



CHANGING PERSPECTIVES INTEGRATED ANNUAL REPORT



Values, Mission and Purpose

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, quality and safety and inspired by the transparency of daily activities, integrity of behaviour and responsibility towards the communities served.

Promoting the fundamental role of natural gas in the energy transition process towards a decarbonised, circular economy.

Contributing to the development of renewable gases such as biomethane and hydrogen, through digitised networks.

Ensuring and improving service quality, helping create sustainable and smart cities and generating long-term value for customers, the market, the local area and all its stakeholders, while respecting the environment.

These principles, with which we have supported and fostered the economic and social development of Italy, are the cornerstones of Italgas' purpose, with a view to doing our bit to meet the sustainable development goals of the United Nations' 2030 Agenda.

Italgas, two centuries of history projected into the future.

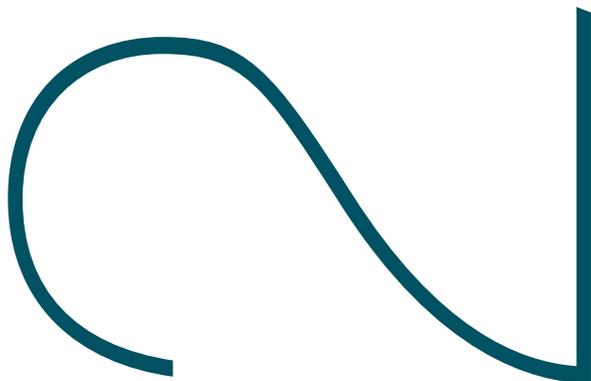
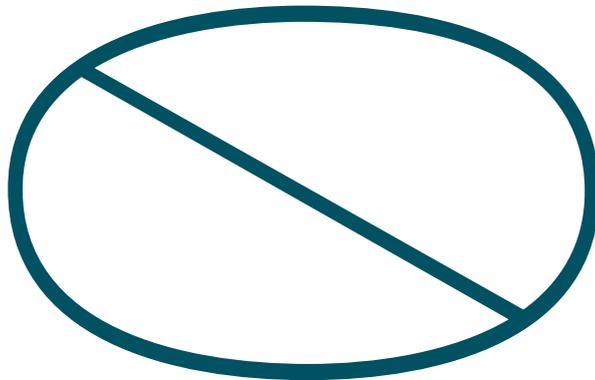
The names Italgas, Italgas Group or Group refer to Italgas S.p.A. and the companies included in the scope of consolidation.

Disclaimer

The Integrated Annual 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.



CHANGING PERSPECTIVES INTEGRATED ANNUAL REPORT



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)

Chairwoman

PAOLA ANNAMARIA PETRONE

GIANDOMENICO MAGLIANO

SILVIA STEFINI

FINANCE AND SERVICE GENERAL MANAGER^(e)

ANTONIO PACCIARETTI

INDEPENDENT AUDITORS^(g)

DELOITTE & TOUCHE 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)

Chairman

ANDREA MASCETTI

MAURIZIO DAINELLI

SILVIA STEFINI

SUSTAINABILITY COMMITTEE^(d)

Chairman

GIANDOMENICO MAGLIANO

YUNPENG HE

VERONICA VECCHI

SUPERVISORY BODY^(f)

Chairman

CARLO PIERGALLINI

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.

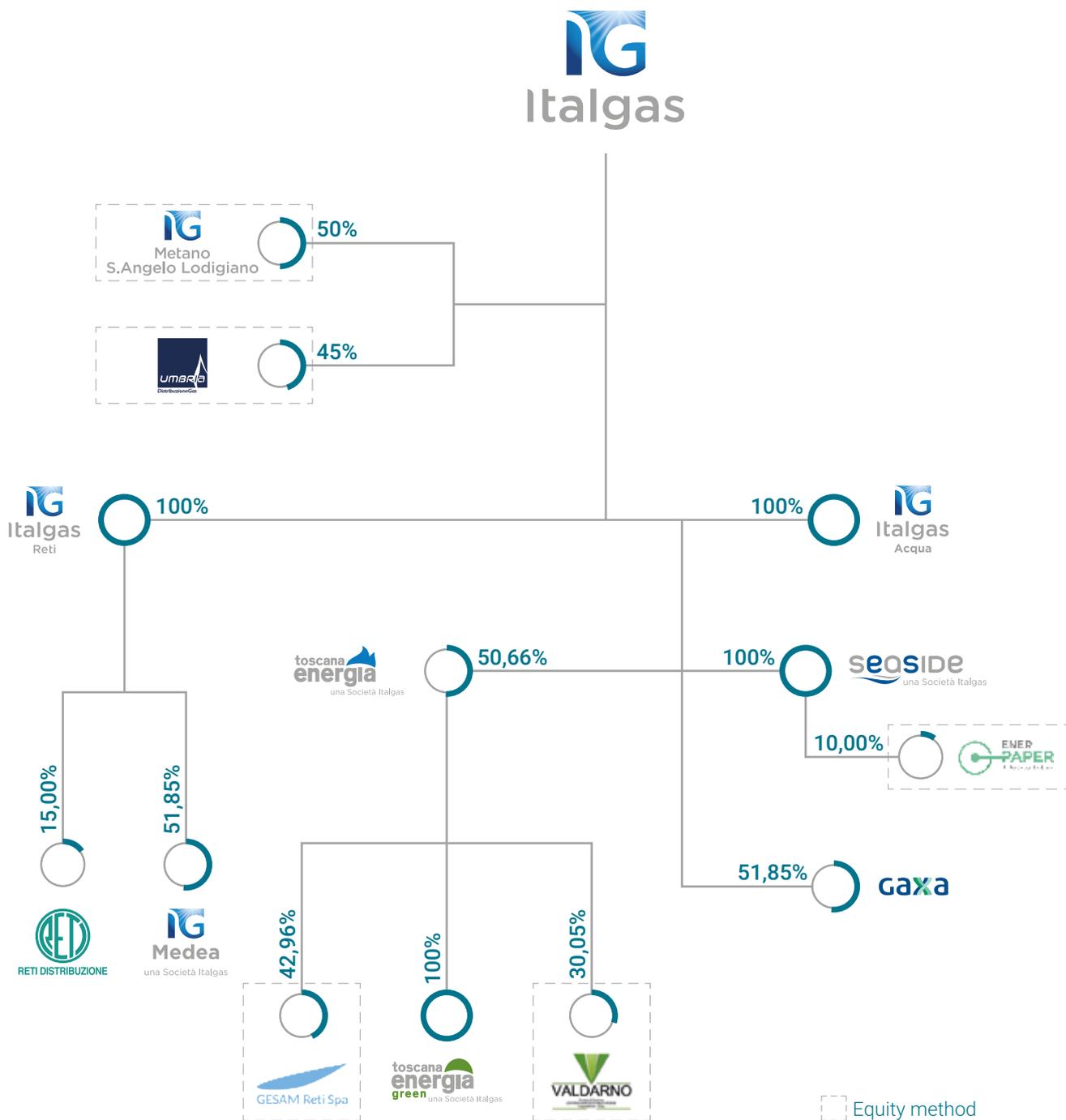
^(f) The Supervisory Body was appointed by the Board of Directors on 23 September 2019.

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

Italgas Group structure as at 31 December 2020

NFS

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



A. MANAGEMENT REPORT _7

LETTER TO SHAREHOLDERS AND STAKEHOLDERS _8

2020 HIGHLIGHTS _12

METHODOLOGICAL NOTE - CONSOLIDATED NON-FINANCIAL STATEMENT 2020 – ITALIAN LEGISLATIVE DECREE 254/2016 _14

1.0 THE ITALGAS GROUP VALUE CREATION PROCESS _27

1.1 Corporate identity

1.2 Business model

1.3 External context, markets and Italgas stock

1.3.1 Macroeconomic scenario and market trends

1.3.2 2020 Trend and Italgas stock

1.4 Shareholders

1.5 SRI indexes and ratings

2.0 STRATEGY AND FORWARD-LOOKING VISION _43

3.0 GOVERNANCE, RISKS AND OPPORTUNITIES _49

3.1 Governance

3.2 Risks management

3.3 Internal control system

3.4 Ethics and compliance

4.0 SUMMARY FIGURES AND INFORMATION _79

4.1 Main events

4.2 Key figures

4.3 Operating performance

5.0 ITALGAS GROUP PERFORMANCE _89

5.1 Transparent relations

5.2 Putting people first

5.3 Value for customers and the market

5.4 Value for the territory and communities

5.5 Attention to the environment

5.6 Coronavirus emergency and Business Outlook

6.0 COMMENT ON THE ECONOMIC AND FINANCIAL RESULTS AND OTHER INFORMATION _149

- 6.1 Legislative and regulatory framework
- 6.2 Comment on the economic and financial results
 - 6.2.1 Reclassified income statement
 - 6.2.2 Reconciliation of reported EBIT and net profit with adjusted EBIT and net profit
 - 6.2.3 Analysis of the Reclassified Income Statement items
 - 6.2.4 Reclassified Statement of Financial Position
 - 6.2.5 Reclassified Statement of Cash Flows
- 6.3 Comment on the economic and financial results of Italgas S.p.A.
 - 6.3.1 Reclassified income statement
 - 6.3.2 Analysis of the Reclassified Income Statement items
 - 6.3.3 Reclassified Statement of Financial Position
 - 6.3.4 Reclassified Statement of Cash Flows
- 6.4 Non-GAAP Measures
 - 6.4.1 Reconciliation of the Income Statement, Statement of Financial Position and Statement of Cash Flows
- 6.5 Other information

“INFORMATION ON THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)” TABLE _194

INDEPENDENT AUDITORS’ REPORT RELATED TO THE CONSOLIDATED NON-FINANCIAL STATEMENT _196

GLOSSARY _200

B. CONSOLIDATED FINANCIAL STATEMENTS _205

- Financial statements
- Notes to the consolidated financial statements
- Statements from Management
- Independent Auditors’ Report

A. MANAGEMENT REPORT



LETTER TO SHAREHOLDERS AND STAKEHOLDERS

NFS

Dear Shareholders and Stakeholders,

Last year marked a change from - or rather, a profound break with - the eras that came before it. The most serious health emergency since the Second World War completely changed the course of history as we know it, pushing the world's economies to the brink of a crisis that has spared no fields or sectors. Many established models were broken, most of the paradigms of reference became outmoded from one day to the next and we had to reorganise our daily lives and work, from the most basic activities to the most complex, by trial and error in many cases, given the exceptional nature of the event.

Against this backdrop of great instability, Italgas and its affiliates continued to grow, taking swift action to ensure the safety of their over 4,000 employees and guarantee essential services for more than 7.7 million customers in the 1,887 municipalities they serve. We have moreover helped our supply chain by guaranteeing it all our support and the tools needed to resume activities quickly and effectively. All this was possible thanks to an extremely fast-paced organisational structure that was able to act and react with speed, and to the far-sighted strategic decisions that enabled us to transfer the management of most of our activities remotely in just one click.

The main financial and especially non-financial performance indicators clearly reflect the results of our actions. The publication of this year's reports will enable a concise and comprehensive analysis of performance in just one document. We have in fact decided to open our new reporting season by publishing Italgas' very first Integrated Annual Report. The aim is to paint an effective and transparent picture of the company's ability to create value over time, as well as of the underlying link between the strategic priorities, governance decisions, risks management and financial performance, and the social, environmental and economic context in which the company operates.

It is an important integration process that has involved the entire corporate structure with the aim of permeating "sustainability" into the all corporate operating processes to achieve the so called "embedded sustainability".

Our choices are guided by the situation in which we find ourselves, and Italgas, as the leading gas distribution company in Italy and number three in Europe, intends to use its infrastructures to play a key role in the energy transition pathway towards the decarbonisation of the economy and consumption, in line with the targets set by the European Union as part of the Green Deal. Natural gas, also from a renewable gas point of view, is an affordable solution that is already available to significantly lower greenhouse gas emissions and particulate matter. It is ready to use to replace an extensive range of highly polluting fuels, while supplementing renewable electricity.

Therefore, the greater the share of renewables included in the electrical system, the more need there will be for flexibility and storage. And this is where gas networks come in, which, thanks to their widespread, extensive coverage, play a strategic role both as a means for distributing renewable gases, such as hydrogen, biomethane and synthetic methane, and for storing surplus electricity generated from renewable sources, through Power to Gas technology. With Power to Gas, energy can be stored and handled in the gas networks in the form of green hydrogen or synthetic methane. For this reason, Italgas is working on an important Power to Gas pilot project that will take place in Sardinia, where we are constructing "digital native" networks, the most advanced in Italy, ready to accommodate all type of gases.

“There can be no transition without digitisation”, for us, this is not just an idea, but a compass that guides our actions and investment decisions. Digital transformation of the assets is the technical prerequisite for injecting and distributing renewable gases or their mixtures through our gas networks. The aim of this transformation is to create a new generation of infrastructures equipped for remote management that are continuously and extensively monitored, used to collect big data on their operation, which will be processed using artificial intelligence in order to launch increasingly ambitious operational efficiency programmes.

And the time is now ripe to see gases other than methane running through our networks. In the current decade (2020-2030), we will see a boom in the production and distribution of biomethane, a source which is now available in large quantities. In the decade to follow it will be the turn of green hydrogen, which currently costs five to six times more than natural gas, but studies show that the situation is set to change, especially due to the significant reduction in the generation costs of renewables and the cost of electrolyzers.

We endeavour to drive development in our sector and to carry on being viewed as the benchmark around the world. To this end, the Italgas 2020-2026 Strategic Plan envisages investments for € 7.5 billion, divided between four main trajectories: (i) development of the core business through organic growth, M&As, ATEM (minimum territorial area) tenders and opportunities abroad; (ii) digital transformation and technological innovation; (iii) new development opportunities, by leveraging the Group’s expertise in the water and energy efficiency sectors; (iv) a sound and efficient financial structure.

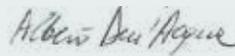
It is only natural that the matrix linking these four drivers should be sustainability, because each one of them is imbued with the concept of corporate social responsibility.

This business model has enabled Italgas to secure a place for the second year running in the prestigious Dow Jones Sustainability Index World, which testifies to the ability of businesses to develop a growth model that respects the environment, maximises the potential of individuals and allows positive interaction with the local areas and communities. Italgas was the only Italian company in the industry to obtain this important recognition, which comes in addition to its recent confirmation in the FTSE4Good Index Series. In 2020, Italgas was also listed by the CDP (Carbon Disclosure Project) among the world’s leading companies for the strategies and measures implemented to combat climate change, for the fourth year running, retaining its place on the “climate change B List”.

With investments of around €778 million (+5.1% on 2019), the Company has shown its capacity to mobilise considerable investments for the development, maintenance and digitisation of the network, as well as for the Sardinia methanisation project, even in a particularly difficult year.

In 2020, Italgas installed 1.2 million smart meters for a total of 7.49 million, which now accounts for approximately 88% of all our meters. The growing number of digital devices and sensors installed on the network will enable us to measure and monitor gas consumption more accurately, prevent faults and leaks and manage maintenance work on a predictive basis, thereby improving the efficiency and quality of the service.

These results achieved, thanks to the contribution of all Italgas people capable of combining change, innovation and improvement, allow us to offer the distribution of a dividend of 0.277, up 8.2% on 2019 for the satisfaction of our Shareholders.



ALBERTO DELL'ACQUA
CHAIRMAN



PAOLO GALLO
CHIEF EXECUTIVE OFFICER
AND GENERAL MANAGER



**ECONOMIC
AND FINANCIAL
HIGHLIGHTS¹**

1,333.8 ML

**ADJUSTED TOTAL
REVENUE**

+6.0% compared to 2019

971.4 ML

ADJUSTED EBITDA

+7.0% compared to
the 2019 result

546.8 ML

ADJUSTED EBIT

+6.0% compared to
the 2019 result

345.4 ML

ADJUSTED NET PROFIT²

+0.1% compared to
the adjusted 2019 result

777.5 ML

INVESTMENTS

€740.0 million in 2019

745.0 ML

**CASH FLOW FROM OPERATING
ACTIVITIES³**

€ 714.4 million in 2019

**PROPOSED DIVIDEND OF
0.277 EURO
PER SHARE**

+ 8.2%
compared to the dividend
paid in 2020

OPERATING HIGHLIGHTS⁴

1,887
MUNICIPALITIES WITH GAS
DISTRIBUTION SERVICE
CONCESSIONS

1,830 as at 31 December 2019, of
which 1,804 operating
(1,744 as at 31 December 2019)

SUSTAINABILITY HIGHLIGHTS

5.4%
REDUCTION IN ENERGY
INTENSITY ON 2019

calculated as the ratio of total
Group energy consumption and
energy distributed

INSTALLED
**1,251.8
THOUSAND**
NEW SMART METERS
TO REPLACE TRADITIONAL
METERS

1,297 km
DISTRIBUTION NETWORK
EXTENDED BY

for an overall length of
73,000 km

0.1%
GAS LEAKAGE RATE

volume of fugitive
emissions of natural
gas/volume of gas
distributed

97%
REDUCTION
IN SCOPE 2
EMISSIONS

following the
purchase of electricity
produced from
certified renewable
sources

**MORE THAN
20,000 HOURS**
OF TRAINING PROVIDED

on digitisation-related matters

¹ For the economic and financial analyses for the financial year 2020, the company considered it more representative to comment on the adjusted results, i.e. the recurring results, comparing them with the non-adjusted recurring results for the financial year 2019.

² Adjusted net profit refers to the adjusted amount attributable to the Italgas Group, net of the portion attributable to minority interests.

³ Net of the effects deriving from IFRS 15.

⁴ Considering the affiliates over which Italgas does not exercise control.

METHODOLOGICAL NOTE

INTEGRATED ANNUAL REPORT 2020

CONSOLIDATED NON-FINANCIAL STATEMENT EX D.LGS. 254/2016



Objectives of the document

For 2020, the Italgas Group (hereinafter also referred to as "Italgas" or the "Group") presented the annual financial report as the first edition of the Integrated Annual Report (hereinafter also referred to as the "Report" or the "Integrated Report") as a tool for the integrated reporting of financial and non-financial data. The Integrated Annual Report includes information which was previously included in the following documents in previous years:

- _ Annual financial report;
- _ Consolidated Non-Financial Statement (hereinafter also "NFS" or "Non-Financial Statement").

The Integrated Annual Report consists of the Integrated Report on Operations, with both financial and non-financial reporting, the Consolidated Financial Statements and the Separate Financial Statements. By way of this document, the Italgas Group aims to meet the requirements of Italian Legislative Decree 254/16, issued in order to *"implement Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups". Also, "to the extent necessary to ensure understanding of the business, its performance, results and the impact it produces, the document covers environmental and social matters, personnel-related issues, respect for human rights and the fight against active and passive bribery, which are important, considering the activities and characteristics of the company"*.

The Integrated Annual Report makes it possible to provide stakeholders with an accurate, extensive and transparent report of the Group's activities, the results achieved and their progress, in addition to the services provided.

Having joined the United Nations Global Compact, Italgas also decided to update the annual *Communication on Progress (CoP)*⁵ within its Integrated Report, by supplementing its content in order to notify all internal and external stakeholders of the activities undertaken and results achieved when implementing the Ten Principles of the Global Compact.

Reference framework and reporting standards

In relation to the financial information, the Italgas Integrated Annual Report was prepared using the following references:

- _ International accounting standards (IAS/IFRS);
- _ Italian Legislative Decree no. 58 of 24 February 1998, as amended ("Consolidated Finance Act" or "TUF");
- _ Regulation (EC) no. 1606/2002;
- _ Italian Legislative Decree no. 25/2016, implementing European Directive 2013/50/EU.

Pursuant to Italian Legislative Decree 254/2016, the reporting of non-financial information is carried out *"in accordance with the methods and principles required by the reporting standard used as a reference or by the independent reporting method used to prepare the statement"*.

For this aspect, the Group used the following technical and methodological references:

- _ for reporting of the information required by Italian Legislative Decree 254/16, Italgas has adopted the "Global Reporting Initiative Sustainability Reporting Standards" (hereinafter "GRI Standards") issued by the "Global Reporting Initiative" in 2016, as amended. In particular, as provided for in section 3 of the GRI Standard 101: Foundation, section 3, the Group decided to prepare the document in compliance with the Core option. The references to the GRI Standards reported on are contained in both the Integrated Report and the table of indicators;
- _ the Integrated Annual Report was drafted on the basis of the Guiding Principles and Content Elements required.

⁵ The United Nations Global Compact (GC), the world's largest voluntary corporate citizenship initiative, requires companies to adhere to principles which encourage the integration of sustainability in business. Companies/organisations joining the initiative are required to inform all internal and external stakeholders of the activities undertaken and results achieved during implementation of the Global Compact principles. Participating companies are in fact required to notify stakeholders on a yearly basis of any progress they have achieved, by publishing an annual reporting document (Communication on Progress, COP) on the GC website.

For the information on the topics required by Italian Legislative Decree no. 254/2016, a specific reconciliation table has been prepared.

This table shows the information contents required by the Decree, the relative positioning within this document in terms of chapters / paragraphs as well as the connection, where possible, with the material topics identified, the capitals of the <IR> Framework and the GRI indicators.

Where estimations were required in order to report particular data, this is specified in the description or in the notes to the table.

For certain issues (e.g. Innovation, Quality and Safety of assets), where Italgas was unable to pinpoint a specific quantitative indicator in the GRI Standards, it decided to report its performance using KPIs and not GRIs, as specified in the table of indicators.

The document is published annually and is available on our website <https://www.italgas.it/en/investors/reports-and-presentations/>.

To facilitate the reading of this document, specific icons have been used to identify the minimum elements required by Italian Legislative Decree 254/16  and the principles required by the Global Compact .

Moreover, the response to the TCFD Recommendations is shown in the "Information on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)" table at the end of this document.

RECONCILIATION TABLE			
MINIMUM ELEMENTS ENVISAGED BY ITALIAN LEGISLATIVE DECREE NO. 254/2016	DOCUMENT CHAPTERS/ PARAGRAPHS	CAPITAL AND MATERIAL TOPICS	INDICATORS
Corporate management model and organisation of the business activities	<ul style="list-style-type: none"> _ Methodological note _ 1. Value creation process in the Italgas Group (paragraphs 1.1 Corporate identity, 1.2 Business model and 1.3 External context, markets and Italgas share) _ 3. Governance, risks and opportunities (paragraphs 3.1 Governance, 3.3 The internal control system in Italgas and 3.4 Ethics and compliance) 	Responsible governance and risk management Corporate identity Compliance and transparency <i>Social and relationship capital</i> <i>Human capital</i>	_ 405-1 - Diversity of governance bodies and employees
Policies practised by the company	<ul style="list-style-type: none"> _ 2. Strategy and forward-looking vision _ 5. Italgas Group performance (paragraphs 5.1 Transparent relations, 5.2 Putting people first, 5.3 Create value for customers and the market, 5.4 Create value for the territory and the communities and 5.5 Attention to the environment) 		
Risk management	<ul style="list-style-type: none"> _ Methodological note (paragraph "Materiality analysis") _ 3. Governance, risks and opportunities (paragraph 3.2.3.2 Risk management) _ "Information on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)" Table 		

RECONCILIATION TABLE

MINIMUM ELEMENTS ENVISAGED BY ITALIAN LEGISLATIVE DECREE NO. 254/2016	DOCUMENT CHAPTERS/ PARAGRAPHS	CAPITAL AND MATERIAL TOPICS	INDICATORS
<p>Use of energy resources</p> <p>Greenhouse gas emissions and polluting emissions into the atmosphere</p> <p>Impact on the environment or other relevant environmental risk factors</p>	<p>_ 5. Italgas Group performance (paragraph 5.5 Attention to the environment)</p>	<p>Environmental sustainability and the fight against climate change</p> <p><i>Natural capital</i></p>	<ul style="list-style-type: none"> _ 302-1 - Energy consumption within the organization _ 302-3 Energy intensity _ 305-1 Direct (Scope 1) GHG emissions _ 305-2 - Indirect (Scope 2) GHG emissions from energy consumption _ 305-3 - Other indirect (Scope 3) GHG emissions _ 305-4 - GHG emissions intensity _ 305-5 - Reduction in GHG emissions _ 305-7 - Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant emissions _ 306-4 - Waste diverted from disposal _ 306-5 - Waste directed to disposal _ 307-1 - Non-compliance with environmental laws and regulations
<p>Impact on health and safety or other relevant health risk factors</p> <p>Aspects relating to personnel management</p> <p>Action taken to prevent discriminatory action or behaviour</p>	<p>_ 5. Italgas Group performance (paragraph 5.2 Putting people first)</p>	<p>Development of human resources</p> <p><i>Human capital</i></p>	<ul style="list-style-type: none"> _ 401-1 - New hires and turnover _ 403-9 - Work-related injuries _ 405-1 - Diversity of governance bodies and employees _ 401-3 - Parental leave _ 404-1 - Average hours of training per year per employee
<p>Social aspects (including those relating to the supply chain and subcontracting and respect for human rights)</p>	<p>_ 4. Summary data and information (paragraph 4.2 Key data)</p> <p>_ 5. Italgas Group performance (paragraphs 5.1 Transparent relations, 5.3 Create value for customers and the market, 5.4 Create value for the territory and the communities and 5.6 Business outlook (economic-financial))</p> <p>_ 6. Comment on the economic and financial results and other information (paragraph 6.2 Comment on the economic and financial results)</p>	<p>Innovation</p> <p>Quality and safety of assets</p> <p>Responsible supply chain management</p> <p>Customer quality and satisfaction</p> <p>The commitment to the local area</p> <p>Economic Performance</p> <p><i>Intellectual capital</i></p> <p><i>Manufactured capital</i></p> <p><i>Social and relationship capital</i></p> <p><i>Financial capital</i></p>	<ul style="list-style-type: none"> _ 308-1 - New suppliers that were assessed using environmental criteria _ 414-1 - New suppliers that have been assessed through the use of social criteria _ 416-1 - Assessment of the health and safety impacts of product and service categories _ 201-1 - Direct economic value generated and distributed _ Non-GRI indicator – Value of sponsorships and donations _ 207-1 - Approach to taxation _ 207-2 - Tax governance, control and risk management _ 207-3 - Stakeholder engagement and management of concerns related to tax _ 207-4 - Country-by-country reporting _ 102-7 - Scale of the organisation

RECONCILIATION TABLE

MINIMUM ELEMENTS ENVISAGED BY ITALIAN LEGISLATIVE DECREE NO. 254/2016	DOCUMENT CHAPTERS/ PARAGRAPHS	CAPITAL AND MATERIAL TOPICS	INDICATORS
Respect for human rights	<ul style="list-style-type: none"> _ 2. Strategy and forward-looking vision _ 5. Italgas Group performance (paragraphs 5.2 Putting people first and 5.3 Create value for customers and the market) 	Development of human resources Responsible supply chain management <i>Social and relationship capital</i> <i>Human capital</i>	<ul style="list-style-type: none"> _ 414-1 - New suppliers that have been assessed through the use of social criteria
Fight against both active and passive corruption	<ul style="list-style-type: none"> _ 3. Governance, risks and opportunities (paragraph 3.4 Ethics and compliance) 	Fight against corruption <i>Social and relationship capital</i>	<ul style="list-style-type: none"> _ 205-2 - Communication and training about anti-corruption policies and procedures _ 205-3 - Confirmed incidents of corruption and actions taken

Reporting scope and period

The data and information reported in this Integrated Annual Report refer to the performance of the Italgas Group⁶ in the financial year ending 31 December 2020.

For the non-financial reporting, the quantitative data in this document refer, where possible, to the 2018, 2019 and 2020 financial years. This is to ensure comparison of the information with information from previous financial years, as required by Italian Legislative Decree 254/16, and also to comply with the comparability principle under the GRI Standards.

The scope of non-financial reporting encompasses:

- _ Italgas S.p.A., parent company with offices in Milan, Via Carlo Bo 11;
- _ Italgas Reti S.p.A., with offices in Turin, at Largo Regio Parco 11, whose core business is nationwide gas distribution;
- _ Italgas Acqua S.p.A., with offices in Caserta, at Via Falco 31, whose core business is water distribution in five municipalities of the Campania region;
- _ Medea S.p.A., with offices in Sassari, at Via Torres 4, whose core business is the distribution of gas and propane air in the Sardinia region;
- _ Toscana Energia S.p.A., with offices in Florence, at Piazza E. Mattei 3, whose core business is gas distribution primarily in the Tuscany region;
- _ Toscana Energia Green S.p.A., with offices in Pisa, at Via A. Bellatalla 1, whose core business is the production of renewable energy in the Tuscany region;

- _ Seaside s.r.l., with offices in Bologna, at Via E. Cristoni 88, an Energy Service Company (ESCO) providing consulting services and technological and financing solutions in the energy efficiency sector;

- _ Gaxa S.p.A., with registered office in Milan, at Via Carlo Bo 11, whose core business is the sale of gas in the Sardinia region.

Any exceptions to the criteria set out above are detailed in the individual sections of the document in the form of a footnote below a table or at the bottom of the page.

There are no changes in scope from the documents published in the previous financial year (Non-Financial Statement and Annual Financial Report), with the exception of the acquisition of 15% of the capital of Reti Distribuzione, which was completed in May 2020.

It should be noted that in 2019, the companies Toscana Energia and Toscana Energia Green were consolidated with reference to the last quarter and that, where it has been possible to refine the calculation methods used for the data reported in the 2019 Non-Financial Statement, a specific note is included, describing the restatement.

Reporting process

Preparation of the Italgas Integrated Annual Report involved across-the-board engagement of all Italgas Group departments and divisions and performance of the following activities:

- _ identifying the reporting scope for financial and non-financial information;

⁶Please note that for the purposes of non-financial reporting in the Integrated Annual Report, the Italgas Group only includes companies over which Italgas exercises control and not also affiliates that are not subsidiaries, for which the operating data is stated.

- _ preparing and updating the materiality analysis, including through stakeholder engagement;
- _ launching the collection of qualitative and quantitative data to be reported, with the direct engagement of the company divisions/units in charge of such data;
- _ consolidating the data and preparing the draft Integrated Annual Report;
- _ issuance of auditing reports by the independent firm appointed;
- _ approval of the draft financial statements, of the consolidated financial statements and of the management report included on the Integrated Annual Report by the Board of Directors on 10 March 2021 and subsequent approval of the financial statements by the Shareholders' Meeting on 20 April 2021.

The following independent Auditors' Reports contain the results of the audits conducted by Deloitte S.p.A:

- _ Report in accordance with Article 3, paragraph 10 of Italian Legislative Decree no. 254 of 30 December 2016 and Article 5 of CONSOB Regulation no. 20267/2018, drawn up in relation to non-financial information reporting in the document;
- _ Reports in accordance with Article 14 of Italian Legislative Decree no. 39 of 27 January 2010 and Article 10 of Regulation (EU) No 537/2014, drawn up in relation to the financial information in the Consolidated Financial Statements and Separate Financial Statements.

Materiality analysis

The structure and contents of the Integrated Annual Report revolve around the analysis of the material issues, i.e. those considered relevant and a priority for the company, taking into account not only the minimum elements set out in Italian Legislative Decree 254/2016 (Article 3, paragraph 1), but also its own business and characteristics, as well as the expectations of its stakeholders.

Italgas looks to sustainability as an evolutive concept. This is why the Group has chosen to update the materiality matrix

once a year to incorporate the requests of the various reference stakeholders.

In particular, Italgas updates its Materiality Matrix by means of a series of activities coordinated by the Corporate Social Responsibility (CSR) Department. These activities include but are not limited to:

- _ benchmarking against key competitors;
- _ media and ESG (environmental, social and governance) area trend analyses;
- _ identification, including based on the materiality matrix reported in the 2019 NFS, of any developments in the company and context in which it operates, of matters of greatest interest highlighted by the reference stakeholders and the minimum scopes of disclosure set out in Italian Legislative Decree 254/16, of the list of relevant issues to be submitted for evaluation by Italgas top management and the stakeholders;
- _ internal and external stakeholder engagement activities, aimed at gathering information on the importance of the issues for stakeholders in terms of economic, environmental and social impact and/or priority given.

In 2020, Italgas carried out internal and external stakeholder engagement and listening activities, through interviews and the sending of questionnaires to:

1. the company's top management;
2. stakeholders identified with the departments involved in the reporting process.

Stakeholder engagement activity is an opportunity for two-way dialogue that is useful for understanding the level of satisfaction of a company's work. It is also a chance to gather useful insights in order to improve the services and operational and management models. Accordingly, Italgas adopts diversified and flexible dialogue and involvement practices, in response to the various characteristics and needs of its stakeholders.

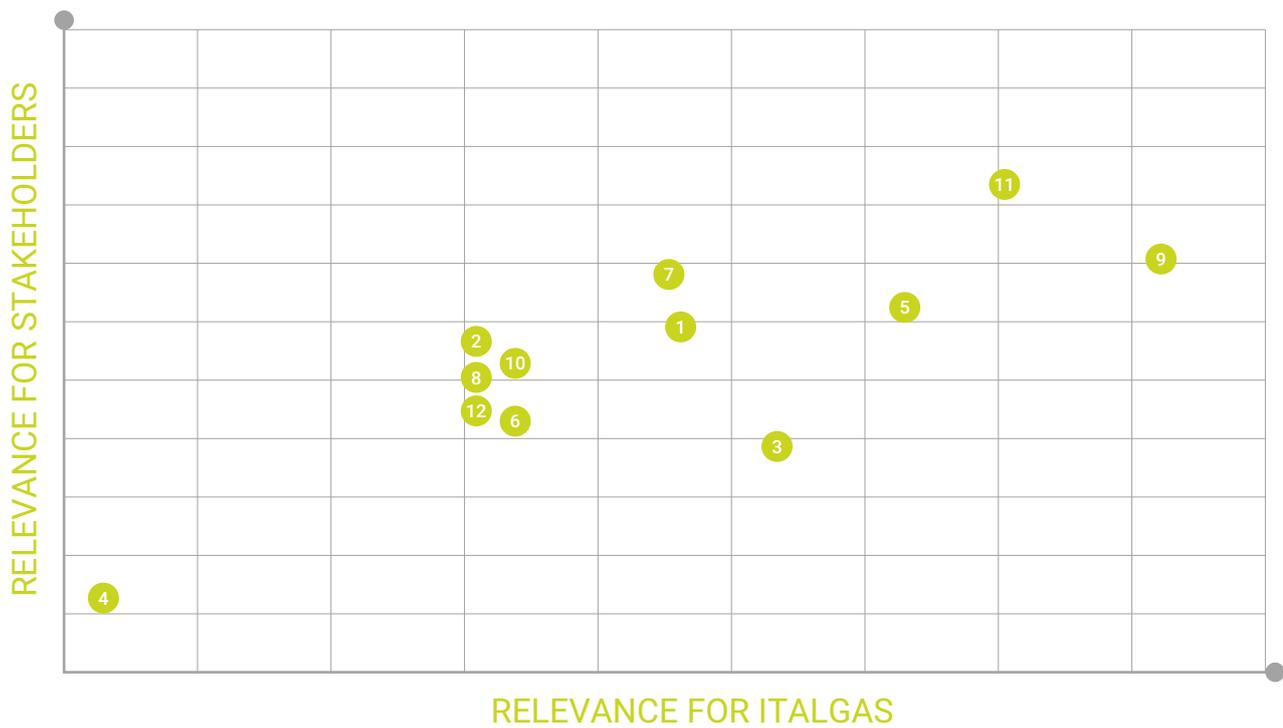
The stakeholder categories identified and stakeholder engagement activities carried out in 2020 are set out below.

STAKEHOLDER CATEGORY	STAKEHOLDER INTERACTION METHODS
Investors and lenders	Periodic financial reports and conference calls about these; presentation of the business plan; shareholders' meeting, meetings with analysts and investors, including virtually and by conference call, also focusing specifically on SRI matters; corporate website; filling in of questionnaires aimed at assessing sustainability-related performance;
Suppliers	Dedicated meetings, annual engagement initiatives; filling in of questionnaires aimed at assessing sustainability-related performance.
Customers and sales companies	Direct, ongoing relationship with the sales personnel through dedicated dialogue channels (e.g. "GasOnLine"); periodic workshops with sales companies; interactions with end customers through the "My Italgas" portal; customer satisfaction surveys; filling in of questionnaires aimed at assessing sustainability-related performance.

Authorities and Associations	Periodic meetings and ongoing dialogue; filling in of questionnaires aimed at assessing sustainability-related performance.
Italgas People	Training events; periodic meetings; annual meetings to discuss career development paths; development workshops, newsletters, company environment analyses; company Intranet; filling in of questionnaires aimed at assessing sustainability-related performance.
Communities and local areas	Meetings with representatives of the local communities, associations and organisations; cultural initiatives; filling in of questionnaires aimed at assessing sustainability-related performance.

Following this stakeholder engagement and the activities mentioned above, Italgas updated its materiality matrix, highlighting the degree of relevance assigned to Italgas' priority issues, from an internal perspective (x-axis) and an external perspective, i.e. of the reference stakeholders (y-axis).

2020 ITALGAS MATERIALITY MATRIX



- | | |
|---|--|
| 1 Correctness and transparency | 7 Fight against corruption |
| 2 Responsible supply management | 8 Economic performance and financial sustainability |
| 3 Responsible governance and management | 9 Quality and safety of assets |
| 4 Corporate identity | 10 Customer and quality satisfaction |
| 5 Innovation | 11 Environmental sustainability and the fight against climate change |
| 6 The commitment to the local area | 12 Development of human resources |

The highest relevance, from an internal and external perspective, was given to three issues: environmental sustainability and the fight against climate change, quality and safety of assets and innovation.

With regard to the areas provided for by the Decree, Italgas' material topics are broken down as follows:

- _ **Social topics:** responsible supply chain management, commitment to the local area, quality and safety of assets, quality and customer satisfaction, economic performance and financial sustainability, innovation, compliance and transparency;
- _ **Topics relating to personnel:** human resources development, compliance and transparency;
- _ **Environmental topics:** environmental sustainability and the fight against climate change;
- _ **Topics relating to the fight against active and passive bribery:** fight against bribery;
- _ **Topics relating to the respect for human rights:** human resources development and responsible supply chain management.

The topics relating to environmental aspects are included in the Environmental sustainability and fight against climate change topic, with the exception of the management of water resources, as this is not relevant to Italgas' core business for non-financial reporting purposes. The Group's water consumption refers mainly to the use of water for sanitation purposes by the various offices of the Group's companies and minor technological uses by those offices, such as for air-conditioning and fire protection systems; in view of the volumes of water withdrawn, the type of use and the geographical location of Italgas companies, the impact on water resources was regarded as negligible. Although the water resources management topic is of greater relevance to Italgas Acqua, this topic was not included in the non-financial reporting in the Integrated Annual Report, given the impact of this business on the Group's total revenue (1%).

For more details on water resources management by the Italgas Group, in terms of withdrawal, discharge and consumption (GRI 303-3, GRI 303-4 and GRI 303-5 indicators), please refer to the paragraph "Attention to the environment" (5.5 page 131) in this document.

Below is the table of GRI indicators reported.

TABLE OF GRI INDICATORS

GRI CONTENT INDEX			
GRI ID	DESCRIPTION OF INDICATOR	NOTES	PAGE NUMBER
GENERAL STANDARD DISCLOSURES			
PROFILE OF THE ORGANISATION			
102-1	Name of organisation		17
102-2	Activities, brands, products and services		28-29
102-3	Location of headquarters		17
102-4	Location of operations		17
102-5	Ownership and legal form		17
102-6	Markets served		28-29
102-7	Scale of the organisation		28; 82; 97
102-8	Information on employees and other workers		102-104
102-9	Supply chain		120-126
102-10	Significant changes to the organisation and its supply chain	In 2020, there were no significant changes to the organization and its supply chain	
102-11	Principle of precaution		57-71
102-12	External initiatives		48-49
102-13	Membership of associations		94

GRI CONTENT INDEX			
GRI ID	DESCRIPTION OF INDICATOR	NOTES	PAGE NUMBER
STRATEGY			
102-14	Statement from senior decision-maker		8-11
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour		Values, mission and vision; 71
GOVERNANCE			
102-18	Governance structure		52-57
102-22	Composition of the highest governance body and its committees		52-57
102-24	Nominating and selecting the highest governance body		52-57
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups		18-19
102-41	Collective bargaining agreements	In the three years 2018-2020, the percentage of employees covered by collective bargaining agreements is 100%.	
102-42	Identifying and selecting stakeholders		18-20
102-43	Approach to stakeholder engagement		18-20
102-44	Key topics and concerns raised		18-20
REPORTING PRACTICES			
102-45	Entities included in the consolidated financial statements		3; 17
102-46	Defining report content and topic boundaries		18-20
102-47	List of material topics		18-20
102-48	Restatements of information		17
102-49	Changes in reporting	With respect to the materiality matrix present in the 2019 NFS, the issues have been rationalized and merged into macro-issues. In addition, the following new themes were introduced: corporate identity, economic performance and financial sustainability and asset quality and safety.	
102-50	Reporting period		17
102-51	Date of most recent report	The 2019 Consolidated Non-Financial Statement was published in April 2020	
102-52	Reporting cycle		14
102-53	Contact points for questions regarding the report	sustainability@italgas.it	

GRI CONTENT INDEX

GRI ID	DESCRIPTION OF INDICATOR	NOTES	PAGE NUMBER
102-54	Claims of reporting in accordance with the GRI Standards		14
102-55	GRI content index		20-25
102-56	External assurance		18; 196-198
ASPECT: ECONOMIC PERFORMANCE			
103-1	Explanation of the material topic and its boundary		20; 128
103-2	The management approach and its components		20; 128
103-3	Evaluation of the management approach		20; 128
201-1	Direct economic value generated and distributed		129
ASPECT: ANTI-CORRUPTION			
103-1	Explanation of the material topic and its boundary		20; 72-73
103-2	The management approach and its components		20; 72-73
103-3	Evaluation of the management approach		20; 72-73
205-2	Communication and training about anti-corruption policies and procedures		76
205-3	Confirmed incidents of corruption and actions taken		76
207-1	Approach to tax		129-130
207-2	Tax governance, control and risk management		129-130
207-3	Stakeholder engagement and management of concerns related to tax		129-130
207-4	Country-by-country reporting	Not applicable, Italgas only operates in Italy	
ASPECT: ENERGY			
103-1	Explanation of the material topic and its boundary		20; 131-139
103-2	The management approach and its components		20; 131-139
103-3	Evaluation of the management approach		20; 131-139
302-1	Energy consumption within the organization		140-141
302-3	Energy intensity		141-142
ASPECT: EMISSIONS			
103-1	Explanation of the material topic and its boundary		20; 131-139
103-2	The management approach and its components		20; 131-139
103-3	Evaluation of the management approach		20; 131-139

GRI CONTENT INDEX

GRI ID	DESCRIPTION OF INDICATOR	NOTES	PAGE NUMBER
305-1	Direct (Scope 1) GHG emissions	CO _{2eq} emissions have been consolidated according to the operational control approach. The GHGs included in the calculation are CO ₂ and CH ₄ and the emissions are calculated with a GWP of methane equal to 28, as indicated in the scientific study of the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".	143-144
305-2	Energy indirect (Scope 2) GHG emissions		143-144
305-3	Other indirect (Scope 3) GHG emissions	As regards the calculation of scope 3 emissions linked to value spent, an internal approach was used that associates a factor of conversion from the value spent into CO ₂ emissions for each Product category.	143-144
305-4	GHG emissions intensity		143-144
305-5	Reduction of GHG emissions		143-144
305-7	Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	SO _x emissions are not considered significant.	143-144
ASPECT: WASTE 2020			
103-1	Explanation of the material topic and its boundary		20; 139
103-2	The management approach and its components		20; 139
103-3	Evaluation of the management approach		20; 139
306-4	Waste diverted from disposal		144-145
306-5	Waste directed to disposal		144-145
ASPECT: ENVIRONMENTAL COMPLIANCE			
103-1	Explanation of the material topic and its boundary		20; 131
103-2	The management approach and its components		20; 131
103-3	Evaluation of the management approach		20; 131
307-1	Non-compliance with environmental laws and regulations	In 2020, in relation to reclamations, no cases of non-conformity with laws and/or environmental regulations occurred. In 2020, just like in 2019, the Italgas Group did not receive any significant sanctions for breaching environmental laws and regulations.	

GRI CONTENT INDEX

GRI ID	DESCRIPTION OF INDICATOR	NOTES	PAGE NUMBER
ASPECT: ENVIRONMENTAL ASSESSMENT OF SUPPLIERS			
103-1	Explanation of the material topic and its boundary		20; 120-126
103-2	The management approach and its components		20; 120-126
103-3	Evaluation of the management approach		20; 120-126
308-1	New suppliers that were screened using environmental criteria		126
ASPECT: EMPLOYMENT			
103-1	Explanation of the material topic and its boundary		20; 97-102
103-2	The management approach and its components		20; 97-102
103-3	Evaluation of the management approach		20; 97-102
401-1	New employee hires and employee turnover		104-107
401-3	Parental leave		108
ASPECT: HEALTH AND SAFETY IN THE WORKPLACE			
103-1	Explanation of the material topic and its boundary		20; 101-102
103-2	The management approach and its components		20; 101-102
103-3	Evaluation of the management approach		20; 101-102
403-9	Work-related injuries		108-109
ASPECT: EDUCATION AND TRAINING			
103-1	Explanation of the material topic and its boundary		20; 97-102
103-2	The management approach and its components		20; 97-102
103-3	Evaluation of the management approach		20; 97-102
404-1	Average hours of training per year per employee		110
ASPECT: DIVERSITY AND EQUAL OPPORTUNITIES			
103-1	Explanation of the material topic and its boundary		20; 97-102
103-2	The management approach and its components		20; 97-102
103-3	Evaluation of the management approach		20; 97-102
405-1	Diversity of governance bodies and employees		55; 11-115
ASPECT: SOCIAL ASSESSMENT OF SUPPLIERS			
103-1	Explanation of the material topic and its boundary		20; 120-126
103-2	The management approach and its components		20; 120-126
103-3	Evaluation of the management approach		20; 120-126
414-1	New suppliers that were screened using social criteria		126

GRI CONTENT INDEX

GRI ID	DESCRIPTION OF INDICATOR	NOTES	PAGE NUMBER
ASPECT: PUBLIC POLICY			
103-1	Explanation of the material topic and its boundary		20; 93
103-2	The management approach and its components		20; 93
103-3	Evaluation of the management approach		20; 93
415-1	Political contributions	As envisaged by the Code of Ethics, Italgas does not make any direct or indirect contribution in any form to political parties, movements, committees, political organisations or trade unions, nor to their representatives and candidates, except for those specifically mandated by applicable laws and regulations.	94
ASPECT: CUSTOMER HEALTH AND SAFETY MATERIAL ISSUE: QUALITY AND SAFETY OF ASSETS			
103-1	Explanation of the material topic and its boundary		20; 90-93; 118-120
103-2	The management approach and its components		20; 90-93; 118-120
103-3	Evaluation of the management approach		20; 90-93; 118-120
416-1	Assessment of the health and safety impacts of product and service categories		95-96

Method for reporting non-GRI indicators

As regards its “commitment to the local area”, Italgas has identified not only the indicator GRI 201-1 (Direct economic value generated and distributed) to report on its performance, but also a specific non-GRI KPI related to the amount spent by the Group for sponsorships and donations. This data, reported in the paragraph on “Create value for the territory and communities” is managed as follows:

- _ donation requests are periodically reported (every six months) to the Board of Directors of the company concerned by the initiative, by the Head of the External Communication Department supported by the Human Resources Department (in the case of initiatives aimed at employees);
- _ once assessed by the competent corporate departments, requests received for sponsorship are submitted for authorisation by Italgas’ Chief Executive Officer before preparing the relevant contract.

Furthermore, in relation to the topic “Innovation”, Italgas reported on the investments made. For more details, please refer to the “Investments” section of paragraph 4.3 “Operating performance” on page 84.



1.0

THE ITALGAS GROUP VALUE CREATION PROCESS

Business management meets
sustainability: the essence of
our strategy

1.1 CORPORATE IDENTITY

Italgas is Italy's top gas distributor and the third in Europe: the Group and its affiliates⁷, with 4,049 people working at the various offices across Italy, manage a distribution network spanning 73,058 kilometres overall, through which 8,727 million cubic metres of gas were distributed to 7,749 thousand users over the last year.

The Group and its affiliates hold 1,887 concessions, with a historical presence in Italy's main cities, including Turin, Venice, Florence, Rome and Naples, and a market share of 35%.

It was founded in 1837. With more than 180 years of history behind it, it is unanimously acknowledged as the company that has brought gas into Italian homes, contributing towards the country's social and economic development. It continues to contribute to this day, as epitomised in the methanisation activities in Sardinia, the region where Italgas is constructing the country's most advanced network and where it distributed the island's first natural gas in 2020.

Today, Italgas is above all a company that looks to the future, with clear growth and development objectives and an important investment plan for the progressive extension of the service and adoption of digital technologies, which increase the efficiency of network management every single day.

For over two years, Italgas has been attending to a digital transformation process involving not only its infrastructure, but also its processes and people. Major but necessary efforts are being made to offer effective support to the energy transition.

The Group's business

The core business of Italgas is focused on gas distribution, which it carries out as part of the wider national system, involving the distribution of gas on behalf of sales companies authorised to sell the gas to end customers. In addition to the delivery service, carried out using the local pipeline networks from the city-gates (reduction and metering stations interconnected with the transmission networks), the company also carries out metering activities, which include the collection, processing, validation and provision of consumption data in order to regulate commercial transactions between operators and users.

The operations for the gas distribution business are managed by:

- _ Italgas Reti S.p.A. - which operates nationwide
- _ Toscana Energia S.p.A. - operating in the Tuscany region
- _ Medea S.p.A. – operating in Sardinia.

⁷ The following reported data refer to the Group only: 3,985 employees, 71,185 kilometres of network, 8,477 million cubic metres of gas distributed, 7,595 million users, holders of 1,826 concessions.

Italgas is subject to regulation by the Italian Regulatory Authority for Energy, Networks and the Environment (hereinafter also referred to as the Authority or ARERA), which establishes both the process for providing the service and the distribution and metering tariffs. The gas distribution business is carried out under concession.

The Italgas Group also operates in the field of energy efficiency and saving: Toscana Energia Green S.p.A. and Seaside S.r.l. provide services relating to solar energy from photovoltaics, thermal energy, district heating, cogeneration and public lighting, investing in new technologies for an increasingly profitable use of renewable sources.

Through Gaxa S.p.A., the number one gas Sales Company in Sardinia, the Italgas Group also sells gas, supplying LPG, propane air and methane.

The Group also manages the integrated water service (IWS) of five municipalities in Campania, on a concession basis, through Italgas Acqua S.p.A..

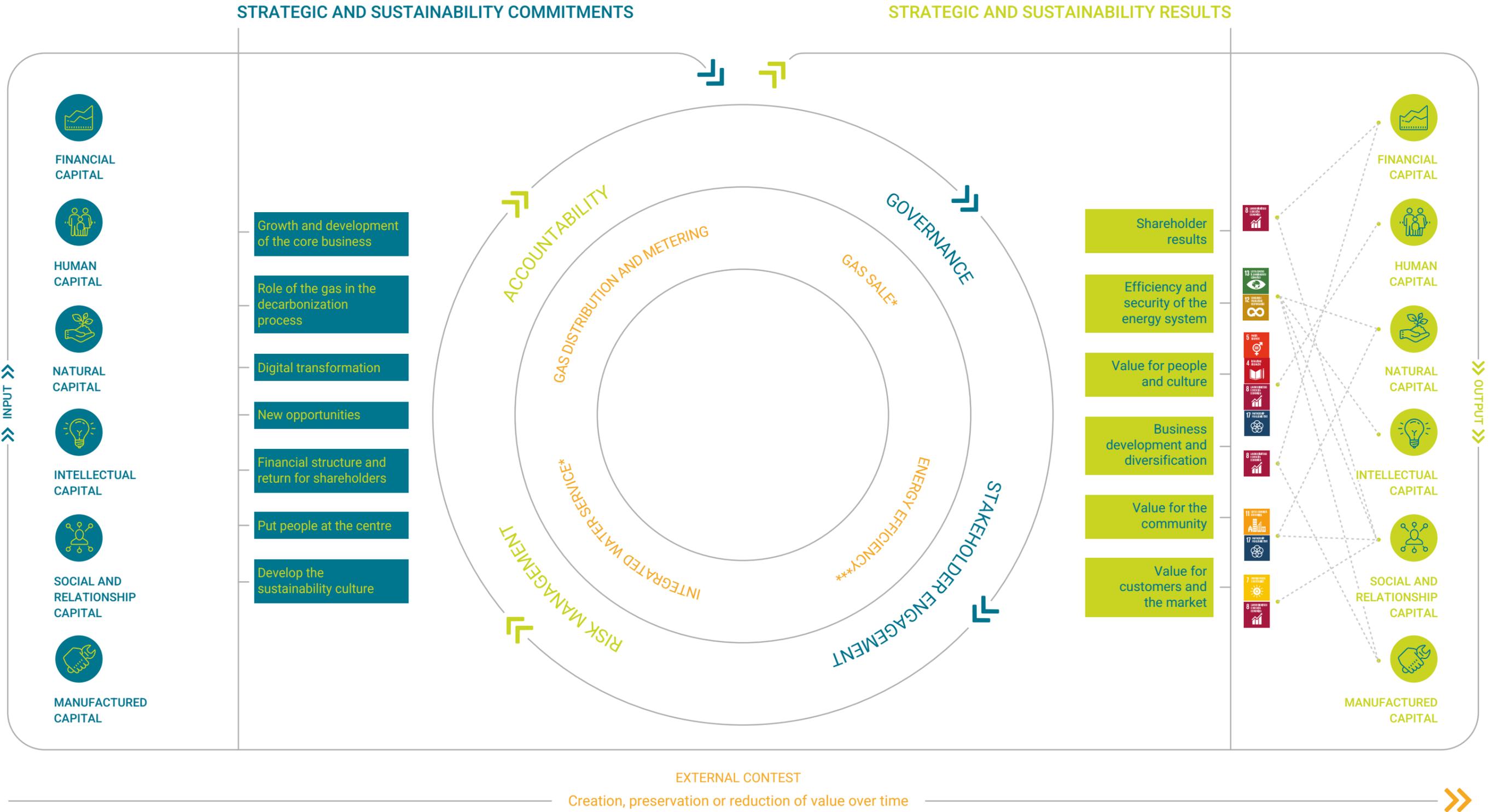
1.2 BUSINESS MODEL

NFS

By its very nature, the company is called on to play a leading role, not only in terms of production and distribution of services, but also to ensure lasting social and environmental benefits - shared value for stakeholders - along the entire value creation chain.

The Business Model below shows the flow by which Italgas creates value over time by transforming its input capitals (value stock), through its activities and processes, into outputs and outcomes, in order to meet its strategic goals and create value in the short-, medium- and long-term:

FIGURE 1 - REPRESENTATION OF THE ITALGAS BUSINESS MODEL IN ACCORDANCE WITH THE <IR> FRAMEWORK APPROACH.



* through Gaxa
 ** through Italgas Acqua
 *** through Seaside and Toscana Energia Green

In the representation of the model, the input capitals correspond to the Group's resources and distinguishing factors, such as the distribution network, know-how, people and stakeholder relations, which are used, transformed or enhanced in the various processes.

INPUT CAPITALS



FINANCIAL CAPITAL

Financial capital guarantees the cash flows needed to ensure investments, infrastructure management and achievement of the growth and diversification goals.



HUMAN CAPITAL

Human capital is made up of all the people at Italgas and their skills, knowledge and experience.



NATURAL CAPITAL

Natural capital consists of the environmental resources used by the Group to carry out its activities, including the environmental resources themselves, such as natural gas, which enable the Group to provide the service.



SOCIAL AND RELATIONSHIP CAPITAL

Social and relationship capital consists of the relations built and preserved by Italgas within the community and with its reference stakeholders.



INTELLECTUAL CAPITAL

Intellectual capital is made up of company know-how, company processes and systems enabling optimum management of business activities.



MANUFACTURED CAPITAL

Manufactured capital is made up of the Group's assets.

The input capitals are greatly affected by the organisation's strategic planning and sustainability elements, such as the Italgas Group 2020-2026 Business Plan and the Sustainability Plan. These elements constitute the primary trajectories along which the Italgas Group operates; in detail:

- _ Digital transformation
- _ Growth and development of the core business
- _ Role of gas in the decarbonisation process
- _ New opportunities
- _ Financial structure and return for shareholders
- _ Put people at the centre
- _ Develop the sustainability culture.

The operations of the Italgas Group are also included in the business model. Below are the key processes of these operations:

- _ Governance processes;
- _ Business processes;
- _ Support processes;
- _ Control processes.

FIGURE 2 - REPRESENTATION OF THE ITALGAS GROUP VALUE CHAIN



[^]In the case of the value chain for the energy efficiency process, commercial activities take place before operations.

* through Gaxa

** through Italgas Acqua

*** through Seaside and Toscana Energia Green

Responsible governance, stakeholder engagement, risk management and accountability play a key role in ensuring the proper and efficient management of activities along the entire value chain. A detailed description of these is provided in the "Governance, risks and opportunities" section.

Lastly, the model shown includes the **Strategic and Sustainability Results**, detailing the United Nations Sustainable Development Goals (SDGs) of reference and the link to the **output capitals**, which represent the impacts generated by the Group's business.

1.3 EXTERNAL CONTEXT, MARKETS AND ITALGAS SHARE

COVID-19 emergency

NFS

The COVID-19 pandemic, which broke out in late February 2020 and is still ongoing, is putting the resilience of Italy's entire social, healthcare, political, economic and industrial fabric to the test. Faced with a situation of severe instability, Italgas reacted promptly from the outset to protect the health and safety of its people, while ensuring the continuity of essential services to the over 7.7 million customers served in 1,887 municipalities nationwide⁸.

Decisions relating to the health emergency and organisation of work were immediately entrusted to an internal Crisis Committee, composed of the heads of the company's main departments. This Committee operated in line with the national health provisions and in continual contact with local and national competent Authorities.

The utmost attention was paid to protecting employees. The Company took out specific COVID-19 insurance, provided free prevention measures (voluntary serological, antigen and molecular tests) and immediately procured and distributed safety equipment (masks, gloves, coveralls, sanitiser gels) to all offices and technical units. Employees are also continually updated by means of regular memos on the regulatory measures stemming from the Government Decrees and any repercussions on work activities which, where not strictly necessary, were, and still are to this day, carried out remotely in smart working mode.

The digitisation process of networks, processes and people, launched in 2017, facilitated the prompt reorganisation of work. In the short space of a weekend, from 7 to 9 March 2020, during implementation of the measures set by the government for the first lockdown, we were able to transfer most activities online, with no repercussions for day-to-day operations.

Use of the cloud and provision of a number of digital devices for all personnel reduced mobility and enabled smart working across Italy. With activities organised in this way, the average number of people connected every day via collaboration platforms on all devices (Teams, Zoom, Webex, etc.) rocketed from 200 to over 2,000 in just 24 hours. These numbers are significant, and, at full potential, with the ongoing limitations on unnecessary travel, a daily average of 2,100 people were recorded as being operative, with almost 1,000 virtual meetings and 30,000 (with peaks of 35,000) messages in chat.

⁸Data includes the affiliates over which Italgas does not exercise control.

The effects of the digital transformation of assets and processes have brought structural benefits, including for the reduced movement of people working on technical activities. With the development and use of innovative technologies, such as “Gas Leakage Detection”, “ShareView” and “WorkOnSite”, it was possible to manage the network remotely and efficiently, increase checks in the local area and reopen and manage the worksites in complete safety from as early as May 2020, during the first relaxing of the restrictive measures.

The Italgas Group also took steps to support the national health system, by donating to 7 hospitals up and down the country and to the Civil Protection. The Group’s employees also contributed to these initiatives by joining the charity campaign “Insieme per l’Italia, dona una tua giornata alla lotta contro il Coronavirus” [Together for Italy, donate your day to the fight against Coronavirus], which collected the equivalent in money of approximately 7,000 hours of work, an amount which was then doubled by the company.

Significantly adverse effects of the ongoing pandemic are not reasonably foreseeable on the Italgas business model. The Group has proven that it is able to react promptly and effectively to the difficulties encountered, guaranteeing its usual operating efficiency while continuing to protect its people. The operating and economic effects of interrupting the activities and the resulting delays in the implementation of the corporate plans were significantly absorbed during the year, showing just how resilient the company is when faced with events of this nature and entity.

For more information, see the “Coronavirus Emergency and Business Outlook” (5.6, page 146) paragraph in this document.

1.3.1 Macroeconomic scenario and market trends

The significant reduction in economic activity caused by the restrictions due to the need to reduce the spread of the disease, with the USA PIL suffering its biggest ever drop (more than -30%; almost -12% in the Eurozone) in the second quarter, and the sharp rise in unemployment that followed (reaching almost 15% in April in the USA, more than 4 times pre-COVID levels), called for major expansionary measures by the monetary and fiscal Authorities.

To provide liquidity to the market and drive down bond yields, with a view to supporting economic recovery, the ECB launched an emergency asset purchase programme, increasing it from an initial € 750 billion to € 1,850 billion, until at least March 2022. It also introduced new refinancing operations with negative rates in the bank system and improved the terms and conditions of the refinancing operations linked to the reinvestment of funds in the real economy (TLTRO III), bringing the interest rate applied up to 50 basis points (bps) below the rate on deposits (i.e. not higher than -1% in total). In terms of fiscal policies, all the world’s main economic areas launched major public expenditure programmes aimed at mitigating the economic impact of the pandemic. The EU, in particular, decided to suspend the balanced budget rule and approve stimulus measures based on supporting the energy transition and digitisation (€ 750 billion Recovery Plan).

The adoption of highly expansive policies by central banks led to a significant reduction in real sovereign bonds yield,

which dropped to all-time lows in the Eurozone and USA. Meanwhile, the fiscal support policies and subsequent improvement of the outlook following the announcement of the forthcoming availability of vaccines supported the recovery of inflation expectations, which, after an initial fall due to the impact of the health emergency, gradually recovered, before returning to pre-pandemic levels overall. As a result, the US Treasury nominal yield fell by 101 bps (from 1.92% to 0.91%), against a contraction of 38 bps of the German Bund (from -0.19% to -0.57%).

In view of the monetary support provided by the ECB and the aforementioned tax measures taken by the EU, which prioritised those countries most affected by the pandemic, the 10-year BTP-Bund spread closed 2020 down 49 bps (111 bps from 160 bps), at its lowest since March 2016.

In terms of currency, the EUR/USD strengthened by almost 9% (to 1.22), supported by improved cohesion at European level, as a result of the previously mentioned suspension of the balanced budget rule, adoption of the Recovery Plan and the monetary support provided by the ECB, together with the improved risk appetite following the announcement of vaccines.

1.3.2 2020 Trend and Italgas stock

Global equities were highly volatile in 2020, depending on the developments of the COVID-19 pandemic, its spread in China and throughout the world, and the adoption of monetary and fiscal policies to counter the recession.

The first weeks of the year saw Euro Stoxx return to 12-year highs, due to the US/China trade agreement in late 2019, while share prices dropped sharply from the last week of February, following the spread of the COVID-19 pandemic and the restrictive measures taken as a result to limit contagion. After the highs recorded on 19 February, rising COVID-19 cases outside China, and in Europe in particular, led to a 16% drop in the Euro Stoxx in the subsequent two weeks. This contraction then increased by a further 25% in the ten days following 9 March, when Italy introduced the first generalised lockdown measures in Europe. In the month from 19 February to 18 March 2020, the Euro Stoxx fell 37% overall. The S&P 500 suffered essentially the same dynamics. In the months that followed, the recovery in share prices was made possible by the adoption of hyper-expansive policies by the monetary and fiscal Authorities of the main economic areas, aimed at countering the contraction in economic activity, as well as by the announcement of a number of vaccines. Overall, with share prices adjusted after the ex-dividend date, the Euro Stoxx share index closed up 0.8%. Compared with the European share indexes, US indexes also benefited from greater exposure to the technology sector, which profited from lifestyle changes as a result of the pandemic. This, together with the general depreciation of the dollar, explains the 18.4% rise recorded by the S&P 500, to all-time highs.

There were marked differences at national and sector level depending on the severity of the economic impact of the pandemic. At Eurozone level, the Frankfurt DAX was up 3.6%, against falls of 3.3% for the FTSE Mib, 5.0% for the Paris CAC 40 and 12.7% for the Madrid Ibex 35.

On a sector level, the Euro Stoxx Utilities gained 14.1%, as the third best sector on the share index, clearly outperforming the Eurozone benchmark. This was driven by the integrated operators most exposed to renewables, due to increased electricity prices as a result of the EU

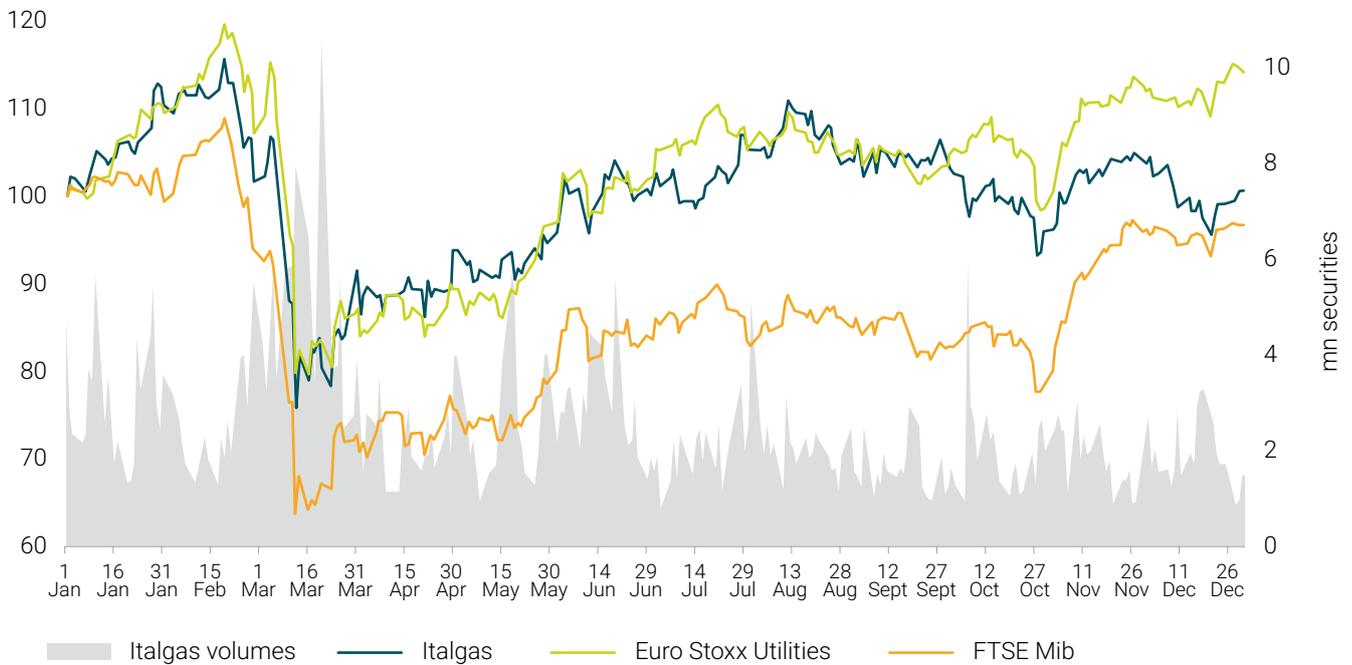
decarbonisation policies and multiple expansion following increased visibility of growth prospects in the aforesaid environmental policies. With regard to the rest of the Eurozone market, the tech and consumer sectors were the best-performing, while banks and oil products significantly underperformed the market because of the overall context.

The Italgas share closed 2020 at €5.20. Considering the dividend of 0.256 per share and a price at end 2019 of €5.44, it recorded a total shareholder return of 0.6%.

From the date on which it was listed in November 2016 to 31 December 2020, the total shareholder return is 56.4%.

During the year, the average daily trading volume of the Italgas stock on the Italian Stock Exchange electronic market was about 2.5 million shares, with a greater concentration of trades around the announcement of quarterly results, the ex-dividend date and updating of the 2020-2026 Strategic Plan, presented in late October 2020.

**COMPARISON OF THE QUOTES ITALGAS, FTSE MIB AND EURO STOXX UTILITIES
(1 JANUARY 2020 - 31 DECEMBER 2020, FIGURES ADJUSTED FOR DIVIDENDS)**



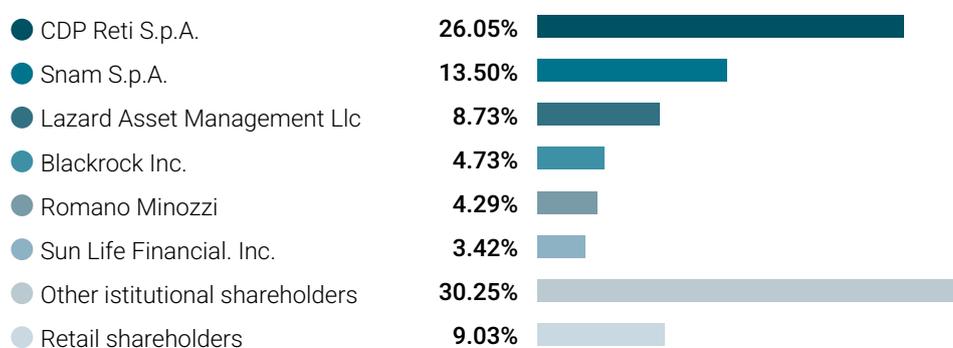
1.4 SHAREHOLDERS

The share capital of the Company as at 31 December 2020 consisted of 809,135,502 shares without par value, giving a share capital value of €1,001,231,518.44.

As at 31 December 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 equity investments (shares exceeding 3%) are represented below.

CONSOLIDATING COMPANY	SHAREHOLDERS	% OWNERSHIP
Italgas S.p.A.	CDP Reti S.p.A. (*) (**)	26.05
	Snam S.p.A.	13.50
	Lazard Asset Management Llc	8.73
	Blackrock Inc.	4.73
	Romano Minozzi	4.29
	Sun Life Financial. Inc.	3.42
	Other institutional shareholders	30.25
	Retail shareholders	9.03

ITALGAS SHAREHOLDERS BY TYPE OF INVESTOR



ITALGAS SHAREHOLDERS BY GEOGRAPHICAL AREA



(*) 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 Consolidated Finance Act, 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 over Italgas pursuant to Article 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.

1.5 SRI INDEXES AND RATINGS⁹

The sustainability ratings of Italgas were reconfirmed or improved on in 2020, and its stock was included in the main international SRI stock indexes, in recognition of the sustainable approach of the company's strategies and activities, as well as the accurate and transparent information it provides to its stakeholders.



The Italgas share was confirmed in the FTSE4Good Index Series, with a rating of 4.2 out of a maximum of 5 points. FTSE4Good gave a positive review of the Group's responses to the rigorous criteria of the independent FTSE methodology in relation to Environmental, Social and Governance (ESG) issues.



The Italgas share was included for the second year running by S&P Global in the Dow Jones Sustainability Index (DJSI) World, with a rating of 82 points. This index includes companies that have excelled around the world in matters of sustainability. In particular, Italgas received recognition for its progress in the field of Supply Chain Management and Environmental Reporting.



Since 2017, CDP (Carbon Disclosure Project) has recognised Italgas as an international leader for the strategies and actions implemented to combat climate change. In 2020 it continued to be included in the "Climate change B List".



The Italgas stock has been confirmed in its position in the ECPI Euro ESG Equity and ECPI World ESG Equity stock. ECPI focuses on the ESG (Environmental, Social, and Governance) performance indicators which determine the sustainability profile of an issuer. ECPI uses an objective approach, differentiated by industrial sectors in the analysis of the ESG data with the aim of translating mainly qualitative information into quantitative indicators thus assigning a score and a rating to each issuer.

⁹ Socially Responsible Investing (SRI).



In 2020, it maintained its E+ sustainability rating with a stable outlook from the non-financial rating agency, Standard Ethics. The Standard Ethics rating is a rating of the degree to which companies and nations comply with the principles of sustainability and governance promoted by the European Union, the OECD and the United Nations.



In 2020, Italgas had its sustainability rating from ISS (Institutional Shareholder Services) upgraded to A- in the context of the ISS ESG Corporate Rating. Italgas also obtained the "Prime" rating, as well as the QualityScore recognition for the "Social" section, proving to be the leader in its sector in terms of sustainability performance.



2.0 STRATEGY AND FORWARD-LOOKING VISION

As leaders of the future, we lead
Italy and Europe in the energy
transition

NFS



SUSTAINABILITY



Core Business Development

Maintenance and upgrade of existing network, new areas methanisation including Sardinia, selective M&A, tenders and foreign opportunities



Digital Transformation

Key for energy transition. Leadership in asset, processes and workforce digitization and technical innovation to reduce costs, increase efficiencies and reliability



New opportunities

Leveraging on existing internal capabilities (Water, Esco, Services) and preparing for the new energy world (Power to Gas project)



Financial Structure & Shareholders' Returns

To ensure value creation, support growth opportunities and guarantee a robust shareholder's return

4 Strategic Pillars

ENABLING A MORE SUSTAINABLE PATH FOR GAS

The 2020-2026 Strategic Plan includes investments for € 7.5 billion and focuses on 4 main trajectories:

- _ developing the core business through organic growth (network construction and maintenance and an increase in the number of redelivery points served), M&As, ATEM tenders and opportunities abroad;
- _ digital transformation and technological innovation, which also enable Italgas to play a key role in the energy transition;
- _ seeking new opportunities for growth in the sectors of energy efficiency and the integrated water service, using all the Group's expertise;
- _ maintaining a sound and efficient financial structure to support the growth opportunities and continue to ensure adequate return for shareholders.

These objectives involve the entire Group in an overall, consistent effort, and are inspired by a model that integrates the sustainability principles at all levels. ESG topics are in fact the matrix in which the four drivers of the Plan are inserted, as well as being the keystone that links them together, guiding investment choices. Choices that meet the environmental, social and governance sustainability criteria and serve to give Italgas a leading role in the processes of energy transition towards the decarbonisation of the economy and consumption, while continuing to ensure the continuous creation of value for shareholders and the local areas where the company is present and operates.



INNOVATION AND SUSTAINABILITY AS THE FOUNDATIONS FOR THE FUTURE

The growth of Italgas, the contribution of the Group's assets to the creation of the net-zero energy mix envisaged by the European Union for 2050 and the very future of the gas distribution sector itself continue to revolve around digital transformation. That is why Italgas has allocated a further € 1 billion to the digitisation of assets and processes, as well as to the reskilling of its people, in the 2020-2026 Strategic Plan. This commitment will be reflected in an overall investment of around € 2 billion in 2022, making the company the world's first utility with a fully digitised network. A digital network is an infrastructure with built-in devices capable of giving and receiving information and can be controlled remotely and in real time. It is a necessary condition for the accommodation and distribution of renewable gases other than methane, such as hydrogen, biomethane and synthetic methane.

Italgas has chosen to transfer this important knowledge base, together with the best practices acquired in gas distribution, to other similar business areas, with the aim of fostering an efficiency boosting process. Within this context, € 240 million of investments was allocated to extending the digital skills to the water network management and energy efficiency sectors, in which the associated companies Italgas Acqua and the ESCos Seaside and Toscana Energia Green operate. In the water sector, the aim is to further improve the quality and efficiency of managed networks by means of a two-level intervention plan. On the one hand, by installing "water smart meters" to replace traditional meters for the 30,000 users served; and on the other, through the widespread installation of sensors along the networks, to enable the monitoring of all operational parameters of the infrastructures at all times, prompt and increasingly accurate detection of any faults and fast intervention in the event of leaks. Similarly, digital know-how is being rapidly and effectively put to use with the launch of various innovative projects aimed at saving energy and reducing the carbon footprint of consumptions. One such project is "Savegas", a service offering energy efficiency measures for buildings, with a turnkey system to cut bills by up to 20%.

Digital transformation also concerns processes and people. In the case of the processes, driving this great change is the Italgas Digital Factory, which, operative since late 2018, has also continued working during lockdown. Inside the Digital Factory, physical and virtual rooms work in agile mode to digitise the company's processes, creating a number of innovations that have further improved day-to-day operations. A practical example of this is the WorkOnSite application, one of the many created by the Digital Factory, which uses artificial intelligence to verify the conformity of worksites and the progress of works remotely (which was crucial in enabling the rapid reopening of worksites

following the lockdown); or ShareView, smart glasses that allow technical experts to support their colleagues even from a great distance, so they can share their knowledge.

As for the people, all Italgas employees have now been provided with at least one mobile device and are involved in training, refresher and digital reskilling programmes. This approach proved invaluable during lockdown, to rise swiftly to the challenges of reorganising work and increase everyone's skills. Moreover, with masses of data being collected from our infrastructures, people need to be in a position to interpret and use them in the best possible way.

Sustainability is therefore pivotal to the company's business: it is at the heart of the Group's operational and strategic decisions and, in the long-term, ensures consistency with the principles of respect for the environment, development of people and empowerment of the local communities. In this regard, we can see why, when defining the strategic drivers for 2026, Italgas was guided by the five pillars that represent the basic principles of sustainability with which the company has identified from day one: nurturing an ESG culture, choosing to put people first, creating value for the local area, customers and the market, and helping to make the system safer and more effective. These pillars are translated into objectives and measures for short- to medium-term implementation. They are also the source of the specific policies officialising the company's commitment, including:

- _ The sustainability and stakeholder engagement policy, which defines its vision on environmental, social and governance topics relevant to the corporate identity;;
- _ The Corporate Citizenship Policy, to further consolidate support for the local communities;
- _ The Diversity and Inclusion Policy, to promote matters of diversity and encourage progress and innovation;
- _ The Human Rights Policy, protecting human rights and equal opportunities;
- _ The HSEQE Policy, to promote full compliance with the standards protecting health, safety, the environment and energy performance;
- _ Policy for managing dialogue with all shareholders.

These policies are periodically updated and supplemented.

A key role in the energy transition

The target of a zero-emissions economy by 2050, set by the European Union as part of the Green Deal, has made it urgent for the individual Member States to decarbonise consumptions and reduce the carbon footprint of all manufacturing activities to zero. This urgency is also a great opportunity to ensure a better future for the younger generations.

This is the challenge posed by the transition in progress, which, in terms of energy, translates into a circular economy model based on energy vectors that are decreasingly dependent on non-renewable sources and serve to promote the recycling of agricultural, municipal and industrial waste. Against this backdrop, the role of gas distribution networks will remain crucial, thanks to their widespread nature that makes them strategic assets for the transportation of renewable gases such as hydrogen, biomethane and synthetic methane (e-gases), in the not-too-distant future.

It is common knowledge that digitisation is the true enabler of this process in the gas distribution sector. Digitisation increases efficiency, improves safety, network management and the quality of the service, enables predictive maintenance, for more effective control of the operating parameters, and helps guarantee operation under any conditions.

Having successfully completed the first phase of this transformation process, Italgas is now faced with essentially three challenges:

- _ to complete the construction of a new generation of infrastructures ready to accommodate any type of gas;
- _ to work to reduce fugitive methane emissions, by accurately checking the networks, in accordance with the European Commission guidelines;
- _ to help, by developing Power to Gas technology, mitigate the growing rigidity of the electrical system as a result of the increased generation of energy from renewable sources.

The methanisation plan being implemented by the Group in Sardinia is a perfect example of the new generation of infrastructures devised by Italgas. The networks we are constructing on the island – “digital native” with built-in sensors, designed to accommodate fibre-optic cables – are set to transform gas distribution in Italy and Europe.

Reducing fugitive emissions is another essential challenge to enable the gas sector to meet European environmental targets. From this perspective, the commitment and results of Italgas are unrivalled in Europe. In 2018, the company used Picarro Surveyor, the most cutting-edge technology in the field of network monitoring and the detection of gas leaks; last year, it launched a trial based on the use of drones and satellite images to monitor the above-ground portion of difficult-to-access pipelines, without interrupting the traditional scouting work carried out worldwide to identify new technologies and solutions aimed at making the detection of fugitive emissions increasingly accurate and effective.

Lastly, Power to Gas technology is another way in which gas and electricity sectors are merging, able to offer important solutions to back up the inflexible nature of renewables. With Power to Gas, surplus electricity produced from these sources can be stored and handled in the form of green hydrogen or synthetic methane through the gas networks. This is an important development that gives the storage of renewable energies a spatial, as well as temporal, dimension. Based on the above, Italgas has set up a Power to Gas pilot project in Sardinia, the biggest in Italy, in collaboration with major partners from the world of scientific research. The project launch is scheduled for 2022.



THE SUSTAINABILITY PLAN

The Sustainability Plan, which has reached its third year, consists of 5 key pillars, 12 objectives and short- to medium-term actions aimed at achieving these objectives. In 2020, 41 such actions were carried out.

The fundamental pillars forming the basis of Italgas' sustainability structure are:

- 1. Develop the sustainability culture:** as the keystone for all the pillars of the sustainability plan, the first pillar bears witness to the commitment of Italgas to creating the culture of sustainability and disseminating it to an increasingly widespread extent. The commitment is tangible within the company, through the creation of internal communication tools to communicate the positioning of Italgas and a module on sustainability issues in the training induction; and externally, through the consolidation and reinforcement of membership in national and international sustainability networks, optimisation and improvement of listings in the sustainability indexes, active engagement of SRI investors on matters of sustainability and supply chain monitoring with respect to ESG criteria.
- 2. Put people at the centre:** the main objective of Italgas towards its people is their empowerment and growth. The training activities to improve the skill sets of young people and high-potential individuals continued in 2020, as did the routine training, delivered online. The development of partnerships with the major Italian universities and polytechnics for the engagement of students is now a well-established activity but also one that continues to improve. 2020 saw all personnel using new technological devices, with dedicated digital training provided. In addition, new instruments and channels have been defined to inform all employees, through videos and newsletters, of the welfare services available to them.
- 3. Create value for the territory and communities:** the actions initially planned for 2020 were strongly affected by the COVID-19 emergency, which resulted in almost all of these being postponed. However, right from the start of the pandemic, Italgas focused on ensuring the protection and safety of its people, business continuity for its customers and efficient and immediate support for the local area. The Group swung into action to help the national health system, by donating to various hospitals and the Civil Protection, to which its employees also contributed.
- 4. Create value for customers and the market:** the fourth pillar of the plan focuses on improving communication channels with the sales companies, enabling a more direct relationship of open dialogue and mutual discussion. The plan saw the completion of numerous dialogue initiatives during the year with the sales companies, through webinars, customer satisfaction surveys and discussion and exchange initiatives with consumer associations. Last but not least, the new portal for the management of complaints was launched, with a view to streamlining processes, moving one step closer to the dematerialisation of corporate activities.
- 5. Contribute to the efficiency and security of the system:** the safety of the service provided and energy efficiency are the keystones of Italgas' business. The Group confirms its commitment by defining carbon efficiency and CO₂ reduction targets, with ongoing investments into the digital transformation of assets, with a view to ensuring increased safety, business continuity and predictive maintenance. The gradual efficiency boosting of the network has resulted in lower and lower consumptions in the preheating plants and the use of the Picarro technology has reduced fugitive emissions.



FOR A SUSTAINABLE FUTURE: INTERNATIONAL INITIATIVES AND WORKING TABLES

Since 2018, Italgas is an official member of the Global Compact, the initiative created 20 years ago by the then United Nations Secretary-General Kofi Annan, to promote a sustainable global economy which encourages companies to adopt strategies consistent with development increasingly geared towards social and corporate responsibility. The Global Compact encourages companies all over the world to create a network for sustainable development. To do this, it

requires participating companies and organisations to act in accordance with the 10 universal principles of the Global Compact, which refer to human rights and labour, environmental protection and the fight against bribery.



United Nations
Global Compact



STATEMENT FROM BUSINESS LEADERS FOR RENEWED GLOBAL COOPERATION

In 2020, Italgas, in the person of its CEO, Paolo Gallo, signed the **"Statement from Business Leaders for Renewed Global Cooperation"**. This important statement, promoted to mark the **75th anniversary of the United Nations**, bears witness to Italgas' commitment to achieving an increasingly sustainable, transparent and inclusive business model, year after year. Italgas decided to sign the Statement, which aims to **boost the principles of inclusive multilateralism and cooperation around the world by focusing on the three key dimensions of the ESG** (environmental,

social and governance). The objectives and ideals represent the line of action of Italgas and of many of the world's top companies. The statement was signed by more than 1,000 CEOs from all sectors and countries to mark the anniversary of the United Nations. An anniversary that came at one of the most difficult times the world has lived through in recent economic and social history, but which made the sense of common purpose demonstrated during the meetings with the UN representatives and the companies which, year after year, pursue the **Sustainable Development Objectives (SDGs)**, even more necessary.



OIL AND GAS METHANE PARTNERSHIP INITIATIVE - OGMP 2.0

In 2020, Italgas officially joined the second edition of the Oil and Gas Methane Partnership Initiative (OGMP 2.0), the voluntary initiative aimed at helping companies cut methane emissions in the Oil&Gas sector, created by the Climate and Clean Air Coalition (CCAC) and by the United Nations Environmental Programme (UNEP) and launched for the first time during the United Nations (UN) Secretary-General's Climate Summit in 2014.

From 2020, the initiative was extended to sectors midstream and downstream of the O&G chain, therefore also including all natural gas transportation and distribution activities. The OGMP 2.0, which remains a voluntary initiative, essentially strives to encourage participating companies to adopt increasingly effective and incisive methodologies to control, measure and reduce emissions. To this end, the OGMP requires participating companies to define increasingly accurate company protocols such as to bring about, within five years, a cut in emissions in line with the greenhouse gas emissions reduction targets set by the COP21 conference in Paris, consistent with a 45% cut by 2025, taking the 2015 values as the baseline.

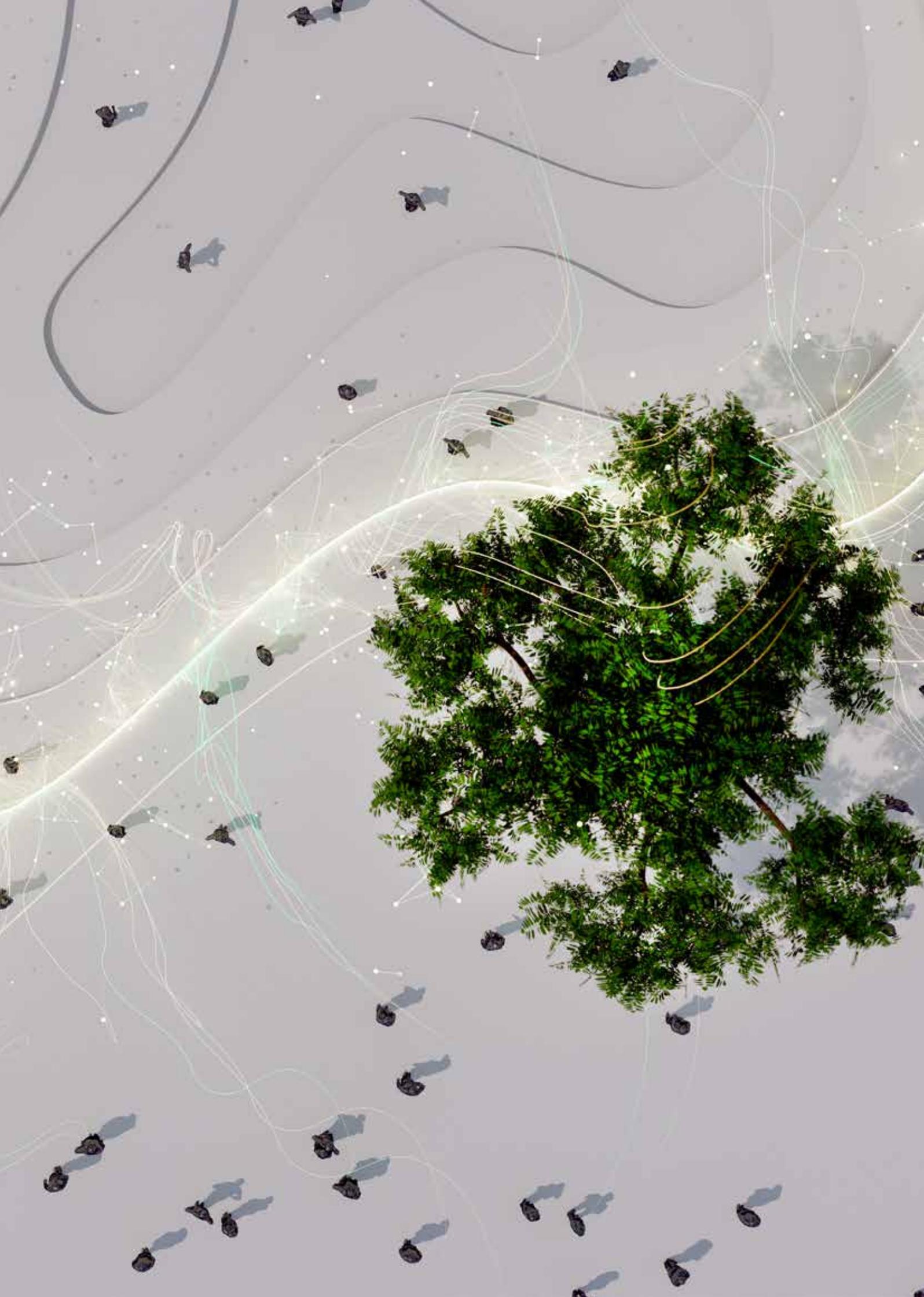
Participating companies are required to report emissions data with an increasing degree of accuracy on five different levels, starting with the overall data

on plants managed, calculated based on standard emission factors, right up to, at the end of the final year, accurate information measured at site-level, for each specific type of plant and material used by the company when carrying out its operations. This major effort is in line with the objectives for continual improvement that Italgas has undertaken in recent years.

In return, companies participating in the OGMP obtain the recognition of a "gold standard" in the management of methane emissions, initially in connection with adherence to the initiative and subsequently confirmed based on the actual progress made towards achieving the announced reduction targets.

During the official presentation of the OGMP 2.0, held on 23 November 2020, attended by the Executive Director of the UNEP, Inger Anderson, the EU Commissioner for Energy, Kadri Simson, the President of the Environmental Defense Fund, Fred Krupp, and the Nigerian Environmental Minister, Mohammad Mahmood Abubakar, Italgas showed its commitment as a company in the Downstream sector on a global level, thanks to the participation of the CEO, Paolo Gallo.

OGMP member companies, including Italgas, are working on defining individual voluntary targets to reduce methane emissions by 2025. These targets are set to be communicated to the UNEP in spring 2021.



3.0

GOVERNANCE, RISKS AND OPPORTUNITIES

Careful and transparent business management to prevent risks and seize opportunities in the sector



3.1 GOVERNANCE

Italgas has adopted the so-called traditional administration and control system, which envisages the presence of the Board of Directors and Board of Statutory Auditors, in office for three financial years, as well as the Shareholders' Meeting and the Independent auditing firm.

The planning, management and control rules and methodologies forming the corporate governance system are defined by the Board of Directors in compliance with the provisions of the civil code and the Unbundling Regulations, using national and international best practices as a reference, in compliance with: (i) the regulations to which the company is subjected as a listed issuer; (ii) the Corporate Governance Code of listed companies, in the latest version of July 2018, issued by the Corporate Governance Committee, which the company adopted on 4 August 2016 (the "Corporate Governance Code"); (iii) the Corporate Governance Code published by the Corporate Governance Committee on 31 January 2020 ("New Code" or "Corporate Governance Code"), which applies from 1 January 2021 and that the Company adopted, within the due date set by the New Code, on 18 December 2020¹⁰.

This system is founded on certain basic principles, such as fair and transparent management of business choices, also ensured by identifying the information flows between corporate bodies and the efficient definition of the internal control and risk management system.

The New Code, adapting to the evolution of international best practices, places growing attention on sustainability, inviting the Board to guide the company by pursuing "sustainable success", creating long-term value for shareholders while considering the interests of stakeholders, rather than shareholders, who have a significant role in guaranteeing sustainability over time on the market the company operates in.

Therefore, the New Code gives the administrative body the responsibility of integrating sustainability objectives into the definition of the strategies and business plan, the internal control and risk management system and remuneration policies.

Shareholders' Meeting

The Shareholders' meeting represents all shareholders and is Italgas' decision-making body responsible, among other things, for the task, in ordinary and extraordinary session, of appointing the members of the Board of Directors and Board of Statutory Auditors and establishing the related fees, appointing the Independent Auditors, approving the financial statements, including allocation of profits, and resolving on the purchase of treasury shares, amendments to the Bylaws and the issue of convertible bonds.

For more information on the functions of the Shareholders' meeting, please refer to the Report on the Corporate Governance and Ownership Structure of Italgas for the 2020 financial year ("Corporate Governance and Ownership Structure Report"), drawn up pursuant to Article 123-bis of Italian Legislative Decree no. 58 of 24 February 1998 ("Consolidated Finance Act").

¹⁰ As indicated in the New Code (see "Introduction"), "the companies adopting the New Code will apply it from the first financial year starting after 31 December 2020, advising the market of the fact in the corporate governance reports to be published in 2022".

Board of Directors

Italgas' Board of Directors is tasked with the ordinary and extraordinary management of the Company and has the faculty to carry out all the acts deemed appropriate for the implementation and achievement of the corporate purpose, with the exclusion of the acts which, pursuant to applicable legislation and the Bylaws, are reserved for the Shareholders' meeting.

In accordance with the provisions of its Bylaws, the Company is administered by a Board of Directors made up of 9 members. All the Italgas director possess the integrity requirements laid down by current legislation, and an executive director, seven non-executive directors and a chairman without management powers is appointed from among the same. The composition of the Board of Directors respects the company policies with regard to diversity in relation to aspects such as age, gender composition as well as training and professional background. Demonstrating the importance of this issue, in 2018, the Group prepared a "Diversity of corporate bodies policy", a specific document summarising these policies (as well as their objectives and methods of implementation). This was approved by the company's Board of Directors on 24 January 2019 and has recently been updated at the proposal of the Appointments and Compensation Committee, with Board of Directors' resolution of 25 January 2021, in order to bring it into line with the New Code.

In particular, with regard to the 2020 financial year, the Board of Directors is made up as follows:

- three Directors of the less represented gender, equal to one third of the total composition, in compliance with gender balance requirements¹¹;

- five directors qualified as independent on the basis of both the requirements of independence of the Consolidated Finance Act (Article 147-ter, subsection 4 and 148, subsection 3 of the Consolidated Finance Act), and of the Corporate Governance Code (Article 3) and a Chairman, independent pursuant to the Consolidated Finance Act.

The Board is characterised by the age structure diversity of its members, considering that the Board directors are aged between 41 and 66, and by diversity of geographical origin and experiences, including those abroad.

The educational and professional profiles of the Board directors currently in office (lawyers, engineers, economists, university professors) guarantee a balanced distribution of experience and expertise within the corporate body suitable to ensure that the functions are performed correctly.

Considering that the company adopted the New Code on 18 December 2020, effective from 1 January 2021, the Board of Directors established the existence of the requirements of independence on 10 March 2021, based on the statements issued by those concerned: (i) on 31 December 2020 on the basis of the Corporate Governance Code and (ii) on 10 March 2021, on the basis of the Corporate Governance Code. On 10 March 2021, the independence of the five non-executive directors mentioned above was confirmed both pursuant to the Consolidated Finance Act and to the Corporate Governance Code. The Chairman was also considered independent pursuant both to the Consolidated Finance Act and the Corporate Governance Code.

STANDARD 405-1 - DIVERSITY OF GOVERNANCE BODIES AND EMPLOYEES

BREAKDOWN OF THE GOVERNANCE BODIES (ITALGAS S.P.A. BOARD OF DIRECTORS) BY GENDER AND AGE GROUP

	MEN		WOMEN	
	30-50	>50	30-50	>50
2018	2	4	1	2
2019	3	3	1	2
2020	3	3	1	2

¹¹ The Board includes three Directors of the less represented gender, equal to one third of the total composition. The composition of the Board of Directors therefore complies with the legislation on gender balance, which was already being applied in advance on a voluntary basis at the time the company was listed and to a greater extent than legally required for the first renewal following listing (1/3 instead of 1/5 as required for the first renewal). Budget law no. 160/2019, in force since 1 January 2020, established that the least represented gender must constitute at least two-fifths of the elected members, instead of the previous quota of one-third. The new distribution criterion of at least two-fifths applies from the first renewal of the administrative body following the date of entry into force of the law and, therefore, on the occasion of the next renewal of the Board of Directors (and the Board of Statutory Auditors), scheduled for the Shareholders' Meeting to approve the financial statements at 31 December 2021.

During the 2020 financial year, the Board of Directors met twelve times and the rate of Director participation in the meetings was close to 100%.

For more information on the Board of Directors, please refer to the Corporate Governance and Ownership Structure Report.

In compliance with the company Bylaws, the Board of Directors set up three internal committees: (i) the **Control, Risk and Related Party Transactions Committee**, set up on 4 August 2016, (ii) the **Sustainability Committee**, set up on 4 August 2016, and (iii) the Appointments and Compensation Committee, set up on 23 October 2017 following the merging of the **Appointments Committee and Compensation Committee** set up on 4 August 2016.

THE COMPOSITION AND FUNCTIONS OF THE BOARD COMMITTEES



CONTROL, RISK AND RELATED PARTY TRANSACTIONS COMMITTEE

It consists of 3 independent, non-executive directors¹².

It provides proposals and advice to the Board of Directors regarding the Internal Control System, risk management and the periodic financial and non-financial reports.



The tasks and functions of the Committee are detailed in the regulations of the Control, Risk and Related-Party Transactions Committee approved by the Board of Directors on 4 August 2016, effective until 31 December 2020. It should be noted that, on 18 December 2020, the Board of Directors approved the new regulations of the Control, Risk and Related Party Transactions Committee, which will be effective from 1 January 2021. The regulations assign the Committee tasks and functions updated in line with the Recommendations of the New Code, including responsibilities for non-financial reporting¹⁴.



APPOINTMENTS AND COMPENSATION COMMITTEE

The Committee is composed of 3 non-executive directors, 2 of whom are independent¹³.

It provides proposals and advice to the Board of Directors regarding the appointment of directors, their remuneration and that of general managers, statutory auditors and executives with strategic responsibilities.



The tasks and functions of the Committee are detailed in the Regulations of the Appointments and Compensation Committee approved by the Board of Directors on 23 October 2017, which were effective until 31 December 2020.

On 18 December 2020, the Board of Directors approved the new regulations of the Appointments and Compensation Committee, which will be effective from 1 January 2021, in which the tasks and functions of the Committee have been supplemented in line with the Recommendations of the New Code¹⁵.

¹² It should be noted that the directors proved independent: (i) pursuant both to the TUF and to the Corporate Governance Code as at 31 December 2020; (ii) pursuant both to the TUF and to the New Code, as at 10 March 2021.

¹³ It should be noted that the directors proved independent: (i) pursuant both to the TUF and to the Corporate Governance Code as at 31 December 2020; (ii) pursuant both to the TUF and to the New Code, as at 10 March 2021.

¹⁴ The new Regulation of the Control, Risk and Related Party Transactions Committee can be consulted on the Company's website https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/Regolamento-Comitato-Controllo-e-Rischi-e-Operazioni-con-Parti-Correlate.pdf.

¹⁵ The new Appointments and Compensation Committee Regulations can be consulted on the Company's website https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/Regolamento-Comitato-Nomine-e-Remunerazione.pdf.



SUSTAINABILITY COMMITTEE

The Committee is composed of 3 non-executive directors, of which 2 are independent¹⁶.

It provides proposals and advice to the Board of Directors regarding the processes and activities which contribute to the company's sustainable development along the value chain, aimed at pursuing sustainable success and for periodic non-financial reports, coordinating with the Control, Risk and Related Party Transactions Committee for evaluation by this committee of the suitability of the periodic, financial and non-financial reporting.



The tasks and functions of the Committee are detailed in the regulations of the Sustainability Committee approved by the Board of Directors on 4 August 2016, effective until 31 December 2020.

On 18 December 2020, the Board of Directors approved the new regulations of the Sustainability Committee, which will be effective from 1 January 2021. The regulations assign the Committee tasks and functions updated in line with the Recommendations of the New Code and the sustainability activities carried out by the Company¹⁷.

Italgas also has a Corporate Social Responsibility unit (CSR) within the External Relations and Communication Department. The CSR unit is responsible for sustainability processes and coordinates the contribution of each company department involved in the various issues.

For more information on the Control, Risk and Related Party Transactions Committee, the Appointments and Compensation Committee and the Sustainability Committee, please refer to the Corporate Governance and Ownership Structure Report.

The Board of Statutory Auditors

The Board of Statutory Auditors supervises compliance with the law and the Articles of Association, respect for the principles of correct administration in carrying out corporate activities, the adequacy of the organisational structure for aspects of responsibility, of the system of internal control and accounting system as well as the reliability of the latter in correctly representing transactions, and how to implement the corporate governance rules provided under the Corporate Governance Code.

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 4 April 2019 for a term of three financial years and in any event until the date of the Shareholders' Meeting called in 2022 to approve the financial statements for 2021.

The Board of Statutory Auditors is made up of five members, three of whom standing auditors and two alternate.

For more information on the Board of Statutory Auditors, please refer to the Corporate Governance and Ownership Structure Report.

¹⁶ It should be noted that the directors proved independent: (i) pursuant both to the TUF and to the Corporate Governance Code as at 31 December 2020; (ii) pursuant both to the TUF and to the New Code, as at 10 March 2021.

¹⁷ The new Sustainability Committee Regulations can be consulted on the Company's website https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/Regolamento-Comitato-Sostenibilita.pdf.

Independent Auditors

External auditing is entrusted in accordance with the law to an independent auditing firm entered in the relevant register and appointed by the Shareholders' Meeting on the reasoned proposal of the Board of Statutory Auditors.

At the Shareholders' Meeting of 12 May 2020, the independent auditing firm Deloitte & Touche S.p.A. was appointed for the period 2020-2028.

Shareholders' agreements

As far as agreements between shareholders are concerned, pursuant to Article 122 of the Consolidated Finance Act, as far as Italgas is aware, the following is noted.

On 20 October 2016 Snam S.p.A. ("Snam"), CDP Reti S.p.A. ("CDP Reti") and CDP Gas S.p.A. ("CDP") signed a shareholders' agreement (the "Italgas Shareholders' Agreement") covering all the shares that the respective parties held in Italgas of consequence and with effect starting on the effective date of the partial and proportional demerger from Snam in favour of Italgas and the simultaneous listing of the Italgas shares, namely 7 November 2016. Amongst other things, the Italgas Shareholders' Agreement governs: (i) the exercise of voting rights attached to the syndicated shares; (ii) the establishment of a consultation committee; (iii) the obligations and procedures for submitting a joint list for the appointment of members of the company's Board of Directors; and (iv) certain restrictions on the sale and purchase of Italgas shares. The Italgas Shareholders' Agreement was filed in copy at the Milan Business Registry on 11 November 2016 and can be retrieved in extract from the company's website at:

<http://www.italgas.it/investitori/azionariato/patti-parasociali/>.

On 1 May 2017, CDP Gas was merged into CDP, to which the Italgas shares held by CDP Gas were transferred. On 19 May 2017 these same shares were transferred to CDP Reti, already party to the Italgas Shareholders' Agreement. On 1 August 2019, the Italgas Shareholders' Agreement was further updated to take into account the reclassification of the equity investment of CDP in Italgas as a de facto controlling interest, pursuant to Article 2359, subsections 1) and 2) of the Italian Civil Code and Article 93 of the Consolidated Finance Act.

On 27 November 2014, CDP S.p.A. ("CDP"), on the one hand, and State Grid Europe Limited ("SGEL") and State Grid International Development Limited ("SGID"), on the other, entered into a shareholders' agreement (the "SGEL Shareholders' Agreement") in the context of the sales contract concluded between the same parties on 31 July 2014 in accordance with which on 27 November 2014 SGEL acquired from CDP a stake equal to 35% of the share capital of CDP Reti. In conjunction with the effectiveness of the partial and proportional demerger from Snam in favour of Italgas and the simultaneous listing of the Italgas shares on 7 November 2016, SGEL, SGID and CDP have amended and supplemented the SGEL Shareholders' Agreement, effective on the same date, extending its application to the stake held by CDP Reti in Italgas. The SGEL Shareholders' Agreement was filed in copy at the Milan Business Registry on 11 November 2016 and can be retrieved in extract from the company's website at:

<http://www.italgas.it/investitori/azionariato/patti-parasociali/>.

Italgas has an Internal Control and Risk Management System integrated into the organisational, administrative and accounting structure and, more generally, a corporate governance system that ensures compliance with the laws and company procedures, protects the company assets and contributes to the management of activities, solidifying the accounting and financial data processed.

The Enterprise Risk Management (ERM) Department, set up to report to the General Manager of Finance and Services, is tasked with overseeing the Group's integrated business risk management process. The ERM activities focus on the definition of a homogeneous, transversal model for assessing the risks, identifying priority risks, ensuring consolidation of the mitigation actions and developing a reporting system.

The ERM methodology adopted by the Italgas Group is in line with the reference models and the existing international best practices (in particular, the 2017 COSO framework relative to the Enterprise Risk Management, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and ISO 31000:2018). The process for the identification, assessment, measurement and management of the risks is carried out periodically, at least once a year, on the basis of the importance of the risk and any changes in context.

The activities directly involve all business departments through dedicated meetings that make it possible to incorporate updates to the information on the description, significance and management of the risks already existing in the portfolio, and the detection of new emerging risks. These activities are carried out in a way that covers the entire scope of the Group and all the potential applicable events. In order to ensure the correct assessment and prioritisation of risk events, the assessment is carried out considering the following potential types of impact: economic-financial; operative; legal, governance and compliance; environment, health and safety; reputation and market. The ERM model establishes an integrated, cross-cutting and dynamic risk assessment that enhances the management systems already existing in the individual business processes. Each risk is assessed using a specific assessment scale that sets out the thresholds of relevance for the Group and attributes a rating to each risk, thereby making it easier to prioritise them. For all risks, the risk ownerships are identified and attributed and the management strategies are defined, broken down into specific actions for dealing with the risk and establishing the relative implementation time.

With reference to strategic risks, the Enterprise Risk Management Department, in coordination with all relevant departments, carries out a specific in-depth analysis of risks, opportunities and uncertainties related to the Strategic Plan. The analysis is conducted using a proprietary Monte Carlo simulation model that uses the information gathered on risks, opportunities and volatility and on related correlations to generate a multitude of alternative scenarios for the evolution of the variables underlying the Strategic Plan and evaluates their overall impact on the value drivers. In addition, specific "what if"

scenarios are identified in relation to the reference context on which the Strategic Plan is based, and the impacts that these scenarios would have on the strategic agenda are then assessed. The analysis allows estimation of the overall volatility of the defined economic and financial targets and evaluation of the level of resilience of the Strategic Plan. The "Risk Analysis" section of the "Strategic Plan" document, which has been approved by Italgas S.p.A.'s Board of Directors, focuses on the output of this analysis.

The Enterprise Risk Management Department draws up specific summary reports on the identification, assessment and management of the risks and shares them with the different company levels. The risks are updated once a quarter, half-year or year, depending on their relevance. The results found in relation to the main risks and related management plans are presented to the Control, Risk and Related Party Transactions Committee at each updating. Moreover, the mapping of risks and the relative management strategies are presented periodically to the Board of Statutory Auditors and the Supervisory Body of Italgas and to the Boards of Statutory Auditors and the Supervisory Bodies of the Subsidiaries.

The Officer Responsible and the Internal Audit department periodically receive the results of the risk assessments performed by the ERM unit.

The Sustainability Committee examines and assesses the integration of ESG aspects into the ERM matrix.

The reconciliation table below shows the main risks mapped in the ERM process being monitored, the management methods and the material topics identified. It is specified that the management methods include those initiatives envisaged on the Strategic Plan that amongst others have the effect of reducing exposure to risk.

For more information on the materiality analyses and material topics identified, please refer to the "Stakeholder engagement and materiality analysis" paragraph on page 18.

It should be noted that, despite the mitigation actions introduced in order to monitor and prevent the occurrence of significant risks, the Company cannot rule out specific events that could lead to the recognition of liabilities in the financial statements.

CATEGORY	RISK	DESCRIPTION	MAIN METHODS OF MANAGEMENT	CONNECTED MATERIAL TOPICS
Strategic/ business-related	Changes in Regulation and legislation	Risk of changes in the regulatory and institutional context in Europe or nationally affecting the natural gas sector. Risk of penalising update of the rate of return on net invested capital recognised by ARERA starting 1 January 2022 according to the update of the reference macroeconomic variables.	<ul style="list-style-type: none"> – Specific structures for monitoring regulation, legislation and their prospective development plans, including in Europe – Active participation in the consultations called by ARERA, sharing corporate positions and/or proposals for defining, updating and implementing clear and transparent regulation criteria – Active participation in consultations called by the Italian government or by European community organisations on relevant topics – Guidance aimed at defining unified trade positions in Italy and abroad 	Economic performance and financial sustainability
Strategic/ business-related	Climate Change	Risk of increase in the frequency of extremely intense natural events in the places where Italgas operates (more or less prolonged unavailability of assets and infrastructure, increase in repair and insurance costs, service interruption, etc.) EMERGING RISK: ¹⁸ Risk of increase in the average temperatures in the areas where Italgas operates with a negative impact on the volumes of gas distributed and/or on the number of active re-delivery points served EMERGING RISK: Risk of changes in the Italian and EU legislative and regulatory context in terms of GHG with the objective of limiting emissions, for instance through the introduction of measures that require natural gas distributors to acquire certificates to cover emissions. EMERGING RISK: Risk of technological changes that could lead to a negative impact on the residential demand for natural gas. EMERGING RISK Risk associated with the uncertainty of the role of natural gas in the future energy mix	<ul style="list-style-type: none"> – Operational countermeasures as described in the "Service continuity: malfunctioning, accidents or extraordinary events" risk – Objective to reduce emissions by at least 20% by 2026 – Use of Picarro Surveyor technology, currently the most advanced technology in the field of gas network monitoring activities, with significant benefits in terms of speed of execution, extent of the areas being controlled and three times greater sensitivity of detection of gas in the air than those currently used by sector operators (parts per billion versus parts per million) – Process of converting the almost 72,000 kilometres of network into digital infrastructure in order to enable the distribution of gas other than methane, such as hydrogen and biomethane – Development, implementation and adoption of digital applications for the remote control of network and facility construction, development and maintenance worksites – Conversion to methane of the distribution networks supplied by LPG, with resulting reduction in emissions compared to the current configuration – Actions to modernise the network (investments in maintenance, replacement of cast iron pipes with mechanical joints, renovation of upright columns and brackets) – Promotion of responsible business practices, by joining the UN Global Compact and the OGMP 2.0 of the UNEP – Guidance to define the associative sector positions in Italy and abroad – Active participation in consultations called by the Italian government or by European community organisations on relevant topics – Active participation in the activities of European sector associations to oversee technological changes – Carrying out energy efficiency projects through the subsidiaries Seaside and Toscana Energia Green – Investments intended to increase the Group's presence in the water and energy efficiency sectors – Promotion of sustainable mobility – Development of Power to Gas technology powered by renewable energy in order to produce gas that can be used in the existing networks – Network and facility analysis initiatives for the evaluation of their adequacy and of interventions intended to enable the distribution of gas other than methane, such as hydrogen, biomethane and e-gases 	Corporate identity Environmental sustainability and the fight against climate change Economic performance and financial sustainability Quality and safety of assets Innovation
Strategic/ business-related	Risks associated with the development and awarding of area tenders for the gas distribution service	Risk of not being awarded concessions in the planned areas or being awarded concessions with less favourable conditions than previously. Risk of higher management costs borne by the Group with respect to its operating standards in case of concessions awarded in ATEMs (Minimum Territorial Areas) previously managed entirely or partially by other operators. Risk of legal and/or arbitration disputes with possible negative effects on the business and the equity, economic and financial position of the Italgas Group deriving from the complexity of the legislation that governs the expiry of the concessions held by Italgas. Risk that the redemption value of the concessions, for which a third party is an assignee following the area tenders, is lower than the value of the RAB, with possible negative effects on the business and on the equity, economic and financial position of Italgas.	<ul style="list-style-type: none"> – The existing legislative context states that in the event of failure to be awarded concessions previously managed, for the networks it owns, the outgoing operator is entitled to the redemption value – Specific procedures that govern the pre-tender activities, including calculation of the redemption value, and participation in area tenders – Monitoring of legislative changes (national, regional, local) and evaluation of the potential impacts on the tender process – Planning of the Tender calendar and the bidding strategy integrated into the Group's Strategic Plan. – Critical analysis of the quality of the tender bid and implementation of improvement measures, including through use of external experts, organisations and universities 	Corporate identity Economic performance and financial sustainability

¹⁸ Risk for which the potential effects for the company and/or sector refer to a medium to long-term time frame.

CATEGORY	RISK	DESCRIPTION	MAIN METHODS OF MANAGEMENT	CONNECTED MATERIAL TOPICS
Strategic/ business-related	Risks related to energy efficiency certificates	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	<ul style="list-style-type: none"> – Established a specific provision to cover the liabilities associated with the Energy Efficiency Certificates – Process for the acquisition of Energy Efficiency Certificates and the management of related obligations – Monitoring of legislative changes – Active participation in working groups and development of sector position papers with proposals for guidelines for reviewing the rules of the EEC system – Optimised purchasing strategy through access to the market, evaluation and development of any reports for bilateral agreements, periodic reporting to company management – Presence in energy efficiency sectors through the development of projects with partial reduction of the EEC short position 	<p>Environmental sustainability and the fight against climate change</p> <p>Economic performance and financial sustainability</p>
Financial	Credit Risk	Risk of potential losses arising from counterparties failing to fulfil their obligations or delayed payment of amounts owed with negative effects on the financial results and financial position of Italgas	<ul style="list-style-type: none"> – Rules for customer access to the gas distribution service 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 31 December 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 96% of trade receivables relating to gas distribution are settled by the due date and over 98% within the following 4 days, confirming the strong reliability of the customers – Analysis and monitoring of the credit portfolio – Assessments of initiatives for outsourcing to external companies specialised in credit recovery. Monthly monitoring of the activities and performance of the appointed companies 	Economic performance and financial sustainability
Financial	Changes in interest rates, inflation and deflation	Risk of fluctuations in interest rates, impacting the market value of the Company's financial assets and liabilities and its net financial expense. The risk that 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. Risk of an unexpected increase in the inflation rate with possible adverse effects on expected costs.	<ul style="list-style-type: none"> – Process for the preparation and monitoring of the financial and management plan, and control and reporting of financial risks – Financial planning activities with a time frame of 7 years, carried out annually – Maintenance of a debt ratio between a fixed rate and floating rate to minimise the risk of rising interest rates (as at 31 December 2020, 13.5% of the gross financial debt was at floating rate and 86.5% at fixed rate) – Use of a diverse mix of external financial resources (bonds subscribed by institutional investors, 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]) – Monitoring of the main economic and financial indicators, including financial structure indices used by rating agencies, liquidity indicators and liquidity buffers, risk indicators of counterparty liabilities, and of certain key parameters, such as the ratio between debt and the RAB, indicators of debt mix/composition (fixed/variable, short/long, used/agreed) 	Economic performance and financial sustainability
Financial	Liquidity Risk	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.	<ul style="list-style-type: none"> – Process for the preparation and monitoring of the financial and management plan, and control and reporting of financial risks – Financial planning activities with a time frame of 7 years, carried out annually – Loan agreements related to undrawn credit lines as at 31 December 2020 (amounting to € 500 million) which may be used to address possible liquidity needs, where necessary, if the actual borrowing requirement is higher than estimated – Adequate level of cash held in current accounts and fixed-term deposits with leading banks – The EMTN programme, in addition to funding from the banking system, which presently allows issue of the remaining bonds worth a nominal €2.65 billion to be placed with institutional investors – Monitoring of the main economic and financial indicators, including financial structure indices used by rating agencies, liquidity indicators and liquidity buffers, risk indicators of counterparty liabilities, and of certain key parameters, such as the ratio between debt and the RAB, indicators of debt mix/composition (fixed/variable, short/long, used/agreed) 	<p>Corporate identity</p> <p>Economic performance and financial sustainability</p>

CATEGORY	RISK	DESCRIPTION	MAIN METHODS OF MANAGEMENT	CONNECTED MATERIAL TOPICS
Financial	Credit rating risk	Risk of a downgrade in Italgas' credit rating due to worsening in the economic and financial parameters or due to a downgrade of the rating of the Italian Republic, which, based on the methodologies adopted by the rating agencies, could trigger a downward adjustment in Italgas' rating	<ul style="list-style-type: none"> _ Process for the preparation and monitoring of the financial and management plan, and control and reporting of financial risks _ Financial planning activities with a time frame of 7 years and carried out annually _ Monitoring of the main economic and financial indicators, including financial structure indices used by rating agencies, liquidity indicators and liquidity buffers, risk indicators of counterparty liabilities, and of certain key parameters, such as the ratio between debt and the RAB, indicators of debt mix/composition (fixed/variable, short/long, used/agreed) _ Constant dialogue with rating agencies 	Corporate identity Economic performance and financial sustainability
Financial	Debt covenant and default risk	Risk of failure to comply with financial covenants for existing 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), which could result in Italgas' failure to comply and could trigger the early repayment of the relative loan	<ul style="list-style-type: none"> _ Absence of financial covenants and/or collateral in the loan agreements (as at 31 December 2020, there were no loan agreements with these characteristics, except for the EIB loan taken out by Toscana Energia, for a nominal €90 million, which requires compliance with certain financial covenants) _ The issue of bonds as part of the Euro Medium Term Notes programme, requiring compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses _ Monitoring of compliance with the following types of contractual clauses: (i) negative pledge undertakings, pursuant to which Italgas and its subsidiaries are subject to limitations regarding the creation of real rights of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) pari passu and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out (as at 31 December 2020, these commitments appear to have been respected) 	Corporate identity Economic performance and financial sustainability
Operational	Anomalies in smart meter performance	Risk of increased levels of malfunctioning of remote-reading meters with lost/failed reading of the use and/or requiring replacement or regeneration	<ul style="list-style-type: none"> _ Maintenance of an adequate provision to cover the liabilities generated by the costs arising from malfunctioning _ Issue of adequate guarantees by the suppliers of materials _ - "Smart Tracker" Digital Factory application for the tracking and management of smart meters throughout the entire life cycle _ Plan to replace and/or repair meters with function anomalies _ Audits on suppliers and supply tests _ Update of technical specifications, including in consideration of technology changes _ Gradual adoption in the field of smart meters equipped with NB-IoT communication technology 	Corporate identity Customer quality and satisfaction Economic performance and financial sustainability Quality and safety of assets Innovation
Operational	Service continuity: malfunctioning, accidents or extraordinary events	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	<ul style="list-style-type: none"> _ Third Party Liability Insurance and Asset Protection coverage _ Procedures and systems for emergency management, emergency plans with measures defined to make facilities safe and guarantee service continuity _ Health and safety procedures, communication campaigns, training and meetings to raise awareness of and analyse the prevention of accidents, initiatives that also involve suppliers/contractors _ Integrated Centre for Supervision (CIS) active 24/7 which makes it possible to monitor the status of the network remotely using remote monitoring systems, manage requests for Prompt Intervention, identify the places that require intervention and monitor the progress of making conditions safe _ Facility and asset safety and network monitoring systems _ Digitisation of the network, for the improvement of real-time monitoring systems and predictive maintenance _ Planned search for leaks using the best systems and technologies (Picarro Surveyor) and with higher levels of annual coverage of the network inspected than the standards defined by ARERA _ Modernisation of the network (investments in maintenance, replacement of cast iron pipes with mechanical joints, plans to clean up upright columns and brackets) _ Actions for the prevention of potential damage to pipes caused by third parties (e.g. other sub-services) _ Qualification procedures for third-party construction, engineering and works supervision companies, contractor monitoring _ Digital Factory for the development of innovative solutions intended to digitise processes and improve the network operating and management activities and the quality of service 	Corporate identity Development of human resources Customer quality and satisfaction The commitment to the local area Economic performance and financial sustainability Quality and safety of assets

CATEGORY	RISK	DESCRIPTION	MAIN METHODS OF MANAGEMENT	CONNECTED MATERIAL TOPICS
Operational	Cyber attacks	Risks of cyber-attacks on the IT (Information Technology), OT (Operational Technology) and IoT (Internet of Things) sectors	<ul style="list-style-type: none"> _ Specific insurance coverage of the risks related to cybersecurity _ Cybersecurity organisational and operational model _ Models and procedures for business continuity, network and information security, and emergency and crisis management _ Specific training for Group employees on cyber risks, common vulnerabilities, phishing and spam _ Phishing simulations for Group employees intended to test and strengthen their ability to recognise malicious emails _ Secure Product Development Lifecycle process which defines an operational and project approach in which the considerations and measures to prevent and mitigate cybersecurity risks are integrated from the very start of the procurement process and/or the development of hardware and software _ Performance of IT and OT vulnerability assessment _ Definition and periodic updating of contract technical specifications, including in relation to cybersecurity _ Leading sector suppliers that guarantee maximum levels of security and performance, the service levels of which are defined by contract and monitored _ "Cybersecurity Awareness for third parties", with which the suppliers of the Italgas Group must formally comply. It promotes the application of appropriate cybersecurity processes by third parties 	<ul style="list-style-type: none"> Corporate identity Compliance and transparency Responsible supply chain management Customer quality and satisfaction Economic performance and financial sustainability Innovation
Operational	Risks associated with the health and safety of people and environmental protection	<p>Risk of injuries due to accidents and/or non-compliance with safety standards.</p> <p>Risk that Italgas may incur costs or liability, including to a significant extent, arising from any environmental damage, including in consideration of changes in legislation on protecting the environment, the possible occurrence of disputes and the difficulty of determining any consequences, including in relation to the liability of other parties</p>	<ul style="list-style-type: none"> _ Specific insurance policies for "individuals", which cover cases of professional and non-professional accidents, and death by illness _ HSEQ system in compliance with the reference standards, certified according to international legislation for aspects of health, safety, environment, quality and energy efficiency, which envisages compliance audits carried out by the certification body _ Research and technological innovation and actions and projects for the energy efficiency of processes, the improvement of plant safety conditions and the environmental recovery of former manufactured gas production sites _ Monitoring of HSEQ legislation, formation and dissemination of applicable legislative oversight. _ Training on HSEQ issues and digital management system for courses (Learning Management System) _ Digital applications for reporting and recording "near misses" and for waste management _ Communication campaigns and meetings to raise awareness about safety and other HSEQ topics for all operating units. Reward systems for virtuous operating structures in terms of health and safety _ Conventions with suppliers/contractors intended to raise awareness/create alignment on HSEQ issues _ Internal procedures that involve specific measures with regard to suppliers/contractors in case of HSEQ non-compliance and reward system for virtuous behaviour (Contractor Safety Trophy) _ Compliance audits on the HSEQ and ISO 37001 integrated system and technical audits on suppliers and contractors during qualification and normal activities <p>With particular reference to reclamation activities:</p> <ul style="list-style-type: none"> _ Established a specific provision to cover the estimated liabilities in relation to the formalities required by the law in effect _ Reclamation process of contaminated sites, which defines the tasks, operating procedures and indications in operations of waste removal, land analysis, establishing safe conditions and/or reclamation of sites contaminated by previous activities _ Structure dedicated to monitoring the design and construction phases. Audits on sites being reclaimed, carried out internally and by third parties, both during the works and for the final inspection 	<ul style="list-style-type: none"> Corporate identity Responsible governance and risk management Development of human resources Environmental sustainability and the fight against climate change Responsible supply chain management The commitment to the local area Compliance and transparency

CATEGORY	RISK	DESCRIPTION	MAIN METHODS OF MANAGEMENT	CONNECTED MATERIAL TOPICS
Operational	Risks associated with human resources	Risks associated with the development of human resources, including risk of resources in key roles leaving, lack of technical and specialist know-how, increase in the age of company personnel, drop in the level of satisfaction and/or increase in workplace disputes	<ul style="list-style-type: none"> _ Knowledge transfer system developed in the Italgas Digital Factory, which involves the video coding of operating activities and real-time instructions available via wearable devices _ Refining of training processes, with a multimedia platform for planning, managing and accessing the various managerial, technical, HSEQ and digital training activities _ Initiatives for the dissemination of the culture and digital knowledge (mapping of digital skills, creation of Digital Ambassadors and training on digital topics) _ Personnel scouting and recruitment process, performance management system and development plans for resources with a role-specific training programme _ Succession plan for senior roles _ Collaborations with Italian universities intended to anticipate talent acquisition _ Definition of organisational structures dedicated to diversity and inclusion and to HR sustainability _ Periodic survey on the corporate climate extended to all Group employees _ System of services and welfare under constant expansion in order to intercept new requirements and expectations _ Italgas Human Rights Policy _ Italgas Diversity and Inclusion Policy _ Mac@Italgas project to provide Italgas personnel already in possession of an iPhone or iPad with a MacBook to replace Windows PCs, guaranteeing an ecosystem capable of ensuring the simplicity of the approach to new digital solutions, driving exchange and collaboration and improving the daily experience 	<ul style="list-style-type: none"> Corporate identity Responsible governance and risk management Development of human resources Innovation
Operational	Risks associated with the quality and level of service	Risk of non-compliance of the commercial levels of service for services to sales companies and/or risk of delayed or partial compliance with the obligations assumed, such as execution of the investments plan related to concessions involving obligations borne by the concession holder	<ul style="list-style-type: none"> _ Continuous monitoring of Key Performance Indicators on commercial processes, alerts and communication to Territorial Hubs for activation/acceleration of territorial interventions _ Ad hoc analysis of all commercial processes and development of improvement measures _ Operating procedures and instructions for Commercial Management of the Service _ Acceleration in improvements to the level of service driven by the digitisation of assets and processes _ Surveys at sales companies _ New Italgas digital portal dedicated to Gas2Be sales companies, developed to strengthen the partnership, facilitate the accreditation process of the network and allow the sales companies direct and immediate access to information and news about Italgas such as the most recent promotions launched in the territory, or about the upcoming webinars designed specifically to increase and improve the exchange of know-how between Italgas and the sales companies _ Allocation to a specific business unit of the responsibility for mapping the existing concession obligations, monitoring and activating the network technical units for Prompt Interventions _ Monitoring of the works progress on the basis of the obligations assumed _ Constant dialogue with contracting parties, including in order to understand and satisfy update requirements _ Introduction of Salesforce (CRM) to support people working at the Italgas Contact Centre in carrying out front-end activities (Customer Service) 	<ul style="list-style-type: none"> Corporate identity Customer quality and satisfaction The commitment to the local area Economic performance and financial sustainability Innovation
Operational	Supply chain risks	Risks associated with the availability and cost of materials, services and supplies, the operating capacity and scalability and the reputational and compliance reliability (including respect for human rights) of the suppliers and contractors of the Group	<ul style="list-style-type: none"> _ Planning of procurement, analysis and monitoring of department KPIs _ Supplier qualification process which provides for specific reputational and anti-mafia checks _ Standardised tender processes and regulations _ Supplier performance evaluation, including in terms of sustainability, integrated into the vendor management module _ On-site checks for the qualification purposes of suppliers deemed critical/strategic _ Technical specifications being continuously updated including in consideration of the technological changes and contractual clauses that govern cases of goods and services exposed to cyber risk _ "Supplier Code of Ethics", which requires a commitment by the suppliers, inspired, among other things, by the information set out internationally in the UN Universal Declaration of Human Rights, the Declaration on Fundamental Principles and Rights at Work and the Conventions issued by the International Labour Organization (ILO) and the Ten Principles of the UN Global Compact, in addition to the contents of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises _ "Cybersecurity Awareness for third parties", with which the Italgas Group's suppliers must comply _ Renewed logistics model with Warehouse Centralisation and management of Withdrawal Points in the territories (UT) and consequent digitisation of monitoring materials in stock/transit 	<ul style="list-style-type: none"> Fight against corruption Compliance and transparency Development of human resources Responsible supply chain management Economic performance and financial sustainability Innovation

CATEGORY	RISK	DESCRIPTION	MAIN METHODS OF MANAGEMENT	CONNECTED MATERIAL TOPICS
Operational	COVID-19, pandemics and new diseases	Risks associated with the health crisis arising from COVID-19 and/or the spread of new pandemics or new diseases that have repercussions on health and safety, on the operating context and on the resulting economic and financial framework of reference of Italgas.	<ul style="list-style-type: none"> _ Formation of a Crisis Committee for the analysis and decision-making associated with the management of the pandemic _ Continuous monitoring of the changes in the reference regulations and scientific solutions for the management of the COVID-19 emergency both nationally and internationally, maintaining constant connections with the Authorities, research organisations and hospitals _ Adoption of the Italgas Group Protocol regulating measures to combat and contain the spread of the COVID-19 virus in the workplace _ Specific indemnity insurance policy for all employees who test positive for COVID-19 _ Campaigns open to all employees for carrying out PCR swab tests, serological tests and flu vaccinations _ Specific operating measures to minimise contact (smart working, review of operating procedures, suspension of transfers and visitor entry), specific safety measures such as the provision of specific routes, temperature scanners upon entry and hand sanitiser towers _ Daily monitoring of positive cases and personnel in quarantine and process for the receipt and management of reports regarding positive COVID-19 cases, which provides for the identification of any personnel who have come into contact with them and activation of quarantine in coordination with health Authorities and local doctors 	<ul style="list-style-type: none"> Corporate identity Responsible governance and risk management Development of human resources The commitment to the local area Economic performance and financial sustainability
Legal and non-compliance	Risk of non-compliance and legislative changes	Risk of non-compliance with legislation at European, national, regional and local level with which Italgas must comply in relation to the activities that it carries out and/or risk of failure to intercept and transpose new regulations falling under the scope of application	<ul style="list-style-type: none"> _ Internal control and risk management system and areas of responsibility defined in terms of compliance _ Code of Ethics, Model 231, Policy for the prevention of and fight against corruption, ISO 37001 anti-bribery certification for Italgas and all Group companies _ Monitoring, analysis, distribution and implementation of legislative measures on topics of interest for the Italgas Group and verification of correct implementation _ Training for personnel on compliance issues _ Analysis and monitoring of the reputational requirements of the Group's counterparties _ "Supplier Code of Ethics", with which the Italgas Group's suppliers must comply 	<ul style="list-style-type: none"> Corporate identity Fight against corruption Compliance and transparency Responsible governance and risk management Development of human resources Environmental sustainability and the fight against climate change Responsible supply chain management Customer quality and satisfaction

3.3 THE INTERNAL CONTROL SYSTEM IN ITALGAS

NFS

In order to ensure the correctness¹⁹, accuracy²⁰, reliability²¹ and timeliness of the information communicated to shareholders and the market, Italgas is committed to promoting and maintaining an adequate internal control and risk management system; these two elements are part of the Corporate Reporting Internal Control System (hereinafter also referred to as the “SCIS”) and should be seen as the set of all instruments necessary or useful to guiding, managing and verifying the corporate business.

In line with the decision to draw up an Integrated Annual Report that includes both financial and non-financial information, in 2020, Italgas launched the alignment of its internal control system also in respect of non-financial information.

The Corporate Internal Control System adopted by Italgas and its subsidiaries was defined in accordance with the provisions of the above-mentioned Article 154-bis of the Consolidate Finance Act that Italgas is required to ensure compliance with, and is based in methodological terms on the “COSO Framework” (“Internal Control - Integrated Framework”, issued by the Committee of Sponsoring Organisations of the Treadway Commission), the international reference model for the establishment, updating, analysis and assessment of the control system in respect of both financial and non-financial information.

The reference “COSO Framework” for Italgas is updated to May 2013 and this is the last version available.

The planning, institution and maintenance of the Corporate Reporting Control System are achieved through the activities of scoping, identifying and assessing the risks and controls (at the business level and process level through the activities of risk assessment and monitoring) and the related information flows (reporting).

The control system structure provides for entity-level controls (CELCs - Company Entity Level Controls) which apply across the entire entity in question (group/individual company), and process-level controls (PLCs).

The controls, both at the entity level and process level, are subject to regular evaluation (monitoring) to verify the adequacy of the design and actual operability over

time. For that purpose, there is provision for ongoing monitoring activities, assigned to the management responsible for the relevant procedures/ activities, as well as independent monitoring assigned to Internal Audit, which operates according to an annual plan agreed with the Executive responsible for preparing the corporate accounting documents (DP), which aims to define the scope and objectives of its actions through concerted audit procedures.

In order to allow for the assessment of the efficacy of the Internal Control and Risk Management System with respect to Italgas’ specific characteristics and the risk profile adopted, the findings relating to the main risks and relative management plans are presented to the Control, Risk and Related Party Transactions Committee.

The results are also used by the Internal Audit Department, which is responsible for ensuring the functionality and adequacy of the internal control and risk management system through the preparation and execution of the audit plans.

Control of presumed breaches of the principles and rules of conduct for company activities is also exercised through the analysis of the reports received, which may also be anonymous, made through the channels prescribed in the Whistleblowing Procedure, applicable to all Group companies.

¹⁹ Reporting reliability: reporting that is correct, complies with generally accepted accounting standards and fulfils the requirements of the applicable laws and regulations.

²⁰ Disclosure accuracy: error-free information.

conscious investment decisions.

²¹ Reporting reliability: reporting that is clear and complete that would enable investors to make

Italgas regulatory system

In accordance with the evolving process aimed at continually improving the effectiveness and efficiency of its internal control and risk management system, Italgas has adopted its own regulatory system comprising the following regulatory levels:

- i. Italgas Enterprise System (level one regulations);
- ii. Process standards and Compliance standards (level two regulations);
- iii. Operating instructions (level three regulations).

The regulatory system also includes as an integral part thereof, the documents belonging to the certified management systems for health, safety, environment, quality, energy and, lastly, anticorruption in accordance with international ISO standard (Policies, Manuals, Procedures and Operating Instructions). Lastly, there are regulatory circulars to govern specific issues (sometimes with temporary validity). The Bylaws, the Code of Ethics, the Corporate Governance Code, Model 231 and the Internal Control System on Corporate Information are placed in the general framework of the Regulatory System, as, although specific tools, the principles that inspire them are recognised as the founding principles of the conduct of the Italgas Group and, therefore, part of the general framework of the entire regulatory system.

These regulatory tools are part of the efficient handling of the Management and Coordination activities performed by Italgas concerning Subsidiaries, and they are subject to regular delivery to, and/or formal adoption by, the Boards of Directors of the Subsidiaries.

3.4 ETHICS AND COMPLIANCE

The Italgas Group operates on the basis of a Corporate Management System comprising an Organisational System and a Regulatory System that defines roles, responsibilities, powers and rules of conduct to be upheld in going about the corporate business. The Corporate Management System is updated continuously with a view to guaranteeing the effectiveness and efficiency of processes, safeguarding the company's assets and ensuring compliance with legislation, thereby allowing Italgas to also direct the management and coordination of the subsidiaries.

The correctness and transparency of business management aim not only to ensure a correct management model and dialogue with stakeholders, but also to prevent corruption.



The Code of Ethics

On 18 October 2016 the Board of Directors approved its Code of Ethics²², which represents a general principle from which no derogation can be made, of the Model 231. It is a collection of the values that the Company recognises, accepts and shares and the responsibilities it assumes within and outside of its organisation. It also contains the general principles of business sustainability and responsibility, as well as recalling the principles which should be complied with on the subjects of the workplace, relations with stakeholders and suppliers and the matter of personal data protection.

The Code of Ethics applies with regard to "Italgas people" or directors, auditors, management and employees of Italgas, as well as all of those who work to achieve the objectives of Italgas, each within the scope of their functions and responsibilities. The representatives indicated by Italgas on the corporate bodies of affiliates, consortia and joint ventures promote the principles and contents of the Code of Ethics within their areas of responsibility. The Supervisory Body acts as guarantor of the principles set forth in the Code of Ethics, reporting back once every six months to the Control and Risks Committee and the Board of Statutory Auditors.

Organisational and management model pursuant to Legislative Decree 231/2001

The Model 231 is a support tool aiming to prevent the administrative liability of the entity and is intended for members of Italgas corporate bodies, management and employees, as well as those operating to achieve Italgas objectives.

On 18 October 2016 the Italgas Board of Directors approved its organisational, management and control model pursuant to Legislative Decree no. 231 of 8 June 2001 (the "Model 231"), intended for members of Italgas corporate bodies, management and employees, as well as those operating to achieve Italgas objectives.

The Italgas Model 231 is updated constantly as legislative reforms are implemented, which alter the list of predicate offences relevant in accordance with Italian Legislative Decree 231/2001.

In application of its Model 231, Italgas appoints a Supervisory Body consisting of three external members, one of whom, acting as Chairman, was chosen from scholars and professionals with proven expertise and experience on legal and corporate issues and corporate economics and organisation. The term of office of members of the Supervisory Body is aligned with that of the Board of Directors which appointed them. The term of office of the members expires on the date of the Shareholders' Meeting called for the approval of

the financial statements for the last year of their office, although they continue to carry out their functions over the ad interim period, until new members of the Supervisory Body are appointed.

Each Subsidiary independently adopts its own Model 231 and constantly updates it according to the specific needs of the corporate context, although the main point of reference is the principles of Italgas' Model 231 and it must take into account the indications and implementation methods laid down by Italgas with regard to the organisational and operating structure of the Italgas Group. Additionally, each Subsidiary sets up an autonomous and independent Supervisory Body.

The Model 231 may be consulted on the Company website https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/07-governance/03-controllo-interno-e-compliance/02-responsabilita-amministrativa-231/Italgas_modello231.pdf.

Anti-corruption

Italgas operates in fighting and preventing any form of corruption both nationally and internationally. The relevance of the corruption risk for the company's activities is specifically analysed and managed in Model 231.

Anti-corruption measures are contained in a specific Procedure that provides a systemic framework for Italgas regulatory instruments in this area, inspired by the principles of conduct set out in the Code of Ethics. The Procedure combines the regulatory instruments Italgas has adopted to prevent any form of corruption in relations with third parties, Public Officials and private individuals, both nationally and internationally, to protect the integrity of the business and the reputation of the Group.

The Procedure applies to Italgas S.p.A. and its subsidiaries as part of the management and coordination activities performed by the Group's corporate body. Adhesion to the anti-corruption measures is also required by suppliers, intermediaries and any subject that may claim liability of Italgas.

²² The Italgas Code of Ethics is available on the Company's website https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/07-governance/02-etica-dimpresa/01-il-codice-etico/Italgas_CodiceEtico.pdf.



ISO 37001

At the end of 2020, Italgas S.p.A. and the subsidiary Italgas Reti S.p.A. have achieved, for the third year running, certification in accordance with standard UNI ISO 37001:2016 that certifies the conformity of the management system for the prevention and fight of corruption.

In addition, during the year, the activities were carried out required prior to obtaining certification of the management systems for the prevention and fight against corruption adopted by Italgas Acqua S.p.A., Seaside S.r.l., Medea S.p.A., Toscana Energia S.p.A. and Gaxa S.p.A. The audits carried out at said companies were completed successfully and certification in accordance with UNI ISO 37001:2016 was therefore also achieved for all the management systems for preventing and combating corruption adopted by the other Italgas Group companies on the dates indicated below: (i) Italgas Acqua S.p.A. (15 July 2020); (ii) Seaside S.r.l. (28 September 2020); (iii) Medea S.p.A. (2 October 2020); (iv) Toscana Energia S.p.A. (4 November 2020); (v) Gaxa S.p.A. (18 November 2020).

The management systems for the prevention of and fight against corruption were certified upon completion of in-depth audits during which the commitment and collaboration was seen of the corporate departments and representatives, supervised by the department for conformity for the prevention of and fight against corruption, in the implementation and observance of the measures adopted in order to assure the adequacy and suitability of each management system for the prevention of and fight against corruption in accordance with standard UNI ISO 37001:2016.

Antitrust

On 18 October 2016 the Board of Directors approved its Antitrust Code of Conduct (the "Antitrust Code") which defines the guidelines of the behaviour which all employees of Italgas and Subsidiaries should conform to in order to guarantee the compliance of Italgas and its Subsidiaries with the principles dictated by the applicable regulations on antitrust issues.

The Antitrust Code applies to the entire Italgas Group as part of Italgas' management and coordination activities and is one of the initiatives aimed both at protecting competition as part of the business culture and at implementing suitable procedures and systems for minimising the risk of violations of antitrust laws, under the broader umbrella of the compliance initiatives of the Italgas Group.

The adoption of the Antitrust Code is part of the broader antitrust compliance programme promoted by the Italgas Group, which develops, inter alia, the establishment of an antitrust department within the Legal Department, which anyone in the Group can apply to for communications concerning the interpretation and application of the Antitrust Code and whenever a situation with potential antitrust risk arises.

By virtue of the evolution that involved the structure and organisation of the Italgas Group, on 27 July 2020, the Board of Directors approved the update of the Antitrust Procedure ("**Antitrust and Consumer Protection Code of Conduct**"), which is published on the Italgas website. This update was preceded by an assessment aiming to verify how up-to-date, in light of the criteria laid down by the Antitrust Authority Guidelines, the Antitrust Compliance Standard already in force for the Group companies effectively was.

A duly updated Antitrust and Consumer Protection Manual is attached to the Antitrust and Consumer Protection Code of Conduct, which also provides an overview of the most important decision-making practices of the Italian Competition Authority. This Manual is a more in-depth instrument available to Italgas Group to carry out training and for any analysis that the Antitrust Oversight may be called to carry out in the exercise of its duties

Information and personal data security

As part of its continuous update and development strategy of an effective system of security governance relating to both physical and intangible assets, Italgas S.p.A. has defined a model that involves the different corporate structures, which are assigned roles and responsibilities with a view to guaranteeing the maintenance of conformity with regulations and the constant monitoring of reference standards and instructions given by the competent Authorities.

As regards the security and classification of information, the Organisational Model implemented by the Company establishes that the Group Security Department shall collaborate with the ICT Department to verify the effectiveness of the security measures applied to the relevant areas, both managed internally and by means

of the support of third parties, identifying opportunities and areas for improvement and promoting the evolution of security measures on information, platforms and applications within scope.

In 2020, Italgas S.p.A. implemented a process revising and reassessing information in protection of the company's information assets and in support of the assessment of security events potentially impacting critical systems and relevant processes, through the introduction of best practices and the pursuit of security improvements.

All activities and initiatives in progress are in line with the instructions and requirements in respect of the confidentiality, integrity and availability of information indicated by the series of standards ISO/IEC 27000.

The risk linked to the theft, loss or alteration of information and company assets is monitored cyclically by the Enterprise Risk Management Unit within the global portfolio of corporate risks.

In addition, the Group Security and ICT Departments collaborate constantly towards the definition, monitoring and reporting of indicators on Information Security in support of the implementation of the Information Security Management System (SGSI), with the aim of assessing the efficiency of the technical/organisational measures implemented by Italgas S.p.A. and promoting the continuous improvement of security maturity levels.

For the relevant topics, on 7 May 2018, Italgas S.p.A.'s Board of Directors approved its Data Protection Organisational Model defined in the Compliance Data Protection Standard, identifying the key figures of the personal data processing system, defining the related roles and responsibilities in relation to the processing of the data, and appointing the Data Protection Officer ("DPO"), identified as the Internal Audit Department, entrusting the same with information and consulting duties, as well as those for overseeing the observance of Directive 95/46/EC (the "GDPR"), co-operating with the Supervisory Authority, all of which furthering the culture of the protection of the data within the company, supporting the assessment of the data protection aspects of each new project which may have an impact on the protection of the data, coordinating the training activities on Data Protection, identified as the Internal Audit Department.

In 2020 Italgas and its subsidiaries continued their process to adapt to the provisions of (EU) Regulation No. 2016/679 "relating to the protection of natural persons with regard to the processing of personal data and rules relating to the free movement of personal data, and which repeals the GDPR directive, which became applicable in all Member States of the European Union from 25 May 2018.

All the subsidiaries, at the time of their Board Meetings, defined and formally approved a Data Protection Organisational Model consistent with the standards which inspired the Italgas Data Protection Organisational Model albeit designed in accordance with their specific requirements and their organisational structure and identified and appointed the DPO.

In 2020, the commitment is highlighted of both Italgas and its subsidiaries in defining and implementing organisational and technological measures with reference to the provisions of Regulation (EU) 2016/679 "on the protection of natural persons with regard to the processing of personal data and on the free movement of such data" and which abrogates the GDPR.

The Data Protection Organisational Model is made operative by the Data Breach Management standard, which aims to identify and assess potential incidents that may harm personal privacy and freedom.

The measures implemented in this area managed to avoid physical-logical incidents in 2020 that could be classified as data breaches or the compromising of corporate systems..

Cybersecurity

The Group Security and Cybersecurity Departments work together, implementing policies and procedures relating to the security of the business. The respective roles and responsibilities are defined through a shared RACI²³ matrix, which allows for the harmonisation of efforts to protect the company's information assets.

Our internal procedures establish that at least once a year, the Group Security Officer (GSO) shall report to the Board of Directors and Control Bodies on the level of conformity with national and international regulations on cybersecurity and the corporate policies on technical-organisational measures able to manage risks and prevent cyber incidents. In addition, the GSO updates the CEO directly and constantly on the topics of interest.

The risks connected with cybersecurity are monitored by the Enterprise Risk Management Department within the corporate risks portfolio. The risks are updated once a quarter, half-year or year, depending on their relevance.

In addition, as regards events or updates relative to Italian and international legislation, specific information sessions are organised towards corporate governance bodies.

Following the commitments established in the strategic plan, the digital transformation and the growing importance of the management of information and data, in addition to defining adequate security policies, staff have also been trained on cyber risks with a series of interactive courses and specific awareness-raising campaigns; at the same time, the alerting system has also been strengthened, with mass dispatch of reporting e-mails in the case of malicious or phishing campaigns. The awareness-raising package also includes courses delivered on the correct management of corporate assets and how to use them outside the company premises.

²³ The RACI matrix (responsibility assignment matrix) specifies the type of relationship between the resource and the asset: Responsible, Accountable, Consulted, Informed. This instrument is used to indicate "who does what" within an organisation.

The activities carried out regarded the following aspects:

- _ **Early Warning & Reporting** towards the corporate governance bodies;
- _ countermeasures, preparation in the case of an event and management of any **data breaches or cyber-attacks** to manage the increasing risk of loss of relevant information for the company;
- _ Processes for **Infosharing and reporting** to top management for the timely reporting of cybersecurity events and threats to IT which could have a potential impact on the interests and activities of the Italgas Group,
- _ implementation of **processes and solutions for the protection, monitoring and correlation of events** from different sources to detect potential cyber security threats.

Through a process of continuous improvement and in order to create a system, the Security and Cybersecurity Units have also prepared organisational and operational

procedures to deal with events that could lead to the management of potential **cyber emergencies with an impact on the provision of services**, to the end operating to maintain business continuity and protect the population.

National and international collaborations with the appointed entities, namely the Postal Service Police (CNAIPIC) and national CSIRT, have also been strengthened and 2021 will see Italgas adhere to the **European Cyber Security Organisation** (ECSO) in order to implement and strengthen its collaboration with the EU Commission, the European Union Agency for Cybersecurity (ENISA) and the competent national Authorities.

In the last three years (2018 - 2020), the evidence available shows that there have been no incidents linked to cybersecurity that resulted in data breach or compromised the company's systems.

Main Key Performance Indicators

NFS

Internal Control System

In 2020, 34 audits were completed of which 8 scheduled, 2 special operative audits and 22 independent monitoring audits. During the first few months of 2020, 2 interventions envisaged by the 2019 audit plan were also completed.

Reports

In 2020, 13 reports were received, of which 12 regarded the internal control system and 1 administrative liability pursuant to Italian Legislative Decree no. 231/2001. As at 31 December 2020, all reports received during the year had been properly processed and of these, 12 had been closed.

	UNITS MEASUREMENT	2018	2019	2020
Total reports received	no.	8	7	13
<i>of which relating to the internal control system</i>		6	2	12
<i>of which relating to other matters (Code of Ethics, mobbing, thefts, security, etc.)</i>		2	5	0
<i>of which relating to administrative liability pursuant to Legislative Decree 231/2001</i>		0	0	1
Reports closed		6	6	12
Reports pending		2	1	1*

*Report concerning the internal control system that will be closed in 2021.

STANDARD GRI 205-2 COMMUNICATION AND TRAINING ABOUT ANTI-CORRUPTION POLICIES AND PROCEDURES

COMMUNICATION AND TRAINING ABOUT ANTI-CORRUPTION POLICIES AND PROCEDURES	U.O.M.	2018	2019	2020 ²⁴
Anti-corruption training*	hours	209	367	3,849
Equity investments	no.	78	302	2,914

* The training considered covers the following subjects: Code of Ethics, Model 231, Anti-corruption, Antitrust and Data Protection.

STANDARD GRI 205-3 CONFIRMED INCIDENTS OF CORRUPTION AND ACTIONS TAKEN

In 2020, as already pointed out in 2019, no incidents of corruption took place (see the table below).

CONFIRMED INCIDENTS OF CORRUPTION AND ACTIONS TAKEN	U.O.M.	2018*	2019*	2020
Total confirmed incidents of corruption		0	0	0
Confirmed incidents of corruption with employee dismissal/disciplinary measure	no.	0	0	0
Confirmed incidents of corruption with termination/non-renewal of contracts with business partners		0	0	0

*The data reported for FYs 2018 and 2019 refer to the companies Italgas Reti and Italgas S.p.A. only.

²⁴In 2020, training hours on anti-corruption increased following the start of an eLearning training course for the whole of the Italgas Group population.





4.0

SUMMARY FIGURES AND INFORMATION

Developing a new generation of infrastructures: quality of service, availability and safety for people

4.1 MAIN EVENTS

Extraordinary and M&A transactions

On 31 January 2020, **the agreement for the sale of some non-core industrial activities between Italgas and A2A** signed on 7 October 2019 **was finalised**. 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.

On 20 February 2020, 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**. The assets transferred include more than 460 thousand re-delivery points in Greece and around 6400 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.

Anticorruption Certification

For the third consecutive year, Italgas S.p.A. and Italgas Reti S.p.A. achieved the **UNI ISO 37001:2016 certification** "Anti-bribery management systems", for Italgas S.p.A. also obtaining the extension of its "anticorruption governance" to all Group companies. The anti-bribery management system, adopted on a voluntary basis, was audited by the independent certification body DNV GL - Business Assurance.

Corporate Governance Code

On 18 October 2020, the Board of Directors voted to comply with the **Corporate Governance Code**, approved in January 2020 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, **as of 1 January 2021**. The company has already adapted most of its procedures to the Recommendations of the new Corporate Governance Code.

Digital transformation

The continuation of the COVID-19 emergency and the considerable additional commitment necessary to guarantee business continuity did not stop the spirit of innovation and the digitisation of processes by the Italgas Group.

In 2020, the new **IoT platform** was launched for all the Group's distribution companies, thanks to which the company's capacity to remote manage not only all new smart meters, but also the new smart components that Italgas is installing along its 71,185 km of network, was strengthened. All data collected from the "field" can today therefore be analysed using big data and analytics instruments that enable further developments to automation and machine learning, so as to guarantee an increasingly high quality, sustainable, efficient, secure service.

The digitisation of the networks has involved the reduction and measurement collection plants (IPRMs) and the Reduction Units (GRFs, GRIs) with the installation of new IoT devices based on the adoption of a new communication standard

"Protocol IEC-104 Version for Italgas": a strategic choice, adopted by all our supplier of the Remote Terminal Units, allowing for the seamless replacement of devices, regardless of make/model.

The Italgas Digital Factory has continued to develop new solutions in support of the digitisation of the network and the management of the end customer. The main innovations of 2020 include: **WorkOnSite** for the remote supervision of works on site, **Smart Tracker** for the optimised management of the life cycle of the new meters, the new portal with new self-service functions for customers (both B2B for the sales companies and B2C for end customers) and **ClickToGas** to digitise and speed up the quotation process for new connections and other customer requests.

Under the scope of the digitisation of people, in 2020 Italgas launched the **Mac@Italgas project**, thereby becoming the first major company in Italy to have adopted Apple technology on all devices used by the whole of the company population (iPhone, iPad and Mac), thereby creating an ecosystem that is fully integrated and able to ensure ease of use and an approach to the new digital solutions.

Rating and optimization of the debt structure

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 0.250%.

The renewal of the EMTN Programme 2020 - launched in 2016 and already renewed in 2017, 2018 and 2019 - was signed on 20 October 2020, at the same time increasing its maximum amount from the previous nominal figure of € 5 billion to a nominal figure of € 6.5 billion.

On 03 December 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.

Winning of area tenders²⁵

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.

Cooperative Compliance

On 29 December 2020, Italgas S.p.A. and Italgas Reti S.p.A. were admitted by the Revenue Agency to the **cooperative compliance regime**, established in order to promote forms of communication and cooperation **with the tax Authority**, based on mutual trust.

²⁵For more details, see the paragraph on "Municipal territories under concession and tenders for territorial areas" on page 86.

4.2 KEY FIGURES

In order to allow for a better assessment of economic and financial performance, the Management Report includes the reclassified financial statements and certain alternative performance indicators, including 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

		31.12.2019	31.12.2020
Number of shares of share capital	(million)	809,135,502	809,135,502
Closing price at the end of period	(€)	5.444	5.200
Average closing price in the period (a)	(€)	5.6421	5.2739
Market capitalisation (b)	(€ million)	4,565	4,267
Exact market capitalisation (c)	(€ million)	4,405	4,208

(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

(€ MILLION)	2019	2020
Total revenues (*)	1,257.9	1,442.2
Adjusted total revenues (*)	1,257.9	1,333.8
EBITDA (**)	907.5	1,027.9
Adjusted EBITDA (**)	907.5	971.4
EBIT (**)	516.0	603.3
Adjusted EBIT (**)	516.0	546.8
Gross profit	547.5	555.6
Adjusted gross profit	479.9	499.1
Net profit	423.6	403.6
Net profit attributable to the Group	417.2	383.0
Adjusted net profit (**)	351.6	364.0
Adjusted net profit attributable to the Group (**)	345.2	345.4
Adjusted Earnings per share (***)	0.427	0.427

(*) Revenue from the construction and upgrading of distribution infrastructure, recognised in accordance with IFRIC 12 and in an amount equal to the costs incurred (€668.7 million and €621.1 million respectively in 2020 and 2019) is shown as a direct reduction of the respective cost items.

(**) The reported and adjusted versions of EBITDA and EBIT, and the adjusted net profit, are not measures allowed by IFRS. For their calculation, reference should be made to the chapter "Non-GAAP Measures" in this report.

(***) The indicator is calculated as a ratio between the adjusted net profit attributable to the Group and the total number of shares, which is 809,135,502.

(€ MILLION)	31.12.2019	31.12.2020
Net invested capital as at 31 December	6,280.2	6,717.5
Shareholders' equity	1,794.9	1,981.0
<i>of which, Group</i>	<i>1,560.4</i>	<i>1,740.9</i>
<i>of which, third parties</i>	<i>234.6</i>	<i>240.1</i>
Net financial debt (*)	4,485.3	4,736.5

(*) Inclusive of the effects deriving from financial payables pursuant to IFRS 16 (€ 76.3 million and € 74.7 million respectively in 2020 and 2019).

4.3 OPERATING PERFORMANCE

NFS

The main operating figures of the Italgas Group in 2020 are shown below.

Investments

In 2020, technical investments were made for €777.5 million (2019: € 740.0 million, up by 5.1%), of which € 26.5 million relating to leases accounted for in accordance with IFRS 16.

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Distribution	463.0	569.0	106.0	22.9
Network development and maintenance	360.6	455.8	95.2	26.4
- of which digitisation	39.7	84.9	45.2	
New networks	102.4	113.1	10.7	10.5
- of which Sardinia	82.8	100.7	17.9	21.6
Metering	179.5	120.8	(58.7)	(32.7)
Other investments	97.5	87.7	(9.8)	(10.1)
- of which Real Estate	32.4	41.7	9.3	28.7
- of which ICT	25.8	25.4	(0.4)	(1.6)
- of which the effect of IFRS 16	39.4	26.5	(12.9)	(32.7)
	740.0	777.5	37.5	5.1

Metering investments (€ 120.8 million, -32.7% compared to the same period of 2019) refer primarily to the final stage of the plan to replace traditional meters with smart meters, which is estimated to be completed within the early months of 2021, ahead of the new Authority provisions.

Key operating figures – Italgas Group

	2019	2020	CHANGE ABS.	CHANGE %
Active meters (millions)	7.573	7.595	0.0	0.3
Installed meters (millions)	8.464	8.515	0.1	0.6
Municipalities with gas distribution concessions (no.)	1,816	1,826	10.0	0.6
Municipalities with gas distribution concessions in operation (no.)	1,730	1,743	13.0	0.8
Distribution network (kilometres)	70,502	71,185	683.3	1.0
Gas distributed (million cubic metres)	8,001	8,477	476.0	5.9

Key operating figures – Italgas Group and affiliates

	2019	2020	CHANGE ABS.	CHANGE %
Active meters (millions)	7.694	7.749	0.1	0.7
Installed meters (millions)	8.597	8.684	0.1	1.0
Municipalities with gas distribution concessions (number)	1,830	1,887	57	3.1
Municipalities with gas distribution concessions in operation (no.)	1,744	1,804	60	3.4
Distribution network (kilometres)	71,761	73,058	1,297	1.8
Gas distributed (million cubic metres)	8,897	8,727	(170)	(1.9)

Meters

As of 31 December 2020, the number of active meters at delivery points, also considering the affiliates over which it does not exercise control, amounted to 7,749 million (7,694 as of 31 December 2019). Excluding the affiliates, the total number of active meters is 7.595 million (7.573 million as of 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 have been modified on multiple occasions over time (Resolution ARG/gas no. 155/08 and Resolution no. 669/2018/R/gas), most recently by **Resolution no. 501/2020/R/gas** that deferred achievement of the minimum replacement target for companies with over 200 thousand clients by one year, taking into account the difficulties of replacement caused by the COVID-19 health emergency²⁶.

In order to comply with these obligations and subsequent updates relating to the commissioning of smart meters, in 2020 the Italgas Group, also considering the affiliates over which Italgas does not exercise control, installed 1,251.8 thousand new meters, of which 822.6 thousand to replace traditional meters and 429.3 thousand to replace digital meters with anomalies. Excluding the affiliates over which it does not exercise control, in 2020 Italgas installed 1,220.4 thousand new meters, of which 793.3 thousand to replace traditional meters and 427.1 million to repair digital meters with anomalies, bringing the current total of smart meters to around 7,490.6 thousand, equal to approximately 88% of the entire stock of active and inactive meters (8,514.7 thousand).

²⁶ For more details on the Authority provisions following the COVID-19 emergency, reference is made to the paragraph on "Coronavirus Emergency - main Authority provisions" on page 153.

Municipalities in concession and local tender areas²⁷

SITUATION AT YEAR END ON TENDERS AND CONTRACTS AWARDED

The following figure shows the presence of the Italgas Group in Italy²⁸.

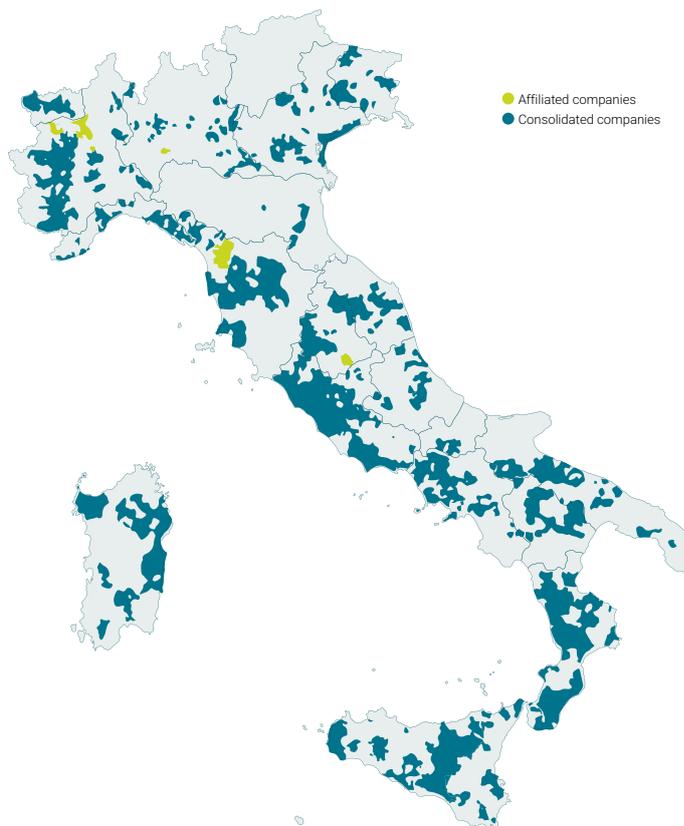
As of 31 December 2020, as a result of the regulatory framework envisaging the award of gas distribution services through local tenders (and not by individual municipality), 34 tender notices have been published, of which only fourteen sent to the Authority, as envisaged in Ministerial Decree no. 226/2011.

Of the 34 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 Plant of Milan has been awarded;
- _ 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;
- _ NAPLES 1 - City of Naples and coastal plant is in the course of being awarded.

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. With **ruling no. 39/2020 of 14 July 2020, published on 1 September 2020**, the Regional Administrative Court of Valle d'Aosta **rejected the appeal** filed by one of the other operators participating in the tender procedure for the annulment of the decision awarding the tender to Italgas Reti. With an appeal served on 2 September 2020, the operator placed third in the tender for the Aosta ATEM reinstated before the Regional Administrative Court of Lombardy the original appeal filed before the Regional Administrative Court of Aosta, aimed at obtaining annulment of the final awarding of the tender to Italgas Reti. Italgas Reti filed an appearance, filing a cross-appeal against the failure to exclude this operator. The outcome of the hearing of 24 February 2021 is currently pending.

With reference to the **appeal** filed by the runner-up operator in the context of the awarding of the tender for the **Belluno** ATEM to Italgas Reti, the company filed an appearance on 14 July 2020. Given the Contracting Authority's commitment not to proceed with the signing of



the service contract until the dispute has been settled on the merits, the plaintiff waived its interlocutory application. The hearing to discuss the merits has been set for 16 June 2021. Pending this, with a ruling of 7 December 2020, the Regional Administrative Court of Veneto rejected the appeal brought by the Municipality of Feltre and other municipalities belonging to the Belluno ATEM (Minimum Territorial Area), with which they requested the annulment of the decision by which the Municipality of Belluno had awarded the ATEM tender to Italgas Reti.

On 30 November 2020, the **delivery of plants** to the **Council of Castel San Giorgio** was signed; this had been officially awarded to Italgas Reti on 21 August 2020.

On 22 December 2020, the Council of Prato, as Contracting Authority, published notice in the Official Journal of the European Union of the restricted tender procedure for award of the gas distribution service in the territorial area called PRATO, with the deadline of 29 January 2021 for the presentation of applications to participate. At present, the management of the public methane gas distribution service is entrusted to Toscana Energia.

²⁷ 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" on page 87.

²⁸ The territorial presence where Italgas exercises control is shown in blue, the presence through affiliates over which it does not exercise control is shown in light green.

LEGISLATIVE AND REGULATORY FRAMEWORK²⁹

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 until 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 was adjourned due to the ongoing health emergency, to 25 November 2020 and, thereafter, to 28 April 2021.

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.

With a subsequent appeal to the Court of Cassation, Italgas requested that the jurisdiction of the Regional Administrative Court of Lazio or ordinary court be established. The hearing was scheduled for 15 December 2020 and, with an order of 12 January 2021, the Court of Cassation declared the jurisdiction of the ordinary court. Italgas therefore resumed the proceedings before the Court of Rome on 11 February 2021. The next hearing is scheduled for 1 July 2021.

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 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 appealed against this last decision, with notice served 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 undertook to provide the Antitrust Authority with the necessary clarifications. On 1 October 2020, Italgas Reti filed a set of commitments. The Antitrust Authority approved the publication of these with Order no. 28371 of 20 October 2020. Therefore, on that date, the Italian Competition Authority (AGCM) admitted the commitments for the market test, setting the deadline for submitting comments at 20 November 2020. Italgas Reti then had the opportunity to examine the comments received and to submit an integrated commitment proposal on 21 December 2020 in the light of the feedback received.

In **Ruling no. 197/2020 of 17 June 2020**, published on 19 June 2020, the Friuli Venezia Giulia Regional Administrative Court partially upheld the appeal brought by Italgas Reti against the **Council of Pordenone**, to ascertain the company's right of ownership of the portion of the network built up to 31 December 1985, returned free of charge at the expiry of the concession, 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.

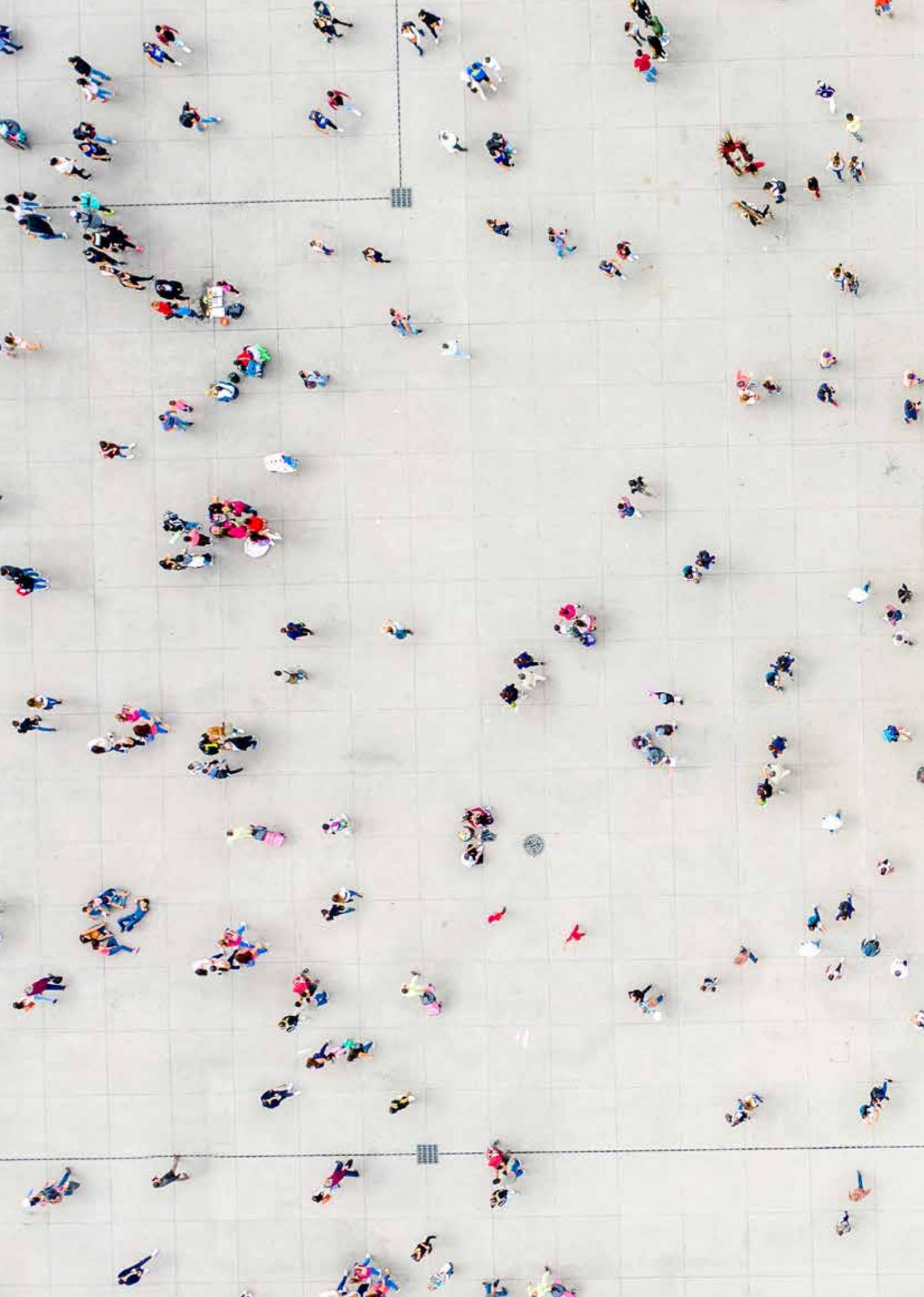
In particular, the Regional Administrative Court: (i) ascertained the Company's right to retain ownership of the network returned free of charge upon the effective cessation of the concession currently under the prorogatio system pursuant to the law, cancelling the deeds whereby the Council had entered said assets as its own and, at the same time, (ii) ascertained the Council's right to obtain ownership of the network developed by the Company under the scope of the housing development plans with deduction of the urbanisation costs. The Council has appealed to the Council of State asking that the ruling be overturned.

With reference to the dispute with the Council of Venice about the possible fee to be paid for the use of the assets constituting "Block A" following the hearing of 29 December 2020, we are currently awaiting a court ruling regarding to the preliminary proceedings.

It should be noted, finally, that the hearings related to the ongoing litigation 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 19 April 2021 and 4 February 2022 respectively.

Similar to the action taken by the Municipality of Venice following the rulings of the Council of State of 2 April 2019 on the confirmation of the free acquisition of the so-called "Block A", the **Municipality of Cavallino Treponti** took **legal action** against Italgas Reti before the Court of Venice, for the verification and consequent payment of the fee for use of the portion of network subject to free acquisition. At the hearing of 17 December 2020, the judge adjourned the case until the hearing of 1 April 2021 for the admission of preliminary evidence.

²⁹ Further information is provided in Note 26 "Disputes and other measures" to the Notes to the Consolidated Financial Statements.



5.0 ITALGAS GROUP PERFORMANCE

Committed to generating value for
people and the communities day
after day

Transparent relations with Authorities, trade associations and citizens

For Italgas, quality of service goes well beyond simple business objectives: continuity, security, accessibility, emergency intervention and comprehensive efficiency of the system are a real assumption of responsibility in regard to the territories served and the end customers. In this context, the Group pays special attention to strengthening the relationship with the sales company, aiming to standardise processes and update the tools and procedures that allow access to services. The operating and commercial activities are carried out with increasingly sophisticated computer systems that allow for a rapid flow of information in contract management. These systems are regularly updated according to the regulations issued by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA), which regulates the services provided by the Italgas Group companies.

The main material topics linked to the social impacts generated by the carrying out of the activities regard:

- _ Reliability, quality and safety of service
- _ Relations with the Regulatory Authority
- _ Transparent relations and collaboration with sales companies

Consistently with the sustainable development model and its strategic growth plans, Italgas invests in the territories in which it operates, promoting continuous dialogue and social, cultural and environmental interventions. In pursuing these interventions, Italgas interfaces with its interlocutors through criteria of transparency, correctness and impartiality, confirming its commitment to the values of collaboration and attention to people and the environment.

Network monitoring

Every year, in order to guarantee the safety and efficiency of the gas distribution networks managed, extensive monitoring of the infrastructures is carried out.

To this end, with regard to the verification of "electrical protection" conditions of the underground steel pipes, the cathodic protection remote monitoring system was again used in 2020 at 14,002 significant points on the network. Moreover, approximately 27,533 cathodic protection measures were carried out with a qualified operator on non-remote controlled points.

An additional preventive control on the reliability of the distribution system, an important source of information for the choice of interventions to be carried out, was the search for gas leaks into the atmosphere.

In 2020, in compliance with the provisions of the Authority Resolution no. 569/19/R/gas, almost all the network managed was subjected to scheduled searches for leaks, recording quality standards that definitely exceeded those established by the Authority.

In this segment, the company has also adopted a new method for searching for leaks, the CRDS (Cavity Rind-Down Spectroscopy) Picarro method, as described below in the chapter on technological innovation.

The results show that, in addition to identifying leaks on aerial parts, which are normally impossible to access using the traditional method, the CRDS technology also performs much better at detecting leaks on underground parts of distribution plants.

At the gas delivery points - city gate - measurement and odourisation takes place (with systems equipped with innovative automatic injection systems that can dispense just the right quantity of odouriser, according to the volumes of gas distributed) and the transit gas pressure is reduced, set to be transported through to the re-delivery points at the individual end customers' premises (domestic or industrial consumers) where the gas is once again measured. In 2020, a total of 30 gas chromatographs (Gretas) were installed for the continuous monitoring of the odourisation level at reduction plants considered to be significant; in 2021, another 70 will be installed. In addition, in compliance with the ARERA provisions, controls were carried out on the degree of odourisation at the significant points of the network, with laboratory gas chromatograph analysis (ACCREDIA certified) totalling 12,398 for natural gas and 136 for LPG.

The Group has 927 reduction and measurement collection plants (IPRM), equipped with a remote control system to guarantee Prompt Intervention both in the event of an anomaly and of limits or interruptions to the regional service, as well as a continuous smart metering system that measures the gas entering its network.

To reduce the gas pressure before delivering to individual end customers, the Company has equipped itself with 1,184 intermediate reduction plants (IRI), 10,952 final reduction units (GRF) and also has 7,917 industrial reduction units (GRI) at the end customers gas delivery point.

In 2020, the plan to convert the distribution networks currently managed with LPG to natural gas, continued. A total of 22 locations were in fact converted (in 13 different municipalities nationwide), which were originally powered by LPG and now have new distribution systems for the supply of methane. The intervention involved extending the network by a total of 152 km.

At present, Italgas Reti has 9 distribution systems used to channel LPG that are approaching conversion to natural gas.

In general, the technical and commercial transactions with end customers are carried out in accordance with specific quality standards established by ARERA, refer to the budgeting and execution of works, supply activation and deactivation, keeping appointments and emergency service timing and, lastly, the odourisation checks carried out. .

Citizen and customer support services

The operative management of quality aspects is hinged on the management systems certified according to ISO 9001 standards and implemented at the level of each individual company. In support of service safety and quality, Italgas has also activated two freephone numbers to be contacted as necessary by citizens and users:

GAS EMERGENCY INTERVENTION FREEPHONE NUMBER - 800 900 999

The service is operative 24 hours a day, 7 days a week. There is one Freephone Number for the whole of Italy for all the Municipalities where the distribution companies of the Italgas Group operate and is shown separately on the gas bill of the sales company, on the websites of Italgas and the Group companies and in the telephone directories of the municipalities served. The service is subject to control by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA). Anyone contacting the Emergency Intervention service is put in direct contact with an operator of the Integrated Supervision Centre and never transferred to another number. The dispatch of all calls is guaranteed and operators respond within a few seconds. Upon receipt of a report, the operators provide initial indications on how to behave in the event of gas leaks, a lack of gas or irregularities in the flow and dispersion. At the same time, the Emergency Intervention unit is activated for the relevant verifications and technical operations, to safeguard citizens, make systems safe and restore the service to normal operating conditions as quickly as possible. Both the call and the technical intervention are free of charge.

CONTACT CENTRE FREEPHONE NUMBER – 800 915 150

There is a single freephone number used for the whole of national territory, for all municipalities in which Italgas Reti operates and it is highlighted on the Italgas website. The service is not subject to any obligations imposed by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA).

By contacting the freephone number, users can receive information about multiple technical and commercial aspects by means of IVR (Interactive Voice Response), with the possibility, where envisaged, of being transferred to a Contact Centre service operator, a service that operates weekdays from 8 a.m. to 8 p.m. and is managed entirely with in-house resources based in Italy. Through the Salesforce applications, Contact Centre operators manage customer requests received over the telephone (with the help of the Genesys application for the telephone bar) and by e-mail, only for the following activities:

- _ scheduled replacements of meters and displays that are not functioning, appointment management, reports of disservices to the Technical Units with respect to the activities described;
- _ information on metrology verifications, estimates and 40/14 documentation;
- _ problems relating to registration on the portal.

In November 2020, moreover, thanks to the use of the Salesforce technology, the new Customer View was launched: a unique view of the customer based on the Salesforce CRM, which enables various corporate units (such as Complaints, Sales, Contact Centre) to have a single tool offering more information about the customer (e.g. personal details, re-delivery points associated and history of the customer/re-delivery point, services requested), with the aim of on the one hand simplifying the work of the in-house staff and on the other of guaranteeing a more efficient handling of the requests of end customers and sales companies.

ONLINE HELP

In order to guarantee the end customer more immediate, direct access to information about the Group and activities relating to the distribution of gas, in 2020, Italgas launched "Help online", a brand new self search tool of more than 90 digital pages of browsable support, accessible from the Italgas website (faq.italgas.it), to quickly find answers to the most frequently asked questions.

CUSTOMER PORTAL

In 2020, the redesign project was launched of the portals dedicated to the end customer MyItalgas, MyMedea and MyToscanaEnergia, with a view to improving the user experience yet further, guaranteeing ever simpler, more user-friendly processes. In the new version of the portal, users needing assistance can access a support section filled with answers and consult their own utility record (re-delivery point, meter serial number, etc.), check the trend of their readings, monitor the services requested and appointments, ask for estimates for construction works or the alteration or removal of the supply system and much more besides. If they have further questions or need to make a report, end customers can ask them and do so directly from the portal.

CONSUMER ASSOCIATIONS

In order to continually improve service quality indexes, 2018 saw Italgas launch a structured, continuous collaboration programme with the world of consumer associations, based on an equal relationship of mutual benefit and trust. This programme consisted, first of all, in a Memorandum of Understanding, which, after lengthy preparatory work started in 2017, was finalised in early 2018 at the Ministry of Economic Development. It was signed by Italgas and 19 of the 20 Consumer Associations recognised by the CNCU (Italian National Council of Consumers and Users).

The general objectives of the Memorandum of Understanding are ongoing improvement of the service provided by Italgas and raising awareness among consumers of the qualities of natural gas and how it is used.

During the first period of protocol implementation, particular importance was assigned to the programme of replacing traditional gas meters with smart meters, so as to better understand how, thanks to the replacement, greater operative efficiency is achieved, which is then reflected on

the consumer, and a greater capacity to provide the sales companies with reliable, timely data on consumption, thereby limiting incorrect billing or that based on estimated readings. At the same time, it offers the customer a tool that can foster responsible consumption and - ultimately - increase customer trust. All this whilst at the same time reducing physical access to the customer's home.

The targeted cooperation between associations and company has also led to the management of user reports of any disservices as quickly as possible and, ultimately, through a comparison with the requests made by the association, to study and implement interventions specifically aiming to limit the number of disservices that are likely to give rise to complaints.

Thanks to the Protocol signed, Italgas and the associations worked together during specific territorial campaigns like, for example, the transformation to methane of the networks previously isolated and managed with LPG or particularly important unforeseen events, in order to facilitate the conversion, limiting, through due information, potential negative fallout impacting the consumer.

In 2020, the cooperation particularly regarded the programme for the methanisation of Sardinia, highlighting the economic and environmental benefits of using natural gas instead of other fuels, with a further focus on the sale of different gases and the start-up of the sale of natural gas on the island, by the Italgas associate, Gaxa S.p.A.

In 2020, Italgas and the associations organised various virtual meetings to examine the main innovations made by the company to assure a more timely, efficient service and reduce complaints and operative malfunctions. The meetings offered an opportunity for updates and tutoring on the use of new functions in the Italgas tools and services, such as those of the Supplier Portal.

In all, seven meetings with consumer associations were organised, of which one centrally, with the national reference persons of the energy industry, and six on a local level. Of these, three concerned distribution and were held respectively in Sardinia, Sicily and Calabria. The other three concerned the commercial area, i.e. the scope of business of Gaxa S.p.A., with a specific focus on the regulation of the sale of gases other than natural gas.

In all, on a local level, 75 local operators of the associations were reached, i.e. the people who come into contact with the end consumer on a daily basis.

Transparent relations and collaboration with sales companies

Natural gas consumers are already today free to choose their supplier on the free market. Also, with the end of the "protected market", scheduled to become effective in January 2023, consumers using this service will also have to switch to the free market and choose their own supplier.

To this end, the distribution companies are obliged to grant access to their networks for all those so requesting. More specifically, with Resolution no. 138/04, the Authority issued orders to promote the development of competition in the sale of natural gas and, at the same time, to ensure, in respect of consumer rights, the correct transmission of

information between distributors and sellers. This is why, in line with that requested by the Authority and defined in its Sustainability Plan, Italgas has embarked upon a route aimed at strengthening its relations with the sales companies.

With the objective of improving dialogue between the parties and fostering increasingly constructive debate and exchange, in 2019 Italgas organised a proper training and information programme dedicated entirely to the sales companies. Continuing on from what was done the previous year, in 2020, 3 single-themed meeting sessions were organised, involving more than 900 reference persons, for more than 140 different sales companies serving more than 95% of the Italgas portfolio re-delivery points. Through a survey, the participants expressed their appreciation, assigning an average score of 4.5 on a scale of 1 to 5 points.

In July 2020, Italgas organised a digital convention with a view to creating a true partnership to achieve common goals centred around satisfying the end customer. It invited all sales companies to take part. The event made it possible to explain the strategies to the whole group, along with the policies and tools characterising relations with the sellers and to share the Italgas commercial development plan. It also offered a natural opportunity for debate and the sharing of suggestions on common growth opportunities to be taken in the proper spirit of partnership.

GAS2BE

In line with the more extensive digital transformation process, Italgas has developed the Gas2Be portal in its Digital Factory. This innovative platform, launched in July 2020, aims to enhance and support the partnerships with the sales companies in an ever faster manner, with simple, user-friendly processes. Thanks to Gas2Be, the sales companies can be accredited on the Italgas Group networks, modify their corporate data with just a few, simple clicks and access useful information and news about the networks managed by the Italgas Group. Starting February 2021, thanks to the integration of the "GasOnline" portal functions, the Gas2Be portal has thus become the main communication bridge offering service and support for the sales companies, improving and optimising their experience.

SALES SUPPORT

In order to improve the systems used to collect and receive complaints and reports made by the sales companies, Italgas has activated the new "Sales Support" function on the GasOnline web portal, in the "Talk to us" section, which, as from February 2021, has been integrated into the new Gas2Be portal. Thanks to "Sales Support", sales companies can request support from Italgas with just a few clicks, thereby significantly simplifying and accelerating the formal submission process. "Sales Support" also has a section dedicated to reports, to offer information tools and tools to trace the support requests sent by each seller and their outcomes.

Thanks to Sales Support, Italgas is therefore able to digitally and more effectively manage not only complaints and requests made by sellers regulated by the Authority

Resolutions, but also reports and requests for information that are not regulated. Through this new service, in 2020 Italgas digitally handled more than 5,000 reports made by the sales companies.

CUSTOMER SATISFACTION SURVEY

Dialogue and listening are essential in order to strengthen partnerships and promote continuous improvement. In order to fully understand the point of view of the sales companies and obtain valuable feedback, in November 2020, Italgas launched its first ever Customer Satisfaction Survey (CSS). The on-line survey measured the degree of satisfaction of the sales companies through 37 questions divided up into 9 different areas relating to the main businesses and processes; more than 150 users of the sales companies took part.

Starting from the results obtained, the subsequent commitment aims to develop focus groups to listen and implement improvements, with a view to assuring even greater collaboration, involvement and further progress in the quality of service.

GASMART AND GASMART TI PREMIA

"GaSmart" and "GaSmart Ti Premia" constitute another important initiative: two new promotions dedicated to the sales companies that involve discounts and refunds linked to requests for connections and activation that come under the scope of the multi-year commercial plan whereby the Group has set itself the aim of continuing to increase the operative re-delivery points on its network.

Collaboration with trade associations

As the top Italian operator in the distribution of gas and the third most important in Europe, the Italgas Group plays an active part in the work of the Italian and international trade associations, confirming its commitment towards the protection, optimisation and development of the segment in which it operates.

Italgas takes part in the work of the associations through the oversight of corporate bodies and the participation in working groups or formal or informal parties established by these associations, which discuss and define the organisation's position on operative and policy matters. Some of the most important associations in which Italgas takes part, on a national level, include:

– Anigas (Italian National Association of the Gas Industry). This Trade Association, a member of Confindustria, represents firms operating along the entire natural gas supply chain, with the exception of transportation and storage, with a particular focus on the following sectors: distribution, sale of natural gas on the end market and wholesale market, trading and methane for motor vehicle use. The association aims to support the role of natural gas and LNG as an energy source with lower environmental impact compared to other fossil sources, particularly as a fuel for mobility, as well as the gradual development of renewable gas. The participation in Anigas also grants access to the CIG - Italian Gas

Committee - a regulatory entity federated with the UNI, competent to define technical and safety standards in relation to gas infrastructures and gas-powered equipment.

– Assonime. This is an association of Italian joint stock companies, particularly those listed on the stock exchange. It studies and handles problems that directly or indirectly concern the interests and development of the Italian economy, focussing specifically on themes of corporate governance, corporate finance and legal tax matters.

Internationally, on the other hand, Italgas takes part in:

– GD4S, a non-profit association under Belgian law that unites the seven major operators in the natural gas distribution sector in Europe, in France, Greece, Ireland, Italy, Portugal, Romania and Spain. The association's mission is to represent the views of the gas distribution sector at European institutions, specifically concerning the role that such infrastructures can play in the energy transition process towards a low carbon economy. In particular, the association supports gas and LNG as fuels for the transport sector, biomethane development, the study and implementation of Power to Gas technologies for the production of "green" hydrogen, thereby transforming excess electricity into an energy carrier able to transfer renewable energy in time and space, taking advantage of the existing infrastructure now used for natural gas.

The main topics covered in 2020 in the working groups of the Associations indicated above were:

- Energy transition and the role of infrastructure in the decarbonisation process;
- The development of hydrogen as an energy carrier able to facilitate the integration of the gas and electricity segments;
- The control and reduction of methane emissions, in particular resulting in Italgas' adhesion to the OGMP 2.0 UNEP initiative;
- Regulatory aspects connected with the energy transition

All these topics have been discussed both through participation in formal consultations by supranational bodies and through the preparation and giving out of position papers on the main policy topics, as well as, finally, meetings with national and European institutional stakeholders as well as through participation in seminars, congresses and webinars.

In February 2021, the GD4S Annual General Assembly nominated Paolo Gallo (CEO of Italgas) as President of the Association for another year's mandate.

Below is a summary of the expenses incurred in 2020 for joining trade associations. In order to guarantee the possibility of comparison, data for previous years has also been reported. Starting 2019, the data also includes the values relative to Seaside.

GRI 102-13 MEMBERSHIP OF ASSOCIATIONS

GRI 415-1 POLITICAL CONTRIBUTIONS

MEMBERSHIP FEES AND FOR REPRESENTATION OF INTEREST (€)	2018	2019 ³⁰	2020 ³¹
Representation of interests through third parties	37,495.00	96,743.00	77,990.00
Support to political parties or candidates on a local, regional or national level	0.00	0.00	0.00
Confindustria and trade associations	568,230.00	560,159.00	455,920.00
Scholars and think tank	59,300.00	66,700.00	73,200.00
Technical associations	41,800.00	47,085.00	47,085.00
Total	706,825	770,687	654,195
<i>Data coverage (percentage coverage with respect to business scope)</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>
<i>Of which</i>			

CONTRIBUTIONS TO INDUSTRIAL AND TRADE ASSOCIATIONS (€)	CORPORATE POSITION	2018	2019	2020
Anigas	Support	346,412.00	356,668.00	353,420.00
Confindustria ³²	Support	221,818.00	200,991.00	100,000.00
Anie	Support	0.00	2,500.00	2,500.00

OTHER SIGNIFICANT EXPENSES (€) ³³	TYPE	2018	2019	2020
GD4S	Representation of interest	0.00	53,000.00	53,000.00
CCE	Representation of interest	25,000.00	25,000.00	0.00
Assonime	Representation of interest	12,495.00	18,743.00	24,990.00
MIP - Milan Politechnic	Academic	0.00	20,000.00	20,000.00
Valore D	Think Tank	15,000.00	15,000.00	15,000.00
Amici della LUISS	Think Tank	20,000.00	0.00	0.00

³⁰ Including Seaside.³¹ Including Seaside and Toscana Energia³² Data on membership of Confindustria Roma not final³³ Details for expenses of at least 15,000 €

STANDARD GRI 416-1 ASSESSMENT OF THE HEALTH AND SAFETY IMPACTS OF PRODUCT AND SERVICE CATEGORIES

QUALITY STANDARDS ESTABLISHED BY ARERA ³⁴ (ARERA OBLIGATION 569/19 SUBSECTION 14.2) - ITALGAS RETI	U.O.M.	TARGET ARERA	2018	2019	2020
High and medium pressure network inspected	%	100% in three mobile years	70.2	58.70	95.2
Low pressure network inspected		100% in four mobile years	74.4	60.40	95.5
Respect for maximum arrival time at the place of the call for emergency intervention		>90	97.7	98.90	99.3

QUALITY STANDARDS ESTABLISHED BY ARERA – ITALGAS RETI	2018	2019	2020
Respect for maximum time set for the performance of services subject to specific standards	97.7%	98.3 %	98.4 %
Respect for punctuality in appointments made with customers	99.0%	99.1 %	98.9 %

QUALITY STANDARDS ESTABLISHED BY ARERA (ARERA OBLIGATION 569/19 SUBSECTION 14.2) - TOSCANA ENERGIA	U.O.M.	TARGET ARERA	2018	2019	2020
High and medium pressure network inspected	%	100% in three mobile years	54.3	42.4 ³⁵	91.6
Low pressure network inspected		100% in four mobile years	58.4	35.5 ³⁶	94.2
Respect for maximum arrival time at the place of the call for emergency intervention		>90	97.6	97.9	98.0

QUALITY STANDARDS ESTABLISHED BY ARERA - TOSCANA ENERGIA	2018	2019	2020
Respect for maximum time set for the performance of services subject to specific standards	99.8%	98.9%	99.2%
Respect for punctuality in appointments made with customers	99.6%	99.6	99.6%

³⁴In accordance with Annex A to Resolution 569/2019 (RQDG), the distributor is required to comply with service obligations relating to the frequency of network inspection, equal respectively to 100% in the 3 mobile years for high and medium pressure networks and 100% in the 4 mobile years

for low pressure networks (subsection 14.2, letters a) and b) of the RQDG).

³⁵With the CRDS (Picarro) method, the 2019 value becomes 50.3.

³⁶With the CRDS (Picarro) method, the 2019 value becomes 52.1.

QUALITY STANDARD ESTABLISHED BY ARERA (ARERA OBLIGATION 569/19 SUBSECTION 14.11) - MEDEA	U.O.M.	TARGET ARERA	2018	2019	2020
High, medium and low pressure network inspected	%	100% in four mobile years	30.1	27.1	47.9%
Respect for maximum arrival time at the place of the call for emergency intervention		>90	100.0*	99.1	99.0

* In 2018, Medea consisted of only the Sassari - propane air - plant



PARTNERSHIP WITH THE FLORENCE SCHOOL OF REGULATION

In 2020, Italgas joined the network of partner institutions of the Florence School of Regulation (FSR) Energy, European centre of excellence on the regulation of the markets in the energy and climate segment, which promotes research and dialogue between experts, industry professionals, scholars, representatives of entities and institutions worldwide and operates closely with the European Commission. In joining the “supporters” of the FSR, Italgas gained the opportunity of taking part in the network formation and research initiatives, cooperating with the organisation of events and making its own contribution to the debate of a complex matter that evolves continuously and is so vital to the growth and development of the energy segment. In addition, by taking part in the FSR Energy area Policy Advisory Council, Italgas has the chance to promote its vision of energy policy topics, the challenges that development prospects in the industry raise, also in terms of the evolution of regulation and training projects offered by the FSR to regulators and managers.

5.2 PUTTING PEOPLE FIRST

A focus on efficiency, service quality, protection of the environment and safety in the workplace represents the values on which Italgas has built its way of doing business. In order to reconfirm these values and objectives, Italgas continues to invest in developing the skills and abilities of collaborators and promotes participation, dialogue and the creation of a positive work environment.

The people at Italgas are considered the company's most valuable asset.

The Company provides all employees and collaborators with career opportunities based on merit, professional and managerial expertise and active participation in company development and improvement processes.

In line with the Code of Ethics, Italgas considers diversity a corporate asset: it respects the dignity of every individual and guarantees equal opportunities in all aspects of the employment relationship, preventing any form of discrimination deriving from differences in sex, age, health, ethnicity, nationality, political or religious opinions.

Personnel

As at 31 December 2020, the Italgas Group had 3,985 employees (compared to 4,096 in 2019). Specifically, 2020 saw 163 staff join the company, 159 of whom were recruited from the market and 4 from extraordinary transactions involving expansion of the scope.

Vice versa, 274 staff left the Group due to termination of employment contracts and other reasons (mainly for retirement).

In all, the female presence in the company is 15.1%, slightly up on last year, also taking into account the traditional male presence in the operational technical areas of the company.

94% of the company population are hired on permanent contracts, while apprenticeship contracts account for the remaining 6%. The 43 apprenticeship contracts terminated in 2020 were all transformed into permanent contracts.

Development programmes

The managerial development programme, launched in 2018 to support development of the managerial culture, digital transformation and the significant generational handover continued during 2020.

The plan's logic and pillars are as follows: the sharing of a new model of managerial skills and its implementation, the management of performance through the continuous feedback culture, the development of staff potential through an assessment and empowerment programme and the consequent development and career plans.

To implement these, specific programmes were carried out for the different types of human resource (around 280 participants, including graduates, managers and executives).

For graduates who had recently joined the Training and Development Programme ("Italgas School") it combines classroom-based training activities over several modules with activities for developing potential and managerial skills using the self-empowerment methodology. The programme also involves a development centre (in the two junior and expert formats, according to seniority) downstream of which a meeting is organised for each participant to look at their development profile with HR and their line manager.

The first edition of the Italgas School drew to a close in January 2020 (70 participants); the second was launched in April 2020 with more than 60 participants.

For a group of young engineers hired in 2017, the third rotation has started, concluding the three-year job rotation programme.

The innovation process pursued by Italgas in recent years has entailed a constant search for new STEM (Science Technology Engineering Mathematics) profiles, both in the management and development of the gas network and in other areas of business, such as the Digital Factory, who are pursuing the Group's digital transformation process.

The following continued in 2020: the mapping of the managerial potential of newly appointed managers, also for the purposes of updating the Succession Planning and individual Coaching courses for executives and middle managers who have acquired more responsibilities over the year.

An extensive managerial development campaign (more than 320 participations) has been dedicated to the dissemination of leadership skills at times of crisis, such as empathetic leadership, team engagement from a remote position and the management of critical issues and priorities.

In 2020, the "Extraordinary Leader" initiative was developed, following the 360 survey that involved - late 2019 - the second and third line executives and middle managers. All participants in the initiative (75) have received feedback on the results and individual action plans have been identified for their managerial development.

In order to support the digital transformation in progress in Italgas, the "Innovative spirits" programme has been developed (more than 220 participations), a path by which to develop the innovation and change management skills by the ICT department and the Technological Innovation Department. The course involves 102 people.

Training programmes

Training at Italgas is intended to ensure an increase in the skills required by the business strategies. All employees, regardless of their job description or contract type, plus all new resources, are offered dedicated training activities.

In 2020, the training accelerated and multiplied the opportunities for initiatives to be undertaken "remotely". Training courses and initiatives – initially offered in a classroom format – were held in virtual remote classrooms, also thanks to Italgas advanced technologies that made it possible to guarantee the continuity of training. Technical-specialist know-how, typical of technicians and manual workers, is transferred and promoted through the development of specific skills in network and system maintenance activities. The specific training paths for various professional figures were specifically redesigned in 2020 for a "digital learning" format, involving over 16,800 hours of training and 2,400 attendees.

A community of 65 Digital Ambassadors was also established. Present in all areas of the main offices and across the territory, they contributed to support the transfer of digital expertise at Italgas with their willingness to rise to the challenge as internal teachers, participating proactively and with commitment in the training initiatives offered.



9BOX MAPPING

Out of the whole of the population involved by the development routes, i.e. executives, middle managers and graduates aged under 45 years old, for a total of approximately 700 people, 9box mapping was carried out. The 9box mapping positions the population in nine possible cross-over groups between three levels of assessment of the overall role performance in the last 12 months (below expectations, in line with expectations, above expectations of role) and three levels of potential that can be used in the organisation (low, medium, high potential for growth). The mapping represents a process for sharing observations of resources by HR and the line managers and constitutes the guidance by which to direct career development actions, role growth, total reward and HR management. The 9box process was launched in 2018 and is now in its third year; it is an important moment of growth of the managerial culture and assessment of resources.

On MyLearning, a multimedia platform dedicated to training created in 2019, various training actions were launched on issues of compliance (Legislative Decree 231 and digital podcasts) and cybersecurity, the latter intended to promote awareness and maintain the focus on risks associated with the dissemination of company information and, in particular, the cyber-attacks and fraud that take place through malicious phishing campaigns. In order to foster the knowledge transfer and professional refresher courses in technical areas, 9 training videos have been prepared with the help of expert employees, also optimising the results of the work carried out in the Italgas Digital Factory.

In 2020, a total of over 75,000 hours of training were provided and every employee on average received around 19 hours of training.

In addition to that already described, the main training programmes developed in 2020 were as follows:

_Insertion of new hires: the training programme dedicated to new graduates included in the Group has been developed in an all-digital format, with specific interventions on the history, culture and competences, Italgas' values and identifying elements; strategic and business lines, technical and operative aspects of distribution, basics of economics and finance for the business and teamwork. The programme involved 97 new employees for a total of 1,062 hours of training delivered. In 2020, the course was also enriched with a module dedicated to Sustainability topics. In preparing the training interventions, use of in-house teachers was preferred, by the Company management team who, through their

testimonials shared with their new colleagues information about their own personal and working experience.

– Young Graduates Programme: the in-depth module on the economic-strategic logics of the regulated markets in Italgas also continued in 2020, delivered in virtual classrooms and enhanced with experiences and business cases and in-depth reviews of the economic aspects on the main Key Performance Indicators of interest for the Italgas business. The programme involved 76 participants for a total of 636 hours and also envisaged a specific module on the reference framework, analysis of the lines of Italgas Digital Transformation Programme and an overview of the first experiments launched in the Network.

– Developing executive programme: 2020 marked the end, for a group of 36 colleagues from different business areas, of the two-year managerial development and training programme “Italgas Leadership Way” for a total of 486 hours and with the organisation of two modules in collaboration with SDA Bocconi School of Management: “Mastering Digital Evolution” and “Corporate Entrepreneurship”.

– Female leadership: Italgas has stressed its commitment to gender equality and attention to diversity, renewing its collaboration with Valore D. As part of the initiatives taken to optimise the diversity of gender, generations and different cultures, approximately 25 colleagues took part in inter-company training and laboratories aimed at developing inclusive leadership capacity.

– Training for the Integrated Supervision Centre: a specific training and refresher course has been developed for the operators of the Integrated Supervision Centre with the aim of increasing the effectiveness and efficiency of the service provided by the Emergency Intervention call centre. All 32 operators of the Integrated Supervision Centre received the training, so as to guarantee the operation and shifts of the call centre. The training was customised to specific business cases for a total of 128 hours.

– Training course on Picarro: in support of the Scheduled Search for Leaks, various training initiatives were organised on the technology, use of Surveyor vehicles and portable backpack analysers. The initiatives involved 400 participants for a total of 2,255 hours.

– Training course for the control and positioning of road signs: in line with Italgas’s commitment to pay constant attention to safety matters, the theoretical part of the training for the control and positioning of road signs has been carried out, intended for work pursued amidst vehicle traffic (Decree Law of 22 January 2019 implementing Article 161, subsection 2-bis of Legislative Decree no. 81 of 2008). The programme involved 374 participants for a total of 2,932 hours and comes under the scope of training on safety carried out in collaboration with the HSEQ department.

HSEQ training – traditionally undertaken via classroom teaching, as well as in the field – was also overhauled into digital, while maintaining the same standards of effectiveness and in accordance with the legislative requirements set out to enable specific activities.

Employee training for safety at work also continued in 2020, with the relative periodic refreshers, as per the State/Regions Agreement, through courses taken in an eLearning format.

With the integration of Toscana Energia, some of the Italgas Group training initiatives have been progressively extended, such as the Digital training course (digital “pills” in e-learning format, webinars on collaboration tools and digital workshops) and specific in-depth training has been provided on Italgas’s technical systems. In December 2020, the MyLearning training platform was then also made available to Toscana Energia and Toscana Energia Green, thereby allowing employees to make use of all the digital training contents already enabled for the other Group businesses.

The average number of training hours (19 in 2020) has decreased slightly on the previous year, apart from training hours delivered to office staff.

The reduction in the training hours, in the face of a significantly increased number of participations, is due to the fact that the training contents had to be reorganised digitally (virtual classroom and e-learning) and, consequently, shorter interventions created (32,915 participations in 2020 vs 14,138 in 2019).

The Digital Training Course to promote the Digital Transformation

In 2020, following a survey on digital skills, Italgas launched a major digital reskilling plan to promote the culture of digitisation and allow all its people to gain a greater insight on the trends and main technological innovations in progress in Italgas.

Right in the heart of the health emergency that struck the country during the early months of the year, the Digital Training Course was launched, continuing on from the technological innovations developed in the Digital Factory, to speed up and develop a digital mindset.

The course is structured as follows:

– Library of 17 digital pills made available on MyLearning for the whole of the company population in March 2020, regarding the main topics of digitisation, divided up into three main parts: basic, advanced and transverse, thereby offering a clear overview of the technologies and approaches taken to digital;

– 50 digital workshops starting July and until December 2020, which saw the active participation of more than 1,200 employees who were given the chance to compare notes and discuss aspects relating to the digital transformation and how Italgas was combining these with the technological innovations developed in the Digital Factory. The distinctive element of the workshops was the constant presence of teachers by our Digital Ambassadors.

– 6 webinars developed in collaboration with the ICT department to foster the spread of digital initiatives through the corporate collaboration tools, such as Microsoft Teams and Onedrive, involving 1,600 people.

The Digital Training Course allowed for a progressive spread of digital skills throughout all territorial sites and training that is increasingly focussed on inclusion and digital development and which brings with it new, enriching stimuli.

Compensation system

Italgas promotes employee commitment and performance through the definition and implementation of compensation policies, differentiated based on performance and professional and managerial abilities, to reward merit by considering:

- _ the responsibilities assigned;
- _ the results achieved;
- _ the quality of the professional contribution and people's potential for development.

The compensation systems are periodically assessed and updated based on a comparison with best practice and the remuneration markets of reference in relation to criteria inspired by meritocracy, internal equality and external competition in order to ensure the recognition of the results achieved, the quality of the professional contribution made and people's potential for development, plus the attraction and retention rate of key individuals in order to contribute to the achievement of complex business objectives.

In 2020, the performance evaluation was extended to all department managers of the Group companies with the objective of further strengthening the performance culture, the focus on results and internal meritocracy.

More specifically, the programme involved 57 executives (7 of whom were women) and 234 non-executives (37 of whom were women), coming to a total of 291 people, divided among the various Italgas Group companies as follows:

- _ Italgas (35%): 98 people, 33 of whom were executives (6 of whom were women) and 65 of which were non-executives (18 of whom were women)
- _ Italgas Reti (59%): 173 people, 16 of whom were executives and 157 of which were non-executives (16 of whom were women)
- _ Medea (2%): 7 people, 2 of whom were executives (1 of whom was a woman)
- _ Toscana Energia (1%): 4 executives
- _ Seaside (1%): 4 people, 1 of whom was an executive and 1 woman
- _ Gaxa (1%): 3 people, 1 of whom was an executive and 1 woman
- _ Italgas Acqua (1%): 2 people, 1 of whom was a woman

Italgas has always defined its remuneration policies with the aim of assuring consistency and balance within the organisational structure, acknowledging, as described above, the merits and responsibilities assigned. The analysis of the fixed remuneration, which is therefore connected with the nature and responsibilities of the role, highlights the consistency of this approach; the ratio of fixed remuneration paid in 2020 to the CEO and the average fixed remuneration of Italgas employees in 2020 is 1:20, a ratio that remains effectively unchanged on the previous year.

In order to assure the realisation of the strategic plan and the achievement of the business objectives, Italgas assigns incentive systems to managerial roles, and the

CEO and Key Managers first and foremost, from time to time assessing their performance and only disbursing the related incentives where the objectives assigned have been achieved, thereby assuring a strong focus on results and solid tie between remuneration and performance.

Relations with trade unions

In 2020, relations between the Italgas Group and the trade unions saw the involvement and participation of structures at national, local and company levels. During the year, relations with trade unions were particularly intense, punctuated by a much higher number of meetings than in the previous year, mainly due to the need to jointly manage the COVID-19 health emergency.

In particular, significant agreements were reached on the following issues: Company Protocol for the Italgas Group regulating measures to combat and contain the spread of the COVID-19 virus in the workplace and subsequent updates; fundraising campaign for the Civil Protection; using up annual leave and collective closures to manage work activities during the health emergency; smart working; implementation of new welfare measures; vulnerable workers; workplace dynamics and professional development.

During the course of 2020, 213 meetings with Trade Union Organisations were held, 42 of which were at the nation level and 171 of which were at the local level (the data includes the meetings - 30 in all - held at Toscana Energia, and Toscana Energia Green). The figure confirms the constantly increasing involvement of representatives at all levels. At the end of 2020, 48.53% of employees were members of a trade union.

As of March 2020, in order to address the COVID-19 health emergency and guarantee employee safety, the smart working method was extended to all company staff with compatible duties, with no maximum limits on weekly use. All operating personnel, on the other hand, in order to avoid gatherings in the offices, implemented a work method whereby they departed from home. For this purpose, company vehicles were assigned to individuals. Following an evaluation by the Medical Officer, employees with specific diseases were also granted paid leave in order to avoid the risk of infection. **In 2020, more than 120,000 permit hours were granted.**

The lawsuit with employees and former employees of the Italgas Group, although basically stable over time, has increased on 2019, however this is mainly due to the fact that 17 serial appeals were lodged connected with a single dispute relative to the interpretation of the collective national bargaining agreement on the potential absorption of an element of remuneration in the event of promotion, by employees of the former AES of Turin. Legal action brought against the Group companies (Italgas Reti, Medea and Toscana Energia) mainly referred to the following situations: difference between professional category and related remuneration, economic claims of various types, occupational illness, challenge of disciplinary measures inflicted, including dismissals.

Welfare

To protect and encourage the well-being of employees, Italgas makes services and initiatives available that are designed to find a work-life balance. Specifically, the Welfare programme takes into consideration the family and caring for children, maintaining good mental and physical health, handling everyday tasks in terms of time and money, organisation of recreational activities and artistic-cultural initiatives.

In 2020, with the onset of the COVID-19 health emergency, in addition to guaranteeing the continuity of the offer of services envisaged by the Welfare Plan, Italgas also took a series of initiatives to help its company population, including the activation of insurance coverage for colleagues affected by COVID-19 and services to support families, such as free vouchers for school tutoring, babysitting services, personalised social and healthcare advice plus assistance for elderly family members for a total of 155 vouchers issued. In addition, with an even greater focus on the health and safety of its employees, Italgas was able to reward the "Italgas young people", who did not want to miss out on the summer camp experience this year. All events were held in respect of all health and prevention measures.

In 2020 too, the welfare services were once more accompanied by direct communication initiatives for a total of 36 initiatives, plus 2 information webinars on the Welfare Plan, which replaced the "welfare corners" held in 2019.

Active users, namely the employees who have registered with the dedicated website since the start of the programme, accepting the general conditions, reached approximately 90% of the company population, whilst users using at least one service amount to 40% of all employees.

Finally, in line with previous years, the level-two trade union agreement which, among other things, confirmed the "Flexible Benefits" plan for the three years from 2020 to 2022, was signed again in 2020.

The agreement provides for the possibility of converting the Production Prize into Welfare services (pensions, family care, study aid, mobility, free time). Every employee who voluntarily joins the Plan, Italgas offers a bonus equivalent to 18% (and 16% for Toscana Energia employees) of the prize converted into Welfare Credit. In 2020, in total, approximately 10% of the company population chose to convert the Prize into Welfare, 83% of which chose the maximum possible portion to be converted.

In collaboration with the HSEQ Unit, the Welfare portal was used to allow the employees benefiting from the Zero Accidents Bonus to avail of their bonus in vouchers to be used for the purchase of selected national brands belonging to a wide range of commodity categories.

Diversity

At such a complex time for the Italian occupational and economic panorama, Italgas reiterates its attention to people and commitment to gender equality and attention to matters of diversity, renewing its collaboration with Valore D, the first association of businesses in Italy that, for more than ten years, has been committed to spreading a culture of inclusion in our country.

This has led Italgas to adhere to the Manifest for female occupation, a document created in 2017 under the umbrella of G7 Italy, intended for businesses and institutions and developed over nine main points. The purpose of the Manifest is to define precise instruments, in line with the Global Reporting Initiative indicators, for the promotion of concrete actions to optimise and include diversity in all corporate processes.

The Manifest focuses on essential topics such as innovation, sustainability, agile working and the impact of gender diversity on growth and economic development. For each of the 9 points proposed, each business undertakes to gradually achieve clear, measurable objectives through performance indicators and periodic monitoring. All companies that have put the points of the Manifest into practice, confirm, by signing, the commitments made and acknowledge the relevant effectiveness. One change made in recent years has resulted in the hiring of approximately 500 young men and women in the last 4 years, of whom almost 45% are women, in the technical/operative areas (engineering, design, investments, technical offices and plants).

As regards the insertion of new graduates, more than 52% of new profiles are women.

In 2020, various initiatives were implemented in the south of Italy to optimise the female component. For this category, in fact, the apprenticeships contracts went from 0 in 2018 to 19 in 2020.

Italgas always makes sure to look externally too, as shown by all the projects and initiatives pursued together with some of the most important schools and universities of the country, such as, for example, the Grow Data Girls project with the Luiss Business School, which has just started up again with a new edition of the challenge and the adherence to Stem By Women, an association of businesses established with the aim of encouraging girls to take up scientific and technological studies.

Health and safety in the workplace

The Italgas Group, from the start of the COVID-19 emergency, has established a Crisis Committee with the task of constantly monitoring the situation and assessing any action to be taken in response to the evolution of the emergency situation and the consequent directives given by the competent Authorities. The company has taken proper prevention and protection measures in regard to all its workers, identified to prevent the spread of the virus in the workplace, implementing the measures defined by the reference Authorities that envisage, amongst others, the supply of specific personal protection equipment (e.g. FFP2/3 masks, surgical masks and disposable gloves) and the adoption of organisational measures aimed at minimising people's travel and fostering social distancing (suspension of transfers, smart working, permits, etc.). In 2020, 19 communications were sent to all staff, through the HSEQ department, containing the protocol adopted by the Company updated according to the indications of provisions issued by the competent Authorities.

In 2020, as regards information, meetings with suppliers should be highlighted, which, due to the COVID-19 health emergency, were held over the internet (with the exception of 5 specific meetings of the METERING unit held in the

early months of 2020). In all, 8 meetings were held during which the data on incidents was examined and commented and awareness was raised on safety topics. In addition, 8 specific digital conventions should be noted with the territorial poles addressed in particular towards raising awareness to injuries, the analysis of incidents, including near misses, and the definition of corrective actions to be implemented.

NFS

Main Key Performance Indicators

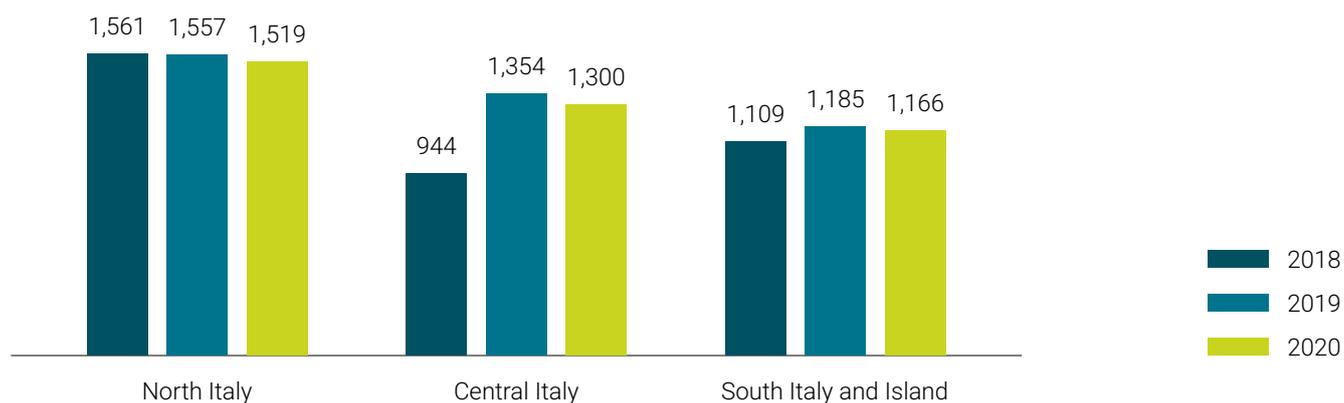
STANDARD GRI 102-8 INFORMATION ON EMPLOYEES

EMPLOYEES (HEADCOUNT)	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Fixed-term contract	n.	4	0	4	2	0	2	1	0	1
North Italy		4	0	4	2	0	2	1	0	1
Central Italy		0	0	0	0	0	0	0	0	0
South Italy and islands		0	0	0	0	0	0	0	0	0
Permanent contract*		3,040	427	3,467	3,353	535	3,888	3,194	541	3,735
North Italy		1,219	262	1,481	1,213	273	1,486	1,170	272	1,442
Central Italy		853	55	908	1,134	141	1,275	1,055	146	1,201
South Italy and islands		968	110	1,078	1,006	121	1,127	969	123	1,092
Apprenticeship/ access-to-work contracts (direct employees)		123	20	143	162	44	206	190	59	249
North Italy		59	17	76	44	25	69	49	27	76
Central Italy		33	3	36	69	10	79	86	13	99
South Italy and islands		31	0	31	49	9	58	55	19	74
Total		3,167	447	3,614	3,517	579	4,096	3,385	600	3,985

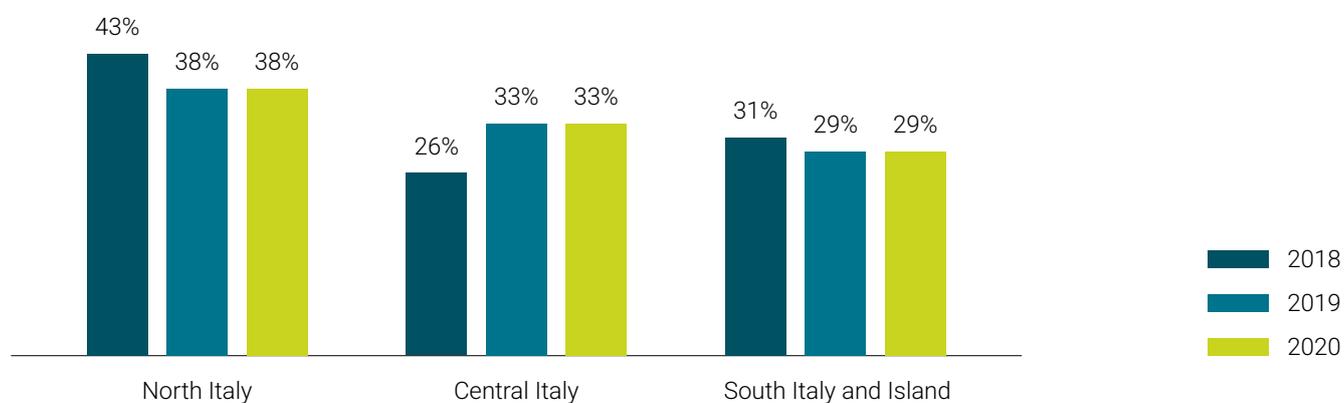
*Permanent contracts also include part-time contracts.

	2018	2019	2020
Fixed-term contract	0%	0%	0%
Permanent contract	96%	95%	94%
Apprenticeship/access-to-work contracts (direct employees)	4%	5%	6%

NUMBER OF EMPLOYEES BY GEOGRAPHIC AREA



PERCENTAGE OF EMPLOYEES BY GEOGRAPHIC AREA



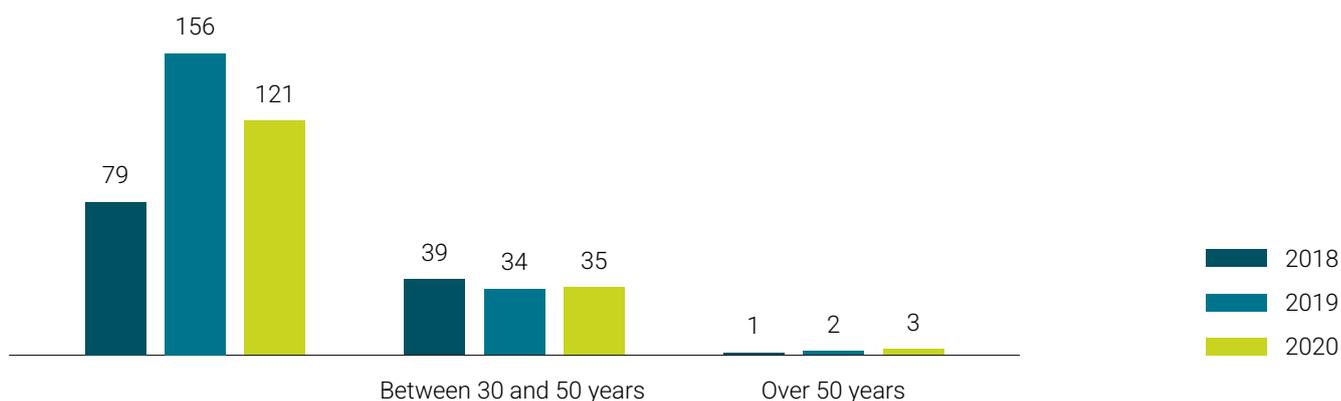
EMPLOYEES (HEADCOUNT)	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Part time	n.	8	33	41	11	43	54	7	37	44
Fixed term		0	0	0	0	0	0	0	0	0
On permanent contracts		8	33	41	11	43	54	7	37	44
Apprenticeships/access-to-work contracts		0	0	0	0	0	0	0	0	0
Full time		3,159	414	3,573	3,506	536	4,042	3,378	563	3,941
Fixed term		4	0	4	2	0	2	1	0	1
On permanent contracts		3,032	394	3,426	3,342	492	3,834	3,187	504	3,691
Apprenticeships/access-to-work contracts		123	20	143	162	44	206	190	59	249
Total		3,167	447	3,614	3,517	579	4,096	3,385	600	3,985

STANDARD GRI 401-1 NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER

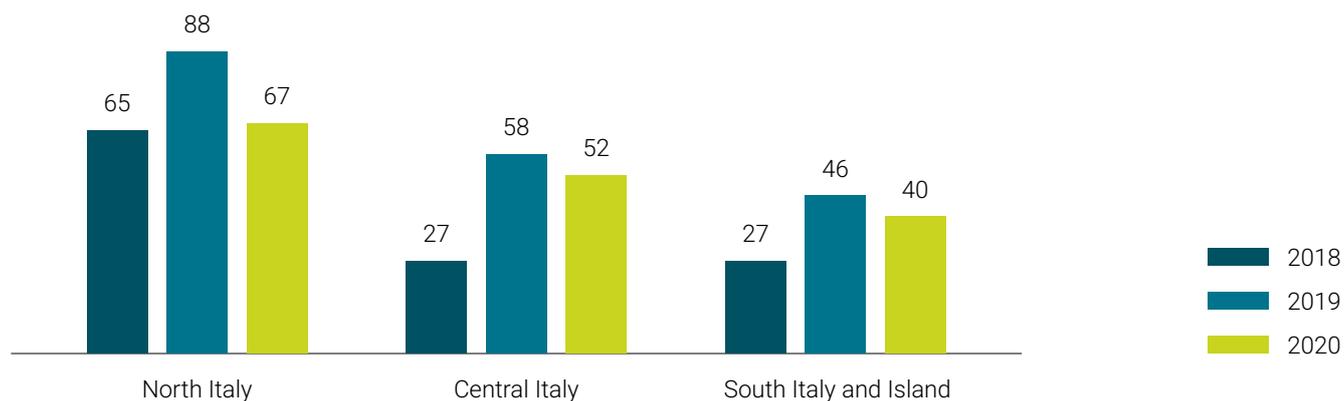
NEW RECRUITS*	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
North Italy	n.	44	21	65	58	30	88	41	26	67
under 30 years		21	10	31	39	22	61	30	16	46
between 30 and 50 years		23	11	34	17	8	25	9	10	19
over 50 years		0	0	0	2	0	2	2	0	2
Central Italy		24	3	27	47	11	58	40	12	52
under 30 years		21	2	23	45	6	51	36	9	45
between 30 and 50 years		3	0	3	2	5	7	4	3	7
over 50 years		0	1	1	0	0	0	0	0	0
South Italy and islands		27	0	27	32	14	46	21	19	40
under 30 years		25	0	25	31	13	44	17	13	30
between 30 and 50 years		2	0	2	1	1	2	3	6	9
over 50 years		0	0	0	0	0	0	1	0	1
Total		95	24	119	137	55	192	102	57	159
under 30 years		67	12	79	115	41	156	83	38	121
between 30 and 50 years	28	11	39	20	14	34	16	19	35	
over 50 years	0	1	1	2	0	2	3	0	3	

*Only market entries are considered.

NEW HIRES BY AGE BRACKET



NEW HIRES BY GEOGRAPHICAL AREA



The rising trend in hiring new employees in central and south Italy and the islands continues, also thanks to the new distribution networks acquired in those geographic areas.

INBOUND TURNOVER RATE*	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
North Italy		3%	8%	4%	5%	10%	6%	3%	9%	4%
under 30 years		22%	55%	27%	33%	63%	40%	25%	38%	29%
between 30 and 50 years		7%	10%	8%	5%	8%	6%	3%	9%	4%
over 50 years		0%	0%	0%	0%	0%	0%	0%	0%	0%
Central Italy		3%	5%	3%	4%	7%	4%	4%	8%	4%
under 30 years		27%	67%	28%	34%	60%	36%	24%	60%	28%
between 30 and 50 years		3%	0%	2%	1%	11%	3%	2%	6%	3%
over 50 years		0%	2%	0%	0%	0%	0%	0%	0%	0%
South Italy and islands	%	3%	0%	2%	3%	11%	4%	2%	13%	3%
under 30 years		56%	0%	54%	45%	93%	53%	20%	62%	29%
between 30 and 50 years		1%	0%	1%	1%	3%	1%	2%	15%	5%
over 50 years		0%	0%	0%	0%	0%	0%	0%	0%	0%
Total		3%	6%	3%	4%	9%	5%	3%	10%	4%
under 30 years		31%	54%	33%	36%	69%	41%	24%	49%	28%
between 30 and 50 years		5%	8%	5%	3%	8%	4%	2%	9%	4%
over 50 years		0%								

*Calculated as: new recruits/employees as at 31.12 every year for each cluster.

CEASED*	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
North Italy	n.	70	15	85	76	10	86	78	21	99
under 30 years		5	1	6	5	0	5	3	3	6
between 30 and 50 years		6	3	9	8	4	12	3	2	5
over 50 years		59	11	70	63	6	69	72	16	88
Central Italy		52	2	54	105	3	108	98	8	106
under 30 years		0	0	0	4	1	5	1	0	1
between 30 and 50 years		0	0	0	2	0	2	2	0	2
over 50 years		52	2	54	99	2	101	95	8	103
South Italy and islands		20	0	20	56	0	56	62	6	68
under 30 years		0	0	0	3	0	3	0	1	1
between 30 and 50 years		1	0	1	3	0	3	1	1	2
over 50 years		19	0	19	50	0	50	61	4	65
Total		142	17	159	237	13	250	238	35	273
under 30 years		5	1	6	12	1	13	4	4	8
between 30 and 50 years		7	3	10	13	4	17	6	3	9
over 50 years		130	13	143	212	8	220	228	28	256

*Termination by mutual agreement and other outgoings.

OUTGOING TURNOVER RATE*	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
North Italy	%	5%	5%	5%	6%	3%	6%	6%	7%	7%
under 30 years		5%	5%	5%	4%	0%	3%	3%	7%	4%
between 30 and 50 years		2%	3%	2%	3%	4%	3%	1%	2%	1%
over 50 years		7%	7%	7%	8%	4%	7%	9%	11%	9%
Central Italy		6%	3%	6%	9%	2%	8%	9%	5%	8%
under 30 years		0%	0%	0%	3%	10%	4%	1%	0%	1%
between 30 and 50 years		0%	0%	0%	1%	0%	1%	1%	0%	1%
over 50 years		7%	5%	7%	12%	2%	11%	12%	9%	12%
South Italy and islands		2%	0%	2%	5%	0%	5%	6%	4%	6%
under 30 years		0%	0%	0%	4%	0%	4%	0%	5%	1%
between 30 and 50 years		1%	0%	1%	2%	0%	2%	1%	3%	1%
over 50 years		2%	0%	2%	6%	0%	6%	8%	5%	7%
Total		5%	4%	4%	7%	2%	6%	7%	6%	7%
under 30 years		2%	4%	3%	4%	2%	3%	1%	5%	2%
between 30 and 50 years		1%	2%	1%	2%	2%	2%	1%	1%	1%
over 50 years		6%	5%	6%	9%	2%	8%	10%	9%	10%

*Calculated as: leavers/employees as at 31.12 every year for each cluster.

TURNOVER RATE*	U.O.M.	2018	2019	2020
Men	%	9.1	10.6	9.9
Women		14.8	12.3	15.6
North		11.6	11.3	10.8
Centre		8.9	12.2	11.9
South		8.02	8.7	9.2
Total		9.8	10.9	10.7

*Calculated as (incoming + outgoing) / average workforce * 100 for each cluster.

STANDARD GRI 401-3 PARENTAL LEAVE

PARENTAL LEAVE*	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Total positions open	n.	246	53	299	230	55	285	225	53	278
Positions open during the year		13	3	16	24	5	29	17	15	32
Positions closed during the year		233	50	283	206	50	256	208	38	246
for return		227	49	276	196	50	246	202	36	238
for contract end		6	1	7	10	0	10	6	2	8

* The data for parental leave refer to Italian Law 53/2000

STANDARD GRI 403-9 WORK-RELATED INJURIES

EMPLOYEES*	U.O.M.	2018	2019	2020
Workplace accidents (LTI) ³⁷	no.	8	6	7
<i>of which with serious consequences (absence of over 6 months)</i>		0	1	0
Deaths		0	0	0
I Employee accident indices ***				
Frequency Rate (LTIFR) ³⁸	-	1.35	0.98	1.07
Accident frequency index with serious consequences		0	0.16	0
Death index		0	0	0
Severity index		0.03	0.10	0.01

* The table does not include details of men/women and regions so as to standardise the report with the new version of the GRI. For the value reported in the 2019 Consolidated Non-Financial Statement, please refer to the document published on the Group's website at https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_Lit/Non-Financial-Statement-2019.pdf.

** The data on accidents include events that led to absence from work for more than one day.

***The injury indices have been calculated as follows:

- Death index: number of deaths / 1,000,000 hours worked
- Severity index: days absence due to injury / 100,000 hours worked
- Frequency index: number of injuries recorded / 1,000,000 hours worked

³⁷ LTI: Lost Time Injury

³⁸ LTIFR: Lost Time Injury Frequency Rate

NON-EMPLOYED WORKERS (CONTRACTORS ³⁹)*	U.O.M.	2018	2019	2020
Workplace accidents (LTI)		4	8	8
<i>of which with serious consequences (absence of more than 6 months)</i>	no.	1	0	0
Deaths		0	0	0
Accident indices (contractors) ***				
Frequency Index (LTIFR)		1.44	1.85	1.94
Accident frequency index with serious consequences	-	0.36	0	0.00
Death index		0.00	0.00	0.00
Severity index		0.11	0.11	0.10
Employee + contractor accident frequency index				
		1.38	1.34	1.41
Near misses	-	30	44	5

**The table does not include details of men/women and regions so as to standardise the report with the new version of the GRI. For the value reported in the 2019 Consolidated Non-Financial Statement, please refer to the document published on the Group's website at https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/Non-Financial-Statement-2019.pdf.

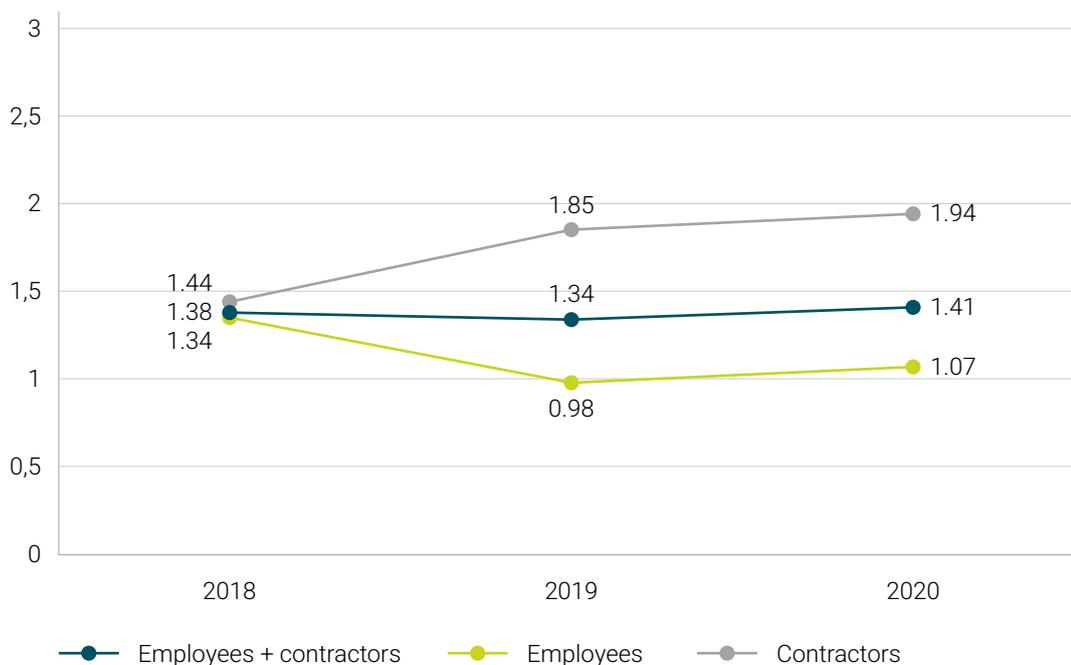
** The data on accidents include events that led to absence from work for more than one day.

*** The injury indices have been calculated as follows:

Severity index: days absence due to injury / 200,000 hours worked

Frequency index: number of injuries recorded / 1,000,000 hours worked

FREQUENCY INDEX (NON-COMMUTING)



For 2018 and 2019, the data of Medea, Italgas Acqua, Ichnusa, Enerco and Seaside is included. Starting 1 October 2019, the data of Toscana Energia is included.

³⁹Workers of companies with a service or work contract with Italgas (e.g. construction companies, cleaning companies, etc.).

STANDARD GRI 404-1 AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE

TRAINING	U.O.M.	2018	2019	2020
Total hours of training provided		67,537	84,038	75,948 ⁴⁰
<i>of which women</i>	hours	5,364	7,856	11,899
<i>of which men</i>		62,173	76,182	64,049

BREAKDOWN OF TRAINING HOURS DELIVERED BY SUBJECT AND TYPE	U.O.M.	2018	2019	2020
Training on HSEQ topics*	hours	30,441	37,679	19,040
<i>Equity investments</i>	<i>n</i>	4,382	5,220	4,038
Training on the Code of Ethics - Model 231 - Anti-corruption - Antitrust	hours	209	367	3,849
<i>Equity investments</i>	<i>n</i>	78	302	2,914
Managerial training	hours	11,595	18,752	16,071
<i>Equity investments</i>	<i>n</i>	1,470	5,224	6,418
Technical/specialised training	hours	25,292	27,241	16,852
<i>Equity investments</i>	<i>n</i>	2,580	3,392	2,423
Training on digitisation topics	hours	N/A	N/A	20,137
<i>Equity investments</i>	<i>n</i>	N/A	N/A	17,122

* All training courses in "health and safety" were organised and delivered in compliance with the State - Regions Agreement dated 21 December 2011. In HSEQ too, training hours reduced from 2019 to 2020 due to the COVID emergency, which made it necessary to mainly deliver training on-line. These courses, compared with those carried out in person, envisage fewer hours as they are delivered remotely. In addition, in this case, the reduction is due to the impossibility of delivering practical training in person (e.g. fire-fighting).

AVERAGE HOURS OF TRAINING PROVIDED*	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Total employees	hours/no.	20	12	19	22	14	21	19	20	19
Executives		18	34	21	29	31	30	26	30	26
Managers		28	24	27	29	16	27	26	21	25
Office workers		20	10	18	20	13	18	20	20	20
Manual workers		18	14	18	22	16	22	16	5	16

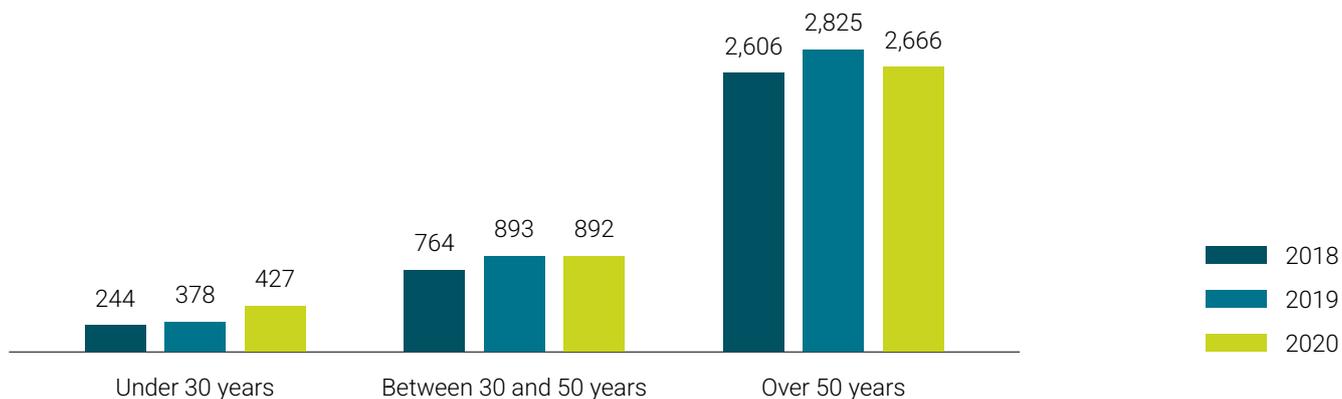
* The figure may include multiple participations for an individual participant

⁴⁰ Training hours reduced from 2019 to 2020 due to the COVID emergency, which made it necessary to mainly deliver training on-line. These courses, compared with those carried out in person, envisage fewer hours as they are delivered remotely.

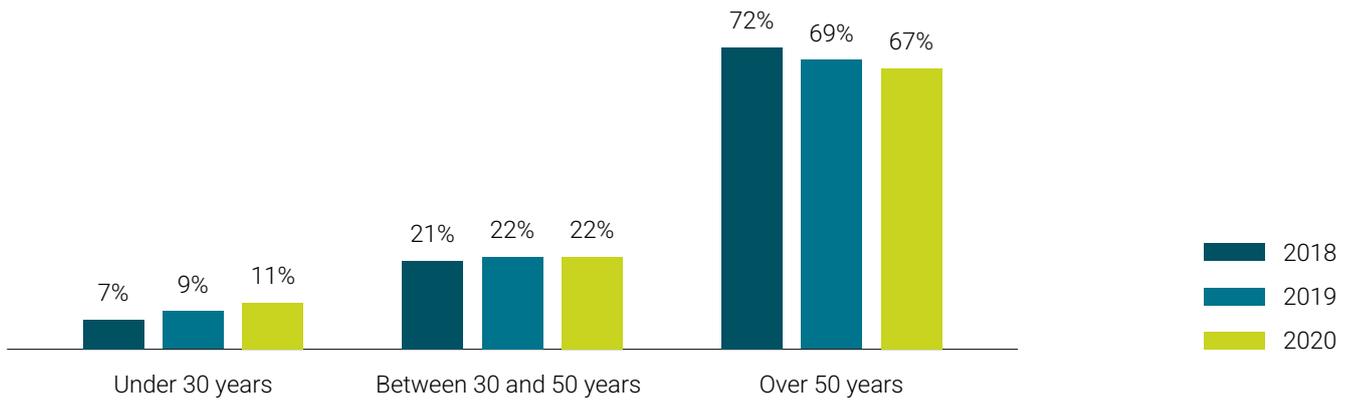
STANDARD GRI 405-1 DIVERSITY OF EMPLOYEES

EMPLOYEES (HEADCOUNT)	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Executives	no.	46	11	57	52	9	61	50	8	58
under 30 years		0	0	0	0	0	0	0	0	0
between 30 and 50 years		11	10	21	14	7	21	16	6	22
over 50 years		35	1	36	38	2	40	34	2	36
Managers		234	39	273	252	44	296	250	52	302
under 30 years		0	0	0	0	0	0	1	0	1
between 30 and 50 years		63	15	78	67	15	82	73	23	96
over 50 years		171	24	195	185	29	214	176	29	205
Office workers		1,571	394	1,965	1,747	523	2,270	1,659	536	2,195
under 30 years		121	24	145	165	58	223	153	76	229
between 30 and 50 years		278	121	399	346	161	507	355	171	526
over 50 years		1,172	249	1,421	1,236	304	1,540	1,151	289	1,440
Manual workers		1,316	3	1,319	1,466	3	1,469	1,426	4	1,430
under 30 years		99	0	99	154	1	155	195	2	197
between 30 and 50 years		265	1	266	282	1	283	247	1	248
over 50 years	952	2	954	1,030	1	1,031	984	1	985	
Total		3,167	447	3,614	3,517	579	4,096	3,385	600	3,985

NUMBER OF EMPLOYEES BY AGE BRACKET

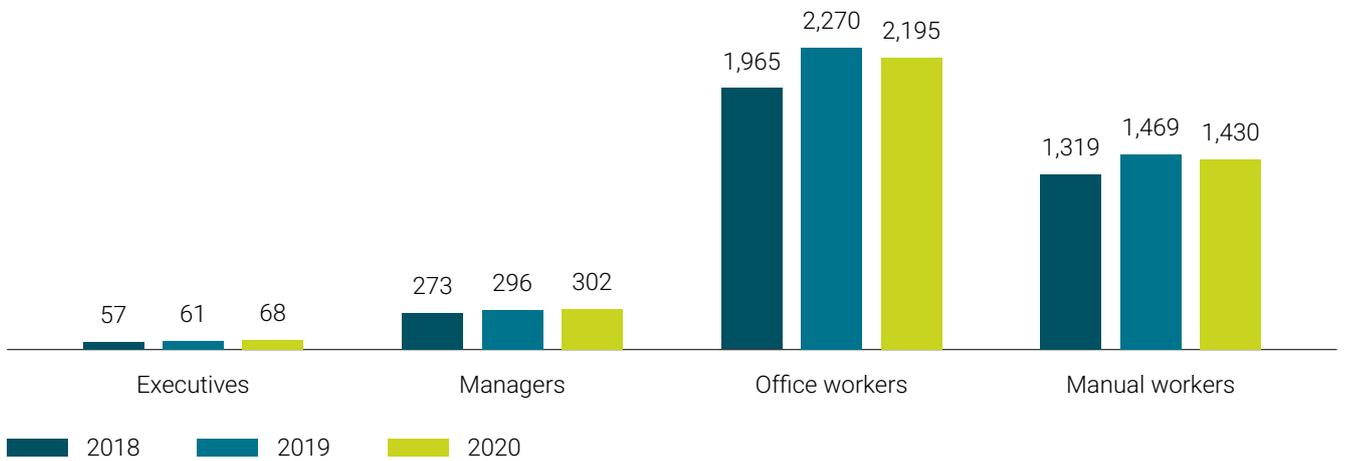


PERCENTAGE OF EMPLOYEES BY AGE BRACKET

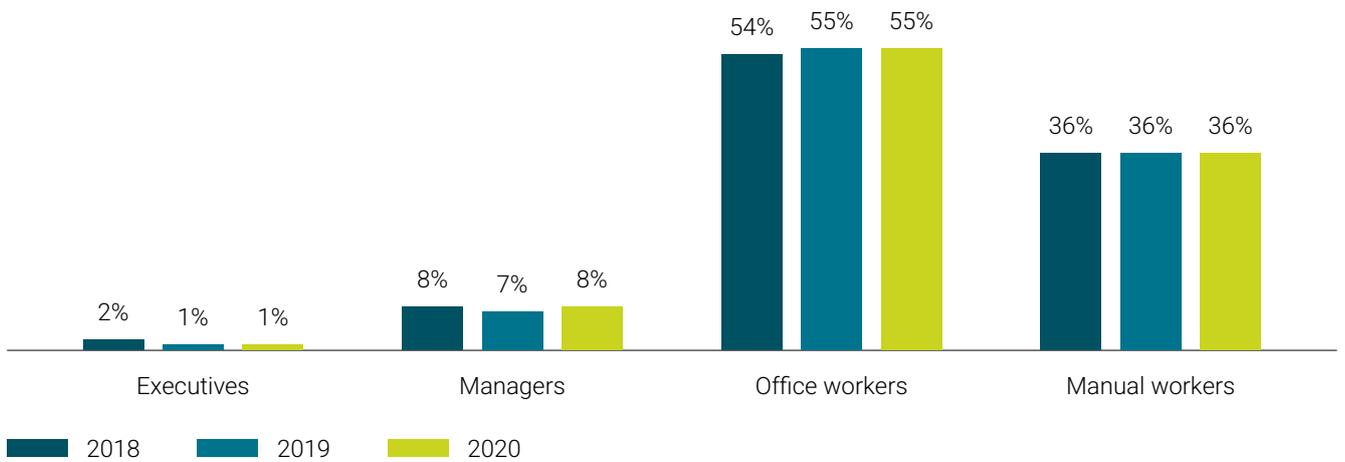


Current turnover means that the percentage of employees aged over 50 has reduced significantly.

NUMBER OF EMPLOYEES BY QUALIFICATION



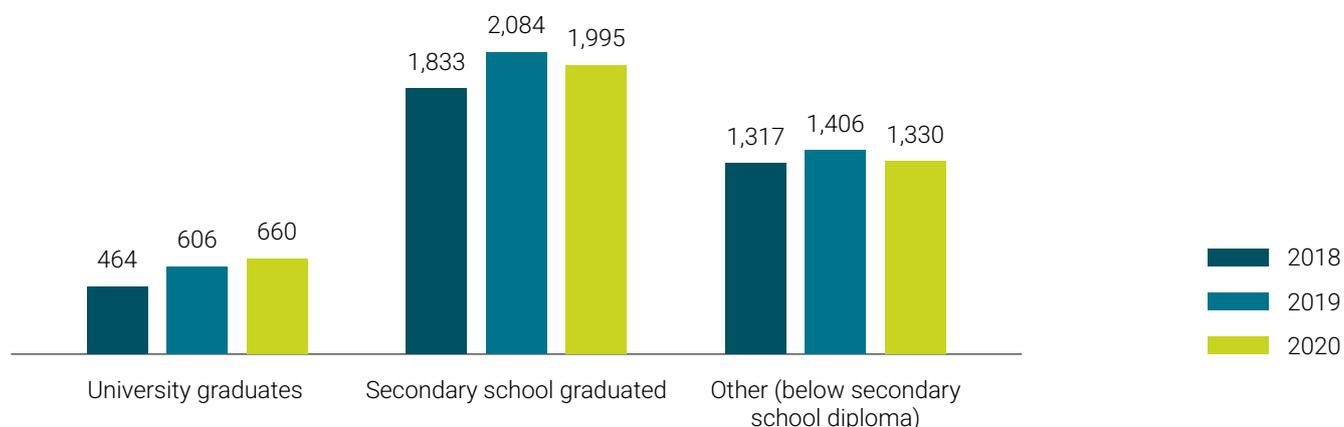
PERCENTAGE OF EMPLOYEES BY QUALIFICATION



EMPLOYEES PERTAINING TO PROTECTED CATEGORIES	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Employees pertaining to protected categories	no.	138	25	163	146	30	176	148	32	180

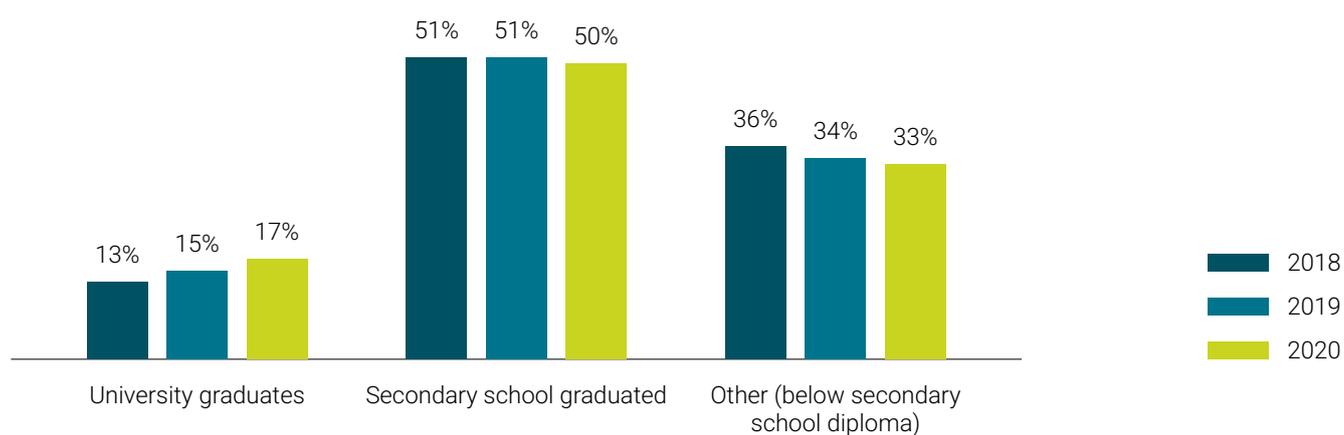
EMPLOYEES BY LEVEL OF EDUCATION	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
University graduates	no.	324	140	464	388	218	606	405	255	660
Secondary school graduates		1,601	232	1,833	1,807	277	2,084	1,727	268	1,995
Other (below secondary school diploma)		1,242	75	1,317	1,322	84	1,406	1,253	77	1,330
Total		3,167	447	3,614	3,517	579	4,096	3,385	600	3,985

NUMBER OF EMPLOYEES BY LEVEL OF EDUCATION



The increase continues in the absolute value of the number of university graduates, while those who have completed secondary school or other schooling levels, declines.

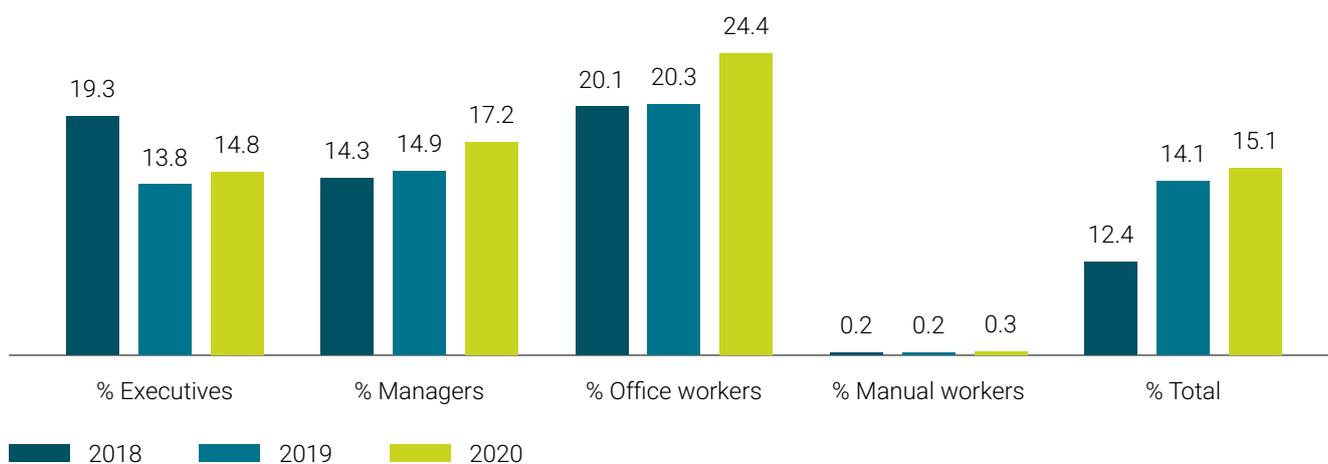
PERCENTAGE OF EMPLOYEES BY LEVEL OF EDUCATION



EMPLOYEES BY AVERAGE SENIORITY	U.O.M.	2018			2019			2020		
		MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Average age of employees (age)	no.	52	50	52	51	49	51	51	48	50.5
Average seniority of service (years)		27	24	26	25	22	25	25	21	24.5

% WOMEN OF ALL EMPLOYEES, BY PROFESSIONAL CATEGORY	U.O.M.	2018	2019	2020
Executives	%	19.3	14.8	13.8
Middle Managers		14.3	14.9	17.2
Employees		20.1	23.0	24.4
Manual workers		0.2	0.2	0.3
Total		12.4	14.1	15.1

PERCENTAGE OF WOMEN BY CATEGORY



Thanks to the management's efforts and the objectives assigned by the Board of Directors, the percentage of women in the company is growing constantly. A downturn is seen in the management population due to the negligible number of said population.

% EMPLOYEES PERTAINING TO PROTECTED CATEGORIES OUT OF TOTAL EMPLOYEES	U.O.M.	2018	2019	2020
Employees pertaining to protected categories	%	4.5	4.3	4.5

% EMPLOYEES BY AGE BRACKET OUT OF TOTAL EMPLOYEES	U.O.M.	2018	2019	2020
Under 30 years		6.8	9.2	10.7
Between 30 and 50 years	%	21.1	21.8	22.4
Over 50 years		72.1	69.0	66.9

DISPUTES WITH EMPLOYEES

EMPLOYEE DISPUTES	U.O.M.	2018	2019	2020 ⁴¹
Disputes started during the year		18	13	35
Disputes closed during the year	no.	15	15	16
Total disputes pending as at 31/12 (employees and former employees)		21	20	41

The remaining 18 disputes opened in 2020 are attributable to the following cases: no. 4 financial requests of various kinds; n. 3 differences in classification; n. 1 recognition of occupational disease; n. 10 appeals against disciplinary measures imposed, including expulsive ones.

⁴¹The lawsuit with employees and former employees of the Italgas Group, although basically stable over time, has increased on 2019, this is mainly due to the fact that 17 serial appeals were lodged connected with a single dispute relative to the interpretation of the collective national bargaining agreement on the potential absorption of an element of remuneration in the event of promotion, by employees of the former AES of Turin.

5.3 CREATE VALUE FOR CUSTOMERS AND THE MARKET

NFS

Innovation

The innovation is the main driver of the Italgas development strategy. The Company's capacity to consolidate its leadership position in Italy and Europe involves its technological innovation, assuring it is confirmed as cutting-edge in the gas distribution segment. This is why the digitisation of assets and processes and the development of the digital skills of Italgas people are seen as the cornerstone on which to assure ever more efficient operation and consequently improve the service offered to customers.

In the 2020-2026 Strategic Plan, another billion euros have been allocated to the digitisation of the networks and business processes and the completion of the smart meter installation plan. It is a transformation process that makes it possible to make the network monitoring and control increasingly capillary, also in terms of security and above all constitutes a technical condition that must be met in order to transport renewable gases like hydrogen, biomethane and synthetic methane.

Digital transformation: processes, assets and people

The speed at which digital is overturning rules and markets is forcing companies to considerably speed up their transformation projects, obliging them to identify an IT and business architecture that is effectively able to assure present and future competitiveness.

In this context, the following elements become important:

- _ re-platforming, through which the existing platforms and applications are innovated, so as to adapt them to the cloud characteristics, preserving their original functions. The re-platforming process affects the infrastructure, entailing the adoption of IT architecture that can guarantee scalability and portability, with clear advantages on sustainability;
- _ the installation of digital/IoT devices for the massive acquisition of the network's physical parameters (30,000 devices whose installation will be completed between 2021 and 2022, in addition to smart meters) and their interpretation by means of specific algorithms that reveal network function in real time and guarantee control and management from a remote position;
- _ big data analysis, which, amongst other advantages, makes it possible to activate a predictive maintenance process of the assets and, therefore, to further optimise the processes.



PARTNERSHIP WITH POLYTECHNIC UNIVERSITY OF TURIN

In July 2020, Italgas signed a partnership with the Polytechnic University of Turin to develop joint research, innovation and training activities in support of the energy transition, sustainable mobility and the circular economy. The collaboration includes research projects on general themes - such as digital innovation, the optimisation of energy consumption, improvement of network efficiency and recovery of resources - to more specific actions. These actions will be aimed at developing innovative technologies for feeding renewable gases into existing networks, developing "Power to Gas" systems to recover surplus energy production, and creating an advanced gas smart meter especially for "smart" networks. The Polytechnic and Italgas will also be working on several educational fronts, with joint projects aimed at developing university Master's courses, courses for recent graduates, events and dissemination activities through national and international networks. Italgas has also provided professors and researchers with the spaces and expertise of its Digital Factory, the driving force behind the digital transformation of the company.

The Digital Factory, which has been operative since 2018, continued to work even during lock-down. Here, physical and virtual rooms work in smart form towards the digitisation of the business processes, giving rise to various innovations that have enabled Italgas to further improve its everyday work. WorkOnSite, which is one of the main creations of the Digital Factory, offers a practical demonstration of this; it uses artificial intelligence to verify from a remote position the conformity of the sites and the progress made on works; or ShareView, smart glass thanks to which an expert can offer, from a remote position, their technical knowledge to help colleagues a long way away.

Below are the main rooms, relevant in terms of the digital transformation:

ROOM	DESCRIPTION
Site supervision	MVP no. 3 - Relative to the WorkOnSite application for the management of the digital works supervision process. Control is made remote through the sending of photographs from the site in relation to the measures to be verified for the various site phases. Activation of a virtual control room to verify the photographs and introduce artificial intelligence in support thereof.
Emergency Assistance	MVP no. 1 - Optimisation of the emergency intervention management process and introduction of the Salesforce platform.
Customer travel	MVP nos 1 to 2 to 3 - Redesign of the commercial processes for interaction with the end customer and towards the sales companies, through the introduction of the Salesforce platform.
Digital estimation	MVP nos 1 to 2 - Redesign of the estimating process in digital terms. Possibility of carrying out a site inspection from a remote position for the issue of the estimate and optimisation of the process after estimation, with a view to continuously monitoring progress made on the activities, both for the end customer and for the ITG internal units involved.
End-to-end smart meter failure management	MVP nos 1 to 2 - Introduction of a digital tool for the continuous tracking of related activities, from the purchase through to return to the supplier.
Fleet management	MVP no. 1 - Introduction of a digital platform with the aim of evolving the current procedure for managing Italgas corporate vehicles in a digital approach, simplifying and automating the systems for end-to-end reporting and monitoring, from the assignment to refuelling and reserving pool cars.
Analytics	MVP no. 1 to 2 to 3 - Scope of in-depth analysis on data will be: smart meters, leaks, commercial.
Employee travel	MVP nos 1 to 2 - Review of the processes and tools in support of employees.
Digital final statements	<i>MVP no. 1 - To complete the works execution process, the intention is to digitise the process used to manage final site statements, digitally reporting all information already present on the WorkOnSite system.</i>

For a major digital transformation, people are key. In order to address the change, Italgas is promoting a new “digital mindset”, pursuing a gradual development starting from the capillary mapping of the digital skills in the company and continuing with the identification of Italgas Digital Ambassadors, who, trained according to the train-the-trainer model, have become responsible for the promotion of the company’s digital transition. The company has also activated an extensive programme for the strengthening and acquisition of new skills (upskilling and reskilling) that, thanks to the active involvement of the people, has made it possible to significantly reduce the foreseeable rate of resistance to change and align to the company’s new digital identity.

In its plan for this important transformation and technological evolution, Italgas has also provided for adaptation to accessibility standards for the inclusion of disabled colleagues and customers.

More specifically, the collaboration with SAP Italia has led to adjustments being made in support of the main internal administrative and organisational processes, making native instruments available that also allow people with impaired sight to use a screen reader, namely a software application that identifies and interprets the text shown on the screen of a computer, presenting it by means of vocal synthesis or through a Braille display.

One of the most significant and innovative outcomes, generated by the collaboration between SAP and Italgas, has been the translation of the screen readers’ scripts into Italian, to be used with the SAP GUI interface. This is an achievement from which all Italian companies that adopt this management system will benefit.



PARTNERSHIP WITH MICROSOFT

In 2020, Italgas strengthened its partnership with Microsoft for the development of cloud computing, big data, IoT and artificial intelligence in order to pursue the digital transformation of the processes and services, striving towards greater sustainability and even higher standards of quality and security. To digitise its network, Italgas has opted for the Azure IoT platform, in order to create and rapidly distribute the new applications and process progressively larger quantities of data, exploiting artificial intelligence and machine learning, as well as planning, anticipating and easily monitoring the activities on their networks thanks to predictive analysis and the use of specific analysis tools, such as Power BI.

Network innovation and security

Italgas makes the security of the service provided to its end customers the cornerstone of its business and mission.

Attention paid to security starts with the careful choice of traces established for its infrastructures in the design stage; it then continues with the use of increasingly innovative site-suitable materials and develops with the construction of the networks in respect of reference legislation; finally it consolidates through specific plans for the running and maintenance of networks that can keep expected quality and performance unchanged over time, along the lines of continuous improvement of performance and technology.

In order to improve the quality and security performance of the service, as well as to increase the efficiency of the distribution system, Italgas continues to invest very significantly in the digitisation of its network and process infrastructures, with unique technology and artificial intelligence.

Activities of digital transformation regard, for example:

- _ scheduled gas leakage detection
- _ the systematic, real time control of all sites
- _ the digitisation of reduction units
- _ the laying of multi-ducts for optic fibre and Rfid (Radio Frequency Identification) markers

SCHEDULED GAS LEAKAGE DETECTION

As regards leak detection, in 2018, Italgas introduced and now makes extensive use of CRDS (Cavity Ring-Down Spectroscopy) technology - designed and finalised by the US Picarro Inc. It consists of a sophisticated sensing technology that, as compared with traditional technologies, offers important advantages in terms of the speed of conduct and extent of areas under control; indeed, it can:

- _ detect leaks with a sensitivity three times greater than that currently used by all other industry operators (parts per billion vs parts per million);
- _ identify a gas leak even a few dozen metres away from the route covered by the equipped vehicle, thanks to specific on-board sensors and sophisticated calculation software;

Thanks to this, Italgas is the only one in Italy to carry out scheduled gas leakage detection, also extended to all the underground and overhead connections, albeit this activity is not prescribed by current legislation and regulations. Right from the first applications, the technology - now fully part of the management of the distribution network - has made it possible to control 150% more kilometres of network than the minimum standards laid down by the regulatory Authority.

The function of this technology put Italgas in a cutting-edge position, also in terms of the work it does to limit leaks, a topic to which the European Commission pays close attention.



With the proper start-up of the land-based network monitoring system using CRDS technology, Italgas has also applied the system in different, very specific urban contexts, like Venice, where the natural gas distribution network has no equals worldwide, due to the undersea pipes, clamped to the arches of the bridges or below the pedestrian crossings. The network monitoring in the lagoon is thus carried out using a boat equipped in a similar manner to the cars and that applies and benefits from the same specifications. In addition, during 2020, monitoring was implemented of the pipes that are not buried, with the start-up of a trial that envisages the use of drones and satellite images. This use makes it possible to more easily and quickly reach segments of pipes positioned in areas that are difficult to access (e.g. near overpasses or viaducts), to carry out more frequent preventive controls and to benefit from the adoption of artificial intelligence for the interpretation of images and possible changes. The test involved the metropolitan area of Rome, where, in the last year, it was possible to control approximately 200 kilometres of pipes, supplementing the traditional monitoring.

SYSTEMATIC SITE CONTROL

In order to carry out a systematic real time control of the various operative phases making up the development of a network or a simple user connection, Italgas has designed and finalised, thanks to its Digital Factory, an innovative digital application called WorkOnSite, which, supported by artificial intelligence systems, makes it possible to:

- _ acquire, at each operative phase (e.g. site preparation, excavation, installation of pipes, re-burial, etc.) the pertinent photographic findings, sending them in real time to a site control centre monitored by technicians who have been specifically trained on the control,
- _ validate or otherwise the consistency and conformity of each photograph, including through artificial intelligence systems, with current legislative provisions and the tender specifications (e.g. site safety conditions, depth of installation of pipes, type/quality of reburial, correct positioning of the signalling tape, etc.);
- _ establish a permanent depository of quality and conformity of all works realised.

Italgas has made "Work-on-site" available to all companies operating on its behalf.

DIGITISATION OF THE REDUCTION UNITS

Thanks to new digital technologies (industrial IoT), Italgas Reti has embarked on a project for digitising its network infrastructures and plants, thanks to the capillary installation of sensors and electronic devices that are able to:

- _ communicate and interact amongst themselves and with the central supervision and control infrastructures;
- _ provide detailed information in real time on the performance achieved by the various plant components, allowing, thanks to machine learning systems, for the self-regulation of the system and/or the sending of preventive signals to the supervisory operative structures assigned to assure the network safety conditions and those of the plants.

The above-described activities are carried out in addition to the normal routine and extraordinary maintenance of the pressure reduction plants present on national territory, in respect of the regulatory indications in force today.

MULTI-DUCTS FOR OPTIC FIBRE AND RFID (RADIO FREQUENCY IDENTIFICATION) MARKERS

The new natural gas distribution networks have already been equipped for some years with multi-ducts and related accessories prepared for the insertion of optic fibre cables for the mass transmission of data recorded by the Digital Reduction Unit's at the natural gas injection points, by the smart meters installed at the re-delivery points to users and by the sensors installed at the terminal points of the network. The multi-ducts are positioned at the same time as the pipes are installed and within the same excavation. The new distribution networks are also equipped with Rfid markers, again positioned inside the excavation at an average step of 1 every 50 metres, which allow for the traceability and localisation of the pipes directly from the road level without any need for invasive interventions in the subsoil and consequent interference with traffic.

In 2020 Italgas Reti continued its gas odourisation activities, odourisation being crucial for distribution safety because it enables the detection of gas, which would otherwise be odourless and colourless, in the case of accidental leakage.

Within the Italgas Reti Asti Laboratory, centre of technological excellence that can operate according to the standard ISO 17025 for the tests and calibrations indicated on the accreditation certificates on the Accredia website, test and calibration methods are developed and updated in connection with innovative systems and products for each individual production process and the various specialised activities connected with gas distribution are monitored. In 2020, activities continued in relation to instrumental tests on gas odourisation, rhino-analytical tests (sensorial, on gas odourisation), the calibration of gas meters and other instrumentation supporting gas distribution activities, as well as mechanical tests on network materials. In 2020, the Italgas Reti Laboratory has carried out a total of 27,841 activities, of which 11,812 tests accredited and 11 calibrations accredited. A detailed report on the Laboratory activities is included in the "Review of the Laboratory management system for 2020".

The possibility of improving performance in terms of technical and commercial quality depends on the technological component made available both to the customer and the operative staff.

In this respect, Italgas is committed to completing the replacement of traditional meters with new generation digital smart meters with new functions. For more details, see the paragraph on "Operating performance" on page 84.

In support of network safety, the plan has almost been completed for replacing the grey cast iron pipes with hemp and lead joints and mechanical joints; this will not only increase the safety levels but also help reduce gas leakages into the atmosphere: there are now only 3 km left of grey cast iron with hemp and lead joints located in Rome and these will be removed in 2021.



Suppliers

In Italgas' vision, progress stems from ideas and co-creation and is nourished by values like trust, responsibility, a proactive approach and innovation. People establish and consolidate over time **fair, transparent relationships**, not only within the Group but along the whole of the supply chain, fostering the creation of **shared value**. The Italgas network has widespread coverage, enabling close contact with local communities, therefore carrying with it the **responsibility of acting sustainably**.

For Italgas, **responsible management of the supply chain** is strategically important in terms of guaranteeing a high quality of its services and safeguarding and improving its reputation; it takes the form of respect for legality and equality with a constant, proactive commitment and is monitored in all phases of the purchase process. Supplier performance not only guarantees the necessary quality standards but must also go hand-in-hand with the commitment to adopt the best practices in terms of human rights and working conditions, health and safety at work and environmental responsibility. The Code of Ethics, Ethics and Integrity Agreement, Human Rights Policy and Organisational Model pursuant to Italian Legislative Decree no. 231/01 form the basis for all purchases and effectively constitute a code of conduct for all those wishing to collaborate with Italgas.



The COVID-19 health emergency has struck all suppliers of the Italgas Group, which, due to the type of product or service supplied, found themselves forced to come to a halt during the lock-down periods of March and April 2020. Since the start of the pandemic, the Group Supply Chain has implemented a reaction plan, creating a support team to prevent and address any critical issues, preparing a warehouse stock and procurement plan from alternative sources, avoiding consequences linked to a shortage of materials. Italgas has always kept regular contact with all suppliers, informing them periodically on corporate decisions and guaranteeing respect for payment commitments made. Various digitisation projects have speeded up considerably in this context, particularly in terms of excavation sites, so as to guarantee the safe resumption of works.



- 1 Purchases Planning, Scouting and Cost Control
- 2 Vendor Qualification
- 3 Purchase Order Request (RDA)
- 4 Purchase Order and Contract Release (Sourcing process)
- 5 Contract Management
- 6 Vendor Management (Tier I & Tier II Management)
- 7 Logistic and Material Management

SUPPLIER QUALIFICATION

Supplier chain sustainability is monitored right from the early stages: before being included on the Vendor List, all suppliers must make a formal commitment to comply with the requirements envisaged by legislation (Italian Legislative Decree 231/2001) and to adhere to the principles of the Italgas Code of Ethics and Suppliers' Code of Ethics and to go about their business in respect of regulations governing safety at work, health protection, environmental safeguarding and international standards on human rights and employment, as well as all technical, economic-financial and legal standards.

The Italgas Group supplier qualification process is regulated in a specific procedure through the establishment of a Vendor List and is managed by means of the Vendor Management System, addressed to all companies concerned by the product categories.

Suppliers are divided up into three macro product classes (products, works, services) and each one is classified on a scale that goes from a minimum of "D" to a maximum of "A". Suppliers pertaining to product classes "A" and "B" qualify as the strategic suppliers for the Group's core business. For each critical level, the minimum Quality, Environment, Health and Safety requirements must be satisfied, as well as the technical, economic and financial requirements. The suppliers to be invited to carry out the tender procedures are selected each time from the Vendor List.

Works suppliers account for 61% of purchases and are located throughout national territory. Suppliers of products and services account for 39% of purchases and are of Italian and international origin.

The most important activities that are considered as being above threshold pursuant to Italian Legislative Decree

50/2016 (Contracts Code) are managed through the publication of "Qualification Systems" by the European Community, stating the minimum HSEQ requirements, technical-organisational and financial, needed by suppliers in order to be entered on the Italgas Vendor List. In 2020, 77% of tenders were managed under the Tenders Code.

For other activities considered important in terms of turnover and technological complexity, Italgas publishes the "Italgas Qualification Systems" on its portal, stating the minimum qualification criteria required for entry on the vendor list.

Tier II suppliers are an integral part of the Italgas Group process and this is why, in addition to verifying the reputational requirements, as from 2020, they have been qualified and included on the Italgas Group Vendor List. The activities include restoring the road and cathode protection, in addition to various suppliers of materials.

Thanks to the new features already introduced and the constant attention paid to making the most of opportunities for renewal, in 2020, the Group qualified and developed projects with a growing number of suppliers under the scope of Technological Innovation (37 suppliers).

In 2020, the Italgas Vendor List numbered 1,602 qualified suppliers. Of these, an important role was played by small and medium-sized companies (around 70%).

In terms of economic value, despite the crisis due to the health emergency, in 2020, Italgas commissioned contracts and orders for €1,064 million, of which approximately 1% for contracts with suppliers located in other European and non-European countries.

With a view to assuring continuous improvement, the Group intends to further optimise the processes involving supplier management, in 2021 activating specific projects.



VERIFICATION OF REQUIREMENTS AND ISO CERTIFICATIONS

The numerous criteria identified by the Group to qualify and select suppliers include specific importance assigned to ESG aspects and ISO certifications.

The main certifications required of Italgas suppliers are:

- _ ISO 9001 on quality management systems,
- _ ISO 14001 or EMAS on environmental management systems,
- _ OHSAS 18001/ISO 45001 on health and safety management systems.

As compared with 2019, the portion of suppliers certified ISO 14001 and OHSAS 18001 rose due both to direct action taken by Italgas, which systematically includes in tenders or supplier qualification phases an indication that certificates must be held, by way of rewarding requirement to take part in the tender

and to the increased awareness of businesses in considering certificates as an aspect that makes them more competitive.

In 2020, through the introduction of environmental criteria in all phases of the purchase process and by introducing the sustainability questionnaire and technical scoring in most tenders, Italgas launched an awareness-raising campaign towards suppliers for the obtaining of SA8001 (Social accountability), ISO 37001 (Anti-bribery management systems), ISO 50001 (Energy management systems) and ISO 27001 (Information security) certifications.

The priority objectives of the Italgas Group include: constant monitoring of the social, environmental and governance impact on the entire supply chain and an increase in the percentage of suppliers (+5% over the year, with a first objective set through to 2022) in possession of additional ISO certificates, over and above those already demanded as minimum requirements for qualification.

PERFORMANCE MONITORING

The supplier assessment monitoring and management model was made official in 2019 through the definition of a series of supplier scores and aims to monitor the technical, organisational and management capacity, as well as the ethical, economic-financial reliability and adhesion to compliance aspects of Italgas Group suppliers.

More specifically, the following indicators and criteria are observed and monitored:

1. **Operational vendor rating (IR):** supplier assessment system based on a questionnaire focussing on aspects of quality (compliance with technical requirements), conduct (relationship with the contracting Authority for the entire contract period) and punctuality (observing arranged delivery times), and consequently assigns an overall score (0-100) to each supplier. A Vendor rating of less than 60 results in measures taken towards the supplier, which, depending on severity, may be:
 - _ Warning (timely monitoring of the supplier); 2 suppliers have received warnings
 - _ Temporary suspension of qualification (preventing participation in tenders for the entire period of suspension); 1 supplier has had a suspension extended
 - _ Revocation of qualification (cancellation from the vendor list); 2 suppliers have been revoked for negative assessments that have continued over time and led to a rating of below 49.

In addition, following information received from open sources, 4 suppliers have been assigned to reputational alert, whilst awaiting definition of their position.

In addition to monitoring suppliers through the contract manager giving feedback, the Italgas Group constantly monitors activities in situ through **Audits at sites** where the contractors work. In 2020, 39 Audits were performed, by external certification bodies. In addition, the HSEQ Technical Audit facility continually conducts audits on aspects of quality, the environment, health and safety, as well as on the proper performance of works. The following were conducted in 2020: 670 Audits on suppliers, 325 of which regarding areas of safety on the sites.

- 2. Reputational check:** the companies included on the vendor list pass compliance and reputational checks. These analyses are carried out by the competent corporate departments brought together in the "Assessment Team", which, for competence and access to information, can guarantee the execution of all in-depth analyses necessary to identify any circumstances that may result in the failure by a supplier to meet the requirements laid down by Italgas in terms of compliance and alignment with the Group Code of Ethics. For 2020, the Assessment Team examined 1,062 cases.
- 3. Sustainability index:** calculated on the basis of the results and processing of the "Sustainability Questionnaire" that the Italgas Group suppliers are asked to fill in every year, the supplier receives a rating that determines the general and specific level of business sustainability, as well as offering an overview of the certificates in the various ISO Management Systems.
- 4. Other criteria:** monitoring of reciprocal economic dependency, open disputes, results of technical audits, injury indicators and financial solidity.

PURCHASING PORTAL

Italgas makes available to (qualified and other) suppliers a web portal through which it manages its procurement policy, in complete transparency, traceability and completeness of the information made available, with the aim of becoming increasingly a meeting point between Italgas and the suppliers (fornitori.italgas.it).

To safeguard these principles, registered suppliers can find out about tender notices on the portal, take part in tenders on-line and complete the qualification process for inclusion on the vendor list.

Both public tenders and invitation-only tenders are managed through the portal.

New Projects

Il Gruppo Italgas promuove sempre nuove attività di sviluppo sostenibile su tutta la catena di fornitura. A tale scopo, per il 2020 si segnalano i seguenti progetti:

1) SUSTAINABILITY

Social and environmental sustainability is a key integral part of its strategies and business. A position that has led to

an extension of this attention to include all partners of the supply chain.

The Project, which was launched in 2019 as a "pilot project" on 120 suppliers, was extended and consolidated in 2020 by the Procurement Department in collaboration with Seaside, the Group company operating in energy efficiency, extending participation in the Sustainability Questionnaire to 245 suppliers, selected on the basis of eight different product categories and considered strategic due to the highly complex nature of the product and service, the risk level of the supply and the high impact on Group profitability.

Through the questionnaire, for each supplier, the main topics regarding sustainability⁴² were analysed, to each of which a different weighting has been assigned to calculate the final position, determining for each company the general and specific level of sustainability and obtaining an overview of certification in the various ISO management systems (quality, environment, safety, energy, anti-bribery and cyber security), which has revealed an increase in ISO 37001 (+10) and ISO 50001 (+5) certificates on the previous edition.

Participation in the questionnaire was high (80%). The 79 companies involved in 2019 also took part in the 2020 edition.

Within the questionnaire, the suppliers were able to specify and list any other aspects or actions of sustainability they had implemented. In 2021, the analysis of the open answers will be analysed more closely and lead to the launch of new projects to be developed, the summary sheet setting out the final score, given by the positioning indexes in the predefined sections, a comparison with last year's score, positioning in respect of the best in class in the category and certifications held, will be shared with each supplier. The general report, obtained from the questionnaires analysed, is presented during the year, at the Virtual Convention held with the Suppliers.

The project has made it possible to define the solidity of the Italgas Group suppliers more accurately, in terms of ESG criteria, for the first time attributing a specific "Sustainability Index" rating.

2) CONTRACTOR INSURANCE

In 2020, Italgas launched an extensive initiative digitising the corporate processes, which includes, in collaboration with STRATEGICA INSURANCE MANAGEMENT S.R.L, the **Contractor Insurance project**.

The Project allows the companies to fulfil their insurance obligations in a smart manner, through an **ON-LINE digital platform** and by adhering to a specific Agreement stipulated by the Italgas Group on the insurance market. This has allowed, and continues to allow, excellent cover at competitive costs and streamlines and speeds up the business processes, meaning that in just 4 hours, we can have approval of the Policy document and its immediate availability to the contractor.

The initiative comes as part of the Italgas Group digitisation process, through agile methods and tools aiming to digitise processes and standardise contents, so as to optimise the Group's efficiency and effectiveness and that of all those collaborating with it.

⁴²Please note that 2018 data does not include the company Toscana Energia and that relating to 2019 considers Toscana Energia only for the three months of consolidation. 2020 data, on the other hand, also includes Toscana Energia for the full 12 months.

Also in terms of sustainability, with the **Contractor Insurance Project**, the Italgas Group seeks to adopt a solution with the entire supply chain, reducing time necessary, assuring greater insurance cover and economic benefit's all round.

The **Contractor Insurance Project** already involves numerous businesses, which have quickly and easily stipulated their policies with them. In 2020, 94 policies were issued, for a total of 50 contracts stipulated.

3) SMES (SMALL AND MEDIUM ENTERPRISES)

In order to facilitate the classification of small and medium enterprises for the maintenance and construction of gas distribution networks and the maintenance of water networks, in 2020, Italgas published two new Qualification Systems. Both systems, one for the gas networks and the other for water, aim to include the small and medium enterprises in the works segment on the Italgas vendor list and spread values and principles for a progressive progress towards aware production growth. It is in the Group's interests to spread awareness of a responsible management model, taking into account the different sizes of the companies and the heterogeneous nature of their businesses.

During the year, five small and medium enterprises were qualified, which took part in tenders below threshold in accordance with Italian Legislative Decree no. 50/2016 (Tenders Code). Orders were assigned to three suppliers, which are carrying out the activities and whose performance are being monitored, through the operational vendor rating.

The initiative makes it possible to increase accessibility and participation of the companies, eliminating entry barriers and expanding on the potential market, monitoring "guided" growth of small enterprises, which stand out in terms of performance, professionalism and quality of work.

4) TRACK & TRACE (WAREHOUSE REORGANISATION AND LOGISTICS PROCESS)

In 2020, Italgas launched a reorganisation of its logistics process, identifying opportunities for digitisation but above all opportunities for environmental sustainability.

The project impacted 3 separate areas of the logistics chain:

Transport: a central warehouse was implemented, barycentric with respect to the Italgas depots, to which all encoded materials of suppliers flow, stored and delivered according to the needs of the Territorial Poles. The

activity was started by means of tender, involving various different leading suppliers in the transport industry. In the technical scoring and final assessment, significant weight was assigned to sustainability, fostering use of reduced emissions vehicles for the service. This reorganisation of flows, combined with the transport tender will allow for significant savings in terms of CO₂ emissions for the movement of Italgas materials.

Work vehicles: the current fleet of moving vehicles owned by Italgas, which envisages various types of fuel (diesel, electricity with lead-acid battery, etc.) will be replaced by a new all-electric rental fleet that envisages use of latest generation batteries thanks to which a twofold advantage is obtained in terms of:

- _ energy saving, because the batteries recharge quicker and last longer;
- _ pollution, insofar as the vehicles do not generate any emissions during movement and charging.

Shelving: parallel to the restructuring of various Italgas offices, supplies of shelving have been standardised, preferring products that respect high quality, technical and sustainability standards.

5) AUDITS & ADMISSION REQUIREMENTS

In order to strengthen the internal structure called to comply with and certify technical-administrative requirements and sustainability requirements for the tender, starting September 2020, the Italgas Group has been collaborating with an external certifier supplier, which, through a Technical Audit at suppliers' premises during the pre-assignment of qualification and renewal, certifies the technical-administrative and sustainability requirements and confirms the truthful nature of the declarations given previously, during qualification.

The Italgas Group intends to use this collaboration to implement an audit system at critical suppliers during qualification, renewal of qualification and pre-assignment of business, so as to certify the declarations given during the tender proceedings.

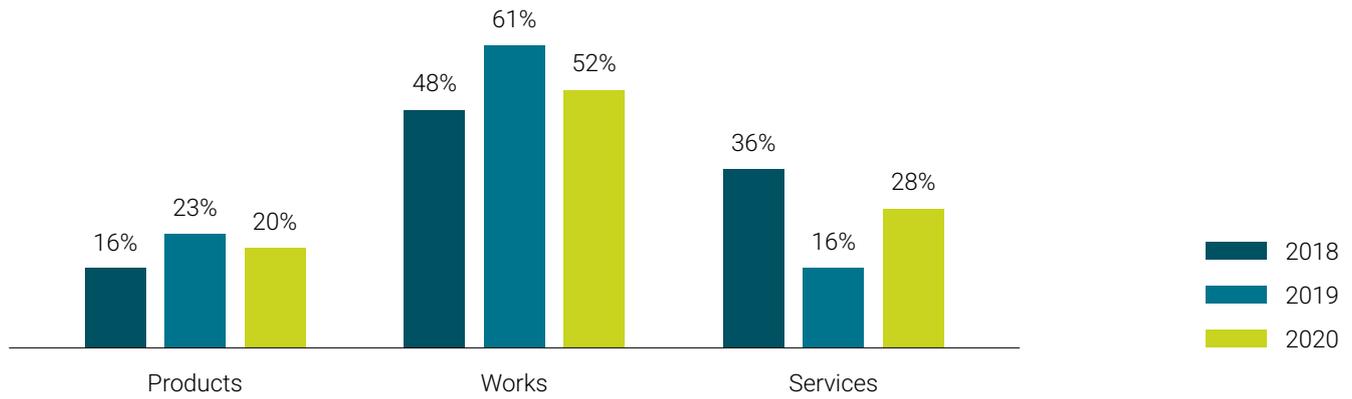
6) FINANCIAL SOLIDITY OF SUPPLIERS

Since 2020, Italgas has consolidated an ECO-FIN verification, using an external provider on an on-line platform where the economic prejudice can be analysed in regard to all Suppliers undergoing the Qualification or Qualification Renewal process, with access to specialised analysts for timely in-depth analysis and potentially discussed in the reputational check.

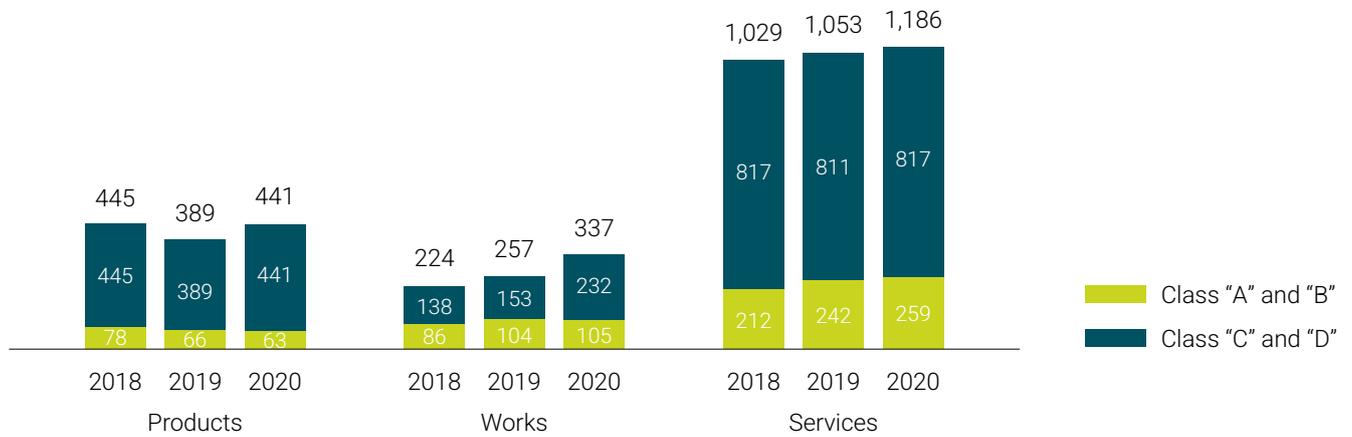
Main Key Performance Indicators

NFS

PROCUREMENT BY PRODUCT TYPE



TOTAL QUALIFIED SUPPLIERS

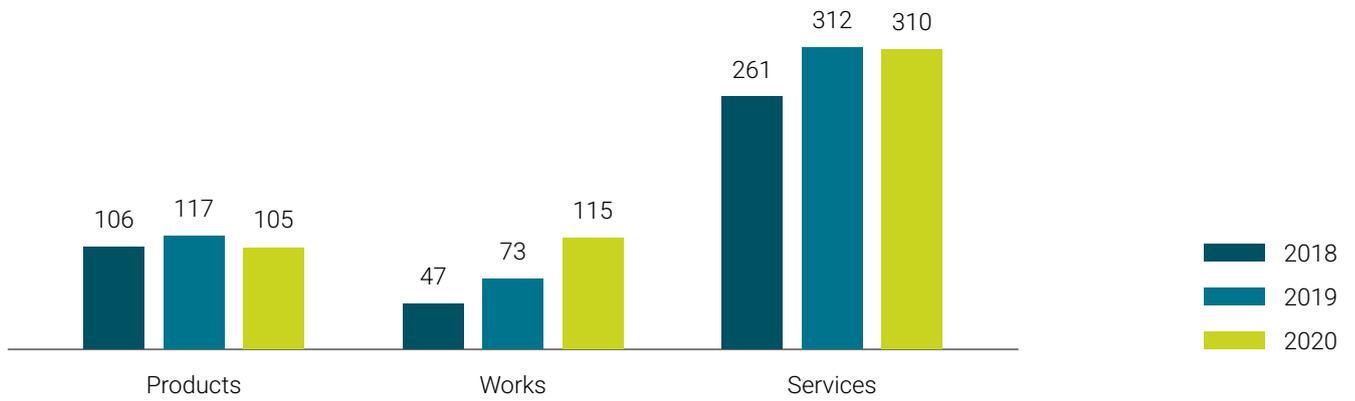


Some suppliers are present in more than one product group.

STANDARD GRI 308-1 - NEW SUPPLIERS THAT WERE SCREENED USING ENVIRONMENTAL CRITERIA

STANDARD GRI 414-1 - NEW SUPPLIERS THAT SCREENED USING SOCIAL CRITERIA

TOTAL SUPPLIERS QUALIFIED DURING THE YEAR



All Italgas suppliers are assessed according to social criteria, regardless of year and category.

Instead, the percentage of suppliers assessed using environmental criteria is 17% (24% in 2019 and 20% in 2018) for "Products", 22% (49% in 2019 and 38% in 2018) for "Works" and 32% (38% in 2019 and 33% in 2018) for "Services".

5.4 CREATE VALUE FOR THE TERRITORY AND COMMUNITIES

NFS

Italgas invests in the territories in which it operates, promoting social, cultural and environmental interventions based on criteria of transparency, correctness and impartiality. The company promotes the development and cohesion of the communities in which it works, acknowledging the central role played by stakeholders and their needs, to create social value that goes beyond the economic value.

This is why, consistently with the principles of sustainable development and its growth plans, the Company is constantly committed to assuring direct, continuous dialogue with the communities in which it works and has equipped itself some time ago with a structure specifically dedicated to this end.

Italgas strengthens its business citizenship in the territories in which it works, collaborating, in Italy and abroad, with entities, associations and foundations, non-profit organisations and other subjects with which it pursues projects and initiatives aimed at protecting the environment, promoting culture and social development and safeguarding the environment and territory.

To manage relations with the territory and its activities of dialoguing with and listening to stakeholders, in 2020, the Group formally adopted its "Corporate Citizenship Policy". As part of the framework defined by the general principles set out in the Group's Code of Ethics, of transparency, honesty, fairness and good faith, the Policy assigns clear responsibilities for managing donations, sponsorships and local projects in partnership with bodies, associations and foundations, non-profit organisations and other entities in the territory set up to support the local communities ("Corporate Citizenship" activities).

Through this Policy, the Group has confirmed and formalised its commitment to the following areas of intervention:

- _ Sensitisation towards topics relating to the energy segment and responsible use of resources;
- _ Preparation of training and education initiatives;
- _ Artistic-cultural support;
- _ Inclusion and health lifestyles through sport;

With the launch of Corporate Citizenship initiatives, Italgas aims to help meet specific Sustainable Development Goals (SDGs), constituting the 2030 Agenda of the United Nations.

In 2020, the Coronavirus emergency had a major impact on our country. As the months passed, since the start of the pandemic, the impact on the territories became more significant every day, putting the whole country system severely to the test and striking the everyday lives of residents in an unprecedented manner. The economic business, the training system and the healthcare facilities, even the best equipped and most advanced, are still today subjected to huge levels of managerial and organisational stress.

Since the emergency arose, Italgas has put in place measures and provisions to protect the health and safety

of its personnel, at the same time ensuring continuity of one of the public services deemed essential for the community. Through its 3,985 people spread throughout Italy, the company has never stopped staying close to the territories and communities in which it operates, making a concrete contribution in two ways: doing what it does every day, namely guaranteeing the network service and safety and striving to proactively support the communities by launching solidarity initiatives and aid in support of the various hospitals and Civil Protection. In particular, in 2020, the company made donations to: Luigi Sacco (Milan), Amedeo di Savoia-ASL (Turin), Guglielmo da Saliceto (Piacenza), Azienda Ospedaliera di Padova (Padua), Policlinico San Matteo (Pavia), Spallanzani (Rome) and Cotugno (Naples) hospitals. The amounts donated were used to buy machinery, equipment and functional devices (such as personal protection equipment for the healthcare facilities, beds and technical equipment) and helped fit out new areas to meet the needs deriving from the emergency and guarantee a hospital service. In support of Civil Protection action, the solidarity campaign "**Insieme per l'Italia, dona una tua giornata alla lotta contro il Coronavirus**" [Together for Italy, donate your day to the fight against Coronavirus] was also launched, thanks to which Group employees were able to allocate the economic equivalent of approximately 7,000 working hours or € 145 thousand. The proceeds have been doubled by the Italgas Group and donated to the Civil Protection Authority.

In 2020, donations were made of € 2,028.9 thousand, of which 14% for "Culture" and the remaining 86% for "Health".

In addition to that disbursed in the favour of hospitals and the Civil Protection, 2020 donations mainly went to art and culture: in particular to the Fondazione Teatro Regio di Torino and the Council for the enhancement of artistic and cultural heritage of Turin, both have always been a cultural point of reference for Piedmont, respectively for concerts, opera and ballet, the first (Teatro Regio) and for the contribution towards the enhancement of the historic-artistic heritage of Turin and consequent opening and possible use, the second (Council of Turin). In Tuscany too, through the company Toscana Energia, donations mainly went to cultural entities like the Fondazione Teatro Pisa, the Fondazione del Teatro del Maggio Musicale Fiorentino and the Associazione Teatrale Pistoiese.

For some years now, Italgas has also been supporting the Fondazione Giorgio Cini of Venice, a cultural institution recognised internationally, whose activities include research, conservation and the optimisation of archives. In 2020, Italgas launched a partnership with the Foundation, whose specific focus regard the new Italgas Heritage Lab.

In 2020, Italgas started various sponsorship initiatives, for an amount of € 1,086.4 thousand, intended mainly for art and culture, sport, gas advocacy initiatives, education and awareness-raising on topics relating to the energy sector and the responsible use of resources.

Due to the COVID-19 emergency, support to the initiatives in terms of education on energy, usually envisaged with the physical involvement of participants, has slowed. In the Group, Toscana Energia has managed to complete the first phase of the ninth edition of the educational campaign

“Energia in Rete” (Energy in the Network): the initiative dedicated to secondary schools, with the aim of making a contribution towards the energy literacy of the students, through a teaching course that starts out from an in-depth analysis of natural gas and moves on to discuss various

topics like technology, science, history and geography, ending with a competition called “La sostenibilità in un click!” [Sustainability in a click!], in which students are asked to reproduce a place they believe to be an expression of sustainability in their territory.



HERITAGE LAB

For decades, Italgas has worked to preserve its historical documentation and that of the various subsidiaries and associates that it has had over time since first opening its doors.

The Italgas Historical Archive, declared to be of considerable historical interest by the Italian State and subject to notification, protection and preservation, the Library, the Newspaper Library and the Italgas Collections consist of an original collection housing more than 1,000 linear metres of documents, 6,000 books, booklets and journals, 35,000 prints, photographs and posters, 350 historical items of equipment and instruments. Examination of this ever-growing heritage allows us to reconstruct not only the history of the Company and of the people who have worked there, but also and especially the links with key events in Italy's history and with the world of energy, the role played in Italy's industrialisation process, in urban development and public services.

9 July 2020, Italgas has announced the creation of its Heritage Lab, in collaboration with Fondazione Giorgio Cini of Venice: a partnership aimed at creating a laboratory equipped with cutting-edge technologies for digitisation in 2D and 3D of the historical, industrial, artistic and cultural heritage accumulated and preserved by the company during its almost two centuries of history.

The “Heritage Lab” aims to be a one-of-its-kind example in Italy of an archive-digitisation laboratory whose purpose is not only to restore and organise the historical archive of a large company, but also to transform its past into big data and share it in this form with the community interested in delving deeper into its content.

The Italgas Archive will as such be able to increase opportunities for collaboration in Italy and internationally, by developing new archiving and historiographical activities and skills and also by joining important circuits. These circuits include the ARCHiVe project (“Analysing and Archiving Cultural Heritage in Venice”) created in 2018 by Fondazione Giorgio Cini, in partnership with Factum Foundation and Digital Humanities Laboratory of the École Polytechnique Fédéral de Lausanne, with the support of the Helen Hamlyn Trust, and even the large Time Machine consortium. The latter consists of over 14,000 institutions representing more than 100,000 professionals in the sector committed to investigating the past with the objective of mapping out Europe's social, cultural and geographical evolution.

This radical paradigm shift is aimed at making the most of and enhancing the entire cultural heritage of Italgas thanks to technology: from the historical library and the newspaper library to the museum collections and documentation on the archaeological heritage found when laying the gas infrastructure.

ECONOMIC VALUE GENERATED AND DISTRIBUTED

The statement determining and breaking down Economic Value, generated directly by the Group, has been prepared reclassifying the consolidated profit and loss account as envisaged by the GRI Standards. The statement has been prepared distinguishing between three levels of economic value: that generated/produced, that distributed and that withheld by the Group.

The economic value represents the comprehensive wealth created directly by the Group, which is thereafter split between the various stakeholders: suppliers, employees, lenders, shareholders, Public Administration and general public.

In 2020, the value generated by the Group was € 2,106.7 million (+3.94% on 2019).

Of this, € 550.5 million have been kept in the company and € 1,556.3 million have been distributed to stakeholders. Specifically, of the total value generated, 35.9% went to suppliers (€ 756.4 million), 12.7% to employees (€ 266.9 million), more than 11.6% to the shareholders (€ 243.6 million), approximately 10.9% to the Public Administration Authorities (€ 229.8 million) and 2.7% to lenders (€ 56.4 million). 3.1 million were allocated to the general public, an increase of 345% on 2019 contributions, mainly to support the health sector with the COVID-19 emergency.

STANDARD GRI 201-1 DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

MILLIONS OF €	2018	2019*	2020	2020 VS 2019
Distributed				
Suppliers	546.9	754.2	756.4	0.3%
Personnel	247.0	258.3	266.9	3.3%
Lenders	48.1	53.0	56.4	6.4%
Shareholders	189.3	207.2	243.6	17.6%
Public Administration	195.3	203.9	229.8	12.7%
Community	0.8	0.7	3.1	342.9%
Withheld				
Company	511.3	549.6	550.5	0.2%
Total value generated	1,738.7	2,026.9	2,106.7	3.9%

*Restated. For the value reported in the 2019 Consolidated Non-Financial Statement, please refer to the document published on the Group's website at https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/Non-Financial-Statement-2019.pdf.

FOCUS ON TAX – GRI 207

The Company has defined and approved the principles and guidelines inspiring the Group Tax Strategy, in order to assure capital integrity over time and the transparency of management of the tax variable and risks associated to it.

The Tax Strategy, defined and approved by the Board of Directors of Italgas S.p.A., incorporated by its subsidiaries and disclosed to non-subsidiary affiliates, in order to promote awareness and application of the principles and guidelines contained therein, aims to:

- _ guarantee the correct calculation and settlement of taxes due by law (and execution of connected obligations), well aware that management of taxes is an integral part of the broader economic and social role the Group performs in the Country it operates in;
- _ control the fiscal risk, understood as the risk of violating tax regulations or of operating against the principles or purposes of the tax system.

The Tax Strategy is inspired by the same principles expressed in the Italgas Code of Ethics, that comprises the set of values that the Group acknowledges, accepts and shares and the responsibilities undertaken both inside and outside its organisation, which constitute the ethical business culture inspiring Italgas' strategic reasoning and running of its business.

In line with these values, Italgas acts in compliance with applicable laws and the principles of the tax system of the country in which it operates, in order to determine the tax due and the fulfilment of the requirements; in interpreting said laws and principles, it operates in such a way as to responsibly manage the risks connected with the tax variable; it establishes relations with the Financial

Administration based on the spirit of collaboration, transparency and good faith, pursuing the objective of developing constructive relations, based on its reliability as counterparty.

The Italgas S.p.A. Board of Directors guarantees the conditions for the implementation of the Tax Strategy, promoting awareness on all levels of the importance that the Group attaches to the values of honesty, correctness and legality in tax.

Italgas has also adopted a policy that contains the definition of principles and methods, characteristics and operating logics of the roles and responsibilities, inherent to the institution, maintenance over time and operation of the system used to detect, manage and control the tax risks (the "Tax Control Framework" or "TCF") - adopted in accordance with Italian Legislative Decree no. 128 of 5 August 2015 - as well as the assessment of its constant effectiveness in terms of adequacy and operating efficiency.

The Tax Control Framework comes as part of the more extensive Internal Control and Risk Management System of Italgas and is characterised by the presence of the following essential elements:

- _ tax risk detection and assessment process
- _ internal control system overseeing the tax risks identified
- _ periodic control of the adequacy and effective application of the TCF
- _ roles and responsibilities
- _ information flows between the corporate departments and reporting in regard to the company's senior management.

The responsibilities of Italgas' departments with respect to the TCF refer to the concept of the "lines of defence":

1. the first line of defence is represented by the management, with the responsibility of implementing suitable controls to cope with the risks involved in their area of responsibility;
2. the second line of defence is the Tax Risk Manager, who is responsible for overseeing the process of identifying, assessing, managing and controlling the tax risk;
3. the third line of defence of the organisation is the Internal Audit, responsible for providing comprehensive assurance on the design and overall function of the Internal Control and Risk Management System.

Tax risks are measured on the basis of quantitative and qualitative elements using the tax risk assessment methodology, developed inspired by the corporate methods adopted in Enterprise Risk Management aspects, at least once every two years and involving the Line management (the "owner" of the processes and related risks).

For each tax risk detected during the tax risk assessment, within specific control matrices, the measures implemented by Italgas to mitigate such risks are identified and mapped.

In order to assess the adequacy of the tax risk control and management system adopted, with respect to the characteristics of Italgas and the risk profile assumed in relation to the tax variable, the Italgas S.p.A. Board

of Directors will examine at least once a year the report prepared by the Tax Risk Manager, which is thereafter sent to the Revenue Agency.

On 29 December 2020, Italgas and the subsidiary Italgas Reti S.p.A., starting from the 2019 tax period, were admitted by the Revenue Agency to the Cooperative Compliance regime, established by Italian Legislative Decree no. 128 of 5 August 2015, in order to promote forms of communication and cooperation with the tax Authority, based on mutual trust.

Adherence to the regime requires an adequate system to detect, measure, manage and control tax risk, using the term to mean the risk of operating in violation of laws of a fiscal nature or against the principles or aims of the tax regulations.

Adherence to the cooperative compliance regime aims to reduce the level of uncertainty over tax matters, fostering the prevention of the onset of disputes, through the preventive discussion of situations that may generate tax risks.

With the admission provisions, the Revenue Agency has also arranged for the publication of the registration of Italgas and Italgas Reti on the list of companies operating under the context of this cooperation and transparency regime with the Italian tax Authority.

In 2020, donations were made in the amount of € 2,028.9 thousand.

_ Health € 1,744.4 thousand

_ Culture € 284.5 thousand

STANDARD GRI 203-1 INFRASTRUCTURE INVESTMENTS AND SERVICES SUPPORTED

LIBERAL DONATIONS AND SPONSORSHIPS	U.O.M.	2018	2019	2020
Sponsorships	thousand euros	688	671	1,086
Liberal donations		76	26	2,029
Total		764	697	3,115

5.5 ATTENTION TO THE ENVIRONMENT



For Italgas, the main material topics related to the environmental impact of its business and to health and safety at work regard:

- _ Energy efficiency
- _ Reducing the carbon footprint
- _ Waste management
- _ Health and safety in the workplace

Italgas' most significant environmental impacts are the natural gas emissions from the distribution networks and the emissions deriving from gas combustion in the network systems and those from the fuels used for service vehicles.

Other impacts are generated by waste produced from construction and network maintenance work and that obtained from the recovery of decommissioned industrial areas. The main cause of injury are road accidents, both en route to or from work and during transfer for work purposes.

Italgas adopts a responsible, transparent approach to guarantee the compatibility of its infrastructures and the territory, to efficiently manage energy and natural resources and limit the environmental impact deriving from its business, as well as to protect the health and safety of its employees and the staff of contractors involved in operations.

In addition to this, constant research and technological innovation makes it possible to develop and adopt the very best solutions to interact with the environment in the least intrusive, most sustainable way possible. With this reference context, Italgas promotes actions and projects designed to reduce environmental impact attributable to its own business processes, to improve system safety conditions, and the environmental restoration of sites involved by previous industrial gas production.

POLICIES AND COMMITMENTS

All Italgas' business is carried out paying close attention to the environment, natural resources and public and personal safety, considering all these as key factors to the sustainable development of the business and the

territory. The health, safety, environment, quality and energy governance model adopted by Italgas has evolved constantly over the years to adjust to changes in the regulatory and market contexts in which it operates.

The commitment to these topics is seen by the adoption of the new "Italgas Group Policy for health and safety, the environment, quality and energy" developed in compliance with applicable legislation and the best international industry practices, as well as in compliance with the Code of Ethics, aimed at optimising and protecting the human and natural resources, both of which are essential values for the Group. All Italgas Group companies implement this Policy to manage and develop their businesses and undertake to establish measurable objectives and goals and review them periodically, in line with the guidelines expressed here and the Group's growth strategies. The Policy is communicated to stakeholders with a view to assuring transparency and collaboration.

Some of the main objectives on which the Policy is based are stated below:

- _ to pursue the continual improvement of the integrated management system, the quality of its services and those of its partners, along the entire value chain;
- _ to reduce accidents to zero, eliminating dangers and reducing risks, improving health and safety services, preparing healthy, safe workplaces;
- _ to responsibly manage significant environmental impacts linked to its activities;
- _ to enhance its people with Group growth in mind, creating working conditions that promote inclusion, involvement, participation;
- _ to manage natural resources and use of the energy needed for its purpose sustainably;
- _ to promote interaction with stakeholders and territorial exchange, dialogue and involvement.

With the checks carried out in 2019 by the Certification Body DNV GL, maintenance of the Group's Management System Certifications was confirmed, in accordance with the international standards listed below, and the new certificates planned were achieved.

The table below summarises the certifications for the various management systems, as well as the Group Company's laboratory accreditations.

COMPANY	SYSTEM OR SCHEME	STANDARD
Italgas S.p.A.	Anti-bribery Management System	UNI EN ISO 37001:2016
Italgas Reti S.p.A.	Anti-bribery Management System	UNI EN ISO 37001:2016
Italgas Reti S.p.A.	Quality Management System	UNI EN ISO 9001:2015
Italgas Reti S.p.A.	Environmental Management System	UNI EN ISO 14001:2015
Italgas Reti S.p.A.	Occupational Health and Safety Management System	UNI ISO 45001:2018
Italgas Reti S.p.A.	Energy Management System	UNI CEI EN ISO 50001:2018
Italgas Reti S.p.A.	Type C Inspection Body	UNI CEI EN ISO/IEC 17020:2012
Italgas Reti S.p.A.	Test laboratory	UNI CEI EN ISO/IEC 17025:2017
Italgas Reti S.p.A.	Calibration laboratory	UNI CEI EN ISO/IEC 17025:2005
Medea S.p.A.	Quality Management System	UNI EN ISO 9001:2015*
Medea S.p.A.	Anti-bribery Management System	UNI EN ISO 37001:2016**
Seaside s.r.l.	Expert in Energy Management	UNI CEI 11339:2009
Seaside s.r.l.	Energy Service Companies	UNI CEI 11352:2014
Seaside s.r.l.	Quality Management System	UNI EN ISO 9001:2015
Seaside s.r.l.	Anti-bribery Management System	UNI EN ISO 37001:2016**
Toscana Energia S.p.A.	Quality Management System	UNI EN ISO 9001:2015
Toscana Energia S.p.A.	Environmental Management System	UNI EN ISO 14001:2015
Toscana Energia S.p.A.	Occupational Health and Safety Management System	UNI ISO 45001:2018
Toscana Energia S.p.A.	Energy Management System	UNI CEI EN ISO 50001:2018
Toscana Energia S.p.A.	Type C Inspection Body	UNI CEI EN ISO/IEC 17020:2012
Toscana Energia S.p.A.	Anti-bribery Management System	UNI EN ISO 37001:2016**
Italgas Acqua S.p.A.	Quality Management System	UNI EN ISO 9001:2015**
Italgas Acqua S.p.A.	Occupational Health and Safety Management System	UNI ISO 45001:2018**
Italgas Acqua S.p.A.	Anti-bribery Management System	UNI EN ISO 37001:2016**
Toscana Energia Green S.p.A.	Quality Management System	UNI EN ISO 9001:2015

COMPANY	SYSTEM OR SCHEME	STANDARD
Toscana Energia Green S.p.A.	Environmental Management System	UNI EN ISO 14001:2015
Toscana Energia Green S.p.A.	Occupational Health and Safety Management System	UNI ISO 45001:2018
Toscana Energia Green S.p.A.	Anti-bribery Management System	UNI EN ISO 37001:2016
Toscana Energia Green S.p.A.	Companies supplying energy services	UNI CEI 11352:2014
Toscana Energia Green S.p.A.	Social responsibility	SA8000
Toscana Energia Green S.p.A.	F-GAS certification	F-GAS (DPR n.43 del 27.01.2012)

* At present, the certification covers only the site of Sassari. By end 2021, the certification scope will be extended to all Medea sites.

** Certifications achieved in 2020

CONSUMPTION

Energy is mainly used in Italgas for industrial purposes. Natural gas is the most commonly used energy source, followed by electricity and methane for motor vehicles.

Energy consumption totalled 592.15 TJ in 2020. The data shows a slight increase on 2019 due to the fact that Toscana Energia has been part of the consolidation for the whole of 2020, whilst in 2019 only the last 3 months were consolidated. An increase is noted in the consumption of natural gas for vehicles and a significant reduction in diesel and petrol consumption for using natural gas hybrid cars. Medea's consumptions have increased as the Company has extended the scope, acquiring the company Isgas.

In addition to the consumption deriving from the electricity acquired, Italgas produces electricity from renewable energy sources (FER) through 51 photovoltaic plants (of which 18 owned by Toscana Energia Green, one owned by Toscana Energia, in Piazza Mattei, Florence and 32 of Italgas Reti). Part of the energy produced is self-consumed, whilst the remainder is released to the network. In detail:

Toscana Energia

- _ the electricity produced by 4 ground-based plants and 9 roof-mounted plants is entirely injected into the network and the energy is valued by the GSE;
- _ the electricity produced by the photovoltaic plant installed at the Florence office is completely self-consumed;
- _ the electricity produced by the other 5 roof-mounted plants, installed on buildings owned in a small municipality in the province of Pisa, powers the utilities of the same structures;

Italgas Reti

- _ the electricity produced by the 32 plants, installed on specific shelters at Italgas Reti IPRM is partly self-consumed and partly released to the network.

Below is a table summarising consumption of electricity deriving from photovoltaic plants together with that relative to the emissions avoided thanks to their use for the production of electricity instead of purchasing it on the market.

PHOTOVOLTAIC ⁴³	2018		2019		2020		% INCREASE 2020 VS 2019
	KWH	TJ	KWH	TJ	KWH	TJ	
Dedicated collection by GSE	20,629	0.07	1,333,801	4.80	8,876,626	31.96	566%
Self-consumption	19,558	0.07	45,426	0.16	136,893	0.49	201%
Production	40,187	0.14	1,379,227	4.97	9,013,519	32.45	554%

Photovoltaic production between 2018 and 2019 increased insofar as in 2019, 22 more Italgas Reti plants were connected and Toscana Energia joined the scope (in 2019, it had been considered for 3 months).

EMISSIONS AVOIDED ⁴⁴	2018	2019	2020	INCREASE 2020 VS 2019
	U.O.M.: tCO ₂ EQ			%
Emissions avoided for self-produced energy sold to GSE	6.1	370.2	2,337.8	531%
Emissions avoided for self-produced energy consumed on site	5.5	12.2	35.4	190%
Total emissions avoided for photovoltaic	11.6	382.4	2,373.2	521%

⁴³Please note that 2018 data does not include the company Toscana Energia and that relating to 2019 considers Toscana Energia only for the three months of consolidation. 2020 data, on the other hand, also includes Toscana Energia for the full 12 months.

⁴⁴Please note that 2018 data does not include the company Toscana Energia and that relating to 2019 considers Toscana Energia only for the three months of consolidation. 2020 data, on the other hand, also includes Toscana Energia for the full 12 months. It should also be noted that in order to calculate the emissions avoided, the emissions

factor was used represented by the national energy mix of the reference year; more specifically, for 2020, the preliminary estimate of the emissions factor for electricity consumption in Italy was used, supplied by the Istituto Superiore per la Protezione e Ricerca Ambientale (Superior Institute for Environmental Protection and Research).

MAIN INITIATIVES

In 2020, Italgas Reti completed its transition to the new standard UNI CEI EN ISO 50001:2018, confirming the company's commitment to the development of an Energy Management System (EMS) that makes it possible to establish the systems and processes necessary to obtain the continuous improvement of its energy performance. The activities necessary to align the certification to the 2018 version of the standard were identified following an in-depth gap analysis carried out with the collaboration of Seaside, as the Group's ESCo: in particular, a new document structure has been created, including the documents necessary to manage the energy system and objectives, thresholds and action plans identified to improve the energy performance. An annual activity plan has also been defined to maintain and continuously improve its EMS in compliance with the standard requirements.

In 2020, the installation, in IPRMs, continued of direct-drive meters inserted into the electrical panels, with an impulse link to the RTUs, making it possible to read consumption directly on the IOT platform. These devices allow for the monitoring of the general consumption and secondary utilities (cathode or light protection) in the IPRMs, enabling more detailed analysis, also with a view to certification in accordance with ISO 50001: 2018.

Trials continued of innovative systems enabling the recovery of energy by means of microturbines at certain GRFDs ("Gruppi di Riduzione Finali Digitalizzati" - Final Digitised Reduction Groups). These systems use energy that would otherwise be dissipated by the gas pressure reduction process, transforming it into electrical energy available for use in situ (energy harvesting systems): the electrical energy thus produced is used to feed RTUs and other measurement/control devices in situ, in the context of the digitisation of the network. For example, in one of these plants, in approximately 1 year of operation (November 2019 - November 2020), approximately 225 kWh were produced, avoiding network consumption (corresponding to approximately 60 kg CO₂ emissions avoided).

At end 2020, the tender called to replace all traditional bulbs with LED bulbs for all IPRMs, IRIs and GRFs that are illuminated, both in internal and external areas, was concluded. The installation of outdoor astronomical twilight switches on all IPRMs, IRIs and GRFs illuminated, was also envisaged. Completion of the replacements is expected by the end of June 2021.



MOBILITYWEEK

To mark the 2020 European Mobility Week themed around "Zero-emissions, mobility for all", Italgas presented the ItalBIKE, a new bike sharing service reserved to employees initially in Milan and thereafter also gradually extended to the other corporate offices. ItalBIKE allows Italgas staff to rent one of the bicycles made available, booking it through the Sherlock Bike app. With this initiative, Italgas invites its employees to lead a healthy lifestyle and choose green means of transport to the benefit of their health and, of course, that of the environment. The initiative comes under the scope of initiatives seeking to promote employee well-being, which also include Italgas having opened a gymnasium for employees in the Milan office and created another one in Turin and yet another in the restructured office of Rome - Monte Mario.

EMISSIONS AND ACTION TAKEN TO REDUCE THEM

For years now, Italgas has been monitoring its emissions with a view to reducing the related environmental impact of such over time, according to a continuous improvement process.

Italgas has recorded the following emissions:

- _ Direct emissions (**Scope 1**): deriving from the civil consumption of gas, from industrial consumption of gas for preheating, from fuel consumptions for vehicles and grid losses ("fugitive emissions");
- _ Indirect emissions (**Scope 2**): deriving from the consumption of electricity purchase and district heating;
- _ Other indirect emissions (**Scope 3**) deriving from business travel, outsourced activities (supply chain) and emissions relating to the production of energy purchased and consumed (fuel side, emissions linked to their extraction, production and transport; electricity side, emissions relating to the extraction, production and transport of the fuels used for generation and emissions relating to losses for transmission and distribution).

The increase of direct Scope 1 emissions seen in 2020, resulting from the expansion of the business scope, was limited to around 4% as compared with 2019, thanks to a series of actions taken, including:

_ reduction of vehicle fuel consumption. Driven by a constant commitment to guarantee high performance and quality in the distribution service, 2019 and 2020 saw Italgas implement a major renewal project of the whole of its vehicle fleet throughout national territory. The project has been established on the basis of the following strategic drivers:

- the modernisation of the operative fleet in line with operative needs;
- the improvement of sustainability criteria in the short, medium and long-term, both in respect of reducing polluting emissions (CO₂, NO_x and PM), and in terms of limiting expenditure for fleet operation;
- the rationalisation of the number of vehicles in the fleet;
- the increased availability of operative vehicles, by reducing maintenance and repair time.

The cornerstone of the project to transform the vehicle fleet was making the switch away from ownership of the fleet (mainly diesel engines) and towards the procurement of a long-term vehicle rental service (based on methane bifuel vehicles).

TOTAL KILOMETRES TRAVELLED IN 2018-2020

(MILLIONS OF km)	2018	2019 ⁴⁵	2020
Diesel	28.4	6.1	4.5
Petrol	8.4	11.5	7.1
Methane	5.6	21.7	26.2
Total	42.4	39.2	37.8

The results of this transformation are clear. In 2020, a total of approximately 37.8 million kilometres were travelled, of which more than 33.5 million relate to operative vehicles. This type of vehicle is characterised by the virtual total presence of a bifuel system (Methane-Petrol) that significantly reduces CO₂ and PM emissions released into the atmosphere, as compared with the use of purely petrol or diesel engines.

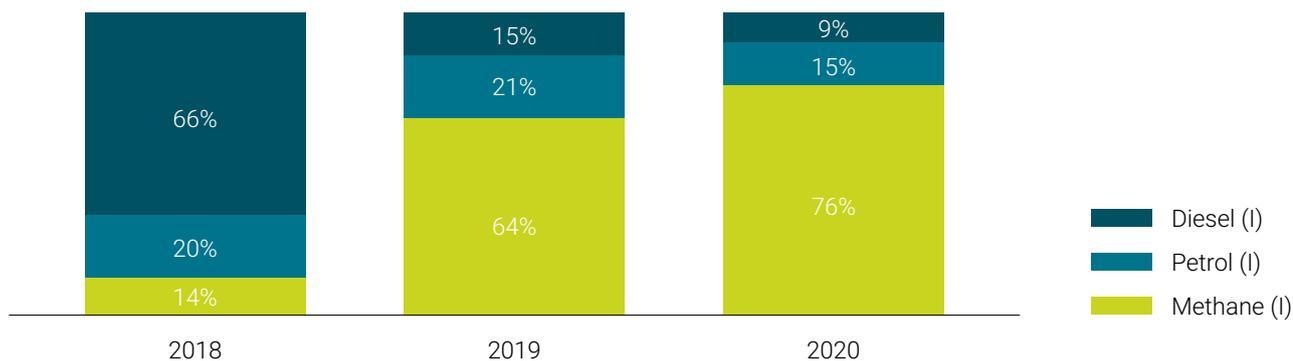
The total value of CO₂ produced by the Italgas vehicle fleet comes to 5.695 thousand tonnes equivalent of CO₂ (10³t CO₂) in 2020, as compared with 7.59 in 2019⁴⁶.

The significant improvement in the total value of emissions is mainly due to the 2020 completion of the project to modernise the fleet and the disposal of the owned vehicles, which, last year, also involved the company Toscana Energia.

⁴⁵ 2019 includes Toscana Energia for 3 months.

⁴⁶ The calculation of CO₂ emissions in 2020 is based on the characteristic emissions of each type of vehicle model supplied by the Long-Term Rental providers. This approach makes it possible to obtain a truer value with respect to the effective consistency of the vehicle fleet and in line with the technological innovation introduced by manufacturers to reduce emissions.

**ENERGY CONSUMED BY TYPE OF VEHICLE FUEL
(% OF TOTAL ENERGY CONSUMED DURING THE YEAR)**



One significant parameter used to measure the results ensuing from the choice to renew the car pool is the value of CO₂ emissions expressed in grams per kilometre travelled by the fleet. In 2020, this value came to 150.7 g/km.

The savings obtained in 2020, if the same number of kilometres had been travelled using a non bifuel fleet of operative vehicles, is quantifiable as ranging between 800 and 1000 tonnes CO₂, equivalent to an increase of between 20 and 25 g CO₂ per kilometre.

This indicator provides further representation of the capacity to reduce emissions levels, brought about by the fleet transformation project.

Considering the results achieved and with a view to pursuing even more challenging emission-reduction objectives, further actions have been identified for 2021. These include, in particular, the introduction of a new digital fleet management system that can implement proactive maintenance functions and optimise use of the vehicles; introducing hybrid (electricity-petrol) vehicles in the cars assigned for both personal and business use.

_reduction of civil consumption thanks to the restructuring work carried out; note that LEED GOLD certification is currently being obtained for the site at Largo Regio Parco 11, in Turin, restructuring of which was completed in 2019. The building has also been developed according to the criteria laid down by the US energy efficiency

classification system on the ecological footprint of buildings (LEED) developed by the US Green Building Council, which provides a set of measurement standards by which to assess environmentally-sustainable constructions. The building was commissioned in January 2020. The consumption of Regio 11 recorded in 2020 has been compared with the electricity and gas consumption recorded in 2016, before its restructuring. The comparison of data has revealed **a reduction in the consumption of methane gas in the amount of 155,689 Sm³ (-57.4%) and of 272,709 kWh (-25.7%) of electricity, which come together to make for the avoided release into the atmosphere of 382 tCO₂eq.**

_reduction of industrial gas consumption to optimise the preheating process. From 2019 to 2020 the gas consumption for the preheating process of Italgas Reti reduced by approximately 9%; comparing the situation at like-for-like scope (thereby excluding the plants acquired in 2019 and 2020), we note **an even greater reduction of approximately 12%**. This reduction is partly linked to the decline in supply (-3%), but the bigger part is due to the optimisation of the preheating process.

To assess the effect of the optimisation of these system we can refer to the KPI of the specific consumption (SC), namely gas burnt for the preheating process per 1,000 Sm³ gas supplied by the plants (Sm³ preheating/10³ Sm³ gas supplied):

	2018 SPECIFIC CONSUMPTION (Sm ³ PREHEATING/10 ³ Sm ³ GAS SUPPLIED)	2019 SPECIFIC CONSUMPTION (Sm ³ PREHEATING/10 ³ Sm ³ GAS SUPPLIED)	2020 SPECIFIC CONSUMPTION (Sm ³ PREHEATING/10 ³ Sm ³ GAS SUPPLIED)	REDUCTION IN SC 2020-2019 (%)
IPRMs with preheating optimisation system 2019/2020 (64) ⁴⁷	1.59	1.66	1.31	-21%
IPRMs not yet equipped with a preheating optimisation system	1.42	1.44	1.38	-4%

⁴⁷In these IPRMs, the optimisation systems were installed in 2019 and 2020; therefore, the specific consumption reduction can only be seen from a comparison of these 2 years.

We note that in plants in which these optimisation systems have been installed, the specific consumption **reduced by approximately 21% from 2019 to 2020**, whilst in the other IPRMs, only a small reduction was seen, connected with the other improvements made, such as, for example, replacing boilers with new models.

Instead, if we consider only the IPRMs in which these optimisation systems are installed from 2019 to 2020 (for which a reduction is recorded in consumption for preheating of approximately 319,000 Sm³), it has been estimated that the increase in efficiency obtained by these systems equates to a saving of approximately 250,000 Sm³ (corresponding to **approximately 500 tCO₂ in emissions avoided**).

Also considering the works carried out in previous years, at the end of 2020, there were 99 IPRMs with preheating that make use of preheating consumption optimisation systems. In 3 of these plants, experimentation continues of a thermal plant management system that also includes a gas-powered heat absorption pump.

In 2021, the campaign for the installation of the new pre-heating system will continue in the other IPRMs.

reduction of grid losses, thanks to the 2020 use of a new scheduled natural gas fugitive emissions leak detection method, based on data collected using the Cavity Ring-Down Spectroscopy (CRDS) Picarro technology. The technology has a sensitivity 1000 times higher than the traditional system, and the related emissions calculation constitutes a more solid, robust evolution of the estimated parametric emissions - used previously - both in application terms and in respect of calculation. The new method is based on the determination of the flow of the individual gas fugitive emissions, as the result of in-depth

analysis on big data collected following scheduled leak detection activities, carried out throughout the networks with CRDS laser spectroscopy technology. The accuracy and solidity of the instrumental method are guaranteed by the possibility of:

- localising, classifying and precisely quantifying both the most significant and influential gas emission sources (super emitters) and the smaller ones;
- quantifying the expected benefits/improvements, in view of targeted grid maintenance initiatives;
- prioritising grid renewal interventions with a view to reducing the effects of gas leaks and ensuring an appropriate cost/benefits balance.

In order to obtain a value that is as complete as possible, in calculating the losses, leaks reported by third parties were also considered, taking into account the average daily volume of losses identified by the CRDS method and a maximum repair time of 48 hours.

In 2020, for the first time, use of CRDS technology was extended to the whole network (in 2019, 26% of the network was inspected with this technology), considering the spot value of emissions associated with each leak detected in the calculation and taking into account the effective repair dates.

In 2020, total fugitive emissions of the Italgas Group⁴⁸ came to 8.46 million Sm³ and the gas leakage rate (calculated as the ratio of natural gas leaks and gas distributed) is 0.1%.

Below is the table showing the fugitive emissions and some reference KPIs, the data of which refers to the companies consolidated by the Group.

ITALGAS GROUP	U.O.M.	2019*	2020
Total Natural Gas Fugitive Emissions	10 ⁶ Sm ³	7.4	8.5
Total fugitive emissions in CO ₂ eq	10 ³ tCO ₂	128.0	146.6
Gas distributed ⁴⁹	10 ⁶ Sm ³	8,001.0	8,477.0
Network consistency ⁵⁰	km	70,484.3	71,184.5
Natural gas/network consistency	Sm ³ / km	104.9	118.9
Gas Leakage Rate (natural gas fugitive emissions/gas distributed)	Sm ³ / Sm ³	0.092%	0.100%

*2019 data on fugitive emissions was calculated by re-parametrising, only for the 3-month consolidation period, the fugitive emissions of Toscana Energia, calculated on the basis of the new method (CRDS Picarro). For more details on the method used, refer to the italgas.it website, in the section on "Our commitment - Energy efficiency and the environment". For the value reported in the 2019 Consolidated Non-Financial Statement, please refer to the document published on the Group's website at https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/Non-Financial-Statement-2019.pdf.

⁴⁸ Please note that CRDS (Picarro) technology was used for Italgas Reti and Toscana Energia, while for Medea, the previous parametric calculation method was used.

⁴⁹ Note that the gas distributed used for the 2019 KPIs differs from that reported in the 2019 Italgas

NFS insofar as data has been recalculated to take into account, on the basis of the new method used, the company Toscana Energia for 12 months.

⁵⁰ Note that the km of network used for the 2019 KPIs refer to operational data communicated to Arera in 2020. The network consistency includes

the consolidated companies. For the value reported in the 2019 Consolidated Non-Financial Statement, please refer to the document published on the Group's website at https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/Non-Financial-Statement-2019.pdf.

Indirect emissions of Scope 2 decreased in 2020 by 97% compared to 2019 following the purchase of electricity produced from certified renewable sources, as attested by the Management System of Guarantees of Origin (GO). The location-based method based on the average Italian emission factor, provided by the Higher Institute for Environmental Protection and Research (ISPRA), was used to evaluate the emissions due to the consumption of

electricity in 2019. For the same type of emissions, in 2020 the market-based method was used, whose calculation provides that the emission quota relating to renewable sources is zero and that the residual mix emission factor is used for the portion not covered by such contracts. It should be noted that the residual emissions of 2020 also contain the contribution due to the purchase of heat from district heating.

ITALGAS GROUP	U.O.M.	2019*	2020
Scope 2 emissions location-based	10 ³ tCO ₂	7.5	7.3
Scope 2 emissions market-based	10 ³ tCO ₂	12.9	0.2

Scope 3 emissions are slightly up insofar as the Group scope has increased on 2019. Scope 3 emissions deriving from outsourced activities, calculated by associating a conversion factor of the expense value in CO₂ emissions for each product class, have increased following a 16% increase in expenditure.

Please note that as regards indirect Scope 3 emissions, the method used to calculate the emissions deriving from the outsourced activities has changed, based on the value spent and not that ordered. In detail, this method associates a conversion factor of the value spent in CO₂ emissions for each product class. It is also noted that the installation of smart meters, with the consequent remote reading of volumes consumed, has avoided scope 3 emissions due to the readings of meters through external companies. This reduction in emissions generated CO₂ savings from 2019 to 2020 of 192 tCO₂. In order to guarantee the principle of comparability, the 2019 data has been recalculated using that same method.

WASTE PRODUCTION AND DISPOSAL

In October 2020, use began of the Atlantide app, to computerise the administrative management of waste of Italgas Reti. The adoption of this tool makes it possible to speed up and facilitate completion of the documents required by regulations (loading/unloading register) and to standardise data collection for the Integrated Report.

In all, for the company as a whole, in 2020, waste deriving from production came to approximately 571.7 tonnes; the total value of waste sent for recovery or disposal for 2020 comes to 629.7 tonnes, 94.5% of which are not hazardous, including any stocks in 2019. This type of waste consists mainly of mechanical meters, subject to a large-scale replacement campaign, and partly of material resulting from maintenance and development of the network and connections and sludge from the septic tanks of Toscana Energia and Medea.

ACTIVITIES CARRIED OUT ON THE RECLAMATION SITES IN 2020

In 2020, Italgas continued its monitoring, reclamation and environmental restoration works on 32 sites (the same identified in 2019), on the basis of national environmental regulations governing the reclamation of polluted sites, represented by Ministerial Decree no. 471/99, thereafter superseded by Italian Legislative Decree no. 152/06

“Environmental standards”.

Except for in specific cases, the reclaimed sites are the former gas production facilities initially called “illuminating gas” in the second half of the 19th century, which then became “city gas” for cooking and heating.

In these sites, the pollution, when present, was mainly due to the dispersion of tar, as a by-product of the distillation of fossil carbon to produce the city’s gas.

The 32 sites in which an environmental procedure is operative in accordance with Italian Legislative Decree no. 152/06 Part Four Title V “Reclamation of contaminated sites” are distributed throughout national territory; in particular, they are geographically located as follows:

- _ 6 in Piedmont
- _ 9 in Liguria
- _ 8 in Veneto
- _ 2 in Tuscany
- _ 3 in Lazio
- _ 2 in Campania
- _ 1 in Molise
- _ 1 in Calabria

From an administrative point of view, only the “via Brin” site of Naples comes under the competence of the Ministry of the Environment and Land and Sea Protection (Ministero dell’Ambiente e della Tutela del Territorio e del Mare, MATTM), as it falls within the scope of the Site of National Interest (SNI) of Eastern Naples, whilst the remaining sites come under the competence of Regional or Municipal Authorities.

According to the “state of business”, the 32 sites can be grouped together into five clusters:

- _ 5 have active sites and operating groundwater pumping systems;
- _ 3 have active sites;
- _ 5 have active groundwater reclamation and safety systems;
- _ 5 have post-operam monitoring in progress;
- _ 14 are under design or approaching start-up of operations.

INDUSTRIAL WATER

The Italgas Reti production process does not involve the use of water for industrial purposes, with the exception of the quantities used to top up the gas preheating systems, inserted inside the cabins used to reduce the pressure of gas collected from the high pressure gas pipe system, without the presence of industrial drains.

Medea also uses water, which is heated to vaporise the LPG in liquid phase as it leaves the tanks. This water, which is also released into the fire-fighting system, is collected from the aqueduct or groundwater via wells. At the Sassari plant, the washing water is released to the ground, after treatment, in compliance with the authorisation.

For 2020, as part of the reclamation work, approximately 230,670 cubic metres of water were taken from the contaminated groundwater; this was treated to take the concentrations of pollutants back to the limits permitted for discharge in public drains, in compliance with current legislation and authorisations.

WATER FOR CIVIL USES

The Italgas Reti Environmental Analysis, prepared in accordance with standard UNI EN ISO 14001, showed that use of water resources is not a significant environmental aspect. However, the safeguarding of resources and their rational use is envisaged by the HSEQ Policy. This is why the Group is committed to reducing limited water consumption. The withdrawal of fresh water from the aqueduct, used for hygiene-sanitary purposes in the changing rooms and offices and for the fire-fighting system, came to approximately 98 thousand cubic metres. As regard civil drains, all waste water is conveyed, considering its nature, to the drains without any treatment.

This differs for Italgas Acqua, the Group company that manages the distribution of water under concession in five municipalities of Campania. For this company, managing water consumption means collecting the water, making it suitable for drinking and distributing it to the city, guaranteeing quality standards and continuity and regularity of service.

Main Key Performance Indicators

NFS

STANDARD GRI 302-1 ENERGY CONSUMPTION WITHIN THE ORGANISATION

ENERGY CONSUMED WITHIN THE ORGANIZATION	U.O.M.	2018	2019 ⁵¹	2020
FUEL ENERGY CONSUMPTION				
Fuel energy consumption from non-renewable sources				
Fuel energy consumption for civil and industrial use	TJ	361.08	367.70	368.03
_of which natural gas for civil use		47.59	45.29	45.29
_of which natural gas for industrial use		311.15	313.62	310.15 ⁵²
_LPG and propane air for civil and industrial use		2.34	8.79	12.59
Fuel energy consumption for vehicle ⁵³		97.24	122.04	122.99
_of which diesel		63.98	17.90	10.96
_of which petrol		19.37	25.45	18.10
_of which natural gas		13.89	78.68	93.94 ⁵⁴
Fuel energy consumption from renewable sources				
Fuel energy consumption from renewable sources	TJ	0	0	0
Total fuel energy consumption				
Total fuel energy consumption	TJ	458.32	489.74	491.03

⁵¹ The data relating to the consumption of natural gas energy by vehicles has been restated with respect to the 2019 Non-Financial Statement. For the value reported in the 2019 Consolidated Non-Financial Statement, please refer to the document published on the Group's website at https://www.italgas.it/export/sites/italgas/italgas-gallery/Documenti_it/Non-Financial-Statement-2019.pdf.

⁵² Please note that as compared with 2019 and 2018, propane air has been considered separately from LPG.

⁵³ For more details on the trend of consumption linked to vehicles, refer to the specific graphs and information in the paragraph "Emissions and related reduction actions" of this document.

⁵⁴ The trend of energy consumption is consistent with the change in the fuel mix used by the vehicle fleet. For more details on the trend of consumption linked to vehicles, refer to the specific graphs and information in the paragraph "Emissions and related reduction actions" of this document.

ENERGY CONSUMED WITHIN THE ORGANIZATION	U.O.M.	2018	2019 ⁵¹	2020
CONSUMPTION OF PURCHASED ENERGY				
Consumption of purchased energy from non-renewable sources				
Electricity	kWh	28,685,654	27,790,612	413,369
Heating energy		0	0	88,816*
Consumption of purchased energy from renewable sources				
Consumption of purchased energy from renewable sources	kWh	0	0	27,586,897
Total consumption of purchased energy				
Total consumption of purchased energy	TJ	103.27	100.05	101.12
TOTAL ENERGY CONSUMED WITHIN THE ORGANISATION				
Total energy consumed within the organization	TJ	561.59	589.78	592.15

*This figure refers to the consumption for district heating of the new Seaside site.

STANDARD GRI 302-3 ENERGY INTENSITY

Below are some energy intensity values in respect of different reference parameters:

1. Energy intensity calculated by comparing the total Group energy consumption with the gas distributed. This parameter offers an indication of the quantity of energy used to supply 10⁶Sm³ of gas.

ENERGY INTENSITY	U.O.M.	2018	2019 *	2020
Global energy intensity	TJ/10 ⁶ Sm ³	0.071	0.074	0.070
Total energy consumed within the organization	TJ	561.59	589.78	592.15
Gas distributed	10 ⁶ Sm ³	7,873	8,001	8,477

* In 2019, 3 months of Toscana Energia are considered

2. Energy intensity calculated by comparing the total industrial natural gas energy consumption with the gas distributed. This parameter offers an indication of the quantity of energy used for pre-heating to supply 10⁶Sm³ of gas.

ENERGY INTENSITY	U.O.M.	2018	2019 *	2020
Natural gas for industrial use energy intensity	TJ/10 ⁶ Sm ³	0.040	0.039	0.037
Total natural gas for industrial use energy consumption	TJ	311.15	313.62	310.15
Gas distributed	10 ⁶ Sm ³	7,873	8,001	8,477

* In 2019, 3 months of Toscana Energia are considered

3. Energy intensity calculated by comparing the total Group energy consumption with km of network. This parameter offers an indication of the quantity of energy used to supply the service per km of network.

ENERGY INTENSITY	U.O.M.	2018	2019 *	2020
Energy intensity per km of network	GJ/km	9.15	8.37	8.32
Total energy consumed within the organization	GJ	561,592.27	589,782,89	592,147.77
km of network	km	61,361	70,502	71,185

* In 2019, 3 months of Toscana Energia are considered

4. Energy intensity calculated by comparing industrial electricity consumption with km of network. This parameter offers an indication of the quantity of electricity (mainly for cathodic protection) used to supply the service per km of network.

ENERGY INTENSITY	U.O.M.	2018	2019 *	2020
Industrial electrical energy intensity per km of network*	GJ/unit	0.86	0.785	0.798
Industrial electricity consumed within the organization	GJ	52,634.2	55,374.68	56,824.3
km of network	unit	61,361	70,502	71,185

* In 2019, 3 months of Toscana Energia are considered

5. Energy intensity calculated by comparing the total Group energy consumption with the number of delivery points active. This parameter offers an indication of the quantity of energy used to supply the service per delivery point.

ENERGY INTENSITY	U.O.M.	2018	2019 *	2020
Energy intensity per delivery point*	GJ/unit	0.084	0.078	0.078
Total energy consumed within the organization	GJ	561,592.27	589,782,89	592,147.77
Active delivery points	unit	6.708 · 10 ⁶	7.573 · 10 ⁶	7.595 · 10 ⁶

* In 2019, 3 months of Toscana Energia are considered

STANDARD GRI 303-3 WATER WITHDRAWALS

WATER WITHDRAWALS	U.O.M.	2018	2019	2020
Water withdrawn from the aqueduct	m ³	156,187	134,067	98,014
Water withdrawn from the subsoil		300	4,183	1,497
Total water withdrawn		156,487	138,250	99,511

STANDARD GRI 303-4 WATER DISCHARGE

WATER DISCHARGE	U.O.M.	2018	2019	2020
Discharged in underground water ⁵⁵	m ³	30	333	1,387
Discharge to sewers		156,187	137,917	98,014
Sent to other treatment plants		270	NA	110
Total discharges		156,487	138,250	99,511

For the Italgas Group, the water drains correspond to the collections; consequently, water consumption is zero ([Standard GRI 303-5 Water consumptions](#)).

STANDARD GRI 305-1 DIRECT (SCOPE 1) GHG EMISSIONS

STANDARD GRI 305-2 INDIRECT (SCOPE 2) GHG EMISSIONS FROM ENERGY CONSUMPTION

STANDARD GRI 305-3 OTHER INDIRECT (SCOPE 3) GHG EMISSIONS

STANDARD GRI 305-4 INTENSITY OF GHG EMISSIONS

DIRECT AND INDIRECT EMISSIONS AND OTHER GHG EMISSIONS	GRI STANDARD	U.O.M.	2019 ⁵⁶	2020
Total scope I	305-1		156.3	173.1
Total scope II**	305-2	10 ³ t CO ₂ eq	7.5	0.2
Total scope III	305-3		136.3	153.3 ⁵⁷
Carbon intensity***	305-4	tCO ₂ eq/10 ⁶ Sm ³	20.5	20.4

** 2019: Scope II location-based, 2020: scope II market-based

***Calculated as scope 1 and scope 2 emissions/gas distributed

⁵⁵ Please note that water is drained in the soil after treatment.

⁵⁶ Data restated with respect to the 2019 Non-Financial Statement.

⁵⁷ The substantial reduction in scope 3 emissions that characterised 2020 is due to the choice made by Italgas, differently from previous years, to use the final data of contracts (effective cost) rather than that ordered (assigned). In addition, the Scope

3 calculation does not include the companies Toscana Energia Green and Italgas Acqua.

STANDARD GRI 305-7 NITROGEN OXIDES (NO_x), SULPHUR OXIDES (SO_x) AND OTHER SIGNIFICANT EMISSIONS

tNO _x EMISSIONS	2019	2020
Civil	1.26	1.26
Industrial	17.27	17.28
Vehicles	5.04	3.11
Total	23.6⁵⁸	21.7

EMISSIONS AVOIDED	tCO ₂ eq
Network conversion from LPG to natural gas	217
Vehicle fleet conversion	1,250
Renovation of the site at Largo Regio Parco 11, Turin	382
Preheating optimisation systems	500
Installation of smart meters	192
Photovoltaic	2,373
Purchase of electricity from certified renewable sources	7,039
Total emissions avoided	11,953

STANDARD GRI 306-4 WASTE DIVERTED FROM DISPOSAL

WASTE BY TYPE AND DISPOSAL METHOD	U.O.M.	2018		2019		2020	
		Hazardous	Non-hazardous	Hazardous	Non-hazardous	Hazardous	Non-hazardous
Recovery/Recycling	t	4.08	795.6	2.0	637.5	31.5	527.9
<i>Of which ferrous material</i>		0	421.8	0.0	581.6	1.0	424.5
<i>of which other material</i>		4.08	373.8	2.0	55.9	30.5	103.4

⁵⁸ 2019 NO_x emissions were calculated partly using the 2020 calculation method and, where not possible, the 2019 calculation method was applied.

STANDARD GRI 306-5 WASTE DIRECTED TO DISPOSAL

WASTE BY TYPE AND DISPOSAL METHOD	U.O.M.	2018 *		2019 *		2020	
		Hazardous	Non-hazardous	Hazardous	Non-hazardous	Hazardous	Non-hazardous
Incineration	t	0	0	0	0	0	0.1
<i>of which ferrous material</i>		n.a.	n.a.	n.a.	n.a.	0	0
<i>of which other material</i>		n.a.	n.a.	n.a.	n.a.	0	0.1
Waste sent directly to landfill		0	0	0.3	0	0	0
<i>of which ferrous material</i>		n.a.	n.a.	n.a.	n.a.	0	0
<i>of which other material</i>		n.a.	n.a.	n.a.	n.a.	0	0
Other disposal plant		6.3	2.7	3.9	3.3	3.3	67.0
<i>of which ferrous material</i>		n.a.	n.a.	n.a.	n.a.	0,8	0
<i>of which other material</i>		n.a.	n.a.	n.a.	n.a.	2.45	67.0
Total			6.29	2.7	4.19	3.31	3.25

*In order to standardise the report with the new version of the GRI, the table has been amended in respect of previous versions, hence waste is not available broken down by type of material for 2018 and 2019.

MAIN DATA ON RECLAMATION	2018		2019		2020	
	n	m ²	n	m ²	n	m ²
Sites involved by reclamation works or to be reclaimed	31	1,477,000	32	1,269,951	32	1,265,551
Certified reclamation works	0	0	3	15,909	0	0
Approved characterisation plans	26	1,233,524	28	1,226,319	28	1,208,348
Approved risk analysis (152/2006) or approved preliminary reclamation projects (pursuant to 471/99)	23	1,155,524	23	1,132,588	23	1,109,240
Approved operative reclamation projects (152/2006) or approved final reclamation projects (pursuant to 471/99)	19	625,213	20	1,120,178	19	1,094,760
Operative safety measures	1	257	1	10,805	1	257
Soil emergency safety measures	0	0	0	0	0	0
Groundwater safety measures	8	0	9	0	10	0

5.6 CORONAVIRUS EMERGENCY AND BUSINESS OUTLOOK

The so-called “Coronavirus Emergency” unfolded in Italy in February 2020 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.

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. Operating activities, both at worksites and 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 2020, as amended.

Italgas has also provided free serological screening for its people, on an entirely voluntary basis, also guaranteeing swab tests, 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, was thereafter gradually extended to all employees based in various 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 base/sales company and their solvency, it is noted that the rules for user access to the gas distribution service are established by ARERA and are regulated in the Network Code.

In April 2020, the Company received a communication 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 should be 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 sales 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 required sales companies to pay the balance of the total amounts invoiced by distributors and not paid during the derogation period, as a lump sum in September or in three instalments from September to November. As at 31 December 2020, the sales companies have complied with their obligations in accordance with the time frames of the above-mentioned **Resolution no. 248/2020/R/com**.

With regard to access to credit, Italgas does not foresee any significant negative impacts, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of € 663.5 million as at 31 December 2020 and a completely undrawn committed long-term credit line of € 500 million, maturing in October 2021, 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 31 December 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.

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 company's financial soundness is confirmed by the success of i) the bond issue of € 500 million, completed on 24 June 2020, implementing the EMTN Programme (renewed on 20 October 2020 for € 6.5 billion), ii) the "dual-tranche" bond issue maturing in February 2028 and February 2033, for a total of € 500 million each, iii) as well as by the confirmation on 3 December 2020 of the rating by Fitch (BBB+, stable outlook) and Moody's (Baa2, stable outlook).

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 has not found any evidence to date to suggest significant negative effects on the 2021 results.

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, Italgas expects to continue its plan targeted primarily at the implementation of network digitisation projects and the completion of installation of "smart" meters and natural gas distribution of Sardinia, plus the normal maintenance and development of the networks managed.



6.0

COMMENT ON THE ECONOMIC AND FINANCIAL RESULTS AND OTHER INFORMATION

Performances reflecting the
Company resilience and capacity to
generate solid economic - financial
results

6.1 LEGISLATIVE AND REGULATORY FRAMEWORK

TARIFF REGULATION

The distribution and metering 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 related 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 on investments t-1 to offset regulatory time lag (from 2013)
Efficiency Factor (X-factor)	Distribution operating costs: _ 3.53% for large companies (PDR > 300.000) _ 4.79% for medium companies (PDR > 50.000) _ 6.59% for small companies (PDR < 50.000) Metering operating costs: 0% Commercialization operating costs: 1,57%

(*) The RAB of the companies currently included in the scope of consolidation, calculated by applying the criteria adopted by the Authority, with reference to investments made up to 31 December 2020, in the definition of the reference tariffs, is equal to € 7.8 billion.

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<div style="background-color: #004a60; color: white; padding: 10px; display: inline-block;"> V REGULATORY PERIOD (parameters set: beta, X-factor, opex) </div>											

Validity WACC (parameters set: risk free interest, remuneration linked to country risk, inflation, gearing, cost of debt, tax rate)	Validity WACC (parameters set: risk free interest, remuneration linked to country risk, inflation, gearing, cost of debt, tax rate)
--	--

●
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 regulation period, at € 5;
 - d. the recognition of costs relating to smart metering/remote management systems be confirmed based on the costs actually incurred for the first half of the regulation period, with the application of a ceiling and recognition in 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 in 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 regulation 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 were addressed in a specific consultation document published in February 2020;
- _ 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.

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 regulation 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.

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 was 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.

Moreover, in the same proceedings, with a further appeal on additional grounds filed on 4 November 2020, the company contested ARERA memorandums of 7 September 2020 and 15 October 2020, providing further grounds for criticism concerning the reduction in the return on capital invested in metering activities. A date is yet to be set for the hearing on the merits.

Resolution no. 544/2020/R/gas redetermined the reference tariffs for gas distribution and metering services for the years 2009 to 2019, based on the requests received from certain distribution companies to correct the data by 15 September 2020.

Resolution no. 568/2020/R/gas approved the amounts of operating costs, relating to smart metering/remote management systems and concentrators, incurred by the companies which submitted an application for the years 2017 and 2018. By 31 March 2021, the CSEA will determine the limit on revenue allowed for covering metering service-related centralised costs. Also, by 30 April 2021, it will settle any amounts in adjustment of the amounts already paid for the collection years.

Resolution no. 596/2020/R/gas approved the mandatory tariffs for natural gas distribution, metering and marketing services, the different gas tariff options and the bimonthly equalisation prepayment amounts for the natural gas distribution service for the year 2021. The Resolution also determined the values expressed in euro/re-delivery points, valid for the year 2021, of the components to cover operating costs related to the distribution, metering and marketing service, as well as the component to cover centralised capital costs.

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 related to the safety recoveries of the natural gas distribution service for 2016. In particular, for subsidiaries and affiliates companies of Italgas S.p.A., the overall net amount in favour (total premiums and penalties) due for the odorization and dispersion components is approximately € 8,500,000.00.

On 9 July 2020, the Company filed an **appeal** on additional grounds against the aforesaid Resolution before the Lombardy Regional Administrative Court, both for the part relating to the non-recognition of the premiums, concerning 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. A date is yet to be set for the hearing on the merits.

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.

With **Resolution no. 567/2020/R/gas** of 22 December 2020, ARERA determined the premiums and penalties related to the safety recoveries of the natural gas distribution service for 2017.

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 appeal 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 affiliates 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.

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.

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 13 October 2020, the company appealed against the aforesaid Resolution, challenging its lawfulness in several respects. The chamber proceedings were held on 16 December 2020 and the company is currently awaiting the decision of the Regional Administrative Court and the setting of a date, if necessary, for the hearing to discuss the application for annulment.

Overall, in 2020, the Italgas Group subsidiaries purchased, with commitment to buy, 589,108 EECs from the market for a value of € 154.0 million, and 457,962 short certificates for a value of € 4.6 million.

Following the COVID-19 epidemiological emergency pursuant to Article 41 of Italian Decree Law no. 34 of 19 May 2020, closure of the 2019 obligation year was deferred until 30 November 2020. In this context, the company therefore cancelled 502,945 EECs, for a total amount of € 128.0 million (calculated on the basis of the balance of the contribution of € 254.49/EEC pursuant to Resolution no. 550/2020/R/efr of 15 December 2020). It also cancelled 128,445 EECs for an overall value of € 25.7 million (calculated on the basis of the estimated tariff contribution of € 200.00/EEC pursuant to Resolution no. 270/2020/R/efr of 17 July 2020).

Lastly, the adjustment relating to the 446,371 EECs purchased in the period from June to November 2019 was determined, for an overall value of € 35.5 million.

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 and subsequent amendments and supplements, 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 and supplemented, 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 and subsequent amendments and supplements;

- _ access to the reputational guarantee of the rating of sales 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.

With **Resolution no. 432/2020/R/com** of 3 November 2020, the Authority introduced extraordinary measures regarding the output-based regulation of gas distribution services:

- _ in relation to the slowdown in the replacement of network sections in non-compliant materials, it decreased the minimum obligation set for 31 December 2022 from

40% to 30%, leaving the deadlines for the subsequent intermediate and final obligations unchanged (75% in 2024 and 100% in 2025);

- _ it stated that any applications for a derogation from the time frames provided for in the service quality regulation may be submitted by 30 June 2021, rather than 31 December 2020.

With **Resolution no. 501/2020/R/gas** of 1 December 2020, the Authority updated the deadlines of the gas smart meter commissioning obligations in at least 85% of existing redelivery points, with a metering unit class of less than or equal to G6, to 31 December 2021 for distribution companies with more than 200,000 end customers and 31 December 2022 for companies with between 100,000 and 200,000 end customers.

6.2 COMMENT ON THE ECONOMIC AND FINANCIAL RESULTS⁵⁹

6.2.1 Reclassified income statement

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE%
Gas distribution regulated revenue	1,206.9	1,394.3	187.4	15.5
<i>of which distribution revenue</i>	<i>1,109.1</i>	<i>1,183.7</i>	<i>74.6</i>	<i>6.7</i>
<i>of which other distribution revenue (*)</i>	<i>97.8</i>	<i>102.2</i>	<i>4.4</i>	<i>4.5</i>
<i>of which special items</i>	<i>0.0</i>	<i>108.4</i>	<i>108.4</i>	
Adjusted gas distribution regulated revenue	1,206.9	1,285.9	79.0	6.5
Other revenues	51.0	47.9	(3.1)	(6.1)
Total revenues (**)	1,257.9	1,442.2	184.3	14.7
Adjusted total revenues	1,257.9	1,333.8	75.9	6.0
Operating costs (**)	(350.4)	(414.3)	(63.9)	18.2
<i>of which special items</i>	<i>0.0</i>	<i>(51.9)</i>	<i>(51.9)</i>	
Adjusted operating costs	(350.4)	(362.4)	(12.0)	3.4
EBITDA	907.5	1,027.9	120.4	13.3
Adjusted EBITDA	907.5	971.4	63.9	7.0
Amortisation, depreciation and impairment	(391.5)	(424.6)	(33.1)	8.5
EBIT	516.0	603.3	87.3	16.9
Adjusted EBIT	516.0	546.8	30.8	6.0
Net financial expense	(69.3)	(49.2)	20.1	(29.0)
<i>of which special items</i>	<i>(18.3)</i>	<i>0.0</i>	<i>18.3</i>	
Adjusted net financial expense	(51.0)	(49.2)	1.8	(3.5)
Net income from equity investments	100.8	1.5	(99.3)	(98.5)
<i>of which special items</i>	<i>85.9</i>	<i>0.0</i>	<i>(85.9)</i>	
Adjusted net income from equity investments	14.9	1.5	(13.4)	(89.9)
Gross profit	547.5	555.6	8.1	1.5
Adjusted gross profit	479.9	499.1	19.2	4.0
Income taxes	(123.9)	(152.0)	(28.1)	22.7
<i>of which special items</i>	<i>4.4</i>	<i>(16.9)</i>	<i>(21.3)</i>	
Adjusted income taxes	(128.3)	(135.1)	(6.8)	5.3

⁵⁹ The paragraph "Comment on the economic and financial results" refers to the Italgas Group including: Italgas S.p.A., Italgas Reti S.p.A., Medea S.p.A., Gaxa S.p.A., Italgas Acqua S.p.A., Toscana Energia S.p.A., Toscana Energia Green S.p.A., Seaside S.r.l. and Italgas NewCo S.r.l.

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Net profit	423.6	403.6	(20.0)	(4.7)
Net profit attributable to the Group	417.2	383.0	(34.2)	(8.2)
Net profit attributable to minority interests	6.4	20.6	14.2	
Adjusted net profit	351.6	364.0	12.4	3.5
Adjusted net profit attributable to the Group	345.2	345.4	0.2	0.1
Adjusted net profit attributable to minority interests	6.4	18.6	12.2	

(*) For the purposes of like-to-like comparison, as of 31 December 2019, the revenue item of the Medea company in relation to LPG distribution was reclassified from Other revenues to Distribution revenue (€ 8.9 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.

(**) Unlike the legal statement pursuant to international accounting standards, the reclassified income statement shows Total revenues and Operating costs net of the impact of IFRIC 12 "Service concession agreements" (€ 668.7 million and € 621.1 million in 2020 and 2019 respectively), connection contributions (€ 19.5 million and € 16.6 million in 2020 and 2019 respectively) and net margin relating to EECs (€ 3.4 and € 2.8 million in 2020 and 2019 respectively).

The **EBIT** achieved in the 2020 financial year amounted to € 603.3 million (of which € 70.9 million due to the consolidation of Toscana Energia), with an increase of € 87.3 million compared to 31 December 2019 (+16.9%) as a result of increased revenue (€ 184.3 million, +14.7%), partly offset by higher operating costs (€ 63.9 million, +18.2%) and greater amortisation and depreciation (€ 33.1 million, +8.5%).

Adjusted EBIT (net of non-recurring items) increased by € 30.8 million compared to the 2019 EBIT (+6.0%). The increase is mainly due to higher adjusted revenue (€ 75.9 million; +6.0%), partly offset by: (i) higher operating costs (€ 12.0 million; +3.4%) and (ii) higher amortisation, depreciation and impairment (€ 33.1 million; +8.5%).

The **net profit** for the 2020 financial year, of € 403.6 million, was down by € 20.0 million, or -4.7%, compared to the net profit for 2019.

Adjusted net profit for the 2020 financial year amounted to € 364.0 million, up from the 2019 financial year (€ 12.4 million, +3.5%).

The **net profit attributable to the Group**, net of minority interests, mainly relating to minority shareholders of Toscana Energia, amounted to € 383.0 million.

The **adjusted net profit attributable to the Group** was € 345.4 million, up by 0.1% compared to the adjusted 2019 result.

6.2.2 Reconciliation of reported EBIT and net profit with adjusted EBIT and net profit

Italgas' management assesses Group performance on the basis of alternative performance indicators⁶⁰ not envisaged by IFRS, obtained by excluding special items from EBIT and net profit.

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

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion. Adjusted EBIT and adjusted net profit are not provided for by either IFRS or other standard setters. These performance metrics allow for analysis of the business trends, making it easier to compare results. The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IFRS.

The income components classed among special items in 2020 referred to:

- _ the higher revenues associated with the contribution pursuant to Article 57 relating to the replacement of traditional meters with electronic ones (smart meters) due to the change in methodology over previous years and the recovery of non-depreciation (so-called IRMA) pursuant to DCO 545/2020/R/gas and Resolution no. 570/2019/R/gas, amounting to € 108.4 million;
- _ costs for staff leaving incentives incurred in the financial year and the provision for staff leaving incentives for a total amount of € 13.0 million;
- _ the provision for the repair of faulty meters, amounting to € 38.5 million, determined on the basis of faulty meters detected on the field as of 31 December 2020, estimated faults for the 2021-2026 period and agreements with the suppliers;
- _ expenses associated with the 2019-2021 co-investment plan, due to the adjustment of the number of rights assigned, amounting to € 0.4 million;

With reference to the higher revenues pursuant to Article 57, the company recorded the impacts in the financial statements by virtue of DCO no. 545/2020/R/gas, whereby the Authority announced its intention to amend the RTDG 2020-2025, proposing that disposals relating to meters up to class G6 be determined using the so-called regulatory FIFO method and that this criterion be extended to the disposals of traditional meters higher than class G6, thereby making the criterion for determining residual depreciation uniform for all meters disposed of under the Directives.

The greater contribution is also made up of the amount for the recovery of non-depreciation (so-called IRMA) relating to meters class G6 or lower replaced with the smart meters introduced by Resolution no. 570/2019/R/gas.

⁶⁰ For the definition of alternative performance indicators, reference should be made to the chapter "Non-GAAP Measures" in this report.

(€ MILLION)	2019	2020
Total revenue	1,257.9	1,442.2
<i>Excluding special items</i>	0.0	(108.4)
Adjusted total revenues	1,257.9	1,333.8
Total operating costs	(350.4)	(414.3)
<i>Excluding special items</i>	0.0	51.9
Adjusted total operating costs	(350.4)	(362.4)
EBITDA	907.5	1,027.9
<i>Excluding special items</i>	0.0	(56.5)
Adjusted EBITDA	907.5	971.4
EBIT	516.0	603.3
<i>Excluding special items</i>	0.0	(56.5)
Adjusted EBIT	516.0	546.8
Net financial expense	(69.3)	(49.2)
<i>Excluding special items</i>	18.3	0.0
Adjusted net financial expense	(51.0)	(49.2)
Net income from equity investments	100.8	1.5
<i>Excluding special items</i>	(85.9)	0.0
Adjusted net income from equity investments	14.9	1.5
Gross profit	547.5	555.6
<i>Excluding special items</i>	(67.6)	(56.5)
Adjusted gross profit	479.9	499.1
Income taxes	(123.9)	(152.0)
<i>Excluding special items</i>	(4.4)	16.7
Net profit (loss)	423.6	403.6
<i>Net profit (loss) attributable to minority interests</i>	6.4	20.6
<i>Net profit (loss) attributable to the Group</i>	417.2	383.0

(€ MILLION)	2019	2020
<i>Excluding special items</i>		
_ revenues pursuant to Article 57 (*)	0.0	(77.2)
_ financial expense from bond buyback (*)	13.9	0.0
_ expense for staff leaving incentives (*)	0.0	9.7
_ provision for faulty meters (*)	0.0	27.6
_ co-investment plans (*)	0.0	0.3
_ capital gain on step acquisition	(85.9)	0.0
Adjusted net profit (loss)	351.6	364.0
<i>Adjusted net profit (loss) attributable to minority interests</i>	<i>6.4</i>	<i>18.6</i>
<i>Adjusted net profit (loss) attributable to the Group</i>	<i>345.2</i>	<i>345.4</i>

(*) Net of the related tax effect.

Below is the adjusted version of the reclassified income statement:

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Adjusted total revenues	1,257.9	1,333.8	75.9	6.0
Adjusted operating costs	(350.4)	(362.4)	(12.0)	3.4
Adjusted EBITDA	907.5	971.4	63.9	7.0
Amortisation, depreciation and impairment	(391.5)	(424.6)	(33.1)	8.5
Adjusted EBIT	516.0	546.8	30.8	6.0
Adjusted net financial expense	(51.0)	(49.2)	1.8	(3.5)
Adjusted net income from equity investments	14.9	1.5	(13.4)	(89.9)
Adjusted gross profit	479.9	499.1	19.2	4.0
Adjusted income taxes	(128.3)	(135.1)	(6.8)	5.3
Adjusted net profit	351.6	364.0	12.4	3.5
<i>Adjusted net profit attributable to the Group</i>	<i>345.2</i>	<i>345.4</i>	<i>0.2</i>	<i>0.1</i>
<i>Adjusted net profit attributable to minority interests</i>	<i>6.4</i>	<i>18.6</i>	<i>12.2</i>	

6.2.3 Analysis of the Reclassified Income Statement items

TOTAL REVENUE

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Total gas distribution regulated revenue	1,206.9	1,394.3	187.4	15.5
Distribution revenue	1,109.1	1,183.7	74.6	6.7
Other distribution revenue	97.8	102.2	4.4	4.5
<i>Special items</i>	<i>0.0</i>	<i>108.4</i>	<i>108.4</i>	
Total adjusted gas distribution regulated revenue	1,206.9	1,285.9	79.0	6.5
Other revenues	51.0	47.9	(3.1)	(6.1)
Adjusted total revenues	1,257.9	1,333.8	75.9	6.0
Total revenue	1,257.9	1,442.2	184.3	14.7

The **total revenues** of 2020 amounted to € 1,442.2 million (of which € 153.6 million relating to Toscana Energia consolidated from 1 October 2019), up by € 184.3 million compared to 2019 (+14.6%) and refer to natural gas distribution regulated revenue (€ 1,394.3 million) and other revenues (€ 47.9 million).

Adjusted total revenues for 2020, not including the € 108.4 million deriving from the updated meter contribution calculation method pursuant to Article 57, amounted to € 1,333.8 million, up by € 75.9 million compared to 2019 (+6.0%), and refer to natural gas distribution regulated revenue (€ 1,285.9 million) and other revenues (€ 47.9 million).

Adjusted distribution revenue increased by € 79.0 million compared to the corresponding period of 2019, due to an increase in distribution revenue (€ 74.6 million) and an increase in other distribution revenue (€ 4.4 million).

The increase in **distribution revenue** (€ 74.6 million) is mainly attributable to the change in tariff components (€ 18.2 million), 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 from 1 May 2019, and the above-mentioned full consolidation of Toscana Energia (€ 98.9 million), impacts which were offset by lower tariff adjustments compared to previous years (€ 6.8 million), as well as by lower distribution revenue caused

by the changes introduced by Resolution 570/2019/R/gas (€ 40.6 million).

Resolution 570/2019/R/gas also caused an overall reduction of 5.0 in distribution revenue for Toscana Energia.

The increase in **other distribution revenue** (€ 4.4 million) is attributable to: (i) higher contribution pursuant to Article 57 of ARERA Resolution no. 367/14, as amended, (with total recovery of non-depreciation), relating to the replacement of traditional meters with electronic ones (smart meters), equal to € 30.2 million as of 31 December 2020 (€ 22.9 million in the corresponding period of 2019; up by € 7.3 million), and (ii) higher incentives linked to the safety of plants (€ 7.3 million). These effects are partially offset by lower revenues from services for work on the network (€ 4.6 million) and lower reimbursements for gas interruption activities (€ 5.9 million), mainly as a result of the COVID-19 emergency pursuant to the Government Decree (DPCM) of 22 March 2020, as amended.

At the end of 2020, **other revenues** amounted to € 47.9 million (down by € 3.1 million compared to the same period of 2019). The decrease is linked mainly to lower capital gains from the sale of assets, of € 5.0 million as of 31 December 2020 (down by € 6.1 million compared to the same period in 2019), offset by higher sales of LPG and propane air to active users in Sardinia (€ 2.7 million).

OPERATING COSTS⁶¹

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE%
Fixed gas distribution costs	254.7	258.5	3.8	1.5
<i>_ net personnel cost</i>	144.1	145.7	1.6	1.1
<i>special items</i>	0.0	0.4	0.4	
<i>_ net external costs</i>	110.6	112.8	2.2	2.0
Adjusted Fixed gas distribution costs	254.7	258.1	3.4	
Other activities	22.9	24.9	2.0	8.7
<i>_ net personnel cost</i>	2.1	3.6	1.5	
<i>_ net external costs</i>	20.8	21.3	0.5	2.4
Other costs and provisions	2.2	57.9	55.7	
<i>special items</i>	0.0	51.5	51.5	
Other adjusted costs and provisions	2.2	6.4	4.2	
Energy Efficiency Certificates	7.8	5.0	(2.8)	(35.9)
Concession-related expenses	62.8	68.0	5.2	8.3
Adjusted operating costs	350.4	362.4	12.0	3.4
Operating costs	350.4	414.3	63.9	18.2

Operating costs as of 31 December 2020 amounted to € 414.3 million (of which € 42.1 million due to the full consolidation of Toscana Energia and the acquisitions in Sardinia and central and Southern Italy by Conscoop).

Adjusted operating costs amounted to € 362.4 million, of which € 38.6 million due to the aforementioned change in the scope of consolidation (€ +12.0 million compared to the same period of 2019). This increase was partially offset by the measures taken by the company to boost efficiency.

Net of the change in scope of consolidation, costs decreased by € 18.6 million compared to the same period in 2019, due to lower: (i) net personnel costs (€ 8.1 million); (ii) net external costs (€ 7.8 million); (iii) net costs related to Energy Efficiency Certificates (€ 3.5 million); offset by higher concession charges (€ 0.8 million). The special items refer to higher expenses relating to the voluntary redundancy incentive plans (€ 13.0 million), the expenses relating to the co-investment plans (€ 0.4 million) and the provisions for faulty meters (€ 38.5 million).

⁶¹ 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 € 6.2 million as of 31 December 2019 among the "gas distribution" net external costs, (ii) the item "other gas distribution costs" restating the costs related to IMU, as of 31 December 2019 equal to € 2.9 million, among the "gas distribution" net external costs, the costs related to capital losses for € 6.4 million, costs of staff leaving incentives for € 1.0 million and increased use for € 4.8 million, under the item "other costs and provisions". Part of the net personnel cost related to other activities has been reclassified for a value, as of 31 December 2019 of € 2.9 million, in the net personnel cost "gas distribution". Lastly, € 2.2 million were reclassified from "net external costs related to other activities" to "gas distribution" net external costs; € 0.4 millions of uses from "net external costs related to other activities" to the "Other costs and provisions" item; and € 0.1 million from "net external costs related to other activities" to the "Concession-related expenses" item.

AMORTISATION, DEPRECIATION AND IMPAIRMENT

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Amortisation and depreciation	389.6	423.7	34.1	8.8
Intangible assets IFRIC 12	317.3	339.8	22.5	7.1
Other Intangible Assets	43.3	47.6	4.3	9.9
Property, plant and equipment	29.0	36.3	7.3	25.2
_ of which amortisation of Right of Use	15.2	20.2	5.0	32.9
Impairment	1.9	0.9	(1.0)	(52.6)
	391.5	424.6	33.1	8.5

Amortisation, depreciation and impairment (€ 424.6 million) increased by € 33.1 million, (+8.5% compared to 31 December 2019). Against an increase of € 60.0 million (of which € 32.4 million due to the full consolidation of Toscana Energia and € 3.6 million related to increased

investments pursuant to IFRS 16), lower depreciation was recorded in relation to the replacement of traditional meters with smart meters, amounting to € 17.7 million at year end (€ 44.6 million in the corresponding period of 2019).

NET FINANCIAL EXPENSE

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Expense (income) on short-term and long-term financial debt	44.7	48.9	4.2	9.4
Upfront fee and fee	23.2	4.8	(18.4)	(79.3)
<i>of which special items</i>	<i>18.3</i>	<i>0.0</i>	<i>(18.3)</i>	
Upfront fee and adjusted fee	4.9	4.8	(0.1)	(2.0)
Other net financial expense (income)	2.1	(2.6)	(4.7)	
<i>_ Expenses (income) related to the discounting of environmental provisions and provisions for employee benefits</i>	<i>2.7</i>	<i>2.0</i>	<i>(0.7)</i>	<i>(25.9)</i>
<i>_ Other net financial expense (income)</i>	<i>(0.6)</i>	<i>(4.6)</i>	<i>(4.0)</i>	
Financial expense capitalised	(0.7)	(1.9)	(1.2)	
Adjusted net financial expense	51.0	49.2	(1.8)	(3.5)
Net financial expense	69.3	49.2	(20.1)	(29.0)

Net financial expense (€ 49.2 million) decreased by € 20.1 million compared to the 2019 financial year, mainly due to the lower expenses resulting from the bond buyback transaction completed on 11 December 2019 for a total value of € 18.3 million.

Adjusted net financial expense decreased by € 1.8 million compared to the corresponding period of 2019. The

increase in expenses relating to bonds (€ 4.3 million), due to the cost of the new bond issues made in July 2019, December 2019 and June 2020, is partially offset by: (i) higher other net financial income for € 4.0 million, (of which € 2.8 million is attributable to interest income accrued on the receivables claimed by Italgas for the redemption of networks as part of the arbitration award in Viadana) and (ii) higher capitalised financial expense for € 1.2 million.

Net income from equity investments amounted to € 1.5 million in the financial year 2020 (€ 100.8 million in 2019; down by € 99.3 million). Net of the 2019 special item of € 85.9 million, relating to the capital gain generated by the recalculation of the value of the equity investment in Toscana Energia following the acquisition of control pursuant to IFRS 3 – “Business Combination”, net income reduced by € 13.4 million as a result of the full consolidation of Toscana Energia.

INCOME TAXES

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Current taxes	127.7	185.5	57.8	45.3
Net deferred taxes	(3.7)	(33.5)	(29.8)	
Income taxes	123.9	152.0	28.1	22.7
<i>_ Adjustments for special items</i>	4.4	(16.9)	(21.3)	
Adjusted income taxes	128.3	135.1	6.8	5.3
Effective tax rate (%)	22.63%	27.36%		
Adjusted effective tax rate (%)	26.74%	27.07%		

Income taxes for the 2020 financial year (€ 152.0 million) increased by € 28.1 million compared to the corresponding value of the previous year, mainly due to the higher revenue resulting from the recalculation of the contribution for meters pursuant to Article 57.

Net of the tax impact from the non-recurring cost and revenue items for € 16.9 million, **adjusted income taxes** for the 2020 financial year amounted to € 135.1 million (up € 6.8 million compared to the corresponding period of 2019), mainly as a result of the increase in gross profit.

The effective tax rate was 27.36% (22.63% in the 2019 financial year) due to the aforementioned impacts.

The adjusted tax rate was 27.07% (26.74% in the corresponding period of 2019).

The reconciliation of the theoretical tax rate with the effective tax rate is described in the note “Income taxes” in the Notes to the consolidated financial statements.

6.2.4 Reclassified Statement of Financial Position

The Reclassified Statement of Financial Position combines the assets and liabilities of the mandatory format included in the Integrated 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.

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

(€ MILLION)	31.12.2019	31.12.2020	ABS. CHANGE
Fixed capital	6,335.0	6,712.3	377.3
Property, plant and equipment	350.0	369.9	19.9
Intangible assets	6,176.1	6,516.6	340.5
Equity investments	33.7	34.2	0.5
Financial receivables and securities held for operations	0.2	0.2	0.0
Net payables for investments	(225.0)	(208.6)	16.4
Net working capital	56.3	109.7	53.4
Provisions for employee benefits	(113.2)	(104.6)	8.6
Assets held for sale and directly related liabilities	2.1	0.1	(2.0)
NET INVESTED CAPITAL	6,280.2	6,717.5	437.3
Shareholders' equity	1,794.9	1,981.0	186.1
_ attributable to the Italgas Group	1,560.4	1,740.9	180.5
_ attributable to minority shareholders	234.6	240.1	5.5
Net financial debt	4,485.3	4,736.5	251.2
COVERAGE	6,280.2	6,717.5	437.3

The **net invested capital** at 31 December 2020 amounted to € 6,717.5 million and consists of the items discussed below.

The **fixed capital** (€ 6,712.3 million) increased by € 377.3 million compared to 31 December 2019, primarily due to the increase in tangible and intangible assets (€ 360.4 million) and the reduction in net payables related to investments (€ 16.4 million).

Intangible assets (€ 6,516.6 million), which primarily include assets for the concession services accounted for pursuant to IFRIC 12, recorded an increase of € 340.5 million, mainly due to investments for € 711.5 million, net of

amortisation and impairment for € 388.3 million, as well as an increase related to change in the scope of consolidation for € 19.8 million, offset by decreases and other changes for € -2.5 million.

Tangible assets (€ 369.9 million), which mainly concern property, plant and equipment, increased by € 19.9 million, mainly due to investments for € 66.0 million, € 26.5 million of which linked to the application of IFRS 16, net of depreciation for € 36.3 million, of which € 20.2 million linked to the right of use pursuant to IFRS 16 and decreases and other changes for € -9.8 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 at 31 December 2019	350.0	5,984.2	191.9	6,526.1
Investments	66.0	669.8	41.7	777.5
_of which IFRS 16	26.5			26.5
Amortisation, depreciation and impairment	(36.3)	(340.7)	(47.6)	(424.6)
_of which metering instruments (ordinary depreciation)		3.6		3.6
_of which, acceleration of metering instruments*		14.1		14.1
_of which, amortisation as per IFRS 16	(20.2)			(20.2)
Change in the scope of consolidation (entities and business units)		19.8		19.8
Contributions	(0.1)	(9.1)		(9.2)
Other changes	(9.7)	8.6	(2.0)	(3.1)
Balance at 31 December 2020	369.9	6,332.6	184.0	6,886.5

* Accelerated depreciation as at 31.12.2020 and 31.12.2019 amounted to € 17.7 million and € 44.6 million respectively.

The **equity investments** item (€ 34.2 million) refers primarily to the equity investments in Valdarno in liquidation, Umbria Distribuzione Gas, Metano S. Angelo Lodigiano and Enerpaper, consolidated using the equity method.

Consolidated **net working capital**⁶² at 31 December 2020 amounts to € 109.7 million and is broken down as follows:

(€ MILLION)	31.12.2019	31.12.2020	ABS. CHANGE
Trade receivables	432.3	462.2	29.9
Inventories	52.3	101.2	48.9
Tax receivables	87.7	64.4	(23.3)
Accruals and deferrals from regulated activities	127.0	202.8	75.8
Other assets	147.6	148.3	0.7
Trade payables	(288.1)	(303.0)	(14.9)
Provisions for risks and charges	(168.0)	(202.6)	(34.6)
Deferred tax liabilities	(92.5)	(55.2)	37.3
Tax payables	(11.1)	(45.0)	(33.9)
Other liabilities	(230.9)	(263.4)	(32.5)
	56.3	109.7	53.4

⁶² In order to ensure the comparability of net working capital items, receivables for incentives as of 31 December 2019, of € 46.7 million, were reclassified in the item other assets, while payables for penalties as of 31 December 2019, of € 12.6 million, were reclassified in the item other liabilities.

Compared to 31 December 2019, **net working capital** rose by € 53.4 million, mainly as a result of: i) an increase in trade receivables (€ 29.9 million); ii) an increase in inventories (€ 48.9 million); iii) an increase in net tax payables (€ 19.9 million) due mainly to taxes in the period; iv) an increase in accruals and deferrals from regulated activities (€ 75.8 million) due to the change in methodology of the contribution paid for meters pursuant to Article 57; v) an increase in other assets (€ 0.7 million), mainly due to higher safety incentives (€ 22.5 million), partly offset by lower receivables from the CSEA for EECs (€ 19.1 million) and lower other assets due to the valuation of existing derivatives (€ 2.4 million); vi) an increase in trade payables (€ 14.9 million); vii) an increase in provisions for risks and charges (€ 34.6 million); viii) an increase in other liabilities

for the financial year (€ 32.5 million), mainly as a result of payables due to the CSEA, associated with the additional distribution components (€ 24.6 million), and payables for penalties (€ 11.6 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. Specifically, in the fourth quarter, transactions were finalised for the factoring of receivables relating to: (i) trade receivables for distribution due on 31 December 2020, collecting a total of € 85.3 million; (ii) receivables due from CSEA, collecting a total of € 100.5 million; (iii) receivables linked to Energy Efficiency Certificates, collecting a total of € 131.8 million and (iv) tax receivables, collecting € 38.6 million.

NET FINANCIAL DEBT

(€ MILLION)	31.12.2019	31.12.2020	ABS. CHANGE
Financial and bond debt	4,746.2	5,405.1	658.9
Short-term financial debt (*) (**)	471.4	677.7	206.3
Long-term financial debt	4,200.1	4,651.1	451.0
Financial liabilities for leasing pursuant to IFRS 16	74.7	76.3	1.6
Financial receivables and cash and cash equivalents	(260.9)	(668.6)	(407.7)
Cash and cash equivalents (**)	(255.8)	(663.5)	(407.7)
Financial receivables	(5.0)	(5.0)	(0.0)
Securities not instrumental to operations	(0.1)	(0.1)	0.0
Net financial debt	4,485.3	4,736.5	251.2
<i>of which financial liabilities pursuant to IFRS 16</i>	<i>74.7</i>	<i>76.3</i>	<i>1.6</i>
Net financial debt (excluding the effects pursuant to IFRS 16)	4,410.6	4,660.2	249.6

(*) These include the short-term portions of long-term financial debt.

(**) The items are recognised net of € 0.5 million relating to factoring transactions, the underlying amounts on which were collected as of 31 December 2020 and repaid to the factor in the first few business days of January 2021.

Net financial debt at 31 December 2020, including the effects of the application of IFRS 16, of € 76.3 million, amounted to € 4,736.5 million, up by € 251.2 million (€ 4,485.3 million as of 31 December 2019). Net of that effect, net financial debt amounted to € 4,660.2 million (€ 4,410.6 million as of 31 December 2019, up by € 249.6 million).

Gross financial and bond debt at 31 December 2020 totalled € 5,405.1 million (€ 4,746.2 million at 31 December

2019) and refers to: (i) bonds (€ 3,854.5 million), (ii) loan agreements with the European Investment Bank (EIB) (€ 869.5 million), (iii) bank loans (€ 604.8 million) and financial liabilities pursuant to IFRS 16 (€ 76.3 million).

Cash and cash equivalents, amounting to € 663.5 million, is held in current accounts and fixed-term deposits that can be immediately liquidated with leading banks.

The breakdown of gross financial debt by type of interest rate as of 31 December 2020 is as follows:

(€ MILLION)	31.12.2019	%	31.12.2020	%
Fixed rate	4,178.4	88.0	4,676.3	86.5
Floating rate	567.8	12.0	728.8	13.5
Gross financial debt	4,746.2	100.0	5,405.1	100.0

Fixed-rate financial liabilities amounted to € 4,676.3 million and refer to bonds (€ 3,854.5 million), three EIB loans (€ 745.5 million) and financial liabilities pursuant to IFRS 16 (€ 76.3 million).

Fixed-rate financial liabilities increased by € 497.9 million compared to 31 December 2019, mainly due to the bond issue completed in June 2020 for a nominal value of € 500 million.

Floating-rate liabilities stood at € 728.8 million and were up by € 161.0 million due to the increased use of bank credit lines.

Net of the effects of the financial liabilities pursuant to IFRS 16, the gross financial debt was 86.3% at fixed rate and 13.7% at floating rate.

As of 31 December 2020, Italgas had unused committed credit facilities of € 500 million, maturing in October 2021.

As of 31 December 2020, there were no loan agreements containing financial covenants and/or secured by collateral, with the exception of an EIB loan for 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 undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) pari passu and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. As of 31 December 2020, these commitments were respected.

STATEMENT OF COMPREHENSIVE INCOME

(€ MILLION)	2019	2020
Net profit	423.6	403.6
Other comprehensive income		
<i>Components reclassifiable to the income statement</i>		
Change in fair value of cash flow hedge derivatives (Effective portion)	(4.2)	(10.3)
Tax effect	1.0	2.5
	(3.2)	(7.8)
<i>Components not reclassifiable to the income statement:</i>		
Actuarial gains (losses) from remeasurement of defined benefit plans for employees	(3.5)	(4.6)
Tax effect	1.0	1.3
	(2.5)	(3.3)
Total other components of comprehensive income, net of tax effect	(5.7)	(11.1)
Total comprehensive income for the year	417.9	392.5
Attributable to:		
_ Italgas	411.7	372.0
_ Minority interests	6.2	20.5
	417.9	392.5

SHAREHOLDERS' EQUITY

(€ MILLION)	
Shareholders' equity as of 31 December 2019	1,794.9
of which:	
_ <i>Group shareholders' equity</i>	1,560.4
_ <i>Shareholders' equity of minority shareholders</i>	234.6
Increase for:	
- 2020 comprehensive income	403.6
of which:	
_ <i>Profit attributable to the Group</i>	383.0
_ <i>Profit attributable to minority shareholders</i>	20.6
_ Stock grant reserve	5.1
	408.7
Decrease for:	
_ Italgas 2019 dividend distribution	(207.1)
_ 2019 dividend distributed to minority shareholders*	(13.9)
_ Cash Flow Hedge valuation reserve	(7.8)
_ IAS 19 valuation reserve	(3.2)
	(232.0)
Other changes:	
of which:	
_ <i>Attributable to the Group</i>	10.5
_ <i>Attributable to minority shareholders</i>	(1.1)
	9.4
Group shareholders' equity	1,740.9
Shareholders' equity of minority shareholders	240.2
Shareholders' equity as of 31 December 2020	1,981.0

* This is the extraordinary dividend paid by Toscana Energia.

6.2.5 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 flow⁶³, i.e. the cash surplus or deficit remaining after the financing of investments.

RECLASSIFIED STATEMENT OF CASH FLOWS⁶⁴

(€ MILLION)	2019	2020
Net profit	423.6	403.6
<i>Correction:</i>		
_ Amortisation, depreciation and other non-monetary components	290.8	428.3
_ Net capital losses (capital gains) on asset sales and eliminations	(4.4)	(1.1)
_ Interest and income taxes	193.2	201.2
Change in working capital due to operating activities	20.9	(110.8)
Dividends, interest and income taxes collected (paid)	(209.7)	(176.2)
Cash flow from operations (*)	714.4	745.0
Technical investments	(688.6)	(741.8)
Other changes related to investments activities	89.9	(5.2)
Divestments and other changes	8.0	2.0
Free cash flow before M&A transactions	123.7	0.0
Change in scope of consolidation	(96.4)	(4.4)
of which:		
_ price paid for equity	(40.2)	(4.4)
_ takeover of payables of acquired companies	(56.2)	0.0
Acquisition of business branches	(25.1)	(9.7)
Free cash flow	2.3	(14.1)
Change in short- and long-term financial debt and financial receivables	434.7	657.3
Reimbursements of financial liabilities for leased assets	(17.2)	(24.1)
Transfer of minority interests (**)	24.8	0.0
Equity cash flow (***)	(196.8)	(211.4)
Cash flow for the year	247.8	407.7

(*) Net of the effects deriving from accounting standard IFRS 15.

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

(***) Includes, as of 31 December 2020, the dividend paid by Italgas to its shareholders for € 207.1 million, the extraordinary dividend paid by Toscana Energia to minority shareholders for € 13.9 million and payment of part of the credit still owed by Fondo Marguerite II in the capital of Medea, for a value of € 9.6 million.

⁶³ 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).

⁶⁴ For the purposes of like-for-like comparison with the position reported for 2020, including the effects of the application of the IFRS 16 accounting standard, the 2019 flows were adjusted accordingly.

CHANGE IN NET FINANCIAL DEBT

(€ MILLION)	2019	2020
Free cash flow before M&A transactions	123.7	0.0
Change due to acquisitions of equity investments and business units	(121.4)	(14.1)
Transfer of minority investments	24.8	0.0
Equity cash flow	(196.8)	(211.4)
Change in financial liabilities for leased assets	(37.7)	(25.7)
Change in debt for EGN shareholder loan	21.0	0.0
Change in scope of consolidation of financial liabilities deriving from M&A transactions (*)	(414.5)	0.0
Change in net financial debt	(600.9)	(251.2)

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

The cash flow from operations as of 31 December 2020, of € 745.0 million, was fully absorbed by net investments. As of 31 December 2020, cash flow after M&A transactions was negative, for € 14.1 million.

Taking into account payment of the dividend for € 207.1 million and the change in financial liabilities pursuant to IFRS 16, for € 25.7 million, net financial debt increased by € 251.2 million.

6.3 COMMENT ON THE ECONOMIC AND FINANCIAL RESULTS OF ITALGAS S.P.A.

Italgas S.p.A. was incorporated on 1 June 2016 and listed on the Milan Stock Exchange from 7 November 2016

6.3.1 Reclassified income statement

In view of Italgas S.p.A.'s nature as an industrial investment holding, the following reclassified Income Statement has been prepared, which inverts the order of the income statement items under Leg. Decree 127/91, presenting first those which relate to the financial operations, as this is the most significant income component for those companies.⁶⁵

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Financial income and charges				
Income from investments	246.1	239.7	(6.4)	(2.6)
Interest income	44.9	35.3	(9.6)	(21.4)
Interest expense and other financial expense	(67.4)	(52.8)	14.6	(21.7)
Total financial income and charges	223.6	222.2	(1.4)	(0.6)
Income from services	86.5	104.1	17.6	20.3
Other operating income	86.5	104.1	17.6	20.3
Other operating costs				
For staff	(46.5)	(59.9)	(13.4)	28.8
For performance of non-financial services and other costs	(43.4)	(55.3)	(11.9)	27.4
Total of other operating costs	(89.9)	(115.2)	(25.3)	28.1
Gross profit	220.2	211.1	(9.1)	(4.1)
Income taxes	3.5	3.7	0.2	5.7
Net profit	223.6	214.8	(8.8)	(3.9)

The **net profit** achieved in 2020 amounted to € 214.8 million, down by € 8.8 million from the corresponding value for 2019.

⁶⁵ See Consob Communication 94001437 of 23 February 1994.

6.3.2 Analysis of the Reclassified Income Statement items

FINANCIAL INCOME AND CHARGES

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Income from investments	246.1	239.7	(6.4)	(2.6)
Interest income	44.9	35.3	(9.6)	(21.4)
Interest expense and other financial expense	(67.4)	(52.8)	14.6	(21.7)
Financial income and charges	223.6	222.2	(1.4)	(0.6)

Income from equity investments (€ 239.7 million) essentially includes the dividends distributed by Italgas Reti subsidiaries (€ 225.0 million) and Toscana Energia (€ 14.3 million).

Interest income (€ 35.3 million) essentially relates to interest income from the intragroup loans granted by Italgas to its subsidiaries.

Interest expense and other financial expense (€ 52.8 million) refers to the costs relating to financial debt, and mainly concerns bond loan expense⁶⁶ (€ 45.9 million) and loans from banks (€ 5.2 million).

OTHER OPERATING INCOME

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
Income from services	86.5	104.1	17.6	20.3
Other operating income	86.5	104.1	17.6	20.3

Other operating income (€ 104.1 million) refers essentially to chargebacks to subsidiaries of the costs incurred for the provision of services centrally managed by Italgas S.p.A. These services are regulated through agreements signed between Italgas S.p.A. and the subsidiaries and refer to the following areas: ICT, personnel and organisation, planning, administration, finance and control, procurement, general services, property and security services, legal and corporate affairs and compliance, health, safety and environment, institutional relations and regulation, external relations and communication, internal audit and Enterprise Risk Management (ERM).

⁶⁶ The details of bond issues during the year and related terms are provided in the note "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities" in the Notes to the separate financial statements.

OTHER OPERATING EXPENSES

(€ MILLION)	2019	2020	ABS. CHANGE	CHANGE %
For staff	(46.5)	(59.9)	(13.4)	28.8
For performance of non-financial services and other costs	(43.4)	(55.3)	(11.9)	27.4
Total other operating expenses	(89.9)	(115.2)	(25.3)	28.1

Other operating expenses (€ 115.2 million) refer to personnel costs (€ 59.9 million, of which € 9.7 million in increased expense for staff leaving incentives) and costs for non-financial services and other costs (€ 55.3 million). The latter includes costs for consulting and professional services (€ 5.0 million), ICT services (€ 19.9 million), costs relating to various service contracts (€ 13.4 million), other costs (€ 10.3 million) and amortisation and depreciation (€ 6.6 million).

6.3.3 Reclassified Statement of Financial Position⁶⁷

(€ MILLION)	31.12.2019	31.12.2020	ABS. CHANGE
Fixed capital	5,636.2	6,201.2	565.0
Property, plant and equipment	15.8	15.8	0.0
Intangible fixed assets	9.9	13.5	3.6
Equity investments	2,993.8	2,994.6	0.8
Financial receivables held for operations	2,623.0	3,181.0	558.0
Net payables (receivables) relating to investment activities	(6.3)	(3.7)	2.6
Net working capital	(4.9)	(31.5)	(26.6)
Provisions for employee benefits	(17.8)	(15.0)	2.8
NET INVESTED CAPITAL	5,613.5	6,154.7	541.2
Shareholders' equity	1,705.0	1,708.9	3.9
Net financial debt	3,908.5	4,445.8	537.3
COVERAGE	5,613.5	6,154.7	541.2

Net invested capital amounted to € 6,154.7 million and rose by € 541.2 million compared to 31 December 2019, mainly due to the higher financial receivables instrumental to operations (€ 558.0 million), the increased value of intangible assets (€ 3.6 million) and the decrease in net debt relating to investment activities (€ 2.6 million).

Equity investments totalling € 2,994.6 million refer to the equity investments in the consolidated companies Italgas Reti, Italgas Acqua, Toscana Energia, Gaxa and Seaside (€ 2,836.8 million) and the equity investments in companies accounted for using the equity method (€ 157.8 million).

⁶⁷ Please see the "Non-GAAP Measures" section of this report for an illustration of methods adopted for the reclassified financial statements.

NET WORKING CAPITAL

(€ MILLION)	31.12.2019	31.12.2020	ABS. CHANGE
Tax receivables	55.4	55.8	0.4
Trade receivables	34.7	49.1	14.4
Other assets	6.2	4.5	(1.7)
Trade payables	(27.5)	(32.9)	(5.4)
Tax payables	(52.4)	(74.6)	(22.2)
Deferred tax assets	5.4	9.0	3.6
Provisions for risks and charges	(1.8)	(8.4)	(6.6)
Other liabilities	(24.9)	(34.0)	(9.1)
	(4.9)	(31.5)	(26.6)

Net working capital (€ 31.5 million) decreased by € 26.6 million compared to 31 December 2019, primarily as a result of: (i) the increase in net tax items (€ 18.2 million); (ii) the increase in trade receivables (€ 14.4 million) against the increase in provision of services to subsidiaries, such as ICT services; (iii) the decrease in other assets (€ 1.7 million); (iv) the increase in trade payables (€ 5.4 million) and (v) the increase in other liabilities (€ 9.1 million) primarily associated with IRS hedging transactions.

NET FINANCIAL DEBT

(€ MILLION)	31.12.2019	31.12.2020	CHANGE ABS.
Financial and bond debt	4,477.3	5,268.9	791.6
Short-term financial debt (*)	358.0	684.4	326.4
Long-term financial debt	4,106.6	4,571.6	465.0
Financial liabilities for leasing pursuant to IFRS 16	12.7	12.9	0.2
Financial receivables non-instrumental to operations and cash and cash equivalents	(568.8)	(823.1)	(254.3)
Financial receivables non-instrumental to operations	(418.9)	(166.0)	252.9
Cash and cash equivalents	(149.9)	(657.1)	(507.2)
Net financial debt	3,908.5	4,445.8	537.3
<i>of which financial liabilities pursuant to IFRS 16</i>	12.7	12.9	0.2
Net financial debt (excluding the effects pursuant to IFRS 16)	3,895.8	4,432.9	537.1

(*) Includes the short-term portion of long-term financial debt and financial debt to subsidiaries.

As of 31 December 2020, **net financial debt**, including the impacts of financial liabilities pursuant to IFRS 16 of € 12.9 million (€ 12.7 million in the corresponding period of 2019), amounted to € 4,445.8 million, up by € 537.3 million from 31 December 2019 (€ 3,908.5 million). Net of the impact of the application of IFRS 16, net financial debt amounted to € 4,432.9 million (€ 3,895.8 million as of 31 December 2019, up by € 537.1 million).

Financial and bond debt as of 31 December 2020 totalled € 5,268.9 million (€ 4,477.3 million as of 31 December 2019) and refer to: bonds (€ 3,854.5 million), loan agreements with the European Investment Bank (EIB) (€ 783.6 million), (iii) payables to banks (€ 617.9 million) and (iv) financial liabilities pursuant to IFRS 16 (€ 12.9 million).

The **financial receivables non-instrumental to operations** (€ 166.0 million) refer primarily to financial receivables due from subsidiaries paid through the intercompany current account.

As of 31 December 2020, the breakdown of debt by type of interest rate, including financial liabilities for leases pursuant to IFRS 16 is as follows:

(€ MILLION)	31.12.2019	%	31.12.2020	%
Fixed rate	4,026.6	89.9	4,527.0	85.9
Floating rate	450.7	10.1	741.9	14.1
	4,477.3	100.0	5,268.9	100.0

Fixed-rate financial liabilities amounted to € 4,527.0 million and refer to bonds (€ 3,854.5 million), financial liabilities pursuant to IFRS 16 (€ 12.9 million) and to two EIB loans: the first maturing in 2037 (€ 359.8 million), converted to fixed rate in January 2018 through an "Interest Rate Swap" derivative hedging contract expiring in 2024; the second maturing in 2032 (€ 299.8 million), converted to fixed rate in July 2019 through an "Interest Rate Swap" derivative hedging contract expiring in 2029.

Fixed-rate financial liabilities increased by € 500.4 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 stood at € 741.9 million and were up by € 291.2 million as a result of the increased use of bank credit lines (€ 291.2 million).

As of 31 December 2020, Italgas had unused committed credit facilities of € 500 million, maturing in October 2021.

As of 31 December 2020, there are no loan contracts in place containing financial covenants and/or backed by real guarantees. 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 of 31 December 2020, these commitments were respected.

6.3.4 Reclassified Statement of Cash Flows ⁶⁸

(€ MILLION)	2019	2020
Net profit	223.6	214.8
<i>Correction:</i>		
_ Amortisation, depreciation and other non-monetary components	8.1	6.6
_ Dividends, interest and income taxes	(236.7)	(225.9)
Change in working capital due to operating activities	0.0	19.6
Dividends, interest and income taxes collected (paid)	238.3	206.5
Cash flow from operating activities	233.3	221.6
Technical investments	(1.2)	(7.8)
Equity investments	(12.9)	0.0
Net financial investments instrumental to operations	(230.9)	(558.0)
Other changes related to investments activities	2.2	(2.6)
Free cash flow	(9.5)	(346.8)
Change in financial receivables not related to operations	(343.3)	252.9
Change in current and non-current financial debt	564.8	791.4
Reimbursements of financial liabilities for leased assets	(3.2)	(2.3)
Equity cash flow	(189.3)	(207.1)
Other changes relating to non-monetary components	0.0	19.1
Cash flow for the year	19.5	507.2

CHANGE IN NET FINANCIAL DEBT

(€ MILLION)	2019	2020
Free cash flow	(9.5)	(346.8)
Equity cash flow	(189.3)	(207.1)
Other changes relating to non-monetary components	0.0	19.1
Change in financial liabilities for leased assets	(0.4)	(2.5)
Change in net financial debt	(199.2)	(537.3)

⁶⁹ For the purposes of like-for-like comparison with the position reported for 2020, including the effects of the application of the IFRS 16 accounting standard, the 2019 flows were adjusted accordingly.

6.4 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. On 17 April 2020, the ESMA issued a document containing a few Q&As on the Non-GAAP measures in order to support issuers applying them in the context of the COVID-19 pandemic. Italgas did not consider it necessary to modify the Non-GAAP measures already adopted.

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

MAIN ALTERNATIVE PERFORMANCE INDICATORS

ALTERNATIVE ECONOMIC 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 EBITDA.
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.
Adjusted Earnings 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 net of connection contributions, equity investments and net debt relating to investment activities.
Net invested capital	A capital indicator that expresses net investments of an operating nature, represented by the sum of the values related to fixed capital, net working capital, provisions for employee benefits and assets held for sale and directly related 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 accounting standard.
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.
Free cash flow	The free cash flow representing the difference between the cash flow from operating activities and the net cash flow from investment activities.
Cash flow for the year	Represents the cash flow for the year and is the difference between the free cash flow and changes in financial payables and receivables for the year, including reimbursements for leased assets pursuant to IFRS 16.
Net financial debt	Determined as the sum of short- and long-term financial debt, financial liabilities for leases pursuant to IFRS 16 (gross financial debt) and cash and cash equivalents.

6.4.1 Reconciliation of the reclassified Income Statement, Statement of Financial Position and Statement of Cash Flows

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 Report on Operations, is provided below with the related legally required statements.

In compliance with the ESMA provisions for the taxonomy of ESEF (European Single Electronic Format) annual financial statements, a number of items in the balance sheet and income statement were reclassified, also readjusting the values as of 31 December 2019.

For more details, see the "Financial Statements" section of the notes to the consolidated financial statements and separate financial statements.

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

RECLASSIFIED INCOME STATEMENT

(€ MILLION)	REFEREN- CE TO THE EXPLANATORY NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS	2019			2020		
		FIGURES FROM MANDATORY STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEME	FIGURES FROM RECLASSIFIED STATEMENTS	FIGURES FROM MANDATORY STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS
Revenues (from mandatory statements)	(note 27)	1,893.4			2,127.3		
_ Revenues for construction and upgrading of distribution infrastructures IFRIC 12			(621.1)			(668.7)	
_ Release of connection contributions relating to the financial year			(16.2)			(19.5)	
_ Net income from Energy Efficiency Certificates			2.8			3.4	
_ Chargeback of Parco Russoli activities			(0.4)				
_ Income for seconded personnel			(0.6)			(0.2)	
Total revenue (from reclassified statements)				1,257.9			1,442.2
Operating costs (from mandatory statements)	(note 28)	(969.6)			(1,079.8)		

(€ MILLION)	REFEREN- CE TO THE EXPLANATORY NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS	2019			2020		
		FIGURES FROM MANDATORY STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEME	FIGURES FROM RECLASSIFIED STATEMENTS	FIGURES FROM MANDATORY STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS
_ Revenues for construction and upgrading of distribution infrastructures IFRIC 12			621.1			668.7	
_ Net income from Energy Efficiency Certificates			(2.8)			(3.4)	
_ Chargeback of Parco Russoli activities			0.4				
_ Income for seconded personnel			0.6			0.2	
Operating costs (from reclassified statements)				(350.4)			(414.3)
EBITDA				907.5			1,027.9
Amortisation, depreciations and impairment (from mandatory statements)	(note 29)	(407.8)			(444.2)		
_ Release of connection contributions relating to the financial year			16.2			19.5	
Amortisation, depreciations and impairment (from reclassified statements)				(391.5)			(424.6)
EBIT		516.0		516.0	603.3		603.3
Net financial expense	(note 30)	(69.3)		(69.3)	(49.2)		(49.2)
Net income from equity investments	(note 31)	100.8		100.8	1.5		1.5
Gross profit		547.5		547.5	555.6		555.6
Income taxes	(note 32)	(123.9)		(123.9)	(152.0)		(152.0)
Net profit (loss)	(note 33)	423.6		423.6	403.6		403.6

RECLASSIFIED STATEMENT OF FINANCIAL POSITION
(€ MILLION)

(WHERE NOT EXPRESSLY INDICATED, THE ITEM IS OBTAINED DIRECTLY FROM THE LEGALLY REQUIRED STATEMENT)	REFERENCE TO THE EXPLANATORY NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS	31.12.2019		31.12.2020	
		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 13)		350.0		369.9
Intangible assets, of which:			6,176.1		6,516.6
_ Intangible assets	(note 14)	6,732.0		7,060.1	
<i>from which to deduct Connection contributions</i>	(note 21)	(555.9)		(543.5)	
Participating interests, composed of:			33.7		34.2
_ Equity investments measured using the equity method	(note 15)	33.4		29.3	
_ Other investments	(note 16)	0.3		4.9	
Net payables relating to investment activities, composed of:			(225.0)		(208.6)
_ Payables for investment activities	(note 16)	(230.3)		(225.1)	
_ Receivables from investment/divestment activities	(note 9)	5.3		16.5	
_ Securities instrumental to operations	(note 16)		0.2		0.2
Total fixed capital (from reclassified statements)			6,335.0		6,712.3
Net working capital					
Trade receivables, of which:			432.3		462.2
Trade receivables	(note 9)	474.0		462.2	
<i>from which to deduct Receivables for safety incentives</i>		(41.7)		0.0	
Inventories	(note 10)		52.3		101.2
Tax assets, composed of:			87.7		64.4
_ Current and non-current income tax assets	(note 11)	23.0		7.6	
_ Other current tax assets	(note 12)	50.5		40.8	
_ IRES receivables for National Tax Consolidation Scheme	(note 9)	14.2		16.0	
Accruals and deferrals from regulated activities			127.0		202.8
Other assets, composed of:			147.6		148.3
_ Other receivables	(note 9)	41.3		99.5	
<i>to which to add Receivables for safety incentives</i>		46.7		0.0	
_ Other assets	(note 12)	57.2		48.8	

(WHERE NOT EXPRESSLY INDICATED, THE ITEM IS OBTAINED DIRECTLY FROM THE LEGALLY REQUIRED STATEMENT)	REFERENCE TO THE EXPLANATORY NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS	31.12.2019		31.12.2020	
		PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS
_ Other financial assets	(note 20)	2.4			
Trade payables, of which:			(288.1)		(303.0)
_ Trade payables	(note 19)	(299.1)		(303.0)	
<i>from which to deduct Payables for penalties</i>		11.0		0.0	
Provisions for risks and charges, of which:			(168.0)		(202.6)
_ Provisions for risks and charges	(note 22)	(169.6)		(202.6)	
<i>from which to deduct penalties</i>		1.6		0.0	
Deferred tax liabilities	(note 24)		(92.5)		(55.2)
Tax payables, composed of:			(11.1)		(45.0)
_ Current income tax liabilities	(note 11)	(1.7)		(35.9)	
_ Other tax liabilities	(note 21)	(9.3)		(9.0)	
_ Parent company's payables for liquidation of Group VAT	(note 21)	(0.1)		(0.1)	
Other liabilities, composed of:			(230.9)		(263.4)
_ Other payables	(note 19)	(197.3)		(239.4)	
<i>to which to add Payables for penalties</i>		(12.6)		0.0	
<i>from which to deduct Receivables for safety incentives</i>		(5.0)		0.0	
_ Other liabilities	(note 21)	(2.7)		(2.7)	
_ Other financial liabilities	(note 20)	(13.3)		(21.3)	
Total net working capital (from reclassified statements)			56.3		109.7
Provisions for employee benefits	(note 23)		(113.2)		(104.6)
Assets held for sale and directly related liabilities, composed of:			2.1		0.1
_ Assets held for sale	(note 17)	2.1		0.1	
NET INVESTED CAPITAL			6,280.2		6,717.5
Shareholders' equity including minority interests	(note 25)		(1,794.9)		(1,981.0)
Net financial debt					
Financial and bond debt, composed of:	(note 18)		(4,746.2)		(5,405.1)
_ Long-term financial liabilities		(4,200.1)		(4,651.1)	
Short-term financial liabilities, composed of:					
_ Short-term portions of long-term financial debt		(159.0)		(600.8)	

(WHERE NOT EXPRESSLY INDICATED, THE ITEM IS OBTAINED DIRECTLY FROM THE LEGALLY REQUIRED STATEMENT)	REFERENCE TO THE EXPLANATORY NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS	31.12.2019		31.12.2020	
		PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS
Short-term financial liabilities:			(312.4)		(76.9)
_ Short-term financial liabilities		(318.9)		(77.4)	
<i>from which to deduct Factoring transactions in transit</i>		6.5		0.5	
_ Financial liabilities for leasing pursuant to IFRS 16		(74.7)		(76.3)	
Financial receivables and cash and cash equivalents, composed of:			260.9		668.6
Cash:			255.8		663.5
_ Cash and cash equivalents	(note 7)	262.3		664.0	
<i>from which to deduct Factoring transactions in transit</i>		(6.5)		(0.5)	
Current financial assets, composed of:	(note 8)				
_ Financial receivables non-instrumental to operations		5.0		5.0	
_ Other financial assets held for trading or available for sale		0.1		0.1	
Total net financial debt (from reclassified statements)			(4,485.3)		(4,736.5)
COVERAGE			(6,280.2)		(6,717.5)

RECLASSIFIED STATEMENT OF CASH FLOWS (€ MILLION)

RECLASSIFIED STATEMENT OF CASH FLOWS ITEMS AND INTERSECTION OF LEGALLY REQUIRED STATEMENT ITEMS	2019			2020	
	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	OPERATING RECLASSIFICATIONS 2019	FIGURES FROM RECLASSIFIED STATEMENTS
Net profit		423.6			403.6
Correction:					
Amortisation, depreciation and other non-monetary components:		290.8			428.3
Amortisation and depreciation	405.9		443.3		
Net impairment of property, plant and equipment and intangible assets	1.9		0.9		
Contributions for connections - uses	(16.2)		(19.5)		
Effect of valuation using equity method	(100.8)		(1.5)		
Non-monetary items (stock grants)	0.0		5.1		

RECLASSIFIED STATEMENT OF CASH FLOWS ITEMS AND INTERSECTION OF LEGALLY REQUIRED STATEMENT ITEMS	2019			2020	
	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	OPERATING RECLASSIFICA- TIONS 2019	FIGURES FROM RECLASSIFIED STATEMENTS
Net capital losses (capital gains) on asset sales and eliminations		(4.4)			(1.1)
Interest, income taxes and other changes:		193.2			201.2
_ Interest income	(1.3)		(5.3)		
_ Interest expense	70.6		54.5		
_ Income taxes	123.9		152.0		
Change in working capital due to operating activities:		20.9			(110.8)
_ Inventories	(21.1)		(48.9)		
_ Trade receivables	(17.7)		11.9		(29.8)
				(41.7)	
_ Trade payables	43.3		3.9		14.9
				11.0	
_ Change to provisions for risks and charges	(32.2)		29.7		31.3
				1.6	
_ Other assets and liabilities	46.5		(99.8)		(69.7)
<i>from which to deduct Deferrals for connection contributions - increases</i>	(10.6)		(7.1)		
<i>from which to deduct Deferrals for connection contributions - uses</i>	16.2		19.5		
<i>from which to deduct effects of transactions to municipalities</i>	0.0		(10.6)		
Other changes	1.2		(0.8)		
				29.1	
Change in provisions for employee benefits	(4.7)		(8.6)		
Dividends, interest and income taxes collected (paid):		(209.7)			(176.2)
_ Dividends collected	14.2		7.4		
_ Interest income	1.3		1.4		
_ Interest paid	(70.6)		(48.3)		
_ Income taxes (paid) refunded	(154.6)		(136.7)		
Cash flow from operating activities		714.4			745.0
Technical investments:		(688.6)			(741.8)
_ Property, plant and equipment	(35.3)		(39.5)		
_ Intangible assets	(663.9)		(709.4)		

RECLASSIFIED STATEMENT OF CASH FLOWS ITEMS AND INTERSECTION OF LEGALLY REQUIRED STATEMENT ITEMS	2019			2020	
	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	OPERATING RECLASSIFICA- TIONS 2019	FIGURES FROM RECLASSIFIED STATEMENTS
_ Contributions for connections - increases	10.6		7.1		
Other changes relating to investment activities:		89.9			(5.2)
_ Change in payables relating to investment activities	89.9		(5.2)		
_ Other changes					
Disinvestments:		8.0			2.0
_ Property, plant and equipment	7.6		2.0		
_ Intangible assets	0.3		11.2		
_ Change in receivables relating to investment activities	0.1		(11.2)		
_ Other changes	0.0				
Free cash flow before M&A transactions		123.7			0.0
Change in scope of consolidation of which:		(96.4)			(4.4)
<i>price paid for equity</i>	(40.2)		(4.4)		
<i>assumption of the net debt of companies acquired</i>	(56.2)		0.0		
<i>Business units</i>		(25.0)			(9.7)
Free cash flow		2.3			(14.1)
Change in financial debt:		434.7			657.3
_ Change in short- and long-term financial debt	284.8		647.4		
_ Financial receivables	5.0		0.0		
Factoring	146.3		6.0		
Cash needs	(22.4)		0.0		
EGN debt	21.0		0.0		
Other changes relating to non-monetary items			3.9		
_ Disposals of interests		24.8			
_ Reimbursements of financial liabilities for leased assets		(17.2)			(24.1)
Equity cash flow		(196.8)			(211.4)
Cash flow for the year		247.8			407.7
Factoring		(146.3)			(6.0)
Cash needs		22.4			0.0
Other changes relating to non-monetary items					0.1
Net cash flow for the year	123.9			401.8	

Reconciliation between reclassified financial statements of Italgas S.p.A. and the legally required financial statements

RECLASSIFIED INCOME STATEMENT

(€ MILLION)	REFERENCE TO THE EXPLANATORY NOTES OF THE FINANCIAL STATEMENTS	2019			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
Revenues (from mandatory statements)	(note 24)	88.0			106.5		
_ Income for seconded personnel			(1.5)			(2.4)	
Total revenue (from reclassified statements)				86.5			104.1
Operating costs (from mandatory statements)	(note 25)	(86.0)			(111.0)		
_ Income for seconded personnel			1.5			2.4	
Operating costs (from reclassified statements)				(84.5)			(108.6)
EBITDA				2.0			(4.5)
Amortisation, depreciation and impairment	(note 26)	(5.4)		(5.4)	(6.6)		(6.6)
EBIT		(3.4)		(3.4)	(11.0)		(11.0)
Net financial expense		(22.5)		(22.5)	(17.5)		(17.5)
Net income from equity investments	(note 27)	246.1		246.1	239.7		239.7
Gross profit		220.2		220.2	211.1		211.1
Income taxes	(note 29)	3.5		3.5	3.7		3.7
Net profit (loss)		223.6		223.6	214.8		214.8

RECLASSIFIED STATEMENT OF FINANCIAL POSITION
(€ MILLION)

(WHERE NOT EXPRESSLY INDICATED, THE ITEM IS OBTAINED DIRECTLY FROM THE LEGALLY REQUIRED STATEMENT)	REFERENCE TO THE EXPLANATORY NOTES OF THE FINANCIAL STATEMENTS	31.12.2019		31.12.2020	
		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)		15.8		15.8
Intangible assets	(note 13)		9.9		13.5
Equity investments	(note 14)		2,993.8		2,994.6
Net payables relating to investment activities, composed of:			(6.3)		(3.7)
_ Payables for investment activities	(note 17)	(6.3)		(3.7)	
_ Financial receivables and securities instrumental to operations		0.0	2,623.0	0.0	3,181.0
Total fixed capital (from reclassified statements)			5,636.2		6,201.2
Net working capital					
Trade receivables	(note 9)		34.7		49.1
Tax assets, composed of:			55.4		55.8
_ Income tax assets	(note 10)	16.6		0.0	
_ Other current tax assets	(note 11)	38.8		30.2	
_ IRES receivables for National Tax Consolidation Scheme		0.0		25.6	
_ Group VAT receivables		0.0		0.0	
Deferred tax assets			5.4		9.0
Other assets			6.2		4.5
_ Other current and non-current assets	(note 11 and 19)	6.2		4.5	
Trade payables			(27.5)		(32.9)
Provisions for risks and charges	(note 20)		(1.8)		(8.4)
Deferred tax liabilities					
Tax payables, composed of:			(52.4)		(74.6)
_ Income tax liabilities	(note 10)	0.0		(26.6)	
_ Other current tax liabilities	(note 18)	(1.6)		(1.6)	
_ IRES payables for National Tax Consolidation Scheme	(note 17)	(16.6)		0.0	
_ Group VAT payables	(note 17)	(34.2)		(46.4)	
Other liabilities, composed of:			(24.9)		(34.0)
_ Other current and non-current liabilities	(note 19)	(24.9)		(34.0)	

(WHERE NOT EXPRESSLY INDICATED, THE ITEM IS OBTAINED DIRECTLY FROM THE LEGALLY REQUIRED STATEMENT)	REFERENCE TO THE EXPLANATORY NOTES OF THE FINANCIAL STATEMENTS	31.12.2019		31.12.2020	
		PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS
Total net working capital (from reclassified statements)			(4.9)		(31.5)
Provisions for employee benefits			(17.8)		(15.0)
NET INVESTED CAPITAL			5,613.5		6,154.7
Shareholders' equity including minority interests	(note 22)		(1,705.0)		(1,708.9)
Net financial debt					
Financial and bond debt, composed of:	(note 16)		(4,477.3)		(5,268.9)
_ Long-term financial liabilities		(4,106.6)		(4,571.6)	
_ Short-term portions of long-term financial debt		(31.3)		(66.5)	
_ Short-term financial liabilities		(326.7)		(617.9)	
_ Financial liabilities for leasing pursuant to IFRS 16		(12.7)		(12.9)	
Financial receivables and cash and cash equivalents, composed of:	(note 8)		568.8		823.1
_ Financial receivables non-instrumental to operations		418.9		166.0	
_ Cash and cash equivalents	(note 7)	149.9		657.1	
_ Other financial assets held for trading or available for sale					
Total net financial debt (from reclassified statements)			(3,908.5)		(4,445.8)
COVERAGE			(5,613.5)		(6,154.7)

RECLASSIFIED STATEMENT OF CASH FLOWS
(€ MILLION)

RECLASSIFIED STATEMENT OF CASH FLOWS ITEMS AND INTERSECTION OF LEGALLY REQUIRED STATEMENT ITEMS	2019		2020	
	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS
Net profit		223.6		214.8
<i>Correction:</i>				
Amortisation, depreciation and other non-monetary components:		8.1		6.6
_ Amortisation and depreciation	5.4		6.6	
_ Impairment of equity investments	2.7		0.0	
Interest, income taxes and other changes:		(236.7)		(225.9)
_ Dividends and other income from equity investments	(248.7)		(239.7)	
_ Interest income	(44.5)		(35.3)	
_ Interest expense	60.0		52.8	
_ Income taxes	(3.5)		(3.7)	
Change in working capital due to operating activities:		0.0		19.6
_ Trade receivables	(6.4)		(14.4)	
_ Trade payables	(2.3)		5.4	
_ Change to provisions for risks and charges	0.2		6.6	
_ Other assets and liabilities	(3.1)		25.7	
_ Other changes	0.0		(0.9)	
Change in provisions for employee benefits	11.6		(2.8)	
Dividends, interest and income taxes collected (paid):		238.3		206.5
_ Dividends and other income collected from equity investments	248.7		239.7	
_ Interest income	44.5		10.8	
_ Interest paid	(60.0)		(47.4)	
_ Income taxes (paid) refunded	5.1		3.4	
Cash flow from operating activities		233.3		221.6
Technical investments:		(245.0)		(565.8)
Property, plant and equipment	(0.6)		(0.6)	
Intangible assets	(0.6)		(7.2)	
Equity investments	(12.9)		(0.8)	
Financial receivables instrumental to operations	(230.9)		(558.0)	
Change in receivables relating to disinvestment activities		2.2		(2.6)

RECLASSIFIED STATEMENT OF CASH FLOWS ITEMS AND INTERSECTION OF LEGALLY REQUIRED STATEMENT ITEMS	2019		2020	
	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS	PARTIAL FIGURES FROM MANDATORY STATEMENTS	FIGURES FROM RECLASSIFIED STATEMENTS
Other changes			0.8	
Free cash flow		(9.5)		(346.8)
Change in financial receivables not related to operations		(343.3)		252.9
Change in financial debt:		564.8		810.5
_ Assumptions/Repayment of long-term financial debt	441.3		465.0	
_ Increase (decrease) in short-term financial debt	123.5		345.5	
_ Net contributions to equity				
Reimbursements of financial liabilities for leased assets		(3.2)		(2.3)
Equity cash flow		(189.3)		(207.1)
Cash flow for the year		19.5		507.2

6.5 OTHER INFORMATION

Treasury shares

The company did not own any treasury shares as of 31 December 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 pursuant to IFRS 10. In addition, through the Board of Directors' decision of 1 August 2019, CDP reclassified its investment in Italgas S.p.A. as a controlling interest pursuant to Article 2359, paragraph 1.2) of the Italian Civil Code and Article 93 of the Consolidated Finance Act. Italgas is not subject to management and coordination activities by CDP.

As of 31 December 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 financial statements.

Relations with Key Managers are shown in the paragraph "Operating costs" of the Notes to the consolidated financial statements.

Operating performance of subsidiaries

For information on the outlook of areas where Italgas operates in whole or in part through subsidiaries, please refer to "Operating performance" and "Comment on the economic and financial results" of this Report.

Branch offices

In compliance with Art. 2428, fourth paragraph of the Italian Civil Code, note that the Italgas does not have secondary offices. *secondarie*.

Research and development

Italgas' research and development activities are not relevant. For more details, please refer to the note to the consolidated financial statements.

Significant events after year end

The significant transactions carried out after 31 December 2020 are summarised below. The Integrated Annual Report was brought to the attention of the Company's Board of Directors and its publication was authorised on 10 March 2021. Therefore, this document does not recognise any events that occurred after that date.

CORPORATE TRANSACTIONS AND CONCESSIONS

The acquisition of Mediterranea Energia's business unit relating to the gas distribution concession in the Municipality of Olevano sul Tusciano was finalised on 28 January 2021, following the framework agreement signed between Italgas and CONSCOOP on 28 December 2018. The network spans around 26 kilometres, covering a potential catchment area of 2500 households overall. Following the aforesaid agreement, the parties agreed that by the deadline of 5 July 2021 and once certain conditions precedent have been met, Italgas will acquire the entire equity investment in Isgas 33, in which it currently holds a minority stake of 10%.

The public session on the "Open tender procedure for the concession of the natural gas distribution service in the **Napoli 1 - Città di Napoli e impianto costiero** ATEM was held on 29 January 2021. The tender committee announced that it would verify the appropriateness of the bids received and suspended tender operations pending the outcome of these checks.

On 4 March 2021, the **Municipality of Turin** contracting Authority **officially awarded Italgas Reti** the tender for the management of the natural gas distribution service in the territorial area of Turin 1, which encompasses the regional capital and the municipalities of Moncalieri, Grugliasco, Rivoli, Rivalta di Torino and Nichelino. The awarding of the ATEM, consisting of approximately 560 thousand users, allows the company to seamlessly continue managing the service in an area where it has operated since 1837 and for which an investment plan worth around € 330 million has been envisaged.

LEGAL AND REGULATORY

On 12 February 2021, the company contested **Resolution no. 550/2020/r/efr**, with which the tariff contribution for Energy Efficiency Certificates was determined for the year 2019. A date is yet to be set for the hearing on the merits.

Also, on 12 February 2021 and 18 February 2021, it **contested**, with two separate appeals, **Resolution no. 567/2020/R/gas**, challenging its lawfulness both with reference to the provisions for cancellation of premiums due for safety recoveries for the year 2017 and to provisions relating to the cancellation of premiums for the emergency intervention service for the year 2017. The setting of a date for the hearing is therefore currently pending.

On 18 February 2021, the Regional Administrative Court of Lombardy issued the ruling with which, without entering into the merits of the grounds for complaint reported by Italgas, it solely declared that **Resolution no. 270/2020/R/efr** did not violate the judgement of the previous Regional Administrative Court of Lombardy ruling no. 2358/2019 on EECs. The latter states that Italian Ministerial Decree of 10 May 2018, in the part where it set the cap on the tariff recognition of costs incurred for the purchase of certificates at € 250/EEC, unlawfully exceeded the tariff powers granted to ARERA. A new hearing will be scheduled to decide on the merits.

With Resolution no. 74/2021/S/gas of 2 March 2021, ARERA issued Italgas Reti a fine for € 500 thousand, deeming the company to be in breach of the Regulation of the Quality of Gas Distribution and Metering services for the 2014-2019 period, as well as of the Guidelines of the Italian Gas Committee, regarding the emergency intervention service. The company is considering appealing against the Resolution.

On 3 March 2021, with reference to the investigation launched against Italgas Reti for the alleged abuse of a dominant position in certain municipalities in the **Venice 1 ATEM**, the **AGCM** accepted the company's undertakings and **closed the investigation** without establishing any wrongdoing by the latter.

With reference to the rehearing before the Council of State requested by the municipalities belonging to the **Belluno ATEM** against ruling no. 1208 of 7 December 2020,

with which the Regional Administrative Court of Veneto declared the **appeal against the awarding of the tender to Italgas Reti to be inadmissible**, at the hearing of 4 March 2021, the Council of State took note of the waiving of the interlocutory application by the municipalities (the appellants), and set the date for the hearing on the merits at 7 October 2021.

OTHER EVENTS

On 5 February 2021, Italgas, implementing the EMTN Programme, successfully completed the launch of the fixed-rate 7- and 12-year **"dual tranche" bond issue**, both tranches at a fixed rate and for a total of **€ 500 million each**, with an annual coupon of 0% and 0.5% respectively.

On the same date, a **bond buyback transaction** was launched, relating to two bond issues - one for an original nominal value of € 750 million maturing in January 2022, and one for an original nominal value of € 650 million maturing in March 2024. The buyback was finalised on 15 February 2021 with a buyback percentage of more than 58% for the first and more than 20% for the second, and a total nominal value of around € 256.0 million.

On 10 March 2021, the Board of Directors resolved to propose the Annual General Meeting a **free capital increase through the issuance of a maximum number of 4,500,000 ordinary shares of the Company for a total nominal value of 5.580.000** reserved to the beneficiaries of the **Co-Investment Plan 2021-2023**.

Furthermore, it was executed the first tranche of the **free share capital increase** resolved by the Annual General Meeting of the shareholders on 19 April 2018 and reserved to the beneficiaries of the Co-Investment Plan 2018-2020 resolved in the same Meeting, for a maximum of 4,960,000 euros through the issuance of a maximum number of 4,000,000 ordinary shares to be attributed, in accordance to art. 2349 of Italian Civil Code, and recognizing the equivalent amount from the reserves accounted as income carried forward. The first tranche of said share capital increase was executed on 10 March 2021, following a resolution of the Board of Directors, **through the issuance of 632,852 ordinary shares of the Company for a nominal amount of 784,736,48 euros**, attributed to the beneficiaries of the **Co-Investment Plan 2018-2020**.

“INFORMATION ON THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)” TABLE



In 2020, the Group began improving its strategy for the fight against climate change, taking inspiration from the Financial Stability Board TCFD (Task Force on Climate-related Financial Disclosures) recommendations, which aim principally to guide the companies in providing their stakeholders with clear, comparable information on the risks and opportunities connected with climate change.

The contents of the table given below have been organised on the basis of four themed areas concerned by the TCFD recommendation: governance, strategy, risk management and metrics and objectives with a view to providing a clearer disclosure on such matters.

TCFD RECOMMENDATIONS	DISCLOSURE
GOVERNANCE (organisation’s governance model in connection with the risks and opportunities associated with climate change)	
a. Supervision of the Board of Directors on the risks and opportunities associated with climate change	<p>The Italgas Group has a specific governance model on sustainability topics, also with a view to monitoring the impacts of climate change on corporate operations. Thanks to the involvement of the top management in all strategic sustainability choices and the Italgas governance model, matters relating to climate change are given due consideration when defining the Group sustainability and strategic plan, in the risk management policies, in the definition of the organisation’s performance objectives and actions to monitor them.</p> <p>The Board of Directors, the Sustainability Committee and Control, Risk and the Related Party Transactions Committee are periodically informed as to aspects relating to climate change and the related initiatives.</p>
b. Role played by the management in assessing and managing the risks and opportunities associated with climate change	
STRATEGY (current or potential impacts of the risks and opportunities associated with climate change on the organisation’s business, strategy and financial planning)	
a. Risks and opportunities associated with climate change that the organisation has identified in the short-, medium- and long-term	<p>As reported in the table of the paragraph entitled “Risk Management” in this document, Italgas considers, in connection with the risks relating to climate change, both physical risks and risks of transition, assessing the relevant impact.</p> <p>Italgas puts sustainability firmly at the heart of its development model, a guiding element in defining strategic and operative choices to guarantee long-term growth. In the Strategic Plan, Italgas defines a macro-comprehensive scenario that includes contexts and trends of the Energy and Environmental Policies (decarbonisation - Paris Agreement, renewal sources, energy efficiency, sustainable mobility, Power to Gas and green gas) and presents its own Sustainability Plan. The Group’s strategy is developed consistently with the United Nations Sustainable Development Goals.</p> <p>The definition of the Strategy is also influenced by the periodic internal information, collecting and reporting process on current and forecast GHG emissions and other aspects relating to climate change (e.g. energy consumption).</p> <p>In recent years, Italgas’ corporate strategy has been increasingly influenced by climate change matters and various initiatives have been developed with a view to reducing GHG emissions (e.g. leak detection using Picarro technology, conversion of the corporate fleet to methane gas, green gas initiatives).</p> <p>In the short-term, the main elements impacting Italgas’ strategy development are the regulatory aspects of climate change such as the European policy objectives, whilst in the short/medium-term, the efficient procurement of natural gas, in order to reduce impacts on climate change.</p> <p>Italgas’ strategy is outlined in the 2020-2026 Strategic Plan, which also highlights and considers elements such as:</p> <ul style="list-style-type: none"> _ the role of gas in the decarbonisation process; _ the digital transformation and technological innovation that allow Italgas to also play a key role in the energy transition.
b. Impacts of the risks and opportunities associated with climate change on the organisation’s business, strategy and financial planning	
c. Resilience of the strategy of the organisation, taking into account different climate-related scenarios, including a scenario of 2°C or less.	

TCFD RECOMMENDATIONS	DISCLOSURE
RISK MANAGEMENT (how the organisation identifies, assesses and manages risks associated with climate change)	
a. Organisation's processes to identify and assess risks associated with climate change	The process of identifying, managing and monitoring risks and opportunities associated with climate change comes under the scope of the Enterprise Risk Management model described above.
b. The organisation's processes to manage risks associated with climate change	Risk reporting is shared/discussed with top management and the Control, Risk and Related Party Transactions Committee of Italgas, the Board of Statutory Auditors and the Supervisory Body to allow for assessments of the effectiveness of the Internal Control and Risk Management System.
c. How the processes of identifying, assessing and managing the risks associated with climate are integrated into the organisation's overall risk management	With reference to the risks connected with climate change and the related management methods, special reference is made to the risks of "Climate Change" and "Energy Efficiency Certificates" described in the table given in the paragraph on "Risk Management" in this document.
METRICS AND TARGETS (metrics and targets used by the organisation to assess and manage the relevant risks and opportunities associated with climate change)	
a. Metrics used by the organisation to assess the risks and opportunities associated with climate change in line with its risk management process and strategy	Italgas shows its commitment to aspects relating to climate change through the careful monitoring of its energy consumptions and emissions and the implementation of specific initiatives aimed at reducing greenhouse gas emissions and increasing its energy efficiency performance. Italgas monitors the following GHG emissions:
b. Scope 1, 2 and 3 greenhouse gas (GHG) emissions and related risks	<ul style="list-style-type: none"> _ Direct emissions (Scope 1): deriving from the civil consumption of gas, from industrial consumption of gas for preheating, from fuel consumptions for vehicles and grid losses ("fugitive emissions"); _ Indirect emissions (Scope 2): deriving from the consumption of electricity purchase and district heating;
a. Targets used by the organisation to manage the risks and opportunities associated with climate change and performance with respect to the targets	<ul style="list-style-type: none"> _ Other Indirect Emissions (Scope 3) deriving from business travel, outsourced activities (supply chain) and emissions relating to the production of energy purchased and consumed (fuel side, emissions linked to their extraction, production and transport; electricity side, emissions relating to the extraction, production and transport of the fuels used for generation and emissions relating to losses for transmission and distribution). <p>Italgas has set a target of -20% reduction by 2026 on 2020 for CO₂eq emissions.</p>

INDEPENDENT AUDITORS' REPORT RELATED TO THE CONSOLIDATED NON-FINANCIAL STATEMENT

Deloitte.

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

Tel: +39 02 83321111
Fax: +39 02 83322112
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267/2018

To the Board of Directors of
Italgas S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Italgas S.p.A. (the "Company") and its subsidiaries (hereinafter "Italgas Group" or "Group") as of December 31, 2020 prepared on the basis of art. 4 of the Decree, presented in the specific section of the Management Report and approved by the Board of Directors on March 10, 2021 (hereinafter "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and Global Reporting Initiative Sustainability Reporting Standards established by GRI – Global Reporting Initiative ("GRI Standards") which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

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 33.333.333,00 i.v.

Codice Fiscale/Partita IVA: 0309960156 - P.I.A. Milano n. 1720255 | Partita IVA: 112534560156

Il nome Deloitte al rinvio è a uno 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'informazione 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.



Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the *International Ethics Standards Board for Accountants*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies *International Standard on Quality Control 1 (ISQC Italia 1)* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the *"International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information"* (hereinafter *"ISAE 3000 Revised"*), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with Company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art.3 of the Decree and taking into account the adopted reporting standard;
2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;
3. comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Italgas Group;
4. understanding of the following matters:
 - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
 - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;

Deloitte.

- main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a) of this report;

5. understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out interviews and discussions with the management of Italgas S.p.A. and with the employees of the main legal entities of the Group and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the parent company and subsidiaries level:
 - a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
 - b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for subsidiaries Italgas S.p.A., Italgas Reti S.p.A. and Toscana Energia S.p.A., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out remote meetings, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

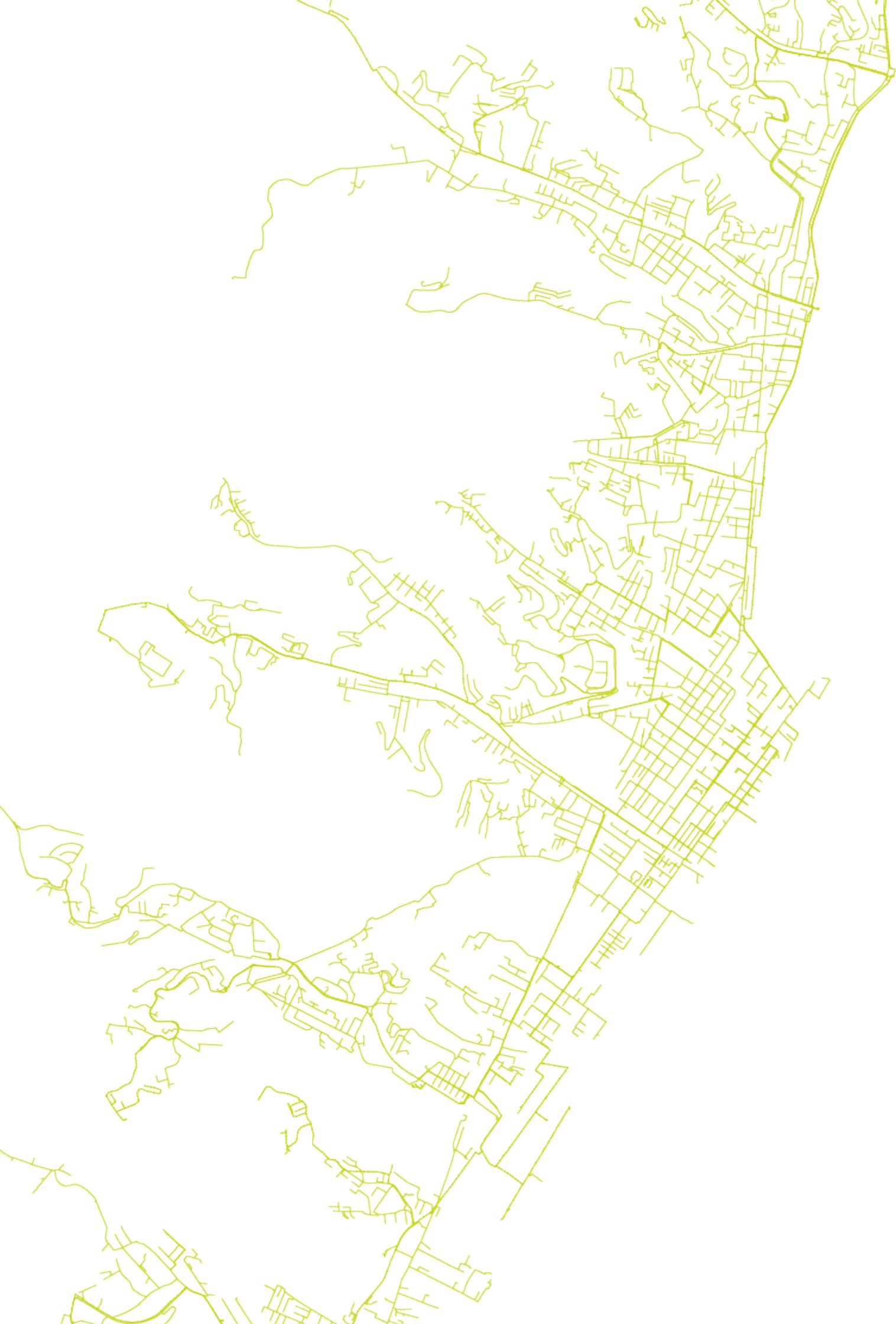
Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Italgas Group as of December 31, 2020 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and GRI Standards.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Amelio
Partner

Milan, Italy
March 25, 2021

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



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

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".
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).
Controllable fixed costs	Fixed operating costs of regulated activities, represented by the sum of "Total recurring personnel costs" and "Recurring external operating costs".
Covenants	<p>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.</p> <p>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.</p>
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.
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.
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.
R.O.E. (Return on equity)	Ratio between the net profit and shareholders' equity at the end of the period, able to express the return on own capital.

Core R.O.I. (Return on investment)	Ratio of EBIT and net invested capital at period end, net of equity investments, capable of expressing operating profitability, indicating the company's capacity to remunerate invested capital from the results of its core business activities.
Consolidated Finance Act (TUF)	Legislative Decree No. 58 of 24 February 1998, as amended.
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).

COMMERCIAL AND TECHNICAL TERMS

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.
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.
A TEM	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.
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.
White certificates	White Certificates, or Energy Efficiency Certificates (TEE) are tradable securities that certify the energy savings achieved in the end uses of energy by taking action to increase 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 eligible for the mechanism are entered in the Electronic Register of Energy Efficiency Certificates with the GME.
End user	The consumer who buys gas for their own use.
Network code	The document governing the rights and obligations of the parties involved in providing the gas distribution service.
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.

Local tender	The local tender is the sole tender procedure 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.
Gas distributed or circulated	Amount of gas delivered to users of the distribution network at the delivery points.
Italian Power Exchange (GME)	A joint stock company established by the GSE to which business management of the Electrical Energy Market was assigned according to criteria of transparency and objectiveness, with a view to promoting competition between producers and ensuring the availability of an adequate power reserve level. Previously known as the Italian 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 Environment Markets (energy efficiency certificates market and the origin guarantees market) and the spot and futures markets for natural gas, as part of the natural gas market (MGAS). In the context of regasification, it organises and manages the PAR platform.
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 shareholder rights with the Ministry of Economic Development. The GSE controls three companies: the Acquirente Unico (AU; Single Buyer), Gestore dei Mercati Energetici (GME; Energy Markets Operator) and Ricerca sul Sistema Energetico (RSE; Energy System Research).
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.
Regulatory period	This is the time period for which criteria are defined for setting tariffs for gas distribution services. The fourth regulatory period ended on 31 December 2019. The fifth regulatory period is now in progress, beginning on 1 January 2020 and ending on 31 December 2025.
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.
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.
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.
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.

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).
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.
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).
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).
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.

B.
**CONSOLIDATED
FINANCIAL
STATEMENTS**

Statement of Financial Position

(€ THOUSANDS)	NOTES	31.12.2019 RESTATED (*)		31.12.2020	
		TOTAL	OF WHICH, RELATED PARTIES	TOTAL	OF WHICH, RELATED PARTIES
ASSETS					
Current assets					
Cash and cash equivalents	(7)	262,237		664,026	
Current financial assets	(8)	5,119		5,120	
Trade and other receivables	(9)	585,230	232,308	635,028	253,182
Inventories	(10)	52,295		101,184	
Current income tax assets	(11)	23,046		4,251	
Other current financial assets	(20)	2,398			
Other current non-financial assets	(12)	54,789	10	84,168	5
		985,114		1,493,777	
Non-current assets					
Property, plant and equipment	(13)	350,001		369,899	
Intangible assets	(14)	6,731,989		7,060,110	
Equity investments valued using the equity method	(15)	33,374		29,301	
Non-current financial assets	(16)	479		5,072	
Non-current income tax assets	(11)			3,340	
Other non-current non-financial assets	(12)	129,421	545	167,441	674
		7,245,264		7,635,163	
Non-current assets held for sale	(17)	2,076		69	
TOTAL ASSETS		8,232,454		9,129,009	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(18)	581,157	521	698,406	536
Trade and other payables	(19)	726,714	15,059	767,555	25,963
Current income tax liabilities	(11)	1,708		35,934	
Other current financial liabilities	(20)	220		299	
Other current non-financial liabilities	(21)	9,461	177	9,118	175
		1,319,260		1,511,312	

(€ THOUSANDS)	NOTES	31.12.2019 RESTATED (*)		31.12.2020	
		TOTAL	OF WHICH, RELATED PARTIES	TOTAL	OF WHICH, RELATED PARTIES
Non-current liabilities					
Long-term financial liabilities	(18)	4,171,497	2,646	4,707,145	2,097
Provisions for risks and charges	(22)	169,563		202,617	
Provisions for employee benefits	(23)	113,197		104,622	
Deferred tax liabilities	(24)	92,484		55,215	
Other non-current financial liabilities	(20)	13,081		21,002	
Other non-current non-financial liabilities	(21)	558,433		546,054	
		5,118,255		5,636,655	
TOTAL LIABILITIES		6,437,515		7,147,967	
SHAREHOLDERS' EQUITY					
	(25)				
Share capital		1,001,232		1,001,232	
Reserves		135,134		139,821	
Profit (loss) carried forward		6,777		216,876	
Profit (loss) for the year		417,238		382,972	
Total Italgas shareholders' equity		1,560,381		1,740,901	
Minority interests		234,558		240,141	
TOTAL SHAREHOLDERS' EQUITY		1,794,939		1,981,042	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		8,232,454		9,129,009	

(*) for details on reconciliation with the 2019 restated figures, see point 4) Financial statements

Income Statement

(€ THOUSANDS)	NOTES	2019 RESTATED (*)		2020	
		TOTAL	OF WHICH, RELATED PARTIES	TOTAL	OF WHICH, RELATED PARTIES
REVENUE	(27)				
Revenue		1,820,020	808,606	2,058,442	853,432
Other revenue and income		73,419	12,209	68,844	9,516
		1,893,439		2,127,286	
OPERATING COSTS	(28)				
Costs for raw materials, consumables, supplies and goods		(143,054)	486	(123,896)	(3,716)
Costs for services		(481,547)	(2,967)	(535,589)	(2,661)
Costs for leased assets		(83,857)	(705)	(87,555)	(1,414)
Personnel cost		(239,544)		(268,164)	
Net provisions for risks and charges		(1,141)		(44,499)	
Net provisions for impairment		306		16	
Other expenses		(20,779)	1,478	(20,124)	(20,789)
		(969,616)		(1,079,811)	
AMORTISATION, DEPRECIATION AND IMPAIRMENT	(29)	(407,781)		(444,176)	
EBIT		516,042		603,299	
FINANCIAL INCOME (EXPENSE)	(30)				
Financial expense		(70,610)	(296)	(54,507)	(299)
Financial income		1,315	128	5,298	
		(69,295)		(49,209)	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS	(31)				
Effect of valuation using the equity method		14,883		1,466	
Other income (expense) from equity investments		85,897		49	
		100,780		1,515	
Gross profit		547,527		555,605	
Income taxes	(32)	123,928		151,979	
Net profit (loss) for the year		423,599		403,626	
Attributable to Italgas		417,238		382,972	

(€ THOUSANDS)	NOTES	2019 RESTATED (*)		2020	
		TOTAL	OF WHICH, RELATED PARTIES	TOTAL	OF WHICH, RELATED PARTIES
Minority interests		6,361		20,654	
Net earnings (loss) per share attributable to Italgas (€ per share)	(33)				
— basic and diluted		0.52		0.47	

(*) for details on the reconciliation with the 2019 restated figures, see point 4) Financial statements

Consolidated Statement of Comprehensive Income: attributable to the parent company and to minority interests

(€ THOUSANDS)	31.12.2019 RESTATED (*)			31.12.2020		
	ATTRIBUTABLE TO THE PARENT COMPANY	ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL	ATTRIBUTABLE TO THE PARENT COMPANY	ATTRIBUTABLE TO MINORITY INTERESTS	TOTAL
Net profit (loss) for the year	417,238	6,361	423,599	382,972	20,654	403,626
Other comprehensive income						
<i>Components reclassifiable to the income statement:</i>						
Change in fair value of cash flow hedge derivatives (Effective portion)	(4,178)		(4,178)	(10,320)		(10,320)
Tax effect	1,003		1,003	2,477		2,477
	(3,175)		(3,175)	(7,843)		(7,843)
<i>Components not reclassifiable to the income statement:</i>						
Actuarial gains (losses) from remeasurement of defined benefit plans for employees	(3,248)	(272)	(3,520)	(4,347)	(185)	(4,532)
Tax effect	916	77	993	1,196	52	1,248
	(2,332)	(195)	(2,527)	(3,151)	(133)	(3,284)
Total other components of comprehensive income, net of tax effect	(5,507)	(195)	(5,702)	(10,994)	(133)	(11,127)
Total comprehensive income for the year	411,731	6,166	417,897	371,978	20,521	392,499

(*) for details on the reconciliation with the 2019 restated figures, see point 4) Financial statements

Statement of changes in shareholders' equity

(€ THOUSANDS)	SHAREHOLDERS' EQUITY PERTAINING TO OWNERS OF THE PARENT												MINORITY INTERESTS	TOTAL SHAREHOLDERS' EQUITY
	SHARE CAPITAL	CONSOLIDATION RESERVE	SHARE PREMIUM RESERVE	LEGAL RESERVE	RESERVE FOR DEFINED BENEFIT PLANS FOR EMPLOYEES, NET OF TAX EFFECT	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		
Balance as at 31 December 2018 (a) (Note 25)	1,001,232	(323,907)	620,130	200,246	(10,730)	(4,943)	(349,854)	299	424	(117,245)	313,695	1,329,347		1,329,347
2019 profit for the year											417,238	417,238	6,361	423,599
Other components of comprehensive income:														
<i>Components reclassifiable to the income statement:</i>														
- change in fair value of cash flow hedge derivatives						(3,175)						(3,175)		(3,175)
<i>Components not reclassifiable to the income statement:</i>														
- Actuarial gains on remeasurement of defined-benefit plans for employees					(2,527)							(2,527)		(2,527)
- Share-based payments														
Total comprehensive income 2019 (b)					(2,527)	(3,175)					417,238	411,536	6,361	417,897
Transactions with shareholders:														
- Allocation of 2018 profit for the year										313,695	(313,695)			
- Allocation of Italgas SpA dividend for 2018 (€0.234 per share)										(189,338)		(189,338)		(189,338)
- Allocation of Italgas SpA residual profit for 2018														
- Stock grant reserve								870				870		870
- Change in scope of consolidation													228,197	228,197
Total transactions with shareholders (c)								870		124,357	(313,695)	(188,468)	228,197	39,729
Other changes in shareholders' equity (d)						(1)	15		8,287	(335)		7,966		7,966
Balance as at 31 December 2019 (e=a+b+c+d) (Note 25)	1,001,232	(323,907)	620,130	200,246	(13,257)	(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													MINORITY INTERESTS	TOTAL SHAREHOLDERS' EQUITY
	SHARE CAPITAL	CONSOLIDATION RESERVE	SHARE PREMIUM RESERVE	LEGAL RESERVE	RESERVE FOR DEFINED BENEFIT PLANS FOR EMPLOYEES, NET OF TAX EFFECT	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		
Balance as at 31 December 2019 (a) (Note 25)	1,001,232	(323,907)	620,130	200,246	(13,257)	(8,119)		(349,839)	1,169	8,711	6,777	417,238	1,560,381	234,558	1,794,939
2020 profit for the year												382,972	382,972	20,654	403,626
Other components of comprehensive income:															
<i>Components reclassifiable to the income statement:</i>															
- change in fair value of cash flow hedge derivatives						(7,843)							(7,843)		(7,843)
<i>Components not reclassifiable to the income statement:</i>															
- Actuarial gains on remeasurement of defined-benefit plans for employees					(3,151)								(3,151)	(133)	(3,284)
Total comprehensive income 2020 (b)					(3,151)	(7,843)						382,972	371,978	20,521	392,499
Transactions with shareholders:															
- Allocation of 2019 profit for the year											417,238	(417,238)			
- Allocation of Italgas SpA dividend for 2019 (€0.256 per share)											(207,139)		(207,139)		(207,139)
- Payment of share capital by minority shareholders														9,630	9,630
- Allocation of dividends to minority shareholders														(13,880)	(13,880)
- Stock grant reserve									4,466				4,466		4,466
Total transactions with shareholders (c)									4,466		210,099	(417,238)	(202,673)	(4,250)	(206,923)
Other changes in shareholders' equity (d)										11,215			11,215	(10,688)	527
Balance as at 31 December 2020 (e=a+b+c+d) (Note 25)	1,001,232	(323,907)	620,130	200,246	(16,408)	(15,962)		(349,839)	5,635	19,926	216,876	382,972	1,740,901	240,141	1,981,042

Cash flow statement

(€ THOUSANDS)	2019	2020
Profit (loss) for the year	423,599	403,626
Adjustments to reclassify net profit to cash flow from operating activities:		
Amortisation and depreciation	405,873	443,243
Net impairment of assets	1,908	933
Effect of valuation using the equity method	(14,883)	(1,466)
Other income from equity investments	(85,871)	(25)
Stock grant	896	5,153
Net capital losses (capital gains) on asset sales, cancellations and eliminations	(4,352)	(1,150)
Financial income	(1,315)	(5,298)
Financial expense	70,884	54,507
Income taxes	123,928	151,979
Changes in working capital:		
– Inventories	(21,089)	(48,889)
– Trade receivables	(17,739)	11,861
– Trade payables	43,330	3,931
– Provisions for risks and charges	(32,191)	29,720
– Other assets and liabilities	46,474	(99,840)
Cash flow from working capital	18,785	(103,217)
Change in provisions for employee benefits	(4,689)	(8,575)
Dividends collected	14,187	7,442
Financial income collected	1,315	1,381
Financial expense paid	(70,611)	(48,370)
Income taxes paid net of tax credits reimbursed	(154,632)	(136,656)
Net cash flow from operating activities	725,022	763,507
<i>of which, related parties</i>	658,755	823,973
Investments:		
– Property, plant and equipment	(35,321)	(39,502)
– Intangible assets	(663,974)	(709,394)

(€ THOUSANDS)	2019	2020
Change in scope of consolidation, business units and other	(60,226)	(19,775)
– Equity investments	(40,096)	(4,382)
– Change in payables and receivables for investments	89,865	(5,168)
Disinvestments:		
– Property, plant and equipment	7,501	2,492
– Intangible assets	340	13,501
– Change in receivables relating to disinvestment activities	80	(11,244)
Net cash flow from investment activities	(701,831)	(773,472)
<i>of which, related parties</i>	141,353	(520)
Long-term financial debt assumption	1,057,993	495,900
Repayment of long-term financial debt	(709,500)	(6,180)
Increase (decrease) in short-term financial payables	(58,750)	157,532
Capital contributions from third parties	10,953	9,630
Disposals of minority interests	24,857	
Dividends collected	(207,800)	(221,007)
Expense relative to Rights of use	(17,183)	(24,121)
Net cash flow from financing activities	100,570	411,754
<i>of which, related parties</i>	(74,883)	(82,478)
Net cash flow for the year	123,761	401,789
Opening cash and cash equivalents	138,476	262,237
Closing cash and cash equivalents	262,237	664,026

NOTES TO THE CONSOLIDATED 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 (RAB⁶⁹) 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 31 December 2020, CDP S.p.A. owns, via CDP Reti S.p.A.⁷⁰ 26.05% of the share capital of Italgas S.p.A.

Italgas S.p.A. it is not subject to management and coordination activities. Italgas S.p.A. exercises management and coordination activities for its subsidiaries pursuant to art. 2497 and ss. of the Civil Code.

1) Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) as well as the interpretive documents still in force issued by the IFRS Interpretations Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, before that, by the Standing Interpretations Committee (SIC). For sake of simplicity, all of the aforementioned standards and interpretations will hereafter be referred to as "IFRS" or "International Accounting Standards".

The consolidation principles and measurement criteria of the previous year are applied in the 2020 consolidated financial statements, except for the international accounting standards that came into force starting from 1 January 2020, which are described in the following section "Accounting principles and interpretations applicable from 2020" of said report.

The consolidated financial statements are prepared on a going-concern basis, using the historical cost method, taking into account value adjustments where appropriate,

with the exception of the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.

The consolidated financial statements as at 31 December 2020, approved by Italgas S.p.A.'s Board of Directors at the meeting of 10 March 2021, were subjected to an audit by Deloitte & Touche S.p.A., which - as the main auditor - is responsible for auditing the separate financial statements of Italgas S.p.A. and its subsidiaries.

The consolidated financial statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in thousands of Euro, unless otherwise specified.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BY THE IASB (INTERNATIONAL ACCOUNTING STANDARDS BOARD), APPROVED BY THE EUROPEAN UNION (EU) AND IN FORCE SINCE 1/1/2020

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

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 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. The company did not take advantage of this exemption.

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.

⁶⁹ 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.

⁷⁰ CDP S.p.A. holds 59.10%.

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 "material" in relation to the significance of information provided in accounting documents. It concludes that such information is significant if omitting, misstating or concealing 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 changes made did not significantly impact the Group's consolidated financial statements as at 31 December 2020.

NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED PREVIOUSLY AND APPROVED BY THE EUROPEAN UNION BUT NOT YET IN FORCE

On 25 June 2020, the IASB issued an amendment to IFRS 4 "Insurance Contracts" which made it possible to extend the date of exemption from application of IFRS 9 to contracts issued by insurance companies to the financial years following 1 January 2023.

This amendment, transposed by the EU on 15 December 2020 with publication in the Official Journal the next day, will be applicable from 1 January 2021.

The company does not expect any significant impacts on the Group's consolidated financial statements following application of the amendment.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPROVED BY THE EUROPEAN UNION AS AT THE DATE OF REFERENCE OF 31 DECEMBER 2020

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 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 25 June 2020, the IASB issued the document "Amendments to IFRS 17 Insurance Contracts". The main changes included:

- deferment of the initial application date of the IFRS 17 by two years (annual periods starting from 1 January 2023 or later);

- corresponding deferment of application of the IFRS 9 to insurance contracts from 1 January 2023;
- exclusion from the scope of application for specific contracts (e.g. those stipulated with credit cards that provide insurance coverage).

The changes to the IFRS 17 are effective for financial years starting on or after 1 January 2023. Early application is permitted.

On 27 August 2020, the IASB published the document “Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)”, which specified the effects on financial reporting in the event that, following the reform on IBOR interbank rates (e.g. LIBOR, EURIBOR and TIBOR), alternative reference rates are adopted in the measurement of financial instruments. In particular, it outlined how to implement the changes in the financial assets, financial liabilities, lease liabilities, accounting requirements for hedging operations and reporting requirements pursuant to IFRS 7. In summary, the effects on the financial assets, financial liabilities and lease liabilities are summarised in an amendment to the effective reference rate used in the measurements, whereas on the hedging instruments, the change from the IBOR to alternative reference rates does not cause an interruption to hedge accounting. The amendments are effective for financial years starting on or after 1 January 2021, with early application permitted.

The company does not expect the aforesaid standards and/or amendments to have any significant impacts on the Group’s consolidated financial statements.

CHANGE IN ACCOUNTING CRITERIA

The consolidation principles and measurement criteria explained in the latest Annual Report, to which the reader is referred, are applied in the 2020 consolidated financial statements, except for the international accounting standards that came into force starting from 1 January 2020, which were previously explained in the section “Accounting principles and interpretations applicable from 2020” of the same Annual Report.

2) Consolidation principles

The consolidated financial statements comprise the financial statements of Italgas S.p.A. and of the companies over which the Company has the right to exercise direct or indirect control, as defined by IFRS 10 – “Consolidated Financial Statements”. Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the affiliate;
- is entitled to receive a share of or is exposed to the variable profits and losses of the affiliate;
- is able to exercise power over the affiliate in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an affiliate depends.

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. as at 31 December 2020”, which is an integral part of these notes. All financial statements of consolidated companies close at 31 December and are presented in Euro.

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Figures relating to subsidiaries are included in the consolidated financial statements from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.

The assets, liabilities, income and expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders’ equity of each of the participated entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control.

The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders’ equity, the income statement and the statement of comprehensive income.

Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders’ equity pertaining to shareholders of the parent company and minority interests are adjusted to reflect the change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under shareholders’ equity pertaining to shareholders of the parent company.

Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders’ equity transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

EQUITY INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is a participated company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies but does not have control or joint control⁷¹. It is assumed that the investor has significant influence (unless there

⁷¹ Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

is proof to the contrary) if it holds, directly or indirectly through subsidiaries, at least 20% of the exercisable voting rights.

A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.

BUSINESS COMBINATIONS

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.

The shareholders' equity of these participated companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.

Where total control is not acquired, the share of shareholders' equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill (the "partial goodwill method"). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the "full goodwill method"). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (partial goodwill method or full goodwill method) is made based on each individual business combination transaction.

If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement.

When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

BUSINESS COMBINATIONS INVOLVING ENTITIES UNDER JOINT CONTROL

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as "business combinations of entities under common control". Such transactions do not fall within the scope of application of IFRS 3 and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired predating the transaction or, where available, at the values from the consolidated financial statements of the common ultimate parent. With regard to business transfers under common control, the transferee entity should record the business transferred at its historical book value increasing its shareholders' equity by this amount; the transferring entity will record the equity investment in the transferee entity for the same amount as the increase in the shareholders' equity of the latter.

This accounting treatment is based on the Preliminary Guidelines on IFRS (OPI 1 Revised) - "Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements" issued by Assirevi in October 2016.

INTRAGROUP TRANSACTIONS THAT ARE ELIMINATED IN THE CONSOLIDATION PROCESS

Unrealised gains from transactions between consolidated companies are derecognised, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they effectively represent impairment of the asset transferred.

3) Measurement criteria

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

Property, plant and equipment

Property, plant and equipment is recognised at the cost of purchase or production, including directly allocable ancillary costs needed to make the assets available for use. The cost also takes into account capitalised expense until such a time as the asset becomes operational, as well as any dismantling, restoration and reclamation expense in line with the provisions of IAS 37.

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/value of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses are posted to the income statement in the period when they are incurred.

If impairment indicators are present, the book value of property, plant and equipment is verified to identify any impairment (see the paragraph "Impairment of property, plant and equipment and intangible assets with a finite useful life" on page 220, for more details).

RIGHTS OF USE

The cost of the asset consisting of right of use comprises:

- a. the amount of the initial measurement of the liability of the lease;
- b. the payments due for the lease made on the date or before the starting date, net of lease incentives received;
- c. the initial direct costs incurred; and
- d. the costs for dismantling and restoring the site.

The liabilities of the leases include the following payments for the right of use of the underlying asset along the duration of the lease unpaid as at the starting date:

- a. the fixed payments, net of any lease incentives receivable;
- b. the variable payments due for the lease that depend on an index or rate;
- c. the amounts payable by way of warranties of the residual value;
- d. the price for exercising the right to purchase where there is the reasonable certainty of exercising the option; and
- e. the payments of lease termination penalties where lease termination is provided for.

The discount rate used is the embedded interest rate of the lease for the remaining duration of the lease, if such rate is not easy to determine, the marginal loan interest rate of the Group as at the recalculation date is used.

In determining the duration of the lease, the Group considered the presence of renewal and cancellation options respectively for the lessee, the lessor or both.

As the standard allows, the short-term leases and the leases for assets of a modest amount were excluded.

The duration of the lease is calculated by taking into account the non-voidable lease period, together with any periods covered by an option to extend the agreement if it is reasonably certain that this option will be exercised, or any period covered by an option to terminate the lease contract, if the Group deems it reasonably certain that such option will not be exercised.

In the event of any significant changes in events and circumstances under the Group's control that make it appropriate to change the assessment of the reasonable certainty of exercising the options, the Group will redetermine the duration of the lease.

After initial recognition, the right-of-use asset is adjusted to take into account (i) the amortization portions, (ii) any impairment losses and (iii) the related effects and any restatements of the leasing liability.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset. Depreciation starts when the asset is available and ready for use.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	ANNUAL DEPRECIATION RATE (%)
Land and building	
– Industrial buildings	2%
– Civil buildings	3%
Plant and equipment	
– Other plant and equipment	4%
Industrial and commercial equipment	
– Office furniture and machinery	12% - 33,3%
– Transportation vehicles	20% - 25%
Rights of use	duration of the lease agreement

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.

Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale" section).

Depreciation rates are reviewed each year and are altered if they do not adequately reflect the future benefits expected. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.

Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset, if lower.

INTANGIBLE ASSETS

Intangible assets are those assets without identifiable physical form which are controlled by the company and capable of producing future economic benefits, as well as goodwill, when purchased for consideration. Intangible assets are reported at the cost of purchase or internal production, when their use is likely to generate future benefits and the relative cost can be reliably determined.

They may not be revalued, even through the application of specific laws.

Development costs are only recognised as intangible assets when the Group can prove the technical feasibility of completing the intangible asset and can demonstrate that it has the ability, intention and available resources to complete the asset for use or sale. Research costs are recognised in the income statement.

Intangible fixed assets with a finite useful life are measured at cost, net of amortisation and accumulated impairment losses. Goodwill and other intangible assets with an

indefinite useful life are not subject to amortisation, but are tested at each reporting date, as provided for by IAS standard 36, to check for impairment losses to be reflected in the financial statements.

Intangible assets are eliminated at the time they are decommissioned, or when no future economic benefit is expected from their use; the related profit or loss is posted in the income statement.

SERVICE CONCESSION AGREEMENTS

Intangible assets include service concession agreements between the public and private sectors for the development, financing, management and maintenance of infrastructures under concession in which: (i) the grantor controls or regulates the services provided by the operator through the infrastructure and the related price to be applied; and (ii) the grantor controls any significant remaining interest in the infrastructure at the end of the concession by owning or holding benefits, or in some other way. The provisions relating to the service concession agreements are applicable for Italgas in its role as a public service distributor of natural gas and other gases, 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. They also apply to the integrated water service agreements.

The Group applies the intangible asset model as provided for by IFRIC 12 for the accounting of service concession agreements. The intangible asset is accounted for at the cost both on initial recognition and for subsequent recognition. Revenue and costs originating from network construction and other services are recognised and measured applying IFRS 15. Construction services and improvements carried out on behalf of the grantor are accounted for as changes to work in progress on order.

AMORTISATION OF INTANGIBLE ASSETS

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset. Amortisation starts when the asset is ready for use.

The amount to be amortised is the book value, reduced by the projected net realisable value at the end of the asset's useful life if this is significant and can be reasonably determined.

The table below shows the annual amortisation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	ANNUAL AMORTISATION RATE (%)
Patent rights and intellectual property rights	20% - 33,3%
Concession expenses	Depending on the duration of the agreement
Land and buildings (concession agreements)	
_ Industrial buildings	2,5% - 5%
_ Light constructions	9% - 10%
Plant and equipment (concession agreements)	
_ Gas distribution network	1,67% - 5%
_ Principal and secondary facilities	4% - 6%
_ Gas derivation plants	2% - 5,4%
Industrial and commercial equipment (concession agreements)	
_ Metering and control equipment	6,7% - 20%

CONTRIBUTIONS

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of the related assets.

Operating grants are recognised in the income statement on an accrual basis, consistent with the relative costs incurred.

IMPAIRMENT OF NON-FINANCIAL FIXED ASSETS

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value adjusted for disposal costs (see "Fair value measurement") or the value in use, whichever is greater.

As regards the value of the non-financial fixed assets falling within the scope of the regulated activities, the recoverable value is determined considering: (i) the amount quantified by the Authority based on the rules used to define the tariffs for provision of the services for which they are intended; (ii) any value that the group expects to recover from their sale or at the end of the concession governing the service for which they are intended; (iii) the cash flows expected from the use of

the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Similarly to what happens for the quantification of tariffs, also the quantification of the recoverable value of the assets falling within the scope of regulated activities takes place on the basis of current regulatory provisions.

With reference to non-financial fixed assets not falling within the scope of the regulated activities, the value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets ("cash-generating units" or CGUs).

The CGUs identified by the Group are the following: Natural gas distribution and measurement, Other gas distribution and measurement, Sale of other gases, Integrated water service, Various activities (Esco).

If the reasons for impairment losses no longer apply, the assets are revalued, and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

IMPAIRMENT OF GOODWILL, INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE AND INTANGIBLE ASSETS NOT YET AVAILABLE FOR USE

The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the level of the smallest aggregate, on the basis of which the Company's management directly or indirectly assesses the return on investment, including goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the CGU. Goodwill impairment losses cannot be reversed.

EQUITY INVESTMENTS VALUED USING THE EQUITY METHOD

Equity investments in joint ventures and associates are valued using the equity method.

In applying the equity method, equity investments are initially recognised at cost and subsequently adjusted

to take into account: (i) the participant's share of the results of operations of the affiliate after the date of acquisition, and (ii) the share of the other components of comprehensive income of the affiliate. Dividends paid out by the affiliate are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the "Consolidation principles" section).

In the case of assumption of an association (joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of revaluing the book value of the equity investments held prior to assumption of association (or joint control) is posted to the income statement, including any components recognised under other components of comprehensive income. When the transfer of equity investments entails loss of joint control or significant influence over the affiliate, the following are recognised in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of the booked amount transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the affiliate that will be taken to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria.

If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the book value with the related recoverable value determined using the criteria indicated in the section "Impairment of non-financial fixed assets".

When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under "Income (expense) from equity investments".

The parent company's share of any losses of the participated company, greater than the equity investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the participated company or, in any event, to covering its losses.

MINORITY INTERESTS

Financial assets representing minority interests, since they are not held for trading, are measured at fair value with the effects recognised in the income statement.

INVENTORIES

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisable value, which is the amount that the company expects to receive from their sale in the normal course of business.

The cost of natural gas inventories is determined using the weighted average cost method.

The value of obsolete and slow-moving inventories is written down in relation to the possibility of use or realisation, through the allocation of a specific obsolescence fund.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.

They are recorded at their nominal value, which corresponds to the fair value.

FINANCIAL INSTRUMENTS

Financial instruments are any contracts that give rise to a financial asset for one entity and a financial liability or equity instrument for another entity; they are recognised and measured in accordance with IAS 32 and IFRS 9.

FINANCIAL ASSETS - DEBT INSTRUMENTS

Depending on the characteristics of the instrument and of the business model adopted for its management, financial assets representing debt instruments are classified in the following three categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value with the effects recognised in the other comprehensive income components (hereinafter also referred to as OCI); (iii) financial assets measured at fair value with the effects recognised in the income statement.

Initial recognition is at fair value; for those trade receivables without a significant financial component, the initial recognition value is represented by the transaction price.

Following initial recognition, the financial assets that generate contractual cash flows representing only payments of capital and interest are measured at amortised cost if held with the aim of collecting their contractual cash flows (so-called hold to collect business model). Based on the amortised cost method, the initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording.

The receivables and other financial assets measured at amortised cost are presented in the balance sheet net of their provision for impairment losses.

The financial assets representing debt instruments whose business model includes both the possibility to collect contractual cash flows and the possibility to realise capital gains on transfers (so-called hold to collect and sell

business model) are measured at fair value with the effects recorded on OCI (hereinafter also FVTOCI).

In this case the fair value changes in the instrument are recognised in shareholders' equity amongst the other components of comprehensive income. The cumulative amount of the changes in fair value, recognised in the shareholders' equity provision that includes the other components of comprehensive income, is reversed to the income statement when the instrument is derecognised. The interest income, calculated using the effective interest rate, exchange rate differences and impairment losses, is recognised on the income statement.

A financial asset representing a debt instrument that is not measured at amortised cost or at FVTOCI is measured at fair value with the effects recognised in the income statement (hereinafter referred to as FVTPL).

When the purchase or sale of financial assets is made according to a contract requiring that the transaction be regulated and that the asset be delivered within a certain number of days, established by the market control Authorities or by market agreements (e.g. purchase of securities on regulated markets), the transaction is recognised on the settlement date.

Disposals of financial assets are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

IMPAIRMENT OF FINANCIAL ASSETS

Recoverability of the financial assets representing debt instruments not measured at fair value with effects on the income statement is measured on the basis of the so-called "expected credit loss model".

In particular, the expected losses are generally determined based on the product between: (i) the exposure to the counterparty net of the relevant mitigants (Exposure At Default, EAD); (ii) the probability that the counterparty does not meet its payment obligation (Probability of Default, PD); (iii) the estimate, in percentage terms, of the amount of credit that will be unable to be recovered in case of default (Loss Given Default, LGD) defined on the basis of prior experiences and possible attemptable recovery actions (e.g. out-of-court actions, legal disputes, etc.).

To this regard, to determine the probability of default of the counterparties the internal ratings already used for the assignment were adopted; the probability of default for the counterparties represented by state entities and in particular for the national oil companies, basically depicted by the probability of a late payment, is determined using the country risk premiums adopted to determine WACCs for the impairment of the non-financial assets as input.

For the retail customers not characterised by internal ratings, measurement of the expected losses is based on a matrix provision built by grouping, if advisable, the receivables in appropriate clusters to which impairment percentages defined on the basis of prior loss experience are applied. If necessary, those percentages are adjusted to take into account forward looking information on the credit risk of the counterparty or of clusters of counterparties.

FINANCIAL LIABILITIES

Financial liabilities other than derivative instruments, including financial payables, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as demonstrated in "Financial assets" above.

Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset in the balance sheet when there is the currently exercisable legal right to compensation and there is the intention of settling the transaction on a net basis (i.e. realizing the asset and at the same time extinguishing the liability).

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments, including embedded derivatives, are assets and liabilities recognised at fair value according to the criteria indicated under the following point "Fair value measurement".

As part of the strategy and objectives defined for risk management, defining transactions as hedging requires: (i) checking the existence of an economic ratio between hedged object and hedging instrument such as to achieve the offsetting of the relevant changes in value and that this offsetting ability is not invalidated by the counterparty's level of credit risk; (ii) the definition of a ratio consistent with the risk management objectives within the scope of the defined risk management strategy, taking the appropriate rebalancing actions if necessary. The changes introduced to the risk management objectives, the conditions previously specified for defining transactions as hedging not met, or implementation of rebalancing transactions bring about the total or partial prospective discontinuation of the hedging.

When the hedge derivatives cover the risk of change in the fair value of the instruments to be hedged (fair value hedge; e.g. hedging the variability of the fair value of fixed rate asset/liability), the derivatives are recognised at fair value with the effects recorded in the income statement; consistently, the hedged instruments are adjusted to reflect the changes in fair value associated with the hedged risk in the income statement, regardless of the forecast of a different measurement criterion usually applicable to the type of instrument.

When the derivatives cover the risk of change in the cash flows of the hedged instruments (cash flow hedge; e.g. hedging the variability of the asset/liability cash flows due to fluctuations in interest rates or exchange rates), the changes in fair value of the derivatives considered effective are initially recognised in the shareholders' equity provision pertaining to the other components of comprehensive income and afterwards recorded in the income statement in line with the economic effects generated by the hedged transaction. In the case of hedging future transactions

involving the recognition of a non-financial asset or liability, the cumulative changes in the fair value of the hedge derivatives recognised in the shareholders' equity are recorded to adjust the book value of the asset/liability of the non-financial asset/liability hedged (basis adjustment).

The non-effective portion of the hedge is recognised in the income statement item "Financial (expense)/income".

The changes in the fair value of the derivatives that do not meet the conditions to be defined as hedging, including any ineffective components of the hedge derivatives, are recorded in the income statement. Specifically, the changes in fair value of the non-hedge derivatives on interest rates and currencies are recognised in the income statement item "Financial (expense)/income".

The embedded derivatives incorporated in financial assets are no longer separated in accounting; in this case, the entire hybrid instrument is classified based on the general financial asset classification criteria. The embedded derivatives incorporated in financial liabilities and/or non-financial assets are separated by the main contract and are recognised separately if the embedded instrument: (i) meets the definition of derivative; (ii) as a whole is not measured at fair value with the effects recognised in the income statement (FVTPL); (iii) if the characteristics and risks of the derivative are not closely tied to those of the main contract. The existence of embedded derivatives to separate and measure separately is checked when the company joins the contract and afterwards when there are amendments to the conditions of the contract that bring about significant changes in the cash flows it generates.

FAIR VALUE MEASUREMENT

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by putting the asset to its highest and best use or by selling it to another market participant capable of using it in such a way as to maximise its value. The maximum and best use of an asset is determined from the perspective of market operators, also hypothesising that the company intends to put it to a different use; the current use by the company of a non-financial asset is assumed to be the maximum and best use of this asset, unless the market or other factors suggest that a different use by market operators would maximise its value.

The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The fair value of the financial instruments is

determined considering the credit risk of the counterparty of a financial asset ("Credit Valuation Adjustment" - CVA) and the risk of default by the same entity with reference to a financial liability ("Debit Valuation Adjustment" - DVA).

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: inputs represented by (unmodified) quoted prices on active markets for assets or liabilities identical to those that can be accessed as at the valuation date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs that cannot be observed for the asset or liability.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable, and the asset or discontinued operations are available for immediate sale in their current condition. In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that affiliate are classified as held for sale, regardless of whether a non-controlling investment is maintained following the sale. Checking that the conditions required to classify an item as held for sale requires that the Company's management made subjective assessments and formulate reasonable and realistic assumptions based on the information available.

Non-current assets held for sale, current and non-current assets related to disposal groups and directly associated liabilities are recognised in the Statement of Financial Position separately from the Company's other assets and liabilities.

The assets and liabilities falling within a disposal group are measured according to the accounting standards applicable to them right before being classified as held for sale. Afterwards, the non-current assets held for sale and non-current assets in disposal groups are not amortised or depreciated and are measured at the lower between the book value and the related fair value, less any sales costs (please refer to the forgoing point "Fair value measurement").

The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.

Any negative difference between the book value of the non-current assets and the fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year.

Provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at a value representing the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits deriving from the contract, and the cost to terminate the contract.

When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".

When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset and posting to the income statement is accomplished through amortisation. The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.

Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.

The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

PROVISIONS FOR EMPLOYEE BENEFITS

POST-EMPLOYMENT BENEFITS

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as “defined-benefit” or “defined-contribution” plans.

– Defined-benefit plans

The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accrual basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in “Financial income (expense)”.

– Defined-contribution plans

In defined-contribution plans, the Company's obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.

The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

OTHER LONG-TERM PLANS

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

DISTRIBUTION OF DIVIDENDS

The distribution of dividends to the Company's Shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company's Shareholders or, in the case of interim dividends, by the Board of Directors.

REVENUE

The recognition of revenue from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the price of the transaction; (iv) allocation of the price of the transactions to the performance obligations identified based on the standalone selling price of each good or service; (v) recognition of the revenue when its performance obligation has been met, or when the promised good or service is transferred to the customer; the transfer is considered completed when the customer gains control of the good or service, which can occur over time or at a specific point in time.

As regards the activities carried out by the Italgas Group, revenue is recognised when the service is provided. The largest share of revenue relates to regulated activities, the income from which is governed by the regulatory framework established by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, 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 and metering 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)⁷².

Allocations of revenue relating to services partially rendered are recognised by the fee accrued, as long as it is possible to reliably determine the stage of completion and there are no significant uncertainties over the amount and the existence of the revenue and the relative costs; otherwise they are recognised within the limits of the actual recoverable costs.

Items of property, plant and equipment not used in concession services, transferred from customers (or realised with the cash transferred from customers) and depending on their connection to a network for the provision of supply, are recognised at fair value as a contra-entry to revenue in the income statement. When the agreement stipulates the provision of multiple services (e.g. connection and supply of goods), the service for which the asset was transferred from the customer is checked and, accordingly, the disclosure of the revenue is recognised on connection or for the shorter of the term of the supply and the useful life of the asset.

Revenue is recorded net of returns, discounts, allowances and bonuses, as well as directly related taxes.

Revenue is reported net of 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 Energy and Environmental Services Fund (CSEA). Gross and net presentation of revenue is described in more detail in the Notes to the consolidated financial statements (see “Revenue” note).

⁷²Law No. 208 of 28 December 2015 (2016 Stability Law) makes provision, in Article 1, paragraph 670, for the transformation of the Cassa Conguaglio per il Settore Elettrico (CCSE) into a state-controlled Cassa per i Servizi Energetici e Ambientali (CSEA) as of 1 January 2016. The transformation of the CCSE into a state-controlled company and the change of name do not, in any way, either cause discontinuity in the functional relations of the CSEA (formerly the CCSE) with regulated parties or with suppliers.

Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue and costs.

DIVIDENDS RECEIVED

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

COSTS

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

ENERGY EFFICIENCY CERTIFICATES

The Energy Efficiency Certificates purchased during the year are entered in the income statement at the cost borne. The relevant contribution that CSEA will pay at the time the certificates are cancelled is booked as a reduction of the cost borne and is calculated based on the repayment price scheduled at year-end. A special risk provision is allocated to cover the future expected charges to fulfil the year's objective calculated as the difference between the cost to be borne and its cancellation contribution.

INCOME TAXES

Current income taxes are calculated by estimating the taxable income. Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/recovered to/from the tax Authorities under the prevailing tax regulations and rates or those essentially approved at the reporting date.

Regarding corporation tax (IRES), Italgas has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up. The projected payable is recognised under "Current income tax liabilities".

The regulations governing Italgas Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Italgas. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;

- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate financial statements, receive from their shareholders - in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability - or from Italgas in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

Regional production tax (IRAP) is recognised under the item "Current income tax liabilities" / "Current income tax assets".

Deferred income tax assets and liabilities are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates or those essentially approved for future years. Deferred tax assets are recognised when their recovery is considered probable; specifically, the recoverability of deferred tax assets is considered probable when taxable income is expected to be available in the period in which the temporary difference is cancelled, allowing the activation of the tax deduction. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset. The balance of the offsetting, if it results in an asset, is recognised under the item "Deferred tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

Income tax assets with elements of uncertainty are recognised when they are regarded as likely to be obtained.

OPERATING SECTORS

The Group mainly operates in gas distribution and metering, and on a residual basis in the distribution, metering and sale of gases other than natural gas (LPG and propane air) and the integrated water service; owing to the irrelevance of this residual line of business, a single operating sector was identified pursuant to IFRS 8, which is gas distribution and metering.

4) Financial Statements

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of financial statements" (hereinafter "IAS 1"). In particular:

- the Statement of Financial Position items are broken down into assets and liabilities, and then further into "current or non-current items"⁷³;

⁷³ The assets and liabilities are classified as current if: (i) their realisation/settlement is expected in the company's normal operating cycle or within twelve months after the financial year-end; (ii) they are composed of cash or cash equivalents which do not have restrictions on their use over the twelve months following the year-end date; (iii) they are mainly held for trading purposes; or (iv) with reference to liabilities, the company does not have the unconditional right to defer settlement of the liability for at least twelve months from the financial year closing date.

- the Income Statement classifies costs by type, since this is deemed to be the best way of representing the Group’s operations and is in line with international best practice;
- the Statement of Comprehensive Income shows the profit or loss in addition to the income and expense recognised directly in shareholders’ equity as expressly provided for by the IFRS;
- the Statement of Changes in Shareholders’ Equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in Shareholders’ equity;
- the Statement of Cash Flows is prepared using the “indirect” method, adjusting the profit for the year of non-monetary components.

It is believed that these statements adequately represent the Group’s situation with regard to its Statement of Financial Position, Income Statement and Statement of Cash Flows.

Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement.

With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in the note “Related party transactions”, are shown separately in the financial statements.

For improved presentation of financial reporting, also aimed at progressive alignment with the IFRS Taxonomy published by the IFRS Foundation, some Balance Sheet and Income Statement items have been reclassified as shown below.

BALANCE SHEET

(€ THOUSANDS)	31.12.2019			RESTATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	RESTATEMENT VALUE 2019	
ASSETS				ASSETS
Current assets				Current assets
Cash and cash equivalents	262,237		262,237	Cash and cash equivalents
Other financial assets measured at fair value with effects on OCI	119	(119)		
Other financial assets	5,000	(5,000)		
		5,119	5,119	Current financial assets
Trade and other receivables	585,230		585,230	Trade and other receivables
Inventories	52,295		52,295	Inventories
Current income tax assets	23,046		23,046	Current income tax assets
Reclassification from other current assets		2,398	2,398	Other current financial assets
Other current tax assets	50,423	(50,423)		
Reclassification in other current assets		50,423		

(€ THOUSANDS)	31.12.2019			RESTATED STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	RESTATED STATEMENT VALUE 2019	
Other current assets	6,764	(2,398)		
			54,789	Other current non-financial assets
	985,114		985,114	
Non-current assets				Non-current assets
Property, plant and equipment	350,001		350,001	Property, plant and equipment
<i>of which related to Right of Use (*)</i>	75,790			
Intangible assets	6,731,989		6,731,989	Intangible assets
Equity investments valued using the equity method	33,374		33,374	Equity investments valued using the equity method
Other equity investments	324	(324)		
Other financial assets	155	(155)		
Reclassification in Non-current financial assets		479	479	Non-current financial assets
Deferred tax assets				Deferred tax assets
Other non-current assets	129,421		129,421	Other non-current non-financial assets
	7,245,264		7,245,264	
Non-current assets held for sale	2,076		2,076	Non-current assets held for sale
TOTAL ASSETS	8,232,454		8,232,454	TOTAL ASSETS
LIABILITIES AND SHAREHOLDERS' EQUITY				LIABILITIES AND SHAREHOLDERS' EQUITY
Current liabilities				Current liabilities
Short-term financial liabilities	408,638			
Short-term portions of long-term financial liabilities	172,519	(172,519)		
<i>of which related to Right of Use (*)</i>	17,572			
Restated short-term financial liabilities		172,519		
			581,157	Short-term financial liabilities
Trade and other payables	726,714		726,714	Trade and other payables
Current income tax liabilities	1,708		1,708	Current income tax liabilities
Other current tax liabilities	9,335	(9,335)		
Other current liabilities	346	(346)		
		9,461	9,461	Other current non-financial liabilities

(€ THOUSANDS)	31.12.2019			RESTATED STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	RESTATED STATEMENT VALUE 2019	
Restated other current financial liabilities		220	220	Other current financial liabilities
	1,319,260		1,319,260	
Non-current liabilities				
Long-term financial liabilities	4,171,497		4,171,497	Long-term financial liabilities
<i>of which related to Right of Use (*)</i>	57,078			
Provisions for risks and charges	169,563		169,563	Provisions for risks and charges
Provisions for employee benefits	113,197		113,197	Provisions for employee benefits
Deferred tax liabilities	92,484		92,484	Deferred tax liabilities
Other non-current liabilities	571,514	(571,514)		
Reclassification from Other non-current liabilities		13,081	13,081	Other non-current financial liabilities
Reclassification from Other non-current liabilities		558,433	558,433	Other non-current non-financial liabilities
	5,118,255		5,118,255	
TOTAL LIABILITIES	6,437,515		6,437,515	TOTAL LIABILITIES
SHAREHOLDERS' EQUITY				SHAREHOLDERS' EQUITY
<i>Italgas shareholders' equity</i>				<i>Italgas shareholders' equity</i>
Share capital	1,001,232		1,001,232	Share capital
Reserves	141,911		141,911	Reserves
Profit (loss) for the year	417,238		417,238	Profit (loss) for the year
Total Italgas shareholders' equity	1,560,381		1,560,381	Total Italgas shareholders' equity
Minority interests	234,558		234,558	Minority interests
TOTAL SHAREHOLDERS' EQUITY	1,794,939		1,794,939	TOTAL SHAREHOLDERS' EQUITY
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,232,454		8,232,454	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

(*) the "of which related to Right of Use" is analysed in detail in the subsequent note corresponding to the item in the financial statements.

INCOME STATEMENT

(€ THOUSANDS)

2019 FINANCIAL STATEMENTS ITEMS	2019			RESTATEMENT STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	2019 RESTATEMENT VALUE	
REVENUE				REVENUE
Core business revenue	1,820,020		1,820,020	Revenue
Other revenue and income	72,815			
Reclassified income from seconded personnel		604		
			73,419	Other revenue and income
	1,892,835		1,893,439	
OPERATING COSTS				
Purchases, services and other costs	(729,838)			
Reclassified costs for raw materials, consumables, supplies and goods		(164,143)		
Reclassified changes to raw materials, consumables, supplies and goods		21,089		
			(143,054)	Costs for raw materials, consumables, supplies and goods
Reclassified costs for services		(481,313)		
Reclassified costs from personnel received on loan		(234)		
			(481,547)	Costs for services
Reclassified costs for leased assets		(83,857)	(83,857)	Costs for leased assets
Labour cost	(239,174)	(239,174)		
Reclassified income from seconded personnel		(604)		
Reclassified costs from personnel received on loan		234		
			(239,544)	Personnel cost
Reclassified net provisions for risks and charges		(1,141)	(1,141)	Net provisions for risks and charges
Reclassified net provisions for impairment		306	306	Net provisions for impairment
Reclassified other expenses		(20,779)	(20,779)	Other expenses
	(969,012)		(969,616)	
AMORTISATION, DEPRECIATION AND IMPAIRMENT	(407,781)		(407,781)	AMORTISATION, DEPRECIATION AND IMPAIRMENT
<i>of which amortisation of Right of Use</i>	15,218			

2019 FINANCIAL STATEMENTS ITEMS	2019			RESTATEMENT STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	2019 RESTATEMENT VALUE	
EBIT	516,042		516,042	
FINANCIAL INCOME (EXPENSE)				FINANCIAL INCOME (EXPENSE)
Financial expense	(70,610)		(70,610)	Financial expense
<i>_ of which financial expense Right of Use (*)</i>	<i>(273)</i>			
Financial income	1,315		1,315	Financial income
Derivative financial instruments				Derivative financial instruments
	(69,295)		(69,295)	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS				INCOME (EXPENSE) FROM EQUITY INVESTMENTS
Effect of valuation using the equity method	14,883		14,883	Effect of valuation using the equity method
Other income (expense) from equity investments	85,897		85,897	Other income (expense) from equity investments
	100,780		100,780	
Gross profit	547,527		547,527	Gross profit
Income taxes	123,928		123,928	Income taxes
Net profit (loss) for the year	423,599		423,599	Net profit (loss) for the year
Attributable to Italgas	417,238		417,238	Attributable to Italgas
Minority interests	6,361		6,361	Minority interests
Net earnings (loss) per share attributable to Italgas (€ per share)				Net earnings (loss) per share attributable to Italgas (€ per share)
<i>_ basic and diluted</i>	<i>0.52</i>		<i>0.52</i>	<i>_ basic and diluted</i>

(*) the "of which related to Right of Use" is analysed in detail in the subsequent note corresponding to the item in the financial statements.

DEFERRED IMPLEMENTATION OF THE ESEF REGULATION ON THE TAGGING OF CONSOLIDATED FINANCIAL STATEMENTS OF LISTED COMPANIES

In view of the difficulties facing the business world due to the crisis caused by the COVID-19 pandemic, in mid-February, the European Parliament and European Council approved an amendment to the Transparency Directive, enabling Member States to postpone by one year the obligation to publish financial reports using the aforesaid European single electronic format.

In order to take advantage of the aforesaid extension, Article 3, paragraph 11-sexies of the conversion law (Senate Deed no. 2101) of the "Milleproroghe" Decree (Decree-Law no. 183 of 31 December 2020), in the final text approved by the Chamber of Deputies and the Senate of the Republic, states that the provisions of the ESEF Regulation shall apply to financial reports relating to financial years starting from 1 January 2021.

5) Use of estimates

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are given below about the main accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on results of subsequent years.

IMPAIRMENT OF ASSETS

Measurement of tangible and intangible assets, including goodwill, requires recording of these in the financial statements for a value no higher than their recoverable value (so-called Impairment test).

To determine the recoverable value, the Group generally applies the value in use criterion. Value in use is defined as:

- i. The estimated value of Net Invested Capital updated to the balance sheet date attributed to these assets for tariff purposes (RAB - Regulatory Asset Base) by ARERA, net of the flat-rate components, employee severance pay and contributions received. RAB is the reference basis for determining the service tariffs and, therefore, the cash flows generated from assets⁷⁴. The RAB value is defined using the revalued historical cost method for Fixed Capital and on a flat-rate basis for Working Capital and employee severance pay;
- ii. The reimbursement value (RV) for ATEM tenders. The RV is the amount to be paid to the operator selling the infrastructure following the tender procedure;
- iii. the present value of the future cash flows expected to be derived from the asset being measured. These flows are determined in line with the most recent business plan approved by management, which is based not only on developments in the regulations, but also on estimates relating to reference market trends and investment and divestment decisions. In the process of determining the recoverable value, flows are discounted at a discount rate that reflects current market conditions, the time value of money and the specific risks of the asset.

More information on the impairment test carried out by the Company's management on property, plant and equipment and on intangible assets can be found in the "Impairment of non-financial fixed assets" section.

The recoverable value is sensitive to the estimates and assumptions used to determine the total invested capital, cash flows and discount rates applied. Therefore, possible variations in the estimation of the factors on which the calculation of the aforesaid recoverable values is based could result in different measurements.

Analysis of each of the groups of non-financial assets is unique and requires use by the company's management of estimates and assumptions considered prudent and reasonable in relation to the specific circumstances.

BUSINESS COMBINATIONS

Recognition of business combination transactions requires determination of the fair value of any assets and liabilities acquired as a result of obtaining control of the business. With the help of independent professionals, the company's

management measured the fair value of assets, liabilities and potential liabilities, on the basis of information on facts and circumstances available at the acquisition date.

Determination of the fair value of assets and liabilities acquired is subject to estimates and measurements by the company's management. Possible variations in the estimation of the factors on which determination of the fair value is based could generate different measurements.

Analysis of each business combination transaction is unique and requires use by the company's management of estimates and assumptions considered prudent and reasonable in relation to the specific circumstances.

ENVIRONMENTAL LIABILITIES

The Italgas Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out.

The measurement of future liabilities in connection with reclamation and restoration obligations in relation to sites and/or land on which the company carries out its business is a complex process based on technical and financial assumptions made by the company's management and supported by independent experts where necessary.

The restoration cost estimate is discounted using a risk-free rate in accordance with IAS 37. The estimate is made using a principle of prudence based on the known market, legislative and technological conditions at the time of measurement.

The estimates are reviewed at each balance sheet date to verify that the amounts recorded are the best reflection of the costs the Group will face. If any significant variations are found, the amounts are adjusted. The key factors for revising cost estimates are the revision of the timeframes for implementing the site reclamation and restoration plan, developments in the technologies and environmental regulations and discount rate trends.

Measurement of environmental liabilities recorded in the financial statements takes into account the environmental legislation currently in force. However, this measurement could be subject to variations, even to a significant extent, in relation to: (i) the possibility of further contamination arising; (ii) the results of current and future refurbishment and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes concerning the environmental liability for specific sites and the difficulty of determining the potential consequences of this, including in relation to the liability of other parties and any indemnity.

PROVISIONS FOR EMPLOYEE BENEFITS

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.

⁷⁴The use of the RAB for the purposes of estimating the recoverable value is a generally accepted method within the regulated utility sectors.

The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.

Differences in the value of net liabilities relating to employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income. Actuarial assumptions are also used to determine other long-term employee benefit obligations; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.

PROVISIONS FOR RISKS AND CHARGES

In addition to the amounts allocated to the provisions for environmental liabilities, Italgas recorded provisions mainly relating to the following in the financial statements: (i) operational restoration of metering instruments; (ii) legal and tax disputes; (iii) staff leaving incentives; (iv) expenses related to meeting the Energy Efficiency Certificates targets (EEC) set by the Authority.

The provision for operational restoration of metering instruments is determined by the company's management on the basis of assumptions that take into account (i) hypothesised malfunctioning of smart meters currently installed; (ii) the warranties agreed with the meter suppliers; (iii) the estimated costs for replacing the smart meters.

Provisions are made to cover the risk of future outlay for the cases set out above. The value of the provisions recorded in the financial statements for such risks reflects the best estimate made by the company's management with the support of independent professionals at the preparation date of this document. This estimate involves making assumptions based on factors that may vary over time, which could, therefore, produce a significantly different outcome with respect to the current estimates made by the company's management for the preparation of the Group's financial statements.

6) Business combination transactions

The verification and corresponding accounting in relation to the acquisition of Toscana Energia was completed during the financial year, with a reduction of €1,216 thousand compared to the previously recorded goodwill. The analysis of the transactions is given below:

(€ THOUSANDS)	ACQUISITION OF COMPANIES
	TOSCANA ENERGIA GROUP
Cash and cash equivalents	16,715
Trade and other receivables	42,912
Inventories	4,741
Tax assets	10,648
Other current assets	306
Current assets	75,322
Property, plant and equipment	44,510
Intangible assets	891,250
Equity investments	26,538
Deferred tax assets	40,742
Other non-current assets	417

(€ THOUSANDS)	ACQUISITION OF COMPANIES
	TOSCANA ENERGIA GROUP
Non-current assets	1,003,457
TOTAL ASSETS	1,078,779
Short-term financial liabilities	326,453
Trade and other payables	19,610
Tax liabilities	9,308
Current liabilities	355,371
Long-term financial liabilities	104,699
Provisions for risks and charges	14,077
Provisions for employee benefits	8,635
Deferred tax liabilities	60,089
Other non-current liabilities	109,902
Non-current liabilities	297,402
TOTAL LIABILITIES	652,773
NET VALUE OF ACQUIRED ASSETS	426,006
GOODWILL	54,274
PRICE OF THE ACQUIRED ASSETS	539,000
of which paid	13,703

7) Cash and cash equivalents

Cash and cash equivalents, equal to €664,026 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.

8) Current financial assets

Current financial assets, amounting to €5,120 thousand (€5,119 thousand as at 31 December 2019), relate to financial receivables from credit institutions that can be liquidated in the short-term (€5,001 thousand) and to the remaining amount of the equity investment of Italgas Reti S.p.A. in Acqua Campania S.p.A. (€119 thousand).

9) Trade and other receivables

Trade and other receivables, which amount to €635,028 thousand (€585,230 thousand as at 31 December 2019) comprise the following:

(€ THOUSANDS)	31.12.2019	31.12.2020
Trade receivables	474,035	462,174
Receivables from investment/divestment activities	5,278	16,522
Other receivables	105,917	156,332
	585,230	635,028

Trade receivables (€462,174 thousand as at 31 December 2020 and €474,035 thousand as at 31 December 2019), mainly relate to the gas distribution service and ancillary services. They predominantly concern receivables from sales companies, of which from Eni S.p.A. Group for €203,532 thousand, Enel Group for €42,669 thousand and the Cassa per i Servizi Energetici e Ambientali (CSEA) relating to equalisation⁷⁵ (€28,588 thousand).

These are reported net of the provision for impairment losses (€15,494 thousand at 31 December 2020 and €16,368 thousand at 31 December 2019). Changes in the provision for impairment losses on receivables during the year are shown below:

(€ THOUSANDS)	PROVISION FOR IMPAIRMENT LOSSES AT 31.12.2018	CHANGE IN SCOPE OF CONSOLIDATION	PROVISIONS	USES	PROVISION FOR IMPAIRMENT LOSSES AT 31.12.2019
Trade receivables	18,879	2,691	66	(6,156)	15,480
Other receivables	879		9		888
	19,758	2,691	75	(6,156)	16,368

(€ THOUSANDS)	PROVISION FOR IMPAIRMENT LOSSES AT 31.12.2019	PROVISIONS	USES	PROVISION FOR IMPAIRMENT LOSSES AT 31.12.2020
Trade receivables	15,480		(874)	14,606
Other receivables	888			888
	16,368		(874)	15,494

The provision for impairment of receivables reflects estimated losses in connection with the company's credit portfolio. Provisions are made for expected losses on receivables, estimated both on the basis of past experience with receivables with similar credit risk and on the basis of future expected loss on open positions as at the balance sheet date, as well as careful monitoring of the quality of credit portfolios.

Receivables for investment/divestment activities (€16,522 thousand as at 31 December 2020 and €5,278 thousand as at 31 December 2019) involve receivables for sales of property, plant and equipment and intangible assets.

Other receivables (€156,332 thousand as at 31 December 2020 and €105,917 thousand as at 31 December 2019) break down as follows:

(€ THOUSANDS)	31.12.2019	31.12.2020
IRES receivables for the national tax consolidation scheme	14,205	15,996
Receivables from the Cassa per i Servizi Energetici e Ambientali (CSEA)	43,627	102,769
Receivables from the Public administration	22,274	10,292
Advances to suppliers	21,153	19,737
Receivables from personnel	4,545	2,975
Other receivables	113	4,563
	105,917	156,332

⁷⁵The 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 (€15,996 thousand as at 31 December 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 (€102,769 thousand as at 31 December 2020) mainly relate to the additional components of the gas distribution tariffs for €101,700 thousand (Safety incentives, UG⁷⁶ and Bonus Gas⁷⁷). The increase takes into account the repositioning among Other receivables of the safety incentives previously shown among trade receivables (€41,738 thousand as at 31 December 2019).

Receivables from public administrations (€10,292 thousand as at 31 December 2020) relate to receivables from Municipalities.

The market value of trade and other receivables is analysed in the Note "Guarantees, commitments and risks - Other information about financial instruments". All receivables are in Euro.

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			31.12.2020		
	TRADE RECEIVABLES	OTHER RECEIVABLES (*)	TOTAL	TRADE RECEIVABLES	OTHER RECEIVABLES (*)	TOTAL
Receivables not overdue	446,631	111,195	557,826	417,520	172,854	590,374
Receivables overdue:	27,404		27,404	44,654		44,654
_ from 0 to 3 months	6,886		6,886	15,929		15,929
_ from 3 to 6 months	1,910		1,910	1,430		1,430
_ from 6 to 12 months	3,860		3,860	4,596		4,596
_ over 12 months	14,748		14,748	22,699		22,699
	474,035	111.195	585,230	462,174	172.854	635,028

(*) The item includes I Receivables from investment/divestment activities

The receivables past due, which total €44,654 thousand mainly regard receivables from Public administrations.

The average credit collection times are 2 days. No interest is charged on expiring credits.

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, transactions were completed for the sale of receivables related to: i) trade receivables for distribution due on 31 December 2020 for a collection equal to a total

of €85.3 million, (ii) receivables from CSEA for a collection equal to €100.5 million, (iii) credits related to Energy Efficiency Certificates for a collection equal to €131.8 million and (iv) tax receivables for a collection equal to €38.6 million.

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

Specific information on credit risk is provided in the note "Guarantees, commitments and risks - Financial risk management - Credit risk".

⁷⁶ Additional component of the distribution tariff for the purpose of containing the cost of the gas service for low consumption end users.

⁷⁷ Component relating to requests for subsidies for natural gas provision by economically disadvantaged customers.

10) Inventories

Inventories, which amount to €101,184 thousand, are analysed in the table below:

(€ THOUSANDS)	31.12.2019			31.12.2020		
	GROSS VALUE	PROVISION FOR IMPAIRMENT LOSSES	NET VALUE	GROSS VALUE	PROVISION FOR IMPAIRMENT LOSSES	NET VALUE
Inventories						
– Raw materials, consumables and supplies	53,886	(1,591)	52,295	102,138	(954)	101,184
– Finished products and goods						
	53,886	(1,591)	52,295	102,138	(954)	101,184

Inventories of raw materials, consumables and supplies (€101,184 thousand at 31 December 2020) mainly consisted of gas meters in connection with the replacement plan. The provision for impairment losses is €954 thousand.

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

11) Current and non-current income tax assets/liabilities

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

(€ THOUSANDS)	31.12.2019			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Income tax assets	23,046		23,046	4,251	3,340	7,591
– IRES	22,914		22,914	4,248	3,340	7,588
– IRAP	132		132	3		3
Income tax liabilities	1,708		1,708	35,934		35,934
– IRES	688		688	34,022		34,022
– IRAP	1,020		1,020	1,912		1,912

Taxes pertaining to the year under review are shown in the note "Income taxes".

12) Other current and non-current non-financial assets

Other current non-financial assets, amounting to €84,168 thousand, and *other non-current non-financial assets*, amounting to €167,441 thousand, break down as follows:

(€ THOUSANDS)	31.12.2019			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Other regulated activities		126,877	126,877	38,618	164,148	202,766
Other assets	54,789	2,544	57,333	45,550	3,293	48,843
– Other current taxes	50,423		50,423	40,818		40,818
– Prepayments	4,274	215	4,489			
– Security deposits		2,254	2,254			
– Other	92	75	167	4,732	3,293	8,025
	54,789	129,421	184,210	84,168	167,441	251,609

Other regulated activities (€202,766 thousand as at 31 December 2020) essentially relate to the tariff recognition, by the Authority, following the plan to replace traditional meters with electronic meters.

The *other current tax assets*, amounting to €40,818 thousand (€50,423 thousand as at 31 December 2019) refer to VAT receivables for €36,138 thousand (€46,372 thousand as at 31 December 2019) and to other taxes for €4,680 thousand (€4,051 thousand as at 31 December 2019).

13) Property, plant and equipment

Property, plant and equipment, which amounts to €369,899 thousand as at 31 December 2020 (€350,001 thousand at 31 December 2019), breaks down as follows:

(€ THOUSANDS)	31.12.2019						
	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT	TOTAL
Cost at 31.12.2018	12,108	386,088	14,495	132,851	1,559	1,247	548,348
Right of use 1.1.2019		37,002		19,658			56,660
Investments		28,550	1,487	3,702	13	2,715	36,467
Right of use investments		2,603		23,737	13,212		39,552
Divestments	(78)	(520)		(3,072)	(973)	(73)	(4,716)
Disposals of Right of use		(5,879)		(4,010)	(24)		(9,913)
Change in scope of consolidation	1,085	25,466	28,564	7,557	12,670	8,721	84,063
Change in scope of consolidation Right of use		4,668		1,707	206		6,581
Other changes	(68)	196	(12,042)	2,901	1,645	(400)	(7,768)
Other change in Rights of use		(316)		(932)	1,034		(214)
Cost at 31.12.2019	13,047	440,856	32,504	164,441	29,342	12,210	692,400
Accumulated amortisation at 31.12.2018		(183,143)	(5,717)	(94,719)	(704)		(284,283)
Amortisation of Right of use 1.1.2019		(3,762)		(3,473)			(7,235)
Amortisation and depreciation		(6,454)	(852)	(6,345)	(175)		(13,826)
Amortisation of Right of use		(4,876)		(8,292)	(2,050)		(15,218)
Divestments		354		2,599	906		3,859
Disposals of Right of use		3,747		3,286			7,033
Change in scope of consolidation		(8,742)	(11,804)	(6,791)	(15,500)		(42,837)
Change in scope of consolidation amortisation of Right of use		(1,044)		(445)	(26)		(1,515)
Other change in Rights of use		62		157	(160)		59
Other changes		89	4,672	(1,229)	1,485		5,017
Accumulated depreciation at 31.12.2019		(200,007)	(13,701)	(111,779)	(16,224)		(341,711)
Provision for impairment losses at 31.12.2018			(4,199)	(657)		(31)	(4,887)
Change in scope of consolidation					(1,259)		(1,259)
Other changes			4,199		1,259		5,458
Provision for impairment losses at 31.12.2019				(657)		(31)	(688)
Net balance at 31.12.2018	12,108	202,945	4,579	37,475	855	1,216	259,178
Net balance at 31.12.2019	13,047	240,849	18,803	52,005	13,118	12,179	350,001
<i>— of which Right of use</i>		32,205		31,393	12,192		75,790

(€ THOUSANDS)	31.12.2020						
	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT	TOTAL
Cost at 31.12.2019	13,047	440,856	32,504	164,441	29,342	12,210	692,400
Right of use 1.1.2020		38,078		40,160	14,428		92,666
Investments	10	14,089	922	7,240	44	17,197	39,502
Right of use investments		9,872		6,721	9,887		26,480
Divestments	(43)	(1,893)	(308)	(14,911)	(2,798)	(54)	(20,007)
Disposals of Right of use		(1,107)		(290)			(1,397)
Other changes	1	321	1,052	767	(5)	(10,409)	(8,273)
Other change in Right of use		(1,216)		(1,882)	1,402		(1,696)
Cost at 31.12.2020	13,015	460,922	34,170	162,086	37,872	18,944	727,009
Accumulated depreciation at 31.12.2019		(200,007)	(13,701)	(111,779)	(16,224)		(341,711)
Amortisation of Right of use 1.1.2020		(5,873)		(8,767)	(2,236)		(16,876)
Amortisation and depreciation		(7,369)	(1,736)	(6,593)	(414)		(16,112)
Amortisation of Right of use		(5,854)		(10,019)	(4,362)		(20,235)
Divestments		1,128	116	14,766	2,761		18,771
Disposals of Right of use		518		180			698
Other change in Right of use		1,199		543	(59)		1,683
Other changes		8	475	(1)	2		484
Accumulated amortisation at 31.12.2020		(210,377)	(14,846)	(112,903)	(18,296)		(356,422)
Provision for impairment losses at 31.12.2019				(657)		(31)	(688)
Provision for impairment losses at 31.12.2020				(657)		(31)	(688)
Net balance at 31.12.2019	13,047	240,849	18,803	52,005	13,118	12,179	350,001
Net balance at 31.12.2020	13,015	250,545	19,324	48,526	19,576	18,913	369,899
<i>of which Right of use</i>		<i>35,617</i>		<i>26,646</i>	<i>19,060</i>		81,323

The Right of use, which do not present unspecified future cash outlays, are detailed in the following table:

RIGHT OF USE (*)

(€ THOUSANDS)	1.1.2020	DEPRECIATION	INCREASES	DECREASES	OTHER CHANGES	31.12.2020
Buildings	32,204	(5,852)	9,865	(587)	(13)	35,617
– operating properties	32,204	(5,852)	9,865	(587)	(13)	35,617
Industrial and commercial equipment	30,104	(10,035)	6,725	(112)	(36)	26,646
– ICT	3,981	(2,665)	2,284	(88)	(1)	3,511
– motor vehicles	26,123	(7,370)	4,441	(24)	(35)	23,135
Other assets	13,482	(4,348)	9,890		36	19,060
	75,790	(20,235)	26,480	(699)	(13)	81,323
Interest expense (included in financial expense)	304					

(*) included in the item "Property, plant and equipment" of the Balance Sheet

The land and buildings, amounting to €263,560 thousand, mainly include buildings for office use, workshops, warehouses and warehouses used in business activities of which rights of use equal to €35,617 thousand.

Plant and machinery (€19,324 thousand) mainly relate to the complex of infrastructures dedicated to heat distribution.

Industrial and commercial equipment (€48,526 thousand) mainly include ICT infrastructures, vehicles and other equipment of which use rights amounting to €26,646 thousand.

Below is a brief description of the main changes that occurred during the year.

The investments for the year (€65,982 thousand) include the increases relating to the rights of use for buildings and equipment (motor vehicles and computer equipment) pursuant to IFRS 16 (€26,480 thousand). Depreciation (€36,347 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, of which €20,235 thousand regard the rights of use pursuant to IFRS 16.

During the year, there were no changes in the estimated useful life of assets or in the depreciation rates applied and explained by category in the Note - "Measurement criteria - Property, plant and equipment".

The provision for impairment losses (€688 thousand) mainly relates to a cogeneration plant.

Property, plant and equipment of the Company are not collateralised and there are no restrictions on the ownership of property, plant and equipment.

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".

14) Intangible assets

Intangible assets, which amount to €7,060,110 thousand as at 31 December 2020 (€6,731,989 as at 31 December 2019) break down as follows:

(€ THOUSANDS)	31.12.2019						
	DEFINITE USEFUL LIFE					INDEFINITE USEFUL LIFE	TOTAL
	SERVICE CONCESSION AGREEMENTS	INDUSTRIAL PATENT RIGHTS AND INTELLECTUAL PROPERTY RIGHTS	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT IFRIC 12	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT	OTHER INTANGIBLE ASSETS	GOODWILL	
Cost at 31.12.2018	8,882,698	366,315	125,703	27,947	39,095	35,512	9,477,270
Investments	468,074	24,561	154,665	10,664	6,027		663,991
Government grants			(767)				(767)
Change in the scope of consolidation	1,508,627	329	826	3	36,706	55,490	1,601,981
Divestments	(146,881)	(20)	(48)	(305)	(589)		(147,843)
Other changes	72,374	40,006	(47,198)	(24,101)	15,984	(22,348)	34,717
Cost at 31.12.2019	10,784,892	431,191	233,181	14,208	97,223	68,654	11,629,349
Accumulated amortisation at 31.12.2018	(3,705,764)	(295,821)			(35,178)		(4,036,763)
Amortisation and depreciation	(333,065)	(32,801)			(10,963)		(376,829)
Change in the scope of consolidation	(561,583)	(252)			(22,007)		(583,842)
Divestments	141,943	(1)			490		142,432
Other changes	(9,431)	(17,124)			(3,661)		(30,216)
Accumulated depreciation at 31.12.2019	(4,467,900)	(345,999)			(71,319)		(4,885,218)
Provision for impairment losses at 31.12.2018	(6,488)			(2,096)			(8,584)
(Write-down)/Value restorations	(1,856)			(52)			(1,908)
Change in the scope of consolidation	(2,271)						(2,271)
Other changes	621						621
Provision for impairment losses at 31.12.2019	(9,994)			(2,148)			(12,142)
Net balance at 31.12.2018	5,170,446	70,494	125,703	25,851	3,917	35,512	5,431,923
Net balance at 31.12.2019	6,306,998	85,192	233,181	12,060	25,904	68,654	6,731,989

(€ THOUSANDS)	31.12.2020						
	DEFINITE USEFUL LIFE					INDEFINITE USEFUL LIFE	TOTAL
	SERVICE CONCESSION AGREEMENTS	INDUSTRIAL PATENT RIGHTS AND INTELLECTUAL PROPERTY RIGHTS	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT IFRIC 12	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT	OTHER INTANGIBLE ASSETS	GOODWILL	
Cost at 31.12.2019	10,784,892	431,191	233,181	14,208	97,223	68,654	11,629,349
Investments	522,418	29,422	146,320	9,360	3,842		711,362
Government grants			(1,968)				(1,968)
Acquisition of business units	19,769						19,769
Divestments	(88,644)	(47)	(117)	(37)	(11)		(88,856)
Other changes	81,597	10,213	(62,210)	(11,870)	(68)	(1,216)	16,446
Cost at 31.12.2020	11,320,032	470,779	315,206	11,661	100,986	67,438	12,286,102
Accumulated depreciation at 31.12.2019	(4,467,900)	(345,999)			(71,319)		(4,885,218)
Amortisation and depreciation	(359,337)	(35,886)			(11,673)		(406,896)
Divestments	77,239	6			11		77,256
Other changes	217	56			16		289
Accumulated amortisation at 31.12.2020	(4,749,781)	(381,823)			(82,965)		(5,214,569)
Provision for impairment losses at 31.12.2019	(9,994)			(2,148)			(12,142)
(Write-down)/Value restorations	(933)						(933)
Other changes	1,651			1			1,652
Provision for impairment losses at 31.12.2020	(9,276)			(2,147)			(11,423)
Net balance at 31.12.2019	6,306,998	85,192	233,181	12,060	25,904	68,654	6,731,989
Net balance at 31.12.2020	6,560,975	88,956	315,206	9,514	18,021	67,438	7,060,110

Service concession agreements (€6,560,975 thousand as at 31 December 2020) refer to agreements between the public and private sectors on the development, financing, management and maintenance of infrastructure under concession by a grantor. The provisions relating to the service concession agreements apply to Italgas in the context of its public natural gas distribution and metering service, 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 Authority, 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 (€88,956 thousand as at 31 December 2020) mainly concern information systems and applications in support of operating activities.

Other intangible assets (€18,021 thousand as at 31 December 2020) predominately concern extraordinary maintenance of other assets.

Intangible assets with an indefinite useful life (€67,438 thousand as at 31 December 2020) consist mainly of the goodwill that emerged during the year in connection with the process of allocating prices paid for the acquired companies. The change of €1,216 thousand is related to the conclusion of the verification and related accounting for the acquisition of Toscana Energia.

Work in progress and payments on account IFRC 12, of €315,206 thousand, refer mainly to new networks under construction.

Investments for the year, equal to €711,362 thousand, mainly relate to service agreements (€669,327 thousand) and industrial patent rights and intellectual property rights (€29,422 thousand).

Acquisitions of assets and business units, of €19,769 thousand, relate mainly to:

- the agreement concluded on 31 January 2020 with Unareti (A2A Group), which led to the acquisition of the natural gas distribution business in seven municipalities belonging to the Alessandria 4 ATEM (€3,000 thousand);
- the signing, on 31 January 2020, of the systems handover report for the Turin 2 territorial area (€4,964 thousand) with the Città Metropolitana di Torino (Metropolitan City of Turin) contracting authority and the outgoing operators;
- the finalisation, on 5 November 2020, of the service agreement for the performance of natural gas distribution activities in the Municipality of Castel San Giorgio (Salerno 3 ATEM, €3,120 thousand);
- the gas distribution service in the Municipality of Viadana, following the completion of the arbitration award that led to an increase in fixed assets of €8,764 thousand.

Amortisation refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company. The amount, equal to €406,896 thousand, includes the greater amortisation resulting from reducing the useful life of the traditional meters⁷⁸, subject to the plan to replace them with electronic meters, required by ARERA resolutions under the scope of the implementation of the smart metering plan.

The provision for impairment losses, of €11,423 thousand, essentially relates to service concession agreements.

Research and development expenses of the period are not of a considerable amount.

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

IMPAIRMENT TEST

The impairment test is conducted for all CGUs with impairment indicators and/or goodwill allocated to them. In 2020, the test was carried out for all the main CGUs, regardless of the presence of impairment indicators and/or goodwill.

The impairment test therefore concerned the following CGUs (cash generating units): Natural gas distribution and metering, Distribution and metering of other gases, Sale of other gases, Integrated water service, Other activities (ESCos).

As required by the reference accounting standards (IAS 36), impairment testing was conducted on assets and goodwill by determining their recoverable value and comparing this with the net book value of the CGUs to which they belong.

Goodwill posted to the financial statements is allocated as follows:

- i. €64.0 million for the Natural gas distribution and metering CGU;
- ii. €2.2 million for Distribution and metering of other gases;
- iii. €1.2 million for Other activities (ESCos).

With reference to the Natural gas distribution and metering CGU and the Integrated water service CGU, the recoverable value was defined in accordance with the estimated value of Net Invested Capital attributed to such assets for tariff purposes (RAB - Regulatory Asset Base⁷⁹) by the Authority.

The use of the RAB for the purpose of estimating the recoverable value is a generally accepted method within the regulated utility sectors; reasonable changes in valuation inputs would not lead to impairment of asset value.

With reference to the other CGUs, the recoverable value was determined using the Discounted Cash Flow (DCF) Method based on the flows resulting from the 2020-2026 business plan. No impairment was found as a result of the test carried out. A sensitivity analysis was also carried out on the WACC used to determine the recoverable value.

⁷⁸The useful life of the meters included in the project pursuant to ARERA resolutions 631/13, 554/15, 669/18 and 501/20 was adjusted, in order to complete the amortisation process in line with the meter replacement plan.

⁷⁹RAB is the reference basis for determining the service tariffs and, therefore, the cash flows generated from assets. The RAB value is defined using the revalued historical cost method for Fixed Capital and on a flat-rate basis for Working Capital and employee severance pay.

15) Equity investments valued using the equity method

Equity investments valued using the equity method, which amount to €29,301 thousand (€33,374 thousand at 31 December 2019) break down as follows:

(€ THOUSANDS)	31.12.2019	INCOME (EXPENSE) FROM EQUITY INVESTMENTS	DECREASE FOR DIVIDENDS	OTHER CHANGES	31.12.2020
Umbria Distribuzione Gas S.p.A.	1,326	221			1,547
Sant'Angelo Lodigiano S.p.A.	1,128	129	(155)		1,102
Gesam Reti S.p.A.	25,078	1,022	(7,262)	1,878	20,716
Valdarno S.r.l. in liquidation	5,443	119			5,562
Enerpaper S.r.l.	399	(25)			374
	33,374	1,466	(7,417)	1,878	29,301

Income from valuation using the equity method, of €1,466 thousand, refers mainly to the company Gesam Reti (€1,022 thousand).

The decrease for dividends, of €7,417 thousand concerns the company Gesam Reti (€7,262 thousand) and Metano Sant'Angelo Lodigiano (€155 thousand).

Other changes, of €1,878 thousand, concern the additional valuation of the business combination relating to Toscana Energia for its affiliate Gesam Reti.

There are no real guarantees on the investments.

With regard to the recoverable value of equity investments, for companies operating exclusively in regulated businesses, the recoverable value is calculated using the adjusted RAB value of the net financial position, while for companies operating in other businesses, it is estimated based on future cash flows from business plans. In the light of the positive performance of those companies, the value estimated in this way is higher for all equity investments than the value recorded in the financial statements, and therefore there are no losses in value.

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 31 December 2020", which is an integral part of these notes.

OTHER INFORMATION ON EQUITY INVESTMENTS

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates are provided below.

EQUITY INVESTMENTS IN JOINT VENTURES

The IFRS-compliant economic and financial data on equity investments in joint ventures operating in the distribution of natural gas⁸⁰ are reported below according to their relevance.

⁸⁰ Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method.

(€ THOUSANDS)	31.12.2020
	COMPANIES UNDER JOINT CONTROL
Current assets	6.406
_of which Cash and cash equivalents	3.073
Non-current assets	12.494
Total assets	18.900
Current liabilities	(7.487)
_of which Short-term financial liabilities	(742)
Non-current liabilities	(5.772)
_of which Long-term financial liabilities	(5.499)
Total liabilities	(13.259)
Shareholders' equity	5.641
Group interest	2.649
Value of the equity investment	2.649
Revenue	7.713
Operating costs	(6.457)
Amortisation, depreciation and impairment	(655)
EBIT	601
Financial expense	(93)
Income taxes	(143)
Net profit	365
Total comprehensive income	365

UMBRIA DISTRIBUZIONE GAS S.P.A.

Umbria Distribuzione Gas S.p.A. operates in the natural gas distribution segment in Umbria.

The share capital of Umbria Distribuzione Gas S.p.A. is held by Italgas S.p.A. (45%), A.S.M. Terni S.p.A. (40%) and Acea S.p.A. (15%).

Umbria Distribuzione Gas manages the natural gas distribution service in the Terni municipality, making use of an integrated system of infrastructures, owned by Terni Reti S.r.l., a wholly-owned subsidiary of the Terni municipality, comprising stations for withdrawing gas from the transportation network, pressure reduction plants, the local transportation and distribution network, user derivation plants and redelivery points comprising technical equipment featuring meters at the end users.

The corporate governance rules establish that the decisions on the significant activities have to be taken with the unanimous consent of the private partner (Italgas S.p.A.) and the Public Partner (Municipalities).

METANO SANT'ANGELO LODIGIANO S.P.A.

Metano Sant'Angelo Lodigiano S.p.A. operates in the natural gas distribution sector in the municipalities of Sant'Angelo Lodigiano (LO), Villanova del Sillaro, Bargano (LO), Castiraga Vidardo (LO), Marudo (LO) and Villanterio (PV).

The corporate governance rules establish that the decisions on the significant activities have to be taken with the unanimous consent of the private partner (Italgas S.p.A.) and the Public Partner (Municipalities).

EQUITY INVESTMENTS IN ASSOCIATES

The IFRS-compliant economic and financial data for each significant associate, are reported below:

(€ THOUSANDS)	31.12.2020		
	GESAM RETI S.P.A.	VALDARNO S.R.L. IN LIQUIDATION	ENERPAPER S.R.L.
Current assets	10,154	588	886
– of which Cash and cash equivalents	3,417	1	288
Non-current assets	54,156	20,819	443
Total assets	64,310	21,407	1,329
Current liabilities	(7,065)	(1,515)	(223)
– of which Short-term financial liabilities	(1,605)	(929)	
Non-current liabilities	(21,985)	(1,380)	(829)
– of which Long-term financial liabilities	(16,828)	(122)	(801)
Total liabilities	(29,050)	(2,895)	(1,052)
Shareholders' equity	35,260	18,512	277
Equity investment held by the group %	42.96%	30.05%	10.00%
Group interest	15,148	5,562	28
Other adjustments	5,568		346
Value of the equity investment	20,716	5,562	374
Revenue	13,912	3,179	554
Operating costs	(7,434)	(2,295)	(645)
Amortisation, depreciation and impairment	(3,437)	(391)	(102)
EBIT	3,041	493	(193)
Financial Income (Expense)	(273)	(16)	(26)
Income taxes	(886)	(160)	(29)
Net profit	1,882	317	(248)
Total comprehensive income	1,882	317	(248)

GESAM RETI S.P.A.

Gesam Reti S.p.A. operates in the natural gas distribution and network management sector (owned 42.96% by Toscana Energia S.p.A.) in the municipality of Lucca and in another 7 municipalities of the province.

VALDARNO S.R.L. IN LIQUIDATION

Valdarno S.r.l. is a real estate management company in liquidation owned 30.04% through Toscana Energia S.p.A.

ENERPAPER S.R.L.

Enerpaper S.r.l. operates in Turin, is 10% owned through Seaside S.r.l., whose activities carried out on its own behalf or on behalf of third parties are mostly focused on energy efficiency, building production in general, development, production, installation and sale of innovative products or services having high technological value.

16) Non-current financial assets

Non-current financial assets, amounting to €5,072 thousand (€479 thousand as at 31 December 2019), are broken down as follows:

(€ THOUSANDS)	31.12.2019	31.12.2020
Financial receivables instrumental to operations	155	156
Other equity investments	324	4,916
	479	5,072

The item includes the equity investments in Reti Distribuzione and Isgas33, which are measured at Fair Value with the effects recognised in the income statement.

The increase of €4,593 thousand concerns the acquisition, on 26 May 2020, through the subsidiary Italgas Reti, of 15% of the company Reti Distribuzione from the company Azienda Energia e Gas Società Cooperativa. 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 thousand re-delivery points. The consideration for the transaction was €4.6 million.

17) 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.

18) Short-term and long-term financial liabilities

Short-term financial liabilities, amounting to €698,406 thousand (€581,157 thousand as at 31 December 2019) and long-term financial liabilities, totalling €4,707,145 thousand (€4,171,497 thousand as at 31 December 2019), break down as follows:

(€ THOUSANDS)	31.12.2019					
	SHORT-TERM LIABILITIES			LONG-TERM LIABILITIES		
	SHORT-TERM LIABILITIES	SHORT-TERM PORTION OF LONG-TERM LIABILITIES	TOTAL SHORT-TERM LIABILITIES	LONG-TERM PORTION DUE WITHIN 5 YEARS	LONG-TERM PORTION DUE BEYOND 5 YEARS	TOTAL LONG-TERM LIABILITIES
Bank loans	402,247	123,650	525,897	193,034	598,376	791,410
Bonds		31,297	31,297	746,169	2,576,840	3,323,009
Financial payables for leased assets (IFRS 16)		17,572	17,572	49,728	7,350	57,078
Other shareholders	6,391		6,391			
	408,638	172,519	581,157	988,931	3,182,566	4,171,497

(€ THOUSANDS)	31.12.2020					
	SHORT-TERM LIABILITIES			LONG-TERM LIABILITIES		
	SHORT-TERM LIABILITIES	SHORT-TERM PORTION OF LONG-TERM LIABILITIES	TOTAL SHORT-TERM LIABILITIES	LONG-TERM PORTION DUE WITHIN 5 YEARS	LONG-TERM PORTION DUE BEYOND 5 YEARS	TOTAL LONG-TERM LIABILITIES
Bank loans	600,210	44,160	644,370	237,794	592,047	829,841
Bonds		33,279	33,279	1,242,336	2,578,920	3,821,256
Financial payables for leased assets (IFRS 16)		20,250	20,250	48,043	8,004	56,047
Other shareholders	507		507	1		1
	600,717	97,689	698,406	1,528,174	3,178,971	4,707,145

Loans are initially recognized at cost represented by the fair value of the value received net of the accessory charges for the acquisition of the loan. After this initial recognition, the loans are recognized with the amortized cost criterion calculated by applying the effective interest rate. All financial liabilities are accounted for according to the amortized cost method.

SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, of €698,406 thousand (€581,157 thousand as at 31 December 2019), including the short-term portions of long-term liabilities, mainly refer to the use of uncommitted credit lines.

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

LONG-TERM FINANCIAL LIABILITIES

Long-term financial liabilities amount to €4,707,145 thousand overall (€4,171,497 thousand as at 31 December 2019).

Net of the financial payables for leased assets (€56,047 thousand), the increase of €536,678 thousand compared to 31 December 2019 was mainly attributable to the bond issue completed in June for a nominal value of €500 million.

The breakdown of the bonds (€3,854,535 thousand), with the issuing company, year of issue, currency, average interest rate and due date, is provided in the following table.

(€ THOUSANDS)

ISSUING COMPANY	EMISSION (YEAR)	CURRENCY	NOMINAL VALUE	ADJUSTMENTS (a)	BALANCE AS AT 31.12.2020	RATE (%)	DUE DATE (YEAR)
Euro Medium Term Notes							
ITALGAS S.p.A.	2017	€	750,000	6,015	756,015	1.625%	2027
ITALGAS S.p.A.	2017	€	268,360	621	268,981	0.500%	2022
ITALGAS S.p.A.	2017	€	480,945	2,761	483,706	1.125%	2024
ITALGAS S.p.A.	2017	€	750,000	8,041	758,041	1.625%	2029
ITALGAS S.p.A.	2019	€	600,000	(3,805)	596,195	0.875%	2030
ITALGAS S.p.A.	2019	€	500,000	(4,303)	495,697	1.000%	2031
ITALGAS S.p.A.	2020	€	500,000	(4,100)	495,900	0.250%	2025
			3,849,305	5,230	3,854,535		

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

The breakdown of bank loans, amounting to €1,474,211 thousand is provided in the table below.

(€ THOUSANDS)

TYPE	ISSUE (YEAR)	CURRENCY	NOMINAL VALUE	ADJUSTMENTS (a)	BALANCE AS AT 31.12.2020	RATE (%)	DUE DATE (YEAR)
ITALGAS S.p.A. - EIB	2017	€	360,000	(191)	359,809	0.35+Euribor 6M	2037
ITALGAS S.p.A. - EIB	2015	€	124,000		124,000	0.14+Euribor 6M	2035
ITALGAS S.p.A. - EIB	2016	€	300,000	(194)	299,806	0.47+Euribor 6M	2032
TOSCANA ENERGIA S.p.A - EIB	2016	€	85,909	(30)	85,879	1.049%	2031
Bank loans					604,717		
			869,909	(415)	1,474,211		

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

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

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

Italgas, as at 31 December 2020, had unused committed credit lines amounting to €500 million maturing in October 2021.

There are no breaches of clauses related to the loan agreements. See the paragraph "Financial covenants and negative pledge contractual clauses" on page 252.

BREAKDOWN OF TOTAL FINANCIAL LIABILITIES BY INTEREST RATE TYPE

As at 31 December 2020, the breakdown of debt by type of interest rate, inclusive of liabilities for leases pursuant to IFRS 16 was as follows:

(€ MILLION)	31.12.2019	%	31.12.2020	%
Fixed rate	4,178.4	88.0	4,676.3	86.5
Variable rate	567.8	12.0	728.8	13.5
Gross financial debt	4,746.2	100.0	5,405.1	100.0

FINANCIAL COVENANTS AND NEGATIVE PLEDGE CONTRACTUAL CLAUSES

As at 31 December 2020 there are no loan agreements containing financial covenants and / or secured by collateral, with the exception of the EIB loan signed by Toscana Energia for an amount of €90 million which provides for compliance with certain financial covenants⁸¹. Some of these contracts provide, inter alia, for the following: (i) negative pledge undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights

⁸¹ The contracts include a clause for which, in the event of a significant reduction in EBITDA deriving from the loss of concessions, an obligation to inform the EIB and a subsequent consultation period is envisaged, at the end of which early repayment of the loan may be requested. The economic-financial parameters as at 31 December 2020 are respected.

of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) pari passu and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. These commitments were satisfied as at 31 December 2020.

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.

These criteria were met as of 31 December 2020, see the paragraph "Rating risk" on page 269.

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 and Toscana Energia failure to comply and could trigger the early repayment of the relative loan.

BREAKDOWN OF NET FINANCIAL DEBT

In order to comply 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			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
A. Cash and cash equivalents	262,237		262,237	664,026		664,026
B. Securities held for sale and to be held to maturity	119		119	119		119
C. Liquidity (A+B)	262,356		262,356	664,145		664,145
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	644,877		644,877
F. Long-term financial liabilities to banks		791,410	791,410		829,842	829,842
G. Bonds	31,297	3,323,009	3,354,306	33,279	3,821,256	3,854,535
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	20,250	56,047	76,297
N. Gross financial debt (E+F+G+H+I+L+M)	581,157	4,171,497	4,752,654	698,406	4,707,145	5,405,551
O. Net financial debt (N-C-D)	313,801	4,171,497	4,485,298	29,260	4,707,145	4,736,405

(*) The values relate to finance lease payables - IFRS 16.

Net financial debt at 31 December 2020, including the effects of the application of IFRS 16, of € 76.3 million, amounted to € 4,736.5 million, up by € 251.2 million (€ 4,485.3 million as of 31 December 2019). Net of that effect, net financial debt amounted to € 4,660.2 million (€ 4,410.6 million as of 31 December 2019, up by € 249.6 million).

Gross financial and bond debt at 31 December 2020 totalled € 5,405.6 million (€ 4,752.7 million at 31 December 2019) and refers to: (i) bonds (€ 3,854.5 million), (ii) loan agreements with the European Investment Bank (EIB) (€ 869.5 million), (iii) bank loans (€ 604.8 million) and financial liabilities pursuant to IFRS 16 (€ 76.3 million).

Cash, amounting to € 664 million, is held in current accounts and fixed-term deposits that can be immediately liquidated with leading banks.

19) Trade and other payables

Trade payables and other payables, which amount to €767,555 thousand (€726,714 thousand as at 31 December 2019), comprise the following:

(€ THOUSANDS)	31.12.2019	31.12.2020
Trade payables	299,090	303,021
Payments on account and prepayments	604	2,402
Payables for investment activities	230,277	225,109
Other payables	196,743	237,023
	726,714	767,555

Trade payables of €303,021 thousand (€299,090 thousand as at 31 December 2019) relate mainly to payables to suppliers.

Payables for investment activities equal to € 225,109 thousand (€ 230,277 thousand as at 31 December 2019) relate to payables to suppliers for technical activities.

Other payables, amounting to €237,023 thousand (€196,743 thousand as at 31 December 2019) break down as follows:

(€ THOUSANDS)	31.12.2019	31.12.2020
Payables - parent company for liquidation of Group VAT	56	56
Payables to the public administration	78,385	46,043
Payables to the Cassa per i Servizi Energetici e Ambientali (CSEA)	90,358	139,316
Payables to personnel	12,539	34,229
Payables to social security institutions	6,465	14,934
Payables to consultants and professionals and other payables	8,940	2,445
	196,743	237,023

Payables to the public administration (€46,043 thousand) primarily involve payables to municipalities for concession fees for the distribution business.

Payables to the CSEA (€139,316 thousand) relate to safety penalties for €24,224 thousand and to several ancillary components of tariffs relating to the gas distribution service to be paid to this Fund (RE, RS, UG1 and GS)⁸² for the remaining amount. The increase takes into account the repositioning among Other payables of the ARERA penalties previously shown among trade payables (€11,015 thousand as at 31 December 2019).

Payables to personnel (€34,229 thousand) involve payables mainly for holidays accrued and not taken, the fourteenth months' pay and performance-related pay.

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.

20) Other current and non-current financial assets/liabilities

The market value of the derivative financial instruments as at 31 December 2020 is analysed below:

(€ THOUSANDS)	31.12.2019			31.12.2020		
	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)	(299)	(21,002)	(21,301)
Derivative financial instruments Cash flow hedge						
— Fair value interest rate hedging instruments	(220)	(13,081)	(13,301)	(299)	(21,002)	(21,301)

On 28 December 2017 Italgas signed entered into an EIB loan amounted €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 entered into an Interest Rate Swap, effective from 15 January 2018, expiring in 2024 and with the same coupon frequency as the loans.

On 12 December 2016 Italgas entered into an EIB loan for an amount 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 entered into an Interest Rate Swap, effective from 24 July 2019, expiring in 2029 and with the same coupon frequency as the loans.

⁸² 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.

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	15.12.2024
"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	-0.056%	var EUR 6m	half-yearly	30.11.2029

These derivative contracts are accounted for using hedge accounting rules. The effectiveness testing carried out as at 31 December 2020 did not show any impacts on the income statement in terms of ineffectiveness.

21) Other current and non-current non-financial liabilities

Other current non-financial liabilities, amounting to €9,118 thousand (€9,461 thousand as at 31 December 2019) and *other non-current non-financial liabilities*, amounting to €546,054 thousand (€558,433 thousand as at 31 December 2019), are broken down as follows:

(€ THOUSANDS)	31.12.2019			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Other tax liabilities	9,335		9,335	9,011		9,011
Accruals and deferrals connection contributions		555,881	555,881		543,484	543,484
Liabilities for security deposits		2,218	2,218		2,570	2,570
Other	126	334	460	107		107
	9,461	558,433	567,894	9,118	546,054	555,172

Other non-current liabilities, totalling €546,054 thousand, mainly regard connection contributions totalling €543,484 thousand.

Other current tax liabilities of €9,011 thousand mainly refer to payables to the tax Authorities for IRPEF withholdings for employees (€8,385 thousand).

22) Provisions for risks and charges

Provisions for risks and charges, which amount to €202,617 thousand as at 31 December 2020 (€169,563 thousand as at 31 December 2019), comprise the following:

(€ THOUSAND)	31.12.2019							
	OPENING BALANCE	CHANGE IN SCOPE OF CONSOLIDATION	PROVISIONS	DISCOUNTING	USES AGAINST CHARGES	USES DUE TO SURPLUS	OTHER CHANGES	CLOSING BALANCE
Provisions for environmental risks and charges	125,110	70		976	(10,361)	(334)		115,461
Provisions for site decommissioning risks and charges		1,821		2				1,823
Risk provision for litigation	13,943	1,671	3,683		(1,094)	(5,928)	(95)	12,180
Provisions for other risks - energy efficiency certificates	13,135	1,964	6,285		(10,458)			10,926
Provision for retirement risks	4,365				(2,361)		869	2,873
Provision for operational restoration of metering instruments	14,043	4,695			(4,498)			14,240
Provision for contractual risks	763				(763)			
Other personnel risk provisions	4,020	249	693		(1,093)	(4)	(754)	3,111
Risk provision for tax disputes	741	648	440		(300)	(598)	(641)	290
Other provisions	11,447	3,068	138		(2,745)	(1,798)	(1,451)	8,659
	187,567	14,186	11,239	978	(33,673)	(8,662)	(2,072)	169,563

(€ THOUSAND)	31.12.2020							
	OPENING BALANCE	PROVISIONS	DISCOUNTING	USES AGAINST CHARGES	USES DUE TO SURPLUS	OTHER CHANGES	CLOSING BALANCE	
Provisions for environmental risks and charges	115,461	58	1,228	(8,265)			108,482	
Provisions for site decommissioning risks and charges	1,823	3,334	(23)			543	5,677	
Risk provision for litigation	12,180	3,241		(524)	(2,099)	1	12,799	
Provisions for other risks - energy efficiency certificates	10,926	4,980		(7,668)		1	8,239	
Provision for retirement risks	2,873	10,000		(91)			12,782	
Provision for operational restoration of metering instruments	14,240	38,600		(8,004)		(286)	44,550	
Other personnel risk provisions	3,111	1,585		(1,557)	(106)	2	3,035	
Risk provision for tax disputes	290				(76)	(43)	171	
Other provisions	8,659	371		(2,054)	(383)	289	6,882	
	169,563	62,169	1,205	(28,163)	(2,664)	507	202,617	

The provisions for environmental risks and charges (€108,482 thousand as at 31 December 2020; €115,461 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 is discounted, using a risk-free rate as required by IAS 37 in consideration of a disbursement forecast up to 2048.

The risk provision for litigation (€12,799 thousand) included costs which the Group has estimated it will incur for existing lawsuits.

The Provisions for other risks - energy efficiency certificates (€8,239 thousand) are connected with reaching the Energy Efficiency Certificates targets (TEE) set by the Authority.

The provision for operational restoration of metering instruments, totalling €44,550 thousand, comprises the costs estimated for replacing/restoring operations of the G4 and G6 smart meters having operational problems and not covered by warranty. The related provision, equal to €38.5 million, was determined on the basis of the anomalies of the meters detected in the field as at 31 December 2020, the estimated occurrences for the period 2021 - 2026 and the agreements with suppliers.

The risk provision for early retirement (€12,782 thousand) involves personnel incentive and mobility schemes.

As part of a reorganization started from December 2020 and which will continue in the next year, with the aim of managing the digital transformation, an agreement was signed with the Trade Union Representation of the Italgas Group Executives, following which the Group has committed to providing an economic incentive for managerial staff who are about to meet the requirements to be able to access the first pension that is temporally useful and in force from time to time ("Quota 100" pension, early retirement, old-age pension, "Woman Option" pension, etc.).

In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.

The sensitivity⁸³ of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(€ THOUSANDS)	CHANGE IN DISCOUNTING RATES	
	REDUCTION OF 10%	INCREASE OF 10%
EFFECT ON NET OBLIGATION AT 31.12.2020		
Provisions for environmental risks and charges	611	(601)

23) Provisions for employee benefits

Provisions for employee benefits, which amount to €104,622 thousand as at 31 December 2020 (€113,197 thousand as at 31 December 2019) comprise the following:

(€ THOUSANDS)	31.12.2019	31.12.2020
Employee severance pay (TFR)	72,347	67,644
Supplementary healthcare provision for company executives of Eni (FISDE)	6,641	8,621
Gas Fund	26,735	24,257
Other provisions for employee benefits	7,474	4,100
	113,197	104,622

⁸³ For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

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.

The supplementary healthcare provision (€8,621 thousand as at 31 December 2020) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current⁸⁴ and retired executives. FISDE provides financial supplementary healthcare benefits to Eni Group⁸⁵ 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 (€24,257 thousand as at 31 December 2020) 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 2020⁸⁶; 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 provisions for employee benefits (€4,100 thousand as at 31 December 2020) relate to seniority bonuses and the long-term incentive plans (LTI).

The long-term incentive plans (IAS 19) provide, after three years from the assignment, the disbursement of a variable monetary benefit linked to a company performance parameter not linked to the share price. Obtaining the benefit is linked to the achievement of certain future performance levels, and conditional on the assignee's stay in the company in the three years following the assignment (so-called "Vesting period"). This benefit is allocated pro-rata temporis over the three-year period according to the final balance of the performance parameters.

Seniority bonuses are benefits paid upon reaching a minimum service period at the Company and are paid in kind.

Deferred cash incentive plans, long-term cash incentive plans and seniority bonuses are classified as other long-term benefits pursuant to IAS 19.

The composition of and changes in provisions for employee benefits, determined by applying actuarial methods, are as follows⁸⁷:

(€ THOUSANDS)	31.12.2019					31.12.2020				
	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL
Current value of the obligation at the start of the year	66,314	6,610	28,550	6,404	107,878	72,347	6,641	26,735	7,474	113,197
Change in scope of consolidation	6,624		1,342	269	8,235					
Current cost	55	171		1,630	1,856	150	161		1,540	1,851
Cost for interest	983	97	439	24	1,543	518	49	202	16	785

⁸⁴For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

⁸⁵The fund provides the same benefits for Italgas Group executives.

⁸⁶Article 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".

⁸⁷The table also provides a reconciliation of liabilities recorded for provisions for employee benefits.

(€ THOUSANDS)	31.12.2019					31.12.2020				
	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL
Revaluations / (Impairment):	2,073	20	(14)	1,441	3,520	1,323	2,103	(101)	(93)	3,232
– Actuarial (Gains) / Losses resulting from changes in the demographic assumptions						107				107
– Actuarial (Gains) / Losses resulting from changes in the financial assumptions	2,197	82	1,198	114	3,591	3,035	99	1,177		4,311
– Effect of past experience	(65)	(62)	(130)	111	(146)	(1,956)	2,004	(18)	(224)	(194)
– Other changes	(59)		(1,082)	1,216	75	137		(1,260)	131	(992)
Paid benefits	(5,755)	(257)	(3,712)	(2,448)	(12,172)	(6,694)	(333)	(5,563)	(266)	(12,856)
Effect of transfers	2,053		130	154	2,337			2,984	(4,571)	(1,587)
Current value of the obligation at the end of the year	72,347	6,641	26,735	7,474	113,197	67,644	8,621	24,257	4,100	104,622

(*) Concerns the measurement of the liabilities arising from: (i) the contribution in favour of those registered or in voluntary continuation of the contribution, equal to 1% for each year of registration in the Gas Fund multiplied by the social security tax base for 2014, (ii) the extraordinary contribution for expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020.

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

	2019				2020			
	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND	OTHER PROVISIONS	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND	OTHER PROVISIONS
Discount rate (%)	1.50	1.50	1.50	1.50	-0.04	0.46	-0.05	0.40
Inflation rate (%) (*)	1.50	1.50	N/A	1.50	0.70	N/A	N/A	0.70

(*) With reference to the other provisions, the rate refers only to the seniority bonuses.

The discount rate adopted was determined by considering the yields on corporate bonds issued by Eurozone companies with AA ratings.

The employee benefit plans recognised by Italgas are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible change⁸⁸ in the discount rate at the end of the year.

The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(€ THOUSANDS)	DISCOUNT RATE			
	REDUCTION		INCREASE	
	%	AMOUNT	%	AMOUNT
Employment severance pay	(0.54%)	2,367	0.46%	(2,278)
FISDE	(0.04%)	586	0.96%	(528)
Gas Fund	(0.55%)	787	0.45%	(747)
Other provisions for employee benefits	(0.40%)	225	0.60%	(17)
		3,965		(3,570)

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(€ THOUSANDS)	31.12.2019					31.12.2020				
	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL
Within the next year	1,884	284	1,536	3,834	7,538	6,724	356	522	1,816	9,418
Within five years	13,452	1,018	8,916	1,819	25,205	20,764	1,285	4,965	838	27,852
Beyond five and up to ten years	30,204	1,003	11,414	1,821	44,442	25,046	1,394	9,549	834	36,823
Beyond ten years	26,807	4,336	4,869		36,012	15,110	5,586	9,221	612	30,529
	72,347	6,641	26,735	7,474	113,197	67,644	8,621	24,257	4,100	104,622

(*) The amount includes the estimate of the 10% INPS solidarity contribution applied to the amounts to allocate to the supplementary pension.

⁸⁸ With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

24) Net deferred tax liabilities

Net deferred tax liabilities of €55,215 thousand are stated net of offsettable deferred tax assets of €268,637 thousand.

(€ THOUSANDS)	31.12.2018	CHANGE IN SCOPE OF CONSOLIDATION	PROVISIONS	USES	OTHER CHANGES	31.12.2019
Deferred tax liabilities	289,063	60,089	1,852	(12,804)	7,946	346,146
Deferred tax assets	(217,291)	(40,742)	(20,770)	27,173	(2,032)	(253,662)
	71,772	19,347	(18,918)	14,369	5,914	92,484

(€ THOUSANDS)	31.12.2019	PROVISIONS	USES	OTHER CHANGES	31.12.2020
Deferred tax liabilities	346,146	7,314	(30,033)	425	323,852
Deferred tax assets	(253,662)	(34,348)	23,569	(4,196)	(268,637)
	92,484	(27,034)	(6,464)	(3,771)	55,215

There are no prepaid income taxes which cannot be offset.

Deferred tax liabilities and deferred tax assets break down as follows, based on the most significant temporary differences:

(€ THOUSANDS)	31.12.2019								
	OPENING BALANCE	CHANGE IN SCOPE OF CONSOLIDATION	PROVISIONS	USES	IMPACTS RECORDED IN SHAREHOLDERS' EQUITY	OTHER CHANGES	CLOSING BALANCE	OF WHICH: IRES	OF WHICH: IRAP
Deferred tax liabilities	289,063	60,089	1,852	(12,804)	(832)	8,778	346,146	318,484	27,662
Amortisation and depreciation exclusively for tax purposes	151,559	60,089	24	(7,975)			203,697	193,270	10,427
Revaluations of property, plant and equipment	116,643			(3,516)			113,127	96,278	16,849
Capital gains subject to deferred taxation	381		1,905	(520)			1,766	1,766	
Employee benefits	2,376					8,778	11,154	11,154	
Capitalisation of financial expense	2,727			(135)			2,592	2,206	386
Impairment losses on receivables in excess of tax deductibility and other temporary differences	15,377		(77)	(658)	(832)		13,810	13,810	
Deferred tax assets	(217,291)	(40,742)	(20,770)	27,173	(14,120)	12,088	(253,662)	(234,648)	(19,014)
Provisions for risks and charges and other non-deductible provisions	(56,508)		(3,782)	10,851			(49,439)	(43,105)	(6,334)
Non-repayable and contractual grants	(68,205)			1,582	(734)		(67,357)	(57,499)	(9,858)
Non-deductible amortisation and depreciation	(71,616)	(40,742)	(14,193)	11,255	(1,391)		(116,687)	(116,074)	(613)
Employee benefits	(8,179)						(8,179)	(6,683)	(1,496)
Other temporary differences	(12,783)		(2,795)	3,485	(11,995)	12,088	(12,000)	(11,287)	(713)
Net deferred tax liabilities	71,772	19,347	(18,918)	14,369	(14,952)	20,866	92,484	83,836	8,648

(€ THOUSANDS)	31.12.2020							
	OPENING BALANCE	PROVISIONS	USES	IMPACTS RECORDED IN SHAREHOLDERS' EQUITY	OTHER CHANGES	CLOSING BALANCE	OF WHICH: IRES	OF WHICH: IRAP
Deferred tax liabilities	346,146	7,314	(30,033)		425	323,852	312,150	11,702
Amortisation and depreciation exclusively for tax purposes	203,697	881	(12,315)			192,263	181,014	11,249
Revaluations of property, plant and equipment	113,127		(12,239)			100,888	100,888	
Capital gains subject to deferred taxation	1,766	1,126	(842)			2,050	2,050	
Employee benefits	11,154	2,249	(1,222)			12,181	12,094	87
Capitalisation of financial expense	2,592		(133)			2,459	2,093	366
Impairment losses on receivables in excess of tax deductibility and other temporary differences	13,810	3,058	(2,857)			14,011	14,011	
Other temporary differences			(425)		425			
Deferred tax assets	(253,662)	(34,348)	23,569	(3,725)	(471)	(268,637)	(245,597)	(23,040)
Provisions for risks and charges and other non-deductible provisions	(49,439)	(13,909)	8,275			(55,073)	(47,360)	(7,713)
Non-repayable and contractual grants	(67,357)		2,667			(64,690)	(52,437)	(12,253)
Non-deductible amortisation and depreciation	(116,687)	(18,295)	10,838			(124,144)	(123,455)	(689)
Employee benefits	(8,179)	(1,327)	978	(1,248)		(9,776)	(8,209)	(1,567)
Other temporary differences	(12,000)	(817)	811	(2,477)	(471)	(14,954)	(14,136)	(818)
Net deferred tax liabilities	92,484	(27,034)	(6,464)	(3,725)	(46)	55,215	66,553	(11,338)

Deferred tax assets and deferred tax liabilities are considered to be long term.

It should be noted that there are no deductible temporary differences, tax losses and unused tax credits for which, in the balance sheet, the deferred tax asset is not recognized.

Furthermore, there are no temporary differences relating to investments in subsidiaries, branches and associated companies, and to jointly controlled investments, for which a deferred tax liability has not been recognized.

The Group has considered it appropriate to allocate deferred tax assets on temporary differences as at 31 December 2020 as it believes there is a probability of their recovery.

The note "Income taxes" provides information about taxes for the year.

25) Shareholders' equity

Shareholders' equity, which amounts to €1,981,042 thousand as at 31 December 2020 (€1,794,939 thousand as at 31 December 2019) breaks down as follows:

(€ THOUSANDS)	31.12.2019	31.12.2020
Shareholders' equity attributable to Italgas	1,560,381	1,740,901
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)	(15,962)
Consolidation reserve	(323,907)	(323,907)
Reserve for business combinations under common control	(349,839)	(349,839)
Stock grant reserve	1,169	5,635
Other reserves	8,711	19,926
Profits relating to previous years	6,777	216,876
Reserve for recalculation of defined-benefit plans for employees	(13,257)	(16,408)
Net profit (loss)	417,238	382,972
to be deducted		
– Treasury shares		
Shareholders' equity attributable to minority interests	234,558	240,141
	1,794,939	1,981,042

SHARE CAPITAL

The share capital as at 31 December 2020 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518 unchanged compared to the previous year.

LEGAL RESERVE

The legal reserve stood at €200,246 thousand as at 31 December 2020, unchanged compared to the previous year.

SHARE PREMIUM RESERVE

The share premium reserve stood at €620,130 thousand as at 31 December 2020 (unchanged compared to 31 December 2019).

RESERVE CASH FLOW HEDGE ON DERIVATIVE CONTRACTS

The reserve includes the negative fair value of the IRS derivative net of the related tax effect. The reserve moves with the accounting of financial flows

deriving from instruments which, for the purposes of IFRS 9, are intended as "instruments to hedge financial flows". The related tax effect is reported in the item "tax effect" of the "Reclassifiable components in the income statement" within the statement of comprehensive income.

CONSOLIDATION RESERVE

The consolidation reserve of €-323,907 thousand is unchanged compared to the previous year as determined at the time of the first consolidation (2016) following the deed of sale by Snam S.p.A. to Italgas S.p.A. 38,87% of the equity investment in Italgas Reti S.p.A. (difference between the purchase cost of the investment in Italgas Reti S.p.A. and the related net assets pertaining to the group).

RESERVE FOR BUSINESS COMBINATIONS UNDER COMMON CONTROL

The reserve for business combination under common control, negative 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.

STOCK GRANT RESERVE

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

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.

On 10 March 2021, the Board of Directors resolved: (i) the free allocation of no. 632,852 ordinary shares of the Company to the beneficiaries of the plan by virtue of the rights assigned (so-called first click of the plan) to the same beneficiaries and accrued pursuant to the provisions of the same plan at the end of the related performance period (2018-2020); and (ii) the execution of the first tranche of the capital increase serving the plan, for a nominal amount of €784,736.48 drawn from retained earnings reserves, with the issue of no. 632,852 new ordinary shares.

OTHER RESERVES

The other reserves relate to the effects deriving from the valuation of equity investments.

RESERVE FOR RECALCULATION OF DEFINED-BENEFIT PLANS FOR EMPLOYEES

As at 31 December 2020, the reserve for recalculation of employee benefit plans (€-16,408 thousand) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19. The changes in the reserve during the course of the year are shown below:

(€ THOUSANDS)	GROSS RESERVE	TAX EFFECT	NET RESERVE
Reserve as at 31 December 2018	(14,948)	4,218	(10,730)
Changes of the year 2019	(3,519)	992	(2,527)
Reserve as at 31 December 2019	(18,467)	5,210	(13,257)
Changes of the year 2020	(4,388)	1,237	(3,151)
Reserve as at 31 December 2020	(22,855)	6,447	(16,408)

TREASURY SHARES

As at 31 December 2020 Italgas did not have any treasury shares in its portfolio.

SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

The Shareholder's equity attributable to minority interests is broken down below:

(€ THOUSANDS)	SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MINORITY INTERESTS 31.12.2019	SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MINORITY INTERESTS 31.12.2020	NET INCOME ATTRIBUTABLE TO MINORITY INTERESTS 31.12.2019	NET INCOME ATTRIBUTABLE TO MINORITY INTERESTS 31.12.2020
Toscana Energia S.p.A.	211,232	208,302	6,109	21,384
Toscana Energia Green S.p.A.	2,558	2,744	(74)	469
Medea S.p.A.	19,044	27,635	389	(936)
Gaxa S.r.l.	1,724	1,460	(63)	(263)
	234,558	240,141	6,361	20,654

DIVIDENDS

In its meeting of 10 March 2021, the Board of Directors proposed to the Shareholders' Meeting the distribution of an ordinary dividend of €0.277 per share. The dividend will be paid out as of 26 May 2021, with an ex-coupon date of 24 May 2021 and a record date of 25 May 2021.

RECONCILIATION STATEMENT OF THE RESULT FOR THE YEAR AND OF THE SHAREHOLDERS' EQUITY OF ITALGAS S.P.A. WITH THE CONSOLIDATED ONES.

(€ THOUSANDS)	PROFIT NET 2020	SHAREHOLDERS' EQUITY 31.12.2020
Financial statements Italgas S.p.A.	214,825	1,708,940
Profit of the companies included in the consolidation	437,173	
Difference between book value of investments consolidated companies and shareholders' equity of the financial statements, including the result		160,874
Adjustments consolidation:		
Dividends net of the tax effect	(239,500)	
Income from valuation of equity investments with the equity method and other income from equity investments	(5,792)	32,001
Other consolidation adjustments net of the tax effect	(3,080)	79,226
Net income attributable to minority interests	(20,654)	(240,140)
	168,147	31,961
Consolidated financial statements Group	382,972	1,740,901

26) Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €1,693,067 thousand as at 31 December 2020 comprise:

(€ THOUSANDS)	31.12.2019	31.12.2020
Guarantees given in the interest:	267,478	366,575
– of subsidiaries	267,478	366,575
Financial commitments and risks:	1,028,987	1,326,492
Commitments	768,606	1,028,356
Commitments for the purchase of goods and services	756,542	1,024,084
Other	12,064	4,272
Risks	260,381	298,136
– for compensation and litigation	260,381	298,136
	1,296,465	1,693,067

GUARANTEES

Guarantees of €366,575 thousand refer mainly to guarantees issued with regard to sureties and other guarantees issued in the favour of subsidiaries.

COMMITMENTS

At 31 December 2020, commitments with suppliers to purchase property, plant and equipment and provide services relating to the purchase of property, plant and equipment and intangible assets under construction amounted to €1,024 million.

The other commitments refer to the agreements for the purchase of assets and business units for gas distribution (in particular the purchase of the gas distribution company branches of Terzigno and Olevano and the purchase of Isgas33). Overall valuation was established at €29 million to which the estimated net financial position at the closing of the transaction equal to €25 million will be deducted.

The other undervalued commitments concern:

The acquisition of 51% of the share capital of ACAM Gas S.p.A. by the subsidiary Italgas Reti, which took place in 2015, involves mutual commitments by the parties in relation to the first public tender for the awarding of the La Spezia ATEM.

The acquisition of the equity investment of Enerco Distribuzione by the subsidiary Italgas Reti, which took place in 2017, is subject to an ownership price adjustment (so-called "earn-out") clause.

The acquisition of the "Alessandria 4 ATEM" business unit by the subsidiary Italgas Reti, which took place in 2020, is subject to a price adjustment (so-called "earn-out") clause if the Alessandria 4 ATEM tender is awarded within 10 years of the signing date and if the contracting Authority in the aforesaid tender procedure recognises a higher reimbursement value than the pro forma value under the agreement, for the same year of reference.

RISKS

Risks concerning compensation and litigation (€298,136 thousand) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

FINANCIAL RISK MANAGEMENT

FOREWORD

Italgas has established the Enterprise Risk Management (ERM) unit, which reports directly to the Finance and Service General Manager and oversees the integrated process of managing corporate risk for all Group companies. The main objectives of the ERM are to define a homogeneous and transversal risk assessment model, to identify priority risks and to guarantee the consolidation of mitigation actions and the development of a reporting system.

The ERM methodology adopted by the Italgas Group is in line with the reference models and existing international best practices (COSO Framework and ISO 31000).

The ERM unit operates as part of the wider Internal Control and Risk Management System of Italgas.

The main corporate financial risks identified, monitored and, where specified below, managed by Italgas are as follows:

- _ risk arising from exposure to fluctuations in interest rates;
- _ credit risk arising from the possibility of counterparty default;
- _ liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- _ rating risk;
- _ debt covenant and default risk.

There follows a description of Italgas' policies and principles for the management and control of the risks arising from the financial instruments listed above. In accordance with IFRS 7 - "Financial instruments: Additional information", there are also descriptions of the nature and size of the risks resulting from such instruments.

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

INTEREST RATE RISK

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

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 31 December 2020 the financial debt at floating rate was 13.5% and at fixed rate was 86.5%. Refer to the paragraph "Short-term and long-term financial liabilities" on page 250, for further details.

Some of these contracts provide, inter alia, for the following: (i) negative pledge undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) pari passu and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. These commitments were satisfied as at 31 December 2020.

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. It cannot be excluded that Italgas may have liabilities and / or losses deriving from the non-fulfillment of its customers' payment obligations.

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.

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

In addition, in order to manage credit risk, the Group has defined procedures for monitoring and evaluating its customer portfolio. The reference market is the Italian one.

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 does not foresee any significant negative impacts, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of € 663.5 million as at 31 December 2020 and a completely undrawn committed long-term credit line of € 500 million, maturing in October 2021, 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 31 December 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.

Italgas aims, in financial terms, 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 3 December 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. Based on the methodologies adopted by the rating agencies, a downgrade of one notch in the

Italian Republic's current rating could trigger a downward adjustment in Italgas' current rating, could have an impact on the cost of future debt.

DEBT COVENANT AND DEFAULT RISK

As at 31 December 2020 there are no loan agreements containing financial covenants and / or secured by collateral, with the exception of the EIB loan signed by Toscana Energia for an amount of €90 million which provides for compliance with certain financial covenants⁸⁹. Some of these contracts provide, inter alia, for the following: (i) negative pledge undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) pari passu and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. In relation to the EIB loan of Toscana Energia, refer to the note "Short-term financial liabilities and long-term financial liabilities". For all other ones, these commitments were satisfied as at 31 December 2020.

The bonds issued by Italgas as at 31 December 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.

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.

With reference to the EIB, the relative contracts contain a clause whereby, in the event of a significant reduction in EBITDA resulting from the loss of concessions, there is a disclosure obligation to the EIB and a subsequent consultation period, after which the early repayment of the loan may be required.

These cases are carefully monitored by the Group in the context of financial management and business performance.

ENVIRONMENTAL REGULATIONS

With respect to environmental risk, while the Group believes that it operates in substantial compliance with the laws and regulations and considering the adjustments to environmental regulations and actions already taken, it cannot be ruled out that the Company may incur costs or liabilities, which could be significant.

It is difficult to foresee the repercussions of any environmental damage, partly due to new laws or regulations that may be introduced for environmental protection, the impact of any new technologies for environmental clean-ups, possible litigation and the difficulty in determining the possible consequences, also with respect to other parties' liability and any possible insurance compensation.

⁸⁹ The contracts include a clause for which, in the event of a significant reduction in EBITDA deriving from the loss of concessions, an obligation to inform the EIB and a subsequent consultation period is envisaged, at the end of which early repayment of the loan may be requested. The economic-financial parameters as at 31 December 2020 are respected.

As described in the Annual Report, in recent years, Italgas' corporate strategy has been increasingly influenced by the issues of climate change and various initiatives have been developed aimed at reducing GHG emissions (e.g. research for leaks dispersion through Picarro technology, conversion of the company fleet to methane gas, green gas initiatives, etc.).

In the short term, the main elements that influence the development of Italgas strategy are the regulatory aspects of climate change such as the objectives of European policy, while in the short-medium term, the efficient supply of natural gas, aimed at reducing the impacts on changes climatic.

As part of the Strategic Plan document, Italgas defines a macro-overall scenario that includes frameworks and trends in Energy and Environmental Policies (de-carbonization - Paris Agreement, renewables, energy efficiency, sustainable mobility, Power to Gas and green gas) and presents its Sustainability Plan. Group's strategy is developed in accordance with the United Nations Sustainable Development Goals.

Italgas' strategy is set out in the 2020-2026 Strategic Plan, which highlights and considers elements such as i) the role of gas in the decarbonisation process and ii) the digital transformation and technological innovation that allow Italgas to also play a role in key role in the energy transition; etc.

Group carefully monitors the various risks and the consequent financial impacts (which to date could mainly concern issues of impairment and recoverability of the value of assets and IAS 37 provisions) that could derive from environmental issues and linked to climate change.

ANALYSIS OF DUE DATES FOR FINANCIAL LIABILITIES

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments not discounted:

(€ THOUSANDS)					DUE DATE				
	BALANCE AS AT 31.12.2019	BALANCE AS AT 31.12.2020	PORTION WITH DUE DATE WITHIN 12 MONTHS	PORTION WITH DUE DATE BEYOND 12 MONTHS	2022	2023	2024	2025	BEYOND
Financial liabilities									
Bank loans	915,060	874,001	44,160	829,841	41,994	65,448	65,448	65,448	591,502
Bonds	3,354,306	3,854,535	33,279	3,821,256	267,709		479,378	495,249	2,578,920
Short-term liabilities	408,638	600,717	600,717						
Interest on loans				166,375	22,102	22,072	22,072	22,072	78,056
Liabilities Right of use	74,650	76,297	20,250	56,047	18,337	15,881	8,877	4,988	7,964
Interest Right of use			295	740	232	172	119	79	138
	4,752,654	5,405,550	698,701	4,874,259	350,373	103,574	575,895	587,837	3,256,580

With reference to the payment times with regard to trade and other payables, refer to the note "Short-term and long-term liabilities" in the consolidated financial statements.

As for the sensitivity on the interest rate, any changes in interest rates do not lead to significant effects in

consideration of the fact that 86.5% of the Group's financial debt is at fixed rate.

Please refer to note "Trade and other receivables" for the breakdown of receivable by due date bracket.

MARKET VALUE OF FINANCIAL INSTRUMENTS

Below is the classification of financial assets and liabilities measured at fair value in the Statement of Financial Position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

- level 1: listed prices (unadjusted) on active markets for identical financial assets or liabilities;
- level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
- level 3: inputs not based on observable market data.

In connection with the above, classification of the assets and liabilities measured at fair value in the Statement of Financial Position according to fair value concerned two IRS derivative instruments classified level 2 and recorded under the note "Other current and non-current financial liabilities".

Equity investments measured at fair value with effects posted to the income statement fall under fair value category level 3.

OTHER INFORMATION ON FINANCIAL INSTRUMENTS

With reference to the categories established by IFRS 9 "Financial instruments", the book value of financial instruments and their relative effects on results and on equity can be analysed as follows:

(€ THOUSANDS)	BOOK VALUE		INCOME / EXPENSE RECOGNISED TO INCOME STATEMENT		INCOME / EXPENSE RECOGNISED TO SHAREHOLDERS' EQUITY (a)	
	BALANCE AS 31.12.2019	BALANCE AS 31.12.2020	BALANCE AS 31.12.2019	BALANCE AS 31.12.2020	BALANCE AS 31.12.2019	BALANCE AS 31.12.2020
Financial instruments measured at amortised cost						
– Cash	262,237	664,026				
– Current financial assets	5,119	5,120				
– Trade and other receivables	585,230	635,028				
– Non-current financial assets	155	156				
– Other investments	324	4,916				
– Other current and non-current non-financial assets	184,210	251,609				
– Trade and other payables	726,714	767,555				
– Financial payables (b)	4,752,654	5,405,551	(67,947)	(53,984)		
– Other current and non-current non-financial liabilities	567,894	555,172				
Financial instruments measured at fair value						
– Financial assets (liabilities) for hedge derivative contracts	(13,301)	(21,301)			(5,721)	

(a) Net of tax effect.

(b) The effects in the income statement are recognised in the item "Financial income (expense)".

The table below provides a comparison between the book value of financial assets and liabilities and their respective fair value.

(€ THOUSANDS)	BALANCE AS AT 31.12.2019		BALANCE AS AT 31.12.2020	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Financial instruments measured at amortised cost				
– Long-term financial debt	4,108,470	4,318,533	4,724,030	5,039,078

The book value of trade receivables, other receivables and financial payables is close to the related fair value measurement, given the short period of time between when the receivable or the financial payable arises and its due date.

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.

Below is a summary of the most significant proceedings; no provisions have been made pursuant to IAS 37 for these proceedings in the financial statements, as the company deems that the risk of an adverse outcome is possible, but not likely, or the amount of the allocation cannot be reliably estimated.

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 claims of the Municipality of Rome, Italgas Reti had already filed an appeal with the Lazio Regional Administrative Court on 11 January 2019 for cancellation of the notice with which the Municipality of Rome had starting the procedure to apply default penalties and supplemented it on 30 August 2019 due to reasons added following further notices of the Municipality of Rome. On 19 December, the Municipality of Rome served the Managerial Resolution dated 6 September 2019 that i) set €91,853,392.79 as the alleged amount owed by Italgas Reti by way of penalties for the supposed delay in implementing the business plan covered by the gas concession contract, ii) levied the bank guarantee issued to guarantee the proper execution of the above Service Contract, in the case in which the penalties should not be paid within the deadline of 90 days from notification of the resolution.

With its appeal of 20 January 2020, Italgas contested the above-mentioned Managerial Resolution at the Lazio Regional Administrative Court and submitted, as a precautionary measure, a petition to suspend the effect of the measure in so far as it is illegitimate from different perspectives, including i) invalidity due to vagueness of the penalty clause, ii) non-existence and/or in any case non-chargeability of the company for the non-fulfilments challenged by the Municipality of Rome, iii) waiver by the Municipality of Rome to promptly apply the penalties, iv) violation of the procedure to impose the penalties. 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 hearing was held on 15 December 2020 and, with an order of 12 January 2021, the Court of Cassation declared the jurisdiction of the ordinary court. Italgas therefore resumed the proceedings before the Court of Rome on 11 February 2021. The next hearing is scheduled for 1 July 2021.

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.

Pending the investigations and on the basis of an external legal opinion, the Company does not believe there is a probable risk of losing for the purpose of allocating a provision in the financial statements.

CIVIL 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 deducted 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 as at 31 December 2014 had a residual industrial value of about €31 million. The Municipality of Venice claims to have acquired - through a free transfer - ownership of Block A at the end of the original concession deed (2010).

However, according to Italgas Reti, the expiry of the concession and therefore the accrual of entitlement to the free transfer was postponed to 2025 on the basis of the subsequent additional amending deed to the original concession deed, signed 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.

Decision no. 4104/2018 was filed on 4 July 2018, by which the State Council rejected the appeal brought by Italgas Reti against decision no. 654/2017 pronounced by the Veneto Regional Administrative Court, confirming the acquisition free of charge in favour of the Municipality of Venice of assets included in Block A, as well as the Company's obligation to pay a fee for use of the portion of network devolved free of charge.

The Company has filed a claim for repeal of the decision of 4 July 2018 with the State Council and with the European Court of Human Rights (ECHR). 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 manages the public natural gas distribution service in the aforementioned Municipality under the terms of concession agreements at the time accepted by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino-Treporti was established in 1999 as a spin-off portion of the geographic area already falling within the Municipality of Venice.

With the aforementioned decision, the State Council sanctioned the free-of-charge acquisition in favour of the Municipality of Cavallino Treporti of assets included in Block A, as well as the Company's obligation to pay a fee for use of the portion of network devolved free of charge.

The Company has filed a claim for repeal of the decision of 24 January 2019 with the State Council before the European Court of Human Rights (ECHR). 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 subsequent Decisions no. 2177 and no. 2178 of 21 March 2019, published on 2 April 2019, the State Council confirmed the previous rulings on the free transfer of "Block A" to the Municipality of Venice and to the Municipality of Cavallino Treporti, respectively, rejecting the claims for appeal 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 transfer of Block A. At the first hearing on 12 September 2019, after having heard the defence of the parties, the Judge postponed the case for the admission of preliminary evidence, initially to 1 April 2020, then to 23

December 2020, due to the health emergency and, most recently, to 29 December 2020. At present, therefore, the judge's decision on the preliminary investigation is pending.

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

Following the rulings of the Council of State on the free transfer of Block A, the Municipality of Cavallino-Treperti served a writ on Italgas Reti S.p.A, summoning it before the Court of Venice, requesting that it be ordered to pay €4,669,129.00 or a different amount as payment due under the current tariff regulation for the use of the plants comprising the so-called "Block A", which became the property of the Municipality of Cavallino-Treperti as a result of the Concession no. 19309/1970 from 1 June 2010 until 31 December 2018, and of the assets in Block A. With an appearance and response filed on 25 November 2020, Italgas Reti appeared in court. In the same appearance, a counterclaim was made for the Municipality of Cavallino to be ordered to repay the total amount of €37,313.69 paid in fees for the occupation of public spaces and areas (COSAP) for Block A in the period from 1 January 2013 to 31 December 2018. The first appearance hearing was held on 17 December 2020, following which the judge granted the parties the time limits for the preliminary statements and adjourned the case to the hearing of 1 April 2021 for the admission of evidence.

Publiservizi 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 Publiservizi 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 Publiservizi €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 adjourned first to 6 May 2020, then, due to the health emergency, to 25 November 2020 and, most recently, to 28 April 2021. Italgas S.p.A., which entered an appearance within the legal term, raised all the objections required to prove that the counterparty's claims were groundless.

ITALIAN COMPETITION AUTHORITY (AGCM)

A540 PRELIMINARY INVESTIGATION PROCEDURE - UNLAWFUL CONDUCT OF ITALGAS/ATEM VENEZIA 1, ORDER NO. 28249 OF 27 MAY 2020

With the order of 27 May 2020, served on Italgas Reti on 3 June 2020, the AGCM - pursuant to Article 14 of Law 287/90 and on the recommendation of the Municipality of Venice - initiated the A540 preliminary investigation procedure against Italgas Reti for the establishment of an alleged abuse of dominant position in breach of Article 102 of the TFEU for "refusing to provide the information requested, considered essential for the purposes of preparing the documents required for the contracting Authority to call for tenders for the ATEM [Venice 1]", where Italgas Reti is responsible for gas distribution in 6 municipalities out of 8, comprising 97% of the redelivery points in the ATEM.

In particular, Italgas Reti was accused of refusing to provide or unjustifiably delaying provision of the tariff evidence for the assets of "Block A" (which the Council of State found to be the property of the Municipality of Venice in ruling no. 4104 of 4 July 2018) as at 31 December 2018, as specified in Article 4, paragraph 1, letter f) of Italian Ministerial Decree no. 226/2011, as well as the historical costs of the block's assets, further broken down by city area (old city centre and islands, Lido and Mestre), updated as at 31 December 2017 and 31 December 2018, in accordance with the details given in Annex B of the standard tender notice and point 19 of the Guidelines on criteria and application methods for assessment of the reimbursement value of natural gas distribution plants, approved by the Ministry of Economic Development (MISE) on 22 May 2014.

Italgas submitted a commitment proposal on 1 October 2020. The AGCM then admitted the commitments for the market test, setting the deadline for submitting comments at 20 November. Italgas Reti then had the opportunity to examine the comments received and to submit an integrated commitment proposal on 21 December 2020 in the light of the feedback received. On 3 March 2021, the AGCM accepted Italgas' undertakings and consequently closed the investigations without establishing any wrongdoing by the company.

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 25 September 2020 due to the ongoing health emergency. The judge set aside the ruling at that hearing. The ruling was made on 17 November 2020: The Judge for Preliminary Investigations did not grant the second request for dismissal and ordered the Public Prosecutor to charge the individuals under investigation.

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

The public prosecutor at the Court of Busto Arsizio opened criminal proceedings against several 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 the trial documents still being served were acquired from the office of the clerk of the Court of Busto Arsizio: request for committal for trial, request for dismissal regarding several natural persons under investigation, list of witnesses for the public prosecutor's office. 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 of the preliminary hearing being set for 26 June 2018 was served together with the request for committal for trial. The hearing, however, was not then held and was postponed until 23 October 2018. There were no applications to join proceedings as a civil party at the 23 October 2018 hearing, and the judge acknowledged the negotiations in progress with the injured parties, so the hearing was postponed until 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 dismissal for 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.

The judge rejected the preliminary claims at the hearing on 13 January 2020, considering that the Municipality of Cerro Maggiore might have sustained damage to its image, the demonstration of which is left to the continuation 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. The hearings of the prosecution's witnesses began during the hearing of 7 September 2020 and continued on a weekly basis. The hearings of the defence witnesses began at the hearings of 9 November 2020 and 23 November 2020. Examination of the defendants was completed at the subsequent hearing of 8 February 2021 (two of the defendants employed by Italgas Reti were heard) and the next hearing, for the examination and cross-examination of the expert witnesses, has been set for 8 March 2021. At the hearing of 8 March 2021, the civil claimant waived the hearing of its expert, and our expert witnesses were heard. The next hearing will be held on 19 April for the expert examination of two defendants of the contracting company and to conclude the investigation. The prosecutor has filed a list of documents and the defence of the two defendants of the contracting party has also requested to hear a defendant from the subcontracting company in the related proceedings.

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 a repair job on the gas distribution network in the Municipality of Rome.

The incident, which took place in via Saba 68, injured a worker of a contractor company. The Public Prosecutor's Office of Rome declared that four people were under investigation, one of whom a former Italgas Reti employee, from January 2020. On 12 November 2020, the Public Prosecutor's Office served notice of conclusion of the preliminary investigations on the former Italgas Reti employee, together with the employer of the contractor, the supervisor and a specialised worker of the same company, on charges of serious injury caused by negligence and violation of Italian Legislative Decree 81/2008.

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

The public prosecutor at the Court of Velletri opened an investigation relating to the incident on 10 June 2019 in the municipality of Rocca di Papa, caused by the rupture of an Italgas Reti pipe 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 and later extended to 31 August 2020. The expert witness report was made available on 10 September 2020. The hearing before the Judge for Preliminary Investigations, initially scheduled for 1 October 2020, was postponed to 16 October 2020, during which the evidentiary hearing took place, with discussion of the expert witness report. The preliminary investigation by the Public Prosecutor is therefore currently ongoing.

Actions promoted by Italgas Reti following the Judicial Administration phase

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 its Order of 23 January 2018, the Court of Palermo acknowledged that Italgas Reti is not required to pay the costs of the Public Prosecutor's Office consultants as they are not connected with the 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 Palermo Court filed an Order on 25 March 2019 with which it approved the statement and rejected the application to refund the costs sustained put forward by Italgas Reti. Italgas Reti filed an appeal with the Court of Cassation on 5 April 2019, requesting the annulment of the above Order alleging infringement of the law and incorrect interpretation of Legislative Decree 159/2011 ("Anti-mafia Code") and for omitting to include in the statement of the Judicial Administrators 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.

PUBLIC FUNDS RECEIVED

With reference to the new rules introduced by Law no. 124 of 4 August 2017 "Annual competition law", under Article 1, paragraphs 125-129, please note that the following grants from public Authorities relating to the construction of gas networks were collected in 2020.

BENEFICIARY	GRANTOR			TYPE OF TRANSACTION	AMOUNT €
	NAME COMPANY NAME	TAX CODE	VAT NUMBER		
ITALGAS RETI S.P.A.	MORRO D'ORO	81000370676	00516370673	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	14,421.08
ITALGAS RETI S.P.A.	CASALINCONTRADA	00273020693	00273020693	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	89,573.19
ITALGAS RETI S.P.A.	CARAMANICO TERME	00228670683	00228670683	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	21,240.00
ITALGAS RETI S.P.A.	CIVITAQUANA	80001190687	00219500683	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	23,280.00

BENEFICIARY	GRANTOR			TYPE OF TRANSACTION	AMOUNT €
	NAME COMPANY NAME	TAX CODE	VAT NUMBER		
ITALGAS RETI S.P.A.	MONTEFINO	81000330670	81000330670	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	30,782.64
ITALGAS RETI S.P.A.	BUSSI SUL TIRINO	00231710682	00231710682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	42,199.65
ITALGAS RETI S.P.A.	SILVI	81000550673	00175740679	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	20,473.88
ITALGAS RETI S.P.A.	BUCCHIANICO	00251860598	00251860598	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	28,792.81
ITALGAS RETI S.P.A.	CASTIGLIONE MESSER RAIMONDO	80003890672	00195720677	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	9,720.00
ITALGAS RETI S.P.A.	CASTILENTI	81000270678	00824050678	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	8,287.04
ITALGAS RETI S.P.A.	INTRODACQUA	00197560667	00197560667	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	19,868.50
ITALGAS RETI S.P.A.	ELICE	00221990682	00221990682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	12,978.97
ITALGAS RETI S.P.A.	CATIGNANO	80001570680	00221020688	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	43,680.00
ITALGAS RETI S.P.A.	PINETO	00159200674	00159200674	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	2,160.00
ITALGAS RETI S.P.A.	SELLIA	00311650790	00311650790	Plant account grants Law 784/80	50,000.00
MEDEA S.P.A.	PORTO TORRES	00252040902	00252040902	Plant account grants Resolution 54/28 of 22.11.2005 of the Autonomous Region of Sardinia Article 5	1,551,011.57
TOSCANA ENERGIA GREEN S.p.A.	TUSCANY REGION	01386030488	01386030488	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	109,000.00
					2,077,469.33

CORONAVIRUS EMERGENCY

In the early months of 2020 the COVID-19 virus spread worldwide, to the extent that on 11 March 2020 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 a series of Government Decrees (DPCM), starting with the one 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 2020, the ESMA published two public statements on the pandemic, the first entitled “Implication of the COVID-19 outbreak on the half-yearly financial reports” of 20 May 2020 and the second “European common enforcement priorities for 2020 annual financial reports” of 28 October 2020.

In particular, the objective of the latter document was to guide management teams in the preparation of the 2020 annual financial statements, placing particular attention on the need to provide adequate information about the effects of the pandemic on the various areas of the financial statements for the year just closed.

In the light of the ESMA documents, an update and in-depth analysis are provided below with respect to what has already been illustrated in the 2019 Annual Financial Report.

In particular, specific thematic areas have been identified below which, with reference to the individual IFRS, have been elaborated hereunder in order to provide a better understanding of the information in accordance with the dictates of IAS 1.

The aim is to describe the events 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 resurgences of the health emergency, which reasonably should be countered by ongoing vaccinations, the Company believes it will be able to confirm its investment plans, having already proven in 2020 that it was able to overcome delays in its original plans to carry out works, with particular reference to the implementation of the network digitisation projects, the installation of “smart” meters and the methanisation of Sardinia, in addition to the usual maintenance and development activities of the networks managed.

Similarly, Italgas confirmed the strategic priorities included in its 2020-2026 Strategic 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.

With reference to the customer/sales company 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 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, the Company 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 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 required sales companies to pay the balance of the total amounts invoiced by distributors and not paid during the derogation period, as a lump sum in September or in three instalments from September to November. As at 31 December 2020, the sales companies

have complied with their obligations in accordance with the time frames of the above-mentioned Resolution no. 248/2020/R/com.

With regard to access to credit, Italgas does not foresee any significant negative impacts, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of €663.5 million as at 31 December 2020 and a completely undrawn committed long-term credit line of €500 million, maturing in October 2021, 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 31 December 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.

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 company's financial soundness is confirmed by the success of i) the bond issue of €500 million, completed on 24 June 2020, implementing the EMTN Programme (renewed on 20 October 2020 for €6.5 billion) and ii) the "dual-tranche" bond issue maturing in February 2028 and February 2033, both for a total of € 500 million each, implementing the aforesaid Programme, which ended in February 2021, and the simultaneous Tender Offer launched by Italgas on its own bonds, iii) as well as by the confirmation on 3 December 2020 of the rating by Fitch as BBB+ with a stable outlook.

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 transfer of receivables, 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).

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, following the impairment tests carried out, 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 finite 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) throughout the next five-year 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 the light of the foregoing, no impairment losses emerged as at 31 December 2020 relating to 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 those 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).

LEASES (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' leasing 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' 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.

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.

Italgas benefited from the exclusion from payment of the 2019 IRAP balance and the first 2020 IRAP instalment; these payments, pursuant to article 24 of Decree-Law no. 34 of 19 May 2020, converted with amendments by Law no. 77 of 17 July 2020, are not payable by Companies whose revenues did not exceed €250 million in the 2019 tax period. These provisions are nevertheless applied in accordance with the limits and conditions envisaged by the communication of the European Commission dated 19 March 2020 (C(2020) 1863 Final), "Temporary framework for state aid measures to support the economy in the current COVID-19 outbreak", as amended.

Considering the uncertainty around the interpretation and application of these provisions, the legislator subsequently postponed the deadline of the payments to 30 April 2021, making it possible to implement them, without the application of fines or interest in the event of misapplication of said provisions in relation to determination of the limits and conditions envisaged by said European Commission communication.

The Italgas Group also carried out the required obligations for the purposes of applying the tax credit for expenses incurred in 2020 to sanitise the rooms and equipment used, as well as for the purchase of personal protective equipment and other devices intended to guarantee the health of workers, as per article 125 of Law Decree no. 34 of 19 May 2020, converted by Law no. 77 of 17 July 2020 and the tax credit for advertising investments incurred in 2020, set out by article 186 of the same Law Decree no. 34 of 19 May 2020, converted by Law no. 77 of 17 July 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)

There were no changes to the approach used, to date, to determine the actuarial assumptions required to calculate the various liabilities of the employee benefits according to IAS 19. Therefore, there were no methodological amendments or specific changes to the economic, demographic, financial or behavioural assumptions (e.g. turnover).

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 2020 income statement for the main impacts directly attributable to COVID-19 are set out below.

(€ THOUSANDS)	2020
Purchase of consumables (disinfectant, gloves, masks, etc.) and services	4,890
Liberal donations	1,744

27) Revenue

The breakdown of *revenue* for the year, which totalled €2,127,286 thousand as at 31 December 2020 (€1,893,439 thousand as at 31 December 2019) is shown in the following table.

(€ THOUSANDS)	2019	2020
Revenue	1,820,020	2,058,442
Other revenue and income	73,419	68,844
	1,893,439	2,127,286

Group revenue is earned exclusively in Italy.

REVENUE

Revenue, which amounts to €2,058,442 thousand (€1,820,020 thousand as at 31 December 2019), is analysed in the table below:

(€ THOUSANDS)	2019	2020
Natural gas distribution	1,132,008	1,322,303
Revenues for infrastructure construction and improvements (IFRIC 12)	621,105	668,738
Technical assistance, engineering, IT and various services	49,805	46,850
Water distribution and sale	6,564	7,515
Gas sales	10,538	13,036
	1,820,020	2,058,442

Revenue refers primarily to the consideration for the natural gas distribution service and other regulated revenues (€1,322,303 thousand) and revenue deriving from the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to IFRIC 12 (€668,738 thousand).

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 Energy and Environmental Services Fund (CSEA).

(€ THOUSANDS)	2019	2020
RE-RS-UG1 fees	164,103	153,656
UG3 fees	23,289	21,528
Gas Bonus and GS fees	(16,183)	(15,377)
UG2 fees	(19,349)	(19,679)
	151,860	140,128

The fees in addition to the distribution service (€140,128 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 (€1,322,303 thousand) refers to natural gas distribution on behalf of all commercial operators

requesting access to the networks of the distribution companies based on the Network Code. These revenues include the higher revenues associated with the contribution pursuant to Article 57 Resolution ARERA n. 570/2019/R/gas relating to the replacement of traditional meters with electronic smart meters due to the change in methodology over previous years and the recovery of non-depreciation (so-called IRMA) ex DCO 545/2020/R/gas and Resolution no. 570/2019/R/gas, for a total of €108,385 thousand.

With reference to the higher revenues pursuant to Article 57, the company recorded the impacts in the financial statements by virtue of Consultation Document no. 545/2020/R/gas, whereby the Authority announced the amendment to the RTDG 2020-2025, proposing that disposals relating to meters up to class G6 be determined using the so-called regulatory FIFO method and that this criterion be extended to the disposals of traditional meters higher than class G6, thereby making the criterion for determining residual depreciation uniform for all meters disposed of under the Directives.

The higher contribution is also made up of the amount for the recovery of non-depreciation (so-called IRMA) relating to meters class G6 or lower replaced with the smart meters introduced by Resolution no. 570/2019/R/gas.

Revenue from the sale of water (€7,515 thousand) relates to the water distributed by Italgas Acqua, established on 1 January 2018 after the successful proportional partial demerger of Italgas Reti to a newco through assignment

to the latter of the "former Napoletanagas water business unit" became effective.

OTHER REVENUE AND INCOME

Other revenue and income, which amounted to €68,844 thousand, can be broken down as follows:

(€ THOUSANDS)	2019	2020
Income from gas distribution service safety recovery incentives	16,120	23,445
Plant safety assessment pursuant ex DL 40/04	2,451	2,281
Capital gains from sale of assets	11,134	5,016
Sundry management refunds and chargebacks	6,941	662
Contractual penalties receivable	1,084	812
Revenue from regulated activities	14,892	8,381
Connection contribution uses	16,250	19,564
Revenue from seconded personnel	604	223
Other revenue	3,943	8,460
	73,419	68,844

Income from safety recovery incentives, equal to €23,445 thousand, relates to refunds paid by the Authority connected to achieving quality and technical standards relating to the natural gas distribution service.

28) Operating costs

The breakdown of operating costs for the period, which totalled €1,079,811 thousand, is shown in the following table:

(€ THOUSANDS)	2019	2020
Purchase costs for raw materials, consumables, supplies and goods	143,054	123,896
Costs for services	483,089	536,240
Costs for the use of third-party assets	83,857	87,555
Personnel cost	242,259	269,853
Net provisions for risks and charges	1,141	44,499
Net provisions for impairment	(306)	(16)
Other expenses	20,779	20,124
<i>To be deducted:</i>		
Increases for own work	(4,257)	(2,340)
– of which costs for services	(1,542)	(651)
– of which labour costs	(2,715)	(1,689)
	969,616	1,079,811

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, amount to €668,738 thousand and are broken down as follows:

(€ THOUSANDS)	2019	2020
Purchase costs for raw materials, consumables, supplies and goods	115,100	94,261
Costs for services	394,664	457,458
Costs for the use of third-party assets	13,182	8,572
Personnel cost	96,584	107,288
Other expenses	1,575	1,159
	621,105	668,738

Costs for raw materials, consumables, supplies and goods, amounting to €123,896 thousand (€143,054 as at 31 December 2019), comprise the following:

(€ THOUSANDS)	2019	2020
Inventories	134,608	108,072
Purchase of water	2,302	2,638
Motive power	998	1,129
Purchase of fuel	3,456	2,442
Consumables	1,690	9,615
	143,054	123,896

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 (€94,261 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for services of €535,589 thousand relate to:

(€ THOUSANDS)	2019	2020
Project management and plant maintenance	334,182	408,846
Consultancy and professional services	59,921	51,025
Costs for personnel services	16,550	10,899
IT and telecommunications services	34,481	39,018
Electricity, water and other (utility) services	6,974	5,733
Insurance	5,284	5,434
Cleaning, security service and guard services	3,902	3,613
Advertising and entertainment	2,597	2,869
Other services	33,699	24,645
Use of risk provision	(14,501)	(15,842)
	483,089	536,240
<i>To be deducted:</i>		
Increases for own work	(1,542)	(651)
	481,547	535,589

Costs for services include costs relating to the construction and upgrading of gas distribution infrastructure (€457,458 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for project management and plant maintenance planning (€408,846 thousand) essentially relate to the extension and maintenance of gas distribution plants.

Costs for the use of third-party assets, of €87,555 thousand, regard:

(€ THOUSANDS)	2019	2020
Patent, license and concession fees	69,186	77,203
Leases and rentals	14,672	10,635
Use of risk provision	(1)	(283)
	83,857	87,555

Costs for use of third-party assets include costs relating to the construction and upgrading of gas distribution infrastructure (€8,572 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Personnel cost, totalling €268,164 thousand, breaks down as follows:

(€ THOUSANDS)	2019	2020
Wages and salaries	171,676	180,419
Social charges	54,481	55,740
Employee benefits	13,683	14,316
Other expenses	2,419	19,378
	242,259	269,853
<i>To be deducted:</i>		
Increases for own work	(2,715)	(1,689)
	239,544	268,164

The item includes costs relating to the construction and upgrading of gas distribution infrastructure (€107,288 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Employee benefits (€14,316 million) mainly regard expenses connected to the elimination of the Gas Fund, pursuant to Law no. 125 of 6 August 2015⁹⁰.

Other expenses of €19,378 thousand, in particular refer to charges for the incentive plan for senior executives (co-investment plan).

Stock Grant plans reserved for employees of the Company, the fair value of the option, determined at the time of granting (calculating it on the basis of the "Black-Scholes" economic-actuarial method) is recognized as a cost in the income statement over the period of accrual of the benefit, with a balance sheet corresponding to a reserve set up in the shareholders' equity.

More details are provided in the "Provisions for employee benefits" note.

AVERAGE NUMBER OF EMPLOYEES

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

PROFESSIONAL QUALIFICATION	2019	2020
Executives	62	60
Managers	296	302
Office workers	2,247	2,239
Manual workers	1,464	1,430
	4,069	4,031

⁹⁰ 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.

The average number of employees is calculated on the basis of the monthly number of employees for each category. At 31 December 2020, there were 4,026 employees on average.

REMUNERATION DUE TO KEY MANAGEMENT PERSONNEL

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities ("key management personnel"), in office at 31 December 2020, amounted to €7,242 thousand and breaks down as follows:

(€ THOUSANDS)	2019	2020
Wages and salaries	5,254	5,536
Post-employment benefits	467	559
Other long-term benefits	1,221	1,147
	6,942	7,242

REMUNERATION DUE TO DIRECTORS AND STATUTORY AUDITORS

Remuneration due to Directors, except for the Chairman and the CEO who form part of the key management personnel as explained in the foregoing paragraph, amounted to €1,703 thousand and remuneration due to Statutory Auditors amounted to €498 thousand (Article 2427, no. 16 of the Italian Civil Code). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor giving rise to a cost for the Company, even if not subject to personal income taxes.

Net allocations to the provision for risks and charges, amounting to € 44,499 thousand net of utilisations, refer mainly to the provision for operational restoration of metering instruments to cover the costs estimated for replacing/restoring G4 and G6 smart meter functions with operational problems and not covered by warranty.

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 €20,124 thousand, are analysed below:

(€ THOUSANDS)	2019	2020
Gas distribution service safety improvement penalties	878	473
Other penalties	3,327	7,844
Indirect taxes, local taxes	8,905	6,552
Capital losses from disposal/recovery of property, plant and equipment and intangible assets	6,720	3,866
Membership fees	1,565	1,679
Costs for transactions, compensation and penalties	139	155
Use of risk provision	(13,220)	(9,721)
Charges attributable to Energy Efficiency Certificates	7,582	4,271
Other expenses	4,883	5,005
	20,779	20,124

Gas distribution service safety improvement penalties (€473 thousand) relate to repayments, paid to the Authority, related to awards for gas distribution safety improvements for 2020.

Charges attributable to Energy Efficiency Certificates (€4,271 thousand) are fully covered by use of the relevant risk provision.

The other expenses include costs relating to the construction and upgrading of gas distribution infrastructure (€1,159 thousand) recognised pursuant to IFRIC 12.

29) Amortisation, depreciation and impairment

Amortisation, depreciation and impairment, totalling €444,176 thousand, breaks down as follows:

(€ THOUSANDS)	2019	2020
Amortisation and depreciation	405,873	443,243
– Property, plant and equipment	13,826	16,112
– Right of use pursuant to IFRS 16	15,218	20,235
– Intangible assets	376,829	406,896
Impairment	1,908	933
– Impairment of intangible assets	1,908	933
	407,781	444,176

The amount of €406,896 thousand, relating to the amortisation of the intangible assets, includes greater amortisation as a result of the reduction in the useful life of traditional meters⁹¹, subject to the plan to replace them with smart meters, required by AEEGSI resolutions under the scope of the implementation of the smart metering reading plan.

The write-downs of intangible assets of €933 thousand (€1,908 thousand in 2019) relate to the exit from the production process of some assets.

⁹¹ The useful life of the meters included in the project pursuant to ARERA resolutions 631/13 and 554/15 was adjusted, in order to complete the amortisation process in line with the meter replacement plan.

30) Financial Income (expense)

Net financial expense, amounting to €49,209 thousand, comprises:

(€ THOUSANDS)	2019	2020
Financial Income (expense)	(67,864)	(53,669)
Financial expense	(68,077)	(53,941)
Financial income	213	272
Other financial income (expense)	(1,431)	4,460
Other financial expenses	(2,533)	(566)
Other financial income	1,102	5,026
	(69,295)	(49,209)

(€ THOUSANDS)	2019	2020
Financial Income (expense)	(67,864)	(53,669)
Borrowing costs:	(68,077)	(53,941)
– Interest expense on bonds	(59,250)	(45,919)
– Commission expense on bank loans and credit lines	(7,461)	(6,298)
– Interest expense on credit line and loan expense due to banks and other lenders	(1,366)	(1,724)
Financial expense capitalised		
Income on financial receivables:	213	272
– Interest income and other income on financial receivables non-held for operations	213	272
Other financial income (expense):	(1,431)	4,460
– Capitalised financial expense	726	1,884
– Financial income (expense) connected with the passing of time (accretion discount) (*)	(2,112)	(2,022)
– Uses of risk provisions and financial expense		
– Expense for right of use pursuant to IFRS 16	(273)	(304)
– Other expenses	(874)	(124)
– Other income	1,102	5,026
	(69,295)	(49,209)

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

31) Income (expense) from equity investments

Income (expense) from equity investments, totalling €1,515 thousand, breaks down as follows:

(€ THOUSANDS)	2019	2020
Effect of valuation using the equity method	14,883	1,466
Capital gains from valuation using the equity method	14,883	1,466
Other income (expense) from equity investments	85,897	49
Dividends	26	25
Other income from equity investments	85,871	24
	100,780	1,515

The reduction of €99,295 thousand compared to 2019 refers to the equity valuation of Toscana Energia until 30 September 2019.

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in the note "Equity investments valued using the equity method".

32) Income taxes

Income taxes for the year, amounting to €151,979 thousand (€123,928 thousand as at 31 December 2019) comprise

(€ THOUSANDS)	2019			2020		
	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
Current taxes	103,103	24,570	127,673	152,441	33,036	185,477
Current taxes for the year	105,770	24,270	130,040	151,495	32,325	183,820
Adjustments for current taxes pertaining to previous years	(2,667)	300	(2,367)	946	711	1,657
Deferred and prepaid taxes	(4,107)	362	(3,745)	(29,665)	(3,833)	(33,498)
Deferred taxes	(11,881)	(1,028)	(12,909)	(19,816)	(2,903)	(22,719)
Prepaid taxes	7,774	1,390	9,164	(9,849)	(930)	(10,779)
	98,996	24,932	123,928	122,776	29,203	151,979

Income taxes relate to current taxes amounting to €185,477 thousand (€127,673 thousand as at 31 December 2019) and net prepaid taxes with a positive effect of €33,498 thousand (€3,745 thousand as at 31 December 2019).

The rates applied and provided for by tax regulations for current taxes are 24% for IRES and 4.2% for IRAP.

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) rate in force in Italy) with the actual tax charge for the year can be broken down as follows:

(€ THOUSANDS)	2019		2020	
	TAX RATE	BALANCE	TAX RATE	BALANCE
IRES				
Gross profit		547,527		555,605
IRES tax calculated based on the theoretical tax rate	24.00%	131,406	24.00%	133,345
Changes compared to the theoretical rate:				
_ Income from equity investments	(3.9%)	(21,626)	0.5%	2,893
_ Temporary tax adjustment	0.2%	1,083		
_ Current taxes for previous years	(0.4%)	(2,217)	0.0%	138
_ "Super Iper amortisation and depreciation" tax benefit	(1.6%)	(8,696)	(2.2%)	(12,067)
_ Other permanent differences	(0.1%)	(430)	(0.4%)	(2,305)
IRES taxes for the year through profit or loss	18.2%	99,520	22.0%	122,004

(€ THOUSANDS)	2019		2020	
	TAX RATE	BALANCE	TAX RATE	BALANCE
IRAP				
EBIT for IRAP		516,042		603,299
IRAP tax calculated based on the theoretical tax rate	4.2%	21,674	4.2%	25,339
Changes compared to the theoretical rate				
_ Taxes for previous years	0.1%	300	0.0%	24
_ Temporary tax adjustment	0.0%	59		
_ Regional IRAP adjustments	0.5%	2,960	0.7%	4,012
_ Other permanent differences	(0.1%)	(585)	0.1%	600
IRAP taxes for the year through profit or loss	4.7%	24,408	5.0%	29,975

An analysis of deferred tax assets and liabilities based on the nature of the significant temporary differences that generated them can be found in the note "Deferred tax liabilities".

Pursuant to Article 157 of Decree-Law no. 34 of 19 May 2020, converted, with amendments, by Law no. 77 of 17 July 2020, amended by Article 22-bis of Decree Law no. 183 of 31 December 2020, converted, with amendments, by Law no. 21 of 26 February 2021, notifications of investigations, disputes, imposition of penalties, recovery of tax credits, settlements and adjustment and settlement, for which the time limits expired between 8 March 2020 and 31 December 2020 - including documents relating to IRES and IRAP declarations for the 2015 tax year - had to be issued by 31 December 2020, but may be filed in the period between 1 March and 28 February 2022.

TAXES RELATED TO COMPONENTS OF COMPREHENSIVE INCOME

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

(€ THOUSANDS)	2019			2020		
	GROSS VALUE	TAX IMPACT	NET TAX VALUE	GROSS VALUE	TAX IMPACT	NET TAX VALUE
Remeasurement of defined-benefit plans for employees	18,467	(5,210)	13,257	22,814	(6,406)	16,408
Change in fair value of cash flow hedge derivative financial instruments	10,682	(2,564)	8,118	21,003	(5,041)	15,962
Other components of comprehensive income	29,149	(7,774)	21,375	43,817	(11,447)	32,370
Deferred tax assets/liabilities		(7,774)			(11,447)	

33) Profit (loss) per share

The earnings per basic share, equal to €0.47, was calculated by dividing the net profit attributable to Italgas (€382,972 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 €0.47 per share.

The diluted earnings per share is calculated by dividing the net profit attributable to Italgas (€382,972 thousand) 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 grant plans. The diluted earnings per share, calculated also considering the co-investment plan, was €0.47 per share.

34) 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 below:

(€ THOUSANDS)	31.12.2019			2019				
	RECEIVABLES	PAYABLES	GUARANTEES AND COMMITMENTS	COSTS (A)			REVENUE (B)	
				ASSETS	SERVICES	OTHER	SERVICES	OTHER
Parent company								
– Cassa Depositi e Prestiti		27			137			
		27			137			
Companies under joint control and associates								
– Umbria Distribuzione Gas	388				39		604	76
– Metano Sant'Angelo Lodigiano	110				(43)		256	38
	498				(4)		860	114
Companies owned or controlled by the State								
– Eni Group	189,412	7,449	13		979		666,069	8,370
– Snam Group	3,258	4,212			314		709	1,396
– Enel Group	36,889	(79)			302		140,669	2,026
– Anas Group	12	603			342			
– Ferrovie dello Stato Group	251	270			395			299
– GSE Gestore Servizi Group	2,251	(29)			(2,519)			4
– Poste italiane Group	292	755			846		299	
– Saipem Group		2,028			915			
					1,574		807,746	12,095
Other related parties								
– Cubo Gas					1			
	232,365	15,209	13		1			
Total	232,863	15,236	13		1,708		808,606	12,209

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

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

(€ THOUSANDS)	31.12.2020			2020				
	RECEIVABLES	PAYABLES	GUARANTEES AND COMMITMENTS	COSTS (A)			REVENUE (B)	
				ASSETS	SERVICES	OTHER	SERVICES	OTHER
Parent company								
_ Cassa Depositi e Prestiti		100			143			
		100			143			
Companies under joint control and associates								
_ Umbria Distribuzione Gas	201						614	37
_ Metano Sant'Angelo Lodigiano	347				(2)		306	95
_ Gesam Reti	29							
_ Valdarno in liquidation		140			421	272		
	577	140			419	272	920	132
Companies owned or controlled by the State								
_ Eni Group	204,005	17,405		3,593	762	1,406	690,242	6,131
_ Snam Group	4,859	4,691		122	288	2	235	1,499
_ Enel Group	42,606	2,485		1	148	415	162,030	1,524
_ Anas Group	22	731			2	385		63
_ Ferrovie dello Stato Group	208	72			7	758		146
_ GSE Gestore Servizi Group	1,581	(31)			4	18,963		5
_ Poste italiane Group	3	354			577		5	
_ Terna Group								16
_ Saipem Group		187			311			
	253,284	25,894		3,716	2,099	21,929	852,512	9,384
Other related parties								
_ Eur Group		4				2		
		4				2		
Total	253,861	26,138		3,716	2,661	22,203	853,432	9,516

(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 mostly regarded IT supplies to Umbria Distribuzione Gas S.p.A. and Metano Sant'Angelo Lodigiano S.p.A.

The main receivable commercial transactions mainly regard IT services.

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 can be broken down as follows:

(€ THOUSANDS)	31.12.2019		2019	
	RECEIVABLES	PAYABLES	INCOME	EXPENSE
Parent company				
– Cassa Depositi e Prestiti				296
				296
Companies under joint control and associates				
– Valdarno in liquidation		3,167		
		3,167		
Companies owned or controlled by the State				
– Eni Group			128	
			128	
Total		3,167	128	296

(€ THOUSANDS)	31.12.2020		2020	
	RECEIVABLES	PAYABLES	INCOME	EXPENSE
Parent company				
_ Cassa Depositi e Prestiti				299
				299
Companies under joint control and associates				
_ Valdarno in liquidation		2,633		
		2,633		
Total		2,633		299

RELATIONS WITH THE PARENT COMPANY CDP

The main financial transactions carried out with CDP specifically concern commissions on subscribed loans.

The main financial relationships with Valdarno S.r.l. in liquidation relate to rent payable for rights of use (pursuant to IFRS 16).

Transactions with Directors, Statutory Auditors and key managers, with reference in particular to their remuneration, are described in the note "Operating costs", to which reference is made.

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)	2019			2020		
	TOTAL	RELATED ENTITIES	INCIDENCE %	TOTAL	RELATED ENTITIES	INCIDENCE %
Statement of financial position						
Trade and other receivables	585,230	232,308	39.7%	635,028	253,182	39.9%
Other current non-financial assets	54,789	10	0.0%	84,168	5	0.0%
Other non-current non-financial assets	129,421	545	0.4%	167,441	674	0.4%
Short-term financial liabilities	581,157	521	0.1%	698,406	536	0.1%
Trade and other payables	726,714	15,059	2.1%	767,555	25,963	3.4%
Other current non-financial liabilities	9,461	177	1.9%	9,118	175	1.9%
Long-term financial liabilities	4,171,497	2,646	0.1%	4,707,145	2,097	0.0%
Other non-current non-financial liabilities	558,433			546,054		

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

(€ THOUSANDS)	2019			2020		
	TOTAL	RELATED ENTITIES	INCIDENCE %	TOTAL	RELATED ENTITIES	INCIDENCE %
Income Statement						
Revenue	1,820,020	808,606	44.4%	2,058,442	853,432	41.5%
Other revenue and income	73,419	12,209	16.6%	68,844	9,516	13.8%
Costs for raw materials, consumables, supplies and goods	143,054	(486)	(0.3%)	123,896	3,716	3.0%
Costs for services	481,547	2,967	0.6%	535,589	2,661	0.5%
Costs for leased assets	83,857	705	0.8%	87,555	1,414	1.6%
Personnel cost	239,544			268,164		
Other expenses	20,779	(1,478)	(7.1%)	20,124	20,789	
Financial expense	70,610	296	0.4%	54,507	299	0.5%
Financial income	1,315	128	9.7%	5,298		

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)	2019	2020
Revenue and income	820,815	862,948
Costs and charges	(1,708)	(28,580)
Change in trade and other current receivables	(18,593)	(20,874)
Change in other assets	(10)	(124)
Change in trade and other payables	(141,581)	10,904
Change in other current liabilities		(2)
Interest collected (paid)	(168)	(299)
Net cash flow from operating activities	658,755	823,973
Net investments		
– Equity investments	141,353	(520)
Net cash flow from investment activities	141,353	(520)
Dividends distributed to minority shareholders	(74,883)	(81,944)
Increase (decrease) in financial debt		(534)
Net cash flow from financing activities	(74,883)	(82,478)
Total cash flows to related entities	725,225	740,975

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

(€ THOUSANDS)	2019			2020		
	TOTAL	RELATED ENTITIES	INCIDENCE %	TOTAL	RELATED ENTITIES	INCIDENCE %
Cash flow from operating activities	725,022	658,755	90.9%	763,507	823,973	107.9%
Cash flow from investment activities	(701,831)	141,353	(20.1%)	(773,472)	(520)	0.1%
Cash flow from financing activities	100,570	(74,883)	(74.5%)	411,754	(82,478)	(20.0%)

35) Significant non-recurring events and transactions

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

36) Positions or transactions arising from atypical and/or unusual transactions

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

37) Significant events after year end

Further significant events occurring after year end are described in the section "Other information" in the financial statements.

38) Publication of the financial statements

The financial statements were authorised for publication by the Board of Directors of Italgas at its meeting of 10 March 2021. The Board of Directors authorised the Chairman and the Chief Executive Officer to make any changes which might be necessary or appropriate for finalising the form of the document during the period between 10 March and the date of approval by the Shareholders' Meeting.

CERTIFICATION OF THE CONSOLIDATED 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 consolidated financial statements during the course of 2020.

2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 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 Organizations 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 consolidated financial statements at 31 December 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 annual report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

10 March 2021

Chief Executive Officer

Executive responsible for preparing the corporate accounting documents

Paolo Gallo

Giovanni Mercante



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

INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Italgas S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Italgas S.p.A. and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 december 2020, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Italgas S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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.

Investments in service concession agreements related to the natural gas distribution and metering service and evaluation of their recoverable amount

Description of the key audit matter As of 31 December 2020, the Group accounts for intangible assets including the captions “Service concession agreements” and “Work in progress and payments on account IFRC 12”, respectively equal to Euro 6.560.975 thousand and Euro 315.206 thousand, mainly related to investments made for development and maintenance of the infrastructures related to the service concession agreements for the natural gas distribution and metering service. Investments made in the financial year relating to these items of intangible assets totalled EUR 668.738 thousand. The goodwill allocated to the cash-generating unit for the distribution and metering of natural gas amounts to Euro 64.000 thousand.

The natural gas distribution and metering sector is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, “ARERA”), which defines, among the others, the rules for the remuneration of the natural gas distribution and metering service. In particular, the regulated revenues for the natural gas distribution and metering service provided by the Group are determined by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized (RAB – Regulatory Asset Base), of the relative depreciation and of some operating expenses – the so-called “revenue cap”. The RAB value is determined by ARERA mainly through the “revalued historical cost” method.

At the end of the financial year, the Group's management assessed the recoverability of non-financial fixed assets related to the natural gas distribution and metering service.

The recoverability of these fixed assets is tested by comparing the carrying amount, represented by the net invested capital of the natural gas distribution and metering cash-generating unit with the recoverable amount represented by the higher of fair value and value in use.

In performing the impairment test, the recoverable amount of the assets was estimated based on the updated RAB at the balance sheet date. No impairment loss resulted from the test.

We believe that investments in service concession agreements related to the natural gas distribution and metering and the related impairment test represent a key audit matter for the Group's consolidated financial statements as of 31 December 2020 due to: (i) The relevance of the intangible assets related to such service concession agreements compared to the Group's total assets, (ii) the relevance of the investments made during the year, compared to the amount of the intangible assets for service concession agreements, (iii) their impact in determining the revenue cap for the remuneration of the natural gas distribution and metering service and (iv) the estimation component in determining the recoverable amount of the assets.

Paragraphs “3) Measurement criteria – Intangible assets”, “3) Measurement criteria – Impairment of non-financial fixed assets”, “5) Use of estimates”, “14) intangible assets” and “27) Revenue” of the consolidated financial statements include the disclosure on the investments for service concession agreements for the natural gas distribution and metering services and the relative impairment test.

Audit procedures performed

With reference to investments in service concession agreements for the natural gas distribution and metering services, our audit procedures included, among the others, the following:

- understand the processes for recognition of such investments in the financial statements and for impairment test;
- understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;
- critical analysis of the composition of the intangible assets caption, including the analysis of any unusual item;
- test the accurate start of depreciation when the asset is available for use, for the projects included in work in progress, even through the analysis of their aging;
- with reference to investments and disposals occurred during the period, selection of a sample of transactions and test of the compliance with the capitalization and disposal criteria provided by accounting standards;
- assessment of the consistency between the useful life used for the depreciation of the assets under concession and their regulatory useful life and reperforming of the periodic depreciation;
- obtain the impairment test calculation and discussion meetings with the Group's management in order to understand the impairment test methodology;
- assessment of the recoverable amount estimated by the Group and of the underlying assumptions (RAB determination) to the impairment test, also using the work of experts of the Deloitte network.

Finally, we assessed the adequacy of the disclosure provided in the notes to the consolidated financial statements and its compliance with the accounting standards.

Other aspects

The consolidated financial statements of the Group for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 16 April 2020.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Italgas S.p.A. has appointed us on 12 May 2020 as auditors of the Company for the years from 1 January 2020 to 31 December 2028.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Italgas S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Italgas Group as at 31 December 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Italgas Group as at 31 December 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Italgas Group as at 31 December 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Italgas S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Paola Mariateresa Rolli
Partner

Milan, Italy
25 March 2021

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