Annual Report

2018

cdp reti

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COMPANY BODIES AND OFFICERS

BOARD OF DIRECTORS (*)

Massimo Tononi (**)	*Chairman*
Fabrizio Palermo (**)	*Chief Executive Officer*
Cristiana Procopio	*Director*
Yanli Liu	*Director*
Yunpeng He	*Director*

BOARD OF AUDITORS (*)

Guglielmo Marengo	*Chairman*
Benedetta Navarra	*Auditor*
Paolo Sebastiani	*Auditor*

INDEPENDENT AUDITORS (***) PricewaterhouseCoopers S.p.A.

(*) Appointed by the Shareholders' Meeting of 4 May 2017 and 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.

(**) Appointed by co-optation by the Board of Directors on 20 February 2019 to replace Carlo Baldocci and Leone Pattofatto, respectively the Chairman and Chief Executive Officer, who had submitted their resignations. The Shareholders' Meeting held on 6 March 2019 renewed the appointment of Mr. Tononi and Mr. Palermo as members of the Board of Directors with term of office aligned with that of the other Directors in office.

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

SUMMARY

1.

Report on operations of the Group


1. PRESENTATION OF THE GROUP

1.1 ROLE AND MISSION OF THE 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 euro 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 (30.37%), 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 unbundling[1] 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 euro per share (overall purchase value of approximately 3.5 billion euro). 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 euro) 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 shares[2] (Beneficiary Company), CDP RETI was

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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..

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.

Direct subsidiaries and related area of consolidation

The SNAM Group (“SNAM”, Società Nazionale Metanodotti) monitors the regulated activities of the gas sector in Italy, where it manages, based on the latest information available, a national gas transport network of more than 32,625 kilometres of gas pipelines running at high and medium pressure, 9 storage fields and 1 regasification terminal. The regulation includes tariff systems to cover the costs incurred by the operator and fair remuneration of the capital invested.

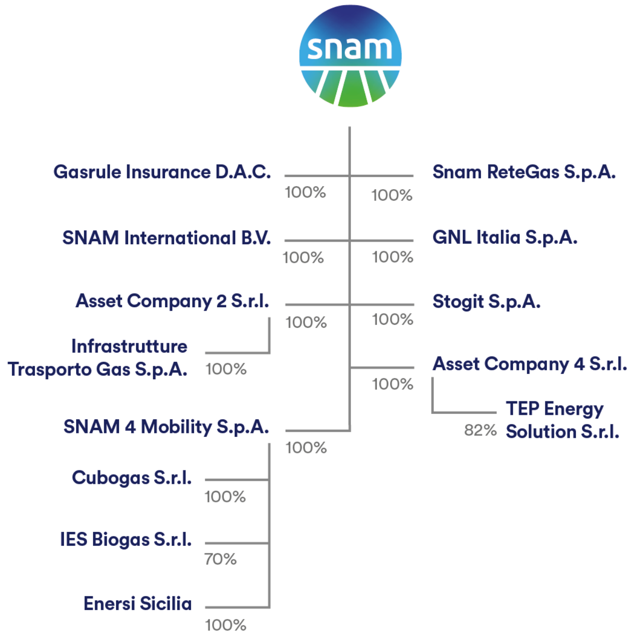
As at 31 December 2018 the Group is engaged in the transport and dispatching of natural gas, the regasification of liquefied natural gas (LNG) and the storage of natural gas. SNAM operates throughout Italy mainly through three operating subsidiaries wholly owned by SNAM S.p.A.: respectively SNAM Rete Gas and Infrastrutture Trasporto Gas (transport and dispatching), GNL Italia (LNG regasification) and Stogit (storage). SNAM is also leader in the construction and integrated management of natural gas infrastructures in Europe, where it is present through its subsidiaries in Austria (TAG), France (TEREGA), United Kingdom (Interconnector UK), Italy-Albania-Greece (TAP) and Austria (GCA).

SNAM has been listed on the Italian Stock Exchange since 2001.

Below is a description of the main operating companies:

- *SNAM RETE GAS* and *INFRASTUTTURE TRASPORTO GAS* are the main Italian natural gas transport and dispatching operators in the country, having almost the entire transport infrastructure in Italy. The gas coming from abroad is introduced into the national network via entry points at the interconnections with the gas pipelines and LNG regasification terminals. Once imported or re-gasified, the gas is moved up to the local distribution networks, the re-delivery points of the regional network, or to large end customers, such as thermoelectric power plants or industrial production plants.
- *GNL ITALIA* owns the Panigaglia terminal (La Spezia), the first regasification plant built in Italy. The extraction process of natural gas from fields, its liquefaction for transport via tankers and the subsequent regasification for use by users, make up the so-called LNG chain. The process starts in the exporting country, where the natural gas is made liquid and subsequently loaded onto methane tankers for transport via sea until the LNG regasification terminal. At the regasification terminal, the LNG is unloaded and, subsequently heated, bringing it back to the gaseous state and introduced into the natural gas transport network.
- *STOGIT* is the leading storage operator in Italy, with a 98% share of the total storage capacity available, and is among the leaders in Europe. The storage of natural gas, carried out in Italy under concession arrangements, seeks to offset the differing needs between gas supply and consumption (supply is actually substantially constant throughout the year, while demand for gas is affected by the seasons) and ensure the availability of a quantity of strategic gas to compensate for any lack of or reduction in non-EU supply or a gas system crisis.

The area of consolidation of the SNAM group as at 31 December 2018 is as follows.



The changes in the area of consolidation of the Snam Group as at 31 December 2018 compared to that at 31 December 2017 concerned the entry into the Company's scope of consolidation of: (i) Snam International B.V. (Gasbridge 2 B.V. until 31 July 2018), following the share swap operation between the joint owners Snam and Fluxys, finalised on 26 April 2018, resulting in Snam becoming the sole shareholder of GasBridge 2 B.V. and Fluxys the sole shareholder of GasBridge 1 B.V.; (ii) Asset Company 4 S.r.l, newly established company wholly owned by Snam S.p.A.; (iii) Tep Energy Solution S.r.l., 82% owned by Asset Company 4 S.r.l. and active in the energy efficiency sector as Energy Service Company (ESCO), following the acquisition of 82% of the company's share capital, effective on 30 May 2018; (iv) IES Biogas, active in the planning, creation and management of plants for the production of biogas and biomethane, following the acquisition of 70% of the company's share capital effective on 5 July 2018; (v) Cubogas S.r.l., newly established company, following the acquisition on 25 July 2018, by M.T.M., a company of the Westport System Inc group, of the business unit dedicated to technological solutions for M.T.M. natural gas refuelling stations for vehicle fuel; (vi) Enersi Sicilia S.r.l., a company authorised to develop infrastructure for the production of biomethane from the organic fraction of municipal waste (FORSU) in the province of Caltanissetta, following the acquisition of 100% of the company's share capital effective from 29 November 2018.

The shareholder structure of SNAM S.p.A. as at 31 December 2018 is shown below (share capital consisting of 3,469,038,579 shares without par value):

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
SNAM S.p.A.	CDP Reti S.p.A. (*)	30.37
	SNAM S.p.A. (treasury shares)	4.85
	other shareholders	64.78

(*) On May 7, 2018, Snam S.p.A. reported the cancellation of 31,599,715 treasury shares in its portfolio, without reducing share capital. This cancellation (resolved by the Extraordinary Shareholders' Meeting held on 24 April 2018 of Snam S.p.A.) determined an increase in the share of CDP RETI (from 30.10% to 30.37%)

More information can be found in the section by sector/company "Significant events taking place in the year" below.

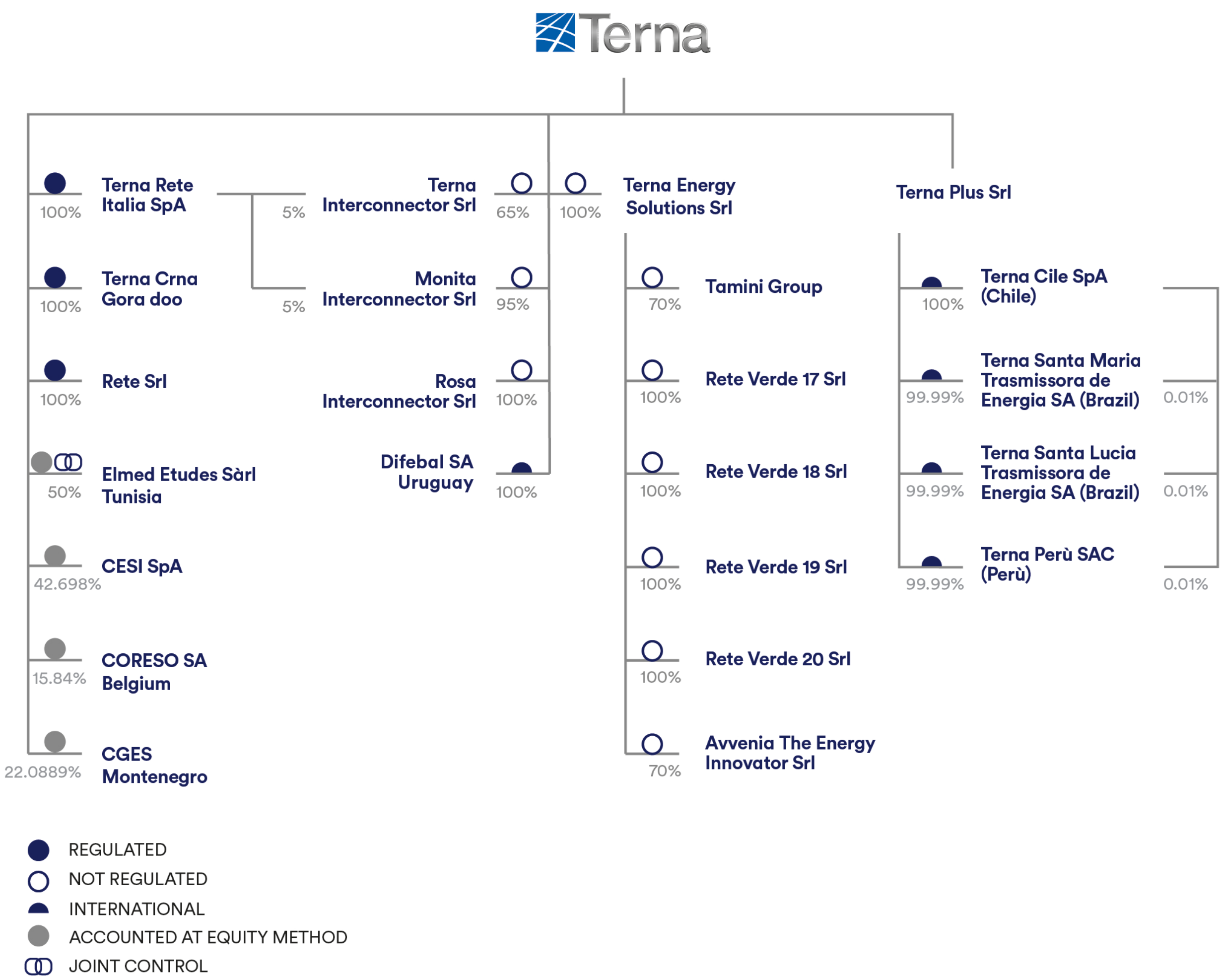
Based on the latest information available, **the TERNA group ("TERNA" – "Trasmissione Elettrica Rete Nazionale"** [National Electricity Transmission Grid]) is the largest independent electricity transmission operator in Europe and one of the leading operators in the world by km of managed lines (more than 74 thousand km). It is the operator and main owner of the high-voltage electricity National Transmission Grid ("NTG"). The company is responsible for the planning, building and maintenance of the grid. In Italy, the company also manages the nationwide transmission and despatch of high- and ultra-high- voltage electricity via the NTG and is therefore responsible for balancing the demand and supply of electricity in safe operation. It plays the role of Italian TSO (Transmission System Operator) with a government granted monopoly based on the rules and regulations defined by the Italian Energy Networks and Environment Regulator (ARERA), formerly the Electric Power, Gas, and Water System Authority (AEEGSI), and the guidelines issued by Ministry for Economic Development.

The electrical system is composed of:

- **Generation**: conversion of energy obtained from primary sources into electricity.
- **Transmission and Dispatching**: the transfer of electricity 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**: supply of medium and low-voltage electricity to end users.

TERNA has been listed on the Italian Stock Exchange since 2004.

The area of consolidation of the TERNA group as at 31 December 2018 is as follows.



Changes in the group structure as at 31 December 2017 are as follows:

- as part of the project to identify and implement new business opportunities for energy efficiency services and interventions, the acquisition of 70% of Avvenia The Energy Innovator S.r.l was signed on 15 February 2018;
- on 16 July 2018 Resia Interconnector S.r.l. was established, for the construction of the private Italy-Austria Interconnection, for which the authorisation process for the Passo Resia - Glorenza cable section should be completed in 2019.

- On 2 August 2018 the partial demerger of Terna Plus S.r.l. became effective (100% subsidiary of the parent company Terna S.p.A.) in favour of a newly established company named Terna Energy Solutions S.r.l.. The scope of the demerged operations is focused on the Unregulated business and the energy solutions activities already carried on by Terna Plus. With the demerger operation, the investments in the companies that carry on an unregulated business in Italy were also transferred to the company TES: Tamini Trasformatori S.r.l., Rete Verde 17 S.r.l., Rete Verde 18 S.r.l., Rete Verde 19 S.r.l., Rete Verde 20 S.r.l. and Avvenia The Energy Innovator S.r.l. (acquired on 15 February 2018).

The shareholder structure of TERNA S.p.A. as at 31 December 2018 is shown below (share capital consisting of 2,009,992,000 shares with a par value of 0.22 euro per share):

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 the SNAM group as a result of the sale by ENI - on 1 July 2009 - of Italgas Reti, is the largest Italian operator in the natural gas distribution sector in Italy and the third largest in Europe. Natural gas distribution services are provided under concession arrangements, with the concession being granted by the local authorities. The gas distribution service is provided to the companies that are authorised to sell gas to end customers, with the gas being transported through municipal networks. The distribution service consists in the transportation of gas, through the local gas transportation networks, from delivery to the pressure reduction and metering stations connected to the city-gates up to the end-user delivery points (families, businesses, etc.). ITALGAS also conducts metering activities, consisting in the measurement, detection, reporting and filing of measurement data on natural gas drawn from the distribution networks.

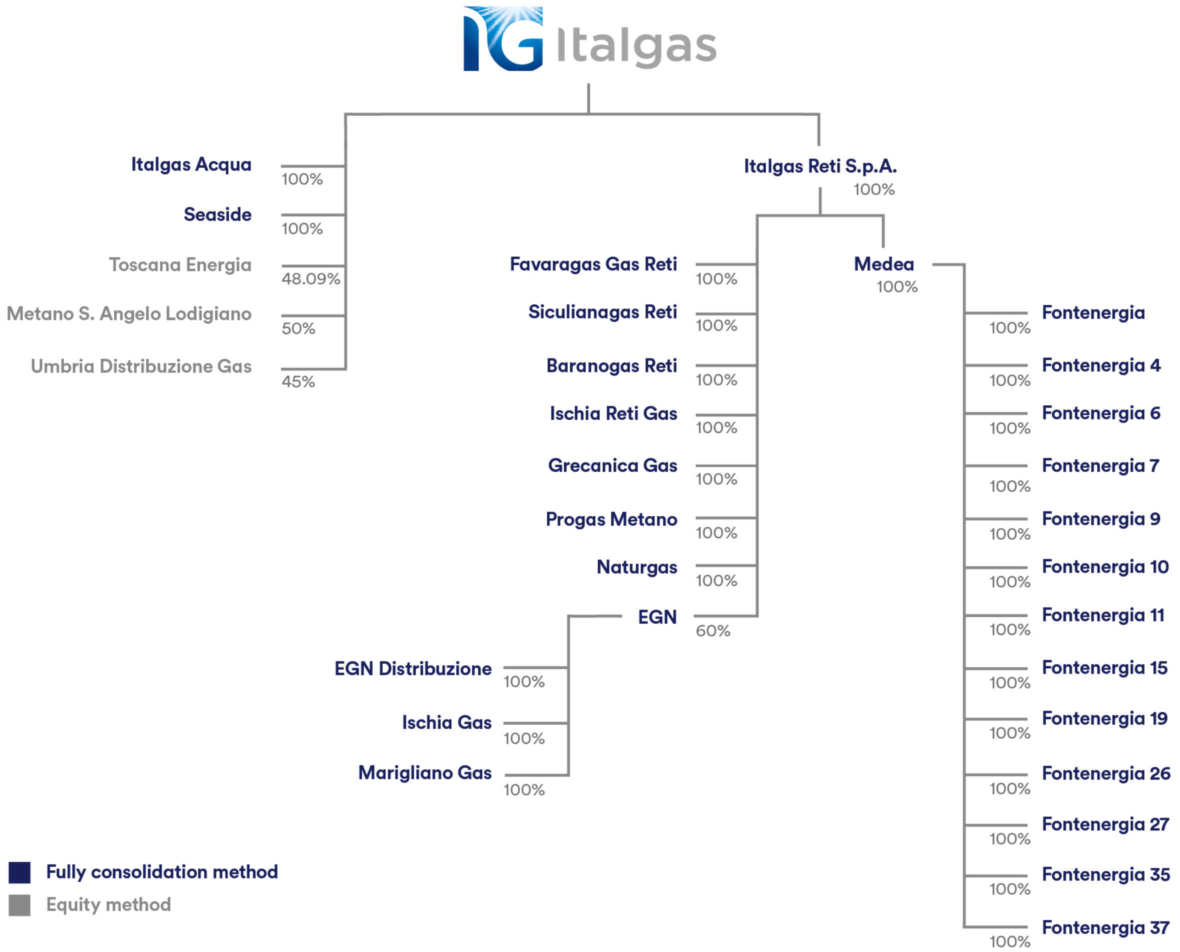
ITALGAS is subject to regulation by ARERA, which defines how the service is supplied and the applicable distribution and metering rates. The gas distribution service is traditionally supplied under concession arrangements, with granting of the service on a municipal basis. Four ministerial decrees were adopted in 2011 to reform the regulations governing the sector. Under one of the decrees, 177 "minimum territorial areas" (ambiti territorial 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 is listed on the Italian Stock Exchange since November 2016[3].

[3] The shares of Italgas Reti were listed on the MTA of the Italian Stock Exchange from 1900 to 2003.



The companies of the ITALGAS group consolidated on a line-by-line basis at 31 December 2018 are as follows.

The consolidation perimeter at the end of 2018 has changed with respect to the one in place at 31 December 2017 as a result of: (i) the incorporation of Italgas Acqua S.p.A., on 1 January 2018, as a result of the partial proportional spin-off of Italgas Reti to a newco by allocating to the latter the “former Napoletanagas water business unit”; (ii) the acquisition, on 28 February 2018, of the entire share capital of Ichnusa Gas S.p.A., a holding company controlling 12 companies that hold concessions for the construction and operation of LPG distribution and sale networks in Sardinia and (iii) the acquisition, on 13 March 2018, of the entire share capital of Seaside S.r.l., a company operating in the energy efficiency sector; (iv) the acquisition, on 6 April 2018, of the entire share capital of Medea S.p.A., a company distributing and selling LPG in Sassari; (v) the acquisition, on 31 May 2018, of 98% of the share capital, and on 27 November 2018 of the residual 2%, of Favaragas Reti S.r.l., Siculianagas Reti S.r.l., Baranogas Reti S.r.l., Ischia Reti Gas S.r.l., Progas Metano S.r.l. and Grecanica Gas S.r.l., companies which together hold 7 concessions for the construction and operation of the gas network in 16 municipalities in Southern Italy; (vii) the acquisition on 30 November 2018 of (a) the controlling share, equal to 60%, of EGN (European Gas Network) S.r.l., which controls the entire share capital of the companies EGN Distribuzione S.r.l., Ischia Gas S.r.l. and Marigliano Gas S.r.l., which together hold 37 active gas distribution concessions in Sicily, Calabria and Campania; (b) the entire share capital of Fontenergia S.r.l., a company holding a concession for the distribution and sale of LPG in Basin 22 in the Sardinia region; (c) the entire share capital of Naturgas S.r.l., a company holding a gas distribution concession in San Giuseppe Vesuviano (NA).

The companies Acam Gas S.p.A., Enerco Distribuzione S.p.A. and S.G.S. S.r.l. were merged by incorporation into Italgas Reti S.p.A., with accounting effect from 1 January 2018.

The merger by incorporation of Ichnusa Gas S.p.A. into Medea S.p.A. was completed on 12 December 2018, with accounting and tax effect from 1 January 2018.

In addition, in January 2018, the subsidiary Italgas Reti completed the acquisition of the business units of Amalfitana Gas and AEnergia Reti which hold, respectively, the natural gas distribution concession in three districts (ATEM) in the Campania and Basilicata regions and the distribution network serving the municipality of Portopalo di Capopassero (Syracuse).

As at 31 December 2018, based on the available information, the holders of significant equity investments (more than 3%) are listed 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	8.69
	Romano Minozzi	4.99
	other shareholders	46.78

(*) On 20 October 2016, a shareholders' agreement was signed between Snam, CDP Reti and CDP Gas, effective from the date of demerger, in relation to Italgas S.p.A. With effect from 1 May 2017, CDP Gas was merged into CDP. Subsequently, on 19 May 2017, CDP completed the sale to CDP Reti, which included the equity investment held in Italgas S.p.A., representing 0.969% of Italgas S.p.A.'s share capital.

More information can be found in the section "Significant events taking place in the year by sector/company" below.

1.2 BACKGROUND SCENARIO

With reference to **SNAM** and the key sectors in which it operates, it should be noted that:

- transport of natural gas: in 2018 the natural gas introduced into the national gas transport network equalled 72.66 billion cubic metres, down 2.49 billion cubic metres compared to 2017 (-3.3%). The reduction is essentially attributable to the lower consumption recorded in the thermoelectric sector (-2.08 billion cubic metres, -8.2%), following the return to normal flows of electricity imports, declining in 2017 due to the slowdown in some French nuclear plants in the first two months of the year, and to an increase in hydroelectric production, returning to normal levels following the low rainfall in 2017. The reduction in demand for gas was also affected by the lower consumption in the residential and service sector (-0.31 billion cubic metres, -1.1%) attributable to the weather. The demand for gas in normalised terms for the temperature was estimated at 73.5 billion cubic metres, up by 1.2 billion cubic metres (+1.7%) compared with the corresponding value in 2017 (72.3 billion cubic metres).
- regasification of liquefied natural gas (LNG): during 2018 the LNG terminal in Panigaglia (SP) re-gasified 0.91 billion cubic metres of natural gas, up 0.28 billion cubic metres compared to 2017 (0.63 billion cubic metres).
- storage: the natural gas handled in the storage system in 2018 amounted to 21.07 billion cubic metres, up by 1.15 billion cubic metres, equal to 5.8%, compared to the volumes handled in 2017. The increase is attributable to both the greater storage supplies (+0.84 billion cubic metres, +8.6%) and the storage supplies (+0.31 billion cubic metres, +3.1%), mostly following the weather of the first few months of 2018.

With respect to the tariff framework, pursuant to Resolution 757/2017/R/gas, published on 17 November 2017, the Authority has approved the revenues recognised in 2018 for the transport and despatching of natural gas. Revenues recognised for the service of transporting, despatching and metering natural gas in 2018 amount to 1,947 million euro. The proposed tariffs for the natural gas transport and dispatching service regarding 2018 were published by the Authority with resolution 795/2017/R/gas of 5 December 2017. With subsequent resolution 390/2018/R/gas, published on 19 July 2018, the Authority set the revenues recognised in 2018 for the transport and despatching of natural gas, in order to take into account, the actual values relating to 2017.

Regarding **TERNA** and the demand for electricity in Italy, such demand was equivalent to 321,910 GWh in 2018, marking an increase of +0.4% on 2017. Monthly comparison figures relating to the demand for electricity in Italy (2018 vs. 2017) point to a slight increase in demand across most months of the year.

With regard to energy production by source, hydroelectric generation saw a significant recovery (+31%) in 2018, offset by a slight contraction in other renewable sources.

Renewable sources covered 35% of the total demand for electricity.

At 31 December 2018, **ITALGAS** was the holder of gas distribution concessions in 1,700 Municipalities (1,500 at 31 December 2017), of which 1,614 in operation (1,484 at 31 December 2017).

In January 2018, Italgas completed the acquisition of the gas distribution business units of two of its companies operating in Southern Italy: Amalfitana Gas and AEnergia Reti. Following the acquisition of these business units, Italgas acquired the concessions of 13 municipalities in Campania, Basilicata and Sicily, of which 10 in operation.

In 2018, Italgas also acquired the companies Ichnusa Gas[4], Medea[5], Grecanica Gas, Progas Metano, EGN, Naturgas and Fontenergia, holding concessions for a total of 118 municipalities with network in operation.

In 2018, the concessions of Colosimi (CS), Santo Stefano di Camastra (ME), Porto Palo di Campo Passero (SR), Condufri (RC) and Palizzi (RC) entered into force, while three concessions in the Veneto region and two concessions in the Calabria region were grouped into two different municipalities.

During 2018, Italgas, currently present in 114 “minimum territorial areas” (ambiti territoriali minimi - ATEM), continued to prepare and forward the information and documentation provided for by regulations currently in force, necessary to call tenders in said areas (articles 4 and 5 of Italian Ministerial Decree 226/11) to the local authorities and/or the Contracting Authorities. Against this backdrop, the activities to determine the agreed-upon reimbursement values owed to the Group companies continued.

Within the scope of the regulatory framework that establishes the awarding of gas distribution services with tenders by territorial areas (and not by individual municipality), 25 calls for tenders by Area were published (of which 9 sent to the Authorities, as specified by Ministerial Decree 226/2011 and another 6 sent to the Authorities, but not yet published) at 31 December 2018.

- Gas distributed: at 31 December 2018, ITALGAS had distributed 7,873 million cubic metres of gas (7,767 at 31 December 2017) on behalf of 323 marketing companies (284 in 2017);
- Distribution network: the gas distribution network at 31 December 2018 extended for 61,361 kilometres (57,773 kilometres at 31 December 2017) with an increase of 3,588 kilometres over 31 December 2017.
- Meters: at 31 December 2018 the meters in service at the re-delivery points (PdR, punti di riconsegna) were 6,708 million (6,586 at 31 December 2017).

[4] Company operating in the LPG distribution and sale sector.

[5] Company operating in the propane air distribution and sale sector.

2. SIGNIFICANT EVENTS TAKING PLACE IN THE YEAR BY SECTOR/COMPANY

CDP RETI

Regarding the **dividends received** from subsidiaries, totalling **406 million (388 million in 2017)**, during the reporting period about 227 million were collected from SNAM (2017 advance dividend equal to 91 million[6] and 2017 final dividend equal to 136 million), about 134 million from TERNA (2017 final dividend equal to 87 million and 2018 advance dividend equal to 47 million) and about 44 million from ITALGAS (2017 dividend).

The increase compared to 2017 is due to the higher collections deriving from the modified dividend policies (in terms of dividend per share) of TERNA (+9.8 million), SNAM (+6.5 million) and ITALGAS (+1.7 million).

Furthermore, on 6 November 2018 the Board of Directors of SNAM approved the distribution of an advance dividend on the 2018 net profit, of which 95 million was paid to CDP RETI (in January 2019).

For more details, please see the subsequent section "Income statement and balance sheet results of the Company".

The **dividends paid** to the shareholders, totalling **396 million (425 million in 2017**), instead were distributed during the last year as follows:

1. the balance of the 2017 profit (i.e. 140 million euro[7]), of which about 83 million in favour of Cdp and 49 million of State Grid Europe Limited, up compared to the amount distributed in the first half of 2017 (i.e. 92 million) due to the effect of the higher profit recorded in 2017 (488 million) compared to 2016 (354 million).
   Moreover, it bears recalling that a part (324 million) of the 2017 net income was distributed in November 2017 as an advance[8].
2. an advance on the 2018 dividend[9] equal to 256 million, of which about 151 million in favour of Cdp and 90 million of State Grid Europe Limited.

In more general terms, it should be noted that, on 27 March 2018, the Board of Directors of CDP RETI approved the Model of Organisation, Management and Control pursuant to Legislative Decree 231/2001 (General and Special Part) and concomitantly appointed the Supervisory Body[10], entrusting the related functions to the Board of Statutory Auditors.

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

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[6] Advance (equal to 0.0862 euro per share, with payment starting from 24 January 2018, with coupon due on 22 January and record date 23 January) approved by the Board of Directors of Snam S.p.A. on 06/11/2017 and recognised in the financial statements of CDP RETI S.p.A. as at 31 December 2017.

[7] Euro 867 distributed for each of the 161,514 shares.

[8] The advance of 2,006.02 per each of the 161,514 shares was approved 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.

[9] The advance of 1,584.62 per each of the 161,514 shares was approved by the Board of Directors on 15 November 2018 on the basis of the Company's accounting situation at 30 June 2018, prepared in accordance with IFRSs. The Company ended the period with a net income of approximately 256 million and available reserves of approximately 3,369 million.

[10] Always in the meeting held on 27 March 2018, the Supervisory Body, among other things, was assigned a budget for 2018. With regard to determining the fee for carrying out the relative functions, this was the subject of a resolution by the Shareholders' Meetings held on 14 May 2018.

i) on 15 March 2018 the Board of Directors of CDP RETI resolved on the instructions to be given to members of the Consultation Committee[11], as governed by the Italgas Shareholders' Agreement[12], in view of the ordinary and extraordinary Shareholders' Meeting of Italgas S.p.A.;

ii) on 27 March 2018 the Board of Directors of CDP RETI assigned a mandate to the Chief Executive Officer, with power of sub-delegation, to cast the vote at the extraordinary shareholders' meeting of SNAM on 24 April 2018 concerning (i) the cancellation of 31,599,715 treasury shares without reducing the share capital and (ii) the amendment[13] of the Articles of Association provisions of the list-based voting system to appoint the Board of Directors and the Board of Statutory Auditors.

SNAM (GAS TRANSPORT, REGASIFICATION AND STORAGE SECTOR)

- **Acquisitions in the core business**
  - DESFA: on 20 December 2018, the European consortium comprising Snam (60%), Enagás (20%) and Fluxys (20%) finalised, via the newly established company Senfluga Energy Infrastructure Holding, the acquisition by the Greek Privatisation Agency HRADF and Hellenic Petroleum of a 66% stake in DESFA (Greece's national natural gas infrastructure operator), for a value of 535 million euro. DESFA owns and manages, in a regulated regime, a high-pressure transport network of about 1,500 km, as well as a regasification terminal in Revithoussa.
- **Acquisitions in new businesses**
  - TEP Energy Solution (TEP) - Energy efficiency: on 30 May 2018, via the subsidiary Asset Company 4 S.r.l., the acquisition was finalised of a controlling interest, equal to 82%, in the capital of TEP Energy Solution (TEP) for a total value of about 21 million euro. A price adjustment mechanism is contractually agreed based on the results of the 2018-2020 financial years, as well as put and call options on non-controlling interests due in 2020. TEP is one of the main Italian companies engaged in the energy efficiency sector, as an Energy Service Company (ESCO), with more than 200 customers among leading national and international companies and 950,000 energy efficiency certificates. The TEP acquisition is part of Snam's strategic plans to reduce its reliance on fossil fuels and improve the use of energy in the territories where it operates.
  - IES Biogas and ENERSI Sicilia – Biomethane: on 5 July 2018, Snam acquired 70% of IES Biogas, one of Italy's leading companies in the design, construction and management of biogas and biomethane plants with a market share of more than 10%, for a price of approximately 4 million euro. Put and call options on non-controlling interests due in 2022 are contractually agreed. On 29 November 2018 Snam also acquired, for a value of about 2 million euro, 100% of Enersi Sicilia S.r.l., a company authorised to develop infrastructure for the production of biomethane from organic fraction of municipal waste (FORSU) in the province of Caltanissetta. The above-mentioned acquisitions were made through the subsidiary Snam4Mobility, the company through which Snam is developing the supply infrastructure for compressed natural gas (CNG) and liquefied natural gas (LNG) engines.
  - Cubogas - Compressed natural gas (CNG): on 25 July 2018, the business unit operating in the sector of design, development and production of technological solutions for natural gas filling stations for transport of M.T.M., a company of the Westport Fuel Systems group, was acquired through the newly established company Cubogas S.r.l., wholly-owned by Snam4Mobility. The value of the transaction was 12.6 million euro, including the price adjustment made at the time of the closing.
- **New business opportunities**
  - Snam and BHGE: agreement to develop micro-liquefaction plants for sustainable mobility: on 28 May 2018, Snam and Baker Hughes, a GE company (NYSE: BHGE) signed a Head of Agreement aimed at developing micro-liquefaction infrastructure to drive sustainable mobility forward in heavy road transport and promote the launch of transport via sea in Italy.
  - Agricultural biomethane - memorandum of understanding: Coldiretti, Bonifiche Ferraresi, A2A, Snam and Gestore dei servizi energetici (GSE): on 19 June 2018, a memorandum of understanding was signed by Coldiretti, Bonifiche

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[11] 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.

[12] 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.

[13] The addition relates to the possible case in which the list that obtained the highest number of votes at the shareholders' meeting did not have a sufficient number of candidates to match the required number of candidates to be elected. In this case, the Articles of Association envisage that the missing candidates be made up from the lists that obtained the lowest number of votes.

Ferraresi, A2A, Snam and Gestore dei servizi energetici (GSE) with the involvement of agricultural and industrial companies, Italian Municipalities and, more generally, all the parties involved in the production of biomethane and its use in the transport sector. The final aim is to aggregate the subjects of the chain in order to accelerate the energy transition regarding transport, giving all the operators the possibility to access the services offered by the various subjects engaged in the field of biomethane and in the agricultural sector.

- **Sustainable mobility:** in the broadest scenario of the initiatives for the promotion of sustainable mobility, Snam:
  - on 31 July 2018 concluded a framework agreement with the api Group to create, within the IP brand petrol stations, about 200 new natural gas and biomethane pumps across the national territory. LNG distributors (liquefied methane) for heavy vehicles are also being studied;
  - following the framework agreement signed in May 2017, via the subsidiary Snam4Mobility, on 3 August 2018 concluded with Eni the second application contract on the development of 20 methane stations in Italy (following the 14 contractually agreed in 2017). The contract regards the design, creation and maintenance by Snam of 20 new CNG plants within the national network of Eni distributors.
  - on 26 November 2018, also signed a strategic agreement with SEAT to promote the use of natural gas (CNG - compressed natural gas) and renewable gas (biomethane) for sustainable mobility, in addition to research and development projects in this field.
- **Cooperation opportunities in China:** on
  - 28 August 2018 a Memorandum of Understanding (MOU) was signed with State Grid International Development (SGID), wholly owned by State Grid Corporation of China, to assess a series of possible cooperation opportunities in China and at international level, in particular in relation to the use of new technology to reduce CO2 emissions. Among the initiatives of the study: (i) the creation of biogas and biomethane plants to produce electricity from renewable sources in rural areas in China; (ii) possible partnership opportunities in researching and developing renewable gas, sustainable mobility and combined electricity-gas projects. An initial service contract was also signed with Petrochina Pipeline Company to train about 80 resources of the Chinese company.
  - 25 October 2018 a MOU was signed with Beijing Gas, the largest distributor and supplier of natural gas in China, with a 22,000km network and over 6 million customers in the Beijing area. The memorandum intends to assess cooperation opportunities in China, in particular in biomethane and the storage of natural gas.
- **Sardinia Newco**: Snam and Società Gasdotti Italia (SGI) signed an agreement for the possible combined creation of the transport infrastructure in Sardinia, subject to obtaining the authorisations needed downstream of the procedure underway with the competent national and regional authorities.
- **Snam Global Solution** - Joint venture with Albanian Gas Service Company (Albgaz): Established in November 2018, a joint venture aiming at providing the related operation and maintenance (O&M) services on the Albanian section of the TAP pipeline. The company, under joint control, is 75% owned by Albgaz and 25% by SNAM.
- **Financing**
  - New share buyback and treasury share cancellation plan without reducing the share capital: On 24 April 2018, the Shareholders' Meeting of Snam authorised, having revoked the part of the resolution that was not carried out with regard to the authorisation to purchase the treasury shares assumed by the Shareholders' Meeting on 11 April 2017, the purchase of treasury shares, in more than one tranche, for the maximum duration of 18 months starting from the date of the resolution of the Shareholders' Meeting. The maximum disbursement authorised amounts to 500 million euro, and in any case up to a maximum of 134,564,883 shares without exceeding 6.50% of the share capital subscribed and released (concerning the treasury shares already owned by the Company). In addition the Shareholders' Meeting authorised the disposal of all or part of the Company's treasury shares acquired based on the resolution of the Shareholders' Meeting, as well as those already held. The same Shareholders' Meeting, in its extraordinary session, also held on the same date, approved the cancellation of 31,599,715 treasury shares without nominal value, without reducing the share capital. Against this transaction, the share capital consists of 3,469,038,579 shares, without nominal value, for a total value of 2,736 million euro. To execute the decisions, the new buyback programme was launched on 18 June 2018. During 2018, a total of 113,881,762 Snam shares were purchased, equal to 3.28% of the share capital, for a cost of 426 million euro (56,010,436 shares, equal to 1.60% of the share capital, for a cost of 210 million euro in 2017). 36,606,724 shares were purchased as part of the share buyback programme resolved by the Shareholders' Meeting of Snam on 11 April 2017 and 77,275,038 shares as part of the new share buyback programme. At 31 December 2018, Snam held 168,197,663 treasury shares representing 4.85% of its share capital.
  - Renewal of the EMTN Programme and authorisation of a Euro Commercial Paper programme: On 2 October 2018, the Board of Directors of Snam S.p.A. resolved on the annual renewal of the EMTN (Euro Medium Term Note) 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 2 October 2019, for a maximum amount of 1.74 billion euro - increased by the value of bonds repaid in the same period, to be placed with institutional investors mainly operating in Europe. The total nominal value of the outstanding bonds issued may not in any case exceed the maximum limit of 10 billion of euro. The securities issued may be listed on one or more regulated markets. As part of the EMTN Programme, as at 31 December 2018, bonds were issued for about 8.0 billion euro. The Board of Directors likewise resolved on the approval of a Euro Commercial Paper programme ("ECP Programme") for the issue of one or more Euro

Commercial Papers within 2 years from 2 October 2018, for a total maximum value of 1 billion euro, increased by the corresponding amount of the Euro Commercial Papers repaid from time to time during the same period, to be placed with the institutional investors according to the terms and the methods of the ECP Programme. The total nominal value of the Euro Commercial Papers issued on the ECP Programme may not in any case exceed the maximum limit of 1 billion euro. At 31 December 2018, the ECP Programme was used for a total nominal value of 225 million euro.
  - Bond buyback: On 10 December 2018, Snam was successful in repurchasing bonds on the market for an overall nominal value of about 538 million euro, with an average coupon rate of around 2.6% and a residual maturity of around 3.7 years. The effects of this transaction on the 2018 income statement (47 million euro, 35 million euro net of the tax effect) essentially lie in the charges from the difference between the disbursement deriving from the bond buyback on the market and the assessment at the amortised cost of the same bonds. The one just concluded represents the last of four Liability Management uses which, from 2015 to date, contributed to reducing the Snam's cost of debt from 2.4% in 2016 to 1.5% in 2018.
- **Other**
  - Share swap GasBridges: On 26 April 2018 Snam S.p.A. and Fluxys Europe B.V. completed the share swap deal by which Fluxys Europe transferred to Snam the shares held in GasBridge 2 B.V., equal to 50% of the share capital, and at the same time Snam transferred to Fluxys Europe the shares held in GasBridge 1 B.V., equal to 50% of the share capital. As a result of the share swap, Snam became the owner of the entire capital of GasBridge 2 B.V. and Fluxys became the owner of the entire capital of GasBridge 1 B.V.. On 31 July 2018 Gasbridge 2 B.V. was renamed Snam International B.V..
  - Early retirement incentive agreement – ISOPENSIONE: On 26 September 2018 Snam signed with the main trade unions an implementing agreement regarding tools to manage employment policies. The agreement aims to create the conditions that will allow the companies of the Snam Group, within 31 October 2019, to encourage the early retirement of the eligible employees in order to achieve a generational turnover. The personnel concerned, subject to INPS verifying that they meet the set pension requirements, equals 110 people. Limited to the area of application of this implementing agreement, Snam is committed to paying the eligible employees, in addition to the amounts set by the agreement, an additional amount as a retirement incentive. Based on the above-mentioned agreement, expenses totalling 15 million euro, including the retirement incentive expenses recognised to participating employees, were recorded in the income statement, as components of the labour costs.

TERNA (DISPATCHING AND TRANSMISSION OF ELECTRICITY)

- Management and development of the NTG:
  - **Restructuring of the Venetian Lagoon (Laguna Veneta)**: the C.P. Sacca Serenella-C.P. Cavallino 132 kV underground submarine cable came into operation and other interventions marking the launch of the modernisation of the Lagoon commenced.
  - **5 new power lines came into operation, for a total of 98 km kV:** Bono (SS) - Buddusò (OT); Villanova (PE) - Cepagatti (PE); Benevento II (BN) - Benevento III (BN); Messina Riviera (ME) - Villafranca (AG); Cimmina (PA) - Casuzza (AG);
  - **8 new stations came into operation:**

- Non-Regulated and International Activities:
  - Laying of the cable on the A32 for the Italy-France Interconnection has commenced.
  - Acquisition - through Terna Plus - of a 70% stake in Avvenia The Energy Innovator S.r.l., a leading operator in the energy efficiency sector.
  - Open Fiber Project: the enhancement of Terna's assets conducive to digitising the Country continued; an additional 5,800 km of regional fibre rings delivered.
  - Entry into operation of the new 160 km-long Santa Maria 3-Santo Angelo 230 kV power line in south-eastern Brazil.

- Finance:
  - Launch in July 2018 of a fixed-rate bond issue for 750 million euro. The securities have a 5-year term and will pay a coupon rate of 1%;
  - First revolving credit facility signed in September 2018 for 900 million euro, with a reward/penalty mechanism linked to meeting specific environmental, social and governance ("ESG") targets, increased in November 2018 up to 1.15 billion euro.
  - Agreement signed by Terna S.p.A. in November 2018 to modify the ESG linked to the Revolving Credit Facility and thus increase the total credit amount from 900 million euro to 1,150 million euro, made possible following the entry of Mediobanca - Banca di Credito Finanziario as the new lender.

ITALGAS (GAS DISTRIBUTION SECTOR)

- **Italgas Acqua was set up** on 1 January 2018 as a result of the coming into force of Italgas Reti's partial, proportional de-merger to a newco, by contributing the so-called "former Napoletanagas water business unit" to the latter;
- On 26 January 2018, **the acquisition of the Amalfitana Gas business unit** related to natural gas distribution in three districts (ATEM) in the Campania and Basilicata regions **was completed**; The assets acquired from Amalfitana Gas include 12 concessions in the municipalities of Somma Vesuviana, Viggiano, Baronissi, Calvanico, Pellezzano, Fisciano, Siano, Oliveto Citra, Contursi Terme, Montesano sulla Marcellana, Monte San Giacomo and Atena Lucana, and extend for approximately 330 kilometres of network in operation with more than 22,000 end customers. The transaction had a value of 20.8 million euro.
- On 31 January 2018, **the acquisition was completed of the AEnergia Reti business unit** related to the distribution network serving the municipality of Portopalo di Capopassero (Siracusa). The acquisition of the AEnergia Reti business unit concerned a network, completed, but not yet in operation, which extends for approximately 35 kilometres, with a potential catchment area of approximately 1,400. The consideration paid was equal to 2.2 million euro.
- In implementation of the binding agreement signed on 8 November 2017, on 28 February 2018 Italgas **acquired** from CPL Concordia and Impresa Costruzioni Ing. Raffello Pellegrini S.r.l. the entire **share capital of Ichnusa Gas**, a holding company controlling 12 companies that hold an equal number of concessions for the construction and operation of gas distribution networks in 74 municipalities in Sardinia. The entire enterprise value of Ichnusa Gas has been appraised at 26.2 million euro. At the acquisition date, two of the twelve concessions were operating on a provisional basis with the first customers provided with LPG, while the remaining ten refer to networks either under construction or to be constructed, for a total expected investment of over 170 million euro, partly financed with regional grants.
- Italgas **completed**, on 13 March 2018, **the acquisition of the entire share capital of Seaside**, 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. The entire enterprise value of Seaside assets was determined to be 8.5 million euro. **White 1**, fully held by Seaside, was merged by incorporation in the latter with accounting and tax effect from 1 January 2018.
- On 6 April 2018, the acquisition **of the entire share capital of Medea was completed**, a company distributing and selling LPG in Sassari, which currently serves around 13,000 customers, in the context of a catchment area of almost 30,000 and distributes on average more than 5 million euro cubic metres of LPG a year. The total transaction value was equal to 24.1 million euro.
- On 1 May 2018, the merger by incorporation of **Enerco Distribuzione** and **SGS** into Italgas Reti was **completed**, with accounting and tax effect from 1 January 2018.
- On 31 May 2018, a controlling (98%) equity investment was acquired from CPL Concordia in the share capital of 6 companies operating in southern Italy, which hold concessions for the construction and management of the gas network in 16 municipalities, of which 4 already in operation. The companies in question are Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti. The entire enterprise value of the assets object of the transaction was set at 17 million euro. The total investment for the construction of the networks was equal to approximately 95 million euro, partly funded with government grants. Works for 32.5 million euro including the grants received have already been carried out so far.
- On 1 June 2018, the merger by incorporation of **Acam Gas** into Italgas Reti was **completed**, with accounting and tax effect from 1 January 2018.
- On 27 November 2018, **the acquisition of the residual 2%** of the share capital of the companies Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti was **completed**.
- On 30 November 2018, the purchase from CPL Concordia was **completed**:
  - of a controlling interest, equal to 60%, of **European Gas Network** (**EGN**), a company that manages indirectly, through its subsidiaries EGN Distribuzione, Ischia Gas and Marigliano Gas, approximately 60,000 customers and 37 gas distribution concessions in Sicily, Calabria and Campania;
  - of the entire share capital of **Naturgas**, a company providing methane gas distribution services in San Giuseppe Vesuviano (NA), with approximately 2,700 end customers;
  - of the entire share capital of **Fontenergia**, a company holding a concession for the distribution service in the Basin 22 of the Sardinia region, with more than 7,000 customers temporarily served with LPG. The total value of the companies was set at 116 million euro; therefore, in proportion to the equity investment acquired and net of borrowing, the consideration paid to CPL Concordia on closing was equal to 43.5 million euro for 60% of the share capital of EGN and 2.5 million euro for the entire share capital of Fontenergia and Naturgas. The agreement for the acquisition of EGN provides for a put & call option on the residual 40% equity investment held by the seller, which may be exercised from the 6th month after the closing date of the transaction and at the same price per share set at the closing for the 60% equity investment, less the amount of the dividends distributed by the company.

- On 12 December 2018, the merger of Ichnusa Gas into Medea was **completed**, with accounting and tax effect from 1 January 2018.
- On 28 December 2018, a binding agreement was **signed** with the **CONSCOOP Group** for the purchase of equity investments and business units including 19 gas distribution concessions and more than 50,000 re-delivery points, mainly in central and southern Italy and in Sardinia. The agreement mainly concerns:
  - the **business unit of Aquamet S.p.A.**, including, among other things, 9 natural gas distribution concessions in municipalities in the Lazio, Campania, Basilicata and Calabria regions, serving a total of 23,800 users;
  - **the entire share capital of Mediterranea S.r.l.,** which holds 6 natural gas distribution concessions in the Salerno province, serving approximately 3,600 users;
  - the **business unit of Isgas Energit Multiutilities S.p.A.,** which holds gas distribution concessions in the Cagliari, Nuoro and Oristano municipalities (Sardinia), currently serving a total of 22,300 users with LPG.

  The entire enterprise value was set at approximately 68.6 million euro.

Italgas will also acquire 10% of the share capital of **Isgastrentatrè S.p.A.,** which holds the gas distribution concession in Basin 33 of the Sardinia region, with the commitment to buy the remaining 90% if certain conditions occur, such as the conversion to natural gas of the network currently powered by LPG. Italgas shall have otherwise the right to re-sell, and CONSCOOP the obligation to buy back, the 10% equity investment at a price equal to the purchase price.

CONSOLIDATED FINANCIAL HIGHLIGHTS

The accounting situation of the companies of the CDP Reti Group as at 31 December 2018 is presented below from a management accounting standpoint: For detailed information concerning balance sheet and income statement performance, refer to the financial statements of the Group's companies, which contain full accounting information and analyses of the companies' operating performances.

Key financial figures

Items		31/12/2018	31/12/2017
Total revenue	(million of euros)	5,940	5,738
EBITDA	(million of euros)	4,521	4,376
EBITDA margin	(%)	76%	76%
Operating profit (EBIT)	(million of euros)	2,676	2,575
EBIT margin	(%)	45%	45%
Net income	(million of euros)	1,733	1,661
Profit margin	(%)	29%	29%

Key balance sheet and cash flow figures

Items		31/12/2018	31/12/2017
Property, plant and equipment	(million of euros)	34,735	34,316
Intangible assets	(million of euros)	8,597	7,877
Long-term financial liabilities	(million of euros)	26,408	26,358
Equity	(million of euros)	14,826	14,904
- attributable to the parent company CDP RETI	(million of euros)	4,134	*4,069*
- attributable to minority interests	(million of euros)	10,692	*10,835*
Net financial debt	(million of euros)	(24,894)	(24,709)

Other key figures

Items		31/12/2018	31/12/2017
Technical investments	(million of euros)	2,496	2,590
Net cash flow for the period	(million of euros)	651	1,482
Average workforce	(numbers)	10,672	10,605
Dividends distributed to shareholders during the period			
- *from SNAM S.p.A.*	(million of euros)	(731)	(718)
- *from TERNA S.p.A.*	(million of euros)	(451)	(418)
- *from ITALGAS S.p.A.*	(million of euros)	(168)	(162)
- *from CDP RETI S.p.A.*	(million of euros)	(396)	(425)

Ratios

Items		31/12/2018	31/12/2017
ROE	(%)	12%	11%
Net financial debt/EBIT	(numbers)	9.3	9.6
Net financial debt/Equity	(numbers)	1.7	1.7

With regard to key management figures, 2018 results were as follows:

Total revenues amounted to 5,940 million euro (5,738 million euro in 2017), marking an increase of 4% on the previous period.

EBITDA, amounted to 4,521 million euro (4,376 million euro in 2017), with an EBITDA margin of 76% (in line with 2017) and an increase of around 145 million euro (+3%) on 2017. The contribution to the EBITDA margin was 35% for SNAM, 28% for TERNA and 14% for ITALGAS.

EBIT, amounted to 2,676 million euro (2,575 million euro in 2017), with EBIT margin of 45% (in line with 2017). These figures also reflect the amortisation/depreciation and write-downs resulting from the purchase price allocation (PPA)[14] of the assets and liabilities of SNAM, TERNA and ITALGAS.

Net income, amounted to 1,733 million euro (1,661 million euro in 2017), with a percentage impact on revenues of 29% (in line with 2017). The portion pertaining to the parent company is 517 million euro (509 million euro in 2017).

Net financial debt was equal to 24,893 million euro, increasing by 184 million euro (+1%) on 31 December 2017. The total amount of 25 billion euro refers to SNAM (46%), TERNA (32%) and ITALGAS (15%), and the remaining portion (7%) to the parent CDP RETI.

Technical investments amounted to 2,496 million euro at 31 December 2018 and refer to SNAM (35%), TERNA (44%) and ITALGAS (21%).

Net cash flow in the year was positive for around 651 million euro (from 2,754 million euro to 3,405 million euro), largely attributable to the parent CDP RETI (+22 million euro), SNAM (+1,153 million euro) and ITALGAS (+136 million euro), while TERNA's cash flow was negative (-660 million euro). Operating activities generated financial resources of 3,878 million euro, partly absorbed by financing activities (855 million euro) and investment (net of disinvestment) activities negative by 2,372 million euro

Alternative performance measures[15]

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 measures[16] 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.

[14] This allocation, required by IFRS 3 (*International Financial Reporting Standard* 3 – Business Combinations), must be made by the buyer, in its consolidated financial statements, to justify the purchase cost incurred in the context of this acquisition.

[15] 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).

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

- “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 2017, is consistent with that recorded in the comparison period.

3. ORGANISATIONAL STRUCTURE

3.1 ORGANISATIONAL STRUCTURE

At 31 December 2018, CDP RETI employed 3 people (plus 1 under part-time secondment), all on permanent contracts.

More generally speaking, it should be noted how the Company uses the operating support of the Parent Company Cdp based on service agreements that provide the Company with all the skills and services that are key for the correct performance of its business. In this context, during 2018, in consideration of the broader scope of the activities carried out by CDP RETI, these services were redefined and updated, likewise including two new agreements relating to Procurement and Group Identity & Communications and Sustainability.

In addition, following the issue, on 21 May 2015, of a bond listed on the Irish Stock Exchange, CDP RETI assumed the position of listed Issuer with Italy as the Member State of origin, and was therefore obliged, pursuant to art. 154 – bis of the Consolidated Law on Finance, to appoint a Manager in charge with preparing the company's financial reports.

Reported below are the average figures of the three groups SNAM, TERNA and ITALGAS:

SNAM

(average numbers)

Professional category	31/12/2018	31/12/2017
Senior Manager	104	94
Middle Managers	464	433
Office staff	1,650	1,632
Manual w orkers	731	721
Total	**2,949**	**2,880**

TERNA

(average numbers)

Professional category	31/12/2018	31/12/2017
Senior Manager	72	72
Middle Managers	620	579
Office staff	2,144	2,024
Manual w orkers	1,252	1,263
Total	**4,088**	**3,938**

ITALGAS

(average numbers)

Professional category	31/12/2018	31/12/2017
Senior Manager	60	64
Middle Managers	267	262
Office staff	1,975	2,046
Manual w orkers	1,329	1,411
Total	**3,631**	**3,783**

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, since it focuses on regulated environments, Snam has adopted a structured and systematic management system for all risks that my impact the conditions for value creation.

The risk identification, assessment, management and control system, implemented throughout the company, is subdivided into three levels, each with different objectives and responsibilities. The Chief Executive Officer is responsible for structuring and maintaining the entire system as mandated by the Board of Directors.

Risk assessment methods are integrated, cross-functional and dynamic, and leverage management systems already in place in individual business processes, starting from those pertaining to fraud and corruption prevention and health, environmental safety and quality.

By creating a dedicated corporate department, Enterprise Risk Management (ERM), Snam committed itself to monitoring the integrated management of business risks at all group companies.

In 2018, the risk assessment cycles were completed in line with the aforementioned model, which involved the entire Snam group. At the end of 2018, around 138 enterprise risks were mapped across all business processes.

Furthermore, within the scope of mapping the risks and opportunities of 2018, the new activities were considered as part of new unregulated businesses, against the acquisitions made during the year.

Strategic Risks

REGULATORY AND LEGISLATIVE RISK

Snam's regulatory and legislative risk concerns mainly the rules applicable to the gas industry. The resolutions of the Regulatory Authority for Energy, Networks and the Environment (ARERA) and National Regulatory Authority of the countries where the foreign affiliates operate, the directives and other legislation issued by the European Union and the Italian government and, more generally, changes to the reference regulatory framework may have a significant impact on

Company operations, earnings and financial stability. It is impossible to envisage the effect that future changes in legislative and tax policies might have on the business of Snam and on the industrial sector in which it operates. Considering the specific nature of its business and the context in which Snam operates, regulatory changes concerning the criteria for determining the reference tariffs are particularly significant.

MACROECONOMIC AND GEOPOLITICAL RISK

In view of the specific nature of its business sector, Snam is also exposed to risks linked to political, social and economic instability in natural gas supplying countries, mainly affecting the gas transport sector. Most of the natural gas transported on the Italian national transport network is imported from or transits through countries in the MENA area (Middle East and North Africa, in particular Algeria, Tunisia, Libya and, in light of TANAP-TAP, Turkey combined with the States which overlook the eastern Mediterranean) and in the former Soviet Bloc. Those regions are particularly sensitive to political, social and economic change, with underlying currents of instability, and could possibly develop into future crisis scenarios.

COMMODITY RISK CONNECTED WITH GAS PRICE CHANGES

As concerns the risk of changes in the price of natural gas, under the current regulatory framework, the fluctuation in the price of natural gas to hedge fuel gas and network leaks does not represent a significant risk factor for Snam because all the gas for technical activities is supplied in kind by the Shippers. Similar risk hedging is ensured by the regulations of the countries where the foreign affiliates operate or by the related transport contracts. However, as concerns transport, starting from the third regulatory period 2010-2013, the Regulatory Authority for Energy, Networks and the Environment (ARERA) laid down the methods for payment in kind by service users to the major transmission operators of gas quantities to cover unaccounted-for gas (UFG) due as a percentage of the inputs and outputs from the gas transmission network. Specifically, in the Resolution (514/2013/R/gas), the ARERA established the allowed level of UFG taking into account the mean value recorded over the past two years, and has decided to keep such value fixed for the entire regulatory period in order to encourage the main gas transmission system operator to achieve further efficiency gains. Indeed, no extra tariffs would be paid for amounts of UFG in excess of the level allowed for the reference regulatory period. This criterion was subsequently confirmed also for the years 2018 and 2019 of the transitional tariff period. In view of the above-mentioned mechanism for the payment in kind of UFG, uncertainty persists about possible quantities of UFG recorded in excess of the quantities paid for in kind by service users. In general, the changes in the current regulatory framework on the payment in kind of natural gas might have adverse impact on the Snam group’s business and balance sheet, income and financial position.

As part of the process of review of the criteria for the determination of the recognised revenue of the natural gas transport service for the fifth settlement period (expected to start in 2020), the criteria to recognise the UFG will also be defined. The resolution to approve the new settlement criteria is set for the end of February 2019.

MARKET RISK

As to the **risk linked to gas demand**, under the current tariff system applied by the ARERA to natural gas transport, Snam’s revenues, through its directly controlled transport subsidiaries, are partly correlated to volumes transported. However, ARERA has introduced a guarantee mechanism covering the share of revenues correlated with volumes transported. This mechanism reconciles higher or lower revenues exceeding ± 4% of the reference revenue correlated with volumes transported. This mechanism guarantees about 99.5% of the authorised overall revenues from transmission activities. Under the current tariff system applied by ARERA to natural gas storage, Snam’s revenues, through Stogit, are correlated to the use of infrastructure. However, ARERA has introduced a guarantee mechanism covering these revenues, which allows companies to cover a main share of the authorised revenues. For the years 2018 and 2019, the minimum guaranteed level of authorised revenues is about 97%. ARERA is currently studying integration of this mechanism which, in the coming years, may link the minimum guaranteed level of revenues also to the efficiency of the storage company in managing capacity allocation procedures and in the manner of service delivery. In general, the changes in the current regulatory framework might have adverse impacts on the Snam group’s business, financial position and results.

Abroad, protection against market risk is offered by French and Greek regulations, long-term TAP agreements and Austria (different deadlines for TAG and Gas Connect starting from 2023). In Austria and the United Kingdom (relating to Interconnector UK) the regulations do not guarantee the hedging of the volume risk.

CLIMATE CHANGE RISK

In the future, to maintain compliance with the rules on greenhouse gases, Snam might be required to upgrade its plants and to control or restrict its emissions or take other steps which might increase its regulatory compliance costs and hence affect negatively the Snam group's business, financial position and results.

Legal and compliance risk

Legal and compliance risk is the risk of partial or total non-compliance with the European, national, regional and local rules and regulations applicable to Snam's business activities. Breaches of rules and regulations can entail criminal, civil and/or administrative sanctions, as well as financial, economic and reputational damages. Specific cases, including infringements of workers' health and safety, environmental protection or anti-corruption rules may also entail substantial fines for the Company based on the administrative liability of entities (Legislative Decree no. 231 of 8 June 2001). With regard to the Risk of Fraud and Corruption, it is a top priority for Snam to conduct its business fairly and transparently and to reject all forms of corruption as part of its commitment to the respect of ethical principles. Snam's management is fully engaged in implementing an anti-corruption policy: they strive to identify potential weaknesses and to eliminate them, strengthening their control and working constantly to raise all workers' awareness of how to identify and prevent corruption in all business contexts. Since 2014, Snam has collaborated with Transparency International Italia and has joined the Business Integrity Forum (BIF). In 2016, it was the first Italian company to become a member of the "Global Corporate Supporter Partnership".

As part of this cooperation, in October Snam renewed its partnership with Transparency International, Secretariat General of Berlin, during the 18th International Anti-Corruption Conference of Transparency International held in Copenhagen. In this occasion Snam participated in a reserved round table which included, for the first time, the participation of 4 companies of the private sector, including Snam as the only Italian company.

In addition, during 2018 Snam, in cooperation with Transparency International Italia and the OECD, participated in a series of events dedicated to the subject of transparency and integrity as well as the best practices of good governance and preventing corruption at a global level, such as the 27th Session of the UN Commission on Crime Prevention and Criminal Justice organised by the Italian Ministry for Foreign Affairs and International Cooperation at the United Nations Office in Vienna, and seminars organised by the OECD in Saint Petersburg and Moscow, intervening on the subjects of integrity and the fight against corruption.

Finally, following the International Anti-corruption Day 2018, held at the Farnesina, Snam was requested by the Ministry of Foreign Affairs and International Cooperation to participate in the assessment and review of the initial draft of the G20 High-Level Principles, regarding the prevention of corruption and the promotion of integrity in the Public or investee companies (SOEs), a draft circulated by the Argentine Presidency and whose completion is set for 2019, during the Japanese Presidency.

Operational risks

These consist mainly in service malfunction and sudden outages due to unforeseeable events, such as accidents, breakdowns or malfunctioning of equipment or control system, lower plant yield and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events that fall outside Snam's control. Such events may cause a drop in revenues as well as result in significant damage to persons, with possible compensation obligations. 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.

For Snam, the risk connected with keeping the storage concession stems from the business operated by its subsidiary Stogit, on the basis of concessions awarded by the Ministry of Economic Development. Eight of the ten concessions expired on 31 December 2016 and may be extended not more than twice for ten years each time. With regard to those concessions, Stogit submitted application for their renewal to the Ministry of Economic Development; the procedure is currently pending. While the renewal procedure is under way and until its completion, Stogit will continue to operate under the old concessions, whose expiry is automatically extended until completion of the renewal process.

Moreover, Snam may incur delays in infrastructure work progress due to the many unknown factors linked to operational, financial, regulatory, authorisation and competition aspects over which it has no control.

Finally, operational risks include environmental risks. Snam and the sites where it operates are subject to laws and regulations covering pollution, environmental protection, and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to contingent costs and liability connected with operation 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 a party to civil, administrative and criminal proceedings and is involved in lawsuits linked to the normal conduct of its operations. On the basis of the information presently available and in light of the existing risks, Snam 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 change of the parameters that determine the 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.

Litigation

Outstanding legal disputes at 31 December 2018 related to the parent company Terna S.p.A. and its subsidiary Terna Rete Italia S.p.A., as well as to the Tamini Group companies. The disputes involving Terna S.p.A. refer to:

- *Environmental and town planning disputes:* the disputes involving environmental issues linked to 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.

ITALGAS GROUP

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

Operational risks

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. Its main operational risks are listed below.

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 non-recurring events such as explosions, fires, earthquakes, landslides or other similar events beyond Italgas' control. These events could cause a decrease in revenue and involve damage, even substantial, 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 has been set up, for an amount equal to 134 million euro, at 31 December 2018.

RISK ASSOCIATED WITH THE INSTALLATION OF SMART METERS

At the end of 2010, Italgas started a plan to replace traditional meters with smart meters. Until the first half of 2014, this has involved the meters of class G6 and higher; later it was expanded to meters of a lower class (mass market).

The technology embodied by the new meters used in the first stage of the replacement project was still evolving. The design requirements set by the Authority have forced the manufacturers to design and create a product addressed to the Italian market alone, on a schedule in line with the obligations set by ARERA. Only since 2015, however, all reference technical regulations have been made available by CIG (Comitato Italiano Gas, a regulating body affiliated to UNI).

Italgas installs these devices according to the schedule set by ARERA; it cannot be excluded that the malfunction rate for smart meters might be above the historic performance recorded for traditional meters, resulting in higher maintenance costs.

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 2018, Italgas managed natural gas distribution concessions in 1,700 Municipalities 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, financial position and results. However, should Italgas fail to obtain renewal of previous concessions, it would be entitled to the reimbursement due to the outgoing operator, for the networks it owns.

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 the Ministerial Decree of 22 May 2014[17].

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 regulatory asset base (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).

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 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.

Risk associated with the execution of the investment plan specified for the concessions

The concessions specify commitments for the concession holder, including investment commitments. It cannot be excluded that, also because of delays in obtaining authorisations and permits, these investments might not be made in the periods specified, resulting in additional costs.

[17] In other words, the specific methods envisaged in the individual concession agreements in force and made prior to 11 February 2012 prevail over the provisions of the Guidelines, but with the limitations envisaged by the latter and with those envisaged by the tendering procedure rules contained in Ministerial Decree no. 226/11.

Regulatory risk

Italgas carries out its activities in a 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 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, the infringement of anti-corruption rules, among other things, may result in (possibly significant) penalties for the company based on the legislation on the administrative liability of entities (Legislative Decree no. 231/01).

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.

See the annual reports of SNAM, TERNA and ITAGAS for a more detailed analysis of the risks and problems described.

4. BALANCE SHEET AND ECONOMIC PERFORMANCE OF THE GROUP

An analysis of the accounting situation as at 31 December 2018 is provided below, based on the statements reclassified according to operational criteria to provide a clearer understanding of the results.

4.1 RECLASSIFIED CONSOLIDATED BALANCE SHEET

4.1.1 CONSOLIDATED BALANCE SHEET - ASSETS

As at 31 December 2018, the **assets section of the reclassified consolidated balance sheet** of the CDP RETI Group included the following aggregates:

Assets

(million of euros)

Items	31/12/2018	31/12/2017
Property, plant and equipment	34,735	34,316
Intangible assets	8,597	7,877
Trade receivables	2,950	3,111
Other assets (1)	4,326	4,370
Cash and cash equivalents	3,405	2,754
TOTAL ASSETS	**54,013**	**52,428**

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

At 31 December 2018, the balance sheet assets of the CDP RETI Group amounted to 54,013 million euro, increasing by 3% on 31 December 2017, and consisted mainly of "property, plant and equipment" (around 64% of the assets), which mainly related to SNAM (16.2 billion euro) and TERNA (13.2 billion euro), as well as the impact on this item from the consolidation (around 5.1 billion euro[18]).

The increase in "property, plant and equipment" (+419 million euro; +1% vs. 31 December 2017) is mostly due to changes relating to TERNA (+491 million euro vs. 31 December 2017) and SNAM (+120 million euro vs. 31 December 2017), in part offset by the effects of the PPA.

In particular, the increase is mainly due to investments in:

- SNAM (805 million euro, mainly relating to the transport and storage segments, amounting to 702 million euro and 90 million euro, respectively);
- TERNA (1,035 million euro, of which 952 million euro relating to Regulated Activities),

net of related depreciation for the period (622 million euro for SNAM and 488 million euro for TERNA).

[18] Effects related to the Purchase Price Allocation (PPA) process of SNAM, TERNA and ITALGAS.

The item “intangible assets”, largely attributable to the ITALGAS service concession agreements (5.3 billion euro, analysed in greater detail in the notes to the financial statements), increased by 719 million euro, mainly thanks to the contribution of ITALGAS (+755 million euro) and SNAM (+58 million euro[19]), offset only in part by the effects of the PPA.

This item also includes goodwill (874 million euro), representing (i) the amount (781 million euro) recognised as a result of the process of allocating the differences between the prices paid for the purchase of the equity investments and the related equity, and (ii) the amount attributable to the CDP RETI Group of the goodwill recognised in the consolidated financial statements of TERNA, SNAM and ITALGAS.

“Trade receivables”, down by 5% (-162 million euro) compared to the end of 2017, mainly relate to (i) SNAM (1,247 million euro, net of the bad debt provision of 137 million euro), mainly referring to the natural gas transport (1,018 million euro) and storage sectors (145 million euro) and (ii) TERNA (1,190 million euro, of which 715 million euro relating to receivables for “pass-through items”[20] pertaining to the activities carried out by Terna S.p.A.).

“Other assets”, down slightly by -1% compared to 2017, mainly relate to (i) equity investments (1,878 million euro), carried at equity, mainly relating to SNAM’s equity investments, (ii) deferred tax assets (740 million euro, of which 407 million euro attributable to SNAM, 217 million euro to ITALGAS, 113 million euro to TERNA and 2 million euro to the parent company CDP RETI) recognised at 31 December 2018, (iii) non-current financial assets (270 million euro, of which 229 million euro referring to TERNA), (iv) inventories - compulsory stock[21] (363 million euro) of SNAM and (v) current financial assets (427 million euro), mainly referring to TERNA.

Lastly, “cash and cash equivalents” are mainly attributable to TERNA (1,329 million euro, of which 577 million euro deposited mainly in bank current accounts and 752 million euro invested in short-term and highly-liquid deposits), to SNAM (1,872 million euro, mainly relating to short-term liquidity lending transactions, for around 1,000 million euro, and highly liquid deposits amounting to 810 million euro) and to ITALGAS (138 million euro, relating to deposits held in bank current accounts). This item has increased significantly by around 651 million euro (+24%) as a result of the combined effect of the increases pertaining to SNAM (+1,153 million euro), ITALGAS (+136 million euro) and the parent company (+22 million euro), less the decrease attributable to TERNA (-660 million euro).

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

4.1.2 CONSOLIDATED BALANCE SHEET - LIABILITIES

As at 31 December 2018, the **liabilities section of the reclassified consolidated balance sheet** of the CDP RETI group included the following aggregates:

[19] Taking mainly into account investments in the period (77 million euro) and changes that occurred in the scope of consolidation (30 million euro), net of amortisation in the period (60 million euro).

[20] TERNA manages the cost and revenue items linked to the transactions, carried out with electricity market operators, for the purchase and sale of energy: these are so-called “pass-through” items that do not affect TERNA’s earnings, because the revenues are equal to the costs. The settlement of these items is established by the ARERA resolutions.

[21] Minimum natural gas quantities that the storage companies are required to hold under Presidential Decree no. 22 of 31 January 2001.

Equity and Liabilities

(million of euros)

Items	31/12/2018	31/12/2017
Long-term financial liabilities	26,408	26,358
- non-current (1)	*23,367*	*24,150*
- current (2)	*3,042*	*2,208*
Current financial liabilities	2,260	1,459
Trade payables	3,368	3,215
Other liabilities (3)	7,151	6,492
Equity	14,826	14,903
- attributable to the parent company CDP RETI	*4,134*	*4,069*
- attributable to minority interests	*10,692*	*10,835*
TOTAL LIABILITIES	**54,013**	**52,428**

(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 riclassified Equity and Liabilities are included in Other liabilities

"Long-term loans" of the group (26,408 million euro at 31 December 2018) are essentially in line with 31 December 2017 (+0.2%) and include around 11.4 billion euro for SNAM (approx. 43%), around 9.6 billion euro for TERNA (approx. 36%), around 3.7 billion euro for ITALGAS (approx. 14%) and around 1.7 billion euro for CDP RETI.

"Current financial liabilities" refer mainly to: (i) SNAM (1,982 million euro), mainly for drawdowns on floating-rate credit lines with banks (1,751 million euro) and short-term securities issued (Euro Commercial Papers) for institutional investors (225 million euro); (ii) ITALGAS (274 million euro) for drawdowns on bank credit lines and amounts payable to factors. The increase of 801 million euro (+55% vs. 2017) is mainly attributable to ITALGAS (+193 million euro) and SNAM (+607 million euro), the latter due to higher net drawdowns on bank credit lines (393 million euro) and to Euro Commercial Papers issued.

For more details on the net financial debt of the subsidiaries, see the specific section "Sector performance".

"Trade payables", up by 153 million euro (+5%), mainly relate to: (i) TERNA (2,514 million euro vs. 2,498 million euro in 2017), mainly referring to energy-related payables (1,518 million euro, including payables for energy-related pass-through items; -85 million euro vs. 2017) and non-energy-related payables (979 million euro; +105 million euro, mostly due to greater investments in the last period of the year); (ii) SNAM (491 million euro vs 406 million euro in 2017), largely relating to the transport (390 million euro), storage (24 million euro) and regassification (5 million euro) sectors.

"Other liabilities", up by 659 million euro (+10%), mainly relate to: (i) deferred tax liabilities (2,740 million euro vs. 2,837 million euro in 2017), recognised as at 31 December 2018, of which 1,787 million euro mainly deriving from the PPA; (ii) other current liabilities (1,718 million euro vs. 1,626 million euro in 2017), mainly relating to SNAM; (iii) provisions for risks and charges (1,094 million euro vs. 1,152 million euro in 2017), of which 607 million euro (610 million euro in 2017) in provisions for the decommissioning and remediation of sites acquired by SNAM for charges that it is presumed will be incurred to remove the facilities and remediate the natural gas storage (493 million euro) and transport sites (109 million euro).

"Equity", down by around 77 million euro (-0.5%), notwithstanding the contribution of net income for the period (1,733 million euro, of which 517 million euro attributable to the parent company), mainly takes into account ((i) the amount of the 2018 dividends distributed in the by SNAM, TERNA and ITALGAS to third-party shareholders (around 619 million euro in total) and by the Parent Company CDP RETI to its own shareholders (140 million euro), (ii) the 2018 interim dividend by the Parent Company CDP RETI to its own shareholders (256 million) and by TERNA and SNAM to third-party shareholders (around 314 million euro in total) (iii) the increase (+426 million euro) for treasury shares in the portfolio as a result of the purchase of no. 113,881,762 SNAM shares (equal to 3.28% of the share capital).

Of the total equity, 4.1 billion euro is attributable to the parent company (substantially in line with 2017) and 10.7 billion euro 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 2018 can be grouped into the following aggregates:

RECONCILIATION OF CONSOLIDATED EQUITY AND NET INCOME

(million of euros)

	31/12/2018		
Items	Net income	Capital and reserves	Total
PARENT COMPANY FINANCIAL STATEMENTS	**388**	**3,108**	**3,496**
Balance from financial statements of fully consolidated companies	1,985	9,384	11,369
Consolidation adjustments:			
- *Carrying amount of fully consolidated equity investments*	-	(5,267)	(5,267)
- *Dividends from fully consolidated companies*	(410)	410	-
- *Purchase price allocation*	(185)	5,362	5,177
- *Other adjustments*	(45)	96	51
CONSOLIDATED FINANCIAL STATEMENTS	**1,733**	**13,093**	**14,826**
- *attributable to the parent company CDP RETI*	517	3,617	4,134
- *attributable to minority interests*	1,216	9,476	10,692

4.2 RECLASSIFIED CONSOLIDATED INCOME STATEMENT

The data below represents the CDP RETI group with specific evidence of the contributions - in terms of operating margins[22] - deriving from SNAM, TERNA and ITALGAS. Please note that the consolidation eliminations and adjustments were shown separately.

As at 31 December 2018, the CDP RETI Group’s **consolidated reclassified income statement** consisted as follows:

[22] The parent company, CDP RETI, given its nature of holding company, has basically zero incidence on the operating margins of the group.

Icome Statement

(million of euros)

Items	31/12/2018	31/12/2017
Revenues from financial statement	6,524	6,338
- *Revenues recognised following application of "IFRIC 12 Service Concession Arrangements" (*)*	*566*	*582*
- *Other Reclassifications (**)*	*18*	*17*
Total revenues	**5,940**	**5,738**
Costs from financial statement (not included Depreciation and Amortization)	(1,988)	(1,962)
- *Costs recognised following application of "IFRIC 12 Service Concession Arrangements" (*)*	*(566)*	*(582)*
- *Other Reclassifications (***)*	*(3)*	*(17)*
Operating costs (not included Depreciation and Amortization)	**(1,419)**	**(1,362)**
EBITDA	**4,521**	**4,376**
EBITDA margin	76%	76%
- *of which SNAM*	*35%*	*35%*
- *of which TERNA*	*28%*	*28%*
- *of which ITALGAS*	*14%*	*14%*
Depreciation and Amortization	(1,861)	(1,801)
- *Other Reclassifications (****)*	15	
Operating profit (EBIT)	**2,676**	**2,575**
EBIT margin	45%	45%
- *of which SNAM*	*23%*	*23%*
- *of which TERNA*	*18%*	*19%*
- *of which ITALGAS*	*8%*	*7%*
- *of which consolidation*	*-4%*	*-5%*
Financial income/expense (including effects by equity method)	(271)	(292)
Taxes	(673)	(622)
Profit from continuing operations	**1,733**	**1,661**
NET INCOME	**1,733**	**1,661**
- *for parent company*	*517*	*509*
- *for minority interests*	*1,216*	*1,152*

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

(i) for ITALGAS revenues for the construction and upgrading of natural gas distribution infrastructures (447 million in 2018 and 480 million in 2017),
(ii) in relation to TERNA, revenues from construction of assets in concession activities (119 million in 2018 and 103 million in 2017);

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 for an amount equal to the costs incurred and directly deducted from the latter relating to (i) the release of connection fees for the year, (ii) penalties related to safety gas recovery operations during gas distribution services and (iii) charge-backs for defective meters under warranty
(***) Relating to (i) penalties related to safety gas recovery operations during gas distribution services and (ii) charge-backs for defective meters under warranty
(****) Relating to the release of connection fees for the year

In 2018, in line with the same period of the previous year, the CDP RETI Group reported a profit of 1,733 million euro (517 million euro attributable to the parent company), marking an increase on 2017 (profit of 1,661 million euro). The increase (72 million euro, of which 8 million euro attributable to the parent company) is the result of improved operating margins (EBITDA +145 million euro; EBIT +101 million euro) and the lower impact of net financial charges (-21 million euro), in part offset by higher taxes in the period (+51 million euro).

In terms of sectors, the 2018 results of the CDP Reti Group were driven by higher contributions from all subsidiaries, partly offset by the lower contribution from the parent company (mainly due to lower income from tax consolidation).

A more detailed description of the changes that occurred at the level of individual sectors between the two financial years is provided in the section of this Report entitled “Sector Performance”.

“Revenues” for the period consist of 2.6 billion euro for SNAM, 2.2 billion euro for TERNA and 1.2 billion euro for ITALGAS. The increase of 202 million euro (+4% vs. 2017) is largely attributable to: (i) SNAM, mainly consisting of revenues from regulated activities (2,485 million euro, up 51 million euro); (ii) TERNA (55 million euro), mainly due to higher revenues (+22 million euro) from Italy Regulated activities.

“Operating costs”, largely attributable to TERNA (550 million euro), SNAM (512 million euro) and ITALGAS (344 million euro), relate mainly to service costs and staff costs, which increased for TERNA compared to 2017, and to the effects of the PPA.

“EBITDA”, amounted to 4,521 million euro (4,376 million euro in 2017), up by +145 million euro on 2017 thanks to the performance of all subsidiaries, and the EBITDA margin was 76% (in line with 2017). SNAM contributed 35%, TERNA 28% and ITALGAS the rest.

EBITDA, despite higher amortisation, depreciation and write-downs (1.861 million euro vs 1.801 million euro in 2017;+60 million EURO) referring mainly to:

- the reduction of the useful life of traditional meters subject of the plan of replacement with electronic meters, initiated by ITALGAS;

- the entry into service of new SNAM and TERNA infrastructures,

resulted in an EBIT of 2,676 million euro, up by 101 million euro (+4%) compared to 2,575 million euro in 2017; the EBIT margin at 31 December 2018 was 45% (in line with 2017).

“Financial income (expense)”[23], was negative for 271 million euro (291 million euro in 2017), marking an improvement of around 20 million euro on the previous period, mainly due to lower net financial expenses pertaining to SNAM, which benefited from a reduction in the average cost of debt/decrease in the average debt in the period and from the effects of the optimisation actions implemented in 2016 and 2017. The net financial expenses pertaining to ITALGAS were instead higher, mainly due to the higher cost of financing transactions finalised in January 2018 and the accrual, over the entire year, of the bond transactions completed in 2017.

“Income taxes”, which show an expense of 673 million euro (622 million euro in 2017; +8%), mainly refer to the tax expense of SNAM, TERNA and ITALGAS, partially offset by the effects of deferred taxation linked to the Purchase Price Allocation and the tax consolidation income of the parent CDP RETI. The higher taxes compared to the first half of 2017 are mainly due to lower income from the tax consolidation of the parent company CDP RETI.

The above income items made it possible to close 2018 with a consolidated “net income” of approximately 1,733 million euro (of which 517 million euro attributable to CDP RETI; 509 million euro in 2017), compared to a net income of 1,661 million euro in 2017.

The 2018 net income attributable to CDP RETI shareholders (net income of 517 million euro) comes from the income of the parent CDP RETI S.p.A. (388 million euro) and from the share of the earnings of SNAM (net income of 306 million euro), TERNA (net income of 211 million euro) and ITALGAS (net income of 95 million euro), less dividends for the period (410 million euro) attributable to CDP RETI S.p.A. and net of other consolidation effects (including the Price Purchase Allocation).

4.3 SECTOR PERFORMANCE

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

[23] Including the effects of equity investments carried at equity.

statutory ones see Companies' documentation. The figures as at 31 December 2017 do not take into account any effects relating to the application, starting from 1 January 2018, of the accounting standards IFRS 9 and IFRS 15.

4.3.1 SNAM (gas transport, regasification and storage sector)

Introduction

In order to allow better assessment of the group's performance and greater data comparability, SNAM's management has devised alternative performance measures not required by IFRS (Non-GAAP measures), mainly comprising the results in the adjusted and pro-forma adjusted configuration.

SNAM

Items	31/12/2018		31/12/2017	
(million of euro; %)	Reported (*)	Adjusted (**)	Reported (*)	Adjusted (**)
Regulated Revenue	2,485	2,485	2,434	2,434
Non Regulated Revenue	101	101	99	99
Total Revenue	**2,586**	**2,586**	**2,533**	**2,533**
- *of which regulated*	*2,485*	*2,485*	*2,434*	*2,434*
Total Revenue - net of pass through items	*2,528*	*2,528*	*2,441*	*2,441*
Operating cost	(512)	(491)	(526)	(511)
Operating cost - net of pass through items	(454)	(433)	(434)	(419)
EBITDA	**2,074**	**2,095**	**2,007**	**2,022**
EBITDA margin	80%	81%	79%	80%
Depreciation and Amortization	(690)	(690)	(659)	(659)
EBIT	**1,384**	**1,405**	**1,348**	**1,363**
EBIT margin	54%	54%	53%	54%
Net financial expense	(242)	(195)	(283)	(227)
Income from equity investments	159	159	161	150
Earning before taxes	**1,301**	**1,369**	**1,226**	**1,286**
Taxes	(341)	(359)	(329)	(346)
Net income (***)	**960**	**1,010**	**897**	**940**
Net Income - discontinued operations (***)	N/A	N/A	N/A	N/A
Net Income of the Group	**960**	**1,010**	**897**	**940**

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

(**) Special Items not included

(***) Entirely attributable to Snam shareholders

Items (million of euro)	31/12/2018	31/12/2017
Shareholders' Equity attributable to the parent company	5,985	6,188
Shareholders' equity including minority interests	5,985	6,188
Net financial debt	11,548	11,550
Net cash flow for the period	1,153	685
Technical investments	882	1,034

Total revenues

As at 31 December 2018, **total revenues** were equal to 2,586 million euro, up by 51 million euro with respect to 2017 (+2.1%).

Net of the components that are offset by costs, the regulated revenues amount to 2,427 million euro, up 85 million euro, equal to 3.6%, thanks to continuous investments and the greater contribution from ITG (all of 2018 compared to the 3 months in 2017; +15 million euro). Revenues settled relate to transport (1,975 million euro), storage (435 million euro) and regasification (17 million euro).

Revenues not settled (101 million euro, net of consolidation eliminations) are substantially in line with 2017 (+2 million euro, equal to 2.0%). The highest revenues from the contribution of the companies included in the scope of consolidation (+34 million euro) and for services rendered by the Global Solution Business Unit (+5 million euro) were largely absorbed by lower revenues from services supplied to the Italgas Group, settled via some agreements concluded as at 31 December 2017 (-46 million euro).

Adjusted EBIT

The adjusted EBIT[24] for 2018, which excludes the special items (21 million euro), amounts to 1,405 million euro, up 42 million euro, equal to 3.1%, compared to the adjusted EBIT in 2017. The higher revenues (+87 million euro; equal to 3.6%), mainly attributable to the contribution of the transport sector, and the changes in the scope of consolidation following the business combinations concerning the new CNG and biomethane businesses, were partially offset by the increase in amortization, depreciation and write-downs of the period (-31 million euro; equal to 4.7%), essentially due to the amortisation deriving from the entry into operation of new infrastructure, as well as greater operating costs (-14 million euro; equal to 3.3%).

In particular, the increase in operating costs is mainly due to: (i) the change in the scope of consolidation (34 million euro); (ii) expenses deriving from the greater use of unaccounted-for gas (UFG) compared to the quantities conferred in kind by the users (22 million euro, net of the uses of the allocated fund in previous years); (iii) the costs incurred by the Global Solution Business Unit for the services rendered (3 million euro), in addition to the impacts of the employment policies. These factors were partly offset: (i) by the dynamic of the provisions for risks and charges and the bad debt provision (25 million euro in total); (ii) the effects of the efficiency improvement actions implemented starting from 2016, which in 2018 allowed costs to be reduced by about 17 million euro (36 million euro at cumulative level for the period 2016-2018).

Adjusted net income

The adjusted net income for 2018, which excludes the special items (50 million euro, net of the related tax effect), stands at 1,010 million euro, up 70 million euro, (+7.4%), compared to the adjusted net income in 2017.

The increase, in addition to the greater EBIT (+42 million euro; +3.1%), is due: (i) to lower net financial charges (+32 million euro; equal to 14.1%) that benefit from a decrease in average borrowing cost, also consequently to the benefits deriving from the optimisation actions implemented in 2016 and 2017; (ii) higher net income from equity investments (+9 million

[24] The EBIT is analysed by isolating only the elements that led to its change. To this end, please note that the application of the tariff regulations of the gas sector generates revenue components that correspond to the costs. These components essentially refer to the interconnection.

euro; +6.0%). These effects were partly absorbed by higher income taxes (+13 million euro; equal to 3.8%) mainly attributable to the higher pre-tax profit.

Reconciliation of adjusted net income with the reported net income

The income items are classified by the SNAM 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.

Income items classified under "special items" in 2018 represented by: (i) financial expenses arising from bonds repurchased as part of the Liability management transactions (35 million euro, net of the related tax effect); (ii) exit incentive expenses as part of the early retirement scheme governed by Art. 4, paragraphs 1-7 of Law no. 92/2012, so-called "Fornero Law" together with the introduction of the so-called "quota 100", set by the 2019 Budget Law (15 million euro, net of the related tax effect).

Equity

The reduction in the **Group equity,** equal to 203 million euro compared to 31 December 2017, mainly reflects the increase (307 million euro) in the negative reserve for treasury shares held, following the purchase - in 2018 - of 113,881,762 SNAM shares, equal to 3.28% of the share capital. 36,606,724 shares were purchased as part of the share buyback programme resolved by the Shareholders' Meeting of Snam on 11 April 2017 and 77,275,038 shares as part of the new share buyback programme approved, subject to revocation for the part of the previous programme not carried out yet, by the Shareholders' Meeting of Snam on 24 April 2018. The same Shareholders' Meeting on 24 April 2018, held in its extraordinary session, approved the cancellation of 31,599,715 treasury shares without nominal value, without reducing the share capital.

Net financial debt

Net financial debt (11,548 million euro as at 31 December 2018), following the payment of the 2017 dividend to the shareholders (731 million euro, of which 294 million euro as an advance and 437 million euro as final payment) and the outlays associated with purchasing treasury shares (426 million euro) records a reduction of 2 million euro compared to 31 December 2017 and almost entirely consists of:

- Bonds for 8,446 (including the current portion), down 226 million euro compared to the end of 2017 mainly following: (i) the repayment of a fixed-rate bond due on 19 March 2018, of a nominal amount equal to 851 million euro; (ii) the repayment of a fixed-rate bond due on 10 September 2018, of a nominal amount equal to 70 million euro; (iii) the repurchase on the fixed-rate bond market for a nominal value totalling 538 million euro with coupon rate of around 2.6% and a residual maturity of around 3.7 years. These effects were partially offset by the issue of: (i) a floating-rate bond[25], on 22 January 2018, for a nominal value equal to 350 million euro; (ii) a fixed-rate bond, on 11 September 2018, for a nominal value equal to 600 million euro; (iii) a fixed-rate bond, on 27 November 2018, for a nominal value equal to 300 million euro;
- Bank loan for 4,749 million euro (including the current portion), up by about 818 million euro mainly following the signing of three Term Loans for a nominal value totalling 700 million euro and the greater net use of the uncommitted credit lines for a value equal to about 393 million euro. This effect is partially offset by the early repayment of a Term Loan for a nominal value equal to 250 million euro;
- Euro Commercial Paper – ECP (225 million euro) concerning "unsecured" short-term securities issued on the money market and placed at institutional investors.

[25] The above-mentioned bond is converted into a fixed rate bond by means of an interest rate swap (IRS) derivative.

The net cash flow from operating activity (1,826 million euro) covered all net investment needs (1,036 million euro) and resulted in a positive free cash flow[26] of 1,161 million euro.

At 31 December 2018 cash and cash equivalents amounted to 1,872 million euro (719 million euro at the end of 2017) and mainly referred to a short-term investment of liquidity with a bank of high credit standing, repayable in less than three months (1,000 million euro) and promptly collectable bank deposits (810 million euro) and the cash equivalents at Gasrule Insurance DAC (17 million euro) and Snam International B.V. (14 million euro).

Technical investments for the period

The **Technical investments** in 2018 amounted to 882 million euro (1,034 million euro in 2017) and mainly refer to the natural gas transport (764 million euro) and storage (99 million euro) sectors.

Dividend proposed

In the period, the Parent Company SNAM S.p.A. achieved a profit for the year equal to 721 million euro, up 44 million euro, equal to 6.5%, compared to 2017 (677 million euro) mainly due to the increase in “financial income (expense)” (+28 million euro; +3.9%), following the higher income from equity investments (+35 million euro; +4.7%) and the reduction in other management costs (+14 million euro; +5.5%), mostly attributable to the lower charges for non-financial services and other costs (+27 million euro). These effects were partly offset by the personnel cost increase (-13 million euro) essentially relating to the expenses for exit incentives and Isopensione.

The Board of Directors will propose to the Shareholders’ Meeting, convened for 2 April 2019, the distribution of a total 2018 **dividend** equal to 0.2263 euro per share, of which 0.0905 euro per share already distributed in January 2019 as an advance (298 million euro) and 0.1358 euro per share as a balance, to be paid starting from 26 June 2019 with coupon due set for 24 June 2019.

[26] The cash surplus or deficit left after the funding of investments.

4.3.2 TERNA (ELECTRICITY DISPATCHING AND TRANSMISSION SECTOR)

TERNA

Items		31/12/2018	31/12/2017
Total revenue	(million of euros)	2,197	2,163
- *of which regulated*	(million of euros)	1,990	1,967
EBITDA	(million of euros)	1,651	1,604
EBITDA margin	(%)	75%	74%
EBIT	(million of euros)	1,097	1,077
EBIT margin	(%)	50%	50%
Net income	(million of euros)	712	694
Net income of the Group	(million of euros)	707	688

Items		31/12/2018	31/12/2017
Shareholders' Equity attributable to the parent company	(million of euros)	4,019	3,803
Shareholders' equity including minority interests	(million of euros)	4,054	3,829
Net financial debt	(million of euros)	7,899	7,796
Net cash flow for the period	(million of euros)	(660)	854
Technical investments	(million of euros)	1,091	1,034

Total revenues

As at 31 December 2018, TERNA's **total revenues** increased to 2,197[27] million euro (up 34 million euro, around 2%, compared to 2017), mainly due to the improvement in regulated activities (+22 million euro) and non-regulated activities (+6 million euro) and to revenues from International Activities, which increased by 6 million euro (mainly as a result of investments in activities under concession in Brazil, less losses recognised on the contract to build a power line in Uruguay).

Revenues refer chiefly to the grid transmission fees[28] of the parent company TERNA S.p.A. (1,658 million euro) and Rete S.r.l. (132 million euro).

EBIT

The higher revenues (+34 million euro) and the lower operating costs (-13 million euro, essentially due to lower staff costs and the effects of adjustments to provisions for risks and charges), in part offset by higher depreciation, amortisation and write-downs (+28 million euro, mainly due to new plants coming into operation), resulted in an EBIT of 1,097 million euro (increase in absolute terms of +20 million euro vs. 2017) and an EBIT margin of 50% (in line with 2017).

Net income

Net income benefited from the performance of EBIT, only in part offset by higher tax expense (around 2 million euro) and amounted to 712 million euro (almost entirely attributable to the parent company), up by 18 million euro (+3%) on 2017.

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

[28] Consideration paid for use of the National Transmission Grid by electric power distributors.

Equity

The increase in Group **Equity** (+225 million euro) is largely attributable to the net income result (around 712 million euro), only in part offset by the distribution of the 2017 dividend (292 million euro) and 2018 interim dividend (158 million euro) authorized by the Board of Directors of Terna S.p.A. on 9 November 2018 (at a rate of 0.0787 euro).The other changes are mainly related to comprehensive income and in particular to the effects of adjustments at fair value of the hedging derivatives (-32 million euro) and the exchange rate differences arising from the translation of financial statements in currencies other than the euro (-5 million).

Net financial debt

Net financial debt increased by 103 million euro on 31 December 2017 (7,899 million euro vs. 7,796 million euro) mainly due to the effects of the following changes:

- decrease in bonds (-111.9 million euro) due to the repayment of the bond issued in 2012 for 750 million euro, the bond issue launched on 23 July 2018 for 750 million euro and the adjustment of said financial instruments at amortised cost;
- increase in loans (+18.5 million euro), mainly as a result of new loans provided (+154.2 million euro) and repayments made on existing loans (-134.5 million euro);
- decrease in short-term loans and other financial liabilities (-108.7 million euro), mainly due to the repayment of the short-term credit line by the parent company and the settlement of interest payable on existing loans and hedges;
- increase in derivative financial instruments (+47.4 million euro) mainly due to the shift in the yield curve and the change in the notional amount of the derivatives portfolio;
- increase in financial assets (+402.6 million euro) due to the subscription of government securities, with maturity in December 2019, for an amount of 400 million euro;
- reduction in cash and cash equivalents (660.3 million euro). Cash and cash equivalents at 31 December 2018 amounted to 1,328.7 million euro, of which 751.5 million euro invested in short-term, highly-liquid deposits and 577.2 million euro relating to bank current accounts.

Technical investments in the period

Technical investments amounted to 1,091 million euro in the period (1,034 million euro in 2017; +6%). Of these, technical investments for which aid is granted amounted to 99.5 million euro vs. 122.8 million euro in the previous year. Non Regulated investments, amounting to 87.4 million euro, mainly refer to the private portion of the Italy-France Interconnection.

Dividend proposed

The Parent Company TERNA S.p.A. posted net income for the year of 661 million euro, up by 21 million euro compared to net income in 2017 (+3.3%).

The Board of Directors will propose the following to the Shareholders' Meeting convened between 29 April and 27 May 20109 (i) approval of a total 2018 **dividend** equal to 23.32 cents of euro per share (22 cents of euro in 2017), (ii) distribution - net of the advance paid on the 2018 dividend, equivalent to 7.87 cents of euro per share, with payment approved from 21 November 2018 - of the remaining 15.45 cents of euro per share, before tax, to be paid from 26 June 2019.

4.3.3 ITALGAS (gas distribution sector)

ITALGAS

Items		31/12/2018	31/12/2017
Total revenue (*)	(million of euro)	1,176	1,124
- *of which regulated*	(million of euro)	1,143	*1,097*
EBITDA	(million of euro)	840	776
EBITDA margin	(%)	71%	69%
Operating profit (EBIT)	(million of euro)	454	418
EBIT margin	(%)	39%	37%
Net income	(million of euro)	314	293

(*) Net of the effects of IFRIC 12 "Concession Service Arrangements" (€447 and €479,7 million respectively in 2018 and 2017 and other items relating (€ 18,1 and €17,1 respectively in 2018 and 2017)

Items		31/12/2018	31/12/2017
Shareholders' Equity attributable to the parent company	(million of euro)	1,329	1,186
Shareholders' equity including minority interests	(million of euro)	1,329	1,186
Net financial debt (**)	(million of euro)	3,814	3,720
Net cash flow for the period	(million of euro)	135	1
Technical investments (***)	(million of euro)	523	522

(**) The figure at 31 December 2018 excludes lease payables pursuant to IFRS 16. Including the effects of the application of IFRS 16, amounting to 50 million of euro, net financial debt amounted to 3,864 million of euro
(***) the figure at 31 December 2018 is gross of fixed assets pursuant to IFRS 16 (by 22 million of euro during the period)

Total revenues

Total revenues in 2018 were equal to 1,176 million euro, up by 52 million euro with respect to 2017, representing gas distribution regulated revenues (1,143 million euro) and miscellaneous revenues (33 million euro).

The increase in gas distribution regulated revenues (+46 million euro) derives from: (i) higher transportation revenues (+10 million euro; +1.0%) and (ii) higher other regulated revenues from gas distribution (+36 million euro, + 35.9%).

The higher transportation revenues, equal to +10 million euro, derive: (i) for +11 million euro from the change in the scope of consolidation due to acquisitions carried out during the year; (ii) for +8 million euro from the tariff components, offset (iii) for -8 million euro by adjustments to the tariffs of previous years.

The other regulated revenues from gas distribution (136 million euro) include network ancillary services and other regulated revenues, equal to 64 million euro (52 million euro in 2017; +23.6%) as well as the grant as per art. 57 of ARERA resolution no. 367/14 associated with the replacement of traditional meters with electronic ones (smart meters), equal to 72 million euro (48 million euro in 2017; +49.3%). This grant represents the accrued share of the tariff adjustment for the traditional meter replacement plan, calculated by assuming that the entire meter stock is replaced by early 2020. In this regard, we note that Italgas, having replaced 59.1%[29] of meters, has largely fulfilled the requirements made by the Authority for 2018 (50% of G4 and G6 calibre meters replaced).

[29] The figure also includes non-consolidated non-controlling interests.

Miscellaneous revenues in 2018 were equal to 33 million euro, up by 6 million euro (+20.8%), mainly due to changes in the consolidation perimeter (10 million euro) and concern energy efficiency and LPG distribution/sale services, partly offset by a reduction in rental revenues (-3 million euro).

Net income

Net income for 2018 was equal to 314 million euro, a 21 million euro increase (+7.1%) with respect to 2017. Besides the already mentioned increase in operating profit equal to 36 million euro, the reasons for this increase were (i) higher net financial charges (11 million euro) due mainly to charges for the financing operations carried out in January 2018 and to the accrual on the entire year of the bond transactions carried out in 2017 and (ii) lower net income from equity investments (3 million euro).

Equity

The equity attributable to the Group at 31 December 2018 (1,329 million euro) is composed of the share capital (1,001 million euro), legal reserve (200 million euro), share premium account (620 million euro) and profit for the year (314 million euro), partly offset by the consolidation reserve[30] (-324 million euro), the reserve for business combination under common control (-350 million euro[31]), and other reserves (-132 million euro).

The change over the period of the equity attributable to the Group (144 million euro) is mostly due to the distribution of the 2017 ordinary dividend (168 million euro) resolved by the ordinary Shareholders' Meeting of Italgas S.p.A. on 19 April 2018 (equal to 0.208 euro per share and paid out from 23 May 2018 onward), partly offset by profit for the year (314 million euro).

Net financial debt

The **net financial debt**, equal to 3,814[32] million euro (3,720 million euro at 31 December 2017, up by 94 million euro), mainly included:

- current financial liabilities[33] (156 million euro), up by 50 million euro mainly for the higher use of uncommitted credit lines;
- long-term financial debt (3,666 million euro), up by 49 million euro mainly for the reopening, on 30 January 2018, of the bond originally issued on 18 September 2017 (500 million euro, with 18 January 2029 maturity and 1.625% coupon) for a nominal value of 250 million euro and the repayment with respect to the original maturity of October 2019 of a term loan for an amount equal to 200 million euro.

As regards the breakdown of debt by type of interest rate, net of lease payables pursuant to IFRS 16:

- fixed-rate financial liabilities were equal to 3,272.6 million euro and included bond issues (2,912.9 million euro) and an EIB loan with 2037 maturity (359.7 million euro), completed on 19 December 2017 and converted to a fixed rate in January 2018 through an Interest Rate Swap, with 2024 maturity. Fixed-rate financial liabilities were up by 620.7 million euro with respect to 31 December 2017, mainly as a result of the afore-mentioned Interest Rate Swap and reopening of the bond issue for a nominal value of 250 million euro.
- variable-rate liabilities were equal to 549.8 million euro, down by 521.5 million euro mainly as a result of the afore-mentioned transactions.

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[30] Difference between acquisition cost of the equity investment in Italgas Reti S.p.A. (2,967 million euro), the corresponding equity attributable to the Group on the date the transaction was finalised and an adjustment to the value of the equity investment in Italgas Reti.

[31] Recorded after the purchase from Snam S.p.A. of 38.87% of the equity investment in Italgas Reti S.p.A., equal to the difference between the purchase consideration (1,503 million euro) and carrying amount of the equity investment (1,153 million euro, for continuity of accounting values with respect to SNAM).

[32] Since 1 January 2018, ITALGAS has applied "IFRS 16 - Leases" which, having eliminated the distinction between finance leases and operating leases, has resulted in the recognition of liabilities for commitments to leasing companies for the recognition of tangible assets for the right to use the related assets for operating leases. Including the effects of the application of IFRS 16, the NFD was equal to 3,864 million euro.

[33] These include the short-term portions of long-term financial debt.

As at 31 December 2018, Italgas had unused committed credit lines for 1.1 billion euro, of which 600 million euro maturing in October 2019 and 500 million euro maturing in October 2021.

Technical investments for the period

Technical investments for the period, mostly attributable to service concession agreements, were equal to 523 million euro (in 2017, 521.9 million euro, +0.1%) and represent (i) distribution investments (279 million euro), mainly related to development initiatives (extensions and new networks) and the renewal of pipeline sections; (ii) metering investments (179 million euro), mainly related to the plan to replace traditional meters with electronic meters as part of the remote reading project; and (iii) other investments (65 million euro), mainly related to real estate and IT investments (of which 22 related to leases under IFRS 16).

Dividend proposed

The parent company ITALGAS S.p.A. reported a profit for the year equal to 194 million euro (174 million euro in 2017), mainly as a result of the dividends (216 million euro; 197 million euro in 2017) distributed by the subsidiary Italgas Reti S.p.A. and the affiliated company Toscana Energia S.p.A.

The Board of Directors will propose to the Shareholders' Meeting, convened for 4 April 2019, the distribution of a total 2018 **dividend** equal to 23.4 cents of euro per share (20.8 cents in 2017), to be paid from 22 May 2019.

4.4 CONSOLIDATED NET FINANCIAL DEBT

The **consolidated net financial position,** calculated in compliance with ESMA[34]/2015/1415, the guidelines on alternative performance indicators that can be applied since 3 July 2016, for comparison with the position at the end of 2017, was as follows:

[34] European Securities and Markets Authority.

(million of euros)

Items	31/12/2018	31/12/2017
A. Cash (1)	1	1
B. Cash equivalent (1)	3,404	2,754
C. Trading securities	-	-
D. Liquidity (A)+(B)+(C)	**3,405**	**2,755**
E. Current Financial Receivable (2)	**421**	**359**
F. Current Bank debt (5)	1,876	1,557
G. Current portion of non current debt (3)	2,930	1,988
H. Other current financial debt (2) (5) (6)	489	116
I. Current Financial Debt (F)+(G)+(H)	**5,295**	**3,661**
J. Net Current Financial Indebtedness (I)-(E)-(D)	**1,469**	**547**
K. Non current Bank loans (4)	5,219	5,679
L. Bond Issued (4)	17,399	17,549
M. Other non current loans (4) (6) (7)	807	933
N. Non current Financial Indebtedness (K)+(L)+(M)	**23,425**	**24,161**
O. Net Financial Indebtedness (J)+(N)	**24,894**	**24,709**

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 24,893 million euro attributable to SNAM for 11,538 million euro, to TERNA for 7,899 million euro, to ITALGAS for 3,835 million euro and to the Parent Company CDP RETI for 1,621 million euro.

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.

5. OUTLOOK – PROSPECTS FOR 2019

The constant monitoring of the most effective financial structure of **Parent Company CDP RETI** has been confirmed in 2019, 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 2019.

In terms of operations, in the first half of 2019, the distribution is expected from the subsidiaries of the balance of the 2018 profit, which will offset the payment of the final 2018 dividend to CDP RETI's shareholders, as well as the financial expenses related to the outstanding bond and loans.

Regarding **SNAM** and the Italian market's demand for natural gas, based on the latest estimates, overall stability is foreseen. Concerning the future prospects, SNAM expects an acceleration of the investment plan (+5.7 billion in the five-year period 2018-2022) focusing on replacements and maintenance, in order to continue to ensure the utmost resilience, flexibility and efficiency of the existing infrastructure. Furthermore, a fourth of the investments in the coming years will concern development initiatives, such as strengthening the network in southern Italy, the connections to the North – West of Italy, servicing the local market and the cross-border flows, the network in Sardinia and enhancing the Fiume Trieste storage plant.

With regard to **TERNA**, the commitments undertaken in the 2019-2023 Strategic Plan are confirmed.

For 2019, the Group is therefore committed to implementing the plans defined in the 2019-2023 Strategic Plan. Having specific regard to the investments of 6.6 billion euro on the National Transmission Grid, to be implemented over the next 5 years, the investments scheduled for 2019 amount to around 1 billion euro.

The main electrical infrastructures currently under construction include the interconnections with Montenegro and France, expected to come into operation in 2019 and 2020, and the commencement of works on the new SA.CO.I.3 project (strengthening of the connection between Sardinia, Corsica and the Italian peninsula).

Non-Regulated and International Activities include the consolidation of Terna as an Energy Solution Provider and the continuation of the existing construction projects in Uruguay, Brazil and Peru.

ITALGAS continues to pursue its strategic objectives with a focus on the digitization of networks and corporate processes, the execution of investments, the quality of the service provided, the rationalisation of operating costs and the optimization of the financial structure, paying constant attention to development opportunities.

With reference to technical investments in tangible and intangible assets, in 2019, Italgas will continue to implement its investment plan, with significant investment for the digitization of the network, installation of smart meters and creation of a natural gas infrastructure in the Sardinia region, while carrying out the usual activities to maintain and develop the networks operated.

In line with the strategic priorities of the 2018-2024 Plan, Italgas will take part in local tenders for the concession of the natural gas distribution service, continuing to pursue the objectives of business development and consolidation of the sector, still very fragmented.

In addition, in line with the objectives of the Strategic Plan, after the acquisitions completed in 2018, completion of additional mergers and acquisitions is expected in 2019: these will enable Italgas to strengthen its presence at the local level anticipating the effects of future local tenders in terms of growth of the perimeter of activity.

Italgas will continue to increase the efficiency of its operations and implement the programme aimed at cutting costs and improving processes and services started in 2017 with the overhaul of Italgas Reti's organisational structure, characterised by a new model of activity at the local level and by simplified operating processes, introducing a cultural change to ensure the sustainability of the new model over time.

Lastly, in 2019, Italgas will continue to work to optimize the financial structure of the Italgas group in terms of average debt maturity and ratio between fixed- and variable-rate liabilities.

6. SIGNIFICANT EVENTS AFTER 31 DECEMBER 2018

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 2019 of the 2018 interim dividend from SNAM of approx. 95 million euro. No other significant events have occurred after 31 December 2018 that could affect the financial position and operating performance.

More generally, following the resignation of the directors Carlo Baldocci and Leone Pattofatto, the Company's Board of Directors, at its meeting of 20 February 2019, appointed Massimo Tononi and Fabrizio Palermo as Chairman and Chief Executive Officer respectively[35]. The proposal to appoint as CDP RETI's Chairman and CEO the Chairman and CEO of CDP was motivated by the strategic importance of CDP RETI and its subsidiaries within the CDP Group.

SNAM

No significant events occurred after the reporting date.

TERNA

"Private Placement" green bond issue

On 10 January 2019, Terna S.p.A. launched the private placement of a fixed-rate green bond issue for a total value of euro 250 billion, which has been assigned a "BBB+" rating by Standard and Poor's, a "(P)Baa2" rating by Moody's and a "BBB+" rating by Fitch.

ITALGAS

With regard to the regulatory framework, the Authority, with **Resolution no. 1/2019 – DMRT of 29 January 2019**, has set and sent to the Ministry of Economic Development and GSE the quantitative requirements, in terms of increased energy efficiency of the final uses of natural gas, to be met in 2019 by the distributors that had more than 50,000 end customers connected to their distribution network at 31 December 2017.

For the subsidiary and affiliated companies of Italgas S.p.A., the quantitative requirements for 2019, rounded to the nearest integer and expressed as number of white certificates, are: i) 948,473 for Italgas Reti; ii) 137,759 for Toscana Energia; iii) 7,121 for Umbria Distribuzione Gas; iv) 4,157 for EGN Distribuzione.

[35] During the same meeting, the Chief Executive Officer was granted all the powers of ordinary and extraordinary management, including those of representation of the Company, except for the powers that cannot be assigned to individual directors by law and pursuant to Article 19.4 of the Articles of Association.

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 statements[36].

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 unusual[37]since they are part of normal operations. Such transactions are settled at market rates, taking into account the features of the services rendered.

During 2018, 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 collection of receivable from SNAM for the 2017 interim dividend and the receivable registration from SNAM for the 2018 interim dividend.

TREASURY SHARES

The Parent Company does not hold and has not purchased and/or sold during 2018, shares or stakes of holding companies, either directly or via trust companies or intermediaries.

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[36] 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).

[37] 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".

Relating to SNAM, as at 31 December 2018 the number of treasury shares amounts to 168,197,663 (85,915,616 as at 31 December 2017), equal to 4.85% of the share capital, purchased for an amount totalling 626 million euro (318 million euro as at 31 December 2017) and recorded as a reduction in the shareholders' equity. 36,606,724 shares were purchased as part of the share buyback programme resolved by the Shareholders' Meeting of Snam on 11 April 2017 and 77,275,038 shares as part of the new share buyback programme approved, subject to revocation for the part of the previous programme not carried out yet, by the Shareholders' Meeting of Snam on 24 April 2018. The same Shareholders' Meeting on 24 April 2018, held in its extraordinary session, approved the cancellation of 31,599,715 treasury shares without nominal value, without reducing the share capital.

The market value of the treasury shares as at 31 December 2018, calculated by multiplying the number of treasury shares by the official price at the end of the period of 3.8198 euro per share, amounts to about 642 million euro.

TERNA does not hold or has not purchased or sold during 2018, not even indirectly, treasury shares of CDP RETI S.p.A. or Cassa depositi e prestiti S.p.A..

ITALGAS does not hold or has not purchased or sold during 2018, not even indirectly, treasury shares of CDP RETI S.p.A. or Cassa depositi e prestiti S.p.A..

PERFORMANCE OF SNAM, TERNA AND ITALGAS

Key share price data		SNAM		TERNA		ITALGAS	
Items		31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Number of outstanding shares at the end of the period	(million of euros)	3,301	3,415	2,010	2,010	809	809
Official period-end price	(euros)	3.82	4.09	4.95	4.88	4.99	5.11
Market capitalization (1)	(million of euros)	12,609	13,953	9,959	9,802	4,036	4,135
CDP RETI Number of shares	**(million of euros)**	**1,054**	**1,054**	**600**	**600**	**211**	**211**
Book Value for CDP RETI	**(million of euros)**	**3,087**	**3,087**	**1,315**	**1,315**	**621**	**621**
Market capitalization for CDP RETI (2)	**(million of euros)**	**4,025**	**4,305**	**2,973**	**2,926**	**1,051**	**1,077**
Maximum official price per share	(euros)	4.14	4.49	5.15	5.31	5.35	5.33
Minimum official price per share	(euros)	3.46	3.53	4.44	4.06	4.30	3.51
Average official price per share	(euros)	3.75	4.04	4.73	4.81	4.80	4.50
Official price at period end (3)	(euros)	3.82	4.09	4.95	4.88	4.99	5.11
Closing price at period end (4)	(euros)	3.82	4.08	4.95	4.84	5.00	5.09

(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 2018 with an official price of 3.82 euro, 7% under the price of 4.09 euro recorded at the end of the previous year, with an all-time high of 4.14 euro on 9 January 2018 and a minimum of 3.46 euro on 18 June 2018. The closing price amounted to 3.82 euro.

In 2018, a total of approx. 3.0 billion shares were traded on the Italian Electronic Stock Exchange, with an average daily trading volume of 11.7 million shares.

Market capitalisation at 31 December 2018 amounted to 12,609 million.

The **TERNA** share ended 2018 with an official price of 4.95 euro, +2% over the price of 4.88 euro recorded at the end of the previous year, with an all-time high of 5.15 euro on 17 December 2018 and a minimum of 4.44 euro on 18 June 2018. The closing price amounted to 4.95 euro.

In 2018, a total of approx. 1.6 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 2018 amounted to 9,959 million.

The **ITALGAS** share ended 2018 with an official price of 4.99 euro, 2% under the price of 5.11 euro recorded at the end of the previous year, with an all-time high of 5.35 euro on 30 April 2018 and a minimum of 4.30 euro on 5 March 2018. The closing price amounted to 5.00 euro.

In 2018, 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 2018 amounted to 4,036 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 2018

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 entities[38] 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 (2) 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).

[38] 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 euro or total net revenues of at least 40 million euro from sales and supply of services.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Human Resources

Health and safety: As at 31 December 2018, the Parent Company, CDP RETI, had fulfilled the obligations set out in Legislative Decree 81/2008 (Consolidated Law on Occupational Health and Safety), both for the purposes of compliance with the legal requirements and with a view to improving the process of growth of the company's culture and knowledge and awareness of the central importance of safety at work. In this regard, the documents required by law were prepared, aimed at mapping the company risks and the implementing prevention measures. To this end, the Risk Assessment Document (aimed at all health and safety risks related to the company in a comprehensive and documented manner) has been prepared. In addition, during the year, CDP RETI, together with other companies in the CDP Group with employees at the building located in Via Versilia 2, adhered to the Integrated Emergency and Evacuation Plan (a safety and workplace fire risk assessment plan) for that building. As at 31 December 2018, CDP RETI S.p.A. had also established all the roles required by Legislative Decree 81/2008; some of which, such as the Employer, the Workers' Safety Manager and the Emergency and First Aid Officers, were internal to the company, while others, such as the Prevention and Protection Service Manager and the Company Doctor, were identified externally. Lastly, the staff also underwent training courses, in compliance with the above-mentioned Consolidated Law.

There were no workplace injuries in 2018.

8. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI

PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 2, LETTER B) OF THE CONSOLIDATED LAW ON FINANCE

COMPLIANCE SYSTEM PURSUANT TO LEGISLATIVE DECREE NO. 231/01

CDP RETI has adopted a Compliance System pursuant to Legislative Decree no. 231/2001, which identifies the company areas and operations that are most exposed to the risk of criminal activity as defined in the legislative decree, along with the principles, rules and regulations for the control system introduced to supervise significant operating activities. The current version of the Compliance System was approved by the Board of Directors in the meeting held on 27 March 2018. This version is composed of:

- **General Section** which, after referring to the principles of the 231 Legislative Decree, describes the essential components of the Compliance System, with particular regard to: *i)* CDP RETI's Governance Model and Organisational Structure; *ii)* the Supervisory Body; *iii)* measures to be taken in the event of non-compliance with the provisions of the Compliance System (disciplinary system); and *iv)* staff training and dissemination of the Compliance System within and outside the company. The General Section also consists of the Annex "List of the administrative crimes and offences envisaged by Legislative Decree no. 231/2001", which provides brief details of the administrative crimes and offences whose commission results, when the conditions envisaged by the Decree apply, in the administrative liability of the Entity pursuant to and for the purposes of the aforementioned regulations.
- **Special Section**, which i) identifies the relevant activities, for the different types of crimes, during whose performance there is a theoretically potential risk of the commission of crimes; ii) describes, purely for educational purposes and by way of example, the methods of commission of the crimes; and iii) indicates the principles of the Internal Control System aimed at preventing the commission of crimes.

In 2018, work also began on the revisions of the General Section of the 231 Compliance System and the annex to the General Section containing the "List of the administrative crimes and offences envisaged by Legislative Decree no. 231/01", among other issues, in order to:

- implement the new whistleblowing regulations, introduced in Law no. 179/2017, including the operation of the IT platform for the management of whistleblowing reports;
- incorporate the updated regulatory framework on the prevention of risk of crime of the collective entity.

These documents were submitted to the Board of Directors for approval in the meeting of March 2019.

In compliance with the provisions of Article 6, paragraph 4-bis, the functions of the Supervisory Body (referred to also below in short as "SB") have been assigned to the Board of Statutory Auditors, a collegiate body composed of three standing members, and two alternates, appointed by the shareholders' meeting. The Chairman of the Board of Statutory Auditors acts as Chairman of the SB.

The causes of ineligibility and forfeiture envisaged for statutory auditors by the applicable regulations and Articles of Association apply to the members of the Supervisory Body.

The Supervisory Body is tasked with overseeing the functioning and observance of the Compliance System and with updating its content and assisting the competent corporate bodies in correctly and effectively implementing the Compliance System. The functioning of the SB is established in the specific Rules that it has drawn up for itself.

For its secretarial and operational activities, the SB is supported by the Internal Audit Function outsourced to the Parent Company based on a specific service agreement.

The "Compliance System pursuant to Legislative Decree no. 231/2001" and the "Code of Ethics of Cassa depositi e prestiti S.p.A and of the companies subject to management and coordination" are available in the "COMPANY NOTICE BOARD" folder.

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 in such a way as to ensure that reporting is reliable[39], accurate[40], dependable[41] and timely regarding Financial Reporting and the ability of relevant company processes on this point to produce this information in compliance with the applicable accounting standards.

The company's control system is structured to comply with the model adopted in the CoSO Report[42], an international reference model for the establishment, update, analysis and assessment of the internal control system. This model requires the achievement of the business objectives as a result of the integrated presence and correct operation of the following elements that, based on their characteristics, operate at organisational unit level and/or operating/administrative process level:

- a suitable control environment, meaning the set of standards of conduct, processes and structures underlying the execution of the organisation's internal control process;
- appropriate risk assessment, requiring that risks be suitably identified, documented and classified based on relevance;
- the planning and performance of suitable control activities, such as policies and procedures adopted to mitigate (i.e. reduce to an acceptable level) the identified risks which may compromise the achievement of the business objectives;
- the presence of a suitable information system and adequate communication flows that guarantee the exchange of relevant information between senior executives and the operational functions (and vice versa);
- the planning of suitable monitoring activities to verify the effectiveness and correct operation of the internal control system.

In line with the adopted model, the controls are monitored on a periodic basis in order to assess their operational effectiveness and efficiency over time.

The internal control system for financial reporting has been structured and applied according to a risk-based approach, in relation to the potential impacts on the financial reporting.

In 2018, CDP Reti adopted the Group Policy that defines the methodological framework and operational instruments that the Parent Company, CDP, and the CDP Group companies are required to comply with for the application of Law 262/05, for the purposes of both individual and consolidated company reporting. 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 elements, ranging from adequate governance systems to ethical and integrity-based standards of conduct, effective organisational structures, clear assignment of powers and responsibilities, an appropriate risk management policy, disciplinary systems for personnel, and effective codes of conduct.

At the process level, the approach consists of an assessment phase to identify specific potential risks which, if the risk event were to occur, could 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:

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[39] Reliability (of reporting): correct reporting drafted in compliance with the generally accepted accounting standards, which meets the requirements of applicable laws and regulations.
[40] Accuracy (of reporting): reporting with no errors.
[41] Dependability (of reporting): correct and complete reporting based on which investors may make informed investment decisions.
[42] Committee of Sponsoring Organizations of the Treadway Commission.

- an initial phase for the identification of the potential risks and the definition of the control objectives in order to mitigate those risks;
- the second phase involving the identification and assessment of the controls designed to mitigate potential risks (Test of Design – ToD);
- a third phase consisting of the identification of areas of improvement identified for the control.

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

The monitoring phase in CDP RETI is structured as follows:

- sampling of the items to be tested;
- test execution (Test of Effectiveness – ToE);
- weighting of any anomalies detected and related assessment.

Based on the potential risk identified and taking into account the results of the overall assessment of the control (ToD+ToE), the “residual risk” is obtained, which represents the qualitative measurement of the risk that the company is exposed to in relation to the actual implementation of the controls identified.

The residual risk is measured based on the following formula:

RI – OA = RR

where:	*RI* = index of potential risk obtained from the combination of weight and frequency of the risk; *OA* = overall assessment of the controls; *RR* = residual risk index.

The assessment of the controls reduces the value of the potential risk index, based on predefined percentages.

If anomalies are found in the ToDs and ToEs, a plan of corrective actions is produced and the anomalies are reported to the process owners, providing:

- a detailed description of the anomaly detected;
- the corrective action proposals identified, specifying: the deadline for implementation, the priority and the offices responsible.

After the phase of consultation and agreement with the controls and process owners, the actual implementation of the measures established to resolve the anomaly is monitored.

To enable the Manager in charge with preparing the company’s financial reports and the management bodies of the CDP RETI Group to issue the certification pursuant to Article 154-bis of the Consolidated Law on Finance, it was necessary to establish an intercompany “chain” certification system, regarding the data and information provided for the preparation of the consolidated financial statements of the CDP RETI Group.

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 IN CHARGE WITH PREPARING THE COMPANY'S FINANCIAL REPORTS

As already mentioned above, following the issue in May 2015 of a bond listed on the Irish Stock Exchange, CDP RETI was required, pursuant to Article 154-bis of the Consolidated Law on Finance, to appoint a Manager in charge with preparing the company's financial reports.

With reference to the experience requirements and methods for appointing and substituting the Manager in charge with preparing the company's financial reports, the provisions of Article 19.13 of CDP RETI Articles of Association are reported below.

Article 19.13 CDP RETI Articles of Association:

Subject to the prior opinion of the Board of Statutory Auditors, the Board of Directors appoints the Manager in charge with preparing the company's financial reports for a period of time not shorter than the term of office of the Board and not longer than six financial years, to perform the duties assigned to such manager under Article 154-bis of Legislative Decree no. 58 of 24 February 1998. The Manager in charge with preparing the company's financial reports must meet the integrity requirements established for the directors and cannot hold the offices indicated in Article 15.11 of the Articles of Association43. The Manager in charge with preparing the company's financial reports shall be chosen in accordance with criteria of professional experience and competence from among the persons who have global experience of at least three years in the administrative area at consulting firms or companies or professional firms. The Manager in charge with preparing the company's financial reports can be replaced by the Board of Directors only for due cause, having obtained the prior opinion of the Board of Statutory Auditors. The appointment of the Manager in charge with preparing the company's financial reports shall lapse if such manager does not continue to meet the requirements for the office. The Board of Directors shall declare such lapse within thirty days from the date on which they become aware of the supervening failure to meet the requirements.

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.

In order to guarantee an effective, systematic and prompt flow of information, the Manager in charge with preparing the company's financial reports periodically reports to the Board of Directors with regard to any critical issues that have arisen in performing his/her tasks, any plans and actions established to overcome any issues found, and, in general, the suitability of the administration and accounting internal control system.

The Manager responsible for 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.

[43] Not entitled to hold any office in the management or control bodies, or management positions in ENI S.p.A. and its subsidiaries, or to have any direct or indirect relationship of a professional or financial nature with those companies.

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.

INSIDER REGISTER

CDP RETI has 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 - which has been established by CDP RETI as an issuer of debt securities traded on regulated markets - is divided into separate sections, one for each piece of inside information, and a new section is added to the Register each 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. There is also an additional section in the Register which contains the details of people who always have access to all Inside Information (“Permanent Access Holders”). 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.

The 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 ETHICS

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.

CHIEF AUDIT OFFICER

The Internal Audit function is a permanent, independent and objective function that pursues the continuous improvement of the effectiveness and efficiency of CDP RETI's governance, risk management and control processes, by means of professional and systematic supervision.

The Internal Audit function reports hierarchically to the Board of Directors through its Chairman and regularly informs the Governing Bodies and Board of Statutory Auditors on the work carried out and the results achieved. The Chief Audit Officer, in particular, is appointed by the Board of Directors, having heard the Board of Statutory Auditors, on the proposal of the Chief Executive Officer, in agreement with the Chairman of the Board of Directors. The appointment of the Chief Audit Officer is permanent and is subject to revocation by the Board of Directors.

The Company’s Board of Directors, as part of the outsourcing to the Parent Company of some auxiliary services (service agreements), including Internal Auditing, starting from 20 March 2017 appointed a Chief Audit Officer of CDP RETI, a resource belonging to the Chief Audit Officer Department of the Parent Company CDP S.p.A. (“CDP”). The Chief Audit Officer, as part of the organisational structure of CDP RETI S.p.A. and not being responsible for any operational area, has direct access to all the company information, documents and systems required to perform the task, also at the outsourcer’s, and carries out the audit activities in complete independence according to the instructions of the Board of Directors.

The Internal Audit function provides an independent and objective assessment of the completeness, adequacy, functionality and reliability of CDP RETI’s organisational structure and overall internal control system, and assesses the proper functioning of the processes, the protection of corporate assets, the reliability and integrity of the accounting and management information, as well as compliance with internal and external regulations and management guidelines.

The Chief Audit Officer's main tasks include:

- the preparation of the Annual Audit Plan ("Audit Plan"), which is approved by the Board of Directors;
- the performance of the audits envisaged in the Plan, including extraordinary audits, drafting of recommendations based on the results of the controls carried out and preparation of the Audit Reports;
- the performance of follow-up activities related to the corrective measures agreed with the Management during the sharing of the Audit Reports;
- reporting to the corporate bodies, on a six-monthly basis, on the results of the activities carried out or upon occurrence in case of possible serious issues emerging during the checks and in general on the request of the corporate bodies;
- the annual expression of an opinion on the Internal Control System;
- the support to the Supervisory Body to update the Compliance System pursuant to Legislative Decree no. 231/2001, performing the required controls requested by the Body as well as the technical and administrative clerical activities.

The Chief Audit Officer sends the Audit Reports to the Chairman~~,~~ of the Board of Directors, the Chief Executive Officer, the Chairman of the Board of Statutory Auditors, the Supervisory Body, the Manager in charge with preparing the company's financial reports as well as the Process Owners.

On 27 March 2018, the Board of Directors approved the 2018 Audit Plan 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. ("ITALGAS") 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 shares[44] 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 ITALGAS[45] 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 detailed below:

- establishment of a Consultation Committee composed of five members, four of whom represent CDP RETI (three appointed by CDP and one by State Grid Europe Ltd, in short "SGEL") and one representing SNAM. The Consultation Committee will decide by 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 will cast the votes

[44] As described in more detail in the following paragraph, the effects of said transaction apply also to the SNAM shares owned by CDP GAS.

[45] As described in more detail in the following paragraph, the effects of said transaction apply also to the SNAM shares owned by CDP.

conferred by their shares in ITALGAS as decided by the Consultation Committee, without prejudice to SNAM's rights in respect of Reserved Matters (as defined below);

- in connection with certain extraordinary resolutions of ITALGAS (the "Reserved Matters")[46], if the Consultation Committee passes resolutions that have been voted against by the representative designated by SNAM and the shareholders' meeting of ITALGAS approves the related Reserved Matter, SNAM will be able: (i) to sell its entire equity investment in ITALGAS to potential third-party buyers (in this case, CDP RETI will have the right of first refusal on the purchase of the equity investment and the right of non-discretionary approval of the third-party buyer, it being understood that the third-party buyer[47] will be required to replace SNAM in the Italgas Shareholders' Agreement) and (ii) if the equity investment is not sold within 12 months, to withdraw from the Italgas Shareholders' Agreement due to its dissolution;
- SNAM shall not be able to increase or dispose of its equity investment in ITALGAS (the "SNAM Equity Investment"), except for the transfer, under certain conditions, of the entire equity investment 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 the right of first refusal on the purchase of equity investment and the right of non-discretionary approval on the third-party buyer[48], and (ii) the third-party buyer must replace SNAM in the Italgas Shareholders' Agreement on the same terms and conditions as SNAM; and
- CDP RETI and other parties associated with it shall only be able to purchase additional shares or other financial instruments of ITALGAS if: (i) these shares are added to the Italgas Shareholders' Agreement, and (ii) these purchases do not result in the exceeding of the thresholds set by the rules on mandatory public tender offers. 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 falls below 30%.

The Italgas Shareholders' Agreement also establishes that CDP RETI and SNAM are required to submit a joint list for the appointment of ITALGAS' Board of Directors in order to ensure that SNAM nominates one candidate and CDP RETI nominates the remaining candidates (one of whom will be nominated by SGEL), including the CEO and the Chairman, if that list comes first in terms of number of votes obtained in the ITALGAS Shareholders' Meeting.

The Italgas Shareholders' Agreement contains provisions that are relevant pursuant to Article 122, paragraphs 1 and 5 of the Consolidated Law on Finance and therefore qualifies as a voting and lock-up agreement. The Italgas Shareholders' Agreement will therefore be subject to disclosure obligations set out in Article 122, paragraph 1 of the Consolidated Law on Finance and its implementing provisions.

The governance of ITALGAS envisages 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) is composed of nine members, of whom eight, including the Chairman and CEO, are nominated by CDP RETI (one of which nominated by SGEL) and one director nominated by SNAM. The Board of Directors is composed of four independent directors, whereas (ii) after its first renewal, the Board of Directors shall be composed of nine members, of whom seven drawn from the first list by number of votes and two 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 if SNAM or CDP RETI do not provide notification 12 months in advance of their intention not to renew the agreement. If SNAM

[46] The above-mentioned Reserved Matters will 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; and (iii) wind-up or liquidation of ITALGAS.

[47] CDP RETI will be able to deny its approval solely for one of the following reasons:

a) the third-party buyer is a direct competitor of ITALGAS and/or Italgas Reti S.p.A. in Italy; and/or

b) the third-party buyer fails to provide adequate documentation and evidence of compliance with the unbundling laws in force from time to time; and/or

c) the third-party buyer comes 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 buyer is in violation of the applicable laws; and/or

e) the third-party buyer does not meet certain size requirements; and/or

f) the conclusion of the potential transaction with the third-party buyer or the third-party buyer's joining of the Shareholders' Agreement generates an obligation for the third-party buyer, singly or jointly with CDP RETI, to make a mandatory initial public offering on the remaining ITALGAS shares.

[48] See previous note.

provides notification of 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 Limited[49] (below, "SGID") were parties to a 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 transferred their stakes in the share capital of CDP RETI to the SGEL Shareholders' Agreement, representing a total 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 investments in SNAM and Terna S.p.A. ("TERNA").

The SGEL Shareholders' Agreement provides SGEL with governance rights in order to protect its 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 Law on Finance, 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 completed the transfer to SNAM of the equity investment in TRANS AUSTRIA GASLEITUNG GmbH ("TAG"), which it held via CDP GAS ("CDP GAS"). The transaction was linked to an increase in the share capital of SNAM reserved to CDP GAS, which was paid for by means of the transfer of the aforementioned equity investment 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% of SNAM's share capital but represented around 28.98% as of 19 December 2014.

B) Subsequently, on 7 November 2016, (i) a spin-off was completed for the transfer of SNAM's stake in Italgas Reti S.p.A. to ITALGAS and, at the same time, (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% stake 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 Consultation Committee), CDP, SGEL and SGID amended and supplemented the 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:

- pursuant to and with effect from the date of transfer to CDP RETI of CDP's equity investment 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
- pursuant to and with effect from the date of transfer to CDP RETI of CDP's equity investment 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 30.37% of the SNAM share capital with voting rights.

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[49] State Grid International Development Limited owns the entire capital of SGEL.

- 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.

2018 consolidated financial statements

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements at 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and consist of:

- Consolidated Balance Sheet
- Consolidated Income Statement
- Consolidated statement of comprehensive income
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Notes to the consolidated financial statements

The Notes to the consolidated financial statements consist of:

- Introduction
- I - Basis of presentation and accounting policies
- II - Information on the consolidated balance sheet
- III - Information on 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

The following are also included:

- Annexes
- Certification pursuant to article 154-bis of legislative decree no. 58/98
- Report of the Independent Auditors

The “Annexes”, which are an integral part of the consolidated financial statements, include the consolidation scope and the information provided with reference to the obligations introduced concerning the transparency of public funds by Law no. 124 of 4 August 2017.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(thousands of euro)

Assets items	Notes	31/12/2018	*of wich from related parties*	31/12/2017	*of wich from related parties*
NON-CURRENT ASSETS					
Property, plant and equipment	1	34,734,713		34,315,593	
Inventories - compulsory stock	2	362,713		362,713	
Intangible assets	3	8,596,622		7,877,371	
Equity investments	4	1,878,287		1,745,916	
Non-current financial assets	5	269,846	9,659	533,683	372,961
Deferred tax assets	6	739,822		702,974	
Other non-current assets	7	183,553		145,557	23,400
Total non-current assets		**46,765,556**	**9,659**	**45,683,807**	**396,361**
Non-current assets held for sale	8	**11,583**		**11**	
CURRENT ASSETS					
Current financial assets	9	426,697	8,388	358,812	8,477
Income tax receivables	10	37,557		62,289	
Trade receivables	11	2,949,794	1,013,946	3,111,453	1,060,651
Inventories	12	150,314		123,367	
Other current assets	13	266,504	32,598	333,732	40,246
Cash and cash equivalents	14	3,405,001	24	2,754,368	1
Total current assets		**7,235,867**	**1,054,956**	**6,744,021**	**1,109,375**
TOTAL ASSETS		**54,013,006**	**1,064,615**	**52,427,839**	**1,505,736**

LIABILITIES AND EQUITY

(thousands of euro)

Liabilities and equity items	Notes	31/12/2018	*of wich from related parties*	31/12/2017	*of wich from related parties*
EQUITY	15				
Share capital		162		162	
Issue premium		1,315,158		1,315,158	
Retained earnings		568,248		561,194	
Other reserves		2,029,922		2,029,921	
Valuation reserves		(40,590)		(22,587)	
Interim dividend		(255,938)		(324,000)	
Net income for the period (+/-)		516,741		508,715	
Group equity	15 a	**4,133,703**		**4,068,563**	
Non-controlling interests	15 b	10,691,730		10,834,570	
Total Equity		**14,825,433**		**14,903,133**	
NON-CURRENT LIABILITIES					
Provisions	16	1,093,676		1,151,629	
Provisions for employee benefits	17	241,670		254,537	
Loans	18	23,366,616	758,445	24,150,456	1,258,329
Other financial liabilities	19	100,490	8,720	29,827	8,415
Deferred tax liabilities	20	2,739,583		2,837,431	
Other non-current liabilities	21	1,235,249		587,675	
Total non-current liabilities		**28,777,284**	**767,165**	**29,011,555**	**1,266,744**
Liabilities directly associated with non-current assets held for sale	22				
CURRENT LIABILITIES					
Short-term loans and current portion of long-term loans	23	3,041,910	504,158	2,208,302	4,133
Trade payables	24	3,367,585	282,234	3,214,570	198,586
Income tax liabilities	25	22,785		4,575	-
Current financial liabilities	26	2,260,152	497	1,459,479	16,828
Other current liabilities	27	1,717,857	14,286	1,626,225	1,702
Total current liabilities		**10,410,289**	**801,175**	**8,513,151**	**221,249**
TOTAL LIABILITIES AND EQUITY		**54,013,006**	**1,568,340**	**52,427,839**	**1,487,993**

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

Consolidated income statement items	Notes	31/12/2018	*of wich from related parties*	31/12/2017	*of wich from related parties*
Revenues					
Revenues from sales and services	28	6,394,879	3,955,816	6,187,018	3,905,432
Other revenues and income	29	129,598	44,470	150,611	24,746
Total revenues		**6,524,477**	**4,000,286**	**6,337,629**	**3,930,178**
Operating Costs					
Raw materials and consumables used	30	(386,400)	(53,128)	(336,844)	(5,511)
Services	31	(761,300)	(52,581)	(776,254)	(78,766)
Staff costs	32	(694,435)	(2,927)	(675,199)	(2,672)
Amortisation, depreciation and impairment of property, plant and equipment and intangible assets	33	(1,860,535)		(1,801,231)	
Net write-downs (write-backs) of trade receivables and other receivables	33 a	4,875		(10,094)	
Other operating costs	34	(150,730)	(21,236)	(163,261)	(7,428)
Total costs		**(3,848,525)**	**(129,872)**	**(3,762,883)**	**(94,377)**
Operating profit		**2,675,952**	**3,870,414**	**2,574,746**	**3,835,801**
Financial income (expense)					
Financial income	35	22,788	8,062	59,892	5,271
Borrowing expenses	36	(429,272)	(16,254)	(498,344)	(19,222)
Portion of income (expenses) from equity investments valued with the equity method	37	136,768		147,308	
Total financial income (expense)		**(269,716)**	**(8,192)**	**(291,144)**	**(13,951)**
Income before taxes		**2,406,236**	**3,862,222**	**2,283,602**	**3,821,850**
Taxes for the period	38	(673,344)		(622,280)	
Net income (loss) from continuous operations		**1,732,892**	**3,862,222**	**1,661,322**	**3,821,850**
Net income (loss) from discontinued operations					
Net income (loss) for the year		**1,732,892**	**3,862,222**	**1,661,322**	**3,821,850**
- pertaining to Shareholders of the Parent Company		516,741		*508,715*	
- pertaining to non-controlling interests		1,216,151		*1,152,607*	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands of euro)

Items/Figures	Notes	31/12/2018	31/12/2017
1 - Net income (loss) fot he year		**1,732,892**	**1,661,322**
Other comprehensive income net of taxes not transferred to income statement			
2 - Financial assets (equity securities) measured at fair value through other comprehensive income		1,311	
3 - Hedging of equity securities designated at fair value through other comprehensive income			
4 - Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)			
5 - Property, plant and equipment			
6 - Intangible assets			
7 - Defined benefit plans		4,080	(2,588)
8 - Non-current assets held for sale			
9 - Share of valuation reserves of equity investments accounted for using equity method		609	1,148
10 - Revaluation Laws			
Other comprehensive income net of taxes transferred to income statement			
11 - Financial assets (other than equity securities) measured at fair value through other comprehensive income		1,168	
12 - Hedging instruments (elemented not designated)			
13 - Hedging of foreign investments			
14 Exchange rate differences		(5,700)	(10,134)
15 - Cash flow hedges		(59,203)	2,237
16 - Non-current assets held for sale			
17 - Share of valuation reserves of equity investments accounted for using equity method			
18 - Revaluation Laws			
19 - Total other comprehensive income net of taxes		**(57,735)**	**(9,337)**
20 - Comprehensive income (item 1+19)		**1,675,157**	**1,651,985**
21 - Consolidated comprehensive income pertaining to non-controlling interests		1,176,192	1,144,489
22 - Consolidated comprehensive income pertaining to Shareholders of the Parent Company		**498,965**	**507,496**

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

(thousands of euro) Items/Figures	Notes	31/12/2018 Pertaining to shareholders of the parent company	31/12/2018 Pertaining to non-controlling interests	31/12/2018 Total	31/12/2017 Pertaining to shareholders of the parent company	31/12/2017 Pertaining to non-controlling interests	31/12/2017 Total
1 - Net income (loss) fot he year		**516,741**	**1,216,151**	**1,732,892**	**508,715**	**1,152,607**	**1,661,322**
Other comprehensive income net of taxes not transferred to income statement							
2 - Financial assets (equity securities) measured at fair value through other comprehensive income		418	893	1,311			
3 - Hedging of equity securities designated at fair value through other comprehensive income		-	-	-			
4 - Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)		-	-	-			
5 - Property, plant and equipment		-	-	-			
6 - Intangible assets		-	-	-			
7 - Defined benefit plans		1,244	2,836	4,080	(788)	(1,800)	(2,588)
8 - Non-current assets held for sale		-	-	-			
9 - Share of valuation reserves of equity investments accounted for using equity method		194	415	609	354	794	1,148
10 - Revaluation Laws		-	-	-			
Other comprehensive income net of taxes transferred to income statement							
11 - Financial assets (other than equity securities) measured at fair value through other comprehensive income		349	819	1,168			
12 - Hedging instruments (elemented not designated)		-	-	-			
13 - Hedging of foreign investments		-	-	-			
14 Exchange rate differences		(1,720)	(3,980)	(5,700)	(3,057)	(7,077)	(10,134)
15 - Cash flow hedges		(18,261)	(40,942)	(59,203)	2,273	(36)	2,237
16 - Non-current assets held for sale		-	-	-			
17 - Share of valuation reserves of equity investments accounted for using equity method		-	-	-			
18 - Revaluation Laws		-	-	-			
19 - Total other comprehensive income net of taxes		**(17,776)**	**(39,959)**	**(57,735)**	**(1,218)**	**(8,119)**	**(9,337)**
20 - Consolidated comprehensive income (item 1+19)		**498,965**	**1,176,192**	**1,675,157**	**507,496**	**1,144,489**	**1,651,985**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2018

(thousands of euro) Items/Figures	Notes	Balance at 31/12/2017	Change in re-opening balances	Balance at 01/01/2018	Allocation of net income for previous year		Changes for the period										Shareholders' Equity at 31/12/2018	Group's Equity at 31/12/2018	Equity non-controlling interests at 31/12/2018
							Operazioni sul patrimonio netto												
					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	Derivatives on own shares	Stock options	Change in equity interests	Comprehensive income for 2018			
Share capital		2,900,628		2,900,628											(30,562)		2,870,066	162	2,869,904
Share premium reserve		2,550,579		2,550,579			(82,204)								(11,767)		2,456,608	1,315,158	1,141,450
Reserves		8,704,615	4,358	8,708,973	269,569		(135,450)								38,647		8,881,739	2,598,170	6,283,569
Valuation reserves		(62,027)		(62,027)												(57,735)	(119,762)	(40,590)	(79,172)
Equity instruments																			
Advances on dividends		(632,230)		(632,230)	632,230					(570,271)							(570,271)	(255,938)	(314,333)
Treasury shares		(219,754)		(219,754)					(206,085)								(425,839)		(425,839)
Net income (loss) for the year		1,661,322		1,661,322	(901,799)	(759,523)										1,732,892	1,732,892	516,741	1,216,151
Total Equity	**15**	**14,903,133**	**4,358**	**14,907,491**		**(759,523)**	**(217,654)**		**(206,085)**	**(570,271)**					**(3,682)**	**1,675,157**	**14,825,433**	**4,133,703**	**10,691,730**
Group equity	**15a**	**4,068,563**	**1,648**	**4,070,211**		**(140,033)**	**(130,614)**			**(255,938)**					**91,127**	**498,965**	**4,133,718**	**4,133,703**	
Equity non-controlling interests		**10,834,570**	**2,710**	**10,837,280**		**(619,490)**	**(87,040)**		**(206,085)**	**(314,333)**					**(94,809)**	**1,176,192**	**10,691,715**		**10,691,730**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2017

(thousands of euro) Items/Figures	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										Shareholders' Equity at 31/12/2017	Group's Equity at 31/12/2017	Equity non-controlling interests at 31/12/2017
						Operazioni sul patrimonio netto												
				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	Derivatives on own shares	Stock options	Change in equity interests	Comprehensive income for 2017			
Share capital	2,957,010		2,957,010											(56,382)		2,900,628	162	2,900,466
Share premium reserve	2,576,487		2,576,487			(1)								(25,907)		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)									(9,337)	(62,027)	(22,587)	(39,440)
Equity instruments																		
Advances on dividends	(354,660)		(354,660)	354,660					(632,230)							(632,230)	(324,000)	(308,230)
Treasury shares	(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	**15,166,791**		**15,166,791**		**(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	**4,059,864**		**4,059,864**		**(100,693)**	**(187,667)**		**(64,785)**	**(324,000)**			**5,208**		**173,140**	**507,496**	**4,068,563**	**4,068,563**	
Equity non-controlling interests	**11,106,927**		**11,106,927**		**(684,934)**	**(3,087)**		**(145,164)**	**(308,230)**	**(112,938)**		**11,671**		**(174,164)**	**1,144,489**	**10,834,571**		**10,834,570**

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of euro)

Items/Figures	Notes	31/12/2018	31/12/2017
Net income for the year		**1,732,892**	**1,661,322**
Adjustments to net income to reflect cash flow from operating activities:			
Amortisation and depreciation	33	1,851,351	1,773,264
Net writedowns (revaluations) of property, plant and equipment and intangible		9,184	27,967
Effect of accounting using the equity method	37	(135,662)	(147,308)
Net losses (gains) on disposals, cancellations and eliminations of assets		43,116	13,975
Dividends		(2,124)	(31)
Interest income	35	(20,664)	(59,861)
Interest expense	36	429,272	498,344
Income taxes	38	673,344	622,280
		(498)	
Changes in working capital:			
- Inventories		(36,709)	(36,181)
- Trade receivables		193,108	103,434
- Trade payables		164,230	181,974
- Provisions		28,844	67,298
- Other assets and liabilities		139,490	265,070
Cash flow from working capital		**488,963**	**581,595**
Change in provisions for employee benefits		(53,150)	(61,575)
Dividends received		137,200	155,681
Interest received		10,106	355,151
Interest paid		(536,005)	(549,922)
Income taxes paid net of tax credits reimbursed		(749,044)	(794,962)
Cash flow from operating activities		**3,878,281**	**4,075,921**
- with related parties		*2,501,397*	*2,278,341*
Investing activities:			
- Property, plant and equipment		(1,764,603)	(1,812,978)
- Intangible assets		(617,301)	(589,073)
- Companies in the scope of consolidation and business units		(203,183)	(202,125)
- Equity investments		(192,390)	(299,156)
- Change in payables and receivables relative to investing activities		365,112	(156,964)
Cash flow from investing activities		**(2,412,365)**	**(3,060,296)**
Divestments:			
- Property, plant and equipment		14,418	34,499
- Intangible assets		2,470	428
- Equity investments		23,258	33,656
- Change in payables and receivables relative to divestments		-	(1)
Cash flow from divestments		**40,146**	**68,582**
Net cash flow from investing activities		**(2,372,219)**	**(2,991,714)**
- with related parties		*330,393*	*(381,075)*
Assumption of long-term financial debt	18	1,984,290	6,694,936
Repayments of long-term financial debt	18	(1,814,037)	(1,765,028)
Increase (decrease) in short-term financial debt	23-26	779,890	(2,645,010)
(Increase) decrease of financial receivables for not operating purposes		(50,600)	(350,000)
Net equity capital injections		(425,178)	(209,889)
Dividends distributed to shareholders	15	(1,329,794)	(1,327,268)
Net cash flow from financing activities		**(855,429)**	**397,741**
- with related parties		*(37,379)*	*12,636*
Net cash flow for the year		**650,633**	**1,481,948**
Cash and cash equivalents at start of year	14	2,754,368	1,272,421
Cash and cash equivalents at end of year	14	3,405,001	2,754,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 balance sheet, 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 draft its consolidated financial statements in compliance with international accounting standard IFRS 10. The conditions for exemption arising from being a sub-holding controlled by a holding company (Cassa depositi e prestiti S.p.A.) which drafts its own consolidated financial statements do not apply for entities which have issued listed securities on a regulated market.

The consolidated financial statements clearly present, and give a true and fair view of, the Group's financial performance and results of operations for the year.

The consolidated financial statements are presented in euro. Unless otherwise specified, the consolidated financial statements and tables in the notes to the consolidated financial statements are expressed in thousands of euro, in consideration of their size.

In the income statement, revenues are indicated without a 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 2018 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.

Annexes

The consolidated financial statements include Annex 1 "Scope of consolidation" and Annex 2 "Disclosure pursuant to Law 124 of 4 August 2017, Article 1 paragraphs 125-129"

I - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I.1. GENERAL INFORMATION

I.1.1. Declaration of compliance with International Financial Reporting 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 2087, 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. General preparation principles

The financial statement formats used to prepare the consolidated financial statements, which coincide with those used in the Annual Financial Report 2017, are consistent with the provisions of IAS 1 – "Presentation of Financial Statements" (hereinafter, IAS 1).

In detail:

- the items on the consolidated balance sheet 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 established practice of firms operating on international markets;
- the consolidated statement of comprehensive income shows income inclusive of the revenues and costs that are recognised directly in equity pursuant to IFRS;
- the consolidated statement of changes in equity presents the 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.

Note that the adoption of IFRS 9 led to the updating of the financial statements essentially with regard to the income statement items, with the creation of a specific item for the write-downs/write-backs of trade receivables and other receivables called "Net write-downs (write-backs) of trade receivables and other receivables". Moreover, this adoption determined the re-designation of the item "Amortisation, depreciation and write-downs" in "Amortisation, depreciation and write-downs of property, plant and equipment and intangible assets".

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, 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 issued;
- Interpretation documents concerning the application of the IFRS in Italy, prepared by the Organismo Italiano di Contabilità (Italian Accounting Board, 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 duly prepared on an accruals and going-concern basis, as a prerequisite for financial statement assessments. The general principles of materiality and significance of information have also been taken into account.

No assets have been offset with liabilities, nor income with expenses, unless expressly required or allowed by an accounting standard or a related interpretation.

IFRSs endorsed at 31 December 2018 and in force since 2018

Details are provided below of the European Commission Regulations that have endorsed the new international financial reporting standards, or amendments to standards already in force, whose application became mandatory from 1 January 2018:

- Commission Regulation (EU) 2018/519 of 28 March 2018, published in the Official Journal L. 87 of 03 April 2018, adopting IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration. The interpretation clarifies the accounting of transactions that involve advance consideration paid or received in a foreign currency.
- European Commission Regulation (EU) no. 2018/498 of 22 March 2018, published in the Official Journal L 82 of 26 March 2018, adopting the Amendments to IFRS 9 "Financial Instruments - Prepayment Features with Negative Compensation". The amendments are intended to clarify the classification of particular prepayable financial assets when applying IFRS 9[50].
- Commission Regulation (EU) 2018/400 of 14 March 2018, published in the Official Journal L 72 of 15 March 2018, adopting Amendments to IAS 40 Investment Property – Transfers of investment property. The amendments clarify when a company is allowed to reclassify a property to (or from) the "investment property" category.
- Commission Regulation (EU) 2018/289 of 26 February 2018, published in the Official Journal L 55 of 27 February 2018, adopting Amendments to IFRS 2 Share-based Payments, aimed at clarifying how companies should apply the standard in some specific instances.
- Commission Regulation (EU) 2018/182 of 7 February 2018, published in the Official Journal L 34 of 8 February 2018, adopting Annual Improvements to International Financial Reporting Standards 2014-2016 Cycle that lead to changes to IAS 28 – Investments in associates and joint ventures, IFRS 1 - First-time Adoption of International Financial Reporting Standards and IFRS 12 – Disclosure of Interests in Other Entities (the latter should already be applied for 2017). The objective of the annual improvements is to address non-urgent, but necessary, issues discussed by the IASB during the project cycle on areas of inconsistency in International Financial Reporting Standards or where clarification of wording is required.
- Commission Regulation (EU) no. 2017/1988 of 3 November 2017, published in the Official Journal L 291 of 9 November 2017, adopting the Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments to IFRS 4 aim to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard for insurance contracts replacing IFRS 4 (IFRS 17).
- Commission Regulation (EU) no. 2017/1987 of 31 October 2017, published in the Official Journal L 291 of 9 November 2017, adopting the Clarifications to IFRS 15 – Revenue from contracts with customers. The amendments aim to clarify some requirements and provide additional transitional relief for companies that are implementing the Standard.
- Commission Regulation (EU) no. 2016/2067 of 22 November 2016, published in the Official Journal L 323 of 29 November 2016, adopting IFRS 9 – Financial Instruments, aimed at improving the financial reporting of financial instruments by addressing concerns that arose in this area during the financial crisis. In particular, IFRS 9 responds to the G20's 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 Official Journal L. 295 of 29 October 2016, adopting IFRS 15 –Revenue from contracts with customers, which aims to improve the financial reporting of revenue and to improve comparability of the top line in financial statements globally.

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 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 at 31 December 2018 (unless, where permitted, it is chosen to adopt them in advance):

- Commission Regulation (EU) 2019/412 of 14 March 2019, published in Official Journal L. 73 of 15 March 2019, 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 Accounting Standards (IAS) 12 and 23 and International Financial Reporting Standards (IFRS) 3 and

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[50] The Regulation establishes that the amendments it contains shall apply from the start of the first financial year that begins on or after 1 January 2019. The text, however, indicates that the Commission considers the following: "Since Commission Regulation (EU) 2016/2067 has become applicable for financial periods starting at the latest on or after 1 January 2018, companies should be able to use International Financial Reporting Standard (IFRS) 9 Financial Instruments as amended in the Annex to this Regulation as from the date of application of Regulation (EU) 2016/2067. Therefore, companies should be able to apply the provisions of this Regulation for financial periods starting on or after 1 January 2018."

11. Companies should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2019. The main amendments concerned:
    - IAS 12 “Income taxes” Accounting for income taxes arising from the payment of dividends;
    - IAS 23 “Borrowing Costs” The company must consider any loans originally contracted for the development of an asset as part of its loans when the asset is ready for its intended use or sale;
    - IFRS 3 “Business combinations” The company must restate the interests previously held in a joint operation when it obtains control of the business;
    - IFRS 11 “Joint arrangements”The company must not restate interests previously held in a joint operation when it obtains joint control of the business.
- Commission Regulation (EU) 2019/402 of 13 March 2019, published in Official Journal L. 72 of 14 March 2019, 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 regard to the international accounting standard IAS 19. The aim of the amendments is to clarify that, following the modification, reduction or termination of the defined benefit plan, the entity should use the position resulting from the recalculation of its net liabilities (assets) for defined benefits in the remainder of the reference period. The entities should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2019.
- Commission Regulation (EU) 2019/237 of 8 February 2019, published in Official Journal L. 39 of 11 February 2019, 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 regard to the international accounting standard IAS 28. Said amendments clarify that any entity that does not apply the equity method to financial instruments in associate companies or joint ventures should apply IFRS 9 to long-term equity interests without taking into account any adjustments made to their carrying amount. Entities apply these amendments retroactively, starting from financial periods that start on or after 1 January 2019. Early application is permitted.
- Commission Regulation (EU) 2018/1595 of 23 October 2018, published in the Official Journal L 265 of 24 October 2018, adopting IFRIC 23, which explains how to reflect uncertainty in accounting for income taxes.
- Commission Regulation (EU) 2017/1986 of 31 October 2017, published in the Official Journal L 291 of 9 November 2017, adopting IFRS 16 – Leasing, which aims to improve financial reporting on lease contracts. Companies shall apply IFRS 16, at the latest, as from the commencement date of their first financial year starting on or after 1 January 2019. CDP has not adopted IFRS 16 in advance in its consolidated financial statements.

Accounting standards, amendments and interpretations not yet endorsed by the European Union at the reporting date of 31 December 2018.

Certain accounting standards, interpretations and amendments had been issued by the IASB but not yet endorsed by the European Union as at the date of preparation of this annex:

- IFRS 17 Insurance Contracts (issued on 18 May 2017);
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017);
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018);
- Amendment to IFRS 3: Business Combinations (issued on 22 October 2018);
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018).

A complete list of the international accounting standards and the related amendments published by the IASB (adopted and not yet adopted by the EU) is available on the EFRAG website: https://www.efrag.org/Endorsement.

Transition to IFRS 9 and IFRS 15

IFRS 15: Revenue from Contracts with Customers

Regulatory provisions

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.

Choices of the CDP Reti Group

In accordance with IFRS 15 Appendix C, the CDP Reti Group has opted to apply the new standard retrospectively, by recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (IFRS 15 §C7). The date of first-time adoption of the new standard for the CDP Reti Group is 1 January 2018.

IFRS 9: Financial Instruments

Regulatory provisions

From 1 January 2018, the new standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission in 2016, has replaced IAS 39, and governs the classification and measurement of financial instruments.

IFRS 9 is structured in three different areas: classification and measurement of financial instruments, impairment and hedge accounting.

As regards the first area, IFRS 9 envisages that the classification of the financial assets is guided, on the one hand, by the business model under which the assets are held and, on the other, by the characteristics of the contractual cash flows of these financial assets.

With reference to impairment, a business model based on “expected loss” has been introduced, instead of the “incurred loss” envisaged by IAS 39, to enable the timely recognition of any losses. IFRS 9 requires companies to account for expected losses in the following 12 months (stage 1) from the initial recognition of the financial instrument. Conversely, the time horizon for calculating the expected loss becomes the remaining life of the asset being measured, when the credit quality of the financial instrument has incurred a “significant” deterioration compared to its initial measurement (stage 2) or when it is “impaired” (stage 3).

As regards Hedge Accounting, IFRS 9 contains provisions relating to the “General Hedge Accounting Model” aimed at providing a greater alignment between the hedge accounting positions and the risk management strategies adopted by the management. The new standard does not envisage the accounting model for collective hedging relationships of loan portfolios (so-called Macro Hedging) which is still being analysed by the IASB research group.

While waiting for new regulatory provisions, the CDP Reti Group has decided to take advantage of the opt-out option in FTA: all hedging transactions will continue to be managed in line with the past according to the (carved out) provisions in IAS 39.

Choices of the CDP Reti Group

As regards the procedures for representing the effects of first-time adoption of the standard, the Group decided to take advantage of the option provided by paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 “First-time Adoption of International Financial Reporting Standards”, which allows entities not to restate comparable figures.

The measurement and impairment statement of balance sheet figures – opening figures at 1 January 2018

The statement below shows the impacts resulting from the application of the measurement rules in IFRS 15 and IFRS 9 and the impairment rules, as well as the reclassification required by the application of IFRS 15. In particular, the gross effects as a result of the adoption of the standards were calculated, along with the related tax effects.

The statements also highlight the overall impacts on equity at 1 January 2018.

Assets

(thousands of euro)			IFRS 9			IFRS 15		
ASSETS	31/12/2017	Riclassification IFRS 15	Classification and measurement	Impairment	Taxation	Measurement	Taxation	01/01/2018
NON-CURRENT ASSETS								
Property, plant and equipment	34,315,593							34,315,593
Inventories - compulsory stock	362,713							362,713
Intangible assets	7,877,371	437,046						8,314,417
Equity investments	1,745,916							1,745,916
Non-current financial assets	533,683							533,683
Deferred tax assets	702,974				998		558	704,530
Other non-current assets	145,557							145,557
Total non-current assets	**45,683,807**	**437,046**			**998**		**558**	**46,122,409**
Non-current assets held for sale	**11**							**11**
CURRENT ASSETS								
Current financial assets	358,812							358,812
Income tax receivables	62,289							62,289
Trade receivables	3,111,453			(1,511)		(2,000)		3,107,942
Inventories	123,367							123,367
Other current assets	333,732							333,732
Cash and cash equivalents	2,754,368			(1,491)				2,752,877
Total current assets	**6,744,021**			**(3,002)**		**(2,000)**		**6,739,019**
TOTAL ASSETS	**52,427,839**	**437,046**		**(3,002)**	**998**	**(2,000)**	**558**	**52,861,439**

Liabilities and Equity

(thousands of euro)			IFRS 9			IFRS 15		
Consolidated liabilities and equity items	31/12/2017	Riclassification IFRS 15	Classification and measurement	Taxation	taxation	Measurement	Taxation	01/01/2018
EQUITY								
Share capital	162							162
Issue premium	1,315,158							1,315,158
Retained earnings	561,194		2,515	(568)		(299)		562,842
Other reserves	2,029,921							2,029,921
Valuation reserves	(22,587)							(22,587)
Interim dividend	(324,000)							(324,000)
Net income for the period (+/-)	508,715							508,715
Group equity	**4,068,563**		**2,515**	**(568)**		**(299)**		**4,070,211**
Non-controlling interests	10,834,570		5,364	(1,511)		(1,143)		10,837,280
Total Equity	**14,903,133**		**7,879**	**(2,079)**		**(1,442)**		**14,907,491**
NON-CURRENT LIABILITIES								
Provisions	1,151,629			75				1,151,704
Provisions for employee benefits	254,537							254,537
Loans	24,150,456							24,150,456
Other financial liabilities	29,827							29,827
Deferred tax liabilities	2,837,431				2,223			2,839,654
Other non-current liabilities	587,675	437,046						1,024,721
Total non-current liabilities	**29,011,555**	**437,046**		**75**	**2,223**			**29,450,899**
Liabilities directly associated with non-current assets held for sale	**-**							**-**
CURRENT LIABILITIES								
Short-term loans and current portion of long-term loans	2,208,302		(10,102)					2,198,200
Trade payables	3,214,570							3,214,570
Income tax liabilities	4,575							4,575
Current financial liabilities	1,459,479							1,459,479
Other current liabilities	1,626,225							1,626,225
Total current liabilities	**8,513,151**		**(10,102)**					**8,503,049**
TOTAL LIABILITIES AND EQUITY	**52,427,839**	**437,046**	**(2,223)**	**(2,004)**	**2,223**	**(1,442)**		**52,861,439**

The impacts resulting from the application of IFRS 15 refer to the Terna Group, essentially in the Non-Regulated segment, and relate to the consolidated revenues of the Tamini Group. In particular, the accounting effects generated an overall negative impact on total equity, net of tax, of 1,442 thousand euro.

The reclassification deriving from the application of IFRS 15 refers to the Italgas Group due to a different accounting treatment for the connection fees for private users. Indeed, it emerged that it was necessary to present the remuneration component for the initial installation investment amount (connection fee) as a revenue to be deferred over time in line with the useful life of the asset to which it refers, rather than consider the connection fee as a capital contribution that would be recognised as a reduction of assets. This kind of recognition resulted in an increase in assets of 437,046 thousand euro, as of 1 January 2018, and a corresponding increase in other liabilities for the portion of revenues from fees that were deferred based on the technical-economic useful life of the plants they refer to, without generating any impact on equity.

The main impacts deriving from the adoption of IFRS 9 relate to classification and measurement and concern the liability management operations carried out by the Snam Group in 2015 and 2017[51]. In accordance with IAS 39, in force until 31 December 2017, in the event of a change in cash flows deriving from the modification or exchange of financial liabilities not subject to derecognition, the new liability was recognised at the carrying amount of the original liability, net of any further amount paid. Any expenses or income were not recognised through profit or loss at the date of exchange, but over the life of the new financial instrument using the new effective interest rate. In contrast, IFRS 9 requires the amortised cost of the new financial liability to be restated, discounting the new contractual cash flows at the original effective interest rate. The gain or loss deriving from the modification or exchange of a financial liability is recognised through profit or loss. The effects of the application of the new standard resulted in an increase in total equity of 7,879 thousand euro, net of tax.

With regard to impairment, there was an impact from the application of the new Expected Credit Loss model to the Terna Group's trade receivables and bank deposits. The overall effect on equity, net of tax, was 2,079 thousand euro.

[51] The effects do not include the portions of financial liabilities repurchased in 2016 and 2017, as the new provisions of IFRS 9 do not apply to financial instruments that were derecognised at the date of first-time adoption of the new standard (1 January 2018).

Statement of reconciliation of equity

(thousands of euro)	Effects of transition to IFRS 9 and IFRS 15
IAS 39 Equity at 31/12/2017	**14,903,133**
Group	4,068,563
Non-controlling interests	10,834,570
CLASSIFICATION AND MEASUREMENT	**8,102**
Adjustment to carrying value of financial liabilities	10,102
Impacts arising from adotion of IFRS 15	(2,000)
Restatement from valuation reserves to income reserves	-
IMPAIRMENT	**(3,077)**
Application of the new (ECL) impairment model to loans measured at amortised cost:	(1,491)
performing (Stage 1 e 2)	(1,491)
non performing (Stage 3)	-
Application of the new (ECL) impairment model to trade receivables	(1,511)
Application of the new (ECL) impairment model to guarantees given and (irrevocable and revocable) commitments to disbruse fund	(75)
Restatement from valuation reserves to income reserves	-
Tax effect	**(667)**
Effect on the Total Equity of transition of IFRS 9 and IFRS 15 as at 01/01/2018	**4,358**
Attribution to equity pertaining to non-controlling interests of the effect to transition to IFRS 9 and IFRS 15	2,710
Total effect on the Group Equity of transition to IFRS 9 and IFRS 15 as at 01/01/2018	1,648
IFRS 9 and IFRS 15 Equity at 01/01/2018	**14,907,491**
Group	4,070,211
Non-controlling interests	10,837,280

OTHER INFORMATION

On 27 March 2019, the Board of Directors approved the 2018 consolidated financial statements of the CDP Reti Group, authorising their publication and distribution within the timeframe and in accordance with the procedures laid down by current legislation 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 equity investments or those in subsidiaries in the start-up phase without assets and liabilities, whose contribution to the consolidated financial statements is immaterial for the correct representation of the assets, economic and financial situation of the CDP RETI Group.

The figures of the subsidiaries used for line-by-line consolidation are those at 31 December 2018, 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.

Equity investments in subsidiaries

	Name	Operating office	Registered office	Type of relationship (1)	Equity investment: Investor	Equity investment: % holding	% of votes (2)
1	Avvenia the Energy Innovator S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	70.00%	70.00%
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	Asset Company 4 S.r.l.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
4	Baranogas Reti S.r.l.	Turin	Turin	1	Italgas Reti S.r.l.	100.00%	100.00%
5	Cubogas S.r.l.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	Snam 4 Mobility S.p.A.	100.00%	100.00%
6	Difebal S.A.	Montevideo (Uruguay)	Montevideo (Uruguay)	1	Terna S.p.A.	100.00%	100.00%
7	EGN Distribuzione S.r.l.	Turin	Turin	1	European Gas Network - EGN S.r.l.	100.00%	100.00%
8	Enersi Sicilia	Caltanissetta	San Donato Milanese (MI)	1	Snam 4 Mobility S.p.A.	100.00%	100.00%
9	European Gas Network - EGN S.r.l.	Turin	Turin	1	Italgas Reti S.p.A.	60.00%	60.00%
10	Favaragas Reti S.r.l.	Turin	Turin	1	Italgas Reti S.p.A.	100.00%	100.00%
11	Fontenergia S.r.l.	Lanusei (NU)	Lanusei (NU)	1	Medea S.p.A.	100.00%	100.00%
12	Fontenergia 4 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
13	Fontenergia 6 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
14	Fontenergia 7 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
15	Fontenergia 9 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
16	Fontenergia 10 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
17	Fontenergia 11 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
18	Fontenergia 15 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
19	Fontenergia 19 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
20	Fontenergia 26 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
21	Fontenergia 27 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
22	Fontenergia 35 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
23	Fontenergia 37 S.r.l.	Sassari	Sassari	1	Medea S.p.A.	100.00%	100.00%
24	Gasrule Insurance D.A.C.	Dublin (EIRE)	Dublin (EIRE)	1	Snam S.p.A.	100.00%	100.00%
25	GNL Italia S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	Snam S.p.A.	100.00%	100.00%
26	Grecanica Gas S.r.l.	Turin	Turin	1	Italgas Reti S.p.A.	100.00%	100.00%
27	IES Biogas S.r.l.	Pordenone	Pordenone	1	Snam 4 Mobility S.p.A.	70.00%	70.00%
28	Infrastrutture Trasporto Gas S.p.A.	Milan	San Donato Milanese (MI)	1	Asset Company 2 S.r.l.	100.00%	100.00%
29	Ischia Gas S.r.l.	Ischia	Turin	1	European Gas Network - EGN S.r.l.	100.00%	100.00%
30	Ischia Reti Gas S.r.l.	Turin	Turin	1	Italgas Reti S.p.A.	100.00%	100.00%
31	Italgas Reti S.p.A.	Turin	Turin	1	Italgas SpA	100.00%	100.00%
32	Italgas S.p.A.	Milan	Milan	4	CDP Reti S.p.A.	26.04%	26.04%
					Snam S.p.A.	13.50%	13.50%
33	Italgas Acqua S.p.A.	Milan	Caserta	1	Italgas S.p.A.	100.00%	100.00%
34	Marigliano Gas S.r.l.	Nola	Turin	1	European Gas Network - EGN S.r.l.	100.00%	100.00%
35	Medea S.p.A.	Sassari	Sassari	1	Italgas Reti S.p.A.	100.00%	100.00%
36	Monita Interconnector S.r.l.	Rome	Rome	1	Terna S.p.A.	95.00%	95.00%
					Terna Rete Italia S.p.A.	5.00%	5.00%
37	Natuergas S.r.l.	Nola	Turin	1	Italgas Reti S.p.A.	100.00%	100.00%
38	Progas Metano S.r.l.	Turin	Turin	1	Italgas Reti S.p.A.	100.00%	100.00%
39	Resia Interconnector S.r.l.	Rome	Rome	1	Terna S.p.A.	100.00%	100.00%
40	Rete S.r.l.	Rome	Rome	1	Terna S.p.A.	100.00%	100.00%
41	Rete Verde 17 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100.00%	100.00%
42	Rete Verde 18 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100.00%	100.00%
43	Rete Verde 19 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100.00%	100.00%
44	Rete Verde 20 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100.00%	100.00%
45	Seaside S.r.l.	Bologna	Bologna	1	Italgas S.p.A.	100.00%	100.00%
46	Siculianagas Reti S.r.l.	Turin	Turin	1	Italgas Reti S.p.A.	100.00%	100.00%
47	Snam 4 Mobility S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	Snam S.p.A.	100.00%	100.00%
	Snam International B.V.	Rotterdam (NL)	Rotterdam (NL)	1	Snam S.p.A.	100.00%	100.00%
49	SNAM RETE GAS S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
50	SNAM S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	4	CDP RETI S.p.A.	30.37%	30.37%
51	SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro (BR)	Rio de Janeiro (BR)	1	Terna Plus S.r.l.	99.99%	99.99%
					Terna Chile S.p.A.	0.01%	0.01%
52	SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro (BR)	Rio de Janeiro (BR)	1	Terna Plus S.r.l.	99.99%	99.99%

	Name	Operating office	Registered office	Type of relationship (1)	Equity investment Investor	% holding	% of votes (2)
52	SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro (BR)	Rio de Janeiro (BR)	1	Terna Plus S.r.l.	99.99%	99.99%
					Terna Chile S.p.A.	0.01%	0.01%
53	Stogit S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	Snam S.p.A.	100.00%	100.00%
54	Tamini Trasformatori India Private Limites (già Tes Transformer Electro Service Asia Private Limited	Magarpatta City (India)	Magarpatta City (India)	1	Tamini Trasformatori S.r.l.	100.00%	100.00%
55	Tamini Transformers USA L.L.C.	Chicago (USA)	Chicago (USA)	1	Tamini Trasformatori S.r.l.	100.00%	100.00%
56	Tamini Trasformatori S.r.l.	Legnano (MI)	Legnano (MI)	1	Terna Energy Solutions S.r.l.	70.00%	70.00%
57	Tep Energy Solution S.r.l.	Rome	Rome	1	Asset Company 4 S.r.l.	82.00%	82.00%
58	Terna Chile S.p.A.	Santiago del Cile (RCH)	Santiago del Cile (RCH)	1	Terna Plus S.r.l.	100.00%	100.00%
59	Terna Crna Gora d.o.o.	Podgorica (Montenegro)	Podgorica (Montenegro)	1	Terna S.p.A.	100.00%	100.00%
60	Terna Energy Solutions S.r.l.	Rome	Rome	1	Terna S.p.A.	100.00%	100.00%
61	Terna Interconnector S.r.l.	Rome	Rome		Terna S.p.A.	65.00%	65.00%
					TERNA RETE ITALIA S.p.A.	5.00%	5.00%
62	Terna Peru S.A.C.	Lima (PE)	Lima (PE)	1	Terna Plus S.r.l.	99.99%	99.99%
					Terna Chile S.p.A.	0.01%	0.01%
63	TERNA PLUS S.r.l.	Rome	Rome	1	Terna S.p.A.	100.00%	100.00%
64	TERNA RETE ITALIA S.p.A.	Rome	Rome	1	Terna S.p.A.	100.00%	100.00%
65	Terna S.p.A.	Rome	Rome	4	CDP RETI S.p.A.	29.85%	29.85%

Key

(1) Type of relationship:

1 = Majority of voting rights in ordinary shareholders' meeting

2 = Dominant influence in ordinary shareholders' meeting

3 = Agreements with other shareholders

4 = Other form of control

5 = Unitary management pursuant to Article 26.1of Legislative Decree 87/92

6 = Unitary management pursuant to Article 26.2 of Legislative Decree 87/92

(2) Actual percentage of votes in ordinary shareholders' meeting, distinguishing between effective and potential votes

The changes which occurred in the area of consolidation compared with those in effect at 31 December 2017 are attributable to the following:

- with reference to the TERNA group:
  - as part of the project to identify and implement new business opportunities for energy efficiency services and interventions, the acquisition of 70% of Avvenia The Energy Innovator S.r.l was signed on 15 February 2018;
  - on 16 July 2018 Resia Interconnector S.r.l. was established, for the construction of the private Italy-Austria Interconnection, for which the authorisation process for the Passo Resia - Glorenza cable section should be completed in 2019.
  - on 2 August 2018 the partial demerger of Terna Plus S.r.l. became effective (100% subsidiary of the parent company Terna S.p.A.) in favour of a newly established company named Terna Energy Solutions S.r.l.. The scope of the demerged operations is focused on the Unregulated business and the energy solutions activities already carried on by Terna Plus. Following the demerger, the businesses carried on in South America report to the latter. With the demerger operation, the investments in the companies that carry on an unregulated business in Italy were also transferred to the company TES: Tamini Trasformatori S.r.l., Rete Verde 17 S.r.l., Rete Verde 18 S.r.l., Rete Verde 19 S.r.l., Rete Verde 20 S.r.l. and Avvenia The Energy Innovator S.r.l. (acquired on 15 February 2018).
- with reference to the SNAM group:
  - Snam International B.V. (Gasbridge 2 B.V until 31 July 2018): as a result of the share swap operation between the joint owners Fluxys and Snam, executed on 26 April 2018, the latter became the sole shareholder; therefore, Gasbridge 2 BV, previously measured at equity, is included in the area of consolidation;
  - Asset Company 4 S.r.l. was established and included in the scope of consolidation;
  - Tep Energy Solution S.r.l. (hereinafter also TEP), active in the energy efficiency sector as an Energy Service Company (ESCO), is 82% owned by Asset Company 4 S.r.l. and became part of the scope of consolidation;
  - IES Biogas, active in the design, construction and management of biogas and biomethane production plants, is 70% owned by Snam 4 Mobility S.p.A. and entered the scope of consolidation as of 5 July 2018;
  - As a result of the acquisition on 25 July 2018 by MTM, a Westport System Inc. group company, of the company operations dedicated to technological solutions for automotive natural gas filling stations, Cubogas S.r.l., a newly established company, is 100% owned by Snam 4 Mobility S.p.A.;
  - Enersi Sicilia S.r.l., a company authorised to develop infrastructure for the production of biomethane from organic fraction of municipal waste (FORSU) in the province of Caltanissetta, is 100% owned by Snam 4 Mobility S.p.A. as of 29 November 2018.
- with reference to the ITALGAS group:
  - ACAM GAS S.p.A., Enerco Distribuzione S.p.A. and S.G.S. S.r.l. were merged by incorporation into Italgas Reti S.p.A., with accounting effect from 1 January 2018;

- incorporation of Italgas Acqua S.p.A. (100% Italgas S.p.A.), on 1 January 2018, as a result of the partial, proportional de-merger of Italgas Reti into a newly incorporated company, by contributing the so-called "former Napoletanagas water business unit" to the latter;
- acquisition, on 28 February 2048, of 100% of the share capital of Ichnusa Gas S.p.A., a holding company which controlled 12 businesses, each of which holds a concession for the construction, running of LPG distribution and sales networks in Sardinia;
- acquisition, on 13 March 2018, of 100% of the share capital of Seaside S.r.l., a company operating in the energy efficiency sector;
- acquisition, on 6 April 2018, of 100% of the share capital of Medea S.p.A., a company operating in the distribution and sale of LPG headquartered in Sassari;
- acquisition, on 31 May 2018, of 98% and, on 27 November 2018, of the remaining 2% of the share capital of Favaragas reti S.r.l., Siculianagas Reti S.r.l., Baranogas Reti S.r.l., Ischia reti Gas S.r.l., Progas Metano S.r.l. and Grecanica Gas S.r.l., companies that hold a total of 7 concessions for the construction and management of the gas network in 16 municipalities in southern Italy.
- acquisition, on 30 November 2018 of: (a) the controlling share, equal to 60%, of EGN (European Gas Network) S.r.l. which controls 100% of the share capital of the companies EGN Distribuzione S.r.l., Ischia Gas S.r.l. and Marigliano Gas S.r.l., which together hold 37 active gas distribution concessions in Sicily, Calabria and Campania; (b) the entire share capital of Fontenergia S.r.l., a company holding a concession for the distribution and sale of LPG in Basin 22 in the Sardinia region; (c) the entire share capital of Naturgas S.r.l., a company holding a gas distribution concession in San Giuseppe Vesuviano (NA).
- Ichnusa Gas S.p.A. was merged by incorporation into Medea S.p.A. with accounting and tax effect from 1 January 2018.
- completion of the acquisition of the business units of Amalfitana Gas and AEnergia Reti relating respectively to the activities of natural gas distribution in three ATEMs in Campania and Basilicata and to the distribution network serving the Municipality of Portopalo di Capo Passero (Syracuse).

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 statements of financial position 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 into 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 on which control is acquired. Revenues and costs of a divested subsidiary sold are included into 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 carrying value of its net assets at the same date is recorded in the income statement.

Non-controlling interests are presented in the statement of financial position under the item "Non-controlling interests", separately from liabilities and equity attributable to the Group. In the income statement, non-controlling interests are also presented separately under the item "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 the item "Other non-current liabilities" if negative, net of any goodwill in the statements of financial position of the investees. In accordance with IFRS 3, paragraphs 45 et seq., the difference resulting from the transaction is allocated within twelve months of the acquisition date. If positive, the difference is recognised – after any allocation to the assets and liabilities of the subsidiary – as goodwill or other intangible assets under intangible assets. If negative, it is recognised through profit or loss.

The acquisition method is applied as 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 of the income statement.

If there is evidence of impairment, the recoverable amount of the equity investment is estimated, equal to the greater of the fair value and value in use (present value of the future cash flows which may be generated by the equity 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) approved figures of 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 results of the Parent Company CDP RETI and the companies controlled directly or indirectly by it. The scope of consolidation is defined with reference to the provisions laid down by 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 fifty per cent of voting rights of an entity, unless it can be demonstrated – in exceptional cases – that such ownership does not constitute control;
- ownership of fifty per cent 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 voting rights by virtue of an agreement with other investors;
  - power to determine the financial and operational policies of the entity by virtue of a clause of the Articles of Association or an agreement;
  - 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;

  - power to exercise the majority of 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 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 at equity.

Associate companies

An associate is a company over which the owner exercises a significant influence and which is neither a subsidiary nor a joint venture. 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 associates are measured at equity.

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) Company name	Registered office	% of non-controlling interests	Availability of votes of non-controlling votes [1]	Dividends paid to non-controlling interests
1. Italgas S.p.A.	Milan	69.65%	69.65%	30,528
2. SNAM S.p.A.	San Donato Milanese (MI)	68.08%	68.08%	157,669
3. Terna S.p.A.	Rome	70.15%	70.15%	94,464

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

Equity investments with significant non-controlling interest: accounting data

(thousands of euro) Company name	Non-current assets	Non-current assets held for sale	Current assets	Non-current liabilities	Current liabilities	Equity	Revenues	Net income (loss)	Comprehensive income
1. Italgas S.p.A.	6,167,248	11,583	747,612	4,708,653	888,543	1,329,247	1,641,296	313,595	311,273
2. SNAM S.p.A.	19,617,647		3,372,046	11,493,667	5,510,323	5,985,703	2,585,788	960,010	941,477
3. Terna S.p.A.	14,196,705		3,043,606	9,081,215	4,104,935	4,054,161	2,319,068	711,618	674,946

I.1.4. EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reference date of these consolidated financial statements and its approval by the Board of Directors, it should be noted that the Terna group launched a green euro bond issue, at a fixed rate, in the form of a private placement for a total of 250 million euro, as a reopening of the bond issue carried out on July 23, 2018. The bonds are part of the Euro Medium Term Notes Program (EMTN) for 8,000,000,000 euro, which was rated "BBB+" by Standard and Poor's, "(P)Baa2" by Moody's and "BBB+" by Fitch. The securities, which mature on 23 July 2023, will pay a coupon of 1.000%, will be issued at a price of 99.787%, with a spread of 90 basis points over the midswap and with a yield of 1.05%, slightly lower than that of the July 2018 issue. The net proceeds of the issue will be used to finance the Company's eligible green projects.

SIGNIFICANT EVENTS AFTER 31 DECEMBER 2018

For an analysis of the significant events occurring after the reporting date, refer to the relevant paragraph in the report on operations.

I.1.5. OTHER ISSUES

Use of estimates

The application of International Financial Reporting Standards in preparing the consolidated financial statements requires accounting estimates based on complex and/or subjective judgements, which are considered reasonable and realistic on the basis of past experience and 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 reference period. 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 estimates made in the consolidated financial statements of the CDP RETI Group are mainly attributable to the following:

- recoverable value of property, plant and equipment, intangible assets and goodwill: the assets recognised are periodically analysed to identify signs of impairment. As a result of events or changes in circumstances, the value of the assets recognised in the financial statements may be considered no longer recoverable. 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 expected future cash flows generated by 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 to which the said asset belongs;
- 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. An impairment test is performed when the aforementioned evidence exists, aimed at estimating the recoverable amount of the equity investments and comparing it with their carrying value, to determine the recognition of any 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 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 income statement, depending on the case;
- quantification of provisions for risks and charges: the estimate of provisions for risk and charges is the result of complex assessments and subjective judgements by the management. 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

In the absence of specific indications provided by the IFRS and in accordance with the assumptions of IAS 8, which requires that, in the absence of a specific standard, the company must use its judgement in applying an accounting standard that provides relevant, reliable and prudent information that reflects the economic substance of the transaction, intercompany transactions are recognised in continuity with the amounts of the purchased company in the financial statements of the purchaser.

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 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.

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 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	10.0%	33.3%
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%	4.0%
Compression stations	5.0%	5.0%
Storage wells	2.0%	2.0%
Regasification	4.0%	4.0%
Industrial and commercial equipment	10.0%	35.0%
Other assets	5.0%	25.0%
Other plant and equipment	2.0%	33.0%

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. 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.

In this case, taking into account the characteristics of the investment portfolio, as well as the role of long-term investor, indicators of impairment/objective evidence of impairment are considered:

- the achievement of negative economic results or, in any case, a significant deviation from budget objectives (or those set out in long-term plans), if, following specific analyses, they are significant for their effects on the estimate of future cash flows expected in the possible preparation of the impairment test;
- significant financial difficulties of the investee company;
- likelihood that the investee company will file for bankruptcy or be subject to other financial restructuring procedures;
- a carrying amount of the investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the net assets of the investment (including any goodwill);
- the distribution of a dividend greater than the profit for the period and the existing profit reserves;
- the distribution of a dividend by the investee company higher than the profit in the comprehensive income statement (or comprehensive income for financial companies[52]) in the year in which it is declared.

With reference to listed equity investments, they are also considered indicators of impairment:

- a reduction in the market price compared to the reference book value of more than 40% or for a period of more than 24 months;
- downgrade of the rating by at least four notches from the time when the investment in the shareholding was made, if considered relevant together with other available information.
- verification of the existence of a market quotation at least 40% lower than the book value of the shareholding in the consolidated financial statements.

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 attribution of the full amount of the variable consideration to the obligation to do or to the separate good or service is in accordance with the objective of allocating the price, taking into account all the obligations to do and the payment terms set out in the contract [IFRS 15, paragraph 85].

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. financial assets measured at fair value through profit and loss (FVTPL);
2. financial assets measured at fair value through other comprehensive income (FVOCI);
3. financial assets measured at amortised cost;
4. hedging derivatives.

[52] The indicator expects to consider the distribution of a dividend higher than the result of the comprehensive income statement (or comprehensive income for financial companies) of the year in which the dividend is declared (for example, dividends declared in 2017, representing the distribution of the net profit of the year 2016, higher than the total comprehensive income of the year 2017). For the purposes of the impairment test for the reference date of the half-yearly financial statements, in the absence of homogeneous comparative data, the verification of this indicator is carried out with reference to the data relating to the previous year

1. Financial assets measured at fair value through profit and loss (FVTPL)

The following are recognised:

a) financial assets held for trading (debt instruments, equity securities, loans, units of UCIs and derivatives) [53];

b) assets designated at fair value (debt instruments and loans) with the measurements recognised in profit and loss based on the right granted to companies by IFRS 9 (so-called fair value option), which allows a financial asset to be irrevocably designated as measured at fair value through profit and loss if, and only if, by doing so a measurement inconsistency is eliminated;

c) the other financial assets measured necessarily at fair value (debt instruments, equity securities, units of UCIs and loans), i.e. those assets other than those designated at fair value through profit and loss, which do not meet the requirements for classification at amortised cost, at fair value through other comprehensive income or which do not have a trading purpose. These are essentially represented by those financial assets whose contractual terms envisage periodic flows that are not only represented by principal repayments and interest payments on the capital to be reimbursed (thus characterised by their failure to pass the SPPI test), or those assets that do not meet the business model terms of the portfolio at amortised cost or at fair value through other comprehensive income.

Derivatives are classified under the item financial assets held for trading if their fair value is positive. Otherwise, they are recognised under the item financial liabilities held for trading. Furthermore, the item also includes the derivative contracts embedded in complex financial contracts, whose main contract is represented by a financial liability, which were subject to separate recognition since:

- the financial characteristics and risks are not strictly related to the characteristics of the underlying contract;
- the embedded instruments, even if separate, meet the definition of derivative;
- the hybrid instruments to which they belong are not measured at fair value with the related changes recognised in the income statement.

The initial recognition of the financial assets measured at fair value through profit and loss take place at the contract date for derivative contracts, at the settlement date for debt instruments, equity securities, units of UCIs, and at the disbursement date for loans. An exception is made for securities whose delivery is governed by conventions on the reference market, for which initial recognition is at the signing date.

Upon the initial recognition, the financial assets measured at fair value through profit and loss are recognised at fair value, which generally equals the transaction price, without considering income and expenses of the transaction, which are immediately accounted for in the income statement.

The measurement following the initial recognition is made at fair value with the measurement effects recognised in the financial income and expenses of the income statement. The fair value is determined on the basis of the official prices at the end of the reporting period for the financial instruments quoted on active markets. For financial instruments, including equity securities, not quoted 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 active markets, discounted cash flows, option pricing models and values registered in recent similar transactions. For the equity securities and the related derivative instruments not quoted on an active market, the cost criterion is used as an estimate of the fair value only to a residual extent and limited to a few circumstances, i.e. in case of not applying all the measurement methods previously stated, i.e. in the presence of a broad range of possible measurements of the fair value, in which the cost represents the most significant estimate.

If the fair value of a financial asset becomes negative, it is recognised under the item “Financial liabilities held for trading” in the balance sheet.

[53] A financial asset is classified as held for trading if:

- It is mainly purchased with the intention of being sold in the short term;
- It is part of a portfolio of financial instruments that are managed together and for which there is a strategy aiming at short-term profit-taking;
- It is derivative not designated as part of accounting hedging transactions, including the derivatives with positive fair value incorporated in financial liabilities other than those measured at fair value with recognition of the income effects in the income statement.

Reclassifications to other categories of financial assets are not permitted, unless, for the financial assets held for trading, the business model is changed. In this case, all the financial assets concerned will be reclassified, according to the rules under IFRS 9.

Financial assets measured at fair value through profit and loss 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.

In the case where it is not possible to check the substantial transfer of risks and rewards, the financial assets are derecognised if no type of control is maintained on the same assets. Otherwise, the retention, also only partial, of this control means that the assets are maintained in the financial statements to an extent that is equal to the residual involvement.

The transferred financial assets are derecognised from the financial statements also in case of retention of the contractual rights to receive the related cash flows, in the presence of a concurrent assumption of an obligation to transfer the above-mentioned flows, and only said flows, without significant delay to other third party subjects.

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

This item includes all the financial assets (debt instruments, equity securities and loans) classified in the portfolio at fair value through other comprehensive income.

Specifically, this portfolio contains the debt instruments and loans that meet both of the conditions below:

- the financial asset is managed as part of a Business Model whose objective is obtained via both the collection of contractual cash flows and the sale of financial assets;
- the contractual terms of the financial asset require, at certain dates, cash flows only represented by capital payments and the interest on the amount of the capital to be reimbursed.

In addition, subject to recognition under this item are the capital instruments that are not held for trading and do not represent a potential fee recognised by a buyer in a business combination to which IFRS 3 is applied, for which the option granted by the standard was irrevocably exercised, to classify in the valuation reserve the subsequent changes in fair value of the instrument, through other comprehensive income (FVTOCI option[54]).

The initial recognition of the item in question takes place at the settlement date for the debt instruments, equity securities, or at the disbursement date in the case of loans.

The initial recognition value of the financial assets measured at fair value through other comprehensive income takes place at fair value, which generally equals the transaction price, including any incidental revenues and costs attributable to the transaction. In the cases where this price is different from the fair value at the time of the initial recognition, accounting for the instrument takes place as follows:

- if the estimate of the fair value only uses data observable on the market, then the difference is recognised in the income statement;
- in all the other cases, the difference is deferred as an adjustment of the carrying amount of the financial instrument.

The subsequent measurement upon initial recognition, for the financial instruments quoted on active markets, is made at the fair value determined on the basis of the official prices at the end of the reporting period. For financial instruments, including equity securities, not quoted on active markets, fair value is determined by using measurement techniques and information available on the market, such as the prices of similar instruments on an active market, discounted cash flows and values registered in recent similar transactions. For the equity securities not quoted on an active market, the cost criteria is used as estimate of the fair value only to a residual extent and limited to a few circumstances, i.e. in case of not applying all the measurement methods previously stated, i.e. in the presence of a broad range of possible measurements of the fair value, in which the cost represents the most significant estimate.

[54] Fair Value Through Other comprehensive Income option

The profits and losses deriving from the fair value changes of debt instruments and loans, except for profits/losses for impairment and profits/losses on exchange rates[55], are recognised in the statement of comprehensive income and exposed in the valuation reserves, of equity, until the moment the financial asset is derecognised.

If the financial assets in question are derecognised, the cumulative gains or losses, previously recognised in the other comprehensive income components, are reclassified from equity to profit/loss for the year.

The interest on debt securities and receivables is recorded in the income statement according to the amortised cost criterion based on the effective interest rate, i.e. the rate that exactly discounts the future collections estimated along the expected life of the financial instrument at the net carrying amount of the financial asset.

These instruments are also subject to the check of a significant increase in the credit risk (impairment) required by IFRS 9, with consequent recognition in the income statement of a value adjustment to cover the expected losses. Specifically, an expected loss relating to the 12 months after the reporting date is recognised on the instruments classified in stage 1 (i.e. the financial assets at the time of the origination, where not impaired, and the instruments for which no significant increase has occurred in the credit risk compared to the initial recognition), at the date of the initial recognition and at each subsequent reporting date. For the instruments classified in stage 2 (performing financial assets for which a significant increase in the credit risk has occurred compared to the initial recognition) and in stage 3 (non-performing exposures), an expected loss is recognised instead for the residual lifetime of the financial instrument.

Exercising the fair value through OCI option for the capital instruments implies a different recognition instead, compared to the debt securities, since:

- the amounts recognised in the valuation reserve are never reclassified in the income statement, not even at the time of the accounting derecognition;
- all the exchange rate differences are recognised in the net equity reserve and are thus recognised in comprehensive income
- the impairment requirements of IFRS 9 are not applicable to capital instruments.

Only dividends are recognised through profit or loss.

Reclassifications to other categories of financial assets are not permitted, unless the business model is changed. In this case, all the financial assets concerned will be reclassified, according to the rules under IFRS 9.

Financial assets measured at fair value are derecognised through other comprehensive income at the time of collection or 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.

In the case where it is not possible to check the substantial transfer of risks and benefits, the financial assets are derecognised if no type of control is maintained on the same assets. Otherwise, the retention, also only partial, of this control means that the assets are maintained in the financial statements to an extent that is equal to the residual involvement.

The transferred financial assets are derecognised from the financial statements also in case of retention of the contractual rights to receive the related cash flows, in the presence of a concurrent assumption of an obligation to transfer the above-mentioned flows, and only said flows, without significant delay to other third party subjects.

3. Financial assets measured at amortised cost

This item contains the debt instruments and loans that meet both of the conditions below:

- the financial asset is held as part of a business model whose objective is the collection of contractual cash flows;
- the contractual terms of the financial asset require, at certain dates, cash flows only represented by capital payments and the interest on the amount of the capital to be reimbursed.

Specifically, recognised in this item are the receivables from banks, or other subjects, deriving from loans, finance leases, factoring transactions, debt securities, etc..

[55] Profits and losses deriving from the fair value changes and profits/losses on exchange rates are are recognised in profit/loss for the year.

This item also includes (in the financial statements of the lessor) the financial leases regarding assets being constructed and those waiting to be leased in case of contracts “with transfer of the risks”.

The initial recognition of “Financial assets measured at amortised cost” takes place at the settlement date for the debt instruments, or at the disbursement date for loans.

Initial recognition is at fair value, which is normally equal to the price of the transaction, including any incidental revenues and costs attributable to the transaction.

After the initial recognition, these assets are measured at amortised cost, equal to the value at which the financial asset is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between this initial amount and the maturity amount, adjusted by any loss allowance. The effective interest rate is the rate that discounts the estimated future payment flows for the expected duration of the financial asset, 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.

In some cases, the financial asset is considered non-performing at initial recognition because the credit risk is very high and, in case of purchase, it is significantly discounted. In this case, for the non-performing financial assets acquired or originated at initial recognition, an effective interest rate is calculated, credit-risk adjusted, including the expected losses on initial receivables in the estimates of financial flows.

The amortised cost method is not used for loans whose short-term duration means that discounting is considered to have a negligible effect. This measurement rule is also used for loans without a specific expiration date or demand loans.

Assets measured at amortised cost, including cash and cash equivalents, are used to calculate a loss allowance according to IFRS 9, and the amount of these losses is recognised through profit or loss under financial charges. Specifically, an expected one-year loss is recognised on the instruments classified in stage 1 (i.e. the financial assets at the time of the origination, where not impaired, and the instruments for which no significant increase has occurred in the credit risk compared to the initial recognition), at the date of the initial recognition and at each subsequent reporting date. For the instruments classified in stage 2 (performing financial assets for which a significant increase in the credit risk has occurred compared to the initial recognition) and in stage 3 (non-performing exposures), an expected loss is recognised instead for the residual lifetime of the financial instrument.

For performing financial assets (stage 1 and 2), the value adjustments are calculated on the basis of the risk parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, in addition to a significant rise in the credit risk, objective evidence of impairment is found (stage 3), the amount of the loss measured as the difference between the contractual financial flows provided for by the contract and all of the financial flows expected to be received, discounted at the original effective interest rate.

The amount of the loss to be recognised through profit or loss is defined on the basis of an analytical measurement process or by consistent categories, thus attributed analytically to each position, and takes into account forward looking information and the possible alternative recovery scenarios.

Included in non-performing assets are the financial instruments to which the status of non-performing, likely default or past due/overdue for more than ninety days is attributed, according to the Bank of Italy rules, in line with IFRS standards.

Expected cash flows take into account the expected recovery time and the expected realisable value of any guarantees.

If the reasons for the impairment are removed following an event taking place after the initial recognition, write-backs recognised in the income statement are recorded.

Assets measured at amortised cost 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.

In the case where it is not possible to check the substantial transfer of risks and benefits, the financial assets are derecognised if no type of control is maintained on the same assets. Otherwise, the retention, also only partial, of this control means that the assets are maintained in the financial statements to an extent that is equal to the residual involvement.

The transferred financial assets are derecognised from the financial statements also in case of retention of the contractual rights to receive the related cash flows, in the presence of a concurrent assumption of an obligation to transfer the above-mentioned flows, and only said flows, without significant delay to other third party subjects.

During the life of the financial assets, specifically for the financial assets measured at amortised cost, it is also possible for these to be subject to renegotiation of the contractual terms. In this case it must be checked whether the contractual amendments made determine the derecognition of the original instrument and the recognition of the new financial instrument.

To define the amendments that determine the derecognition of the original contract and the recognition of a new contract it is necessary to run a case-by-case analysis, at times introducing significant elements of judgement.

In general, the changes to a financial asset lead to its derecognition and the recognition of a new asset when these are substantial in nature. However, in the absence of timely reference indications in the IFRS accounting standard, a list of the main changes that lead to a substantial amendment to the existing contractual terms has been identified, introducing a different nature of the risks and consequently implying the derecognition.

These are listed below:

- change to the counterparty;
- change to the reference currency;
- replacement of payable to equity;
- datio in solutum, whose repayment depends on the fair value of an asset;
- other cases of substantial change to the nature of the contract such as, for example, the introduction of contractual clauses that expose the debtor to new risk components;
- amendments granted to performing customers, which show no economic-financial difficulties (so-called "forborne" exposures are thus not included in this case), which envisage the use of market parameters to redetermine the financial conditions of the loan agreement, with the aim of retaining the customer.

In case of changes that are not considered to be significant, the gross value is redetermined by calculating the current value of the financial flows resulting from the renegotiation, at the original rate of the exposure.

The difference between the gross value of the financial instrument before and after the renegotiation of the contractual conditions, adjusted to consider the associated amendments to the cumulative value adjustments, is recognised in the income statement as profit or loss from contractual amendments without derecognition.

4. 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

Hedging transactions are executed to neutralise contingent losses that are attributable to a specific risk and which can be found in a specific element or group of elements, should that particular risk effectively materialise.

As permitted by paragraph 7.2.21 of IFRS 9, the Parent Company CDP has decided to apply the provisions on hedging from IAS 39 rather than those from Chapter 6 of IFRS 9, to be used for its separate financial statements, the consolidated financial statements of the CDP Group, as well as for their interim financial reporting.

In accordance with IAS 39, hedging instruments are derivatives or (limited to the hedging of foreign currency risk) non-derivative financial assets or liabilities whose fair value or cash flows are expected to offset the changes in fair value or cash flows of a designated hedged position (IAS 39, paragraphs 72-77 and Annex A, paragraph AG94). A hedged item is an asset, liability, firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation that:

1. exposes the company to the risk of a change in fair value or future cash flows;
2. is designated as being hedged (IAS 39, paragraphs 78-84 and Annex A, paragraphs AG98-AG101).

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 (IAS 39, Annex A, paragraphs AG105 - AG113).

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 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%.

At each annual or interim reporting date, the effectiveness is assessed through specific prospective and retrospective tests capable, respectively, of demonstrating the expected effectiveness and the level of effectiveness achieved.

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

Hedging derivatives are initially recognised at their fair value on the contract date. In particular:

- for fair value hedges, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offsetting is accounted for by recognising the changes in value through profit or loss, in the item “Fair value adjustments in hedge accounting”, relating both to the hedged item (for the changes generated by the underlying risk factor) and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently represents the net profit or loss effect. The recognition through profit or loss of the change in fair value of the hedged item, attributable to the risk hedged, is also applied if the hedged item is a financial asset measured at fair value through other comprehensive income; if there were no hedging, this change would be recognised in equity;
- for cash flow hedges, the changes in fair value of the derivative are recognised, net of the tax effect, in a specific “Valuation reserve” of equity, for the effective portion of the hedge, and are only recognised through profit or loss when there is a change in the cash flows to be offset for the hedged item. The amount of the gain or loss of the hedging instrument considered ineffective is recognised through profit or loss, in the item “Fair value adjustments in hedge accounting”. This amount is equal to any excess of the accumulated fair value of the hedging instrument with respect to the related fair value of the instrument hedged; in any event, the fluctuation of the hedged item and the related hedge must be kept within the range of 80%-125%;
- hedges of a net investment in a foreign operation are accounted for in the same way as cash flow hedges.

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, in the item “Fair value adjustments in hedge accounting”.

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 in the “Valuation reserves” of equity is immediately recycled through profit or loss. Conversely, if the hedging instrument is transferred or no longer qualifies as an effective hedge, the portion of the item “Valuation 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.

For macro hedges, IAS 39 allows the object of a fair value hedge against interest rate risk to be not only an individual financial asset or liability, but also a monetary amount, containing multiple financial assets and liabilities (or their portions), so that a set of derivatives may be used to reduce the fair value fluctuations of the hedged items in response to changes in market interest rates. Net amounts resulting from the mismatch of assets and liabilities cannot be designated as subject to macro hedging. In the same way as for micro fair value hedges, a macro hedge is deemed to be highly effective if, both at inception and throughout its life, the changes in fair value of the monetary amount hedged are offset by changes in the fair value of the hedge derivatives and if the actual results are within a range of 80% to 125%. The positive or negative amount of the fair value changes, respectively, of the assets or liabilities subject of fair value macro hedges measured with reference to the risk hedged is recognised in the income statement.

The ineffectiveness of the hedge consists of the difference between the change in fair value of the hedging instruments and the change in fair value of the monetary amount hedged. The ineffective portion of the hedge is in any case included under “Fair value adjustments in hedge accounting” in the income statement.

If the hedging relationship ends, for reasons other than the sale of the hedged items, the accumulated write-back/write-down recognised in the consolidated balance sheet financial assets or in the consolidated balance sheet financial liabilities is recognised through profit or loss under interest income or expense, over the remaining lifetime of the hedged financial asset or liability.

If these assets and liabilities are sold or redeemed, the amount of fair value not amortised is recognised immediately in “Gains (Losses) on disposal/repurchase” in the income statement.

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 by applying the simplified approach under IFRS 9, based on which trade receivables, separated into specific clusters according to the regulatory framework, are applied an impairment model based on the losses expected for the collective valuation. For the trade receivables deemed individually significant and with reference to which accurate information is available on the considerable increase in the credit risk, in the context of the simplified model, an analytical approach was applied. The impairment losses connected to the impairment of trade receivables (and the related write-backs) are recognised through profit and loss in the item “Write-downs (write-backs) net of trade receivables and other receivables”.

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 recognized at their nominal amount.

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

The recognition of revenues takes place in a way to fairly represent the process of transferring goods and services to customers for an amount that reflects the price that is expected to be obtained in exchange for the goods and services provided, using a model consisting of 5 fundamental phases:

- phase 1: identify the contract with the customer;
- phase 2: identify the contractual obligations, recording goods or services separately as separate obligations;
- phase 3: set the transaction price, i.e. the amount of the price that is expected to be obtained;
- phase 4: allocate the transaction price to each obligation identified in the contract based on the sale price in its own right of each goods or service separately;

- phase 5: recognise the revenue when (or if) each contractual obligation is met via the transfer to the customer of the goods or service, i.e. when the customer obtains the control of the goods or service.

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.

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;
- income and expenses associated with trading activities;
- the net income of financial assets and liabilities at FVTPL;
- the write-downs and write-backs for credit risk relating to financial assets at amortised cost or at FVTOCI;
- 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 for obtainment of 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 for operating expenses can be recognised through profit or loss on an accruals basis when the related costs are incurred or, alternatively, in full when the conditions for their recognition have been met.

With particular reference to connection fees for private users, the remuneration component for the initial installation investment amount is recognised as a revenue to be deferred over the useful life of the asset to which it refers, with a balancing entry under other liabilities.

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 34,735 million euro at 31 December 2018 (34,316 euro million at 31 December 2017).

Property, plant and equipment: breakdown

(thousands of euro)	31/12/2018			31/12/2017		
Items/Figures	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Land	386,576	(1,196)	385,380	373,136	(1,011)	372,125
Buildings	2,929,150	(986,102)	1,943,048	2,806,252	(926,239)	1,880,013
Plant and equipment	47,175,928	(18,580,869)	28,595,059	45,699,543	(17,519,229)	28,180,314
Other plant and equipments	1,989,457	(936,004)	1,053,453	1,856,406	(833,101)	1,023,305
Industrial and commercial equipment	337,967	(239,814)	98,153	358,593	(253,024)	105,569
Other assets	86,095	(58,795)	27,300	92,945	(63,695)	29,250
Assets under development and advances	2,671,610	(39,290)	2,632,320	2,758,042	(33,025)	2,725,017
Total	**55,576,783**	**(20,842,070)**	**34,734,713**	**53,944,917**	**(19,629,324)**	**34,315,593**

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 805 million euro, mainly in the transport (702 million euro) and storage (90 million euro) sectors.

As regards the TERNA Group, investments during the period amounted to 1,035 million euro, of which 952 million euro were for the Group's regulated segment; in the non-regulated segment, there were investments amounting to 83 million euro, mainly related to the creation of the "Italy-France" private interconnection line and for other financial projects.

During the period, investments of the ITALGAS group amounted to 15 million euro and mainly refer to equipment and assets under construction.

The changes to property, plant and equipment that took place during 2018 are detailed below:

Property, plant and equipment: changes for the year

(thousands of euro) Items/Figures	Land	Buildings	Plant and equipments	Other plant and equipments	Industrial and commercial equipment	Other assets	Assets under development and advances	Total
Gross opening 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 - opening balance	(1,011)	(926,239)	(17,519,229)	(833,101)	(253,024)	(63,695)	(33,025)	(19,629,324)
Net opening balance	**372,125**	**1,880,013**	**28,180,314**	**1,023,305**	**105,569**	**29,250**	**2,725,017**	**34,315,593**
Gross amount: change for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Change in opening balances	-	-	-	-	-	-	-	-
Investments	3,050	1,565	6,893	10,276	12,854	4,612	1,815,502	1,854,752
Contributions from business combinations	142	1,390	130	1,093	267	1,098	-	4,120
Transfers	11,262	125,009	1,597,395	71,773	9,539	7,053	(1,824,400)	(2,369)
Disposals	(1,041)	(3,842)	(16,122)	(2,520)	(9,384)	(292)	(4,022)	(37,223)
(Writedowns)/Writebacks	-	-	-	-	-	-	-	-
Other changes	132	10,837	(111,911)	52,429	2,702	(19,321)	(73,512)	(138,644)
Reclassifications	(105)	(12,061)	-	-	(36,604)	-	-	(48,770)
Provision for amoirtsation, depreciation and impairment: change for the period								
Change in opening balances	-	-	-	-	-	-	-	-
Depreciation for the period	-	(69,358)	(1,116,112)	(91,477)	(23,143)	(1,656)	-	(1,301,746)
Contributions from business combinations	-	-	-	-	-	-	-	-
Disposals	120	1,766	10,549	1,805	8,780	152	-	23,172
(Writedowns)/Writebacks	(305)	(160)	-	(705)	(657)	-	(19,653)	(21,480)
Other changes	-	(511)	43,923	(12,526)	(570)	6,404	13,388	50,108
Reclassifications	-	8,400	-	-	28,800	-	-	37,200
Gross closing balance	**386,576**	**2,929,150**	**47,175,928**	**1,989,457**	**337,967**	**86,095**	**2,671,610**	**55,576,783**
Provision for amortisation, depreciation and impairment - closing balance	**(1,196)**	**(986,102)**	**(18,580,869)**	**(936,004)**	**(239,814)**	**(58,795)**	**(39,290)**	**(20,842,070)**
Net closing balance	**385,380**	**1,943,048**	**28,595,059**	**1,053,453**	**98,153**	**27,300**	**2,632,320**	**34,734,713**

During the year, technical financial depreciation was recorded, determined on the basis of the useful life of the assets, i.e. on their residual useful lives, for a total of 1,302 million euro, substantially attributable to the SNAM group for 622 million euro, to the Terna group for 488 million euro and for the residual part to the Italgas group.

During the year, capital grants recognized by public entities and other entities that reduce the net value of property, plant and equipment totaled 64 million euros.

Commitments to purchase property, plant and equipment mainly relate to the SNAM Group, whose commitments to purchase property, plant and equipment totaled about 1.7 billion euros.

2. Inventories – compulsory stock

Compulsory stock: breakdown

(thousands of euro)/(billions of cu.m.)	31/12/2018		31/12/2017	
Items/Figures	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 euro, 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 2018 amounted to 8,597 million euro (7,877 million euro at 31 December 2017).

Intangible assets: breakdown

(thousands of euro)	31/12/2018			31/12/2017		
Items/Figures	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Goodwill	873,657	-	873,657	860,852	-	860,852
Service concession agreements	11,636,381	(5,316,494)	6,319,887	10,777,325	(5,102,191)	5,675,134
Industrial patent and intellectual property rights	1,128,646	(918,836)	209,810	1,092,884	(884,010)	208,874
Concessions, licenses, trademarks and similar rights	1,302,019	(323,872)	978,147	1,295,057	(313,148)	981,909
Other intangible assets	453,471	(304,939)	148,532	380,761	(270,039)	110,722
Assets under development and advances	66,589	-	66,589	39,880	-	39,880
Total	**15,460,763**	**(6,864,141)**	**8,596,622**	**14,446,759**	**(6,569,388)**	**7,877,371**

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 provisions 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 Energy Networks and Environment Regulator (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 TERNA, 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 2018 in the amount of 874 million euro, consists of:

- 364 million euro for the TERNA Group;
- 397 million euro for the SNAM Group;
- 113 million euro for the ITALGAS Group.

In relation to TERNA, 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 December. The fair value for each of these three companies was higher than the value of their respective net assets, inclusive of the effects of purchase price allocation.

During the year, the value of intangible assets increased overall by 720 million euro as resulting from the table below which reports the change taking place in the period:

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	860,852	10,777,325	1,092,884	1,295,057	380,761	39,880	14,446,759
Provision for amortisation, depreciation and impairment - opening balance	-	(5,102,191)	(884,010)	(313,148)	(270,039)	-	(6,569,388)
Net opening balance	**860,852**	**5,675,134**	**208,874**	**981,909**	**110,722**	**39,880**	**7,877,371**
Gross amount: change for the period							
Investments	-	448,308	310	31	57,756	112,598	619,003
Contributions from business combinations	12,805	182,465	2,741	1,909	36,934	-	236,854
Transfers	-	20,042	63,303	4,048	(19,465)	-	67,928
Disposals	-	(132,921)	(50,655)	-	(194)	(630)	(184,400)
(Writedowns)/Writebacks	-	-	-	-	-	-	-
Other changes	-	341,162	20,063	974	(2,321)	(85,259)	274,619
Reclassifications	-	-	-	-	-	-	-
Provision for amortisation, depreciation and impairment - change for the period							
Depreciation for the period		(409,466)	(84,279)	(10,704)	(31,758)	-	(536,207)
Contributions from business combinations		-	-	-	-	-	-
Disposals		133,051	49,509	-	320	-	182,880
(Writedowns)/Writebacks		(1,092)	-	-	(10)	-	(1,102)
Other changes		63,204	(56)	(20)	(3,452)	-	59,676
Reclassifications		-	-	-	-	-	-
Gross closing balance	**873,657**	**11,636,381**	**1,128,646**	**1,302,019**	**453,471**	**66,589**	**15,460,763**
Provision for amortisation, depreciation and impairment - closing balance	**-**	**(5,316,494)**	**(918,836)**	**(323,872)**	**(304,939)**	**-**	**(6,864,141)**
Net closing balance	**873,657**	**6,319,887**	**209,810**	**978,147**	**148,532**	**66,589**	**8,596,622**

Investments for the period mainly refer to service concession (447 million euro) of the ITALGAS group.

During the year, capital grants from public entities and other parties, recognised as a reduction of the net value of service concession agreements, amounted to 1.1 million euro.

The contractual commitments for the acquisition of intangible assets, as well as for the provision of services connected with their implementation, are presented in the paragraph “IX - Guarantees and commitments”.

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 investments

(thousands of euro)

Items/Figures		Equity investment				
Name	Registered office	Investor	% holding	Voting rights %	Carrying amount	Valuation method
A. Joint ventures						
Trans Austria Gasleitung GmbH	Wien	SNAM S.p.A.	84.47%	89.22%	509,391	Equity method
ELMED Etudes S.a.r.l.	Tunisi	Terna S.p.A.	50.00%	50.00%	-	Equity method
TEREGA HOLDING S.A.S. (già TIGF Holding S.A.S.)	Pau	SNAM S.p.A.	40.50%	40.50%	465,870	Equity method
Toscana Energia S.p.A.	Florence	Italgas Reti SpA	48.09%	48.09%	255,610	Equity method
Metano S.Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano	Italgas Reti SpA	50.00%	50.00%	2,233	Equity method
Umbria Distribuzione GAS S.p.A.	Terni	Italgas Reti SpA	45.00%	45.00%	13,112	Equity method
AS Gasinfrastruktur Beteiligung GmbH	Wien	SNAM S.p.A.	40.00%	40.00%	124,803	Equity method
B. Associates						
CGES A.D.	Podgorica	Terna S.p.A.	22.09%	22.09%	26,694	Equity method
CESI S.p.A.	Milan	Terna S.p.A.	42.70%	42.70%	49,033	Equity method
CORESO S.A.	Bruxelles	Terna S.p.A.	15.84%	15.84%	439	Equity method
Trans Adriatic Pipeline AG	Baar	SNAM S.p.A.	20.00%	20.00%	258,185	Equity method
Interconnector (UK) Ltd	London	Snam International B.V.	23.54%	23.54%	54,802	Equity method
Interconnector Zeebrugge Terminal S.C./C.V. Scrl	Bruxelles	Snam International B.V.	25.00%	25.00%	565	Equity method
		Interconnector (UK) Ltd	48.00%	48.00%		
Senfluga Energy Infrastructure Holding S.A.	Athens	SNAM S.p.A.	60.00%	60.00%	117,297	Equity method
C. Unconsolidated subsidiaries (1)						
ASSET COMPANY 7 B.V.	Rotterdam (NL)	SNAM S.p.A.	100.00%	100.00%	1	At Cost
ASSET COMPANY 5 S.r.l.	San Donato Milanese (MI)	SNAM S.p.A.	100.00%	100.00%	10	At Cost
ASSET COMPANY 6 S.r.l.	San Donato Milanese (MI)	SNAM S.p.A.	100.00%	100.00%	10	At Cost
Copow er S.r.l.	Roma	TEP Energy Solution S.r.l.	51.00%	51.00%	45	At Cost
D. Unconsolidated associates (1)						
TEP Energy Solution Nordest S.r.l.	Udine	TEP Energy Solution S.r.l.	50.00%	50.00%	180	At Cost
Latina Biometano S.r.l.	Roma	IES Biogas S.r.l.	32.50%	32.50%	-	At Cost
Albanian Gas Service Company Sh.a.	Tirana	SNAM S.p.A.	25.00%	25.00%	7	At Cost

(1) Companies in liquidation or subsidiaries in the start-up phase without assets and liabilities

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

Equity investments: changes for the period

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
A. Opening balance	**1,745,916**	**1,704,111**
B. Increases	**416,550**	**235,419**
B.1 Purchases	97,318	65,804
B.2 Writebacks		
B.3 Revaluations	143,879	158,626
B.4 Other increases	175,353	10,989
C. Decreases	**(284,179)**	**(193,614)**
C.1 Sales	(32,830)	
C.2 Writedow ns	(8,217)	(14,299)
C.3 Other decreases	(243,132)	(179,315)
D. Closing balance	**1,878,287**	**1,745,916**

Revaluations made during the year mainly concern the investments in Trans Austria Gasleitung GmbH (74 million euro), Teréga Holding S.A.S. (28 million euro), AS Gasinfrastruktur Beteiligung GmbH (11 million euro) and Toscana Energia S.p.A. (20 million euro), whilst the value adjustments are predominantly attributable to the investments in Senfluga Energy Infrastructure Holding (4 million euro) and Trans Adriatic Pipeline AG (4 million euro).

The other negative changes are mainly attributable to decreases for dividends distributed by the investee companies.

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 received

(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	509,391	570,398	497,717	10,192	1,482	72,897
Terega Holding S.A.S. (già TIGF Holding S.A.S.)	465,870	1,150,290	295,362	170,505	-	40,508
Toscana Energia S.p.A.	255,610	184,453	-	-	-	16,336
AS Gasinfrastruktur Beteiligung GmbH	124,803	296,804	92,922	25,800	6,081	-
A.2 Associates						
Trans Adriatic Pipeline AG	258,185	835,674	167,135	89,500	1,550	-
Senfluga Energy Infrastructure Holding S.A.	117,297	195,451	113,549	3,722	27	-

Significant equity investments: accounting data

(thousands of euro) Names	Cash and cash equivalent	Current assets	Non current asstes	Current financial liabilities	Non current financial liabilities	Current liabilities	Non current liabilities	Revenues	Interest income	Interesnt 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	20,408	36,589	1,115,824	35,131	353,335	69,537	143,880	308,395	1	(14,276)	(55,530)	82,960	-	(31,694)	82,960	-	82,960
TIGF Holding S.A.S.	34,494	93,298	2,470,564	18,300	1,486,797	83,783	279,942	437,511	-	(35,556)	(129,590)	68,402	-	(46,378)	68,402	-	68,402
Toscana Energia S.p.A.	16,336	53,750	830,582	254,883	141,422	242,024	19,256	142,510	53	(2,320)	(43,180)	40,153	-	(15,659)	40,153	-	40,153
AS Gasinfrastruktur Beteiligung GmbH	1,512	-	581,996	3,145	283,348	210	-	-	1,603	(6,860)	-	21,953	-	-	21,953	-	21,953
A.2 Associates																	
Trans Adriatic Pipeline AG	-	108,364	3,603,205	-	-	257,355	2,618,540	-	-	-	-	(17,925)	-	-	(17,925)	-	14,881
Senfluga Energy Infrastructure Holding S.A.	-	347,314	1,061,584	-	-	175,634	774,668	-	-	-	-	(6,609)	-	-	(6,609)	-	(6,609)

Non-significant equity investments: accounting data

(thousands of euro) Type of investments	Carryng 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	15,345	15,638	10,353	7,916	415	-	337	-	337
Associates	131,720	1,159,932	675,873	336,542	49,735	-	49,663	-	49,663

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. The commitment relates to the overall costs of the project, including the financial expenses accounted for in the work creation phase and deriving from the loan agreement, completed by TAP in December 2018.

Restrictions relating to equity investments

Pursuant to the provisions of IFRS 12, below are the main significant restrictions relating to the ability of the subsidiaries to transfer funds in the form of dividends, loan repayments or advances made by the participant.

Teréga S.A.S.

The payment to the shareholders of interest calculated on the nominal balance of the convertible bond issue of 670 million euro (of which 272 million euro underwritten by Snam), may be postponed at the discretion of the issuer, Teréga S.A.S.

Toscana Energia S.p.A. and 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: financial assets measured at fair value - breakdown and levels of fair value

(thousands of euro)	31/12/2018				31/12/2017			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
A. Financial assets at FVTPL								
A.1 Held for trading								
Debt securities	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.2 Other financial assets at FVTPL	**-**							
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Financial assets at FVTOCI								
Debt securities	-	-	-	-	-	-	-	-
Equity securities	39,802	97	-	39,705	44,043	90	-	43,953
Loans	-	-	-	-	-	-	-	-
Total	**39,802**	**97**	**-**	**39,705**	**44,043**	**90**	**-**	**43,953**
Total	**39,802**	**97**	**-**	**39,705**	**44,043**	**90**	**-**	**43,953**

Non-current financial assets: financial assets measured at amortised cost - breakdown and levels of fair value

(thousands of euro)	31/12/2018				31/12/2017			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Financial assets at amortized cost								
Debt securities	156	156	-	-	156	156	-	-
Loans and receivables	229,888	-	-	229,888	488,572	-	-	488,572
Total	**230,044**	**156**	**-**	**229,888**	**488,728**	**156**	**-**	**488,572**

Non-current financial assets: hedging derivatives - breakdown and levels of fair value

(thousands of euro)	31/12/2018				31/12/2017			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Hedging derivatives								
Hedging derivatives	-	-	-	-	912	-	912	-
Total	**-**	**-**	**-**	**-**	**912**	**-**	**912**	**-**

The main component of the item is represented by the financial assets recognised at amortised cost, which dropped (- 259 million euro), essentially due to the following:

- increase in investments for the period in concession infrastructures in Brazil recognised in accordance with IFRIC 12 (+ 94.3 million euro);
- repayment by the associated company Trans Adriatic Pipeline (TAP) of the Snam group of the loan granted (-373 million euro) relating to the Shareholders' Loan. The repayment follows the finalization by TAP, in December, of a Project Financing agreement;
- increase in the Interconnector Guarantee Fund (+18.9 million euro) set up to carry out the interconnection works referred to in article 32 of Law 99/09 and recorded in the consolidated financial statements of the TERNA group.

Compared to 31 December 2017, please note the decrease in the value of the equity securities measured at FVOCI essentially regarding the minority shareholding equal to 7.3% held by Snam S.p.A. in the capital of Terminale Adriatico S.r.l. (Adriatic LNG).

6. Deferred tax assets

Deferred tax assets recorded in the financial statements at 31 December 2018 amount to 740 million euro (703 million euro at 31 December 2017), of which 703 million euro were recorded in the income statement.

Deferred tax assets: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Deferred tax assets		
- recognised in income statement	703,312	684,148
- recognised in equity	36,510	18,826
Total	**739,822**	**702,974**

The following table shows the breakdown of deferred tax assets:

Deferred tax assets: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Deferred tax assets recognised in income statement	**703,312**	**684,148**
- non-repayable grants	68,205	68,709
- misc. impairment	10,287	10,288
- site decommissioning and reinstatement	168,911	171,087
- provisions	102,423	101,265
- write-downs on receivables	34,356	35,198
- property, plant and equipment/intangible assets	253,220	234,381
- employee benefits	26,477	39,732
- other temporary differences	39,433	23,488
Deferred tax assets recognised in equity	**36,510**	**18,826**
- financial assets at FVTOCI	8,815	2,460
- cash flow hedge	14,600	4,100
- other	13,095	12,266
Total	**739,822**	**702,974**

The changes in deferred tax assets during the year, with the balancing entry in the income statement, are shown below:

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
1. Opening balance	**684,148**	**693,900**
Change in opening balance	**1,556**	**-**
2. Increases	**72,987**	**95,809**
2.1 Deferred tax assets recognised during the year	61,616	92,145
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		
d) other	61,616	92,145
2.2 New taxes or increases in tax rates		
2.3 Other increases		1,214
2.4 Business combinations	11,371	2,450
3. Decreases	**(55,379)**	**(105,561)**
3.1 Deferred tax assets derecognised during the year	(45,416)	(99,898)
a) reversals	(36,371)	(65,048)
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other	(9,045)	(34,850)
3.2 Reduction in tax rates		
3.3 Other decreases	(9,963)	(5,663)
3.4 Business combination transactions		
4. Closing balance	**703,312**	**684,148**

The changes in deferred tax assets for the year, with the balancing entries in equity, are shown below:

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
1. Opening balance	**18,826**	**10,073**
Change in opening balance	-	-
2. Increases	**19,099**	**9,954**
2.1 Deferred tax assets recognised during the year	1,334	411
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks	65	
d) other	1,269	411
2.2 New taxes or increases in tax rates		
2.3 Other increases	17,765	9,543
2.4 Business combinations		
3. Decreases	**(1,415)**	**(1,201)**
3.1 Deferred tax assets derecognised during the year	(1,026)	(972)
a) reversals	(1,026)	(972)
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	(389)	(229)
3.4 Business combination transactions		
4. Closing balance	**36,510**	**18,826**

7. Other non-current assets

Other non-current assets at 31 December 2018 amounted to 184 million euro (146 million euro at 31 December 2017).

The following table shows the breakdown:

Other assets: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Accrued income and prepaid expenses from regulated activities	132,651	97,586
Accrued income and prepaid expenses	13,018	19,867
Guarantee deposits	19,072	18,341
Loans and advances to employees	9,435	9,265
Receivables for tax withholdings and direct taxes	-	-
Advances to suppliers	-	-
Other assets	9,377	498
Total	**183,553**	**145,557**

Accrued income and prepaid expenses from regulated activities of 133 million euro at 31 December 2018, which represent the majority of Other non-current assets, relate:

- to the natural gas transport and distribution service recognised in the financial statements of the SNAM group and concern the lower amounts invoiced that will be subject to reimbursement through price adjustments in the following years
- to the tariff adjustment recognised by the Authority as a consequence of the plan to replace traditional meters with electronic meters entered in the financial statements of the Italgas group.

8. Non-current assets held for sale

Held-for-sale assets amount to 11,6 million euro (11 thousand euro at 31 December 2017), increasing on the previous year as a result of planned sales, already contractually agreed, of motor vehicles and buildings of the Italgas group.

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
A. Individual assets		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Tangible assets	11,583	-
A.4 Intangible assets	-	-
A.5 Other assets	-	-
Total A	**11,583**	**-**
B. Asset groups (discontinued operating units)		
B.1 Property, plant and equipment	-	11
Total B	**-**	**11**
Total	**11,583**	**11**

Current assets

9. Current financial assets

Below is a breakdown of CDP Reti Group's current financial assets, which show a net book value of 427 million euro at 31 December 2018 (359 million euro at 31 December 2017).

Current financial assets: financial assets measured at fair value: breakdown and levels of fair value

(thousands of euro)

	31/12/2018				31/12/2017			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
A. Financial assets at FVTPL								
A.1 Held for trading								
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.2 Other financial assets at FVTPL	**-**							
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Financial assets at FVTOCI								
Debt securities	402,927	402,927	-	-	-	-	-	-
Equity securities	119	-	-	119	119	-	-	119
Loans	-	-	-	-	-	-	-	-
Total	**403,046**	**402,927**	**-**	**119**	**119**	**-**	**-**	**119**
Total	**403,046**	**402,927**	**-**	**119**	**119**	**-**	**-**	**119**

Current financial assets: financial assets measured at amortised cost - breakdown and levels of fair value

(thousands of euro)	31/12/2018				31/12/2017			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Financial assets at amortized cost								
Debt securities	-	-	-	-	-	-	-	-
Loans and receivables	18,546	-	-	18,546	358,693	-	-	358,693
Total	**18,546**	**-**	**-**	**18,546**	**358,693**	**-**	**-**	**358,693**

Current financial assets: hedging derivatives - levels of fair value

(thousands of euro)	31/12/2018				31/12/2017			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Hedging derivatives								
Hedging derivatives	5,105	-	5,105	-	-	-	-	-
Total	**5,105**	**-**	**5,105**	**-**	**-**	**-**	**-**	**-**

The increase in financial assets at fair value (-403 million euro) is mainly due to the purchase of government securities maturing in December 2019.

Financial assets measured at amortised cost decreased (-340 million euro) mainly due to the repayment by TAP of the Snam Group of the loan received. The repayment follows the finalisation in December 2018 of a project financing agreement.

10. Income tax receivables

Income tax receivables recorded in the consolidated financial statements at 31 December 2018 amounted to 38 million euro (62 million euro at 31 December 2017) and were broken down as follows:

Income tax receivables: breakdown

(thousands of euro)		
Items/Figures	31/12/2018	31/12/2017
Income tax receivables		
- Ires receivables	30,231	56,336
- Irap receivables	7,313	5,945
- other tax receivables	13	8
Total	**37,557**	**62,289**

11. Trade receivables

Trade receivables recorded in the consolidated financial statements at 31 December 2018 amounted to 2,950 million euro (3,111 million euro at 31 December 2017) and were broken down as follows:

Trade receivables: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Energy-related receivables	743,711	772,752
Grid transport consideration receivables	310,770	312,233
Gas sector trade receivables	1,644,841	1,651,186
Other trade receivables	143,193	338,394
Construction contracts	107,279	36,888
Total	**2,949,794**	**3,111,453**

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:

- SNAM Group receivables, mainly concerning the natural gas transport (1,018 million euro) and storage (145 million euro) sectors. Trade receivables recorded in thelatter sector include the effects deriving from the addition of revenues related to the assignment of natural gas storage capacity through tender (25 million euro) and include the hedging of the expenses relating to the natural gas transport service (7 million euro);
- trade receivables amounting to 406 million euro, recorded in the financial statements of the ITALGAS group, mainly relating to gas distribution and related services and including amounts due from Eni S.p.A. (177 million euro) and third parties for the remaining part.

TERNA's trade receivables amount to 1,190 million euro in total, and include:

- receivables for "pass-through" items related to the activities performed by TERNA S.p.A. (715 million euro);
- Receivables in respect of the grid transmission fees amounting to 311 million euro, consisting of the consideration paid for use of the National Transmission Grid by electric power distributors;
- contract work in progress, standing at 107 million euro, which shows an increase compared to the previous year (+70 million euro) substantially due to the continuation of the contract in Uruguay (+40.3 million euro) and the higher job orders of the Tamini group (+29.1 million euro)
- the receivable due from Cassa per i Servizi Energetici e Ambientali (CSEA) related to the ENSR performance assessment recognised during the previous financial year (14.8 million euro).

12. Inventories

Inventories: breakdown

(thousands of euro)

	31/12/2018			31/12/2017		
Items/Figures	Gross amount	Provision for impairment	Net value	Gross amount	Provision for impairment	Net value
Raw materials, supplies and consumables	145,037	(14,814)	130,223	116,496	(10,857)	105,639
Finished products and goods	52,284	(32,193)	20,091	49,921	(32,193)	17,728
Total	**197,321**	**(47,007)**	**150,314**	**166,417**	**(43,050)**	**123,367**

Inventories at 31 December 2018 were recorded in the financial statements for 150 million euro (123 million euro at 31 December 2017) and are recognised net of the provision for impairment of 47 million euro (43 million euro at 31 December 2017).

Raw materials, supplies and consumables mainly consist of natural gas used for transportation activities (23 million euro), spare materials for the gas pipeline network (39 million euro), the distribution network (primarily gas meters related to the substitution plan, equal to 26 million euro) and storage facilities for 9 million euro. An additional 15 million euro 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 20 million euro in total, net of the relevant provision (18 million euro at 31 December 2017), consist instead of natural gas in the storage network.

13. Other current assets

The breakdown of Other current assets, which at 31 December 2018 amounted to 266 million euro (334 million euro at 31 December 2017), is shown below.

Other current assets: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Accrued income and prepaid expenses from regulated activities	19,498	49,327
Accrued income and prepaid expenses	28,535	28,721
Guarantee deposits	47	108
Loans and advances to employees	176	163
Receivables for tax withholdings and direct taxes	76,406	118,811
Advances to suppliers	17,726	39,339
Other assets	124,116	97,263
Total	**266,504**	**333,732**

The decrease (-67 million euro) compared to December 2017 is due, for 43 million euro, to the reduced exposure of group companies towards the tax authorities for VAT.

14. Cash and cash equivalents

Cash and cash equivalents, which amounted to 3,405 million euro at 31 December 2018 (2,754 million euro at 31 December 2017) can be broken down as shown in the following table and refer mainly to demand deposits at credit institutions and short-term investments of liquidity by the SNAM group and the TERNA group of 1,871 million euro and 1,329 million euro, respectively.

Cash and cash equivalents: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Current accounts and demand deposits	2,652,674	1,953,816
Short-term financial investments	751,512	799,717
Cash	815	835
Total	**3,405,001**	**2,754,368**

II. LIABILITIES

15. Equity

15 a. Group equity

Equity attributable to the Group, amounting to 4,134 million euro (4,069 million euro at 31 December 2017) consisted of the following:

Equity attributable to CDP RETI

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Share capital	**162**	**162**
Issue premium	**1,315,158**	**1,315,158**
Reserves	**2,598,170**	**2,591,115**
- Legal reserve	32	32
- Reserve for shareholder payments for investments	2,029,921	2,029,921
- Retained earnings	568,217	561,162
Valuation reserves	**(40,590)**	**(22,587)**
- Cash flow hedges	(29,984)	(11,641)
- Exchange rate differences	(6,615)	(4,801)
- Actuarial Profit (Loss) on defined-benefit pension plans	(6,481)	(7,625)
- Share of valuation reserves of equity investments accounted for using equity method	1,723	1,480
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	349	-
- Financial assets (equity securities) measured at fair value through other comprehensive income	418	-
Advances on dividends	**(255,938)**	**(324,000)**
Net income for the period (+/-)	**516,741**	**508,715**
Total	**4,133,703**	**4,068,563**

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	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%**

Shares outstanding at the reporting date consisted of 161,514 shares without nominal value, fully paid-up.

15 b. Minority interest

A breakdown of the item Minority interest is provided below:

Minority interest: breakdown

(thousands of euro)

Names	31/12/2017	31/12/2016
1. Italgas S.p.A.	1,456,957	1,419,786
2. SNAM S.p.A.	5,727,766	6,045,872
3. Terna S.p.A.	3,507,007	3,368,912
Total	**10,691,730**	**10,834,570**

Non-current liabilities

16. Provisions for risks and charges

The provisions for risks and charges recorded in the consolidated financial statements at 31 December 2018 amounted to 1,094 million euro (1,152 million at 31 December 2017) and were broken down as follows:

Provisions for risks and charges: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
1. Provision for risks of legal disputes	51,110	53,956
2. Provision for early retirement incentives	71,655	81,466
3. Provision for site decommissioning and reinstatement	607,095	609,763
4. Provision for tax risks	32,331	57,263
5. Provision for environmental risks and charges	126,653	131,733
6. Provisions for credit risk on guarantees provided	185	-
7. Other provisions	204,647	217,448
Total	**1,093,676**	**1,151,629**

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 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	Provisions for credit risk on guarantees provided	Other provisions	Total
Opening balance	**53,956**	**81,466**	**609,763**	**57,263**	**131,733**	**-**	**217,448**	**1,151,629**
Change in opening balance	-	-	-	-	-	75	-	75
Changes for business combinations (+/-)	-	-	-	-	-	-	319	319
Increases:								
Allocation in the year	14,598	16,401	-	978	-	57	19,041	51,075
Changes due to the passing of time	-	-	10,500	-	182	-	-	10,682
Changes due to changes to the discount rate	-	-	-	-	-	-	-	-
Other changes	-	1	-	97	-	53	35,566	35,717
Decreases:								
Use in the financial year	(16,995)	(26,213)	(5,101)	(24,010)	(5,261)	-	(54,569)	(132,149)
- to charges	*(10,875)*	*(26,195)*	*(5,101)*	*(22,348)*	*(5,261)*	-	*(43,710)*	*(113,490)*
- due to surplus	*(6,120)*	*(18)*	-	*(1,662)*	-	-	*(10,859)*	*(18,659)*
Changes due to changes to the discount rate	-	-	(8,067)	-	-	-	-	(8,067)
Other changes	(449)	-	-	(1,997)	(1)	-	(13,158)	(15,605)
Closing balance	**51,110**	**71,655**	**607,095**	**32,331**	**126,653**	**185**	**204,647**	**1,093,676**

17. Provisions for employee benefits

Below is the breakdown of the provisions for employee benefits:

Provisions for employee benefits: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Severance pay	136,538	145,479
Long-term service award	4,627	4,544
Supplementary health funds	18,756	18,435
Energy discount	5,209	13,030
Other employee benefits	76,540	73,049
Total	**241,670**	**254,537**

The balance of the Provisions for employee benefits decreased compared to the previous year (from 255 million euro at 31 December 2017 to 242 million euro at 31 December 2018). This change (-13 million euro) was specifically attributable to the Energy discount provision which decreased by 9 million euro as a result of adjustments to the pension fund. 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	**145,479**	**4,544**	**18,435**	**13,030**	**73,049**	**254,537**
Changes for business combinations	641	-	-	-	-	641
Current cost	73	186	670	347	20,177	21,453
Interest expense	1,813	58	247	82	567	2,767
Revaluations:						
- actuarial profit and loss due to changes in financial assumptions	(1,986)	-	(246)	103	(259)	(2,388)
- actuarial profit and loss due to changes in demographic assumptions	23	-	-	-	-	23
- effect of past experience	(1,314)	-	860	-	(1,948)	(2,402)
Other changes	(1,522)	(161)	(914)	(8,353)	(804)	(11,754)
Paid benefits	(6,669)	-	(296)	-	(14,242)	(21,207)
Closing balance	**136,538**	**4,627**	**18,756**	**5,209**	**76,540**	**241,670**

18. Long-term loans

Long-term loans recorded by the group at 31 December 2018 amounted to 23,367 million euro (24,150 million euro at 31 December 2017) and were broken down as follows:

Loans: long-term portion

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Bonds		
- EMTN programme	16,977,250	16,800,715
- other issues	748,848	748,556
Bank loans	5,218,827	5,678,813
Other lenders	421,691	922,372
Total	**23,366,616**	**24,150,456**

The item “EMTN programme” in the long-term loans relates to bond issues in the period by SNAM (7.6 billion euro), TERNA (6.5 billion euro) and Italgas (2.9 billion euro).

The item “other issues”, instead, 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 euro.

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)					Carrying amount at 31/12/2018	
Loans/Bonds	Anno emissione	Maturity	Currency	Rate	Current	Non current
CDP RETI	2015	2022	EUR	1,875%	8,322	748,848
Snam S.p.A.	2012	2022	€	5.25	8,923	605,506
Snam S.p.A.	2012	2020	€	3.5	16,182	525,251
Snam S.p.A.	2012	2019	€	5	543,764	-
Snam S.p.A.	2013	2021	€	3.375	8,281	265,668
Snam S.p.A.	2013	2019	Yen	2.717	79,377	-
Snam S.p.A.	2014	2024	€	3.25	12,043	390,767
Snam S.p.A.	2014	2023	€	1.5	2,413	233,521
Snam S.p.A.	2014	2019	€	1.5	227,662	-
Snam S.p.A.	2015	2023	€	1.375	401	234,935
Snam S.p.A.	2015	2023	€	1.5	1,206	115,345
Snam S.p.A.	2016	2026	€	0.875	2,008	1,242,143
Snam S.p.A.	2016	2020	€	0	-	498,759
Snam S.p.A.	2017	2025	€	1.25	5,822	497,058
Snam S.p.A.	2017	2022	€	0.641	94	299,242
Snam S.p.A.	2017	2024	€	0.836	47	349,443
Snam S.p.A.	2017	2027	€	1.375	1,641	645,665
Snam S.p.A.	2018	2020	€	0.212	48	350,969
Snam S.p.A.	2018	2023	€	1	2,565	890,668
Snam S.p.A.	2017	2022	€	0	-	388,634
Terna Spa		2024	euro	0.049	-	982,923
Terna Spa		2023	euro	0.0273	-	679,200
Terna Spa		2019	euro	0.0488	702,673	-
Terna Spa		2026	euro	0.016	-	78,900
Terna Spa		2021	euro	0.0475	-	1,345,900
Terna Spa		2022	euro	0.0088	-	997,600
Terna Spa		2018	euro	0.0288	-	-
Terna Spa		2028	euro	0.01	-	740,900
Terna Spa		2027	euro	0.0138	-	993,200
Terna Spa		2023	euro	0	-	744,600
ITALGAS SPA	2017	2022	EURO	0,5	3,555	744,712
ITALGAS SPA	2017	2024	EURO	1,25	5,850	646,962
ITALGAS SPA	2017	2027	EURO	1,625	11,553	742,915
ITALGAS SPA	2017	2029	EURO	1,625	11,453	745,864

Other financial debt can be broken down as follows:

Loans from banks and other lenders: breakdown

(thousands of euro)					Carrying amount at 31/12/2018	
Loans/Bonds	Anno emissione	Maturity	Currency	Rate	Current	Non current
Loan 2014	2014	2020	EUR	Euribor 6m + spread	650	750,000
Loan 2017	2017	2023	EUR	Euribor 6m + spread	268	186,803
INTESA Term Loan	2014	2019	€	0,25	200,074	-
BNL Term Loan	2016	2020	€	0,2	66	149,877
INTESA Term Loan	2017	2019	€	0	500,056	-
BEI 300MLN SRG	2009	2029	€	0,237	20,049	200,000
BEI 283MLN STG	2013	2033	€	0,669	19,643	264,072
BEI 65MLN SRG	2013	2032	€	0,556	4,393	60,666
BEI 200MLN SRG	2015	2035	€	0,268	94	195,667
BEI 373MLN SRG	2015	2035	€	0	-	373,000
BEI 310MLN SRG	2017	2037	€	1,498	-	310,000
Regione Emilia Romagna - STOGIT	2018	2019	€	0,5	269	-
UNICREDIT BANK AUSTRIA AG Term Loan	2018	2021	€	0,45%.+Euribor 3 m	190	500,000
BNL Term Loan	2018	2023	€	0,58% +Euribor 3 m	15	150,000
Bayerische Landesbank Term Loan	2018	2023	€	o Fisso per i primi 4 anni: 0,8392% (0,56%	97	50,000
BMW					10	38
PSA 508					4	9
PSA 308-1					2	-
PSA 308-2					2	-
PSA 308-3					3	-
PSA 308-4					3	5
Toyota OME 100H					5	23
Toyota SWE 140					2	7
Toyota 8FBMT30					10	42
Toyota SWE 120					1	6
BEI		2039	euro	0.0144	-	368,600
BEI		2030	euro	0.0025	136,296	1,244,600
CDP		2019	euro	0.0093	500,497	-
Finanziamento bancario		2034	euro	0.0648	600	51,511
Leasing		2019-2021-2222	euro	0.0088	2,040	(300)
ITALGAS BEI	2017	2037	EURO	0,97	16	359,770
ITALGAS BEI	2015	2035	EURO	-	-	124,000
ITALGAS BEI	2016	2032	EURO	0,214	55	299,742
ITALGAS RETI ex Enerco	varie	varie	EURO	vari	483	2,380
ITALGAS SPA	2017	2029	EURO	1,625	134	-

The table below shows a breakdown of loans by maturity date:

Loans: breakdown by future maturity dates

(thousands of euro)	Carrying amount at 31/12/2018		Maturity analysis (years)				
Loans/Bonds	Current	Non current	2019	2020	2021	2022	Over
CDP RETI	8,322	748,848			748,848		
Loan 2014	650	750,000	750,000				
Loan 2017	268	186,803				186,803	
Snam S.p.A.	8,923	605,506			605,506		
Snam S.p.A.	16,182	525,251	525,251				
Snam S.p.A.	543,764	-					
Snam S.p.A.	8,281	265,668		265,668			
Snam S.p.A.	79,377	-					
Snam S.p.A.	12,043	390,767					390,767
Snam S.p.A.	2,413	233,521				233,521	
Snam S.p.A.	227,662	-					
Snam S.p.A.	401	234,935				234,935	
Snam S.p.A.	1,206	115,345				115,345	
Snam S.p.A.	2,008	1,242,143					1,242,143
Snam S.p.A.	-	498,759	498,759				
Snam S.p.A.	5,822	497,058					497,058
Snam S.p.A.	94	299,242			299,242		
Snam S.p.A.	47	349,443					349,443
Snam S.p.A.	1,641	645,665					645,665
Snam S.p.A.	48	350,969	350,969				
Snam S.p.A.	2,565	890,668				890,668	
Snam S.p.A.	-	388,634			388,634		
INTESA Term Loan	200,074	-					
BNL Term Loan	66	149,877	149,877				
INTESA Term Loan	500,056	-					
BEI 300MLN SRG	20,049	200,000					200,000
BEI 283MLN STG	19,643	264,072					264,072
BEI 65MLN SRG	4,393	60,666					60,666
BEI 200MLN SRG	94	195,667					195,667
BEI 373MLN SRG	-	373,000					373,000
BEI 310MLN SRG	-	310,000					310,000
Regione Emilia Romagna - STOGIT	269	-					
UNICREDIT BANK AUSTRIA AG Term Loan	190	500,000		500,000			
BNL Term Loan	15	150,000				150,000	
Bayerische Landesbank Term Loan	97	50,000				50,000	
BMW	10	38			38		
PSA 508	4	9		9			
PSA 308-1	2	-					
PSA 308-2	2	-					
PSA 308-3	3	-					
PSA 308-4	3	5	5				
Toyota OME 100H	5	23					23
Toyota SWE 140	2	7				7	
Toyota 8FBMT30	10	42				42	
Toyota SWE 120	1	6				6	
Terna Spa	-	982,923					982,923
Terna Spa	-	679,200				679,200	
Terna Spa	702,673	-					
Terna Spa	-	78,900					78,900
Terna Spa	-	1,345,900		1,345,900			
Terna Spa	-	997,600			997,600		
Terna Spa	-	-					
Terna Spa	-	740,900					740,900
Terna Spa	-	993,200					993,200
Terna Spa	-	744,600				744,600	
BEI	-	368,600			4,600	20,500	343,500
BEI	136,296	1,244,600	116,100	116,700	128,600	112,700	770,500
CDP	500,497	-					
Finanziamento bancario	600	51,511	1,900	2,500	2,700	3,000	41,411
Leasing	2,040	(300)	300	100			(700)
ITALGAS SPA	3,555	744,712			744,712		
ITALGAS SPA	5,850	646,962					646,962
ITALGAS SPA	11,553	742,915					742,915
ITALGAS SPA	11,453	745,864					745,864
ITALGAS BEI	16	359,770				12,000	347,770
ITALGAS BEI	-	124,000		8,267	8,267	8,267	99,199
ITALGAS BEI	55	299,742		25,000	25,000	25,000	224,742
ITALGAS RETI ex Enerco	483	2,380					2,380
ITALGAS SPA	134	-					

The table below shows the reconciliation of the liabilities arising from the loans, as required by IAS 7:

(thousands of euro) Items/Figures	31/12/2017	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	Other changes	31/12/2018
Current financial assets - Financing and loans to banks	(350,335)	(50,600)	-	(1,100)	-	(1,327)	(403,362)
Loans payable - non-current portion	24,150,456	503,416	5,391	6,505	-	(1,292,625)	23,366,616
Loans payable - current portion	2,208,302	(325,006)	-	(111,900)	-	1,270,514	3,041,910
Short-term financial liabilities	1,455,864	771,733	-	-	-	23,787	2,251,426
	27,464,287	**899,543**	**5,391**	**(106,495)**	**-**	**349**	**28,256,590**

19. Other non-current financial liabilities

Other non-current financial liabilities, recognised in the financial statements at 100 million euro (30 million euro at 31 December 2017), refer to the fair value measurement of derivative contracts taken out to hedge interest rate risk by the TERNA group (59 million euro), CDP RETI (8 million euro), the SNAM group (26 million euro) and the Italgas group (7 million euro).

Other non-current financial liabilities: breakdown and fair value levels

(migliaia di euro)	31/12/2018			31/12/2017		
Voci/Valori	L1	L2	L3	L1	L2	L3
Derivati di copertura specifica del fair value	**-**	**-**	**-**	**-**	**-**	**-**
Derivati di copertura specifica dei flussi finanziari	**-**	**100,490**	**-**	**-**	**29,827**	**-**
a) rischio di tasso di interesse	-	100,490	-		27,790	
b) rischio di cambio	-	-	-		2,037	
Derivati di copertura degli investimenti esteri	**-**	**-**	**-**	**-**	**-**	**-**
Derivati non di copertura	**-**	**-**	**-**			
Totale	**-**	**100,490**	**-**	**-**	**29,827**	**-**

20. Deferred tax liabilities

Deferred tax liabilities recorded at 31 December 2018 amounted to 2,740 million euro (2,837 million euro at 31 December 2017), and consist of deferred tax liabilities recognised in the income statement as detailed in the following table:

Non-current tax liabilities: breakdown

(thousands of euro) Items/Figures	31/12/2018	31/12/2017
Deferred tax liabilities		
- recognised in income statement	2,737,128	2,837,408
- recognised in equity	2,455	23
Total	**2,739,583**	**2,837,431**

Below is the breakdown of deferred tax liabilities:

Deferred tax liabilities: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Deferred tax liabilities recognised in income statement	**2,737,128**	**2,837,408**
- surplus paid in instalments	660	1,118
- staff severance pay	3,875	3,879
- leasing	1,304	1,305
- property, plant and equipment	2,529,958	2,655,164
- equity investments	11,601	8,826
- exchange rate differences	40	4
- other temporary differences	189,690	167,112
Deferred tax liabilities recognised in equity	**2,455**	**23**
- other reserves	2,455	23
Total	**2,739,583**	**2,837,431**

The following tables show the change in deferred tax liabilities during the year:

Change in deferred tax liabilities (recognised in the income statement)

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
1. Opening balance	**2,837,408**	**2,978,417**
Change in opening balance		
2. Increases	**44,108**	**32,766**
2.1 Deferred tax liabilities recognised during the year	16,453	9,294
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	16,453	9,294
2.2 New taxes or increases in tax rates		
2.3 Other increases	22,061	2,704
2.4 Business combination transactions	5,594	20,768
3. Decreases	**(144,388)**	**(173,775)**
3.1 Deferred tax liabilities derecognised during the year	(138,456)	(133,089)
a) reversals	(111,892)	(133,089)
b) due to change in accounting policies		
c) others	(26,564)	
3.2 Reduction in tax rates		(35,100)
3.3 Other decreases		(5,586)
3.4 Business combination transactions	(5,932)	
4. Closing balance	**2,737,128**	**2,837,408**

Change in deferred tax liabilities (balancing entry in equity)

(migliaia di euro)

Voci/Valori	31/12/2018	31/12/2017
1. Importo iniziale	**23**	
Modifica saldi di apertura	**2,223**	
2. Aumenti	**232**	**23**
2.1 Imposte differite rilevate nell'esercizio	232	23
a) relative a precedenti esercizi		
b) dovute al mutamento dei criteri contabili		
c) altre	232	23
2.2 Nuove imposte o incrementi di aliquote fiscali		
2.3 Altri aumenti		
2.4 Operazioni di aggregazione aziendale		
3. Diminuzioni	**(23)**	
3.1 Imposte differite annullate nell'esercizio	(23)	
a) rigiri	(23)	
b) dovute al mutamento dei criteri contabili		
c) altre		
3.2 Riduzioni di aliquote fiscali		
3.3 Altre diminuzioni		
3.4 Operazioni di aggregazione aziendale		
4. Importo finale	**2,455**	**23**

21. Other non-current liabilities

The table below provides a breakdown of Other non-current liabilities recognised at 31 December 2018 for a total amount of 1,235 million euro (588 million euro at 31 December 2017).

Other non-current liabilities: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Accrued liabilities and deferred income	11,881	11,393
Accrued liabilities and deferred income from regulated activities	1,108,324	461,920
Other liabilities	115,044	114,362
Total	**1,235,249**	**587,675**

Other non-current liabilities mainly consist of the following:

- SNAM group: these related to the transport sector (359 million euro, of which 322 million euro 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. 575/2017/R/gas, as well as to the storage sector (30 million euro, of which 29 million euro non-current) related to balancing and stock replenishment charges to be reimbursed to service users in accordance with the Authority's resolution no. 50/06;
- connection contributions from the Italgas group (449 million euro);
- items relating to grants on behalf of Terna S.p.A. plants (90.9 million euro);
- advances received for the construction of the private Italy-France interconnector (217.6 million euro);

- security deposits of 46 million euros recorded in the SNAM balance sheet paid as security by users of the balancing service, pursuant to Resolution ARG/gas 45/11.

22. Liabilities directly attributable to assets held for sale

At 31 December 2018 this item did not have an entry.

Current liabilities

23. Current portion of long-term loans

This item, which at 31 December 2018 amounted to 3,042 million euro (2,208 million euro at 31 December 2017) includes the current portion of long-term loans.

Loans: current portion

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Bonds		
- EMTN programme	1,647,561	1,916,877
- other issues	8,322	8,322
Bank loans	884,848	281,456
Other lenders	501,179	1,647
Total	**3,041,910**	**2,208,302**

A breakdown of this item is detailed in the tables set out in note 18.

24. Trade payables

Trade payables recorded at 31 December 2018 amounted to 3,368 million euro (3,215 million euro at 31 December 2017) and were broken down as follows:

Trade payables: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Payables due to suppliers	3,358,748	3,208,524
- energy-related payables	*1,518,134*	*1,602,573*
- non-energy-related payables	*987,055*	*784,931*
- GAS sector payables	*853,129*	*716,283*
- due to other suppliers	*430*	*104,737*
Payables for construction contracts	8,837	6,046
Total	**3,367,585**	**3,214,570**

Energy-related trade payables (1,518 million euro) 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 987 million euro 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 from the GAS segment of 853 million euro mainly related to the transport (390 million euro, of which 230 million euro related to balancing services), distribution (231 million euro) and storage (24 million euro) of natural gas, in addition to regasification (5 million euro).

25. Income tax liabilities

Current tax liabilities amounted to 23 million euro at 31 December 2018 (5 million euro at 31 December 2017) and were broken down as follows:

Current tax liabilities: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Income tax payables		
- Ires payables	19,312	2,785
- Irap payables	3,473	1,722
- other tax payables	-	68
Total	**22,785**	**4,575**

26. Current financial liabilities

Other financial liabilities amounted to 2,260 million euro at 31 December 2018 (1,459 million euro at 31 December 2017) and mainly related to uncommitted floating-rate credit facilities (1,751 million euro) and the issue of unsecured Euro Commercial Paper (225 million euro) issued in the money market and placed with institutional investors of the SNAM group.

Current financial liabilities: breakdown and fair value levels

(thousands of euro)	31/12/2018				31/12/2017			
Items/Figures	Carring amount	L1	L2	L3	Carring amount	L1	L2	L3
Fair value-related hedging derivatives	-	-	-	-	-	-	-	-
Cash flow hedge-related derivatives	**8,726**	-	**8,726**	-	**3,615**	-	**3,615**	-
a) interest rate risk	8,520	-	8,520	-	2,415	-	2,415	-
b) exchange rate risk	206	-	206	-	1,200	-	1,200	-
c) other	-	-	-	-	-	-	-	-
Derivati di copertura degli investimenti esteri	-	-	-	-	-	-	-	-
Non-hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	**2,251,426**	-	-	**2,251,426**	**1,455,864**	-	-	**1,455,864**
Total	**2,260,152**	-	**8,726**	**2,251,426**	**1,459,479**	-	**3,615**	**1,455,864**

27. Other current liabilities

Other current liabilities amounted to 1,718 million euro at 31 December 2018 (1,626 million euro at 31 December 2017) and were broken down as shown in the following table:

Other current liabilities: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
VAT payables	1,377	3,371
Irpef withholdings on employees	22,339	13,854
Other duties and taxes	9,428	11,545
Accrued liabilities and deferred income	42,320	25,214
Advances	85,063	24,239
Payables due to pension and social security institutions	61,484	58,763
Payables due to employees	112,216	111,490
Accrued liabilities and deferred income from regulated activities	38,319	45,025
Other liabilities	1,345,311	1,332,724
Total	**1,717,857**	**1,626,225**

The item “Other liabilities” mainly related to the allocation of payables to shareholders in respect of the advance on the 2018 dividend of 0.0905 euro per share approved on 6 November 2018 and distributed in January 2019 by Snam S.p.A., and higher payables due to Cassa per i Servizi Energetici e Ambientali (CSEA) (621 million euro), attributable to additional tariff components essentially related to the natural gas transportation and distribution segments of the Snam and Italgas groups.

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	31/12/2018	31/12/2017
Revenues from electricity dispatching and distribution		
Grid transport consideration receivables	1,799,337	1,803,760
CTR adjustments for previous years	(10,190)	(145)
Service quality	7,400	7,400
Other energy revenues	262,257	213,983
Other sales and performance	213,720	158,986
Total	**2,272,524**	**2,183,984**
- of which IFRIC 12 revenues	*119,119*	*102,069*
Revenues from storage, transportation, regasification and distribution of natural gas		
Storage	441,757	442,715
Distribution	1,526,882	1,524,617
Transport and dispatching	2,007,064	1,941,053
Regasification	17,051	18,202
Other sales and performance	129,601	76,447
Total	**4,122,355**	**4,003,034**
- of which IFRIC 12 revenues	446,971	*479,651*
Total	**6,394,879**	**6,187,018**

Revenues for the dispatching and distribution of electricity (2,273 million euro) underwent a positive change (+89 million euro) essentially deriving from the following effects:

- the grid transmission fees (-14.6 million euro compared to the previous year): this item refers to the income for ownership and management of the National Transmission Grid - NTG earned by TERNA S.p.A. (1,657.5 million euro) and the subsidiary Rete S.r.l. (131.6 million euro). The drop in revenues for the transmission service is essentially a result of the updating of the tariff which reflects the completion in 2017 of remuneration of work in progress and the reduction in the volumes of energy transported, offset by the increase in share of ownership by the NTG. The balance also includes the estimated impacts of the review of the areas of interconnections with foreign countries;
- other energy income (+48.3 million euro compared to the previous year): refers to the consideration granted for the dispatching and measurement service (essentially for the DIS component, amounting to 111 million euro, as well as the recognition, during the year, of some costs incurred[56] and not included in the dispatching fee amounting to 32 million euro) and income from the construction and development of infrastructure under concession posted for the application of IFRIC 12 (119.2 million euro) which include income derived from activities in South America (Brazil for 92.4 million euro and Peru for 1.3 million euro). The variation in the item compared to 31 December 2017 was due

[56] In particular ARERA (the Italian Regulatory Authority for Energy, Networks and Environment) made provision for the recovery through the fee mentioned under Article 44 of resolution 111/2006 (Uplift) of the costs related to non-recoverable receivables relating to the 2006-2015 period (see Resolution 218/2018) and the increased contributions to the Authority's operating costs for the years 2013-2017.

mainly to the increase in the DIS fee and the abovementioned costs incurred (+31.2 million euro). New investments for activities under concession in South America are also noted (+12.7 million euro).

- other sales and services (+54.7 million euro compared to the previous year): most referring to revenue generated by the Non-Regulated business. The increase in this item is mainly attributed to the following factors:
  - increased revenue from progress on the order in Uruguay (+31.5 million euro);
  - changes relating to the support and housing for fibre optic amounting to 22.9 million euro, essentially due to reclassification pursuant to IFRS 15, previously classified under the item "Other revenues and income".

The revenues relating to the gas sector, which amount to 4,122 million euro, refer to:

- the transport and dispatching sectors for 2,007 million euro. Of this 1,170 million euro pertain to Eni S.p.A. and 317 million euro to Enel Trade S.p.A.;
- distribution amounting to 1,527 million euro, of which 1,080 million euro relating to the conveyance of natural gas for all the commercial operators that request access to the distribution companies' networks based on the Network code. A further 447 million euro are from the construction and strengthening of the natural gas distribution infrastructures linked to the concession agreements pursuant to IFRIC 12);
- natural gas storage amounting to 442 million euro, of which 352 million euro referring to the fees for the modulation storage capacity service and 90 million euro for the strategic service.
- LNG regasification amounting to 17 million euro: mainly referring to the revenue hedging factor acknowledged by the Authority pursuant to resolution 653/2017/R/gas. and finally other sales and services (76 million euro). 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 2018 amounted to 130 million euro (151 million euro at 31 December 2017):

Other revenues and income: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Other industrial revenues	**23,123**	**34,017**
Revenues from the sale of gas for the balancing service	18,915	30,041
Income from the sale of energy efficiency securities		
Contractual penalties and other income relating to trade transactions	4,208	3,976
Other revenues and incomes	**101,486**	**109,939**
Rental income	1,844	27,617
Lease of business unit		
Other contributions	8,352	8,556
Other income	91,290	73,766
Gains on disposal	**4,989**	**6,655**
Gains on disposal from property, plant and equipment	4,503	6,654
Gains on disposal from intangible assets	486	1
Total	**129,598**	**150,611**

Income 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 euro)

Items/Figures	31/12/2018	31/12/2017
Raw materials, supplies, consumables and goods	455,789	385,913
Increases for internal work	(69,389)	(49,069)
Total	**386,400**	**336,844**

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 compared to the previous year (+49.6 million euro) was mainly due to higher costs posted for the realisation of the line in Uruguay (+37.5 million euro) and increased costs relating to orders concerning the Non-Regulated business.

31. Services

Costs for services recognised in the financial statements at 31 December 2018 amounted to 761 million euro (776 million euro at 31 December 2017) and were broken down as follows:

Costs for services: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Construction, planning and works management	183,062	221,792
IT services (Information Technology)	59,668	78,333
Purchase of transport capacity (interconnection)	48,626	60,718
Maintenance services	46,673	41,780
Technical, legal, administrative and professional services	144,302	124,161
Personnel-related services	29,874	26,289
Telecommunications services	40,095	42,449
Electricity, thermal energy, water, etc.	22,844	20,034
Insurance	12,024	10,433
Other services	141,232	114,267
Costs for leases and rentals	127,000	108,644
- fees, patents and user licenses	*65,313*	*62,538*
- leases and rentals	*61,687*	*46,106*
Increases for internal work	(95,754)	(73,868)
Commission expenses	1,654	1,222
Total	**761,300**	**776,254**

The decrease in costs for services compared to the previous financial year (-15 million euro) 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 2018 fees for auditing, certification and other services provided to companies of the Group by the independent auditors of the parent company CDP RETI, namely PriceWaterhouseCoopers S.p.A..

The following disclosure is provided pursuant to Article 149-duodecis of CONSOB Issuers' Regulations:

Independent auditors' fees

(thousands of euro)

Items/Figures	Service Provider	31/12/2018
Auditing		1,655
Certification	Pricew aterhouseCoopers S.p.A.	372
Other		13
Total		**2,040**

32. Staff costs

A breakdown of staff costs is provided below:

Staff costs: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
1) Employees	**806,027**	**785,715**
a) salaries and w ages	554,180	538,713
b) social security charges	4,740	4,571
c) staff severance pay	16,432	15,299
d) pension costs	157,498	151,597
e) provision for staff severance pay	2,006	1,756
f) provision for post-employment benefits:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension plans:	19,562	19,023
- defined contribution	16,635	16,434
- defined benefits	2,927	2,589
h) costs related to payment agreements based on ow n equity instruments	-	745
i) other benefits for employees	51,609	54,011
2) Other personnel in service	**3,843**	**5,786**
3) Board of Directors and Board of Auditors	**11,918**	**9,938**
4) Retired personnel	**-**	**-**
5) Increases for internal work	**(127,353)**	**(126,240)**
Total	**694,435**	**675,199**

Staff costs for employees, which at 31 December 2018, before their allocation to fixed assets, totalled 822 million euro, are mainly attributable:

- for 254 million euro to SNAM Group employees, whose average headcount totalled 2,949 in 2018;
- for 312 million euro to TERNA Group employees, whose average headcount totalled 4,088 in the same period;
- for 236 million euro to ITALGAS Group employees, whose average headcount totalled 3,631.

The following table shows the average headcount of group employees by contractual level:

Average headcount

Items/Figures	31/12/2018	31/12/2017
Senior Managers	236	230
Middle Managers	1,354	1,276
Office staff	5,770	5,703
Manual w orkers	3,312	3,395
Total	**10,672**	**10,604**

33. Amortisation, depreciation and impairment

Amortisation, depreciation and impairment, for an amount of 1,861 million euro at 31 December 2018 (1,801 million euro at 31 December 2017) are broken down as follows:

Amortisation, depreciation and impairment of property, plant and equipment and intangible assets: breakdown

(thousands of euro)	31/12/2018				31/12/2017			
Items/Figures	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	1,301,746	21,480	-	1,323,226	1,257,335	27,657	-	1,284,992
Intangible assets	536,207	1,152	(50)	537,309	509,929	6,310	-	516,239
Total	**1,837,953**	**22,632**	**(50)**	**1,860,535**	**1,767,264**	**33,967**	**-**	**1,801,231**

33 a. Impairment (write-backs) net of trade receivables and other receivables

This item, introduced following the adoption of IFRS, is equal to +5 million euro (-10 million euro at 31 December 2017) and essentially refers to the SNAM Group.

34. Other operating costs

Other operating costs, which at 31 December 2018 amounted to 151 million euro (163 million euro at 31 December 2017), are shown in the table below:

Other operating costs: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Indirect duties and taxes	28,076	33,081
Losses from cancellation of property, plant and machine and intangible assets	48,067	20,582
Service quality charges	10,163	21,824
Net provision for risks and charges	15,976	33,639
Net accruals to the provisions for credit risk on commitments and guarantees issued	57	-
Other costs	48,391	54,135
Total	**150,730**	**163,261**

With reference to the change compared to the previous financial year (-12 million euro), in light of the increase amounting to 28 million euro for capital losses for cancellation and sale of tangible and intangible assets, please note a decrease in service quality charges (-12 million euro) for the Terna and Italgas groups and lower provisions for risks and charges (-18 million euro).

Direct and indirect tax charges are lower than the previous year by 5 million euro.

C. FINANCIAL INCOME (EXPENSE)

35. Financial income

Financial income, amounting to 23 million euro (57 million euro at 31 December 2017) was broken down as follows:

Financial income: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Interest income and other financial income	19,478	12,332
Interest income on hedging derivatives	-	43,884
Income on hedging transactions	250	-
Recoveries for credit risk relating to financial assets at fair value	938	-
Other financial income	2,122	3,676
Total	**22,788**	**59,892**

The change compared to the previous financial year is attributable in particular to the restructuring of the derivatives portfolio in 2018 by the Terna group.

The change compared with the previous year was mainly due to the restructuring of the derivatives portfolio carried out by the Terna group in 2018.

36. Borrowing costs

The borrowing costs recognised in the financial statements at 31 December 2018 amounted to 429 million euro (498 million euro at 31 December 2017) and were broken down as follows:

Borrowing costs: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Interest expenses and other charges	353,176	436,656
- of which interest expenses on bonds	*265,890*	*349,346*
Exchange rate differences	13,209	-
Financial expenses from trading activities	7,526	792
Financial expenses from hedging activities	8,393	4,854
Financial expenses on disposal and repurchase	46,967	56,042
Adjustments for credit risk relating to financial assets	1	-
Total	**429,272**	**498,344**

The item relating to interest expense, with particular reference to debt and bond issues, related to the Snam group (166 million euro), the Terna group (61 million euro) and the Italgas group (38 million euro).

Costs arising from sale and repurchase transactions, amounting to 47 million euro at 31 December 2018 (56 million euro at 31 December 2017) 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 6 million euro.

Borrowing costs of 27.3 million euro were capitalised during the year (26.3 million euro in the previous financial year).

37. Portion of income / (expenses) from equity investments carried at equity

Income and expenses from equity investments, amounting to 136 million euro at 31 December 2018 (146 million euro at 31 December 2017) consisted of the following:

Portion of income / (expenses) from equity investments carried at equity

(thousands of euro)	31/12/2018				31/12/2017			
Items/Figures	Joint ventures	Associates	Other	Total	Joint ventures	Associates	Other	Total
A. Income	**136,620**	**8,348**	**17**	**144,985**	**158,030**	**3,797**	**30**	**161,857**
1. Income	136,620	7,259		143,879	158,028	598		158,626
- Net equity valued investments	136,620	7,259		143,879	158,028	598		158,626
- Other investments								
2. Gains on disposal								
3. Writebacks								
4. Other		1,089	17	1,106	2	3,199	30	3,231
B. Charges	**(98)**	**(8,119)**		**(8,217)**	**(9,966)**	**(4,333)**	**(250)**	**(14,549)**
1. Impairment	(98)	(8,119)		(8,217)	(9,966)	(4,333)		(14,299)
- Net equity valued investments	(98)	(8,119)		(8,217)	(9,966)	(4,333)		(14,299)
- Other investments								
2. Impairment adjustments								
3. Losses on disposal								
4. Other							(250)	(250)
Total	**136,522**	**229**	**17**	**136,768**	**148,064**	**(536)**	**(220)**	**147,308**

Revaluations made during the year mainly concern the investments in Trans Austria Gasleitung GmbH (74 million euro), Teréga Holding S.A.S. (28 million euro), AS Gasinfrastruktur Beteiligung GmbH (11 million euro) and Toscana Energia S.p.A. (20 million euro), whilst the value adjustments are predominantly attributable to the investments in Senfluga Energy Infrastructure Holding (4 million euro) and Trans Adriatic Pipeline AG (4 million euro).

E. TAXES FOR THE PERIOD

38. Taxes for the period

Taxes for the year amounted to 673 million euro (622 million euro at 31 December 2017) and are broken down as follows:

Taxes for the year: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
1. Current taxes (+/-)	831,608	781,136
2. Change in current taxes from previous years (+/-)	(20,061)	627
3. Reduction of current taxes for the year (+)	-	-
4. Change in deferred tax assets (+/-)	(16,200)	(5,562)
5. Change in deferred tax liabilities (+/-)	(122,003)	(153,921)
Taxes for the period	**673,344**	**622,280**

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	31/12/2018	31/12/2017
Income (loss) before taxes	**2.406.236**	**2.283.602**
IRES theoretical tax liability (24.0%)	(577.497)	(548.064)
Increase in taxes	**(83.633)**	**(291.724)**
- non deductible interest expenses 4%	(6.799)	(6.451)
- temporary non deductible differences	(43.785)	(45.028)
- permanent non deductible differences	(3.203)	(307)
- equity investments impairment	-	(3.186)
- effect of different foreign rates (+)	(230)	-
- other changes	(29.616)	(236.752)
Decreases in taxes	**(30.447)**	**198.242**
- dividends 95% exempt	119.916	142.996
- non-taxable income	-	-
- ACE benefit	14.828	48.582
- temporary differences	2.710	2.841
- prior period deductible expenses	-	3.800
- IRAP deduction	-	-
- other changes	(167.968)	23
IRES Actual tax liability	**(691.577)**	**(641.546)**

Reconciliation between theoretical and actual tax liability: IRAP

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
IRAP tax base	**2,891,397**	**2,866,158**
IRAP theoretical tax liability 5.57%	(161,051)	(159,645)
Increases in taxes	**(3,375)**	**(4,427)**
- non deductible interest expenses 4%	-	(60)
- other non deductible expenses	(725)	(2,251)
- effect of different regional tax rates (-)	(2,650)	(2,116)
Decreases in taxes	**24,395**	**24,482**
- prior period deductible expenses (+)	-	-
- deductible employees costs	-	18
- decreases	-	4,051
- effect of different regional tax rates (+)	24,395	20,413
- IRAP surcharge	-	-
IRAP Actual tax liability	**(140,031)**	**(139,590)**

IV – BUSINESS COMBINATIONS

IV.1 BUSINESS COMBINATIONS COMPLETED DURING THE YEAR

The following business combinations of relevance for the CDP RETI Group were carried out in 2018.

(thousands of euro)

Company name	Date of transaction	(1)	(2)	(3)	(4)
Ramo d'azienda Amalfitana Gas	26/01/2018	20,809	100%	-	-
Ramo d'azienda Aenergia Reti (Portopalo)	31/01/2018	2,200	100%	-	-
Avvenia The Energy Innovator S.r.l.	15/02/2018	8,400	70%	(300)	(215)
GRUPPO ICHUNSA	28/02/2018	5	100%	9,895	(1,303)
SEASIDE	13/03/2018	9,208	100%	3,966	874
MEDEA	06/04/2018	16,594	100%	4,879	100
TEP Energy Solution	30/05/2018	26,042	100%	8,034	1,194
CPL SUD	31/05/2018	4,740	100%	2,795	(282)
IES Biogas	05/07/2018	5,365	70%	31,049	(3,120)
Cubogas	25/07/2018	12,600	100%	7,085	(698)
NATURGAS	30/11/2018	2,568	100%	35	(8)
FONTENERGIA	30/11/2018	438	100%	429	131
GRUPPO EGN	30/11/2018	64,487	60%	1,300	282
Enersi	03/12/2018	1,964	100%	2	(155)

(1) = Cost of transaction
(2) = Percentage of voting rights in the Ordinary Shareholders' Meeting
(3) = Total group revenues
(4) = Group net Profit (Loss)

Acquisition of the Amalfitana Gas business unit

On 26 January 2018, the Italgas group completed the acquisition of the Amalfitana Gas business unit related to natural gas distribution in three districts (ATEM) in the Campania and Basilicata regions. The assets acquired from Amalfitana Gas include 12 concessions in the municipalities of Somma Vesuviana, Viggiano, Baronissi, Calvanico, Pellezzano, Fisciano, Siano, Oliveto Citra, Contursi Terme, Montesano sulla Marcellana, Monte San Giacomo and Atena Lucana, and extend for approximately 330 kilometres of network in operation with more than 22,000 end customers. The transaction had a value of 20.8 million euro.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Intangible assets	20,809		20,809
Total acquired assets	**20,809**		**20,809**
Liabilities			
Total acquired liabilities			
Acquired net assets	**20,809**		**20,809**
Goodwill			
Business combination cost	**20,809**		**20,809**

Acquisition of the AEnergia Reti business unit

On 31 January 2018, the Italgas group completed the acquisition of the AEnergia Reti business unit related to the distribution network serving the municipality of Portopalo di Capopassero (Siracusa). The acquisition of the AEnergia Reti business unit concerned a network, completed, but not yet in operation, which extends for approximately 35 kilometres, with a potential catchment area of approximately 1,400. The consideration paid was equal to 2.2 million euro.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Intangible assets	2,595		2,595
Total acquired assets	**2,595**		**2,595**
Liabilities			
Total acquired liabilities			
Acquired net assets	**2,595**		**2,595**
Badwill		395	395
Business combination cost	**2,595**	**(395)**	**2,200**

Acquisition of Avvenia The Energy Innovator S.r.l.

On 15 February 2018, the Terna group made an acquisition, for 7 million euro, of 70% of Avvenia The Energy Innovator S.r.l., a NewCo to which the principal assets of Avvenia, a Lazio-based company established in 2001 and leader in the energy efficiency sector and certified as an Energy Service Company (ESCo), have been transferred. The sale agreement also includes a call option on the remaining 30% of the company's shares, exercisable within 24 months of the date of sale of the first stake.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	564		564
Property, plant and equipment	97		97
Intangible assets	99	17,395	17,494
Financial assets			
Ather assets	3,212		3,212
Total acquired assets	**3,972**	**17,395**	**21,367**
Liabilities			
Tax liabilities		5,013	5,013
Other liabilities	3		3
Severance pay	76		76
Non controlling interests (+/-)		4,883	4,883
Total acquired liabilities	**79**	**9,896**	**9,975**
Acquired net assets	**3,893**	**7,499**	**11,392**
Badwill		2,992	2,992
Business combination cost	**3,893**	**4,507**	**8,400**

Acquisition of Ichnusa Group and Medea

On 28 February 2018, the Italgas group completed the acquisition of Ichnusa Gas (subsequently merged into Medea), a holding company that controlled 12 companies that in turn held 12 concessions for the construction and operation of gas distribution networks in 74 municipalities in Sardinia. At the acquisition date, two of the twelve concessions were operating on a provisional basis with the first customers provided with LPG, while the remaining ten refer to networks either under construction or to be constructed, for a total expected investment of over 170 million euro, partly financed with regional grants.

The tables below show the consideration paid for the transactions (Ichnusa Group and Medea respectively), and provides a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

Ichnusa Group

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	71		71
Property, plant and equipment	76		76
Intangible assets	27,447		27,447
Equity investments			
Financial assets	149		149
Tax assets	686		686
Ather assets	727		727
Total acquired assets	**29,156**		**29,156**
Liabilities			
Financial liabilities	23,676		23,676
Tax liabilities	510		510
Other liabilities	4,868		4,868
Severance pay	6		6
Provision for risks and charges	91		91
Non controlling interests (+/-)			
Total acquired liabilities	**29,151**		**29,151**
Acquired net assets	**5**		**5**
Goodw ill			
Business com bination cost	**5**		**5**

Medea

(thousands of euro) Items/Figures Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	92		92
Property, plant and equipment	56		56
Intangible assets	24,770		24,770
Equity investments			
Financial assets			
Tax assets	429		429
Ather assets	3,361		3,361
Total acquired assets	**28,708**		**28,708**
Liabilities			
Financial liabilities	7,215		7,215
Tax liabilities	3,986		3,986
Other liabilities	2,268		2,268
Severance pay	202		202
Provision for risks and charges	5		5
Non controlling interests (+/-)			
Total acquired liabilities	**13,676**		**13,676**
Acquired net assets	**15,032**		**15,032**
Goodw ill		1,562	1,562
Business combination cost	**15,032**	**1,562**	**16,594**

Acquisition of Seaside

On 13 March 2018, the Italgas group acquired the entire share capital of Seaside, one of the major Italian Energy Service Companies (ESCo), with a cutting-edge offering of digital services, thanks to its expertise in the Big Data, Business Intelligence and Machine Learning sectors. White 1, wholly owned by Seaside, was merged into the latter with accounting and tax effect from 1 January 2018.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	7,473		7,473
Property, plant and equipment	638		638
Intangible assets	6,742		6,742
Equity investments	6		6
Financial assets			
Tax assets	1,221		1,221
Ather assets	12,383		12,383
Total acquired assets	**28,463**		**28,463**
Liabilities			
Financial liabilities	1,017		1,017
Tax liabilities	2,330		2,330
Other liabilities	17,045		17,045
Severance pay	38		38
Provision for risks and charges	15		15
Non controlling interests (+/-)			
Total acquired liabilities	**20,445**		**20,445**
Acquired net assets	**8,018**		**8,018**
Goodw ill		1,190	1,190
Business combination cost	**8,018**	**1,190**	**9,208**

Acquisition of TEP Energy Solution

On 30 May 2018, following the receipt of the antitrust clearance, the acquisition, via the subsidiary Asset Company 4 S.r.l., was completed for a controlling interest, of 82% of the share capital, of TEP Energy Solution (TEP) for a total value of around 21 million euro. A price adjustment mechanism is contractually agreed based on the results of the 2018-2020 financial years, as well as put and call options on non-controlling interests due in 2020. TEP is one of the main Italian companies engaged in the energy efficiency sector, as an Energy Service Company (ESCo), with more than 200 customers among leading national and international companies and 950,000 energy efficiency certificates. At the acquisition date, on the basis of the contractual terms governing the exercise of the put and call options on the non-controlling interests (amounting to 18%), the transaction was accounted for as if Snam had acquired 100% control of TEP, without, however, recognising any non-controlling interests.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures

Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	8,293		8,293
Property, plant and equipment	448		448
Intangible assets	2	21,083	21,085
Equity investments	225		225
Financial assets			
Tax assets			
Ather assets	5,449		5,449
Total acquired assets	**14,417**	**21,083**	**35,500**
Liabilities			
Financial liabilities	1,428		1,428
Tax liabilities		6,077	6,077
Other liabilities	4,580		4,580
Severance pay	217		217
Provision for risks and charges	223		223
Non controlling interests (+/-)			
Total acquired liabilities	**6,448**	**6,077**	**12,525**
Acquired net assets	**7,969**	**15,006**	**22,975**
Goodw ill		3,067	3,067
Business combination cost	**7,969**	**18,073**	**26,042**

Acquisition of CPL SUD

On 31 May 2018, the Italgas group completed the acquisition of a controlling (98%) equity investment from CPL Concordia in the share capital of 6 companies operating in southern Italy, which hold concessions for the construction and management of the gas network in 16 municipalities, of which 4 already in operation. The companies in question are Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti. The total investment for the construction of the networks was equal to approximately 95 million euro, partly funded with government grants. Works for 32.5 million euro including the grants received have already been carried out so far. In addition, on 27 November 2018, it acquired the remaining 2% of the share capital of the companies Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures

Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	995		995
Property, plant and equipment	11		11
Intangible assets	16,520		16,520
Equity investments			
Financial assets	7		7
Tax assets	894		894
Ather assets	460		460
Total acquired assets	**18,887**		**18,887**
Liabilities			
Financial liabilities	12,389		12,389
Tax liabilities	23		23
Other liabilities	1,715		1,715
Severance pay	3		3
Provision for risks and charges	17		17
Non controlling interests (+/-)			
Total acquired liabilities	**14,147**		**14,147**
Acquired net assets	**4,740**		**4,740**
Goodw ill			
Business combination cost	**4,740**		**4,740**

Acquisition of IES Biogas

On 5 July 2018, Snam acquired 70% of IES Biogas, one of Italy's leading companies in the design, construction and management of biogas and biomethane plants with a market share of more than 10%, for a price of approximately 4 million euro. Put and call options on non-controlling interests due in 2022 are contractually agreed. This acquisition was completed through the special purpose vehicle Snam4Mobility. At the acquisition date, on the basis of the contractual terms governing the exercise of the put and call options on non-controlling interests (amounting to 30%), the transaction was accounted for as if Snam had acquired 100% control of IES, without, however, recognising any non-controlling interests.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures

Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	375		375
Property, plant and equipment	318		318
Intangible assets	483	1	484
Equity investments	1		1
Financial assets			
Tax assets	510	188	698
Ather assets	11,305		11,305
Total acquired assets	**12,992**	**189**	**13,181**
Liabilities			
Financial liabilities	4,321		4,321
Tax liabilities	697	5	702
Other liabilities	6,275		6,275
Severance pay	333		333
Provision for risks and charges			
Non controlling interests (+/-)			
Total acquired liabilities	**11,626**	**5**	**11,631**
Acquired net assets	**1,366**	**184**	**1,550**
Goodw ill		3,815	3,815
Business com bination cost	**1,366**	**3,999**	**5,365**

Acquisition of Cubogas

On 25 July 2018, the business unit operating in the sector of design, development and production of technological solutions for natural gas filling stations for transport of M.T.M., a company of the Westport Fuel Systems group, was acquired through the newly established company Cubogas S.r.l., wholly-owned by Snam4Mobility, following the satisfaction of certain conditions precedent including the conduct of trade union procedures. The value of the transaction was 12.6 million euro, including the price adjustment made at the time of the closing.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents			
Property, plant and equipment	986	99	1,085
Intangible assets		976	976
Ather assets	5,399	281	5,680
Total acquired assets	**6,385**	**1,356**	**7,741**
Liabilities			
Financial liabilities			
Tax liabilities		351	351
Other liabilities	1,504	100	1,604
Severance pay	112		112
Provision for risks and charges		6	6
Non controlling interests (+/-)			
Total acquired liabilities	**1,616**	**457**	**2,073**
Acquired net assets	**4,769**	**899**	**5,668**
Goodw ill		6,932	6,932
Business com bination cost	**4,769**	**7,831**	**12,600**

Acquisition of Naturgas

On 30 November 2018, the Italgas group completed the acquisition of the entire share capital of Naturgas, the company that provides the methane gas distribution services in San Giuseppe Vesuviano (NA), with approximately 2,700 end customers.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	641		641
Property, plant and equipment	1		1
Intangible assets	1,161		1,161
Tax assets	1,186		1,186
Ather assets	90		90
Total acquired assets	**3,079**		**3,079**
Liabilities			
Financial liabilities	1		1
Tax liabilities	42		42
Other liabilities	464		464
Severance pay	4		4
Total acquired liabilities	**511**		**511**
Acquired net assets	**2,568**		**2,568**
Goodwill			
Business combination cost	**2,568**		**2,568**

Acquisition of Fontenergia

On 30 November 2018, the Italgas group completed the acquisition of the entire share capital of Fontenergia, a company holding a concession for the distribution service in the Basin 22 of the Sardinia region, with more than 7,000 customers temporarily served with LPG.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	3,105		3,105
Property, plant and equipment	207		207
Intangible assets	10,570		10,570
Tax assets	2,532		2,532
Ather assets	2,176		2,176
Total acquired assets	**18,590**		**18,590**
Liabilities			
Financial liabilities	16,485		16,485
Tax liabilities	738		738
Other liabilities	742		742
Severance pay	187		187
Total acquired liabilities	**18,152**		**18,152**
Acquired net assets	**438**		**438**
Goodwill			
Business combination cost	**438**		**438**

Acquisition of the EGN Group

On 30 November 2018, the Italgas group completed the acquisition of a controlling interest, of 60%, of European Gas Network (EGN), a company that manages indirectly, through its subsidiaries EGN Distribuzione, Ischia Gas and Marigliano

Gas, approximately 60,000 customers and 37 gas distribution concessions in Sicily, Calabria and Campania. The agreement for the acquisition of EGN provides for a put & call option on the residual 40% equity investment held by the seller, which may be exercised from the 6th month after the closing date of the transaction and at the same price per share set at the closing for the 60% equity investment, less the amount of the dividends distributed by the company.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction:

(thousands of euro)

Items/Figures

Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	2,753		2,753
Property, plant and equipment	823		823
Intangible assets	74,937		74,937
Equity investments	12		12
Financial assets			
Tax assets	9,643		9,643
Ather assets	4,628		4,628
Total acquired assets	**92,796**		**92,796**
Liabilities			
Financial liabilities	40,618		40,618
Tax liabilities	1,408		1,408
Other liabilities	6,717		6,717
Severance pay	395		395
Provision for risks and charges	1,518		1,518
Non controlling interests (+/-)			
Total acquired liabilities	**50,656**		**50,656**
Acquired net assets	**42,140**		**42,140**
Goodw ill		22,347	22,347
Business com bination cost	**42,140**	**22,347**	**64,487**

IV.2 BUSINESS COMBINATIONS CARRIED OUT AFTER THE REPORTING DATE

No business combinations were completed in the period running from the reporting date of the consolidated financial statements to the date of their approval by the Board of Directors.

V – TRANSACTIONS WITH RELATED PARTIES

V.1 INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides the remuneration amounts for 2018 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)	31/12/2018			
Items/Figures	Directors	Board of auditors	Key management personnel	Total
a) short-term benefits	8,604	1,475	12,878	22,957
b) post-employment benefits	209		696	905
c) other long-term benefits	1,436		4,358	5,794
d) severance benefits				
e) share-based payments	194		1,699	1,893
Total	**10,443**	**1,475**	**19,631**	**31,549**

V.2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

This paragraph provides the disclosures required pursuant to IAS 24 concerning transactions concluded in 2018 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 exercises considerable influence over the 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.

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2018, as well as the financial transactions concluded in the first-half of the year, broken down by type of related party:

Transactions with related parties

(thousands of euro) Items/values	CDP	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	-	9,659	-	-	-	-	9,659	269,846	4%
Other non-current assets	-	-	-	-	-	-	-	183,553	0%
Current financial assets	8,388	-	-	-	-	-	8,388	426,697	2%
Trade receivables	-	3,031	-	1,010,915	-	-	1,013,946	2,949,794	34%
Other current assets	5,682	10,349	-	16,567	-	-	32,598	266,504	12%
Cash and cash equivalents	1	-	-	23	-	-	24	3,405,001	0%
Total assets	**14,071**	**23,039**	**-**	**1,027,505**	**-**	**-**	**1,064,615**	**7,501,395**	**14%**
Loans	758,445	-	-	-	-	-	758,445	23,366,616	3%
Other financial liabilities	8,720	-	-	-	-	-	8,720	100,490	9%
Short-term loans and current portion of long-term loans	504,158	-	-	-	-	-	504,158	3,041,910	17%
Trade payables	6	8,082	307	273,839	-	-	282,234	3,367,585	8%
Current financial liabilities	497	-	-	-	-	-	497	2,260,152	0%
Other current liabilities	299	-	-	12,023	-	1,964	14,286	1,717,857	1%
Total liabilities	**1,272,125**	**8,082**	**307**	**285,862**	**-**	**1,964**	**1,568,340**	**33,854,610**	**5%**
Revenues	-	3,035	-	3,997,251	-	-	4,000,286	6,524,477	61%
Operating costs	(3,850)	(5,794)	(6,172)	(111,230)	-	(2,826)	(129,872)	(3,848,525)	3%
Financial income (expense)	(16,213)	8,019	-	2	-	-	(8,192)	(406,484)	2%
Income Statement items Total (before tax)	**(20,063)**	**5,260**	**(6,172)**	**3,886,023**	**-**	**(2,826)**	**3,862,222**	**2,269,468**	**n/s**
Guarantees issued	**-**	**1,193,200**	**-**	**644,160**	**-**	**-**	**1,837,360**		
Guarantees received	**-**	**-**	**-**	**15**	**-**	**-**	**15**		
Commitments	**-**	**324,000**	**-**	**-**	**-**	**-**	**324,000**		

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 and services;
- Italgas group’s trade relationships with Eni relating to natural gas distribution, real estate management services and IT-type services and services with Enel Energia relating to natural gas distribution.

Non current financial assets include financial receivables related to the Shareholders’ Loan granted to Trans Adriatic Pipeline AG (TAP) by Snam S.p.A..

A significant item of loans payable is the debt payable by the Parent Company CDP RETI to the direct Parent Company CDP.

VI - FINANCIAL RISK MANAGEMENT

With regard to the financial risks of the Parent Company CDP RETI, please refer to the specific section of the notes to the financial statements.

With regard to enterprise risk, the main risks measured and managed at the level of the subsidiaries TERNA, SNAM and ITALGAS are indicated below.

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 2018, the Snam group used external financial resources through bond issues and bilateral and syndicated loan agreements with banks and other financial institutions, 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 2018, exposure to interest rate risk amounted to approximately 22% of total group exposure (unchanged from 31 December 2017). As at 31 December 2018, Snam had six Interest Rate Swaps (IRSs), for an overall value of 1,650 million euro, hedging the entire notional value on three floating-rate bond loans totalling 1,000 million euro, with maturities in 2020, 2022 and 2024, and on two floating-rate bilateral loans totalling 650 million euro, with maturities in 2021 and 2023. The IRS derivative contracts are used to convert the floating-rate loans into fixed-rate loans.

In addition, at 31 December 2018, Snam had IRS Forward Starting derivative contracts for an aggregate notional value of 750 million euro, with a medium-/long-term tenor, to cover highly likely prospective financial liabilities that will be assumed until 2021 to cover financial requirements.

Exchange rate risk

Snam's exposure to the exchange rate risk pertains to both transaction risk and translation risk related to exchange rates. 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 that of minimising the transaction risk, also through derivative financial instruments. A negative impact on the business, financial position and results of the Snam group caused by significant future changes in exchange rates cannot be ruled out, regardless of the risk hedging policies implemented by Snam to cover exchange rate fluctuations using the financial instruments available on the market.

As at 31 December 2018, 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 75 million euro 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.

Snam's equity interest in the associate IUK Interconnector is exposed to the EUR/GBP exchange rate risk. However, Snam believes that such risk is limited given the historically low volatility of the EUR/GBP exchange rate, even considering the increased fluctuation following the Brexit referendum. Snam's equity interest in the associate TAP is exposed to a

EUR/CHF exchange rate risk on the equity cash calls based on the shareholders' contractual commitments towards the company, but these are limited in amount following the positive conclusion of the Project Financing. Moreover, such risk has been adequately hedged with derivatives (e.g. forward contracts).

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 provides its business services to nearly 200 gas sector operators. The top 10 operators account for about 70% of the whole market (Eni, Edison and Enel hold the top three positions in the ranking). 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 customers. 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. More specifically, the balancing rules require that, on a cost-effective basis, Snam focuses primarily on purchases and sales on the GME balancing platform to guarantee the resources needed for safe and efficient transport of gas from the feed points to the draw points, to ensure the constant balance of the network. These rules also call for Snam to meet its residual needs by drawing on Users' stocking resources to cover system imbalances and their economic settlement.

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 2018, Snam had unused long-term committed credit facilities totalling approximately 3.2 billion euro. Moreover, at the same date Snam had a Euro Medium Term Notes (EMTN) programme for an overall maximum nominal value of 10 billion euro, used for approximately euro 8.0 billion euro[57], as well as a Euro Commercial Paper (ECP) programme for an overall maximum nominal value of 1 billion euro, used for approximately 225 million euro at 31 December 2018.

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 2018, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these agreements 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

[57]It should be noted that the convertible bond issued in March 2017, for a value of 400 million euro, is not part of the EMTN programme.

certain non-recurring transactions that the Company and its subsidiaries may carry out; and (iv) limitations on subsidiary debt.

As at 31 December 2018, the bonds issued by Snam 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, financial position and results, generating additional costs and/or liquidity problems. These commitments do not include covenants requiring compliance with economic and/or financial ratios.

Rating risk

As regard to the rating risk, Snam's long-term rating is: (i) Baa2 with stable outlook, confirmed on 29 October 2018 by Moody's Investors Services Ltd ("Moody's"); (ii) BBB+ with negative outlook, confirmed on 27 November 2018 by Standard & Poor's Rating Services ("S&P"); (iii) BBB+ with stable outlook, confirmed on 12 December 2018 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's, S&P's and Fitch is one notch above that of the Italian Republic. Based on the methodology adopted by Moody's and S&P, the downgrade by one notch of the Italian Republic's current rating would trigger a likely equivalent downgrade of Snam's current rating.

Snam's short-term rating - used in the context of its Commercial Paper programme - is P-2 for Moody's, A-2 for S&P and F-2 for Fitch.

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 negatively affecting the Snam group's business, financial position and results.

ITALGAS GROUP

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

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 and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile is contained within set limits.

At 31 December 2018, 14.4% of the financial debt was carried at a floating rate and 85.6% was carried at a fixed rate.

At 31 December 2018, the Italgas group was using external financial resources in the following forms: bond issues subscribed by institutional investors, syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans, and, lastly, bank credit lines indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor).

Italgas' aim is to maintain a fixed-to-floating rate debt ratio that minimises the risk of a rise in interest rates. To this end, in 2018 the Company successfully completed the reopening, on 30 January 2018, of the bond originally issued on 18 September 2017 (500 million euro, maturing on 18 January 2029 and with coupon of 1.625%) for an amount of 250 million euro and with a yield of 1.631%. The issue enabled the full repayment of the term loan of 200 million euro and the continuation of the optimisation of the debt structure, by increasing its average maturity and percentage at fixed rate. In January 2018, an interest rate swap transaction with a maturity of 2024 was also completed, which converted the entire amount of the 360 million euro EIB Gas Network Upgrade loan from floating to fixed rate.

Therefore, any increase in interest rates not included wholly or partly in the regulatory WACC could have negative effects on the business, financial position and results of the Italgas group for the variable component of the outstanding debt and for future loans.

Credit risk

Credit risk is the Company's 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.

With respect to the risk of counterparty default in commercial agreements, credit management is the responsibility of Italgas' business units and of its centralised functions in charge of debt collection and dispute management.

The rules governing customers' access to the services offered are established by the Authority and are provided for in Network Codes, i.e. in documents that set out, for each type of service, the rules that govern the rights and obligations of the parties providing the services and specify the contractual clauses that reduce the risk of non-compliance by customers, such as the issue of demand bank or insurance guarantees.

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 sustain additional costs to meet such commitments or, as an extreme consequence, in a condition of insolvency that puts the continuation of company business at risk.
Italgas had signed credit facility agreements in excess of its financing needs at 31 December 2018. These credit facilities (1.1 billion euro) may be used to meet any potential liquidity needs, where required, if the actual financial requirement is higher than estimated. Moreover, at the same date, in addition to and complementing the use of bank credit, the Euro Medium Term Notes (EMTN) programme approved by the Italgas Board of Directors on 5 November 2018 allows the issue of another 600 million euro to be placed with institutional investors.

The financial objective of Italgas is to set up a financial structure that, consistently with its business goals, will guarantee an adequate level for the group in terms of duration and composition of the debt. That financial structure will be realised by monitoring certain key indicators, such as the ratio between debt and RAB, the ratio between short-term and medium-/long-term debt, the ratio between fixed-rate and floating-rate debt, and the ratio between firm commitment bank credit and used bank credit.

Rating risk

On 1 August 2018, Fitch confirmed its rating assigned to Italgas S.p.A. (BBB+ with stable outlook). On 23 October 2018, following the downgrade announced by Moody's of the rating of Italian government bonds to Baa3, with stable outlook from Baa2, a corresponding action was also taken on Italgas' long-term rating, which was downgraded to Baa2, with stable outlook from the previous Baa1, in view of the connection with the sovereign credit rating.

Based on the methodologies adopted by the rating agencies, a downgrade by one notch of the Italian Republic's current rating could trigger a downgrade in Italgas' current rating.

Default risk and debt covenants

At 31 December 2018 there were no loan agreements containing financial covenants and/or secured by collateral. 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 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; and (iii) limitations on certain non-recurring transactions that the company and its subsidiaries may carry out. At 31 December 2018, these commitments had been met.

The bonds issued by Italgas on 31 December 2018 as part of the Euro Medium Term Notes programme provided for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

The failure to meet the commitments accompanying these loans, and in certain cases only when that default is not remedied by the stipulated deadlines, and the occurrence of other events such as, for example, cross-default events, some of which are subject to specific materiality thresholds, result in defaults by Italgas and could cause the related loan to become immediately due.

As concerns EIB financing, the contracts contain a clause whereby, in the event of a significant reduction in EBITDA resulting from the loss of concessions, this must be notified to the EIB, leading to a consultation period after which the EIB may demand early repayment of the loan.

TERNA GROUP

In the course of its operations, the Terna group is exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

In this section information is provided on the Terna group's exposure to each of the risks listed above, the aims, policies and processes for managing these risks and the methods used to measure them, also including further quantitative information on the 2018 financial statements.

The group's risk management policies seek to identify and analyse the risks to which the group companies are exposed, establish their limits and create a system to monitor them. 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 group companies.

The exposure of the Terna group to the aforementioned risks is largely 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 with respect to the instruments to be used and the precise operating limits in managing them.

	31/12/2018			31/12/2017		
(millions of euro)	Loans carried at amortized cost	Hedging derivatives	Total	Loans carried at amortized cost	Hedging derivatives	Total
Assets						
Derivative financial instruments	-	1.3	1.3			
Cash and deposits	1,328.9	-	1,328.9	1,989.2		1,989.2
Trade receivables	1,189.7	-	1,189.7	1,265.9		1,265.9
Total	**2,518.6**	**1.3**	**2,519.9**	**3,255.1**		**3,255.1**

	31/12/2018			31/12/2017		
(millions of euro)	Payables carried ad amortised cost	Hedging derivatives	Total	Payables carried ad amortised cost	Hedging derivatives	Total
Liabilities						
Long-term debt	9.458,2	-	9.458,2	9.555,9		9.555,9
Derivative financial instruments	-	59,2	59,2		10,5	10,5
Trade payables	2.514,1	-	2.514,1	2.497,9		2.497,9
Total	**11.972,3**	**59,2**	**12.031,5**	**12.053,8**	**10,5**	**12.064,3**

Financial risks

Market risk

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 risk comprises three forms of risk: exchange rate risk, interest rate risk and inflation risk.

Risk management must pursue the objective of minimising the risks in question by selecting counterparties and instruments compatible with the corporate Risk Management policy. Speculative activity is not envisaged in the corporate mission.

The Terna group intends 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 execute planned recourse to new debt and hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changing market conditions or changes in the hedged item make the latter unsuitable or unduly expensive.

The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (level 2) by means of appropriate valuation models for each category of financial instrument, using market data as at the end of the financial year (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve at the reporting date.

Interest rate risk

Interest rate risk is represented by the uncertainty associated with changes in interest rates. It is the risk that a change in market interest rates could have an impact 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 derives from items of net financial debt and the associated hedging positions in derivatives, which generate financial expenses. Terna's borrowing strategy focused on debt instruments with long-term maturities reflecting the useful life of the company's assets. It also pursued an interest rate risk hedging policy that aimed to cover at least 40% of fixed-rate debt, as established in the company's policies. Considering the low level of interest rates, total group debt has been shifted to a fixed rate.

As at 31 December 2018 interest rate derivatives are cash flow hedge derivatives, used to hedge the risk of changes in the cash flows associated with long-term loans;

The following table shows the notional amounts and fair value of the derivatives entered into by the Terna group:

	31/12/2018		31/12/2017		Change (+/ -)	
(millions of euro)	Notional	Fair value	Notional	Fair value	Notional	Fair value
CFH derivatives	3,245.2	(59.2)	2,566.0	(10.5)	679.2	(48.7)

The notional amounts of CFH derivatives as at 31 December 2018, amounting to 3,245.2 million euro, are broken down as follows:

- 1,325.7 million euro (fair value equal to -14.7 million euro) maturing in 2021;
- 150.0 million euro (fair value equal to -3.8 million euro) maturing in 2026;
- 800.0 million euro (fair value equal to -19.6 million euro) maturing in 2027;
- 950.0 million euro (fair value equal to -21.0 million euro) maturing in 2028;
- 19.5 million euro (fair value equal to -0.1 million euro), relative to the Difebal subsidiary, maturing in 2032;

Sensitivity to interest rate risk

To manage its interest rate risk, after restructuring its derivatives portfolio, Terna has implemented a floating-to-fixed interest rate swap (CFH) to neutralise the risk inherent in expected future cash flows.

Since the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, initially and periodically verified, is high, Terna chose to apply hedge accounting in order to ensure perfect time matching between the hedge and the hedged item. The purpose of hedge accounting is to recognise simultaneously the income statement effects of the hedges and the hedged item. As a result, for FVH derivatives, the fair value changes in the hedged item attributable to the risk being hedged must be recognised in the income statement, thereby offsetting the fair value changes of the derivative that are also recognised in the income statement; for CFH derivatives, the fair value changes of the derivative must be recognised in "Other comprehensive income" (under Equity, immediately recognising any ineffective portion in profit or loss) and then derecognised from Equity and recognised in profit or loss in the same period in which the cash flows relating to the hedged item have an impact on income. The characteristics of the CFH derivative contracts in place mirror those of the underlying hedged items; therefore, the related cash flows shall occur at the same maturities as the interest on debt, with no impact of fair value changes on the income statement.

The following table shows: the amounts recognised in the income statement and in "Other comprehensive income" in respect of positions sensitive to changes in interest rates; the theoretical value of those positions following a positive or negative shift in the market yield curve; and the differential impact of those changes recognisable in the income statement and in "Other comprehensive income". A hypothetical 10% variation (increases and decreases) in the yield curve with respect to market interest rates at the reporting date has been assumed.

(millions of euro)	OCI Current rates +10%	Current values	Current rates -10%
31 December 2018			
Positions sensitive to changes in interest rates	(48,5)	(59,2)	(69,9)
Hypothetical change	*10,7*		*(10,7)*
31 December 2017			
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	(12,3)	(12,8)	(13,3)
Hypothetical change	*0,5*	-	*(0,5)*

Inflation risk

As regards inflation rate risk, the rates established by the Regulator to remunerate Terna S.p.A.'s activities are determined so as to allow coverage of the sector's recognised costs. These cost components are updated each year to reflect the accrued impact of inflation. In 2007, the Company used an inflation-linked bond issue, thereby obtaining a partial hedge on net income for the year: any decrease in expected revenues due to a decrease in the inflation rate is partially offset by lower financial expense.

Exchange rate risk

Exchange rate risk management must be carried out with the aim of defending the company's profitability from the risks of exchange rate fluctuations through continuous market control and constant monitoring of existing exposure. To manage this risk, each time, Terna selects the financial hedging instruments with structural and duration characteristics consistent with the group's exposure to foreign currencies. The instruments used by Terna are those with limited complexity, high liquidity and ease of pricing, e.g. forward contracts and options. The group's existing 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 an appreciation or depreciation 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.

As at 31 December 2018, the group's Income Statement exposure to exchange rate risk was residual and due to the currency flows from investments in Latin America.

Liquidity risk

Liquidity risk is the risk that the Terna group might experience difficulties in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of cash needs by obtaining adequate lines of credit and appropriately managing any surplus liquidity. As at 31 December 2018, the group had approximately 805.8 million euro available in short-term credit lines and 2,450 million euro in revolving credit lines.

Credit risk

Credit risk is the risk that 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 the group's trade receivables and financial investments.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since, in compliance with financial risk management policies, the counterparties are leading international credit institutions with high ratings.

Terna essentially renders its services to counterparties considered solvent by the market and hence with a high credit standing, and avoids concentrations of credit risk.

Credit risk management is also compliant with Resolution no. 111/06 of the Italian Regulatory Authority for Energy, Networks and the Environment (Autorità di Regolazione per Energia Reti e Ambiente, ARERA), which, at Article 49, introduced instruments to limit the risks linked 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 to be defined by the Authority where necessary.

At the end of the year, this exposure was as follows:

(millions of euro)	31/12/2018	31/12/2017	Change (+/ -)
Cash and cash equivalents and other financial assets	1,328.9	1,989.2	(660.3)
Trade receivables	1,189.7	1,265.9	(76.2)
Total	**2,518.6**	**3,255.1**	**(736.5)**

The overall credit risk exposure as at 31 December 2018 is represented by the carrying amount of 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 company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. For more information on the contractual provisions of outstanding loans at 31 December 2018, please see the section “Loans and financial liabilities” in the Notes to the financial statements of the Terna group.

VII – SHARE-BASED PAYMENTS

2017-2019 LONG-TERM PERFORMANCE SHARE PLAN OF SNAM S.P.A.

- On 11 April 2017 the Shareholders' Meeting approved the 2017-2019 long-term performance share plan, giving the powers necessary to implement the Plan to the Board of Directors.
- The Plan applies to the Chief Executive Officer and to Snam executives who hold offices that have the greatest impact on the company's financial performance or who are strategically important in terms of achieving Snam's multi-year objectives. 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.
- The maximum number of shares backing the plan is 3,500,000 shares for each year of the Plan. The Plan will end in 2022, that is, on expiry of the three-year vesting period linked to the last assignment of shares (2019).
- The number of shares vested 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.

2017 dward	Vesting period and performance			2020 free share award
	2017	2018	2019	

2018 award	Vesting period and performance			2021free share award
	2018	2019	2020	

2019 award	Vesting period and performance			2022 free share award
	2019	2020	2021	

- 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. 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.
- 3,692,810 shares have been assigned under the Plan, of which, 1,368,397 shares in relation to 2017 and 2,324,413 shares in relation to 2018. The unit fair value of the shares, which equates to the price of the Snam shares at the grant date, was 3,8548 and 3,5463 euro for the shares granted respectively in 2017 and 2018. The cost of the Long-Term Incentive Plan, amounting to 3 million euro (1 million euro in 2017), is recognised as a labour cost with a balancing entry in equity reserves.

VIII – SEGMENT REPORTING

This section of the Notes to the consolidated financial statements has been prepared in compliance with IFRS 8 “Operating Segments”, which came into force on 1 January 2009 and replaces IAS 14 "Segment Reporting".

The corporate purpose of CDP RETI is the holding and management, both ordinary and extraordinary, of equity investments in SNAM, TERNA and ITALGAS, monitoring the appropriate development/maintenance of the managed infrastructures, and developing specific skills in the sectors of transport, dispatching, distribution, regasification, gas storage and electricity transmission, in order to better control its investments.

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;
- gas distribution handled by the companies of the ITALGAS group;
- dispatch and transmission of electricity handled by the companies of the TERNA group.

The table below shows the results of the CDP RETI Group's operating segments for 2018, together with a reconciliation with the Group's results.

Reconciliation Income Statement - Sectors Key financial figures

(million of euro)	31/12/2018							31/12/2017
Items	CDP RETI	SNAM	TERNA	ITALGAS	Intercompany adj.	Other adj.	Group	Gruppo
Revenues from sales and services	-	2,555	2,273	1,584	(16)	-	6,395	6,187
Other revenues and income	0	31	47	58	(5)	(0)	130	151
Revenues from financial statement	**0**	**2,586**	**2,319**	**1,641**	**(21)**	**(0)**	**6,524**	**6,338**
Reclassifications (1)	-	-	(119)	(465)	-	-	(584)	(599)
Revenues from sectors	**0**	**2,586**	**2,200**	**1,176**	**(21)**	**(0)**	**5,940**	**5,738**
								-
Costs from financial statement (not included Depreciation and Amortization)	**(2)**	**(512)**	**(669)**	**(794)**	**21**	**(32)**	**(1,988)**	**(1,962)**
Reclassifications (2)	-	-	119	450	-	-	569	599
Costs from sectors (not included Depreciation and Amortization)	**(2)**	**(512)**	**(550)**	**(344)**	**21**	**(32)**	**(1,419)**	**(1,362)**
								-
EBITDA	**(2)**	**2,074**	**1,650**	**832**	**-**	**(33)**	**4,521**	**4,376**
EBITDA margin		*80%*	*75%*	*71%*			*76%*	*76%*
								0%
Ammortisation, depreciation and impairment	-	(689)	(553)	(394)	-	(224)	(1,861)	(1,801)
Reclassifications (3)	-	-	-	15	-	-	15	-
Operating profit (EBIT)	**(2)**	**1,384**	**1,097**	**453**	**-**	**(256)**	**2,676**	**2,575**
EBIT margin		*54%*	*50%*	*39%*			*45%*	*45%*
								0%
Financial income	410	15	7	1	-	(410)	23	60
Borrowing expenses	(28)	(255)	(98)	(48)	-	-	(430)	(498)
Portion of income (expenses) from equity investments valued with the equity method	-	157	3	20	-	(42)	137	148
								-
Taxes for the period	8	(341)	(296)	(113)	-	69	(673)	(622)
								-
Profit from discontinued operations	-	-	-	-	-	-	-	-
								-
Net income from sectros	**388**	**960**	**712**	**314**	**-**	**(640)**	**1,733**	**1,661**

(1) Reclassification to (i) IFRIC 12". (ii) release of connection contributions pertaining to the year, (iii) penalties for safety recoveries for the gas distribution service and (iv) recharges of faulty meters under warranty
(2) Reclassification to (i) IFRIC 12". (ii) penalties for safety recoveries for the gas distribution service and (iii) recharges of faulty meters under warranty
(3) Reclassification for connection grants

The balance sheet information analysed by Top Management does not refer directly to the individual segment operations, but rather to the overall valuation and representation of Equity, Net Financial Debt and Technical Investments.

IX - GUARANTEES AND COMMITMENTS

Guarantees and commitments, amounting in total to 10.8 billion euro at 31 December 2018 (4.7 billion euro at 31 December 2017) refer to the Gas sector and are broken down as follows:

Guarantees and commitments: breakdown

(thousands of euro)

Items/Figures	31/12/2018	31/12/2017
Guarantees pledged	**1,718,906**	**173,453**
Trade guarantees	285,235	105,455
Financial guarantees	1,401,300	12,055
Assets held as guarantee for third-party services	32,371	55,943
Commitments	**6,386,373**	**2,556,289**
Commitments for the purchase of goods and services	5,988,214	2,011,492
Commitments for associates	324,000	419,000
Other	74,159	125,797
Risks	**2,709,497**	**1,958,085**
For third-party assets held for safekeeping	2,609,293	1,879,723
For damages and claims	100,204	78,362
Total	**10,814,776**	**4,687,827**

IX.1 GUARANTEES

Guarantees given, for a total amount of 1,719 million euro, 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 5,988 million euro.

Commitments in associates, amounting to 324 million euro, refer to commitments undertaken by SNAM towards TAP based on shareholding held.

The other commitments mainly refer to the Italgas group, to the binding agreement with the CONSCOOP Group (68.8 million euro) for the purchase of equity investments and business units including 19 gas distribution concessions in central and southern Italy and in Sardinia. The entire enterprise value was set at approximately 68.8 million euro from which the net indebtedness will be deducted at closing of the transaction.

IX.3 RISKS

Risks for third-party assets held, amounting to 2,609 million euro, refer mainly to 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[58], amounting to around 0.32 euro per normal cubic metre (0.24 euro per normal cubic metre at 31 December 2017).

Risks associated with compensation and claims, totalling 100 million euro, refer to compensation potentially payable but not probable in relation to ongoing disputes with low probability of verification of the related business risk.

[58] Value calculated on the basis of the CCI price, i.e. the wholesale price, set quarterly by the ARERA.

ANNEXES

ANNEX 1 - SCOPE OF CONSOLIDATION

Company name	Registered office	Share capital (euro)		Investor	% holding	Consolidation method
Parent company						
CDP Reti S.p.A.	Rome	161,514		Cassa depositi e prestiti S.p.A.	59.10%	
				State Grid Europe Limited	35.00%	
				Cassa Nazionale di Previdenza e Assistenza Forense	2.63%	
				Soci terzi	3.27%	
Consolidated companies						
Albanian Gas Service Company	Tirana (Albania)	875,000	(i)	SNAM S.p.A.	25.00%	Unconsolidated subsidiary
Avvenia the Energy Innovator S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	70.00%	Line-by-line
AS Gasinfrastruktur Beteiligung GmbH	Wien	35,000		SNAM S.p.A.	40.00%	Equity
Asset Company 2 S.r.l.	San Donato Milanese (MI)	10,000,000		SNAM S.p.A.	100.00%	Line-by-line
Asset Company 4 S.r.l.	San Donato Milanese (MI)	23,000,000		SNAM S.p.A.	100.00%	Line-by-line
Asset Company 5 S.r.l.	San Donato Milanese (MI)	10,000		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
Asset Company 6 S.r.l.	San Donato Milanese (MI)	10,000		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
+C22	Rotterdam (NL)	1		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
Baranogas Reti S.r.l.	Turin	600,000		Italgas Reti S.p.A.	100.00%	Line-by-line
CESI S.p.A.	Milan	8,550,000		Terna S.p.A.	42.70%	Equity
CGES A.D.	Podgorica (Montenegro)	155,108,283		Terna S.p.A.	22.09%	Equity
Copow er S.r.l.	Rome	80,000		Tep Energy Solution S.r.l.	51.00%	Unconsolidated subsidiary
CORESO S.A.	Bruxelles	1,000,000		Terna S.p.A.	15.84%	Equity
Cubogas S.r.l.	San Donato Milanese (MI)	1,000,000		Snam 4 Mobility S.p.A.	100.00%	Line-by-line
Difebal S.A.	Montevideo (Uruguay)	140,000		Terna S.p.A.	100.00%	Line-by-line
EGN Distribuzione S.r.l.	Turin	10,000,000		European Gas Netw ork - EGN S.r.l.	100.00%	Line-by-line
ELMED Etudes S.a.r.l.	Tunisi (Tunisia)	908,000		Terna S.p.A.	50.00%	Equity
Enersi Sicilia	San Donato Milanese (MI)	400,000		Snam 4 Mobility S.p.A.	100.00%	Line-by-line
European Gas Netw ork - EGN S.r.l.	Turin	10,000,000		Italgas Reti S.p.A.	60.00%	Line-by-line
Favaragas Reti S.r.l.	Turin	1,000,000		Italgas Reti S.p.A.	100.00%	Line-by-line
Fontenergia S.r.l.	Lanusei (NU)	7,000,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 4	Sassari	1,250,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 6	Sassari	1,950,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 7	Sassari	800,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 9	Sassari	450,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 10	Sassari	1,500,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 11	Sassari	500,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 15	Sassari	350,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 19	Sassari	100,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 26	Sassari	850,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 27	Sassari	1,900,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 35	Sassari	650,000		Medea S.p.A.	100.00%	Line-by-line
Fontenergia 37	Sassari	500,000		Medea S.p.A.	100.00%	Line-by-line
Gasrule Insurance D.A.C.	Dublin	20,000,000		SNAM S.p.A.	100.00%	Line-by-line
GNL Italia SpA	San Donato Milanese (MI)	17,300,000		SNAM S.p.A.	100.00%	Line-by-line
Grecanica Gas S.r.l.	Turin	1,468,000		Italgas Reti S.p.A.	100.00%	Line-by-line
Ischia Gas S.r.l.	Turin	100,000		European Gas Netw ork - EGN S.r.l.	100.00%	Line-by-line
IES Biogas S.r.l.	Pordenone	100,000		Snam 4 Mobility S.p.A.	70.00%	Line-by-line

Company name	Registered office	Share capital (euro)	Investor	% holding	Consolidation method
Infrastrutture Trasporto Gas S.p.A.	San Donato Milanese (MI)	10,000,000	ASSET COMPANY 2 S.r.l.	100.00%	Line-by-line
Interconnector (UK) Ltd	London (UK)	12,754,680	Snam International B.V.	23.54%	Equity
Interconnector Zeebrugge Terminal S.C./C.V. Scrl	Bruxelles (B)	123,946	Snam International B.V.	25.00%	Equity
				48.00%	
Ischia Reti Gas S.r.l.	Turin	300,000	Italgas Reti S.p.A.	100.00%	Line-by-line
Italgas Reti S.p.A.	Turin	252,263,314	Italgas SpA	100.00%	Line-by-line
Italgas S.p.A.	Milan	1,001,231,518	CDP RETI S.p.A.	26.04%	Line-by-line
			SNAM S.p.A.	13.50%	
Italgas Acqua S.p.A.	Milan	50,000	Italgas S.p.A.	100.00%	Line-by-line
Marigliano Gas S.r.l.	Turin	1,200,000	European Gas Netw ork - EGN S.r.l.	100.00%	Line-by-line
Medea S.p.A.	Sassari	4,500,000	Italgas Reti S.p.A.	100.00%	Line-by-line
Metano S.Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano	200,000	Italgas S.p.A.	50.00%	Equity
Monita Interconnector S.r.l.	Rome	10,000	Terna S.p.A.	95.00%	Line-by-line
			Terna Rete Italia S.p.A.	5.00%	
Naturgas S.r.l.	Turin	5,010,000	Italgas Reti S.p.A.	100.00%	Line-by-line
Progas Metano S.r.l.	Turin	220,000	Italgas Reti S.p.A.	100.00%	Line-by-line
Resia Interconnector S.r.l.	Roma	10,000	Terna S.p.A.	100.00%	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 Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 18 S.r.l.	Rome	10,000	Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 19 S.r.l.	Rome	10,000	Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 20 S.r.l.	Rome	10,000	Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Seaside S.r.l.	Bologna	60,000	Italgas S.p.A.	100.00%	Line-by-line
Senfluga Energy Infrastructure Holding S.A.	Athen	40,024,005	SNAM S.p.A.	60.00%	Equity
Siculianagas Reti S.r.l.	Turin	500,000	Italgas Reti S.p.A.	100.00%	Line-by-line
Snam 4 Mobility S.p.A.	San Donato Milanese (MI)	50,000	SNAM S.p.A.	100.00%	Line-by-line
Snam International B.V.	Rotterdam (NL)	6,626,800	SNAM S.p.A.	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.	30.37%	Line-by-line
SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro (BR)	208,714,431	Terna Plus S.r.l.	99.99%	Line-by-line
			Terna Chile S.p.A.	0.01%	
SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro (BR)	45,474,716	Terna Plus S.r.l.	99.99%	Line-by-line
			Terna Chile S.p.A.	0.01%	
Stogit S.p.A.	San Donato Milanese (MI)	152,205,500	SNAM S.p.A.	100.00%	Line-by-line
Tamini Transformers USA L.L.C.	Chicago (USA)	52,089	Tamini Trasformatori S.r.l.	100.00%	Line-by-line
Tamini Transformatori India Private Limited	Magarpatta City (India)	13,175,000	Tamini Trasformatori S.r.l.	100.00%	Line-by-line
Tamini Trasformatori S.r.l.	Legnano (MI)	4,285,714	Terna Energy Solutions S.r.l.	70.00%	Line-by-line
Tep Energy Solution S.r.l.	Rome	1,000,000	Asset Company 4 S.r.l.	82.00%	Line-by-line
Tep Energy Solution Nord Est S.r.l.	Udine	100,000	Tep Energy Solution S.r.l.	50.00%	Unconsolidated subsidiary
TEREGA HOLDING S.A.S. (già TIGF Holding S.A.S.)	Pau (F)	505,869,374	SNAM S.p.A.	40.50%	Equity
Terna Chile S.p.A.	Santiago del Cile (RCH)	1,000,000	Terna Plus S.r.l.	100.00%	Line-by-line
TERNA Crna Gora d.o.o.	Podgorica (Montenegro)	173,000,000	Terna S.p.A.	100.00%	Line-by-line
Terna Energy Solutions S.r.l.	Roma	2,000,000	Terna S.p.A.	100.00%	Line-by-line
Terna Interconnector S.r.l.	Rome	10,000	Terna S.p.A.	65.00%	Line-by-line
			TERNA RETE ITALIA S.p.A.	5.00%	
Terna Peru S.A.C.	Lima (PE)	28,191,000	Terna Plus S.r.l.	99.99%	Line-by-line
			Terna Chile S.p.A.	0.01%	
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
Toscana Energia S.p.A.	Florence	146,214,387	Italgas S.p.A.	48.09%	Equity
Trans Austria Gasleitung GmbH (1)	Wien	76,566	SNAM S.p.A.	84.47%	Equity
Trans Adriatic Pipeline AG	Baar (CH)	1,141,210,000	SNAM S.p.A.	20.00%	Equity
Umbria Distribuzione GAS S.p.A.	Terni	2,120,000	Italgas S.p.A.	45.00%	Equity

(1) At 30 June 2018 Snam S.p.A. howned 84,47% of shares but economic rights are l'89,22%.

(2) Renamed Cubogas S.r.l. from 25 July 2018

(a) values in GBP

(b) of which paid-up share capital 22,061.69 euro

(c) values in Uruguayan Pesos

(d) values in Chilean Peso

(e) values in Real

(f) values in Nuovo Sol

(g) values in Dollar

(h) values in Indian Rupees

(i) values in Tunisian Dinar

(j) values in Albanian Lek

ANNEX 2 - INFORMATION PROVIDED PURSUANT TO LAW 124 OF 4 AUGUST 2017, ART. 1, PARAGRAPHS 125-129

This section is dedicated to the fulfilment of the disclosure obligations introduced, starting from 2018, by Law 124 of 4 August 2017 (Annual Law for the market and competition) on the transparency of public funding received or granted, according to which:

- companies that receive subsidies, contributions, paid assignments and economic benefits of any kind from government agencies and from companies controlled, directly or indirectly, on a legal or de facto basis, by government agencies, including listed companies and their subsidiaries, and from publicly-owned companies, including listed companies and their subsidiaries, are required to publish these amounts in the notes to the financial statements and in the notes to any consolidated financial statements prepared (Article 1, paragraph 125);
- the publication obligations established for government agencies by Article 26 of Legislative Decree 33 of 2013 extend to entities and companies controlled, directly or indirectly, on a legal or de facto basis by government agencies, which, in the notes to their annual accounting reports, are required to publish the acts of provision of support, grants, subsidies and financial aid to enterprises, and of economic benefits of any kind to persons and public and private entities (Article 1, paragraph 126).

The complexity of the rules has given rise to many problems of interpretation, to which the most recent response has come from Assonime (Association of Italian Joint Stock Companies) with the publication of Circular no. 5 of 22 February 2019 on "Transparency in the system of public funding: analysis of the rules and interpretation guidance", in which "guidance is provided for the first fulfilment of the obligations established in Article 1, paragraphs 125 and 126 of Law no. 124/2017, based on a systematic interpretation that takes into account the relationships with other rules in force and adherence to the principle of proportionality". For the aspects where there is greater uncertainty, the Circular "proposes a possible interpretation in the hope that the competent authorities will soon be able to take a position, in order to ensure the correct and uniform fulfilment of the obligations by the parties concerned".

In the desire to pursue an agreed interpretation of the rules, and while awaiting official instructions on the methods of compliance, we have therefore followed the guidance provided in the abovementioned circular.

With regard to the objective scope of the rules, we have referred to the definitions provided by the IAS 20, according to which transfers of resources relating to transactions "which cannot be distinguished from the normal trading transactions of the entity" are not government grants. This approach is also confirmed by several interpretations provided by the Italian National Anti-Bribery Authority (ANAC) which in its Resolution no. 59 of 2013, with reference to the procedures for implementing the disclosure obligations introduced by Legislative Decree 33 of 2013, clarifies that the objective scope of application should not include the resources recognised as "consideration for the performance of professional services and for the execution of works, public works, services and supplies".

It follows, therefore, that the disclosure obligations established by Law 124 of 2017 must be limited to transactions that provide the beneficiary a direct or indirect economic benefit through the provision of incentives or concessions that have the effect of providing relief, savings or the acquisition of resources, and that are in the nature of gifts or donations.

In addition, in view of the scope of Law 124 of 2017, which forms part of the protection for the market and competition, the required disclosure does not include public aid granted on the basis of a general system, i.e. aid that is available to everyone and therefore does not distort the normal rules of competition. Of relevance in this regard, is the statement in the Assonime Circular that "general measures available to all companies and falling within the general structure of the related system established by the government must certainly be excluded from the publication obligation". Moreover, "similar considerations also apply to economic benefits that, although they come under the category of selective advantages and therefore of State aid, are received under an aid scheme. In the case of an aid scheme, the advantages are available to all enterprises that fulfil certain conditions, on the basis of predetermined general criteria".

In accordance with the guidance provided by the Assonime circular no. 5/2019, the information provided in application of Law no. 124/2017 is provided in table form, indicating:

- the identification details of the granting entity and the beneficiary;
- the amount of the economic benefit awarded or received;
- a brief description of the type of benefit.

The tables below show the public funding received and disbursed in 2018 by the fully-consolidated subsidiaries of the CDP RETI Group basis that fall within the subjective scope of the law in question, as presented in their respective separate or sub-consolidated financial statements.

The disbursements, which are exclusively of national origin, unless otherwise specified, are recognised on a cash basis and, in accordance with the provisions of paragraph 127 of Article 1 of Law 124 of 2017.

Public grants pursuant to art.1 c.126 of Law no.124/2017

(thousands of euro)

Granting authority	Beneficiary: Name / Company name	Fiscal code	VAT number	Causal	Amount
Terna SpA	ISTITUTO NAZIONALE PER L'ASSICURAZIONE CONTRO GLI INFORTUNI SUL LAVORO	00968951004	00968951004	I edit. Master Biennial in Integrated Management of Safety and Health in the Evolution of the World of Work.	12
Terna SpA	Fondazione Bambino Gesù Onlus	97531780589	97531780589	Financial support for housing for children's families	40

(thousands of euro)

Beneficiary	Licensor: Name / Company name	Fiscal code	VAT number	Causal	Amount
Italgas Reti S.p.A.	GUARDAVALLE	00400390795	00400390795	Grants for installations "Legge 784/80"	241
Italgas Reti S.p.A.	SORBO SAN BASILE	00347860793	00347860793	Grants for installations "Legge 784/80"	52
Italgas Reti S.p.A.	FALCIANO DEL MASSICO	83001830617	00423460617	Grants for installations "Legge 784/80"	209
Italgas Reti S.p.A.	MORRO D'ORO	81000370676	00516370673	Grants for installations "Legge 784/80"	14
Italgas Reti S.p.A.	MANOPPELLO	81000530683	00947010682	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	60
Italgas Reti S.p.A.	PETTORANO SUL GIZIO	83002390660	00223990664	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	237
Italgas Reti S.p.A.	PREZZA	00189230667	00189230667	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	75
Italgas Reti S.p.A.	SAN VALENTINO IN ABRUZZO CITERIORE	81000410688	00288790686	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	19
Italgas Reti S.p.A.	SILVI	81000550673	00175740679	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	10
Italgas Reti S.p.A.	BUCCHIANICO	00251860598	00251860598	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	29
Italgas Reti S.p.A.	AVEZZANO	81002910669	00159380666	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	10
Italgas Reti S.p.A.	CASTIGLIONE MESSER RAIMONDO	80003890672	00195720677	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	10
Italgas Reti S.p.A.	TURRIVALIGNANI	00224700682	00224700682	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	1
Italgas Reti S.p.A.	CASTILENTI	81000270678	00824050678	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	8
Italgas Reti S.p.A.	INTRODACQUA	00197560667	00197560667	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	6
Italgas Reti S.p.A.	PINETO	00159200674	00159200674	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	2
Italgas Reti S.p.A.	POPOLI	00123600686	00123600686	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	1
Italgas Reti S.p.A.	SCAFA	81000070680	00208610683	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	3
Italgas Reti S.p.A.	LETTOMANOPPELLO	00254240682	00254240682	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	50
Italgas Reti S.p.A.	ELICE	00221990682	00221990682	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	13
Italgas Reti S.p.A.	CASALINCONTRADA	00273020693	00273020693	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	30
Italgas Reti S.p.A.	BUGNARA	00190300665	00190300665	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	11
Italgas Reti S.p.A.	CATIGNANO	80001570680	00221020688	Grants for installations "L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84"	22
Terna SpA	Regione Siciliana	80012000826	02711070827	Advance payment of grants granted for Terna S.p.A. projects financed with public contributions from the resources of the Regional Operational Programme (ROP) FESR Sicilia 2014 - 2020 - OT4 - Action 4.3.1	14,499
Terna SpA	MISE	80230390587	80230390587	Advance payment of grants granted for Terna S.p.A. projects financed with public contributions from the resources of the National Operational Programme (NOP) Enterprise & Competitiveness 2014 - 2020 ERDF - AXIS IV - Investment priority 4d - Action 4.3.1	47,053

REPORT OF THE INDEPENDENT AUDITORS

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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 financial statement as of 31 December 2018, the consolidated income statement, consolidate statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of 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 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No.38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in 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 addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 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. 091349737 - **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. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 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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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 of 31 December 2018 The Group makes significant investments for the development and maintenance of its electricity transmission and gas transport and distribution infrastructures. "Property, plant and equipment" and "Intangible assets" amount to Euro 43,331 million as of 31 December 2018 and represent 93% of total non-current assets. 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 amounts of the investments made, we have identified an area of attention relating to the correctness of the accounting of the same based on the provisions of the international accounting standards IFRIC 12 – “Service Concession Arrangements", IAS 16 – “Property, plant and equipment" and IAS 38 "Intangible assets".	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. We verified the reconciliation of the asset book with the accounting data and we carried out the recalculation on a sample basis of the depreciation for the year, also checking the decreases of the period on a sample basis. 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 the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are 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. 38/2005 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are 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, the directors use the going concern basis of accounting unless they either intend to liquidate Cdp Reti SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is 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 auditor's 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 our 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 the directors;
- We concluded on the appropriateness of the directors' 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 the board of statutory auditors, in its 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. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

The directors of Cdp Reti SpA are 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 2018, 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. 58/1998, with the consolidated financial statements of the Cdp Reti Group as of 31 December 2018 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 the Cdp Reti Group as of 31 December 2018 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. 39/2010, 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, the directors of Cdp Reti SpA have 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.

Rome, 18 April 2019

PricewaterhouseCoopers SpA

Signed by

Luigi Necci
(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 Fabrizio Palermo, 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 2018.

2. The assessment of the appropriateness of the administrative and accounting procedures followed in preparing the consolidated financial statements at 31 December 2018 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 2018:

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;

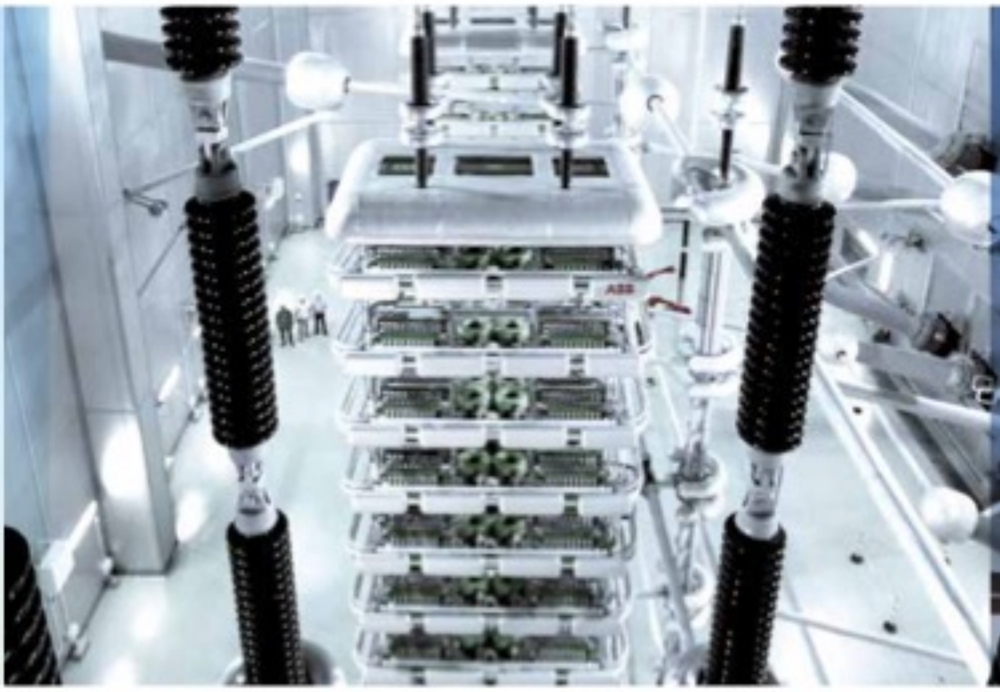
b) correspond to the information in the books and other accounting records;

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, 18 April 2019

Chief Executive Officer	Financial Reporting Manager
Fabrizio Palermo	Alessandro Uggias
/signature/Fabrizio Palermo	/signature/Alessandro Uggias



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Report on operations of CDP RETI S.p.A.

1. OPERATING PERFORMANCE OF CDP RETI S.P.A.

1.1 KEY MANAGEMENT FIGURES

Financial Higlights

Key financial figures

Items		31/12/2018	31/12/2017
Dividends	(thousand of euros)	410,097	479,149
- of which SNAM	*(thousand of euros)*	*231,602*	*312,104*
- of which TERNA	*(thousand of euros)*	*134,662*	*124,898*
- of which ITALGAS (1)	*(thousand of euros)*	*43,834*	*42,148*
Pofit (loss) on operations (2)	(thousand of euros)	(30,061)	(28,780)
Net income (loss)	(thousand of euros)	387,560	488,350
Comprehensive income	(thousand of euros)	387,351	490,719

Key balance sheet and cash flow figures

Items		31/12/2018	31/12/2017
Equity investments book value		5,023,065	5,023,065
- of which SNAM	*(thousand of euros)*	*3,086,833*	*3,086,833*
- of which TERNA	*(thousand of euros)*	*1,315,200*	*1,315,200*
- of which ITALGAS	*(thousand of euros)*	*621,032*	*621,032*
Receivables for dividends not yet collected	(thousand of euros)	95,359	*90,828*
Equity	(thousand of euros)	3,495,548	3,504,168
Net financial debt (2)	(thousand of euros)	(1,620,582)	(1,642,278)

Other key figures and ratios

Items		31/12/2018	31/12/2017
Equity investments market value (2) (3)	(thousand of euros)	8,049,373	8,308,249
Dividends collected	(thousand of euros)	405,566	388,321
Dividends distributed	(thousand of euros)	395,971	424,693
Net cash flow for the period	(thousand of euros)	22,319	(57,949)
ROE (2)	(%)	11%	14%
Net financial debt/Equity (2)	(numbers)	0.46	0.47
Net financial debt/Dividends (2)	(numbers)	3.95	3.43

(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 FINANCIAL 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 Italian 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).

The economic results of CDP RETI S.p.A. for 2018 compared with the previous year, are summarised in the management Income statement reported below.

Reclassified Income Statement CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2018	31/12/2017
Dividends	410,097	479,149
Pofit (loss) on core business	**410,097**	**479,149**
Financial income and expenses	(28,332)	(26,879)
Administrative expenses	(1,728)	(1,901)
Pofit (loss) on operations	**(30,061)**	**(28,780)**
Other revenues and income	21	36
Operating income	**380,058**	**450,406**
Income taxes	7,502	37,944
NET INCOME (LOSS)	**387,560**	**488,350**

CDP RETI's main positive income statement items are determined by the **dividends** regarding:

- **SNAM:** equal to 232 million euro (56% of total dividends), of which (i) 136 million euro (collected in June 2018) and relating to the balance of the 2017 dividend and (ii) 95 million euro (collected on 24 January 2019) as an advance on the 2018 dividend (resolved by the Board of Directors of Snam S.p.A. on 6 November 2018[59]). Please note that, as a result of the Board of Directors' decision on 7 March 2017, a return to the distribution of interim dividends was arranged, beginning with the dividend for 2017.
- **TERNA:** equal to 135 million euro (33% of total dividends), of which (i) 87 million euro (collected in June 2018) and relating to the balance of the 2017 dividend and (ii) 47 million euro (collected on 21 November 2018) as an advance on the 2018 dividend (resolved by the Board of Directors of Terna S.p.A. on 09 November 2018[60]).
- **ITALGAS:** equal to 44 million euro (11% of total dividends) collected in May 2018 and relating to the balance of the 2017 dividend.

Compared with the same period of the previous year, the decrease (approximately 69 million euro; -14%) was mainly due to the decrease in dividends attributable to SNAM (232 million euro compared with 312 million euro in 2017). This decrease is due to the distribution by SNAM in 2017 of the entire 2016 dividend (221 million euros) and the 2017 interim dividend (91 million euros, as a result of the change in its dividend policy), and to the distribution in 2018 of 136 million euros attributable solely to the 2017 balance and 95 million euros attributable to the 2018 interim dividend.

However, the higher dividends referring to TERNA (135 million euro vs 125 million euro; +8%) and to ITALGAS (44 million euro vs 42 million euro; +5%) in relation to the changed dividend policies (in terms of dividend per share) of the subsidiaries have a positive effect.

Among the negative income statement items instead, **financial expenses** are worth noting, totalling 28 million euro and mainly referring to the interest expense on Term Loans (14 million euro also considering the settlement of the interest connected to the Swap Transactions) and the Bond (14 million euro). Compared to the reference period, the item is

[59] Based on the results of the first nine months and the forecasts for the entire 2018, the Board of Directors of SNAM resolved on the distribution to the shareholders of an advance dividend, equal to 0.0905 euro per share, with payment starting from 23 January 2019, with coupon due on 21 January and record date 22 January.

[60] Based on the results of the first six months and the forecasts for the entire 2018, the Board of Directors of TERNA resolved on the distribution to the shareholders of an advance dividend, equal to 7.87 euro cents per share, with payment starting from 21 November 2018, with coupon due on 19 November and record date 20 November 2018.

affected, for the all of 2018, by the additional debt contracted in May 2017 to finance the acquisition of 1.12% of SNAM and 0.97% of ITALGAS [62].

Administrative expenses are mainly affected by staff costs (including the remuneration of directors and statutory auditors) and the fees paid to the parent company/third party suppliers for the services received in the period.

Income tax, positive for about 8 million euro (38 million euro as at 31 December 2017), primarily refers to the estimated tax consolidation income deriving from the surplus compensation of the economic growth assistance benefit (3 million euro) and the surplus compensation (3 million euro) of the interest expense on an individual basis transferable to tax consolidation[63]. The impact (2 million euro) from the difference between the income to the tax consolidation - relating to the economic growth assistance benefit surplus and interest expense - estimated when preparing the financial statements and the amount effectively transferred to the tax consolidation when declaring income, also has a positive effect.

In comparative terms, there is a significant decrease in tax consolidation income compared to the previous period, since the fiscal year 2017 benefited mostly from the estimated income deriving from the surplus of the economic growth assistance (ACE) benefit (34 million euro) and the surplus (6 million euro) of the interest expense transferable to tax consolidation[64] unused in the previous years.

The estimated economic growth assistance (ACE) benefit relating to 2018 only, allows the taxes for the period to be absorbed. However, on this point, please note that the 2019 Budget suppressed the economic growth assistance (ACE) relief, effective from the tax period following the current one as at 31 December 2018, with the related tax benefit consequently ceasing in the coming years.

The income items above determine an **Income** equal to 388 million euro, down (-21%) compared to 2017 (488 million euro), mainly due to the lower SNAM dividends (232 million vs 312 million euro in 2017) and the lower contribution (8 million euro vs 38 million euro in 2017) from tax management.

1.3 STATEMENT OF FINANCIAL POSITION

CDP RETI S.p.A.'s statement of financial position as at 31 December 2018 and 31 December 2017 is summarised in the following tables.

Reclassified Assets CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2018	31/12/2017
Equity investment in Snam	3,086,833	3,086,833
Equity investment in Terna	1,315,200	1,315,200
Equity investment in Italgas	621,032	621,032
Other assets	111,943	141,926
Cash and cash equivalents	65,921	43,602
TOTAL ASSETS	**5,200,928**	**5,208,593**

As at 31 December 2018, total assets stood at 5,201 million euro and mainly consisted of balance sheet items relating to **equity investments** (about 97% of total assets) in SNAM, TERNA and ITALGAS (for an overall amount of 5,023 million euro and unchanged compared to 2017).

The slight decrease in total assets of about 8 million euro is mainly due to the reduction (about 34 million euro) in receivables for tax consolidation (mostly following the collection, in November 2018, of the receivable from the parent company CDP) and the increase (22 million euro) in cash or cash equivalents.

With specific reference to the value of the **equity investments** held, please note that, also in light of the latest stock market values recorded:

[62] For further information, please refer to the 2017 Annual Financial Report.

[63] The final amount will be calculated and settled, when preparing the consolidated income tax return.

[64] Since usable - during IRES liquidation relating to the global overall income - as part of the Group's tax.

- **SNAM**: closing price as at 28 December 2018 equal to 3.8 euro, weighted average with price volumes of the last month before 31 December 2018 equal to 3.9 euro;
- **TERNA**: closing price as at 28 December 2018 equal to 5.0 euro, weighted average with price volumes of the last month before 31 December 2018 equal to 5.0 euro;
- **ITALGAS**: closing price as at 28 December 2018 equal to 5.0 euro, weighted average with price volumes of the last month before 31 December 2018 equal to 5.0 euro;

above the book value (equal to 2.93 euro for **SNAM**, 2.19 euro for **TERNA** and 2.95 euro for **ITALGAS**), as well as the information currently available, no impairment indicators are highlighted that are such to compromise the maintenance of the carrying amount of the equity investments held.

The **other assets** mainly regard:

- the receivable from SNAM (95 million euro) for the advance on the 2018 dividend resolved in November 2018 and collected in January 2019;
- the receivable (about 6 million euro) from the parent company CDP by way of compensation of the ACE benefit and the interest expense transferred to the tax consolidation. On this point, please note that the collection in November 2018 of the receivable relating to the tax consolidation led to a positive impact in economic terms equal to about 2 million euro following the difference between the receivable estimated at the time of the financial statements (equal to about 40 million euro) and the receivable resulting from sending the tax returns (about 42 million euro); the receivable from the parent company CDP (8 million euro) for the margin paid to it to fulfil the Credit Support Agreements signed at the time of signing the cash flow hedge. This amount, almost unchanged compared to 31 December 2017, is affected by the mark to market trends of the derivative signed in May 2015 and those of the derivative signed in May 2017;
- the deferred tax assets, equal to about 2 million euro and substantially unchanged compared to 2017, connected to the 2 hedging derivatives.

The breakdown of **cash or cash equivalents**, compared to 31 December 2017, is unchanged and almost entirely refers to bank current accounts and, to a lesser extent, to the irregular deposit with the parent company CDP[65]. On this point, it is worth remembering that, in terms of allocating the liquidity held in bank current accounts, the Company opened (July 2017) a new current account with a leading credit institution, also with a view to diversifying the counterparty risk.

To better understand the changes taking place in cash or cash equivalents, please refer to the subsequent section “Net Financial Debt”.

Reclassified Equity abd Liabilities CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2018	31/12/2017
Equity	3,495,548	3,504,168
- Share capital and reserves	*3,107,989*	*3,015,818*
- Net income for the period	*387,560*	*488,350*
Loans	1,694,891	1,694,361
- of which owed to Cdp	*762,701*	*762,462*
Other liabilities	10,489	10,064
- of which owed to Cdp	*9,020*	*8,674*
TOTAL LIABILITIES	**5,200,928**	**5,208,593**

As at 31 December 2018, the **equity** (equal to 3,496 million euro), in addition to the *income for the period*, mainly includes: i) the item *Shareholders’ payment reserve for investments*, representing the value of the payment of about 3.5 billion euro made in 2012 by CDP and intended to finance the purchase of the investment in SNAM, net of the portion of this reserve distributed to CDP in 2014 (about 1.5 billion euro), ii) the item *Share premium account* deriving from the transfer in 2014 of TERNA (about 1.3 billion euro), iii) the item *Valuation reserve* (negative for 6 million euro) representing the measurement at fair value of the *Interest Rate Swap* (IRS) derivatives, net of the connected deferred taxes and iv) the advance on the 2018 dividend equal to 256 million euro distributed in November 2018.

[65] Compared to the deposit agreement “under which a party (depositary) receives from the other (depositor) a movable asset with the obligation to safeguard and return it in kind” (art. 1766 of the Italian Civil Code), in the irregular deposit (concerning cash or other interchangeable assets), the depositary is not obliged to return exactly the same assets but must return just as many of them of the same kind and quality. Therefore the depositary becomes, at the time of delivery, the owner of the assets delivered to it (art. 1782 of the Italian Civil Code).

Compared to the end of 2017 (when it amounted to 3,504 million euro), the item in question benefited from the net income for the period (388 million euro) partly offset by dividends distributed (2017 dividend balance[66] and 2018 dividend advance[67]) in the period to the shareholders (totalling 396 million euro).

The **Loans** at 31 December 2018, considering the current portion and the non-current portion, consist as follows:

Loan (thousand of euros)	31/12/2018		31/12/2017	
Items	Non current	current	Non current	current
Bond	748,848	8,322	748,556	8,322
Term Loan Facility	936,803	917	936,620	862
Total	**1,685,652**	**9,239**	**1,685,177**	**9,184**

Total debt as at 31 December 2018, totalling 1,695 million euro (also considering accrued interest to be paid after 31 December 2018) and substantially in line with the comparison period, refers to: i) Term Loans (for a total of 938 million euro) granted by a pool of banks (about 516 million euro) and the parent company CDP (about 422 million euro); ii) a bond (for a total nominal value of 750 million euro), listed on the Irish Stock Exchange, subscribed by institutional investors (nominal value of about 412 million euro, equal to 55%) and the parent company (nominal value of about 338 million euro, equal to 45%).

To better understand the Overall financial debt, please refer to the subsequent section “Net Financial Debt”.

Other liabilities mainly refer (i) to the overall measurement (8 million euro) of the 2 Interest Rate Swap (IRS) derivatives which during the year recorded a substantial alignment of the overall mark to market and the consequent liabilities to be recognised, (ii) the measurement of the deferred tax liabilities (1 million euro) against the advance on the 2018 dividend resolved and not collected by SNAM in 2018 and (iii) trade payables and payables to the parent company CDP, mostly in relation to the current service agreements.

1.4 NET FINANCIAL DEBT

As at 31 December 2018, CDP RETI S.p.A.’s net financial position, calculated in compliance with ESMA[68]/2015/1415, the guidelines on alternative performance indicators that can be applied since 3 July 2016, for comparison with the position at the end of 2017, was as follows:

66 140 million euro distributed in the form of euro 867.00 for each of the 161,514 shares.

67 256 million euro distributed in the form of euro 1,584.62 for each of the 161,514 shares. This advance was approved (by the Board of Directors on 15 November 2018) on the basis of the Company's accounting situation at 30 June 2018, prepared in accordance with IFRS. The Company ended the period with a net income of approximately 256 million euro and available reserves of approximately 3,369 million euro.

68 European Securities and Markets Authority.

Net Financial Debt

(thousand of euros)

	Items	31/12/2018	31/12/2017
A	Irregular deposit with CdP (1)	1	1
B	Other cash with banks (1)	65,920	43,601
C	**Liquidity (A) + (B)**	**65,921**	**43,602**
D	**Current Financial Receivable (2)**	**8,388**	**8,480**
E	Current banks portion debt of non current debt (3)	(505)	(474)
F	Current CdP portion debt of non current debt (3)	(413)	(388)
G	Current Bond issued portion (3)	(8,322)	(8,322)
H	**Current Financial Debt (E) + (F) + (G)**	**(9,240)**	**(9,184)**
I	**Net Current Financial Indebtedness (C) + (D) + (H)**	**65,069**	**42,898**
L	Non current banks loans (4)	(515,242)	(515,141)
M	Non current CdP loans (4)	(421,561)	(421,479)
N	Bond issued (4)	(748,848)	(748,556)
O	**Non current Financial Indebtedness (L) + (M) + (N)**	**(1,685,651)**	**(1,685,177)**
P	**Net Financial Debt (I) + (O)**	**(1,620,582)**	**(1,642,278)**

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"

Liquidity as at 31 December 2018 almost completely consists of the sums of deposits held at leading banking institutions (66 million euro).

Current financial assets refer to the sums deposited at the parent company CDP to guarantee the current Interest Rate Swap derivatives (with negative fair values as at 31 December and shown in the other liabilities). On this point, please note how the receivable from SNAM for the 2018 dividend advance (about 95 million euro, collected in January 2019), in line with 2017, is considered by CDP RETI as the financial flow generated by its operating activity and consequently excluded from the calculation of the Net Financial Debt.

Current financial debt refers to the interest due on the Bond (about 8 million euro) and, residually, to that on the Term Loans, both concerning the financial impacts that will be felt in May 2019.

Non-current financial debt, which does not consider the merely accounting effects deriving from the measurement at fair value of the derivatives, refers to:

- the Term Loans (937 million euro), equal to 750 million euro and 187 million euro (nominal value of 188 million euro, respectively, less the costs associated to it, which are amortised along its duration), granted by a pool of banks (55%) and the parent company CDP (45%);
- the Bond (749 million euro, equal to the nominal value of 750 million euro, less the costs associated to it, which are amortised along its duration), subscribed by institutional investors (about 412 million euro, equal to 55%) and the parent company CDP (about 338 million euro, equal to 45%);

As at 31 December 2018, **net financial debt,** totalling 1,621 million euro (including accrued interest to be paid after 31 December 2018), is down compared to 31 December 2017 (1,642 million euro, including the current portion of borrowings), primarily due to the greater cash and cash equivalents (from 44 million euro to 66 million euro).

As at 31 December 2018, net financial debt towards the parent company CDP is equal to 754 million euro (substantially coinciding with that of the end of 2017).

Below are the main economic terms of the new loan contracts:

- total amount financed of about 938 million euro (of which 516 million euro provided by a pool of banks and 422 million euro by the parent company CDP);

- floating interest rate, equal to the 6-month Euribor increased by a margin of 145 bps (for the 188 million euro loan) and 100 bps[69] (for the 750 million euro loan);
- application of a zero floor to the entire interest rate (Euribor + spread) and not just to the benchmark rate;
- interest periods of six months (in May and November);

Furthermore, 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, also the rate was converted from floating to fixed (1.827% per annum for the 188 million euro loan and 1.375% for the 750 million euro loan) by contracting a derivative - at market conditions[70], 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 derivatives are entirely similar to those of the hedged item, and in particular:

- its notional amount is equal to the nominal value of the debt;
- the maturities (May 2020 for the 750 million euro loan and May 2023 for the 188 million euro loan) and the settlement date of the differentials of the derivative (on a half-yearly basis and in arrears[71]) are aligned with the two loan agreements;
- the underlying variable rate and the spread coincide:
  - 6-month Euribor + 100 bps relating to the 750 million euro derivative;
  - 6-month Euribor + 145 bps relating to the 188 million euro derivative.

The total fair value of the IRS derivatives, which are not listed on an active market, as calculated weekly by the parent company CDP[72], amounted to a negative value for CDP RETI of approximately 9 million euro at 31 December 2018. 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.

In terms of *liquidity,* the increase (+26 million euro) compared to the end of 2017 mainly benefits from:

- the dividends received in the period from subsidiaries (406 million euro; +8 million euro compared to 388 million euro in 2017);
- the collection of the tax consolidation scheme credit (42 million euro vs 5 million euro in 2017)

only partly offset (i) by the dividends (2017 balance and 2018 advance) distributed in the period to the shareholders (396 million euro vs 425 million euro in 2017), (ii) the payment of the bond coupon (14 million euro) and the interest expense (also taking into account the settlement of interest related to the Swap Transactions) connected to the 750 million euro Term Loan (11 million euro) and the 188 million Term Loan euro (3 million euro).

As at 31 December 2018 the Net Financial Debt/Equity ratio (leverage) stood at 0.46 (0.47 at the end of 2017); the reduction, compared to the reference period, is mainly attributable to the decrease in net financial debt in relation to the higher liquidity.

When compared to 2017, the Net Financial Debt/Dividends ratio (representing the result of the company’s core business) is higher instead (from 3.43 to 3.95) due to the lower dividends due.

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[69] 150 bps if the highest credit rating assigned to CDP RETI reaches BB+ (or equivalent) or lower for the rating agencies (Moody’s, Fitch or S&P);

[70] 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.

[71] 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%.

[72] 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.

2. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI

PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 2, LETTER B) OF THE CONSOLIDATED LAW ON FINANCE

With regard to the “Report on corporate governance and ownership structure: key characteristics of the risk and internal control management systems with regard to the financial reporting process, also consolidated, pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance”, it is possible to refer to the contents of paragraph 8 of the Report on Operations of the consolidated financial statements, also applicable to the financial statements of CDP RETI S.p.A..

4.

Financial statements 2018

FORM AND CONTENT OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

The financial statements as at 31 December 2018 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
- VII - 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 2017 of the parent company Cassa depositi e prestiti S.p.A.

With reference to the information to be provided on the obligations introduced in relation to the transparency of public funding by Law no. 124 of 4 August 2017, there are no cases that can be reported.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

STATEMENT OF FINANCIAL POSITION ASSETS

(euros)

Assets	Notes	31/12/2018	*of wich from related parties*	31/12/2017	*of wich from related parties*
Non-current assets					
Property, plant and equipment		-	-		
Investment property		-	-		
Intangible assets		-	-		
Equity investments	1	5,023,064,811	-	5,023,064,811	
Non-current financial assets		-	-		
Deferred tax assets	2	2,400,922	-	2,335,633	
Other non-current assets		-	-		
Total non-current assets		**5,025,465,733**	**-**	**5,025,400,444**	
Current assets					
Current financial assets	3	8,387,583	8,387,583	8,477,117	8,477,117
Tax receivables	4	109,566	-	134,592	
Other current assets	5	101,044,633	101,040,874	130,978,714	130,974,131
Cash and cash equivalents	6	65,920,717	867	43,602,147	917
Total current assets		**175,462,499**	**109,429,324**	**183,192,570**	**139,452,165**
Total assets		**5,200,928,232**	**109,429,324**	**5,208,593,014**	**139,452,165**

STATEMENT OF FINANCIAL POSITION LIABILITIES

(euros)

Liabilities and equity	Notes	31/12/2018	*of wich from related parties*	31/12/2017	*of wich from related parties*
Equity					
Share capital	7	161,514		161,514	
Reserves	8	3,345,110,811		3,345,110,811	
Valuation reserves	9	(5,663,317)		(5,454,923)	
Retained earnings		24,318,001		1,158	
Advances on dividends	10	(255,938,315)		(324,000,314)	
Net income for the period (+/-)		387,559,714		488,349,795	
Total Equity		**3,495,548,408**		**3,504,168,041**	
Non-current liabilities					
Provisions					
Staff severance pay	11	17,790		10,168	
Loans	12	1,685,651,743	758,543,294	1,685,176,637	758,329,497
Other financial liabilities	13	8,719,678	8,719,678	8,415,349	8,415,349
Deferred tax liabilities	14	1,144,310		1,112,930	
Other non-current liabilities		-			
Total non-current liabilities		**1,695,533,521**	**767,262,972**	**1,694,715,084**	**766,744,846**
Current liabilities					
Current portion of loans	15	9,239,417	4,157,737	9,184,134	4,132,860
Tax payables	16	46,927	-	30,465	
Other current liabilities	17	559,959	300,349	495,290	260,629
- Trade payables		*90,614*	-	*105,440*	
- Payables to parent companies		*299,045*	*299,045*	*258,681*	258,681
- Payables due to pension and social security institutions		*15,050*	-	*16,457*	
- Other payables		*155,250*	*1,304*	*114,712*	1,948
Total current liabilities		**9,846,303**	**4,458,086**	**9,709,889**	**4,393,489**
Total liabilities and equity		**5,200,928,232**	**771,721,058**	**5,208,593,014**	**771,138,335**

INCOME STATEMENT

(euros)

Income statement items	Notes	31/12/2018	*of wich from related parties*	31/12/2017	*of wich from related parties*
Revenues					
Dividends	18	410,097,321	410,097,321	479,149,093	479,149,093
Total revenues		**410,097,321**	**410,097,321**	**479,149,093**	**479,149,093**
Costs					
Capital expenditure					
Capital losses on equity investments					
Decreases in the value of financial instruments					
Total costs					
Profit (loss) on operations		**410,097,321**	**410,097,321**	**479,149,093**	**479,149,093**
Financial income	19	11,388		31,669	
Borrowing expenses	20	(28,342,402)	(16,061,679)	(26,910,559)	(14,999,725)
Net impairment of financial assets	21	(1,414)	(87)		
Administrative expenses:	22	(1,728,488)	(641,042)	(1,900,620)	(667,201)
a) staff costs		(669,209)	(111,465)	(558,681)	(71,711)
b) other administrative expenses		(1,059,279)	(529,577)	(1,341,939)	(595,490)
Amortisation, depreciation and impairment of non-current assets					
Impairment of current assets					
Profit (loss) on operations		**(30,060,916)**	**(16,702,808)**	**(28,779,510)**	**(15,666,926)**
Other operating income (costs)					
Other income	23	21,169	-	35,971	15,227
Other costs					
Income before taxes		**380,057,574**	**393,394,513**	**450,405,554**	**463,497,394**
Income taxes, current and deferred taxes	24	7,502,140		37,944,241	
NET INCOME FOR THE YEAR		**387,559,714**	**393,394,513**	**488,349,795**	**463,497,394**

STATEMENT OF COMPREHENSIVE INCOME

(euros)

Comprehensive income items	Notes	31/12/2018	31/12/2017
Income (loss) for the period		**387,559,714**	**488,349,795**
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 at FVTOCI			
Cash flow hedges	13	(208,394)	2,369,223
Total other comprehensive income net of taxes		**(208,394)**	**2,369,223**
COMPREHENSIVE INCOME		**387,351,320**	**490,719,018**

STATEMENT OF CHANGES IN EQUITY: CURRENT YEAR

(euros)	Notes	Balance at 31/12/2017	Change in re-opening balances	Balance at 01/01/2018	Allocation of net income for previous year		Changes for the period								Equity at 31/12/2018
							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	Stock options	Comprehensive income for 2018	
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:	8														-
a) income		33,461		33,461	24,316,843										24,350,304
b) other		2,029,920,022		2,029,920,022											2,029,920,022
Valuation reserves:	9														-
a) financial assets at FVTOCI															-
b) cash flow hedges		(5,454,923)		(5,454,923)										(208,394)	(5,663,317)
c) other reserves															-
Equity instruments															-
Advances on dividends	10	(324,000,314)		(324,000,314)	324,000,314					(255,938,315)					(255,938,315)
Treasury shares															-
Net income (loss) for the year		488,349,795		488,349,795	(348,317,157)	(140,032,638)								387,559,714	387,559,714
Equity		**3,504,168,041**		**3,504,168,041**	**-**	**(140,032,638)**	**-**	**-**	**-**	**(255,938,315)**	**-**	**-**	**-**	**387,351,320**	**3,495,548,408**

STATEMENT OF CHANGES IN EQUITY: PREVIOUS YEAR

(euros)	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								Equity at 31/12/2017
						Equity transactions							Comprehensive income for 2017	
				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	Stock options		
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	32,559		32,559	902										33,461
b) other	2,029,920,022		2,029,920,022											2,029,920,022
Valuation reserves:														
a) financial assets at FVTOCI														
b) cash flow hedges	(7,824,146)		(7,824,146)										2,369,223	(5,454,923)
c) other reserves														
Equity instruments														
Advances on dividends	(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	(253,001,277)	100,692,673								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 CASH FLOWS

(euros)	Notes	31/12/2018	31/12/2017
Net income		**387,559,714**	**488,349,795**
Adjustments to net income to reflect cash flow from operating activities:			
Amortisation and depreciation			
Recoveries (impairment) on financial assets	21	1,414	
Provisions for staff severance pay	11	7,661	
Net writedowns (revaluations) from hedging activities			
Effect of accounting using the equity method			
Net losses (gains) on disposals, cancellations and eliminations of assets			
Dividends	18	(410,097,321)	(479,149,093)
Interest income	19	(11,388)	(31,669)
Interest expense	20	28,342,402	26,910,559
Income taxes	24	(7,502,140)	(37,944,241)
Changes in working capital:			
- Inventories			
- Trade receivables			
- Trade payables		25,537	(150,957)
- Provisions			
- Current financial assets		90,000	2,510,000
- Other assets and liabilities		89,602	(107,367)
Cash flow from working capital		**205,140**	**2,251,675**
Change in provisions for employee benefits	11	(683)	(15,948)
Dividends received	18	405,566,445	388,320,831
Interest received	19	11,388	31,669
Interest paid	20	(27,804,126)	(26,130,347)
Income taxes paid net of tax credits reimbursed / income from participation in the tax consolidation mechanism	5	42,011,017	5,276,793
Cash flow from operating activities		**418,289,523**	**367,870,026**
- with related parties		*431,260,397*	*385,994,224*
Investing activities:		-	
- Property, plant and equipment		-	
- Intangible assets		-	
- Companies in the scope of consolidation and business units		-	
- Equity investments		-	(187,634,699)
- Change in payables and receivables relative to investing activities		-	
Cash flow from investing activities		**-**	**(187,634,699)**
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)**
- with related parties		-	*(187,634,699)*
Assumption of long-term financial debt		-	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	(395,970,953)	(424,692,987)
Net cash flow from financing activities		**(395,970,953)**	**(238,184,096)**
- with related parties		*(372,616,821)*	*(315,715,845)*
Net cash flow for the year		**22,318,570**	**(57,948,769)**
Cash and cash equivalents at start of year	6	**43,602,147**	**101,550,915**
Cash and cash equivalents at end of year	6	**65,920,717**	**43,602,147**

NOTES TO THE FINANCIAL STATEMENTS

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 2018, 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 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 should be noted that the adoption of IFRS 9 also led to the updating of the financial statements essentially with regard to the income statement items, with the creation of a specific item for the write-downs/write-backs of financial assets called “Recoveries (impairment) on financial assets”.

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 main cases for which the use of subjective assessments by management is most required are:

- the recoverable value of the investments;
- the quantification of adjustments/reversals of value of financial assets;
- the fair value of Interest Rate Swap hedging derivatives;
- the value of current and deferred taxes.

The description of the accounting policies applied to the main items of the financial statements provides the information necessary to identify the main assumptions and valuations used in the preparation of the financial statements.

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 (27 March 2019), no events occurred requiring an adjustment to the figures approved or additional reporting.

Other issues

International accounting standards authorised and in force since 2018

Details are provided below of the European Commission Regulations that have endorsed the new international financial reporting standards, or amendments to standards already in force, whose application became mandatory from 1 January 2018:

- Commission Regulation (EU) 2018/519 of 28 March 2018, published in the Official Journal L. 87 of 03 April 2018, adopting IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration. The interpretation clarifies the accounting of transactions that involve advance consideration paid or received in a foreign currency.
- European Commission Regulation (EU) no. 2018/498 of 22 March 2018, published in the Official Journal L 82 of 26 March 2018, adopting the Amendments to IFRS 9 “Financial Instruments - Prepayment Features with Negative Compensation”. The amendments are intended to clarify the classification of particular prepayable financial assets when applying IFRS 9[73].
- Commission Regulation (EU) 2018/400 of 14 March 2018, published in the Official Journal L 72 of 15 March 2018, adopting Amendments to IAS 40 Investment Property – Transfers of investment property. The amendments clarify when a company is allowed to reclassify a property to (or from) the “investment property” category.
- Commission Regulation (EU) 2018/289 of 26 February 2018, published in the Official Journal L 55 of 27 February 2018, adopting Amendments to IFRS 2 Share-based Payments, aimed at clarifying how companies should apply the standard in some specific instances.

[73] The Regulation establishes that the amendments it contains shall apply from the start of the first financial year that begins on or after 1 January 2019. The text, however, indicates that the Commission considers the following: “Since Commission Regulation (EU) 2016/2067 has become applicable for financial periods starting at the latest on or after 1 January 2018, companies should be able to use International Financial Reporting Standard (IFRS) 9 Financial Instruments as amended in the Annex to this Regulation as from the date of application of Regulation (EU) 2016/2067. Therefore, companies should be able to apply the provisions of this Regulation for financial periods starting on or after 1 January 2018.”

- Commission Regulation (EU) 2018/182 of 7 February 2018, published in the Official Journal L 34 of 8 February 2018, adopting Annual Improvements to International Financial Reporting Standards 2014-2016 Cycle that lead to changes to IAS 28 – Investments in associates and joint ventures, IFRS 1 - First-time Adoption of International Financial Reporting Standards and IFRS 12 – Disclosure of Interests in Other Entities (the latter should already be applied for 2017). The objective of the annual improvements is to address non-urgent, but necessary, issues discussed by the IASB during the project cycle on areas of inconsistency in International Financial Reporting Standards or where clarification of wording is required.
- Commission Regulation (EU) no. 2017/1988 of 3 November 2017, published in the Official Journal L 291 of 9 November 2017, adopting the Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments to IFRS 4 aim to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard for insurance contracts replacing IFRS 4 (IFRS 17).
- Commission Regulation (EU) no. 2017/1987 of 31 October 2017, published in the Official Journal L 291 of 9 November 2017, adopting the Clarifications to IFRS 15 – Revenue from contracts with customers. The amendments aim to clarify some requirements and provide additional transitional relief for companies that are implementing the Standard.
- Commission Regulation (EU) no. 2016/2067 of 22 November 2016, published in the Official Journal L 323 of 29 November 2016, adopting IFRS 9 – Financial Instruments, aimed at improving the financial reporting of financial instruments by addressing concerns that arose in this area during the financial crisis. In particular, IFRS 9 responds to the G20's 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 Official Journal L. 295 of 29 October 2016, adopting IFRS 15 –Revenue from contracts with customers, which aims to improve the financial reporting of revenue and to improve comparability of the top line in financial statements globally.

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 and endorsed, but not yet in force and therefore not applicable to the preparation of the financial statements at 31 December 2018 (unless, where permitted, it is chosen to adopt them in advance):

- Commission Regulation (EU) 2019/412 of 14 March 2019, published in Official Journal L. 73 of 15 March 2019, 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 Accounting Standards (IAS) 12 and 23 and International Financial Reporting Standards (IFRS) 3 and 11. Companies should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2019. The main amendments concerned:
  - IAS 12 “Income taxes”
    Accounting for income taxes arising from the payment of dividends;
  - IAS 23 “Borrowing Costs”
    The company must consider any loans originally contracted for the development of an asset as part of its loans when the asset is ready for its intended use or sale;
  - IFRS 3 “Business combinations”
    The company must restate the interests previously held in a joint operation when it obtains control of the business;
  - IFRS 11 “Joint arrangements”
    The company must not restate interests previously held in a joint operation when it obtains joint control of the business.
- Commission Regulation (EU) 2019/402 of 13 March 2019, published in Official Journal L. 72 of 14 March 2019, 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 regard to the international accounting standard IAS 19. The aim of the amendments is to clarify that, following the modification, reduction or termination of the defined benefit plan, the entity should use the position resulting from the recalculation of its net liabilities (assets) for defined benefits in the remainder of the reference period. The entities should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2019.
- Commission Regulation (EU) 2019/237 of 8 February 2019, published in Official Journal L. 39 of 11 February 2019, 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 regard to the international accounting standard IAS 28. Said amendments clarify that any entity that does not apply the equity method to financial instruments in associate companies or joint ventures should apply IFRS 9 to long-term equity interests without taking into account any adjustments made to their carrying amount. Entities apply these amendments retroactively, starting from financial periods that start on or after 1 January 2019. Early application is permitted.
- Commission Regulation (EU) 2018/1595 of 23 October 2018, published in the Official Journal L 265 of 24 October 2018, adopting IFRIC 23, which explains how to reflect uncertainty in accounting for income taxes.
- Commission Regulation (EU) 2017/1986 of 31 October 2017, published in the Official Journal L 291 of 9 November 2017, adopting IFRS 16 – Leasing, which aims to improve financial reporting on lease contracts. Companies shall

apply IFRS 16, at the latest, as from the commencement date of their first financial year starting on or after 1 January 2019. CDP has not adopted IFRS 16 in advance in its consolidated financial statements.

Accounting standards, amendments and interpretations not yet endorsed by the European Union at the reporting date of 31 December 2018.

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

- IFRS 17 Insurance Contracts (issued on 18 May 2017);
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017);
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018);
- Amendments to IFRS 3: Business Combinations (issued on 22 October 2018);
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018).

A complete list of the international accounting standards and the related amendments published by the IASB (adopted and not yet adopted by the EU) is available on the EFRAG website: https://www.efrag.org/Endorsement.

Other information

On 27 March 2019, the Board of Directors approved CDP Reti's draft 2018 financial statements, authorising their publication and distribution within the time limits and in accordance with the procedures laid down by current legislation applicable to the company.

For requirements relating to the preparation of the consolidated financial statements, in accordance with Article 2364 of the Italian Civil Code and the company's articles of association, approval of the draft financial statements of CDP Reti and approval of the consolidated financial statements of the CDP Reti Group by the Shareholders' meeting will take place within 180 days of the end of the financial year.

The transition to the international accounting standards IFRS15 and IFRS9

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.

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.

The Company, which took part in a specific project on the subject launched by its parent company, CDP, to carry out an assessment of the macro impacts resulting from the application of the new standard, and the related gaps that could result, has not identified any areas of applicability of the standard such as to affect the classification and measurement of financial instruments outstanding at 31 December 2017. There were no impacts on the company due to the application of the new standard that must be represented in the changes to the opening balances of shareholders' equity at 1 January 2018.

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 “Financial assets” as described above.

The equity investments held as at 31 December 2018 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.

These are possible indicators of impairment:

- the achievement of negative economic results or, in any case, a significant deviation from budget objectives (or those set out in long-term plans), if, following specific analyses, they are significant for their effects on the estimate of future cash flows expected in the possible preparation of the impairment test;
- significant financial difficulties of the investee company;
- likelihood that the investee company will file for bankruptcy or be subject to other financial restructuring procedures;
- a carrying amount of the investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the net assets of the investment (including any goodwill);
- the distribution of a dividend greater than the profit for the period and the existing profit reserves;
- the distribution of a dividend by the investee company higher than the profit in the comprehensive income statement (or comprehensive income for financial companies) in the year in which it is declared.

With reference to listed equity investments, they are also considered indicators of impairment:

- a reduction in the market price compared to the reference book value of more than 40% or for a period of more than 24 months;
- downgrade of the rating by at least four notches from the time when the investment in the shareholding was made, if considered relevant together with other available information.

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.

Financial assets measured at amortised cost

This item contains the debt instruments and loans that meet both of the conditions below:

- the financial asset is held as part of a business model whose objective is the collection of contractual cash flows;
- the contractual terms of the financial asset require, at certain dates, cash flows only represented by capital payments and the interest on the amount of the capital to be reimbursed.

Specifically, recognised in this item are the receivables from banks, or other subjects, deriving from loans, finance leases, factoring transactions, debt securities, etc..

This item also includes (in the financial statements of the lessor) the financial leases regarding assets being constructed and those waiting to be leased in case of contracts “with transfer of the risks”.

The initial recognition of “Financial assets measured at amortised cost” takes place at the settlement date for the debt instruments, or at the disbursement date for loans.

Initial recognition is at fair value, which is normally equal to the price of the transaction, including any incidental revenues and costs attributable to the transaction.

After the initial recognition, these assets are measured at amortised cost, equal to the value at which the financial asset is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between this initial amount and the maturity amount, adjusted by any loss allowance. The effective interest rate is the rate that discounts the estimated future payment flows for the expected duration of the financial asset, 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.

In some cases, the financial asset is considered non-performing at initial recognition because the credit risk is very high and, in case of purchase, it is significantly discounted. In this case, for the non-performing financial assets acquired or originated at initial recognition, an effective interest rate is calculated, credit-risk adjusted, including the expected losses on initial receivables in the estimates of financial flows.

The amortised cost method is not used for loans whose short-term duration means that discounting is considered to have a negligible effect. This measurement rule is also used for loans without a specific expiration date or demand loans.

Assets measured at amortised cost, including cash and cash equivalents, are used to calculate a loss allowance according to IFRS 9, and the amount of these losses is recognised through profit or loss under financial charges. Specifically, an expected one-year loss is recognised on the instruments classified in stage 1 (i.e. the financial assets at the time of the origination, where not impaired, and the instruments for which no significant increase has occurred in the credit risk compared to the initial recognition), at the date of the initial recognition and at each subsequent reporting date. For the instruments classified in stage 2 (performing financial assets for which a significant increase in the credit risk has occurred compared to the initial recognition) and in stage 3 (non-performing exposures), an expected loss is recognised instead for the residual lifetime of the financial instrument.

For performing financial assets (stage 1 and 2), the value adjustments are calculated on the basis of the risk parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, in addition to a significant rise in the credit risk, objective evidence of impairment is found (stage 3), the amount of the loss measured as the difference between the contractual financial flows provided for by the contract and all of the financial flows expected to be received, discounted at the original effective interest rate.

Expected cash flows take into account the expected recovery time and the expected realisable value of any guarantees.

The amount of the loss to be recognised through profit or loss is defined on the basis of an analytical measurement process or by consistent categories, thus attributed analytically to each position, and takes into account forward looking information and the possible alternative recovery scenarios.

If the reasons for the impairment are removed following an event taking place after the initial recognition, write-backs recognised in the income statement are recorded.

Assets measured at amortised cost 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.

In the case where it is not possible to check the substantial transfer of risks and benefits, the financial assets are derecognised if no type of control is maintained on the same assets. Otherwise, the retention, also only partial, of this control means that the assets are maintained in the financial statements to an extent that is equal to the residual involvement.

The transferred financial assets are derecognised from the financial statements also in case of retention of the contractual rights to receive the related cash flows, in the presence of a concurrent assumption of an obligation to transfer the above-mentioned flows, and only said flows, without significant delay to other third party subjects.

During the life of the financial assets, specifically for the financial assets measured at amortised cost, it is also possible for these to be subject to renegotiation of the contractual terms. In this case it must be checked whether the contractual amendments made determine the derecognition of the original instrument and the recognition of the new financial instrument.

To define the amendments that determine the derecognition of the original contract and the recognition of a new contract it is necessary to run a case-by-case analysis, at times introducing significant elements of judgement.

In general, the changes to a financial asset lead to its derecognition and the recognition of a new asset when these are substantial in nature. However, in the absence of timely reference indications in the IFRS accounting standard, a list of the main changes that lead to a substantial amendment to the existing contractual terms has been identified, introducing a different nature of the risks and consequently implying the derecognition.

These are listed below:

- change to the counterparty;
- change to the reference currency;
- replacement of payable to equity;
- datio in solutum, whose repayment depends on the fair value of an asset;
- other cases of substantial change to the nature of the contract such as, for example, the introduction of contractual clauses that expose the debtor to new risk components;
- amendments granted to performing customers, which show no economic-financial difficulties (so-called "forborne" exposures are thus not included in this case), which envisage the use of market parameters to redetermine the financial conditions of the loan agreement, with the aim of retaining the customer.

In case of changes that are not considered to be significant, the gross value is redetermined by calculating the current value of the financial flows resulting from the renegotiation, at the original rate of the exposure.

The difference between the gross value of the financial instrument before and after the renegotiation of the contractual conditions, adjusted to consider the associated amendments to the cumulative value adjustments, is recognised in the income statement as profit or loss from contractual amendments without derecognition.

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 nominal value and adjusted to reflect expected losses in accordance with IFRS 9 and any effects are recognised through profit or loss under “Recoveries (impairment) on financial assets”. In particular, since cash and cash equivalents consist mainly of cash deposits at banks, classified in stage 1 (i.e. for which no significant increase has occurred in the credit risk compared to initial recognition), an expected one-year loss is recognised.

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 BALANCE SHEET

I. ASSETS

Non-current assets

1. Equity investments

The net amount of this 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.. There were no changes in value in the period and the breakdown of the item is as follows:

Equity investments: breakdown

(euros)

Names	31/12/2018	31/12/2017
Italgas SpA	621,032,150	621,032,150
SNAM SpA	3,086,832,661	3,086,832,661
Terna SpA	1,315,200,000	1,315,200,000
Total	**5,023,064,811**	**5,023,064,811**

Equity investments in subsidiaries, joint ventures and companies subject to significant influence: information on investments

Names	Registered office	% holding
1. Italgas S.p.A.	Milan	26.04%
2. SNAM S.p.A.	San Donato Milanese	30.37%
3. Terna S.p.A.	Rome	29.85%

Equity investments in subsidiaries, joint ventures and companies subject to 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	6,926	1,641	314	1,329	621	Control
SNAM SpA	22,990	2,586	960	5,986	3,087	Control
Terna SpA	17,130	2,319	712	4,054	1,315	Control

(1) Data from the 2018 Annual Report - Consolidated Financial Statements

The table below shows changes in equity investments:

Equity investments: changes for the year

(euros)

Items/Figures	31/12/2018	31/12/2017
A. Opening balance	**5,023,064,811**	**4,835,430,112**
B. Increases	**-**	**187,634,699**
B.1 Purchases	-	187,634,699
B.2 Writebacks		
B.3 Revaluations		
B.4 Other increases		
C. Decreases	**-**	**-**
C.1 Sales		
C.2 Writedowns		
C.3 Other decreases	-	
D. Closing balance	**5,023,064,811**	**5,023,064,811**

2. Deferred tax assets

Following below is a breakdown of "Deferred tax assets" recognised at 31 December 2018 for a total amount of 2,401 thousand euro (2,336 thousand euro at 31 December 2017).

Deferred tax assets: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Deferred IRES	23,182	22,396
Deferred tax assets recognized in equity	2,377,740	2,313,237
Total	**2,400,922**	**2,335,633**

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 the derivative contracts entered into in 2015 and 2017 to hedge cash flows.

The following tables indicate the change in deferred tax assets during the year:

Change in deferred tax assets (recognised in the income statement)

(euros)

Items/Figures	31/12/2018	31/12/2017
1. Opening balance	**22,396**	**22,820**
2. Increases	**23,182**	**22,396**
2.1 Deferred tax assets recognised during the year	23,182	22,396
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		
d) other	23,182	22,396
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**22,396**	**22,820**
3.1 Deferred tax assets derecognised during the year	22,396	22,820
a) reversals	22,396	22,820
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**23,182**	**22,396**

Change in deferred tax assets (recognised in equity)

(euros)

Items/Figures	31/12/2018	31/12/2017
1. Opening balance	**2,313,237**	**3,284,963**
2. Increases	**571,737**	**-**
2.1 Deferred tax assets recognised during the year	571,737	-
a) in respect of previous periods	-	
b) due to change in accounting policies	-	
c) others	571,737	
2.2 New taxes or increases in tax rates	-	
2.3 Other increases	-	
3. Decreases	**507,234**	**971,726**
3.1 Deferred tax assets derecognised during the year	507,234	971,726
a) reversals	507,234	971,726
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	**2,377,740**	**2,313,237**

Current assets

3. Current financial assets

"Current financial assets" at 31 December 2018 were recognised at 8,388 thousand euro (8,477 thousand euro at 31 December 2017) 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 taken out.

Current financial assets: breakdown

(euro)

Items/Figures	31/12/2018	31/12/2017
Loans to CDP for CSA	8,387,583	8,477,117
Total	**8,387,583**	**8,477,117**

4. Tax receivables

The balance of "Tax receivables" includes assets related to current taxes.

Tax receivables: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
IRAP receivables	109,566	109,566
Advances for VAT	-	24,976
Other tax receivables	-	50
Total	**109,566**	**134,592**

5. Other current assets

The following table shows the breakdown of "Other current assets", which at 31 December 2018 were recognised for the amount of 101,045 thousand euro (130,979 thousand euro at 31 December 2017):

Other current assets: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Receivables from CDP for tax consolidation	5,657,024	40,087,340
Receivables from CDP for tax consolidation: withholdings	24,713	43,303
Receivables from SNAM for interim dividend	95,359,137	90,828,261
Other current assets	3,759	19,810
Total	**101,044,633**	**130,978,714**

As at 31 December 2018, the amount due from SNAM S.p.A. was recognised under current assets. The receivable refers to the advance on the 2018 dividend, which was approved by the investee on 6 November 2018 and amounts to 0.0905 per share. CDP RETI received the advance on 24 January 2019.

Current assets also include the net amount due from the parent company CDP as a result of the tax consolidation mechanism, including:

- receivables of 2,257 thousand euro resulting from the excess 2018 ACE transferable to tax consolidation;
- receivables of 3,400 thousand euro resulting from interest expense that cannot be deducted at individual level but can be transferred to tax consolidation;

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 at 31 December 2018 consist of:

- balance of bank current accounts;
- balance of the interest-bearing demand deposit held with the parent company CDP.

The table below summarises cash and cash equivalents at 31 December 2018 including interest accrued and not yet paid.

Cash and cash equivalents: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Deposit with CDP	867	917
Banks	65,919,850	43,601,230
Total	**65,920,717**	**43,602,147**

II. LIABILITIES

Equity

7. Share capital

Share capital: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Share capital	161,514	161,514
Total	**161,514**	**161,514**

At 31 December 2018, the share capital consisted of 161,514 shares without par value (likewise at 31 December 2017), 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	31/12/2018	31/12/2017
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.

At 31 December 2018, 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) Items/Figures	Balance at 31/12/2018	Possible uses (*)	Amount available
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	(5,663,317)		
Retained Earnings	24,318,001	A, B, C	24,318,001
Advances on dividends	(255,938,315)		
Total	**3,107,988,694**		**3,369,428,812**

(*) 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) Items/Figures	31/12/2018	31/12/2017
Valuation reserves CFH Swap	(5,663,317)	(5,454,923)
Total	**(5,663,317)**	**(5,454,923)**

10. Advances on dividends

Having satisfied the requirements of Article 2433-bis of the Italian Civil Code, on 15 November 2018 the Company resolved to distribute advances on dividends for 2018, amounting to 1,584.62 euro per share, for a total of 255,938,315 euro payable in November 2018.

Advances on dividends: breakdown

(euros) Items/Figures	31/12/2018	31/12/2017
Advances on dividends	(255,938,315)	(324,000,314)
Total	**(255,938,315)**	**(324,000,314)**

Non-current liabilities

11. Staff severance pay (TFR)

At 31 December 2018 the Company's non-current liabilities include 17,790 euro (10,168 euro at 31 December 2017) relative to the "Staff severance pay" provision made in accordance with current regulations for the employees.

The provision for Staff severance pay (TFR) increased as a result of the amounts set aside in the period.

Staff severance pay: annual changes

(euros) Items/Figures	31/12/2018	31/12/2017
A. Opening balance	**10,168**	**10,342**
B. Increases	**7,661**	**5,344**
B.1 Allocation in the year	7,661	5,344
B.2 Other increases		
C. Decreases	**39**	**5,518**
C.1 Payments made	-	5,496
C.2 Other decreases	39	22
D. Closing balance	**17,790**	**10,168**

12. Loans

The total of "Loans" at 31 December 2018, considering the current portion and the non-current portion, amounts 1,695 million euro (1,694 million euro at 31 December 2017).

The breakdown of loans is shown in the table below.

Loans: breakdown

(euros)	31/12/2018		31/12/2017	
Items/Figures	Non current	Current	Non current	Current
Bond	748,848,441	8,321,918	748,556,274	8,321,918
Term loan facility 2014	750,000,000	650,125	750,000,000	605,000
Term loan facility 2017	186,803,302	267,374	186,620,363	257,216
Total	**1,685,651,743**	**9,239,417**	**1,685,176,637**	**9,184,134**

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)	31/12/2018			31/12/2017		
Items/Figures	CDP	Other Istitutional Investors	Pool of Banks	CDP	Other Istitutional Investors	Pool of Banks
Bond	336,981,799	411,866,642	-	336,850,324	411,705,950	
Term loan facility 2014	337,500,000	-	412,500,000	337,500,000		412,500,000
Term loan facility 2017	84,061,495	-	102,741,807	83,979,173		102,641,190
Total	**758,543,294**	**411,866,642**	**515,241,807**	**758,329,497**	**411,705,950**	**515,141,190**

The table below shows the reconciliation between the opening and closing balances of non-current financial liabilities, with the change having no impact on cash flows from financing activities in the statement of cash flows.

Non-current loans: reconciliation between opening and closing balances

			No cash flow changes				
(euros)	31/12/2017	Changes from financing cash flows	Effect of changes in foreign exchange rates	Changes in fair value	from obtaining or losing control of subsidiaries or other	Other changes	31/12/2018
Loans (non current)	1,685,176,637	-	-	-	-	475,106	1,685,651,743
Total liabilities from financing activities	**1,685,176,637**	**-**	**-**	**-**	**-**	**475,106**	**1,685,651,743**

13. Other financial liabilities

Other financial liabilities: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Cash-flow hedge derivative contract	8,719,678	8,415,349
Total	**8,719,678**	**8,415,349**

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 of the two Term Loans. The overall Mark to market of the two derivatives deteriorated during the year, thus increasing financial liabilities by around 304 thousand euro on the previous year.

The features of the derivative contracts are described in the report on operations, in the net financial debt section.

14. Deferred tax liabilities

Deferred tax liabilities amounted to 1,144 million euro (1,113 million euro at 31 December 2017) and are broken down as follows:

Deferred tax liabilities: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Deferred tax liabilities recognized in equity	-	22,991
Deferred tax liabilities recognized in PL	1,144,310	1,089,939
Total	**1,144,310**	**1,112,930**

Deferred tax liabilities recognised under Equity at 31 December 2017 refer instead to deferred tax recognised on the cash flow hedge derivative entered into in May 2017, whose value was positive at 31 December 2017. The value of deferred tax recognised under Equity was transferred entirely to the income statement during the year.

Deferred tax liabilities recognised in the income statement originate from the recognition of tax on the 2018 dividend approved by SNAM in November 2018 and collected in January 2019.

The table below shows the changes in deferred tax liabilities.

Deferred tax liabilities recognised in Equity: change

(euros)

Items/Figures	31/12/2018	31/12/2017
1. Opening balance	**22,991**	**-**
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	**22,991**	**-**
3.1 Deferred tax liabilities derecognised during the year	22,991	
a) reversals	22,991	
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 recognised in the Income Statement: change

(euros)

Items/Figures	31/12/2018	31/12/2017
1. Opening balance	**1,089,939**	**-**
2. Increases	**1,144,310**	**1,089,939**
2.1 Deferred tax liabilities recognised during the year	1,144,310	1,089,939
a) in respect of previous periods	-	
b) due to change in accounting policies	-	
c) others	1,144,310	1,089,939
2.2 New taxes or increases in tax rates	-	
2.3 Other increases	-	
3. Decreases	**1,089,939**	**-**
3.1 Deferred tax liabilities derecognised during the year	1,089,939	
a) reversals	1,089,939	
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	**1,144,310**	**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 at 31 December 2018:

Current loans: breakdown by type of creditor

(euros)	31/12/2018			31/12/2017		
Items/Figures	CDP	Other Istitutional Investors	Pool of Banks	CDP	Other Istitutional Investors	Pool of Banks
Bond	3,744,863	4,577,055	-	3,744,863	4,577,055	
Term loan facility 2014	292,556	-	357,569	272,250		332,750
Term loan facility 2017	120,318	-	147,056	115,747		141,469
Total	**4,157,737**	**4,577,055**	**504,625**	**4,132,860**	**4,577,055**	**474,219**

16. Tax payables

Tax payables at 31 December 2018 refer to the payable resulting from the payment of VAT, recognised under other tax payables, and to tax withheld by the Company on behalf of employees and independent contractors, which is paid to the revenue authorities the month after being withheld.

Tax payables: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Irpef withholdings on employees	12,882	10,363
Irpef withholdings on professionals	58	10,084
Other tax payables	33,987	10,018
Total	**46,927**	**30,465**

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)

Items/Figures	31/12/2018	31/12/2017
Trade payables	90,614	105,440
Payables to parent companies	299,045	258,681
Payables due to pension and social security institutions	15,050	16,457
Other payables	155,250	114,712
Total	**559,959**	**495,290**

Below is the breakdown of Trade payables:

Trade payables: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Trade payables	8,089	15,250
Trade payables for invoices to receive	82,525	90,190
Total	**90,614**	**105,440**

The table below provides a breakdown of amounts due to the parent company recognised in the financial statements at 31 December 2018:

Payables to parent companies: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Administrative services	189,120	196,945
Seconded personnel	36,854	
Payables to directors to pay to CDP	55,178	53,260
Other payables	17,893	8,476
Total	**299,045**	**258,681**

Payables to pension and social security institutions as at 31 December 2018 amounted to 15 thousand euro (16 thousand euro at 31 December 2017) and refer to payables to INPS recognised in December 2018 with reference to the fixed and variable remuneration of employees, as shown in the table below.

Payables due to pension and social security institutions: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Payables to INPS	14,831	15,315
Payables to INAIL	219	1,142
Total	**15,050**	**16,457**

Other payables recognised, amounting to 155 thousand euro (115 thousand euro at 31 December 2017), refer to the following:

Other payables: breakdown

(euros)

Items/Figures	31/12/2018	31/12/2017
Due to company bodies	133,559	94,285
Payables to employees	20,387	18,479
Payables to pension fund	1,304	1,948
Total	**155,250**	**114,712**

Payables to company bodies refer to remuneration accrued by members of the Board of Directors (which do not need to be paid to the parent CDP) and members of 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.

Disclosures on the fair value measurement of financial instruments

Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

(euros)	31/12/2018			31/12/2017		
Items/Figures	L1	L2	L3	L1	L2	L3
Non-current financial assets						
Current financial assets						
Total						
Non-current financial liabilities						
- Other financial liabilities		8,719,678			8,415,349	
Current financial liabilities						
Total		**8,719,678**			**8,415,349**	

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

(euros)	31/12/2018				31/12/2017			
Items/Figures	CA	L1	L2	L3	CA	L1	L2	L3
Non-current assets								
Current assets								
- Current financial assets	*8,387,583*			*8,387,583*	*8,477,117*			*8,477,117*
- Cash and cash equivalents	*65,920,717*			*65,920,717*	*43,602,147*			*43,602,147*
Total	**74,308,300**		**-**	**74,308,300**	**52,079,264**	**-**	**-**	**52,079,264**
Non-current liabilities								
- Loans	*1,685,651,743*	*723,375,000*		*936,803,302*	*1,685,176,637*	*780,750,000*		*936,620,363*
Current liabilities								
- Current portion of loans	*9,239,417*	*8,321,918*		*917,499*	*9,184,134*	*8,321,918*		*862,216*
Total	**1,694,891,160**	**731,696,918**		**937,720,801**	**1,694,360,771**	**789,071,918**		**937,482,579**

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 operations

18. Dividends

The profit on operations consists of dividends to be distributed, as approved during the year by the investee companies. All dividends were collected in the period, except for the advance on the 2018 dividend approved by SNAM S.p.A. in November 2018, equal to 95,359 thousand euro, which was collected in January 2019.

Dividends: breakdown

(euros)

Items/Figures	2018	2017
Italgas S.p.A. dividend	43,833,592	42,147,685
SNAM S.p.A. dividend	231,601,529	312,103,608
Terna S.p.A. dividend	134,662,200	124,897,800
Total	**410,097,321**	**479,149,093**

Profit (loss) on operations

19. Financial income

Financial income at 31 December 2018 amounted to 11 thousand euro (32 thousand euro at 31 December 2017) and came mainly from interest income accrued on bank current accounts.

Financial income: breakdown

(euros)

Items/Figures	2018	2017
Interest income on current bank account	11,388	31,669
Total	**11,388**	**31,669**

20. Borrowing costs

Borrowing costs relate to interest expense for the period, as detailed in the table below.

Borrowing costs: breakdown

(euros)

Items/Figures	2018	2017
Interest on Term facility 2014	5,546,875	5,782,105
Interest on Term facility 2017	2,427,045	1,524,804
Interest on Bond	14,354,667	14,349,170
Other interest expense	6,013,815	5,254,480
Total	**28,342,402**	**26,910,559**

Other interest expense amounting to 6,014 thousand euro was recognised in relation to cash flow hedge derivative contracts (5,983 thousand euro) and, for the remaining part, mainly for interest expense accrued in fulfilment of the guarantee agreement (CSA) entered into with the signing of derivative contracts.

21. Recoveries (impairment) on financial assets

In application of the impairment rules introduced by IFRS 9 as of 1 January 2018, impairment losses on financial assets were recognised in the period, in relation to which no significant deterioration of the creditworthiness was observed compared to their initial recognition but for which losses are expected over a one-year period.

The calculation of the impairment losses takes into account the rating, the recovery rate and the probability of default of the financial assets in question.

The table below shows the impairment losses recognised as at 31 December 2018.

Impairment on financial assets: breakdown

(euros)

Items/Figures	2018	2017
Adjustments to financial assets:	1,327	
- recognised under cash and cash equivalents		
- recognised under other current financial assets	87	
Total	**1,414**	**-**

22. Administrative expenses

“Administrative expenses” at 31 December 2018 amounted to 1,728 thousand euro (1,901 thousand euro at 31 December 2017) and are broken down as follows into staff costs and other administrative expenses:

Administrative expenses: breakdown

(euros)

Items/Figures	2018	2017
Staff costs	669,209	558,681
Other administrative expenses	1,059,279	1,341,939
Total	**1,728,488**	**1,900,620**

Staff costs

Staff costs at 31 December 2018 amounted to 669 thousand euro (559 thousand euro at 31 December 2017). The increase is the result of the headcount being lower in the previous period due to exit of one staff member from February to September 2017. In addition, the headcount has increased by one staff member, who was seconded to the Company from the parent CDP. The breakdown is shown in the table below.

Staff costs: breakdown

(euros)

Items/Figures	2018	2017
Employees	472,817	393,264
Board of Directors and Board of Auditors	159,539	165,417
Reimbursement of expenses for third-party employees seconded to the Company	36,854	
Total	**669,209**	**558,681**

Average headcount

The average headcount broken down by job category is illustrated in the following table:

Average headcount

Items/Figures	2018	2017
Senior Managers		
Middle Managers	3	2
Office staff	1	1
Manual w orkers		
Total	**4**	**3**

Other administrative expenses

Other administrative expenses: breakdown

(euros)

Items/Figures	2018	2017
Professional and financial services	536,623	846,854
Outsourcing CDP	418,966	394,021
General and administrative services	11,106	8,986
Utilities, taxes and other expenses	92,584	92,078
Total	**1,059,279**	**1,341,939**

The 2018 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		116,832
Certification	Pricew aterhouseCoopers SpA	46,787
Other services		-
Total		**163,619**

Other operating income (costs)

23. Other income

This item, with a balance of 21 thousand euro (36 thousand euro at 31 December 2017), refers 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 at 31 December 2017. It also includes the effects of roundings.

Other income: breakdown

(euros)

Items/Figures	2018	2017
Other income	21,167	35,971
Other expenses	2	
Totale	**21,169**	**35,971**

Income taxes, current and deferred taxes

24. Income taxes, current and deferred taxes

Taxes for 2018 are detailed below:

Income taxes: breakdown

(euros)

Items/Figures	2018	2017
1. Current taxes (-)	5,657,024	40,065,232
- of which income from participation in the tax consolidation mechanism	*5,657,024*	*40,065,232*
2. Change in current taxes from previous years (+/-)	1,898,701	(1,030,628)
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	786	(424)
5. Change in deferred tax liabilities (+/-)	(54,371)	(1,089,939)
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	**7,502,140**	**37,944,241**

Current income taxes reflect the “income from participation in the tax consolidation mechanism” arising from payment of the excess ACE incentive (2,257 thousand euro) and the payment of interest expenses (3,400 thousand euro) that cannot be deducted on an individual basis but can be transferred to the tax consolidation mechanism in accordance with the provisions of the tax consolidation agreement[74]. 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” derives mainly from the difference between the income to the tax consolidation relating to the excess ACE incentive and the interest expense estimated when preparing the financial statements as at 31 December 2017 and the amount effectively transferred to the tax consolidation in the tax returns filed in light of the revised Group tax base.

The “change in deferred tax liabilities” refers to the recognition of deferred tax liabilities on the 2018 dividend approved by SNAM in November 2018 and yet to be collected at the end of the year.

The reconciliation between the theoretical and actual tax liability is shown below:

[74] 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	31/12/2018	Tax rate
Income (loss) before taxes	**380,057,574**	
IRES theoretical tax liability (rate 27.5%)	**(91,213,819)**	**-24.00%**
Increases in taxes		
- non-deductible temporary differences	(23,182)	-0.01%
- non-deductible permanent differences on interest expenses	(6,799,443)	-1.79%
- non-deductible permanent differences	(1,095,462)	-0.29%
Decreases in taxes		
- dividends 95% exempt	94,646,499	24.90%
- ACE benefit	6,720,313	1.77%
- excess financial expenses	3,399,722	0.89%
- other	22,396	0.01%
IRES Actual tax liability	**5,657,024**	**1.49%**

Reconciliation between theoretical and actual tax liability: IRAP

(euros)

Items/Figures	31/12/2018	Tax rate
Difference between revenues and production costs	**(1,307,962)**	
IRAP Theoretical tax liability (5.57% rate)	**72,853**	**-5.57%**
Increases in taxes	(74,353)	n/s
Decreases in taxes	1,600,969	n/s
IRAP Actual tax liability	**0**	**n/s**

IV – INFORMATION ON RISKS AND THE RELATED HEDGING POLICIES

Concerning risk exposure and the related hedging policies, it should be highlighted that, as a holder of significant equity investments, CDP RETI is exposed to the risks typically associated with investee companies. Such risks are monitored through a rigorous risk measurement and control process, which is carried out in first instance by the Directors as part of their assessment of the recoverability of the investments made. Their assessment is then reflected in the carrying amount shown in the financial statements for the related equity investments. Moreover, risk profiles are measured constantly on the basis of market price volatility of the related shares.

The Company also avails of support from the parent company CDP, pursuant to the service agreements entered into. In particular, risk management is coordinated at group-level in synergy with the competent structures of CDP.

The main risks identified are listed below.

Market risk

In conducting its business, CDP RETI is exposed to the market risk and, in particular, to the interest rate risk, which is the risk that the fair value or the cash flows of financial instruments may fluctuate due to changes in market interest rates.

The table below shows the breakdown of financial debt by fixed-rate and floating rate type, as at 31 December 2018 and as at 31 December 2017:

(euros)	31/12/2018		31/12/2017	
Items/Figures	Total	%	Total	%
Fixed interest	757,170,359	44.7%	756,878,192	44.7%
Variable interest	937,720,801	55.3%	937,482,579	55.3%
Total	**1,694,891,160**	**100.0%**	**1,694,360,771**	**100.0%**

The Company has two interest rate swap contracts linked to the overall Term Loan and uses these to convert floating-rate loans into fixed-rate loans. The overall notional value of existing derivative contracts is 938 million euro (750 million euro on the Term Loans entered into in 2014 and 2017) and their overall fair value at 31 December 2018 was negative at 8,720 thousand euro (8,415 thousand euro at 31 December 2017). Reference is made to the "Net Financial Debt" section of the Report on Operations for a more analytical description of the item.

Risk related to the financial performance and the profit or loss of SNAM, Terna and Italgas

Given its nature as a financial holding company, the performance and liquidity of the Company are conditioned not only by the market values of its investee companies, but also by the ability of subsidiaries to pay dividends (and by their dividend policies), which is in turn influenced by the financial performance and the profit or loss of the SNAM Group, the TERNA Group and the ITALGAS Group. Consequently, any material change in the two parameters above could have negative effects on the financial performance and profit or loss of CDP RETI.

Through its investee companies, CDP RETI is active in the gas transport, regassification and storage sector (SNAM), the electricity despatching and transmission sector (TERNA) and the gas distribution sector (ITALGAS). Therefore, CDP RETI is exposed to the risks typical of those markets and sectors in which its investees operate.

Risk related to restrictions on the transfer of financial resources from SNAM, Terna and Italgas

As said, the financial position and operating results of CDP RETI are dependent on the flow of funds received, in the form of dividends, from SNAM, TERNA and ITALGAS. 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. By way of an example, such restrictions might include: i) regulatory restrictions on increasing tariffs, ii) requests for significant investments on the infrastructure managed by the three groups, iii) the requirement to comply with the covenants of loan agreements. Another restriction, generally speaking, could be the extent of future taxation.

These restrictions, and the resulting fall in inflows, could have significant negative effects on the parent company's ability to make the required payments on the bond and the existing loan agreements.

The dividend policies of the investee companies, which are based on the provisions of the respective strategic plans, are outlined below.

- TERNA: new five-year dividend policy. From 2018 to 2020 the policy provides for a dividend per share, with an annual growth of 6% on the 2017 dividend. From 2021 to 2022 the policy provides for a 75% payout, with a minimum guaranteed dividend equal to the dividend paid in 2020;
- SNAM: the policy provides for a 5% annual increase over a four-year term (2019-2022). Interim payments of the dividend will continue. In this regard, SNAM's Board of Directors has approved the distribution of an advance dividend equal to 0.0905 euro per share, with payment starting from 23 January 2019, coupon due on 21 January and record date on 22 January.
- ITALGAS: in 2018-2019-2020 a dividend will be distributed for an amount equivalent to the higher of (i) the amount resulting from the 2017 DPS (0.208 euro) increased by 4% per year, and (ii) the DPS equivalent to 60% of consolidated net income.

Liquidity and credit risk

In relation to its own business activity, the parent company is exposed to the liquidity risk, which is the risk that, due to the inability to raise new funds or liquidate assets on the market, it is not 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, as an extreme consequence, in a condition of insolvency that puts the continuation of company business at risk. Notwithstanding the Company's goal to implement a financial structure that guarantees an adequate level of liquidity and an optimal profile in terms of debt maturity and composition, the effects of external factors cannot be excluded, including, for example, the effects of a negative market or a considerable tightening of bank credit access conditions. In such a scenario, the Company might find it difficult to make the required payments on the bond and on the existing loan agreements.

Access to the capital market and other forms of financing, and the associated costs, is also dependent on the Company's credit rating. A downgrade by the rating agencies could limit the Company's access to the capital market and increase the cost of funding. This would negatively affect the Company's financial position and performance. In 2018, CDP RETI maintained its "investment grade" long-term credit rating. On 11 September, Fitch confirmed CDP RETI's long-term credit rating at BBB but changed the Outlook from stable to negative[75]. On 24 September, Moody's confirmed CDP RETI's long-term credit rating at Baa3 and the Outlook was confirmed to be stable by both Fitch (BBB), with stable outlook, and Moody's (Baa3), with negative outlook[76].

The Company's current policy is to maintain available liquidity invested in demand or very short-term bank deposits or other readily liquid instruments, with investments allocated over a reasonable number of counterparties

In view of its current business, CDP RETI is not significantly exposed to credit risk.

CDP RETI's entire debt is in the form of bullet loans, which means that there is no risk of having to resort to refinancing transactions, at least until 2020 when the term loan of 750 million euro taken out on 29 September 2014 falls due for repayment.

The table below shows the undiscounted contractual cash flows of gross financial debt at the nominal repayment amounts, and the related interest flows. Interest flows are calculated in accordance with the following terms and interest rates:

- as regard to the bond77, the annual coupon is equal to 1.875% (payment in May);
- as regard to the two Term Loans, the floating interest rates (payment in May and November) are indexed to the 6-month Euribor (value as at 31 December 2018) and increased by the contractually agreed margins.

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[75] The decision follows the same direction taken recently by the rating agency for the Parent Company Cassa Depositi e Prestiti S.p.A. which, in turn, reflects the revised Outlook for Italy.

[76] The confirmation of the rating follows the same direction taken recently by the rating agency for the Parent Company Cassa Depositi e Prestiti S.p.A. which, in turn, reflects the revised rating for Italy.

[77] 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 CDP S.p.A.. The bonds - listed at the Irish stock exchange and reserved for institutional investors - have a term of 7 years, annual coupon of 1.875% and an issue price equal to 99.909%. The transaction, structured by Banca Imi, Bnp Paribas, Hsbc, Mediobanca, Societe Generale and UniCredit, was concluded with 150 institutional investors who submitted requests worth over 2 billion.

Financial liabilities - Analysis by due date of the contractually agreed payments.

(thousands of euro)

Items/Figures		2019	2020	2021	2022	2023
Bond	Principal	0	0	0	(750,000)	0
	Interests	(14,063)	(14,063)	(14,063)	(14,063)	0
Total Loans (*)	Principal	0	(750,000)	0	0	(187,635)
	Interests	(8,060)	(5,600)	(2,989)	(3,557)	(1,991)

(*) Financial flows from hedging derivatives are not included

The cash flows related to the Term Loans do not take into account receipts and payments linked to the derivative hedging instruments, which are analysed in the table hereunder.

Derivative instruments hedging the Term Loans - contractually agreed interest flows

(thousands of euro)

Items/Figures		2019	2020	2021	2022	2023
Total IRS	Payments	(13,741)	(8,584)	(3,428)	(3,428)	(1,714)
	Collections	8,060	5,600	2,989	3,557	1,991
	Net	**(5,681)**	**(2,984)**	**(439)**	**129**	**277**

Default risk and debt covenants

Default risk and debt covenants relate to the possibility that loan agreements or bond rules to which CDP RETI is a party may contain provisions that entitle the counterparty to call in such loans immediately upon the occurrence of certain events, thereby generating a liquidity risk.

CDP RETI's long term loans include commitments (covenants) that are common in international practice. Such commitments refer to:

- the Company's bond debt, entered into in May 2015 for a nominal amount of 750 million, falling due in 2022;
- the bank loans taken out pursuant to the Term Loans entered into with a pool of banks:
  - on 29 September 2014, for an initial amount of 275 million, currently standing at 412.5 million following the re-financing of the debt in May 2015;
  - on 16 September 2017, for an amount of 103 million.
- the loan agreements entered into - again in the context of the Term Loans - with the parent CDP:
  - on 29 September 2014, for an initial amount of 225 million, currently standing at 337.5 million (re-financed in May 2015);
  - on 16 May 2017, for an amount of 85 million.

The main covenants associated with the bond issue can be summarised as follows:

- "negative pledge" clauses, under which the issuing entity is subject to limitations on the creation or maintenance of restrictions on all or part of its assets or on its revenues in order to guarantee current or future borrowing, except for specifically permitted circumstances
- "change of control" clauses, under which bondholders have the option of requiring the issuing entity to redeem their securities in the event that Cassa depositi e prestiti no longer has control over the company;
- "event of default" clauses, under which, on the occurrence of certain predetermined events (such as, for example, failure to pay, failure to fulfil contractual obligations, etc.), an event of default occurs and the loan in question becomes immediately due; in addition, under the "cross default" clauses, if an "event of default" occurs on any financial borrowing (above certain amounts) issued by the issuer, an event of default also occurs on the loan in question, which becomes immediately due.

As regard to loan agreement entered into by CDP in 2014 with the parent CDP and a pool of banks, the main covenants were subject to a number of amendments in July 2017, primarily in relation to the inclusion of the market value of Italgas in the Loan to Value ratio, as outlined below:

- an increase (from the current 1% to the potential 1.5%) in the spread applied to the interest rate, if the highest credit rating assigned to CDP RETI by rating agencies (Moody's, Fitch or S&P) is BB+ (or equivalent) or lower;

- "pari passu" clauses, under which the Company, for the entire duration of the loans, will ensure that the payment obligations rank pari passu with those of all other unsubordinated unsecured creditors, subject to any privileges assigned by law;
- disclosure obligations, on both a periodic and an occasional basis, upon the occurrence of certain predetermined events;
- observance of the following financial covenants to avoid an event of default:
  - Loan to Value: ratio, expressed as a percentage, between (i) Financial Debt (net of Cash and cash equivalents) and (ii) the market value (in the 180 days prior to the measurement date) of SNAM, TERNA and ITALGAS shares. This ratio must not exceed 50%;
  - Dividend Interest Coverage Ratio (DICR): ratio, with reference to the 12 months prior to the measurement date, between (i) the cash deriving from dividends received and (ii) interest paid on the Financial Debt. This ratio must not be less than 1.25;
  - Total Debt Service Amount (TDSA): at all times, CDP RETI must have cash or cash equivalents in an amount not less than interest, fees, commissions and other loan-related costs to be paid in the following 6 months.

The same clauses described with reference to the 2014 Term Loan also apply to the new loan agreement (for a nominal amount of 188 million) entered into in May 2017, with the only difference that the spread applied to the interest rate is set as a fixed amount (+1.45%) regardless of the credit rating assigned to the Company.

CDP RETI mitigates the foregoing risks by monitoring any aspects that might have negative effects on its financial position and performance, also with a view to ensuring compliance with the covenants envisaged in the existing loans. With regard to the subsidiaries TERNA, SNAM and ITALGAS, CDP RETI closely monitors their market value, with particular attention to all aspects that might have an impact on their dividend distribution policies.

With regard to liquidity, discussions are held periodically with the parent CDP to assess the need to apply for credit lines. There are no liquidity difficulties to be reported as at 31 December 2018; CDP RETI collected around 388 million in dividends from its subsidiaries in the period and the balance of its cash and cash equivalents was approx. 66 million at 31 December 2018.

V – TRANSACTIONS WITH RELATED PARTIES

Information on the remuneration of key management personnel

Remuneration of key management personnel

(euros) Items/Figures	Board of Directors	Board of Auditors	Key management personnel
a) short-term benefits	95,178	79,198	408,476
b) post-employment benefits			
c) other long-term benefits			
d) severance benefits			
e) share-based payments			
Total	**95,178**	**79,198**	**408,476**

Remuneration of directors and statutory auditors

(euros) Name	Position	Period in office	Expiry of office (1)	Compensation and bonuses	
Directors in office as at 31 December 2018					
Carlo Baldocci	Chairman	01/01/2018-31/12/2018	2019	20,000	(2)
Cristiana Procopio	Director	01/01/2018-31/12/2018	2019	20,000	(2)
Yanli Liu	Director	01/01/2018-31/12/2018	2019	20,000	(3)
Yunpeng He	Director	01/01/2018-31/12/2018	2019	20,000	(3)
Outgoing Directors in 2018					
Leone Pattofatto	Chief Executive Officer	01/01/2018-04/10/2018	2019	15,178	(2)
Statutory Auditors in office as at 31 December 2018					
Guglielmo Marengo	Chairman	01/01/2018-31/12/2018	2019	29,732	(4)
Benedetta Navarra	Auditor	01/01/2018-31/12/2018	2019	24,733	(4)
Paolo Sebastiani	Auditor	01/01/2018-31/12/2018	2019	24,733	(4)

(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

(4) The amounts include remuneration accrued by members of the Board of Statutory Auditors and the Supervisory Body

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	31/12/2018	31/12/2017
Assets		
- Deposit balance	867	917
- Receivable for tax consolidation (w ithholding tax)	24,713	43,303
- Receivable for tax consolidation	5,657,024	40,087,340
- Receivable for CSA financial transactions	8,387,583	8,477,117
Liabilities		
- Payables for seconded personnel	(36,854)	
- Payables for directors' compensation to pay to CDP	(55,178)	(53,260)
- Payables for outsourced services	(189,120)	(196,945)
- Other payables	(17,893)	(8,476)
- CFH derivative agreement	(8,719,678)	(8,415,349)
- Loans:	-	
included in current liabilities	*(4,157,737)*	*(4,132,860)*
included in non-current liabilities	*(758,543,294)*	*(758,329,497)*
Costs		
- Interest expense on loan	(10,047,864)	(9,745,245)
- Interest expense on CFH	(5,982,996)	(5,216,169)
- Interest expense on CSA	(30,820)	(38,311)
- Impairment of financial assets	(87)	
- Outsourced services rendered to CDP RETI	(418,966)	(394,021)
- Costs for personnel seconded to CDP RETI	(36,854)	
- Costs for directors' compensation to pay	(55,178)	(53,260)
- Other personnel costs	(9,143)	(7,943)
- Other costs	(29,123)	(120,627)
Cash flows		
Cash flow from operating activities	25,752,024	(2,235,257)
Net cash flow from investing activities	-	(187,634,699)
Net cash flow from financing activities	(234,026,742)	(167,073,037)

Transactions with CDP in 2018, 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 2018, 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;
- one employee seconded to CDP RETI from CDP.

Transactions with other related entities

(euros)

Items/Figures	31/12/2018	31/12/2017
Assets		
- Receivables from SNAM for interim dividend	95,359,137	90,828,261
- Receivables from SGEL for cost recharge	-	15,227
Liabilities		
- Payables for pension fund	(1,304)	(1,948)
Revenues		
- Other income from cost recharge to SGEL	-	15,227
Costs		
- Rental costs from FINTECNA	(81,489)	(80,842)
- Costs related ti pension fund	(10,290)	(10,508)
Cash flows		
Cash flow from operating activities	405,508,461	388,239,933
Net cash flow from investing activities		
Net cash flow from financing activities	(138,590,079)	(148,642,808)

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 Fabrizio Palermo, 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 2018.

2. The assessment of the appropriateness of the administrative and accounting procedures followed in preparing the separate financial statements at 31 December 2018 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 2018:

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, 18 April 2019

Chief Executive Officer	Financial Reporting Manager
Fabrizio Palermo	Alessandro Uggias
/signature/Fabrizio Palermo	/signature/Alessandro Uggias

PROPOSAL ON THE ALLOCATION OF NET PROFIT FOR THE YEAR

For 2018, the Board of Directors is proposing to distribute a total dividend of 387,559,303.56 euro, of which 255,938,314.68 euro to cover the advance approved on 15 November 2018.

The Board of Directors therefore proposes to allocate the 2018 net profit of CDP RETI S.p.A., equal to 387,559,714.39 euro, as follows:

- 255,938,314.68 euro, to cover the advance on the dividend, with payment no later than 29 November 2017;
- 131,620,988.88 euro, to pay the balance of the dividend, equal to 814.92 euro, before tax, for each of the 161.514 shares, to be paid on 30 May 2019;
- 410.83 euro, as retained earnings.

The ordinary Shareholders' Meeting has been called for 10 May 2019 on first call and, if necessary, for 15 May 2019 on second call, to approve the financial statements of CDP RETI S.p.A. as at 31 December 2018 and to resolve on the proposed allocation of net profit.

REPORT OF THE BOARD OF AUDITORS

CDP RETI S. p. A.

Registered office: Rome - Via Goito n. 4

Rome Register of Companies, Tax Code and VAT: no. 12084871008

Registered with the Chamber of Commerce of Rome under no. REA RM-1349016

Share capital 161,514.00 euro fully paid-in

Company subject to the management and coordination of

Cassa Depositi e Prestiti S.p.A. - Rome

* * *

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 153 OF THE CONSOLIDATED LAW ON FINANCE (LEGISLATIVE DECREE NO. 58/1998) AND ARTICLE 2429 OF THE ITALIAN CIVIL CODE

To the Shareholders,

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 called to approve the financial statements for the year ended 31 December 2019, to appoint the Board of Statutory Auditors in the persons of the undersigned statutory auditors.

The Board of Statutory Auditors prepares this report in accordance with Article 2429 of the Italian Civil Code, as the Company - in accordance with the Articles of Association - has appointed the independent auditors PricewaterhouseCoopers S.p.A. for the period 2015-2023, pursuant to Article 13 of Legislative Decree No. 39 of 27 January 2010.

This report was approved by the Board of Directors in due time for its filing at the Company's registered office, 15 days prior to the date of the first call of the shareholders' meeting summoned to approve the financial statements in question.

The Board of Directors has made available the following documents approved on 27 March 2019, relating to the year ended 31 December 2018:

- draft financial statements and consolidated financial statements, including the explanatory notes;
- management report.

The layout of this report is inspired by the provisions of the law and by the Principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts, as well as by the recommendations provided by Consob in its communications and by the indications contained in the Code of Conduct.

Knowledge of the company and risk assessment

Given the well-established knowledge that the Board of Statutory Auditors declares to have about the Company and with regard to:

- the type of business carried out;
- its organizational and accounting structure;

also taking into account the size and criticalities of the company, it should be noted that the "planning" phase of the supervisory activity - in which it is necessary to assess the inherent risks and critical issues with respect to the above-mentioned two parameters - was implemented by means of positive feedback on what was already known on the basis of information acquired over time.

This report, therefore, summarizes the activities relating to the information required by Article 2429, paragraph 2, of the Italian Civil Code, and more specifically:

- on the results of the financial year;

- the activity carried out in the fulfilment of the duties provided for by the law;

- on the observations and proposals regarding the financial statements, with particular reference to the possible use by the Board of Directors of the exception referred to in Article 2423, paragraph 4, of the Italian Civil Code;

- the possible receipt of complaints from shareholders pursuant to art. 2408 of the Italian Civil Code.

The activities carried out by the Board of Statutory Auditors concerned, from a temporal point of view, the entire financial year and during the financial year itself the meetings referred to in Article 2404 of the Italian Civil Code were regularly held and special minutes of these meetings were drawn up, duly signed for unanimous approval.

Activity carried out

During the FY2018, the Board of Statutory Auditors held seven regular meetings, during which it has been informed about the development of the Company's business, paying particular attention to contingent and/or extraordinary issues in order to identify their economic and financial impact on the result for the year, as well as asset-wise, together with any risks. The Board of Statutory Auditors also attended the Shareholders' Meetings and the Board of Directors' meetings called during the year under review.

In this regard, it should be noted that during the Board meeting held on 27 March 2018, it was decided to assign the functions of the Supervisory Body to the Board of Statutory Auditors, similar to the choice made by the Parent Company, providing it with an adequate budget, and approved the Organization, Management and Control Model pursuant to Legislative Decree no. 231/2001.

The Board of Statutory Auditors has therefore periodically assessed the adequacy of the organizational and functional structure of the company and any changes in it with respect to the minimum business requirements.

Relations with the people working in the above structure were inspired by cooperation in respect of the roles assigned to each one, having clarified those of the Board of Statutory Auditors.

The information required by art. 2381, par. 5, of the Italian Civil Code, was provided by the Board of Directors even more frequently than the required 6-month minimum, both at scheduled meetings and during the audits of the Board of Statutory Auditors at the Company's registered office; consequently, the Directors have, in substance and form, complied with the requirements of the aforementioned law.

In conclusion, as far as it has been possible to verify during the activity carried out during the financial year, the Board of Statutory Auditors can state that:

- the decisions taken by the Shareholders and the Board of Directors were in compliance with the law and the Articles of Association and were not manifestly imprudent or such as to compromise the integrity of the company's assets;

- sufficient information has been acquired regarding the general business performance and its foreseeable evolution, as well as information on the most important operations, in terms of size or characteristics, carried out by the Company;

- the operations carried out were also in compliance with the law and the Articles of Association and not in potential conflict with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company's assets;

- no specific comments are made on the adequacy of the administrative and accounting system and on its reliability in correctly representing business events. With particular reference to the organizational structure, the Company continued to use, through contractual agreements with its parent company, CDP, all the skills and services essential for the proper performance of its business, provided by the same;

- during the course of the supervisory activity, as described above, no further significant events emerged as to require disclosure in this report;

- there was no need to intervene due to omissions on the part of the Board of Directors pursuant to Article 2406 of the Italian Civil Code;

- no complaints were received pursuant to Article 2408 of the Italian Civil Code;

- no reports have been made pursuant to Article 2409, paragraph 7, of the Italian Civil Code;

- during the year, the Board of Statutory Auditors did not issue the opinions required by law, with the exception of the "Reasoned proposal relating to the integration of the fees for the performance of the legal audit of accounts assignment pursuant to articles 13 and 14 of Legislative Decree no. 39 of 27 January 2010", issued on 3 May 2018.

Comments and proposals concerning the financial statements and their approval

With regard to the draft financial statements for the year ended 31 December 2018, the following should be noted:

a) the financial statements in question were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), approved by the European Commission and in force as at 31 December 2018;

b) the correct registration of business events in the accounting records and their presentation in the financial statements, in accordance with IFRS (which include IAS), have been subject to verification by the Independent Auditors, in charge of the legal audit of accounts;

c) the financial statements as at 31 December 2018 show a profit of 387,559,714 euro and shareholders' equity of 3,495,548,408 euro. The main positive income component is represented by the dividends for the period (approximately Euro 410 million), which are offset, amongst the negative income components, mainly by financial charges (approximately Euro 28 million).

The draft financial statements were then examined and the following additional information provided:

- the formats adopted in the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of Financial Statements". It should also be noted that the adoption of IFRS 9 resulted in the updating of the financial statements essentially with reference to the items in the income statement. However, the Company, which took part in a specific project launched by the parent company, CDP, to carry out an assessment of the macro impacts resulting from the application of the new standard, and the related gaps that could result, has not identified areas of applicability of the standard such as to affect the reclassification and measurement of financial instruments existing at 31 December 2017. Moreover, there were no impacts for the Company due to the application of the new principle that must be represented in the changes in the opening balances of shareholders' equity at 1 January 2018;

- attention has been paid to the approach taken to the draft budget, to its general compliance with the law as regards its formation and structure and, in this respect, there are no observations that should be highlighted in this report;

- compliance with the provisions of the law relating to the preparation of the report on operations has been verified and, in this regard, there are no observations that need to be highlighted in this report;

- the Board of Directors, in preparing the financial statements, did not derogate from the provisions of the law pursuant to Article 2423, paragraph 4, of the Italian Civil Code;

- the financial statements were checked to ensure that they corresponded to the facts and information known to the Board of Statutory Auditors following the performance of its typical duties and, in this regard, no further observations were made.

The following significant events occurred during the year with regard to the matters for which the Board of Statutory Auditors is responsible

- on March 15, 2018, the Board of Directors resolved on the instructions to be given to the members of the Consultation Committee referred to in the Italgas Shareholders' Agreement, in view of the ordinary and extraordinary shareholders' meeting of the aforesaid subsidiary;

- On March 27, 2018, the Board of Directors authorized the Managing Director, granting him sub-proxy powers, to vote at the Extraordinary Shareholders' Meeting of SNAM on 24 April 2018;

- During the meeting held on 15 November 2018, the Board of Directors approved the distribution of an interim dividend for the 2018 financial year (256 million euro).

It should be noted that, following the resignation of the Chairman of the Board of Directors and the Managing Director, Massimo Tononi and Fabrizio Palermo, respectively, were co-opted by Board resolution of 20 February 2019. The Shareholders' Meeting of 6 March 2019 confirmed these appointments with a term of office in line with that of the other directors in office.

Pursuant to Article 19 of Legislative Decree 39/2010, throughout 2018 and up to the date of this Report, the Board of Statutory Auditors has been monitoring the activities carried out by the Independent Auditors.

The Independent Auditors, who were periodically met to exchange information, did not report to the Board of Statutory Auditors any actions or facts deemed reprehensible, nor any irregularities that required the formulation of specific reports pursuant to Article 155, Section 2, of Legislative Decree No. 58/1998 (Unified Financial Law). Specifically:

- the Independent Auditors, pursuant to art. 14 of Legislative Decree no. 39/2010 and art. 10 of Regulation (EU) no. 537/2014, issued their report on the financial statements for the year ended 31 December 2018, from which a positive opinion emerges given the absence of findings for significant deviations or requests for information;

- the audit report on the financial statements contains an illustration of any key aspects which, according to the Auditor's professional judgement, were most significant in the audit of the individual and consolidated financial statements for the year in question (ISA Italia).

- on the same date, the Board of Statutory Auditors received from the independent auditors the report required by art. 11 of Regulation (EU) no. 537/2014, in relation to which it should be noted that: i) it is consistent with the opinion expressed in the audit report referred to in the previous point; ii) it does not contain any reports on any significant deficiencies in the internal control system and/or the accounting system; iii) it includes the statement relating to the annual confirmation of independence pursuant to art. 6 (paragraph 2) of said European Regulation.

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 regarding its subjection to the management and coordination of others. Namely, the shareholder Cassa Depositi e Prestiti S.p.A. has been confirmed as the entity that carries out such management and coordination activity.

Conclusion

On the basis of the above and as far as the Board of Statutory Auditors is aware and has been verified by the periodic checks carried out, it is unanimously considered that there are no reasons to prevent your approval of the draft financial statements for the year ended 31 December 2018, as drawn up by the Board of Directors, sharing the Board's indication as to the allocation of the profit for the year.

Rome, 18 April 2019

The Board of Statutory Auditors

Mr. Guglielmo Marengo

Ms. Benedetta Navarra

Mr. 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 2018, 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 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Cdp Reti SpA 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 communicate 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. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 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. 091349737 - **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. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 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 the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are 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. 38/2005 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are 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, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is 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 auditor's 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 our 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 the directors;

- We concluded on the appropriateness of the directors' 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.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the 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 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 the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

The directors of Cdp Reti SpA are 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 2018, 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. 58/1998, with the financial statements of Cdp Reti SpA as of 31 December 2018 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 2018 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. 39/2010, 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.

Rome, 18 April 2019

PricewaterhouseCoopers SpA

Signed by

Luigi Necci
(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 2017 of Cassa depositi e prestiti S.p.A.

ANNEX 1

Analytical list of equity investments

(euros)

A. Listed entities	Names	Registered office	% holding	Carryng amount	Type
	Italgas S.p.A.	Milano	26.04%	621,032,150	Control
	SNAM SpA	San Donato Milanese (MI)	30.37%	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

BALANCE SHEET

(euros)

Assets	31/12/2017	31/12/2016
10. Cash and cash equivalents	6,741	3,093
20. Financial assets held for trading	93,568,293	207,650,392
40. Financial assets available for sale	11,682,664,088	9,596,393,260
50. Financial assets held to maturity	29,236,673,374	32,268,680,348
60. Loans to banks	38,599,568,670	23,964,631,584
- of which segregated asset pool	-	*446,324,638*
70. Loans to customers	255,280,626,453	258,642,911,172
80. Hedging derivatives	842,595,854	733,272,511
90. Fair value change of financial assets in hedged portfolios (+/-)	(41,503,409)	-
100. Equity investments	30,411,137,574	30,896,644,341
110. Property, plant and equipment	305,538,163	272,567,177
120. Intangible assets	11,882,566	8,570,519
130. Tax assets	630,739,071	972,786,595
a) current tax assets	331,378,247	628,099,980
b) deferred tax assets	299,360,824	344,686,615
- of w hich for purposes of L. 214/2011	-	-
150. Other assets	211,771,045	145,602,272
Total assets	**367,265,268,483**	**357,709,713,264**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

(euros)

Liabilities and shareholders' equity	31/12/2017	31/12/2016
10. Due to banks	16,626,997,896	14,487,457,832
20. Due to customers	306,499,360,318	305,798,520,321
30. Securities issued	17,364,495,113	12,031,653,582
40. Financial liabilities held for trading	126,255,780	183,286,348
50. Financial liabilities designated at fair value	501,551,155	-
60. Hedging derivatives	588,083,435	831,894,069
70. Fair value change of financial liabilities in hedged portfolios (+/-)	32,400,026	38,206,204
80. Tax liabilities	213,992,947	210,911,533
a) current tax liabilities	56,735,458	93,877,881
b) deferred tax liabilities	157,257,489	117,033,652
100. Other liabilities	834,676,174	877,150,145
110. Staff severance pay	1,019,223	1,004,783
120. Provisions for risks and charge	41,363,654	42,813,434
b) other provisions	41,363,654	42,813,434
130. Valuation reserves	950,928,999	946,536,992
160. Reserves	14,908,258,103	14,225,165,606
170. Share premium reserve	2,378,517,244	2,378,517,244
180. Share capital	4,051,143,264	4,051,143,264
190. Treasury shares (-)	(57,220,116)	(57,220,116)
200. Net income (loss) for the period	2,203,445,268	1,662,672,023
Total liabilities and shareholders' equity	**367,265,268,483**	**357,709,713,264**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

INCOME STATEMENT

(euros)

Items	31/12/2017	31/12/2016
10. Interest income and similar revenues	7,463,425,025	6,722,913,263
20. Interest expense and similar expense	(4,498,739,270)	(4,354,350,232)
30. Net interest income	**2,964,685,755**	**2,368,563,031**
40. Commission income	108,116,186	96,954,952
50. Commission expense	(1,579,499,602)	(1,581,159,760)
60. Net commission income	**(1,471,383,416)**	**(1,484,204,808)**
70. Dividends and similar revenues	1,354,720,829	1,570,768,905
80. Profits (losses) on trading activities	(8,824,895)	5,665,777
90. Fair value sdjustments in hedge accounting	13,170,610	756,687
100. Gains (losses) on disposal or repurchase of:	42,657,150	24,605,589
a) loans	20,969,204	19,139,789
b) financial assets available for sale	21,621,995	5,463,955
c) financial assets held to maturity	65,951	1,845
110. Profits (losses) on financial assets and liabilities designated at fair value	(1,529,630)	-
120. Gross income	**2,893,496,403**	**2,486,155,181**
130. Net impairment losses/recoveries on:	(109,346,583)	(457,112,014)
a) loans	(5,715,973)	(163,235,538)
b) financial assets available for sale	(183,776,242)	(215,948,520)
d) other financial transactions	80,145,632	(77,927,956)
140. Financial income (expense), net	**2,784,149,820**	**2,029,043,167**
150. Administrative expenses:	(144,969,654)	(136,162,728)
a) staff costs	(85,135,767)	(80,533,141)
b) other administrative expenses	(59,833,887)	(55,629,587)
160. Net accruals to the provisions for risks and charge	83,221	(1,157,601)
170. Net adjustments to/recoveries of property, plant and equipment	(4,374,801)	(4,556,613)
180. Net adjustments to/recoveries of intangible assets	(2,526,902)	(2,465,725)
190. Other operating income (costs)	5,207,597	3,752,011
200. Operating costs	**(146,580,539)**	**(140,590,656)**
210. Gains (losses) on equity investments	28,631,108	(270,010,000)
240. Gains (losses) on disposal of investments	(5,181)	(3,835)
250. Income (loss) before tax from continuing operations	**2,666,195,208**	**1,618,438,676**
260. Income tax for the period on continuing operations	(462,749,940)	44,233,347
270. Income (loss) after tax on continuing operations	**2,203,445,268**	**1,662,672,023**
290. Income (loss) for the period	**2,203,445,268**	**1,662,672,023**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

STATEMENT OF COMPREHENSIVE INCOME

(euros)

Items	31/12/2017	31/12/2016
10. Income (loss) for the period	**2,203,445,268**	**1,662,672,023**
Other comprehensive income net of taxes transferred to the income statement		
90. Cash flow hedges	(3,708,169)	(2,024,469)
100. Financial assets available for sale	8,100,176	8,091,468
130. Total other comprehensive income net of taxes	**4,392,007**	**6,066,999**
140. Comprehensive income (items 10+130)	**2,207,837,275**	**1,668,739,022**

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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