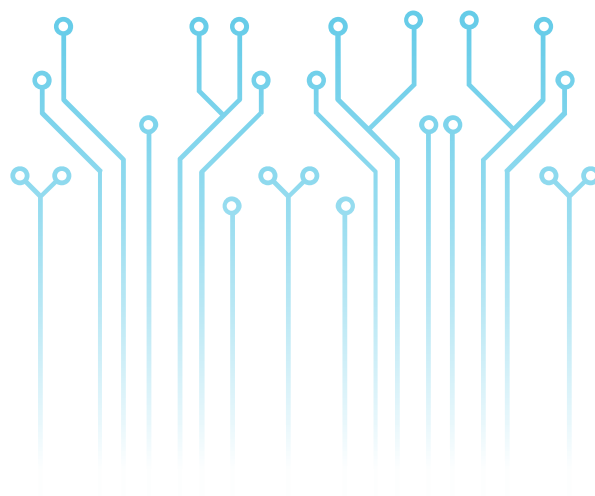
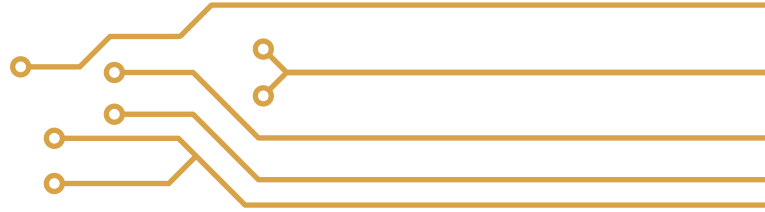


Consolidated half-year financial report as at 30 June 2020





Consolidated half-year financial report as at 30 June 2020



Values and mission

Every day, for over 180 years, the work of the men and women at Italgas has enabled millions of Italians to use a sustainable, durable, reliable source of energy.

A continual commitment, based on expertise, efficiency, innovation, reliability and safety and inspired by the transparency of daily activities, integrity of behaviour and responsibility towards the communities served.

These principles, which have accompanied and favoured Italy's economic and social development, continue to guide our transition towards a decarbonised economy, with the aim of helping to preserve the environment we live in and promoting efficient and sustainable energy use for everyone.

Italgas, two centuries of history projected into the future

The names Italgas, Italgas Group or Group refer to Italgas S.p.A. and the companies included in the scope of consolidation.

**Italgas, two centuries
of history projected into
the future.**





Corporate bodies

BOARD OF DIRECTORS^a

Chairman

Alberto Dell'Acqua

Chief Executive Officer and General Manager

Paolo Gallo

Directors

Yunpeng He

Paola Annamaria Petrone

Maurizio Dainelli

Giandomenico Magliano

Veronica Vecchi

Andrea Mascetti

Silvia Stefini

CONTROL AND RISKS AND RELATED-PARTY TRANSACTIONS COMMITTEE^b

Paola Annamaria Petrone (Chairwoman)

Giandomenico Magliano

Silvia Stefini

Finance and Service General Manager^e

Antonio Paccioretti

INDEPENDENT AUDITORS^g

Deloitte S.p.A.

BOARD OF STATUTORY AUDITORS^a

Chairman

Pierluigi Pace

Standing auditors

Maurizio Di Marcotullio

Marilena Cederna

Alternate auditors

Stefano Fiorini

Giuseppina Manzo

APPOINTMENTS AND REMUNERATION COMMITTEE^c

Andrea Mascetti (Chairman)

Maurizio Dainelli

Silvia Stefini

SUSTAINABILITY COMMITTEE^d

Giandomenico Magliano (Chairman)

Yunpeng He

Veronica Vecchi

SUPERVISORY BODY^f

Carlo Piergallini (Chairman)

Marcella Caradonna

Francesco Profumo

^a Appointed by the Shareholders' Meeting of 4 April 2019. In office until the date of the Shareholders' Meeting called for the approval of the financial statements for the year ending 31 December 2021.

^b Committee established by the Board of Directors on 4 August 2016. Members appointed by the Board of Directors on 13 May 2019.

^c Committee established by the Board of Directors on 23 October 2017. Members appointed by the Board of Directors on 13 May 2019.

^d Committee established by the Board of Directors on 4 August 2016. Members appointed by the Board of Directors on 13 May 2019.

^e Appointed by the Board of Directors on 26 September 2016 with effect from 7 November 2016.

^f The Supervisory Body was appointed by the Board of Directors on 23 September 2019.

^g Engagement assigned by the Shareholders' Meeting of 12 May 2020 for the period 2020 - 2028.

Group structure as at 30 June 2020

The structure of the Italgas Group as at 30 June 2020 has changed, compared to 31 December 2019, due to the acquisition of 15% of the company Reti Distribuzione described below:

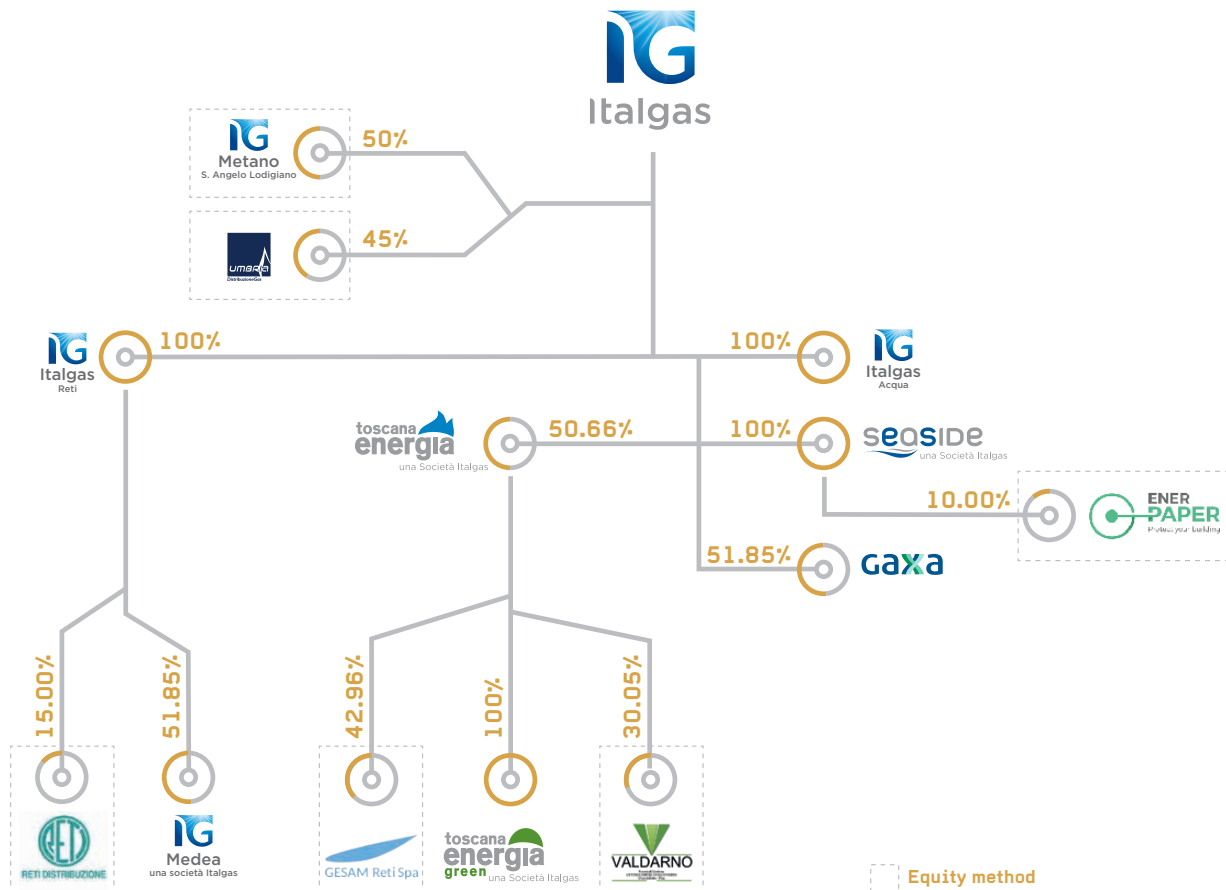


Table of Contents

INTERIM DIRECTORS' REPORT

01.	SUMMARY FIGURES AND INFORMATION	8
02.	ITALGAS AND THE FINANCIAL MARKETS	12
	2.1 Shareholders	14
03.	OPERATING PERFORMANCE	16
04.	LEGISLATIVE AND REGULATORY FRAMEWORK	24
05.	COMMENT ON THE ECONOMIC AND FINANCIAL RESULTS	32
	5.1 Reclassified Income Statement	32
	5.2 Reclassified Statement of Financial Position	38
	5.3 Reclassified Statement of Cash Flows	43
06.	NON – GAAP MEASURES	46
07.	OTHER INFORMATION	56
08.	ELEMENTS OF RISK AND UNCERTAINTY	58
	8.1 Financial risks	58
	8.2 Operating risks	62
	8.3 Significant events occurring after the end of the half-year	69
09.	CORONAVIRUS EMERGENCY AND BUSINESS OUTLOOK	72
	GLOSSARY	76

10.	CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS	80
	10.1 Financial statements	81
	10.2 Notes to the Condensed Consolidated Half-Year Financial Statements	91
	10.3 Management representations	162
	10.4 Report of the Independent Auditors	163
11.	ANNEXES TO THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	164
	11.1 Companies and equity investments of Italgas S.p.A. as at 30 June 2020	164

Disclaimer

The Condensed consolidated half-year report contains forward-looking statements, specifically in the “Business Outlook” section, relating to: investment plans, financial structure evolution, future operating performance and project execution. The forward-looking statements, by their nature, involve risks and uncertainties as they depend on the occurrence of future events and developments. The actual results could therefore differ from those announced in relation to various factors, including: actual operating performance, general macro-economic conditions, geopolitical factors such as international tensions and socio-political instability, the effects of the pandemic, the impact of energy and environmental regulations, the successful development and application of new technologies, changes in stakeholder expectations and other changes in business conditions, action by competitors.

01



Summary figures and information

Main events

Extraordinary transactions and M&As

Finalisation, on 31 January 2020, of **the agreement for the sale of several non-core industrial assets between Italgas and A2A**, signed on 7 October 2019. In particular, Italgas Reti sold A2A Calore & Servizi (A2A Group) the entire district heating business managed in the Municipality of Cologno Monzese (Milan); at the same time, Unareti (A2A Group) sold Italgas Reti its natural gas distribution business managed in seven Municipalities belonging to the Alessandria 4 ATEM.

In compliance with the "Invitation to Submit Expression of Interest", published on 9 December 2019, as part of the privatisation process launched by the Greek government, the **expression of interest in the purchase of 100% of the capital of DEPA Infrastructure** was **presented** on 20 February 2020. The assets transferred include more than 420 thousand re-delivery points in Greece and around 5000 km of low-pressure networks. On 3 June 2020 the inclusion of Italgas in the short list of subjects admitted to the next phase of the tender for the acquisition was confirmed.

Completed, through the subsidiary Italgas Reti, on 26 May 2020, the **acquisition** from AEG Soc. Coop. of **15% of the company Reti Distribuzione**, which manages the natural gas distribution service in the territory of 49 Municipalities located in Canavese, Valle Orco and Soana and in the Municipality of Saluggia for a total of 32,000 re-delivery points. The consideration for the transaction was €4.6 million.

Innovation, digitisation of the corporate networks and processes

In the current growth context for the Italgas Group, **digital technology** plays a key role in enabling corporate strategies, providing tools to optimise processes and improve the service to customers and end users.



Italgas is implementing the modernisation of the **Applicative Map**, which requires the adoption of cloud-native solutions to replace previous legacy systems, in order to build the necessary ICT ecosystem to support the digitisation of networks and processes, in parallel with the initiatives of the **Digital Factory**.

The remote management solutions developed within the **Digital Factory**, such as the creation of a field application for the continuous control and monitoring of construction sites, proved particularly effective during the COVID-19 emergency lockdown period, as they made it possible to reduce field excursions, guaranteeing the safety of field workers.

Rating and Optimization of the debt structure

On 30 April 2020, the rating agency Fitch confirmed the rating assigned to Italgas S.p.A. **BBB+ with stable outlook**.

On 24 June 2020, as part of its EMTN Programme 2019-2020, Italgas successfully completed the launch of a new **bond issue** for an amount of **€500 million** maturing in June 2025, at a fixed rate and with an annual coupon of 0.25%.

Winning of area tenders

On 2 January 2020, Italgas Reti was **officially awarded** the **tender for the concession** of the natural gas distribution service in the territorial area of "**Valle d'Aosta**".

On 31 January 2020, the contracting authority Città Metropolitana di Torino (Metropolitan City of Turin) and the outgoing managers **signed a report for the delivery of the plants** of the Territorial Area "**Turin 2**" to Italgas Reti which thus officially launched its first operation of the gas distribution service for the Territorial Area in Italy.

Lastly, on 3 June 2020, Italgas was **officially awarded** the **tender for the concession** of the natural gas distribution service in the territorial area of "**Belluno**". The area is made up of 34 methanised Municipalities, served by about 990 kilometres of networks, for a total of 47 thousand end users.

Key figures

In order to allow for a better assessment of economic and financial performance, the Directors' Interim Report includes the reclassified financial statements and certain alternative performance indicators, including in particular EBITDA, EBIT and net financial debt, in addition to the financial statements and conventional indicators laid out in IAS/IFRS. These figures are presented in the tables below, the relative notes and the reclassified financial statements. For the definition of the terms used, when not directly specified, please refer to the chapter "Financial results, NON-GAAP Measures".

Key share figures

		30.06.2019	30.06.2020
Number of share capital	(million)	809	809
Closing price at the end of period	(€)	5.908	5.170
Average closing price in the period (a)	(€)	5.492	5.249
Market capitalisation (b)	(million)	4,443	4,246
Exact market capitalisation (c)	(million)	4,780	4,183

(a) Non-adjusted for dividends paid.

(b) The product of the number of shares outstanding (exact number) multiplied by the average closing price in the period.

(c) The product of the number of shares outstanding (exact number) multiplied by the closing price at the end of the period.

Key financial figures

Financial year 2019 (€ million)	First half of the year	
	2019	2020
1,257.9 Total revenues* / **	609.4	646.8
907.5 EBITDA***	433.9	462.7
516.0 EBIT***	241.6	252.8
417.2 Net profit attributable to the Group	166.2	153.4

* Net of the effects of IFRIC 12 "Service concession agreements" (€322.6 and €262.5 million in the first half year respectively for 2020 and 2019) and of the reclassification of residual components (€9.8 and €7.5 million in the first half year respectively for 2020 and 2019).

** For the purposes of like-to-like comparison, as at 30 June 2019, the revenue item of the Medea company in relation to LPG distribution was restated from Other revenues to Distribution revenue (€4.2 million). Medea's 2019 revenues in relation to the sales item, which was later transferred to Gaxa through a demerger of the branch, are stated as Other revenues.

*** EBITDA and EBIT are not measures allowed by IFRS. For further details with regard to these performance measures, please see the next chapter "Financial results, Non-GAAP Measures".

(€ million)	31.12.2019	30.06.2020
Net invested capital at the end of the end of period	6,280.2	6,432.9
Shareholders' equity	1,794.9	1,731.6
Net financial debt at end of period	4,410.6	4,625.8
Financial liabilities for leasing pursuant to IFRS 16	74.7	75.5

02

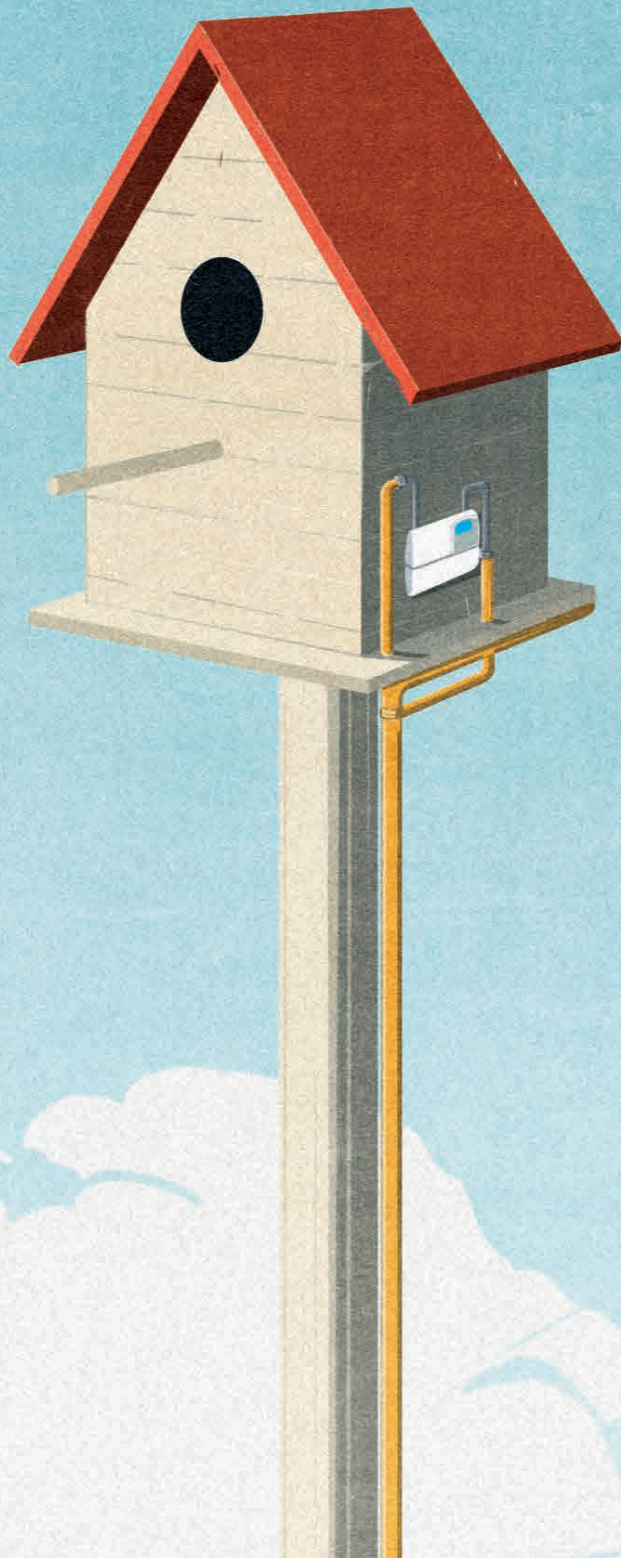


Italgas and the financial markets

Italgas shares closed the first half of 2020 with a price as at 30 June 2020 of €5.17, a drop of 5.0% compared to the price at the end of 2019 (€5.444), in line with the end of 2019 if the coupon date of €0.256 per share on 18 May is taken into account. On 19 February the share achieved its maximum level, with a closing price of €6.294. In the first half of 2020, the average daily trading volume of the Italgas stock on the electronic market of the Italian Stock Exchange was 3.1 million shares.

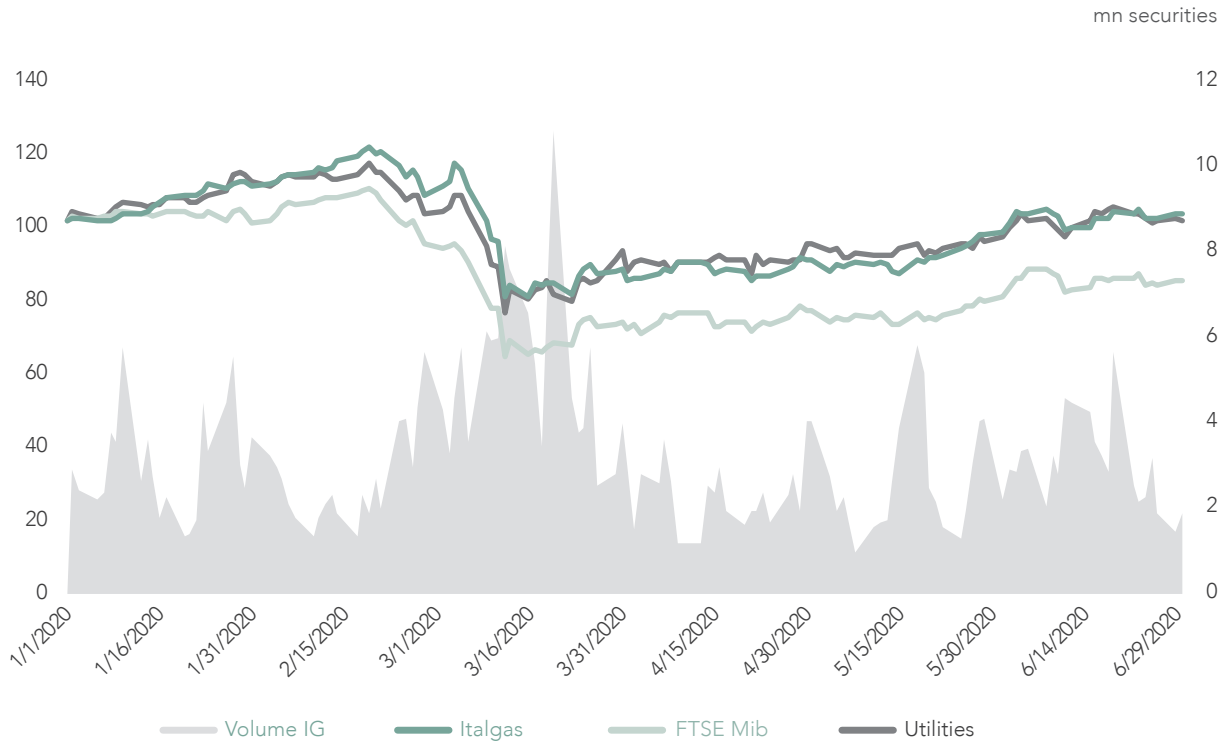
After reaching their highest for many years in February, eurozone stock markets declined sharply as a result of the expansion of the COVID-19 pandemic and the ensuing measures to close down business and limit the spread of contagion. However, the downturn was mitigated by expansionary measures adopted by the major monetary and fiscal authorities worldwide.

With list prices adjusted to the coupon date, the Euro Stoxx share index fell by 11.2% during the period, with very uneven dynamics among the main national indices, in line with the severity of the economic impact of COVID-19. With a drop of 7.1% the Frankfurt DAX was the least penalised among the main indices, while with a 22.9% drop the Spanish Ibex was the most heavily hit. The FTSE Mib and Paris CAC 40 fell by 16.2%.



The Euro Stoxx Utilities closed the first half of the year with an increase of 2.0%, a significant outperformance compared to the Euro Stoxx, equally supported by regulated securities, as a result of their countercyclical profile, and by integrated securities with greater exposure to renewables, in line with European objectives aimed at decarbonisation of the economy.

**Comparison of the Italgas share prices, FTSE MIB and EURO STOXX Utilities
(1 January 2020 - 30 June 2020, figures adjusted for dividends)**



2.1 Shareholders

The share capital as at 30 June 2020 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518.44.

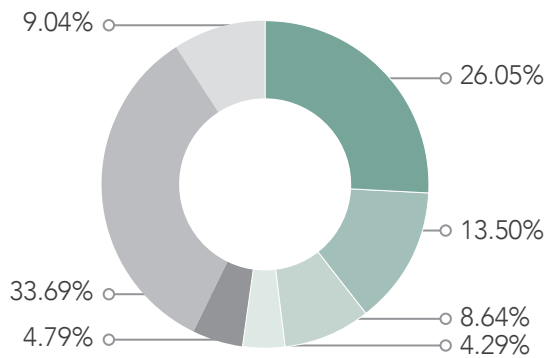
As at 30 June 2020, based on the shareholders' list, the information available and the notices received pursuant to Article 120 of the Consolidated Finance Act, the owners of significant shareholdings (shares exceeding 3%) are represented below.

Consolidating Company	Registrants	% ownership
Italgas S.p.A.	CDP Reti S.p.A.*/**	26.05
	Snam S.p.A.	13.50
	Lazard Asset Management Llc	8.64
	Romano Minozzi	4.29
	Blackrock Inc.	4.79
	Other institutional shareholders	33.69
	Direct Shareholder	9.04

* On 1 August 2019 the Board of Directors of CDP S.p.A., also with a view to considering the control guidelines contained in Consob Communication no. 0106341 of 13 September 2017, reclassified its equity investment in Italgas as de facto control pursuant to article 2359, subsection 1, no. 2) of the Italian Civil Code and article 93 of the TUF, exercising control through CDP Reti with a 26.05% equity holding and through Snam with a 13.50% equity holding. CDP does not exercise management and coordination activities with respect to Italgas pursuant to articles 2497 et seq. of the Italian Civil Code.

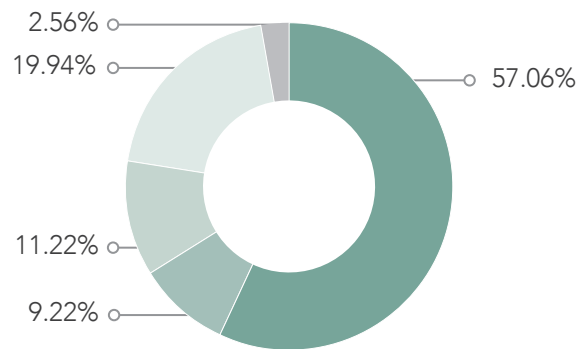
** A shareholders' agreement between Snam, CDP Reti and CDP Gas was signed on 20 October 2016, effective from the date of the demerger of Italgas S.p.A. on 16 November 2016. With effect from 1 May 2017, CDP Gas was merged into CDP. Subsequently, on 19 May 2017, CDP sold to CDP Reti, inter alia, its equity investment in Italgas S.p.A., equal to 0.969% of Italgas S.p.A.'s share capital. CDP Reti is 59.1% owned by CDP, 35% by State Grid Europe Limited - SGEL, a company of the State Grid Corporation of China group, and 5.9% by a number of Italian institutional investors. On 1 August 2019, the shareholders' agreement was further updated to take account of the aforementioned re-qualification of the shareholding.

Italgas Shareholders by type of investor



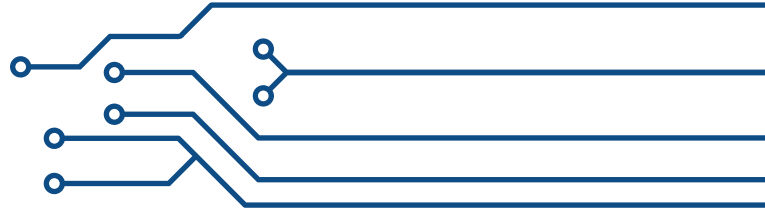
- CDP S.p.A.
- Snam S.p.A.
- Lazard Asset Management Llc
- Romano Minozzi
- Blackrock Inc
- Other institutional shareholders
- Retail shareholders

Italgas Shareholders by geographical area



- Italy
- Continental Europe
- UK and Ireland
- USA and Canada
- Rest of the World

03



Operating performance

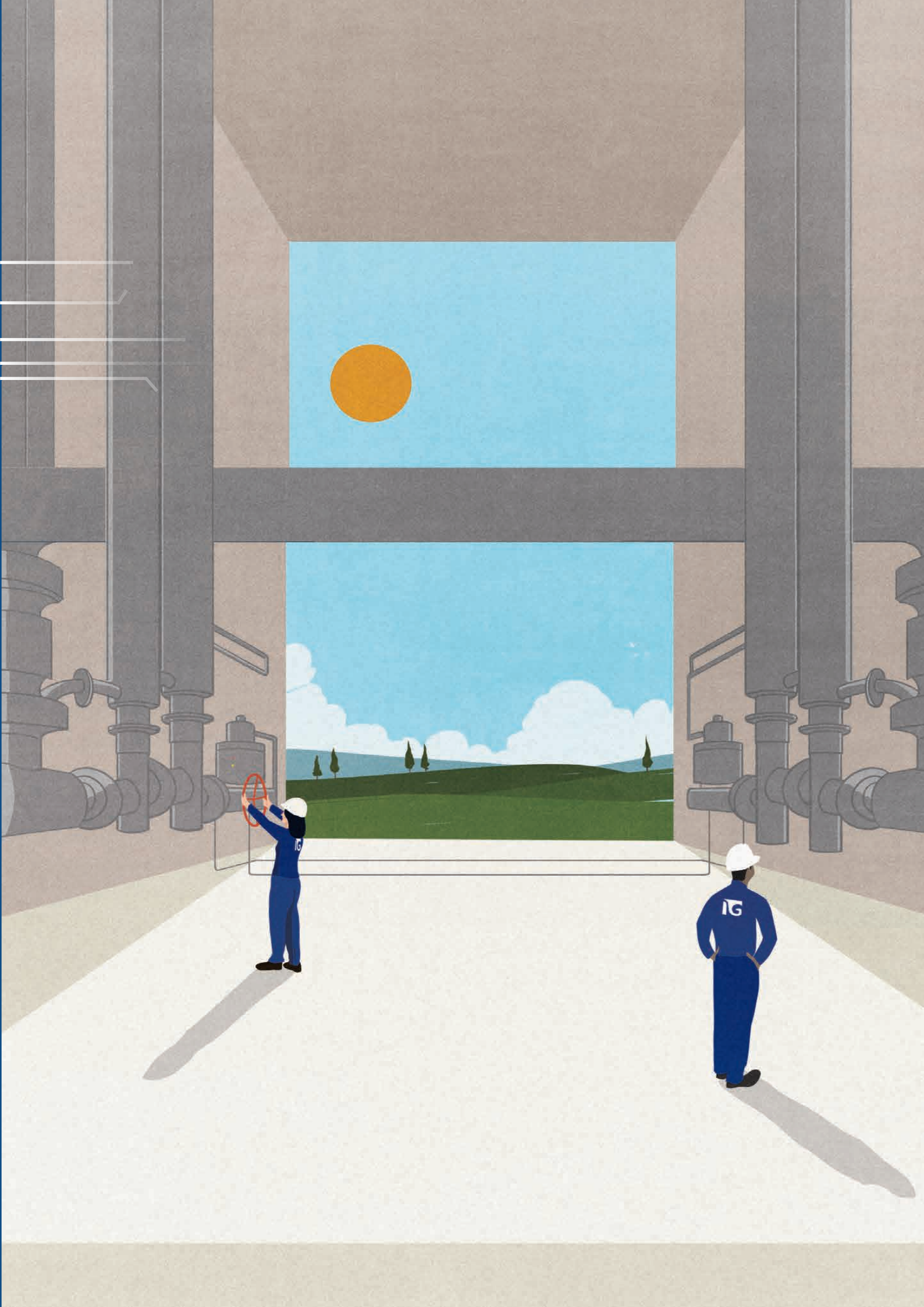
Infrastructure

Italgas is the leader in Italy in the industry of natural gas distribution and is the third largest operator in Europe.

The distribution service consists of transporting gas through local pipeline networks, from points of delivery at the reduction and measurement stations interconnected with the transport networks ("city-gates") up to the final delivery points to customers (households, enterprises, etc.). Furthermore, Italgas is engaged in metering activities, which consist of determining, gathering, making available and archiving metering data on natural gas withdrawn over the distribution networks.

Collection cabins are equipment that link local distribution networks to the national gas pipeline network. They are complex systems that must perform different functions, including the measurement of the gas collected and a first reduction of the pressure to allow routing through the urban network. Currently Italgas has collection cabins equipped with advanced remote control and remote reading systems. Remote control allows the fastest possible intervention in case of anomalies; remote meter allows the continuous detection of a series of parameters relative to the management of gas flows as well as the detection of the quantity of gas entering the networks.

The systems for the reduction of pressure are devices placed along the distribution network and have the task to bring the pressure of the gas at the right level in relation to the type of use.



Investments

In the first half of 2020 technical investments were made for €369.5 million (first half of 2019: €317.7 million, +16.3%), of which €10.5 million due to the adoption of IFRS 16.

Financial year 2019 (€ million)	First half of the year			
	2019	2020	Abs. change	Change %
463.0 Distribution	187.0	279.8	92.8	49.6
360.6 Network maintenance and development	147.2	209.4	62.2	42.3
39.7 - of which digitisation	7.3	35.6	28.3	
102.4 New networks	39.8	70.4	30.6	77.0
82.8 - of which Sardinia	29.5	64.3	34.8	
179.5 Metering	83.5	53.9	(29.6)	(35.4)
97.5 Other investments	47.2	35.7	(11.5)	(24.4)
32.4 - of which Real Estate	6.6	13.3	6.7	
25.8 - of which ICT	10.9	12.6	1.7	15.6
39.4 - of which due to the effect of IFRS 16	31.4	10.5	(20.9)	(66.6)
740.0	317.7	369.5	51.8	16.3

Metering investments (€53.9 million, -35.4% compared to the first half of 2019) essentially refer to the last phase of the plan to replace traditional meters with “smart” meters, which should be completed by 2020, a fall compared to the corresponding period of 2019, also as a result of the restrictions caused by the COVID-19 health emergency. The Company installed approximately 0.54 million new meters in the first half of 2020, of which 0.40 million to replace traditional meters and 0.14 million for the repair of digital meters with anomalies.

Municipalities in concession and local tender areas¹

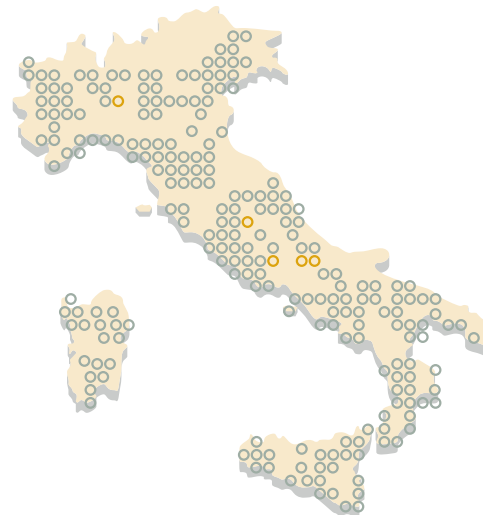
Tender notice and award situation in the first half of 2020

As at 30 June 2020, also considering the associate companies over which it does not exercise control², Italgas holds gas distribution service concessions in 1,886 Municipalities (1,830 as at 31 December 2019), of which 1,800 operative (1,744 as at 31 December 2019). Excluding the associate companies mentioned, the number of Municipalities with operating concessions comes to 1,739 (1,730 as at 31 December 2019), out of a total of 1,825 municipal concessions (1,816 as at 31 December 2019).

The following map shows the presence of the Italgas Group in Italy³.

ITALGAS GROUP Municipalities in concession

- Consolidated companies
- Subsidiaries



Within the regulatory framework that provides for assigning gas distribution service by tenders for territory (and not individual municipality) as at 30 June 2020, 30 local tender notices were published.

Of the 30 tenders:

- TURIN 3 - South West, MASSA CARRARA, BIELLA, CREMONA 2 - Centre and CREMONA 3 - South aggregates, COMO 1 - Lariano, Brianza, Comasca Triangle, BERGAMO 3 - Suburbs West of Bergamo and BRESCIA 1 - North - West have been suspended by the Contracting Authorities;
- VENICE 1 - Laguna Veneta and ALESSANDRIA 2 - Centre were cancelled by the State Council and by the Piedmont Regional Administrative Court (TAR) respectively;
- MONZA AND BRIANZA 2 – West and LUCCA, were revoked by the respective contracting authorities;
- TURIN 1 - City of Turin is in the course of being awarded;
- MILAN 1 - City and Milan Plant, awarded to UNARETI, annulled by decision of the Lombardy Regional Administrative Court and still the subject of litigation;
- TURIN 2 - Turin plant, VALLE D'AOSTA and BELLUNO were officially awarded to Italgas Reti on 23 April 2019, 2 January and 1 June 2020 respectively.

1 For more information on the regulation concerning the assignments of gas distribution service and the related call for tenders, please see the specific paragraph in the chapter "Legislative and regulatory framework".

2 Umbria Distribuzione Gas, Metano Sant'Angelo Lodigiano, Gesam Reti and Reti Distribuzione.

3 The territorial presence where Italgas exercises control is shown in blue, the presence through associate companies over which it does not exercise control is shown in orange.

With regard to the award of the natural gas distribution service in the **“Valle d’Aosta” area**, two other operators have requested annulment of the final award to Italgas Reti. Subsequently, following the joint petition filed by the parties, the claimants waived their application for a protective measure given the commitment made by the Contracting Authority not to proceed with the signing of the service contract until the outcome of the proceedings, the discussion of which was held at the hearing of 14 July 2020. At that hearing, the case was held back for judgement and, as things stand, pends publication of the ruling.

In **Order no. 421/2020 of 22 April 2020**, published on 23 April 2020, concerning the appeal to annul the invitation to tender in the **Municipality of Castel San Giorgio** and the decision awarding the tender to Italgas Reti, the Campania Regional Administrative Court, Salerno Section, obtained clarification from the claimant company as to the actual and current availability of a company able to provide the gas distribution activities covered by the contested tender procedure. At the public hearing of 24 June 2020, the Campania Regional Administrative Court delegated the case for decision. At present, there are no further updates.

With regard to the award of the natural gas distribution service to Italgas Reti in the **“Belluno” Area** in an appeal notified on 29 June 2020, the runner-up requested annulment of the award, contesting the alleged anomaly of the offer, illegality of the tender specifications and irregularities in the appointment of the Chairman of the tender committee as well as the conduct of the tender procedure.

Legislative and regulatory framework⁴

On **25 July 2019, Publiservizi S.p.A.** served a summons on Italgas, alleging violation of a shareholders’ agreement entered into by Italgas, Publiservizi S.p.A. and other Municipalities holding stakes in Toscana Energia S.p.A. on 28 June 2018. The first hearing, held on 14 January 2020 before the Court of Florence, was adjourned to 6 May 2020. Italgas, which entered an appearance within the legal term, raised all the objections required to prove that the counterparty’s claims were groundless. The parties are exchanging briefs in which Italgas has filed further documents to support its objections and defence and has formulated various preliminary statements. The hearing for the discussion of the preliminary requests has been adjourned due to the ongoing health emergency, to 25 November 2020.

With reference to the dispute with the **Municipality of Rome** concerning the implementation of the **Business Plan**, in Order no. 3834/2020 published on 19 June 2020, the Council of State upheld the precautionary appeal filed by Italgas Reti, suspending the effects of the ruling in which the Municipality of Rome requested the payment of penalties by Italgas Reti, until the decision on the matter. An appeal is pending before the Court of Cassation to ascertain the jurisdiction of the Lazio Regional Administrative Court. The setting of a date for the hearing before the Court of Cassation is currently pending.

4 Further information is provided in Note 24 “Disputes and other measures” to the Notes to the Consolidated half-year financial statements.

On 18 November 2019, the Lombardy Regional Administrative Court, in **Ruling no. 2430/2019**, upheld the appeals filed by Italgas Reti on various grounds against: i) Resolution no. 98/2016 for the part relating to the recalculation of the Company's reference tariffs for the years 2009-2014; ii) Resolution no. 99/2016 relating to the 2015 tariffs and iii) Resolution no. 494/2018 for the part relating to the non-recognition of the extra-remuneration of the investments made by the Company in the Municipality of Rome, with reference to the years 2009 and 2010. ARERA made an appeal against this last judgement, notified on 11 February 2020 and filed on 13 February 2020. The Company entered an appearance within the legal term. The discussion hearing has not yet been scheduled.

In **Ruling no. 28249 of 27 May 2020**, published on 8 June 2020, the Antitrust Authority decided to launch an investigation to verify whether Italgas Reti, the current operator of the gas distribution service in several municipalities in the Province of Venice, has abused its dominant position as exclusive concessionaire of the service in order to significantly inhibit or delay the planned competitive procedure for assigning the service in the minimum territorial area including such municipalities (ATEM VENICE 1). The company is committed to providing the Antitrust Authority with the necessary clarifications as well as any supplementary information that may be necessary.

In **Ruling no. 197/2020 of 17 June 2020**, published on 19 June 2020, the Friuli Regional Administrative Court partially upheld the appeal brought by Italgas Reti against the **Municipality of Pordenone**, to ascertain the company's right of ownership of the portion of the network built up to 31 December 1985 and of the portion of the network laid within the housing development plans for which private individuals were granted deduction of the primary urbanisation costs until the actual expiry of assignment.

In particular, the Regional Administrative Court annulled the deeds by which the Municipality of Pordenone stated among its assets, without consideration, the gas distribution network built by the company up to 31 December 1985, which according to the convention signed by the parties, should have taken place at the expiry of the 30-year concession, i.e. on 31 December 2018.

It should be noted, finally, that the hearings related to the ongoing litigation with the City of Venice regarding the free acquisition of the so-called "Block A", with the Municipality of Cerro Maggiore following the criminal proceedings started in 2015 and with the Municipality of Andria regarding the increase in the concession fee, were adjourned to 23 December, 7 September and 11 December 2020 respectively.

Gas distributed

As at 30 June 2020, Italgas, also considering the associate companies over which it does not exercise control, had distributed 4,584 million cubic metres of gas (5,152 million cubic metres of gas as at 30 June 2019). Excluding the aforementioned associate companies, the gas distributed during the first half of 2020 amounted to 4,449 million cubic metres (4,410 million cubic metres as at 30 June 2019), on behalf of 439 marketing companies.

Distribution network

The gas distribution network as at 30 June 2020, also considering the associate companies over which it does not exercise control, extends for 72,667 kilometres (71,761 kilometres as at 31 December 2019). Excluding the aforementioned associates, the distribution network spans 70,796 kilometres (70,502 kilometres as at 31 December 2019).

Meters

As at 30 June 2020, the number of **active meters** at re-delivery points, also considering the associate companies over which it does not exercise control, amounted to 7,740 million (7,694 as at 31 December 2019). Excluding the aforementioned associates, the total number of active meters is 7.587 million (7.573 as at 31 December 2019).

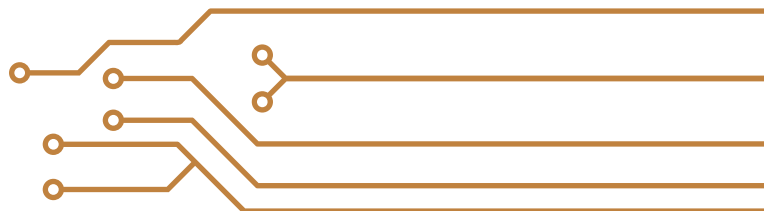
The legislation on remote meter reading (**Resolution No. 631/2013/R/gas as amended**) defines the objectives, differentiated by calibre, of electronic meters put into service. These objectives were changed multiple times during the period (from Resolution ARG/gas 155/08 to Resolution 554/2015/R/gas).

The new obligations for the installation of G4-G6 smart gas meters (which include 97.8% of all meters) were defined by **Resolution no. 669/2018/R/gas of 18 December 2018**. Resolution 669/2018 in particular establishes that a minimum level of 85% must be reached by the end of 2020 by distributors with over 200 thousand customers, 2021 for those with 100 to 200 thousand and 2023 for those with 50 to 100 thousand customers. The Regulator on the other hand makes reference to a subsequent provision relating to the obligations of distributors with less than 50 thousand customers and in case of distribution companies that acquire distribution network from operators not subject to obligations.

In order to comply with this obligation, the Italgas Group, also considering the associate companies over which it does not exercise control, installed 554.8 thousand new meters during the first half of 2020, of which 410.8 thousand to replace traditional meters and 144.0 thousand to replace digital meters with anomalies. Excluding the aforementioned associate companies, during the first half of 2020, 542.2 thousand new meters were installed, of which 399.3 thousand to replace traditional meters and 142.8 thousand to replace digital meters with anomalies, bringing the current total of smart meters to approximately 7,104.7 thousand, equal to approximately 84% of the total number of active and non-active meters (8,488.1 thousand).



04



Legislative and regulatory framework

Tariff regulation

The distribution of natural gas is regulated by the Regulatory Authority for Energy, Networks and Environment (ARERA). Among its functions are the calculation and updating of the tariffs, and the provision of rules for access to infrastructure and for the delivery of the relative services.

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

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

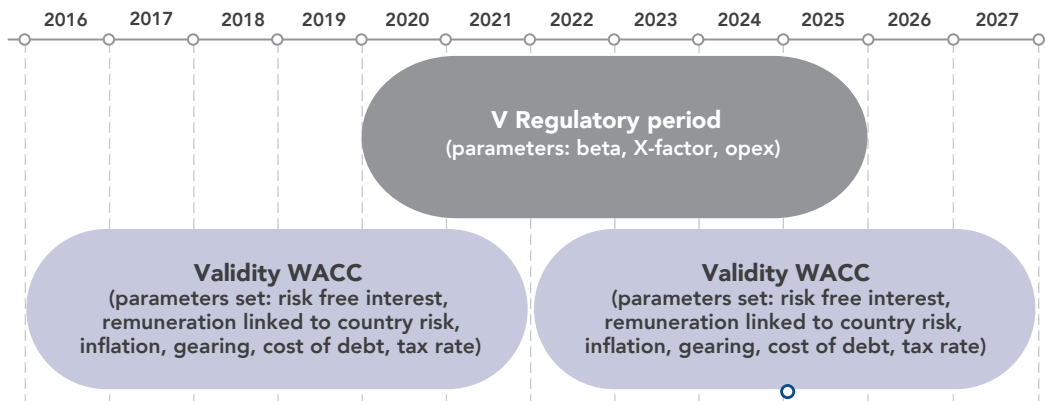
The main rate elements are reported below on the basis of the regulatory framework (Resolution no. 570/2019/R/gas as amended).



Highlights fifth regulatory period (from 1/1/2020 to 31/12/2025)

End of Regulatory period (TARIFFS)	31 december 2025
Calculation of net invested capital recognized for regulatory purposes (RAB)*	Revalued historical cost Parametric method for centralised asset base
Return on net invested capital recognized for regulatory purposes ($WACC_{pre-tax}$)	Distribution and Metering: 6.3% Years 2020-2021
Incentives on new investment	Return of investments t-1 to offset regulatory time lag (from 2013)
Efficiency Factor (X-factor)	Distribution operating costs: <ul style="list-style-type: none"> • 3.53% for large companies (RDP > 300.000) • 4.79% for medium companies (RDP > 50.000) • 6.59% for little companies (RDP < 50.000) Metering operating costs: 0% Commercialization operating costs: 1.57%

* The estimated RAB of the companies currently included in the scope of consolidation, calculated by applying the criteria adopted by the Authority in the definition of the reference tariffs for 2020, is equal to almost €7.4 billion.



◦ Update of WACC parameters within the period

Resolution no. 570/2019/R/gas, following the consultation process conducted with the documents for consultation no. 170/2019/R/gas and 410/2019/R/gas, approved the regulation of tariffs for gas distribution and metering services for the period 2020-2025.

In particular:

- the Authority confirmed the six-year duration of the tariff regulation period, as well as the division into two half-periods of three years each;
- with regard to the recognition of operating costs, the Authority provided that:
 - a) the initial level for 2020 of recognised operating costs be fixed by applying equal weight to the actual and recognised costs of the reference year 2018;
 - b) the rate of annual reduction of unit costs recognised to cover operating costs be set at:
 - **for the distribution service:**
 - 3.53%, for large companies (> 300,000 re-delivery points);
 - 4.79%, for medium-sized enterprises (> 50,000 re-delivery points);
 - 6.59%, for small businesses (< 50,000 re-delivery points);
 - 0% for the metering service;
 - 1.57% for the marketing service;
 - c) the level of the recognised standard cost for each switch reading be confirmed, for the first half of the regulatory period, at €5;
 - d) the recognition of costs relating to remote reading/management systems be confirmed based on the costs actually incurred for the first half of the regulatory period, with the application of a ceiling and recognition on account;
 - e) the recognition of costs relating to meter checks be confirmed on the basis of the costs actually incurred with the application of recognition on account;
- with regard to the recognition of capital costs, the Authority provided that:
 - a) the adoption of a ceiling to tariff recognition for investments in distribution networks applied to locations with year of first supply after 2017 be confirmed for the fifth regulatory period, to the extent set out in Resolution no. 704/2016/R/gas;
 - b) the weights to be applied for the recognition of smart meter investments made in the two-year period 2020-2021 be revised to 30% (from 40%) for the standard cost and to 70% (from 60%) for the actual cost and that the standard cost revision be referred to the investments in the metering service made in 2022;
 - c) a time horizon be adopted for the full recovery of "frozen" contributions aligned with the time horizon for the reimbursement of contributions subject to depreciation (about 34 years);
 - d) in relation to the recognition of residual costs of traditional meters class G6 or lower replaced with smart meters, an amount be set for the recovery of non-depreciation (IRMA), to be paid to the distribution companies over five years, equal to the difference between the residual non-depreciated value, calculated applying the pro-tempore regulatory useful life in force, and the residual value, calculated by applying a useful life of 15 years; also providing for the recovery of non-depreciation for traditional meters installed in the period 2012-2014 replaced with smart meters;
 - e) following the equalisation of the β asset parameter for distribution (0.439) and metering services (from 0.502 to 0.439), the rate of return on invested capital WACC be set at 6.3% until 2021, including for metering activities;
 - f) incentive regulation schemes for capital costs related to the distribution service, based on standard cost recognition logics, be introduced starting from investments made in 2022;

- g) aspects related to the introduction of tools to support network innovation be addressed in a specific consultation document to be published in January;
- with regard to the methanisation of Sardinia, the Authority has established a specific tariff framework providing, for a period of three years, for a transitional equalisation mechanism that allows the tariff of the Sardinian sector to be equalised with that of the southern Italy sector;
- with regard to the application of the tariff regulation to isolated LNG networks and isolated networks supplied by gas supply trucks, the Authority has introduced transitional rules, providing that these networks may be assimilated to interconnected distribution networks for a period of five years, subject to submission of an application by the distribution company concerned.

In relation to the new provisions on the recognition of residual costs of traditional meters class G6 or lower, replaced with smart meters, the Company did not record in the financial statements the impacts deriving from the change in methodology on previous years since it is expected that the Director of the Directorate of Energy Infrastructures and Unbundling will, in a specific resolution, identify consistent operating solutions to determine a reconciliation between regulatory divestments and accounting divestments, as required by Article 11 of Resolution No. 570/2019/R/gas.

The Company filed an appeal before the Regional Administrative Court of Lombardy, served on 24 February 2020, challenging the legitimacy of the resolution in several respects, including the planned reduction in recognised operating costs to the distributors, the reduction in the return on capital invested in metering activities, confirmation of the cap on investments in start-up locations, the proposed single tariff sector for Sardinia with equalization mechanism limited to the first three years only, and the proposal for a fixed x-factor throughout the regulatory period. The setting of a date for the hearing is currently pending.

Resolution No. 571/2019/R/gas approved the mandatory tariffs for natural gas distribution, metering and marketing services and the bimonthly equalisation prepayment amounts for natural gas distribution service for the year 2020.

Resolution no. 106/2020/R/gas redetermined the reference tariffs for gas distribution and metering services for the years 2009-2018 based on the requests of several distribution companies to correct the data. The Resolution also redetermined the reference tariffs for distribution and metering services for 2018 for locations with first year of supply starting from 2017 based on the provisions of Resolution no. 570/2019/R/gas, in relation to the ceiling on the costs recognised to cover capital costs relating to the distribution service in start-up locations. In particular, for 2017 start-ups, the Authority no longer provides for application of the ceiling to the amount of recognised costs, which are therefore remunerated based on the costs actually incurred.

Resolution no. 107/2020/R/gas determined the final reference tariffs for gas distribution and metering services for 2019, calculated on the basis of the actual balance sheet figures for 2018.

Resolution no. 127/2020/R/gas determined the provisional reference tariffs for gas distribution and metering services for 2020, based on the preliminary balance sheet data for 2019 pursuant to Art.3, subsection 2, letter a) of the RTDG.

Resolution no. 128/2020/R/gas amended the definition of the different gas sector as per Article 1, subsection 1, of the RTDG, introducing the type of gas distributed to the criteria for identifying the sector, and accepted the application to redetermine the tariff options for the year 2020 for the Sardinia different gas sector of Medea S.p.A., presented on 25 February 2020 by Italgas S.p.A., distinguishing, with effect as of 1 January 2020, the localities served with propane air from the localities served with LPG.

Quality and safety of the gas distribution and metering service

In **Resolution no. 65/2020/R/gas** of 17 March 2020 the Authority determined the premiums and penalties relating to the safety recoveries of the natural gas distribution service for 2015 for Toscana Energia for a total net amount payable to the Company of €627,688.48.

With **Resolution no. 163/2020/R/gas** of 12 May 2020, the Authority determined the premiums and penalties relative to the safety recoveries of the natural gas distribution service for 2016. In particular, for subsidiaries and associate companies of Italgas S.p.A., the overall net amount in favour (total premiums and penalties) due for the odourisation and dispersion components is approximately €8,500,000.00.

Commercial regulation of gas distribution and metering service

In **Resolution no. 167/2020/R/gas of 19 May 2020**, the Authority established the criteria for regulating the insurance against risks deriving from the use of gas downstream of the delivery point in favour of final customers of gas distributed through local pipelines and transport networks, for the period 1 January 2021 - 31 December 2024 and defined the procedures for the stipulation of the related insurance contract.

In **Resolution no. 183/2020/R/gas of 26 May 2020**, the Authority partially accepted the appeals submitted by Italgas to obtain exemption from payments due for the omitted or late disconnection of re-delivery points served as part of the default gas distribution service.

Specifically, it granted the Company the power to make a reduced payment of the amounts due and integrated Appendix 1 of the Unified Code on Gas Sales with the evaluation criteria for appeals submitted by the distribution companies.

In **Resolution no. 219/2020/R/com of 16 June 2020**, the Authority supplemented and amended the regulations on arrears in the electricity and natural gas sectors, providing for a notice obligation of not less than 40 days.

Energy efficiency

In **Resolution no. 1/2020 – DMRT of 31 January 2020** the Authority defined the national **energy efficiency** quantitative obligations of natural gas end uses to be achieved in 2020 by distributors with more than 50,000 end users connected to its distribution network as at 31 December 2018. For subsidiaries and associates of Italgas S.p.A., the **quantitative obligation for 2020**, rounded off to the nearest whole number on a commercial basis and expressed as a number of White Certificates, is: i) 1,073,333 for Italgas Reti; ii) 155,367 for Toscana Energia and iii) 7,942 for Umbria Distribuzione Gas.

Overall, in the first half of 2020, the Italgas Group subsidiary companies purchased, with commitment to buy, 255,162 TEEs from the market for a value of €66.4 million.

It should be noted that, following the epidemiological emergency caused by COVID-19 pursuant to Article 41 of Decree Law no. 34 of 19 May 2020, for the purposes of verifying the achievement of energy efficiency objectives, the deadline for the closure of the 2019 obligation year, set as 31 May pursuant to the Ministerial Decree of 11 January 2017, was extended to 30 November 2020. Lastly, again with reference to the 2019 obligation year, the issuance of White Certificates not deriving from energy efficiency projects (short certificates) starts from 15 November 2020.

Coronavirus emergency - main measures of the Authority

In **Resolution no. 148/2020/R/com of 30 April, 2020**, the Authority further extended, for the period from 4 May 2020 to 17 May 2020, the provisions of Resolution no. 60/2020/R/com as amended, which provide for the suspension of arrears management procedures in the natural gas sector, limiting their application only to domestic end customers and condominiums for domestic use with consumption of less than 200,000 Sm³/year. As a result of the new extension, judicial proceedings for disconnection of supply are also suspended, as well as the application of the relevant default penalties provided for in the event of failure to comply with such obligations.

With **Resolution No. 192/2020/R/com of 28 May 2020**, the Authority further extended to 30 June 2020, the exemptions to the provisions concerning the supply of natural gas distribution services introduced by Resolution No. 116/2020/R/com, as amended, with reference to the management of possible payment default by users. This entailed suspending enforcement against each distribution user, of the guarantees provided by them or, failing such, the notice to comply, if at least 90% of the invoiced amount had been paid and giving the gas distribution companies the right to pay to CSEA the higher of the following sums i) 90% of the monthly turnover for general system charges relating to invoices due on 30 June 2020 and ii) the portion actually collected.

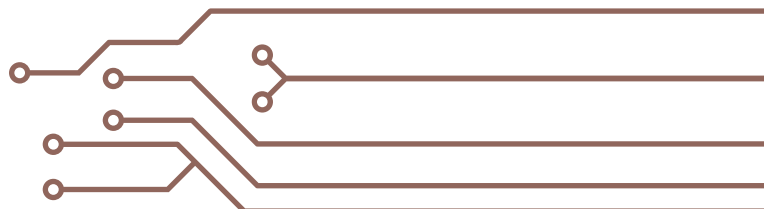
With **Resolution no. 226/2020/E/com of 23 June 2020**, the Authority extended to 31 March 2021, the deadline initially set at 30 June 2020 for the execution of the inspection programme pursuant to Resolution no. 531/2019/E/com on compliance with the Integrated Information System (IIS).

With **Resolution no. 248/2020/R/com of 30 June 2020**, the Authority approved urgent measures related to the COVID-19 epidemiological emergency following the consultation process developed in Document no. 193/2020/R/com aimed at reintegrating both the economic items for which payment by sellers to distributors was provisionally suspended and the general system charges not paid to CSEA and GSE by distributors on a transitional basis.

With regard to the balance of the amounts not paid by users of the gas distribution service during the months of April, May and June 2020, the resolution provides that:

- the distributor is required to notify each seller by 31 July 2020 of the total amount due and not yet paid pursuant to Resolution no. 116/2020/R/com;
- each seller can choose between: (a) a lump-sum payment (one-off payment) or (b) an instalment plan consisting of three monthly instalments of a constant amount, without interest, in the latter case giving notice within ten working days following receipt of the notice;
- in the event of non-compliance with the payment terms provided for in the instalment plan, the distributor is required to initiate enforcement of the guarantees given by the sellers or, in the absence of a guarantee given, to send them notice to comply;
- the distribution companies shall pay the CSEA (within 60 days from the end of each two-month period), the General System Charges collected from the payment of the one-off sum or instalment plan, net of what has already been paid and up to the total sales in the period of application of Resolution no. 116/2020/R/com as amended;
- access to the reputational guarantee of the rating of retail companies continues to be granted to all those users who, starting from 31 January 2020, suffered a downgrade due to the economic context related to the COVID-19 epidemic, for 12 months from the time the downgrade took place and provided that the cause of the downgrade is the health emergency.

05



Comment on the economic and financial results

5.1 Reclassified Income Statement

Financial year 2019 (€ million)	First half of the year				
	2019	2020	Abs. change	Change %	
1,206.9	Gas Distribution regulated revenue	576.4	626.0	49.6	8.6
1,109.1	of which distribution revenue	524.2	590.1	65.9	12.6
97.8	of which other distribution revenue	52.2	35.9	(16.3)	(31.3)
51.0	Other revenues*	33.0	20.8	(12.2)	(36.9)
1,257.9	Total revenues**	609.4	646.8	37.4	6.1
(350.4)	Operating costs**	(175.5)	(184.1)	(8.6)	4.9
907.5	EBITDA	433.9	462.7	28.8	6.6
(391.5)	Amortisation, depreciation and impairment	(192.3)	(209.9)	(17.6)	9.2
516.0	EBIT	241.6	252.8	11.2	4.6
(69.3)	Net financial expense	(24.1)	(26.4)	(2.3)	9.6
100.8	Net income from equity investments	11.8	1.0	(10.8)	(91.5)
547.5	Pre-tax profit	229.3	227.4	(1.9)	(0.8)
(123.9)	Income taxes	(63.1)	(64.6)	(1.5)	2.4
423.6	Net profit	166.2	162.8	(3.4)	(2.0)
6.4	Net profit attributable to minorities	0.0	9.4	9.4	
417.2	Net profit attributable to the Group	166.2	153.4	(12.8)	(7.7)

* For the purposes of like-to-like comparison, as at 30 June 2019, the revenue item of the Medea company in relation to LPG distribution was restated from Other revenues to Distribution revenue (€ 4.2 million). Medea's 2019 revenues in relation to the sales item, which was later transferred to Gaxa through a demerger of the branch, are stated as Other revenues. The representation as at 31 December 2019 has been aligned accordingly.

** Unlike the legal statement, the reclassified income statement requires the listing of Total revenues and Operating costs net of the impact of IFRIC 12 "Service concession agreements" (€322.6 and €262.5 million respectively in the first halves of 2020 and 2019), connection contributions and some residual components (€9.8 and €7.5 million respectively in the first halves of 2020 and 2019) and net margin relating to Energy Efficiency Certificates [EECs].



Net profit in the first half of 2020 amounted to €162.8 million, down by €3.4 million (2.0%), compared to the first half of 2019.

The **net profit attributable to the Group** net of minority interests amounted to €153.4 million.

Analysis of the Reclassified Income Statement items

Total revenue

Financial year 2019 (€ million)	First half of the year				
	2019	2020	Abs. change	Change %	
1,109.1	Distribution revenue	524.2	590.1	65.9	12.6
97.8	Other gas distribution regulated revenue	52.2	35.9	(16.3)	(31.3)
1,206.9	Total gas distribution regulated revenue	576.4	626.0	49.6	8.6
51.0	Other revenues	33.0	20.8	(12.2)	(36.9)
1,257.9	Total revenue	609.4	646.8	37.4	6.1

The **total revenues** of the first half of 2020 amounted to €646.8 million (of which 68.0 relating to Toscana Energia due to the full consolidation from October 2019), up by €37.4 million compared to the corresponding period of the previous year, and refer to natural gas distribution regulated revenue (€626.0 million) and other revenues (€20.8 million).

Gas distribution regulated revenue increased by €49.6 million compared to the previous half year, due to an increase in distribution revenue, partially offset by a reduction in other distribution revenue.

The increase in **distribution revenue** (€65.9 million) is mainly attributable to the change in the scope of consolidation as a result of the acquisitions in Sardinia and central and Southern Italy from Conscoop (€5.1 million), effective as of 1 May 2019, and to the above-mentioned full consolidation of Toscana Energia (€64.2 million), greater tariff adjustments compared to the previous years (€2.1 million), the effect of the increased RAB and of the number of re-delivery points (€12.2 million), as well as of the application of the deflator (€2.2 million). These effects were offset by lower tariff components (€20.3 million), as a result of the changes made by Resolution 570/2019/R/gas.

The Group did not see any impacts, in the first half of the year, of the change in method for recognising the residual costs of traditional meters over the previous years, as proposed by Resolution no. 570/2019/R/Gas, pending a decision by the Director of the Directorate of Energy Infrastructures and Unbundling identifying coherent operating solutions to manage the reconciliation between regulatory divestments and accounting divestments.

The reduction in **other regulated revenues** (€16.3 million) is mainly attributable to: (i) the lower contribution pursuant to article 57 of ARERA Resolution no. 367/14, relating to the replacement of traditional meters with electronic ones (smart meters), equal to €5.2 million as at 30 June 2020 (€15.5 million in the corresponding period of 2019; down by €10.3 million); (ii) lower revenues from services for work on the network (€5.5 million) and lower reimbursements for arrears (€2.9 million) as a result of the blocking of activities in relation to the COVID-19 emergency, pursuant to Government Decree (DPCM) of 22 March 2020, as amended. These effects are partly offset by the increase in incentives linked to the safety of plants (€2.3 million).

As at 30 June 2020, **other revenues** amounted to €20.8 million (down by €12.2 million compared to the same period in 2019). The decrease is mainly linked to lower capital gains from the sale of assets (€10.9 million) and other operating income, mainly for lower reimbursements for tanker and gas supply trucks (€3.2 million), partly offset by higher sales of LPG and propane air to active users in Sardinia (€2.4 million).

Operating costs⁵

Financial year 2019 (€ million)	First half of the year				
	2019	2020	Abs. change	Change %	
254.6	Gas distribution	125.5	127.3	1.8	1.4
144.1	- net personnel cost	69.0	73.3	4.3	6.2
110.5	- net external costs	56.5	54.0	(2.5)	(4.5)
22.9	Other assets	10.8	13.4	2.6	24.1
2.1	- net personnel cost	0.9	1.8	0.9	
20.8	- net external costs	9.9	11.6	1.7	17.2
2.3	Other costs and provisions	1.0	4.0	3.0	
7.8	Energy Efficiency Certificates	7.8	4.9	(2.9)	(37.2)
62.8	Expenses related to concessions	30.4	34.5	4.1	13.5
350.4	Operating costs	175.5	184.1	8.6	4.9

Operating costs as at 30 June 2020 amounted to €184.1 million (of which €21.3 million due to the full consolidation of Toscana Energia and the acquisitions in Sardinia and central and Southern Italy by Conscoop). The increase compared to the first half of 2019, of €8.6 million derives from greater: (i) net staff costs (€5.2 million), (ii) other net costs and provisions (€3.0 million), (iii) concession expenses (€4.1 million), partly offset by a reduction in net costs related to Energy Efficiency Certificates (€2.9 million) and net external costs (€0.8 million).

Amortisation, depreciation and impairment

Financial year 2019 (€ million)	First half of the year				
	2019	2020	Abs. change	Change %	
389.6	Amortisation and depreciation	190.9	209.4	18.5	9.7
317.3	Intangible assets IFRIC 12	156.5	169.4	12.9	8.2
43.3	Other Intangible Assets	19.8	22.3	2.5	12.6
29.0	Property, plant and equipment	14.6	17.7	3.1	21.2
15.2	- of which amortisation of Right of Use	6.4	9.8	3.4	53.1
1.9	Impairment	1.4	0.5	(0.9)	(64.3)
391.5		192.3	209.9	17.6	9.2

5 The representation of operating costs has changed compared to the criterion used up to 31 December 2019. Specifically, the following were eliminated: (i) the item "variable gas distribution costs" restating the amount of €4.5 million as at 30 June 2019 among the "gas distribution" net external costs, (ii) the item "other gas distribution costs" restating the costs related to IMU, as at 30 June 2019 equal to €1.4 million, among the "gas distribution" net external costs, the costs related to capital losses, costs of early retirement incentives and net provisions, as at 30 June 2019 amounting to €1.0 million, under the item "other costs and provisions". Part of the net personnel cost related to other activities has been restated for a value, as of 30 June 2019 of €1.8 million, in the net personnel cost "gas distribution". Lastly, €0.6 million were restated from net external costs related to other activities to "gas distribution" net external costs. The representation as at 31 December 2019 has been aligned accordingly.

Amortisation, depreciation and impairment (€209.9 million) increased by €17.6 million (+9.2% compared to 30 June 2019). The increase of €34.5 million (of which €21.9 million due to the full consolidation of Toscana Energia and €2.7 million related to increased investments pursuant to IFRS 16), is offset by lower depreciation related to the replacement of traditional meters with smart meters, amounting to €10.6 million as at 30 June 2020 (€27.5 million for the first half of 2019).

Net financial expense

Financial year	2019 (€ million)	First half of the year			
		2019	2020	Abs. change	Change %
44.7	Expense (income) on short-term and long-term financial debt	20.8	24.2	3.4	16.3
23.2	Upfront fee and fee	2.2	2.1	(0.1)	(4.5)
2.1	Other net financial expense (income)	1.3	0.9	(0.4)	(30.8)
2.7	- Expenses (income) related to the discounting of environmental provisions and provisions for employee benefits	1.4	1.0	(0.4)	(28.6)
(0.6)	- Other net financial expense (income)	(0.1)	(0.1)	0.0	
0.3	- of which expenses relating to Right of Use	0.1	0.2	0.1	
(0.7)	Financial expense capitalised	(0.2)	(0.8)	(0.6)	
69.3	Net financial expense	24.1	26.4	2.3	9.5

Net financial expense in the first half of 2020, amounted to €26.4 million (€24.1 million in the same period of 2019), up by €2.3 million mainly due to higher expenses relating to bonds (€3.0 million), as a result of the new issues made in July 2019 and December 2019, partly offset by the bond repurchase transaction carried out in December 2019.

Net income from equity investments, which amounted to €1.0 million at 30 June 2020 (€11.8 million in the same period in 2019; down by €10.8 million), decreased due to the different consolidation method of Toscana Energia, consolidated in the first half of 2019 using the equity method.

Income taxes

Financial year 2019 (€ million)	First half of the year			
	2019	2020	Abs. change	Change %
127.7 Current taxes	71.7	78.6	6.9	9.7
(3.7) Net deferred taxes	(8.6)	(14.1)	(5.5)	63.6
123.9 Income taxes	63.1	64.6	1.5	2.3
22.6% Tax rate (%)	27.5%	28.4%		

Income taxes for the first half of 2020 (€64.6 million) increased by €1.5 million compared to the first half of the previous year.

The **tax rate** was 28.4% (27.5% in the first half of 2019).

5.2 Reclassified Statement of Financial Position

The Reclassified Statement of Financial Position combines the assets and liabilities of the mandatory format included in the Annual Report based on the criterion of how the business operates, conventionally split into the three basic functions of investment, operations and financing.

The statement provided represents useful information for the investor because it makes it possible to identify the sources of financial resources (own and third-party funds) and uses of financial resources in fixed and working capital.

Statement of financial position

The Italgas Reclassified Statement of Financial Position as at 30 June 2020, compared with that as at 31 December 2019, is summarised below:

(€ million)	31.12.2019	30.06.2020	Abs. change
Fixed capital	6,335.0	6,526.5	191.5
Property, plant and equipment	350.0	357.2	7.2
Intangible assets	6,176.1	6,326.1	150.0
Equity investments	33.7	33.9	0.2
Financial receivables and securities instrumental to operations	0.2	0.2	0.0
Net payables for investments	(225.0)	(190.9)	34.1
Net working capital	56.3	16.9	(39.4)
Provisions for employee benefits	(113.2)	(110.6)	2.6
Assets held for sale and directly related liabilities	2.1	0.1	(2.0)
NET INVESTED CAPITAL	6,280.2	6,432.9	152.7
Shareholders' equity	1,794.9	1,731.6	(63.3)
- attributable to the Italgas Group	1,560.4	1,511.6	
- attributable to third party shareholders	234.6	219.9	
Net financial debt	4,410.6	4,625.8	215.2
Financial liabilities per operating leases pursuant to IFRS 16	74.7	75.5	0.8
COVERAGE	6,280.2	6,432.9	152.7

The **net invested capital** as at 30 June 2020 amounts to €6,432.9 million and consists of the items discussed below.

The **fixed capital** (€6,526.5 million) increased by €191.5 million compared to 31 December 2019, primarily due to the increase in tangible and intangible assets (+€157.2 million) and the reduction in net payables related to investments (-€34.1 million).

Below is an analysis of the change in **Property, plant and equipment and Intangible assets**:

(€ million)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
Balance as at 31 December 2019	350.0	5,984.2	191.9	6,526.1
Investments	27.1	322.7	19.7	369.5
- of which IFRS 16	10.5			10.5
Amortisation, depreciation and impairment	(17.7)	(169.9)	(22.3)	(209.9)
- of which metering instruments (ordinary depreciation)		2.0		2.0
- of which, acceleration of metering instruments*		8.6		8.6
- of which, amortisation as per IFRS 16	(9.8)			(9.8)
Acquisition of business units		8.0		8.0
Contributions		(5.5)		(5.5)
Other changes	(2.2)	(0.8)	(1.9)	(4.9)
Balance as at 30 June 2020	357.2	6,138.7	187.4	6,683.3

* Accelerated depreciation and amortisation at 30.06.2020 and 30.06.2019 amounted to €10.6 and €27.5 million respectively.

Intangible assets (€6,326.1 million), which primarily include assets for the concession services accounted for pursuant to IFRIC 12, increased by €150.0 million mainly due to investments for €342.4 million, asset acquisitions resulting from M&A transactions of € 8.0 million net of amortisation and impairment for €192.2 million.

Tangible assets (€ 357.2 million), which mainly refer to property, plant and equipment, increased by € 7.2 million mainly due to the investments of € 27.1 million, of which € 10.5 million connected to the application of IFRS 16, net of depreciation of € 17.7 million, of which 9.8 linked to the right to use pursuant to IFRS 16.

Equity investments (€33.9 million) include the valuation of equity investments using the equity method.

Net working capital as at 30 June 2020 amounts to €16.9 million and is broken down as follows:

(€ million)	31.12.2019	30.06.2020	Abs. change
Trade receivables	474.0	276.0	(198.0)
Inventories	52.3	73.7	21.4
Tax receivables	87.7	68.0	(19.7)
Accruals and deferrals from regulated activities	127.0	136.4	9.4
Other assets	100.9	154.2	53.3
Trade payables	(299.1)	(207.0)	92.1
Provisions for risks and charges	(169.6)	(167.0)	2.6
Deferred tax liabilities	(92.5)	(76.5)	16.0
Tax payables	(11.1)	(17.7)	(6.6)
Other liabilities	(213.3)	(223.2)	(9.9)
	56.3	16.9	(39.4)

Compared to 31 December 2019, **net working capital** dropped by €39.4 million, mainly as a result of: i) a reduction in trade receivables (€198.0 million) resulting from the seasonal nature of collecting distribution fees; ii) an increase in inventories (€21.4 million) predominantly in relation to gas meters; iii) a decrease in net tax items (€10.3 million) due mainly to lower tax assets; iv) an increase in accruals and deferrals from regulated activities (€9.4 million) due to receivables relating to the contribution paid for meters pursuant to article 57; v) an increase in other assets (€53.3 million), mainly due to the residual receivable from the CSEA for EECs (€30.3 million), receivables from the CSEA for additional distribution components (€9.9 million), and greater prepaid expenses linked mainly to local taxes (€6.5 million); vi) a decrease in trade payables (€92.1 million); vii) a decrease in provisions for risks and charges (€2.6 million); viii) an increase in other liabilities for the financial year (€9.9 million), mainly as a result of payables due to the CSEA, associated with the additional distribution components (€6.0 million).

Note that the Company has finalised factoring agreements with financial counterparties on the basis of which the Company's receivables can be factored without recourse. In particular, during the second quarter, operations were completed for the transfer of receivables related to: i) white certificates for an amount of €33.6 million; ii) trade receivables, due 30 June 2020, relative to distribution for a total of €73.0 million, (iii) CSEA receivables for €9.0 million and (iv) tax receivables for €38.0 million.

Net financial debt was €4,625.8 million as at 30 June 2020, up €215.2 million compared to 31 December 2019. Including the effects of the application of IFRS 16, of €75.5 million, net financial debt is €4,701.3 million.

(€ million)	31.12.2019	30.06.2020	Abs. change
Financial and bond debt	4,671.5	4,966.9	295.4
Short-term financial debt ^{*/**}	471.4	290.1	(181.3)
Long-term financial debt	4,200.1	4,676.8	476.7
Financial receivables and cash and cash equivalents	(260.9)	(341.1)	(80.2)
Cash and cash equivalents ^{**}	(255.8)	(336.0)	(80.2)
Financial receivables	(5.0)	(5.0)	(0.0)
Securities not instrumental to operations	(0.1)	(0.1)	0.0
Net financial debt^{***}	4,410.6	4,625.8	215.2
Financial liabilities for leasing pursuant to IFRS 16	74.7	75.5	0.8
Net financial debt (including the effects pursuant to IFRS 16)	4,485.3	4,701.3	216.0

* These include the short-term portions of long-term financial debt, equal to €37.6 million.

** The items are stated net of the effects of factoring transactions amounting to €8.0 million, the underlying assets of which were collected on 30 June 2020 and repaid to the factor in the first working days of July 2020.

*** Net financial debt as at 30 June 2020 does not take into account financial debts for operating leases pursuant to IFRS 16 for €75.5 million (€74.7 million as at 31 December 2019).

Financial and bond debt as at 30 June 2020, totalling €4,966.9 million (€4,671.5 million as at 31 December 2019) were denominated in euros and mainly referred to bonds (€3,836.1 million) and to loan agreements concerning European Investment Bank (EIB) funding (€873.6 million) and to payables to banks (€257.2 million).

As at 30 June 2020, the breakdown of gross financial debt by type of interest rate, net of liabilities for leasing pursuant to IFRS 16, is as follows:

(€ million)	31.12.2019	%	30.06.2020	%
Fixed rate	4,103.7	87.8	4,585.7	92.3
Floating rate	567.8	12.2	381.2	7.7
Gross financial debt	4,671.5	100.0	4,966.9	100.0

Fixed-rate financial liabilities amounted to €4,585.7 million and refer to bonds (€3,836.1 million) and three EIB loans (€749.6 million).

Fixed-rate financial liabilities increased by €482 million compared to 31 December 2019, mainly due to the bond issue completed in June for a nominal value of €500 million.

Floating-rate liabilities were €381.2 million and fell by €186.6 million due to reduced use of bank credit facilities.

As at 30 June 2020, Italgas had bank deposits for a value of €336.0 million and unused committed credit facilities of 500 million, maturing in October 2021.

As at 30 June 2020, there were no loan agreements containing financial covenants and/or secured by collateral, with the exception of an EIB loan for €90 million taken out by Toscana Energia, which requires compliance with certain financial covenants. 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 real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. As at 30 June 2020 these commitments appear to have been respected.

5.3 Reclassified Statement of Cash Flows

The reclassified statement of cash flows provided below is the summary of the legally required cash flow statement. The reclassified statement of cash flows makes it possible to reconcile the change in cash and cash equivalents at the start and end of the period with the change in net financial debt at the start and end of the period. The measure which allows for the reconciliation between the two statements is the free cash flow⁶, i.e. the cash surplus or deficit remaining after the financing of investments.

2019 (€ million)	First half of the year	
	2019	2020
423.6 Net profit	166.2	162.8
<i>Adjusted:</i>		
275.6 - Amortisation, depreciation and other non-monetary components	173.9	202.6
(4.4) - Net capital losses (capital gains) on asset sales and eliminations	(7.6)	2.3
193.2 - Interest and income taxes	87.3	91.0
18.9 Change in working capital due to operating activities	98.0	5.1
(209.7) Dividends, interest and income taxes collected (paid)	(10.1)	(75.0)
697.2 Cash flow from operating activities*	507.7	388.8
(688.6) Technical investments	(279.8)	(353.5)
89.9 Other net changes relating to investment activities	23.2	(34.1)
8.0 Disinvestments	4.0	0.3
106.5 Free cash flow before M&A transactions	255.1	1.5
(96.4) Change in scope of consolidation	(85.2)	(4.4)
of which:		
(40.2) - price paid for equity	(29.0)	(4.4)
(56.2) - takeover of payables of acquired companies	(56.2)	-
(25.1) Acquisition of business units	(24.9)	(6.3)
(14.9) Free cash flow	145.0	(9.2)
434.7 Change in short- and long-term financial debt and financial receivables	46.8	295.4
24.8 Transfer of minority interests**	-	-
(196.8) Equity cash flow	(189.3)	(206.0)
247.8 Net cash flow for the year	2.4	80.2

* Net of the effects deriving from the application of IFRS 15 and IFRS 16.

** The transfer of interests means the minority transfer of the equity investments in Medea and Gaxa to the Marguerite II Fund.

6 The free cash flow alternatively closed: (i) the change in cash for the period, after the addition/subtraction of cash flows relating to financial payables/receivables (usage/repayment of financial receivables/payables) and equity (payment of dividends/capital contributions); (ii) the change in net financial debt for the period, after the addition/subtraction of flows of debt relating to equity (payment of dividends/capital contributions).

Change in net financial debt

31.12.2019	(€ million)	30.06.2019	30.06.2020
106.5	Free cash flow before M&A transactions	255.1	1.5
(121.4)	Change due to acquisitions of equity investments and business units	(110.1)	(10.7)
24.8	Transfer of minority investments	0.0	0.0
(196.8)	Equity cash flow	(189.3)	(206.0)
(186.9)	Change in net financial debt excluding the effects of IFRS 16, the EGN shareholders' loan and the financial liabilities deriving from M&A transactions - Toscana Energia	(44.4)	(215.2)
(19.7)	Change in financial liabilities pursuant to IFRS 16	(24.3)	(0.8)
21.0	Change in debt for EGN shareholder loan	21.0	0.0
(414.5)	Change in scope of consolidation of financial liabilities deriving from M&A transactions*	0.0	0.0
(600.1)	Change in net financial debt	(47.7)	(216.0)

* The figure refers to the net financial debt of Toscana Energia and Toscana Energia Green as at 1 October 2019.

The cash flow from operating activities in the first half of 2020 amounted to €388.8 million and made it possible to fully finance the net flow from investments, totalling €387.3 million, generating a free cash flow before M&A transactions of €1.5 million. As at 30 June 2020, cash flow, taking M&A transactions of €10.7 million into account, was negative by €9.2 million.

Taking payment of the dividend, for €206.0 million, into account, net financial debt increased by €215.2 million, excluding the effect arising from the adoption of IFRS 16 for liabilities for leasing, of €0.8 million. The change in net financial debt amounted to €216.0 million when taking that impact into account.



06



Non - GAAP Measures

Alternative performance indicators

On 5 October 2015, the ESMA (European Security and Markets Authority) published its guidance (ESMA/2015/1415) on the presentation criteria for alternative performance indicators (API or APM), which replaces the CESR/05-178b recommendations from 3 July 2016. The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IAS/IFRS.

The alternative performance indicator adopted in this report are illustrated below.



Main alternative performance indicators

Alternative capital performance indicators

Description

Gas Distribution regulated revenue	Operating performance indicator representing revenue from regulated gas distribution activities, calculated by subtracting the revenue for construction and enhancement of infrastructures recognised pursuant to IFRIC 12, the release of connection contributions relating to the financial year and any other components of the statement of reconciliation of the subsequent chapter "Reconciliation of the reclassified income statement, statement of financial position and statement of cash flows" from core business revenue and other revenue and income.
Reclassified operating costs	These are the costs deriving from regulated gas distribution activities, calculated by subtracting the costs of construction and improvement of infrastructure recognised pursuant to IFRIC 12 and any other components of the statement of reconciliation of the income statement of the subsequent chapter "Reconciliation of the reclassified income statement, statement of financial position and statement of cash flows".
EBITDA	Operating performance indicator, calculated by subtracting operating costs from revenue.
Adjusted EBITDA	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this report) from EBIT.
EBIT	Operating performance indicator, calculated by subtracting operating costs, amortisation, depreciation and impairment from revenue.
Adjusted EBIT	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this report) from EBIT.
Earning per Share	Profit indicator of the company's share which indicates the degree of success of the business activities and in the equity markets. The indicator is calculated as a ratio between the adjusted net profit attributable to the Group and the total number of shares.

Alternative capital performance indicators

Description

Net working capital	A capital indicator that expresses the capital employed in non-financial current assets and liabilities and indicates the company's short-term balance. This is defined as the sum of the values relating to trade receivables and payables, inventories, tax receivables and payables, provisions for risks and charges, deferred tax assets, deferred tax liabilities and other assets and liabilities.
Fixed capital	A capital indicator that expresses the total fixed assets. Fixed capital is defined as the sum of the values relating to items of property, plant and equipment, intangible assets, equity investments and payables net of investment.
Net invested capital	A capital indicator that expresses net investments of an operating nature, represented by the sum of the values related to fixed assets, net working capital, provisions for employee benefits and assets held for sale and the directly associated liabilities.

Alternative financial performance indicators

Description

Cash flow from operating activities	It represents the cash flow from the operating activity of the mandatory schemes excluding the effects deriving from the application of the IFRS 15 and IFRS 16 accounting standards.
Free cash flow before M&A transactions	It is the cash representing the difference between the cash flow from operating activities and the net cash flow from investment activities excluding the flow resulting from mergers and acquisitions.
<i>Free cash flow</i>	The free cash flow representing the difference between the cash flow from operating activities and the net cash flow from investment activities.
Net financial debt	Determined as the sum of the values relating to short and long-term financial payables (gross financial debt), net of cash and cash equivalents and financial liabilities for leases pursuant to IFRS 16.

Reconciliation of the reclassified income statement and statement of financial position

In line with ESM/2015/1415 guidance, the reconciliation of the Income Statements, Statements of Financial Position and Statements of Cash Flows of the Italgas Group and Italgas S.p.A., commented in the Directors' Report, is provided below with the related legally required statements.

Reconciliation between reclassified consolidated financial statements and the legally required financial statements

Reclassified Income Statement

(€ million)

Reference to the explanatory notes of the consolidated financial statements

Revenues (from mandatory statements)

- Revenues for construction and upgrading of distribution infrastructures IFRIC 12	(note 25)
- Release of connection contributions relating to the financial year	(note 25)
- Net income from Energy Efficiency Certificates	

Total revenue (from reclassified statements)

Operating expenses (from mandatory statements)

- Revenues for construction and upgrading of distribution infrastructures IFRIC 12
- Net income from Energy Efficiency Certificates

Operating expenses (from reclassified statements)

EBITDA

Amortisation, depreciation and impairment (from mandatory statements)

- Release of connection contributions relating to the financial year
--

Amortisation, depreciations and impairment (from reclassified statements)

EBIT

Net financial expense

Net income from equity investments

Pre-tax profit

Income taxes

Net profit (loss)

First half of 2019			First half of 2020		
Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
878.1			977.8		
	(262.5)			(322.6)	
	(7.5)			(9.8)	
	1.3			1.3	
		609.4			646.8
(436.7)			(505.4)		
	262.5			322.6	
	(1.3)			(1.3)	
		(175.5)			(184.1)
		433.9			462.7
(199.8)			(219.6)		
	7.5			9.8	
		(192.3)			(209.9)
241.6		241.6	252.8		252.8
(24.1)		(24.1)	(26.4)		(26.4)
11.8		11.8	1.0		1.0
229.3		229.3	227.4		227.4
(63.1)		(63.1)	(64.6)		(64.6)
166.2		166.2	162.8		162.8

Reclassified Statement of Financial Position

(€ million)		31.12.2019		30.06.2020	
Where not expressly indicated, the item is obtained directly from the legally-required statement)	Reference to the explanatory notes of the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Fixed capital					
Property, plant and equipment	(note 12)		350.0		357.2
Intangible assets:			6,176.1		6,326.1
Intangible assets	(note 13)	6,732.0		6,876.1	
Accruals and Deferrals for connection contributions to be deducted	(note 18)	555.9		550.0	
Participating interests, composed of:	(note 13)		33.7		33.9
- Investments valued using the equity method		33.4		33.6	
- Other investments		0.3		0.3	
Net payables relating to investment activities, composed of:			(225.0)		(190.9)
- Payables for investment activities	(note 17)	(230.3)		(197.7)	
- Receivables from investment/divestment activities	(note 8)	5.3		6.8	
Financial receivables and securities instrumental to operations, composed of:	(note 8)		0.2		0.2
-Other financial assets		0.2		0.2	
Total capital assets (from reclassified statements)			6,335.0		6,526.5
Net working capital					
Trade receivables	(note 8)		474.0		276.0
Inventories			52.3		73.7
Tax receivables, composed of:			87.7		68.0
- Current income tax assets and other current tax assets	(note 8)	73.5		53.8	
- IRES receivables for National Tax Consolidation Scheme	(note 8)	14.2		14.2	
- Parent company's receivables for liquidation of Group VAT	(note 8)			0.0	
Accruals and deferrals from regulated activities	(note 11)		127.0		136.4
Other assets			100.9		154.2
- Other receivables	(note 8)	100.9		154.2	
- Other current and non-current assets	(note 11)				
Trade payables	(note 17)		(299.1)		(207.0)
Provisions for risks and charges	(note 20)		(169.6)		(167.0)
Deferred tax liabilities	(note 22)		(92.5)		(76.5)
Tax payables, composed of:			(11.1)		(17.7)
- Current income tax liabilities and other current tax liabilities	(note 10)	(11.0)		(17.7)	

(€ million)		31.12.2019		30.06.2020	
Where not expressly indicated, the item is obtained directly from the legally-required statement)	Reference to the explanatory notes of the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
- IRES payables for National Tax Consolidation Scheme		0.0		0.0	
- Parent company's payables for liquidation of Group VAT		(0.1)		0.0	
Other liabilities, composed of:	(note 18)		(213.3)		(223.2)
- Other payables		(213.3)		(223.2)	
- Financial liabilities from shareholders loans to be repaid deriving from EGN transaction		0.0			
- Other current and non-current liabilities					
Total net working capital (from reclassified statements)			56.3		16.9
Provisions for employee benefits	(note 21)		(113.2)		(110.6)
Assets held for sale and directly associated liabilities, composed of:			2.1		0.1
- Assets held for sale	(note 15)	2.1		0.1	
- Liabilities directly associated with assets		0.0		0.0	
NET INVESTED CAPITAL			6,280.2		6,432.9
Shareholders' equity including minority interests	(note 23)		(1,794.9)		(1,731.6)
Net financial debt					
Financial and bond debt, composed of:	(note 16)		(4,671.5)		(4,966.9)
- Long-term financial liabilities		(4,200.1)		(4,676.8)	
- Short-term portions of long-term Financial liabilities		(159.0)		(37.8)	
- Short-term financial liabilities		(318.9)		(260.3)	
- Factoring transactions in transit		6.5		8.0	
Financial receivables and cash and cash equivalents, composed of:	(note 6)		260.9		341.1
- Financial receivables non-instrumental to operations		5.0		5.0	
- Cash and cash equivalents		262.3		344.0	
- Factoring transactions in transit		(6.5)		(8.0)	
- Other financial assets held for trading or available for sale		0.1		0.1	
Total net financial indebtedness (from reclassified statements)			(4,410.6)		(4,625.8)
Financial liabilities per operating leases pursuant to IFRS 16			(74.7)		(75.5)
COVERAGE			(6,280.2)		(6,432.9)

Reclassified Statement of Cash Flows

(€ million)	First half of 2019		First half of 2020	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Net profit		166.2		162.8
<i>Adjusted:</i>				
Amortisation, depreciation and other non-monetary components:		173.9		202.6
- Amortisation and depreciation	198.3		219.2	
<i>from which to deduct amortisation for rights of use pursuant to IFRS 16</i>	(6.4)		(9.8)	
- Net impairment of property, plant and equipment and intangible assets	1.4		0.5	
- Connection contributions – uses	(7.5)		(9.8)	
- Effect of valuation using equity method	(11.9)		2.5	
- Net capital losses (capital gains) on asset sales and eliminations		(7.6)		2.3
Interest, income taxes and other changes:		87.3		91.0
- Dividends	0.0		0.0	
- Interest income	(0.3)		(0.3)	
- Interest expense	24.5		26.7	
- Income taxes	63.1		64.6	
Change in working capital due to operating activities:		98.0		5.1
- Inventories	(8.6)		(21.4)	
- Trade receivables	180.8		198.0	
- Trade payables	(18.5)		(92.1)	
- Other assets and liabilities	(49.1)		(80.6)	
- <i>from which to deduct Deferrals for connection contributions - uses</i>	7.5		9.8	
- <i>from which to deduct Deferrals for connection contributions - increases</i>	(6.5)		(3.8)	
- other changes			0.3	
- Change in provisions for employee benefits and risk fund	(7.7)		(5.1)	
Dividends, interest and income taxes collected (paid):		(10.1)		(75.0)
- Dividends collected	14.1		3.8	
- Interest income	0.3		0.3	
- Interest paid	(24.5)		(26.7)	

(€ million)	First half of 2019		First half of 2020	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
- Income taxes (paid) refunded	0.0		(52.5)	
Cash flow from operating activities		507.7		388.8
Technical investments:		(279.8)		(353.5)
- Property, plant and equipment	(6.9)		(16.6)	
- Intangible assets	(279.4)		(340.7)	
- Connection contributions – increases	6.5		3.8	
Other changes relating to investment activities:		23.2		(34.1)
- Changes in payables and receivables relating to investment activities	23.2		(34.1)	
Disinvestments and other changes relating to investment activities		4.0		0.3
Free cash flow before M&A transactions		255.1		1.5
Purchase of business units		(24.9)		(6.3)
Companies entered into the scope of consolidation of which:		(64.1)		(4.4)
- <i>price paid for equity</i>	(28.9)		(4.4)	
- <i>takeover of net payables of acquired companies</i>	(35.2)		0.0	
- <i>assumption of financial payables for EGN shareholder loan</i>		(21.0)		0.0
Free cash flow		145.0		(9.2)
Change in financial payables and receivables		46.7		295.4
- Assumptions of long-term financial payables	152.7		476.7	
- Repayments of long-term financial payables	(104.8)		(179.8)	
- Expense relative to rights of use	(6.2)		(9.5)	
- Short-term financial debt	5.0		0.0	
Factoring transactions			8.0	
Cash flow from own capital	(189.3)		(206.0)	
Net cash flow for the year		2.4		80.2

07



Other information

Treasury shares

The company did not own any treasury shares as at 30 June 2020.

Related party transactions

Based on Italgas' current ownership structure, Italgas' related parties include, in addition to directors, statutory auditors, executives with strategic responsibilities, companies associated with the Group or under its joint control, also the subsidiaries directly or indirectly controlled by CDP, therefore including the shareholder Snam, and the Ministry of Economy and Finance (MEF). Transactions with these entities relate to the exchange of assets, the provision of services and, in the case of CDP, the provision of financial resources.

These transactions are part of ordinary business operations and are generally settled at arm's length, i.e. the conditions which would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Italgas Group.

Pursuant to the provisions of the applicable legislation, the Company has adopted internal procedures to ensure that transactions carried out by the Company or its subsidiaries with related parties are transparent and correct in their substance and procedure.

The Directors and Statutory Auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; in any case, they promptly inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turn informs the other directors and the Board of Statutory Auditors, of the individual transactions that the Company intends to carry out and in which they have an interest.



CDP and CDP Reti consolidate Italgas in accordance with the international accounting standard IFRS 10; in addition, at the meeting of its Board of Directors on 1 August 2019, CDP reclassified its equity interest in Italgas S.p.A. as de facto control pursuant to article 2359, subsection 1, no. 2) of the Italian Civil Code and article 93 of the TUF. Italgas is not subject to management and coordination activities by CDP.

As at 30 June 2020, Italgas manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in the paragraph "Related-party transactions" of the Notes to the consolidated half-year financial statements.

08



Elements of risk and uncertainty

Below are the main risks analysed and monitored by the Italgas Group.

8.1 Financial risks

Interest rate, inflation and deflation risk

Fluctuations in interest rates affect the market value of Italgas' financial assets and liabilities and its net financial expense. 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 stays within the defined limits.

An increase in interest rates, not implemented – in full or in part – in the regulatory WACC, could have negative effects on the assets and on the economic and financial situation of the Italgas Group for the variable component of the debt in place and for future loans.

At full performance, Italgas aims to maintain a debt ratio between a fixed rate and floating rate to minimise the risk of rising interest rates.

As at 30 June 2020 the gross financial debt at floating rate was 7.7% and at fixed rate was 92.3%.

As at the same date the Italgas Group used external financial resources in the following forms: bonds subscribed by institutional investors, bilateral and syndicated loans with banks and other financial institutions, in the form of medium-to-long-term loans and bank credit lines at interest rates indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor).

An extended period of inflation lower than the Group's forecasts could have adverse effects in the long-term on the evolution of the RAB value and expected regulated revenue. An unexpected increase in inflation rate could have adverse effects on expected costs.



Credit risk

Credit risk is the exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of amounts owed may have a negative impact on the financial results and financial situation of Italgas.

The rules for customer access to the gas distribution service are established by the ARERA and set out in the Network Codes, namely, in documents that establish, for each type of service, the rules regulating the rights and obligations of the parties involved in the process of providing said services and contain contractual conditions that reduce the risk of non-compliance by customers, such as the provision of bank or insurance guarantees on first request.

As at 30 June 2020 there were no significant credit risks. However, taking into account the effects of the emergency measures as a result of COVID-19, in the first half of the year on average 93% of trade receivables relative to the distribution of gas were settled by the due date and over 95% within the next 4 days, confirming the strong reliability of the business customers⁷. Receivables from other activities represent a non-significant portion for the Company.

It cannot be ruled out, however, that Italgas could incur liabilities and/or losses due to its customers' failure to fulfil their payment obligations.

Liquidity risk

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the company incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the company's future as a going concern.

Italgas signed loan agreements, unused as at 30 June 2020. These credit lines (€500 million) may be used to address possible liquidity needs, where necessary, if the actual borrowing requirement is higher than estimated. Also note that at the same date, in addition to the funding from the banking system, the Euro Medium Term Notes (EMTN) programme, approved by the Italgas Board of Directors on 23 September 2019, has allowed issue of the remaining bonds worth a nominal €1,150 million to be placed with institutional investors.

Italgas aims at establishing a financial structure that, in line with its business objectives, ensures a level adequate for the Group in terms of the duration and composition of the debt. The achievement of this financial structure will take place through the monitoring of certain key parameters, such as the ratio between debt and the RAB, the ratio between short-term and medium-/long-term debt, the ratio between fixed rate and floating rate debt and the ratio between bank credit granted and bank credit used.

⁷ For further details see the Explanatory note to the Consolidated half-year financial statements no. 24 "Guarantees, commitments and risks - financial risks".

Rating risk

With reference to Italgas' long-term debt, on 26 September 2019 and 30 April 2020, the rating agencies Moody's and Fitch confirmed the rating assigned to Italgas S.p.A. as level Baa2 with stable outlook and BBB+ with stable outlook, respectively. In particular, confirmation of the Company's positive rating by Fitch occurred despite the rating downgrade of the Italian government bonds to a BBB- stable outlook, from a BBB negative outlook disclosed by the agency on 28 April 2020 following deterioration of the macroeconomic situation linked to the COVID-19 health emergency and the impacts on the Italian economy. Based on the methodologies adopted by the rating agencies, a downgrade of one notch in the Italian Republic's current rating could, however, trigger a downward adjustment in Italgas' current rating.

Debt covenants and default risk

As at 30 June 2020, there were no loan agreements containing financial covenants and/or secured by collateral, with the exception of an EIB loan for a nominal €90 million taken out by Toscana Energia, which requires compliance with certain financial covenants.

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 real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. As at 30 June 2020 these commitments appear to have been respected.

Failure to comply with the commitments established for these loans - and in some cases only when this non-compliance is not remedied within a set time period - and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Italgas' failure to comply and could trigger the early repayment of the relative loan.

The bonds issued by Italgas as at 30 June 2020 as part of the Euro Medium Term Notes programme provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

8.2 Operating risks

Italgas uses specific, certified management systems with the objective of overseeing the processes and business activities in accordance with the health and safety of workers, environmental protection and the quality and the energy effectiveness of services offered.

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 unintended events, such as accidents, breakdowns or malfunctioning of equipment or control systems, the underperformance of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events beyond Italgas' control. These related events could cause a decrease in revenue and involve substantial damage also 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.

In addition to existing insurance contracts, Italgas manages and controls risk through organizational and operational countermeasures. Procedures and systems exist for managing emergencies including emergency plans with pre-determined measures for making plants safe and ensuring service continuity, plant and asset safety systems and network monitoring, qualification procedures for third-party construction, engineering and project management companies and the monitoring the execution risks of contractors. Activities are carried out for scheduled leak detection using innovative systems and technologies and continuous upgrading of the network takes place. Measures are also in place to prevent any damage to pipes caused by third parties. In addition, network digitisation initiatives, for the progressive improvement of the real time monitoring systems and preventive maintenance, are ongoing.

Risks associated with environmental protection, health and safety

The activity of Italgas is subject to the Italian and European Union law on environmental protection.

Italgas conducts its business in compliance with the laws and regulations concerning the environment and safety. Given this, the possibility of the Group incurring significant costs or liability cannot be entirely ruled out. It is, in fact, difficult to foresee the economic and financial repercussions of any previous environmental damage, also in view of the possible effect of new laws or regulations that may be introduced for environmental protection, the impact of any new technologies for environmental clean-ups, possible litigation that arises and the difficulty in determining the possible consequences, also with respect to other parties' liability.

Italgas is engaged in the remediation of sites contaminated essentially due to manufactured gas production performed in the past, removal and disposal of waste (mainly for demolition of obsolete plant facilities) and disposal of materials containing asbestos.

To cover the liabilities estimated in relation to the formalities required by the law in effect, a special fund has been set up.

Risk associated with smart meter installation

At the end of 2010, Italgas initiated a plan to replace traditional meters with smart meters, until mid-2014 affecting classes higher than G6 and later also the mass market class.

In the first replacement phase, the new remote-read meters represent a technology that is still under development. For producers, the construction characteristics established by the Authority led to the need to plan and build a product, according to timing consistent with the obligations set by ARERA, targeting the Italian market only. Also note the complete availability only from 2015 of the reference technical regulations prepared by the CIG (Italian Gas Committee, regulator affiliated with the UNI).

Italgas installs these devices in line with the calendar defined by ARERA; it cannot be ruled out that, due to the presence of additional and innovative components, the malfunctioning levels of smart meters may be higher than the historical performance recorded for traditional meters and that, as a result the company may incur higher charges to restore functioning of the same.

In this sense, systems have been put in place to monitor the functioning of the meters and identify any malfunction requiring replacement/repair. Meter suppliers are periodically audited and the technical specifications for new supplies are updated to take account of technological developments and market maturity.

In addition, experiments and related performance analyses are conducted on new products and technologies, with particular focus on transmission, consumption and component life. In the context of these trials, NB-IoT communication technology was identified.

A specific provision has been set up to cover the liabilities generated by the above mentioned malfunctioning costs.

Risks related to energy efficiency certificates

The objective of improving energy efficiency in end uses, in Italy, has been implemented mainly through the mechanism of Energy Efficiency Certificates (EECs or White Certificates). These certify the achievement of energy end-use energy savings obtained by implementing energy efficiency projects and interventions, evaluated and approved by the Energy Services Manager (GSE).

The Energy Efficiency Certificates mechanism was established by the Ministry of Productive Activities, together with the Ministry for the Environment and Protection of the Territory, through the Italian Ministerial Decree of 20 July 2004, subsequently amended and supplemented by the Italian Ministerial Decree of 21 December 2007, the Italian Ministerial Decree of 28 December 2012, the Italian Ministerial Decree of 11 January 2017 and, lastly, by the Italian Ministerial Decree of 10 May 2018, published in the Official Gazette of the Italian Republic on 10 July 2018.

To set the national savings amount per year to be pursued through the mechanism of the white certificates, the Authority determines its specific energy saving targets for electricity and natural gas distributors with more than 50,000 end users connected to its network.

At the end of each year of obligation each distributor - against the cancellation of the certificates - receives a refund from the Energy and Environmental Services Fund - CSEA based on the funds constituted through the RE and UC7 component of the distribution tariffs.

With regard to the EECs, there is a potential risk of economic loss due both to the possible negative difference recorded between the mean purchase value of the energy efficiency certificates purchased and the recognised tariff-based fee at the end of each year of obligation and the failure to achieve the targets annually set.

A special provision has been set up to cover the charges arising from the difference between the purchase value/EEC and the recognized tariff contribution/EEC.

Risks associated with the expiration and renewal of gas distribution concessions

The gas distribution activity that the Italgas Group performs operates by virtue of concessions issued by individual Municipalities. As at 30 June 2020 Italgas manages natural gas concessions in 1,825 Municipalities nationwide.

Interministerial Decree No. 226/11 ruled that the gas distribution service can only be performed on the basis of tendering procedures exclusively by ATEM, mainly provincial in dimension.

Under the tender processes launched, Italgas may not be awarded concessions in the planned areas, or may be awarded said concessions under conditions that are less favourable than the current conditions, with a possible negative impact on its operating results, financial position and cash flows. However, it should be noted that, in the event of failure to be awarded the concessions with regard to Municipalities previously managed, Italgas would be entitled to the reimbursement provided to the outgoing operator for the networks it owns.

It should also be noted that, in the context of procedures for the tenders initiated, Italgas may be awarded concessions in ATEM previously managed entirely or partially by other operators; therefore, it cannot be ruled out that such awards could lead, at least initially, to higher operating expenses for the Group than their standard operations.

Given the complexity of the regulations governing the expiration of the concessions held by Italgas, this could give rise to judicial and/or arbitral disputes between concession holders, with possible negative effects on the assets and on the economic and financial position of the Italgas Group.

Risks associated with the reimbursement amount paid by the new operator

With reference to the gas distribution concessions for which Italgas also owns the networks and facilities, Legislative Decree No. 164/00, as subsequently supplemented and amended, establishes that the reimbursement value for holders of expired contracts and concessions upon expiry is calculated in accordance with the provisions in the agreements or contracts, provided that they were concluded before the date of the regulation entering into force pursuant to Ministerial Decree No. 226 dated 12 November 2011 (i.e., before 11 February 2012) and, for aspects which are not inferable from the specific intentions of the parties, as well as for aspects not governed by those conventions or contracts, the reimbursement value will be based on the Guidelines on criteria and procedures, subsequently stipulated by the Ministry of Economic Development of 7 April 2014 and approved by Ministerial Decree dated 22 May 2014⁸.

Where there is a disagreement between the local authority and the outgoing operator with regard to the reimbursement amount, the public notice contains a reference amount to be used for the purpose of the tender. This reference amount is the estimate of the contracting local authority or the RAB, whichever is greater.

Ministerial Decree No. 226/11 on the tender process criteria and bid evaluation, states that the incoming operator acquires ownership of the plant with the payment of the reimbursement to the outgoing operator, with the exception of any portions of the plant that are municipally owned.

8 In other words, the specific methods provided for in the individual concession agreements entered into and effective prior to 11 February 2012 take precedence over the guidelines, albeit subject to the limitations set forth in the guidelines and in the tender criteria regulation mentioned in Ministerial Decree No. 226/11.

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 are assigned a third-party beneficiary upon conclusion of the tenders, would be less than the value of the RAB. This could lead to negative effects on the activities, on the assets and the balance sheet, and the economic and financial situation of Italgas.

Risk linked to the execution of the investment plan of concessions

Some existing concessions, as well as concessions renewed or won through a tender procedure, provide for commitments on the part of the concessionaire, including therein commitments to investments. It cannot be excluded that, also due to delays in obtaining the authorisations and permits, these investments are made beyond the specified deadlines, with the risk that the company incurs charges.

Regulatory risk

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

Italgas has specific structures for monitoring regulation and prospective development plans, including on the European scene, and actively participates in the consultations called by ARERA, sharing corporate positions and/or proposals for defining, updating and implementing clear and transparent regulation criteria. Italgas also provides guidance aimed at defining unified trade positions in Italy and abroad.

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 non-compliance risk

Legal and non-compliance risk concerns the failure to comply, in full or in part, with rules and regulations at the European, national, regional and local levels 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 the balance sheet, financial position and/or reputation. As regards specific cases, among other things, the infringement of anti-corruption rules, may also result in (possibly significant) penalties for the Company, based on the administrative liability of entities (Legislative Decree No. 231/01).

Risk associated with the use of information technology

Italgas' operational activity is supported by information systems and platforms (collectively, IT) essential for maintaining and improving its operating efficiency.

Best practices are adopted in the management of information systems to ensure business continuity, both in terms of implementing technologies and so as to safeguard the entire infrastructure and application map. The rapid growth of technological developments has led to an increase in the frequency and intensity of cyber-attacks and the tendency to strike critical infrastructure and strategic industrial sectors. The number of cyber-attacks has grown exponentially in recent years as has the complexity and impact of the same, making them increasingly difficult to promptly identify. Cyber threats are constantly evolving and today attacks are persistent, sophisticated and directed not only at technologies but increasingly at people and processes. This scenario highlights new potential risks that, in extreme cases, could affect the company's operations up to complete shutdown.

Italgas has adopted a strong cyber security governance model applied to the IT (Information Technology), OT (Operational Technology) and IoT (Internet of Things) sectors, which involves top management of all the business areas as well as the units involved in system design and management in a global strategic direction. The model also provides for use of the most advanced technologies on the market and the strengthening of IT expertise of all personnel through specific training courses, as well as providing for constant alignment with regulatory requirements relating to IT security.

In order to mitigate cyber risk, Italgas has also taken out cyber security insurance.

Italgas is also carrying out a complete digital transformation of the entire value chain involving all business lines and its employees (Digital Transformation). One of the consequences of this digital transformation is that the company is increasingly exposed to risks related to the functioning of IT systems and which could lead to service interruptions or data loss.

These risks are monitored by a series of internal measures implemented through continuously evolving control systems to mitigate the occurrence of security and business continuity risks. The expected evolution from Digital Transformation in fact provides for a consequent progress of the defence mechanisms implemented to prevent and/or react to possible threats.

Risks associated with climate change

Climate change entails risks that, if not anticipated and monitored, could impact Italgas' operational continuity and results. As regards physical risks, the potential increase in the frequency of extremely intense natural events in the places where Italgas operates could cause the more or less prolonged unavailability of assets and infrastructure, an increase in repair and insurance costs, service interruption, a reduction in the number of active re-delivery points served, etc.

With reference to the ongoing energy transition process, there are elements of uncertainty related to the possible change in the Italian and EU legislative and regulatory context and financial markets, as well as technological development and developments in the energy market and consumption.

Italgas is engaged on various fronts with the aim of helping to achieve global climate targets by transforming more than 70,000 kilometres of networks into digital infrastructures enabling the distribution of gases other than methane, such as hydrogen and biomethane, promoting sustainable mobility by connection CNG charging stations to the network for normal and heavy goods vehicles nationwide, and contributing to the development of power-to-gas technology to produce gas that can be used in the existing networks through renewable energy storage systems and by conducting energy efficiency projects.

Italgas continues in its commitment to promoting responsible business practices, confirming its compliance with the United Nations Global Compact, the largest voluntary initiative at global level with regard to sustainability aspects.

Pandemic risks

The spread of the health crisis resulting from COVID-19, qualified as a pandemic by the World Health Organization (WHO) on 11 March 2020, continues to have, and could have for an unforeseeable period, important health, social and economic consequences at a global level.

Italgas has put in place all the necessary measures to safeguard the activities of its employees, contractors and users while maintaining its capacity and operating efficiency in the interest of its stakeholders.

The section "Coronavirus Emergency and business outlook" reports the management's considerations in relation to the effects of COVID-19 on Italgas' business.

However, the risk that such events may have repercussions on Italgas' operating context and the resulting economic and financial framework in the event of a possible reappearance of pandemic phenomena, cannot be ruled out in the future.

8.3 Significant events occurring after the end of the half-year

Legislative and regulatory framework

With regard to the award of the natural gas distribution service in the **"Belluno" territorial area** to Italgas Reti, in an appeal notified on 1 July 2020, the Municipality of Feltre and other Municipalities belonging to that ATEM challenged the tender documents, contesting on the one hand the power of the Municipality of Belluno, as the Contracting Authority, to proceed with the award of the tender given the alleged revocation of the powers granted to the same and, on the other, an alleged error in the determination of the reimbursement value due to the outgoing operator BIM Belluno Infrastrutture S.p.A., of which the applicant Municipalities are shareholders. On 10 July 2020, Italgas Reti appeared in court and, in a subsequent memorandum filed on 14 July 2020, defended itself by arguing that the appeal was inadmissible in several respects and, in any case, that it was unfounded on the merits. At the closed session on 16 July 2020, given the Contracting Authority's commitment not to proceed with signing of the service contract until settlement of the dispute on the merits, the plaintiffs waived their precautionary claim and the Regional Administrative Court scheduled a public hearing for 21 October 2020 next to discuss the merits.

Finally, with reference to the appeal filed by the runner-up operator, on 14 July 2020 Italgas Reti made a formal appearance in court. The closed session for the discussion of the suspension application presented by the plaintiff is scheduled for 2 September 2020.

On 2 July 2020 the Company filed an **appeal on additional grounds** before the Regional Administrative Court of Lombardy against **Resolutions no. 106/2020/R/gas and 107/2020/R/gas** criticising such measures in the part where - purportedly in application of the tariff regulation introduced by **Resolution 570/2019/R/Gas**, approving the final tariffs for 2018 and 2019, for start-up locations first supplied in 2018 - they implemented the cap introduced by the aforesaid Resolution during recognition of CAPEX.

As part of the same appeal on additional grounds, the technical report published by ARERA on 6 May 2020 was also contested, as a precaution, in case it were to be regarded as a preparatory and investigative document on the basis of which ARERA adopted Resolution 570/2019 and the RTDG, rather than a later, not purely confirmatory document.

On 5 July 2020, Italgas Reti filed an **appeal** before the Regional Administrative Court of Lazio, requesting that the **Municipality of Rome** be ordered to pay compensation for non-fulfilment of the **concession contract** entered into on 20 November 2012 for the public methane gas distribution service. The setting of a date for the hearing by the Regional Administrative Court of Lazio is currently pending.

On 9 July 2020, the Company filed an **appeal** to the Lombardy Regional Administrative Court against **Resolution no. 163/2020/R/gas**, which determined the premiums and penalties for 2016, both for the part relating to the non-recognition of the premiums, relating to 24 plants in 41 Municipalities, and, for the part relating to emergency intervention, the latter as a consequence of the proceedings already pending before the Lombardy Regional Administrative Court against Resolution no. 328/2019/R/gas.

On 17 July 2020 **Resolution no. 270/2020/R/efr** was published, containing the **tariff contribution regulation for energy efficiency certificates** acquired by obliged entities starting from the 2019 obligation year, was published on 17 July 2020.

Through this Resolution, the Authority has introduced an additional component that may increase the tariff contribution beyond the cap - still established at an amount of €250/EEC – to a maximum of €10/EEC taking into account the following:

- (i) the availability of EECs on the market (measured by the difference between the total EEC target for obliged entities and the EECs available to those parties at the end of the obligation year);
- (ii) the average market price (measured as the difference, increase, in average market price from the cap value of €250/EEC).

Lastly, the Authority has planned an increase in the tariff contribution on account, from €175/EEC currently, to €200/EEC.

On 17 July 2020 Italgas Reti was notified, by means of **Resolution 266/2020/S/gas**, of the imposition of a fine of €531,200 for failure to update two company procedures with reference to the issue of supply activation (I55-1 Interventions on gas metering units and ITG-PRO-122 Documentary verification of the safety of consumer gas systems) to RQDG 2014-2019 (prior to the current) and to the technical standards, in force until 2017. These procedures were already revised in 2018.

Other events

On 16 July 2020, **Decree Law no. 34 of 19 May 2020** (Recovery Decree) on urgent measures concerning health, supporting employment and the economy, as well as social policies related to the **COVID-19 epidemiological emergency**, was **converted into law**.

Other economic support provisions for families, workers and businesses include:

- the right to remote working, until the epidemiological emergency is over, including for workers who are more exposed to the risk of contagion, due to their age or higher risk situations;
- the extension of the term of apprentices' employment contracts and fixed-term contracts, including temporary contracts, for a duration equal to the period of suspension of employment caused by the epidemiological emergency measures;
- urgent measures for the distribution of natural gas in the Municipalities that have already been methanised, in mountain Municipalities, as well as in the Municipalities that have submitted an application for a grant for the completion of the methanisation plan for the south of Italy pursuant to CIPE Resolution no. 5/2015 of 28 January 2015, with full tariff recognition of the relative investments by the Authority;
- the increase to 110% of the tax deduction rate due for specific energy efficiency measures, with reference to expenses incurred from 1 July 2020 to 31 December 2021 and the option to sell or discount in place of tax deductions.

On 17 July 2020, **Decree Law No. 76 of 16 July 2020 - Urgent measures for simplification and digital innovation**

(Simplifications Decree) was published.

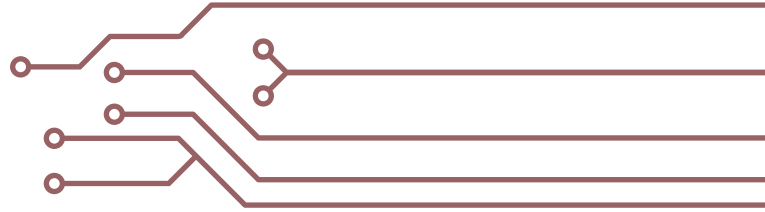
The measure is aimed at simplifying administrative procedures, eliminating and speeding up bureaucracy, digitising public administration and supporting environmental protection, the green economy and business activities.

Among the main measures, in order to speed up the award of tenders, it envisages that for procedures for which the deadline for the submission of tenders expired on 22 February 2020, the Contracting Stations shall adopt the possible award measures, or implement the Framework Agreements, by 31 December 2020, and within the same period enter into contracts deriving from effective framework agreements.

Lastly, in order to relaunch production activities in Sardinia:

- all the LNG transport and regasification infrastructure needed to ensure the supply of natural gas by shuttle vessels from regulated Italian regasification terminals and any upgrades to regasification terminals to be built on the islands was considered part of the national transport network, including for tariff purposes;
- the TSO has activated a procedure to allow the submission of requests for connection to the national transport network by means of these infrastructures within 30 days of the entry into force of the law converting the decree, and to start the preparatory activities for the construction of such infrastructures.

09



Coronavirus emergency and business outlook

The so-called “Coronavirus Emergency” unfolded in Italy in February in relation to the spread of infection across the whole of Italy and the necessary emergency measures taken by the Health and Government Authorities to contain the spread.

The Company set up a Crisis Committee in the hours immediately following the onset of the first cases. In the light of the measures and indications of the competent authorities, this committee monitored, and continues to constantly monitor, the developments of the crisis and takes appropriate measures while ensuring the continuity and efficiency of essential and necessary services, focusing in particular on emergency intervention services.

To protect the health and safety of its people, the Company has adopted a series of initiatives aimed at limiting the mobility of personnel and contractors to the company’s premises, heavily adopting smart working and suspending travel of personnel around the country.

All the procedures were shared with the trade unions, through the setting up of a specific Committee (as provided for by the Protocol entered into on 14 March between the government, trade unions and employer associations) and the signing of various corporate reports and protocols, in line with the evolving emergency and applicable regulatory updates.

In compliance with the emergency measures issued by the Authorities, only work considered to be essential was covered, and all worksite activities have been suspended. Technical staff assigned the task of carrying out work off the company premises, where provided for under current provisions, have been equipped with the necessary personal protection equipment required in order to ensure their safety. Worksite activities, as well as maintenance and services on user premises, including the replacement of traditional meters with smart meters, started up again gradually from 4 May 2020, in accordance with the time frames provided for and permitted by Government Decree (DPCM) of 26 April, as amended.



Italgas has also launched a project, on an entirely voluntary basis, to ensure free serological screening for its people, also providing a swab, in line with current regional regulations and supervision by the Medical Officer, if the test is positive. The initiative, shared with the trade union representatives, initially involved the employees based in Lombardy and Piedmont and is gradually being extended to all employees based in other regions.

At present, the Company does not anticipate any major adverse impacts on the development and investment initiatives as a result of the slowing down and suspension of activities and the deteriorating macroeconomic situation caused by the global spread of the pandemic. Since the reopening of business under the above-mentioned Government Decree, as amended, measures have been implemented, by leveraging process digitisation, to solve delays to original work execution plans caused by the suspension of worksite activities and work on user premises.

With reference to the customer/sales companies base and their solvency, the rules for access of users to the gas distribution service are established by ARERA and regulated in the Network Code. For each service type, this Code defines the rules for the rights and obligations of the parties involved in the process of providing the services, as well as the tools to mitigate the risk of default by customers.

In April 2020, the Company received a communication from some retail companies indicating the possibility of making use of the faculties granted by Resolution no. 116/2020/R/com, as amended, for payments due in April and, based on subsequent extensions, for payments due on or before 30 June 2020, if the conditions are met. Considering the number of operators that have made recourse to the faculties granted by the above-mentioned resolution, the Company has not seen any significant adverse repercussions on receipts expected from gas retail companies that would jeopardise the financial balance of the Group, or on the regularity of payments by counterparties. For invoices due in April, May and June 2020, the average collection was equal to around 90%.

Moreover, with **Resolution no. 248/2020/R/com of 30 June 2020**, the Authority requires retail companies to pay the balance of the total amounts invoiced by distributors and not paid during the derogation period, as a lump sum or in instalments from September and in any case by the end of 2020. In the event of non-compliance by the retail companies, Italgas may use the guarantees provided by the counterparties, as set out in the Network Code.

With regard to access to credit, Italgas does not foresee any significant negative impacts for 2020, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of €336.0 million as at 30 June 2020 and a completely undrawn committed long-term credit line of €500 million taken out with a pool of Italian and international banks, (ii) there are limited requirements to refinance debt (the first bond repayment is due in 2022), (iii) the bonds issued by Italgas as at 30 June 2020, as part of the Euro Medium Term Notes programme, do not require

the observance of covenants relating to the data in the financial statements, (iv) any downgrading of the rating of Italgas or of any guarantors in excess of pre-established thresholds, could lead to the issuance of guarantees for certain lenders or a rise in the spreads applied.

The successful bond issue of €500 million, completed on 24 June 2020, implementing the EMTN Programme 2019 – 2020, as well as confirmation on 30 April 2020 of the rating by Fitch as BBB+ with a stable outlook, confirm the financial soundness of the Company.

The Company has also introduced initiatives supporting the fight against the Coronavirus Emergency. In particular, in addition to facilitating voluntary fundraising by its employees, it has donated to hospitals, healthcare facilities and to the Civil Protection, and has also made its skills and know-how available to the community.

With reference to the impacts, including potential ones, on revenues, costs, investments and cash flows expected as a result of the limitations imposed by the Coronavirus Emergency, the Company, also in consideration of the regulated nature of the Italgas business, as described in in the previous chapter “Regulatory and Regulatory Framework”, has not found any evidence to date to suggest significant negative effects on the 2020 results.

In the paragraph “Corona virus emergency” (“Revenue Recognition (IFRS 15)” and “Main economic impacts directly attributable to Covid-19”) of the notes to this consolidated half-yearly report, the considerations regarding the effects in terms of direct revenues and costs are indicated incurred as a result of the measures needed to address the pandemic.

However, the Company is currently unable to estimate the potential material negative effects on the economic, financial and equity outlook of the years to follow, should the health emergency situation return to a critical state and last significantly longer.

In this context, Italgas will therefore continue to pursue its strategic objectives, focusing on digital transformation with the goal of improving service quality, streamlining processes and operating costs, whilst paying constant attention to development opportunities. With specific regard to investments, in 2020, Italgas expects to continue its plan targeted primarily at the implementation of network digitization projects and the installation of “smart” meters and natural gas distribution of Sardinia, plus the normal maintenance and development of the networks managed.

In line with the strategic priorities of the 2019-2025 Plan and depending on the potential effect that the current emergency may have on the schedules, Italgas will take part in area tenders of interest for the concession of the natural gas distribution service, pursuing its goals to develop the business and consolidate the sector, which is currently very fragmented. Moreover, in line with the objectives of the Strategic Plan, following the 2019 acquisitions, additional initiatives for external growth could be completed in 2020, which will strengthen territorial presence and enable the scope of activities to grow.

Glossary

A glossary of financial, commercial and technical terms, as well as units of measurement, is available online at www.italgas.it.

Economic-financial terms

Cash flow

Net cash flow from operating activities is represented by the cash generated by a company over a certain period of time. Specifically, the difference between current inflows (mainly cash revenue) and current cash outflows (costs in the period that generated cash outflows).

Comprehensive income

Includes both net income for the period and changes in equity, which are recognised in equity in accordance with international accounting standards (Other components of comprehensive income).

Consolidated Finance Act (TUF)

Legislative Decree No. 58 of 24 February 1998, as amended.

Controllable fixed costs

Fixed operating costs of regulated activities, represented by the sum of "Total recurring personnel costs" and "Recurring external operating costs".

Covenants

A covenant is an undertaking within a loan agreement whereby certain activities can or cannot be carried out by the borrower. Specifically, a covenant is defined as "financial" when it imposes a limit relating to the possibility of taking out a further loan, while in covenants relating to property, the clauses are aimed, inter alia, at limiting the use of financial leverage by the company, involving the obligation of maintaining a given ratio between balance sheet debt and capitalisation. These commitments are imposed by financial subjects to prevent the financial conditions of the borrower from deteriorating and, where this does happen, to be able to request the early repayment of the loan.

Credit rating

Represents the opinion of the rating agency with respect to a debtor's general credit or the debtor's creditworthiness with specific reference to a particular debt instrument or another form of financial obligation, based on the relevant risk factors; the classification of various risk levels is made using letters of the alphabet and with essentially the same procedures by the various agencies.

Dividend pay-out

Ratio between the dividend and net profit for the period, and equal to the percentage of profits paid out to shareholders in the form of dividends.

Non-current assets

Balance sheet item which shows long-lasting assets, net of relative amortisation, depreciation and impairment losses. They are divided into the following categories: "Property, plant and equipment", "Compulsory inventories", "Intangible assets", "Equity investments", "Financial assets" and "Other non-current assets".

Notch

Risk level assigned by the rating agency, as part of the process of assigning the credit rating, which corresponds to a probability of default, i.e. of the issuer.

Outlook

The outlook indicates the future rating prospects over a long period of time, usually two years. When it is "negative" it means that the rating is weak and that the rating agency has detected some critical elements. If the weakness factors persist or worsen, the rating may be downgraded.

R.O.E. (Return on equity)

Ratio between the net profit and the shareholders' equity at the end of the period, able to express the return on own capital.

ROI Characteristic (Return on investment)

Ratio between the operating profit and the net invested capital at the end of the period net of equity investments, able to express the operational profitability, indicating the ability of the company to provide a return on the capital invested with the result of its operating activity.

Commercial and technical terms

ARERA

The Italian Regulatory Authority for Energy, Networks and Environment (ARERA) is an independent body set up by Law no. 481 of 14 November 1995 to protect the interests of consumers and promote competition, efficiency and dissemination of services with adequate levels of quality, through regulation and control activities. The Authority's action, initially limited to the electricity and natural gas sectors, was later extended through a number of regulatory measures, in particular through Law Decree 201/11, converted to Law 214/11, to assign responsibility also for water services.

ATEM

Minimum Geographical Areas (ATEMs) for conducting tenders and assigning the gas distribution service, calculated as 177 pursuant to the definition of Article 1 of the Ministerial Decree of 19 January 2011. The Municipalities belonging to each area are listed in the Ministerial Decree of 18 October 2011.

Centralised RAB

The Centralised Regulatory Asset Base is made up of tangible fixed assets other than those included under local tangible fixed assets and intangible fixed assets (in other words non-industrial buildings and property, other tangible fixed assets and intangible fixed assets, such as, for example, remote management and remote-control systems, equipment, vehicles, IT systems, furniture and furnishings, software licenses).

Delivery point

This is the point of demarcation between the gas distribution plant and the plant owned or managed by the end user at which the distribution company redelivers gas transported for supply to the end user, and at which metering occurs.

Energy and Environmental Services Fund - CSEA

Public economic institution that operates in the fields of electricity, gas and water. Its primary mission is the collection of certain tariff components by operators; these components are collected in dedicated management accounts and subsequently disbursed to businesses according to the rules issued by the Authority. The CSEA is supervised by the Authority and the Ministry of Economy and Finance. The CSEA also, in relation to the entities administered, performs inspection activities aimed at administrative, technical, accounting and management assessments, consisting in hearing and comparing the entities involved, with recognition of locations and systems, research, testing and comparison of documents.

End user

The consumer who buys gas for their own use.

Energy Services Manager (GSE)

Public company limited by shares with wholly public capital, with a central role in the promotion, incentive and development of renewable sources in Italy. The sole shareholder of the GSE is the Ministry of Economy and Finance, which exercises the rights of shareholder with the Ministry of Economic Development. The GSE controls three companies: the Single Buyer (AU), the Italian Power Exchange (GME) and Research on the Energy System (RSE).

Equalisation

Difference between revenues for the period (annual TRL) and those invoiced to retail companies. The net position with the CSEA is established at the end of the thermal year and settled over the course of the year on the basis of advance payments.

Gas distributed or circulated

Amount of gas delivered to users of the distribution network at the delivery points.

Gas distribution concession

The deed by which a local authority entrusts to a company the management of a natural gas distribution service which falls within the remit of said authority, and for which said company assumes the operational risk.

Gas distribution service

Service of transporting natural gas through networks of local methane pipelines from one or more delivery points to redelivery points, generally at low pressure and in urban areas, for delivery to end users.

Italian Power Exchange (GME)

Public company limited by shares constituted by the GSE, responsible for the economic management of the electric power market according to transparency and objectivity criteria, in order to promote competition among producers ensuring the availability of an adequate level of power Reserve. Previously known as the Italian Electric Power Exchange, it changed its name on 19 November 2009. In particular, the GME manages the day-ahead energy market (MGP), the intraday market (MI), the daily product market (MPEG), the dispatching services market (MSD), the electric forward market (MTE) and the Platform for the physical delivery of financial contracts concluded on the Index (CDE). The GME also manages the Markets for the Environment (Market for Energy Efficiency Certificates and Market for Guarantees of Origin) and the natural gas forward and spot markets, in the context of the natural gas market (MGAS). In the context of regasification, it organises and manages the PAR platform.

Local RAB

The Local Regulatory Asset Base for the distribution service consists of the following types of tangible fixed assets: land on which industrial buildings, manufacturing buildings, major and minor plants, road and pipeline installations (connections) are located. Local Regulatory Asset Base relating to the metering service is made up of the following types of tangible fixed assets: traditional metering equipment and electronic metering equipment.

Local tender

The local tender is the sole tender process for the provision of gas distribution services held in each of the 177 minimum geographical areas (ATEM) identified pursuant to Articles 1 and 2 of the Decree of the Ministry of Economic Development of 19 January 2011.

Network code

The document governing the rights and obligations of the parties involved in providing the gas distribution service.

Regulatory Asset Base (RAB)

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Regulatory Authority for Energy, Networks and Environment (ARERA), for determining the reference tariff.

Regulatory period

This is the time period for which criteria are defined for setting tariffs for gas distribution services. The fifth regulatory period is now in progress, beginning on 1 January 2020 and ending on 31 December 2025.

Reimbursement value

The Reimbursement Value is the amount owed to outgoing operators on the termination of the service pursuant to Article 5 of the Decree of the Ministry of Economic Development No. 226 of 12 November 2011 in the absence of specific different calculation method forecasts contained in the documents of the individual concessions stipulated before 11 February 2012 (the date when Ministerial Decree No. 226/2011 came into force).

Retail Company or Relco (Retail Company)

Company which, by way of a contract giving it access to the networks managed by a distributor, sells the gas.

RIV or Residual Industrial Value

The residual industrial value of the part of the plant owned by the outgoing operator. It is equal to the cost that should be incurred for its reconstruction as new, reduced by the value of the physical degradation and also including non-current assets under construction as indicated from the accounting records (Article 5(5) of Ministerial Decree No. 226/2011).

Thermal year

Time period into which the regulatory period is divided. Starting from the third regulatory period, the thermal year coincides with the calendar year.

TRL (Total Revenue Limit)

Total revenue allowed for distribution companies by the regulatory body to cover costs for providing distribution and metering services.

WACC

Weighted Average Cost of Capital. Rate of return on net invested capital.

White certificates

White Certificates, or Energy Efficiency Certificates (TEE), are negotiable titles that certify energetic savings achieved in the final use of energy, realising interventions for the increase of energy efficiency. The White Certificate system is an incentive mechanism based on a mandatory primary energy saving regime for electric power and natural gas distributors. All entities admitted to the mechanism are entered in the Electronic Register of Energy Efficiency Certificates with the GME.

10



Condensed consolidated half-year financial statements

10.1 Financial Statements

Balance sheet

(€ thousands)	Notes	31.12.2019		30.06.2020	
		Total	of which, related parties	Total	of which, related parties
ASSETS					
Current assets					
Cash and cash equivalents	(6)	262,237		344,033	
Financial assets measured at fair value with effects on OCI	(7)	119		119	
Other financial assets	(8)	5,000		5,001	
Trade and other receivables	(8)	585,230	232,308	437,928	134,759
Inventories	(9)	52,295		73,729	
Current tax assets on income	(10)	22,226			
Other current tax assets	(10)	50,423		48,447	
Other current assets	(11) (19)	6,764	10	12,173	12
		984,294		921,430	
Non-current assets					
Property, plant and equipment	(12)	350,001		357,206	
- of which related to Right of Use*		75,790		76,373	
Intangible assets	(13)	6,731,989		6,876,086	
Investments valued using the equity method	(14)	33,374		33,571	



(€ thousands)	Notes	31.12.2019		30.06.2020	
		Total	of which, related parties	Total	of which, related parties
Other investments	(14)	324		334	
Other financial assets	(8)	155		156	
Other non-current assets	(11) (19)	129,421	545	137,600	673
		7,245,264		7,404,953	
Non-current assets held for sale	(15)	2,076		69	
TOTAL ASSETS		8,231,634		8,326,452	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(16)	408,638		260,340	
Short-term portions of long-term financial liabilities	(16)	172,519	521	55,241	536
- of which related to Right of Use*		17,572	521	17,443	536
Trade and other payables	(17)	726,714	15,059	606,369	18,753
Current tax liabilities on income	(10)	888		5,127	
Other current tax liabilities	(10)	9,335		7,262	
Other current liabilities	(18) (19)	346	177	262	175
		1,318,440		934,601	
Non-current liabilities					
Long-term financial liabilities	(16)	4,171,497	2,646	4,734,838	2,365
- of which related to Right of Use*		57,078	2,646	58,051	2,365
Provisions for risks and charges	(20)	169,563		167,016	
Provisions for employee benefits	(21)	113,197		110,612	
Deferred tax liabilities	(22)	92,484		76,469	
Other non-current liabilities	(18) (19)	571,514		571,366	
		5,118,255		5,660,301	
Liabilities directly associated with non-current assets held for sale					
TOTAL LIABILITIES		6,436,695		6,594,902	

(€ thousands)	Notes	31.12.2019		30.06.2020	
		Total	of which, related parties	Total	of which, related parties
SHAREHOLDERS' EQUITY	(23)				
<i>Italgas shareholders' equity</i>					
Share capital		1,001,232		1,001,232	
Reserves		141,911		357,006	
Profit (loss) for the year		417,238		153,363	
Treasury shares					
Total Italgas shareholders' equity		1,560,381		1,511,601	
Minority interests		234,558		219,949	
TOTAL SHAREHOLDERS' EQUITY		1,794,939		1,731,550	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		8,231,634		8,326,452	

* From 1 January 2018, Italgas has applied the international accounting standard "IFRS 16 – Leases" which, having eliminated the differentiation between financial and operating leases, determines the recognition of liabilities for commitments to leasing companies against the recognition of tangible assets for the right of use of the relative assets for operational leases.

Income Statement

(€ thousands)	Notes	First half of 2019		First half of 2020	
		Total	of which, related parties	Total	of which, related parties
REVENUE	(25)				
Core business revenue		835,972	452,676	948,278	454,313
Other revenue and income		42,085	9,315	29,544	3,535
		878,057		977,822	
OPERATING COSTS	(26)				
Purchases, services and other costs		(322,185)	(1,275)	(381,552)	(9,005)
Personnel cost		(114,546)	216	(123,860)	42
		(436,731)		(505,412)	
AMORTISATION, DEPRECIATION AND IMPAIRMENT	(27)	(199,758)		(219,668)	
- of which amortisation of Right of Use		6,418		9,793	
EBIT (OPERATING PROFIT)		241,568		252,742	
FINANCIAL INCOME (EXPENSE)	(28)				
Financial expense		(24,477)	(147)	(26,753)	(149)
Financial income		345	128	345	
Derivative financial instruments					
		(24,132)		(26,408)	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS	(29)				
Dividends				25	25
Effect of valuation using the equity method		11,821	11,821	1,139	1,139
Other expense from equity investments				(134)	
		11,821		1,030	
PRETAX PROFIT (LOSS)		229,257		227,364	
Income taxes	(30)	(63,097)		(64,568)	
NET PROFIT FOR THE PERIOD		166,160		162,796	
Attributable to Italgas		166,160		153,363	
Minority interests				9,433	
Net earnings (loss) per share attributable to Italgas (amount in € per share)	(31)				
- basic and diluted		0.205		0.190	

Statement of comprehensive income

(€ thousands)	First half of the year	
	2019	2020
Net profit for the period	166,160	162,796
Other comprehensive income		
<i>Components reclassifiable to the income statement</i>		
Change in fair value of cash flow hedge derivatives (Effective portion)	(9,382)	(8,261)
Tax effect	2,252	1,983
<i>Components not reclassifiable to the income statement:</i>		
Total other components of comprehensive income, net of tax effect	(7,130)	(6,278)
Total comprehensive income for the period	159,030	156,518
Attributable to:		
- Italgas	159,030	147,085
- Minority interests		9,433

Statement of changes in shareholders' equity

(€ thousands)	Shareholders' equity pertaining to owners of the parent				
	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined benefit plans for employees, net of tax effect
Balance as at 31 December 2018 (e=a+b+c+d) (Note 23)	1,001,232	(323,907)	620,130	200,246	(10,730)
Net profit for the first half of 2019					
Other components of comprehensive income:					
Components reclassifiable to the income statement:					
- change in fair value of cash flow hedge derivatives					
Components not reclassifiable to the income statement:					
Total comprehensive income for the first half of 2019 (b)					
Transactions with shareholders:					
- Allocation of 2018 profit for the year					
- Allocation of Italgas SpA dividend for 2018 (€ 0.234 per share)					
- Stock grant reserve					
Total transactions with shareholders (c)					
Other changes in shareholders' equity (d)					
Balance as at 30 June 2019 (e=a+b+c+d) (Note 23)	1,001,232	(323,907)	620,130	200,246	(10,730)

Shareholders' equity pertaining to owners of the parent

Fair value reserve for cash flow hedge derivatives, net of tax effect	Reserve for business combinations under common control	Stock grant reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
(4,943)	(349,854)	299	424	(117,245)	313,695	1,329,347		1,329,347
					166,160	166,160		166,160
(7,152)						(7,152)		(7,152)
(7,152)					166,160	159,008		159,008
				313,695	(313,695)			
				(189,338)		(189,338)		(189,338)
		267				267		267
		267		124,357	(313,695)	(189,071)		(189,071)
	15		(15)	1,610		1,610		1,610
(12,095)	(349,839)	566	409	7,112	166,160	1,300,894		1,300,894

(€ thousands)	Shareholders' equity pertaining to owners of the parent				
	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined benefit plans for employees, net of tax effect
Balance as at 30 June 2019 (e=a+b+c+d) (Note 23)	1,001,232	(323,907)	620,130	200,246	(10,730)
Net profit for the second half of 2019					
Other components of comprehensive income:					
Components reclassifiable to the income statement:					
- change in fair value of cash flow hedge derivatives					
Components not reclassifiable to the income statement:					
- Actuarial gains on remeasurement of defined-benefit plans for employees					(2,527)
Total comprehensive income of the second half of 2019 (b)					(2,527)
Transactions with shareholders:					
- Stock grant reserve					
Total transactions with shareholders (c)					
Other changes in shareholders' equity (d)					
Balance as at 31 December 2019 (e=a+b+c+d) (Note 23)	1,001,232	(323,907)	620,130	200,246	(13,257)

Shareholders' equity pertaining to owners of the parent

Fair value reserve for cash flow hedge derivatives, net of tax effect	Reserve for business combinations under common control	Stock grant reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
(12,095)	(349,839)	566	409	7,112	166,160	1,300,894		1,300,894
					251,078	251,078	6,361	257,439
3,977						3,977		3,977
						(2,527)		(2,527)
3,977					251,078	252,528	6,361	258,889
		603				603		603
		603				603	228,197	228,800
(1)			8,302	(335)		7,966		7,966
(8,119)	(349,839)	1,169	8,711	6,777	417,238	1,560,381	234,558	1,794,939

(€ thousands)	Shareholders' equity pertaining to owners of the parent				
	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined benefit plans for employees, net of tax effect
Balance as at 31 December 2019 (e=a+b+c+d) (Note 23)	1,001,232	(323,907)	620,130	200,246	(13,257)
Net profit for the first half of 2020					
Other components of comprehensive income:					
<i>Components reclassifiable to the income statement:</i>					
- change in fair value of cash flow hedge derivatives					
<i>Components not reclassifiable to the income statement:</i>					
Total comprehensive income for the first half of 2020 (b)					
Transactions with shareholders:					
- Allocation of 2019 profit for the year					
- Allocation of Italgas SpA dividend for 2019 (€ 0.256 per share)					
- Allocation of dividends to third parties					
- Stock grant reserve					
Total transactions with shareholders (c)					
Other changes in shareholders' equity (d)					
Balance as at 30 June 2020 (e=a+b+c+d) (Note 23)	1,001,232	(323,907)	620,130	200,246	(13,257)

Shareholders' equity pertaining to owners of the parent

Fair value reserve for cash flow hedge derivatives, net of tax effect	Reserve for business combinations under common control	Stock grant reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
(8,119)	(349,839)	1,169	8,711	6,777	417,238	1,560,381	234,558	1,794,939
					153,363	153,363	9,433	162,796
(6,278)						(6,278)		(6,278)
(6,278)					153,363	147,085	9,433	156,518
				417,238	(417,238)			
				(207,139)		(207,139)		(207,139)
							(13,880)	(13,880)
		643				643		643
		643		210,099	(417,238)	(206,496)	(13,880)	(220,376)
			10,631			10,631	(10,162)	469
(14,397)	(349,839)	1,812	19,342	216,876	153,363	1,511,601	219,949	1,731,550

Cash flow statement

(€ thousands)

First half of 2019

First half of 2020

Profit (loss) for the year	166,160	162,796
Adjustments to reclassify net profit to cash flow from operating activities:		
Amortisation and depreciation	198,315	219,165
<i>of which amortisation of Right of Use pursuant to IFRS16</i>	6,418	9,793
Net impairment of assets	1,443	503
Stock grant		254
Effect of valuation using the equity method and other changes	(11,821)	2,467
Net capital losses (capital gains) on asset sales, cancellations and eliminations	(7,571)	2,334
Dividends		(25)
Interest income	(345)	(344)
Interest expense	24,132	26,752
Income taxes	63,097	64,568
Changes in working capital:		
- Inventories	(8,615)	(21,434)
- Trade receivables	180,787	198,034
- Trade payables	(18,531)	(92,081)
- Provisions for risks and charges	(5,283)	(2,547)
- Other assets and liabilities	(49,107)	(80,595)
<i>of which Connection contributions uses</i>	(7,492)	(9,761)
<i>of which Connection contributions increases</i>	6,461	3,840
Cash flow from working capital	99,251	1,377
Change in provisions for employee benefits	(2,571)	(2,585)
Dividends collected	14,135	3,811
Interest income	345	344
Interest expense	(24,132)	(26,735)
Income taxes paid, net of tax credits reimbursed		(52,461)
Net cash flow from operating activities	520,438	402,221
<i>of which, related parties</i>	566,907	550,065

(€ thousands)	First half of 2019	First half of 2020
Investments:		
- Property, plant and equipment	(6,863)	(16,596)
- Intangible assets	(279,385)	(340,705)
- Change in scope of consolidation and business units	(60,087)	(8,386)
<i>of which assumption of debts</i>	(35,212)	
<i>of which business units</i>	(24,875)	(8,386)
- Equity investments	(28,993)	(4,382)
- Change in payables and receivables for investments	23,182	(34,131)
<i>Cash flow from investments</i>	(352,146)	(404,200)
Disinvestments:		
- Property, plant and equipment	3,980	303
- Intangible assets		2,078
- Change in receivables relating to disinvestment activities	80	
<i>Cash flow from disinvestments</i>	4,060	2,381
Net cash flow from investment activities	(348,086)	(401,819)
Increase (decrease) in long-term financial debt	1,424	476,684
Increase (decrease) in short-term financial payables	(106,249)	(179,763)
Increase in financial receivables non-instrumental to operations		(1)
Dividends collected	(189,338)	(205,957)
Expense relative to Rights of use	(6,212)	(9,569)
Net cash flow from financing activities	(300,375)	81,394
<i>of which, related parties</i>		(81,456)
Net cash flow for the year	(128,023)	81,796
Opening cash and cash equivalents	138,476	262,237
Closing cash and cash equivalents	10,453	344,033

10.2 Notes to the Condensed Consolidated Half-Year Financial Statements

Company Information

The Italgas Group, consisting of Italgas S.p.A., the consolidating company, and its subsidiaries (hereinafter referred to as “Italgas”, the “Italgas Group” or the “Group”), is an integrated group at the forefront of the regulated natural gas sector and a major player in terms of invested capital in its regulatory asset base (RAB⁹) in the sector.

Italgas S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices in Milan at 11 via Carlo Bo.

CDP S.p.A. consolidated Italgas S.p.A. pursuant to the accounting principle IFRS 10 “Consolidated Financial Statements”.

As at 30 June 2020, CDP S.p.A. owns, via CDP Reti S.p.A., 26.05% of the share capital of Italgas S.p.A.

10.2.1 Preparation and measurement criteria

The Condensed Consolidated Half-Year Financial Statements as at 30 June 2020, hereinafter the “Interim Financial Statement”, was prepared in accordance with the provisions of IAS 34 “Interim financial reporting”.

The Interim Financial Statement as at 30 June 2020 applies the principles of consolidation and the measurement criteria illustrated in the preparation of the last Annual Financial Statements, to which reference is made, with the exception of the international accounting standards that came into force on 1 January 2020, illustrated in the section “Recently issued accounting standards” of that report.

The Condensed Consolidated Half-Year Financial Statements as at 30 June 2020, approved by the Board of Directors of Italgas S.p.A. at the meeting of 27 July 2020, were subject to a limited audit by Deloitte & Touche S.p.A. The limited audit involves an amount of work significantly reduced compared to the full audit required by generally accepted auditing standards.

The Condensed Consolidated Half-Year Financial Statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in thousands of Euro.

10.2.2 Amendment of accounting policies

The condensed consolidated Half-Year financial statements as at 30 June 2020 applies the principles of consolidation and the measurement criteria illustrated in the preparation of the last Annual Financial Statements to which reference is made, with the exception of the international accounting standards that came into force on 1 January 2020, illustrated in the section “Recently issued accounting standards” of the same Annual Financial Statements.

⁹ The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Italian Electricity, Gas and Water Authority (AEEGSI) for determining base revenues for the regulated businesses.

10.2.3 Use of estimates

With reference to the description of the use of accounting estimates, please refer to the 2019 Annual Financial Statements.

10.2.4 Recently issued accounting standards

The following provisions issued by the IASB (International Accounting Standards Board) entered into effect in the European Union on 1 January 2020:

IASB AND IFRS IC DOCUMENTS	EU effective date	Date of endorsement	Date of publication in the Official Journal
Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)	1 January 2020	21 April 2020	22 April 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020	15 January 2020	16 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	1 January 2020	29 November 2019	10 December 2019
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1 January 2020	29 November 2019	6 December 2019

With the “**Definition of a Business (Amendments to IFRS 3)**” document, the IASB has clarified the conditions determining whether an entity has acquired a group of assets or a company or business. Specifically, it states that, to be considered a business, an activity/asset or set of activities and assets must include a substantive process that significantly contributes to the creation of output. In addition, the document narrows the definitions of business and production, by focusing on goods and services provided to customers, removing any reference to other objectives, such as lowering costs, completing missing processes, etc.

The document entitled **Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)** concerns the potential effects that the reform of the IBOR interbank rates (e.g. LIBOR, EURIBOR and TIBOR) could have on financial reporting. These rates are used as a benchmark in the hedging relationships pursuant to IFRS 9 and IAS 39, but recent market developments have brought their usability in the long-term into question. In the case of switching to other benchmarks, the interest rate changes (Amendments to IFRS 9, IAS 39 and IFRS 7) should not significantly alter the hedged cash flows or cash flows of the hedging instrument. They will also not be usable in order to prevent other consequences resulting from the interest rate benchmark reform: if a hedging relationship no longer meets hedge accounting requirements for reasons other than those specified by the amendments to the benchmark, discontinuation of hedge accounting is required. Lastly,

specific information shall also be requested on the extent to which the entity's hedging relationships are affected by the above-mentioned amendments.

The **Definition of Material (Amendments to IAS 1 and IAS 8)** document focuses, for the purposes of alignment with the Conceptual Framework and the principles themselves, on the definition of "significant" in relation to the significance of information provided in accounting documents. It concludes that such information is significant if omitting, misstating or obscuring it could reasonably be considered able to influence decisions made by the users of the financial statements.

With the **"Conceptual Framework for Financial Reporting"** document, the IASB has provided a new version of the so-called Framework, i.e. of the reference conceptual framework from which the principles and interpretations of and amendments to the IFRS standards are derived. The new Framework does not constitute a substantial revision of the previous original version, as formulated in 2004, but has instead been supplemented and updated.

The directors do not expect the adoption of these amendments to significantly affect the Group's consolidated financial statements.

IASB/IFRIC documents and measures not yet endorsed by the EU

On 23 January 2020, the IASB issued the **"Classification of Liabilities as Current or Non-current (Amendments to IAS 1)"** document, providing a more general approach to the classification of liabilities pursuant to IAS 1. The objective is to clarify whether a liability is classified as non-current if an entity expects, or has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms. The IASB has specified that the classification of liabilities as current or non-current should be based on the rights existing at the end of the reporting period and only those rights should influence the classification of a liability. Classification is therefore not influenced by the faculty to defer settlement of a liability.

On 28 May 2020, the IASB published the **"Covid-19-Related Rent Concessions (Amendment to IFRS 16)"** document, which it used to address the matter of whether or not the deferral or reduction of rent, granted by lessors through negotiation between the parties or by law, amends the contractual lease conditions that need to be taken into account by lessees under IFRS 16. The IASB has, therefore, established that lessees are provided with an exemption from carrying out the assessments required by IFRS 16. Moreover, it is permitted to consider changes linked to the pandemic as if they were not lease modifications. This exemption must be disclosed in the interim reports and in the financial statements and applies to rent up until June 2021. The amendment is effective for annual reporting periods starting on or after 1 June. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020.

On 14 May 2020, the IASB published the **“Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)”** document, which specified that, if it is possible to obtain proceeds from selling items produced using property, plants and equipment (PPE), before these PPE are fully operative in the manner intended by management, these proceeds must not be taken account of but instead deducted from the cost of the assets themselves. The changes published are effective for financial years starting on or after 1 January 2022. Early application is permitted.

On 14 May 2020, the IASB published the **“Annual Improvements to IFRS Standards 2018–2020”** document, containing amendments to certain IFRS standards as a result of the IASB’s annual improvement project. In particular, the changes concerned:

- IFRS 1 “First-time Adoption of International Financial Reporting Standards”, where a subsidiary, when transitioning to international accounting standards, is permitted to cumulatively adopt the values defined by its parent company on the date of transition to the IFRS;
- IFRS 9 “Financial instruments”, where it specified which paid or received fees are to be considered in the “10 per cent” test carried out to establish whether an issuer reacquiring its own financial instrument, for example for the purposes of re-issuing it later on, can consider that instrument derecognised;
- IFRS 16 “Leases”, with reference to the treatment of lease incentives granted by the lessor.

On 14 May 2020, the IASB published the **“Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)”** document, amending the standard by detailing which contractual costs a company has to consider for the purposes of the provisions provided for in IAS 37.

On 14 May 2020, the International Accounting Standards Board (IASB) published the **Reference to the Conceptual Framework (Amendments to IFRS 3)**. The amendments proposed were:

- updating of IFRS 3 so that it refers to the 2018 Conceptual Framework and not the 1989 Framework;
- addition to IFRS 3 of a requirement stating that, for transactions falling within the scope of IAS 37 or IFRIC 21, the acquirer shall apply IAS 37 or IFRIC 21 instead of the Conceptual Framework in order to identify the liabilities it has taken on as part of the business combination;
- addition to IFRS 3 of an explicit statement specifying that the acquirer must not recognise the contingent assets acquired in a business combination.

On 18 May 2017, the IASB published the **“IFRS 17 – Insurance Contracts”** standard, which will replace the standard **“IFRS 4 – Insurance Contracts”**. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from the insurance contracts issued. The IASB developed the standard to eliminate discrepancies and shortcomings in the existing accounting policies, by providing a single principle-based framework to account for all types of insurance contract, including reinsurance contracts held by an insurer.

10.2.5 Business combinations transactions

Events of the half-year

- Finalisation, on 31 January 2020, of the agreement for the sale of several non-core industrial assets between Italgas and A2A, signed on 7 October 2019. In particular, Italgas Reti sold A2A Calore & Servizi (A2A Group) the entire district heating business managed in the municipality of Cologno Monzese (Milan); at the same time, Unareti (A2A Group) sold Italgas Reti its natural gas distribution business managed in seven municipalities belonging to the Alessandria 4 ATEM;
- Signing, on 31 January 2020, with the contracting authority Città Metropolitana di Torino (Metropolitan City of Turin) and with the outgoing managers, of a report for the delivery of the plants of Territorial Area "Turin 2" to Italgas Reti, which then officially commenced the first operations involving the gas distribution service for the Territorial Area in Italy.
- The acquisition by AEG Soc. Coop. of 15% of the Reti Distribuzione company was finalised on 26 May 2020 through the subsidiary Italgas Reti. Reti Distribuzione operates the natural gas distribution service across an area encompassing 49 municipalities located in the Canavese, Valle Orco and Soana areas, and in the Municipality of Saluggia, for a total of 32,000 re-delivery points. The consideration for the transaction was €4.6 million.

The analysis of the transactions carried out in the first half of the year is given below:

(€ thousands)

Business units	Purchaser	Amount	Price paid
ALEM Turin 2	Italgas Reti	5,458	5,458
ALEM Alessandria 4	Italgas Reti	2,922	2,922

Company	Purchaser	Amount	Price paid
Reti Distribuzione S.r.l.	Italgas Reti	4,569	4,382

As allowed by IFRS 3, the accounting treatment was provisionally applied, pending the definition of the price adjustments and/or of the definitive measurement of the fair value of the acquired assets and liabilities.

The values relating to the acquisition of Toscana Energia were reviewed and analysed during the half-year, pending final assessment as permitted by IFRS 3. The analysis led to a reduction in the corresponding goodwill for an amount of €1,605 thousand.

10.2.6 Cash and cash equivalents

Cash and cash equivalents, equal to €344,033 thousand (€262,237 thousand as at 31 December 2019), refer to current account deposits held at banks.

The item includes a deposit account of €230 million, the contractual terms of which provide for prompt disposal if requested by the company and an insignificant risk of changes in value. Cash and cash equivalents are not subject to any usage restrictions.

A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the Statement of Cash Flows.

10.2.7 Financial assets measured at fair value with effects on OCI

Financial assets measured at fair value with effects on OCI, of €119 thousand, unchanged from 31 December 2019, refer to the remaining amount of the equity investment of Italgas Reti S.p.A. in Acqua Campania S.p.A.

10.2.8 Trade receivables and other receivables and Other financial assets

Trade receivables and other receivables and Other financial assets, which amount to €443,085 thousand (€590,385 thousand as at 31 December 2019), comprise the following:

(€ thousands)	31.12.2019			30.06.2020		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	474,035		474,035	276,001		276,001
Financial receivables	5,000	155	5,155	5,001	156	5,157
- not instrumental to operations	5,000		5,000	5,001		5,001
- not held for operations		155	155		156	156
Receivables from investment/divestment activities	5,278		5,278	6,829		6,829
Other receivables	105,917		105,917	155,098		155,098
	590,230	155	590,385	442,929	156	443,085

Trade receivables of €276,001 thousand (€474,035 thousand as at 31 December 2019) mainly relate to the gas distribution service and ancillary services, and predominantly concern receivables from sales companies, of which from Eni Group for €99,829 thousand and from Cassa per i Servizi Energetici e Ambientali (CSEA) relating to equalisation¹⁰ for €9,902 thousand.

The decrease in trade receivables is mainly linked to the effects of seasonal variance in the volumes distributed on behalf of the sales companies.

The receivables are reported net of the provision for impairment losses of €16,193 thousand (€16,368 thousand as at 31 December 2019).

Changes in the provision for impairment losses on receivables during the half-year period are shown below:

(€ thousands)	Provision for write-down at 31.12.2019	Change in scope of consolidation	Allocation [to provision]	Uses	Provision for write-down at 30.06.2020
Trade receivables	15,480			(175)	15,305
Other receivables	888				888
	16,368			(175)	16,193

Receivables for investment/disinvestment activities of €6,829 thousand (€5,278 thousand as at 31 December 2019) relate to receivables for sales of property, plant and equipment and intangible assets and grants for capital expenditure.

Other receivables, amounting to €155,098 thousand (€105,917 thousand as at 31 December 2019) comprise:

(€ thousands)	31.12.2019	30.06.2020
IRES receivables for the national tax consolidation scheme	14,205	14,205
- VAT receivables for liquidation of Group VAT		15
Other receivables:	91,712	140,878
- Cassa per i Servizi Energetici e Ambientali (CSEA)	43,627	83,353
- Public administration	22,274	22,851
- Advances to suppliers	21,153	24,619
- from staff	4,545	3,354
- Other	113	6,701
	105,917	155,098

¹⁰ The mechanism based on which the differences between what is invoiced to sales companies and the revenue restrictions defined by the Authority are recorded as debits/credits from the CSEA.

IRES receivables for the national tax consolidation scheme (€14,205 thousand as at 30 June 2020) concern receivables from the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2004 to 2007 (pursuant to Article 6 of Decree-Law no. 185 of 28 November 2008, converted by Law no. 2 of 28 January 2009) and to tax years 2007 to 2011 (pursuant to Decree-Law no. 201/2011).

Receivables from the CSEA (€83,353 thousand as at 30 June 2020) relate to the additional components of the gas distribution tariffs for €30,719 thousand (UG2¹¹ and Bonus Gas¹²), and to Energy Efficiency Certificates for €52,634 thousand.

Receivables from the public administration (€22,851 thousand) refer to receivables from municipalities, mainly for arbitration awards following the sale of networks in those municipalities.

The market value of the trade receivables and other receivables is analysed in the Guarantees, commitments and risks - Other information on financial instruments" note, to which reference is made. All receivables are in Euros.

The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and contractual conditions.

The length of time the trade receivables and other receivables have been outstanding is shown below:

(€ thousands)	31.12.2019			30.06.2020		
	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
Receivables not overdue	446,631	105,917	552,548	208,634	155,098	363,732
Receivables overdue:	27,404		27,404	67,367		67,367
- from 0 to 3 months	6,886		6,886	37,303		37,303
- from 3 to 6 months	1,910		1,910	6,285		6,285
- from 6 to 12 months	3,860		3,860	7,243		7,243
- over 12 months	14,748		14,748	16,536		16,536
	474,035	105,917	579,952	276,001	155,098	431,099

Receivables overdue, of €67,367 thousand, mainly relate to receivables from the public administration and sales companies.

11 Additional component of the distribution tariff for the purpose of containing the cost of the gas service for low consumption end users.

12 Component relating to requests for subsidies for natural gas provision by economically disadvantaged customers.

For an analysis of the effects of the emergency measures as a result of COVID-19 on the trend of overdue amounts, see the note "Guarantees, commitments and risks - Credit risk".

Receivables from related parties are described in the note "Related-party transactions".

10.2.9 Inventories

Inventories, which amount to €73,729 thousand (€52,295 thousand as at 31 December 2019), are analysed in the table below:

(€ thousands)	31.12.2019			30.06.2020		
	Gross value	Provision for impairment losses	Net value	Gross value	Provision for impairment losses	Net value
- Raw materials, consumables and supplies	53,886	(1,591)	52,295	75,321	(1,592)	73,729
	53,886	(1,591)	52,295	75,321	(1,592)	73,729

Inventories of raw materials, consumables and supplies (€73,729 thousand as at 30 June 2020) mainly consisted of gas meters in connection with the plan to replace traditional meters with smart ones, which is expected to be completed by the end of 2020. The provision for impairment is €1,592 thousand.

Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

10.2.10 Current income tax assets/liabilities and other current tax assets/liabilities

Current income tax assets/liabilities and other current tax assets/liabilities break down as follows:

(€ thousands)	31.12.2019	30.06.2020
Current tax assets on income	22,226	
- IRES	22,226	
Other current tax assets	50,423	48,447
- VAT	46,372	43,665
- Other taxes	4,051	4,782
Current tax liabilities on income	888	5,127
- IRES		3,287
- IRAP	888	1,840
Other current tax liabilities	9,335	7,262
- VAT	330	
- IRPEF withholdings for employees	8,574	6,778
- Other taxes	431	484
	62,426	36,058

Taxes pertaining to the year under review are shown in the note "Income taxes", to which reference is made.

10.2.11 Other current and non-current assets

Other current assets, amounting to €12,173 thousand, and other non-current assets, amounting to €137,600 thousand, break down as follows:

(€ thousands)	31.12.2019			30.06.2020		
	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets		126,877	126,877	1,321	135,024	136,345
Other assets	6,764	2,544	9,308	10,852	2,576	13,428
- Prepayments	4,274	215	4,489	10,757	163	10,920
- Security deposits		2,254	2,254	2	2,482	2,484
- Other	2,490	75	2,565	93	(69)	24
	6,764	129,421	136,185	12,173	137,600	149,773

The Other regulated activities (€136,345 thousand as at 30 June 2020) mainly refer to the tariff recognition pursuant to Article 57 of ARERA Resolution no. 367/14 relating to the replacement of traditional meters with smart meters.

The value of the derivative financial instruments is analysed in the note "Derivative financial instruments".

The remaining item of €13,428 thousand mainly concerns prepaid expenses for the costs incurred when taking out revolving credit facilities and long-term security deposits.

10.2.12 Property, plant and equipment

Property, plant and equipment, which amount to €357,206 thousand (€350,001 thousand as at 31 December 2019), break down and changed as follows:

(€ thousands)	30.06.2020						Total
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	
Cost at 31.12.2019	13,047	440,856	32,504	164,441	29,342	12,210	692,400
Right of Use as at 1.1.2020		38,078		40,160	14,428		92,666
Investments		4,202	207	1,772	36	10,379	16,596
Right of Use investments		2,240		1,681	6,598		10,519
Divestments	(4)	(221)		(13,867)			(14,092)
Disposals of Right of Use		(177)					(177)
Other changes	1	(103)	251	329	(4)	(2,798)	(2,324)
Other change in rights of use		(1,215)		(1,777)	1,297		(1,695)
Cost at 30.06.2020	13,044	445,582	32,962	152,579	37,269	19,791	701,227
Accumulated depreciation at 31.12.2019		(200,007)	(13,701)	(111,779)	(16,224)		(341,711)
Amortisation of Right of Use as at 1.1.2020		(5,873)		(8,767)	(2,236)		(16,876)
Amortisation and depreciation		(3,632)	(839)	(3,176)	(261)		(7,908)
Amortisation of Right of Use		(2,834)		(4,867)	(2,092)		(9,793)
Divestments		55		13,801			13,856
Disposals of Right of Use		45					45
Other changes		11	479				490
Other change in rights of use		1,200		403	81		1,684
Accumulated depreciation at 30.06.2020		(205,162)	(14,061)	(105,618)	(18,496)		(343,337)
Provision for impairment losses at 31.12.2019				(657)		(31)	(688)

(€ thousands)	30.06.2020						Total
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	
Other changes				4			4
Provision for impairment losses at 30.06.2020				(653)		(31)	(684)
Net balance at 31.12.2019	13,047	240,849	18,803	52,005	13,118	12,179	350,001
Net balance at 30.06.2020	13,044	240,420	18,901	46,308	18,773	19,760	357,206
- of which Right of Use		31,464		26,833	18,076		76,373

Investments (€27,115 thousand) mainly refer to work in progress (mainly real estate) and assets related to right of use, of €10,379 and €10,519 thousand respectively.

Depreciation (€17,701 thousand) refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company. Amortisation relative to the right of use is €9,793 thousand.

The provision for impairment losses of €684 thousand mainly relates to a cogeneration plant.

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in the Note "Guarantees, commitments and risks".

During the half year period no impairment indicators were observed, nor any significant variations relative to the measurement of the recoverability of the value recognised in the financial statements for Property, plant and equipment.

The considerations reported in the 2019 Annual Financial Statements, to which reference is made, have therefore been confirmed.

10.2.13 Intangible assets

Intangible assets, which amount to €6,876,086 thousand (€6,731,989 thousand as at 31 December 2019), break down and changed as follows:

(€ thousands)	30.06.2020						Total
	Definite useful life				Indefinite useful life		
	Service concession agreements	Service concession agreements - Work in progress and payments on account	Industrial patent rights and intellectual property rights	Work in progress and payments on account	Other Intangible Assets	Goodwill	
Cost at 31.12.2019	10,784,892	233,181	431,191	14,208	97,223	68,654	11,629,349
Investments	193,355	137,213	7,403	10,605	1,737		350,313
Government grants		(1,645)					(1,645)
Divestments	(36,841)	(44)			(11)		(36,896)
Other changes	22,189	(22,183)	7,633	(7,841)	(51)	(1,605)	(1,858)
Cost at 30.06.2020	10,963,595	346,522	446,227	16,972	98,898	67,049	11,939,263
Accumulated depreciation at 31.12.2019	(4,467,900)		(345,999)		(71,319)		(4,885,218)
Amortisation and depreciation	(179,022)		(17,375)		(5,067)		(201,464)
Divestments	34,212				11		34,223
Other changes	186		45		45		276
Accumulated depreciation at 30.06.2020	(4,612,524)		(363,329)		(76,330)		(5,052,183)
Provision for impairment losses at 31.12.2019	(9,994)				(2,148)		(12,142)
(Write-down)/ Value restorations	(503)						(503)
Other changes	1,651						1,651
Provision for impairment losses at 30.06.2020	(8,846)				(2,148)		(10,994)
Net balance at 31.12.2019	6,306,998	233,181	85,192	14,208	23,756	68,654	6,731,989
Net balance at 30.06.2020	6,342,225	346,522	82,898	16,972	20,420	67,049	6,876,086

Service concession agreements including the related work in progress, amounting to €6,688,747 thousand (€6,540,179 thousand as at 31 December 2019), refer to agreements between the public and private sectors on the development, financing, management and maintenance of infrastructure under concession by a contracting party. The provisions relating to the service concession agreements are applicable for Italgas in its role as a public service natural gas distributor, i.e. they are applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the ARERA, holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service.

Industrial patent rights and intellectual property rights (€82,898 thousand; €85,192 thousand as at 31 December 2019) mainly concern information systems and applications in support of operating activities.

Intangible assets with an undefined useful life of €67,049 thousand mainly refer to goodwill arising in relation to the process of allocation of prices paid for the acquired companies. This item showed a decrease of €1,605 thousand, following a reduction in goodwill resulting from the acquisition of the controlling share of the Toscana Energia Group on 1 October 2019. As permitted by IFRS 3, the process of allocation of the highest price paid by Italgas in relation to the aforesaid transaction is currently being audited. So far, this audit has reduced the amount of the higher price allocated to goodwill in exchange for an increase in the portion allocated to other assets. It will be completed within one year of the acquisition, in line with the aforesaid standard.

Investments for the year, equal to €350,313 thousand, mainly relate to concession agreements for the maintenance and development of the remote reading network and the digitisation of networks.

Amortisation refers to economic and technical amortisation determined on the basis of the useful life of the intangible assets with defined useful life, that is to say the residual possible use by the company.

During the half year period no impairment indicators were observed, nor significant variations relative to the measurement of the recoverability of the value recognised in the financial statements for Goodwill and Other Intangible Assets.

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in the Note - "Guarantees, commitments and risks".

10.2.14 Investments valued using the equity method and other investments

Equity investments valued using the equity method, which amount to €33,571 thousand (€33,374 thousand as at 31 December 2019) and Other equity investments for €334 thousand (€324 thousand as at 31 December 2019), are broken down and changed as follows:

(€ thousands)	Investments in joint ventures	Other	Total
Value as at 31.12.2019	33,374	324	33,698
Increases for investments	4,569	10	4,579
Income (charges) from measurement of shareholders' equity	1,139		1,139
Decrease for dividends	(7,417)		(7,417)
Other changes	1,906		1,906
Value as at 30.06.2020	33,571	334	33,905

Acquisitions and subscriptions, which amount to €4,579 thousand, result from the acquisition of the 15% stake in Reti Distribuzione S.r.l. (€4,569 thousand) and the establishment of Italgas Newco S.r.l. (€10 thousand).

The other changes, equal to €1,906 thousand, relate to the further assessment of the equity investment in Gesam Reti held through Toscana Energia, still on a provisional basis as permitted by IFRS 3.

Equity investments are not collateralised.

With reference to the recoverable value of equity investments, for companies operating exclusively in regulated businesses, the recoverable value is determined by considering the adjusted value of the RAB of the net financial position.

The value thus estimated, also in light of the positive performance of these companies, was higher than the book value for all equity investments, meaning there were no impairment losses as a result.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the Appendix "Subsidiaries, associates and equity investments of Italgas S.p.A. at 30 June 2020", which is an integral part of these notes.

10.2.15 Assets held for sale

Assets held for sale, amounting to €69 thousand (€2,076 thousand as at 31 December 2019) reduced by €2,007 thousand due to the sale to A2A Calore & Servizi of the entire district heating business that Italgas managed in the municipality of Cologno Monzese.

10.2.16 Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities

Short-term financial liabilities, amounting to €260,340 thousand (€408,638 thousand as at 31 December 2019) and long-term financial liabilities, including short-term portions of long-term liabilities totalling €4,790,079 thousand (€4,344,016 thousand as at 31 December 2019), break down as follows:

(€ thousands)	31.12.2019				
	Short-term liabilities	Long-term liabilities			Total long-term liabilities
Short-term portion		Long-term portion due within 5 years	Long-term portion due beyond 5 years		
Bank loans	402,247	123,650	193,034	598,376	915,060
Bonds		31,297	746,169	2,576,840	3,354,306
Financial liabilities for leased assets (IFRS 16)		17,572	49,728	7,350	74,650
Other shareholders	6,391				
	408,638	172,519	988,931	3,182,566	4,344,016

30.06.2020

Short-term liabilities	Long-term liabilities			Total long-term liabilities
	Short-term portion	Long-term portion due within 5 years	Long-term portion due beyond 5 years	
252,246	20,967	201,603	655,927	878,497
	16,831	746,656	3,072,601	3,836,088
	17,443	50,665	7,386	75,494
8,094				
260,340	55,241	998,924	3,735,914	4,790,079

Short-term financial liabilities

Short-term financial liabilities, amounting to €260,340 thousand (€408,638 thousand as at 31 December 2019), were reduced by €148,298 thousand mainly due to a greater use of uncommitted bank credit lines.

Moreover, this change includes the reclassification of an amount of €85,684 thousand from short-term liabilities to long-term liabilities, representing the remaining amount of a loan granted by the EIB to Toscana Energia, due to expire on 30 June 2031. This was classified as short-term in the 2019 financial statements, pending receipt of the waivers from the EIB, which were then formalised in March 2020.

There are no short-term financial liabilities denominated in currencies other than the Euro.

The market value of short-term financial liabilities is equivalent to their accounting value.

Long-term financial liabilities and short-term portions of long-term financial liabilities

Long-term financial liabilities, including the short-term portions of long-term liabilities, amounted to €4,790,079 thousand (€4,344,016 thousand as at 31 December 2019).

The increase of €446,063 thousand compared to 31 December 2019 was mainly attributable to the bond issue completed in June for a nominal value of €500 million.

The analysis of debenture loans equal to €3,836,088 thousand, with the indication of the issuing company, the year of issue, the currency, the average interest rate and the maturity date, is reported in the following table.

(€ thousands)

Issuing company	Emission (year)	Currency	Nominal Value	Adjustments (a)	Balance as at 30.06.2020	Rate (%)	Due date (year)
Euro Medium Term Notes							
ITALGAS S.p.A.	2017	€	268,360	(372)	267,988	0.500%	2022
ITALGAS S.p.A.	2017	€	750,000	(560)	749,440	1.625%	2027
ITALGAS S.p.A.	2017	€	480,945	(78)	480,867	1.125%	2024
ITALGAS S.p.A.	2018	€	750,000	1,714	751,714	1.625%	2029
ITALGAS S.p.A.	2019	€	600,000	(6,766)	593,234	0.875%	2030
ITALGAS S.p.A.	2019	€	500,000	(1,967)	498,033	1.000%	2031
ITALGAS S.p.A.	2020	€	500,000	(5,188)	494,812	0.250%	2025
			3,849,305	(13,217)	3,836,088		

(a) Includes issue discount/premium and interest rate.

Debts due to bank loans (€878,497 thousand; €915,060 thousand as at 31 December 2019) mainly refer to the term loans, of which €873,557 thousand provided by the European Investment Bank - EIB.

There are no other long-term bank loans denominated in currencies other than the Euro.

There were no breaches of loan agreements as at the reporting date.

As at 30 June 2020, Italgas had bank deposits for a value of €344.0 million and undrawn committed long-term credit lines of 500 million, maturing in October 2021.

Breakdown of total financial liabilities by interest rate type

As at 30 June 2020, the breakdown of overall debt by interest rate type, net of liabilities for leases pursuant to IFRS 16, is as follows:

(€ million)	31.12.2019	%	30.06.2020	%
Fixed rate	4,103.7	87.7	4,585.7	92.2
Floating rate	574.1	12.3	389.2	7.8
Total financial and bond debt	4,677.8	100.0	4,974.9	100.0

Financial covenants and negative pledge contractual clauses

As at 30 June 2020, there were no loan agreements containing financial covenants and/or secured by collateral, with the exception of an EIB loan for €90 million taken out by Toscana Energia, which requires compliance with certain financial covenants. 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 real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. As at 30 June 2020 these commitments appear to have been respected.

The option for the lender to request additional guarantees if Italgas' credit rating is downgraded to BBB- (Standard & Poor's/Fitch Ratings Limited) or Baa3 (Moody's) for at least two of the three ratings agencies is envisaged only for EIB funds.

Failure to comply with the commitments established for these loans - in some cases only when this non-compliance is not remedied within a set time period - and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Italgas' failure to comply and could trigger the early repayment of the relative loan.

Breakdown of net financial debt

In line with CONSOB communication no. DEM/6064293 of 28 July 2006, the breakdown of net financial debt, showing related-party transactions, is provided in the following table:

(€ thousands)	31.12.2019			30.06.2020		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	262,237		262,237	344,033		344,033
B. Securities held for sale and to be held to maturity	119		119	119		119
C. Liquidity (A+B)	262,356		262,356	344,152		344,152
D. Financial receivables not held for operations	5,000		5,000	5,001		5,001
E. Short-term financial liabilities to banks*	532,288		532,288	281,307		281,307
F. Long-term financial liabilities to banks		791,410	791,410		857,530	857,530
G. Bonds	31,297	3,323,009	3,354,306	16,831	3,819,257	3,836,088
H. Short-term financial liabilities to related entities						
I. Long-term financial liabilities to related entities						
L. Other short-term financial liabilities						
M. Other long-term financial liabilities**	17,572	57,078	74,650	17,443	58,051	75,494
N. Gross financial debt (E+F+G+H+I+L+M)	581,157	4,171,497	4,752,654	315,581	4,734,838	5,050,419
O. Net financial debt (N-C-D)	313,801	4,171,497	4,485,298	(33,572)	4,734,838	4,701,266

(€ thousands)	31.12.2019			30.06.2020		
	Current	Non-current	Total	Current	Non-current	Total
Net financial debt (including the effects pursuant to IFRS 16)	313,801	4,171,497	4,485,298	(33,572)	4,734,838	4,701,266
Reclassification from long-term financial debt to short-term financial debt	(85,684)	85,684				
Financial liabilities for leasing pursuant to IFRS 16	(17,572)	(57,078)	(74,650)	(17,443)	(58,051)	(75,494)
Net financial debt reclassified in the Directors' Report on Operations***	210,545	4,200,103	4,410,648	(51,015)	4,676,787	4,625,772

* This amount includes the short-term portion of long-term financial liabilities.

** The value relative to financial liabilities for leasing pursuant to IFRS 16.

*** As at 31 December 2019, the financial debt in the report on operations does not take into consideration the reclassification from non-current financial debt to current financial debt of the loan granted by the EIB to Toscana Energia for €85.7 million.

10.2.17 Trade and other payables

Trade payables and other payables, which amount to €606,369 thousand (€726,714 thousand as at 31 December 2019), comprise the following:

(€ thousands)	31.12.2019	30.06.2020
Trade payables	299,090	207,015
Payments on account and prepayments	604	604
Payables for investment activities	230,277	197,697
Other payables	196,743	201,053
	726,714	606,369

Trade payables of €207,015 thousand (€299,090 thousand as at 31 December 2019) relate mainly to payables to suppliers.

Payables for investment activities equal to €197,697 thousand (€230,277 thousand as at 31 December 2019) mainly relate to payables to suppliers for technical activities.

Other payables (€201,053 thousand; €196,743 thousand as at 31 December 2019) break down as follows:

(€ thousands)	31.12.2019	30.06.2020
Parent company's payables for liquidation of Group IVA	56	56
Payables to the public administration	43,022	44,170
Payables to the Cassa per i Servizi Energetici e Ambientali (CSEA)	90,358	96,311
Payables to personnel	31,203	23,900
Payables to social security institutions	19,139	16,732
Payables to consultants and professionals	4,210	3,397
Other payables to the CSEA (Resolution 106/20)		1,538
Other payables	8,755	14,949
	196,743	201,053

Payables to the public administration (€44,170 thousand; €43,022 thousand as at 31 December 2019) primarily concern payables to municipalities for concession fees for the distribution business.

Payables to the CSEA (€96,311 thousand; €90,358 thousand as at 31 December 2019) relate to several ancillary components of tariffs for the gas distribution service to be paid to this Fund (RE, RS, UG1 and GS)¹³.

Payables to personnel (€23,900 thousand; €12,539 thousand as at 31 December 2019) involve payables mainly for holidays accrued and not taken and the participation bonus.

The other payables to the CSEA, amounting to €1,538 thousand, relate to the advance payment for start-up networks (Resolution 106/20).

Payables to related parties are described in the note "Related-party transactions".

The book value of trade payables and other payables, considering the limited time interval between the occurrence of the payable and its maturity, is an approximation of the fair value. See the "Guarantees, commitments and risks - Other information on financial instruments" note for the market value of the trade payables and other payables.

10.2.18 Other current and non-current liabilities

Other current liabilities and other non-current liabilities are broken down below:

(€ thousands)	31.12.2019			30.06.2020		
	Current	Non-current	Total	Current	Non-current	Total
Hedging derivative contracts Cash flow hedge	220	13,081	13,301	145	18,943	19,088
Other liabilities	126	558,433	558,559	117	552,423	552,540
- Accruals and deferrals connection contributions		555,881	555,881		549,960	549,960
- Liabilities for security deposits		2,218	2,218		2,463	2,463
- Other	126	334	460	117		117
	346	571,514	571,860	262	571,366	571,628

Other liabilities amounting to €552,540 thousand (€558,559 thousand as at 31 December 2019) decreased by €6,019 thousand and mainly relate to accruals and deferrals for connection contributions (€549,960 thousand).

¹³ These components refer to: (i) RE - Variable portion to cover the expenses for calculating and implementing energy savings and the development of renewable energy sources in the natural gas sector; (ii) RS - Variable portion as coverage for expenses for gas services quality; (iii) UG1 - Variable portion to cover any imbalances in the equalisation system and to cover any adjustments; and (iv) GS - Variable portion to cover the tariff compensation system for economically disadvantaged customers.

10.2.19 Derivative financial instruments

The market value of the derivative financial instruments as at 30 June 2020 is analysed below:

(€ thousands)	31.12.2019			30.06.2020		
	Current	Non-current	Total	Current	Non-current	Total
Other assets	2,398		2,398			
Derivative financial instruments Cash flow hedge						
- Fair value interest rate hedging instruments	2,398		2,398			
Other liabilities	(220)	(13,081)	(13,301)	(145)	(18,943)	(19,088)
Derivative financial instruments Cash flow hedge						
- Fair value interest rate hedging instruments	(220)	(13,081)	(13,301)	(145)	(18,943)	(19,088)

On 28 December 2017, Italgas took out an EIB loan for a total of €360 million, expiring on 15 December 2037. The loan involves the payment of half-yearly coupons at a variable rate of Euribor 6M + spread 0.355%.

On 15 January 2018, Italgas negotiated an Interest Rate Swap, effective from 15 January 2018, due to expire in 2024, with the same coupon payment frequency as the loan.

On 12 December 2016, Italgas took out an EIB loan for a total of €300 million, expiring on 30 November 2032. The loan involves the payment of half-yearly coupons at a variable rate of Euribor 6M + spread 0.47%.

On 24 July 2019, Italgas also negotiated an Interest Rate Swap, effective from 24 July 2019, due to expire in 2029, with the same coupon payment frequency as the loan.

The IRS characteristics are summarised below:

	Date stipulated	Amount	ITG rate	Bank rate	Coupon	Expiration date
"Italgas Gas Network Upgrade" EIB loan	28.12.2017	360,000,000.00	var. EUR 6M + spread 0.355%		half-yearly	15.12.2037
IRS derivative	15.01.2018	360,000,000.00	0.6195%	var. EUR 6M	half-yearly	16.12.2024
"Smart Metering" EIB loan	12.12.2016	300,000,000.00	var. EUR 6M + spread 0.47%		half-yearly	30.11.2032
IRS derivative	24.07.2019	300,000,000.00	-0.00056	var. EUR 6M	half-yearly	30.11.2029
"Toscana Energia" EIB loan	06.08.2016	90,000,000.00	fixed 1.049%	fixed	half-yearly	30.06.2031

The assessments performed did not show any impacts on the income statement in terms of ineffectiveness.

10.2.20 Provisions for risks and charges

Provisions for risks and charges, which amount to €167,016 thousand (€169,563 thousand as at 31 December 2019) are analysed in the following table:

(€ thousands)	30.06.2020		
	Opening balance	Change in scope of consolidation	Provisions
Provisions for environmental risks and charges	117,284		58
Risk provision for litigation	12,180		1,020
Provisions for other risks - energy efficiency certificates	10,926		5,568
Provision for retirement risks	2,873		
Provision for op. restoration of metering	14,240		
Other personnel risk provisions	3,111		263
Risk provision for tax disputes	290		
Other provisions	8,659		101
	169,563		7,010

30.06.2020

Increase for the passing of time	Uses		Other changes	Closing balance
	against charges	due to surplus		
620	(2,514)		(253)	115,195
	(264)	(1,215)	3	11,724
	(2,486)			14,008
				2,873
	(2,999)		(298)	10,943
	(218)	(97)	5	3,064
		(76)		214
	(18)	(46)	299	8,995
620	(8,499)	(1,434)	(244)	167,016

The provision for environmental risks and charges of €115,195 thousand (€117,284 thousand as at 31 December 2019) mainly included costs for environmental soil reclamation, pursuant to Law 471/1999, as subsequently amended, primarily for the disposal of solid waste, in relation to the distribution business.

The provision for litigation of €11,724 thousand (€12,180 thousand as at 31 December 2019) included costs which the Group has estimated it will incur for existing lawsuits.

The Energy Efficiency Certificates risk provision of €14,008 thousand (€10,926 thousand as at 31 December 2019) is connected with reaching the Energy Efficiency Certificates targets (TEE) set by the Authority.

The risk provision for early retirement of €2,873 thousand (unchanged compared to 31 December 2019) involves personnel incentive and mobility schemes.

The provision for operational restoration of metering, totalling €10,943 thousand (€14,240 thousand as at 31 December 2019) comprises the costs estimated for replacing/restoring operations of the G4 and G6 smart meters having operational problems.

In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on the provisions for risks and charges resulting from a reasonably possible change to the discounting rates used at 30 June 2020 are shown below.

The sensitivity analysis on the discounting rates shows the change in value of the actuarial liabilities obtained with the year-end assessment data, by changing the discounting rate, without prejudice to other hypotheses.

(€ thousands)	Change in discounting rates	
	Reduction of 10%	Increase of 10%
Effect on net obligation as at 30.06.2020		
Provisions for environmental risks and charges	610	(590)

10.2.21 Provisions for employee benefits

Net *employee benefit provisions*, amounting to €110,612 thousand (€113,197 thousand as at 31 December 2019) break down as follows:

(€ thousands)	31.12.2019	30.06.2020
Employment severance pay (TFR)	72,347	70,471
Supplementary healthcare provision for company executives of Eni (FISDE)	6,641	6,877
Gas Fund	26,735	26,500
Other provisions for employee benefits	7,474	6,764
	113,197	110,612

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS.

FISDE, amounting to €6,877 thousand, includes the estimate of costs determined on an actuarial basis related to contributions benefiting current¹⁴ and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group¹⁵ executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

The Gas Fund (€26,500 thousand) relates to the estimate, made on an actuarial basis, of the charges sustained by the employer due to the elimination, as of 1 December 2015, of the fund pursuant to Law 125 of 6 August 2015. In particular, Articles 9-decies and 9-undecies of the Law stipulate that the employer must cover: (i) an extraordinary contribution to cover expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020¹⁶; and (ii) a contribution in favour of those registered or in voluntary continuation of the contribution, that as at 30 November 2015 were not entitled to supplementary pension benefits from the eliminated Gas Fund, of 1% for each year of registration in the supplementary fund, multiplied by the social security tax base relating to the same supplementary fund for 2014, to be allocated through the employer or the supplementary pension scheme.

At present, the criteria, procedures and time periods for payment of the extraordinary contribution have not yet been announced. Employee selection of where the amounts would be allocated (supplementary pension scheme or to the employer) were concluded, pursuant to the law, on 14 February 2016.

The other employee benefit provisions (€6,764 thousand) relate to seniority bonuses and the deferred cash incentive plan.

14 For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service already provided.

15 The fund provides the same benefits for Italgas Group executives.

16 Article 9-quinquiesdecies also stipulates that "... If monitoring shows that the extraordinary contribution pursuant to Article 9-decies is insufficient to cover the relative expenses, a decree issued by the Ministry of Labour and Social Policy, in concert with the Ministry of Economic Development and the Ministry of Economy and Finance, provides for the redetermination of the extraordinary contribution, the criteria for redistribution of the contribution between employers and the time periods and procedures for payment of the extraordinary INPS contribution".

10.2.22 Deferred tax liabilities

Deferred tax liabilities of €76,469 thousand (€92,484 thousand as at 31 December 2019) are stated net of offsettable prepaid tax assets of €255,355 thousand (€253,662 thousand as at 31 December 2019) and are analysed in the tables below:

(€ thousands)	31.12.2019	Change in scope of consolidation	Provisions	Uses	Other changes	30.06.2020
Deferred tax liabilities	346,146		60	(9,995)	(4,387)	331,824
Deferred tax assets	(253,662)		(8,454)	8,546	(1,785)	(255,355)
	92,484		(8,394)	(1,449)	(6,172)	76,469

There are no prepaid tax assets which cannot be offset.

10.2.23 Shareholders' equity

Shareholders' equity, which amounts to €1,731,550 thousand (€1,794,939 thousand as at 31 December 2019) breaks down as follows:

(€ thousands)	31.12.2019	30.06.2020
Shareholders' equity attributable to Italgas	1,560,381	1,511,601
Share capital	1,001,232	1,001,232
Legal reserve	200,246	200,246
Share premium reserve	620,130	620,130
Reserve Cash Flow Hedge on derivative contracts	(8,119)	(14,397)
Consolidation reserve	(323,907)	(323,907)
Reserve for business combinations under common control	(349,839)	(349,839)
Stock grant reserve	1,169	1,812
Reserve for recalculation of defined-benefit plans for employees	(13,257)	(13,257)
Retained earnings and other reserves	15,488	236,218
Net profit (loss)	417,238	153,363
<i>to be deducted</i>		
- Treasury shares		
Shareholders' equity attributable to minority interests	234,558	219,949
	1,794,939	1,731,550

Share capital

The share capital as at 30 June 2020 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518.44 (the same as at 31 December 2019).

Legal reserve

The legal reserve as at 30 June 2020 stood at €200,246 thousand (the same as at 31 December 2019).

Share premium reserve

The share premium reserve, of the same amount as at 31 December 2019, stood at €620,130 thousand.

Reserve Cash Flow Hedge on derivative contracts

The reserve includes the negative fair value of the IRS derivative net of the related tax effect.

Consolidation reserve

The consolidation reserve of -€323,907 thousand was determined during the first consolidation (year 2016) due to the difference between the purchase cost of the equity investment in Italgas Reti S.p.A. and the related shareholders' equities pertaining to the group.

Stock grant reserve

The reserve includes valuation according to IFRS 2 of the co-investment plan approved on 19 April 2018 by the Shareholders' Meeting of Italgas S.p.A.

Reserve for business combinations under common control

The reserve for business combination under common control, amounting to -€349,839 thousand, relates to the acquisition by Snam S.p.A. of 38.87% of the equity investment in Italgas Reti S.p.A.

Retained earnings and other reserves

The retained earnings and other reserves relate mainly to the earnings from previous financial years.

Reserve for recalculation of defined-benefit plans for employees

As at 30 June 2020, the reserve for recalculation of employee benefit plans (-€13,257 thousand) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

Treasury shares

As at 30 June 2020 Italgas did not have any treasury shares in its portfolio.

Dividends

The ordinary shareholders' meeting of Italgas S.p.A. resolved on 12 May 2020 to distribute the 2019 ordinary dividend of €0.256 per share; the dividend (€207,138,688.51) was paid out as at 20 May 2020, with an ex-coupon date of 18 May 2020 and a record date of 19 May 2020.

10.2.24 Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €1,391,656 thousand (€1,296,465 thousand as at 31 December 2020), break down as follows:

(€ thousands)	31.12.2019	30.06.2020
Guarantees given in the interest:	267,478	321,024
- of subsidiaries	267,478	321,024
Financial commitments and risks:	1,028,987	1,070,632
Commitments	768,606	792,851
Commitments for the purchase of goods and services	756,542	788,564
Other	12,064	4,287
Risks	260,381	277,781
- for compensation and litigation	260,381	277,781
	1,296,465	1,391,656

Guarantees

Guarantees provided in the interest of subsidiaries mainly refer to guarantees and securities issued in the interest of subsidiaries to guarantee the proper execution of works in connection with participation in tenders for the distribution of natural gas.

Commitments

As at 30 June 2020, the commitments made were for agreements with suppliers for the purchase of tangible assets, the supply of services and maintenance on property, plants and equipment and intangible assets under development.

Risks

Risks concerning compensation and litigation relate to claims, deemed to be potential, for compensation arising from ongoing litigation, with a low probability of the pertinent economic risk arising.

FINANCIAL RISK MANAGEMENT

Foreword

There follows a description of Italgas' policies and principles for the management and control of the risks arising from the financial instruments listed above.

Information on other risks affecting the business (operational risk and risks specific to the segment in which Italgas operates) can be found in the "Elements of risk management and uncertainty" section of the Directors' Report.

Interest rate risk

Fluctuations in interest rates affect the market value of Italgas' financial assets and liabilities and its net financial expense. 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 stays within the defined limits.

An increase in interest rates, not implemented – in full or in part – in the regulatory WACC, could have negative effects on the assets and on the economic and financial situation of the Italgas Group for the variable component of the debt in place and for future loans.

At full performance, Italgas aims to maintain a debt ratio between a fixed rate and floating rate to minimise the risk of rising interest rates.

As at 30 June 2020 the financial debt at floating rate was 7.7% and at fixed rate was 92.3%.

As at the same date the Italgas Group used external financial resources in the following forms: bonds subscribed by institutional investors, bilateral and syndicated loans with banks and other financial institutions, in the form of medium-to-long-term loans and bank credit lines at interest rates indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor).

An extended period of inflation lower than the Group's forecasts could have adverse effects in the long-term on the RAB value and expected regulated revenue. An unexpected increase in inflation rate could have adverse effects on expected costs.

Credit risk

Credit risk is the exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of amounts owed may have a negative impact on the financial results and financial situation of Italgas.

The rules for customer access to the gas distribution service are established by the ARERA and set out in the Network Codes, namely, in documents that establish, for each type of service, the rules regulating the rights and obligations of the parties involved in the process of providing said services and contain contractual conditions that reduce the risk of non-compliance by customers, such as the provision of bank or insurance guarantees on first request.

As at 30 June 2020 there were no significant credit risks. However, taking into account the effects of the emergency measures as a result of COVID-19, note that on average 93% of trade receivables relative to the distribution of gas were settled by the due date and over 95% within the next 4 days, confirming the strong reliability of the business customers. Receivables from other activities represent a non-significant portion for the Group.

Compared to the same situation as at 31 December 2019, where the percentages were 96% and 99%, respectively, on the due date and within the next four days, the decrease in the percentages is fully attributable to the Authority's gas distribution provisions (resolutions 116/20 and 149/20), which permitted sales companies to settle at least 80% of invoices due on 30 April and 1 June and at least 90% of invoices due on 30 June.

For further considerations linked to the impacts associated with COVID-19, as well as the related accounting implications linked to the measurement of assets and liabilities, see the below note, "Coronavirus Emergency".

Liquidity risk

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the company incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the company's future as a going concern.

Italgas signed loan agreements for credit lines undrawn as at 30 June 2020. These credit lines (500 million euros) may be used to address possible liquidity needs, where necessary, if the actual borrowing requirement is higher than estimated. Also note that at the same date, in addition to the funding from the banking system, the Euro Medium Term Notes (EMTN) programme, approved by the Italgas Board of Directors on 23 September 2019, has allowed issue of the remaining bonds worth a nominal €1,150 million to be placed with institutional investors.

Italgas aims at establishing a financial structure that, in line with its business objectives, ensures a level adequate for the Group in terms of the duration and composition of the debt. The achievement of this financial structure will take place through the monitoring of certain key parameters, such as the ratio between debt and the RAB, the ratio between short-term and medium-/long-term debt, the ratio between fixed rate and floating rate debt and the ratio between bank credit granted and bank credit used.

Rating risk

With reference to the long-term debt of Italgas, on 26 September 2019 and 30 April 2020, the rating agencies Moody's and Fitch confirmed the rating assigned to Italgas S.p.A. as level Baa2 with stable outlook and BBB+ with stable outlook, respectively. In particular, confirmation of the Company's positive rating by Fitch occurred despite the rating downgrade of the Italian government bonds to a BBB- stable outlook, from a BBB negative outlook disclosed by the agency on 28 April 2020 following deterioration of the macroeconomic situation linked to the COVID-19 health emergency and the impacts on the Italian economy. Based on the methodologies adopted by the rating agencies, a downgrade of one notch in the Italian Republic's current rating could, however, trigger a downward adjustment in Italgas' current rating.

Debt covenant and default risk

As at 30 June 2020, there were no loan agreements containing financial covenants and/or secured by collateral, with the exception of an EIB loan for a nominal € 90 million taken out by Toscana Energia, which requires compliance with certain financial covenants.

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 real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. As at 30 June 2020 these commitments appear to have been respected.

Failure to comply with the commitments established for these loans - and in some cases only when this non-compliance is not remedied within a set time period - and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Italgas' failure to comply and could trigger the early repayment of the relative loan.

The bonds issued by Italgas as at 30 June 2020 as part of the Euro Medium Term Notes programme provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

Future payments for financial liabilities

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments:

(€ thousands)	Balance as at 31.12.2019	Balance as at 30.06.2020	Portion with due date within 12 months	Portion with due date beyond 12 months	Due date				
					2021	2022	2023	2024	Beyond
Financial liabilities									
Bank loans	915,060	878,497	20,967	857,530	27,847	42,187	65,672	65,672	656,152
Bonds	3,354,306	3,836,088	16,831	3,819,257		267,390		479,266	3,072,601
Short-term liabilities	408,638	260,340	260,340						
Interest on loans		111	1,160	333,076	42,627	42,627	41,286	41,286	165,250
Liabilities Right of Use	74,650	75,494	17,443	58,051	11,040	16,311	13,634	6,389	10,677
Interest Right of Use				896	247	195	144	102	208
	4,752,654	5,050,530	316,741	5,068,810	81,761	368,710	120,736	592,715	3,904,888

Disputes and other measures

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

The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because Italgas believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

Criminal dispute

Italgas Reti S.p.A. – Rome/Via Parlatore Event

The public prosecutor at the Court of Rome opened an investigation in relation to the event that took place on 7 September 2015 during an ordinary intervention in the gas distribution network in the municipality of Rome.

The incident, which took place due to causes that are still being investigated, caused a fire that involved three people. Two of them, workers for an Italgas Reti contractor, suffered mild injuries. The third person – an Italgas Reti employee – died after a few weeks despite medical treatment. The preliminary investigations involved some Italgas Reti managers. On completion of the investigations, the Public Prosecutor's office of Rome requested that the case be discontinued for all persons under investigation. The file was assigned to the Judge for Preliminary Investigations for the decision. At the hearing of 26 October 2018, the Judge for Preliminary Investigations requested the Public Prosecutor to carry out further investigations. Following the additional investigations, the Public Prosecutor once again requested that the case be discontinued for all persons under investigation. The injured parties objected and the Judge for Preliminary Investigations scheduled the Chamber proceedings for 20 March 2020 for discussion of the objection to the request for the case to be discontinued. This was later postponed to 11 September 2020 due to the health emergency.

Italgas Reti S.p.A. – Cerro Maggiore/Via Risorgimento Event

The public prosecutor at the Court of Busto Arsizio opened criminal proceedings against some Italgas Reti executives, technicians and manual workers in relation to an incident that took place on 11 November 2015 during an emergency intervention. The incident was caused by a gas leak due to a gas leak due to remotely guided boring works for the laying of a fibre optic cable carried out by a third party.

The explosion occurred while interception activities were being completed on the section involved in the damage, causing the collapse of a house at No. 39 and the death of the woman who lived there, a serious injury to an Italgas Reti employee and to two other people who suffered mild injuries. A notice was served on 24 April 2017 advising of the conclusion of the preliminary investigations pursuant to Article 415-bis of the Code of Criminal Procedure of the persons under investigation and Italgas Reti, with regard to which it was alleged the occupational safety prevention measures had failed to be adopted. On 30 April 2018 procedural documents still in course of notification were purchased from the Registry of the Busto Arsizio Court: the request for remand, the request for application seeking relating to some physical persons object of investigation, the list of witnesses of the Prosecutor. The content of the request for remand is in line with those of the notification of conclusion of the preliminary investigations with regard to the involvement of Italgas Reti, while the request for application seeking, subsequently received by the Judge in the preliminary hearing, also included Italgas Reti's principal. On 4 May 2018, notification was received for the scheduling of the preliminary hearing for 26 June 2018, together with the request for remand. The hearing, however, was not then postponed to 23 October 2018. At the hearing of 23 October 2018, no civil action was brought and the judge took notice of the negotiations under way between the injured parties, postponing the hearing to 23 January 2019. During that hearing the payment was acknowledged for the indemnification of the descendants of the dead person and the other injured parties, who then waived the option to initiate civil proceedings. The Municipality of Cerro Maggiore was allowed to initiate civil proceedings. Both the Italgas Reti defence and that of the Company's employees asked for the indictment to be dismissed. The judge reserved their decision on request of the defending counsels. At

the subsequent hearing of 19 March 2019, the Judge for the Preliminary Hearing pronounced the acquittal of the two employees of Italgas Reti for not having committed the act. A conviction was issued against those requesting the abbreviated trial procedure, employees of the subcontracting company for the laying of the optic fibre cable, rejecting the request for damages of the civil party, the Municipality of Cerro Maggiore. On the hearing of 9 December 2019 the Judge called for the indictment of the Company Italgas Reti and its three employees, in addition to the defendants of company contracting the laying of the fibre optic cable. The first hearing was held on 9 December 2019, during which it was ascertained that the parties had been duly served and appeared. Exclusion of the civil claimant, the Municipality of Cerro, was requested. A schedule, subject to change, was also fixed for the actual investigation.

At the hearing of 13 January 2020, the Judge rejected the preliminary questions, deeming that the image of the Municipality of Cerro Maggiore may have been damaged, demonstration of which was postponed to a later stage of the proceedings. In addition to the witnesses on its list, the Public Prosecutor also requested to hear the two Italgas employees acquitted by the Judge for the Preliminary Hearing and the employees of the fibre optic subcontracting company sentenced during the abbreviated trial procedure. However, the judge rejected the request, deeming it belated, and postponed the decision to a later stage of the proceedings, if strictly necessary following the outcome of the investigation. The witnesses summoned by the Italgas Reti defence shall be heard once all the witnesses of the prosecution have been heard. The first hearing for the examination of witnesses, scheduled for 8 June 2020, was postponed to 7 September 2020 due to the health emergency.

Italgas Reti S.p.A. – Rome via Saba Event

The public prosecutor at the Court of Rome opened an investigation in relation to the incident that took place on 2 May 2018 during an ordinary intervention in the gas distribution network in the municipality of Rome.

The accident, which occurred in Via Saba 68 for reasons still to be ascertained, involved injury for one worker of the contracting company. The Rome Public Prosecutor is carrying out preliminary investigations with which Italgas Reti is cooperating. At the start of 2020, the Public Prosecutor declared that four people were under investigation, one of whom a former Italgas Reti employee.

Italgas Reti S.p.A. – Rocca di Papa Event

The Public Prosecutor at the Velletri Tribunal opened an investigation relating to the accident on 10 June 2019 in the municipality of Rocca di Papa, resulting from the rupture of a Italgas Reti tube caused by a company carrying out works for the same Municipality.

The resulting gas leak caused an explosion in which some people were injured, two of which died in the following days.

The Velletri Public Prosecutor is carrying out preliminary investigations which are focusing on people outside of the company. Italgas Reti, which is an injured party in the offence having suffered damage to its conduct, is cooperating with the investigations. The Prosecutor has also arranged expert investigations on the accident area and Italgas Reti has appointed its own defendant's expert as injured party. The Judge for Preliminary Investigations approved the request for a special pre-trial evidentiary hearing made by one of the individuals under investigation, aimed at verifying the causes of the explosion, which was reported to Italgas Reti on 16 July 2019. After a number of postponements, the deadline for filing the expert's report of the Expert Witness appointed by the Judge for Preliminary Investigations was set for 5 July 2020. The hearing before the Judge for Preliminary Investigations was fixed for 23 July 2020.

Actions promoted by Italgas Reti following the phase of Judicial Administration

Following the appeal brought by Italgas Reti, on 25 July 2016 the Palermo Court of Appeal issued a Decree revoking the Judicial Control measure, declaring the implementation of the consequent provisions terminated. The Public Prosecutor did not propose an appeal under the terms of the law at the Court of Cassation; therefore, the ruling became definitive.

Italgas Reti, through an appeal filed on 24 October 2016, opposed the settlement order of the expert witnesses of the Court of Palermo, challenging its non-involvement and, alternatively, the excess compensation paid. With ruling of 23 January 2018, the Palermo Court recognised that Italgas Reti is not held to payment of expenses of the Prosecutor's consultants as the same were linked to prevention measures. The consultants have filed an appeal to the Court of Cassation. Italgas Reti has not submitted a counterclaim for prudential reasons, in order to confirm the non-involvement of the company to the proceedings for lack of interest. The date of the hearing is still to be set.

On 16 January 2017 Italgas Reti filed at the Court of Palermo:

- a note challenging the statement submitted by the Judicial Administrators, highlighting the irregularities and incompleteness of the documentation;
- a motion requesting the repayment of all costs incurred for payments and refunds with regard to the Judicial Administrators and their assistants and consultants.

In the proceedings concerning the contesting of the report of the Judicial Administrators, following the hearing for discussion on 28 September 2017, the Court set aside the ruling. In the subsequent judgement, the Court of Palermo filed a Ruling on 25 March 2019 with which it approved the report and rejected the appeal made by Italgas Reti for the repayment of the costs incurred. Italgas Reti has filed an appeal with the Court of Cassation on 5 April 2019, requested the annulment of the above Ruling alleging infringement of the law and incorrect interpretation of Legislative Decree 159/2011 ("Anti-mafia Code") and for the omitting to include in the statement of the Judicial Administrator the reports of the services rendered and suitable supporting documents proving the expenses reported in the statement.

In the Chamber proceedings of 14 January 2020, the Court of Cassation, Section II, issued a final ruling rejecting the appeal filed by Italgas Reti, despite the unfavourable opinion of the Public Prosecutor at the Court of Cassation.

Administrative dispute

Italgas Reti S.p.A. / Municipality of Rome – Lazio Regional Administrative Court

The Municipality of Rome, where Italgas Reti carries out the service of gas distribution on the basis of a specific Service Contract, after a series of discussions aiming at reaching an agreement for the adjustment of timetable for the implementation of the Business plan, which is an integral part of the above-mentioned Contract, charged Italgas Reti, arbitrarily, with alleged delays in the execution of the Plan itself. In rejecting the requests of the Municipality of Rome, Italgas Reti filed an appeal to the Regional Administrative Court of Lazio on 11 January 2019 for cancellation of the communication by which the Municipality of Rome had initiated the procedure for application of penalties for non-fulfilment. It supplemented it on 30 August 2019, for additional reasons following further communications from the Municipality of Rome. On 19 December, the Municipality of Rome served Executive Resolution of 6 September 2019 which i) quantified as €91,853,392.79 the alleged amount owed by Italgas Reti in penalties for allegedly failing to implement the business plan forming the subject matter of the gas concession contract in a timely manner, ii) reserved the right to enforce the bank guarantee issued to guarantee the proper performance of

the aforesaid Service Contract, in the event that the penalties were not paid within 90 days of the resolution being served. Italgas appealed against the aforementioned Executive Resolution on 20 January 2020 before the Regional Administrative Court of Lazio, applying, as a precautionary measure, for suspension of the effectiveness of the order, on the grounds that it was unlawful in several respects, including i) invalidity due to the vagueness of the penalty clause, ii) non-existence of the failure to comply with the contract and/or, in any case, the non-compliance contested by the Municipality of Rome not being attributable to the company, iii) waiver by the Municipality of Rome of the timely application of penalties, iv) violation of the penalty infliction procedure. Pending the in-depth investigations and based on an external legal opinion, the company does not see a risk of an adverse outcome that would have to be reported in these financial statements. The precautionary application was conditionally granted with order no. 1124/2020 - confirmed, again conditionally, with precautionary decree no. 1636/2020 - by which the effectiveness of the contested acts was suspended until the chamber proceedings scheduled for 22 April 2020. However, the Board expressed some doubts concerning the existence of its jurisdiction, inviting the parties to file briefs prior to the chamber proceedings scheduled for 22 April 2020.

In light of these circumstances, the lodging of an appeal before the Court of Cassation was proposed for the prior settlement of jurisdiction, pending judgement before the Regional Administrative Court. The appeal was notified on 18 April 2020 and filed in the office of the clerk of the court on 20 April 2020. It was entered in the General Registry under no. 10196/2020. The setting of a date for the hearing by the Court of Cassation is currently pending.

During the chamber proceedings of 22 April 2020, the Regional Administrative Court adopted Order no. 4140/2020, with which it acknowledged the proposal for prior settlement of jurisdiction and suspended the proceedings. It also performed a further assessment for the purposes of the invoked precautionary legal protection and, considering itself to be without jurisdiction, declared the precautionary application inadmissible. On 13 May 2020, Italgas Reti appealed against this order before the Council of State. The hearing was held on 18 June 2020. On the outcome of the hearing, the Council of State, with an order of 19 June 2020, upheld the precautionary appeal filed by Italgas Reti, suspending the effectiveness of the first instance order until definition of the merits.

At the same time, on 5 June 2020, Italgas lodged an appeal with the Regional Administrative Court of Lazio, by which it requested that the Municipality of Rome be ordered to pay Italgas Reti compensation of the total amount of €106,290,396.25 resulting from the failure of the Municipality of Rome to comply with the public methane gas distribution service concession contract entered into on 20 November 2012. The setting of a date for the hearing by the Regional Administrative Court of Lazio is currently pending.

Seaside S.r.l / GSE – Lazio Regional Administrative Court

With provision of 28 June 2018, the GSE started a control procedure pursuant to art. 12 of Ministerial Decree of 11 July 2017 on 55 packets of energy efficiency projects presented by Seaside, relating to standard projects pertaining to 5T (replacement of single glass with double glass) and 6T (building insulation) forms. Subsequently, with provisions of 29 March 2019 and 5 April 2019, the disqualification of the right to TEEs in relation to 2 packets was declared, due to alleged errors attributable to the Company's contractual counterparty, while the GSE requested the provision of additional documentation in relation to the other packets. An appeal before the Lazio Regional Administrative Court was filed against the notification of 5 April 2019 for the annulment of the same. On 22 October 2019, the company filed an appeal on additional grounds against the provisions issued by the GSE on 20 June

2019 and 3 July 2019, by which the authority reopened the investigation and requested the repayment of the total amount of one of the 2 packets (around €23,000), respectively. At the hearing set for the precautionary discussion, the Court of Rome rejected the precautionary application, as the GSE had reopened the investigation on new documents.

On 14 February 2020, the GSE upheld in self-protection the application for annulment of the contested provision, nevertheless annulling the packet itself on new grounds. This provision was appealed against on additional grounds.

Subsequently, with a further provision of 17 February 2020, the GSE annulled, for documentary shortcomings and/or irregularities, all the remaining 53 packets subject to the control procedure, pursuant to Article 12 of Italian Ministerial Decree of 11 July 2017. Seaside appealed against this provision before the Regional Administrative Court of Lazio. The pre-trial hearing is set for 28 September 2020.

Administrative dispute

Italgas Reti S.p.A. / Municipality of Andria – Trani Court

With Ruling no. 1862/2019 of 5 August 2019, published on 7 August 2019, the court of first instance of Trani, Civil Division, rejected the application with which the Municipality of Andria had requested verification of its right to obtain from Italgas payment of the sum of €1,521,402.00, in addition to legal interest and inflation adjustment, as an increase in concession fees for the gas distribution service in the municipal area, from 1 January 2006 to 31 December 2011. With a subsequent ruling, no. 2562/2019, of 25 November 2019, published on 29 November 2019, the court of first instance of Trani, Civil Division, rejected the application with which the Municipality of Andria had requested verification of its right to obtain from Italgas payment of a sum, in addition to legal interest and inflation adjustment, as reimbursement of the constraint on distribution revenue owed by the company to the Municipality, as the owner of the gas distribution plant in the relative area, from 1 January 2006 to 31 December 2011.

Municipality of Venice / Italgas Reti S.p.A. – Court of Venice

Italgas Reti appealed against the acts through which the Municipality of Venice had reduced from the Residual Industrial Value due to Italgas Reti as the outgoing operator the value of a portion of the distribution network (Block A), which had a Residual Industrial Value of around €31 million as at 31 December 2014. The Municipality of Venice claims to have acquired - by way of free acquisition – ownership of Block A on expiry of the original deed of concession (2010).

According to Italgas Reti, on the other hand, expiry of the concession and therefore the term of the free acquisition was postponed to 2025 by virtue of the later deed supplementing and amending the original concession deed entered into by the parties in 1995.

With Ruling no. 654/2017, the Regional Administrative Court of Veneto rejected the appeal lodged by the company, deeming that the free acquisition of a portion of the distribution network had fallen due on the original expiry date of the concession relationship (2010).

Italgas Reti appealed against the ruling before the Council of State.

Following ruling no. 654/2017, in a letter dated 2 February 2018, the Municipality of Venice requested Italgas Reti to pay a fee, the amount of which to be defined, for use of the plants subject to free acquisition. Italgas Reti appealed against this request before the Regional Administrative Court of Veneto.

On 4 July 2018, ruling no. 4104/2018 was filed, with which the Council of State rejected the appeal lodged by Italgas Reti against ruling no. 654/2017 of the Regional Administrative Court of Veneto, confirming the free acquisition by the Municipality of Venice of assets included in Block A, as well as the obligation for the Company to pay rental for the use of the portion of network subject to the free acquisition.

The Company filed an appeal for a revision before the Council of State, as well as before the European Court of Human Rights (ECHR), against the ruling of 4 July 2018. Note that, also with respect to a fee request from the Municipality of Venice equivalent to the tariff remuneration of the assets from Block A, in the absence of specific reference regulations, the company is not yet able to reliably determine the extent of the liability.

At the same time, following the aforementioned provision of the Council of State, the Company has expedited the depreciation of part of the network relating to the "Block A". With ruling no. 588/2019 of 24 January 2019, the Council of State ruled on a similar matter relating to the free acquisition of a portion of the network relating to the concession in place with the Municipality of Cavallino-Treporti.

In fact, Italgas Reti manages the public natural gas distribution service in the area of the above-mentioned Municipality as a result of the same concession acts agreed at the time by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino Treporti was constituted in 1999 through the division of a portion of territory previously part of the Municipality of Venice.

With the above-mentioned judgement, the State Council granted the free acquisition in favour of the Municipality of Cavallino Treporti of assets included in a similar Block A, as well as the obligation for the Company to pay rental for the use of the portion of network subject to the free acquisition.

The Company filed an appeal for a revision before the Council of State and before the European Court of Human Rights (ECHR) against the ruling of 24 January 2019. In this case, too, also with respect to a fee request from the Municipality of Cavallino-Treporti equivalent to the tariff remuneration of the assets from Block A, in the absence of specific reference regulations, the company is not yet able to reliably determine the extent of the liability.

With later rulings no. 2177 and 2178 of 21 March 2019, published on 2 April 2019, the Council of State confirmed the previous decisions on the free acquisition of "Block A" by the Municipality of Venice and the Municipality of Cavallino Treporti, respectively, rejecting the appeals for a revision filed by Italgas Reti.

Lastly, on 24 April 2019, the Municipality of Venice notified a writ of summons against Italgas Reti to the Court of Venice, for the verification and consequent payment of €59,006,552.03 as a consideration for use of the portion of the network subject to free acquisition for the period 01/6/2010-31/12/2018 as well as the sums due for the same reason for the period after 31/12/2018 and up until the judgement. Italgas Reti filed an appearance challenging the quantification of the fee and asking for repayment of the amount wrongfully paid to the Municipality after the free acquisition of Block A. At the first hearing on 12 September 2019, after having heard the defence of the parties, the Judge postponed the case, initially to 1 April 2020 and, subsequently, due to the health emergency, to 23 December 2020, for the submission of evidence.

Publiserizi S.p.A. / Italgas S.p.A. – Florence Court

On 25 July 2019, a writ of summons was served on Italgas S.p.A. by Publiserizi S.p.A. and other Municipalities with stakes in Toscana Energia which, claiming the alleged violation of a shareholders' agreement signed between said parties and Italgas S.p.A. on 28 June 2018, demanded that Italgas be ordered to acquire a 3% stake in Toscana Energia S.p.A. (for the price of €70,000,000.00 indicated in the tender notice of 20 July 2018) or, in any case, to fulfil the aforementioned shareholders' agreement and, in the alternative, to pay Publiserizi €59,800,000.00 by way of compensation for damages for breach or, alternatively, by way of unjust enrichment. The first hearing, held on 14 January 2020 before the Court of Florence, was first adjourned to 6 May 2020 and, thereafter, due to the health emergency, to 25 November 2020. Italgas S.p.A., which filed an appearance under the terms of the law, set forth all the exceptions useful to demonstrate that the counterparty claims are groundless.

Coronavirus Emergency

In the early months of 2020 the COVID-19 virus spread worldwide, to the extent that on 11 March the World Health Organisation declared there was a global "pandemic". The epidemic developed very quickly, resulting in a significant number of infections and forcing several governments to place restrictive measures on the movement of people and on the performance of company and production activities in order to contain the spread of the virus.

In particular, in Italy the government introduced Government Decree (DPCM) of 22 March 2020 which defined the economic activities exempt from the obligation to close and those that were to be suspended in that they were not considered immediately essential.

While drawing up the 2019 financial statements, the COVID-19 health emergency was unanimously treated by subjects who adopt international accounting principles as a "non-adjusting event" in accordance with the provisions of IAS 10, in that it occurred after the close of the financial year and should be mentioned in a disclosure, but did not require adjustments on the closure of the previous financial year.

In line with the Public Statement "Implications of the COVID-19 outbreak on the half-yearly financial reports" issued by ESMA on 20 May 2020, Consob's warning notice no. 8/20 of 16 July 2020, and in application of the provisions of IAS 34 in paragraphs 15-15C with reference to the "significant events" of the period, an update and in-depth analysis with respect to the information already provided in the annual financial statements is provided below.

In particular, for the purpose of drawing up the half-year financial report as at 30 June 2020, specific thematic areas have been identified which, with reference to the individual IFRS, have been elaborated on below to provide a better understanding of the information in accordance with the dictates of IAS 1.

The aim is to describe the events of the first half of 2020 in the most thorough and in-depth way possible.

Business continuity (IAS 1)

Based on the provisions of IAS 1, paragraph 25, where factors of uncertainty arise, which a pandemic situation would certainly be classed as, the management is required to analyse their potential impacts in terms of business operation.

Taking into account Italgas' activities and the consequences for it deriving from the spread of COVID-19, there are no elements that require an in-depth analyses of the validity of the assumption of business continuity.

From the start of the pandemic, the company took action with measures and means that allowed it to ensure the continuity of its services, also thanks to the innovative digital tools developed also by its Digital Factory.

In compliance with the measures issued by the Authorities, activities deemed essential were in fact guaranteed (e.g. emergency interventions, work linked to plant safety and efficiency, etc.), temporarily suspending technical activities that could be postponed. Work on networks and interventions at user premises, including the replacement of traditional meters with smart meters, gradually resumed from the start of May as provided for and permitted by the legislator.

Unless there are unforeseeable future extensions or resurgences of the health emergency, based on the resumption of activities underway, the Company is able to make up for a considerable part of the delays with respect to the original work execution schedules and therefore to confirm the substance of its investment plans, linked in particular to the implementation of network digitisation projects, the installation of "smart" meters and the methanisation of Sardinia, in addition to the normal maintenance and development of the networks managed.

Similarly, Italgas has confirmed the strategic priorities of the 2019-2025 Plan, with reference to both participation in area tenders to award the natural gas distribution service, and potential acquisitions, which will strengthen territorial presence and enable the scope of activities to grow.

Financial instruments (IFRS 9, IFRS 7 and IFRS 13)

The impacts deriving from the worsening of the macroeconomic situation caused by the global spread of the pandemic have not had significant effects on the financial instruments of Italgas.

In relation to receivables due from sales companies and their solvency, note that the rules for customer access to the gas distribution service are established by the ARERA and set out in the Network Codes, namely, in documents that establish, inter alia, contractual conditions that reduce the risk of non-compliance by customers, such as the provision of bank or insurance guarantees on first request.

In April 2020, a communication was received from some sales companies indicating the possibility of making use of the faculties granted by Resolution no. 116/2020/R/com, as amended, for payments due in April and, based on subsequent extensions, for payments due on or before 30 June 2020, if the conditions are met. Considering the number of operators that have made recourse to the faculties granted by the above-mentioned resolution, Italgas has not seen any significant adverse repercussions on receipts expected from gas sales companies that would jeopardise the financial balance of the Group, or on the reliability and regularity of payments by counterparties. For invoices due in April, May and June 2020, the average collection was equal to around 90%.

Moreover, with Resolution no. 248/2020/R/com of 30 June 2020, the Authority requires sales companies to pay the balance of the total amounts invoiced by distributors and not paid during the derogation period, as a lump sum or in instalments from September and in any case by the end of 2020. In the event of non-compliance by the sales companies, Italgas may use the guarantees provided by the counterparties, as set out in the Network Code.

With regard to access to credit, Italgas does not foresee any significant negative impacts for 2020, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of €336 million as at 30 June 2020 and a committed credit facility of €500 million, completely undrawn as at 30 June 2020, with a pool of Italian and international banks, (ii) there are limited requirements to refinance debt (the first bond repayment is due in 2022), (iii) the bonds issued by Italgas as at 30 June 2020, as part of the Euro Medium Term Notes programme, do not require the observance of covenants relating to the data in the financial statements, (iv) any downgrading of the rating of Italgas or of any guarantors in excess of pre-established thresholds could lead to the issuance of guarantees for certain lenders or a rise in the spreads applied.

The successful bond issue of €500 million carried out on 24 June 2020, implementing the EMTN Programme, as well as confirmation on 30 April 2020 of the rating by Fitch as BBB+ with a stable outlook confirm the financial soundness of the company. In particular, confirmation of the Company's positive rating by Fitch occurred despite the rating downgrade of the Italian government bonds to a BBB- stable outlook, from a BBB negative outlook disclosed by the agency on 28 April 2020 following deterioration of the macroeconomic situation linked to the COVID-19 health emergency and the impacts on the Italian economy.

Classification and measurement

The impacts of COVID-19 did not result in changes for Italgas in the classification of the financial instruments and, in particular, the reference business model for these instruments has not changed.

In this regard, in the context of the credit and liquidity risk management strategy, the pandemic did not cause additional transfer of receivables with respect to normal operation, or other financial activities; there were no changes to the frequency or to the sum of revenues that led to changes to the business model; the company's revenues are not subject to reduction for impairment or lower market liquidity.

There were no changes to the conditions of the loan agreements leading to a renegotiation of the contractual terms of the financial transactions for both assets and financial liabilities and therefore the need to determine, in accordance with IFRS 9, the effects deriving from any derecognition or modification of the financial instruments.

Hedge accounting

Compliance with requirements in hedging relationships has been maintained in the COVID-19 context, also with reference to any new hedging operations.

Fair value

The measuring of the fair value of the company's assets and liabilities did not change due to the effect of COVID-19 in terms of market price volatility, increased credit and counterparty risk, change to interest rates, etc.

Similarly, there were no changes to the sensitivity analysis of the evaluation with respect to the change to the underlying assumptions.

Financial risk management

In accordance with IFRS 7, note that the credit risk, liquidity, change to interest rates, rating, debt covenant and default risk and other risks have not undergone significantly negative changes for the company as a result of the pandemic.

Financial instruments impairment test

Financial assets representative of debt instruments, not measured at fair value with effects on the income statement, are subject to recoverability tests based on the "Expected credit loss model" (ECL) according to which the anticipated losses are determined, taking into account the Company's exposure as regards the counterparty ("Exposure At Default"), the probability that the counterparty will not fulfil its payment obligations ("Probability of Default") and the estimate, in percentage terms, of the amount of credit not recovered in the case of default ("Loss Given Default").

In this regard, to determine the probability of default of the counterparties, internal ratings have been adopted that take into account the historical record of payments made by the counterparties and, on a quarterly basis, an update of the analyses relating to the need to support the exposure with guarantees.

For the financial instruments in scope for the ECL calculation, and therefore with particular reference to trade and other receivables, the impacts of COVID-19 did not result in changes to the assumptions incorporated into the ECL estimates, subject to disclosure pursuant to IFRS 7, and in particular there were no changes to the ECL deriving from the transfer of assets from stage 1 (low risk or absence of worsening) to stage 2 (significant increase in risk).

As regards any adverse repercussions on receipts expected from gas sales companies refer to the foregoing.

Impairment of non-financial assets and equity investments (IAS 36)

The Italgas Group, consisting of Italgas S.p.A., the consolidating company, and its subsidiaries, is an integrated group at the forefront of the regulated natural gas sector and a relevant player in terms of invested capital in its regulatory asset base (RAB) in the sector. RAB (Regulatory Asset Base) is calculated on the basis of the rules defined by the Italian Electricity, Gas and Water Authority (AEEGSI) for determining base revenues for regulated businesses.

At present, there are no effects that could suggest a reduction of the value of property, plant and equipment under concession or of intangible assets with a definite or indefinite useful life (goodwill).

In particular, as regards the value of property, plant and equipment under concession that fall within the scope of regulated activities, their recoverable value is determined by considering: (i) the amount quantified by the Authority on the basis of the rules that define the tariffs for the provision of the services they are intended for; (ii) the value the group expects to recover from the transfer or at the end of the concession that governs the service for which they are intended.

Therefore, for each valuation of the regulated assets, reference should be made to the provisions of current legislation.

At the end of 2019, ARERA issued Resolution 570/2019/R/gas, with which it approved the regulation of tariffs for gas distribution and metering services for the period 2020-2025. This resolution defined the method for calculating the RAB (revalued historic cost and centralised assets) and the related WACC with the related parameters (risk-free rate, beta, inflation, gearing, cost of debt, tax rate) for the regulation period.

Considering the temporary interruption of some operating activities mainly regarding worksites or user services, the stability of the regulatory framework meant the effects on business profitability and on the expected cash flows could be significantly limited. In light of the foregoing, no impairment indicators emerged at 30 June 2020 requiring Italgas to test the recoverability of the asset and goodwill values.

Similar conclusions apply to the equity investments, both those in companies operating in regulated activities (whose recoverable value is determined taking into consideration the pro-quota RAB value net of the financial position and/or the reimbursement value valid for ATEM tenders) and for equity investments in companies whose activities are exclusively or partly unregulated (whose recoverable value is determined taking into consideration the value determined on the basis of business evaluation methodologies - Discounted Cash Flows).

Leasing (IFRS 16)

On 28 May 2020 the IASB published the document "COVID-19-Related Rent Concessions (Amendment to IFRS 16)" on the basis of which lessor companies are allowed not to consider contractual amendments made following the pandemic as lease modifications. The accounting of the aforementioned amendments as lease modifications would in fact have resulted in the need to update: i) the estimate of financial liabilities for the leases, ii) the right-of-use asset and related future amortisation associated with it, iii) the discounting rate (incremental borrowing rate) updated to the modification date.

As of today, Italgas' contracts (both as lessor and lessee) have not been amended with the counterparties. In particular, no fees have been deferred or discounts recognised following the situation created by COVID-19.

Revenue recognition (IFRS 15)

IFRS 15 requires verification of whether there is a fee reduction for transactions with customers, taking into account the nature, amount, timing and uncertainty of the cash flows deriving from the revenues.

The most significant part of Italgas' core business revenue relates to regulated activities, the income of which are governed by the regulatory framework defined by ARERA. Therefore, the economic conditions of the services provided are defined in regulatory schemes and not on a negotiation basis. In reference to the distribution of natural gas, the difference between revenues recognised by the regulator ("Revenue cap") and actual accrued revenue is posted in the Statement of Financial Position under the item "Trade and other receivables" if positive, and under the item "Trade and other payables", if negative, in that it will be subject to monetary settlement with Cassa per i Servizi Energetici e Ambientali (CSEA).

Therefore, taking into account the methodology described above and the absence of significant insolvency situations on the part of customers, as specified above, at present Italgas is unaffected by effects induced by COVID-19 capable of causing a revenue reduction with an impact on the accounting records and estimates.

The company has however noted lower revenues from services for network interventions (€5.5 million) and lower reimbursements for interventions due to arrears (€2.9 million) essentially as a result of the block on activities linked to the COVID-19 emergency pursuant to the Government Decree (DPCM) of 22 March 2020 as subsequently amended, which limited interventions at customer premises.

Government incentives and tax area (IAS 12 and 20)

The Italian government has issued measures to support the economy to mitigate the impacts of COVID-19, including tax relief and exemptions and, in some cases, specific incentives for certain sectors.

In the first half of 2020, Italgas benefited from the exclusion from payment of the first instalment of the regional tax on productive activities (IRAP) relative to 2020; this payment, pursuant to article 24 of Decree-Law no. 34 of 19 May 2020, is not due from Companies with revenues not exceeding €250 million in the 2019 tax period and is in any case excluded from the calculation of IRAP to be paid on balance for 2020.

In terms of deferred taxation, due to the health emergency caused by COVID-19, the need to review the recoverability of deferred tax assets or the determination of deferred tax liabilities did not arise.

Other liabilities

Provisions for risks and onerous contracts (IAS 37)

IAS 37 establishes that provisions for risks should only be recorded if: (i) an entity has an obligation deriving from past events; (ii) a financial outlay will likely be required to meet this obligation; (iii) a reliable estimate can be made.

In fact, IAS 37 does not permit provisions for future operating costs or future restructuring costs.

As there are no current specific obligations in relation to COVID-19 forecasts that would likely require a future financial outlay, there has been no need to make provisions deriving from the pandemic situation.

Employee benefits (IAS 19) and share-based payments (IFRS 2)

It was not necessary to review the hypotheses and variables underlying the benefits to employees and any share-based payment plans, with potential impacts on the valuation of the same.

No changes occurred to the share-based payment plans with reference to the objectives assigned and the methods of recognising the benefits obtained in the income statement.

There are no legal obligations to employees linked to COVID-19 for which a liability should be recognised on the basis of IAS 19.

Main economic impacts directly attributable to COVID-19

As recommended by ESMA, the amounts recognised in the income statement for the first half of 2020 for the main impacts directly attributable to COVID-19 are set out below.

(€ thousands)	First half of the year 2020
Purchase of consumables (disinfectant, gloves, masks, etc.) and services	5,002
Liberal donations	1,725
Other costs	35
	6,762

10.2.25 Revenue

The breakdown of revenue for the first half of 2020, which totalled €977,822 thousand (€878,057 thousand for the first half of 2019) is shown in the following table.

(€ thousands)	First half of the year	
	2019	2020
The core business revenue	835,972	948,278
Other revenue and income	42,085	29,544
	878,057	977,822

Group revenue is earned exclusively in Italy.

The core business revenue

Core business revenue, which amounted to €948,278 thousand (€835,972 thousand for the first half of 2019), is analysed in the table below:

(€ thousands)	First half of the year	
	2019	2020
Natural gas distribution	555,198	595,284
Revenues for infrastructure construction and improvements (IFRIC 12)	262,548	322,611
Technical assistance, engineering, IT and various services	15,009	18,746
Water distribution and sale	3,217	3,908
Gas sales		7,729
	835,972	948,278

Core business revenue (€948,278 thousand) refers primarily to the consideration for the natural gas distribution service (€595,284 thousand), revenue deriving from the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to IFRIC 12 (€322,611 thousand).

Core business revenue is reported net of the following items, involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Italgas are paid in full to the Cassa per i Servizi Energetici e Ambientali (CSEA).

(€ thousands)	First half of the year	
	2019	2020
RE-RS-UG1 fees	87,333	82,907
UG3 fees	13,488	11,108
UG2 fees	2,894	4,544
Gas Bonus and GS fees	(6,830)	(6,834)
	96,885	91,725

The fees in addition to the distribution service (€91,725 thousand) mainly relate to the following fees: (i) RE, to cover the expenses for calculating and implementing energy savings and the development of renewable energy sources in the gas sector; (ii) RS, as coverage for gas services quality; (iii) UG1, to cover any imbalances in and adjustments to the equalisation system; (iv) UG2, to cover the costs of retail sales marketing; (v) UG3int, to cover expenses connected to the interruption of services; (vi) UG3ui, to cover expenses connected to any imbalances in specific equalisation mechanism balances for the Default Distribution Service Provider (FDD) as well as the expenses for payment delays incurred by Suppliers of Last Instance (FUI), limited to end customers for which the supply cannot be suspended; (vii) UG3ft, to fund the expense account for the service of temporary providers on the transport network; (viii) GS, to cover the tariff compensation system for economically disadvantaged customers.

Gas distribution revenue (€595,284 thousand) refers to natural gas transport on behalf of all commercial operators requesting access to the networks of the distribution companies based on the Network Code; the most significant annual transport volumes were those relating to activities carried out for Eni Gas & Luce. This revenue was calculated based on Authority resolutions no. 775/2016/R/gas, 98/2019/R/gas and 128/2019/R/gas.

Whereas, in relation to the new provisions on recognising the residual costs of traditional meters of a class below or equal to G6 replaced with smart meters, Italgas did not record in the financial statements the impacts deriving from the change in method on the previous years as it believes that the necessary requirements for recognition are not met pursuant to IFRS 15, pending a decision by the Director of the Directorate of Energy Infrastructures and Unbundling identifying the operating procedures necessary to determine the reconciliation between regulatory divestments and accounting divestments as provided for by art. 11 of Resolution 570/2019/R/Gas, in addition to recovery of non-depreciation (IRMA) provided for by art. 57.3 of Annex A to Resolution 570/2019/R/Gas.

Revenue from the sale of gas (€7,729 thousand) relates to gases other than natural gas (LPG and propane air) sold by the subsidiary Gaxa S.p.A.

Revenue from the sale of water (€3,908 thousand) relates to the water distributed by the subsidiary Italgas Acqua S.p.A.

Other revenue and income

Other revenue and income, which amounted to €29,544 thousand (€42,085 thousand in the first half of 2019), can be broken down as follows:

(€ thousands)	First half of the year	
	2019	2020
Income from gas distribution service safety recovery incentives	8,175	10,506
Connection contribution uses	7,492	9,766
Income from property investments	915	753
Contractual penalties receivable	362	901
Capital gains from sale of assets	11,139	194
Revenues from services relating to regulated activities	9,483	5,640
Sundry management refunds and chargebacks	764	275
Other revenue	3,755	1,509
	42,085	29,544

Income from safety recovery incentives, equal to €10,506 thousand, relates to refunds paid by the Authority connected to achieving quality and technical standards relating to the natural gas distribution service.

Revenues from services relating to regulated activities, amounting to €5,640 thousand, relate mainly to the contribution pursuant to art. 57 of ARERA Resolution no. 367/14, for the replacement of traditional meters with smart meters, amounting to €5,196 thousand.

10.2.26 Operating costs

The breakdown of operating costs for the period, which totalled €505,412 thousand (€436,731 thousand as at 30 June 2019), is shown in the following table:

(€ thousands)	First half of the year	
	2019	2020
Purchases, services and other costs	322,185	381,552
Personnel cost	114,546	123,860
	436,731	505,412

Operating costs relating to the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to what is set forth in IFRIC 12, amounted to €322,611 thousand (€262,548 thousand for the first half of 2019) and are broken down as follows:

(€ thousands)	First half of the year	
	2019	2020
Purchase costs for raw materials, consumables, supplies and goods	45,456	39,090
Costs for services	163,752	229,032
Costs for the use of third-party assets	4,922	4,346
Personnel cost	48,021	49,447
Other expenses	397	696
	262,548	322,611

Purchases, services and other costs

Purchases, services and other costs, which amounted to €381,552 thousand (€322,185 thousand for the first half of 2019), can be broken down as follows:

(€ thousands)	First half of the year	
	2019	2020
Purchase costs for raw materials, consumables, supplies and goods	68,766	80,999
Costs for services	208,683	264,783
Costs for the use of third-party assets	40,127	44,114
Changes in raw materials, consumables, supplies and goods	(8,642)	(21,432)
Net provisions for risks and charges	4,534	5,267
Net provisions for impairment	(231)	
Other expenses	9,502	8,192
	322,739	381,923
<i>To be deducted:</i>		
Increases for own work	(554)	(371)
- of which costs for services	(554)	(371)
	322,185	381,552

I costi per materie prime, sussidiarie, di consumo e merci si analizzano come segue:

(€ thousands)	First half of the year	
	2019	2020
Inventories	65,798	77,874
Purchase of water	963	1,311
Motive power	434	536
Purchase of fuel	1,571	1,278
	68,766	80,999

Inventories refer in particular to the acquisition of meters and gas pipes.

Purchase costs for raw materials, consumables, supplies and goods include costs relating to the construction and upgrading of gas distribution infrastructure (€39,090 thousand).

Costs for services of €264,412 thousand (€208,180 thousand for the first half of 2019) relate to:

(€ thousands)	First half of the year	
	2019	2020
Project management and plant maintenance	144,264	203,525
Consultancy and professional services	26,426	21,389
Costs for personnel services	8,115	5,763
IT and telecommunications services	7,366	19,730
Electricity, water and other (utility) services	3,256	2,924
Insurance	2,741	2,758
Cleaning, security service and guard services	880	885
Advertising and entertainment	962	892
Other services	18,508	11,096
Use of risk provision	(3,784)	(4,179)
	208,734	264,783
<i>To be deducted:</i>		
Increases for own work	(554)	(371)
	208,180	264,412

Costs for services include costs relating to the construction and upgrading of gas distribution infrastructure (€229,032 thousand).

Costs for project management and plant maintenance planning (€203,525 thousand) essentially relate to the extension and maintenance of gas distribution plants.

Costs for the use of third-party assets, of €44,114 thousand (€40,127 thousand for the first half of 2019), are analysed below:

(€ thousands)	First half of the year	
	2019	2020
Patent, license and concession fees	40,108	39,129
Leases and rentals	20	4,985
Use of risk provision	(1)	
	40,127	44,114

Fees, patents and licences (€39,129 thousand) refer primarily to fees recognised to contracting parties for the running of natural gas distribution activities under concession.

Costs for use of third-party assets include costs relating to the construction and upgrading of gas distribution infrastructure (€4,346 thousand) recognised in accordance with IFRIC 12.

Changes in raw materials, consumables, supplies and goods (-€21,432 thousand) were due mainly to the gas meter replacement plan.

Net allocations to the provision for risks and charges, amounting to €5,267 thousand net of utilisations, refer mainly to the TEE risk provision (€5,568 thousand). For more details on the changes in provisions for risks and charges, please refer to the note "Provisions for risks and charges".

Other expenses, of €8,192 thousand, are analysed below:

(€ thousands)	First half of the year	
	2019	2020
Gas distribution service safety improvement penalties	170	65
Other penalties	1,319	488
Indirect taxes, local taxes	3,065	3,496
Capital losses from disposal/recovery of property, plant and equipment and intangible assets	3,568	2,528
Membership fees	945	824
Costs for transactions, compensation and penalties	112	83
Use of risk and charges provision	(3,151)	(3,758)
Charges attributable to Energy Efficiency Certificates	1,484	1,156
Other expenses	1,990	3,310
	9,502	8,192

The other expenses include costs relating to the construction and upgrading of gas distribution infrastructure (€696 thousand) recognised pursuant to IFRIC 12.

Personnel cost

Personnel cost, totalling €123,860 thousand (€114,546 thousand in the first half of 2020), breaks down as follows:

(€ thousands)	First half of the year	
	2019	2020
Wages and salaries	82,183	88,496
Social charges	26,269	27,109
Employee benefits	6,531	7,409
Seconded personnel	(275)	71
Other expenses	1,280	1,706
	115,988	124,791
<i>To be deducted:</i>		
Increases for own work	(1,442)	(931)
	114,546	123,860

The item includes costs relating to the construction and upgrading of gas distribution infrastructure (€49,447 thousand).

Costs for employee benefits (€7,409 thousand) mainly regard expenses connected to the elimination of the Gas Fund, pursuant to Law no. 125 of 6 August 2015¹⁷. More details are provided in the “Provisions for employee benefits” note.

Other expenses of €1,706 thousand, in particular refer to charges for the incentive plan for senior executives (co-investment plan).

On 19 April 2018 the Shareholders’ Meeting of Italgas approved the 2018-2020 Long term share incentive plan, intended for the Chief Executive Officer, General Manager and senior executives identified among those in a position to influence the company’s results, with the annual assignment of three-year objectives. At the end of the performance period of three years, if the conditions set out in the Plan have been met, the beneficiary shall be entitled to receive Company shares free of charge. The maximum number of shares that may be allocated through the plan is 4,000,000 shares. In relation to the aforementioned plan, the Board of Directors attributed, upon the recommendation of the Appointments and Remuneration Committee and in keeping with the 2018 Remuneration Policy, rights to receive Italgas shares in the amounts of 341,310 for the 2018-2021 plan, 279,463 for the 2019-2021 plan, and 327,760 for the 2020-2021 plan. The unitary fair value of the share, determined by the value of the Italgas share on the grant date, including the dividend equivalent mechanism (right to additional shares based on the dividends assigned in the vesting period), is respectively €4.79, €5.58 and €4.85 per share. The cost related to the Long Term Share Incentive Plan is recorded during the vesting period as a component of the personnel costs, with a contra entry in the equity reserves.

Average number of employees

The average number of payroll employees of the consolidated entities, broken down by status, is as follows:

Professional qualification	30.06.2019	31.12.2019	30.06.2020
Executives	57	62	61
Managers	279	296	300
Office workers	1,992	2,247	2,260
Manual workers	1,306	1,464	1,446
	3,634	4,069	4,067

The average number of employees is calculated on the basis of the monthly number of employees for each category.

At 30 June 2020, there were 4,041 employees.

17 As of 1 December 2015, Law no. 125 of 6 August 2015 eliminated the General compulsory disability, old age and survivors’ insurance supplementary fund for employees of private gas companies (the “Gas Fund”) in which roughly 3,500 people in the Group participated, particularly in the distribution sector. The Law set a series of additional contributions that the employer must cover. These expenses, estimated on the basis of actuarial assumptions, were to date assessed at €40 million (€28 million net of the tax effect).

10.2.27 Amortisation, depreciation and impairment

Amortisation, depreciation and impairment, totalling €219,668 thousand (€199,758 thousand in the first half of 2019), breaks down as follows:

(€ thousands)	First half of the year	
	2019	2020
Amortisation and depreciation		
- Property, plant and equipment	8,173	7,910
- Right of use (IFRS 16)	6,418	9,793
- Intangible assets	183,724	201,462
	198,315	219,165
Impairment		
- Impairment of intangible assets	1,443	503
	1,443	503
	199,758	219,668

For more details refer to the “Property, plant and equipment” and “Intangible assets” notes.

10.2.28 Financial Income (Expense)

Net financial expense, amounting to €26,408 thousand (€24,132 thousand in the first half of 2019) comprises:

(€ thousands)	First half of the year	
	2019	2020
Financial Income (Expense)	(22,900)	(25,573)
Financial expense	(23,016)	(25,624)
Financial income	116	51
Other financial income (expense)	(1,232)	(835)
Other financial expense	(1,461)	(1,128)
Other financial income	229	293
Derivatives charges		
	(24,132)	(26,408)

(€ thousands)	First half of the year	
	2019	2020
Financial Income (Expense)	(22,900)	(25,573)
Borrowing costs:	(23,016)	(25,624)
- Interest expense on bonds	(19,179)	(22,238)
- Commission expense on bank loans and credit lines	(1,493)	(929)
- Interest expense on credit line and loan expense due to banks and other lenders	(2,344)	(2,457)
Income on financial receivables:	116	51
- Interest income and other income on financial receivables non-held for operations	116	8
- Exchange gains		43
Other financial income (expense)	(1,232)	(835)
- Financial income (expense) connected with the passing of time (accretion discount)*	(1,374)	(627)
- Other expenses	(87)	(501)
- Other income	229	293
Derivatives charges	(24,132)	(26,408)

* The item relates to the increase in the provisions for risks and charges and employee benefit funds that are specified, at a discounted value, in the notes "Provisions for risks and charges" and "Employee benefit funds".

10.2.29 Income (expense) from equity investments

Financial income and expenses on equity investments, amounting to €1,030 thousand (€11,821 thousand in the first half of 2019) comprise:

(€ thousands)	First half of the year	
	2019	2020
Net income from valuation using the equity method	11,821	1,139
Dividends		25
Other expense on equity investments		(134)
	11,821	1,030

The analysis of income from the valuation of equity investments using the equity method is provided in the note "Investments accounted using the equity method".

10.2.30 Income taxes

Income taxes for the year, amounting to €64,568 thousand comprise:

(€ thousands)	First half of the year					
	2019			2020		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes	59,897	11,811	71,708	65,619	13,022	78,641
Current taxes for the year	59,897	11,811	71,708	62,297	11,957	74,254
Adjustments for current taxes pertaining to previous years				3,322	1,065	4,387
Deferred and prepaid taxes	(3,403)	(5,208)	(8,611)	(12,302)	(1,771)	(14,073)
Deferred taxes	(2,577)	(5,574)	(8,151)	(12,282)	(1,599)	(13,881)
Prepaid taxes	(826)	366	(460)	(20)	(172)	(192)
	56,494	6,603	63,097	53,317	11,251	64,568

The incidence of taxes for the period of the result before tax (tax rate) was 28.4%, compared to a theoretical rate of 29.4%.

10.2.31 Profit (loss) per share

The earnings per basic share, equal to €0.19, was calculated by dividing the net profit attributable to Italgas (€153,141 thousand) by the weighted average number of Italgas shares outstanding during the year (809,135,502 shares).

The diluted earnings per share was calculated by dividing the net profit by the weighted average number of shares outstanding during the period, excluding any treasury shares, increased by the number of shares that could potentially be added to those outstanding as a result of the assignment or disposal of treasury shares in the portfolio for stock option plans. The diluted earnings per share, calculated also considering the co-investment plan, was €0.19 per share.

10.2.32 Related party transactions

Considering the “de facto” control of CDP S.p.A. over Italgas S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, the related parties of Italgas, based on the current Group ownership structure, are represented by Italgas’ associates and joint ventures, as well as by the parent company, CDP S.p.A., and by its subsidiaries and associates and direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance (MEF). Members of the Board of Directors, Statutory Auditors and managers with strategic responsibilities of the Italgas Group and their families, are also regarded as related parties.

As explained in detail below, related-party transactions involve the trading of goods and the provision of regulated services in the gas sector. Transactions between Italgas and related parties are part of ordinary business operations and are generally settled at arm’s length, i.e. at the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Italgas Group.

Pursuant to the provisions of the applicable legislation, the Company has adopted internal procedures to ensure that transactions carried out by the Company or its subsidiaries with related parties are transparent and correct in their substance and procedure.

The Directors and Statutory Auditors declare potential interests that they have in relation to the company and the group every six months, and/or when changes in said interests occur; in any case, they promptly inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer’s interests), who in turn informs the other directors and the Board of Statutory Auditors, of the individual transactions that the company intends to carry out and in which they have an interest.

Italgas is not subject to management and coordination activities. Italgas exerts management and coordination activities over its subsidiaries pursuant to Articles 2497 et seq. of the Civil Code.

The amounts involved in commercial, financial and other transactions with the abovementioned related parties for the first half of 2019 and 2020 are shown below. The nature of the most significant transactions is also stated.

Commercial and other transactions

Commercial and other transactions are analysed in the following tables:

(€ thousands)	30.06.2019			First half of 2019				
	Receivables	Payables	Guarantees and commitments	Costs (a)			Revenue (b)	
				Assets	Services	Other	Services	Other
Companies under joint control and associates								
- Toscana Energia S.p.A.	2,624	103			62	(202)	2,054	
- Umbria Distribuzione Gas S.p.A.	642					(18)	313	
- Metano Sant'Angelo Lodigiano S.p.A.	122					(24)	90	18
	3,388	103			62	(244)	2,457	18
Companies owned or controlled by the State								
- Eni Group	85,604	48,391		(267)	126	340	372,535	5,156
- Snam Group	4,807	3,819			234	30	639	2,847
- Enel Group	14,527	7,047			18	89	77,034	992
- Anas Group	12	409				133		
- Ferrovie dello Stato Group	271	102			25	94		299
- GSE Gestore Servizi Group	2,199	27			2	(2,504)		3
- Poste italiane Group	7	571			385		11	
- Saipem Group		1,258			261			
	107,427	61,624		(267)	1,051	(1,818)	450,219	9,297
Total	110,815	61,727		(267)	1,113	(2,062)	452,676	9,315

(a) Include costs for goods and services for investment.

(b) Gross of the tariff components having contra entry in costs.

(€ thousands)	30.06.2020			First half of 2020				
	Receivables	Payables	Guarantees and commitments	Costs (a)			Revenue (b)	
				Assets	Services	Other	Services	Other
Parent company								
- Cassa Depositi e Prestiti		82			103			
		82			103			
Companies under joint control and associates								
- Umbria Distribuzione Gas S.p.A.	284					(17)	290	
- Metano Sant'Angelo Lodigiano S.p.A.	143				(1)	(34)	150	
- Gesam Reti S.p.A.	33							
- Valdarno S.r.l. in liquidation		254			380			
- Reti Distribuzione S.r.l.		187						
	460	441			379	(51)	440	
Companies owned or controlled by the State								
- Eni Group	114,121	10,993			3,105	192	367,814 3,033	
- Snam Group	3,311	4,667			135	1	45 (240)	
- Enel Group	14,379	933			4	73	86,009 722	
- Terna Group							16	
- Anas Group	22	453			151	1		
- Ferrovie dello Stato Group	90	(34)			228			
- GSE Gestore Servizi Group	3,002	(32)			1	3,726	4	
- Poste italiane Group	57	602			357		5	
- Saipem Group		739			354			
- Agenzia Giornalistica Italia		34						
	134,982	18,355			4,335	3,993	453,873 3,535	
Other	2	50			204			
Total	135,444	18,928			5,021	3,942	454,313 3,535	

(a) Include costs for goods and services for investment.

(b) Gross of the tariff components having contra entry in costs.

Companies under joint control and associates

The main receivable commercial transactions mainly regard IT services. The commercial transactions with Valdarno S.r.l. in liquidation refer to passive rents and relative condominium expenses.

Companies owned or controlled by the State

The main receivable commercial transactions refer to:

- the distribution of natural gas and personnel loans to the Eni Group;
- the distribution of natural gas to Enel Energia S.p.A.

The main payable commercial transactions refer to:

- the supply of electricity and methane gas for internal consumption by the Eni Group;

Financial transactions

Financial transactions with related parties are analysed in the following tables:

(€ thousands)	30.06.2019		First half of 2019	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti				147
Companies owned or controlled by the State				
- Eni Group			128	
Total			128	147

(€ thousands)	30.06.2020		First half of 2020	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti				149
Total				149

Impact of related-party transactions or positions on the statement of financial position, income statement and statement of cash flows

The impact of related-party transactions or positions on the Statement of Financial Position is summarised in the following table:

(€ thousands)	31.12.2019			30.06.2020		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Statement of financial position						
Trade and other current receivables	585,230	232,308	39.7%	437,928	134,759	30.8%
Other current assets	6,764	10	0.1%	12,173	12	0.1%
Other non-current assets	129,421	545	0.4%	137,600	673	0.5%
Trade and other payables	726,714	15,059	2.1%	606,369	18,753	3.1%
Short-term portions of long-term financial liabilities	172,519	521	0.3%	55,241	536	1.0%
Other current liabilities	2,890	177	6.1%	262	175	66.8%
Long-term financial liabilities	4,171,497	2,646	0.1%	4,734,838	2,365	0.0%
Other non-current liabilities	571,514			571,366		

The impact of related-party transactions on the income statement is summarised in the following table:

(€ thousands)	First half of 2019			First half of 2020		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Income Statement						
The details are provided below	835,972	452,676	54.1%	948,278	454,313	47.9%
Other revenue and income	42,085	9,315	22.1%	29,544	3,535	12.0%
Purchases, services and other costs	322,185	1,275	0.4%	381,552	9,005	2.4%
Personnel cost	114,546	(216)	(0.2%)	123,860	(42)	(0.0%)
Financial expense	24,477	147	0.6%	26,753	149	0.6%
Financial income	345	128	37.1%	345		0.0%

Related-party transactions are generally carried out at arm's length, i.e. at the conditions that would be applied between two independent parties.

The principal cash flows with related parties are shown in the following table:

(€ thousands)	First half of 2019	First half of 2020
Revenue and income	461,991	457,848
Costs and charges	(1,059)	(8,898)
Change in trade and other current receivables	103,446	97,549
Change in other assets	3	(128)
Change in trade and other payables	2,526	3,694
Change in other current liabilities		
Interest collected (paid)		
Net cash flow from operating activities	566,907	550,065
Investments:		
- Other property, plant and equipment and intangible assets		
- Equity investments		
- Financial receivables instrumental to operations		
- Change in payables and receivables for investments		
Cash flow from investments		
Net cash flow from investment activities		
Repayments of long-term financial payables		
Increase (decrease) in short-term financial payables		
Financial receivables non-instrumental to operations		
Distributed dividends	(74,883)	(81,456)
Net cash flow from financing activities	(74,883)	(81,456)
Total cash flows to related entities	492,024	468,609

The incidence of cash flows with related parties are shown in the following table:

(€ thousands)	First half of 2019			First half of 2020		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Cash flow from operating activities	520,438	566,907		402,478	550,065	
Cash flow from investment activities	(348,086)			(401,819)		
Cash flow from financing activities	(300,375)	(74,883)	24.9%	81,137	(81,456)	

10.2.33 Significant events occurring after the end of the half-year

Post-balance sheet events are described in the section "Other information" contained in the Directors' Report to which reference is made.

10.3 Certification of the condensed financial statements pursuant to Article 154-bis, paragraph 5 of Legislative Decree 58/1998 (Consolidated Finance Act)

1. Pursuant to article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, the undersigned Paolo Gallo and Giovanni Mercante, as Chief Executive Officer and Director in charge of preparing company accounting documents of Italgas S.p.A. respectively, certify:

- the adequacy, considering the Company's characteristics, and
- the effective implementation

of the administrative and accounting procedures for the preparation of the condensed half-year financial statement as at 30 June 2020 in the first half of 2020.

2. The administrative and accounting procedures for the preparation of the condensed half-year financial statement at 30 June 2020 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.

3. It is also certified that:

3.1 The condensed half-year financial statements as at 30 June 2020;

- a) were prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) are consistent with the accounting books and records;
- c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and the consolidated companies.

3.2 The Interim Directors' Report includes a reliable analysis of the references to important events which occurred in the first six months of the year and their incidence on the Condensed Consolidated Half-Year Financial Statement, together with a description of the main risks and uncertainties for the remaining six months of the financial year. The Interim Directors' Report also includes a reliable analysis of the information on relevant transactions with related parties.

27 July 2020

Chief Executive Officer

Paolo Gallo

Director in charge of preparing
company accounting documents

Giovanni Mercante

10.4 Independent Auditors' Report



Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: + 39 02 83322111
Fax: + 39 02 83322112
www.deloitte.it

REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**To the Shareholders of
Italgas S.p.A.**

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Italgas S.p.A. and subsidiaries (the "Italgas Group") as of June 30, 2020, which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors of Italgas S.p.A. are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of the Italgas Group as of June 30, 2020 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Paola Mariateresa Rolli
Partner

Milan, August 5, 2020

This report has been translated into the English language solely for the convenience of international readers.

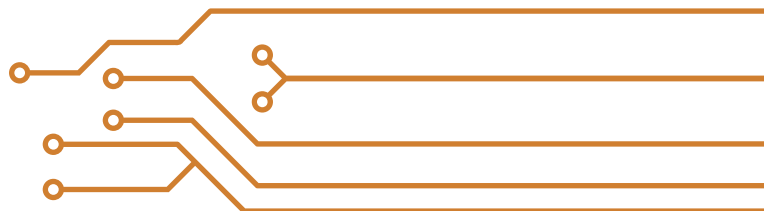
Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 – 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 – R.E.A. Milano n. 1720239 | Partita IVA: IT 03049560166

Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"), le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informativa completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo www.deloitte.com/about.

© Deloitte & Touche S.p.A.

11



Annexes to the Notes to the condensed consolidated financial statements

11.1 Companies and equity investments of Italgas S.p.A. as at 30 June 2020

In compliance with the provisions of Consob communication DEM/6064293 of 28 July 2006 and of articles 38 and 39 of Italian Legislative Decree 127/1991, the list of subsidiary and related companies of Italgas S.p.A as at 30 June 2020, as well as other relevant shareholdings, are reported below.

The companies are broken down by area of activity and are listed in alphabetical order. The name, registered office, share capital, shareholders and respective percentages of ownership are reported for each company. For consolidated companies the consolidated percentage pertaining to Italgas is indicated. The valuation criteria are indicated for non-consolidated subsidiaries of consolidated companies.

CONSOLIDATING COMPANY

Designation	Registered office	Currency	Share capital	Shareholders	% ownership
Italgas S.p.A.	Milan	EUR	1,001,231,518	CDP Reti S.p.A.	26.05%
				Snam S.p.A.	13.50%
				Third parties	60.45%



SUBSIDIARY COMPANIES

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	Consolidation method or measurement criterion
Italgas Reti S.p.A.	Turin	EUR	252,263,314,00	Italgas S.p.A.	100.00%	100.00%	full consolidation
Italgas Acqua S.p.A.	Milan	EUR	50,000,00	Italgas S.p.A.	100.00%	100.00%	full consolidation
Seaside S.r.l.	Bologna	EUR	60,000,00	Italgas S.p.A.	100.00%	100.00%	full consolidation
Italgas Newco S.r.l.*	Milan	EUR	10,000,00	Italgas S.p.A.	100.00%	100.00%	measurement at cost
Medea S.p.A.	Sassari	EUR	95,500,000,00	Italgas Reti S.p.A.	51.85%	51.85%	full consolidation
				Third parties	48.15%		
Gaxa S.p.A.	Milan	EUR	50,000,00	Italgas S.p.A.	51.85%	51.85%	full consolidation
				Third parties	48.15%		
Toscana Energia S.p.A.	Florence	EUR	146,214,387	Italgas S.p.A.	50.66%	50.66%	full consolidation
				Third parties	49.34%		
Toscana Energia Green S.p.A.	Pistoia	EUR	6,330,804	Toscana Energia S.p.A.	100.00%	50.66%	full consolidation

* company inactive at 30 June 2020

ASSOCIATED AND JOINT CONTROL COMPANIES

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	Consolidation method or measurement criterion
Metano Sant'Angelo Lodigiano S.p.A. (a)	Sant'Angelo Lodigiano (LO)	EUR	200,000	Italgas S.p.A.	50.00%	shareholders' equity measurement
				Third parties	50.00%	
Umbria Distribuzione Gas S.p.A. (a)	Terni	EUR	2,120,000	Italgas S.p.A.	45.00%	shareholders' equity measurement
				Third parties	55.00%	
Reti Distribuzione S.r.l.	Ivrea (TO)	EUR	40,100,000	Italgas Reti S.p.A.	15.00%	shareholders' equity measurement
				Third parties	85.00%	
Gesam Reti S.p.A.	Lucca	EUR	28,546,672	Toscana Energia S.p.A.	42.96%	shareholders' equity measurement
				Third parties	57.04%	
Valdarno S.r.l. in liquidation	Ospedaletto (PI)	EUR	5,720,000	Toscana Energia S.p.A.	30.05%	shareholders' equity measurement
				Third parties	69.95%	
Enerpaper S.r.l. (a)	Turin	EUR	10,000	Seaside S.p.A.	10.00%	shareholders' equity measurement
				Third parties	90.00%	

(a) company subject to joint control

OTHER COMPANIES

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	Consolidation method or measurement criterion
Isgastrentatrè S.p.A.	Cagliari	EUR	3,000,000	Medea S.p.A.	10.00%	fair value measurement
				Third parties	90.00%	

CHANGE IN SCOPE OF CONSOLIDATION

COMPANIES INCLUDED

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	Consolidation method or measurement criterion
Italgas Newco S.r.l.*	Milan	EUR	10,000.00	Italgas S.p.A.	100.00%	measurement at cost
Reti Distribuzione S.r.l.	Ivrea (TO)	EUR	40,100,000	Italgas Reti S.p.A.	15.00%	shareholders' equity measurement
				Third parties	85.00%	

* company inactive at 30 June 2020

By
Italgas

Pre-printing
ACC & Partners

Illustrations
Andrea Ucini



August 2020



italgas.it

