



**2i RETE GAS S.p.A.**

*(incorporated in the Republic of Italy as a joint stock company)*

**€3,500,000,000**

**Euro Medium Term Note Programme**

This supplement (the “**Supplement**”) is supplemental to and should be read in conjunction with the base prospectus dated 18 January 2017 (the “**Base Prospectus**”) prepared for the purpose of giving information with regard to the issue of notes (the “**Notes**”) by 2i Rete Gas S.p.A. (the “**Issuer**” or “**2iRG**”) under its Euro 3,500,000,000 Euro Medium Term Note Programme (the “**Programme**”) during the period of twelve months after the date of the Base Prospectus.

This Supplement has been prepared in accordance with Article 16 of Directive 2003/71/EC, as amended (including by Directive 2010/73/UE, to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the “**Prospectus Directive**”), and constitutes a supplement to the Base Prospectus for the purposes of the Prospectus Directive.

This Supplement has been approved by the Central Bank of Ireland (the “**Central Bank**”), as the competent authority under the Prospectus Directive. The Central Bank only approves this Supplement as meeting the requirements imposed under Irish law and EU law pursuant to the Prospectus Directive.

2iRG accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of 2iRG (having taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Supplement has been prepared to: (1) incorporate by reference (a) 2iRG’s audited consolidated annual financial report as at and for the period ended 31 December 2016, (b) 2iRG’s unaudited consolidated interim financial report as at and for the period ended 30 June 2017, and (c) the press release dated 13 October 2017 and headed “*2i Rete Gas acquires the distribution assets of Gas Natural in Italy (223 concessions, 460 thousand customers, and a 7,300 km network), bolstering its presence in Central and Southern Italy*”; (2) update the disclosure in the section of the Base Prospectus headed “*Risk factors*”; (3) update the disclosure in the section of the Base Prospectus headed “*Description of the Issuer*”; (4) update the disclosure in the section of the Base Prospectus headed “*Regulatory and legislative framework*”; (5) update the section of the Base Prospectus headed “*Taxation*”; and (6) update certain information in the section of the Base Prospectus headed “*General Information*”.

Unless the context otherwise requires, terms defined in the Base Prospectus shall have the same meaning when used in this Supplement and, with effect from the date of this Supplement, each reference in the Base Prospectus to “Base Prospectus” shall be read and construed as a reference to the Base Prospectus as amended and supplemented by this Supplement. To the extent that there is any inconsistency between (a) any statement in, or incorporated by reference into, this Supplement and (b) any other statement in, or incorporated by reference in, the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus since the publication of the Base Prospectus.

Copies of this Supplement may be inspected in physical form free of charge (i) at the registered office of 2iRG and (ii) at the offices of the Listing Agent. This Supplement is also available on the website of the Irish Stock Exchange at [www.ise.ie](http://www.ise.ie).

The date of this Supplement is 20 October 2017.

## ALTERNATIVE PERFORMANCE MEASURES

This Supplement and the documents incorporated by reference hereto contain certain alternative performance measures (APM), including EBITDA, Net fixed assets, Net working capital, Gross invested capital, Net invested capital, ESMA Net financial debt and Group Net financial debt which are different from the IFRS financial indicators obtained directly from the audited consolidated financial statements of the Issuer for the years ended 31 December 2016 and 2015 and from the unaudited consolidated interim financial report of the Issuer for the six month period ended 30 June 2017 and 2016 and which are useful to present the results and the financial performance of the Group.

In line with the Guidelines issued on 5 October 2015 by the European Securities and Markets Authority (ESMA) concerning the presentation of APMs disclosed in regulated information and prospectuses, the criteria used to construct the APMs are as follows.

- EBITDA is defined as net profit/(loss) for the year/period adjusted for (i) Net financial expenses, (ii) Income tax expense/ (benefit), (iii) Amortization, depreciation and impairment losses.
- Net fixed assets is defined as the sum of (i) Property, plant and equipment, (ii) Intangible assets, (iii) Investments, (iv) Other non-current assets net of Other non-current liabilities.
- Net working capital is defined as the sum of (i) Inventories, (ii) Trade receivables, (iii) Other current assets, (iv) Trade payables, (v) Other current liabilities and (vi) Net income tax receivables/(payables).
- Gross invested capital is defined as the sum of (i) Net fixed assets and (ii) Net working capital.
- Net invested capital is defined as (i) Gross invested capital less (ii) Other provisions.
- ESMA Net financial debt is defined as the sum of Total financial liabilities net of Liquidity and Current financial receivables.
- Group Net financial debt is defined as ESMA Net financial debt net of Non-current financial assets.

The Issuer believes that these non-generally accepted accounting principles (“GAAP”) measures are useful and a commonly used measures of financial performance in addition to profit for the period and other profitability measures, cash flow provided by operating activities and other cash flow measures under applicable GAAP because they facilitate operating performance and cash flow comparisons from period to period, time to time and company to company. By eliminating potential differences between periods or companies caused by factors such as depreciation and amortization methods, financing and capital structures, taxation positions or regimes, the Issuer believes these non-GAAP measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, the Issuer believes these non-GAAP measures and similar measures are regularly used by the investment community as a means of comparison of companies in our industry.

It should be noted that these non-GAAP financial measures are not recognised as a measure of performance or liquidity under the applicable International Financial Reporting Standards (IFRS) endorsed by the European Commission in compliance with EC Regulation no. 1606/2002 (“IFRS-EU”) and should not be recognised as an alternative to operating income or net income or any other performance measures recognised as being in accordance with IFRS-EU or any other generally accepted accounting principles. These non-GAAP financial measures are used by management to monitor the underlying performance of the business and operations. These measures are not indicative of the historical operating results of 2iRG and its consolidated operating subsidiaries (the “Group”), nor are they meant to be predictive of future

results. Since all companies do not calculate these measures in an identical manner, the Group's presentation may not be consistent with similar measures used by other companies. Therefore, undue reliance should not be placed on such data.

## RISK FACTORS

The information set out below supplements the section of the Base Prospectus headed “*Risk Factors*” on pages 12 to 29 of the Base Prospectus.

- After the risk headed “*Risks relating to future acquisitions and integration of acquired businesses with the Group’s existing operations*” on page 18 of the Base Prospectus, the following risk factor is added:

***“Risks relating to the antitrust clearance of the acquisition of Nedgia and Gas Natural Italia***

On 13 October 2017, 2iRG and Gas Natural Fenosa S.A. (“**Gas Natural Fenosa**”) entered into an agreement for the acquisition by 2iRG of 100% of the share capital of Nedgia S.p.A. (“**Nedgia**”) and Gas Natural Italia S.p.A. (“**Gas Natural Italia**”), which is subject to the clearance of the Italian Competition Authority (“**ICA**”) (for further information, see “*Description of the Issuer*”, below), to which the transaction has been filed on 18 October 2017. The merger control review process before the ICA will most likely last at least 30 + 45 calendar days starting from 18 October 2017, save for exceptional interruption(s) of the above terms by the ICA and/or application of a potential 30-day extension. The preliminary antitrust analysis showed that there are arguments to maintain that the acquisition will not lead to a prohibition by the ICA. However, due to the early stage of the proceeding it is not possible to predict in any meaningful way how the ICA will assess the antitrust impact of the acquisition or to what extent clearance will be conditional upon divestments to be made, and/or undertakings assumed, by the Issuer.”

- The risk factor headed “*Risks relating to the implementation of the Issuer’s strategic objectives*” on pages 18 to 19 of the Base Prospectus is deleted and replaced as follows:

***“Risks relating to the implementation of the Issuer’s strategic objectives***

In 2017, the Issuer’s Board of Directors approved a strategic plan, which sets out the strategic policies and objectives of the Group for the five-year period from 2017 to 2021. The strategic plan contains, and was prepared on the basis of, a number of critical assumptions and estimates relating to future trends and events that may affect the sector in which the Group operates, such as estimates of demand for connection to the natural gas network in Italy over the medium to long term, growth of the Issuer through the tendering process, changes in the applicable regulatory framework. If the events and circumstances projected or estimated to occur by the Board of Directors when preparing the strategic plan should not occur, future business, financial condition, cash flow and/or results of operations of the Group could be different from those envisaged in the strategic plan. Furthermore, the 2iRG Group’s historical consolidated financial and operational performance may not be consistent with, or indicative of, the 2iRG Group’s future operating and financial performance.”

## DOCUMENTS INCORPORATED BY REFERENCE

The information set out below supplements the section of the Base Prospectus headed “*Documents Incorporated by Reference*” on pages 30 to 31 of the Base Prospectus.

“The following documents which have previously been published and have been filed with the Irish Stock Exchange and the Central Bank of Ireland shall be incorporated in, and form part of, the Base Prospectus:

- (a) 2iRG’s audited consolidated annual financial report as at and for the period ended 31 December 2016 together with the independent auditors’ report, available at [http://www.2iretegas.it/wp-content/uploads/2014/06/2i-Rete-Gas\\_Consolidated-Annual-Financial-Report-2016.pdf](http://www.2iretegas.it/wp-content/uploads/2014/06/2i-Rete-Gas_Consolidated-Annual-Financial-Report-2016.pdf);

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- (b) 2iRG’s unaudited consolidated interim financial report as at and for the period ended 30 June 2017, available at <http://www.2iretegas.it/wp-content/uploads/2014/06/2i-Rete-Gas-Consolidated-Interim-Financial-Report-at-30-June-2017.pdf>.

Directors’ Report .....	Pages 5-31
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- (c) the press release dated 13 October 2017 and headed “*2i Rete Gas acquires the distribution assets of Gas Natural in Italy (223 concessions, 460 thousand customers, and a 7,300 km network), bolstering its presence in Central and Southern Italy*”, available at [http://www.2iretegas.it/wp-content/uploads/2014/07/20171013\\_Press-Release-Gas-Natural-distribution-assets-in-Italy.pdf](http://www.2iretegas.it/wp-content/uploads/2014/07/20171013_Press-Release-Gas-Natural-distribution-assets-in-Italy.pdf).

The consolidated financial statements of the Issuer referred to under (a) and (b) above have been prepared in accordance with IFRS-EU.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in the Base Prospectus.

Accordingly, the Base Prospectus shall be read in conjunction with this Supplement and the documents incorporated by reference referred to above.

Copies of documents incorporated by reference in this Supplement can be obtained from the registered office of the Issuer.”

## DESCRIPTION OF THE ISSUER

The information set out below supplements the section of the Base Prospectus headed “*Description of the Issuer*” on pages 91 to 117 of the Base Prospectus.

- The sub-section headed “*Legal Proceedings*” on pages 102 to 104 of the Base Prospectus, is replaced in its entirety as follows:

### “Legal Proceedings

As part of the ordinary course of business, companies within the 2iRG Group are or may be subject to a number of administrative, civil, tax and criminal legal proceedings. 2iRG has conducted a review of its ongoing litigation and has made provisions in its consolidated financial statements where the disputes were likely or possible to result in a negative outcome and a reasonable estimate of the loss could be made, in accordance with applicable accounting principles.

In other cases, where the dispute could be resolved in a satisfactory manner and without significant impact, no specific provisions were made in the consolidated financial statements.

For further information on legal proceedings involving the companies belonging to the Group, in addition to those described below, see (a) the notes to the consolidated financial statements of the Issuer for the year ending 31 December 2016 and, in particular, Note 27 (*Provisions for risks and charges*); (b) the notes to the semi-annual consolidated financial statements as at 30 June 2017 and, in particular, Note 27 (*Provisions for risks and charges*) and (c) “*Regulatory and Legislative Framework*”, below. The consolidated financial statements of the Issuer for the year ending 31 December 2016 and the semi-annual consolidated financial statements as at 30 June 2017 are incorporated by reference into this Supplement (see “*Documents Incorporated by Reference*”).

The most relevant claims and proceedings are summarised below, together with an indication of the total amount claimed, if known and if applicable.

### ***Arbitration started by the Syrian Ministry of Constructions***

In 2012, the Syrian Ministry of Constructions started an arbitration in Damascus against 2iRG to seek payment of damages from 2iRG, for an overall amount approximately equal to € 3,300,000 in connection with an alleged malfunctioning arising from construction works performed in the 1990s by a company subsequently acquired by 2iRG on the water depuration systems sited in Aleppo.

On 30 June 2016, the Court of Damascus rejected all claims brought by the Syrian Ministry of Constructions, which has subsequently appealed the decision. The hearing of the appeal proceeding in front of the Administrative Supreme Court of Damascus, initially scheduled for 12 December 2016, was postponed for final decision at the end of January 2017.

On 23 January 2017, the Administrative Supreme Court ordered a complimentary technical assessment on the alleged malfunctioning of the construction works, which was filed by the expert on 8 May 2017. Such technical assessment concluded that the claim of the Syrian Ministry of Constructions against 2iRG is not grounded. The Administrative Supreme Court, at the hearing held on 16 October 2017, ruled by definitively rejecting the claim of the Syrian Ministry of Constructions against 2iRG.

In any case a specific provision was set aside in 2iRG financial statements for this litigation.



### ***Litigation in connection with concessions***

The Issuer is discussing with certain municipalities the interpretation of the provisions of the relevant concession agreements relating to the calculation method of concession fees due by the Issuer to such municipalities and in particular relating to the items of its revenues which have to be taken into account for its calculation.

A specific provision has been set aside in 2iRG financial statements for these items.

### ***Criminal Investigation in Frassinelle Polesine (RO)***

The Public Prosecutor of the Court of Rovigo has opened an investigation against a former employee of 2iRG in relation to a fatal accident occurred on 12 March 2015 during maintenance operations of a reduction unit (Cabina RE.MI.) owned by the Issuer in the municipality of Frassinelle Polesine (RO). The investigation stems from the death of a third party (subcontractor) worker, during maintenance operations, due to the collapse of the roof of a reduction unit. The Issuer is cooperating with the public authorities and is verifying and implementing additional security measures on operations regarding reductions units' roof, and at the date of this Base Prospectus neither the Issuer nor any board member has been notified with any investigation notice under Decree 231/2001.

In the first half of 2017 the investigation was extended to another employee of 2iRG. In the meanwhile the insurance company of 2iRG has reached an agreement with the family of the worker involved in the fatal accident for restoration of civil damages."

- The sub-section headed "*Description of the Issuer - Recent developments*" on page 117 of the Base Prospectus, is replaced in its entirety as follows:

#### **"Recent developments**

##### ***ATEM Milano 1***

In January 2017, 2i Rete Gas S.r.l., a wholly owned subsidiary of the Issuer, participated to the tender for the award of the natural gas distribution concession in the ATEM tender Milan 1 – City and Plant of Milan (accounting for nearly 839,000 end users, approximately Euro 1.4 billion contract value for the operation of the Metropolitan City of Milan and other six neighbouring Municipalities). As at the date hereof, the contracting authority is evaluating the technical plans submitted by 2i Rete Gas S.r.l. and Unareti S.p.A. (a company belonging to the A2A S.p.A. group), which were both accepted following the examination of administrative documents.

### ***Liability management transactions***

In January and February 2017 the Issuer carried out two liability management transactions. For further information, see (i) the paragraph headed "*Significant events after the reporting period*" of the explanatory notes to the audited consolidated annual financial report of the Issuer as at and for the period ended 31 December 2016 and (ii) the paragraph headed "*Significant events during the reporting period*" of the Directors' Report included in the consolidated interim financial statement of the Issuer as at and for the period ended 30 June 2017, each incorporated by reference in this Supplement (see "*Documents incorporated by reference*" above).

### ***Approval of the Issuer financial statements as at 31 December 2016***

On 20 April 2017, the Issuer shareholders' meeting, chaired by Ms. Paola Muratorio, approved the separate and consolidated audited financial statements of the Issuer as at and for the financial year ended 31 December 2016 and resolved upon the payment of Euro 85 million dividends, confirming the relevant proposal the Board

of Directors made on 17 March 2017. The consolidated audited financial statements of the Issuer as at and for the financial year ended 31 December 2016 are incorporated by reference in this Supplement (see “*Documents Incorporated by Reference*” above).

### ***Water sector***

On 2 May 2017, in the context of the divestment plan referred to in the Base Prospectus under the heading “*Description of the Issuer – Business Overview*”, the Issuer entered into an agreement with Pavia Acque S.c.a.r.l., the single operator of Pavia ATO (Optimal Territorial Area), for the disposal of (i) the water purification plants in the Municipalities of Robbio, Castelnovetto, Confienza, Palestro, and Sant’Angelo Lomellina and (ii) the water distribution and the drainage system in the Municipalities of Robbio, Castelnovetto, Confienza and Palestro. On 3 May 2017, the agreement became effective with the transfer by 2iRG to Pavia Acque of the management of the above mentioned plants.

As at the date hereof, 2iRG Group still manages water distribution services in five municipalities located in three Regions and serving approximately 11,000 users. Such activities represent in any case a negligible amount of the 2iRG Group revenues and are envisaged to be transferred in the context of the mentioned divestment plan.

### ***2i Rete Gas acquires the distribution assets of Gas Natural in Italy (223 concessions, 460 thousand customers, and a 7,300 km network), bolstering its presence in Central and Southern Italy***

On 23 June 2017, as part of a negotiation procedure set up by the parent company Gas Natural Fenosa, the Issuer submitted a non-binding offer to acquire 100% of the share capital of Nedgia, the seventh largest gas distributor in Italy (accounting for approximately 460,000 end-users in 226 Municipalities, with a network of slightly more than 7,300 km) and Gas Natural Italia, the group's service company. 2iRG was admitted by the seller to the second phase of the procedure and on 25 September 2017 confirmed its interest in the acquisition by submitting the relevant binding offer.

On 13 October 2017, 2iRG and Gas Natural Fenosa entered into an agreement for the acquisition by 2iRG of 100% of the share capital of Nedgia and Gas Natural Italia. For further information, see the press release dated 13 October 2017, incorporated by reference in this Supplement (see “*Documents incorporated by reference*” above).

### ***Smart meter***

In the first half of 2017, according to the budget's guidelines, the Group continued the large-scale roll-out and gradual commissioning of electronic meters, replacing conventional ones. The Group decided to defer the remote management of the switch-off of the electro valve on the G4 and G6 smart meters until 1 January 2018 in accordance with Resolution 821/2016/R/gas, notifying the Authority with a specific letter.

### ***Prospective merger of Genia Distribuzione Gas S.r.l.***

On 11 May 2017, 2iRG and Genia S.p.A., a company already in liquidation, fully-owned by the municipality of San Giuliano Milanese (Province of Milan) (“**Genia**”), entered into an agreement for the settlement of the claw-back action taken before the Court of Lodi by the official receiver (*curatore fallimentare*) of the bankruptcy of Genia against 2iRG in respect of the agreement entered on 26 June 2014 between 2iRG and Genia for the acquisition, in the context of a public tender, of 100 per cent. of the corporate capital of Genia Distribuzione Gas S.r.l. (“**GDG**”), a company incorporated on 14 July 2013 by means of contribution in kind by Genia (the “**Settlement Agreement**”). Pursuant to the Settlement Agreement GENIA accepted to waive its claw-back action and 2iRG paid to Genia an amount below the claimant request and equal to about € 1.1 million.

On 23 June 2017 the case has been definitively dismissed by the Court of Lodi who acknowledged the execution of the Settlement Agreement.

On 27 July 2017, the competent corporate body of each of 2iRG and GDG resolved on the merger by incorporation of GDG in its sole shareholder 2iRG, with the aim of completing the merger and consolidating GDG activities in 2iRG as of 1 January 2018.

#### ***Activities on Belluno's ATEM tender***

On 1 September 2017, the Issuer submitted the bid for Belluno's ATEM tender to the contracting authority. The first meeting of the commission appointed by the contracting authority, initially scheduled for the first days of November 2017, has been postponed until the Regional Administrative Court (*Tribunale Amministrativo Regionale*) of the Veneto Region will decide on the appeal filed by one of the competitors. The decision is expected to be issued on 18 January 2018.

#### ***Approval of the Issuer's unaudited consolidated interim financial report***

On 20 September 2017, the Board of Directors of 2iRG, at the meeting chaired by Ms. Paola Muratorio, approved the unaudited consolidated interim financial report of the Issuer as at and for the period ended 30 June 2017, which is incorporated by reference in this Supplement (see "*Documents Incorporated by Reference*" above).

#### ***Rating update***

On 16 October, 2017, S&P Global Ratings affirmed its "BBB" long term and "A-2" short-term corporate credit ratings of the Issuer. The outlook is stable.

On 17 October, 2017, Moody's Investors Service affirmed, *inter alia*, the company's "Baa2" senior unsecured ratings and the "Baa2" long term issuer rating of 2iRG. The outlook on all ratings remains stable.

Both the above rating actions follow the announcement by 2iRG of the transaction referred to under "*2i Rete Gas acquires the distribution assets of Gas Natural in Italy (223 concessions, 460 thousand customers, and a 7,300 km network), bolstering its presence in Central and Southern Italy*" above."

## REGULATORY AND LEGISLATIVE FRAMEWORK

The information set out in the section of the Base Prospectus headed “*Regulatory and legislative framework*” on pages 118 to 135 of the Base Prospectus is supplemented as follows.

- After the third paragraph under the heading “*The Italian “National Energy Strategy” (Strategia Energetica Nazionale)*” on page 121 of the Base Prospectus, the following paragraph is added:

“In June 2017 a public consultation for the review/update of the SEN, referring to a prospective scenario by 2030 and with indications of trends for later years until 2050, has been launched. The consultation period ended in September 2017 and the new “National Energy Strategy” should be approved by the end of 2017.”

- Before last paragraph under the heading “*The amount of the Reimbursement*” on pages 126 to 128 of the Base Prospectus the following paragraph is added:

“Law No. 124 of 4 August 2017 (“**Competition Law**”) has introduced under Article 1, paragraph 93, *inter alia*, a simplification of the VIR-RAB delta verification test (establishing that the awarding authority/Municipality is no longer obliged to send to AEEGSI the detailed evaluation of the difference in value between VIR and RAB prior to the tender, provided that the awarding authority/Municipality is able to certify, even through a competent third party, that the VIR has been determined in accordance with the provisions of the MED Guidelines and, at the same time, the ATEM’s aggregate VIR-RAB delta does not exceed 8% and the VIR-RAB delta of the single Municipality does not exceed 20%.”

- After the last paragraph under the heading “*The bid evaluation criteria*” on page 128, the following paragraph is added:

“The Competition Law has confirmed the non-derogation regime of the maximum scores for the criteria and the sub-criteria of the tender as set out in Tender Criteria Decree. It has also introduced under Article 1, paragraph 94, the need to define a simplified procedure for the evaluation of the of the tender documents (*documentazione di gara*) by AEEGSI which shall be applicable whenever a single call for tender (*bando di gara*) is consistent with the standard call for tenders (*bando di gara tipo*), the standard bidding rules (*disciplinare di gara tipo*) and the standard service contract (*contratto di servizio tipo*). Furthermore, Article 1, paragraph 95 of Competition Law clarifies that, in case of participation to a tender through a temporary association of companies or consortia, some of the technical capacity requirements defined by the Tender Criteria Decree must be possessed cumulatively by all of the members of a temporary association of companies (*raggruppamento temporaneo di imprese*) or a consortium (*consorzio ordinario*) whilst others may be possessed even by just one of such members.”

- The second sentence of the second paragraph under the heading “*Recent developments in tariff regulation*” on page 134 of the Base Prospectus is deleted and replaced by the following:

“This position - at first confirmed by Resolution No. 704/2016/R/gas of 1 December 2016, in which it has been indicated that the new criteria are to be defined according to a final resolution to be adopted by the end of October 2017 - is likely to be revised in connection with the adoption of the resolution defining new criteria.”

- The third paragraph under the heading “*Other significant regulatory matters*” on pages 134 to 135 of the Base Prospectus is deleted and replaced by the following:

“The TEE mechanism has been established by the MED together with the Ministry of the Environment by Ministerial Decree dated 20 July 2004 amended and supplemented with other subsequent Ministerial Decrees, dated 21 December 2007, 28 December 2012 and 11 January 2017. In particular, the latter, defines the national quantitative targets of energy efficiency, expressed in TOE (Tons of Oil Equivalent), for the years 2017-2020. Each TEE is worth one tonne of TOE saved. Gas and electricity distribution companies with a number of

served users exceeding 50,000 units are the subjects obliged to achieve the targets defined in terms of TEE to be obtained. Furthermore, the Ministerial Decree of 11 January 2017 establishes that:

- a) the verification of the achievement of the targets, notwithstanding the expiration of the year of the obligation set for 31 May of the following year, that distributors, subject to the obligation to submit white certificates to the GSE, may submit white certificates twice a year (by 31 May and 30 November of each year) rather than once a year, as provided in previous legislation;
  - b) if a gas/electricity distributor subject to the obligations achieves a compliance rate of less than 100%, but at least 60%, it may offset the residual quota in the following year, rather than in the following two years, as previously provided by the old regulation, without incurring any penalties;
  - c) the TEE attesting to the achievement of primary energy savings are of four types rather than five;
  - d) TEE will be issued for periods of three to ten years (such a period being the “useful life”), depending on the type of energy savings they achieve, rather than for five year-periods, as envisaged by previous legislation;
  - e) the new evaluation methods of efficiency projects shall be reduced (in the future) from 3 types to 2.”
- The fifth paragraph under the heading “*Other significant regulatory matters*” on pages 134 to 135 of the Base Prospectus is deleted and replaced by the following:

“In this context 2iRG represents the second largest obligated entity within the gas sector, with a significant incidence of its individual targets with respect the national target (about 19% for 2017).”

- The seventh paragraph under the heading “*Other significant regulatory matters*” on pages 134 to 135 of the Base Prospectus is deleted and replaced by the following:

“To allow the gas and electricity distributors to recover the costs incurred for the supply of TEE, a specific component of the electricity/gas distribution rate has been established, and it has determined by AEEGSI, in order to secure the proceeds of the grant to cover the costs of supplying TEEs. In particular, AEEGSI, by Resolution of 23 January 2014 (13/2014/R/EFR), has introduced the mechanism for calculating the tariff contribution to cover the costs incurred by distributors to obtain TEEs. This contribution has been updated annually according to the weighted average prices of trades made on the organised GME market in the obligation year in reference. Significant changes to the method of calculating the tariff contribution (previously defined by AEEGSI Resolution 13/2014/R/efr) to be paid to distributors compliant to energy efficiency obligations, have been made by the AEEGSI with Resolution 435/2017/R/efr. The new regulation is established for the years 2017-2020 and the main updates include the following:

- a) the distribution company can now take the option introduced by the new Ministerial Decree of 11 January 2017 to submit TEEs to the GSE also by 30th November of each year and to obtain from the Energy and Environmental Services Fund (CSEA) a deposit that will partly cover the costs incurred. This deposit payment will be balanced at the final tariff contribution level that will be established at the end of the obligation year (by 31st of May of the following year);
- b) from 2017 on, TEEs purchased to comply with the previous year’s obligation will be covered by the supply of the previous year’s tariff contribution level (on an “accrual basis”);
- c) for some parameters, a transitional regime is introduced for the year 2017, to allow a smooth change from the previous regulation.

On 14 September 2017, Resolution 634/2017/R/EFR has introduced a more gradual introduction of the new mechanisms which had been set out under Resolution 435/2017/R/efr, allowing the aforementioned new mechanism to come into force starting in 2018, instead of 2017. In addition, for TEE relating to residuals targets for years 2018 to 2020, criterion of competence applies only on a progressive basis and increasingly year by year. In particular the quantities of TEE to which the criterion of competence will apply is calculated

by applying the parameter “s” (0.25 in 2018, 0.5 in 2019 and 0.75 in 2020) respectively to the TEE delivered by the distributors.”

- The eight paragraph under the heading “*Other significant regulatory matters*” on pages 134 to 135 of the Base Prospectus is deleted.

For further information, see also sections 5 and 7.1 headed, respectively “*Regulatory and tariff framework*” and “*Support for gas transport activities – Main Regulatory Changes*” of the Directors’ Report in respect of the audited consolidated annual financial report of the Issuer as at and for the period ended 30 June 2017, each incorporated by reference in this Supplement (see “*Documents incorporated by reference*” above).

## TAXATION

The information set out below supplements the section of the Base Prospectus headed “*Taxation*” on pages 136 to 143 of the Base Prospectus.

- After the first paragraph under the heading “*Italian taxation – Interest and other proceeds from Notes that qualify as bonds or instruments similar to bonds – Italian resident Noteholders*” on page 137 of the Base Prospectus the following paragraph is added:

“Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity may be exempt from any income taxation, including the *imposta sostitutiva*, on interest, premium and other income relating to the Notes if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of Law No. 232 of 11 December 2016 (the “Finance Act 2017”), as amended by Law Decree No. 50 of 24 April 2017, converted into law with Law No. 96 of 21 June 2017.”

- After the first paragraph under the heading “*Italian taxation – Interest and other proceeds from Notes not having 100 per cent. capital protection guaranteed by the Issuer*” on page 139 of the Base Prospectus the following paragraph is added:

“Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity may be exempt from any income taxation, including withholding taxes, on proceeds and other income relating to the Notes if such financial instruments are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of Finance Act 2017.”

- After letter (c) under the heading “*Italian taxation – Capital Gains Tax*” on pages 139 to 141 of the Base Prospectus the following paragraph is added:

“Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity may be exempt from any capital gain taxation realized on the Notes if such financial instruments are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of Finance Act 2017.”

- In the fifth paragraph under the heading “*The Proposed European Union Financial Transactions Tax*” the following text is deleted “Ministers of the FTT Member States (other than Slovenia) announced in a statement to the Economic and Financial Affairs Council on 6 May 2014 that there would be a progressive implementation of the FTT. That progressive implementation would first focus on the taxation of shares and “some” derivatives, with the first step being implemented on or before 1 January 2016.”

## GENERAL INFORMATION

The information set out below supplements the section of the Base Prospectus headed “*General Information*” on pages 148 to 150 of the Base Prospectus.

- The paragraph headed “*General Information – Significant or Material Change*” shall be deleted and replaced by the following:

“There has been no material adverse change in the financial position or prospects of the Group since 31 December 2016. There has been no significant change in the financial or trading position of the Group since 30 June 2017.”