were derecognised following its sale to Eni by the Italgas group.

CURRENT LIABILITIES

23. Current portion of long-term loans

The item, which at 31 December 2017 amounted to €2,208 million (€1,914 million at 31 December 2016) includes the current portion of long-term loans.

Loans - current portion

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Bonds		
- EMTN programme	1,916,877	1,403,792
- other issues	8,322	8,322
Bank loans	281,456	500,278
Other lenders	1,647	1,374
Total	2,208,302	1,913,766

A breakdown of this item is detailed in the tables set out in note 18.

24. Trade payables

Trade payables recorded at 31 December 2017 amounted to €2,869 million (€3,215 million at 31 December 2016) and were broken down as follows:

Trade payables: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Payables due to suppliers	3,208,524	2,958,658
- energy-related payables	1,602,573	1,525,743
- non-energy-related payables	784,931	735,713
- GAS sector payables	716,283	686,668
- due to other suppliers	104,737	10,534
Payables for construction contracts	6,046	9,135
Total	3,214,570	2,967,793

Energy-related trade payables (€1,603 million) recorded in TERNA's financial statements, relating to the financial effects of "pass-through" costs, principally related to TERNA's electricity dispatching operations, as well as to the transport fees due to other owners of portions of the national transmission grid.

Non-energy related trade payables of €785 million recorded in TERNA Group's consolidated financial statements refer to amounts owed to suppliers for invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment. The increase with respect to the previous year is mainly attributable to the increase in investment activity in the last part of the year.

Trade payables in the GAS segment, amounting to €716 million, mainly refer to natural gas transportation (€315 million, of which €207 million related to gas system balancing services), distribution (€184 million) and storage (€29 million).

25. Income tax liabilities

Current tax liabilities amounted to €5 million at 31 December 2017 (€11 million at 31 December 2016) and were broken down as follows

Current tax liabilities: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Income tax payables		
- Ires payables	2,785	10,754
- Irap payables	1,722	294
- other tax payables	68	121
Total	4,575	11,169

26. Current financial liabilities

Other financial liabilities amounted to €1,459 million at 31 December 2017 (€4,195 million at 31 December 2016) and referred mainly to uncommitted floating-rate credit facilities used by SNAM group.

Current financial liabilities: breakdown and fair value levels

(thousands of euro)

Items/Figures	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
Fair value-related hedging derivatives	-	-	-	-	203	-
a) interest rate risk	-	-	-	-	-	-
b) exchange rate risk	-	-	-	-	203	-
c) several risks	-	-	-	-	-	-
Cash flow hedge-related derivatives	-	3,615	-	-	732	-
a) interest rate risk	-	2,415	-	-	732	-
b) exchange rate risk	-	1,200	-	-	-	-
c) other	-	-	-	-	-	-
Derivati di copertura degli investimenti esteri	-	-	-	-	-	-
a) interest rate risk	-	-	-	-	-	-
b) exchange rate risk	-	-	-	-	-	-
c) other	-	-	-	-	-	-
Non-hedging derivatives	-	-	-	-	-	-
Other financial liabilities	-	-	1,455,864	-	-	4,193,943
Total	-	3,615	1,455,864	-	935	4,193,943

27. Other current liabilities

Other Current liabilities amounted to €1,626 million at 31 December 2017 (€1,230 million at 31 December 2016) and were broken down as shown in the following table:

Other current liabilities: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
VAT payables	3,371	4,016
Irpef withholdings on employees	13,854	12,789
Other duties and taxes	11,545	9,274
Accrued liabilities and deferred income	25,214	13,386
Advances	24,239	57,112
Payables due to pension and social security institutions	58,763	49,849
Payables due to employees	111,490	100,402
Accrued liabilities and deferred income from regulated activities	45,025	12,490
Other liabilities	1,332,724	970,444
Total	1,626,225	1,229,762

Changes in other current liabilities are mainly due to the allocation of payables to shareholders in respect of the advance on the 2017 dividend of €0.862 per share approved on 6 November 2017 and distributed in January 2018 by Snam S.p.A., and increased payables of the SNAM group to CSEA regarding the transportation sector (€183 million), mainly attributable to additional fees.

III - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

A. REVENUES

28. REVENUES FROM SALES AND SERVICES

Revenues from sales and services: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Revenues from electricity dispatching and distribution		
Grid transport consideration receivables	1,803,760	1,732,994
CTR adjustments for previous years	(145)	2,009
Service quality	7,400	15,449
Other energy revenues	213,983	132,453
Other sales and performance	158,986	149,722
Total	2,183,984	2,032,627
- of which IFRIC 12 revenues	21,131	21,179
Revenues from storage, transportation, regasification and distribution of natural gas		
Storage	442,715	434,378
Distribution	1,524,617	1,319,386
Transport and dispatching	1,941,053	1,918,513
Regasification	18,202	17,485
Other sales and performance	76,447	63,935
Total	4,003,034	3,753,697
- of which IFRIC 12 revenues	479,651	315,530
Total	6,187,018	5,786,324

The grid transmission fees refer to income earned by TERNA for use of the National Transmission Grid - NTG.

The increase in transmission revenue reflects mainly the increase in the amount receivable to RTNNTG, acquired from the FSI Group at the end of 2015 (up €66 million), which in the comparative period only covered operating costs.

The other energy revenues consist mainly of fees paid to TERNA by electricity companies for despatching services. The increase over the prior year of other energy revenues and from concessions activities, equal to €81,5 million, can be attributed to the new investments related to concessions activities in Sudamerica.

Finally, the other sales and services originate from the purchase and sale of energy concluded on a daily basis with the operators in the electricity market in carrying out despatching activities.

Revenues in the GAS sector, which amounted to €4,003 million at 31 December 2017, are related to:

- transport and despatching (€1,941 million, of which € 1,178 million related to Eni S.p.A and €302 million related to Enel Trade S.p.A.);
- distribution (€1,525 million, of which €1,045 million for natural gas transportation refer to natural gas transport on behalf of all commercial operators requesting access to the networks of the distribution companies based on the Network Code. This revenue was calculated based on Authority resolutions no. 220/2017/R/gas and 367/2014/R/gas.

In addition, €480 million are due to the construction and upgrading of the natural gas distribution infrastructures associated with the concession agreements pursuant to IFRIC 12;

- storage of natural gas for €443 million, of which €352 million referring to the fees from storage services;
- regasification of LNG for €18 million;

and finally, other sales and services (€76 million). These revenues are recorded net of the tariff components, in addition to the tariff, which are meant to cover the general costs of the gas system. The amounts collected are then paid to Cassa per i servizi energetici e ambientali (CSEA), for the same amount.

29. OTHER REVENUES AND INCOME

The table below shows the breakdown of Other revenues and income, which at 31 December 2017 amounted to €151 million (€200 million at 31 December 2016):

Other revenues and income: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Other industrial revenues	34,017	75,095
Revenues from the sale of gas for the balancing service	30,041	72,296
Income from the sale of energy efficiency securities	-	672
Contractual penalties and other income relating to trade transactions	3,976	2,127
Other revenues and incomes	109,939	113,454
Rental income	27,617	27,958
Lease of business unit	-	-
Other contributions	8,556	9,376
Other income	73,766	76,120
Gains on disposal	6,655	11,506
Gains on disposal from property, plant and equipment	6,654	11,461
Gains on disposal from intangible assets	1	45
Total	150,611	200,055

Revenues from the sale of gas for the balancing service are revenues from balancing activities, in operation since 1 December 2011 as a result of resolution ARG/gas 45/11 issued by the Authority, and relate to sales of natural gas owned by the Company for balancing the gas system. These revenues correspond to the operating costs connected to the withdrawal of gas from storage.

B. OPERATING COSTS

30. RAW MATERIALS AND CONSUMABLES USED

The breakdown of costs for raw materials is shown in the table below:

Costs for raw materials: breakdown

(thousands of euros)

Items/Figures	31/12/2017	31/12/2016
Raw materials, supplies, consumables and goods	385,913	288,499
Increases for internal work	(49,069)	(65,549)
Total	336,844	222,950

The item represents the value of materials and miscellaneous equipment consumed in ordinary plant operation and plant maintenance, as well as the consumption of materials for the fulfilment of orders.

The increase on the previous financial year is mainly due to higher costs for the development of South American activities, recognized in application of IFRIC 12 (+€77.8 million, mainly referring to Brazil) and increased business in Uruguay, net of the effect of the completion of the Chile contract (+€4.2 million), which were recognized by the Terna group.

31. SERVICES

Costs for services recognised at 31 December 2017 amounted to €776 million (€753 million at 31 December 2016) and were broken down as follows:

Costs for services: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Construction, planning and works management	221,792	158,847
IT services (Information Technology)	78,333	80,074
Purchase of transport capacity (interconnection)	60,718	62,548
Maintenance services	41,780	44,458
Technical, legal, administrative and professional services	124,161	115,643
Personnel-related services	26,289	30,856
Telecommunications services	42,449	36,717
Electricity, thermal energy, water, etc.	20,034	19,092
Insurance	10,433	10,978
Other services	114,267	157,232
Costs for leases and rentals	108,644	92,118
- fees, patents and user licenses	62,538	62,859
- leases and rentals	46,106	29,259
Increases for internal work	(73,868)	(56,242)
Commission expenses	1,222	940
Total	776,254	753,261

The increase of costs for services compared to the previous financial year is mainly due to planning, work supervision and facility maintenance costs for the ITALGAS group, essentially regarding the extension and maintenance of gas distribution facilities.

Costs for professional services include the 2017 fees for auditing, certification and other services provided to companies of the Group by the independent auditors of the parent company CDP Reti Group, namely PriceWaterhouseCoopers S.p.A.

The following disclosure is provided pursuant to Article 149-duodecies of CONSOB Issuers' Regulations:

Independent auditors' fees

(thousands of euro)

Items/Figures	Service Provider	31/12/2017
Auditing		1,192
Certification	PriceWaterhouseCoopers S.p.A.	194
Other		160
Total		1,546

32. STAFF COSTS

A breakdown of staff costs is provided below:

Staff costs: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
1) Employees	785,715	754,771
a) salaries and wages	538,713	491,064
b) social security charges	4,571	4,470
c) staff severance pay	15,299	14,285
d) pension costs	151,597	149,164
e) provision for staff severance pay	1,756	2,464
f) provision for post-employment benefits:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension plans:	19,023	15,681
- defined contribution	16,434	13,386
- defined benefits	2,589	2,295
h) costs related to payment agreements based on own equity instruments	745	-
i) other benefits for employees	54,011	77,643
2) Other personnel in service	5,786	6,454
3) Board of Directors and Board of Auditors	9,938	15,051
4) Retired personnel	-	-
5) Increases for internal work	(126,240)	(136,085)
Total	675,199	640,191

Staff costs for employees, which at 31 December 2017, before their allocation to fixed assets, totalled €801 million, are mainly attributable:

- for € 327 million to TERNA group employees, whose average headcount in the year totalled 3,938;
- for € 231 million to SNAM group employees, whose average headcount totalled 2,880 in the same period;
- for € 242 million to ITALGAS group employees, whose average headcount totalled 3,783.

The following table shows the average headcount of group employees by contractual level:

Average headcount

Items/Figures	31/12/2017	31/12/2016
Senior Managers	230	213
Middle Managers	1,276	1,213
Office staff	5,703	5,455
Manual workers	3,395	3,329
Total	10,604	10,210

33. AMORTISATION, DEPRECIATION AND IMPAIRMENT

Amortisation, depreciation and impairment, for an amount of €1,801 million at 31 December 2017 (€1,738 million at 31 December 2016) are broken down as follows:

Amortisation, depreciation and impairment: breakdown

(thousands of euro)	31/12/2017				31/12/2016			
	Amortisation and depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c)	Amortisation and depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c)
Property, plant and equipment	1,257,335	27,657	-	1,284,992	1,215,305	38,118	-	1,253,423
Intangible assets	509,929	6,310	-	516,239	477,035	7,868	-	484,903
Total	1,767,264	33,967	-	1,801,231	1,692,340	45,986	-	1,738,326

34. OTHER OPERATING COSTS

Other operating costs, which at 31 December 2017 amounted to €173 million (€190 million at 31 December 2016), are shown in the table below:

Other operating costs: breakdown

(thousands of euro)	31/12/2017	31/12/2016
Indirect duties and taxes	33,081	40,962
Losses from cancellation of property, plant and machine and intangible assets	20,582	37,858
Net provisions for bad debts	10,094	3,692
Service quality charges	21,824	8,871
Net provision for risks and charges	33,639	38,810
Other costs	54,135	59,344
Total	173,355	189,537

With regard to changes on the previous year, an increase of €18 million of net charges arising from quality regulation mechanisms for the supply of electric power services, mainly as a result of higher costs incurred during the period and higher contingent assets recognized in the previous financial period by the TERNA group. Such increase is partially offset by the decrease in the charges for penalties related to safety gas recovery operations during gas distribution services.

Direct and indirect tax charges are lower than the previous year by €8 million, whereas capital losses for cancellation and sale of fixed assets decreased by €17 million.

C. FINANCIAL INCOME (EXPENSE)

35. FINANCIAL INCOME

Financial income, equal to €60 million (€96 million at 31 December 2016) is broken down as follows:

Financial income: breakdown

(thousands of euro)	31/12/2017	31/12/2016
Interest income and other financial income	12,332	10,761
Interest income on hedging derivatives	43,884	82,032
Other financial income	3,676	3,374
Total	59,892	96,167

The change from the past year is mainly due to the hedging derivatives portfolio reorganization put in place by Terna during the year.

36. FINANCIAL EXPENSES

Financial expenses recognised at 31 December 2017, amounting to €498 million (€861 million at 31 December 2016), is broken down as follows:

Financial expenses: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Interest expenses and other charges	436,656	517,351
- of which interest expenses on bonds	349,346	443,962
Exchange rate differences	792	280
Financial expenses from hedging activities	4,854	14,333
Financial expenses from buyback activities	56,042	329,386
Total	498,344	861,350

The decrease in interest expenses, in particular from medium to long term debt, is attributable to the general decrease in market interest rates during the period, and to the liability management operations conducted by Group companies during 2017 and the period.

Costs arising from sale and repurchase transactions, amounting to €56 million as at 31 December 2017 (€329 million as at 31 December 2016) are consequent to the recognition in the SNAM financial statements of charges arising from Liability management operations carried out by the group, and show a decrease compared to the previous year by €273 million.

During the period, financial costs for €26.3 million were capitalized (€40 million in the previous financial year.)

37. PORTION OF INCOME / (EXPENSES) FROM EQUITY INVESTMENTS CARRIED AT EQUITY

Income and expenses from equity investments, amounting to €147 million at 31 December 2017 (€146 million at 31 December 2016) consisted of the following:

Portion of income / (expenses) from equity investments carried at equity

(thousands of euro)

Items/Figures	31/12/2017				31/12/2016			
	Joint ventures	Associates	Other	Total	Joint ventures	Associates	Other	Total
A. Income	158,030	3,797	30	161,857	160,887	3,228	-	164,115
1. Income	158,028	598	-	158,626	160,887	2,092	-	162,979
- Net equity valued investments	158,028	598	-	158,626	160,887	2,092	-	162,979
2. Gains on disposal	-	-	-	-	-	-	-	-
3. Writebacks	-	-	-	-	-	-	-	-
4. Other	2	3,199	30	3,231	-	1,136	-	1,136
B. Charges	(9,966)	(4,333)	(250)	(14,549)	(9,852)	(8,667)	-	(18,519)
1. Impairment	(9,966)	(4,333)	-	(14,299)	(9,852)	(8,667)	-	(18,519)
- Net equity valued investments	(9,966)	(4,333)	-	(14,299)	(9,852)	(8,667)	-	(18,519)
- Other investments	-	-	-	-	-	-	-	-
2. Impairment adjustments	-	-	-	-	-	-	-	-
3. Losses on disposal	-	-	-	-	-	-	-	-
4. Other	-	-	(250)	(250)	-	-	-	-
Total	148,064	(536)	(220)	147,308	151,035	(5,439)	-	145,596

Revaluations made during the period mainly concern the investments in Trans Austria Gasleitung GmbH (€84 million), TIGF Holding S.A.S. (€41 million), in AS Gasinfrastruktur Beteiligung GmbH (€11 million) and Toscana Energia S.p.A. (€23 million). Writedowns mainly concern GasBridge 1 B.V. (€5 million), GasBridge 2 B.V. (€5 million), and Trans Adriatic Pipeine AG (€4 million).

E. TAXES FOR THE PERIOD

38. TAXES FOR THE PERIOD

Taxes for the year amounted to €622 million (€594 million at 31 December 2016) and are broken down as follows:

Taxes for the year: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
1. Current taxes (+/-)	781,136	800,119
2. Change in current taxes from previous years (+/-)	627	(6,055)
3. Reduction of current taxes for the year (+)	-	-
4. Change in deferred tax assets (+/-)	(5,562)	(34,317)
5. Change in deferred tax liabilities (+/-)	(153,921)	(166,185)
Taxes for the period	622,280	593,562

The reconciliation between the theoretical and actual tax liability is shown below:

Reconciliation between theoretical and actual tax liability: IRES

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Income (loss) before taxes	2,283,602	1,822,527
IRES theoretical tax liability (24.0%)	(548,064)	(501,195)
Increase in taxes	(291,724)	(324,993)
- non deductible interest expenses 4%	(6,451)	(6,785)
- temporary non deductible differences	(45,028)	(80,417)
- permanent non deductible differences	(307)	(4,614)
- equity investments impairment	(3,186)	(6,875)
- altre variazioni in aumento	(236,752)	(226,302)
Decreases in taxes	198,242	161,261
- dividends 95% exempt	142,996	122,912
- ACE benefit	48,582	34,468
- temporary differences	2,841	41
- prior period deductible expenses	3,800	-
- IRAP deduction	-	2,863
- other changes	23	977
IRES Actual tax liability	(641,546)	(664,927)

Reconciliation between theoretical and actual tax liability: IRAP

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
IRAP tax base	2,866,158	2,757,063
IRAP theoretical tax liability 5.57%	(159,645)	(153,568)
Increases in taxes	(4,427)	666
- non deductible interest expenses 4%	(60)	(55)
- other non deductible expenses	(2,251)	721
- effect of different regional tax rates (-)	(2,116)	-
Decreases in taxes	24,482	17,712
- prior period deductible expenses (+)	-	-
- deductible employees costs	18	21
- decreases	4,051	1,377
- effect of different regional tax rates (+)	20,413	16,314
- IRAP surcharge	-	-
IRAP Actual tax liability	(139,590)	(135,190)

IV - BUSINESS COMBINATIONS

IV.1 TRANSACTIONS CARRIED OUT DURING THE PERIOD

During the year the following business combinations, relevant for CDP RETI Group, have been accounted for:

(thousands of euro)

Company name	Date of transaction	(1)	(2)	(3)	(4)
Infrastrutture trasporto gas S.p.A.	13/10/2017	106,219	100%	19,232	5,907
Enerco Distribuzione S.p.A.	06/12/2017	35,918	100%	251	(56)

Key

(1) = Cost of transaction

(2) = Percentage of voting rights in the Ordinary Shareholder's Meeting

(3) = Total Group revenues

(4) = Group net Profit (Loss)

Infrastrutture trasporto gas S.p.A.

On 13 October 2017, as a result of the occurrence of conditions precedent on which the completion of the operation depended, Snam S.p.A. closed the purchase from Edison of the entire share capital of Infrastrutture Trasporto Gas S.p.A. (ITG), for a total consideration, net of a price adjustment, of €172 million, €106 million of which by way of contractually established consideration and €66 million by way of repayment of the intercompany loan existing between ITG and Edison.

The aforementioned acquisition was carried out through the SPV Asset Company 2 S.r.l., whose share capital is entirely subscribed and paid in by the sole shareholder Snam S.p.A., fully consolidated in application of IFRS 10 "Consolidated Financial Statements" as of 13 October 2017.

The accounting effects of business combinations pursuant to IFRS 3 are illustrated below.

Infrastrutture trasporto gas S.p.A.: accounting results of the business combination

(thousands of euro)

Items/Figures

Assets	Carring amount	Adjustment	Fair value
Property, plant and equipment	106,118	45,071	151,189
Intangible assets	588		588
Ather assets	13,187		13,187
Total acquired assets	119,893	45,071	164,964
Liabilities			
Bank financial liabilities			-
Non current financial liabilities	65,581		65,581
Tax liabilities	176	12,570	12,746
Other liabilities	6,222		6,222
Severance pay	384		384
Provision for risks and charges	469		469
Total acquired liabilities	72,832	12,570	85,402
Acquired net assets	47,061	32,501	79,562
Goodw ill		26,657	26,657
Business combination cost	47,061	59,158	106,219

ITG is the third largest Italian natural gas transport company, operating the gas pipeline between Cavarzere (Veneto) and Minerbio (Emilia Romagna). This investment allows Snam to reinforce its infrastructure in Italy and to exploit additional opportunities for efficiency improvements in the integrated management of the entire gas system, by connecting a strategic entry point for the Italian natural gas market with the national transport network. This acquisition was completed through the special purpose vehicle Asset Company 2 S.r.l., whose share capital has been wholly subscribed and paid in by the sole shareholder, Snam S.p.A.

As this involves regulated activities in the natural gas transport sector, the RAB value, including the current value of the rate incentives granted on specific kinds of previously made investments, has been taken as the reference value for determining the fair value of the assets, comprised mainly of the Cavarzere - Minerbio gas pipeline.

Starting from the acquisition date, the contribution by ITG to the consolidated net profit of Snam amounts to about 2 million euro. If the business combination had been effective from 1 January 2017, ITG would have made a 7 million euro contribution to net profit.

Enerco Distribuzione S.p.A.

On 6 December 2017, the subsidiary Italgas Reti S.p.A. completed the acquisition of the entire share capital of Enerco Distribuzione S.p.A., which holds 27 concessions in the provinces of Padua and Vicenza and the entire capital of the company S.G.S. S.r.l.

The price paid on acquisition was €35,918 thousand; an earn-out mechanism is provided which depends on the possible higher RAB value that the Authorities might recognize on the acquired concessions.

The operation determined an increase in revenues and a reduction of Group profits by respectively €253 thousand and €56 thousand, in the period between the date of acquisition and 31 December 2017. If the transaction had been carried out on 1 January 2017, the additional revenues and profits for the year would have been respectively €8,410 thousand and €994 thousand.

The fair value of the net assets acquired, as shown in the table below, was €35,918 thousand, therefore no goodwill was recognized in respect of the acquisition.

The accounting effects of business combinations pursuant to IFRS 3 are illustrated below.

Enerco Distribuzione S.p.A.: accounting results of the business combination

(thousands of euro)

Items/Figures

Assets	Carring amount	Adjustment	Fair value
Property, plant and equipment	53		53
Intangible assets	59,990		59,990
Ather assets	4,214		4,214
Total acquired assets	64,257	-	64,257
Liabilities			
Bank financial liabilities	11,665		11,665
Non current financial liabilities			-
Tax liabilities	9,152		9,152
Other liabilities	5,339		5,339
Severance pay	244		244
Provision for risks and charges	1,939		1,939
Total acquired liabilities	28,339	-	28,339
Acquired net assets	35,918	-	35,918
Goodwill			-
Business combination cost	35,918	-	35,918

IV.2 TRANSACTIONS CONCLUDED AFTER THE END OF THE PERIOD

The following business combination transactions were concluded from the reporting date of the consolidated financial statements to the date of their approval by the Board of Directors. The information made available by the subsidiaries which carried them out are also shown.

Avvenia

The closing of the acquisition of a 70% interest in a New.Co. was signed on 15 February 2018, as provided in the agreement signed on 10 October 2017 by Terna via its subsidiary Terna Plus, which now holds the main assets of Avvenia, a leading company in the energy efficiency sector, certified as an Energy Service Company (Esco).

TEP Energy Solution

On 23 February 2018, the subsidiary Snam signed an agreement for the acquisition of a controlling interest, equal to 82% of the share capital, in TEP Energy Solution (TEP), one of the main Italian companies active in the energy efficiency sector, certified as an Energy Service Company (ESCo). The agreement was reached on the basis of the enterprise value of 100% of TEP, amounting to 21 million euro. A price adjustment based on the results for the next three years and put and call options exercisable by 2020 are envisaged. This venture is part of the strategic plans of the company to reduce its reliance on fossil fuels and improve the use of energy in the territories where it operates. The transaction is scheduled for closing by September 2018, and is conditioned on the Italian Antitrust Authority (Autorità Garante della Concorrenza e del Mercato – AGCM) issuing its own authorisations.

Ichnusa gas S.p.A.

Italgas concluded, on 28 February 2018, the acquisition, from CPL Concordia and Impresa Costruzioni Ing. Raffaello Pellegrini Srl, of the entire share capital of Ichnusa Gas S.p.A., which holds, through its subsidiaries, 12 concessions for the construction and conduction of gas distribution networks in the territories of 81 Municipalities of Sardinia.

With the finalization of the transaction, the new Italgas concessions will increase to 52 in application of the growth strategy announced to the market in the 2017-2023 Strategic Plan which, pending the relevant tenders, aimed at developing the Group also through the acquisition of small and medium size operators.

The overall value measurement of Ichnusa Gas was approximately €26 million (Enterprise Value).

Seaside S.r.l.

Italgas completed, on 13 march 2018, the acquisition of the entire company capital of Seaside s.r.l., one of the major Italian Energy Service Companies (ESCO), with a cutting edge offer in digital services, thanks to its expertise in the Big Data, Business Intelligence and Machine Learning sectors.

Seaside is certified UNI CEI 11352, is based in Bologna and has a portfolio of over 400 clients in Italy, operating in various sectors: from large industries to SMEs from the services sector to the Public Administration. The overall asset measurement of Seaside (enterprise value) was determined to be €8.5 million.

V – TRANSACTIONS WITH RELATED PARTIES

V.1 INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides the remuneration amounts for the year 2017 paid to members of the management and control bodies, and key management personnel of the Parent Company and of the companies that are consolidated on a line-by-line basis.

Remuneration of key management personnel

(thousands of euro)

Items/Figures	31/12/2017			Total
	Directors	Board of auditors	Key management personnel	
a) short-term benefits	7,540	1,226	10,551	19,317
b) post-employment benefits	183	-	1,270	1,453
c) other long-term benefits	692	-	3,127	3,819
d) severance benefits	-	-	1	1
e) share-based payments	297	-	239	536
Total	8,712	1,226	15,188	25,126

V.2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

This paragraph provides the disclosures required pursuant to IAS 24 concerning transactions concluded in 2017 between the CDP RETI Group and related parties.

The related parties of the CDP RETI Group are:

- the Ministry of the Economy and Finance (MEF) and the Group's direct and indirect subsidiaries and associates;
- the companies of the CDP Group, including companies subject to joint control or under significant influence, and their subsidiaries;
- the companies of the CDP RETI Group, including companies subject to joint control or under significant influence, and their subsidiaries;
- the company State Grid Europe Limited, which has a significant influence on the Group parent company CDP RETI.
- key management personnel of the CDP RETI Group, their close family members and any companies controlled by them, even jointly;
- post-employment benefit plans for employees of the CDP RETI Group.

In any event, it should be noted that the Group, with the exception of the acquisition of 1.12% of SNAM and of 0.97% of ITALGAS fully described in the significant event carried during the year of the report of Group operations, did not carry out any atypical or unusual transactions with related parties whose size could have an impact on the financial position or performance of the Group. All transactions with related parties were carried out on an arm's length basis and form part of the ordinary operations of the Group.

The following table shows assets, liabilities, guarantees and commitments as at 31 December 2017, as well as the financial transactions concluded in the year, broken down by type of related party.

Transactions with related parties

(thousands of euro)								31/12/2017		
	CDP	SGEL	CDP RETI Group subsidiaries and associates	CDP Group subsidiaries and associates	MEF and MEF subsidiaries and associates	Key management personnel	Other	Total transactions with related parties	Financial statement item Total	% Impact
Non-current financial assets	340	-	372,621	-	-	-	-	372,961	533,683	70%
Other non-current assets	-	-	15,500	-	7,900	-	-	23,400	145,557	16%
Current financial assets	8,477	-	-	-	-	-	-	8,477	358,812	2%
Trade receivables	-	-	3,176	-	1,057,475	-	-	1,060,651	3,111,453	34%
Other current assets	40,131	15	-	100	-	-	-	40,246	333,732	12%
Cash and cash equivalents	1	-	-	-	-	-	-	1	2,754,368	0%
Total assets	48,949	15	391,297	100	1,065,375	-	-	1,505,736	7,237,605	21%
Loans	1,258,329	-	-	-	-	-	-	1,258,329	24,150,456	5%
Other financial liabilities	8,415	-	-	-	-	-	-	8,415	29,827	28%
Short-term loans and current portion of long-term loans	4,133	-	-	-	-	-	-	4,133	2,208,302	0%
Trade payables	259	-	14,955	709	182,663	-	-	198,586	3,214,570	6%
Current financial liabilities	1,414	-	15,414	-	-	-	-	16,828	1,459,479	1%
Other current liabilities	-	-	-	-	-	-	1,702	1,702	1,626,225	0%
Total liabilities	1,272,550	-	30,369	709	182,663	-	1,702	1,467,993	32,688,859	5%
Revenues	-	15	4,449	100	3,925,614	-	-	3,930,178	6,337,629	62%
Operating costs	(622)	-	(5,987)	(3,762)	(81,395)	-	(2,611)	(94,377)	(3,762,883)	3%
Financial income (expense)	(19,211)	-	5,235	-	25	-	-	(13,951)	(438,452)	3%
Income Statement items Total (before tax)	(19,833)	15	3,697	(3,662)	3,844,244	-	(2,611)	3,821,850	2,136,294	179%
Guarantees received	-	-	1,200	-	636,650	-	-	637,850	-	-
Commitments	-	-	419,000	-	-	-	-	419,000	-	-

Key transactions between the CDP RETI Group and its related parties concern trade relationships with the companies controlled by the MEF, as follows:

- Snam group's trade relationships with ENI and Enel referring, on one hand, to natural gas transportation, regasification and storage services at tariffs set by the Authority, and on the other hand, to electricity purchased from ENI to conduct its business operations;
- Terna group's trade relationships with Enel, concerning NTG remuneration, despatching fees, services associated with leases, rentals, line maintenance, power line communications on owned power lines, services and transactions with the ENI group, mainly concerning despatching activities;
- Italgas group's trade relationships with Eni relating to natural gas distribution, real estate management services and IT-type services.

Non-current financial assets include financial receivables related to the Shareholders' Loan granted to Trans Adriatic Pipeline AG (TAP) by Snam S.p.A.

Significant items of loans payable are the debt payable by the Parent Company to the direct Parent Company CDP and the credit facility granted by CDP to the Terna group.

VI - FINANCIAL RISK MANAGEMENT

Regarding the Parent Company's financial risks, see the special section of the financial statements.

The main corporate risks, measured and managed in regard to TERNA, SNAM and ITALGAS, are detailed in the following.

SNAM GROUP

FINANCIAL RISKS

Market risks

Interest rate risk

Interest rate risk relates to fluctuations in interest rates, which may affect the market value of the company's financial assets and liabilities and the level of net financial charges. SNAM's objective is to optimise interest rate risk whilst pursuing the objectives set out in its Financial Plan. The SNAM group has adopted a centralised organisational model. Under this model, SNAM's business units cover their financial requirements through recourse to the financial markets and use funds in line with the approved objectives, ensuring that the risk profile is kept within set limits.

As at 31 December 2017, the SNAM group used external financial resources through bond issues and bilateral and syndicated loan agreements with banks and other lenders, in the form of medium- and long-term loans and credit facilities at interest rates indexed to benchmark market rates – in particular the Europe Interbank Offered Rate (Euribor) – or at fixed rates.

As at 31 December 2017, exposure to interest rate risk amounted to approximately 22% of total group exposure. At 31 December 2017, SNAM had 2 Interest Rate Swap (IRS) contracts referred to 2 fixed-rate bond loans of euro 650 million with maturity in 2022 and 2024. The IRS contracts are used to convert the fixed-rate loan into a variable-rate loan.

During 2017, Snam entered into new IRS Forward Starting derivative contracts, with long-term tenor, for a total notional amount of 750 million euro, in relation to highly probable prospective financial liabilities that will be incurred up to 2020 in order to meet financial requirements.

Exchange rate risk

SNAM's exposure to exchange rate risk pertains to both transaction and translation risk. Transaction risk arises from the conversion of trade or financial receivables (payables) into currencies other than the functional one and is due to the impact of adverse exchange rate fluctuations in the time interval between entering into and settling the transaction. Translation risk consists in the fluctuation of the exchange rates of currencies other than the consolidation currency (Euro), which may result in changes in consolidated equity. SNAM's Risk Management objective is to minimise transaction risk, also by employing derivative financial instruments. It cannot be ruled out that future significant interest rate fluctuations might produce adverse impacts on the SNAM group's business and balance sheet and financial position, despite the exchange risk-hedging measures taken by SNAM using the financial instruments available on the market.

As at 31 December 2017, SNAM held foreign currency items consisting essentially of a bond for an amount of 10 billion Japanese Yen maturing in 2019, for a value of approximately euro 75 million on the issue date, fully converted into Euro through a Cross Currency Swap hedging derivative (CCS) with notional amounts and maturities mirroring those of the hedged component. This contract has been defined as a cash flow hedge. SNAM holds no currency derivatives for speculative purposes.

Credit risk

Credit risk is the company's exposure to potential losses arising from a counterparty defaulting on its obligations. The non-payment or delayed payment of any amounts due may negatively impact SNAM's performance and financial balance. With respect to the risk of counterparty default in commercial agreements, credit management is the responsibility of SNAM's business units and of its centralised functions in charge of debt collection and dispute management. SNAM supplies its business services to approximately 200 operators in the gas field, considering that the 10 major operators represent approximately 70% of the entire market (Eni, Edison and Enel ranking as the first three).

The rules governing the customers' access to the services offered are established by the Authority and are provided for in the Network Codes, which set out, for each type of service, the duties and responsibilities of the parties providing the services and the contractual clauses reducing the risk of non-compliance by clients. In specific cases, the Codes provide for the issue of guarantees covering partly the obligations entered into when the customer does not possess a credit rating issued by a major international rating agency. The regulatory framework also provides for specific clauses to guarantee the neutrality of the Balancing activity operator, a role held by SNAM Rete Gas as major transmission service operator since 1 December 2011. Specifically, the balancing rules require SNAM Rete Gas to acquire, on a cost-effective basis, the financial resources required to ensure the safe and efficient transport of gas from input to offtake point, in order to guarantee constant balancing of the network, procure the storage resources required to cover any imbalances of individual users and settle the associated receipts and disbursements.

Liquidity risk

Liquidity risk is the risk that, due to the inability to raise new funds (funding liquidity risk) or to liquidate assets on the market (asset liquidity risk), the company may be unable to fulfil its payment commitments, resulting in an impact on income if the company is forced to incur additional costs to honour its commitments or, in extreme cases, in a condition of insolvency endangering the company's viability.

SNAM's Risk Management goal is to implement, in its financial plan, a financial structure that, in line with business objectives, guarantees an adequate level of liquidity for the group, minimising opportunity cost and maintaining an optimal profile in terms of debt maturity and composition.

As highlighted in the paragraph "Interest rate risk", the Company has accessed a large range of funding sources through the credit system and the capital markets (bilateral contracts, syndicated loans by major national and international banks, loan agreements funded by the European Investment Bank - EIB and bond loans).

SNAM's objective is to maintain a balanced debt structure, in terms of subdivision into bonds and bank loans and in terms of availability of committed bank loan facilities, in line with SNAM's business profile and regulatory framework.

As at 31 December 2017, SNAM had unused long-term committed credit facilities totalling approximately euro 3.2 billion. Moreover, at the same date SNAM had a Euro Medium Term Notes (EMTN) programme for an overall maximum value of euro 10 billion, used for approximately euro 8.2 billion at 31 December 2017.

Default risk and debt covenants

The risk of default consists in the possibility that under certain conditions the lender might invoke contractual clauses allowing it to demand early loan repayment, thereby generating a potential liquidity risk.

As at 31 December 2017 SNAM has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these contracts include, inter alia, certain commitments commonly applied in international practice, some of which are subject to specific threshold values, such as, for instance (i) negative pledge commitments under which SNAM and its subsidiaries are subject to limitations on pledging as collateral or placing other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu* and change of control clauses; (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; (iv) limitations on subsidiary debt.

The bonds issued by SNAM on 31 December 2017 are subject to covenants typically used in international practice including, inter alia, negative pledge and *pari passu* clauses.

Failure to comply with these covenants or the occurrence of other events, e.g. cross-default events, may result in SNAM's failure to comply and could trigger the early repayment of the relevant loan. For EIB loans only, the lender is entitled to request further guarantees if SNAM's rating falls below BBB (S&P's/Fitch Ratings Limited) or Baa2 (Moody's) with at least two of the three rating agencies.

Occurrence of one or more of the above scenarios might have adverse impacts on the SNAM group's business and balance sheet, income and financial position, generating additional costs and/or liquidity problems. These commitments do not include covenants requiring compliance with economic and/or financial ratios.

Rating risk

With regard to rating risk, SNAM's long-term rating is: (i) Baa1, confirmed on 22 September 2017 by Moody's Investors Services Ltd ("Moody's"); (ii) BBB+ with stable outlook, confirmed on 8 November 2017 by Standard & Poor's Rating Services ("S&P"); (iii) BBB+ with stable outlook, confirmed on 12 October 2017 by Fitch Ratings ("Fitch"). SNAM's long-term rating by Moody's and S&P's is one notch above that of the Italian Republic. Based on the methodology adopted by rating agencies, the downgrade by one notch of the Italian Republic's current rating would trigger a likely equivalent downgrade of SNAM's current rating.

A downgrade in the SNAM group's rating might limit its access to the capital market and raise the cost of funding and/or refinancing of current debt, hence affecting negatively the SNAM's group business activity, balance sheet, income and cash flow position.

ITALGAS GROUP

Below is a list of the main risks analysed and monitored by the Italgas group.

FINANCIAL RISKS

Interest rate risk

Interest rate fluctuations affect the market value of the company's financial assets and liabilities and the level of net financial charges. The Italgas group has adopted a centralised organisational model. In accordance with this model, Italgas' various departments access the financial markets (banking channels) and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile is contained within set limits.

As at 31 December 2017, financial debt was 28.8% at floating rate and 71.2% at fixed rate.

As at 31 December 2017, the Italgas group was using external financial resources through bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor).

Therefore, any increase in interest rates could have negative effects on the assets and on the economic and financial situation of the Italgas group.

Italgas aims at maintaining, at steady-state, a fixed to floating rate debt ratio such as to minimise the risk of rising interest rates. Specifically, the goal is to achieve a debt composition of approximately 2/3 fixed rate debt and 1/3 floating rate debt. We note in this regard that in 2017 the company issued bonds for a total of euro 2,650 million, broken down as follows: (i) euro 1,500 million, issued on 19 January 2017 divided into two tranches, respectively with 5 year and 10 year maturities, both fixed-rate, amounting to euro 750 million each and with annual coupon 0.50% and 1.625% respectively; (ii) euro 650 million issued on 14 March 2017, with maturity 14 March 2024 and annual fixed-rate coupon of 1.125%; (iii) euro 500 million issued on 18 September 2017, with maturity 18 January 2029 and annual fixed-rate coupon of 1.625%.

Credit risk

Credit risk is the exposure to potential losses arising from a counterparty defaulting on its obligations. Default or delayed payment of receivables may have a negative impact on the revenue and financial situation of Italgas.

The rules governing Clients' access to the services offered are established by the ARERA and are provided for in Network Codes, i.e. in documents that set out, for each type of service, the rules that govern duties and responsibilities of the parties providing the services and the contractual clauses reducing the risk of non-compliance by clients.

As at 31 December 2017, no significant credit risks had been identified. However, it should be noted that approximately 94% of trade receivables are settled as they come due and more than 99% within the following 4 days, thus confirming the reliability of business clients.

It cannot be ruled out, however, that Italgas could incur liabilities and/or losses due to its customers' failure to discharge their payment obligations.

Liquidity risk

Liquidity risk is the risk that, due to the inability to raise new funds (funding liquidity risk) or to liquidate assets on the market (asset liquidity risk), the company may be unable to fulfil its payment commitments, resulting in an impact on income if the

company must incur additional costs to honour its commitments or, in extreme cases, in a condition of insolvency endangering the company's viability.

In order to mitigate this risk and to maintain a level of liquidity enabling it to preserve its rating, Italgas signed loan contracts in excess of its financing needs at 31 December 2017. This surplus (euro 1.1 billion) will be used for any potential liquidity needs, where required, if the actual borrowing requirement is higher than estimated. On that same date, in addition to and by way of integration of the borrowings from the banking system, a residual nominal amount of 850 million euro, to be placed with institutional investors, can be issued thanks to the Euro Medium Term Notes (EMTN) programme approved by Italgas Board of Directors on 23 October 2017.

Italgas aims, in financial terms, at establishing a financial structure that, in line with its business objectives, secures adequate liquidity for the group in terms of debt maturity and composition. The achievement of this financial structure will be ensured by monitoring certain key variables, such as the debt/RAB ratio, the short/medium-long term debt ratio, the fixed-rate/floating-rate debt ratio and the ratio of bank credit granted to bank credit used.

Rating risk

With reference to the long-term debt of Italgas, respectively on 4 August and 12 October 2017, Fitch and Moody's assigned Italgas S.p.A. the final rating of BBB + (stable outlook) and Baa1 (negative outlook).

Based on the methodologies adopted by the rating agencies, a downgrade of one notch in Italy's current rating would trigger a downgrade of at least one notch in Italgas' current rating.

Default risk and debt covenants

As at 31 December 2017, Italgas had unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on the pledging of real property rights or to other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out.

The bonds issued by Italgas as at 31 December 2017 within the scope of the Euro Medium Term Notes programme, require compliance with the typical covenants of international market practice including, inter alia, negative pledge and pari passu clauses.

Failure to comply with these covenants, and the occurrence of other events, some of which are subject to specific threshold values such as cross-default events, can determine default cases for Italgas and possibly cause the acceleration of the related loan.

TERNA GROUP

During the financial year, in going about its business, the Terna Group is exposed to various different financial risks: market risk (namely exchange rate risk, interest rate risk and inflation risk), liquidity risk and credit risk.

The Group's risk management policies seek to identify and analyse the risks the companies are exposed to, establishing appropriate limits and controls and monitoring risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the operations of the companies.

The exposure of the Terna Group to the aforementioned risks is substantially represented by the exposure of the Parent Company. As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits in managing them.

(millions of euro)	31/12/2017			31/12/2016		
	Loans carried at amortized cost	Hedging derivatives	Total	Loans carried at amortized cost	Hedging derivatives	Total
Assets						
Derivative financial instruments					325.7	325.7
Cash and deposits	1,989.2		1,989.2	1,135.7		1,135.7
Trade receivables	1,265.9		1,265.9	1,443.3		1,443.3
Total	3,255.1		3,255.1	2,579.0	325.7	2,904.7

(millions of euro)	31/12/2017				31/12/2016			
	Payables carried ad amortised cost	Loans at fair value	Hedging derivatives	Total	Payables carried ad amortised cost	Loans at fair value	Hedging derivatives	Total
Liabilities								
Long-term debt	2,264.1	7,291.8		9,555.9	2,118.5	7,190.4		9,308.9
Derivative financial instruments			10.5	10.5			12.8	12.8
Trade payables	2,497.9			2,497.9	2,280.7			2,280.7
Total	4,762.0	7,291.8	10.5	12,064.3	4,399.2	7,190.4	12.8	11,602.4

FINANCIAL RISKS

Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risks include three types of risks: exchange rate risk, interest rate risk and inflation risk.

Risk management must be performed with the objective of minimising the related risks by selecting counterparties and instruments compatible with the corporate Risk Management Policy. Speculative activity is not envisaged in the corporate mission.

The Terna Group seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to plan hedging transactions in favourable market conditions.

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments.

In conducting its operations, Terna is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with items of net financial debt and the related hedging positions in derivative instruments that generate financial expense. Terna's borrowing strategy focuses on long-term loans, whose term reflects the useful life of company assets. It pursues an interest rate risk hedging policy that aims at guaranteeing at least a percentage of fixed-rate debt of 40% as provided for in the corporate policies. Taking into account the low level of interest rates, the group's total debt was changed to fixed-rate.

The financial assets and liabilities in respect of derivative instruments in place during the year can be classified as:

- cash flow hedging derivatives, related to hedging the risk of changes in cash flows associated with long-term floating-rate loans;
- fair value hedging derivatives, related to hedging the exposure to changes in the fair value of a financial asset or liability associated with fluctuations in interest rates (fixed-rate bonds).

Below are the notional amounts and fair values of the derivative financial instruments subscribed by the Terna Group:

(millions of euros)	31/12/2017		31/12/2016		Change (+ / -)	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
FVH derivatives			1,350.0	325.7	(1,350.0)	(325.7)
CFH derivatives	2,566.0	(10.5)	2,974.1	(12.8)	(408.1)	2.3

The notional amount of outstanding cash flow hedges at 31 December 2017, amounting to €2,566.0 million, breaks down as follows:

- €1,166.4 million (fair value of -€0.8 million), relating to the Parent Company, maturing 2018;
- €1,379.9 million (fair value of -€9.1 million), relating to the Parent Company, maturing 2021;
- €19.7 million (fair value of -€0.6 million), relating to the subsidiary Difebal maturing 2032.

Sensitivity to interest-rate risk

As regards interest rate risk management, Terna has floating-to-fixed interest rate swaps (CFHs) to hedge the expected cash flows in respect of most of other floating-rate debts.

The following table reports the amounts booked in the income statement and in "Other comprehensive income" for positions that are sensitive to changes in interest rates, the theoretical value of the positions following a positive or negative shift in the yield curve and the differential impact of such changes recognised in the income statement and in "Other Comprehensive Income". A hypothetical 10% variation in interest rates with respect to market interest rates at the reporting date was assumed:

(millions of euro)	Net income or loss			Equity		
	Current rates +10%	Current values	Current rates - 10%	Current rates +10%	Current values	Current rates - 10%
31 December 2017						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)				(12.3)	(12.8)	(13.3)
<i>Hypothetical change</i>	0.0	0.0	0.0	0.5		(0.5)
31 December 2016						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	(11.1)	(11.2)	(11.3)	(13.0)	(12.8)	(13.3)
<i>Hypothetical change</i>	0.1	-	(0.1)	0.5	-	(0.5)

Inflation risk

As regards inflation rate risk, the rates established by Regulators to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. Such cost components are updated on an annual basis to consider the accrued impact of inflation. Having used an inflation-linked bond issue in 2007 the Company put in place an effective hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expense.

Exchange rate risk

Generally, Terna hedges exchange rate risk through the forward sale or purchase of currencies (forward contracts) or the use of options. Currency options give Terna the right or the obligation to buy or sell predetermined amounts of a currency at a specific exchange rate at the end of a specific period of time. Normally, both forward contracts and options have maturities of no more than 12 months.

Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2017, the component of financial instruments associated with exchange rate risk is residual and attributable to the Tamini Group.

Liquidity risk

The liquidity risk is the risk Terna might encounter difficulty in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of financial needs by obtaining

adequate lines of credit and appropriate management of any surplus liquidity. At 31 December 2017, Terna had available short-term credit lines for approximately € 622 million and revolving credit lines for € 2,050 million.

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by trade receivables and the financial investments of the Group.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since the counterparties, in compliance with financial risk management policies, are leading international credit institutions with high ratings.

Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have highly concentrated credit risk.

Credit risk management is guided by the provisions of ARERA Resolution no. 111/06, which, in Art. 49, introduced instruments for the limitation of risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee defined by the Authority.

The following table summarises the exposure to such risk as at the reporting date.

<i>(millions of euro)</i>	31/12/2017	31/12/2016	Change (+ / -)
FVH derivatives		325.7	(325.7)
Cash and cash equivalents and other financial assets	1,989.2	1,135.7	853.5
Trade receivables	1,265.9	1,443.3	(177.4)
Total	3,255.1	2,904.7	350.4

The total value of the exposure to credit rate risk at 31 December 2017 is represented by the carrying amount of financial assets, trade receivables and cash and cash equivalents.

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the Parent is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk.

VII – SHARE-BASED PAYMENTS

Long-term performance share plan of SNAM S.p.A.

On 11 April 2017 the ordinary Shareholders' Meeting of Snam S.p.A. approved the 2017-2019 long term performance share plan, giving the powers necessary to fully implement the Plan to the Board of Directors and, on its behalf, to the Chief Executive Officer, with the power to sub-delegate. The adoption of a long-term performance share plan aims to bring Snam in line with market practice and strengthen the link between value creation for shareholders and the remuneration paid to the management. The Plan applies to the Chief Executive Officer and to a maximum number of 20 executives who hold offices that have the greatest impact on value creation or are strategically important in terms of achieving Snam's multi-year objectives.

In implementation of the foregoing mandate, on 20 June 2017 the Board of Directors resolved: (i) to grant the annual incentive to the Chief Executive Officer; (ii) to approve the Regulation of each annual allocation; (iii) to identify Beneficiaries on the basis of specific criteria; (iv) the terms of implementation.

The Plan provides for three cycles of annual assignment of three-yearly targets (so-called Rolling Plan) for the years 2017, 2018 and 2019. At the end of the three-year performance period, beneficiaries will be entitled to the free assignment of company shares if the conditions underlying the Plan are satisfied. At the end of the Plan's vesting period, the beneficiaries will also receive a Dividend Equivalent, consisting in a number of additional shares equivalent to the ordinary and extraordinary dividends distributed by Snam in the vesting period, which would have accrued on the number of shares effectively assigned to the beneficiaries on the basis of their performance and in accordance with the terms and conditions set out in the Plan. Entitlement to the shares is subject to meeting the performance targets, which are measured as the average yearly performance against the parameters established for the three-year vesting period, with impact on EBITDA, adjusted net income and sustainability.

The maximum number of shares backing the plan is 3,500,000 shares for each year of the Plan. The Plan will terminate in 2022, that is, on expiry of the three-year vesting period linked to the last assignment of shares (2019). The Chief Executive Officer and the other eligible executives will be subject to a lock-up period of two years on 20% of the shares assigned, as recommended in the Corporate Governance Code.

The fair value of the shares for the purposes of the long-term stock option Plan for 2017-2019 was set as €3.8548. The costs arising from the measurement at fair value of the shares allocated for the period from 1 July to 31 December 2017, recognized as staff cost and matched by a corresponding net equity reserve, amount to one million euro.

VIII – SEGMENT REPORTING

This section of the notes to the consolidated financial statements has been drafted in compliance with IFRS 8 - Operating Segments, in force since 01 January 2009 in replacement of IAS 14 - Segment Information.

CDP RETI's corporate purpose is the holding and management, both on an ordinary and extraordinary basis, of the equity investments in SNAM, ITALGAS and TERNA, monitoring the infrastructure they operate to ensure it is developed and maintained appropriately, and developing the necessary expertise in gas transport, dispatching, distribution, regasification and storage, and electricity transmission, in order to oversee its investments most effectively.

The segments that CDP RETI and its subsidiaries operate in essentially consist of:

- gas transport, regasification and storage handled by the companies of the SNAM Group;
- dispatch and transmission of electricity handled by the companies of the TERNA Group;
- gas distribution handled by the company of ITALGAS Group.

Below the results by business segment as of the financial year 2017, as well as the reconciliation to the Group net income.

Reconciliation Income Statement - Sectors Key financial figures

(million of euros)

Items	31/12/2017							31/12/2016
	CDP RETI	SNAM	TERNA	ITALGAS	Intercompany adj.	Other adj.	Group	Gruppo
Revenues from sales and services	-	2,493	2,184	1,571	(61)	-	6,187	5,786
Other revenues and income	0	40	64	50	(3)	-	151	200
Revenues from financial statement	0	2,533	2,248	1,621	(64)	-	6,338	5,986
Reclassifications (1)	-	-	(103)	(497)	-	-	(599)	(353)
Revenues from sectors	0	2,533	2,146	1,124	(64)	-	5,738	5,634
Costs from financial statement (not included Depreciation and Amortization)	(2)	(525)	(646)	(845)	64	(8)	(1,962)	(1,806)
Reclassifications (1)	-	-	103	497	-	-	599	353
Costs from sectors (not included Depreciation and Amortization)	(2)	(525)	(543)	(348)	64	(8)	(1,362)	(1,453)
EBITDA	(2)	2,007	1,602	776	0	(8)	4,376	4,180
EBITDA margin		79%	75%	69%			76%	74%
								0%
Amortisation, depreciation and impairment	-	(659)	(525)	(358)	-	(259)	(1,801)	(1,738)
Operating profit (EBIT)	(2)	1,348	1,077	418	0	(267)	2,575	2,442
EBIT margin		53%	50%	37%			45%	43%
								0%
Financial income	479	10	48	2	-	(479)	60	93
Borrowing expenses	(27)	(292)	(140)	(39)	-	-	(498)	(858)
Portion of income (expenses) from equity investments valued with the equity method	-	160	4	23	-	(40)	148	146
Taxes for the period	38	(329)	(294)	(112)	-	75	(622)	(594)
Profit from discontinued operations	-	-	-	-	-	-	-	-
Net income from sectors	488	897	695	293	0	(711)	1,661	1,229

(1) Reclassification pursuant to IFRIC 12 "Service Concession Arrangements" and to other revenues recognised in an amount equal to the costs incurred and are shown as a direct reduction of the respective cost items

The consolidated information on balance sheet analyzed by senior management do not make direct reference to sector activities, but to the measurement and presentation of Equity, Net Financial Debt and Technical Investments.

IX - GUARANTEES AND COMMITMENTS

Guarantees and commitments, amounting to €4.7 billion at 31 December 2017 (€5.2 billion at 31 December 2016) refer to the Gas sector and are broken down as follows:

Guarantees and commitments: breakdown

(thousands of euro)

Items/Figures	31/12/2017	31/12/2016
Guarantees pledged	173,453	132,105
Trade guarantees	105,455	96,475
Financial guarantees	12,055	6,280
Assets held as guarantee for third-party services	55,943	29,350
Commitments	2,556,289	3,135,849
Commitments for the purchase of goods and services	2,011,492	2,347,588
Commitments for associates	419,000	776,000
Other	125,797	12,261
Risks	1,958,085	1,892,115
For third-party assets held for safekeeping	1,879,723	1,785,600
For damages and claims	78,362	106,515
Total	4,687,827	5,160,069

IX.1 GUARANTEES

Guarantees given, for a total amount of € 173 million, refer to indemnities issued to third parties against sureties and other guarantees issued in the interest of subsidiaries or associates to guarantee the performance of works and in relation to tenders and credit facilities associated with the distribution of natural gas.

IX.2 COMMITMENTS

Commitments undertaken towards suppliers to purchase property, plant and equipment and for the supply of services relating to investments in property, plant and equipment and intangible assets under construction/development totalled €2,011 million.

Commitments in associates, amounting to € 419 million, refer to commitments undertaken by SNAM towards TAP in its capacity as the shareholder responsible for financing the project based on shareholding held.

Other commitments mainly refer to commitments for the acquisition of shareholdings, concessions and business units recognized by the ITALGAS group for €84 million, and to minimum future payments relating to operating lease transactions that cannot be cancelled, of which €16 million falling due within the coming financial year and €18 million falling due over the next 5 financial years.

IX.3 RISKS

Risks for third-party assets held, amounting to €1,958 million, refer to approx. 8 billion cubic metres of natural gas held at storage facilities by the beneficiaries of the service. This amount is determined by measuring the quantities of stored gas at the presumed unitary repurchase cost of inventory.

Risks associated with compensation and claims, totalling €79 million, refer to compensation potentially payable but not probable in relation to ongoing disputes with low probability of verification of the related business risk.

ANNEXES

ANNEX 1: SCOPE OF CONSOLIDATION

Company name	Registered Office	Share capital EUR	Investor	%holding	Consolidation method or valuation method
Holding					
CDP RETI S.p.A.	Rome	161,514	Cassa depositi e prestiti S.p.A. State Grid Europe Limited Cassa Nazionale di Previdenza e Assistenza Forense Others	59.10% 35.00% 2.63% 3.27%	Line by line
Consolidated entities					
ACAM GAS S.p.A.	La Spezia	68,090,000	Italgas Reti S.p.A.	100.00%	Line by line
AS Gasinfrastruktur Beteiligung GmbH	Vienna (Austria)	35,000	SNAM S.p.A.	40.00%	Equity method
Snam 4 Mobility S.p.A. (ex ASSET COMPANY 1 S.r.l.)	San Donato Milanese (MI)	50,000	SNAM S.p.A.	100.00%	Line by line
ASSET COMPANY 2 S.r.l.	San Donato Milanese (MI)	10,000	SNAM S.p.A.	100.00%	Line by line
CESI S.p.A.	Milan	8,550,000	Terna S.p.A.	42.70%	Equity method
CGES A.D.	Podgorica (Montenegro)	155,108,283	Terna S.p.A.	22.09%	Equity method
CORESIO S.A.	Bruxelles (Belgium)	1,000,000	Terna S.p.A.	15.84%	Equity method
Difebal S.A.	Montevideo (Uruguay)	140,000 (2)	Terna S.p.A.	100.00%	Line by line
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	2,700,000 (5)	Terna S.p.A.	50.00%	Equity method
GasBridge 1 B.V.	Rotterdam (Netherlands)	6,626,800	SNAM S.p.A.	50.00%	Equity method
GasBridge 2 B.V.	Rotterdam (Netherlands)	6,626,800	SNAM S.p.A.	50.00%	Equity method
Gasrule Insurance D.A.C.	Dublin (Ireland)	20,000,000	SNAM S.p.A.	100.00%	Line by line
GNL Italia S.p.A.	San Donato Milanese (MI)	17,300,000	SNAM S.p.A.	100.00%	Line by line
Italgas Reti S.p.A.	Turin	252,263,314	Italgas S.p.A.	100.00%	Line by line
ITALGAS S.P.A.	Milan	1,001,231,518	CDP RETI S.p.A. SNAM S.p.A.	26.04% 13.50%	Line by line Line by line
Enerco Distribuzione S.p.A.	Padua	24,204,000	Italgas Reti S.p.A.	100.00%	Line by line
S.G.S. S.r.l.	Padua	10,000	Enerco Distribuzione S.p.A.	100.00%	Line by line
Metano S.Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano	200,000	Italgas Reti S.p.A.	50.00%	Equity method
Monita Interconnector S.r.l.	Rome	10,000	Terna S.p.A. Terna Rete Italia S.p.A.	95.00% 5.00%	Line by line Line by line
Rete S.r.l.	Rome	387,267,082	Terna S.p.A.	100.00%	Line by line
Rete Verde 17 S.r.l.	Rome	10,000	Terna Plus S.r.l.	100.00%	Line by line
Rete Verde 18 S.r.l.	Rome	10,000	Terna Plus S.r.l.	100.00%	Line by line
Rete Verde 19 S.r.l.	Rome	10,000	Terna Plus S.r.l.	100.00%	Line by line
Rete Verde 20 S.r.l.	Rome	10,000	Terna Plus S.r.l.	100.00%	Line by line
SNAM RETE GAS S.p.A.	San Donato Milanese (MI)	1,200,000,000	SNAM S.p.A.	100.00%	Line by line
SNAM S.p.A.	San Donato Milanese (MI)	2,735,670,476	CDP RETI S.p.A.	30.10%	Line by line
SPE Santa Maria Transmissora de Energia S.A.	São Paulo (Brazil)	76.474.716 (6)	Terna Plus S.r.l. Terna Chile S.p.A.	99.99% 0.01%	Line by line Line by line
SPE Santa Lucia Transmissora de Energia S.A.	São Paulo (Brazil)	227.214.431 (6)	Terna Plus S.r.l. Terna Chile S.p.A.	99.99% 0.01%	Line by line Line by line
Stogit S.p.A.	San Donato Milanese (MI)	152,205,500	SNAM S.p.A.	100.00%	Line by line
T.E.S. TRANSFORMER ELECTRO SERVICE Asia Private Limited	Maharashtra (India)	15,000,000 (8)	Tamini Trasformatori S.r.l.	100.00%	Line by line
Tamini Transformers USA L.L.C.	Chicago (USA)	52,089 (4)	Tamini Trasformatori S.r.l.	100.00%	Line by line
Tamini Trasformatori S.r.l.	Melegnano (MI)	4,285,714	Terna Plus S.r.l.	70.00%	Line by line
Terna Chile S.p.A.	Santiago (Chile)	1,000,000 (3)	Terna Plus S.r.l.	100.00%	Line by line
TERNA Crna Gora d.o.o.	Podgorica (Montenegro)	114,000,000	Terna S.p.A.	100.00%	Line by line
Terna Interconnector S.r.l.	Rome	10,000	Terna S.p.A. TERNA RETE ITALIA S.p.A.	65.00% 5.00%	Line by line Line by line
TERNA PLUS S.r.l.	Rome	16,050,000	Terna S.p.A.	100.00%	Line by line
TERNA RETE ITALIA S.p.A.	Rome	120,000	Terna S.p.A.	100.00%	Line by line
Terna S.p.A.	Rome	442,198,240	CDP RETI S.p.A.	29.85%	Line by line
Terna Peru S.A.C.	Lima (Peru)	16,501,000 (7)	Terna Plus S.r.l. Terna Chile S.p.A.	99.99% 0.01%	Line by line Line by line
TIGF Holding S.A.S.	Pau (France)	505,869,374	SNAM S.p.A.	40.50%	Equity method
Toscana Energia S.p.A.	Florence	146,214,387	Italgas Reti S.p.A.	48.08%	Equity method
Trans Adriatic Pipeline AG	Baar (Switzerland)	919,210,000 (9)	SNAM S.p.A.	20.00%	Equity method
Trans Austria Gasleitung GmbH (1)	Vienna (Austria)	76,566.31	SNAM S.p.A.	84.47%	Equity method
Umbria Distribuzione GAS S.p.A.	Terni	2,120,000	Italgas Reti S.p.A.	45.00%	Equity method

(1) The percentage of financial rights is equal to 89.2%

(2) Currency: UYU

(3) Currency: CLP

(4) Currency: USD

(5) Currency: TND

(6) Currency: BRL

(7) Currency: PEN

(8) Currency: INR

(9) Currency: CHF

REPORT OF THE INDEPENDENT AUDITORS



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Cdp Reti SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Cdp Reti Group (the Group), which comprise the consolidated balance sheet as of 31 December 2017, the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated equity, statement of consolidated cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters

Auditing procedures performed in response to key audit matters

Investments for the management of infrastructures and for services under concession

Note 1 "Property, plant and equipment" and Note 3 "Intangible assets" of the Notes to the consolidated financial statements as at 31 December 2017

The Group makes significant investments for the development and maintenance of its electricity transmission and gas transport and distribution infrastructures.

The Group's core business is mainly the pre-set returns on investments, amortisation/depreciation and certain operating expenses, in accordance with the regulatory framework set down by the Italian Regulatory Authority for Energy, Networks and Environment (*Autorità di Regolazione per Energia Reti ed Ambiente*).

Considering the significant amount of investments made, the high number of transactions, as well as their impact on the methods to determine the tariffs applied to the Group services, we identified this area as a key audit matter.

In performing our auditing procedures we carried out an analysis, understanding and evaluation of the Group companies' corporate processes regarding the management of investment, identifying the related relevant controls.

We therefore performed procedures to validate the operation and efficacy of the above-mentioned relevant controls.

With regard to the investments for the period, we selected a sample of transactions and verified that the capitalisation criteria under the applicable accounting standards were properly satisfied.

In relation to the Group companies which showed significant ongoing investments, we analysed the ageing and nature of investments in order to identify the existence of impairment indicators, if any.

Finally, we verified the adequacy and completeness of the disclosures provided in the notes to the consolidated financial statements.

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

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



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

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

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

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

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;



- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

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

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 24 June 2015, the shareholders of Cdp Reti SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2015 to 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Cdp Reti SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Cdp Reti Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.



We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Cdp Reti Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Cdp Reti SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Exemption from the preparation of the non-financial statement

As illustrated in the report on operations, management of Cdp Reti SpA has opted to use the exemption from the preparation of the non-financial statement allowed by article 6, paragraph 2 of Legislative Decree No. 254 of 30 December 2016.

Roma, 19 April 2018

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

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

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

PURSUANT TO ARTICLE 154 BIS OF LEGISLATIVE DECREE 58/1998

1. The undersigned Leone Pattofatto, in his capacity as Chief Executive Officer, and Alessandro Uggias, in his capacity as the manager responsible for the preparation of the financial reports of CDP RETI S.p.A., hereby certify, taking account of the provisions of Article 154-bis.3 and 4, of Legislative Decree 58 of 24 February 1998:

- the appropriateness with respect to the characteristics of the company and
- the effective adoption

of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2017.

2. The assessment of the appropriateness of the administrative and accounting procedures followed in preparing the consolidated financial statements at 31 December 2017 was based on a process developed by CDP RETI S.p.A. in line with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at the international level;

3. In addition, we certify that:

3.1 the consolidated financial statements at 31 December 2017:

- a) have been prepared in compliance with the international accounting standards adopted in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) correspond to the information in the books and other accounting records;
- c) provide a true and fair representation of the performance and financial position of the issuer and the companies included in the scope of consolidation;

3.2 the report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 19 April 2018

Chief Executive Officer

/signature/Leone Pattofatto

Financial Reporting Manager

/signature/Alessandro Uggias

3. Report on CDP RETI S.p.A. Operations

1. CDP RETI S.P.A. OPERATIONAL PERFORMANCE

1.1 FINANCIAL HIGHLIGHTS

Financial Highlights

Key financial figures

Items		31/12/2017	31/12/2016
Dividends	(thousand of euros)	479,149	374,883
- of which SNAM	(thousand of euros)	312,104	253,623
- of which TERNA	(thousand of euros)	124,898	121,260
- of which ITALGAS (1)	(thousand of euros)	42,148	-
Profit (loss) on operations	(thousand of euros)	(28,780)	(27,525)
Net income (loss)	(thousand of euros)	488,350	353,694
Comprehensive income	(thousand of euros)	490,719	348,340

Key balance sheet and cash flow figures

Items		31/12/2017	31/12/2016
Equity investments book value		5,023,065	4,835,430
- of which SNAM	(thousand of euros)	3,086,833	2,930,946
- of which TERNA	(thousand of euros)	1,315,200	1,315,200
- of which ITALGAS	(thousand of euros)	621,032	589,284
Receivables for dividends not yet collected	(thousand of euros)	90,828	-
Equity	(thousand of euros)	3,504,168	3,438,142
Net financial debt (2)	(thousand of euros)	(1,642,278)	(1,394,721)

Other key figures and ratios

Items		31/12/2017	31/12/2016
Equity investments market value (3)	(thousand of euros)	8,308,249	7,354,664
Dividends collected	(thousand of euros)	388,321	374,883
Dividends distributed	(thousand of euros)	424,693	611,327
Net cash flow for the period	(thousand of euros)	(57,949)	(270,291)
ROE (2)	(%)	14%	10%
Net financial debt/Equity (2)	(numbers)	0.47	0.41
Net financial debt/Dividends (2)	(numbers)	3.43	3.72

(1) Company established on 1 June 2016 and previously called ITG Holding S.p.A. (as of 7 November 2016 renamed Italgas S.p.A.)

(2) NON GAAP ratios

(3) Product of the number of CDP RETI shares for the official price per share at the end of the period by Snam, Terna and Italgas

1.2 INCOME PERFORMANCE

To facilitate the reading of the income statement, in view of the fact that CDP RETI S.p.A. is an investment vehicle, the following reclassified income statement has been prepared, which “inverts the order of the income statement items pursuant to Legislative Decree 127/1991, presenting first those which relate to the financial operations, as this is the most significant component of income for those companies” (see Consob Communication 94001437 of 23 February 1994).

CDP RETI S.p.A.'s income in the 2017 compared with the previous year are summarized in the operational income statement shown below.

Reclassified Income Statement CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2017	31/12/2016
Dividends	479,149	374,883
Pofit (loss) on core business	479,149	374,883
Financial income and expenses	(26,879)	(24,675)
Administrative expenses	(1,901)	(2,850)
Pofit (loss) on operations	(28,780)	(27,525)
Other revenues and income	36	24
Operating income	450,406	347,382
Income taxes	37,944	6,312
NET INCOME (LOSS)	488,350	353,694

The main component of CDP RETI's income is related to **dividends** from:

- ✓ **SNAM:** equal to 312 milioni (65% of total dividends), of which (i) 221 million (received in May 2017) concerning the final dividend 2016 and (ii) 91 million (received on 24/01/2018) as interim dividend 2017 (approved by Snam S.p.A. BoD on 06/11/2017⁵⁸). In this regard it should be noted that, based on the resolution passed by the Board of Directors on 7 March 2017, interim dividends will be paid again, starting with the dividend for the year 2017 (the interim dividend 2017 corresponds to 40% of the total 2017 dividend, with payment of the remaining 60% in June 2018).
- ✓ **TERNA:** equal to 125 million (26% of total dividends), of which (i) 80 million (received in June 2017) concerning the final dividend 2016 and (ii) 45 million (received on 22/11/2017) as interim dividend 2017 (approved by Terna S.p.A. on 10/11/2017⁵⁹).
- ✓ **ITALGAS:** equal to 42 million (9% of total dividends) received in May 2017 and concerning the final dividend 2016.

The significant dividends' increase (approx. 104 million, +28%) compared to 2016 is mainly due SNAM interim dividend 2017 (91 million, corresponding to approx. 90% of the highest dividends for 2017 compared to 2016), as a result of the change in its dividend policy⁶⁰.

The further increases refer to (i) approx. 10 million due to the higher contribution from the equity investments held in SNAM and (due solely to the above transaction to acquire the equity interests in May 2017⁶¹) and (ii) the larger dividend distributed by TERNA in accordance with its dividend policy (3 million; +3% on 2016).

Among the negative components of the income statement, there are the **financial expenses**, amounting to 27 million, mainly related to the interests from Term Loan contracts (13 million also taking account of the settlement of interest related

⁵⁸ Based on the results for the first nine months and the forecasts for the whole of 2017, the Board of Directors has approved the distribution to shareholders of an interim dividend, equal to €0.0862 per share to be paid out as of 24 January 2018, with an ex-dividend date of 22 January 2018 and a record date of 23 January 2018.

⁵⁹ Based on the results for the first six months and the forecasts for the whole of 2017, the Board of Directors has approved the distribution to shareholders of an interim dividend, equal to €0.074263 per share to be paid out as of 22 November 2017, with an ex-dividend date of 20 November 2017 and a record date of 21 November 2017.

⁶⁰ The last interim dividend (2013 dividend) distributed by Snam S.p.A. dates back to October 2013 (of which 101 million to CDP RETI, corresponding to 0.10 euro per share).

⁶¹ Without the 2017 interim dividend approved by SNAM and on the basis of its previous equity interest, i.e. if the May 2017 acquisition had not taken place, CDP RETI would have received approximately 213 million from SNAM and 41 million from ITALGAS in 2017, for a total dividend of 254 million, coinciding with the amount received in May 2016 from SNAM. In this regard, it is significant that the de-merger of Italgas Reti from SNAM and the IPO by ITALGAS (formerly ITG Holding) entered into effect on 7 November 2016.

to the Swap Transactions) and Bond (14 million). The change in the item compared to the comparative period was due to the additional debt contracted in May 2017 to finance the acquisition of 1.12% of SNAM and 0.97% of ITALGAS.

Administrative expenses are mainly affected by staff costs and fees paid to the parent company/third party suppliers for services received during the period. The reduction compared to the comparison period reflects the absence of the non-recurring costs incurred in 2016 mainly relating to assistance services, provided to the Company, in the demerger of ITALGAS (completed in November 2016).

The **Income taxes**, amounting to income of 38 million (income of 6 million at 31 December 2016) mainly consists of estimated tax consolidation income deriving from the ACE benefit (34 million) and the payment (6 million) of the excess interest expenses not deductible on an individual basis transferred to the tax consolidation mechanism⁶². More specifically, the significant increase in tax consolidation income compared to 2016 is mainly due to the transfer to the tax consolidation for the tax year 2017 of the excess ACE and interest expenses, not used in previous years, due to insufficient group taxable income and excess GOP⁶³.

In contrast, the item income tax also reflects the overall negative impact of approx. 2 million resulting from the following:

- approx. 1 million relating to the difference between the income from the consolidation relating to the excess ACE and interest expenses estimated during the preparation of the financial statements at 31 December 2016 based on the information available at that date, and the amount actually transferred to the tax consolidation when the income tax return was filed in light of the update made to the Group's taxable income;
- approx. 1 million from the recognition of the deferred tax liability recorded on the 2017 interim dividend approved by SNAM in November 2017 and received in January 2018⁶⁴.

The above components led CDP RETI to end the year 2017 with **net income** of 488 million, in significant increase (approx. +38%) on the same period of 2016 (€354 million) mainly due to higher SNAM dividends (312 million vs 254 million in 2016) and the higher revenue of tax management⁶⁵.

1.3 STATEMENT OF FINANCIAL POSITION

The financial position of CDP RETI S.p.A. at 31 December 2017 and at 31 December 2016 is summarised in the tables below.

Reclassified Assets CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2017	31/12/2016
Equity investment in Snam	3,086,833	2,930,946
Equity investment in Terna	1,315,200	1,315,200
Equity investment in Italgas	621,032	589,284
Other assets	141,926	20,802
Cash and cash equivalents	43,602	101,551
TOTAL ASSETS	5,208,593	4,957,783

At 31 December 2017, assets totalled 5,209 million and primarily consisted of items relating to the **equity investments** (about 96% of the total assets) in SNAM, TERNA and ITALGAS (worth a total of 5,023 million; +4% compared to 2016).

The assets' increase (251 million; +5% compared to 2016) is mainly due to higher value in **equity investments** item (+188 million), for the mentioned acquisition of the stakes of SNAM and ITALGAS, and for the recognition of the credit from

⁶² The final amount will be calculated and settled, when preparing the consolidated income tax return.

⁶³ Which can be used – upon payment of the IRES on the total overall income – within the Group taxation.

⁶⁴ From the tax perspective, the dividends are taxed at 5% on a cash basis. The temporary difference between the statutory result (calculated on an accrual basis) and the tax income (calculated on a cash basis) results in the requirement for the Company to recognise deferred tax liabilities during the year (i.e. 2017) for the amount (5%) of the dividend subject to taxation on a cash basis; this deferred tax will be transferred to the income statement in the year when the income is received (i.e. 2018).

⁶⁵ Even without the tax consolidation income recognised at 31 December 2017 and relating to previous years, the economic growth assistance benefit solely for 2017 would have absorbed the taxes for the period. However, in this regard, it should be noted that the notional return, set at 4.75% for 2016, has been set at 1.6% for the tax period through to 31 December 2017 and at 1.5% for the subsequent tax periods with a consequent reduction in the expected tax benefit in the coming years.

SNAM (approx. 91 million and concerning the interim dividend 2017), only partially offset by reduction (-58 million) in cash and cash equivalents.

With specific regard to the value of the **equity investments** - in increase of €188 million compared to 31 December 2016 for the acquisition made in May 2017 of the stakes of SNAM (€156 million) and ITALGAS (€32 million) - also in view of the most recent stock market valuations:

- **SNAM**: closing price on 29 December 2017 equal to 4.1 euro, volume weighted average of the last month before 31 December 2017 equal to 4.2 euro;
- **TERNA**: closing price on 29 December 2017 equal to 4.8 euro, volume weighted average of the last month before 31 December 2017 equal to 5.1 euro;
- **ITALGAS**: closing price on 29 December 2017 equal to 5.1 euro, volume weighted average of the last month before 31 December 2017 equal to 5.2 euro,

which are significantly higher than the carrying value (as noted, 2.9 euro for **SNAM**, 2.2 euro for **TERNA** and 2.9 euro for **ITALGAS**), and in view of currently available information, there are no indicators of impairment that would negatively affect the equity investments' ability to hold their carrying value.

The **other assets** referred primarily to:

- credit from SNAM (91 million) related to the interim dividend 2017 approved in November 2017, following the mentioned change in *dividend policy*, and received in January 2018;
- credit (approx. 40 million) from the parent company Cdp according to the remuneration of ACE benefit and interest expense that can be transferred to tax consolidation. In this regard it should be noted, however, that the credit from the parent company CDP recognised at 31 December 2016 (approx. 6 million) was paid to the Company in November 2017, in the amount of 5 million, following the submission of the consolidated tax return for the 2016 tax period, as envisaged by the National Tax Consolidation agreement signed with the parent company CDP (2016-2018 three-year period).
- credit from the parent company Cdp (8 million) with regard to the margin paid to the latter in fulfilment of the Credit Support Agreements entered into on signing the cash flow hedges. The change compared to 31 December 2016 is mainly due to the positive change in the mark-to-market of the derivative contracted in May 2015, and, to a residual extent, to the sum paid as collateral for the derivative contracted in May 2017;
- deferred tax connected to the derivative, equal to approx. 2 million and with a decrease compared to 2016.

The composition of **cash and cash equivalents**, compared to 31 December 2016 is unchanged and almost totally refer to balances with a leading banks and for the remaining part to the irregular deposit held with the parent Cdp⁶⁶. In this regard, it should be noted that, in terms of allocation of the cash held on bank current accounts, compared to 31 December 2016, the Company opened a new current account (July 2017) with a leading credit institution, also with a view to diversifying counterparty risk.

For a deeper understanding of changes in cash and cash equivalents, refer also to the following section "Net Financial Debt".

Reclassified Equity and Liabilities CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2017	31/12/2016
Equity	3,504,168	3,438,142
- Share capital and reserves	3,015,818	3,084,448
- Net income for the period	488,350	353,694
Loans	1,694,361	1,507,262
- of which owed to Cdp	762,462	678,268
Other liabilities	10,064	12,379
- of which owed to Cdp	8,674	11,969
TOTAL LIABILITIES	5,208,593	4,957,783

At 31 December 2017, the **Equity** (3,504 million), addition to net income of the period, includes mainly: i) the Reserve for shareholder payments for investments representing the value of the contribution by CDP, to the investment reserve made

⁶⁶ With regard to the deposit agreement "by which one party (custodian) receives from the other (depositor) movable goods with the obligation to preserve them and to return them in kind" (Art. 1766 of the Italian Civil Code), in the irregular deposit (concerning money or other fungible goods) the custodian is not required to return exactly the same goods, but must return the same amount of the same kind and quality of goods. The custodian, therefore, at the time of delivery, becomes the owner of the goods delivered to the same (Art. 1782 of the Italian Civil Code).

in 2012, of approximately €3.5 billion to finance the acquisition of the investment in SNAM, net of the portion of that reserve distributed to CDP during the 2014 (approximately €1.5 billion), ii) the Share Premium Reserve deriving from the transfer of TERNA (approximately €1.3 billion) in 2014, iii) Valuation reserve (negative at -€5 million) representing the fair value of the Interest Rate Swap (IRS) contracts, net of the related deferred taxation, and iv) interim dividend 2017 equal to a 324 million distributed in November 2017.

Compared to the end of 2016 (when it amounted to 3,438 million), the item in question benefited from the net income for the period (488 million) and the increase (of 3 million) in Valuation Reserves, only partly offset by the dividends distributed (final dividend 2016⁶⁷ and interim dividend 2017⁶⁸) during the period to shareholders (totaling 425 million).

Loans at 31 December 2017, considering both current and non-current portions, are structured as following:

Loan

(thousand of euros)

Items	31/12/2017		31/12/2016	
	Non current	current	Non current	current
Bond	748,556	8,322	748,270	8,322
Term Loan Facility	936,620	862	750,000	671
Total	1,685,177	9,184	1,498,270	8,993

Total debt as at 31 December 2017, totalling €1,694 million (taking account also of interest payments arising after 31 December 2017) was up on 31 December 2016 due to the larger balance (+€187 million) of the Term Loan under the new loan agreements entered into in May 2017 and refers to: i) Term Loan (for an overall amount of €938 million compared with €750 million at the end of 2016) granted by a pool of banks (approx. €516 million) and by the parent company CDP (approx. €422 million); ii) bond issue (for a total nominal value of €750 million), listed on the Irish Stock Exchange, subscribed by institutional investors (nominal value of €412 million; equal to 55%) and by the parent company (nominal value of €338 million; equal to 45%).

For a deeper understanding of Total Loans, refer also to the following section "Net Financial Debt".

The **other liabilities** mainly refer to: i) two Interest Rate Swap (IRS) derivative (€8 million) agreements signed by the company respectively in May 2015 and in May 2017; during 2017 there was a total improvement in the mark-to-market of the derivative, resulting in the recognition of a smaller liability (down from 12 million to 8 million), (ii) the recognition of deferred tax liabilities (1 million) in relation to the 2017 interim dividend approved by SNAM and iii) trade payables and to the parent company, mostly in relation to existing service agreements, in line with 31 December 2016.

⁶⁷ 101 million distributed corresponding to euro 623,43 for each of the 161,514 shares.

⁶⁸ 324 million distributed corresponding to euro 2.006,02 for each of the 161,514 shares. The interim dividend was approved (by Bod on 23 November 2017) on the basis of the Company's accounting situation at 30 June 2017, prepared in accordance with IFRSs. The Company ended the period with a net income of approximately 360 million and available reserves of approximately 3,345 million.

1.4 NET FINANCIAL DEBT

The net financial position at 31 December 2017 of CDP RETI S.p.A., prepared in accordance with ESMA⁶⁹/2015/1415 Guidelines on Alternative Performance Measures applicable from 3 July 2016, compared with the end of 2016, is composed as follows:

Net Financial Debt			
(thousand of euros)			
Items		31/12/2017	31/12/2016
A	Irregular deposit with CdP (1)	1	1
B	Other cash with banks (1)	43,601	101,550
C	Liquidity (A) + (B)	43,602	101,551
D	Current Financial Receivable (2)	8,480	10,990
E	Current banks portion debt of non current debt (3)	(474)	(369)
F	Current CdP portion debt of non current debt (3)	(388)	(302)
G	Current Bond issued portion (3)	(8,322)	(8,322)
H	Current Financial Debt (E) + (F) + (G)	(9,184)	(8,992)
I	Net Current Financial Indebtedness (C) + (D) + (H)	42,898	103,548
L	Non current banks loans (4)	(515,141)	(412,500)
M	Non current CdP loans (4)	(421,479)	(337,500)
N	Bond issued (4)	(748,556)	(748,270)
O	Non current Financial Indebtedness (L) + (M) + (N)	(1,685,177)	(1,498,270)
P	Net Financial Debt (I) + (O)	(1,642,278)	(1,394,721)

In the balance sheet of CDP RETI S.p.A.:

(1) The balance is included in the item "Cash and cash equivalents"

(2) The balance is included in the item "Current financial assets"

(3) The balance is included in the item "Current portion of loans"

(4) The balance is included in the item "Loans"

The **liquidity** at 31 December 2017 almost totally include the amounts deposited with a leading bank (44 million).

The **Current Financial Receivable** refer to the amounts deposited with the Parent Company Cdp as security for the derivative contracts (at 31 December 2017 with a negative *fair value* and included in other liabilities). In this regard, it should be noted that the receivable due from SNAM for the 2017 interim dividend (around 91 million, collected in January 2018) is considered by CDP RETI as the financial flow generated by its operating activity and consequently excluded from the calculation of the Financial Debt Net.

Short-term financial payables refer to interests on the Bond (approx. 8 million) and, on a residual basis for the Term Loan, both of them payable in May 2018.

Long-term financial payables, which does not consider the purely accounting effects deriving from the fair value measurement of derivatives, refers to:

- the Term Loans (937 million), respectively equal to 750 million and 187 million (nominal value of 188 million, minus associated costs that are amortised over the entire term of Loan) granted by a pool of banks (55%) and by the parent company CDP (45%);
- the Bond (749 million, equal to a par value of 750 million, minus associated costs that are amortised over the entire term of the Bond), subscribed by institutional investors (approx. 412 million; equal to 55%) and by the parent company (approx. 338 million; equal to 45%).

The **Net Financial Debt** amounted to 1,642 million at 31 December 2017 (including accrued interest to be paid after 31 December 2017), up compared to 31 December 2016 (1,395 million, including the current portion of borrowings), as well as for the reduction of liquidity (which falls from 102 million to 44 million), primarily due, as analyzed before, to the new

⁶⁹ European Securities and Market Authority.

Term Loan about 188 million contracted in May 2017 and with maturity in May 2023, to finance the acquisition from CDP of the equity interests in SNAM (1.12%) and ITALGAS (0.97%).

At 31 December 2017 the net financial debt to the parent company CDP amounted to € 754 million and an increase of € 87 million compared to 2016 mainly for the funding of May 2017.

The main economic terms of the new loan contracts may be summarised as follows:

- total amount financed of €187,634,699.63 (of which €103,199,084.82 provided by a pool of banks and €84,435,614.81 by the parent company CDP);
- a floating interest rate equal to the 6-month Euribor plus a spread of 145 bps (compared to a rate equal to the 6-month Euribor plus a spread of 100 bps⁷⁰ on the original Term Loan of 750 million nominal);
- application of a zero floor to the entire interest rate (Euribor + spread) and not just to the benchmark rate (as in the case of the Term Loan of 750 million nominal);
- interest periods of six months (ending in May and November, as in the case of the Term Loan of 750 million nominal);
- an upfront fee of approximately 1.1 million (60 bps of the total amount).

Furthermore, as in the case of the original Term Loan of 750 million, in order to mitigate the variability of the 6-month Euribor rate and the related cash flows and their impact on net income for the period in the case of the new loan as well, the rate was converted from floating to fixed (1.827%⁷¹ per annum) by contracting a derivative, in May 2017 and at market conditions⁷², to hedge the future cash flows associated with the Term Loan (i.e. an Interest Rate Swap with the parent company CDP hedging against the interest rate risk associated with the Term Loan, and in other words minimising changes in the cash outflows generated by the loan and associated with the variable rate applicable to the facility).

The characteristics of the derivative are entirely similar to those of the hedged item, and in particular:

- its notional amount is equal to the nominal value of the new debt;
- the maturity (May 2023) and settlement date of the differentials of the derivative (on a half-yearly basis and in arrears⁷³) are aligned with the additional financing;
- the underlying variable rate and the spread coincide: 6-month Euribor + 145 bps.

The total fair value of the IRS derivatives, which are not listed on an active market, as calculated weekly by the parent company CDP⁷⁴, amounted to a negative value for CDP RETI of approximately 8 million at 31 December 2017. This amount has been classified among financial liabilities, whereas changes in the value of the effective component of the derivative have been classified to a specific equity reserve (the "Cash Flow Hedge valuation reserve"), net of deferred tax effects, since the conditions for the application of hedge accounting have been satisfied.

With regard to liquidity the reduction (-58 million) compared to the end of 2016 mainly reflected:

- dividends (balance dividend 2016 and interim dividend 2017) distributed during the period to shareholders (425 million);
- payment of maturing bonds (€14 million) and interest expense (also taking account of the settlement of interest related to the Swap Transactions) on the Term Loan of 750 million (€11 million) and Term Loan of 188 million (2 million),

only partially offset by (i) the dividends received during the period from subsidiaries (388 million), (ii) the receipt of the tax consolidation credit amount (5 million) and (iii) the settlement of the margins received from the parent CDP in accordance with the guarantee contracts signed at the same time as the hedging derivatives (with flows in the half year of approx. €2 million).

As at 31 December 2017 the Net Financial Debt/Net Equity ratio (so-called "leverage"), compared with 2016, amounted to 0.47 (0.41 at the end of 2016); the increase compared to 2016 is mainly due to (i) higher Financial Net Debt, and (ii) reduction in cash and cash equivalents, only partially offset by the increase concerning the Equity.

Compared to 2016, instead, the Net Financial Debt/Dividend ratio (representative of the profit (loss) on core business of the Company) shows an improvement (changing from 3.72 to 3.43) due for higher accrued dividends⁷⁵.

⁷⁰ 150 bps if the credit rating assigned to CDP RETI reaches the level BB+ (or equivalent) or lower for at least one of the two agencies rating (Moody's or Fitch).

⁷¹ The fixed rate resulting from the hedging derivative contracted in May 2015 for the Term Loan of 750 million was 1.375%.

⁷² That is to say, with a fair value upon the signing of the contract of near zero or else of an insignificant amount in terms of negative fair value as a percentage of the nominal value of the transaction.

⁷³ With effect from 19 November 2017, the differentials are settled in arrears on 19 May and 19 November of each year and calculated by comparing the following elements:

- the receive leg for CDP RETI: the 6-month Euribor (fixed on the second business day prior to the beginning of the period) + a spread of 1.45%;
- the pay leg for CDP RETI: a fixed rate of 1.827%.

⁷⁴ On the basis of generally accepted valuation models and techniques, which refer to inputs (the Euribor interest rate curve for the entire period of reference of the contract) observable on the market.

⁷⁵ It should be noted that the dividends also take into account the 2017 interim dividend approved in November by the Snam Board of Directors (payment in 2018). Net of this effect, the ratio of Net Financial Indebtedness / Dividend to 31 December 2017 would also be higher than the figure for the end of 2016.

2. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI PURSUANT TO ARTICLE 123-BIS.2 B) OF THE CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION (TUF)

With reference to the "Report on corporate governance and ownership structure: main features of the risk management systems and internal control existing in relation to the financial reporting process, including consolidated, pursuant to Article 123-bis, paragraph 2, letter b) of T.U.F. ", it is possible to refer to what is already stated in the paragraph 9 of the Report on operation of the consolidated financial statements, also applicable to the separate financial statements of CDP RETI S.p.A.

4. Financial statements 2017

FORM AND CONTENT OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

The financial statements as at 31 December 2017 have been prepared in accordance with international accounting standards and consist of:

- the statement of financial position;
- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of cash flows;
- the Notes to the financial statements

The Notes consist of the following:

- Introduction
- I - Basis of presentation and accounting policies
- II - Information on the statement of financial position
- III - Information on the income statement
- IV - Information on risks and related hedging policies
- V - Transactions with related parties
- VI – Non-recurring events and significant transactions
- VI - Segment reporting

The section "Annexes", which is an integral part of the financial statements, also includes the analytical list of equity investments owned by CDP RETI and the separate financial statements as at 31 December 2016 of the parent company Cassa depositi e prestiti S.p.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

STATEMENT OF FINANCIAL POSITION ASSETS

(euros)					
Assets	Notes	31/12/2017	<i>of wich from related parties</i>	31/12/2016	<i>of wich from related parties</i>
Non-current assets					
Property, plant and equipment					
Intangible assets					
Equity investments	1	5,023,064,811		4,835,430,112	
Non-current financial assets					
Deferred tax assets	2	2,335,633		3,307,783	
Other non-current assets					
Total non-current assets		5,025,400,444		4,838,737,895	
Current assets					
Current financial assets	3	8,477,117	8,477,117	10,990,000	10,990,000
Tax receivables	4	134,592		111,404	
Other current assets	5	130,978,714	130,974,131	6,392,831	6,364,598
Cash and cash equivalents	6	43,602,147	917	101,550,915	973
Total current assets		183,192,570	139,452,165	119,045,150	17,355,571
Total assets		5,208,593,014	139,452,165	4,957,783,045	17,355,571

STATEMENT OF FINANCIAL POSITION LIABILITIES

(euros)					
Liabilities and equity	Notes	31/12/2017	<i>of wich from related parties</i>	31/12/2016	<i>of wich from related parties</i>
Equity					
Share capital	7	161,514		161,514	
Reserves	8	3,345,110,811		3,345,110,811	
Valuation reserves	9	(5,454,923)		(7,824,146)	
Retained earnings		1,158		256	
Advances on dividends	10	(324,000,314)		(253,000,375)	
Net income for the period (+/-)		488,349,795		353,693,950	
Total Equity		3,504,168,041		3,438,142,010	
Non-current liabilities					
Provisions					
Staff severance pay	11	10,168		10,342	
Loans	12	1,685,176,637	758,329,497	1,498,269,605	674,221,322
Other financial liabilities	13	8,415,349	8,415,349	11,588,485	11,588,485
Deferred tax liabilities	14	1,112,930			
Other non-current liabilities					
Total non-current liabilities		1,694,715,084	766,744,846	1,509,868,432	685,809,807
Current liabilities					
Current portion of loans	15	9,184,134	4,132,860	8,992,438	4,046,597
Tax payables	16	30,465	-	95,288	
Other current liabilities	17	495,290	260,629	684,876	382,375
- Trade payables		105,440	-	137,910	
- Payables to parent companies		258,681	258,681	380,482	380,482
- Payables due to pension and social security institutions		16,457	-	20,159	
- Other payables		114,712	1,948	146,325	1,893
Total current liabilities		9,709,889	4,393,489	9,772,602	4,428,972
Total liabilities and equity		5,208,593,014	771,138,335	4,957,783,045	690,238,779

INCOME STATEMENT

(euros)					
Income statement items	Notes	31/12/2017	of which from related parties	31/12/2016	of which from related parties
Revenues					
Dividends	18	479,149,093	479,149,093	374,882,872	374,882,872
Total revenues		479,149,093	479,149,093	374,882,872	374,882,872
Costs					
Capital expenditure					
Capital losses on equity investments					
Decreases in the value of financial instruments					
Total costs					
Profit (loss) on operations		479,149,093	479,149,093	374,882,872	374,882,872
Financial income	19	31,669		49,494	21,855
Borrowing expenses	20	(26,910,559)	(14,999,725)	(24,724,422)	(13,050,018)
Administrative expenses:	21	(1,900,620)	(667,201)	(2,850,223)	(493,889)
a) staff costs		(558,681)	(71,711)	(674,217)	(56,463)
b) other administrative expenses		(1,341,939)	(595,490)	(2,176,006)	(437,426)
Amortisation, depreciation and impairment of non-current assets					
Impairment of current assets					
Profit (loss) on operations		(28,779,510)	(15,666,925)	(27,525,151)	(13,522,052)
Other operating income (costs)					
Other income	22	35,971	15,227	24,404	
Other cost					
Income before taxes		450,405,554	463,497,394	347,382,125	361,360,820
Income taxes, current and deferred taxes	23	37,944,241		6,311,825	
NET INCOME FOR THE YEAR		488,349,795	463,497,394	353,693,950	361,360,820

STATEMENT OF COMPREHENSIVE INCOME

(euros)	Notes	31/12/2017	31/12/2016
Income (loss) for the period		488,349,795	353,693,950
Other comprehensive income net of taxes not transferred to income statement			
Property, plant and equipment			
Defined benefit plans			
Other comprehensive income net of taxes transferred to income statement			
Financial assets available for sale			
Cash flow hedges	13	2,369,223	(5,353,748)
Total other comprehensive income net of taxes		2,369,223	(5,353,748)
COMPREHENSIVE INCOME		490,719,018	348,340,202

STATEMENT OF CHANGES IN EQUITY: CURRENT YEAR

(euros)	Notes	Balance at 31/12/2016	Change in re-opening balances	Balance at 01/01/2016	Allocation of net income for previous year		Changes for the period							Comprehensive income for 2016	Equity at 31/12/2017	
					Reserves	Dividends and other allocations	Changes in reserves	Issues of new shares	Purchase of own shares	Equity transactions			Changes in equity instruments			Stock options
										Advances on dividends	Special dividend distribution					
Share capital:																
shares subscribed	7	161,514		161,514											161,514	
Share premium reserve	8	1,315,158,486		1,315,158,486											1,315,158,486	
Reserves:																
a) income		32,559		32,559	902										33,461	
b) other		2,029,920,022		2,029,920,022											2,029,920,022	
Valuation reserves:																
a) available for sale															-	
b) cash flow hedges		(7,824,146)		(7,824,146)									2,369,223		(5,454,923)	
c) other reserves															-	
Equity instruments																
Advances on dividends	10	(253,000,375)		(253,000,375)	253,000,375				(324,000,314)						(324,000,314)	
Treasury shares															-	
Net income (loss) for the year		353,693,950		353,693,950	(902)	(353,693,048)								488,349,795	488,349,795	
Equity		3,438,142,010		3,438,142,010	-	(100,692,673)				(324,000,314)				490,719,018	3,504,168,041	

STATEMENT OF CHANGES IN EQUITY: PREVIOUS YEAR

(euros)	Balance at 31/12/2016	Change in re-opening balances	Balance at 01/01/2016	Allocation of net income for previous year		Changes for the period								Comprehensive income for 2016	Equity at 31/12/2016
						Equity transactions									
						Reserves	Dividends and other allocations	Changes in reserves	Issues of new shares	Purchase of own shares	Advances on dividends	Special dividend distribution	Changes in equity instruments		
Share capital:															
shares subscribed	161,514		161,514												161,514
Share premium reserve	1,315,158,486		1,315,158,486												1,315,158,486
Reserves:															
a) income	32,303		32,303	256											32,559
b) other	2,029,920,022		2,029,920,022												2,029,920,022
Valuation reserves:															
a) available for sale															
b) cash flow hedges	(2,470,398)		(2,470,398)										(5,353,748)	(7,824,146)	
c) other reserves															
Equity instruments															
Advances on dividends									(253,000,375)						(253,000,375)
Treasury shares															
Net income (loss) for the year	358,327,140		358,327,140	(256)	(358,326,884)									353,693,950	353,693,950
Equity	3,701,129,067		3,701,129,067		(358,326,884)				(253,000,375)					348,340,202	3,438,142,010

STATEMENT OF CASH FLOWS

(euros)	Notes	31/12/2017	31/12/2016
Net income		488,349,795	353,693,950
Adjustments to net income to reflect cash flow from operating activities:			
Amortisation and depreciation			
Net write-downs (revaluations) of property, plant and equipment and intangible assets			
Effect of accounting using the equity method			
Net losses (gains) on disposals, cancellations and eliminations of assets			
Dividends	18	(479,149,093)	(374,882,872)
Interest income	19	(31,669)	(49,494)
Interest expense	20	26,910,559	24,724,422
Income taxes	23	(37,944,241)	(6,311,825)
Changes in working capital:			
- Inventories			
- Trade receivables			
- Trade payables		(150,957)	(57,785)
- Provisions			
- Current financial assets		2,510,000	(6,660,000)
- Other assets and liabilities		(107,367)	81,279
Cash flow from working capital		2,251,675	(6,636,506)
Change in provisions for employee benefits	11	(15,948)	11,210
Dividends received	18	388,320,831	374,882,872
Interest received	19	31,669	49,494
Interest paid	20	(26,130,347)	(24,445,158)
Income taxes paid net of tax credits reimbursed / income from participation in the tax consolidation mechanism	5	5,276,793	-
Cash flow from operating activities		367,870,026	341,036,093
- with related parties		385,994,224	354,932,685
Investing activities:			
- Property, plant and equipment			
- Intangible assets			
- Companies in the scope of consolidation and business units			
- Equity investments	1	(187,634,699)	3
- Change in payables and receivables relative to investing activities			
Cash flow from investing activities		(187,634,699)	3
Divestments:			
- Property, plant and equipment			
- Intangible assets			
- Equity investments			
- Change in payables and receivables relative to divestments			
Cash flow from divestments		-	-
Net cash flow from investing activities		(187,634,699)	3
- with related parties		(187,634,699)	
Assumption of long-term financial debt	12	186,508,891	
Repayments of long-term financial debt			
Increase (decrease) in short-term financial debt			
Net equity capital injections			
Dividends distributed to shareholders	10	(424,692,987)	(611,327,259)
Net cash flow from financing activities		(238,184,096)	(611,327,259)
- with related parties		(315,715,845)	(451,093,804)
Net cash flow for the period		(57,948,769)	(270,291,164)
Cash and cash equivalents at start of year	6	101,550,915	371,842,079
Cash and cash equivalents at end of year	6	43,602,147	101,550,915

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INTRODUCTION

Form and content of the financial statements

The financial statements of CDP RETI have been prepared in accordance with the IFRS and comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and these notes. They are also accompanied by the Directors' report on operations.

The financial statements present a clear, true and fair view of the Company's financial position and performance of operations.

The account balances correspond with the company's accounting records and fully reflect the transactions conducted during the year.

All figures in the financial statements and in the tables in the notes are in euros. In the income statement, revenues are indicated without sign, while costs are shown in brackets. The rounded amounts for the various items are the sum of the rounded balances of sub-items.

As detailed below, the notes to the financial statements provide all information required by law and regulations, as well as any additional information deemed necessary in order to provide a true and fair view of the company's financial position and performance.

Audit of the financial statements

The financial statements of CDP RETI are audited by the independent auditors PricewaterhouseCoopers S.p.A., in compliance with the appointment of this firm to audit the financial statements and accounts for the period 2015-2023 with shareholders' resolution of 24 June 2015.

Management and coordination by CDP S.p.A.

CDP RETI is 59.10% owned by CDP. The Company is managed and coordinated by CDP. Management and coordination is performed in such a way as to avoid infringing European regulations on state aid and, in particular, the principles of Notice no. 2001/C 235/03 of the European Commission on "State aid and risk capital".

I - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I. GENERAL INFORMATION

DECLARATION OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and in force as at 31 December 2017, taking into account also the minimum reporting requirements established by the Italian Civil Code, where compatible with the standards adopted.

The international accounting standards include the IFRS issued by the IASB, the IAS still in force issued by the IASC, and the interpretations issued by the IFRS Interpretation Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, even earlier, by the Standing Interpretations Committee (SIC).

BASIS OF PRESENTATION

The financial statement formats used to prepare the financial statements, which coincide with those used in the Annual Financial Report 2016, are consistent with the provisions of IAS 1 – Presentation of Financial Statements (hereinafter, IAS 1).

In particular:

- the items on the statement of financial position are classified by distinguishing assets and liabilities as “current / non-current”;
- the income statement has been prepared by classifying costs by their nature, insofar as this form of presentation is deemed the most appropriate for representing the actual situation of the Company, and is consistent with the consolidated practice of firms operating on international markets;
- the statement of comprehensive income shows income inclusive of the revenues and costs that are recognised directly in equity pursuant to IFRS;
- the statement of changes in equity presents the total income (loss) for the year, the transactions with shareholders and other changes in equity;
- the statement of cash flows is drafted by using the “indirect” method, adjusting net income for the effects of non-cash transactions.

It is believed that these statements present an adequate view of the Company's financial position and performance of operations.

Reference is made to the section “Transactions with related parties” for information about the net amounts of receivables and payables and transactions with related parties.

The financial statements have been prepared in accordance with the IFRS issued by the IASB (including the SIC and IFRIC interpretations) and endorsed by the European Commission pursuant to Regulation (EC) 1606 of 19 July 2002, published in Official Journal L. 243 of 11 September 2002.

For the purposes of interpretation and to provide support in applying these standards, the following documents have also been considered, although they have not been endorsed by the European Commission:

- the Framework for the Preparation and Presentation of Financial Statements (issued by the International Accounting Standards Board in 2001);
- Implementation Guidance, Basis for Conclusions, IFRIC interpretations, and any other documentation prepared by the IASB or IFRIC to supplement the IFRS;
- Interpretation documents concerning the application of the IFRS in Italy, prepared by the Italian Accounting Board (*Organismo Italiano di Contabilità* - OIC).

Where the information required by international accounting standards is considered inadequate for providing a true and fair view, the notes to the financial statements also include additional information for such purpose.

The financial statements have been prepared on an accrual and going-concern basis. The general principles of the materiality and significance of information and the prevalence of substance over form have also been taken into account.

In compliance with IAS 1 Revised, CDP RETI has conducted an assessment of the Company's ability to continue to operate as a going concern, considering all available information over the medium term.

Based on analysis of this information, CDP RETI considers it appropriate to prepare the financial statements on a going-concern basis.

No assets have been offset against liabilities, or revenues against costs, unless expressly required or allowed by accounting standards or a related interpretation.

Use of estimates

The application of international accounting standards in preparing the financial statements requires the company to make estimates for certain items of the statement of financial position that are considered reasonable and realistic on the basis of the information available at the time the estimate is made. Such estimates impact the carrying amount of the assets and liabilities and the disclosures on contingent assets and liabilities as of the reporting date, as well as the amounts reported for revenues and costs for the period under review. Changes in the conditions underlying the judgements, assumptions and estimates used could also have an impact on future results.

The only items estimated at the reporting date relate to the recoverable amount of equity investments, the fair value of the interest rate swap hedging derivatives and the value of current and deferred taxes .

The evaluation methods and assumptions used to prepare these financial statements are the same as were used to prepare the annual financial report of CDP RETI as at 31 December 2016.

EVENTS SUBSEQUENT TO THE REPORTING DATE

During the period between the reporting date for the financial statements and their approval by the Board of Directors, no events occurred requiring an adjustment to the figures approved or additional reporting.

OTHER ISSUES

International accounting standards authorised on 31 December 2017 and in force since 2017

As required by IAS 8 - Accounting policies, changes in accounting estimates and errors, details are provided below of the new international accounting standards, or amendments to accounting standards already in force, whose application became mandatory from 01 January 2017:

- Commission Regulation (EU) no. 2018/182 of 07 February 2018, published in Official Journal L. 34 of 08 February 2018, amending Commission Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard IFRS 12: the amendment in question, in addition to clarifying the scope of application of this IFRS including for interests held by the entity and classified according to IFRS 5, does not lay down any obligation for the entity to publish economic and financial figures relating to such interests classified according to the provisions of IFRS 5;
- Commission Regulation (EU) no. 2017/1990 of 06 November 2017, published in Official Journal L. 291 of 09 November 2017, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards the international accounting standard IAS 7: the amendments seek to improve disclosure with regard to liabilities arising from financing activities;
- Commission Regulation (EU) no. 2017/1989 of 06 November 2017, published in Official Journal L. 291 of 09 November 2017, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards the international accounting standard IAS 12: clarifies the recognition of deferred taxes related to debt instruments measured at fair value.

The adoption of amendments to the aforementioned standards has had no significant impact on the Company's financial statements.

In any event, the reconciliation of the financial liabilities was drafted as required by the IAS 7 amendment.

New accounting standards and interpretations already issued and endorsed by the European Union but not yet in force (date of entry into force as of the reporting periods beginning after 01 January 2018)

Listed below are the new standards and interpretations already issued and endorsed but not yet in force and therefore not applicable to the preparation of the financial statements as at 31 December 2017 (unless, where permitted, it is chosen to adopt them in advance):

- Commission Regulation (EU) no. 2018/289 of 26 February 2018, published in Official Journal L. 55 of 27 February 2018, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards the international accounting standard International Financial Reporting Standard (IFRS) 2: these amendments seek to clarify how companies must apply the standard in certain specific cases;
- Commission Regulation (EU) no. 2018/182 of 07 February 2018, published in Official Journal L. 34 of 08 February 2018, amending Commission Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards the international accounting standard IAS 28 and International Financial Reporting Standard (IFRS) 1, with the main amendments concerning:
 - IAS 28 - Investments in Associates and Joint Ventures. The document seeks to specify that the choice of valuation at fair value, as an alternative to net equity, must be made separately for each associate or joint venture, or for each associated investment entity or joint venture held by an entity other than an investment entity;
 - IFRS 1 - First-time adoption of International Financial Reporting Standards. The amendments eliminate the exemptions from IFRS applicable in the short term;
- Commission Regulation (EU) no. 2016/2067 of 22 November 2016, published in Official Journal L. 323 of 29 November 2016, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards IFRS 9. The standard aims to improve the financial reporting of financial instruments by addressing concerns that arose in this area during the financial crisis. In particular, IFRS 9 addresses the call to move to a more forward-looking model for the recognition of expected losses on financial assets;
- Commission Regulation (EU) no. 2016/1905 of 22 September 2016, published in Official Journal L. 295 of 29 October 2016, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 15: this standard aims to improve the financial reporting of revenue and to improve comparability of the top line in financial statements globally;
- Commission Regulation (EU) no. 2017/1988 of 03 November 2017, published in Official Journal L. 291 of 09 November 2017, amending Commission Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 4: the amendment in question seeks to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard IFRS 17 for insurance contracts replacing IFRS 4;
- Commission Regulation (EU) no. 2017/1987 of 31 October 2017, published in Official Journal L. 291 of 09 November 2017, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 15: the amendments aim to clarify some requirements of the new standard and provide additional transitional support for companies that are implementing the new standard.

IFRS 9: Financial Instruments

The endorsement of IFRS 9 by the European Union completes and ends the process to replace IAS 39. This process is divided into three phases, named: "classification and measurement", "impairment", and "hedge accounting". Revision of the rules for macro hedge accounting still has to be completed, for which the IASB has decided to undertake a separate project from IFRS 9.

In extreme summary, the main innovations wrought by the new standard involve:

- the classification and measurement of debt instruments, based on the contextual analysis of the adopted business model and the characteristics of the contractual cash flows generated by the instrument, envisages three accounting categories: financial assets measured at amortised cost, financial assets measured at fair value through profit and loss ("FVTPL"), and financial assets measured at fair value through other comprehensive income ("FVOCI"). In contrast with the current IAS 39, the portfolios of available-for-sale financial assets and financial assets held to maturity, and

the possibility of separating the embedded derivatives from hybrid contracts for financial assets alone, are eliminated. Instead, the current classification and measurement rules for financial liabilities as given in IAS 39 are confirmed;

- the classification of equity instruments in the FVTPL category, unless the option is exercised to classify the equity instruments not held for trading in the FVOCI category;
- the recognition of “own credit risk” (i.e. the change in value of the financial liabilities designated under the fair value option attributable to the change in the entity’s own credit quality) through other comprehensive income, instead of in the income statement as currently provided by IAS 39;
- the presence of just one impairment model, to be applied to all financial assets not measured at fair value through profit and loss, based on the concept of Expected Credit Loss as compared with the previous concept of Incurred Loss. The aim of this new approach to impairment is to ensure more immediate recognition of losses than the present “Incurred Loss” model envisaged in IAS 39, according to which the adjustments have to be recognised if evidence is found of impairment losses after initial recognition of the asset. In detail, the new model envisages that the financial assets be allocated in three distinct “stages” in increasing order of deterioration of the credit quality:
 - stage 1: this involves the performing financial assets for which no significant credit impairment was recognised in comparison with the date of initial recognition. These assets are recognised on the basis of an expected loss one year out;
 - stage 2: this involves the performing financial assets whose credit quality has deteriorated significantly since initial recognition. On the other hand, these financial assets are measured based on their lifetime expected credit loss;
 - stage 3: this involves the credit-impaired financial assets which, having suffered a significant increase in their credit risk since initial recognition, are, however, measured based on their lifetime expected credit loss;
- hedge accounting, with the aim of guaranteeing greater alignment between accounting hedges and operating (or economic) hedge relationships established by the Risk Management Department;
- the impossibility of voluntarily interrupting a hedge accounting relationship if the aim of the hedge by Risk Management remains.

Mandatory application of the standard is scheduled to begin on 1 January 2018, with the possibility of early application of the entire standard or only of the amendments related to the accounting of own credit risk for financial liabilities measured at fair value.

The Company participated in a specific project on this issue, undertaken by the parent company CDP, aimed at assessing the macro impacts resulting from application of the new standard, and the related gaps that might derive therefrom. Based on the analyses, there was no evidence that any application of the standard would impact the classification and measurement of currently existing financial instruments.

IFRS 15: Revenue from Contracts with Customers

The standard, published by the IASB on 28 May 2014, has introduced a single model for measuring all revenue deriving from contracts with customers and replaces the previous standards/interpretations on revenue (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, SIC 31). According to this model, the entity has to recognise revenue according to the consideration to which it expects to be entitled in exchange for the goods or services provided, determined according to the following five steps:

- identification of the contract, defined as an agreement having commercial substance between two or more equal parties that can generate rights and obligations;
- identification of the performance obligations contained in the contract;
- determination of the transaction price, i.e. the consideration expected for the transfer of goods or services to the customer;
- allocation of the transaction price to each of the performance obligations, by reference to their standalone selling prices;
- recognition of the revenue allocated to the individual obligation when it is satisfied, i.e. when the customer obtains control of the goods and services. This recognition acknowledges the fact that certain services may be provided at a specific time or over a period of time.

No impacts are expected for the Company from the application of the new standard.

New accounting standards and interpretations already issued and endorsed by the European Union but not yet in force (date of entry into force as of the reporting periods beginning on 01 January 2019)

Listed below are the new standards and interpretations already issued and endorsed but not yet in force and therefore not applicable to the preparation of the financial statements as at 31 December 2017 (unless, where permitted, it is chosen to adopt them in advance):

- Commission Regulation (EU) no. 2017/1986 of 31 October 2017, published in Official Journal L. 291 of 09 November 2017, amending Commission Regulation (EC) no. 1126/2008, adopting certain international accounting standards in

accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 16.

IFRS 16 – Leases

On 13 January 2016 the IASB published IFRS 16 (Leases), which is intended to replace the current accounting standard IAS 17, and the interpretations IFRIC 4 (Determining whether an Arrangement contains a Lease), SIC 15 (Operating Leases – Incentives), and SIC 27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The new standard gives a new definition of lease and introduces a principle based on control (“right of use”) of an asset, to distinguish finance leases from service agreements, by identifying the following as discriminating elements: identification of the asset, the right to substitute it, the right to obtain substantially all economic benefits resulting from use of the asset and the right to manage use of the asset underlying the agreement. The aim is to ensure greater comparability between financial statements due to the different accounting principles applied to operating leases and finance leases. The standard establishes a single model for recognition and measurement of leases by the lessee, which entails recognition of the leased asset, including those held under an operating lease, on the assets side of the statement of financial position, with a balancing entry for the financial liability, while also offering the possibility of not recognising as finance leases those agreements whose object are “low-value assets” and leases whose term is 12 months or less. In contrast, the new standard does not envisage significant changes for the lessors.

Accounting standards, amendments and interpretations that have not yet been endorsed by the European Union at the reporting date of these financial statements

Certain accounting standards, interpretations and amendments had been issued by the IASB but not yet endorsed by the European Union at the approval date of these financial statements:

- IFRS 14 – Regulatory Deferral Accounts (issued on 30 January 2014);
- IFRS 17: Insurance contracts (issued on 18 May 2017);
- IFRIC 22: Foreign currency transactions and advance consideration (issued on 08 December 2016);
- IFRIC 23: Uncertainty over Income Tax Treatments (issued on 07 June 2017);
- Amendments to IFRS 10 Consolidated financial statements and IAS 28, Investments in associates and joint ventures: Sale or contribution of assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014);
- Amendments to IAS 40: Investment property’ relating to transfers of investment property (issued on 08 December 2016);
- Annual improvements to IFRS 2014 - 2016 Cycle (issued on 08 December 2016);
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017);
- Annual improvements to IFRS Standards 2015 - 2017 Cycle (issued on 12 December 2017).

Other information

The 2017 draft financial statements of CDP RETI are subject to approval of the Board of Directors of the Company and will be published within the time frames and according to the procedures laid down by the legislation in force applicable.

Due to requirements linked to the drafting of the consolidated financial statements, in accordance with article 2364 of the Italian Civil Code and the Articles of Association, the approval of the draft financial statements of CDP RETI and the recognition of the consolidated financial statements of the CDP RETI Group by the Shareholders’ Meeting will take place within one hundred and eighty days from the end of the financial year.

II. THE MAIN FINANCIAL STATEMENT ITEMS

The following pages provide a description of the accounting policies adopted in preparing the financial statements, with reference to the main items therein.

An asset or liability is classified as "current" when its trading, realisation or settlement are expected within twelve months from the reporting date or within the normal business cycle, if after twelve months; all other assets and liabilities are classified as "non-current".

EQUITY INVESTMENTS

This item includes investments in other companies, both represented by securities and not, that give rise to a relationship of control or association or a joint venture. “Equity investments” means investments in subsidiaries (IFRS 10), in joint operations (IFRS 11) and in associates (IAS 28), other than investments recognised as “Financial assets”.

The entities over which CDP RETI has the right of exercising direct or indirect control, as defined in IFRS 10 – Consolidated Financial Statements, are considered to be subsidiaries. In particular, control exists when the controlling entity simultaneously:

- has decision-making power over the investee, or valid rights that grant it the current power to manage significant activities;
- is entitled to participate in or is exposed to the variable (positive or negative) results of the investee;
- can exercise power over the investee to affect the amount of its own returns.

The evidence of control has to be verified by the Company on a continuing basis, in view of identifying all facts or circumstances that might imply a change in one or more elements on which depends the existence of a control relationship over an investee.

Joint ventures are companies in which control is shared with other parties by contract.

Associates are companies in which CDP RETI holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which CDP RETI has significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Non-controlling interests are recognised in “Available-for-sale financial assets” as described above.

The equity investments held as at 31 December 2017 are listed individually in Annex 1 “Analytical list of equity investments”, which is an integral part of these Notes to the financial statements.

Equity investments are initially recognised and subsequently carried at cost at the settlement date.

The existence of objective evidence that the carrying amount of the equity investments might not be fully recoverable is verified at every reporting date.

Evidence of impairment, based on the existence of qualitative and quantitative indicators, as illustrated hereunder, and in accordance with the internal policies, differs where these involve investments in companies whose shares are or are not listed on active markets.

An impairment test is performed when the aforementioned indicators exist, in accordance with the provisions of IAS 36. This test is aimed at estimating the recoverable amount of the equity investment and comparing it with its carrying amount to determine the recognition of any impairment losses.

The following are possible indicators of impairment:

- the recognition of losses or significantly lower results than budgeted or forecast in multi-year plans;
- the announcement or commencement of insolvency proceedings or restructuring plans;
- the receipt of a dividend that exceeds the total comprehensive income of the investee for the year or its accumulated income from previous years;
- a carrying amount of the equity investment in the separate financial statements that exceeds the amount, in the consolidated financial statements, of the corresponding portion of equity, including any goodwill.

Moreover, the following is considered evidence of impairment for equity investments in listed companies:

- consolidated equity higher than market capitalisation;
- a reduction in the market price exceeding the carrying amount by over 40% or for more than 24 months.

The recoverable amount is the higher of the fair value of the unit, net of any sales costs and value in use, being the present value of the future cash flows that the equity investment may generate, including the final disposal value of the investment. If this value is lower than the book value and if there is persistent or significant impairment, any identified adjustments are recognised in the income statement as impairment losses. When the reasons for these impairments cease to exist, the book value of the equity investments carried at cost is restored for the amount of the recognised impairment, while recognising the effect of this adjustment in the income statement under “Income (expenses) from equity investments”.

The investor's interest in any losses of the investee that exceed the carrying amount of the equity investment is recognised in a specific provision, to the extent that the investor is committed to meeting the legal or implicit obligations of the investee, or otherwise cover its losses.

The dividends are recognised when the investor's right to receive payment for it (resolution to distribute dividends passed by the shareholders' meeting of the investee or the board of directors, if an advance on the dividend is received). The dividends resolved by the subsidiaries are recognised in the income statement when they are resolved and recognised as financial income regardless of the nature of the distributed reserves (equity or profit reserves and, in this latter case, even when these profits derive from the distribution of profit reserves that were established before the acquisition of the equity investment). In any event, considering that the distribution of those reserves represents an event implying a reduction in

the value of the equity investment, the Company verifies the recoverability of the book value of the equity investment and, if appropriate, recognises an impairment.

Equity investments are derecognised when the contractual rights to the cash flows of the business terminate or when the financial asset is sold, transferring substantially all risks and rewards connected with it.

FINANCIAL ASSETS

The financial assets item includes receivables and derivative contracts which have a positive fair value at the reporting date. Please refer to the paragraph on “Hedging transactions” for a description of the accounting standards adopted for the recognition of hedging derivatives.

Receivables and financing

Financial instruments, including debt securities, that are not listed on active markets, which IAS 39 refers to as “loans and receivables” and for which the company has a right to receive future cash flows are recognised as “Financial and other receivables”.

Loans are recognised when the contract is executed, i.e. upon the unconditional acquisition of a right to payment of the amounts agreed, and are initially measured at fair value, which equals the amount disbursed including directly related transaction costs and commissions. Where the net amount disbursed does not equal the loan’s fair value because the interest rate is lower than the market rate or the rate normally applied for similar loans, initial measurement is carried out by discounting the future cash flows using an appropriate rate.

Interest on loans and on arrears is recognised as interest income and similar revenues, on an accruals basis.

The carrying amount of loans on the financial statements is subject to periodic testing for impairment that could reduce their expected realisable value.

The measurement of write-downs of loans is based on discounting the expected future cash flows of principal and interest net of collection costs, taking account of any guarantees securing the positions and any advances received. The key to determining the value of the future cash flows is in defining the estimated collections, the related timing, and the discount rate to be applied.

The impairment of loans is then written back only when the quality of the loan improves to the point that there is a reasonable certainty of a greater recovery of principal and interest and/or greater receipts have been recorded than the previously recorded carrying amount of the loan. In any event, given the method used to measure impairment losses, as the due dates for credit collection approach with the passing of time, the value of the loan is “written back”, given that there is a reduction in the implicit finance costs previously recognised as a reduction in the value of the loans.

Loans are derecognised when paid in full, when all of the related risks and rewards have been transferred, or when a loan is deemed to be definitively unrecoverable.

CURRENT AND DEFERRED TAXATION

Corporate income tax (IRES) and regional tax on business activities (IRAP) are recognised using a realistic estimate of the negative and positive tax components for the year and were calculated on the basis of the tax rates currently in force.

As regards IRES, in particular, following the CDP Group joining the tax consolidation scheme and in compliance with Regulations on consolidation and legal theory and practice, the Company determines its own “potential” liability, recognising the receivable towards the consolidating Company which, in compliance with the new scheme, is the only party required to settle with the Tax Authorities.

Deferred tax items regard the recognition of the effects of temporary differences between the valuation of accounting items under tax regulations, which are used to determine taxable income, and that under statutory reporting regulations (which seek to quantify the result for the year).

More specifically, “taxable temporary differences” between statutory and tax values are those that will give rise to taxable amounts in future tax periods, while “deductible temporary differences” are those that will give rise to deductible amounts in the future.

Deferred tax assets/liabilities are classified as non-current assets/liabilities pursuant to IAS 1.56.

Deferred tax items are therefore recognised as non-current liabilities under “Deferred tax liabilities”, where they are related to items that will become taxable in future tax periods. Where they represent assets, i.e. they are related to items that will be deductible in future tax periods, they are recognised as “Deferred tax assets”, under non-current assets in the statement of financial position.

If the deferred tax items regard transactions that directly affected equity, they are recognised in equity.

Deferred taxes are determined by using the tax rates expected to be applicable in the years when the differences will be realised or eliminated.

FINANCIAL LIABILITIES

Financial liabilities, including payables for loans but other than derivatives, are recognised at the cost on the settlement date, represented by the fair value of the liabilities reduced by any directly attributable transaction costs. Subsequently, the financial liabilities are measured with the amortised cost criteria, using the effective interest rate method.

Financial liabilities are derecognised when they fall due or are settled.

The derivative contracts which, on the reference date, have a negative fair value, are shown among the financial liabilities.

Please refer to the paragraph below on hedging transactions for a description of the accounting standards adopted for the recognition of hedging derivative contracts.

HEDGING TRANSACTIONS

In accordance with the IAS definition, hedging instruments are designated derivatives or (limited to the hedging of foreign currency risk) non-derivative financial assets or liabilities, the fair value or cash flows of which are expected to offset the changes in fair value or cash flows of a designated item. A hedged item is an asset, liability, firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation that (a) exposes the organisation to the risk of a change in fair value or future cash flows and (b) is designated as being hedged. The effectiveness of the hedge is the extent to which the change in fair value or cash flows of the hedged item that is attributable to a hedged risk are offset by the change in fair value or cash flows of the hedging instrument.

When a financial instrument is classified as a hedging instrument, the following are to be formally documented:

- the relationship between the hedging instrument and the hedged item, including the risk management objectives;
- the hedging strategy, which must be in line with established risk management policies;
- the methods to be used in order to verify the effectiveness of the hedge.

Accordingly, both at the inception of the hedge and throughout its life, the change in the fair value of the derivative is analysed in order to determine whether it is highly effective in offsetting the changes in fair value of the hedged item.

A hedge is deemed to be highly effective if, both at inception and throughout its life, the changes in fair value of the hedged item or in the expected cash flows attributable to the risk being hedged are almost entirely offset by the changes in fair value of the hedging derivative, with the relationship of these changes falling within a range of between 80% and 125%.

If the hedge is not effective as described above, the hedging instrument is reclassified under instruments held for trading, while the hedged item is measured in accordance with the criteria for its category. Hedge accounting also ceases in the event the hedging instrument expires, is sold or exercised or where the hedged item expires, is sold or is repaid.

In the event of hedges designed to neutralise the risk of changes in future cash flows arising from future transactions that are considered as highly probable as at the reporting date (cash flow hedge), the fair value changes of the derivative after initial recognition are recognised, to the extent of the effective portion, under the item "Reserves" in equity. When the economic effects of the hedged item materialize, the reserve is transferred to operating profit or loss. If the hedge is not fully effective, the fair value change of the hedging instrument, to the extent of the ineffective portion, is immediately recognised through profit or loss.

If, during the life of a derivative, the expected hedged cash flows are no longer considered as highly probable, the portion of that instrument recognized as "reserves" is immediately recycled through profit or loss. Conversely, if the derivative is sold or no longer qualifies as an effective hedge, the portion of "reserves" corresponding to the fair value changes of the instrument recognised up to that time continues to be recognised in equity and shall be recycled through profit or loss, in accordance with the above mentioned classification criteria, as the economic effects of the underlying hedged item materialize. If the hedged transaction is no longer considered as probable, the cumulative unrealised gains or losses recognised in equity are immediately recycled through profit or loss.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at their nominal amount, which corresponds to fair value.

This item includes cash deposits at banks and at the parent company based on a deposit agreement with the latter.

Cash and cash equivalents take account of the interest accrued on the amounts, albeit not yet paid.

OTHER INFORMATION

Interest income and expense

Interest income and expense is recognised in the income statement for all instruments based on amortised cost using the effective interest rate method.

Interest also includes the net positive or negative amount of the differentials and margins related to financial derivatives.

Dividends

Dividends received from investee companies are recognised as income in the period in which they are approved for distribution.

Transactions with related parties

Reporting is provided on transactions with related parties identified according to the criteria established by IAS 24.

Methods for determining fair value measurement criteria

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not in compulsory winding-up or sale below cost) at the measurement date. Fair value is a market measurement criterion that does not refer specifically to the individual business. Underlying the definition of fair value is the assumption that the company is operating its business normally without any intention to liquidate its own assets, significantly reduce the level of its own assets, or settle transactions at unfavourable conditions. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

As envisaged in IFRS 13, to measure the fair value, CDP RETI also considers the effect of non-performance risk. This risk includes both the changes in the counterparty's credit risk and the changes in the issuer's own credit risk.

The fair value of financial instruments is calculated according to a hierarchy of criteria based on the origin, type, and quality of information used. In detail, this hierarchy assigns the highest priority to the prices quoted (and not changed) on active markets and lower importance to unobservable inputs. Three different input levels are identified:

- in the case of instruments quoted on active markets, prices on financial markets are used (Level 1);
- in the case of financial instruments not quoted on active markets, valuation techniques which use observable market parameters other than quoted prices for the instrument but connected with its fair value by non-arbitrage relationships shall be used, where possible (Level 2);
- in other cases, internal valuation techniques that also use as input parameters that are not observable on the market, and thus are inevitably subjective to some degree, shall be used (Level 3).

Since Level 1 inputs are available for numerous financial assets and liabilities, some of which are traded on more than one active market, the Company has to take special care when defining both of the following aspects:

- the principal market for assets or liabilities or, in the absence of a principal market, that is the most advantageous market for the asset or liability;
- if the company can conclude a transaction involving the asset or liability at that price and on that market at the measurement date.

CDP RETI believes that the principal market of a financial asset or liability can be identified as the market on which the Company normally operates.

A market is considered active if the quoted prices, representing effective and regular market transactions executed during an appropriate reference period, are readily and regularly available through stock exchanges, brokers, intermediaries, specialised firms, quotation services or authorised entities.

In the event of a significant reduction in the volume or level of ordinary activity for the asset or liability (or for similar assets or liabilities) flagged by certain indicators (number of transactions, insignificance of the prices given by the market, significant increase in the implicit premiums for liquidity risk, widening or increase in the bid-ask spread, reduction or total absence of a market for new issues, scanty information in the public domain), the transactions or quoted prices are analysed.

In the case of financial instruments that are not quoted on active markets, valuation using Level 2 inputs requires the use of valuation techniques that process market parameters at different levels of complexity. For example, valuation techniques

may, in addition to interpolations and extrapolations, involve the specification of stochastic processes that represent market dynamics and the use of simulations or other numerical techniques to determine the fair value of the instruments being measured.

In selecting the valuation techniques to be used in Level 2 measurements, the company takes account of the following criteria:

- simpler valuation techniques are preferred to more complex techniques, all other conditions being equal and as long as they represent all of the relevant characteristics of the product, ensuring that they are reasonably in line with the practices and results of other sector operators;
- valuation techniques are applied consistently over time to consistent categories of instruments, unless objective grounds for replacement emerge;
- all other conditions being equal, preference is given to standard models whose mathematical structure and implementing procedures are familiar to practitioners and implemented in the corporate systems.

The market parameters used as inputs for Level 2 valuations are selected on the basis of non-arbitrage relationships or comparative relationships that define the fair value of the financial instrument being measured as the relative fair value compared with that of financial instruments quoted on active markets.

In some cases, in determining fair value it is necessary to use valuation techniques that call for inputs that cannot be drawn directly from observable market variables, such as statistical or “expert-based” estimates by the party performing the valuation (Level 3).

Level 3 valuation techniques are also applied consistently over time to consistent categories of instruments, unless objective grounds for replacement emerge. Similarly, parameters that cannot be drawn directly from observable market variables are applied consistently over time.

II - INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

I. ASSETS

NON-CURRENT ASSETS

1. Equity investments

The net amount of the item refers to the value of controlling stakes that CDP RETI owns in SNAM S.p.A., Terna S.p.A., and Italgas S.p.A.. During the financial year, the value of the holdings, which, on 31 December 2017 totalled €5,023 million, increased by around €188 million following the transfer to CDP RETI of certain stakes in SNAM S.p.A. (39,200,638 shares, representing 1.12% of the share capital of Snam S.p.A.) and in Italgas S.p.A. (7,840,127 shares representing 0.97% of the share capital of Italgas S.p.A.) previously held by CDP. The transfer operation forms part of a wider project to simplify and streamline the portfolio of equity investments within the CDP Group, with the concentration, under one sole investor, of the equity interested held in Snam S.p.A., Terna S.p.A. and Italgas S.p.A.

Equity investments: breakdown

(euros)

Names	31/12/2017	31/12/2016
Italgas SpA	621,032,150	589,284,378
SNAM SpA	3,086,832,661	2,930,945,734
Terna SpA	1,315,200,000	1,315,200,000
Total	5,023,064,810	4,835,430,112

Equity investments in subsidiaries, companies subject to joint control or under significant influence: information on equity relationships

Names	Registered office	% holding
1. Italgas S.p.A.	Milan	26.04%
2. SNAM S.p.A.	San Donato Milanese	30.10%
3. Terna S.p.A.	Rome	29.85%

Equity investments in subsidiaries, companies subject to joint control or under significant influence: accounting information

(millions of euro)

Names	Total assets (1)	Total revenues (1)	Net income (loss) (1)	Equity (1)	Carrying amount	Type of transaction
Italgas SpA	5,844	1,621	293	1,186	621	Control
SNAM SpA	21,816	2,533	897	6,188	3,087	Control
Terna SpA	16,917	2,248	694	3,829	1,315	Control

(1) Data from the 2017 Annual Report - Consolidated Financial Statements

The table below shows the changes in equity investments recorded during the year:

Equity investments: changes for the year

(euros)

Items/Figures	31/12/2017	31/12/2016
A. Opening balance	4,835,430,112	4,835,430,115
B. Increases	187,634,699	589,284,378
B.1 Purchases	187,634,699	
B.2 Writebacks		
B.3 Revaluations		
B.4 Other increases		589,284,378
C. Decreases	-	(589,284,381)
C.1 Sales		
C.2 Writedowns		
C.3 Other decreases	-	(589,284,381)
D. Closing balance	5,023,064,811	4,835,430,112

2. Deferred tax assets

Below is a breakdown of "Deferred tax assets" recognised as at 31 December 2017 for a total amount of €2,336 thousand (€3,308 thousand as at 31 December 2016).

Deferred tax assets: breakdown

(euros)

Items/Figures	31/12/2017	31/12/2016
Deferred IRES	22,396	22,820
Deferred tax assets recognized in equity	2,313,237	3,284,963
Total	2,335,633	3,307,783

Deferred IRES is calculated on temporary differences in the values reported for tax purposes and those used for financial reporting that will become deductible in periods following the period in which they are recognised.

Deferred tax assets with an impact on equity are instead related to deferred tax recorded in relation to cash flow hedging derivatives taken out in May 2015.

The following tables indicate the change in deferred tax assets during the year:

Change in deferred tax assets (balancing entry in the income statement)

(euros)

Items/Figures	31/12/2017	31/12/2016
1. Opening balance	22,820	40,474
2. Increases	22,396	22,820
2.1 Deferred tax assets recognised during the year	22,396	22,820
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		
d) other	22,396	22,820
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	22,820	40,474
3.1 Deferred tax assets derecognised during the year	22,820	40,474
a) reversals	22,820	40,474
b) write-downs for supervening non-recoverability		
c) due to change in accounting policies		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	22,396	22,820

Change in deferred tax assets (balancing entry in equity)

(euros)

Items/Figures	31/12/2017	31/12/2016
1. Opening balance	3,284,963	1,220,619
2. Increases	-	2,193,530
2.1 Deferred tax assets recognised during the year		2,193,530
a) in respect of previous periods		
b) due to change in accounting policies		
c) others		2,193,530
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	971,726	129,186
3.1 Deferred tax assets derecognised during the year	971,726	-
a) reversals	971,726	
b) write-downs for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		129,186
3.3 Other decreases		
4. Closing balance	2,313,237	3,284,963

CURRENT ASSETS

3. Current financial assets

"Current financial assets" as at 31 December 2017 were recognised at €8,477 thousand (€10,990 thousand as at 31 December 2016) and refer to the receivable with the parent company CDP for the margin paid to it under the guarantee agreement (Credit Support Agreement) entered into when the cash flow hedge derivative contracts were signed.

Current financial assets: breakdown

(euro)		
Items/Figures	31/12/2017	31/12/2016
Loans to CDP for CSA	8,477,117	10,990,000
Total	8,477,117	10,990,000

4. Tax receivables

The balance of "Tax receivables" includes assets related to current taxes.

Tax receivables: breakdown

(euros)		
Items/Figures	31/12/2017	31/12/2016
IRAP receivables	109,566	109,566
Advances for VAT	24,976	1,838
Other tax receivables	50	
Total	134,592	111,404

5. Other current assets

The following table shows the breakdown of "Other current assets", which as at 31 December 2017 were recognised for the amount of €130,979 thousand (€6,393 thousand as at 31 December 2016):

Other current assets: breakdown

(euros)		
Items/Figures	31/12/2017	31/12/2016
Receivables from CDP for tax consolidation	40,087,340	6,329,479
Receivables from CDP for tax consolidation: w ithholdings	43,303	35,119
Receivables from SNAM for interim dividend	90,828,261	
Other current assets	19,810	28,233
Total	130,978,714	6,392,831

As at 31 December 2017, the Company recognised among other current assets, the receivable from SNAM S.p.A. for the advance on the dividend for 2017 resolved by the subsidiary on 06 November 2017, of €0.0862 per share. The advance was collected by CDP RETI on 24 January 2018;

The Company also recognised among current assets the receivable from the parent company CDP as a result of the tax consolidation mechanism, and resulting in particular from:

- receivables resulting from the excess ACE incentive for 2017, with €33,554 thousand transferable to the tax consolidation scheme;
- receivables resulting from excess in interest expenses not deductible on an individual basis, with €6,511 thousand transferable to the tax consolidation scheme;
- receivables from interest costs transferable to the tax consolidation scheme, totalling €22 thousand.

The other current assets mainly refer, instead, to the deferral of costs arising during the year but related to the following year.

6. Cash and cash equivalents

"Cash and cash equivalents" of CDP RETI as at 31 December 2017 consist of:

- balance of the bank current accounts;
- balance of the demand deposit held with the parent company CDP;

The table below summarises cash and cash equivalents as at 31 December 2017 including interest accrued and not yet paid.

(euros)

Items/Figures	31/12/2017	31/12/2016
Deposit with CDP	917	973
Banks	43,601,230	101,549,943
Total	43,602,147	101,550,915

II. LIABILITIES

EQUITY

7. Share capital

Share capital: breakdown

(euros)		
Items/Figures	31/12/2017	31/12/2016
Share capital	161,514	161,514
Total	161,514	161,514

As at 31 December 2017 the share capital consisted of 161,514 shares without par value (likewise as at 31 December 2016) and fully paid in.

During the year there were no changes to the ownership structure, which is therefore unchanged from the following situation resulting from the introduction, at the shareholders' meeting of 24 November 2014, of three separate categories of shares giving holders different rights concerning corporate governance:

Share capital: categories of shares

Member / Number of shares / %	Share category A	Share category B	Share category C	%
CDP	95,458			59.10%
State Grid		56,530		35.00%
Cassa Forense			4,253	2.63%
Foundations and Savings Banks			5,273	3.27%
Total	95,458	56,530	9,526	100.00%

8. Reserves

At the end of the year, "Reserves" were as follows:

Reserves: breakdown

(euros)		
Items/Figures	31/12/2017	31/12/2016
Legal reserve	32,303	32,303
Share premium reserve	1,315,158,486	1,315,158,486
Reserve for shareholder payments for investments	2,029,920,022	2,029,920,022
Total	3,345,110,811	3,345,110,811

The item "Reserve for shareholder payments for investments" included the residual value of the payment made by CDP to fund the purchase of the equity investment in SNAM.

As at 31 December 2017, the company did not hold treasury shares directly or indirectly through its subsidiaries or intermediaries.

Information required by Article 2427, point 7-bis, of the Italian Civil Code on the individual details of equity items is given, specifying their origin, possible use and possible distribution.

Statement pursuant to Article 2427 of the Italian Civil Code

(euros)	Balance at 31/12/2017	Possible uses (*)	Amount available
Items/Figures			
Share capital	161,514		
Reserves			
- Legal reserve	32,303	B	32,303
- Share premium reserve (**)	1,315,158,486	A, B, C	1,315,158,486
- Shareholder payment reserve	2,029,920,022	A, B, C	2,029,920,022
Valuation reserves			
- CFH reserve	(5,454,923)		
Retained Earnings	1,158	A, B, C	1,158
Advances on dividends	(324,000,314)		
Total	3,015,818,246		3,345,111,969

(*) A = capital increase; B = loss coverage; C = distribution to shareholders

(**) Share premium reserve is fully available for distribution since Legal reserve reached a fifth of Share capital

9. Valuation reserves

Valuation reserves recorded a change as a result of the measurement of the cash flow hedge derivative contracts entered into by the Company in May 2015 and May 2017, net of deferred tax.

Valuation reserves: breakdown

(euros)	31/12/2017	31/12/2016
Items/Figures		
Valuation reserves CFH Sw ap	(5,454,923)	(7,824,146)
Total	(5,454,923)	(7,824,146)

10. Advances on dividends

Having satisfied the requirements of Article 2433-bis of the Italian Civil Code, on 23 November 2017 the Company resolved to distribute advances on dividends for 2017, amounting to €2,006.02 per share, for a total of €324,000,314 payable in November 2017.

Advances on dividends: breakdown

(euros)	31/12/2017	31/12/2016
Items/Figures		
Advances on dividends	(324,000,314)	(253,000,375)
Total	(324,000,314)	(253,000,375)

NON-CURRENT LIABILITIES

11. Staff severance pay

As at 31 December 2017 the Company's non-current liabilities include €10,168 (€10,342 as at 31 December 2016) relative to the "Staff severance pay" provision made in accordance with current regulations for the employees.

Compared with the previous year, the provision for employee severance indemnity rose due to accruals during the period and fell mainly due to the settlements paid to an employee who left the company during the course of the year.

Staff severance pay: annual changes

(euros)		
Items/Figures	31/12/2017	31/12/2016
A. Opening balance	10,342	3,920
B. Increases	5,344	7,316
B.1 Allocation in the year	5,344	7,316
B.2 Other increases		
C. Decreases	5,518	894
C.1 Payments made	5,496	-
C.2 Other decreases	22	894
D. Closing balance	10,168	10,342

12. Loans

The total of "Loans" as at 31 December 2017, considering the current portion and the non-current portion, totals €1,694 million (€1,507 million on 31 December 2016).

The increase in debt compared with the previous year, by some €187 million, is due to the conclusion, by CDP RETI in May 2017, of a new floating-rate term loan with maturity in 2023, 45% of which was subscribed by the parent company CDP and the remaining part by a pool of banks, and aimed at the financing of the purchase of the equity investments in Snam S.p.A. and Italgas S.p.A. With reference to the new term loan, an Interest Rate Swap derivatives contract was also signed, aimed at mitigating interest rate variations.

Loans: breakdown

(euros)				
Items/Figures	31/12/2017		31/12/2016	
	Non current	Current	Non current	Current
Bond	748,556,274	8,321,918	747,971,287	8,299,180
Term loan facility 2014	750,000,000	605,000		
Term loan facility 2017	186,620,363	257,216	750,000,000	861,875
Total	1,685,176,637	9,184,134	1,497,971,287	9,161,055

The breakdown of non-current loans into loans agreed or signed by the parent CDP or by the lending banks or by other institutional investors is provided in the table below:

Non-current loans: breakdown by type of creditor

(euros)						
Items/Figures	31/12/2017			31/12/2016		
	CDP	Other Institutional Investors	Pool of Banks	CDP	Other Institutional Investors	Pool of Banks
Bond	336,850,324	411,705,950	-	336,721,322	411,548,283	-
Term loan facility 2014	337,500,000	-	412,500,000	337,500,000	-	412,500,000
Term loan facility 2017	83,979,173	-	102,641,190	-	-	-
Total	758,329,497	411,705,950	515,141,190	674,221,322	411,548,283	412,500,000

The following shows, in accordance with the IAS7 amendments recently authorised, effective from 01 January 2017, the reconciliation of the opening and closing balances of non-current financial liabilities, the financial flows for which have been included in the statement of cash flows among financial flows arising from financing activities.

Non-current loans: reconciliation of initial and final balances

(euros)	31/12/2016	Changes from financing cash flows	No cash flow changes				31/12/2017
			Effect of changes in foreign exchange rates	Changes in fair value	Changes arising from obtaining or losing control of subsidiaries or other businesses	Other changes	
Loans (non current)	1,498,269,605	186,508,891			398,141	1,685,176,637	
Total liabilities from financing activities	1,498,269,605	186,508,891	-	-	-	1,685,176,637	

13. Other financial liabilities

Other financial liabilities: breakdown

(euros)

Items/Figures	31/12/2017	31/12/2016
Cash-flow hedge derivative contract	8,415,349	11,588,485
Total	8,415,349	11,588,485

Other non-current financial liabilities originate from the fair value measurement (level 2) of the cash flow hedge derivative contracts entered into by the company in May 2015 and May 2017 to hedge the interest-rate risk connected to the two term loan facilities. Over the financial year, there was an improvement in the overall mark to market of the two derivatives contracts, with a consequent reduction in financial liabilities compared with the previous financial year of around €3 million.

The characteristics of the new derivatives contract are described within the report on operations, in the paragraph on financial debt.

14. Deferred tax liabilities

Deferred tax liabilities for the year amounted to €1,113 million and are broken down as follows.

Deferred tax liabilities: breakdown

(euros)

Items/Figures	31/12/2017	31/12/2016
Deferred tax liabilities recognized in equity	22,991	
Deferred tax liabilities recognized in PL	1,089,939	
Total	1,112,930	

Deferred tax liabilities recognised in the financial statements on 31 December 2017 have an impact on equity and refer to deferred tax recorded in relation to cash flow hedging derivatives taken out in May 2017.

Deferred tax liabilities with an impact on the income statement originate from the recognition of the tax on the 2017 dividend resolved by SNAM in November 2017, collected in January 2018.

The following tables indicate the change in deferred tax liabilities.

Deferred tax liabilities with impact on statement of financial position: change

(euros)

Items/Figures	31/12/2017	31/12/2016
1. Opening balance	-	
2. Increases	22,991	
2.1 Deferred tax liabilities recognised during the year	22,991	
a) in respect of previous periods	-	
b) due to change in accounting policies	-	
c) others	22,991	
2.2 New taxes or increases in tax rates	-	
2.3 Other increases	-	
3. Decreases	-	
3.1 Deferred tax liabilities derecognised during the year	-	
a) reversals	-	
b) writedowns for supervening non-recoverability	-	
c) due to change in accounting policies	-	
d) other	-	
3.2 Reduction in tax rates	-	
3.3 Other decreases	-	
4. Closing balance	22,991	

Deferred tax liabilities with impact on income statement: change

(euros)

Items/Figures	31/12/2017	31/12/2016
1. Opening balance	-	
2. Increases	1,089,939	
2.1 Deferred tax liabilities recognised during the year	1,089,939	
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	1,089,939	
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	-	
3.1 Deferred tax liabilities derecognised during the year		
a) reversals		
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	1,089,939	

CURRENT LIABILITIES**15. Current loans**

This item includes the current portion of the loans described above, as well as coupons maturing and expiring in the following year. The table below shows the breakdown of the item as at 31 December 2017:

Current loans: breakdown by type of creditor

(euros)	31/12/2017			31/12/2016		
	CDP	Other Institutional Investors	Pool of Banks	CDP	Other Institutional Investors	Pool of Banks
Bond	3,744,863	4,577,055	-	3,744,863	4,577,055	
Term loan facility 2014	272,250	-	332,750	301,734		368,786
Term loan facility 2017	115,747	-	141,469			
Total	4,132,860	4,577,055	474,219	4,046,597	4,577,055	368,786

16. Tax liabilities

Tax payables as at 31 December 2017 mainly relate to the tax withheld by the Company on behalf of its employees and independent contractors, and paid to the revenue authorities during the subsequent month.

Tax payables: breakdown

(euros)	31/12/2017	31/12/2016
Items/Figures		
Irpef withholdings on employees	10,363	15,673
Irpef withholdings on professionals	10,084	71,907
Other tax payables	10,018	7,709
Total	30,465	95,288

The balance for Other tax payables refers on the other hand mainly to the payable resulting from payment of VAT.

17. Other current liabilities

"Other current liabilities" refer to short-term payables that will be paid in the year following the reporting date.

Other current liabilities: breakdown

(euros)	31/12/2017	31/12/2016
Items/Figures		
Trade payables	105,440	137,910
Payables to parent companies	258,681	380,482
Payables due to pension and social security institutions	16,457	20,159
Other payables	114,712	146,325
Total	495,290	684,876

Below is the breakdown of Trade payables:

Trade payables: breakdown

(euros)	31/12/2017	31/12/2016
Items/Figures		
Trade payables	15,250	40,043
Trade payables for invoices to receive	90,190	97,867
Total	105,440	137,910

The table below provides a breakdown of amounts due to the parent company recognised in the financial statements as at 31 December 2017:

Payables to parent companies: breakdown

(euros)

Items/Figures	31/12/2017	31/12/2016
Administrative services	196,945	316,702
Seconded personnel	-	856
Payables to directors to pay to CDP	53,260	35,082
Other payables	8,476	27,843
Total	258,681	380,482

Payables to pension and social security institutions recognised in the financial statements as at 31 December 2017 amounted to €16 thousand (€20 thousand as at 31 December 2016) and refer to payables to INPS recognised in December 2017 with reference to the fixed and variable remuneration of employees, as shown in the following table.

Payables to social security bodies

(euros)

Items/Figures	31/12/2017	31/12/2016
Payables to INPS	15,315	18,749
Payables to INAIL	1,142	1,410
Total	16,457	20,159

Other payables recognised in the financial statements amounting to €115 thousand (€146 thousand as at 31 December 2016), refer to the following:

Other payables: breakdown

(euros)

Items/Figures	31/12/2017	31/12/2016
Due to company bodies	94,285	124,521
Payables to employees	18,479	19,911
Payables to pension fund	1,948	1,893
Total	114,712	146,325

Payables to corporate bodies refer to remuneration accrued by members of the Board of Directors (which must not be paid to the parent CDP) and the Board of Statutory Auditors during the year.

Payables to employees primarily originate from recognition under CDP RETI liabilities of deferred remuneration accrued by employees, and from adjustment at the year end of the provision for vacation accrued but not used.

DISCLOSURE CONCERNING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and liabilities measured at fair value on a recurring basis: allocation by fair value levels

(euros) Items/Figures	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
Non-current financial assets						
Current financial assets						
Total						
Non-current financial liabilities						
- <i>Other financial liabilities</i>		8,415,349			11,588,485	
Current financial liabilities						
Total		8,415,349			11,588,485	

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: allocation by fair value levels

(euros) Items/Figures	31/12/2017				31/12/2016			
	CA	L1	L2	L3	CA	L1	L2	L3
Non-current assets								
Current assets								
- <i>Current financial assets</i>	8,477,117			8,477,117	10,990,000			10,990,000
- <i>Cash and cash equivalents</i>	43,602,147			43,602,147	101,550,915			101,550,915
Total	43,602,147		-	43,602,147	112,540,915	-	-	112,540,915
Non-current liabilities								
- <i>Loans</i>	1,685,176,637	780,750,000		936,620,363	1,498,269,605	771,300,000		750,000,000
Current liabilities								
- <i>Current portion of loans</i>	9,184,134	8,321,918		862,216	8,992,438	8,321,918		670,520
Total	1,694,360,771	789,071,918		937,482,579	1,507,262,042	779,621,918		750,670,520

OTHER INFORMATION

Guarantees issued and commitments

The Company did not issue any guarantees or make commitments recognised in the memorandum accounts.

Assets pledged as collateral for own debts and commitments

No collateral or guarantees were pledged either directly or indirectly in the interest of third parties.

Own securities portfolio deposited with third parties

The 1,053,692,127 shares of SNAM S.p.A., the 599,999,999 shares of Terna S.p.A., and the 210,738,424 shares of Italgas S.p.A., owned by CDP RETI, are held at the parent company CDP.

III - INFORMATION ON THE INCOME STATEMENT

PROFIT (LOSS) ON CORE BUSINESS

18. Dividends

The profit (loss) on core business is composed of dividends, distribution of which was resolved by the investee companies during the year. All dividends were also collected during the year, except for the advance on the 2017 dividend, resolved by SNAM S.p.A. in November 2017, totalling €90,828 thousand, collected in January 2018.

Dividends: breakdown

(euros)

Items/Figures	2017	2016
Italgas S.p.A. dividend	42,147,685	
SNAM S.p.A. dividend	312,103,608	253,622,872
Terna S.p.A. dividend	124,897,800	121,260,000
Total	479,149,093	374,882,872

PROFIT (LOSS) ON OPERATIONS

19. Financial income

Financial income as at 31 December 2017 amounted to €32 thousand (€49 thousand as at 31 December 2016) and came from interest income accrued on bank current accounts.

Financial income: breakdown

(euros)

Items/Figures	2017	2016
Interest income on CDP Commercial paper		21,855
Interest income on current bank account	31,669	27,639
Total	31,669	49,494

20. Financial expenses

Borrowing expenses relate to interest expense for the period, as detailed in the table below.

Financial expenses: breakdown

(euros)

Items/Figures	2017	2016
Interest on Term facility 2014	5,782,105	6,842,603
Interest on Term facility 2017	1,524,804	
Interest on Bond	14,349,170	14,383,555
Other interest expense	5,254,480	3,498,263
Total	26,910,559	24,724,422

Other interest expenses amounting to €5,254 thousand were recognised in relation to derivative hedging of cash flows amounting to €5,216 thousand and, for the remaining part, mainly in relation to the interest expense accrued in fulfilment of the guarantee agreement (CSA) entered into in conjunction with the signing of the derivative contracts.

21. Administrative expenses

“Administrative expenses” as at 31 December 2017 amounted to €1,901 thousand (€2,850 thousand as at 31 December 2016) and are broken down as follows into staff costs and other administrative expenses:

Administrative expenses: breakdown

(euros)

Items/Figures	2017	2016
Staff costs	558,681	674,217
Other administrative expenses	1,341,939	2,176,006
Total	1,900,620	2,850,223

Staff costs

Staff costs, totalling €559 thousand as at 31 December 2017 (€674 thousand as at 31 December 2016), are composed as analysed below, and fell due to the departure of an employee from the workforce in February 2017. In September 2017, a new resource joined the workforce on a permanent contract.

Staff costs: breakdown

(euros)

Items/Figures	2017	2016
Employees	393,264	501,945
Board of Directors and Board of Auditors	165,417	171,416
Reimbursement of expenses for third-party employees seconded to the Company	-	856
Total	558,681	674,217

Average headcount

The average headcount broken down by job category is illustrated in the following table:

Average headcount

Items/Figures	2017	2016
Senior Managers		
Middle Managers	2	3
Office staff	1	1
Manual workers		
Total	3	4

Other administrative expenses

Other administrative expenses: breakdown

(euros)

Items/Figures	2017	2016
Professional and financial services	846,854	1,731,488
Outsourcing CDP	394,021	341,334
General and administrative services	8,986	14,288
Utilities, taxes and other expenses	92,078	88,896
Total	1,341,940	2,176,006

The 2017 fees for the independent auditors PricewaterhouseCoopers S.p.A., as provided by Article 149 - duodecies, paragraph 2, of Consob Resolution no. 11971 of 14 May 1999, as amended, are summarised below:

Independent auditors' fees:

(euros)

Type of service/Values	Service Provider	Fees for the year
Auditing		124,680
Certification	PricewaterhouseCoopers SpA	46,055
Other services		-
Total		170,735

OTHER OPERATING INCOME (COSTS)

22. Other income

This item, with a balance of €36 thousand (€24 thousand as at 31 December 2016), refers mainly to the charge-back to State Grid International Development of the costs incurred by CDP RETI for the audit performed on behalf of State Grid on the reporting package as at 31 December 2016 (€21 thousand), with the remaining part referring to the charge-back to State Grid Europe Limited of legal expenses incurred by CDP RETI but subject to charge-back in accordance with the existing agreements.

Other income: breakdown

(euros)

Items/Figures	2017	2016
Other income	35,971	24,404
Totale	35,971	24,404

INCOME TAXES, CURRENT AND DEFERRED TAXES

23. Income taxes, current and deferred taxes

Taxes for 2017 are detailed below:

Income taxes: breakdown

(euros)

Items/Figures	2017	2016
1. Current taxes (-)	40,065,232	8,225,701
- of which income from participation in the tax consolidation mechanism	40,065,232	8,225,701
2. Change in current taxes from previous years (+/-)	(1,030,628)	(1,896,222)
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	(424)	(17,654)
5. Change in deferred tax liabilities (+/-)	(1,089,939)	
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	37,944,241	6,311,825

The current income taxes reflect the “income from participation in the tax consolidation mechanism” arising from payment of the excess ACE incentive (€33,553 thousand) and the payment (€6,511 thousand) of the interest expenses not deductible on an individual basis and transferable to the tax consolidation mechanism in accordance with the provisions of the relevant tax consolidation agreement⁷⁶. As a balancing entry for this income, the Company recognised a receivable for the same amount from the parent company CDP.

The “change in current taxes from previous years” is mainly due to the difference between income to the tax consolidation scheme relating to the excess ACE incentive and interest liabilities estimated when drawing up the financial statements on 31 December 2016 based on the information available on that date, and the amount actually transferred to the tax consolidation scheme when the tax return was filed, in consideration of the update to the Group’s taxable income.

The “change in deferred tax liabilities” refers to the recognition of deferred tax liabilities calculated with reference to the advance on the 2017 dividend resolved by SNAM in November 2017 and not yet collected at the end of the year.

The reconciliation between the theoretical and actual tax liability is shown below:

⁷⁶ In consequence of its participation since 2013 in the national tax consolidation mechanism of the CDP Group, which allows calculation of IRES on a consolidated basis for the companies that exercised the option for group taxation, CDP RETI may transfer to the tax consolidation mechanism the excess ACE incentive not used on an individual basis (i.e. deducting it from its own taxable income), consequently obtaining a gain compared to the tax rate in force at that time (24% beginning from 2017). Moreover, again in consequence of its participation in the tax consolidation mechanism, CDP RETI may transfer any excess interest expenses not deductible on an individual basis if and to the extent to which other entities (participating in the tax consolidation mechanism) report excess GOP (Gross Operating Profit) for the same tax period transferable to the Group. In exchange for the transfer of these interest expenses, CDP RETI obtains a gain resulting from lower IRES at the Group level and equal to 50% of the applicable tax year.

Reconciliation between theoretical and actual tax liability: IRES

(euros)

Items/Figures	31 st /12/2017	Tax rate
Income (loss) before taxes	450,405,554	Tax rate
IREs theoretical tax liability (rate 27.5%)	(108,097,333)	-24.00%
Increases in taxes		
- non-deductible temporary differences	(22,396)	0.00%
- non-deductible permanent differences on interest expenses	(6,450,934)	-1.43%
- non-deductible permanent differences	(4,767)	0.00%
Decreases in taxes		
- dividends 95% exempt	110,335,932	24.50%
- ACE benefit	37,770,437	8.39%
- excess financial expenses	6,511,460	1.45%
- other	22,833	0.01%
IREs Actual tax liability	40,065,232	8.90%

Reconciliation between theoretical and actual tax liability: IRAP

(euros)

Items/Figures	31 st /12/2017	Tax rate
Difference between revenues and production costs	(1,507,440)	
IRAP Theoretical tax liability (5.57% rate)	83,964	-5.57%
Increases in taxes	(68,895)	n/s
Decreases in taxes	1,516,719	n/s
IRAP Actual tax liability	0	n/s

IV – RISKS AND UNCERTAINTIES

As regards CDP RETI's exposure to risks and the associated hedging policies, it is worth noting first of all that, since the Company has significant equity investments, it is also affected by the risk profiles of its investees. The monitoring of these risks, based on the rigorous system of measurement and control, is performed in the first instance by the Directors in assessing the recoverability of investments made that, for the financial statements, is reflected in the measurement of the carrying value of equity investments. The risk profiles are, moreover, constantly measured based on the volatility of the market price of the related shares.

The company also relies on the operational support of the parent CDP under the service contracts in place. More specifically, coordination on group-level risks is performed in synergy with the competent departments of CDP.

The main identified risks are listed below.

Market risk

CDP RETI is exposed to market risk, specifically the interest risk, i.e., the risk of fluctuations in the fair value or the cash flows of financial instruments due to changes in market interest rates.

In the table below, financial indebtedness is broken down by fixed and variable rate as at 31 December 2017, with 2016 corresponding figures:

(euros)	31/12/2017		31/12/2016	
	Total	%	Total	%
Fixed interest	756,878,192	44.7%	756,591,522	50.2%
Variable interest	937,482,579	55.3%	750,670,520	49.8%
Total	1,694,360,771	100.0%	1,507,262,042	100.0%

The company entered into two Interest rate swap on the Total Term loan, used to convert the variable rate loans into a fixed rate. The notional amount of the current derivatives is Euro 938 million (750 million on the original loan and 188 million on additional loan entered into 2017), while the year-end total fair value is negative by Euro 8,415 thousand (31 December 2016: Euro 11,588 thousand). For a more detailed description, refer to the "Net Financial Debt" section of the Report on Operations.

RISK RELATED TO THE FINANCIAL PERFORMANCE AND OPERATING RESULTS OF SNAM, TERNA AND ITALGAS

Given that the company is a financial holding company, its performance and liquidity are affected, other than the market value of its investment holdings, by the ability of its subsidiaries to pay out dividends (and by related dividend policy), which is in turn influenced by the financial status and operating results of the SNAM Group, the TERNA Group and the ITALGAS Group. Consequently, any significant change in these two parameters could have an adverse impact on the financial status and operating results of CDP RETI.

Through its investments in subsidiaries, CDP RETI is present in the gas transportation, regasification and storage (SNAM), electricity dispatching and transmission (TERNA) and gas distribution (ITALGAS). As a result, CDP RETI is exposed to the risks typical of the markets and sectors in which such subsidiaries operate.

RISK RELATED TO THE LIMITS IN THE TRANSFER OF FINANCIAL RESOURCES FROM SNAM, TERNA AND ITALGAS

The financial position and operating results of CDP RETI, as already mentioned, depend on the flow of funds from SNAM, TERNA and ITALGAS, in the form of dividends. This availability depends not only on the ability of SNAM, TERNA and ITALGAS to generate sufficient cash flow, but also on the ability of the three groups to overcome any legal and contractual restrictions on the distribution of dividends. For example, these may include: i) regulatory impediments to fee increases, ii) requests for substantial investments in the infrastructure that the three groups have under management, iii) compliance with covenants in loan agreements. Lastly, in more general terms, a further restriction could arise from future levels of tax.

As a result, these restrictions, and the resulting reduction in cash inflows, could have a significant adverse impact on the parent company's ability to cover the cash outflows related to the outstanding bonds and loans.

The dividend policies⁷⁷ disseminated by the investee companies are set out below, on the basis of the provisions of their respective strategic plans:

- TERNA: dividend Policy over the period 2018-2022. From 2018 to 2020 dividend per share is expected at an average annual growth rate of 6% compared to the dividend for the year 2017. For 2021 and 2022 a payout of 75% is expected, with a minimum guaranteed dividend equal to the dividend pertaining to the year 2020;
- SNAM: dividend policy with annual growth of 2.5% extended to 2019 and floor in real terms up to the end of the plan. The payment of the interim dividend will continue. In this regard, the payment of the interim dividend corresponding to 40% of the total dividend pertaining to 2018 will be proposed to the Shareholder Meeting in January 2019, with payment of the remaining 60% in June;
- ITALGAS: 2017-2019 dividend policy with 2016 DPS (20 cents) increased by 4% per annum.

LIQUIDITY AND CREDIT RISK

In relation to its business activities, the parent company is exposed to liquidity risk, namely the risk that, due to the inability of raising new funds or liquidating assets on the market, the Company may not be able to fulfil its payment commitments, resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, an extreme consequence, a condition of insolvency that puts the continuation of company business at risk. Although the company's objective is to establish a financial structure that ensures an adequate level of liquidity and balance in terms of duration and composition of the debt, external factors cannot be ruled out such as an adverse market environment or heavy restrictions on access to bank credit. In such a scenario the Company may encounter difficulties in covering the cash outlays related to outstanding bonds and loans.

The ability to access capital markets or other forms of financing and the related costs are dependent, among other things, on the assigned credit rating. Any downgrade by the rating agencies could limit the ability to access capital markets and increase the cost of capital, with a consequent adverse effect on its earnings, financial position and cash flows. In 2017 CDP RETI had a long-term "investment grade" credit rating both by Fitch (BBB) with stable outlook, and Moody's (Baa3) with negative outlook⁷⁸.

CDP RETI's current policy is to keep liquidity available in demand or short-term deposits or in readily negotiable money market instruments, spreading such investments over an appropriate number of counterparties.

CDP RETI, given its current activity, is not significantly exposed to credit risk.

In any event, the entire debt of CDP RETI is bullet. Consequently, there is no risk arising from the need to resort to refinancing operations until at least 2020, when €750 million of the term loan taken out on 29 September 2014 will have to be repaid.

The following sets forth the undiscounted contractual financial flows of the gross financial debt at nominal redemption value and the associated interest flows. The latter are determined using the conditions and rates detailed below:

- with reference to the bond issue⁷⁹, the annual coupon totals 1.875% (payment in May);

⁷⁷ The dates shown refer to the dividend distribution period.

⁷⁸ In December 2016 the outlook changed from stable to negative in consequence of the same change made by Moody's to the rating of the Italian Republic.
⁷⁹ On 21 May 2015, CDP RETI concluded the placement of an unsubordinated and unsecured fixed-rate bond, 45% of which is currently held by the parent company CDP S.p.A. The bonds listed on the Irish stock exchange and reserved for institutional investors have a maturity of 7 years, annual coupon of 1.875% and issue price of 99.909%. The operation, structured by Banca Imi, Bnp Paribas, HSBC, Mediobanca, Société Générale and UniCredit, was concluded with around 150 institutional investors, who submitted overall requests totalling over 2 billion.

- with reference to the two Term Loans, the interest rates are floating (payment in May and November) indexed twice yearly to the 6-month Euribor (values as at 31 December 2017) plus the contractually-agreed margins.

The financial flows associated with the Term Loans do not take account of the disbursements and collections associated with the hedging derivatives subject to analysis in the following table.

Financial liabilities – Analysis of contractual maturity

(thousands of euro)		2018	2019	2020	2021	2022	2023
Items/Figures							
Bond	Principal					(750,000)	
	Interests	(14,063)	(14,063)	(14,063)	(14,063)	(14,063)	
Total Loans (*)	Principal			(750,000)			(187,635)
	Interests	(7,896)	(9,626)	(8,149)	(3,851)	(4,438)	(2,307)

(*) Financial flows from hedging derivatives are not included

Payments related to Terms Loans do not consider payments and collections from hedging derivatives, that are analyzed below.

Hedging derivatives related to Term Loans – Contractual interest payments and collections

(thousands of euro)		2018	2019	2020	2021	2022	2023
Items/Figures							
Total IRS	Payments	(13,741)	(13,741)	(8,584)	(3,428)	(3,428)	(1,714)
	Collections	7,896	9,626	8,149	3,851	4,438	2,307
	Net	(5,845)	(4,115)	(436)	423	1,010	593

DEFAULT RISK AND DEBT COVENANT

The risk of default and debt covenant consists in the possibility that the loan agreements underwritten contain provisions that entail the possibility for the lender to activate contractual protections, which could result in the early repayment of the loan if specific circumstances occur, thereby generating a potential liquidity risk.

CDP RETI long-term loans provide for compliance with covenants that reflect international market practices. These covenants are related to:

- Bond entered into on May 2015 with a nominal value of €750 million and maturity on 2022.
- banking debts incurred within the framework of the existing Term Loans with a pool of banks:
 - on 29 September 2014 for an initial amount of €275 million and currently at 412.5 million as a result of the refinancing in the month of May 2015;
 - on 16 May 2017 for an amount of €103 million.
- debts incurred, within the framework of the Term Loans, with the parent company CDP:
 - on 29 September 2014 for an initial amount of €225 million and currently at €337,5 million (refinancing in the month of May 2015);
 - on 16 May 2017 for an amount of €85 million.

The principal covenants relating to the issue of bonds are summarized below:

- “negative pledge” clauses, according to which the Issuer is subject to limitations on the creation or maintenance of restrictions on all or part of its assets or on its income to ensure debt, present or future, except for the circumstances expressly permitted;
- “change of control” clauses, under which bondholders have the option to require the Issuer to repay its bonds in the circumstance in which Cassa depositi e prestiti no longer has control over the company;
- “event of default” clauses, under which predetermined events (e.g. failure to pay, breach of contractual obligations, etc.) are considered to represent potential default and the loan in question falls immediately due; in addition, under the “cross default” clauses, the occurrence of a default event in respect of any financial debt (above a threshold level) issued by the Issuer also constitutes a default in respect of the loan concerned, which becomes immediately repayable.

The main covenants envisaged in the financing agreement concluded by CDP RETI in 2014 with the parent company CDP and a pool of banks, were subject to certain modifications during July 2017, mainly concerning the inclusion of the market value of Italgas in the Loan to Value, and are summarised as follows:

- an increase (from the current 1% to 1.5% potentially) in the spread applied to the interest rate if the credit rating assigned to CDP RETI reaches the level BB+ (or equivalent) or lower for at least one of the two agencies rating (Moody's or Fitch).
- "pari passu" clauses, under which the Company, for the duration of the loans, will ensure that the payment obligations have the same degree as those relating to all other unsubordinated unsecured creditors, without prejudice to the legal privileges;
- reporting requirements, both periodic and occasional, on the occurrence of specified events;
- compliance with the following financial covenants in order to avoid an event of default:
 - Loan To Value: ratio, expressed as a percentage, of (i) the financial debt (net of cash and cash equivalents) and (ii) the market value (in the 180 days prior to the date of detection) of SNAM, TERNA and ITALGAS shares. This ratio must not exceed 50%;
 - Dividend Interest Coverage Ratio (DICR): ratio, with reference to the 12 months preceding the date of detection, of (i) the cash derived from dividends received and (ii) financial interest paid on debt. The ratio should not be less than 1.25;
 - Total Debt Service Amount (TDSA): at any time, CDP RETI must have cash and cash equivalents available in an amount not lower than the interest, fees, commissions and other costs related to the financing that must be paid within the subsequent 6 months.

The same clauses described with reference to the 2014 Term Loan are essentially also applied with reference to the new financing agreement (nominal value €188 million) concluded in May 2017, with the only difference attributable to the spread applied to the interest rate, calculated at a fixed rate (+1.45%) irrespective of the credit rating assigned to the Company.

To mitigate these risks CDP RETI monitors the circumstances that could have adverse effects on its financial position and earnings, also from the perspective of complying with covenants in place on outstanding loans. With regard to the earnings and financial performance of the subsidiaries TERNA, SNAM and ITALGAS, CDP RETI carefully monitors their results, with particular attention to all the aspects that could have impacts on the dividend distribution policies.

As regards liquidity, periodic discussions are also held with the Parent Company CDP, in terms of assessing the need for establishing credit facilities.

In any case, as at 31 December 2017 there are no tensions in terms of liquidity, since CDP RETI received dividends in the period from its subsidiaries totalling about €388 million and as at 31 December 2017 its cash and cash equivalents stood at approximately €44 million.

V – TRANSACTIONS WITH RELATED PARTIES

INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of key management personnel

(euros)	Board of Directors	Board of Auditors	Key management personnel
Items/Figures			
a) short-term benefits	100,110	50,041	130,670
b) post-employment benefits			
c) other long-term benefits			
d) severance benefits			
e) share-based payments			
Total	100,110	50,041	130,670

Remuneration of directors and statutory auditors

(euros)				Compensation and bonuses
Name	Position	Period in office	Expiry of office (1)	
Directors in office as at 31 December 2017				
Carlo Baldocci	Chairman	04/05/2017-31/12/2017	2019	13,260 (2)
Leone Pattofatto	Chief Executive Officer	01/01/2017-31/12/2017	2019	20,000 (2)
Cristiana Procopio	Director	01/01/2017-31/12/2017	2019	20,000 (2)
Yanli Liu	Director	04/05/2017-31/12/2017	2019	13,260 (3)
Yunpeng He	Director	01/01/2017-31/12/2017	2019	20,000 (3)
Outgoing Directors in 2017				
Franco Bassanini	Chairman	01/01/2017-04/05/2017		6,795
Jun Yu	Director	01/01/2017-04/05/2017		6,795 (3)
Statutory Auditors in office as at 31 December 2017				
Guglielmo Marengo	Chairman	01/01/2017-31/12/2017	2019	20,000
Benedetta Navarra	Auditor	04/05/2017-31/12/2017	2019	9,945
Paolo Sebastiani	Auditor	01/01/2017-31/12/2017	2019	15,000
Outgoing Statutory Auditors in 2017				
Francesca Di Donato	Auditor	01/01/2017-04/05/2017		5,096

(1) Date of Shareholders' Meeting called to approve financial statements for the year

(2) Compensation paid to Cassa depositi e prestiti S.p.A.

(3) Compensation is paid to State Grid International Development Limited

INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

The Company is managed and coordinated by CDP, the majority shareholder.

The CDP Group did not carry out any atypical or unusual transactions with related parties whose size could have an impact on the financial position or performance of the Company. All transactions with related parties were carried out on an arm's length basis and form part of the ordinary operations of CDP RETI.

Transactions with the parent company

(euros)		
Items/Figures	31/12/2017	31/12/2016
Assets		
- Deposit balance	917	973
- Receivable for tax consolidation (w itholding tax)	43,303	35,119
- Receivable for tax consolidation	40,087,340	6,329,479
- Receivable for CSA financial transactions	8,477,117	10,990,000
- Commercial Paper		
Liabilities		
- Payables for seconded personnel		(856)
- Payables for directors' compensation to pay to CDP	(53,260)	(35,082)
- Payables for outsourced services	(196,945)	(316,702)
- Other payables	(8,476)	(27,843)
- CFH derivative agreement	(8,415,349)	(11,588,485)
- Loans:		
<i>included in current liabilities</i>	<i>(4,132,860)</i>	<i>(4,046,597)</i>
<i>included in non-current liabilities</i>	<i>(758,329,497)</i>	<i>(674,221,322)</i>
Revenues		
- Interest income on deposit contract		
- Interest income on CSA financial transactions		
- Interest income on Commercial Paper		21,855
Costs		
- Interest expense on loan	(9,745,245)	(9,551,771)
- Interest expense on CFH	(5,216,169)	(3,453,438)
- Interest expense on CSA	(38,311)	(44,809)
- Outsourced services rendered to CDP RETI	(394,021)	(341,334)
- Costs for personnel seconded to CDP RETI		(856)
- Costs for directors' compensation to pay	(53,260)	(35,082)
- Other personnel costs	(7,943)	(9,315)
- Other costs	(120,627)	(15,243)
- Commissions for loan structuring		
Cash flows		
Cash flow from operating activities	(2,235,257)	(19,895,092)
Net cash flow from investing activities	(187,634,699)	
Net cash flow from financing activities	(167,073,037)	(361,306,621)

Transactions with CDP in 2017, which are summarised in the preceding table, concerned the following:

- the deposit agreement with the parent company CDP;
- the cash flow hedge derivative contracts with regard to which, as at 31 December 2017, the related liability and interest expense were recognised at fair value;
- the receivable deriving from the CSA financial transactions related to the derivative contracts;
- the receivables and payables arising from the participation of CDP RETI in the tax consolidation mechanism;

- the payables related to the amounts subscribed by CDP with reference to the two term loans and the bond issue, as well as the interest accrued thereon;
- outsourcing services provided by CDP to CDP RETI;
- the remuneration of directors paid to the Parent Company.

Transactions with other related entities

(euros)

Items/Figures	31/12/2017	31/12/2016
Assets		
- Receivables from SNAM for interim dividend	90,828,261	
- Receivables from SGEL for cost recharge	15,227	
Liabilities		
- Payables for pension fund	(1,948)	(1,893)
Revenues		
- Other income from cost recharge to SGEL	15,227	
Costs		
- Rental costs from FINTECNA	(80,850)	(80,850)
- Costs related to pension fund	(10,508)	(11,210)
Cash flows		
Cash flow from operating activities	388,239,933	374,827,777
Net cash flow from investing activities		
Net cash flow from financing activities	(148,642,808)	(100,920,183)

The net cash flows from operations are mainly attributable to the receipt of dividends distributed by subsidiaries. However, the net cash flows arising from financing activities relate to distribution of the dividends to SGEL, as approved during the financial year.

KEY DATA OF THE COMPANY PERFORMING MANAGEMENT AND COORDINATION

In compliance with Article 2497-bis, paragraph 4 of the Italian Civil Code, key data from the last financial statements of the parent company Cassa depositi e prestiti S.p.A. are reported in Annex 2.

VI – NON-RECURRING EVENTS AND SIGNIFICANT TRANSACTIONS

Pursuant to Consob memorandum no. DEM/6064293 of 28 July 2006, no non-recurring events and significant transactions occurred during the year , except for the spin-off of ITALGAS, for which reference is made to the specific section in the Report on Operations.

VII – SEGMENT REPORTING

In accordance with the guidelines provided in IFRS 8 – Operating Segments, for those companies that publish the consolidated financial statements of a parent company and the separate financial statements of that parent company in a single document, segment reporting is given only in reference to the consolidated financial statements. Therefore, reference is made to the analogous part of the Notes to the Financial Statements of the CDP RETI Group.

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS

PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/1998

1. The undersigned Leone Pattofatto, in his capacity as Chief Executive Officer, and Alessandro Uggias, in his capacity as the manager responsible for the preparation of the financial reports of CDP RETI S.p.A., hereby certify, taking account of the provisions of Article 154-bis.3 and 4, of Legislative Decree 58 of 24 February 1998:

- the appropriateness with respect to the characteristics of the company and
- the effective adoption

of the administrative and accounting procedures for the preparation of the separate financial statements in 2017.

2. The assessment of the appropriateness of the administrative and accounting procedures followed in preparing the separate financial statements at 31 December 2017 was based on a process developed by CDP RETI S.p.A. in line with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at the international level;

3. In addition, we certify that:

3.1 the separate financial statements at 31 December 2017:

a) have been prepared in compliance with the international accounting standards adopted in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the information in the books and other accounting records;

c) provide a true and fair representation of the performance and financial position of the issuer;

3.2 the report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Rome, 19 April 2018

Chief Executive Officer

/signature/Leone Pattofatto

Financial Reporting Manager

/signature/Alessandro Uggias

PROPOSED ALLOCATION OF 2017 NET INCOME

The Board of Directors proposes, for 2017, to distribute a total dividend of €464,032,952.28 of which 324,000,314.28 approved as an interim dividend on 23 November 2017.

The Board of Directors proposes, therefore, to allocate the net profit for FY 2017 of CDP RETI S.p.A., totalling €488,349,795.54, as follows:

- €324,000,314.28 to cover the account paid on the dividend no later than 29 November 2017;
- €140,032,638.00 to pay the balance of the dividend to be distributed in the amount of € 867.00 for each of the 161,514 shares to be assigned for payment - gross of any statutory withholdings – on 30 May 2018;
- €24,316,843.26 as profit carried forward.

The Shareholders' Meeting will be held in ordinary and extraordinary sessions with the first call on 14 May 2018, and, if necessary, the second call, on 21 May, to deliberate upon CDP RETI S.p.A. 2017 Annual Report and net profit allocation.

REPORT OF THE BOARD OF AUDITORS

CDP RETI S.p.A.

Registered offices: Rome – Via Goito n. 4

Rome Company Register, Tax Code and VAT: no. 12084871008

Enrolled in the Rome CCIAA no. REA RM-1349016

Fully paid-in share capital € 161,514.00

Company under the co-ordination and management of

Cassa Depositi e Prestiti S.p.A. - Roma

*** * ***

REPORT OF THE BOARD OF STATUTORY AUDITORS

AS OF 31 DECEMBER 2017 PURSUANT TO ART. 2429,

2ND PARAGRAPH OF THE ITALIAN CIVIL CODE

Dear Shareholders,

first of all, it should be noted that the Shareholders' Meeting of 4 May 2017 resolved, for the three-year period 2017, 2018 and 2019 and, specifically, until the date of the Shareholders' Meeting summoned to approve the financial statements for the year ended 31 December 2019, the appointment of the Board of Statutory Auditors in the persons of the undersigned auditors.

The Board of Statutory Auditors has prepared this report pursuant to art. 2429 of the Italian Civil Code, since the Company, on the basis of its By-Laws, based on the motivated proposal of the previous Board of Statutory Auditors, has appointed for the period 2015 – 2023 as legal auditor of the accounts, as provided for by art. 13 of Legislative Decree dated 27 January 2010, no. 39 the Audit Firm PricewaterhouseCoopers S.p.A..

This report has been collectively approved, within the useful time to file the same with the Company, in the 15 days before the date of the first summoning

of the Shareholders' meeting held to approve the financial statements at hand.

The Board of Directors has made available the following documents approved on 27 March 2018, related to the financial year ended as of 31 December 2017:

- draft financial statements for the year and consolidated financial statements, accompanied by the relevant illustrative notes;
- Management Report.

The format of this report is compliant with the provisions of law and with the Rule no. 71 of the "Rules of Conduct for the Board of Statutory Auditors – Conduct principles for Boards of Statutory Auditors of non-quoted companies" issued by the CNDCEC.

Knowledge of the Company and risk evaluation

Recognizing the consolidated knowledge that the Board of Statutory Auditors declares to have on the Company and with regard to:

- the type of business carried out;
- its organizational and accounting structure;

taking also into account the size and issues of the Company, it is herewith highlighted that the "*planning*" phase of the supervisory activity – in which it is necessary to evaluate the intrinsic risks and the criticalities related to the two above-mentioned parameters – has been carried out through the positive correspondence regarding the known facts based on information acquired over time.

This report therefore summarizes the activity envisaged by art. 2429, par. 2 of the Italian Civil Code, with a focus on:

- the result of the financial year;
- the activity performed in the carrying out of the duties envisaged by the

- provisions of law;
- the observations and proposals on the financial statements, with particular reference to the possible use by the Board of Directors of the exception provided for by art. 2423, par. 4 of the Italian Civil Code;
 - possible reports by the Shareholders, pursuant to art. 2408 of the Italian Civil Code.

The activities of the Board of Statutory Auditors have regarded, from a temporal point of view, the entire financial year and, during the same financial year, the meetings envisaged by art. 2404 of the Italian Civil Code have been regularly held and for such meetings the relevant minutes have been prepared and duly undersigned by unanimous approval.

Activity carried out

During the periodical controls, the Board of Statutory Auditors has been informed about the evolution of the Company's business, paying particular attention to contingent and/or extraordinary issues, in order to evaluate their economic and financial impact on the result for the financial year and on the assets, as well as any possible risk.

Therefore, the Board of Statutory Auditors has periodically evaluated the adequateness of the organizational and functional structure of the Company and any possible change to the same, arising from minimal needs generated by the business.

The relationships with those operating in the above-mentioned organization have been inspired by the reciprocal collaboration, always respecting the roles assigned, after having clarified the Board of Statutory Auditors' duties.

The information required by art. 2381, par. 5 of the Italian Civil Code, has been

provided by the Board of Directors with a frequency even higher than the fixed minimum of six months; this has happened in occasion of both the planned meetings and the Board of Statutory Auditors' control activities at the Company's premises; from the above it can be inferred that the Directors have, both formally and substantially, respected their duties under the mentioned provision of law.

In conclusion, as far as it has been possible to acknowledge during the activities performed throughout the financial year, the Board of Statutory Auditors can state that:

- the resolutions taken by the Shareholders and the Board of Directors are compliant with the law and with the Company's By-Laws and have not been manifestly imprudent or such as to jeopardize the integrity of the corporate assets;
- sufficient information has been acquired with regard to general business trends and their foreseeable evolution, as well as to the most significant operations, by size or characteristics, carried out by the Company;
- also the operations carried out are compliant with the law and not potentially in contrast with the resolutions taken by the Shareholders' meeting or such as to jeopardize the integrity of the corporate assets;
- there are no specific observations regarding the adequateness of the administrative and accounting system, as well as on the reliability of the latter to correctly represent the business facts. With particular reference to the organizational structure, the Company has continued to use, through contractual agreements with the parent company CDP, all the necessary competences and services provided by the same, to carry out correctly its

business. In this regard, the Board of Statutory Auditors acknowledges that the action plan defined by the outcome of the Audit Report on outsourced activities is currently being implemented;

- during the supervisory activity, as above described, no further significant fact has emerged, such as to be mentioned in this report;
- it has not been necessary to intervene for omissions by the Board of Directors, as per art. 2406 of the Italian Civil Code;
- no report has been filed pursuant to art. 2408 of the Italian Civil Code;
- no report has been filed pursuant to art. 2409, par. 7 of the Italian Civil Code;
- during the financial year, the Board of Statutory Auditors has not issued the opinions provided for by the law, except for the “Opinion related to the appointment of the Financial Reporting Officer pursuant to art. 154-bis of Legislative Decree dated 24 February 1998, no. 58”, issued on 7 June 2017.

Observations and proposals related to the financial statements and to their approval

With regard to the draft financial statements for the year ended on 31 December 2017, the following is to be noted:

- a) the financial statements in question have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), endorsed by the European Commission and in force as of 31 December 2017;
- b) the correct representation of the business facts into the accounting records and their inclusion in the financial statements, according to the IFRS (which include IAS) standards, have been checked by the Audit Firm, in charge of the legal audit of accounts;

c) the financial statements as of 31 December 2017 show a profit for the year of € 488,349,795 and a net worth of € 3,504,168,041. The main positive income elements are dividends due (about 479 million euros), in addition to the income from participating to the tax consolidation (about 40 million euros), offset, among the negative income elements, mainly by financial expense (about 27 million euros).

The draft financial statements have been then analyzed; in this regard, please find herewith below the following further information:

- the evaluation criteria for assets and liabilities subject to this imperative requirement were checked and, pursuant to IAS 8 - Accounting standards, changes in accounting estimates and errors - the new international accounting standards or the amendments to the accounting standards already in force were illustrated, the application of which became mandatory as from 1 January 2017. Although the adoption of the above mentioned amendments to the accounting principles did not have a significant effect on the financial statements, a reconciliation of financial liabilities was nevertheless prepared as required by the amendment to IAS 7;
- we have paid attention to the general setting of the financial statements, to their general compliance with the law, with regard to their formation and structure and in this respect there are no observations to be included;
- we have verified the observance of the provisions of law regarding the preparation of the Management Report and in this respect there are no observations to be included in this report;
- the Board of Directors, in preparing the financial statements, has made no exceptions to the provisions of law, pursuant to art. 2423, par. 4 of the Italian

Civil Code;

- we verified that the financial statements correspond to the facts and information we are aware of as a consequence of the carrying out of our duties as Board of Statutory Auditors and in this regard we have no further comments to make.

With regard to the aspects under the responsibility of the Board of Statutory Auditors, the following relevant facts occurred during the financial year are to be highlighted:

- in order to strengthen the position of the Company as the main shareholder of SNAM and Italgas, on 12 April 2017 the Board of Directors of the Parent Company – CDP RETI S.p.A. - resolved the acquisition of the interest held by CDP S.p.A. in SNAM S.p.A. (1.12%) and Italgas S.p.A. (0.97%). The transaction in question - completed on 19 May 2017, closing of the transaction, with the transfer of ownership of the shares held in Snam and Italgas to CDP RETI - was financed by two further loans, both signed on 16 May 2017 and disbursed on 19 May 2017;
- following the natural expiry of the appointment of the Board of Directors, the Shareholders' Meeting of 4 May 2017 resolved to appoint the new Board of Directors for three financial years, and specifically until the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2019;
- following the natural expiry of the appointment of the Financial Reporting Manager, during the Board meeting of 14 June 2017, on the basis of the favorable opinion expressed by the Board of Statutory

Auditors on 7 June 2017, the relevant resolutions were passed with regard to the office in question

- during the meeting of 23 November 2017, the Board of Directors resolved to distribute an advance payment on the dividend for 2017 (€ 324 million).

Article 28 of Directive 2014/56/EU amended Directive 2006/43/EC on legal audit of accounts. It was implemented in Italy with Legislative Decree no. 135/2016, which updated Legislative Decree no. 39/2010. Article 10 of Regulation (EU) 537/2014 of 16 April 2014 defines the specific requirements of the audit report for public interest entities.

Pursuant to Article 19 of Legislative Decree No. 135/2016, the Board of Statutory Auditors has constantly monitored the activities of the Audit Firm in 2017 and up to the date of this Report.

The Audit Firm, periodically met for the purpose of exchanging information, did not report to the Board of Statutory Auditors any act or fact deemed contestable or irregularity that required the formulation of specific reports pursuant to art. 155, paragraph 2, of Legislative Decree no. 58/1998 (Consolidated Financial Law - TUF).

The Board of Statutory Auditors has received from the Audit Firm the report required by art. 11 of Regulation (EU) 537/2014, which also contains the declaration relating to the annual confirmation of independence pursuant to art. 6 (paragraph 2) of the aforementioned European Regulation.

Starting from the FY2017, the reports on the audit of the financial statements include an explanation of the key aspects that, in the professional opinion of the Auditor, were most significant in the audit of the individual and consolidated

financial statements for the year under consideration (ISA Italia).

The Audit Firm did not express any specific comment on the financial statements as of 31 December 2017. In fact, no significant comments were made in the report prepared and issued today.

In compliance with the provisions of articles 2497 and following of the Italian Civil Code, the Company has provided in the Notes to the Financial Statements information about its being subject to the management and coordination of another entity. Namely, it has been confirmed that the Shareholder Cassa Depositi e Prestiti S.p.A. the entity carrying out such management and coordination activity.

Conclusions

Based on the above and as far as the Board of Statutory Auditors is concerned and has verified from the periodical controls carried out, it is unanimously deemed that there no obstacles to your approval of the draft financial statements for the period ended on 31 December 2017, as prepared by the Board of Directors, sharing the opinion of the same Board with regard to the allocation of the profit for the year.

Rome, 19 April 2017

The Board of Statutory Auditors

Dott. Guglielmo Marengo

Avv. Benedetta Navarra

Dott. Paolo Sebastiani

REPORT OF THE INDEPENDENT AUDITORS



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Cdp Reti SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cdp Reti SpA (the Company), which comprise the statement of financial position as of 31 December 2017, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

There are no Key audit matters to be communicated in this report.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v. - C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0803640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Picciapetra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349727 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237904 - **Treviso** 31100 Viale Felissent 90 Tel. 0422666911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Foscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;



- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 24 June 2015, the shareholders of Cdp Reti SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2015 to 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Cdp Reti SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Cdp Reti SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.



We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Cdp Reti SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Cdp Reti SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Roma, 19 April 2018

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

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

ANNEXES

ANNEX 1

Analytical list of equity investments

ANNEX 2

Separate financial statements at 31 December 2016 of Cassa depositi e prestiti S.p.A.

ANNEX 1

Analytical list of equity investments

(euros)

A. Listed entities	Names	Registered office	% holding	Carrying amount	Type
	Italgas S.p.A.	Milano	26.04%	621,032,150	Control
	SNAM SpA	San Donato Milanese (MI)	30.10%	3,086,832,661	Control
	TERNA S.p.A.	Roma	29.85%	1,315,200,000	Control

ANNEX 2

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

(euros)

Assets	31/12/2016	31/12/2015
10. Cash and cash equivalents	3,093	2,932
20. Financial assets held for trading	207,650,392	200,501,673
40. Financial assets available for sale	9,596,393,260	7,578,552,942
50. Financial assets held to maturity	32,268,680,348	24,577,265,251
60. Loans to banks	23,964,631,584	25,207,955,489
- of which segregated asset pool	446,324,638	406,691,544
70. Loans to customers	258,642,911,172	257,105,038,483
80. Hedging derivatives	733,272,511	789,378,295
100. Equity investments	30,896,644,341	28,138,171,456
110. Property, plant and equipment	272,567,177	252,558,181
120. Intangible assets	8,570,519	5,349,273
130. Tax assets	972,786,595	809,946,549
a) current	628,099,980	467,581,492
b) deferred	344,686,615	342,365,057
- of which for purposes of L. 214/2011	-	-
150. Other assets	145,602,272	234,235,232
Total assets	357,709,713,264	344,898,955,756

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

(euros)

Liabilities and equity	31/12/2016	31/12/2015
10. Due to banks	14,487,457,832	14,336,702,051
- of which secured by segregated asset pool	-	400,003,333
20. Due to customers	305,798,520,321	294,843,707,676
30. Securities issued	12,031,653,582	14,381,591,253
40. Financial liabilities held for trading	183,286,348	169,571,640
60. Hedging derivatives	831,894,069	535,246,839
70. Adjustment of financial liabilities hedged generically (+/-)	38,206,204	43,272,652
80. Tax liabilities	210,911,533	142,329,999
a) current	93,877,881	35,304,568
b) deferred	117,033,652	107,025,431
100. Other liabilities	877,150,145	945,658,473
110. Staff severance pay	1,004,783	930,077
120. Provisions	42,813,434	38,893,000
b) other provisions	42,813,434	38,893,000
130. Valuation reserves	946,536,992	940,469,993
160. Reserves	14,225,165,606	14,184,832,430
170. Share premium reserve	2,378,517,244	-
180. Share capital	4,051,143,264	3,500,000,000
190. Treasury shares (-)	(57,220,116)	(57,220,116)
200. Net income for the period (+/-)	1,662,672,023	892,969,789
Total liabilities and equity	357,709,713,264	344,898,955,756

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

(euros)

Items	31/12/2016	31/12/2015
10. Interest income and similar revenues	6,722,913,263	5,906,932,765
20. Interest expense and similar charges	(4,354,350,232)	(5,001,806,401)
30. Net interest income	2,368,563,031	905,126,364
40. Commission income	96,954,952	61,365,810
50. Commission expense	(1,581,159,760)	(1,614,857,006)
60. Net commission income	(1,484,204,808)	(1,553,491,196)
70. Dividends and similar revenues	1,570,768,905	1,538,444,005
80. Net gain (loss) on trading activities	5,665,777	69,670,039
90. Net gain (loss) on hedging activities	756,687	4,504,139
100. Gains (losses) on disposal or repurchase of:	24,605,589	399,986,163
a) loans	19,139,789	67,284,144
b) financial assets available for sale	5,463,955	332,691,751
c) financial assets held to maturity	1,845	10,268
120. Gross income	2,486,155,181	1,364,239,514
130. Net impairment adjustments of:	(457,112,014)	(95,628,198)
a) loans	(163,235,538)	(101,827,650)
b) financial assets available for sale	(215,948,520)	(26,800)
d) other financial transactions	(77,927,956)	6,226,252
140. Financial income (expense), net	2,029,043,167	1,268,611,316
150. Administrative expenses:	(136,162,728)	(130,723,327)
a) staff costs	(80,533,141)	(71,653,920)
b) other administrative expenses	(55,629,587)	(59,069,407)
160. Net provisions	(1,157,601)	(18,486,007)
170. Net adjustments of property, plant and equipment	(4,556,613)	(4,575,292)
180. Net adjustments of intangible assets	(2,465,725)	(2,246,874)
190. Other operating income (costs)	3,752,011	(18,383,217)
200. Operating costs	(140,590,656)	(174,414,717)
210. Gains (losses) on equity investments	(270,010,000)	(209,042,375)
240. Gains (losses) on the disposal of investments	(3,835)	(5,479)
250. Income (loss) before tax from continuing operations	1,618,438,676	885,148,745
260. Income tax for the period on continuing operations	44,233,347	7,821,044
270. Income (loss) after tax on continuing operations	1,662,672,023	892,969,789
290. Income (loss) for the period	1,662,672,023	892,969,789

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

(euros)

Items	31/12/2016	31/12/2015
10. Income (loss) for the period	1,662,672,023	892,969,789
Other comprehensive income net of taxes transferred to income statement		
90. Cash flow hedges	(2,024,469)	(7,586,917)
100. Financial assets available for sale	8,091,468	(125,115,015)
130. Total other comprehensive income net of taxes	6,066,999	(132,701,932)
140. Comprehensive income (items 10+130)	1,668,739,022	760,267,857

CDP RETI S.p.A.

Registered office

Via Goito 4

00185 Rome

Share capital euro 161.514,00 fully paid-in

Rome Chamber of Commerce REA 1349016

Fiscal Code, Company Registrar and VAT no.12084871008

The company is managed and coordinated by Cassa depositi e prestiti società per azioni, Via Goito n. 4, 00185 Rome – Share capital euro 4.051.143.264,00 fully paid-in – Rome Chamber of Commerce REA 1053767, Fiscal code and Company Registrar 80199230584 – VAT no. 07756511007



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