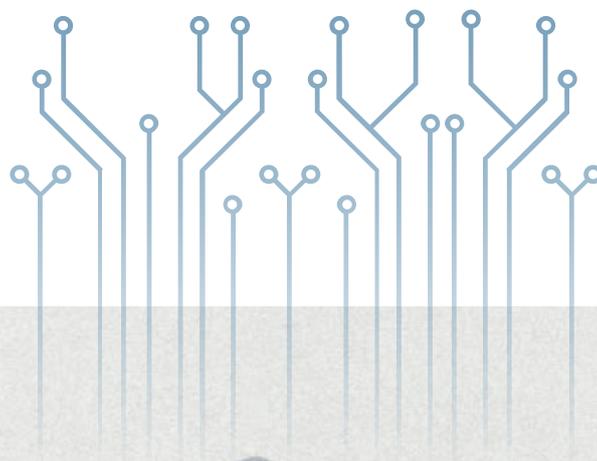
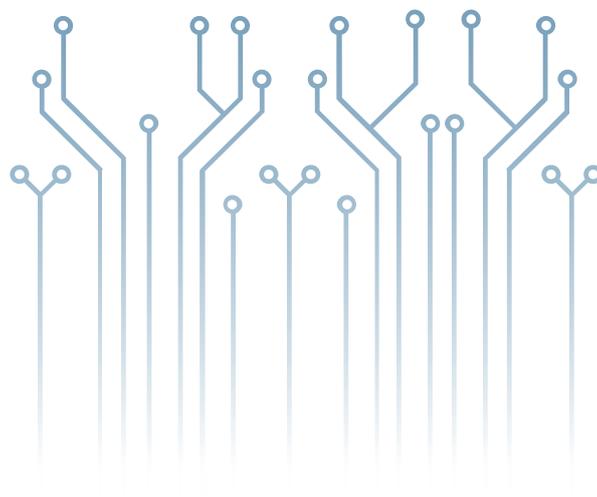
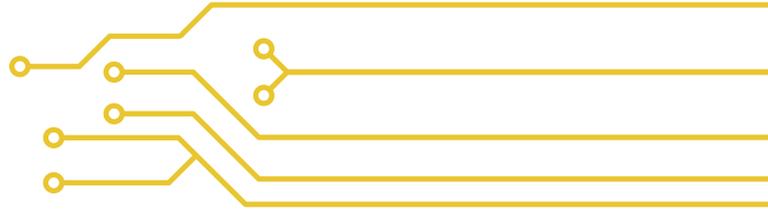


2019 Financial Report





2019 Financial Report



Values and mission

Every day, for more than 180 years, the work of the men and women at Italgas has allowed millions of Italians to use a sustainable, lasting and reliable source of energy.

A commitment that has never faltered, always based on expertise, efficiency, innovation, reliability and safety and drawing inspiration from the transparency of everyday business, the integrity of conduct and responsibility towards the communities served.

These principles, with which we have accompanied and fostered Italy's economic and social development, still today guide our action towards a fossil fuel-free economy, with the aim of helping to preserve the environment in which we live and promoting the use of energy that is efficient and sustainable for all.

Italgas, two centuries of history projected into the future.

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

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





Corporate bodies

BOARD OF DIRECTORS^a

Chairman

Alberto Dell'Acqua

CEO and General Manager

Paolo Gallo

Directors

Yunpeng He
Paola Annamaria Petrone
Maurizio Dainelli
Giandomenico Magliano
Veronica Vecchi
Andrea Mascetti
Silvia Stefini

CONTROL AND RISKS AND RELATED-PARTY TRANSACTIONS COMMITTEE^b

Paola Annamaria Petrone (Chairman)
Giandomenico Magliano
Silvia Stefini

Finance and Service General Manager^e

Antonio Paccioretti

INDEPENDENT AUDITORS^g

PricewaterhouseCoopers S.p.A.

BOARD OF STATUTORY AUDITORS^a

Chairman

Pierluigi Pace

Standing auditors

Maurizio Di Marcotullio
Marilena Cederna

Alternate auditors

Stefano Fiorini
Giuseppina Manzo

APPOINTMENTS AND REMUNERATION COMMITTEE^c

Andrea Mascetti (Chairman)
Maurizio Dainelli
Silvia Stefini

SUSTAINABILITY COMMITTEE^d

Giandomenico Magliano (Chairman)
Yunpeng He
Veronica Vecchi

SUPERVISORY BODY^f

Carlo Piergallini (Chairman)
Marcella Caradonna
Francesco Profumo

^a Appointed by the Shareholders' Meeting of 4 April 2019. In office until the date of the Shareholders' Meeting called to approve 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.

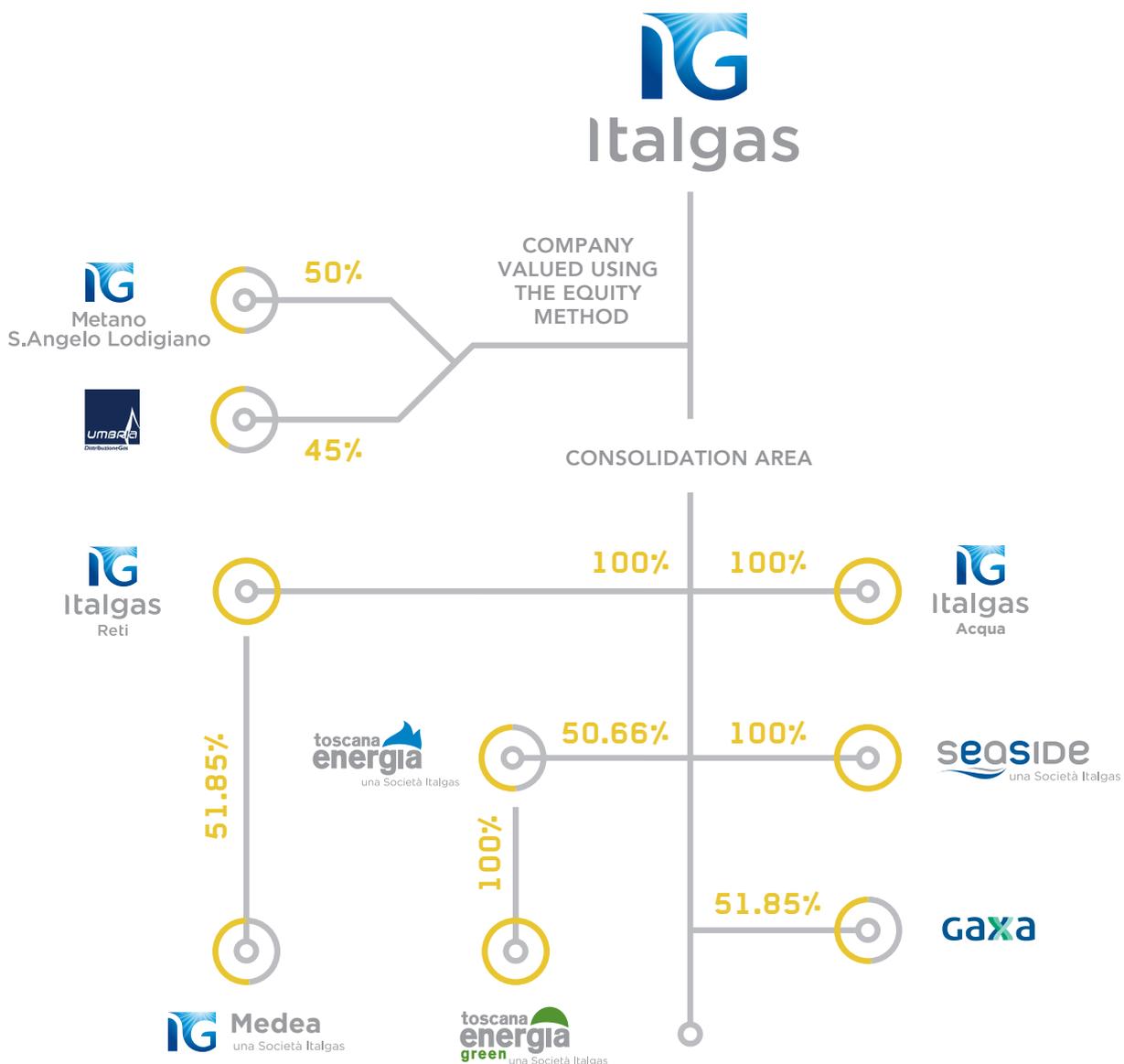
^f The Supervisory Body was appointed by the Board of Directors on 23 September 2019.

^g Engagement assigned by the Shareholders' Meeting of 28 April 2017 for the period 2017-2025.



Italgas Group structure as at 31 December 2019

The structure of the Italgas Group as at 31 December 2019 is shown below:



The scope of consolidation at the end of 2019 had changed compared to that as at 31 December 2018 due to:

- the merger on 12 March 2019, with statutory effects from 1 April 2019, of Fontenergia S.r.l., Fontenergia 4 S.r.l., Fontenergia 6 S.r.l., Fontenergia 7 S.r.l., Fontenergia 9 S.r.l., Fontenergia 10 S.r.l., Fontenergia 11 S.r.l., Fontenergia 15 S.r.l., Fontenergia 19 S.r.l., Fontenergia 26 S.r.l., Fontenergia 27 S.r.l., Fontenergia 35 S.r.l. and Fontenergia 37 S.r.l. into Medea S.p.A., and of Naturgas S.r.l., Grecanica Gas S.r.l., Progas Metano S.r.l., Baranogas Reti S.r.l., Favaragas Reti S.r.l., Sicilianagas Reti S.r.l. and Ischia Reti Gas S.r.l. into Italgas Reti;
- the acquisition by CPL Concordia Soc. Coop., on 17 April 2019, of the remaining 40% of EGN S.r.l. share capital;
- the acquisition by Conscoop Soc. Coop., on 30 April 2019, of 100% of Mediterranea S.r.l. share capital from Italgas Reti S.p.A., the Aquamet and Isgas Energit Multiutilities business units held respectively by Italgas Reti S.p.A. and Medea S.p.A. and 10% of Isgastrentatrè S.p.A. share capital from Medea S.p.A.;
- the establishment on 7 May 2019 of Medea NewCo S.r.l. to sell natural gas, LPG and propane air (the company later changed its name to Gaxa and became a joint stock company);
- the merger on 29 July 2019, with statutory effects from 1 August 2019, of EGN and its subsidiaries into Italgas Reti S.p.A.;
- the acquisition on 25 September of the natural gas distribution business unit of Sienergas Distribuzione S.r.l. by Italgas Reti S.p.A.;
- the acquisition of control of Toscana Energia S.p.A. following the purchase of 0.58% of the share capital held by Banca Monte Paschi di Siena S.p.A. and 1.98% held by five Tuscan municipal authorities that exercised the right of withdrawal, respectively finalised on 20 May 2019 and 1 October 2019. In turn, Toscana Energia S.p.A. owns 100% of Toscana Energia Green S.p.A.;
- the merger on 1 November 2019 of Mediterranea S.r.l. into Italgas Reti S.p.A.;
- the acquisition on 12 December 2019 of 10% of Enerpaper share capital by Seaside S.r.l. and
- the finalisation on 18 December of the disposal to Fondo Marguerite II (specifically to Marguerite Gas III S.à.r.l. and Marguerite Gas IV S.à.r.l.) of a 48.15% minority interest in the share capital, respectively, of Medea S.p.A. and Gaxa S.r.l.

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Disclaimer

The Annual Report contains forward-looking statements, specifically in the "Business outlook" section, relating to: investment plans, 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, 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.

01



Letter to Shareholders and Stakeholders



Dear Shareholders and Stakeholders,

2019 concluded the third financial year since the return to the stock market on 7 November 2016: three intense years that have seen your Company regain its leadership of the natural gas industry in Italy and capture a major role at European level.

Investments to increase network safety, modernize and digitize it, numerous M&A transactions, entry into areas of the country not yet reached by natural gas, entry into new business areas and, especially, the digital transformation undertaken by the entire company, are what have characterised these three years, proving that your Company has recovered that positive innovative spirit, that vision and that DNA that have set it above the rest since 1837.

The digital transformation - at the heart of the 2019-2025 Business Plan - is the toughest challenge that Italgas has to face and in the next few years will see it committed to: digitization of assets and processes, introduction of new technological tools to support the day-to-day work, development of digital skills for staff that will lead Italgas into the “fourth industrial revolution”.

The Digital Factory - launched at the end of 2018 - has come to symbolize our capacity to innovate and digitally transform the company. Multifunctional teams of the Factory work on 4.0 projects and solutions that will profoundly change the way we manage the network and services, allowing us to improve process efficiency and speed and the quality of services provided to our customers.

Through this technology transformation model, which has forced such a major change in the speed of the gas distribution business, and the results already achieved, Italgas has become a global benchmark, and not only for operators in the sector. In the last year, in fact, Memorandum of Understanding have been signed with



international companies, such as the State Grid Corporation of China, Picarro in the United States, the French GRDF and the Greek EDA THESS, and yet more pending finalisation, with the aim of simplifying the exchange of skills and experience in network management, as well as strengthening partnerships for the development of common activities.

In a scenario of enormous changes - economic, social and environmental - your Company, too, is actively participating in the transition towards a carbon-free economy. With responsibility towards the communities and regions in which we operate, we are transforming our activities, processes and infrastructures in such a way that natural gas becomes the key source of energy in this transition process. It is the only readily available economic solution for significantly reducing greenhouse gas and particulate matter emissions, replacing coal in energy production, and oil derivatives in heating, and in the medium term will be the renewable energy driver for Power to Gas storage.

In 2019, Italgas' Sustainability Plan led to its inclusion in the prestigious Dow Jones Sustainability World Index, an important recognition that Italgas has achieved, the only Italian company in the segment, in addition to its recent confirmation in the FTSE4Good index, plus the renewed inclusion in the CDP (Carbon Disclosure Project), MSCI Italy Small Cap Index, ECPI Euro ESG Equity and ECPI World ESG Equity.

With investments amounting to €740 million, up 41.6% on the previous year, more than twice the net profit achieved, the Company has shown it is capable of mobilizing major investments to develop, maintain and digitize the network, and for the natural gas distribution project in Sardinia.

Italgas installed 2.1 million smart meters in 2019, for a total of €6.8 million, now accounting for around 80% of our total stock of meters. With completion of the project expected during 2020, the number of digital devices and sensors installed on the network will increase exponentially, allowing a more accurate metering and monitoring of gas consumption, prevention of faults and leaks, predictive management of maintenance tasks, improving efficiency and quality of service.

New distribution networks have been acquired, bringing the total to over 50 thousand delivery points (€108 million in terms of enterprise value), and with the purchase of a further 2.56% of Toscana Energia share capital (for €13.7 million), your Company has acquired control and is arranging its related consolidation.

Investments, M&A transactions, dividends paid, consolidation of Toscana Energia, yet the Company has in any event limited its borrowing to €4.4 billion, of which around 87.8% at fixed rate, optimised by new issues for €1.1 billion and a buyback transaction for €650 million.

As a result of the operating efficiency achieved, the adjusted net profit attributable to the Group has risen by 9.4% to €345.2 million, generating earnings per share of €0.427: these amazing results, in compliance with the current dividends policy, allow us to propose a dividend distribution of 0.256, up by 9.4% compared to 2018 and representing the capacity of everyone at Italgas to combine change, innovation and improvement with the satisfaction of its Shareholders.

11 March 2020
FOR THE BOARD
OF DIRECTORS

CHAIRMAN
Alberto Dell'Acqua



CEO
Paolo Gallo



02

Consolidated highlights

Economic and financial highlights

Total revenue
€1,257.9 million
 +6.8% compared to 2018

EBITDA
€907.5 million
 +8.1% compared to the 2018 result

EBIT
€516.0 million
 +13.8% compared to the 2018 result

Net profit¹
€417.2 million
 +33.0% compared to the 2018 net profit

Adjusted net profit²
€345.2 million
 +9.4% compared to the adjusted 2018 result

Investments
€740.0 million
 (€522.7 million in 2018)

Cash flow from operating activities³
€697.2 million
 (€718.7 million in 2018)

Proposed dividend of
€0.256 per share
 +9.4% compared to the dividend paid in 2019

1 Net profit refers to that attributable to the Italgas Group, net of the portion attributable to minority interests.
 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 and IFRS 16.



Operating highlights⁴

Installed
1,780.1 thousand
new smart meters
to replace traditional meters

Distribution network
increased by
1,979 Km
(of which 1,647 km from M&A
transactions completed in 2019)

Municipalities with gas
distribution service
concessions rose to
1,830
(1,808 as at 31 December 2018),
of which 1,744 operating
(1,722 as at 31 December 2018)
mainly as a result of M&A transactions
(+22 municipalities
operative).

4 Taking into account participated companies.

03



Italgas and the financial markets

Significant increase for global shares in 2019. In the first half of the year, listed prices were supported by expectations of expansionary monetary policies from the central banks, so as to combat the ongoing economic deceleration. After 4 rate rises in 2018, between July and October 2019 the Fed actually cut the reference rate 3 times, whilst the ECB approved a new TLTRO programme and QE purchase programme to stimulate a recovery in inflation. In the second half, the markets also received support from the gradual mitigation of risk factors, particularly in reference to the return to US-China trade negotiations and the finalisation of an agreement between the United Kingdom and the EU to avoid a no-deal Brexit, as well as expectations relating to the adoption of tax incentives in Germany, that have led to a significant recovery in Eurozone core sovereign returns compared to the new all-time lows recorded at the end of August.

With prices adjusted for dividends paid, the Euro Stoxx share index closed up 27.3%, with significantly consistent performances among the main national indices; +25.5% for the Frankfurt DAX compared with +30.5% for the Paris CAC 40. The FTSE Mib (+33.8%) was the best performer.

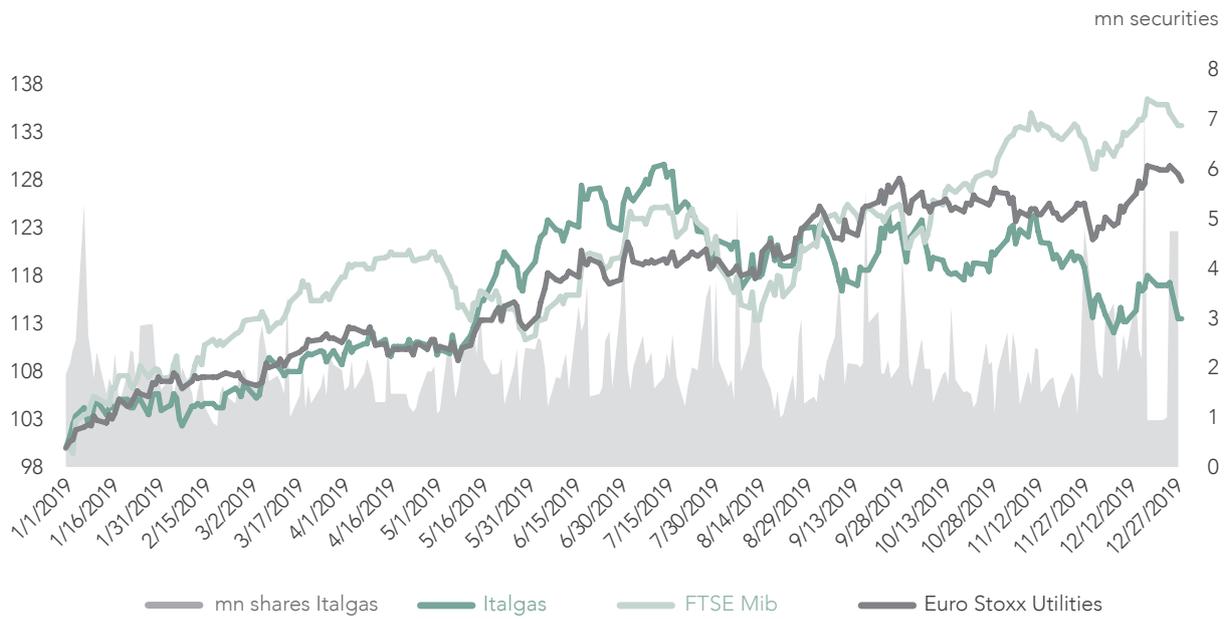
The Euro Stoxx Utilities rose by 28.0%, generally in line with the Eurozone benchmark; the sector index was essentially supported by integrated operators due to their growth forecasts.

The Italgas stock closed 2019 up by 13.5% compared to the 2018 year end, taking into account the dividend of €0.234 per share paid on 20 May and a year-end price of €5.444, up 9.0% on the price at the end of 2018 (€4.996). On 15 July the share peaked with a closing price of €6.228.



During the year, the average daily trading volume of the Italgas stock on the electronic market of the Italian Stock Exchange was 2.1 million shares, with a greater concentration of trades as quarterly results were announced, the dividend payment and updating of the Strategic Plan presented in June 2019.

**Comparison of the Italgas, FTSE MIB and EURO STOXX Utilities prices
(1 January 2019-31 December 2019, figures adjusted for dividends)**



3.1 Shareholders

The share capital of the Company as at 31 December 2019 consisted of 809,135,502 shares without par value, giving a share capital value of €1,001,231,518.44.

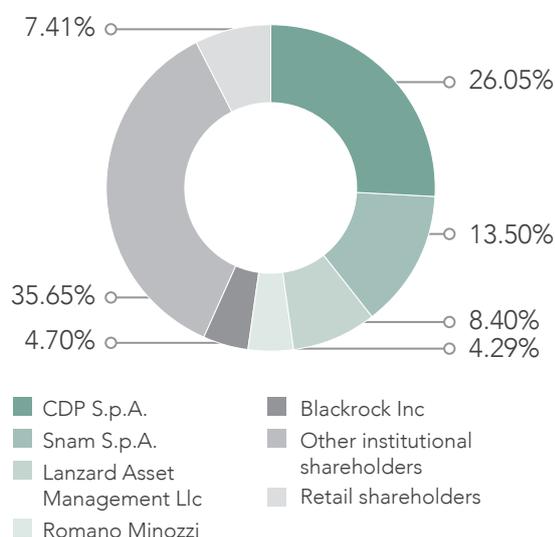
As at 31 December 2019, based on the shareholders' list, the information available and the notices received pursuant to Article 120 of the Consolidated Finance Act, the owners of significant equity investments (shares exceeding 3%) are represented below.

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	8.40
	Romano Minozzi	4.29
	Blackrock Inc.	4.70
	Other institutional shareholders	35.65
	Retail shareholders	7.41

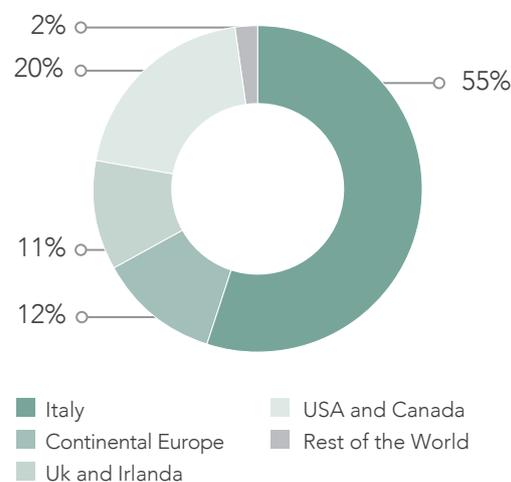
* On 1 August 2019, also to take into account guidance on control contained in Consob Communication no. 0106341 of 13 September 2017, the CDP S.p.A. Board of Directors reclassified its investment in Italgas as a controlling interest pursuant to Article 2359, paragraph 1.2) of the Italian Civil Code and Article 93 of the Consolidated Finance Act (TUF), exercising control through CDP Reti with a 26.05% interest and through Snam with a 13.50% interest. CDP does not exercise management and coordination activities over Italgas pursuant to Article 2497 et seq. of the Italian Civil Code.

** On 20 October 2016, a shareholders' agreement was concluded between Snam, CDP Reti and CDP Gas, with effect from the date of the demerger of Italgas S.p.A., i.e. 16 November 2016. Effective as of 1 May 2017, CDP Gas was merged by incorporation into CDP. Then on 19 May 2017, CDP sold *inter alia* its 0.969% interest in Italgas S.p.A. to CDP Reti. CDP Reti is 59.1% owned by CDP, 35% by State Grid Europe Limited - SGEL, a company in 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 into consideration the aforementioned reclassification of the equity interest.

Italgas Shareholders by type of investor



Italgas Shareholders by geographical area



04



The Italgas Group

4.1 Overview of Italgas

Italgas is the leader in Italy in the industry of natural gas distribution and is the third largest operator in Europe for the number of end customers served. In particular, with its participated companies and over 4,100 staff, Italgas manages a network spanning a total of 70,000 kilometres and serves over 7.5 million end customers. Its current market share is more than 35%.

The distribution service consists of transporting gas through local pipeline networks, from points of delivery at the reduction and measurement stations interconnected with the transport networks ("city-gates") up to the final delivery points to customers (households, enterprises, etc.).

Furthermore, Italgas is engaged in metering activities, which consist of determining, gathering, making available and archiving metering data on natural gas withdrawn over the distribution networks.

Italgas is subject to regulation by the Italian Regulatory Authority for Energy, Networks and Environment (also referred to as the Authority or ARERA), which defines both how to conduct the service and the rates for distribution and metering.

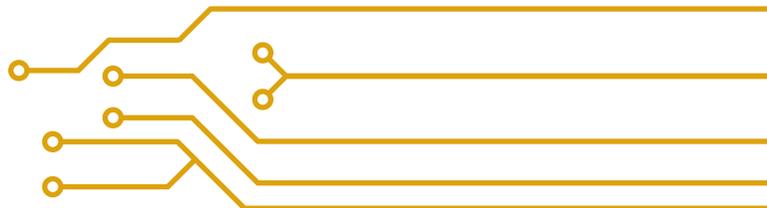
Gas distribution is traditionally carried out under concession by awarding the service on a municipal basis. In 2011, four ministerial decrees were adopted to reform the regulations regulating the sector. Specifically, a special decree established 177 minimum geographical areas ("ATEM") based on which the new concessions should be awarded.



The gas distribution service is performed by transporting the gas on behalf of authorised sales companies for marketing to end customers.

The relationship between the distribution companies and sales companies is governed by a special document called the "Network Code," which specifies services performed by the distributor. These are broken down into main services (gas distribution service; technical management of the distribution plant) and ancillary services (start-up of new plants; activation, deactivation, suspension and reactivation of supply to end customers; group verification of metering at the request of end customers, etc.).

05



Summary figures and information

5.1 Main events

Extraordinary and M&A transactions

On 17 April 2019, the **call option** was **exercised** to purchase, from CPL Concordia Soc. Coop., the residual 40% of EGN, for a total price of €20.9 million, net of €21.0 million for repayment of the shareholder loan disbursed by CPL Concordia.

On 30 April 2019 the **acquisition** was **finalised** by Conscoop Soc. Coop.:

- for the **Aquamet S.p.A. business unit**, including, among others, 9 concessions for the distribution of natural gas in some municipalities in Lazio, Campania, Basilicata and Calabria, for a total of 23,800 users served;
- for **100% of Mediterranea S.r.l.**, holder of 6 concessions for the distribution of natural gas in the province of Salerno, with approximately 3,600 users served;
- for the **Isgas Energit Multiutilities S.p.A. business unit**, holder of the concessions for the distribution of propane air in the Sardinian municipalities of Cagliari, Nuoro and Oristano, for a total of approximately 22,300 users currently served with LPG.

The total enterprise value for these acquisitions was set at €68.6 million.

Furthermore, in the context of the same agreement with the CONSCOOP Italgas Group through the subsidiary Medea, it has completed the **acquisition of 10% of the share capital of Isgastrentatrè S.p.A.**, holder of the concession for the distribution of propane air in the Bacino 33 area in Sardinia. The agreement for the acquisition of Isgastrentatrè requires the commitment to acquire the remaining 90% of the share capital on the occurrence of some conditions, including the conversion to natural gas of the network currently fed with propane air with the specification that, should the conditions not be fulfilled, Italgas has the right to resell and Conscoop the duty to repurchase the 10% interest at a price equal to the purchase price.



On 25 September 2019, the **purchase from Sienergas Distribuzione S.r.l.** of the business unit relating to natural gas distribution in the municipality of Cannara (Perugia) was **finalised**. This infrastructure is 35 kilometres long and serves about 1,500 users.

Transfer to Italgas S.p.A. completed on 20 May and 1 October 2019 respectively of **858,016 shares and 2,897,778 shares**, corresponding to 0.58% and 1.98% of the share capital of **Toscana Energia**, by Monte dei Paschi di Siena and five Tuscan municipalities that exercised the right of withdrawal, for a total consideration of €13.7 million. Following the acquisition of control of Toscana Energia by Italgas, the new Bylaws stemming from the agreement between Italgas and the public shareholders came into effect. These Bylaws had previously been approved by the extraordinary shareholders' meeting held on 28 June 2018.

On 7 October 2019, **Italgas and A2A signed an agreement for the swap disposal of a number of non-core business assets** with a view to strengthening their respective core businesses. In particular, Italgas Reti is committed to selling to A2A Calore & Servizi the set of district heating activities currently managed in the municipality of Cologno Monzese. At the same time, Unareti (A2A Group) will sell to Italgas the natural gas distribution activities managed in seven Municipalities in the Alessandria 4 ATEM.

On 15 November 2019, the **demerger agreement was signed** for the sales business unit of **Medea S.p.A.** to Medea NewCo S.r.l., established on 7 May 2019 with the purpose of operating in the methane, LPG and propane air sales sector and in the future also methane gas, and the decision was made to change the latter's company name to **Gaxa S.r.l.** with effect from 1 December 2019.

On 12 December 2019, the subsidiary Seaside **finalised the purchase of 10%** of the share capital of **Enerpaper**, an innovative start-up that has a technology for thermal insulation of buildings.

On 18 December 2019, the Luxembourg-based fund Marguerite II, through **Marguerite Gas III S.à.r.l.** and **Marguerite Gas IV S.à.r.l.**, **purchased 48.15% of the share capital of Medea S.p.A. and Gaxa S.r.l., respectively** (the transformation of Gaxa into a joint stock company became effective from 14 January 2020). This sale follows the signing on 1 August 2018 of the **agreement** with **Fondo Marguerite II**, which envisaged the acquisition of 48.15% of Medea and Gaxa share capital through an initial investment of around €25 million and subsequent share capital increases for a total of approximately €44 million, mainly to pro-rata finance the investments in Sardinia envisaged in the Italgas 2019-2025 Business Plan. The value allocated to 100% of the assets as at 1 January 2019 was €91.2 million.

In addition, with the aim of streamlining the Group organisational structure, the following transactions were finalised:

On 12 March 2019, with statutory effects from 1 April 2019 and accounting and tax effects from 1 January 2019, **the deed of merger was signed for** (i) 13 **Fontenergia** companies operating in Sardinia into Medea and (ii) the companies **Naturgas, Grecanica Gas, Progas Metano, Baranogas Reti, Favaragas Reti, Sicilianagas Reti and Ischia Reti Gas** into Italgas Reti.

On 29 July 2019, with statutory effects from 1 August 2019 and accounting and tax effects from 1 January 2019, the **deed of merger was signed for the merger of EGN S.r.l., EGN Distribuzione S.r.l., Ischia Gas S.r.l. and Marigliano Gas S.r.l. into Italgas Reti S.p.A.**

On 21 October 2019, with statutory effects from 1 November 2019 and accounting and tax effects from 1 January 2019, the **deed of merger was signed for the merger of Mediterranea S.r.l. into Italgas Reti S.p.A.**

Anticorruption Certification

For the second 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. Among the Management System's strengths, the certification body recognised the consolidated company controls designed to prevent and mitigate the risk of corruption, as well as the sensitisation and awareness of Italgas personnel regarding the importance of their role in managing the risk.

Extension of the scope of certification will allow certification to be obtained for the anti-bribery systems adopted and effectively implemented by all the Group companies. This milestone will constitute an additional guarantee and recognition of the adequacy and effectiveness of controls adopted by the Italgas Group in preventing and combating corruption phenomena.

Innovation, digitization of the corporate networks and processes

Some time ago, Italgas began an extensive, ambitious technology innovation plan, in the conviction that digital transformation, when extended to all areas of natural gas distribution, will be a driving element in a service characterised by the highest standards of quality and safety.

In November 2018, Italgas launched its own Digital Factory, a structure dedicated to the transformation and digitization of business processes that will leverage the new working methods envisaged by Design Thinking and Agile. During 2019 a number of important solutions in support of the network digitization were released and launched:

- **Integrated management of the leak detection process:** Through its partnership with the US company Picarro, with which a partnership agreement was signed effective from 11 April 2019, Italgas has introduced smart software to detect the presence of gas (Cavity Ring-Down Spectroscopy - CRDS) on leak detection vehicles. Unlike traditional methods, the new technology offers major benefits in terms of speed of action and the extent of areas checked in that it does not require the vehicle to follow the path of underground pipes, thereby overcoming the problem of potential obstacles en route, and exponentially widens the volume of the above-ground area monitored. Introduction of the new technology improves efficiency in the detection of gas leaks so that safety measures can be quickly adopted. In addition, the Picarro risk model also assesses which portions of the network are most susceptible to leaks, thereby allowing prompt and targeted action.
- **Digitization of network assets:** starting from smart meters, Italgas is continuing the installation of sensors dedicated to measuring distribution network operating parameters,

with a view to remote control and monitoring of their good working order. The management of field data output by these sensors is through an IoT Platform developed during 2019. To allow the collection and management of the field data, transmitted through this platform, the “Data Lake” was also developed and specific remote processing applications were adopted that are not just limited to generating and analysing historic data to generate reports, but have the objective of supporting Italgas technicians in making forward-looking assessments. In fact, through real-time monitoring of the main parameters and related KPIs of the distribution system, based on numerous diagnostics techniques, it is possible to implement decision-making processes to reduce faults and disservice by increasing system reliability. Lastly, to increase the percentage of readings transmitted by the smart meters and the lifecycle of batteries embedded in the latest generation meters, over the last quarter the adoption of a NarrowBand IoT solution has been successfully tested.

- **Integrated Supervision Centre (CIS):** a new work area for the central control room equipped with a videowall, which introduces new and innovative functions for supervising, monitoring and geolocation of alerts originating from the network and systems. Data capture on the network via alerts or specific analyses and transfer to the local area of the dataset required to take effective and efficient action in the field are of extreme importance to Italgas, which has always invested so as to guarantee increasingly improved levels of service and safety.
- **Optimisation of worksite supervision and testing:** with the aim of reducing the time needed to carry out controls and the related commitment required in the field, increasing the quality of the controls, a pilot application has been developed for the remote testing of the quality of works carried out by third parties on the network. Improved efficiency of the supervisory process therefore comes through the opportunity of having more frequently updated information on the progress status of worksites. This application is based on simplification of the remote control and validation processes of works carried out by third parties on the network through a constant feedback approach, also possible due to the real-time submission of worksite photos, to which machine and deep learning concepts are applied in order to analyse and assess works progress. Moving at the same pace, automation of the map updating process, with geolocated census of all sub-services reported as in progress, will allow expansion of the dataset relating to the assets laid and act promptly and in a targeted manner both for routine network maintenance and during emergencies.
- **Activity scheduling:** through the development of specific algorithms and review of the activity scheduling processes, the solution optimises work assignment to Italgas operations teams, also making use of geolocation data, envisaging automatic reassignment in the event of sudden changes as well as push notifications to customers for appointment management. In the final quarter of 2019, the room implemented suitable preparations for extending the solutions also to contracted companies used by Italgas to carry out works in the field.
- **Knowledge transfer:** through the introduction of viewers, certified and selected by a worldwide scouting technology, solutions have been designed and implemented to provide technicians in the field with remote expert support. The aim is to provide field technicians with a simplified procedure, using a hands-free approach, to carry out works, in addition to the option of simplifying and speeding up the final accounting process for the works. The possibility of recording activities by the operators was used to create training sessions that can be accessed via desktop, but also directly through the viewers, to support activity in progress.

Cooperation also continues with the main Italian universities (Polytechnic of Turin, MIP Polytechnic in Milan, Università Commerciale Luigi Bocconi, Libera Università Internazionale degli Studi Sociali Guido Carli - "Luiss") for the promotion and development of specific initiatives in the area of management, digital transformation and continuous improvement with projects aimed at meeting business needs.

Cooperation and consultancy agreements

On 28 April 2019 a Memorandum of Understanding was signed with State Grid Corporation of China, the largest energy utility company in the world, to assess possible joint initiatives in the natural gas distribution sector, the use of biomethane in sustainable mobility, sustainability with a focus on environmental protection and energy efficiency.

On 23 May 2019 a consultancy agreement was signed with the Greek distribution company Eda Thess, 51% owned by Depa S.A. and 49% owned by Eni Gas e Luce S.p.A. and holder of concessions for the distribution of natural gas in the area of Thessaloniki, in order to allow the Greek operator to further improve the services offered to users and the safety of the gas distribution network.

Lastly, on 28 June 2019 a Memorandum of Understanding was signed with the French company GRDF - Gaz Réseau Distribution France – aimed at strengthening cooperation for the development of joint activities and the exchange of knowledge and experience in the management of networks, with particular regard to digitization and technological innovation. The cooperation between the two companies will be based on intense knowledge sharing of solutions and methods applied to the natural gas distribution sector, as well as partnering in the development of sustainable methane and biomethane powered mobility.

Optimisation of the debt structure and EMTN programme

On 24 July 2019, Italgas successfully completed the launch of the new fixed-rate bond issue maturing April 2030, for a total of €600 million and with an annual coupon of 0.875%.

On the same day, an Interest Rate Swap transaction was finalised with leading Italian banks (maturing November 2029), by which the EIB "Smart Metering" loan for €300 million became fixed rate at -0.056%.

On 23 September 2019, Italgas' Board of Directors decided to renew the EMTN Programme, launched in 2016 and renewed in 2017 and 2018, for a total nominal value of €5,000 million.

On 11 December 2019, Italgas completed a bond buyback relating to two bond issues - one for a nominal value of €750 million maturing in January 2022, and one for €650 million maturing March 2024. With a buyback percentage of more than 60% for the first and 25% for the second, the total buyback nominal value was around €650 million.

At the same time, in implementation of the EMTN Programme, Italgas successfully completed its new bond issue maturing in 2031, at a fixed rate and for a total of €500 million with an annual coupon of 1%.

5.2 Key figures

In order to allow for a better assessment of economic and financial performance, the Directors' 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

		31.12.2018	31.12.2019
Number of shares of share capital	(million)	809,135,502	809,135,502
Closing price at the end of period	(€)	4.996	5.444
Average closing price in the period (a)	(€)	4.7982	5.6421
Market capitalisation (b)	(€ million)	3,882	4,565
Exact market capitalisation (c)	(€ million)	4,042	4,405

(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)	2018	2019
Total revenue*	1,178.1	1,257.9
EBITDA**	839.5	907.5
Adjusted EBITDA**	842.0	907.5
EBIT**	453.5	516.0
Adjusted EBIT**	456.0	516.0
Gross profit	426.5	547.5
<i>Adjusted gross profit</i>	429.0	479.9
Net profit	313.7	423.6
Net profit attributable to the Group	313.7	417.2
Adjusted net profit**	315.5	351.6
Adjusted net profit attributable to the Group**	315.5	345.2
Earnings per share***	0.390	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 (€621.1 million and €447 million respectively in 2019 and 2018) 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)	31.12.2018	31.12.2019
Net invested capital as at 31 December	5,193.5	6,280.2
Shareholders' equity	1,329.3	1,794.9
Net financial debt*	3,814.3	4,410.6
Finance lease payables - IFRS 16	49.9	74.7

* As at 31 December 2018, the net financial debt recorded in the Directors' Report did not consider liabilities for €21.0 million due to CPL Concordia, referring to shareholder loans disbursed by CPL Concordia to EGN, which were repaid by Italgas at the time of exercise of the put&call option, as they were considered part of the purchase price settlement, and finance lease payables pursuant to IFRS 16 for €49.9 million (€74.7 million as at 31 December 2019). In the notes to the consolidated financial statements, in compliance with Consob Communication DEM/6064293 of 28 July 2006, net financial debt was represented inclusive of IFRS 16 effects and the debt payable to CPL Concordia. As at 31 December 2019, this debt was fully repaid as a consequence of exercise of the option to purchase the remaining 40% in April 2019.

As a result of accounting pursuant to IFRS 16 - Leases, adopted early from 1 January 2018, in 2019 the Italgas Group recognised technical investments for €39.4 million, amortisation and depreciation for €15.2 million, financial payables for €74.7 million and financial expense for €0.3 million.

5.3 Operating performance

The main operating figures of the Italgas Group in 2019 are shown below.

Investments

In 2019, technical investments were made for €740.0 million (2018: €522.7 million, +41.6%), of which €39.4 million due to the adoption of IFRS 16.

(€ million)	2018	2019	Abs. change	Change %
Distribution	278.5	463.0	184.5	66.2
Network maintenance and development	248.7	360.6	111.9	45.0
New networks	29.8	102.4	72.6	
Metering	178.8	179.5	0.7	0.4
Other investments	65.4	97.5	32.1	49.1
- of which the effect of IFRS 16	22.4	39.4	17.0	75.9
	522.7	740.0	217.3	41.6

The **distribution investments** (€463.0 million, +66.2% compared to the corresponding period of 2018) mainly referred to: i) development and renewal of existing pipelines (€321.3 million, including the replacement of 18.2 km of cast-iron pipes with hemp and lead joints for €22.5 million) and the digitization project⁵ (€39.3 million) for a total of €360.6 million, ii) development of new networks for €102.4 million, mainly relating to investments in Sardinia (€82.8 million). The distribution investments made in 2019 by Toscana Energia totalled €26.9 million, of which €13.2 million during the fourth quarter of 2019.

Investments in metering (€179.5 million, +0.4% on the corresponding period of 2018) relate essentially to the plan to replace traditional meters with smart meters as part of the smart metering project. During 2019, the Company installed approximately 2,057.4 thousand new meters⁶, of which 1,780.1 thousand to replace traditional meters and 277.3 thousand for the repair of digital meters with anomalies. Metering investments made in 2019 by Toscana Energia totalled €19.5 million, of which €5.9 million during the fourth quarter of 2019.

5 Relating to GRF investments for €26.1 million and digitization of processes for €13.2 million.

6 The figure includes the data of participated companies. Italgas installed 2,053.2 thousand new meters, 1,776.3 thousand of which to replace traditional meters. During 2019, Toscana Energia contributed with the installation of 265.4 thousand meters, 183.9 thousand of which replacing traditional meters and 81.5 thousand replacing digital meters with anomalies.

Other investments (€97.5 million, +49.1% compared to 2018) mainly concern IT, real estate⁷ and vehicle investments and include the effect of the application of IFRS 16 (€39.4 million). Other investments made in 2019 by Toscana Energia totalled €11.6 million, of which €3.1 million during the fourth quarter of 2019.

Key operating figures - Italgas Group

	2018	2019	Abs. Change	Change %
Active meters (million)	6.708	7.573	0.87	12.9
Installed meters (million)	7.493	8.464	0.97	13.0
Municipalities with gas distribution concessions (number)	1,700	1,816	116	6.8
Distribution network (kilometres)	61,361	70,502	9,140	14.9
Technical investments	522.7	740.0	217.3	41.6

Key operating figures - Italgas Group and participated companies

	2018	2019	Abs. Change	Change %
Active meters (million)	7.562	7.694	0.13	1.7
Installed meters (million)	8.429	8.597	0.17	2.0
Municipalities with gas distribution concessions (number)	1,808	1,830	22	1.2
Distribution network (kilometres)	69,782	71,761	1,979	2.8

⁷ The real estate investments included the renovation of the Italgas Reti office in Largo Regio Parco, Turin, for a total of €16.9 million.

Municipalities in concession and local area tenders⁸

Situation at year end on tenders and contracts awarded

As at 31 December 2019, Italgas, also considering the participated companies, was the gas distribution service concession holder in 1,830 Municipalities (1,808 as at 31 December 2018), of which 1,744 operating (1,722 as at 31 December 2018). Excluding the participated companies, the number of Municipalities where Italgas is concession holder amounted to 1,730 (1,614 as at 31 December 2018) out of a total 1,816 municipal concessions (1,700 as at 31 December 2018).

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

ITALGAS GROUP Municipalities in concession

- Consolidated companies
- Subsidiaries



As at 31 December 2019, as a result of the regulatory framework envisaging the award of gas distribution services through local tenders (and not by individual municipality), 30 tender notices have been published, of which only twelve sent to the Authority, as envisaged in Ministerial Decree no. 226/2011.

Of the 30 ATEM tenders, those relating to:

- TORINO 3–Sud Ovest, MASSA CARRARA, BIELLA, CREMONA 2–Centro, CREMONA 3–Sud (the last being two aggregates) and COMO 1–Triangolo Lariano e Brianza Comasca were suspended by the contractors;
- VENEZIA 1 – Laguna Veneta and ALESSANDRIA 2 – Centro were cancelled by the State Council and by the Piedmont Regional Administrative Court (TAR) respectively;
- BELLUNO and TORINO 1–Città di Torino are pending award;
- MONZA E BRIANZA 2–Ovest and LUCCA were cancelled by their respective contractors.
- MILANO 1, the Milan Regional Administrative Court cancelled the tender award to UNA RETI, excluding it from the tender along with the company ranked second, 2I Rete Gas. In effect, this Measure (pending a possible appeal to the State Council) cancelled the entire procedure.

Lastly, in two areas of Calabria, for which the related tender notice had not been published, the Regional Government activated the replacement power indicated by law, appointing an acting commissioner.

In relation to award of the **Belluno ATEM** tender (roughly 45 thousand delivery points in 74 Municipalities), Italgas Reti submitted its bid on 1 September 2017. On 4 December

⁸ 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”.

2019, at the meeting to open the envelopes of bids submitted by each participant, Italgas Reti was ranked first among the bidders. During that meeting, when allocating scores to the participants, the tender commission arranged for a fairness test to be carried out on a number of sections in the Italgas Reti bid, as envisaged by current law and prior to final award of the tender. However, the Municipalities in the ATEM asked the Municipality of Belluno, as contractor, to suspend the tender in order to conduct further studies, in the light of a report according to which the reimbursement for networks owned by the outgoing operator, BIM Belluno - a subsidiary of the Municipalities - would be around €15 million higher than the value already indicated in the Tender Notice. Given the regional capital's decision to continue with the procedure, the aforementioned Municipalities decided to revoke the Municipality of Belluno's powers as contractor. As a result of this decision, notified to the contractor and operators participating in the tender through the Municipality of Feltre, appointed to do so by the majority of Municipalities in the ATEM, Italgas Reti challenged as groundless the measures adopted by the ATEM Municipalities. A hearing date before the Veneto Regional Administrative Court is now pending. At the same time, with its letter of 27 December 2019 addressed to the contractor, Italgas Reti demanded the continuation of the tenders without delay in order to reach the final award. Through its reply letter dated 10 January 2020 from the Single Tender Procedure Manager, the contractor announced "(...) the impossibility of taking action to cancel, suspend or withdraw the tender procedure and/or interfere in the Tender Commission actions". By letter dated 22 January 2020, continuing the fairness testing of the bid, the Tender Commission asked the Company for a number of clarifications and related documents. The Company promptly replied by letter dated 12 February 2020.

On **2 May 2019** a notice was published in the Official Journal of the European Union indicating that the Turin Metropolitan City Contractor had definitely **awarded to Italgas Reti** the tender for management of the gas distribution service for the **ATEM Torino 2 – Impianto di Torino**, for 12 years. The area consists of 49 Municipalities in the first and second belt of the Piedmontese capital for a total of 190 thousand end users. In this context, Italgas already held a 99.9% market share. On 11 December 2019, the service contract was signed between Italgas Reti and the Contractor, thereby launching the first local area management in Italy.

On **27 May 2019**, the **tender for ATEM Torino 1** was published, composed of 6 Municipalities, all served by Italgas Reti, for a total of 558,972 active users as at 31 December 2018. The deadline for the submission of bids was postponed to 11 December 2019 by Managerial Resolution dated 31 October 2019. Italgas Reti submitted its bid by the new deadline envisaged for the tender. At the end of 2019 the awarding commission of the Contractor had not been set up, and consequently the administrative opening of bids has not yet taken place.

On **1 October 2019**, Italgas Reti was **awarded the tender** for concession of the natural gas distribution service in the **Municipality of Castel San Giorgio (Salerno)**. The current gas network of Castel San Giorgio spans around 40 kilometres and serves approximately 1,300 users. On 21 October 2019, Aquamet S.p.A. notified Italgas Reti, as co-interested party, of the appeal for additional reasons to those for which it challenged the municipal award decision for the tender, over and above the tender procedure already challenged through the main appeal on 4 June 2019. The hearing to discuss the merits is set for 25 March 2020.

Legislative and regulatory framework⁹

With **Decision no. 588/2019 of 19 July 2018, published on 24 January 2019**, the State Council, as happened previously for the Municipality of Venice, granted free acquisition in favour of the Municipality of assets included in "Block A", as well as the obligation for the Company to pay rental for use of the portion of network subject to free acquisition. The situation relative to the Municipality of Cavallino Treporti is very similar to that already in place with the Municipality of Venice. In fact, Italgas Reti manages the public natural gas distribution service in the area of the above-mentioned Municipality as a result of the same concession acts agreed at the time by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino Treporti was established in 1999 as a spin-off portion of the geographic area already falling within the Municipality of Venice. 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 served a writ of summons upon Italgas Reti, before the Court of Venice, for the assessment and consequent payment of the fee for using the portion of network transferred free of charge. Italgas Reti appeared before the court to challenge the quantification of the fee and to request the return of the amount unduly paid to the Municipality after the free transfer of Block A. After listening to the defence of the parties, at the first hearing on 12 September 2019 the judge postponed the case to 1 April 2020 for admission of the measures of inquiry.

By **Order no. 510/2019 of 27 February 2019**, published on 11 March 2019, the Lombardy Regional Administrative Court suspended the lawsuit promoted by the Municipality of Venice (in which Italgas Reti was involved) for the cancellation of ARERA Resolution no. 368/2016/R/gas on the tender documentation in ATEM VENEZIA 1 – Laguna Veneta. The decision to suspend was made pending finalisation of the appeal by the Municipality of Venice against Veneto Regional Administrative Court Decision no. 655/2017, which cancelled the tender for ATEM VENEZIA 1 - Laguna Veneta. With **Decision no. 2202/2019 of 4 October 2018, published on 3 April 2019**, the State Council rejected the appeal filed by the Municipality of Venice against this judgement of the Veneto Regional Administrative Court.

By **Measure dated 12 March 2019**, pursuant to art. 14 of Italian Law 287/90, the AGCM initiated a preliminary investigation against Italgas Reti, Ireti and 2i Rete Gas for alleged abuse of a dominant position aimed at "not allowing or delaying the start of administrative procedures preparatory to organization of the procedure to award the gas distribution service in ATEM Genova 1". In particular, Italgas Reti was accused of not having provided the Contractor with information on the year of laying individual sections of the network before 2006 in the Municipalities where it is the concession holder (Campo Ligure, Campomorone, Ceranesi, Cicagna, Masone, Pieve Ligure and Rossignone). By **Measure dated 2 September 2019**, the Antitrust Authority decided to publish the commitments submitted respectively by Ireti, 2i Rete Gas and Italgas Reti.

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

⁹ Further information is provided in note 25, "Disputes and other measures" in the Notes to the consolidated financial statements.

for the adjustment of timetable for the implementation of the Business Plan, which is an integral part of the above-mentioned Contract, arbitrarily charged Italgas Reti 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) quantified 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. In consideration of the introductory state of the proceedings, while awaiting preliminary analyses and based on an outside legal opinion, the Company sees no risk of losing the case such as to record it in these financial statements. With **Order no. 01124/2020** published on 21 February 2020, the Lazio Regional Administrative Court, while waiting to pass judgement on the exception raised by the Municipality of Rome regarding the jurisdiction of the administrative court, suspended the Measure with which the Municipality of Rome ordered Italgas Reti to pay penalties until 18 March 2020, date on which the next meeting in chambers would be held. Subsequently, following the ongoing health emergency, the hearing was postponed to a date to be defined.

On 18 November 2019, with **Decision no. 2430/2019 the Lombardy Regional Administrative Court** accepted, with favourable opinion, the appeals filed by Italgas Reti for various reasons against: i) Resolution no. 98/2016 for the part relating to redetermination of reference rates of the company for the years 2009-2014, ii) Resolution no. 99/2016 relating to the 2015 rates and iii) Resolution no. 494/2018 for the portion of failed recognition of the additional remuneration of investments made by the company with 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 will promptly join proceedings within the time prescribed by law by way of defence against the effects of the decision of the Lombardy Regional Administrative Court.

On 29 March 2019, in response to the consultation on **“Ten-year Development Plans for the Transportation Network - 2018”** conducted by ARERA, Italgas submitted numerous findings that opposed a number of new regional transportation network projects planned by the operator Energie Rete Gas S.p.A. in areas pertaining to the ATEMs Torino 2, Torino 4 and Valle d’Aosta, to guarantee criteria of affordability, efficiency and competitiveness pursuant to Article 1, Italian Law 481/95 and Article 3, paragraph 3.3 of the current RTTG. With Resolution no. 335/2019/R/Gas of 30 July 2019, which also accepted the observations formulated by Italgas, ARERA expresses its *“negative assessment of the development works referred to in Plans submitted by Energie Rete Gas S.p.A.”* On 10 September 2019, the operator Energie Rete Gas filed an appeal before the Lombardy Regional Administrative Court against the ARERA decision.

With **Resolution no. 145/2019/R/gas of 16 April 2019**, ARERA formulated its observations relating to the reimbursement value to be recognised to the holders of concessions for the gas distribution service for the Municipalities in the ATEM NAPOLI 1 - Città di Napoli e Impianto Costiero; in particular, the Authority recognised as suitable, for the purposes of tariff recognition and in relation to documentation submitted by the Municipality of Naples, the Contractor for the area, the VIR values of the 6 Municipalities (Ercolano, Naples, Portici, San Giorgio a Cremano, Torre Annunziata and Torre del Greco). On 21 August 2019, the EU Official Journal published notice of the open tender procedure for award of the gas distribution service in the ATEM NAPOLI 1 – Città di Napoli e Impianto Costiero, with the deadline of 21 October 2019 for the presentation of applications to participate or the receipt of bids. By **Resolution no. 231/2019/R/gas of 11 June 2019**, published on 23 August 2019, the Authority formulated its observations on the tender documentation issued by the Municipality of Naples. By Managerial Resolution of 30 September 2019, the Municipality of Naples extended the deadline for the submission of bids to 27 November 2019. By Managerial Resolution of 15 October 2019, this deadline was further extended to 10 February 2020 and new tender regulations were approved, adopting the findings of the AGCM in relation to the tender terms and the measurement criteria for the economic bids in its opinion dated 25 September 2019, published on 14 October 2019. By Managerial Resolution no. 4 of 4 February 2020, the Contractor again extended the deadline for the submission of bids to 31 March 2020.

On **25 July 2019**, a writ of summons was served upon Italgas by **Publiservizi S.p.A.**, which alleges violation of a shareholders' agreement signed between Italgas S.p.A., Publiservizi S.p.A. and other shareholder Municipalities of Toscana Energia on 28 June 2018, requesting that Italgas be ordered to execute the aforementioned shareholders' agreement and arrange compensation for the related damages. The first hearing, held on 14 January 2020 before the Court of Florence, was adjourned until 6 May 2020. Italgas S.p.A., which appeared before the court within the time prescribed by the law, raised all objections helpful in demonstrating that the counterparty's claims are groundless.

With **Decision no. 1862/2019 of 5 August 2019**, published on 7 August 2019, the ordinary Court of Trani, Civil Section, rejected the petition with which the Municipality of Andria had requested ascertainment of its right to obtain payment from Italgas of the amount of €1,521,402.00, plus legal interest and monetary revaluation, by way of increased concession fee for the gas distribution service in the municipal territory from 1 January 2006 until 31 December 2011. With subsequent **Decision no. 2562/2019 of 25 November 2019, published on 29 November 2019**, the ordinary Court of Trani, Civil Section, rejected the petition with which the Municipality of Andria had requested ascertainment of its right to obtain payment from Italgas of an amount plus legal interest and monetary revaluation by way of reimbursement for the restriction on the revenue from distribution owed to the Municipality by the company in so far as it is owner of the gas distribution plant in the relevant territory, from 1 January 2006 until 31 December 2011.

With the **opinion stated at the hearing of 23 October 2019 and disclosed to the public on 15 November 2019**, the State Council pronounced inadmissible due to lack of interest the extraordinary appeal to the President of the Republic submitted by Italgas Reti against the Regional Government of Valle d'Aosta and the Municipality of Aosta for cancellation of the Regional Council Resolution no. 1509 of 6 November 2017, referring to the positive assessment of environmental compatibility of the project to lay the methane gas transportation pipeline in Val d'Ayas between the Municipalities of Verrès and Ayas, proposed by Energie Rete Gas of Genoa.

Italgas had filed appeal, claiming that the methane gas pipeline in question did not meet the requirements of Ministerial Decree dated 29 September 2005 for classification as such as part of the Regional Transportation Network, and should therefore be allocated to the gas distribution networks category, the result being that Energie Rete Gas, as a company operating in the transportation sector, should not have been authorised to build an infrastructure designated for the gas distribution service.

Gas distributed

As at 31 December 2019, also considering the participated companies, Italgas distributed 8,897 million cubic metres of gas (9,098 million cubic meters in 2018), of which 1,122 million relating to Toscana Energia. Excluding the participated companies, the gas distributed in 2019 amounted to 8,001 million cubic metres (7,873 million cubic metres in 2018) through 424 marketing companies.

Distribution network

The gas distribution network as at 31 December 2019, also considering the participated companies, spanned 71,761 kilometres (69,782 km as at 31 December 2018), of which 7,925 kilometres referring to Toscana Energia. Excluding the participated companies, the distribution network spans 70,502 kilometres (61,361 kilometres as at 31 December 2018).

Meters

As at 31 December 2019, the number of active meters at delivery points, also considering the participated companies, totalled 7.694 million (7.562 million as at 31 December 2018), of which 796.6 thousand relating to Toscana Energia. Excluding the participated companies, the total number of active meters is 7.573 million (6.708 million as at 31 December 2018). The legislation on smart metering (**Resolution no. 631/2013/R/gas as amended**) defines the objectives, differentiated by calibre, of electronic meters put into service. These objectives were changed multiple times during the period (from Resolution ARG/gas 155/08 to Resolution 554/2015/R/gas).

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

To comply with this obligation, also considering the participated companies, during 2019, the Italgas Group installed approximately 2,057.4 thousand new meters, of which 1,780.1 thousand to replace traditional meters and 277.3 thousand for the repair of digital meters with anomalies. Excluding the participated companies, during 2019 a total of 2,053.2¹⁰ thousand new meters were installed, of which 1,776.3 thousand to replace traditional meters and 276.9 thousand to repair digital meters with anomalies, bringing the current total of smart meters to around 6,740.3 thousand, equal to approximately 80% of the entire stock of active and inactive meters (8,464.0 thousand).

¹⁰ Toscana Energia, consolidated with effect from 1 October 2019, installed 180.2 thousand new meters in the first nine months of 2019, of which 41.8 thousand as repairs to digital meters with anomalies.

06



Legislative and regulatory framework

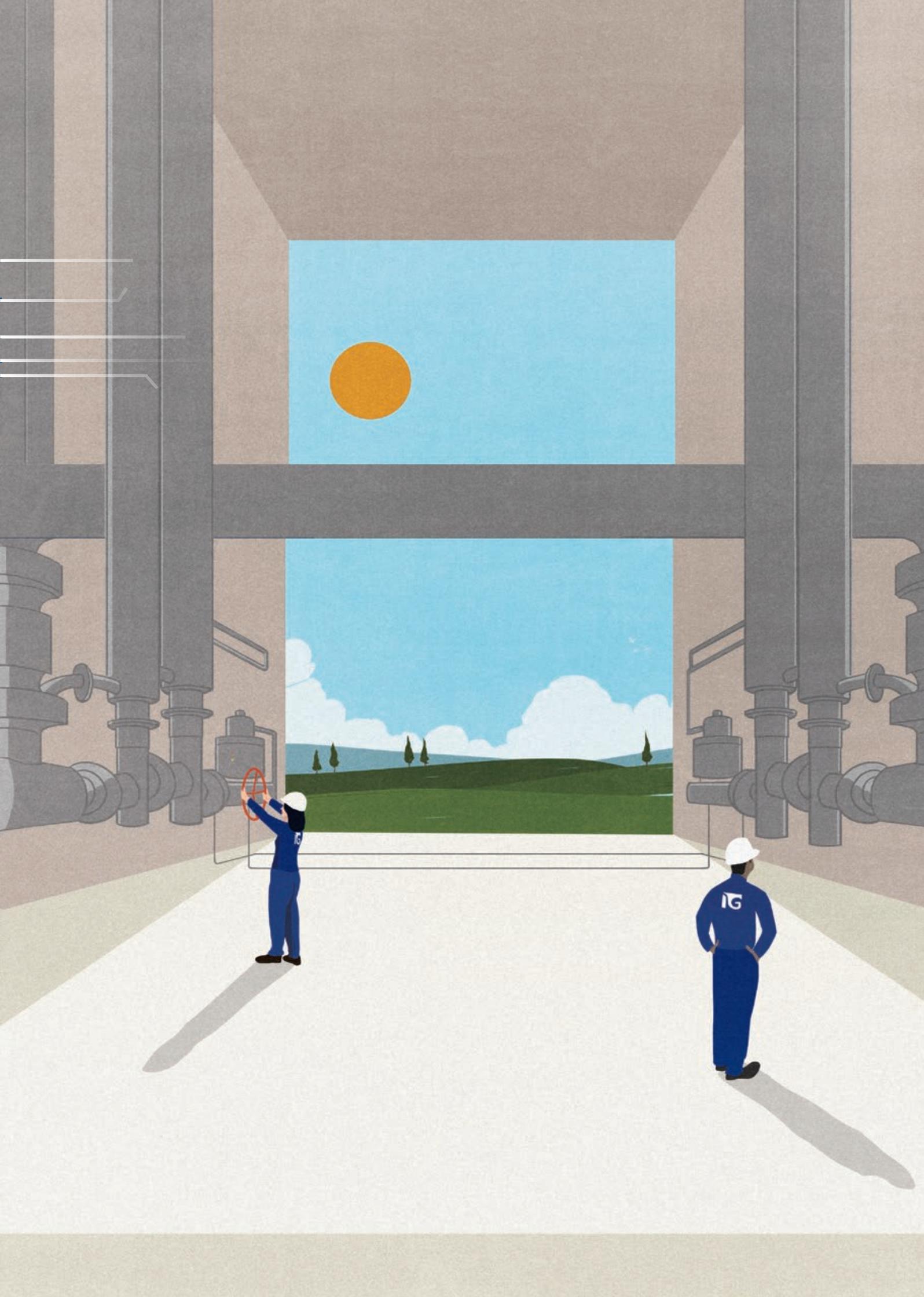
Tariff regulation

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

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

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

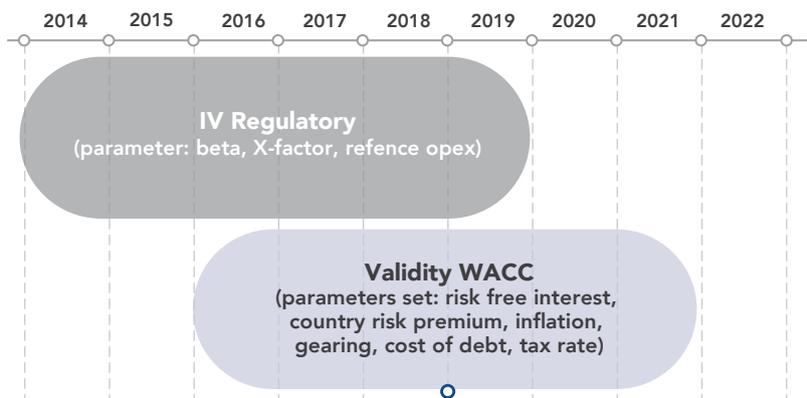
The main rate elements are reported below on the basis of the regulatory framework (Resolution no. 573/2013/R/gas as amended).



Highlights from the fourth regulation period (from 01/01/2014 to 31/12/2019)

End of regulatory period (<i>TARIFFS</i>)	31 December 2019
Calculation of net invested capital recognised for regulatory purposes (<i>RAB</i>)*	Revalued historical cost Parametric method for centralised assets
Return on net invested capital recognised for regulatory purposes (<i>WACC_{pre-tax}</i>)	Distribution: 6.1% for years 2016-2018 6.3% for year 2019 Metering: 6.6% for years 2016-2018 6.8% for year 2019
Incentives on new investments	Return on investments t-1 to offset the regulatory time lag (from 2013)
Efficiency factor (x factor)	1.7% - on distribution operating costs 0.0% - on metering operating costs

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



◦ 3 years updates of CAPM parameters

With **Resolution no. 573/2013/R/gas** the Authority defined the rate criteria for the distribution service and the metering service for the fourth regulatory period, from 1 January 2014 to 31 December 2019.

The invested capital of the distribution companies (RAB) is broken down into two categories: local invested capital and centralised invested capital. For the first three years of the regulatory period 2014-2016 (for the second three-year period, 2017-2019, please see Resolution no. 775/16 below):

- the measurement approach for local invested capital is based on the revalued historical cost method, while for investments relating to electronic meters, the standard cost method applies;
- for the measurement of centralised invested capital relating to the real estate and industrial buildings and other tangible and intangible assets, the parametric method applies;
- for centralised assets relating to remote management systems, there is a tariff recognition of smart metering/remote management costs and costs relating to concentrators incurred by companies for the first two years of the fourth regulatory period.

The revenue components correlated with the return and amortisation are determined on the basis of the annual update of net invested capital (RAB), with the inclusion of assets realised in year t-1.

The methodology for updating “price cap” tariffs is applied only to the revenue component relating to operating costs, which are updated for inflation and reduced by a coefficient for the recovery of annual productivity, established at 1.7% for distribution service operating costs and 0% for operating costs relating to the metering and marketing service.

With **Resolution no. 583/2015/R/com** the Authority defined the methods for determining and updating the rate of return on invested capital (WACC) for regulated infrastructural services of the electricity and gas sectors, unifying all parameters with the exception of the specific parameters for the individual services, including the beta parameter which expresses the specific level of non-diversifiable risk of the individual service and the weight of equity and debt capital used for the weighting (D/E ratio).

Resolution no. 704/2016/R/gas adopted provisions on the recognition of costs relating to investments in natural gas distribution networks. In particular, the Authority confirmed the introduction of standard costs in the mechanism for the recognition of costs relating to investments in natural gas distribution networks starting with investments in 2018, with impacts on tariffs starting in 2019.

Resolution no. 775/2016/R/gas defined criteria for the infra-period updating, applicable for 2017-2019, of the gas distribution and metering services tariff regulation. The update, applicable from 1 January 2017, regarded the annual rates of reduction in unit costs recognised to cover operating costs for distribution, metering and marketing services (X-factor), the component covering costs deriving from mandatory periodic checking of converters (DCVER), the components covering centralised costs for the smart metering/remote management system and the costs of concentrators (t(tel) and t(con), respectively) and the standard costs to be applied to electronic metering units for capital cost recognition. In particular:

- in relation to operating costs for the distribution and metering service, the Authority confirmed the recovery of productivity targets respectively fixed at 1.7% and 0%;
- in relation to operating costs for the marketing service, the Authority increased the unit cost

- recognised for 2017, fixing it at €2.00 per redelivery point and confirmed the X-factor at 0%;
- in relation to the component covering the costs relating to converter checks (DCVER), the Authority envisaged a provisional reduction in the unit value of the component for 2017, pending further investigations, fixing it at €50 per redelivery point;
- in relation to the component covering centralised costs for the smart metering/remote management system t(tel) and the component covering the costs of concentrators t(con), also for 2017 the Authority envisaged recognition of the final costs (with a cap for tariff recognition for costs incurred of €5.74 per redelivery point where a smart meter is operating);
- in relation to the recognition of investments in G6 or lower class metering units relative to 2016, the Authority confirmed the current regime, recognising the actual costs incurred by companies to a limit of 150% of standard costs;
- in relation to standard costs for investments in G6 or lower class metering units for 2017, the Authority fixed a level of €135/gdm for G4 metering units and of €170/gdm for G6 metering units.

Resolution no. 859/2017/R/gas approved the mandatory tariffs and the bimonthly equalisation prepayment amounts for the natural gas distribution and metering services, as well as the values of components to cover operating costs for the distribution service, metering service, marketing of distribution and metering services and the component to cover centralised capital costs for the year 2018.

Resolution no. 904/2017/R/gas adopted provisions for the recognition of costs relating to metering activities on natural gas distribution networks and for the effective date for the application of investment measurement criteria based on standard costs. In particular:

- in relation to the recognition methods for costs relating to smart metering/management systems and concentrator costs, the adoption of benchmark logics is deferred to the fifth regulatory period, envisaging that the recognition of costs for 2018 and 2019 essentially continues to apply the criteria currently envisaged, based on final figures that are capped. This cap, set for 2017 at €5.74 per delivery point fitted with smart meters, is reduced to €5.24 per delivery point fitted with smart meters for 2018 and to €4.74 for 2019, with the aim of gradual closure of the existing gap over six years with cost levels considered to be efficient, established at €2.74 per delivery point fitted with smart meters;
- in relation to the definition criteria for standard costs of gas metering units for 2018 and 2019, for classes G4 and G6 the standard cost values defined for 2017 are confirmed, whilst in reference to the sharing of higher/lower investment costs relating to smart meters, the weighted average of the standard cost and actual cost is adopted, with a 40% weighting for the standard cost and 60% for the actual cost;
- as regards the definition of the price list and the mechanism for recognising investments in natural gas distribution networks as standard costs, the Authority postponed application to start from investments in 2019, with impacts on tariffs starting in 2020 as a result of a Measure due to be adopted;

With **Resolution no. 529/2018/R/gas**, the Authority has started the “*process for the formulation of provisions relating to tariffs and quality, relative to the gas distribution and metering service, for the fifth regulatory period*” which will start on 1 January 2020. This process will also be combined with the procedure for the adoption of measurement methods for new investments at standard cost: therefore, investments in 2019 will be measured in accordance with the criteria currently set by the tariff regulations.

With **Resolution no. 639/2018/R/com**, the Authority carried out the intra-period updating of basic WACC parameters common to all regulated infrastructure services in the electricity and gas sector as well as a gearing level, i.e. the ratio between debt capital (D) and the sum of own capital and debt capital (D+E), on the basis of the economic trend. For the distribution service, the WACC value for 2019 was set at 6.3% (up compared with 6.1% used in 2016-2018) in real terms before taxes, whereas for the metering service this value, for the same year, was set at 6.8% (up compared with 6.6% used in 2016-2018) in real terms before taxes.

Resolution no. 667/2018/R/gas approved the mandatory tariffs and the bimonthly equalisation prepayment amounts for the natural gas distribution and metering services, as well as the values of components to cover operating costs for the distribution service, metering service, marketing of distribution and metering services and the component to cover centralised capital costs for 2019.

Resolution no. 98/2019/R/gas determined the final reference tariffs for gas distribution and metering services for 2018, calculated on the basis of the actual balance sheet figures for 2017.

Resolution no. 128/2019/R/gas determined the provisional reference tariffs for gas distribution and metering services for 2019, calculated on the basis of the actual balance sheet figures for 2018, pursuant to Article 3, paragraph 2.a) of the RTDG.

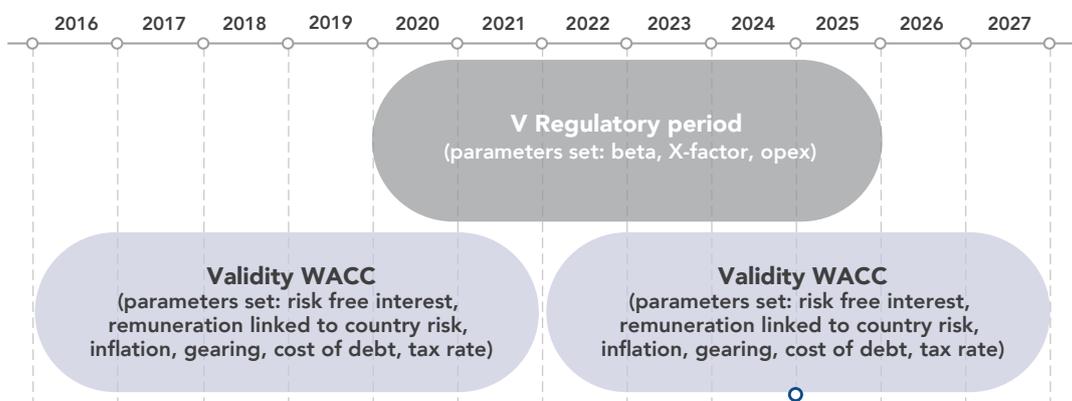
Resolution no. 537/2019/R/gas recognised to distribution companies the operating costs incurred for 2011-2016 to set up the smart metering/remote management systems. These amounts will be paid by the Energy and Environmental Services Fund (Cassa per i Servizi Energetici e Ambientali, CSEA) from the gas distribution tariff balancing account pursuant to the RTDG.

Resolution no. 570/2019/R/gas, following the consultation process based on consultation papers 170/2019/R/gas and 410/2019/R/gas, approved the tariff regulation for gas distribution and metering services for the period 2020-2025.

The main rate elements based on the regulatory framework are reported below:

Highlights fifth regulatory period (from 01/01/2020 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 (RDP > 300.000) - 4.79% for medium companies (RDP > 50.000) - 6.59% for small companies (RDP < 50.000) Metering operating costs: 0% Commercialization operating costs: 1,57%



◦ Update of WACC parameters within the period

In particular:

- the Authority confirmed the six-year duration of the tariff regulation, and its subdivision into two semi-periods of three years each;
- in relation to operating costs, the Authority envisaged that:
 - the initial level for 2020 of operating costs recognised has been set by applying equal weight to actual costs and to costs recognised for 2018;
 - the annual rate of reduction of unit costs recognised to cover operating costs is established as follows:
 1. for the distribution service:
 - i. 3.53% for large businesses (>300,000 delivery points);
 - ii. 4.79% for medium-sized businesses (>50,000 delivery points);
 - iii. 6.59% for small businesses (<50,000 delivery points);
 2. 0% for the metering service;
 3. 1.57% for the marketing service;
 - the level of the standard cost recognised for each switch reading is confirmed as €5 for the first regulatory semi-period;
 - the recognition of costs relating to smart metering/remote management systems is confirmed on the basis of actual costs incurred for the first regulatory semi-period, applying a cap and an advance payment;
 - the recognition of costs relating to converter checks is confirmed on the basis of actual costs incurred and applying an advance payment;
- with regard to the recognition of capital costs, the Authority envisaged that:
 - the adoption of a tariff recognition cap for investments in distribution networks applied to areas first supplied after 2017 is also confirmed for the fifth regulatory period, in the amount established by Resolution no. 704/2016/R/gas;
 - the weights to be applied for the recognition of investments in smart meters in the two-year period 2020-2021 are revised to 30% (from 40%) for the standard cost and 70% for the actual cost (from 60%), and that the review of standard costs for investments relating to metering services to be carried out in 2022 has been postponed;
 - a time horizon is adopted for the full recovery of “frozen” contributions, aligned to the time horizon for the reimbursement of contributions subject to degradation (around 34 years);
 - in relation to the recognition of residual costs for traditional meters class G6 or lower replaced with smart meters, an amount has been established to recover unrecognised amortisation (IRMA), payable to distribution companies in five years, equal to the difference between the residual value not amortised, calculated by applying the regulatory useful lives in force at the time and the residual value, calculated by applying a useful life of 15 years. The recovery of unrecognised amortisation is also envisaged for traditional meters installed in the period 2012-2014 and since replaced by smart meters;
 - after balancing of the asset parameter for distribution services (0.439) and metering services (from 0.502 to 0.439), the rate of return on invested capital (WACC) is set at 6.3% until 2021, also for metering activities;
 - the introduction of regulatory incentive schemes for capital costs relating to the distribution service, based on the concept of recognition at standard costs, could be applied starting from investments made in 2022;
 - the issues relating to the introduction of support tools for network innovation are discussed in a specific consultation paper, expected to be published in January;

- as regards the natural gas distribution project in Sardinia, the Authority has established a specific tariff area which, for a three-year period, envisages a transitional balancing mechanism that allows the tariff in Sardinia to be equate to that of the south of Italy;
- in relation to application of the tariff regulation on isolated LNG networks and isolated networks fuelled by gas supply trucks, the Authority has introduced transitional rules, allowing these networks to be assimilated with interconnected distribution networks for a five-year period, subject to submission of an application from the distribution company concerned.

Based on the decision regarding the adoption of a cap on the recognition of investments where initial supply began after 2017, companies which on the basis of Resolution no. 98/2019/R/gas, had provisionally adjusted revenue both for 2018 and for the first six months of 2019 arranged reversal of the effect for 2018 and recognised the amount accrued for all of 2019.

As instead concerns the new provisions regarding recognition of the residual costs of traditional meters of a class lower than or equal to G6 replaced with smart meters, the company did not reflect the impacts made by the change in methodology over the previous years in the financial statements since it believes that the requirements for recognising them do not exist. It is waiting for the Manager of the Energy Infrastructure and Unbundling Department to identify coherent operational solutions for managing the reconciliation between regulatory divestments and accounting divestments through his determination, as required by art. 11 of Resolution no. 570/2019/R/gas.

Resolution no. 571/2019/R/gas approved the mandatory tariffs for natural gas distribution, metering and marketing services and the bimonthly advance balancing amounts for the natural gas distribution service for 2020.

With **Consultation Paper no. 487/2019/R/gas of 26 November 2019**, the Authority illustrated the guidance on gas smart meter operation obligations, metering frequency, improving performance and developments in the tariff regulation.

As regards making smart meters operational for the majority of users, the Authority:

- has not currently indicated obligations other than those already envisaged (corresponding to 85% of points for companies with over 50,000 customers connected to their networks, with different due dates), monitoring actual installations, also in relation to the progress of tender procedures;
- envisaged for larger companies that acquire others with less than 50,000 customers a specific regime that allows the level of 85% gas smart meters in service to be reached within 3-4 years from the acquisition.

As regards metering frequencies, the Authority considered it appropriate:

- for smart meters, to envisage 6 bimonthly readings per year per delivery point up to 5,000 sm³/year and monthly readings for delivery points over 5,000 sm³/year, with the aim in the medium term of attempted monthly readings with daily details where possible, overcoming the exceptions to reading frequency currently envisaged in **Resolution no. 117/2015/R/gas** and introducing an indemnity payable by the distribution companies to distribution users if estimated metering figures are made available;
- for traditional meters, the current reading frequency obligations are confirmed, envisaging the following in cases where at least one actual reading per year has not been performed:

(i) commitment to install a smart meter (in addition to current obligations), at the same time guaranteeing activation, if the meter is not accessible and for medium-large businesses; (ii) an increase in the current penalty of €4 if the company does not comply with this commitment to install a smart meter, extending this provision also to smaller businesses.

With regard to regulation of the metering service performance, through the vendors, the distribution companies must pay end customers indemnities of €25 in the event of failure to perform an actual reading for two consecutive periods (two bimonthly or two monthly periods). The obligation to indemnify failure to perform readings becomes effective from the date of installation (with same-time activation), without which a smart meter that cannot guarantee the performance can be declassified to traditional, whilst indemnities to end customers for accessible traditional meters will not change.

As regards the tariff regulation for the metering service:

- with effect from 2020, the Authority expects to confirm the details already illustrated in the **DCO 759/2017/R/gas**, i.e. that the cost recognised per meter will be equal to the weighted average of the standard cost and actual cost, with a 30% rather than 40% weighting for the standard cost and a 70% rather than 60% weighting for the actual cost;
- for “reinstalled” meters, i.e. traditional or digital meters for which periodic converter checks envisaged in Ministerial Decree no. 93 of 21 April 2017 are carried out by authorised laboratories, the Authority considers that the removal/reinstallation of the meter neither increases or reduces the RAB value;
- at the time of a new installation, the carrying amount of the meter is equal to the regulatory value of the asset removed, typically the average between the actual cost and standard cost. This cost for a reinstalled meter is then amortised over 10 years.

In the second three-year period of the fifth regulatory period (2023-2025), the Authority expects to:

- introduce mechanisms to manage the transition from manual metering to automated metering methods;
- incorporate all tariff components for the metering service into a single reference tariff component that determines the level of revenue permitted for the companies, if necessary differentiated company by company;
- for costs relating to meter readings, validation and registration, replace the recognition criteria based on individual positions by introducing parameters linked to the level of automation achieved, regardless of the make or buy decisions and in a new logic of recognising total costs (totex).

In addition, as gas smart metering allows for the introduction of new functions:

- the Authority plans to test them through pilot projects, conducted by distribution companies and with third-party participation as required;
- the distribution companies involved must provide the Authority with suitable cost-benefit analyses, justifying the difference in cost of the new functions compared to the quantification and monetisation of the benefits;
- for the submission of proposals, two windows during 2020 have been established and a maximum budget, 70% of which expiring in spring 2020 and 30% in winter 2020-21.

The adoption of Authority measures relating to action illustrated in the document is from the following effective dates:

- from 1 January 2020, for the recognition criteria for costs of smart meters installed from that date, including the remodelling of weights assigned to standard costs and actual costs, and for the treatment of regulatory costs for meters subject to converter checks, in application of the provisions of Ministerial Decree no. 93/2017;
- from March 2020, for the introduction of innovation support schemes;
- from July 2020, for metering frequency and the review of regulatory criteria for metering performance.

Safety of the gas distribution and metering service

With **Resolution no. 75/2019/R/gas** the Authority determined the premiums and penalties relative to the safety recoveries of the natural gas distribution service for 2015 and brought some changes to the regulations relating to data adjustment management. In particular, for subsidiaries and participated companies of Italgas S.p.A., the overall net amount (total premiums and penalties) due for the odourisation and leakage components is €9,467,736.08.

With regard to the plant in Venice managed by Italgas Reti, further to the inspection checks carried out pursuant to Resolution no. 294/2016/E/gas, the Authority has recognised the lack of compliance with some of the provisions of the emergency intervention regulations.

Furthermore, the resolution:

- updated the trend levels, relating to the leakage component, for the plants affected by changes, interconnections and separations, for the purpose of determining bonuses and penalties for the years 2015-2019;
- postponed to 2016-2019 the penalties relating to the leakage component for 2015;
- ordered the Energy and Environmental Services Fund (CSEA) to pay the remaining bonuses, that is, net of that already paid to the companies that had given their approval pursuant to Resolution no. 421/2018/R/gas, within 30 days from the date of publication of the new Measure, applying to the Account for the quality of gas services;
- set a deadline of 30 days from the date of publication of the Resolution for the payment of penalties by the distribution companies, to the Account for the quality of gas services;
- postponed to a later Measure the determination of the bonuses and penalties for the year 2015 for the company, Toscana Energia, until a subsequent decision, following the resolution of critical issues arising with reference to the new arrangement of the Prato plant in the Local Gas Distribution Registry;
- made certain changes to the regulation on the quality of gas distribution and metering services, establishing that distribution companies, similarly to what they had already been allowed with reference to the year 2015, may adjust data already incorrectly transmitted due to a material error, once the forecast results of the bonuses and penalties of the respective year are known, after being obtained by the Authority and made known through the electronic system. The request must be made in the time period specifically defined by the Authority and notified to the distribution companies concerned.

By **appeal dated 4 April 2019**, the Company challenged the ARERA **Resolution no. 75/2019/R/gas of 5 March 2019** as well as the **ARERA Memorandum no. 2759 of 4 February 2019** containing the preliminary findings in the proceedings for composing

the Measure on bonuses and penalties relating to the safety recoveries of the natural gas distribution service for 2015.

By way of the **appeal dated 19 April 2019**, the Company challenged the ARERA Memorandum no. 4011 of 19 February 2019 regarding the communication of preliminary findings relating to the proceedings initiated with **Resolution 323/2017/S/gas** concerning the violation assessment on gas emergency response pursuant to **Resolution 574/2013/R/gas dated 12 December 2013**.

With **Resolution no. 305/2019/R/gas of 16 July 2019**, the Authority recognised an advance on the net overall amount of premiums relative to safety recoveries of the natural gas distribution service for the year 2016 as payable to interested parties (algebraic balance of premiums and penalties), equal to 80%. The Authority granted the above recognition to all distribution companies that submitted confirmation in relation to the forecast of premiums and fines for the year 2016 by 4 October 2019, through an online system, unless specifically waived via certified e-mail to the CSEA by 15 October 2019.

With **Resolution no. 328/2019/S/gas of 30 July 2019**, the Authority inflicted an administrative fine on Italgas Reti for €469,000, having ascertained violation of Article 14, paragraph 1.c).iii) of the Regulation on the Quality of Gas Distribution and Metering Services, designed to ensure the safety of the distribution service by imposing obligations upon operators in relation to emergency services for the period 2015-2017. The Resolution was challenged by the Company with an appeal filed on 25 October 2019.

With **Consultation Paper no. 338/2019/R/gas of 30 July 2019**, the Authority illustrated the guidance on the duration of the fifth regulatory period and the regulatory criteria on the quality of gas distribution and metering services that will apply from 2020. This guidance takes into account the contributions submitted following the publication of Document no. 170/2019/R/gas and is based on analysis of the key results of regulation achieved in the period 2014-2019.

With **Determination no. 34/2019/gas - DSAI of 8 August 2019**, ARERA launched sanctioning and prohibitive proceedings against Italgas Reti in relation to safety of the natural gas distribution service following an audit performed in the days 26-28 February 2019 on figures relating to the "Albano Laziale" distribution system. According to the Authority, it emerged that:

- the company had not complied with the obligation to make operating procedures available in compliance with current technical regulations;
- to date, there is no evidence that the company has ceased the conduct claimed, thereby potentially compromising the safety, reliability and quality of emergency services and, therefore, the safety of users served by the system managed by the company.

On 19 February 2020, ARERA notified its investigation findings, confirming the violation. The Company is examining the Measure, also with a view to its challenge if required.

With **Resolution no. 569/2019/R/gas of 27 December 2019**, the Authority approved the regulation on the quality of gas distribution and metering services for the period 2020-2025.

The main points of interest newly applying to gas distribution safety are:

- amendment of the obligations relating to cathodic protection for steel networks and the introduction of a new service obligation relating to compliance with the elimination time for a gas leak;
- assignment to CIG of the preparation of guidelines regarding the handling of reports from gas emergency call centre staff;
- introduction from 2023 of the obligation for distribution companies to have only upgraded odorisation systems at the delivery points;
- a more gradual completion of the process to replace/recondition pipes in critical materials (cast iron with hemp and lead joints not yet reconditioned, PVC, cement, asbestos and other materials not permitted under technical regulations);
- application of a reduction coefficient on safety recovery of 0.5 in the event of a gas incident for which the distribution company is liable, and the cancellation of any premiums if two or more gas incidents occur on a system for which the distribution company is responsible;
- introduction of a new indicator relating to the weighted average residual life of HP/MP network pipes and of LP pipes;
- expansion of the types of incident to be reported to the CIG;
- introduction of new system requirements for monitoring the working pressure on low pressure networks.

As regards updating of the regulation on commercial quality, the Authority:

- postpones to 2023 the review of the standards on overall works budget timing and on the budget timing for simple works, to be assessed also in relation to the scheduling of gas tender procedures;
- postpones to a later Measure the introduction of a mechanism that allows the distribution company to provide services with higher standards against payment, with dedicated pricing.

Commercial regulation of the gas distribution and metering service

With **Resolution no. 271/2019/R/gas of 25 June 2019**, as amended by **Resolution no. 493/2019/R/gas of 26 November 2019**, the Authority completed the regulation for the process of making available the Integrated Information System (SII) of technical and general data on delivery points, metering data and amendment of the reporting standards for the gas sector.

In particular, the aim of the resolution is to streamline information flows, currently defined in the Operating Instructions for the gas sector, regarding:

- metering unit technical and general data;
- readings taking during technical and commercial services (extending centralisation of this data to the SII, as the common single interface between distribution companies and users).

Energy Efficiency - White Certificates

The energy efficiency improvement goal for end use in Italy was mainly implemented through the Energy Efficiency Certificates (TEEs or White Certificates) mechanism. These certify the achievement of energy savings in the end use of energy, obtained through energy efficiency improvement projects and works, assessed and approved by the GSE (Energy Services Operator).

The Energy Efficiency Certificates mechanism was established by the Ministry for Production Activities, in concert with the Ministry for the Environment and Land and Sea Protection through Ministerial Decree dated 20 July 2004, as amended and supplemented by Ministerial Decree of 21 December 2007, Ministerial Decree of 28 December 2012, Ministerial Decree of 11 January 2017 and, lastly, Ministerial Decree of 10 May 2018, published in the Official Gazette of the Republic of Italy on 10 July 2018.

These regulations were introduced with a view to ensuring market stability, after the TEE trading performance seen in the reference year 2017, which drove certificate prices to an all-time peak value of 480.00 €/TEE. Lawmaker intervention therefore became necessary to allow or in any event encourage the achievement of energy efficiency objectives by electricity and gas distribution companies and limit the continuous price increase.

With **Determination no. 1/2019 - DMRT**, the Authority defined and transmitted to the Ministry of Economic Development and to the GSE the national energy efficiency annual quantitative end use obligations for natural gas to be achieved in 2019 by distributors with more than 50,000 end users connected to its distribution network as at 31 December 2017. For subsidiaries and participated companies of Italgas S.p.A., the quantitative obligation for 2019, rounded off to the nearest whole number on a commercial basis and expressed as a number of White Certificates, is: **948,473** for **Italgas Reti**; **137,759** for **Toscana Energia**; **7,121** for **Umbria Distribuzione Gas**; **4,157** for **EGN Distribuzione**.

Overall, in 2019 the Italgas Group¹¹ companies purchased, with commitment to buy, 665,215 TEEs from the market for a value of €173.0 million and 387,766 short certificates from the GSE, pursuant to Ministerial Decree of 10 May 2018, for a total value of €4.3 million. During the interim cancellation session of 30 November 2019, 446,371 TEEs were cancelled with collection of a total of €100.4 million.

On 3 May 2019 the Ministry of Economic Development, together with the Ministry for the Environment, issued the Decree for the approval of the Operating Guide for promotion of the identification, definition and presentation of projects within the White Certificates mechanism, originally provided by article 15, paragraph 1, of the implementing decree of 11 January 2017, amended with Ministerial Decree of 10 May 2018.

The Ministry of Economic Development also approved the Operating Guide with **Decree of 9 May 2019**, which governs procedures for the use of TEEs not deriving from the realisation of energy efficiency projects, the so-called "Short certificates". On the basis of this guide, the obliged entities who hold in their account an amount of "real" Energy Efficiency Certificates equivalent to at least 30% of the minimum obligation, may make recourse to "Short certificates" for the volume necessary to reach their minimum annual obligation.

The Decree was challenged through an appeal for additional reasons as part of the proceedings brought by the Company against the decree issued by the Ministry of Economic Development, in concert with the Ministry for the Environment and Land and Sea Protection on 10 May 2018, containing the amendment and updating of the Decree of 11 January 2017 which, *inter alia*, concerned the determination of national quantitative goals for energy savings that must be pursued by electricity and gas distribution companies in the years from 2017 to 2020 (RG no. 12610/2018). The discussion hearing before the Rome Regional Administrative Court is scheduled for 15 April 2020.

The Authority, with **Resolution no. 209/2019/R/efr of 28 May 2019**, approved the operational procedures for the economic regulation of resources deriving from the issuing activity and the potential surrender by obliged entities of Energy Efficiency Certificates not corresponding to projects ("shorts") provided by the GSE. The Measure also approved an amendment to the rules for determining the tariff contribution to be paid to distributors compliant with the obligations of energy saving, pursuant to Resolution no. 487/2018/R/efr, in relation to the treatment of exchanges of TEEs through bilateral arrangements. It is envisaged in particular that, based on the tariff contribution for the 2019 reference year, the average prices for TEE trades on the market and the significant prices of TEEs traded

¹¹ Including Toscana Energia as a result of the acquisition of control. For further details, reference should be made to the paragraph "Extraordinary and M&A transactions" on page 16.

bilaterally, are weighted, for bilateral trades using only the quantity of TEEs traded at a price below 250 €/TEE (rather than all TEEs subject to bilateral trading, regardless of the trade price, as currently envisaged). The Authority approved provisions to update the Regulations for bilateral transactions of Energy Efficiency Certificates, arranged by the Energy Markets Operator (GME), with the later **Resolution no. 273/2019/R/efr of 25 June 2019**.

Both resolutions were challenged by the Company and were cancelled by Decision no. 2538/2019 published on 28 November 2019. The above Decision also led to the *in parte qua* cancellation of the Decree of 10 May 2018, already challenged by the Company and the ARERA Resolution no. 487/2018/R/efr of 27 September 2018 which defined the tariff contribution to cover costs incurred by electricity and natural gas distributors for obligations as part of the energy efficiency certificates mechanism, pursuant to the interministerial decree, also already challenged by the Company.

With **Determination DMRT/EFC/4/2019 of 10 July 2019**, ARERA established the value of the tariff-based unit contribution in relation to Energy Efficiency Certificates (TEE) for the reference year 2018 of 248.89 €/TEE.

The Determination was appealed by the Company before the Milan Regional Administrative Court (RG no. 2215/2019). The proceedings are still pending and a public hearing date has not yet been scheduled.

With **Resolution no. 415/2019/S/efr of 23 October 2019**, the Authority imposed an administrative fine upon Italgas Reti, after ascertaining the violation of provisions regarding Energy Efficiency Certificates for the 2016 reference period.

In fact, the company was apparently forced not to comply due to the considerable increase in market prices for TEEs recorded from October 2016 onwards (in part also heightened by the lack of certificates on the market as a result of the Ministerial Decree of 11 January 2017) compared to the total tariff contribution disbursed by the Authority. Consequently, the company should have decided not to purchase energy efficiency certificates, by 31 May 2017, at excessively disadvantageous conditions. In its statement of 27 March 2018, Italgas claimed that there were no grounds for a sanction to be inflicted, in that the failure to achieve the energy efficiency objective on time for the 2016 reference year could not be enforced.

The resolution was challenged before the Milan Regional Administrative Court (RG. 2804/2019). The proceedings are still pending and a public hearing date has not yet been scheduled.

With reference to the **control started by the GSE** on 55 packages of energy efficiency projects relating to the subsidiary Seaside, at the end of 2019 notices of cancellation of 2 project packages had been received as well as the required supplementary documentation for the remaining projects. An appeal was filed with the Lazio Regional Administrative Court against the April notice, and additional reasons have been submitted through other measures associated with the April notice.

With **Resolution no. 529/2019/R/efr of 10 December 2019**, the Authority launched a reform of the tariff contribution to be recognised to distributors in enforcement of Decision no. 2538/2019 of the Lombardy Regional Administrative Court, which pronounced that the quantification as €250.00 of the cap on contributions by the Ministerial Decree of 10 May 2018 violated the Authority's prerogatives, and ordered urgent action in relation to the energy efficiency certificates mechanism. For the purpose of the above proceedings, the Authority considers that the fairest driver for defining the total cost of the mechanism, in its current form, is the cost incurred by distributors which exploit the option of purchasing TEEs that do not correspond to projects, pursuant to Article 14-bis, Ministerial Decree of 11 January 2017, defined as the difference between 260 €/TEE and the value of the tariff contribution for the corresponding reference year, with a maximum limit of 15 €/TEE.

Assignment of the gas distribution service and related local tender notices

Italgas operates in a regulatory environment characterised by subsequent legislative acts aimed at implementing the provisions of Article 46-bis of Law Decree No. 159/07. With this Decree, the legislature entrusted the Minister for Economic Development the task of defining the new criteria to define the criteria for calls for tenders referring to the distribution service, no longer for individual municipalities, but for minimum geographical areas, according to the identification of optimal user pools, based on the criteria of efficiency and cost savings.

In 2011, the Ministry of Economic Development adopted four reorganisation measures regarding the matter, described below.

The Areas Decree of 19 January 2011 established multi-municipality minimum geographical areas (ATEM) for which new gas distribution concessions must be assigned. The subsequent Decree of 18 October 2011 identified the municipalities that are part of the 177 ATEM.

Then on 12 November 2011, the Ministerial Decree was adopted, outlining the criteria for the tender and evaluation of the bids for the award of natural gas distribution services. The Measure was subsequently amended by Decree of the Minister of Economic Development No. 106, in consultation with the Minister for Regional Affairs and Autonomy, on 20 May 2015, published in the Official Gazette No. 161 on 14 July 2015.

The Measure contains instructions on preliminary aspects of the tender (including the participation requirements, the criteria for assessing bids, the value of the compensation to be paid to the outgoing operator, etc.), as well as the "standard" calls for tenders and the tender regulations. The reimbursement value for holders of expired contracts and concessions upon expiry is calculated in accordance with the provisions in the agreements or contracts, provided that they were concluded before the date the regulation became effective under Ministerial Decree no. 226 of 12 November 2011 (i.e., before 11 February 2012) and, for aspects which are not inferable from the specific intentions of the parties, as well as for aspects not governed by those conventions or contracts, the reimbursement value will be based on the Guidelines on criteria and procedures, subsequently stipulated by the Ministry of Economic Development and approved by Ministerial Decree dated 22 May 2014. In any case, private contributions relating to local assets, as valued according to the

current tariff regulation methodology, are subtracted from the amount to be reimbursed. Where there is a disagreement between the local authority and the outgoing operator with regard to the reimbursement amount, the public notice contains a reference amount to be used for the purpose of the tender. This reference amount is the estimate of the contracting local authority or the RAB, whichever is greater. Once the dispute has been resolved, any difference will be settled between the incoming operator and the outgoing operator. Eventually, i.e., in subsequent periods, the reimbursement to the outgoing operator shall be the value of local net fixed assets, net of government grants for capital expenditure and private contributions relating to local assets, calculated on the basis of criteria used by the Authority to determine distribution tariffs (RAB).

The tenders will be awarded on the basis of the most economically advantageous bid, in accordance with criteria of safety, quality of service and development plans for the systems.

On 5 February 2013, the Ministerial Decree was finally adopted, approving the format for the service type contract to perform distribution activities.

07



Comment on the economic and financial results

7.1 Reclassified Income Statement

(€ million)	2018	2019	Abs. change	Change %
Gas distribution regulated revenue	1,145.0	1,198.0	53.0	4.6
- of which distribution revenue	1,007.3	1,100.2	92.9	9.2
- of which other distribution revenue*	137.7	97.8	(39.9)	(29.0)
Other revenue	33.1	59.9	26.8	81.0
Total revenue**	1,178.1	1,257.9	79.8	6.8
Operating costs**	(338.6)	(350.4)	(11.8)	3.5
- of which special items	2.5	0.0	(2.5)	
EBITDA	839.5	907.5	68.0	8.1
Adjusted EBITDA	842.0	907.5	65.5	7.8
Amortisation, depreciation and impairment	(386.0)	(391.5)	(5.5)	1.4
EBIT	453.5	516.0	62.5	13.8
Adjusted EBIT	456.0	516.0	60.0	13.2
Net financial expense	(47.0)	(69.3)	(22.3)	47.4
- of which special items	0.0	18.3	18.3	
Adjusted net financial expense	(47.0)	(51.0)	(4.0)	
Net income from equity investments	20.0	100.8	80.8	
- of which special items	0.0	(85.9)	(85.9)	
Adjusted net income from equity investments	20.0	14.9	(5.1)	
Gross profit	426.5	547.5	121.0	28.4



Adjusted gross profit	429.0	479.9	50.9	11.9
Income taxes	(112.8)	(123.9)	(11.1)	9.8
- of which special items	(0.7)	(4.4)	(3.7)	
Adjusted income taxes	(113.5)	(128.3)	(14.8)	(13.0)
Net profit	313.7	423.6	109.9	35.0
Net profit attributable to minority interests	0.0	6.4	6.4	
Net profit attributable to the Group	313.7	417.2	103.5	33.0
Adjusted net profit	315.5	351.6	36.1	11.4
Adjusted net profit attributable to the Group	315.5	345.2	29.7	9.4

* To provide a like-for-like basis for comparison with the accounting position as at 31 December 2019, penalties for leaks of €1.9 million as at 31 December 2018 and listed net of incentives were reclassified under operating costs.

** The reclassified income statement, unlike the statutory statement, envisages recognition net of the effects of IFRIC 12 "Service concession arrangements" (€621.1 million and €447.0 million in 2019 and 2018, respectively), reclassification of connection contributions and residual components (€16.6 million and €15.2 million in 2019 and 2018, respectively) and recognition of the net gains from TEEs.

The **EBIT** achieved in 2019 amounted to €516.0 million (of which €17.6 million due to the consolidation of Toscana Energia). EBIT increased by €62.5 million, +13.8%, compared to 2018 (€453.5 million). The increase is mainly due to higher revenue (+€79.8 million; +6.8%), partly offset by: (i) increased operating costs (+€11.8 million; 3.5%) and (ii) higher amortisation, depreciation and impairment (+€5.5 million; +1.4%).

The increase in distribution revenue derives mainly from the contribution of newly consolidated companies (+€47.5 million) as well as tariff adjustments totalling +€25.1 million (€18.3 million of which associated with the reimbursement of smart metering costs for 2011-2016 and €6.8 million to adjustments on previous years).

The increase in operating costs is mainly due to the higher concession-related charges (+€8.0 million) and net costs relating to Energy Efficiency Certificates (+€5.5 million). Amortisation, depreciation and impairment rose as a result of investments in the period amounting to €35.4 million, as well as IFRS 16 amortisation for €15.2 million (+€8.1 million compared to the corresponding period of 2018).

Net profit for 2019, totalling €423.6 million, recorded an increase of €109.9 million compared to the 2018 net profit, +35.0%, due, as well as to the aforementioned €62.5 million increase in EBIT, to higher net income from equity investments (+€80.8 million), deriving primarily from remeasurement of the equity investment in Toscana Energia following the “step acquisition” of control pursuant to IFRS 3 - Business Combinations, partly offset by the increase of €22.3 million in net financial expense resulting mainly from the bond buyback transaction of 11 December 2019.

The **net profit attributable to the Group**, net of minority interests, mainly referring to Toscana Energia, was €417.2 million.

The **adjusted net profit attributable to the Group** was €345.2 million (+9.4% compared to the corresponding period of 2018).

7.2 Reconciliation of EBIT and the reported net profit with adjusted EBIT and adjusted net profit

Italgas' management assesses Group performance on the basis of alternative performance indicators¹² 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.

¹² For the definition of alternative performance indicators, reference should be made to the chapter “Non-GAAP Measures” in this report.

The income components classed among special items in 2019 referred to:

- the **capital gain** from remeasurement of the equity investment in **Toscana Energia** following the “**step acquisition**” of control pursuant to IFRS 3 - Business Combinations, for a total of €85.9 million;
- the **costs** incurred for the **bond buyback transaction**, completed on 11 December 2019, for a total of €18.3 million;

(€ million)	2018	2019
Reported EBIT	453.5	516.0
<i>Excluding special items</i>	2.5	0.0
Adjusted EBIT	456.0	516.0
Net financial expense	(47.0)	(69.3)
<i>Excluding special items</i>	0.0	18.3
Adjusted net financial expense	(47.0)	(51.0)
Net income from equity investments	20.0	100.8
<i>Excluding special items</i>	0.0	(85.9)
Adjusted net income from equity investments	20.0	14.9
Reported gross profit	426.5	547.5
Adjusted gross profit	429.0	479.9
Income taxes	(112.8)	(123.9)
<i>Excluding special items</i>	(0.7)	(4.4)
Reported net profit (loss)	313.7	423.6
Reported net profit (loss) attributable to minority interests	0.0	6.4
Reported net profit (loss) attributable to the Group	313.7	417.2
<i>Excluding special items</i>		
- financial expense from bond buyback*	0.0	13.9
- expense for staff leaving incentives*	1.8	0.0
- capital gain on step acquisition	0.0	(85.9)
Adjusted net profit (loss) attributable to the Group	315.5	345.2

* Net of the related tax effect.

7.3 Analysis of the reclassified Income Statement items

Total revenue

(€ million)	2018	2019	Abs. change	Change %
Distribution revenue	1,007.3	1,100.2	92.9	9.2
Other distribution revenue	137.7	97.8	(39.9)	(29.0)
Total gas distribution regulated revenue	1,145.0	1,198.0	53.0	4.6
Other revenue	33.1	59.9	26.8	81.0
Total revenue	1,178.1	1,257.9	79.8	6.8

Total revenue in 2019 amounted to € 1,257.9, a € 79.8 million increase (of which € 34.8 million due to the first-time consolidation of Toscana Energia from 1 October 2019) compared with 2018 (+6.8%) and refers to gas distribution regulated revenue (€ 1,198.0 million) and Other revenue (€ 59.9 million).

Gas distribution regulated revenue increased by €53.0 million compared to the same period last year due to the higher distribution revenue (+€92.9 million), partly offset by the decrease in other distribution revenue (-€39.9 million).

The higher **distribution revenue** (+€92.9 million) mainly refers to: the tariff components for +€18.9 million (of which €12.0 million due to review of the WACC pursuant to Resolution no. 639/2018), the tariff adjustments for +€25.1 million deriving from the reimbursement of smart metering costs for 2011-2016 (+€18.3 million) and relating to previous years (+€6.8 million), as well as to minor default penalties for €0.7 million. The effect of changes in the scope of consolidation due to new business acquisitions was €47.5 million as at 31 December 2019 (of which €31.1 million relating to Toscana Energia).

The decrease in **other distribution revenue** (€39.9 million) is due to the lower contribution pursuant to article 57 of ARERA Resolution no. 367/14, relating to the replacement of traditional meters with smart meters, as required by the plan for smart metering pursuant to ARERA resolutions no. 631/13 and no. 554/15, resulting from the fact that the company is nearing completion of the replacement plan for smart meters. As at 31 December 2019 this contribution amounted to €22.9 million, of which €0.3 million relating to Toscana Energia (€71.5 million as at 31 December 2018). Compared to 31 December 2018, the company also recorded a €1.9 million increase in revenue for ARERA incentives relating to safety recoveries for the natural gas distribution service and €6.9 million for services to end customers.

In reference to **Resolution no. 570/2019/R/gas** on the new provisions regarding recognition of the residual costs of traditional meters of a class lower than or equal to G6 replaced with smart meters, the company did not reflect the impacts made by the change in methodology over the previous years in the financial statements since it believes that the requirements for recognising them do not exist. It is waiting for the Manager of the Energy Infrastructure and Unbundling Department to identify coherent operational solutions for managing the reconciliation between regulatory divestments and accounting divestments through his determination, as required by art. 11 of Resolution no. 570/2019/R/gas.

Other revenue in 2019 was €59.9 million (up €26.8 million compared to the corresponding period in 2018). The increase is mainly linked to greater i) capital gains from disposals for €10.3 million (of which €7.7 million linked to the sale of the property in Via XX Settembre in Turin and €2.8 million linked to the sale of vehicles), ii) sundry repayments for €2.0 million, primarily relating to gas supply trucks, and iii) LPG and propane air sales to users due to the effect of the change in the scope of consolidation relative to assets acquired in Sardinia (€14.0 million).

Operating costs

(€ million)	2018	2019	Abs. change	Change %
Fixed gas distribution costs	246.7	240.5	(6.2)	(2.5)
- net personnel costs	140.9	141.2	0.3	0.2
- net external costs*	105.8	99.3	(6.5)	(6.1)
Variable gas distribution costs	4.8	6.2	1.4	29.2
Other gas distribution costs	10.2	5.5	(4.7)	(46.1)
- of which special items	2.5	0.0		
Adjusted other gas distribution costs	7.7	5.5	(2.2)	(28.6)
EECs	2.3	7.8	5.5	
Concession-related expenses	54.7	62.7	8.0	14.6
Total gas distribution regulated costs	318.7	322.7	4.0	1.3
Adjusted total gas distribution costs	316.2	322.7	6.5	2.1
Other costs	19.9	27.7	7.8	39.2
- net personnel costs	3.7	5.0	1.3	35.1
- net external costs	16.2	22.7	6.5	40.1
Operating costs	338.6	350.4	11.8	3.5
- Special items	2.5	0.0		
Adjusted operating costs	336.1	350.4	14.3	4.3

* To provide a like-for-like basis for comparison with the accounting position as at 31 December 2019, penalties for leaks of €1.9 million as at 31 December 2018 and listed net of incentives were reclassified in the following cost line.

Operating costs at the end of 2019 were €350.4 million, up by €11.8 million (of which €4.7 million due to the first-time consolidation of Toscana Energia) compared to the corresponding period in 2018. The **fixed gas distribution costs**, i.e. the sum of the net personnel costs of €141.2 million and net external costs of €99.3 million, as at 31 December 2019 totalled €240.5 million, down by €6.2 million compared to the corresponding value in 2018 (€246.7 million; -2.5%). The decrease mainly derives from lower net costs associated with ICT services (-€6.3 million), a decrease in traditional meter reading costs (-€3.1 million), lower penalties for gas leaks (-€1.0 million) and reduced costs for consulting and services (-€0.6

million), partly offset by the higher costs relating to the change in the scope of consolidation (+€4.5 million).

Other gas distribution costs include: i) €62.7 million for **concession-related expenses** (+€8.0 million compared to the same period of 2018, of which €5.4 million due to the Roma Capitale concession fee based on the updated revenue limit); ii) €5.5 million for **other gas distribution costs** (-€4.7 million compared to 31 December 2018); iii) €7.8 million for **Energy Efficiency Certificate**-related costs (+€5.5 million compared to 31 December 2018) and iv) €6.2 million for **variable gas distribution costs** (+€1.4 million compared to 31 December 2018), which include costs for third-party services (+€0.8 million) and costs for gas preheating consumption (+€0.5 million).

The **other gas distribution costs** for €5.5 million were down by €4.7 million from 31 December 2018 due to the effect of lower costs for staff leaving incentives (-€3.6 million), lower net provisions for risks (-€5.5 million), offset by an increase in capital losses from disposals (+€4.4 million).

Lastly, an increase in **other costs** of €7.8 million was recorded, mainly linked to LPG procurement activities (+€5.6 million).

Amortisation, depreciation and impairment

(€ million)	2018	2019	Abs. change	Change %
Amortisation and depreciation	386.0	389.6	3.6	0.9
Intangible assets IFRIC 12	323.0	317.3	(5.7)	(1.8)
Other intangible assets	38.2	43.3	5.1	
Property, plant and equipment	24.8	29.0	4.2	16.9
- of which amortisation of Rights of Use	7.1	15.2	8.1	
Impairment	0.0	1.9	1.9	
	386.0	391.5	5.5	1.4

Amortisation, depreciation and impairment (€391.5 million) increased by €5.5 million, or 1.4%, compared with 2018. The €43.5 million increase is linked to investments for the period (of which €12.4 million due to the initial consolidation of Toscana Energia and €8.1 million to new IFRS 16 contracts), offset by lower amortisation and depreciation due to the replacement of traditional meters with smart meters, at 31 December 2019 equal to €44.6 million (€82.6 million in the same period of 2018), as in 2020 the Group will complete its replacement of the entire stock of traditional meters.

In addition, following rulings 4104/2018 and 588/2019 of the State Council, which established that the Municipality of Venice and Municipality of Cavallino Treporti had already acquired ownership of a portion of the network relating to the concession, through a free transfer, the Company arranged to accelerate the relative amortisation and depreciation during the period for each municipality, respectively equivalent to around € 2.7 million and € 0.8 million.

Net financial expense

(€ million)	2018	2019	Abs. change	Change %
Expense (income) on short-term and long-term financial debt	41.4	44.7	3.3	7.9
Upfront fees, fees and other capitalisations	4.2	23.2	19.0	
- <i>of which special items</i>	0.0	18.3	18.3	
Adjusted upfront fees, fees and other capitalisations	4.2	4.9	0.7	16.3
Other net financial expense (income)	1.5	2.1	0.6	42.8
- Financial expense (income) related to the discounting of environmental provisions and provisions for employee benefits	2.2	2.7	0.5	23.1
- Other net financial expense (income)	(0.7)	(0.6)	0.1	
- <i>of which expense relating to Rights of Use</i>	(0.3)	(0.3)		
- Financial expense capitalised	(0.2)	(0.7)	(0.5)	
Net financial expense	47.0	69.3	22.3	47.6
Special items	0.0	(18.3)		
Adjusted net financial expense	47.0	51.0	4.0	8.6

Net financial expense (€69.3 million) rose by €22.3 million compared to 2018, mainly due to: (i) the bond buyback transaction completed on 11 December 2019, which led to total non-recurring expense of €18.3 million, (ii) interest accrued on bond loans issued on 24 July 2019 and 11 December 2019, plus the interest accrued in the entire year on the bond issued in January 2018, for a total value of €2.7 million, (iii) higher expense on bank credit facilities and the EIB loan following the consolidation of Toscana Energia (€0.6 million) and (iv) higher expense due to the Interest Rate Swap transaction through which the EIB "Smart Metering" loan was changed to fixed rate for €300 million (€0.3 million).

Net income from equity investments, amounting to €100.8 million in 2019 (€20.0 million in 2018; +€80.8 million), increased essentially as a result of the remeasurement of the equity investment in Toscana Energia following the acquisition of control pursuant to IFRS 3 - Business Combinations, which generated a capital gain of €85.9 million.

Income taxes

(€ million)	2018	2019	Abs. change	Change %
Current taxes	132.6	127.7	(4.9)	(3.7)
Net deferred taxes	(19.8)	(3.7)	16.1	(81.1)
Income taxes	112.8	123.9	11.1	9.9
- <i>Adjustments for special items</i>	0.7	4.4		
Adjusted income taxes	113.5	128.3	14.8	13.1
Tax rate (%)	26.4%	22.6%		
Adjusted tax rate (%)	26.5%	26.7%		

Income taxes for 2019 (€123.9 million) increased by €11.1 million compared to the corresponding value for the previous year due to the increase in gross profit, partly offset by benefits from the higher amortisation and depreciation recognised for tax purposes.

The tax rate stood at 22.6% (26.4% in 2018), mainly as the capital gain from remeasurement of the equity investment in Toscana Energia following the "step acquisition" of control, pursuant to IFRS 3 - Business Combinations, was immaterial for tax purposes. The adjusted tax rate was 26.7% (26.5% in 2018). 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.

7.4 Reclassified Statement of Financial Position

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

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

The Italgas Reclassified Statement of Financial Position as at 31 December 2019, compared with that as at 31 December 2018, is summarised below:

(€ million)	31.12.2018	31.12.2019	Abs. change
Fixed capital	5,284.1	6,335.0	1,050.9
Property, plant and equipment	259.2	350.0	90.8
Intangible assets	4,982.8	6,176.1	1,193.3
Equity investments	175.1	33.7	(141.4)
Financial receivables and securities instrumental to operations	0.1	0.2	0.1
Net payables for investments	(133.1)	(225.0)	(91.9)
Net working capital	5.7	56.3	50.6
Provisions for employee benefits	(107.9)	(113.2)	(5.3)
Assets held for sale and directly related liabilities	11.6	2.1	(9.5)
NET INVESTED CAPITAL	5,193.5	6,280.2	1,086.7
Shareholders' equity	1,329.3	1,794.9	465.6
- attributable to the Group	1,329.3	1,560.4	231.1
- attributable to minority interests		234.6	234.6
Net financial debt	3,814.3	4,410.6	596.3
Operating lease payables - IFRS 16	49.9	74.7	24.8
COVERAGE	5,193.5	6,280.2	1,086.7

The **net invested capital** as at 31 December 2019 amounts to €6,280.2 million and consists of the items discussed below.

Fixed capital (€6,335.0 million) rose by €1,050.9 million compared with 31 December 2018 essentially due to the increase in intangible assets (+€1,193.3 million), property, plant and equipment (+€90.8 million), offset by the increase in net debt relating to investment activities (-€91.9 million) and the reduction in the value of equity investments (-€141.4 million) following the consolidation of Toscana Energia.

Intangible assets (€6,176.1 million), which primarily include assets for the concession services accounted for pursuant to IFRIC 12, recorded an increase of €1,193.3 million mainly due to gross investments for €664.0 million, amortisation and impairment for €362.5 million, as well as an increase associated with asset acquisitions resulting from M&A transactions for €901.4 million (€782.0 million due to the consolidation of Toscana Energia) offset by decreases and other changes amounting to €2.4 million.

Property, plant and equipment (€350.0 million), which mainly refer to buildings, commercial and industrial equipment, increased by € 90.8 million largely due to the investments of €76.0 million, of which €39.4 million connected to the application of IFRS 16, net of depreciation of €29.0 million, of which €15.2 million linked to right to use pursuant to IFRS 16, and an increase associated with asset acquisitions following M&A transactions for €49.5 million (€44.5 million of which due to the consolidation of Toscana Energia), offset by decreases for a total of €5.7 million.

An analysis of the changes in **Property, plant and equipment** and **Intangible assets** is provided below:

(€ million)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
Balance as at 31 December 2018	259.2	4,846.9	135.9	5,242.0
Investments	76.0	622.7	41.3	740.0
Amortisation, depreciation and impairment	(29.0)	(319.2)	(43.3)	(391.5)
- of which metering		(116.3)		(116.3)
- of which amortisation as per IFRS 16	(15.2)			(15.2)
Change in the scope of consolidation (entities and business units)	49.5	831.0	70.4	950.9
Grants		(12.0)		(12.0)
Other changes	(5.7)	14.8	(12.4)	(3.3)
Balance as at 31 December 2019	350.0	5,984.2	191.9	6,526.1

Equity investments (€ 33.7 million) include the valuation of equity investments, with the equity method and is attributable for € 30.5 million to equity investments of Toscana Energia.

Consolidated **net working capital** as at 31 December 2019 amounts to €56.3 million and is broken down as follows:

(€ million)	31.12.2018	31.12.2019	Abs. change
Trade receivables	406.7	474.0	67.3
Inventories	26.2	52.3	26.1
Tax receivables	47.7	87.7	40.0
Accruals and deferrals from regulated activities	141.5	127.0	(14.5)
Other assets	115.0	100.9	(14.1)
Trade payables	(230.8)	(299.1)	(68.3)
Provisions for risks and charges	(187.6)	(169.6)	18.0
Deferred tax liabilities	(71.7)	(92.5)	(20.8)
Tax payables	(13.5)	(11.1)	2.4
Other liabilities	(227.8)	(213.3)	14.5
	5.7	56.3	50.6

Compared to 31 December 2018, the change in **working capital** was €50.6 million, deriving mainly from: i) increase in trade receivables (€67.3 million); ii) higher inventories (€26.1 million) relating mainly to gas meters; iii) higher net tax items (€21.6 million) due mainly to the higher VAT receivable, partly offset by an increase in deferred taxes; iv) decrease in accruals and deferrals from regulated activities (€14.5 million), mainly due to factoring of the receivable on the contribution recognised on meters pursuant to Article 57 (€24.7 million); v) decrease in other assets (€14.1 million), deriving mainly from lower receivables due from CSEA for additional distribution components (€20.2 million), partly offset by higher advances to suppliers (€1.6 million) and higher assets due mainly to the derivative arranged in July 2019 (€2.4 million); vi) increase in trade payables (€68.3 million); vii) lower provisions for risks and charges (€18.0 million) mostly due to uses against charges; viii) decrease in other operating liabilities (€14.5 million), mainly as a consequence of settlement of the debt due to EGN following exercise of the option to purchase the remaining 40% (€20.9 million) and same time settlement of the debt for the EGN loan¹³ (€21.0 million) in April 2019, decrease in advances linked to the sale of the property in Via XX Settembre (€11.5 million) recorded in 2018, decrease in payables to the Municipalities (€3.9 million), partly offset by the increase in payables to CSEA in association with additional distribution components (€42.6 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 2019, collecting a total of €71.4 million, (ii) receivables due from CSEA, collecting a total of €77.6 million, (iii) receivables linked to Energy Efficiency Certificates, collecting a total of €100.4 million and (iii) other receivables, collecting €30.2 million.

¹³ In the 2018 financial statements, for management purposes only, the debt on the shareholder loan of €21.0 million disbursed by CPL Concordia to EGN was reclassified to other liabilities.

Net financial debt

(€ million)	31.12.2018	31.12.2019	Abs. change
Financial and bond debt	3,822.4	4,671.5	849.1
Short-term financial debt ^{**}	156.1	471.4	315.3
Long-term financial debt ¹⁴	3,666.3	4,200.1	533.8
Financial receivables and cash and cash equivalents	(8.1)	(260.9)	(252.8)
Cash and cash equivalents ^{**}	(8.0)	(255.8)	(247.8)
Financial receivables	0.0	(5.0)	(5.0)
Securities not instrumental to operations	(0.1)	(0.1)	0.0
Net financial debt^{***}	3,814.3	4,410.6	596.3
Finance lease payables - IFRS 16	49.9	74.7	24.8
Debt for EGN shareholder loan	21.0	0.0	(21.0)
Net financial debt (including the effects pursuant to IFRS 16 and the EGN debt)	3,885.2	4,485.3	600.1

* Includes the short-term portion of long-term financial debt.

** The items are recognised net of €6.5 million relating to factoring transactions, the underlying amounts on which were collected as at 31 December 2019 and repaid to the factor in the first few business days of January 2020.

*** Net financial debt as at 31 December 2019 does not include operating lease payables pursuant to IFRS 16 of €74.7 million (€49.9 million as at 31 December 2018). Compared to the position recorded as at 31 December 2018, the shareholder loan debt payable to CPL Concordia, for €21.0 million, was repaid at the time of exercise of the option to purchase the remaining 40% in April 2019.

Net financial debt was €4,410.6 million as at 31 December 2019, up €596.3 million (€3,814.3 million as at 31 December 2018), of which €436.6 million deriving from the consolidation of Toscana Energia. Including the effects of the application of IFRS 16, of €74.7 million, net financial debt is €4,485.3 million.

Financial and bond debt as at 31 December 2019, totalling €4,671.5 million (€3,822.4 million as at 31 December 2018) were denominated entirely in euros and referred to: bonds (€3,354.3 million), loan agreements concerning European Investment Bank (EIB) funding (€873.2 million) and payables to banks (€444.0 million). The increase in financial and bond debt, for €849.1 million, refers mainly to: (i) the issue of two new bond loans, respectively for a nominal €600 million in July 2019 and a nominal €500 million in December 2019, partly offset by a decrease linked to the mandatory buyback of two previous bond loans for a total nominal value of €650 million; (ii) the increase in EIB loans following the consolidation of Toscana Energia for a total of €89.8 million and (iii) the increase in payables to banks for €318.4 million.

Cash and cash equivalents as at 31 December 2019 totalled €255.8 million, up by €247.8 million (€8.0 million as at 31 December 2018), for €98.3 million referring to temporary balances on year-end available funds, as part of the refinancing of Toscana Energia, used

14 Includes €85.7 million related to a loan provided by EIB to Toscana Energia. In the financial statements the EIB loan is classified as a short-term financial liabilities. Further information is provided in the Notes to the consolidated financial statements.

in January 2020 to complete the repayment of debt to third parties and, for the remainder, obtained through funding during 2019 by Italgas.

As at 31 December 2019, the breakdown of gross financial debt by type of interest rate, net of lease payables pursuant to IFRS 16, is as follows:

(€ million)	31.12.2018	%	31.12.2019	%
Fixed rate	3,272.6	85.6	4,103.6	87.8
Floating rate	549.8	14.4	567.9	12.2
Gross financial debt	3,822.4	100.0	4,671.5	100.0

Fixed-rate financial liabilities amounted to €4,103.6 million and refer to bonds (€3,354.3 million) and to three EIB loans: the first maturing in 2037 (€359.8 million), converted to fixed rate in January 2018 through a derivative hedging contract of the “Interest Rate Swaps” type maturing in 2024; the second maturing in 2032 (€299.8 million), converted to fixed rate in July 2019 through a derivative hedging contract of the “Interest Rate Swaps” type maturing in 2029; and the third (€89.8 million) relating to the EIB loan of Toscana Energia.

The fixed-rate financial liabilities increased by €831.0 million compared to 31 December 2018 due to the issue of the aforementioned bond loans, the new hedging derivative signed in July 2019 and the EIB loan of Toscana Energia.

Floating-rate liabilities amounted to €567.9 million and increased by €18.1 million due to the increased use of the bank lines, partially offset by the EIB loan converted to floating rate through the Interest Rate Swap arranged in July 2019.

As at 31 December 2019, following expiry of the revolving credit facility of €600 million agreed in 2016, Italgas had unused committed credit lines amounting to €500 million maturing in October 2021.

As at 31 December 2019, there were no loan agreements containing financial covenants and/or collateralised, except for the EIB loan, amounting nominal €90.0 million, signed by Toscana Energia requiring that certain financial covenants be observed. 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. With regard to the EIB financing of Toscana Energia see note no. 18) "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities". For all other ones, these commitments were satisfied as at 31 December 2019.

Statement of comprehensive income

(€ million)	2018	2019
Net profit	313.7	423.6
Other components of comprehensive income		
<i>Components reclassifiable to the income statement</i>		
Change in fair value of cash flow hedge derivatives (Effective portion)	(6.5)	(4.2)
Tax effect	1.6	1.0
	(4.9)	(3.2)
<i>Components not reclassifiable to the income statement</i>		
Actuarial gains (losses) from remeasurement of defined benefit plans for employees	3.6	(3.5)
Tax effect	(1.0)	1.0
	2.6	(2.5)
Total other components of comprehensive income, net of tax effect	(2.3)	(5.7)
Total comprehensive income for the year	311.4	417.9
Attributable to:		
- Italgas	311.4	411.7
- Minority interests	0.0	6.2
	311.4	417.9

Shareholders' equity

(€ million)

Shareholders' equity as at 31 December 2018	1,329.3
Increase for:	
- 2019 comprehensive income	423.6
<i>of which:</i>	
- <i>Italgas profit</i>	417.2
- <i>Minority interests</i>	6.4
	1,752.9
Decrease for:	
- 2018 dividend distribution	(189.3)
- Other changes	(3.2)
Shareholders' equity attributable to the Group	1,560.4
Shareholders' equity attributable to minority interests	234.6
Shareholders' equity as at 31 December 2019	1,794.9

7.5 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 flow¹⁵, i.e. the cash surplus or deficit remaining after the financing of investments.

Statement of comprehensive income

(€ million)	2018	2019
Net profit	313.7	423.6
<i>Adjusted:</i>		
- Amortisation, depreciation and other non-monetary components	359.0	275.6
- Net capital losses (capital gains) on asset sales and eliminations	1.3	(4.4)
- Interest and income taxes	159.8	193.2
Change in working capital due to operating activities	35.3	18.9
Dividends, interest and income taxes collected (paid)	(150.4)	(209.7)
Cash flow from operating activities*	718.7	697.2
Technical investments	(474.7)	(688.6)
Other changes relating to investment activities	0.4	89.9
Disinvestments	3.0	8.0
Free cash flow before M&A transactions	247.4	106.5
Change in scope of consolidation	(149.3)	(96.4)
of which:		
- price paid for equity	(84.8)	(40.2)
- takeover of payables of acquired companies	(64.6)	(56.2)
Business unit acquisitions	(23.8)	(25.1)
Free cash flow	74.3	(14.9)

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

Change in short- and long-term financial debt and financial receivables	99.2	434.7
Disposals of minority interests**	-	24.8
Equity cash flow***	(168.3)	(196.8)
Net cash flow for the year	5.2	247.8

* Net of effects deriving from IFRS 15 and 16.

** Disposal of interests refers to disposal of the minority interests of Medea and Gaxa to Fondo Marguerite II.

*** Includes the dividend paid by Italgas to its shareholders for €189.3 million, the extraordinary dividend paid by Toscana Energia for €18.5 million to minority shareholders and the share capital increase of Medea by Fondo Marguerite II for €11.0 million.

Change in net financial debt

(€ million)	2018	2019
Free cash flow before M&A transactions	247.4	106.5
Change due to acquisitions of equity investments and business units	(173.1)	(121.4)
Disposal of minority interests	0.0	24.8
Equity cash flow	(168.3)	(196.8)
Change in net financial debt, excluding the effects of IFRS 16, EGN shareholder loan and financial debt from M&A transactions - Toscana Energia	(94.0)	(186.9)
Change in financial debt - IFRS 16	(49.9)	(19.7)
Change in debt for EGN shareholder loan	(21.0)	21.0
Change in the scope of consolidation of financial debt from M&A transactions*	0.0	(414.5)
Change in net financial debt	(164.9)	(600.1)

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

Cash flow from operating activities in 2019, net of taxes paid for €154.6 million, amounted to €697.2 million, enabling the financing of the full flow of net investments of €590.7 million, generating a free cash flow before Merger and Acquisition transactions of €106.5 million. As at 31 December 2019, the cash flow from M&A transactions amounted to €121.4 million.

The increase in net financial debt was of €186.9 million, gross of the effect deriving from the adoption of IFRS 16 in relation to lease payables (€19.7 million), repayment of the CPL Concordia shareholder loan to EGN (€21.0 million) and the change in the scope of consolidation following the acquisition of Toscana Energia (€414.5 million). The change in the net financial debt including the aforementioned effects is €600.1 million.

08



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.

8.1 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 companies¹⁶.

16 See Consob Communication 94001437 of 23 February 1994.



(€ million)	2018	2019	Abs. change	Change %
Financial income and expense				
Income from equity investments	216.2	246.1	29.9	13.8
Interest income	24.8	44.9	20.1	81.0
Interest expense and other financial expense	(45.6)	(67.4)	(21.8)	47.8
Total financial income and expense	195.4	223.6	28.2	14.4
Revenue from services	74.5	85.7	11.2	15.0
Other income	0.4	0.8	0.4	
Other operating income	74.9	86.5	11.6	15.5
Other operating expenses				
For personnel	(48.0)	(46.5)	1.5	(3.1)
For non-financial services and other costs	(32.0)	(43.4)	(11.4)	35.6
Total other operating expenses	(80.0)	(89.9)	(9.9)	12.4
Gross profit	190.3	220.2	29.9	15.7
Income taxes	3.4	3.5	0.1	2.9
Net profit	193.7	223.6	29.9	15.4

The **net profit** achieved in 2019 totalled €223.6 million, up by €29.9 million on the corresponding value for 2018.

8.2 Analysis of the reclassified Income Statement items

Financial income and expense

(€ million)	2018	2019	Abs. change	Change %
Income from equity investments	216.2	246.1	29.9	13.8
Interest income	24.8	44.9	20.1	81.0
Interest expense and other financial expense	(45.6)	(67.4)	(21.8)	47.8
	195.4	223.6	28.2	14.4

Income from equity investments (€246.1 million) includes the dividends distributed by Italgas Reti subsidiaries (€214.4 million) and Toscana Energia (€32.9 million).

Interest income (€44.9 million) essentially relates to interest income from the intragroup loans granted by Italgas to its subsidiaries.

Interest expense and other financial expense (€67.4 million) mainly refers to the costs relating to financial debt, and concerns bond loan expense¹⁷ (€59.2 million) and loans from banks (€0.8 million).

Other operating income

Other operating income (€86.5 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).

Other operating expenses

(€ million)	2018	2019	Abs. change
For personnel	(48.0)	(46.5)	1.5
For non-financial services and other costs	(32.0)	(43.4)	(11.4)
Total other operating expenses	(80.0)	(89.9)	(9.9)

¹⁷ 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 (€ 89.9 million) refer to personnel costs (€ 46.5 million) and costs for non-financial services and other costs (€ 43.4 million). The latter includes costs for consulting and professional services (€23.1 million), sundry services (€6.2 million), ICT services (€5.6 million), other costs (€3.1 million) and amortisation and depreciation (€5.4 million).

8.3 Reclassified Statement of Financial Position¹⁸

(€ million)	31.12.2018	31.12.2019	Abs. change
Fixed capital	5,401.1	5,636.2	235.1
Property, plant and equipment	17.5	15.8	(1.7)
Intangible assets	12.1	9.9	(2.2)
Equity investments	2,983.5	2,993.8	10.3
Financial receivables instrumental to operations	2,392.1	2,623.0	230.9
Net receivables (payables) relating to investment activities	(4.1)	(6.3)	(2.2)
Net working capital	(11.7)	(4.9)	6.8
Provisions for employee benefits	(6.2)	(17.8)	(11.6)
NET INVESTED CAPITAL	5,383.2	5,613.5	230.3
Shareholders' equity	1,673.9	1,705.0	31.1
Net financial debt	3,693.8	3,895.8	202.0
Net financial debt for leases - IFRS 16	15.5	12.7	(2.8)
COVERAGE	5,383.2	5,613.5	230.3

Fixed capital amounted to €5,636.2 million and rose by €235.1 million compared to 31 December 2018, mainly due to the higher financial receivables instrumental to operations (€230.9 million), the increased value of equity investments (€10.3 million) and the increase in net debt relating to investment activities (€2.2 million).

Equity investments totalling €2,993.8 million refer to the interests in Italgas Reti, Italgas Acqua, Toscana Energia, Gaxa and Seaside (€2,992.7 million) and the equity investment in companies measured using the equity method (€1.0 million). The increase compared to 31 December 2018 mainly derives from the acquisition of shares equal to 1.98% of the share capital of Toscana Energia (+€10.7 million).

18 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)	31.12.2018	31.12.2019	Abs. change
Tax receivables	0.7	55.4	54.7
Trade receivables	28.2	34.7	6.5
Other assets	2.4	6.2	3.8
Trade payables	(29.8)	(27.5)	2.3
Tax payables	(1.7)	(52.4)	(50.7)
Deferred tax assets	3.6	5.4	1.8
Provisions for risks and charges	(1.5)	(1.8)	(0.3)
Other liabilities	(13.7)	(24.9)	(11.2)
	(11.8)	(4.9)	6.9

Net working capital (€4.9 million) fell by €6.9 million compared to 31 December 2018, mainly as a result of: (i) the increase in net tax items (€5.8 million) linked to the higher amount receivable from subsidiaries for the National Tax Consolidation; (ii) the increase in trade receivables (€6.5 million) against the increase in provision of services to subsidiaries; (iii) the increase in other assets (+€3.8 million) due mainly to the derivative transaction arranged in July 2019; (iv) the decrease in trade payables (€2.3 million) and the increase in other liabilities (€11.2 million) associated with IRS hedging transactions.

Net financial debt

(€ million)	31.12.2018	31.12.2019	Abs. Change
Financial and bond debt	3,899.8	4,464.6	564.8
Short-term financial debt*	235.8	358.0	122.2
Long-term financial debt	3,664.0	4,106.6	442.6
Financial receivables non-instrumental to operations and cash and cash equivalents	(206.0)	(568.8)	(362.8)
Financial receivables non-instrumental to operations	(75.6)	(418.9)	(343.3)
Cash and cash equivalents	(130.4)	(149.9)	(19.5)
Net financial debt**	3,693.8	3,895.8	202.0
Finance lease payables - IFRS 16	15.5	12.7	(2.8)
Net financial debt	3,709.3	3,908.5	199.2

* Includes the short-term portion of long-term financial debt and financial debt to subsidiaries.

** Net financial debt as at 31 December 2019 does not take into account operating lease payables pursuant to IFRS 16 for €12.7 million (€15.5 million as at 31 December 2018).

Net financial debt was €3,895.8 million as at 31 December 2019, up €202.0 million compared to 31 December 2018 (€3,693.8 million). Including the effects of the application of IFRS 16, of €12.7 million, net financial debt is €3,908.5 million.

Financial and bond debt as at 31 December 2019, totalling €4,464.6 million (€3,899.8 million as at 31 December 2018) were denominated entirely in euros and referred mainly to: bonds (€3,354.3 million), loan agreements concerning European Investment Bank (EIB) funding (€783.6 million) and payables to banks (€326.7 million). The increase in financial and bond debt, for €564.8 million, refers mainly to the issue of two new bond loans, respectively for a nominal €600 million in July 2019 and €500 million in December 2019, partly offset by a decrease linked to the buyback of two previous bond loans for a total nominal value of around €650 million, as well as to stronger use of bank credit facilities.

The financial receivables non-instrumental to operations (€418.7 million) refer to financial receivables due from subsidiaries paid through the intercompany current account.

As at 31 December 2019, the breakdown of debt by type of interest rate, net of lease payables pursuant to IFRS 16, is as follows:

(€ million)	31.12.2018	%	31.12.2019	%
Fixed rate	3,272.6	83.9	4,013.9	89.9
Floating rate	627.2	16.1	450.7	10.1
	3,899.8	100.00	4,464.6	100.00

Fixed-rate financial liabilities amounted to €4,013.9 million and refer to bonds (€3,354.3 million) and to two EIB loans: the first maturing in 2037 (€359.8 million), converted to fixed rate in January 2018 through a derivative hedging contract of the "Interest Rate Swaps" type maturing in 2024; the second maturing in 2032 (€299.8 million), converted to fixed rate in July 2019 through a derivative hedging contract of the "Interest Rate Swaps" type maturing in 2029.

The fixed-rate financial liabilities increased by €741.3 million compared to 31 December 2018 due to the issue of the aforementioned bond loans and the second hedging derivative.

Floating-rate liabilities totalled €450.7 million, down €176.5 million essentially as a result of the transformation to fixed rate of the second EIB loan referred to above, partly offset by greater use of the bank credit facilities.

As at 31 December 2019, following expiry of the revolving credit facility of €600 million agreed in 2016, Italgas had unused committed credit lines amounting to €500 million maturing in October 2021.

As at 31 December 2019, there were no loan agreements containing financial covenants and/or collateralised. 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. These commitments were satisfied as at 31 December 2019.

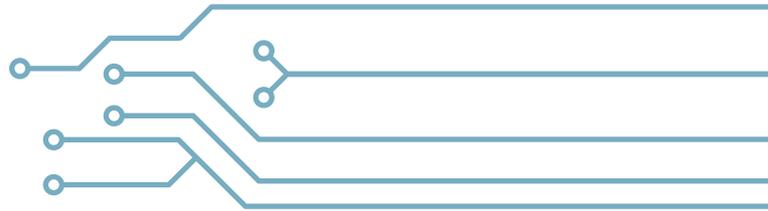
8.4 Reclassified Statement of Cash Flows

(€ million)	2018	2019
Net profit	193.7	223.6
<i>Adjusted:</i>		
- Amortisation, depreciation and other non-monetary components	0.2	5.7
- Dividends, interest and income taxes	(201.1)	(236.7)
Change in working capital due to operating activities	6.9	(0.8)
Dividends, interest and income taxes collected (paid)	205.0	238.3
Net cash flow from operating activities	204.7	230.1
Technical investments	(12.6)	(1.2)
Equity investments	(9.3)	(12.9)
Net financial investments instrumental to operations	(173.1)	(230.9)
Other changes relating to investment activities	(3.7)	2.2
Free cash flow	27.9	(12.7)
Change in financial receivables non-instrumental to operations	82.6	(343.3)
Change in current and non-current financial debt	188.0	564.8
Equity cash flow	(168.3)	(189.3)
Other changes	0.1	0.0
Net cash flow for the year	130.2	19.5

Change in net financial debt

(€ million)	2018	2019
Free cash flow	27.9	(12.7)
Equity cash flow	(168.3)	(189.3)
Change in net financial debt excluding the effects of IFRS 16	(140.3)	(202.0)
Change in financial debt - IFRS 16	(15.5)	2.8
Change in net financial debt	(155.8)	(199.2)

09



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), which replaces the CESR/05-178b recommendations from 3 July 2016. The Non-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IAS/IFRS.

The alternative performance indicators 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 for the year and any other components of the statement of reconciliation of the income statement in 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.



Alternative economic performance indicators

Description

Reclassified operating costs	The costs deriving from regulated gas distribution activities, calculated by subtracting the costs for construction and enhancement of infrastructures recognised pursuant to IFRIC 12 and any other components of the statement of reconciliation of the income statement in 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.
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. As at 31 December 2018 the item considered, among other current liabilities, financial debt for €21.0 million, composed of shareholder loans issued by CPL Concordia to EGN, repaid in April 2019 at the same time as the exercise of the put & call option, as it is considered to be part of the purchase price adjustment.
Fixed capital	A capital indicator that expresses the total fixed assets. Fixed capital is defined as the sum of the values relating to items of property, plant and equipment, intangible assets, equity investments and net debt relating to investment activities.

Alternative capital performance indicators

Description

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 operating activities for the mandatory schemes, excluding the effects deriving from application of the IFRS 15 and IFRS 16 accounting standards.

Free cash flow before M&A transactions

The free cash flow representing the difference between the cash flow from operating activities and the net cash flow from investment activities, excluding that 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.

Net financial debt

Determined as the sum of short and long-term financial debt, net of cash and cash equivalents and finance lease payables per IFRS 16. As at 31 December 2018 the item did not consider financial debt for €21.0 million, composed of shareholder loans issued by CPL Concordia to EGN, repaid in April 2019 at the same time as the exercise of the put & call option, as it is considered to be part of the purchase price adjustment.

9.1 Reconciliation of the reclassified Income Statement and Statement of Financial Position

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

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

Reclassified Income Statement

(€ million)	Reference to the notes to the consolidated financial statements	Figures from mandatory statements
Revenue (from mandatory statements)	(note 26)	1,641.3
- Revenue for construction and upgrading distribution infrastructures IFRIC 12		
- Release of connection contributions for the year		
- Net income from Energy Efficiency Certificates		
- Chargeback of faulty meters under guarantee		
- Chargeback of Parco Russoli activities		
Total revenue (from reclassified statements)		
Operating costs (from mandatory statements)	(note 27)	(786.6)
- Revenue for construction and upgrading distribution infrastructures IFRIC 12		
- - Net income from Energy Efficiency Certificates		
- - Chargeback of faulty meters under guarantee		
- - Chargeback of Parco Russoli activities		
Operating costs (from reclassified statements)		
EBITDA		
Amortisation, depreciation and impairment (from mandatory statements)	(note 28)	(401.2)
- - Release of connection contributions for the year		
Amortisation, depreciation and impairment (from reclassified statements)		
EBIT		453.5
Net financial expense	(note 29)	(47.0)
Net income from equity investments	(note 29)	20.0
Gross profit		426.5
Income taxes	(note 31)	(112.8)
Net profit (loss)		313.7
Net profit (loss) attributable to minority interests		
Net profit (loss) attributable to the Group		313.7

2018		2019		
Partial figures from mandatory statements	Figures from reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
		1,892.8		
(447.0)			(621.1)	
(15.2)			(16.2)	
			2.8	
(1.0)				
			(0.4)	
	1,178.1			1,257.9
		(969.0)		
447.0			621.1	
			(2.8)	
1.0				
			0.4	
	(338.6)			(350.4)
	839.5			907.5
		(407.8)		
15.2			16.2	
	(386.0)			(391.5)
	453.5	516.0		516.0
	(47.0)	(69.3)		(69.3)
	20.0	100.8		100.8
	426.5	547.5		547.5
	(112.8)	(123.9)		(123.9)
	313.7	423.6		423.6
		6.4		6.4
	313.7	417.2		417.2

Reclassified Statement of Financial Position

(€ million)		31.12.2018		31.12.2019	
(Where not expressly indicated, the item is obtained directly from the legally required statement)	Reference to the notes to the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Fixed capital					
Property, plant and equipment	(note 14)		259.2		350.0
Intangible assets	(note 15)		4,982.8		6,176.1
Equity investments, composed of:	(note 16)		175.1		33.7
- Equity investments measured using the equity method		175.0		33.4	
- Other equity investments		0.1		0.3	
Net payables relating to investment activities, composed of:			(133.1)		(225.0)
- Payables for investment activities	(note 19)	(133.1)		(230.3)	
- Receivables from investment/divestment activities	(note 10)	0.0		5.3	
Financial receivables and securities instrumental to operations, composed of:			0.1		0.2
- Other financial assets		0.1		0.2	
Total fixed capital (from reclassified statements)			5,284.1		6,335.0
Net working capital					
Trade receivables	(note 10)		406.7		474.0
Inventories	(note 11)		26.2		52.3
Tax receivables, composed of:			47.7		87.7
- Current income tax assets and other current tax assets	(note 12)	47.7		73.5	
- IRES receivables for National Tax Consolidation Scheme	(note 10)			14.2	
- Parent company receivables for liquidation of Group VAT	(note 12)				
Accruals and deferrals from regulated activities	(note 13- 21)		141.5		127.0
Other assets			115.0		100.9
- Other receivables		115.0		100.9	
Trade payables	(note 19)		(230.8)		(299.1)
Provisions for risks and charges	(note 22)		(187.6)		(169.6)
Deferred tax liabilities	(note 24)		(71.7)		(92.5)

(€ million) (Where not expressly indicated, the item is obtained directly from the legally required statement)	Reference to the notes to the consolidated financial statements	31.12.2018		31.12.2019	
		Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Tax payables, composed of:			(13.5)		(11.1)
- Current income tax liabilities and other current tax liabilities	(note 12)	(13.5)		(11.0)	
- IRES payables for National Tax Consolidation Scheme		0.0		0.0	
- Parent company payables for liquidation of Group VAT				(0.1)	
Other liabilities, composed of:	(note 20 - 21)		(227.8)		(213.3)
- Other payables		(247.9)		(213.3)	
- Financial liabilities from shareholder loans to be repaid deriving from EGN transaction		20.1		0.0	
Total net working capital (from reclassified statements)			5.7		56.3
Provisions for employee benefits	(note 22)		(107.9)		(113.2)
Assets held for sale and directly related liabilities, composed of:			11.6		2.1
- Assets held for sale	(note 17)	11.6		2.1	
- Liabilities directly related to assets held for sale		0.0		0.0	
NET INVESTED CAPITAL			5,193.5		6,280.2
Shareholders' equity including minority interests	(note 25)		(1,329.3)		(1,794.9)
Net financial debt					
Financial and bond debt, composed of:	(note 18)		(3,822.4)		(4,671.5)
- Long-term financial liabilities		(3,666.3)		(4,200.1)	
- Short-term portions of long-term financial debt		(0.5)		(159.0)	
- Short-term financial liabilities		(306.9)		(318.9)	
- Financial liabilities from shareholder loans to be repaid deriving from EGN transaction		21.0		0.0	
- Factoring transactions in transit		130.3		6.5	
Financial receivables and cash and cash equivalents, composed of:			8.1		260.9
- Financial receivables non- instrumental to operations	(note 10)	0.0		5.0	
- Cash and cash equivalents	(note 8)	138.3		262.3	

(€ million) (Where not expressly indicated, the item is obtained directly from the legally required statement)	Reference to the notes to the consolidated financial statements	31.12.2018		31.12.2019	
		Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
- Factoring transactions in transit		(130.3)		(6.5)	
- Other financial assets held for trading or available for sale		0.1		0.1	
Total net financial debt (from reclassified statements)			(3,814.3)		(4,410.6)
Operating lease payables - IFRS 16			(49.9)		(74.7)
COVERAGE			(5,193.5)		(6,280.2)

Reclassified Statement of Cash Flows

(€ million)	2018		2019	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Net profit		313.7		423.6
<i>Adjusted:</i>				
Amortisation, depreciation and other non-monetary components:		359.0		275.6
- Amortisation and depreciation	399.5		405.9	
<i>from which to deduct amortisation for rights of use pursuant to IFRS 16</i>	(7.2)		(15.2)	
<i>other changes</i>	0.1			
- Net impairment of property, plant and equipment and intangible assets	1.7		1.9	
- Contributions for connections - uses	(15.2)		(16.2)	
- Effect of valuation using the equity method	(20.0)		(100.8)	
Net capital losses (capital gains) on asset sales and eliminations		1.3		(4.4)
Interest, income taxes and other changes:		159.8		193.2
- Interest income	(0.9)		(1.3)	
- Interest expense	47.9		70.6	
- Income taxes	112.8		123.9	
Change in working capital due to operating activities:		35.3		18.9
- Inventories	(3.4)		(21.1)	
- Trade receivables	22.8		(17.7)	
- Trade payables	26.7		43.3	
- Change to provisions for risks and charges	(23.4)		(32.2)	
- Other assets and liabilities	27.5		46.5	
<i>from which to deduct Deferrals for connection contributions - increases</i>	(24.5)		(10.6)	
<i>from which to deduct Deferrals for connection contributions - uses</i>	15.2		16.2	
<i>Other changes (stock grant)</i>	(0.1)		(0.8)	
- Assets held for sale and directly related liabilities				
- Takeover of payables of acquired companies				
Change in provisions for employee benefits	(5.5)		(4.7)	
Dividends, interest and income taxes collected (paid):		(150.4)		(209.7)

(€ million)	2018		2019	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
- Dividends collected	29.9		14.2	
- Interest collected	0.9		1.3	
- Interest paid	(47.9)		(70.6)	
- Income taxes (paid) refunded	(133.3)		(154.6)	
Cash flow from operating activities		718.7		697.2
Technical investments:		(474.7)		(688.6)
- Property, plant and equipment	(15.4)		(35.3)	
- Intangible assets	(483.8)		(663.9)	
- Contributions for connections - increases	24.5		10.6	
Other changes relating to investment activities:		0.4		89.9
- Change in payables relating to investment activities	0.4		89.9	
Disinvestments:		3.0		8.0
- Property, plant and equipment	0.4		7.6	
- Intangible assets	2.6		0.3	
- Change in receivables relating to investment activities	0.0		0.1	
Free cash flow before M&A transactions		247.4		106.5
Change in scope of consolidation		(149.3)		(96.4)
of which:				
<i>price paid for equity</i>	(84.8)		(40.2)	
<i>takeover of net debt of acquired companies</i>	(64.6)		(56.2)	
Business units		(23.8)		(25.1)
Free cash flow		74.3		(14.9)
Change in financial debt:		99.2		434.7
- Change in short- and long-term financial debt	229.7		284.8	
- Financial receivables			5.0	
Factoring	(152.8)		146.3	
Cash needs	22.4		(22.4)	
EGN debt	-		21.0	
Other changes	(0.1)			
- Disposals of interests	-			24.8
Equity cash flow		(168.3)		(196.8)
Net cash flow for the year		5.2		247.8

Reconciliation between reclassified financial statements of Italgas S.p.A. and the legally required financial statements

Reclassified Statement of Financial Position

(€ million)		31.12.2018		31.12.2019	
(Where not expressly indicated, the item is obtained directly from the legally required statement)	Reference to the notes to the separate financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Fixed capital					
Property, plant and equipment	(note 11)		17.5		15.8
Intangible assets	(note 12)		12.1		9.9
Equity investments	(note 13)		2,983.6		2,993.8
Net payables relating to investment activities, composed of:			(4.1)		(6.3)
- Net Payables for investment activities	(note 16)	(4.1)		(6.3)	
Financial receivables and securities instrumental to operations	(note 8)		2,392.1		2,623.0
Total fixed capital (from reclassified statements)			5,401.2		5,636.2
Net working capital					
Trade receivables	(note 8)		28.2		34.7
Inventories					
Tax receivables, composed of:			0.7		55.4
- Current income tax assets and other current tax assets	(note 9)	0.2		55.3	
- IRES receivables for National Tax Consolidation Scheme	(note 8)	0.5		0.0	
- Group VAT receivables	(note 8)	0.0		0.1	
Deferred tax assets	(note 14)		3.6		5.4
Other assets			2.4		6.2
- Other current and non-current assets	(note 10 - 18)	2.4		6.2	
Trade payables	(note 16)		(29.8)		(27.5)
Provisions for risks and charges	(note 19)		(1.5)		(1.8)
Deferred tax liabilities	(note 21)				
Tax payables, composed of:			(1.7)		(52.4)
- Current income tax liabilities and other current tax liabilities	(note 9)	(1.4)		(1.6)	
- IRES payables for National Tax Consolidation Scheme	(note 16)	(0.3)		(16.6)	

(€ million) (Where not expressly indicated, the item is obtained directly from the legally required statement)	Reference to the notes to the separate financial statements	31.12.2018		31.12.2019	
		Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
- Group VAT payables	(note 16)	0.0		(34.2)	
Other liabilities, composed of:			(13.7)		(24.9)
- Other payables	(note 16)	(7.1)		(11.6)	
- Other current and non-current liabilities	(note 17 - 18)	(6.6)		(13.3)	
Total net working capital (from reclassified statements)			(11.8)		(4.9)
Provisions for employee benefits	(note 20)		(6.2)		(17.8)
NET INVESTED CAPITAL			5,383.2		5,613.5
Shareholders' equity including minority interests	(note 22)		(1,673.9)		(1,705.0)
Net financial debt					
Financial and bond debt, composed of:	(note 15)		(3,899.8)		(4,464.6)
- Long-term financial liabilities, net of financial debt per IFRS 16		(3,664.0)		(4,106.6)	
- Short-term portion of long-term financial debt, net of financial debt per IFRS 16		(32.6)		(31.3)	
- Short-term financial liabilities		(203.2)		(326.7)	
- Short-term financial debt to subsidiaries					
Financial receivables and cash and cash equivalents, composed of:			206.0		568.8
- Financial receivables non- instrumental to operations	(note 8)	75.6		418.9	
- Cash and cash equivalents	(note 7)	130.4		149.9	
- Other financial assets held for trading or available for sale					
Total net financial debt (from reclassified statements)			(3,693.8)		(3,895.8)
Operating lease payables - IFRS 16	(note 15)		(15.5)		(12.7)
COVERAGE			(5,383.2)		(5,613.5)

Reclassified Statement of Cash Flows

(€ million)	2018		2019	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Net profit		193.7		223.6
<i>Adjusted:</i>				
Amortisation, depreciation and other non-monetary components:		0.2		5.7
- Amortisation and depreciation	2.2		5.4	
<i>from which to deduct amortisation for rights of use pursuant to IFRS 16</i>	(1.9)		(2.4)	
- Impairment of equity investments			2.7	
Interest, income taxes and other changes:		(201.1)		(236.7)
- Dividends and other income from equity investments	(216.2)		(248.7)	
- Interest income	(24.4)		(44.5)	
- Interest expense	42.8		60.0	
- Income taxes	(3.4)		(3.5)	
Change in working capital due to operating activities:		6.9		(0.8)
- Inventories	0.0		0.0	
- Trade receivables	(6.8)		(6.4)	
- Trade payables	13.7		(2.3)	
- Change to provisions for risks and charges	(0.7)		0.2	
- Other assets and liabilities	1.1		(3.1)	
<i>Other changes (stock grant)</i>			(0.8)	
Change in provisions for employee benefits	(0.4)		11.6	
Dividends, interest and income taxes collected (paid):		205.0		238.3
- Dividends and other income collected from equity investments	216.2		248.7	
- Interest collected	24.4		44.5	
- Interest paid	(42.8)		(60.0)	
- Income taxes (paid) refunded	7.2		5.1	
Cash flow from operating activities		204.7		230.1
Technical investments:		(173.2)		(245.0)
Property, plant and equipment	(0.5)		(0.6)	
Intangible assets	(12.1)		(0.6)	
Equity investments	(9.3)		(12.9)	

(€ million) Reclassified Statement of Cash Flows items and intersection of legally-required statement items	2018		2019	
	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Financial receivables instrumental to operations	(151.3)		(230.9)	
Change in receivables relating to disinvestment activities		(3.7)		2.2
Free cash flow		27.9		(12.7)
Change in financial receivables non-instrumental to operations		82.6		(343.3)
Change in financial debt:		188.0		564.8
- Assumptions of long-term financial debt	251.8		442.6	
- Repayment of long-term financial debt	(199.7)		(1.3)	
- Increase (decrease) in short-term financial debt	136.0		123.5	
- Net contributions to equity				
Equity cash flow		(168.3)		(189.3)
Other changes		0.1		0.0
Net cash flow for the year		130.3		19.5



RUBICON

Jeep

IG Italgas



10



Other information

Treasury shares

The company did not own any treasury shares as at 31 December 2019.

Related party transactions

Based on Italgas' current ownership structure, the related parties of Italgas include, in addition to the directors, statutory auditors, key managers and 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 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.

Directors and statutory auditors declare potential interests that they have in relation to the Company and the Group, periodically and/or when changes in said interests occur; they also inform the CEO (or the Chairman, if in the CEO's interest), who in turns informs the other directors and the Board of Statutory Auditors, of 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 TUF. Italgas is not subject to management and coordination activities by CDP.

As at 31 December 2019, 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.

Research and development

Italgas' research and development activities are described by sector under "Sustainable Development Commitment".

Significant events after year end

The significant transactions carried out after 31 December 2019 are summarised below.

LEGISLATIVE AND REGULATORY FRAMEWORK

On 20 January 2020, Italgas Reti **filed an appeal** with the **Veneto Regional Administrative Court** requesting cancellation of the decisions adopted by the meeting of Municipalities in the ATEM of **Belluno**, i.e. to revoke the provincial capital's role of contractor for the tender to award the gas distribution service. In December 2019, the municipalities in the ATEM asked that of Belluno, as contractor, to suspend the tender in order to carry out further studies, in the light of a report according to which the reimbursement for networks owned by the outgoing operator, BIM Belluno - a subsidiary of the Municipalities - would be €15 million higher than the value established at the time of preparation of the Tender Notice. Given the contractor's decision to proceed with the tender award, in which Italgas Reti was ranked first, the same ATEM Municipalities then decided to revoke Belluno's powers as contractor.

With **Resolution no. 9/2020/R/gas of 21 January 2020**, the Authority approved transitional provisions for the management of trade relations in the natural gas supply chain.

In particular, with Resolution no. 155/2019/R/gas, the Authority:

- defined the provisions for carrying out the process of updating the report on correspondence between balancing user and delivery point stated in the distribution contract of each distribution user, as part of the Integrated Information System (SII);
- also envisaged that, for each delivery point, the SII checks each month for the presence of a valid report on correspondence between the delivery point, distribution user and balancing

user and, if there is no such report, the SII reports the details of the delivery point to the Balancing Manager and the other transportation companies, in order to activate the default transportation service from the first day of the following month, and notifies the distribution user and the distribution company affected by the activation of the service.

In this respect, Resolution no. 249/2012/R/gas, as amended by Resolution no. 155/2019/R/gas, envisages that after activation of the default transportation service, if the distribution user does not identify a balancing user, the distribution company arranges early termination of the distribution contract due to loss of access requirements and the SII activates the default services.

In order to avoid activation of the default services for a significant number of delivery points, where the default service is activated due to the absence of valid reports on correspondence between the balancing user and the delivery point, Resolution no. 9/2020/R/gas:

- suspends application, until 1 March 2020, of the provisions regarding termination of the distribution contract and activation of the default services by the SII, pursuant to Article 6 of Resolution no. 249/2012/R/gas;
- indicates 1 April 2020 as the first date for any termination of distribution contracts and resulting activation of default services;
- envisages that within 30 days the SII Manager submits an updated report to the Authority containing information on the number of cases in which there is no valid report on correspondence with effect from 1 March 2020 and the underlying reason for its absence.

With **Determination no. 1/2020 - DMRT of 31 January 2020**, the Authority defined **energy efficiency** annual quantitative end use obligations for natural gas 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 participated companies 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.

With reference to the **control started by the GSE** on 55 files of energy efficiency projects relating to the subsidiary Seaside, at the end of 2019, after completing the documentation gathering and its submission to the GSE, notices of cancellation of 2 files had been received. Later, in a communication dated 17 February 2020, the GSE notified the result of controls on the remaining 53 files, highlighting the failure to meet requirements for the recognition of incentives on all the files examined. The GSE also specified that it was obliged to recover the amount already paid, in accordance with reimbursement methods that will be notified in subsequent communications, which can be challenged before the Administrative Court. Seaside, which is carrying out all the necessary technical and legal studies to accurately challenge the detailed observations put forward by the GSE, will in due time assess the opportunity of filing an appeal before the Administrative Court.

Through the publication of **DCO 47/2020/R/efr of 20 February 2020**, in general terms the Authority proposes the substantial confirmation of the framework defined thus far, in implementation of the Ministerial Decree of 10 May 2018 and this offers no improvement to the regulatory framework for the Obligated Entities. The Consultation Paper essentially stipulates:

- maintaining the cap on the TEE tariff contribution of 250 €/TEE, with the sale price of 260 €/TEE therefore remaining unchanged;
- in the tariff contribution calculation, including bilateral trades recorded in the calendar month of reference by introduction of the significant monthly price of bilaterals with a trading value of up to 260 €/TEE (instead of the previous 250 €/TEE) and in a range between the value of the significant monthly price of bilaterals in the previous calendar month multiplied by a change of $\pm 20\%$. This effect could have a potentially negative impact on the tariff contribution calculation;
- introducing a sigma factor in the tariff contribution calculation, equal to 0.95 (tbd), as an incentive for obliged entities to reduce the TEE price and share the resulting savings with consumers;
- confirming the value of the tariff contribution recognised for the 2018 reference period, of 248.89 €/TEE and that the new regulations (tbd) will be applied only with effect from that of 2019;
- maintaining the provisions of Resolution no. 487/2018/R/efr, which defines the advance tariff contribution recognised, without changing the value already established of 175 €/TEE and in relation to the disbursement methods for advances and balance of the contributions.

With **Determination no. 4/2020/gas - DSAI of 24 February 2020**, the Authority initiated sanction proceedings against Italgas Reti based on findings of violations in relation to emergency gas services.

An appeal was filed against **Arera Resolution no. 570/R/gas/2019** before the Regional Administrative Court, notified on 24 February 2020, challenging the legitimacy of various points, including the planned reduction of operating costs recognised to the distributor, the reduced return on invested capital in metering activities, confirmation of the cap on investments in start-up areas, the planned single tariff for Sardinia using a balancing mechanism limited only to the first three years, and the inclusion of an x factor that remains constant for the entire regulatory period.

OTHER EVENTS

On 2 January 2020, the **concession tender was officially awarded** for the natural gas distribution service in the ATEM "**Valle d'Aosta**". The ATEM has 74 municipalities, 24 of which currently with natural gas supply (around 350 km of networks served), for a total of 20 thousand end users and a RAB of over €40 million. In the bid submitted, Italgas envisaged investments for around €100 million to extend the networks into areas not yet reached by the service, and the enhancement and digitization of existing infrastructures, and an additional boost to improving service quality and safety.

Through respective appeals (R.G. 6/2020 and R.G. 10/2020), two other operators requested cancellation of the final award to Italgas Reti. The injunction initially set for 12 March 2020 has been postponed until a later date. Italgas Reti appeared in proceedings, challenging the lack of grounds for the opposing parties' claims and proposed a side appeal claiming that both failed to meet the requirements for participation in the tender procedure.

By Measure dated 21 January 2020, the **AGCM** concluded its investigation, making the commitments submitted by **Italgas Reti, Ireti and 2i Rete Gas** mandatory, without confirming any unlawful conduct by them and, consequently, applying no sanctions. The final version of the commitments proposal submitted by Italgas - integrated after performing the market test - envisages that every time a specific request is received from a contractor/grantor, within 60 days of the request and in relation to Municipalities for which it is concession holder of the natural gas distribution service, Italgas Reti must provide the set of documents including mapping, on open and editable media, as well as available information relating to the description of networks and systems involved in the natural gas distribution

service, stating the year of construction and their construction, functional and conservational characteristics, with specific indication - to the extent known to Italgas Reti - of the year of laying, also for sections of the network dating to before 2006.

On 31 January 2020, the contractor - the Metropolitan Municipality of Turin - and the outgoing operators **signed the systems handover report for ATEM TORINO 2** to Italgas Reti, which officially launched the first local area management in Italy of the gas distribution service.

With Order no. 173/2020 of 17 December 2019, published on 3 February 2020, **the Campania Regional Administrative Court**, Salerno Chambers, issued an initial pronouncement on the appeal filed by **AQUAMET** for cancellation of the tender procedure in the Municipality of Castel San Giorgio. Given that the Municipality deemed the appeal to be inadmissible, as AQUAMET had ceased operations in the sector and transferred all its concessions held to **Italgas Reti**, along with the networks and related systems, technical staff, properties, vehicles, contracts, assets and liabilities as recorded in its statement of financial position, the Regional Administrative Court therefore decided:

- that it required sight of the aforementioned deed of transfer of the business unit;
- that such documentation must be filed by AQUAMET by 19 February 2020;
- that examination of the appeal would continue at the public hearing on 25 March 2020.

In February, Italy announced the **“Coronavirus State of Emergency”** in view of the numerous confirmed cases of the virus and the measures adopted by the health and government authorities to limit its spread.

In the hours immediately after the first cases, the Company set up a Crisis Committee which, in light of the measures and guidelines from the competent Authorities, adopts the necessary measures, at the same time guaranteeing the continuity and efficiency of services, with particular regard to the emergency response.

All the measures aimed at ensuring the health and safety of all personnel, such as limiting access to headquarters company, the adoption of agile work method and the suspension of all personnel transfers. In compliance with the emergency measures issued by the Authorities, only the essential activities are ensured, and all construction site activities have been suspended. The technical staff destined to carry out external interventions was promptly equipped with all the necessary individual protection tools provided to deal with the emergency.

Currently, impacts on development and investment initiatives resulting from the slowdown and suspension of activities, as well as from the deterioration of the macroeconomic context resulting from the spread of the pandemic at a global level, are not yet identifiable.

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. This Code defines, for each type of service, the rules that regulate the rights and obligations of the subjects involved in the process of providing the services themselves, as well as tools for mitigating the risk of default by customers. At present, the Company has not identified significant negative consequences on the regularity of payments by the gas sales companies.

As regards the indebtedness and Italgas' access to credit, the following is represented: (i) the Company has cash deposited with leading credit institutions amounting to approximately €256 million at 31 December 2019, (ii) there are limited refinancing needs for debt (the first repayment of a bond is planned for 2022), (iii) the bonds issued by Italgas on 31 December 2019 under the Euro Medium term Notes programme do not provide for compliance with balance sheet data covenants, (iv) any downgrading of the rating of Italgas or any guarantor beyond established thresholds could result in the issuance of guarantees in favour of certain lenders or an increase in the spreads applied.

The Company has also set up initiatives to support the coronavirus emergency and, in particular, in addition to facilitating voluntary fundraising by its employees, has made donations to hospitals, health care facilities and civil protection, as well as making their skills and knowledge available to the community.

To date, the Company is not able to estimate any material negative effects on the economic, financial and financial perspectives of the following years should the situation continue significantly.

The Company does not identify any uncertainty factors such that it cannot consider the company capable of continuing to operate as an operating entity. These circumstances do not result in any adjustment of the balance sheet balance as at 31 December 2019 under IAS 10.

CORPORATE TRANSACTIONS

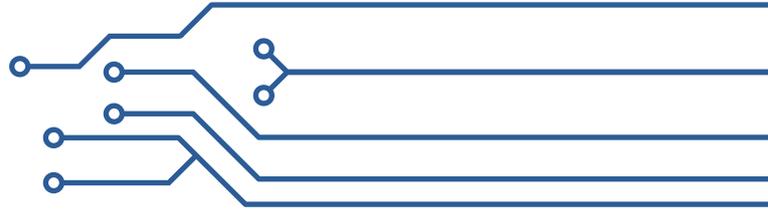
On 31 January 2020, *the agreement* signed on 7 October 2019 **was finalised for the transfer of certain non-core business assets between Italgas and A2A**. The transaction was finalised after predefined conditions precedent had arisen. In particular, Italgas Reti has sold to A2A Calore & Servizi (A2A Group) the set of district heating activities currently managed in the municipality of Cologno Monzese. At the same time, Unareti (A2A Group) sold to Italgas Reti the natural gas distribution activities managed in seven Municipalities in the Alessandria 4 ATEM. The district heating system for Cologno Monzese is composed of a distribution network spanning over 8 kilometres and serves 52 heat exchange substations, with heating sales for 26.1 GWh. The seven gas distribution networks in the Municipalities of Castelnuovo Scriveria, Pecetto di Valenza, Bassignana, Rivarone, Guazzora, Montecastello and Pietra Marazzi span over 140 kilometres and serve around 4,200 users.

As part of the privatization process initiated by the Greek government, on 20 February 2020, in compliance with the Invitation to Submit Expression of Interest published on 9 December 2019, Italgas submitted its **expression of interest in purchasing 100% of the share capital of DEPA Infrastructure**, a 65% subsidiary of the HRADF privatization fund and 35% owned by the oil group Hellenic Petroleum, which through the participated companies EDA Attikis, EDA Thess and DEDA hold the gas distribution assets in Greece of the DEPA Group.

The assets involved in the sale include over 420 thousand delivery points and around 5,000 km of low-pressure network, with a major industrial development plan to consolidate the country's distribution sector.



11



Information on corporate governance and ownership structure

Introduction

The complete picture of the Italgas Corporate Governance system is analytically described in the “2019 Report on Corporate Governance and the Ownership Structure” (hereinafter the “2019 Corporate Governance Report”) prepared pursuant to Art. 123-bis of Legislative Decree No. 58/1998 (hereinafter the “Consolidated Finance Act” or “TUF”), subject to approval by the Board of Directors on 11 March 2020.

The “2019 Report on Corporate Governance and Ownership Structure” is published on the website www.italgas.it along with the Annual Report.

Corporate governance system

Italgas is an issuer with shares listed on the Electronic Stock Market managed by Borsa Italiana S.p.A., and therefore fulfils the legal and regulatory obligations for the listing.

The Italgas corporate governance system is the set of planning, management and control rules and methods necessary for Company operations and has been outlined by the Board of Directors:

- in compliance with applicable law, also taking into account its qualification as a listed Issuer and its core business (such as regulations on unbundling);
- in compliance with the Corporate Governance Code;
- using national and international best practices as reference.



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. A system of Enterprise Risk Management was implemented, composed of rules, procedures and organisational structures aimed at identifying, measuring, managing and monitoring the main risks that might affect achievement of the strategic objectives.

The Bylaws define the Company's governance model and the main rules for the functioning of corporate bodies. Italgas adopted a traditional administration and control system, characterised by the presence of the following bodies:

- Shareholders' Meeting;
- Board of Directors;
- Board of Statutory Auditors.

Shareholders' Meeting

The Shareholders' Meeting is a decision-making body of the shareholders and appoints the Board of Directors and the Board of Statutory Auditors.

The validity of the Meeting's quorum and its Resolutions is established in accordance with the law.

According to the Bylaws, the Meeting resolves on the matters covered by law. However, as permitted by law, the Bylaws assign the Board jurisdiction to decide on the following matters:

- merger in the cases set forth by Articles 2505 and 2505-bis of the Italian Civil Code, also referred to for a demerger;
- opening, change and closure of branch offices;
- share capital decrease in the event of shareholder withdrawal;
- adaptation of the Bylaws to meet regulatory provisions;
- transfer of the registered office within Italy.

In accordance with the provisions of the Corporate Governance Code, the Shareholders' Meeting approved its own dedicated meeting regulations that regulate the order and functions of the General Meeting and guarantee that each shareholder is entitled to express his/her opinion about the issues being discussed.

The corporate Bylaws provide for a combined notice of meeting for both the Ordinary and Extraordinary Shareholders' Meetings. The right to attend Shareholders' Meetings is governed by law, the Bylaws and the provisions contained in the notice of call. Those with voting rights may be represented by written proxy within the legal limits and notice of this proxy must be delivered to the Company by certified email. Shareholders may ask questions about agenda items even prior to a meeting. Questions arriving before the Shareholders' Meeting will be answered during the Meeting, at the latest. The information is provided in observance of the rules for price sensitive information.

Board of Directors

The Board of Directors has full ordinary and extraordinary administrative powers and can take all action deemed appropriate to achieve the corporate purpose, in line with the Corporate Governance Code and the applicable rules and regulations, with the exception of those actions which the law and the Bylaws reserve to the Shareholders' Meeting. The Board of Directors appoints the Chairman, if the Shareholders' Meeting has not already done so, delegates its powers to one or more of its members and may set up Committees. Specifically, the Board of Directors has created the following Committees, in compliance with the Corporate Governance Code and the Bylaws: The Appointments and Remuneration Committee, the Control and Risks and Related-Party Transactions Committee and the Sustainability Committee.

The Shareholders' Meeting of 4 April 2019 appointed the new Board of Directors, composed of nine directors, and with a three-year term of office expiring on the date of the Shareholders' Meeting called in 2022 to approve the financial statements as at 31 December 2021. The following were appointed as directors: Alberto Dell'Acqua (as Chairman), Paolo Gallo, Maurizio Dainelli, Yunpeng He, Andrea Mascetti, Giandomenico Magliano, Paola Annamaria Petrone, Silvia Stefini and Veronica Vecchi. For these 9 directors, the Board of Directors of Italgas S.p.A. confirmed that there were no grounds for ineligibility or incompatibility, that all meet the integrity requirements established in current regulations and that 5 directors (Andrea Mascetti, Giandomenico Magliano, Paola Annamaria Petrone, Silvia Stefini and Veronica Vecchi) qualify as independent in accordance with the independence requirements of the TUF (article 147-ter paragraph 4 and article 148 paragraph 3) and of the Corporate Governance Code (article 3), whilst the Chairman Alberto Dell'Acqua meets the independence requirements of the TUF (article 147-ter paragraph 4 and article 148 paragraph 3). Three out of nine members of the Board of Directors are women, in compliance with the current regulations on gender balance (one third of members).

Director	Office and position
Alberto Dell'Acqua	Non-executive director and Chairman ⁽¹⁾
Paolo Gallo	CEO and General Manager
Maurizio Dainelli	Non-executive director ⁽²⁾
Yunpeng He	Non-executive director ⁽²⁾
Giandomenico Magliano	Non-executive director ⁽²⁾
Andrea Mascetti	Non-executive director ⁽²⁾
Paola Annamaria Petrone	Non-executive director ⁽²⁾
Silvia Stefini	Non-executive director ⁽²⁾
Veronica Vecchi	Non-executive director ⁽²⁾

(1) Independent director pursuant to the Consolidated Finance Act (TUF).

(2) Independent director pursuant to the Consolidated Finance Act (TUF) and the Corporate Governance Code.

The meeting of the Board of Directors of 4 April 2019 appointed Paolo Gallo as CEO, granting him all the powers and authority, excluding those otherwise provided for by law and the Bylaws and which are not reserved to the Board of Directors or the Chairman.

On 28 November 2016, the Board of Directors appointed Alessio Minutoli, the Head of Legal and Corporate Affairs and Compliance, as Secretary to the Board of Directors.

The Board, at the time of its appointment and periodically thereafter, evaluates the independence and integrity of the directors, as well as the lack of grounds for ineligibility or incompatibility.

With effect starting upon completion of the separation of Italgas Gas from the Snam Group, Paolo Gallo also assumed the position of General Manager of Italgas, while on the same date Antonio Paccioretti took over as Finance and Service General Manager.

Committees established by the Board of Directors

On 4 August 2019, Italgas' Board of Directors established three internal committees, appointing their members:

- Appointments and Remuneration Committee;
- Control and Risks and Related-Party Transactions Committee;
- Sustainability Committee.

The composition, duties, and operations of the committees are governed by the Board with appropriate regulations. The Board appoints the members.

The Appointments and Remuneration Committee is composed of three non-executive directors, of which two independents; the Control and Risks and Related-Party Transactions Committee is composed of only non-executive directors, all meeting the independence requirements; lastly, the Sustainability Committee is composed of non-executive directors, of which two meet the independence requirements. The term of office of each member corresponds to the tenure of the Director's office. In the performance of their functions, the Committees may access information and company departments. They have sufficient financial resources and may use external consultants within the terms set from time to time by the Board of Directors. Committee meetings may be attended, upon invitation, also by parties that are not members.

The **Control and Risks and Related-Party Transactions Committee** is composed as follows:

Member	Position
Paola Annamaria Petrone	Independent, non-executive* - Chairman
Giandomenico Magliano	Independent, non-executive*
Silvia Stefini	Independent, non-executive*

* Independent pursuant to the independence requirements set out by the TUF and the Corporate Governance Code.

After analysing the professional profiles of Directors who are members of the Committee, the Board of Directors recognised that the requirements of the Corporate Governance Code are satisfied as all possess the specific accounting and financial skills or risk management experience required.

The **Appointments and Remuneration Committee** is composed as follows:

Member	Position
Andrea Mascetti	Independent, non-executive* - Chairman
Maurizio Dainelli	Non-executive
Silvia Stefini	Independent, non-executive*

* Independent pursuant to the independence requirements set out by the TUF and the Corporate Governance Code.

After analysing the professional profiles of Directors who are members of the Committee, the Board of Directors recognised that the requirements of the Corporate Governance Code are satisfied as all possess the specific financial skills or remuneration policy experience required.

The **Sustainability Committee** is composed as follows:

Member	Position
Giandomenico Magliano	Independent, non-executive* - Chairman
Yunpeng He	Non-executive
Silvia Stefini	Independent, non-executive

* Independent pursuant to the independence requirements set out by the TUF and the Corporate Governance Code.

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. Pursuant to Legislative Decree No. 39 of 27 January 2010, the Board of Statutory Auditors also performs supervisory functions in its capacity as "Committee for internal control and account auditing".

The Italgas Board of Statutory Auditors is made up of three standing auditors and two alternates appointed by the Shareholders' Meeting for three financial years and can be re-elected at the end of the term of office. Statutory auditors are chosen from among those who meet the professionalism and integrity requirements indicated in the Ministry of Justice Decree No. 162 of 30 March 2000. For the purpose of the decree and as provided by the Bylaws, the matters strictly pertaining to the company activities are: business law, economics and corporate finance. Likewise, the sector pertaining strictly to the Company's business is the engineering and geology sector.

Upon prior notice to the Chairman of the Board of Directors, the Board of Statutory Auditors may call Shareholders' Meetings and Board of Directors' meetings. The power to call Board of Directors' meetings may be exercised individually by each member of the Board of Statutory Auditors; the power to call Shareholders' Meetings must be exercised by at least two members of the Board. The Board of Statutory Auditors is asked to attend the meetings of the Control and Risks and Related-Party Transactions Committee.

Pursuant to the procedure "Transactions in which directors and statutory auditors have an interest and related-party transactions", members of the Board of Statutory Auditors must declare any interest on their own behalf or that of third parties in specific transactions submitted to the Board of Directors.

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.

Member

Position

Pierluigi Pace	Standing auditor and Chairman
Marilena Cederna	Standing auditor
Maurizio Di Marcotullio	Standing auditor
Stefano Fiorini	Alternate auditor
Giuseppina Manzo	Alternate auditor

The Board has reviewed and confirmed that its members meet the requirements of professionalism and integrity set forth in Ministerial Decree 162 of 30 March 2000 as specified by Art. 20.1 of the Bylaws and the independence requirements set forth by law and the Corporate Governance Code, sending the Board the results of this analysis in accordance with Application Criterion 8.C.1. of the Corporate Governance Code approved by the Committee for Corporate Governance (July 2018 edition).

Independent Auditors

As required by law, auditing activities are assigned to an independent auditing firm included in the relevant register and appointed by the Shareholders' Meeting based on a reasoned proposal from the Board of Statutory Auditors.

The majority shareholder, Cassa Depositi e Prestiti S.p.A., together with its consolidated companies, including Italgas S.p.A. and related subsidiaries, launched a public tender for the identification of a group auditor, awarding the task to Deloitte for the period 2020-2028. The assignment to Deloitte shall be decided by the Shareholders' Meeting of the Company.

Information on ownership structure

Share capital and significant equity investments

The share capital of Italgas is composed of registered ordinary shares, which are indivisible and confer the right to one vote. As at 31 December 2019 (unchanged as at 11 March 2020) the share capital of Italgas amounts to €1,001,231,518.44 and is divided into 809,135,502 ordinary shares, with no par value indicated. The Extraordinary Shareholders' Meeting of 19 April 2018 resolved upon a share capital increase for a maximum nominal amount of €4,960,000, through allocation pursuant to art. 2349 of the Italian Civil Code of a corresponding amount drawn from retained earnings, with the issue of not more than 4,000,000 ordinary shares to be assigned free of charge to beneficiaries of the incentive plan approved by the Ordinary Shareholders' Meeting of 19 April 2018 and to be completed by the final deadline of 30 June 2023.

The Italgas stock is listed on the FTSE MIB index of the Milan Stock Exchange.

Based on the information available and communications received pursuant to Article 120 of the Consolidated Finance Act and Consob Resolution No. 11971/1999 (Consob Issuer Regulations), as at 31 December 2019 shareholders holding shares worth more than 3% of the Italgas share capital are:

Significant shareholdings

Registrant	Direct Shareholder	% share of ordinary capital	% share of voting capital
CDP S.p.A.	CDP Reti S.p.A. ¹⁹	26.05	26.05
	Snam S.p.A.	13.50	13.50
	Total	39.55	39.55
Lazard Asset Management Llc	Lazard Asset Management Llc	8.40	8.40
Romano Minozzi	Granitifandre S.p.A.	0.02	0.02
	Finanziaria Ceramica Castellarano S.p.A.	0.23	0.23
	Iris Ceramica Group S.p.A.	1.89	1.89
	Romano Minozzi	2.15	2.15
	Total	4.29	4.29
Blackrock Inc.	Blackrock Inc.	4.70	4.70

¹⁹ CDP Reti is owned 59.1% by CDP, 35% by State Grid Europe Limited – SGEL, a subsidiary of State Grid Corporation of China, and 5.9% by some Italian institutional investors. Taking into consideration the 30.1% interest in Snam held by CDP, through its subsidiary CDP Reti S.p.A., CDP indirectly holds a total CDP investment in Italgas of 30.1%. On 1 August 2019, also to take into account guidance on control contained in Consob Communication no. 0106341 of 13 September 2017, the CDP Board of Directors reclassified its investment in Italgas as a controlling interest pursuant to Article 2359, paragraph 1.2) of the Italian Civil Code and Article 93 of the TUF.

Further information, as required pursuant to Article 123- bis, paragraph 1 of the TUF, can be found in the 2019 Corporate Governance Report.

Shareholders' agreements

The agreements between shareholders pursuant to Art. 122 of the TUF of which Italgas is aware are as follows.

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, paragraphs 1) and 2) of the Italian Civil Code and Article 93 of the TUF.

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 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 (regulatory level 1), (ii) Process Standards and Compliance Standards (regulatory level 2)

and (iii) Operating Instructions (regulatory level 3). 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 Ethics Code, 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.

Principles of the internal control and risk management system in relation to the financial reporting process

The control and risk management system and the corporate reporting process of the Italgas Group are elements of the same "System" (the Corporate Reporting Control System), which aims to ensure the reliability²⁰, accuracy²¹, dependability and timeliness of corporate disclosure with regard to financial reporting and the ability of the relevant business processes to produce this information in keeping with generally accepted accounting standards. The reporting in question consists of all the data and information contained in the periodic accounting documents required by law – the separate and consolidated Annual Financial Report, Half-year Financial Report and Interim Report on Operations – as well as in any other accounting document or external communication – such as press releases and prospectuses prepared for specific transactions – covered by the statements provided for by Article 154-bis of the TUF. This reporting includes both financial and non-financial information, where the latter aims to describe significant aspects of the business, comment on the financial results for the year and/or describe future prospects.

The control and risk management model adopted by Italgas and its subsidiaries with regard to corporate reporting was defined in accordance with the provisions of the above-mentioned Article 154-bis of the TUF 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.

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

21 Disclosure accuracy: error-free information.

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 structure of the control system features company entity-level controls which operate transversely across the entity in question (group/individual company) and process level controls.

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.

On 7 May 2018, the Board of Directors appointed Giovanni Mercante as the Executive responsible for preparing the corporate accounting documents pursuant to Article 154-bis, Italian Legislative Decree 59/98.

Model 231, Ethics Code and Supervisory Body

The Board of Directors of Italgas S.p.A. on 18 October 2016 approved its “Model 231”, of which the Ethics Code is an integral part, indicating the principles of organisation, management and control to prevent crimes from being committed in the interest or to the advantage of the Company as per the regulations on the administrative liability of companies (Legislative Decree 231 dated 8 June 2001).

On 23 September 2019, the Company's Board of Directors appointed the new Supervisory Body composed of Carlo Piergallini (as Chairman), Marcella Caradonna and Francesco Profumo²².

The Supervisory Body is guarantor of the Ethics Code and is equipped with autonomous powers of initiative and control in accordance with the regulation of law. The Body may be submitted requests for clarifications and interpretations on the principles and contents of the Ethics Code, suggestions regarding its application and notices of code violations, also anonymously.

The Ethics Code defines a shared value system, expresses Italgas' business ethics culture and forms the basis for the Company's strategic thinking and the conduct of its corporate activities.

The Ethics Code is a compulsory general principle of the “Model 231”, containing the fundamental principles that must guide Italgas, such as respect for the law, fair competition, honesty, integrity, fairness and good faith towards all parties with which it has relationships. It also contains the general principles of sustainability and corporate responsibility, in addition

²² The Supervisory Body will remain in office until the term of office of its appointing Board of Directors also ends. The current membership of the Supervisory Body takes over from the outgoing Supervisory Body appointed on 20 December 2016 (whose term expired on 4 April 2019 but remained in office on a prorogatio basis until 23 September 2019).

to recalling the principles that must be respected in matters of the workplace, relations with stakeholders and suppliers and for the protection of personal data.

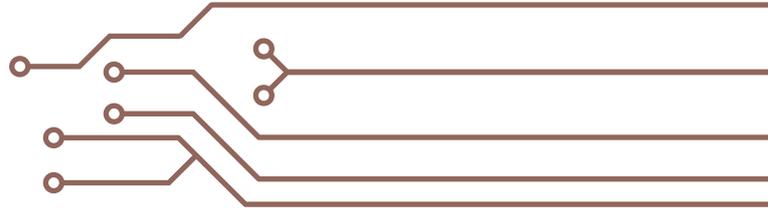
On 24 January 2019, the Board of Directors of Italgas S.p.A. approved an update to the Italgas Ethics Code and Model 231, taking into account the recent regulatory provisions introduced to Italian Legislative Decree 231/2001 (Italian Law 179/2017, the “Whistleblowing Act”), also including provisions on reporting to the Supervisory Body. In particular, the changes - adopted by all the Italgas Group companies - referred to:

- the reference strengthened by the Ethics Code;
- simplification of the channels and information flows to the Supervisory Body, in compliance with recent regulations on whistleblowing (Italian Law 179/2017);
- addition of reasons for ineligibility and lapse for members of the Supervisory Body;
- implementation of information flows to the Supervisory Body;
- in line with the management system for preventing and combating corruption, pursuant to UNI ISO 37001:2016 standard, the introduction of an addition flow from the Supervisory Body to the newly established Compliance Function for the Prevention and Combat of Corruption to report on corruption-related events.

In 2017, the Company completed a project to prepare the “Special Section” of Model 231, which supplements the model with indication of the risks/offences affecting each Sensitive Activity and reference to the codes of conduct, control mechanisms and specific control standards. This document was approved by the Board of Directors on 14 December 2017.

On 17 December 2019, the Board of Directors approved the update to the “Special Section” of the Model in consideration of Italian Law 3/2019, which introduced the offences of “illegal trading in influence”. Legal intervention after the first version of the Special Section (December 2017) was also considered, such as Italian Law 12/2019 which suppressed the waste traceability control system (SISTRI) and the introduction of the new offence of fraud in sports competitions, abusive gambling and betting operations and operating games of chance on forbidden equipment (Italian Law 39/2019) and the crimes of racism and xenophobia (Italian Law 167/2017), both considered immaterial to the company. Italian Law Decree 105/2019, converted to Law 133/2019, was also examined, which introduced a new situation of liability pursuant to Italian Legislative Decree 231/01 in relation to the prevention of cyber risks to national security. For this, Prime Minister’s Office approval of the implementing decrees is pending, which should also identify the entities to which it applies and therefore the public administrations and the public and private entities included in the scope of national security and subject to the obligations and sanctions envisaged. At present, pending these decrees, no specific provisions have been added to the Special Section of the Model. Lastly, the risk assessment was completed pursuant to Italian Law Decree 124/2019, converted to Law 157/2019, which introduced tax offences to those envisaged in Italian Legislative Decree 231/01. Also in view of the amendments introduced on conversion to law of the Law Decree, the approval of a new update to the Special Section of the Model is now in progress.

12



Elements of risk and uncertainty

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

12.1 Financial risks

Interest rate risk

Fluctuations in interest rates affect the market value of Italgas' financial assets and liabilities and its net financial expense. The Italgas Group has adopted a centralised organisational model. In accordance with this model, Italgas' various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within the defined limits.

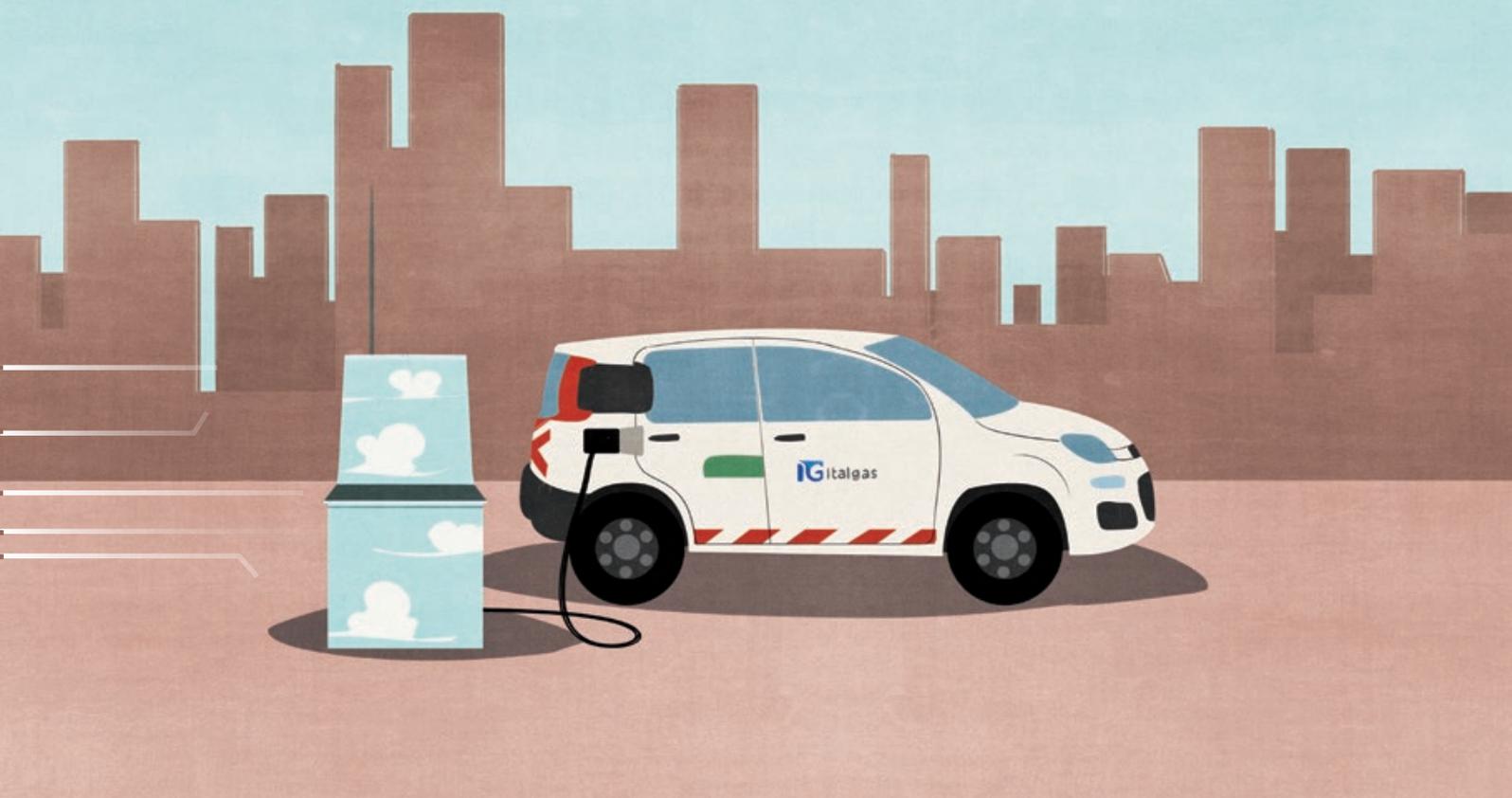
An increase in interest rates, not implemented – in full or in part – in the regulatory WACC, could have negative effects on the business and on the balance sheet, economic and financial situation of the Italgas Group as regards the variable component of outstanding debt and future loans.

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

As at 31 December 2019 the financial debt at floating rate was 12.2% and at fixed rate was 87.8%.

As at the same date, the Italgas Group used external financial resources in the following forms: 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).

Fixed-rate financial liabilities amounted to €4,103.6 million and refer to bonds (€3,354.3 million) and to three EIB loans: the first maturing in 2037 (€359.8 million), converted to fixed rate in January 2018 through a derivative hedging contract of the "Interest Rate Swaps" type maturing in 2024; the second maturing in 2032 (€299.8 million), converted to fixed rate in July 2019 through a derivative hedging contract of the "Interest Rate Swaps" type maturing in



2029; and the third (€89.8 million) relating to the EIB loan of Toscana Energia, with 1.049% fixed rate maturing in 2031.

Floating-rate liabilities amounted to €567.9 million and increased by €18.1 million due to the increased use of the bank lines, partially offset by the new derivative on the EIB loan.

As at 31 December 2019, following expiry of the revolving credit facility of €600 million agreed in 2016, Italgas had unused committed credit lines amounting to €500 million maturing in October 2021.

As at 31 December 2019, there were no loan agreements containing financial covenants and/or collateralised, except for the EIB loan, amounting nominal €90.0 million, signed by Toscana Energia requiring that certain financial covenants be observed. 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. With regard to the EIB financing of Toscana Energia see note no. 18) "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities". For all other ones, these commitments were satisfied as at 31 December 2019.

Credit risk

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

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

As at 31 December 2019 there were no significant credit risks. Note that on average 95% of trade receivables relating to gas distribution are settled by the due date and over 99% within the next 4 days, confirming the strong reliability of the customers. Receivables from other activities are immaterial for the Company.

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

Liquidity risk

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

Italgas has signed loan agreements unused as at 31 December 2019. These credit lines (€500 million) may be used to address possible liquidity needs, where necessary, if the actual borrowing requirement is higher than estimated. Also note that at the same date, in addition to the funding from the banking system, the Euro Medium Term Notes (EMTN) programme, approved by the Italgas Board of Directors on 23 September 2019, has allowed issue of the remaining bonds worth €1,650 million to be placed with institutional investors.

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 Italgas' long-term debt, on 2 August 2019 and 26 September 2019 the rating agencies Fitch and Moody's confirmed the rating assigned to Italgas S.p.A., which are BBB+ with stable outlook and Baa2 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.

Debt covenant and default risk

As at 31 December 2019, there were no loan agreements containing financial covenants and/or collateralised, except for the EIB loan, amounting nominal €90.0 million, signed by Toscana Energia requiring that certain financial covenants be observed. 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. With regard to the EIB financing of Toscana Energia see note no. 18) "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities". For all other ones, these commitments were satisfied as at 31 December 2019.

The bonds issued by Italgas as at 31 December 2019 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.

12.2 Operating risks

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

Risks associated with failures and unforeseen interruption of distribution service

Managing regulated gas activities involves a number of risks of malfunctioning and unforeseeable distribution service disruptions from unintended events, such as accidents, breakdowns or malfunctioning of equipment or control systems, the under performance of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events beyond Italgas' control. These events could cause a decrease in revenue and also involve substantial damage to persons, property or the environment.

Although Italgas has taken out specific insurance policies in line with best practices to cover some of these risks, the related insurance coverage could be insufficient to meet all the losses incurred, the compensation obligations or cost increases.

In addition to existing insurance contracts, Italgas manages and controls the risk through organisational and operational countermeasures. Procedures and systems are in place for emergency management, emergency plans with measures defined for ensuring system safety and to guarantee service continuity, safety systems on plants and assets and for network monitoring, procedures for the eligibility of third-party construction, engineering and works management companies and the execution risks monitoring of contractors. Planned leak detection activities are carried out

using innovative systems and technologies and action to continuously upgrade the network. Measures are also in place to prevent any damage to pipes caused by third parties. In addition, the network digitization initiatives continue so as to gradually improve the real-time monitoring and preventive maintenance systems.

Risks associated with environmental protection, health and safety

The activities of Italgas are subject to the Italian and European Union law on environmental protection.

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

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

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

Risk associated with smart meter installation

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

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

Italgas began the installation of these devices in compliance with the calendar defined by ARERA. It cannot be excluded that the level of malfunctions in remote-read meters is higher than past performances recorded for traditional meters and that this generates higher maintenance costs for the company.

A specific provision was allocated to cover liabilities generated by the aforementioned maintenance costs.

Risks related to Energy Efficiency Certificates

The energy efficiency improvement goal for end use in Italy was mainly implemented through the Energy Efficiency Certificates (TEEs or White Certificates) mechanism. These certify the achievement of energy savings in the end use of energy, obtained through energy efficiency improvement projects and works, assessed and approved by the GSE (Energy Services Operator).

The Energy Efficiency Certificates mechanism was established by the Ministry for Production Activities, in concert with the Ministry for the Environment and Land and Sea Protection through Ministerial Decree dated 20 July 2004, as amended and supplemented by Ministerial Decree of 21 December 2007, Ministerial Decree of 28 December 2012, Ministerial Decree of 11 January 2017 and, lastly, Ministerial Decree of 10 May 2018, published in the Official Gazette of the Republic of Italy on 10 July 2018.

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

At the end of every reference year, each distributor - against cancellation of the certificates - receives reimbursement from the CSEA based on funds constituted through the RE and UC7 components of the distribution tariffs.

As regards TEEs, there is a potential risk of economic loss due to a possible negative difference recorded between the average purchase price of energy efficiency certificates and the tariff contribution paid at the end of each reference year, and due to any failure to reach the targets assigned annually.

Until December 2019 this situation had been amplified by the fact that there was a cap on the tariff contribution recognised to obliged entities, equal to 250 €/TEE.

In addition, as the white certificates generated by EE projects are not sufficient at present to ensure that the mandatory minimum targets are reached, at the end of each reference year the missing certificates are made available by the GSE as short sales at the price of 260 €/TEE, subject to the purchase directly from the market by obliged entities of a fixed percentage of their obligation.

With Resolution 529/R/efr of 10 December 2019, ARERA began a reform process for the tariff contribution, in implementation of Decision no. 2538/2019 of the Lombardy Regional Administrative Court which cancelled the tariff contribution cap and the related calculation methods.

The present situation is that, by the end of April 2020, the Authority will arrange publication of a new regulatory document that amends the calculation rules for the tariff contribution, also with retroactive effects on prior years up to 2018.

However, even with the recent publication of DCO 47/2020/R/efr, to date there has been no sign of improvement of the regulatory framework for Obligated Entities.

Risks associated with the expiration and renewal of gas distribution concessions

The gas distribution activity performed by the Italgas Group operates by virtue of concessions issued by individual municipalities. As at 31 December 2019, Italgas managed 1,816 Municipalities with natural gas distribution concessions throughout Italy.

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

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

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

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

Risks associated with the reimbursement amount payable by the new operator

With reference to the gas distribution concessions for which Italgas also owns the networks and facilities, Legislative Decree No. 164/00, as subsequently supplemented and amended, provides that the reimbursement amount payable to the outgoing service operators and owners of existing assignments and concessions is calculated in accordance with the provisions in the agreements or contracts, provided that they were concluded before the date of the regulation entering into force pursuant to Ministerial Decree No. 226 dated 12 November 2011 (i.e., before 11 February 2012) and, for aspects which are not inferable from the specific intentions of the parties, as well as for aspects not governed by those conventions or contracts, the reimbursement value will be based on the Guidelines on criteria and procedures, subsequently stipulated by the Ministry of Economic Development in a document dated 7 April 2014 and approved by Ministerial Decree dated 22 May 2014²³.

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

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

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

In light of the new legal framework introduced, it cannot be ruled out that the reimbursement value of the concessions, which are assigned a third-party beneficiary upon conclusion of the tenders, would be less than the value of the RAB. This could lead to negative effects on the business and on the balance sheet, economic and financial situation of Italgas.

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

Risk linked to the execution of the investment plan for concessions

The concessions envisage commitments for the concession holder, including investments. It cannot be excluded that, also due to delays in obtaining the authorisations and permits, these investments are made beyond the specified deadlines, with the risk that the company incurs charges.

Regulatory risk

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

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

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

Legal and non-compliance risk

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



13



Business Outlook

Italgas will continue to pursue its strategic objectives focusing on the realisation of investments, the streamlining of processes and operating costs and the optimisation of the financial structure, whilst paying constant attention to development opportunities.

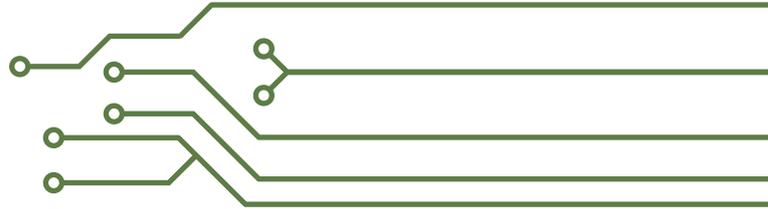
With specific reference to **technical investments** in property, plant and equipment and intangible assets, in 2020 Italgas expects to continue with its significant investment plan, targeted primarily at the implementation of network digitization and smart meter installation projects, the natural gas supply in Sardinia and the usual maintenance and development of the networks managed.

In accordance with the strategic priorities of the 2019-2025 Plan, Italgas will take part in **local tenders** of interest for award of the natural gas distribution service, pursuing its business development goals and those to consolidate a sector that is still very fragmented.

In addition, in line with the objectives of the Strategic Plan, after the acquisitions in 2019, 2020 envisages the completion of additional **initiatives for external growth**, which will enhance territorial presence and growth of the scope of business.



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Sustainability and corporate responsibility

Italgas, for its nature and history, is a player of fundamental importance to development of the economic and social fabric of the country. Its local network presence and proximity to the community, in fact, allow the company to act as a supporter and promoter of sustainable development, a creator of social value as well as economic value, for the entire system. Expertise, safety, reliability and innovation give substance to the company's ability to act sustainably, making it a fundamental component of the business model that aids the definition of strategic and operating decisions to guarantee long-term sustainable growth, without neglecting the expectations of shareholders and all stakeholders. Italgas activities are founded on the principles of transparency, honesty, fairness, good faith and full compliance with the rules on protecting competition, described in the Ethics Code adopted by all the Group companies, as guidelines for orientating the conduct of personnel and for responsible management of relationships with the stakeholders.

Business activities and processes are monitored through specific certified management systems for the following areas: occupational health and safety, environmental protection, the quality of services offered and anticorruption.

Since its stock exchange listing in 2016, Italgas has established a Sustainability Committee and a CSR function dedicated to monitoring and managing sustainability and non-financial statement matters. In 2019, in continuity with previous years, Italgas prepares the NFS (Non-Financial Statement) in accordance with Legislative Decree no. 254 of 30 December 2016, issued in implementation of Directive 2014/95/EU on the disclosure of non-financial information by companies and large groups, and also in compliance with GRI standards published by the Global Reporting Initiative.



Information related to personnel management, the environment, prevention of and the fight against bribery and corruption, and the main social impacts relating to the business activities conducted by Italgas is provided below.

For further information with respect to the topics represented, see the Consolidated Non-Financial Statement.

People and organisation

Human capital development is a fundamental factor for the growth of the company. The Italgas business strategy is supported by a growth and development path that accompanies the Group's people to gaining specific skills, as well as by a culture of internal sustainability which, with innovation, research and continuous improvement, are necessary for providing an increasingly efficient, high quality service.

Employment

With a total net increase of 429 compared to the previous year, Italgas had 4,096 personnel in service as at 31 December 2019. Specifically, 2019 saw 685 staff joining the company, 195 of which as "ordinary" transactions (192 recruited from the market, 3 reinstatements) and 490 as extraordinary transactions involving expansion of the scope.

Vice versa, 256 staff left the Group due to termination of employment contracts and other reasons (mainly resignations, dismissals and early retirement).

In particular, 192 employees were recruited from the market, of which:

- 156 aged under 30;
- 34 aged between 30 and 50;
- 2 aged over 50.

The breakdown by category of personnel is as follows:

Breakdown of personnel by category (number)	2018	2019	Change
Executives	57	61	4
Managers	276	296	20
Office workers	1,990	2,270	280
Manual workers	1,344	1,469	125
	3,667	4,096	429

Almost all people at Italgas have an open-period employment contract; apprenticeships and access-to-work contracts represent around 5%.

The growth trend of the female component within the Group was confirmed once again in 2019, with women now accounting for 14.1% of the total. The breakdown by professional category of female personnel is as follows:

Female personnel with breakdown by category (number)	2018	2019	Change
Executives	11	9	(2)
Managers	39	44	5
Office workers	400	523	123
Manual workers	3	3	-
	453	579	126

176 individuals pertaining to protected categories work for Italgas and are included and integrated into the corporate processes.

Organisation

The achievement of strategic plan objectives cannot disregard the capacity to actively respond to challenges in a continuously changing context and to constantly improve performance. The company has therefore launched and continued organisational projects that will have an impact on processes and work methods. These included the operations reorganisation and the “professional teams”.

The reorganisation of operations

Over the last three years, the Group has created a holding and reconfigured the operating companies so as to improve interaction and streamline the most important processes. Today, Italgas S.p.A. covers all the staff functions, whilst operations for the gas distribution business are mainly focused in Italgas Reti S.p.A.

To improve interaction and encourage the sharing of operating methods, “professional teams” were identified with the aim of ensuring the control and development of technical know-how, best practices and working tools from among all the Operations units involved.

The professional teams

Each professional team is headed by a Competence Leader, who supervises the know-how development, defines objectives and priorities, calls and manages meetings and interaction between members of the professional team.

The 13 professional teams, with a total of 300 members, represent 6 different business areas: asset construction, asset management and maintenance, service marketing management, phase management of tenders, staff and transversal activities.

Training

Italgas training is aimed primarily at ensuring the growth of specific skills, with a particular focus on innovation and digitization, to guarantee that the business activities are conducted and the quality of service provided improves. Compared to 2018, the total volume of training activities increased with regard to managerial initiatives and those in support of organisational changes as a result of the new structure of the Italgas Group.

To aid the introduction of new technologies and support the digital transformation in progress, the company intends to invest in its human resources with a targeted Digital Skills training programme and, in particular, the development of a Digital Mindset of sensitivity and appetite for digital innovation. To this end, in December a “**Digital skills survey**” was carried out of the entire company staff. This involved the voluntary completion of an online questionnaire of around 60 questions, each person having the opportunity to discuss their digital skills and knowledge and receiving their own digital profile - a personalised report describing their aptitude level and skills - as feedback. Participation in the survey was extremely high, reaching a total redemption of 76% which - compared to the reference benchmarks - can be considered a very good level. Equally unexpected was the level of participation by manual workers (63.8%).

In 2019, a total of 84,038 hours of training were provided and every employee on average received around 20.5 hours of training in at least 2 different training opportunities during the year.

Average no. of hours' training provided by category (Hours/no.)	2018	2019	Change
Executives	21	30	9
Managers	27	27	-
Office workers	18	18	-
Manual workers	18	22	4

Training in support of the Company's Digital Transformation were again of major importance in 2019, for which the following were organised:

- training initiatives on new technology scenarios and the main applications of interest to gas distribution were dedicated to management, managers included in development paths and young graduates;
- training dedicated to resources involved in the more innovative digitization projects relating to the new Italgas Digital Factory, with particular reference to Agile roles and approaches and the deployment of technological and digital solutions developed in the Digital Factory working groups;
- international intercompany courses focusing on aspects of technology innovation and digital transformation, dedicated to Group managers and experts;
- internal communications initiatives and training on ICT-related objectives, methods, equipment and services made available by the company, as well as health and safety aspects associated with smart working to support the expansion and consolidation of this new way of working.

The MyLearning multimedia cloud platform dedicated to training was implemented in 2019. Each employee can view their training paths and access the training activities available online. The first training modules were launched on Compliance topics (GDPR) and technological topics (Smart Meters and Emergency Drills) created in cooperation with Company experts, also as a result of work generated by the Digital Factory to enhance knowledge transfer and professional updating.

Classroom courses and planning initiatives were carried out at the new Training Campus in Turin which, through the design of its structures (classrooms and outdoor spaces for field exercises), represents the ideal context not only for learning activities, but also for integration and networking between colleagues from different sites around the country.

In addition to the descriptions already provided, the main training programmes developed in 2019 also include: new recruit induction, the Young Graduates programme, the Managers under Development programme, female leadership, "Operator qualification to perform Electrical Works PES/PAV/PEI", the Driving Safety programme and training for the Italgas Contact Centre. Training to update workers on occupational health and safety also continued, as per the State/Regions Agreement.

A significant training initiative - also provided with support from the Area Prevention and Protection Officers from the local offices - involved over 800 "Managers" to which over 5,900 hours of training were provided.

Lastly, a specific training programme was designed and provided for Medea technical staff, following the operational start-up of new natural gas networks. The programme focused on "Emergency action" and "Gas emergencies and incidents" to bridge the knowledge gap as regards activities to be undertaken on the natural gas distribution networks.

The managerial development programme, launched in 2018 to support development of the managerial culture, digital transformation and the significant generational handover already in progress, intensified during 2019. The logics and pillars of the plan are:

- dissemination of the new managerial skills model and its implementation;
- performance management through a culture of continuous feedback;
- development of individual potential through an appraisal and empowerment programme and the related growth and career plans.

To implement these, specific programmes were designed for the different types of human resource (around 400, including graduates, managers and executives).

The three-year rotation programme continues for a group of young engineers recruited in 2017 (16 engineers, of which 6 women). This project will end in 2020. To date, the employees involved have completed two rotations.

Initiatives in favour of employees

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.

Again in 2019, in continuity with the plan, various initiatives were implemented for the increasingly efficient communication of the services offered. In 2019, in addition to those routed through the company Intranet, there were 11 direct communications activities. Particular emphasis was given to the one-day training courses on the Welfare Plan, with the setup of stands in the main operating centres of Italgas. The employees registering on the dedicated site and accepting the general conditions since the launch of the programme now account for around 95% of company personnel. Operators using at least once service increased in 2019 by around 20% compared to 2018.

Furthermore, the second level trade union agreement was signed in 2019 which, among various topics, confirmed the "Flexible Benefits" plan for the three-year period 2019-2021, in continuity with that initiated in 2018. The agreement envisages the option of converting Productivity Bonuses into Welfare services (pensions, family care, support for studies, mobility, recreation) for each employee voluntarily subscribing to the Plan, with Italgas offering an extra "Bonus" of 18% of the percentage bonus converted into Welfare Credits. In total, around 10% of the company's staff have opted to convert the Bonus into Welfare, 85% of which chose the maximum conversion percentage available.

The Welfare portal was used to allow employees who are beneficiaries of the Zero Accidents Bonus (an internal competition organised in partnership with the HSEQ Unit) to use their bonus in the form of coupons for purchases from a catalogue of selected national brands and covering the most common product categories.

In September 2019, at the opening of the second edition of "Green Week" in Milan, the new Parco Russoli was inaugurated, a park covering around 10,000 m² that Italgas has given back to the city, but especially the district in which the head office is located. The site revitalisation involved the planting of around 3,100 shrub and grass species and 25 trees, improving the urban landscape and living quality. At the same time, a 5-a-side football pitch, fitness area, new children's play area (with equipment suitable for disabled children), a relaxation area, a fenced area for dogs, as well as a complete restyling of the fixtures and fittings, floors and access paths, were created. The new park areas were inaugurated with a first symbolic game of 5-a-side football under the watchful eye of Carolina Morace, former coach of the Italian women's national team and now a respected TV commentator, the face for the event and guest coach to the two mixed teams competing for the occasion.

In addition, among the Italgas welfare initiatives, which target sustainability in facilitating a work-life balance, *ItalGym* has been in operation for a year, Italgas' first fitness centre located on the company premises in Via Carlo Bo and reserved exclusively for Group employees. The gym, established with the aim of improving the well-being and quality of life of Italgas personnel, is organised in a fitness area with latest generation fitness training equipment and an area dedicated to changing rooms, showers and lockers. During 2020 the project will be extended also to the Italgas offices in Turin and Rome.

Health, safety and environment

Through the Health Safety and Environment Policy, Italgas, in its prevention and protection principles, recognises the inalienable values and assumes a specific commitment for injury prevention, the protection of health and mitigation of the environmental impacts from its activities.

Health and safety

In 2019, a total of 17 accidents were recorded, of which 6 related to accidents at work and 11 while commuting. The total number of accidents corresponds to 1444 days of total absence (583 without considering those while commuting) with a frequency index of 2.79 and a severity index of 0.24.

Workplace accidents	2018	2019
Total non-commuting accidents	8	6
- of which fatal	0	0
Total commuting accidents	9	11
- of which fatal	0	0
Total accidents	17	17

Employee accident indices	2018	2019
Frequency index (non-commuting)	1.35	0.98
Severity index (non-commuting)	0.03	0.10
Frequency index	2.87	2.79
Severity index	0.13	0.24

The systematic recording of third-party operator accident figures continued in 2019, with contractors recording 8 accidents during the year.

The company applies a regulatory system that governs compliance standards, procedures and regulations with the aim of ensuring the health and safety of individuals (employees, end customers, contractors, etc.) and accident prevention, in terms of overall quality.

The organisational structure in terms of health, safety and environmental quality (HSEQ) envisages distinguishing general duties, centralised in Italgas, and specific duties, coordination and support for the operating units assigned to individual companies, which are able to operate with an appropriate level of decision-making independence.

Italgas pays particular attention to raising staff awareness and training on the risks arising from operating activities and in implementing the safety requirements to be adopted to safeguard their own and others' safety.

In 2019, over 36 thousand hours of training were provided on health and safety issues, increasing by almost a third compared to 2018.

Health and safety management in 2019 was marked by a focus on communication aspects. Note in this respect the structured internal communications campaign targeting all employees, i.e. the “safety first” campaign that aims to further sensitise employees to safety issues, with images and messages disseminated using various communications tools, such as posters, the company Intranet and mobile devices provided to personnel.

Also contributing to the workplace safety culture were the now consolidated incentive schemes held annually, such as the “Italgas Safety Trophy” and the “Zero Accidents Bonus” that is awarded to teams which have recorded no accidents during the year.

Environmental protection

All Italgas activities are conducted with maximum respect for and protection of the environment and natural resources, adopting a responsible and transparent approach that guarantees compatibility between its own infrastructures and the territory, efficiently managing natural and energy resources to limit the environmental impact from its activities. This approach is explained in the HSEQ Policy. For environmental and energy management, the management systems adopted are those certified as compliant with ISO 14001 and ISO 50001, respectively.

Based on 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 that are potentially contaminated as a result of past gas production activities before the 1970s. The environmental revitalisation activities therefore continued at 32 sites for which environmental procedures are in progress pursuant to Legislative Decree 152/06.

In order to increase IPRM energy efficiency, during 2019 a further 38 systems to optimise preheating consumption were installed. These systems offer considerable reductions in preheating consumption compared to a standard configuration, allowing real-time control of the correct quantity of energy transferred, in time units, to natural gas. Confirming these efficiency improvement activities, in fact, is the decrease recorded in total gas preheating consumption by around 3% compared to 2018, considering only Italgas Reti.

Also considering the works carried out in previous years, at the end of 2019 there were 70 IPRMs with preheating that make use of preheating consumption optimisation systems, plus a further 3 systems on which a heating management system is being continuously tested which, in the technology controlling the correct power-to-gas quantity in the preheating process, also integrates a gas-powered heat absorption pump.

During 2019, the project to replace all traditional bulbs with LED bulbs for all IPRMs and IRIs, both in internal and external areas, was approved. The installation of outdoor astronomical twilight switches on a single light source for all IPRMs and IRIs was also envisaged. Completion of the replacements is expected by the end of 2020.

Emissions		2018	2019
Natural gas emissions*	10⁶Sm³	28.2	30.1
Total GHG emissions	10³tonCO₂eq	739	841.6
- of which Scope I**	10 ³ tonCO ₂ eq	515	548.7
- of which Scope II	10 ³ tonCO ₂ eq	9.08	8.8
- of which Scope III***	10 ³ tonCO ₂ eq	214.9	284.1
Carbon intensity****	tonCO₂eq */10⁶Sm³	67	70
NO_x emissions	ton	30.01	27.42

* The figure for natural gas emissions refers to the total for Italgas Reti and Toscana Energia.

** CO₂eq emissions have been consolidated according to the operational control approach. The GHGs included in the calculation are CO₂ and CH₄ 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".

*** Includes emissions associated with procurement and business travel. As regards the calculation of scope 3 emissions linked to procurement, an internal approach was used that associates a conversion factor from the procurement value into CO₂ emissions for each product category. Italgas Acqua, Toscana Energia, Toscana Energia Green and Gaxa are not included.

**** Calculated as scope 1 and scope 2 emissions/gas distributed.

Energy consumption		2018	2019
Direct consumption of energy from renewable sources	TJ	0	0
Direct consumption of energy from non-renewable sources	TJ	458.3	472.09
- of which natural gas	TJ	375	429
- of which diesel	TJ	64	18
- of which petrol	TJ	19.4	25.5
Electricity purchased	TJ	103.27	100.05
Electricity self-generated from renewable sources	TJ	0.14	4.97
Electricity sold	TJ	0.07	4.8
Total energy consumption	TJ	561.59	572.13
Energy intensity*	TJ/10⁶Sm³	0.072	0.072

* Total energy consumption out of the total gas distributed.

Technological innovation and research

Some time ago, Italgas implemented its own extensive, ambitious technology innovation plan, in the conviction that digital transformation, when extended to all areas of natural gas distribution, will be a driving element in a service characterised by the highest standards of quality and safety.

Its own Digital Factory has been operating since 2018, a structure dedicated to the transformation and digitization of business processes through the application of Design Thinking and the Agile approach. The Digital Factory is divided into “Digital Rooms” (cross-functional teams) which with a short turnaround design and develop solutions that can be tested directly, the “Minimum Viable Product” digital pilot projects, based on iterative and incremental logic.

During 2018, successful testing was also completed on a new leak detection method using CRDS (Cavity Ring-Down Spectroscopy) technology based on laser absorption spectroscopy and which is a development that builds on the laser systems used previously. This technology offers the identification of underground and airborne leaks.

During 2019, given the favourable technological impact of the CRDS approach, its use increased considerably for leak detection activities, now accounting for over 1/3 of total activities.

Stakeholder relations

The Italgas Engagement system is present at all levels of the company. Italgas maintains constant relationships with investors, institutions and companies with the intention of offering a consistent service for the national and local needs and growth plans and encourage the continuous improvement of the reliability of the plant and the quality of services offered.

Internal communications and change management

Communication sent to Italgas staff strives to be a “change agent” acting on values, stimulating new views, contributing to the change of the corporate culture and inspiring new behaviours.

The Group’s intranet portal is constantly updated so as to be the preferred channel to disseminate a new means of communicating: the home page has become the space where there is an alternation between news “in the foreground”, “highlighted” topics, the launch of corporate initiatives and pop-ups; innovations were introduced on the portal such as the gallery with videos and photos, as a tool to share, with the directness typical of photographs, experiences and company events.

Italgas has also decided to support the innovations in its organisation, systems and procedures with an articulated and consistent staff Training and Change Management Plan.

Industrial Relations

In 2019, relations between Italgas and the trade unions saw the involvement and participation of structures at national, local and company levels. During the year, a number of important agreements were signed in relation to digitization, including the introduction of geolocation on the tablets used by operations personnel, as well as the regulation of activities carried out using the “Picarro” technology.

An agreement was also signed in relation to the installation of “black boxes” on company vehicles, and a framework agreement for the installation of CCTV systems in the company offices.

121 meetings with trade unions were held in 2019, of which 24 at national level and 97 local. Added to these were a further 10 area meetings held at Toscana Energia and 1 at Toscana Energia Green. The figure confirms the constantly increasing involvement of representatives at all levels. At the end of 2019, 49% of employees were members of a trade union.

Lastly, in 2019 Italgas actively participated in action to renew the national pay agreement for 1 January 2019-31 December 2021, which entered into force last December.

Legal disputes with employees and former employees of the Italgas Group, tending to remain steady over time, decreased slightly in 2019 (despite inheriting 1 dispute deriving from the merger of EGN Distribuzione into Italgas Reti). Legal action brought against the Group companies (Italgas Reti and Medea) mainly referred to the following situations: difference between professional category and related remuneration, economic claims of various types, transfers, challenge of disciplinary measures inflicted, including dismissals.

Investor relations

Italgas, since its listing on the stock market, has placed transparency in its relationships with investors and the entire financial community among its top priorities. The Company’s plans and objectives, and likewise the quarterly and annual results, are presented to shareholders and to the market to allow an assessment of the value creation levers. In 2019 the Italgas Group Strategic Plan, updated for the period 2019-2025 and defining a major investment programme, was presented to analysts and investors.

The information of interest to shareholders and investors, including the quarterly/half-yearly reports, both in Italian and in English, will be available in the Investor Relations section of the corporate website www.italgas.it.

Communities and local areas

Italgas, consistent with its role as the provider of gas distribution services, with the principles of sustainable development and its growth plans, is constantly engaged in a continuous and effective dialogue with the communities in which it operates. In relations to the European, national and local authorities, Italgas operates on the principles of sincere cooperation and transparency by providing its skills and abilities, conscious of the social utility of its role. The commitment to openness has resulted in joining Registries for formal transparency as formally instituted by the European Parliament, the Register of Stakeholders of the Chamber of Deputies, the Ministry of Economic Development and the Region of Lombardy.

Italgas also attaches great importance to cooperation in the field associated with the other operators in the energy sector, on an equal and fair field of comparison. Finally, the construction of cooperative relationships with the associations representing consumers helps people understand and respond as best as possible to the needs and expectations of the users of its services.

In 2018, the company formalised a memorandum of understanding to make consumers increasingly aware and informed on the correct use of energy resources and the service they receive. The agreement signed with 18 consumer associations centres in particular on the programme for replacing traditional gas meters with smart meters, the latest generation of meters that are smart metering-ready and therefore able to constantly read consumption without needing to access the meter, with a view to continuous improvement of the quality of service provided.

In 2019, Italgas and the associations organised a joint seminar, held at the Italgas Digital Factory in Milan, to work together in examining innovations developed by the company to improve relations with consumers. These new aspects consisted in the launch of a portal allowing autonomous management of reports and call-out requests and a section specifically dedicated to the consumer associations and reorganisation of the phone contact centre, now integrated into the distribution networks supervisory centre managed by Italgas.

Customers and the Italian Regulatory Authority for Energy, Networks and Environment (ARERA)

Italgas pays special attention to the relationship with the sales company, constantly updating 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 constantly updated on the basis of regulations issued by the ARERA, which are constantly regulating the services of the Italgas Group.

Relations with the ARERA are of key importance for companies operating in the energy business. Since its establishment, Italgas has presented the Authority, continuously as in the past, a constructive and purposeful relationship, which translates for example into ensuring the Group's contribution to the consultation processes for preparing Resolutions and illustrating specific issues in the sector and supplying the information required by the regulator.

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.

Suppliers

The Italgas Group aims to establish fair and transparent relations with its supply chain, consolidated over time. For this purpose, Italgas has adopted a specific system to verify the suitability of companies, so as to encourage and incentivise the creation of shared value, but at the same time to supervise compliance, in the formats and methods prescribed by law, the Group Ethics Code and the Ethics and Integrity Agreement, with the organisational model pursuant to Italian Legislative Decree 231/2001.

Supply Chain sustainability is monitored from its initial stages through the Vendor Management System, which allows accurate selection of the companies wishing to participate in the procurement procedures, through the assessment of aspects relating to health and safety, the environment, human rights, as well as technical, economic, financial and legal aspects.

For Italgas, responsible management of the supply chain is of strategic importance in guaranteeing the high quality of its services and helps to safeguard and enhance its reputation. In 2019, the Group made use of partnerships with around 1,400 qualified suppliers. Of these, a major role is played by small and medium enterprises (around 70%).

The works contractors (network construction and maintenance) represent around 60% of purchases and are located throughout Italy, mostly in the Central and Northern areas. The goods and services providers (meters of varying calibres and different types of services) instead represent around 40% of purchases and are of Italian and international origin.

Based on their financial significance and technological complexity, the products and services purchases are divided into product categories, on a critical scale ranging from a minimum level of "D" to a maximum "A". Suppliers pertaining to product classes of critical importance 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.

All Italgas suppliers must accept the principles of the Ethics Code and the Ethics and Integrity Agreement and support them, starting with respect and protection of human rights, occupational health and safety, the environment and sustainability, as well as legal compliance.

Glossary

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

Economic and financial terms

Non-current assets

Balance sheet item which shows long-lasting assets, net of 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

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

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 assets, the clauses are aimed, inter alia, at limiting the use of financial leverage by the company, involving the obligation of maintaining a given ratio between balance sheet debt and capitalisation.

These covenants are imposed by lenders to prevent borrower financial conditions from deteriorating and, where this does happen, to be able to request early repayment of the loan.

Credit rating

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

Dividend payout

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.

ROE (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 ROI (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 shareholders' equity, which are recognised in shareholders' 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.

ATEM

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

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 from 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 electricity 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 Tenders

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.

Gestore dei Mercati Energetici (Energy Markets Operator - GSE)

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 Energy Day-Ahead Market (MGP), the Intraday Market (MI), the Daily Energy Output Market (MPEG), the Dispatching Services Market (MSD), the Electricity Forward Market (MTE) and the platform for physical delivery of financial contracts concluded on the IDEX (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.

Gestore dei Servizi Energetici (Energy Services Operator - GSE)

A publicly-owned joint stock company with the central role of promoting, incentivising and developing 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

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 Italian 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. The 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.

15



Consolidated Financial Statements

15.1 Financial Statements

Statement of Financial Position

(€ thousands)	Notes	31.12.2018		31.12.2019	
		Total	of which, related parties	Total	of which, related parties
ASSETS					
Current assets					
Cash and cash equivalents	(8)	138,476		262,237	
Financial assets measured at fair value with effects on OCI	(9)	119		119	
Other financial assets	(10)			5,000	
Trade and other receivables	(10)	536,199	213,715	585,230	232,308
Inventories	(11)	26,181		52,295	
Current income tax assets	(12)	7,533		23,046	
Other current tax assets	(12)	25,427		50,423	
Other current assets	(13)	13,677		6,764	10
		747,612		985,114	
Non-current assets					
Property, plant and equipment	(14)	259,178		350,001	
- of which related to Right of Use*		49,425		75,790	
Intangible assets	(15)	5,431,923		6,731,989	



(€ thousands)	Notes	31.12.2018		31.12.2019	
		Total	of which, related parties	Total	of which, related parties
Equity investments valued using the equity method	(16)	174,955		33,374	
Other equity investments	(16)	96		324	
Other financial assets	(10)	156		155	
Other non-current assets	(13) (21)	133,707	549	129,421	545
		6,000,015		7,245,264	
Non-current assets held for sale	(17)	11,583		2,076	
TOTAL ASSETS		6,759,210		8,232,454	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(18)	274,499		408,638	
Short-term portions of long-term financial liabilities	(18)	43,303		172,519	
- of which related to Right of Use*		10,204		17,572	
Trade and other payables	(19)	564,663	59,024	726,714	15,059
Current income tax liabilities	(12)	3,479		1,708	
Other current tax liabilities	(12)	10,032		9,335	
Other current liabilities	(20) (21)	2,890	177	346	177
		898,866		1,319,260	
Non-current liabilities					
Long-term financial liabilities	(18)	3,705,980		4,171,497	
- of which related to Right of Use*		39,635		57,078	
Provisions for risks and charges	(22)	187,567		169,563	
Provisions for employee benefits	(23)	107,878		113,197	
Deferred tax liabilities	(24)	71,772		92,484	
Other non-current liabilities	(20) (21)	457,800		571,514	
		4,530,997		5,118,255	
TOTAL LIABILITIES		5,429,863		6,437,515	
SHAREHOLDERS' EQUITY	(25)				
Italgas shareholders' equity					
Share capital		1,001,232		1,001,232	
Reserves		14,420		141,911	
Net profit (loss) for the period		313,695		417,238	
Total Italgas shareholders' equity		1,329,347		1,560,381	
Minority interests				234,558	

(€ thousands)	Notes	31.12.2018		31.12.2019	
		Total	of which, related parties	Total	of which, related parties
TOTAL SHAREHOLDERS' EQUITY		1,329,347		1,794,939	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		6,759,210		8,232,454	

* From 1 January 2018, Italgas applies the international accounting standard "IFRS 16 - Leases" which, after eliminating the distinction between finance leases and operating leases, resulted in the recognition of operating lease payables for commitments to leasing companies against the recognition of right-of-use assets.

Income Statement

(€ thousands)	Notes	2018		2019	
		Total	of which, related parties	Total	of which, related parties
REVENUE	(27)				
Core business revenue		1,583,752	772,763	1,820,020	808,606
Other revenue and income		57,544	19,491	72,815	12,133
		1,641,296		1,892,835	
OPERATING COSTS	(28)				
Purchases, services and other costs		(552,896)	(29,477)	(729,838)	(1,708)
Personnel cost		(233,672)	865	(239,174)	76
		(786,568)		(969,012)	
AMORTISATION, DEPRECIATION AND IMPAIRMENT	(29)	(401,256)		(407,781)	
- of which amortisation of Right of Use		7,195		15,218	
EBIT		453,472		516,042	
FINANCIAL INCOME (EXPENSE)	(30)				
Financial expense		(47,913)	(714)	(70,610)	(296)
- of which financial expense Right of Use		(286)		(273)	
Financial income		948		1,315	128
Derivative financial instruments					
		(46,965)		(69,295)	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS	(31)				
Effect of valuation using the equity method		19,999		14,883	
Other income (expense) from equity investments				85,897	
		19,999		100,780	
Gross profit		426,506		547,527	
Income taxes	(32)	112,811		123,928	
Net profit (loss) for the period		313,695		423,599	
Attributable to Italgas		313,695		417,238	
Minority interests				6,361	
Net earnings (loss) per share attributable to Italgas (€ per share)	(33)				
- basic and diluted		0.39		0.52	

Consolidated Statement of Comprehensive Income: attributable to the parent company and to minority interests

(€ thousands)	31.12.2018			31.12.2019		
	Attributable to the parent company	Attributable to minority interests	Total	Attributable to the parent company	Attributable to minority interests	Total
Net profit	313,695		313,695	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 (Effective portion)	(6,505)		(6,505)	(4,178)		(4,178)
Tax effect	1,561		1,561	1,003		1,003
	(4,944)		(4,944)	(3,175)		(3,175)
<i>Components not reclassifiable to the income statement</i>						
Actuarial gains (losses) from remeasurement of defined benefit plans for employees	3,647		3,647	(3,248)	(272)	(3,520)
Tax effect	(1,026)		(1,026)	916	77	993
	2,621		2,621	(2,332)	(195)	(2,527)
Total other components of comprehensive income, net of tax effect	(2,323)		(2,323)	(5,507)	(195)	(5,702)
Total comprehensive income for the year	311,372		311,372	411,731	6,166	417,897

Statement of Changes in Shareholders' Equity

(€ thousands)	Shareholders' equity pertaining to owners of the parent				
	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined benefit plans for employees, net of tax effect
Balance as at 31 December 2017 (a) (Note 25)	1,001,232	(323,907)	620,130	200,246	(13,351)
2018 profit for the year					
Other components of comprehensive income:					
Components reclassifiable to the income statement:					
- change in fair value of cash flow hedge derivatives					
Components not reclassifiable to the income statement:					
- Actuarial gains on remeasurement of defined-benefit plans for employees					2,621
Total comprehensive income 2018 (b)					2,621
Transactions with shareholders:					
- Allocation of 2017 profit for the year					
- Allocation of Italgas SpA dividend for 2017 (0.208 € per share)					
- Stock grant reserve					
Total transactions with shareholders (c)					
Other changes in shareholders' equity (d)					
Balance as at 31 December 2018 (e=a+b+c+d) (Note 25)	1,001,232	(323,907)	620,130	200,246	(10,730)

* The item includes the value 169,837 relative to the allocation of 2016 profit for the year Italgas S.p.A.

Shareholders' equity pertaining to owners of the parent

Fair value reserve for cash flow hedge derivatives, net of tax effect	Reserve for business combinations under common control	Stock grant reserve	Other reserves	Retained earnings*	Net profit for the year	Total	Minority interests	Total Shareholders' equity
	(349,854)		424	(242,046)	292,766	1,185,640		1,185,640
					313,695	313,695		313,695
(4,943)						(4,943)		(4,943)
						2,621		2,621
(4,943)					313,695	311,373		311,373
				292,766	(292,766)			
				(168,300)		(168,300)		(168,300)
		299				299		299
		299		124,466	292,766	(168,001)		(168,001)
				335		335		335
(4,943)	(349,854)	299	424	(117,245)	313,695	1,329,347		1,329,347

Shareholders' equity pertaining to owners of the parent

(€ thousands)

	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined benefit plans for employees, net of tax effect
Balance as at 31 December 2018 (a) (Note 25)	1,001,232	(323,907)	620,130	200,246	(10,730)
2019 profit for the year					
Other components of comprehensive income:					
Components reclassifiable to the income statement:					
- change in fair value of cash flow hedge derivatives					
Components not reclassifiable to the income statement:					
- Actuarial gains on remeasurement of defined-benefit plans for employees					(2,527)
Total comprehensive income 2019 (b)					(2,527)
Transactions with shareholders:					
- Allocation of 2018 profit for the year					
- Allocation of Italgas SpA dividend for 2018 (0.234 € per share)					
- Stock grant reserve					
Total transactions with shareholders (c)					
Other changes in shareholders' equity (d)					
Balance as at 31 December 2019 (e=a+b+c+d) (Note 25)	1,001,232	(323,907)	620,130	200,246	(13,257)

Shareholders' equity pertaining to owners of the parent

Fair value reserve for cash flow hedge derivatives, net of tax effect	Reserve for business combinations under common control	Stock grant reserve	Other reserves	Retained earnings*	Net profit for the year	Total	Minority interests	Total Shareholders' equity
(4,943)	(349,854)	299	424	(117,245)	313,695	1,329,347		1,329,347
					417,238	417,238	6,361	423,599
(3,175)						(3,175)		(3,175)
						(2,527)		(2,527)
(3,175)					417,238	411,536	6,361	417,897
				313,695	(313,695)			
				(189,338)		(189,338)		(189,338)
		870				870		870
		870		124,357	(313,695)	(188,468)	228,197	39,729
(1)	15		8,287	(335)		7,966		7,966
(8,119)	(349,839)	1,169	8,711	6,777	417,238	1,560,381	234,558	1,794,939

Statement of Cash Flows

(€ thousands)	2018	2019
Profit (loss) for the year	313,695	423,599
Adjustments to reclassify net profit to cash flow from operating activities:		
Amortisation and depreciation	399,507	405,873
<i>of which amortisation of Right of Use pursuant to IFRS16</i>	7,195	15,218
Net impairment of assets	1,749	1,908
Effect of valuation using the equity method	(19,999)	(14,883)
Other income from equity investments		(85,871)
Non-monetary items (stock grants)		896
Net capital losses (capital gains) on asset sales, cancellations and eliminations	1,270	(4,352)
Interest income	(948)	(1,315)
Interest expense	47,913	70,884
Income taxes	112,811	123,928
Changes in working capital:		
- Inventories	(3,352)	(21,089)
- Trade receivables	22,772	(17,739)
- Trade payables	26,735	43,330
- Provisions for risks and charges	(23,440)	(32,191)
- Other assets and liabilities	27,488	46,474
<i>of which contributions for connections, users</i>	(15,188)	(16,245)
<i>of which contributions for connections, increases</i>	24,500	10,561
Cash flow from working capital	50,203	18,785
Change in provisions for employee benefits	(5,459)	(4,689)
Dividends collected	29,872	14,187
Interest collected	948	1,315
Interest paid	(47,913)	(70,611)
Income taxes paid, net of tax credits reimbursed	(133,289)	(154,632)
Net cash flow from operating activities	750,360	725,022
<i>of which, related parties</i>	788,043	658,755
Investments:		
- Property, plant and equipment	(15,385)	(35,321)
- Intangible assets	(483,818)	(663,974)
- Change in scope of consolidation and business units	(173,102)	(60,226)
<i>of which takeover of payables</i>	(64,558)	(35,211)

(€ thousands)	2018	2019
<i>of which business units</i>	(23,769)	(25,015)
- Equity investments	(42)	(40,096)
- Change in payables and receivables for investments	409	89,865
Cash flow from investments	(671,938)	(709,752)
Disinvestments:		
- Property, plant and equipment	424	7,501
- Intangible assets	2,554	340
- Change in receivables relating to disinvestment activities		80
Cash flow from disinvestments	2,978	7,921
Net cash flow from investment activities	(668,960)	(701,831)
<i>of which, related parties</i>		141,353
Assumptions (repayments) of long-term financial debt	49,222	348,493
Increase (decrease) in short-term financial debt	180,442	(58,750)
Capital contributions from third parties		10,953
Disposals of minority interests		24,857
Dividends distributed	(168,300)	(207,800)
Outlays for rights of use	(5,469)	(17,183)
Net cash flow from financing activities	55,895	100,570
<i>of which, related parties</i>	(66,563)	(74,883)
Other changes	(1,650)	
Net cash flow for the year	135,645	123,761
Opening cash and cash equivalents	2,831	138,476
Closing cash and cash equivalents	138,476	262,237

15.2 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 its regulatory asset base (RAB²⁴) 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. has "de facto" control over Italgas S.p.A. pursuant to the accounting principle IFRS 10 "Consolidated Financial Statements".

As at 31 December 2019, CDP S.p.A., via CDP Reti S.p.A.²⁵, owns 26.05% of the share capital of Italgas S.p.A.

15.2.1 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 2019 consolidated financial statements, except for the international accounting standards that came into force starting from 1 January 2019, which are described in the following section "Accounting principles and interpretations applicable from 2019" of said report. More specifically, the provisions of IFRIC 23 "Uncertainty over Income Tax Treatments", a summary of which is provided below, are important for 2019 financial statements purposes.

On 13 January 2016, the IASB issued the IFRS 16 standard, which is based on a fundamental criterion, i.e. the right of use of an asset necessary for distinguishing between the lease agreements and the service contracts on the basis of probative elements such as: identification of the asset, the right to replace it, the right to basically get all the financial benefits arising from use of the asset and the right to govern use of the asset underlying the lease agreement. Conversely, payment of an amount along the contractual term of use

²⁴ 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.

²⁵ CDP S.p.A. holds 59.10%.

of the asset entails that the entity is implicitly obtaining a loan. In short, IFRS 16 eliminates the distinction between finance leases and operating leases, and introduces, for lessees, a single accounting model for recognising leases. By applying this model the entity recognises: (i) assets and liabilities for all leases longer than 12 months; (ii) separately in the income statement, the amortisation of the asset recognised and the interest on the payable entered.

The provisions of IFRS 15 provide the criteria for recognising and measuring revenue coming from contracts with customers, and require that the recognition of revenue be based on the following 5 steps: (i) identification of the contract with the customer²⁶; (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.

The provisions of IFRS 9 concerning the classification and measurement of the financial assets establish the following categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value with the effects recognised in the other comprehensive income (hereinafter also referred to as OCI); (iii) financial assets measured at fair value with the effects recognised in the income statement.

The classification of a financial asset representing a debt instrument depends on the characteristics of the cash flows coming from the financial asset and from the business model adopted. In particular, 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 the contractual cash flows (so-called hold to collect business model); otherwise, they are measured at fair value with the effects recognised in the OCI (hereinafter also referred to as FVTOCI) if the business model includes the possibility to carry out transfers before the financial instrument matures (so-called hold to collect and sell business model).

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).

The financial assets representing minority interests, since they are not held for trading, are measured at fair value with the effects recognised in shareholders' equity (FVTOCI) without considering their reversal to the income statement should they be realised; otherwise, the dividends generated by such investments are recognised in the income statement. Measurement at cost of a minority equity investment is allowed in those limited cases in which the cost represents an adequate estimation of the fair value.

²⁶ The provisions of IFRS 15 define the customer as the party that initiates a contract for the acquisition of goods or services representing the output of the ordinary activities of a supplier subject against payment of a consideration.

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 instrument classification criteria. The embedded derivatives incorporated in financial liabilities and/or non-financial assets are separated if: (i) the economic characteristics and risks of the embedded derivative are not closely tied to the economic characteristics and risks of the main contract; (ii) a distinct instrument with the same characteristics of the embedded derivative meet the definition of derivative; (iii) the hybrid instrument as a whole is not measured at FVTPL.

The provisions of IFRS 9 require application of the expected credit loss model for measuring recoverability of the financial assets on the basis of a predictive approach; in particular, with reference to the trade receivables and other receivables, the expected losses were 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), on the basis of prior experiences and possible attemptable recovery actions (e.g. out-of-court actions, legal disputes, etc.).

Furthermore, with reference to the definition of transactions such as hedging, the IFRS 9 provisions require: (i) the presence of an economic ratio between hedged object and hedging instrument such as to achieve the offsetting of the relevant changes in value; (ii) the circumstance that said offsetting ability is not invalidated by the counterparty's level of credit risk; (iii) the definition of a ratio between hedged object and hedging instrument (hedge ratio) consistent with the risk management objectives within the scope of the defined risk management strategy, taking the appropriate rebalancing actions if necessary. 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.

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 2019, approved by the Board of Directors of Italgas S.p.A. of at the meeting of 11 March 2020 were subjected to an audit by PricewaterhouseCoopers S.p.A., that - as the main auditor - is entirely responsible for the auditing of the Italgas Group consolidated financial statements.

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 principles and interpretations applicable from 2019

The accounting principles and interpretations, issued by the IASB/IFRIC, endorsed by the European Commission and which came into force from 2019 are listed below.

On 13 January 2016, the IASB issued the **IFRS 16 - Leases** standard, which is based on a fundamental criterion, i.e. the right of use of an asset necessary for distinguishing between the lease agreements and the service contracts on the basis of probative elements such as: identification of the asset, the right to replace it, the right to basically get all the financial benefits arising from use of the asset and the right to govern use of the asset underlying the lease agreement. Conversely, payment of an amount along the contractual term of use of the asset entails that the entity is implicitly obtaining a loan. In short, IFRS 16 eliminates the distinction between finance leases and operating leases, and introduces, for lessees, a single accounting model for recognising leases. By applying this model the entity recognises: (i) assets and liabilities for all leases that meet the aforesaid criteria; (ii) separately in the income statement, the amortisation of the asset recognised and the interest on the payable entered.

With reference to IFRS 16, in 2018 the Italgas Group availed itself of the possibility to adopt the standard early, at the same time that IFRS 15 is applied. Furthermore, based on the transition provisions of IFRS 16, the effects connected with the cases in point existing on 1 January 2018 were recognised without restating the prior period presented as comparison ("modified retrospective approach") and recognising the right of use for an amount equal to the relevant financial liability.

The effect of applying the new standard for the Group mainly concerning the operating lease agreements regarding assets such as property, computer equipment and motor vehicles/lorries.

On 22 March 2018 the European Commission endorsed the document "**Prepayment Features with Negative Compensation (Amendments to IFRS 9)**". The document allows a financial asset distinguished by an early payment option to be measured at amortised cost or at fair value through other comprehensive income (FVTOCI) by negative compensation. The document also clarified the accounting method of a change or an exchange of a financial liability at amortised cost that has not been derecognised. The difference between the original contractual cash flows and the modified cash flows, discounted at the effective interest rate, must be recognised in the income statement at the date of the change or exchange.

On 23 October 2018 the European Commission approved the **IFRIC 23 "Uncertainty over Income Tax Treatments"** interpretation that the IASB published on 7 June 2017 and that is applicable, with reference to the Italgas Group, starting from the year commencing on 1 January 2019.

The interpretation defines the accounting treatment of the income taxes when the tax treatment entails uncertainties that affect application of IAS 12 and does not apply to levies or taxes that do not fall within the scope of IAS 12, and does not specifically include requirements relating to interest or sanctions attributable to uncertain tax treatments.

This interpretation provides information on the methods of recognising and assessing taxes if there are uncertainties concerning tax treatments relating to direct income taxes adopted by the entity. Based on the interpretation, in calculating the direct income taxes to record in the financial statements, the entity must consider the probability that the tax authority accepts

the tax treatment it has adopted regarding the different cases. If said acceptance is deemed “*not probable*”, the entity should reflect the uncertainties identified in the calculation of the taxes, using one of the following methods: the most likely amount or the expected value determined as the weighted average as the sum of the probability-weighted amounts in a range of possible outcomes. The entity must review the estimates of the uncertainties if new information becomes available or if there are changes in the circumstances.

Italgas has assessed its methodology of determining the tax burden and does not believe that uncertainties in the criteria applied and in the method of recognising and assessing the taxes exist, and that it is probable that the tax approaches and treatments followed are recognised as valid by the Tax Authority. Therefore, the interpretation had no impact on the consolidated financial statements of the group.

The International Accounting Standards Board (IASB) published “**Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**” on 12 October 2017, in order to clarify that an entity is required to apply IFRS 9 Financial Instruments to the long-term interests falling under the net investment in associates or joint ventures to which measurement by the equity method is not applied.

On 12 December 2017, the IASB issued the document “**Annual Improvements to IFRS Standards 2015–2017 Cycle**”. The document contains changes to the following principles: (i) IFRS 3 “Business Combinations”, defining that when an entity gains control of a business, previously classified as a joint operation, must re-measure the interest previously held in that business, since the operation is configured as a business combination carried out in several phases; (ii) IFRS 11 “Joint Arrangements”, clarifying that, when an entity that participates in a joint operation without holding joint control over it, jointly controls it, it must not re-measure the interest previously held in that business; (iii) IAS 12 “Income taxes”, clarifying that, regardless of whether dividends are recognized as a reduction of shareholders’ equity, an entity in which the tax effects of dividends for income tax purposes are recognized in the income statement at the time in which recognizes the liability relating to the dividend to be paid; (iv) IAS 23 “Financial Charges”, clarifying that the specific loans required for the construction and / or purchase of an asset, if they remain in existence even following the moment in which the asset is available and ready for use or sale, must no longer be considered specific and therefore must be included in generic loans in order to define the capitalization rate. In addition, the document specifies how, the amount of financial charges that an entity can capitalize during a financial year, must not exceed the amount of financial charges incurred during that financial year.

On 7 February 2018 the IASB published the document **Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**. The amendments to IASB 19 are aimed at clarifying how to determine the pension costs when a change is introduced to the defined-benefit plan.

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 2019 consolidated financial statements, except for the international accounting standards that came into force starting from 1 January 2019, which were previously explained in the section “Accounting principles and interpretations applicable from 2019” of the same Annual Report. In particular, the provisions of IFRS 23, briefly explained in the continuation, were applied to the 2019 consolidated financial statements.

As regards the adoption of IFRS 23, Italgas has assessed its methodology of determining the tax burden and does not believe that uncertainties in the criteria applied and in the method of recognising and assessing the taxes exist, and that it is probable that the tax approaches and treatments followed are recognised as valid by the Tax Authority. Therefore, the interpretation had no impact on the consolidated financial statements of the group.

15.2.2 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 participated entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the participated entity;
- is able to exercise power over the participated entity 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 a participated entity 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 2019”, 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 control²⁷. It is assumed that the investor has significant influence (unless there 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.

Equity investments in associates and joint ventures are measured using the equity method, as described under "Equity investments valued using the equity method".

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

²⁷ 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.

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.

15.2.3 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 cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use if the investment had not been made.

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.

Rights of use

The cost of the asset consisting of right of use comprises:

- the amount of the initial measurement of the liability of the lease;
- the payments due for the lease made on the date or before the starting date, net of lease incentives received;
- the initial direct costs incurred; and
- 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:

- the fixed payments, net of any lease incentives receivable;
- the variable payments due for the lease that depend on an index or rate;
- the amounts payable by way of warranties of the residual value;
- the price for exercising the right to purchase where there is the reasonable certainty of exercising the option; and
- 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 and in assessing the duration of the non-voidable lease period, the Group has considered the contractual conditions and determined the period of time during which the agreement is payable.

On every valuation date the Group assesses whether there is reasonable certainty of exercising the lease extension option or the option to purchase the underlying asset, or to not exercise the lease termination option. All pertinent transactions and circumstances that create an economic incentive to exercise, or not exercise, the option, including the changes foreseen in the transactions and circumstances from the commencement date until the date the option is exercised, are particularly taken under consideration.

As the standard allows, the short-term leases and the leases for assets of a modest amount were excluded.

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.

The accounting of leases under IFRS 16 did not entail the use of significant estimates.

Depreciation of property, plant and equipment

Starting when the asset is available and ready for use, 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.

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%
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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 and discontinued operations” section).

Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. 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. The ability to identify these assets rests in the ability to distinguish intangible assets purchased from goodwill. Normally this requirement is satisfied when: (i) the intangible assets are related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. The company's control consists of the power to utilise future economic benefits deriving from the asset and the ability to limit access to it by others. Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.

Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and

(iii) it can be shown that the asset is capable of producing future economic benefits. Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred.

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 natural gas distributor, i.e. they are applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA), formerly Autorità per l'Energia Elettrica il Gas e il Sistema Idrico (AEEGSI), holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service.

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.

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	2% - 5%
- Principal and secondary facilities	5% - 6%
- Gas derivation plants	2,5% - 5,4%
Industrial and commercial equipment (concession agreements)	
- Metering and control equipment	6,7% - 20%

Goodwill and other intangible assets with an indefinite useful life are not subject to amortisation.

Grants

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.

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).

As regards the value of the property, plant and equipment falling within the scope of the regulated activities, it 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; and (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. As with the quantification of tariffs, the quantification of the recoverable value of property, plant and equipment related to regulated activities is done on the basis of the regulatory provisions in force.

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 participated company after the date of acquisition, and (ii) the share of the other components of comprehensive income of the participated company. Dividends paid out by the participated company 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 previously held at assumption of association 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 participated company, 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 participated company 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.

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.

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 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.

Minority interests

The financial assets representing minority interests, since they are not held for trading, are measured at fair value with the effects recognised in the shareholders' equity provision that includes the other comprehensive income components, without considering their reversal to the income statement should they be realised.

The dividends coming from these interests are recognised in the income statement under the item "Income (expense) from equity investments". Measurement at cost of a minority equity investment is allowed in those limited cases in which the cost represents an adequate estimation of the fair value.

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 maximum 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 and discontinued operations

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 subsidiary 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.

Non-current assets and current and non-current assets (and any related liabilities) of disposal groups, classified as held for sale, constitute discontinued operations if, alternatively: (i) they represent a significant independent business unit or a significant geographical area of business; (ii) they are part of a programme to dispose of a significant independent business unit or a significant geographical area of business; or (iii) they pertain to a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations, as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects, including for the periods under comparison.

When events that no longer allow the non-current assets or disposal groups to be classified as held for sale occur, they are reclassified in the respective balance sheet items and are recognised at whichever is less: (i) the book value at the date of classification as held for sale; and (ii) the recoverable value as at the reclassification date.

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 core revenue relates to regulated revenue, which is governed by the regulatory framework established by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità per l'Energia Elettrica il Gas e il Sistema Idrico, ARERA). Therefore, the economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations. With regard to the natural gas distribution segment, the difference between the revenue recognised by the regulator (so-called revenue cap) and the effectively accrued revenue is recognised in the Statement of Financial Position item "Trade and other receivables", if positive, and in the item "Trade and other payables", if negative, inasmuch as it will be subject to cash settlement with the Energy

and Environmental Services Fund (Cassa per i Servizi Energetici e Ambientali, CSEA)²⁸. 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).

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.

²⁸ Law 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.

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 works in Gas Distribution and Metering, and residually works in the Distribution, Metering and Sale of gases other than natural gas (LPG) and in the Distribution and Sale of water; 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.

15.2.4 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 items²⁹";
- 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.

²⁹ The assets and liabilities are classified as current if: (i) their realisation is expected in the normal corporate operating cycle or in the 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; or (iii) they are mainly held for trading purposes.

15.2.5 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 critical 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 subsequent results.

Impairment of assets

Assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand.

The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the value in use, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are updated using a rate that takes account of the risk inherent to the asset concerned.

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.

Business combinations

The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the allocation of the difference is carried out by recognising the assets and liabilities at their fair value. The unallocated portion, if positive, is recognised as goodwill; if negative, it is allocated to the income statement. In the allocation process, the Italgas Group draws on the available information and, for the most significant business combinations, on external valuations.

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. With reference to this legislation, when it is probable that the existence and amount of a large liability can be reliably estimated, provisions are made for the associated costs.

The group currently does not believe there will be particularly negative impacts on the financial statements due to failure to comply with environmental regulations, also taking into account the measures already undertaken. However, it cannot be definitely ruled out that further costs or responsibilities may be incurred, including quite significant ones because, as far as we are currently aware, it is impossible to predict the effects of future developments also taking into account, among other things, the following aspects: (i) the possible emergence of contamination; (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 and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

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.

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 (assets) in 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 obligations relating to other long-term benefits; 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 recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Italgas makes provisions relating mainly to legal and tax disputes, to the expenses related to reaching the Energy Efficiency Certificates targets indicated by the Authority (TEE) and to the estimated costs for the activity of replacing/restoring smart meter functions having operational problems.

At the present state no ARERA resolution contains information on the replacement (e.g. due to malfunctioning) of smart meters under warranty and on their regulatory treatment. Furthermore, checks are being performed with suppliers to ascertain whether or not the problems, and therefore the replacement work, are covered by warranties.

The estimate of the provisions for these purposes is the result of a complex process involving subjective judgements on the part of the Company's management.

15.2.6 Recently issued accounting standards

Accounting standards, amendments and interpretations not yet approved by the European Union as at the date of reference of the financial statements as at 31 December 2019

Several accounting standards, interpretations and amendments have been issued by the IASB but not yet approved by the European Union as at the date this document is drawn up, including those described below.

On 18 May 2017 the IASB issued the **IFRS 17 "Insurance Contracts"** standard, which regards all insurance contracts and defines their "recognition, measurement, presentation and disclosure" principles. It replaces the previous IFRS 4. With the new standard an accounting model is introduced, the "Building Block Approach" (BBA), based on discounting the expected cash flows, on clarifying a risk adjustment and a contractual service margin (CSM) representing the expected profit of an insurance contract. The contractual margin is posted to the income statement along the period of insurance coverage. Two approaches alternative to the BBA were also introduced: the Variable Fee Approach (VFA) and the Premium Allocation Approach (PAA). The standard also sets out a new method for booking insurance revenues, insurance service expenses and insurance finance income or expenses to the income statement. The measures contained in IFRS 17 will take effect from financial years starting on or after 1 January 2021, notwithstanding any subsequent deferrals established upon adoption by the European Commission.

On 22 October 2018 the IASB issued the document **Definition of a Business (Amendments to IFRS 3)**, aimed at clarifying which are the assumptions based on which it is established whether an entity has acquired a set of activities or a business. The amendments are effective for acquisitions of businesses or of a set of activities that have taken place on the date the first annual period of reference begins (from 1 January 2020) or afterwards, barring any differences established when endorsed by the European Commission.

On 26 September 2019 the IASB published the document **Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)** in connection with the potential effects that the reform of the IBOR interbank rates (e.g. LIBOR, EURIBOR and TIBOR) might have on disclosure. These rates are taken as reference in the hedging contracts pursuant to IFRS 9 and IAS 39, but the recent market developments have challenged long-term usability. In the case of switching over to other benchmarks, the changes in interest rates (amendments to IFRS 9, IAS 39 and IFRS 7) should not significantly alter the hedged cash flows and the cash flows of the hedged instrument; they will not be usable to prevent other consequences arising from the reform of the interest rate benchmark (if a hedging contract no longer meets the requirements for hedging accounting due to reasons other than those specified by the amendments, interruption of the hedging accounting is required); they will require specific information on the extent to which the hedging contracts of the entity are affected by the amendments. The amendments are in effect for the years commencing 1 January 2020 or afterwards; early application is allowed.

15.2.7 Business combination transactions

On 30 April 2019 the acquisition by Conscoop Soc. Coop. was completed (i) of the Aquamet S.p.A. business unit which includes 9 concessions for the distribution of natural gas in some municipalities in Lazio, Campania, Basilicata and Calabria for a total of 23,800 served users; (ii) of 100% of Mediterranea S.r.l., holder of 6 concessions for the distribution of natural gas in the province of Salerno with approximately 3,600 served users; (iii) of the business unit of Isgas Energit Multiutilities S.p.A., holder of concessions for the distribution of propane air in the Sardinian municipalities of Cagliari, Nuoro and Oristano for a total of approximately 22,300 users currently served with LPG. The enterprise value for these acquisitions was set at €68.6 million.

Furthermore, in the context of the same agreement with the CONSCOOP Italgas Group through the subsidiary Medea, it has completed the acquisition of 10% of the share capital of Isgastrentatrè S.p.A., holder of the concession for the distribution of propane air in the Bacino 33 area in Sardinia. The agreement for the acquisition of Isgastrentatrè requires the commitment to acquire the remaining 90% of the share capital on the occurrence of some conditions, including the conversion to natural gas of the network currently fed with propane air with the specification that, should the conditions not be fulfilled, Italgas has the right to resell and Conscoop the duty to repurchase the 10% interest at a price equal to the purchase price.

On 25 September 2019, the purchase of the business unit relating to natural gas distribution in the municipality of Cannara (Perugia) from Sienergias Distribuzione S.r.l. was finalised. This infrastructure is 35 kilometres long and serves about 1,500 users.

The transfer to Italgas S.p.A. completed on 1 October 2019 of 2,897,778 shares, corresponding to 1.98% of the share capital of Toscana Energia. (going from 48.68% to 50.66%). The acquisition of Toscana Energia allowed Italgas to fully consolidate it and its subsidiary Toscana Energia Green S.p.A. as well as to evaluate the associated companies Gesam Reti S.p.A. and Valdarno S.r.l. in liquidation. The purchase price of €539 million, referring to all the shares of the company, was determined on the basis of a sworn appraisal report dated 26 March 2019, essentially based on an equity-income method that refers to the RAB. Therefore, the fair value of the aforementioned equity investments previously owned by

the acquisition of control of Toscana Energia was recalculated, recording the resulting profit of €85,871 thousand in the income statement.

On 1 November 2019 the company Mediterranea S.r.l. was merged into Italgas Reti S.p.A. with accounting and tax effects starting from 1 January 2019.

The purchase of 10% of the share capital of the company Enerpaper, which operates eco-friendly in the field of building insulation material supply was finalised on 12 December 2019.

The following table shows the summary values of the assets and liabilities of the transactions at the acquisition date.

(€ thousands)	Acquisition Subsidiaries		Acquisition Associates		Acquisition Business Unit		
	Toscana Energia Group	Mediterranea	Isgastrentatrè	Enerpaper	Aquamet Business Unit	Sienergas Business Unit	Isgas Multiutilities Business Unit
Cash and cash equivalents	16,715	395					495
Trade and other receivables	43,679	637					5,268
Inventories	4,741						284
Tax assets	10,648	125			1		854
Other current assets	306	12					52
Current assets	76,089	1,169			1		6,953
Property, plant and equipment	44,510	118					405
Intangible assets	891,250	13,166			24,364	210	31,388
Equity investments	25,130		300	400			
Deferred tax assets	40,742	291					
Other non-current assets	417	1					28
Non-current assets	1,002,049	13,576	300	400	24,364	210	31,821
TOTAL ASSETS	1,078,138	14,745	300	400	24,365	210	38,774
Short-term financial liabilities	326,453	10,505					7,746
Trade and other payables	19,610	707			47		8,666
Tax liabilities	9,308	124					
Other current liabilities		267					
Current liabilities	355,371	11,603			47		16,412

(€ thousands)	Acquisition Subsidiaries		Acquisition Associates		Acquisition Business Unit		
	Toscana Energia Group	Mediterranea	Isgastrentatrè	Enerpaper	Aquamet Business Unit	Sienergas Business Unit	Isgas Multiutilities Business Unit
Long-term financial liabilities	104,699	54					12,169
Provisions for risks and charges	14,077	110					
Provisions for employee benefits	8,635	1			342		1,030
Deferred tax liabilities	60,089	684					
Other non-current liabilities	109,902				1,370	70	1,894
Non-current liabilities	297,402	849			1,712	70	15,093
TOTAL LIABILITIES	652,773	12,452			1,759	70	31,505
NET VALUE OF ACQUIRED ASSETS	425,365	2,293	300	400	22,606	140	7,269
GOODWILL*	55,490						
PRICE OF THE ACQUIRED ASSETS	539,000	2,293	300	400	22,606	140	7,269
of which paid	13,703	2,293	300	400	22,606	140	7,269

* Value relating to the equity investment of Toscana Energia equal to 50.66%.

With regard to the acquisition transactions, it should be noted that the values entered following the combination are subject to the valuation period referred to in paragraph 45 of IFRS 3 which allows provisional amounts to be recognized in the closing financial statements, pending acquisition within a year. additional information that may derive from any adjustments relating to the assets and liabilities acquired.

The following table lists the acquisition values paid with the values shown in the cash flow statement.

(€ thousands)	Takeover of payables	Business units	Equity investments	Total
EGN*			23,100	23,100
Mediterranea	10,109		2,293	12,402
Isgas Multiutilities Business Unit	25,102	7,269		32,371
Aquamet Business Unit		17,606		17,606
Isgastrentatrè			300	300
Enerpaper			400	400
Grecanica Gas and Progas Metano*			300	300
Toscana Energia			13,703	13,703
Sienergas		140		140
	35,211	25,015	40,096	100,322

* Business combinations completed in 2018 with financial effects 2019.

The following operations are also noted.

On 7 May 2019, the company Medea Newco S.r.l. was incorporated, which will operate in the sector for the sale of methane, LPG and propane air.

On 1 August 2019, an agreement with the Marguerite II fund was signed. Based on this agreement, the Fund can acquire 48.15% of the share capital of Medea and Medea Newco with an initial investment of about €25 million and subsequent capital increases for a total of €44 million earmarked to fund pro-quota the investments scheduled for Sardinia in the 2019-2025 Italgas Business Plan.

The deed of demerger of the sales business unit of the company Medea S.p.A. from the company Medea NewCo was signed on 15 November 2019, and the change of its company name to Gaxa S.r.l. was resolved to go into effect on 1 December 2019.

Transformation of the company Gaxa from limited liability company to joint stock company was resolved on 18 December 2019, taking effect on 14 January 2020. On that same date the sale of 48.15% each of the companies Medea S.p.A. and Gaxa S.p.A. to the Marguerite II Fund was concluded.

15.2.8 Cash and cash equivalents

Cash and cash equivalents, equal to €262,237 thousand (€138,476 thousand as at 31 December 2018), refer to current account deposits held at banks.

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.

15.2.9 Financial assets measured at fair value with effects on OCI

The *financial assets measured at fair value with effects on OCI*, amounting to €119 thousand, unchanged compared to 31 December 2018, pertain to the remaining portion of the equity investment of Italgas Reti S.p.A. in Acqua Campania S.p.A.

15.2.10 Trade and other receivables and other financial assets

Trade and other receivables and other financial assets, amounting to €590,385 thousand (€536,355 thousand as at 31 December 2018) break down as follows:

(€ thousands)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	406,712		406,712	474,035		474,035
Financial receivables		156	156	5,000	155	5,155
- not held for operations				5,000		5,000
- held for operations		156	156		155	155
Receivables from investment/divestment activities	5,358		5,358	5,278		5,278
Other receivables	124,129		124,129	105,917		105,917
	536,199	156	536,355	590,230	155	590,385

Trade receivables (€474,035 thousand as at 31 December 2019 and €406,712 thousand as at 31 December 2018), which mainly relate to the gas distribution service and ancillary services, mainly involve receivables from sales companies, of which from Eni S.p.A. (€189,412 thousand) and the Energy and Environmental Services Fund (CSEA) relating to the equalisation³⁰ (€7,809 thousand).

These are reported net of the provision for impairment losses (€16,368 thousand at 31 December 2019 and €19,758 thousand at 31 December 2018). 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	Provision	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

Receivables for investment/divestment activities (€5,278 thousand as at 31 December 2019 and €5,358 thousand as at 31 December 2018) involve receivables for sales of property, plant and equipment and intangible assets.

Other receivables (€105,917 thousand as at 31 December 2019 and €124,129 thousand as at 31 December 2018) break down as follows:

(€ thousands)	31.12.2018	31.12.2019
IRES receivables for the national tax consolidation scheme	14,205	14,205
Other receivables:	109,924	91,712
- Cassa per i Servizi Energetici e Ambientali (CSEA)	64,083	43,627
- Public administration	18,623	22,274
- Advances to suppliers	19,545	21,153
- from staff	2,759	4,545
- Other	4,914	113
	124,129	105,917

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

IRES receivables for the national tax consolidation scheme (€14,205 thousand at 31 December 2019) concern receivables with 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 Law Decree 185 of 28 November 2008, converted into Law 2 of 28 January 2009) and tax years 2007 to 2011 (pursuant to Law Decree 201/2011).

Receivables from the CSEA (€43,627 thousand as at 31 December 2019) relate to the additional components of gas distribution tariffs for €23,448 thousand (UG2³¹ and Gas Bonus³²) and for €20,179 thousand to Energy Efficiency Certificates.

Receivables from public administrations (€22,274 thousand) 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 Euros.

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

The seniority of trade and other receivables is shown below:

(€ thousands)	31.12.2018			31.12.2019		
	Trade receivables	Other receivables*	Total	Trade receivables	Other receivables*	Total
Receivables not past due	385,131	129,487	514,618	446,631	105,917	552,548
Receivables past due:	21,581		21,581	27,404		27,404
- from 0 to 3 months	9,225		9,225	6,886		6,886
- from 3 to 6 months	1,406		1,406	1,910		1,910
- from 6 to 12 months	738		738	3,860		3,860
- beyond 12 months	10,212		10,212	14,748		14,748
	406,712	129,487	536,199	474,035	105,917	579,952

* They include the Receivables for investment/divestment activities and Other receivables.

The receivables past due, which total €27,404 thousand mainly regard receivables from Public administrations.

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

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

It should be noted that the Company has finalized factoring agreements with financial counterparties on the basis of which the receivables claimed by the Company can be transferred without recourse. In particular, transactions were completed for the sale of receivables related to: i) trade receivables relating to the carriage expiring on 31 December 2019 for a collection equal to a total of €71.4 million, (ii) receivables from CSEA for a collection equal to €77.6 million, (iii) credits related to Energy Efficiency Certificates for a collection equal to €100.4 million and (iii) other credits for a collection equal to €30.2 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".

15.2.11 Inventories

Inventories, which amount to €52,295 thousand, are analysed in the table below:

(€ thousands)	31.12.2018			31.12.2019		
	Gross value	Provision for impairment losses	Net value	Gross value	Provision for impairment losses	Net value
Inventories						
- Raw materials, consumables and supplies	27,532	(1,351)	26,181	53,886	(1,591)	52,295
	27,532	(1,351)	26,181	53,886	(1,591)	52,295

Inventories of raw materials, consumables and supplies (€52,295 thousand at 31 December 2019) mainly consisted of gas meters in connection with the replacement plan. The provision for impairment losses is €1,591 thousand.

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

The +€26,114 thousand change in inventories includes the effect of the change in the scope of consolidation (€5,025 thousand).

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

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

(€ thousands)	31.12.2018	31.12.2019
Current income tax assets	7,533	23,046
- IRES	7,210	22,914
- IRAP	323	132
Other current tax assets	25,427	50,423
- VAT	24,121	46,372
- Other taxes	1,306	4,051
Current income tax liabilities	3,479	1,708
- IRES	2,133	688
- IRAP	1,346	1,020
Other current tax liabilities	10,032	9,335
- VAT	1,343	330
- IRPEF withholdings for employees	7,915	8,574
- Other taxes	774	431
	19,449	62,426

Current income tax assets of €23,046 thousand mainly relate to IRES receivables involving the Group tax consolidation scheme.

Other current income tax assets of €50,423 thousand mainly relate to VAT receivables (€46,372 thousand).

Other current tax liabilities of €9,335 thousand mainly refer to payables to the tax authorities for IRPEF withholdings for employees (€8,574 thousand).

Taxes pertaining to the year under review are shown in the note "Income taxes".

15.2.13 Other current and non-current assets

Other current assets, amounting to €6,764 thousand, and *other non-current assets*, amounting to €129,421 thousand, break down as follows:

(€ thousands)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	10,415	131,082	141,497		126,877	126,877
Market value of derivative financial instruments				2,398		2,398
Other assets	3,262	2,625	5,887	4,366	2,544	6,910
- Prepayments	2,972	1,039	4,011	4,274	215	4,489
- Security deposits		1,334	1,334		2,254	2,254
- Other	290	252	542	92	75	167
	13,677	133,707	147,384	6,764	129,421	136,185

Other regulated assets (€126,877 thousand as at 31 December 2019) essentially relate to the tariff recognition, by the Authority, following the plan to replace traditional meters with electronic meters.

The market value of financial derivative instruments is analyzed in the note "Financial derivative instruments".

The remaining item, equal to €6,910 thousand, mainly concerns the prepayments related to costs incurred when undersigning revolving credit lines and long-term security deposits.

15.2.14 Property, plant and equipment

Property, plant and equipment, which amounts to €350,001 thousand as at 31 December 2019 (€259,178 thousand at 31 December 2018), breaks down as follows:

(€ thousands)	31.12.2018						Total
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	
Cost at 31.12.2017	11,235	352,648	11,802	150,217	906	4,292	531,100
Right of use 1.1.2018		26,908		6,059			32,967
Investments		514	78	2,327	185	11,676	14,780
Investments in right of use		8,821		13,599			22,420
Divestments		(155)		(5,917)		(143)	(6,215)
Reclassifications	731	(4,118)	2,441	(33,799)	9	(14,578)	(49,314)
Change in scope of consolidation	142	197	174	365	459		1,337
Change in scope of consolidation right of use		1,273					1,273
Cost at 31.12.2018	12,108	386,088	14,495	132,851	1,559	1,247	548,348
Accumulated depreciation at 31.12.2017		(178,431)	(5,263)	(118,151)	(374)		(302,219)
Depreciation		(9,158)	(409)	(7,074)	(125)		(16,766)
Amortisation of right of use		(3,722)		(3,473)			(7,195)
Divestments		16		5,782			5,798
Change in scope of consolidation		(183)	(44)	(469)	(205)		(901)
Change in scope of consolidation amortisation of right of use		(40)					(40)
Reclassifications		8,375	(1)	28,666			37,040
Accumulated depreciation at 31.12.2018		(183,143)	(5,717)	(94,719)	(704)		(284,283)
Provision for impairment losses at 31.12.2017			(4,199)			(31)	(4,230)

31.12.2018							
(€ thousands)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	Total
(Write-down)/ Recoveries of value				(657)			(657)
Provision for impairment losses at 31.12.2018			(4,199)	(657)		(31)	(4,887)
Net balance at 31.12.2017	11,235	174,217	2,340	32,066	532	4,261	224,651
Net balance at 31.12.2018	12,108	202,945	4,579	37,475	855	1,216	259,178
- of which right of use		33,240		16,185			49,425

31.12.2019							
(€ thousands)	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
Investments in right of use		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 changes in right 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 depreciation at 31.12.2018		(183,143)	(5,717)	(94,719)	(704)		(284,283)

	31.12.2019						
(€ thousands)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	Total
Amortisation of right of use 1.1.2019		(3,762)		(3,473)			(7,235)
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 changes in right 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
- of which right of use		32,205		31,393	12,192		75,790

The Rights of Use, which do not present unspecified future cash outlays, are detailed in the following table:

(€ thousands)	1.1.2019	Depreciation	Change in scope of consolidation	Increases	Decreases	Other changes	31.12.2019
Buildings	33,240	(4,876)	3,624	2,603	(2,132)	(254)	32,205
- operating properties	33,240	(4,876)	3,624	2,603	(2,132)	(254)	32,205
Industrial and commercial equipment	16,185	(8,292)	1,262	23,737	(724)	(775)	31,393
- ICT	4,386	(2,398)		1,402		105	3,495
- motor vehicles	11,799	(5,894)	1,262	22,335	(724)	(880)	27,898
Other assets		(2,050)	180	13,212	(24)	874	12,192
	49,425	(15,218)	5,066	39,552	(2,880)	(155)	75,790
Interest expense (included in financial expense)							273

The investments for the year (€76,019 thousand) include the increases relating to the rights of use for buildings and equipment (motor vehicles and computer equipment) pursuant to IFRS 16 (€39,552 thousand). Depreciation (€29,044 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 €15,218 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".

15.2.15 Intangible assets

Intangible assets, which amount to 6,731,989 thousand as at 31 December 2019 (€5,431,923 as at 31 December 2018) break down as follows:

(€ thousands)	31.12.2018					Total
	Finite useful life				Indefinite useful life	
	Service concession agreements	Industrial patent rights and intellectual property rights	Work in progress and payments on account	Other intangible assets	Goodwill	
Cost at 31.12.2017	7,924,020	392,342	12,621	36,380	9,738	8,375,101
Effect 1 January 2018 IFRS 15	437,046					437,046
Investments	446,971	139	35,717	2,673		485,500
Change in the scope of consolidation	331,519	3,072		32	25,774	360,397
Divestments	(134,261)	(49,517)	(630)	(1)		(184,409)
Other changes	3,106	20,279	(19,761)	11		3,635
Cost at 31.12.2018	9,008,401	366,315	27,947	39,095	35,512	9,477,270
Accumulated amortisation at 31.12.2017	(3,349,716)	(313,414)		(27,968)		(3,691,098)
Amortisation	(338,195)	(30,169)		(7,182)		(375,546)
Change in the scope of consolidation	(150,904)	(665)		(28)		(151,597)
Divestments	133,051	48,427				181,478
Accumulated amortisation at 31.12.2018	(3,705,764)	(295,821)		(35,178)		(4,036,763)
Provision for impairment losses at 31.12.2017	(5,346)			(2,096)		(7,442)
(Write-down)/ Recoveries of value	(1,092)					(1,092)
Change in the scope of consolidation	(50)					(50)
Provision for impairment losses at 31.12.2018	(6,488)			(2,096)		(8,584)
Net balance at 31.12.2017	4,568,958	78,928	12,621	6,316	9,738	4,676,561
Net balance at 31.12.2018	5,296,149	70,494	27,947	1,821	35,512	5,431,923

31.12.2019

(€ thousands)	Finite useful life				Indefinite useful life	Total
	Service concession agreements	Industrial patent rights and intellectual property rights	Work in progress and payments on account	Other intangible assets	Goodwill	
Cost at 31.12.2018	9,008,401	366,315	27,947	39,095	35,512	9,477,270
Investments	622,739	24,561	10,664	6,027		663,991
Public grants	(767)					(767)
Change in the scope of consolidation	1,509,453	329	3	36.706	55.490	1,601,981
Divestments	(146,929)	(20)	(305)	(589)		(147,843)
Other changes	25,176	40,006	(24,101)	15,984	(22,348)	34,717
Cost at 31.12.2019	11,018,073	431,191	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	(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 amortisation 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)/ Recoveries of value	(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	5,296,149	70,494	27,947	1,821	35,512	5,431,923
Net balance at 31.12.2019	6,540,179	85,192	14,208	23,756	68,654	6,731,989

Service concession agreements (€6,540,179 thousand as at 31 December 2019) refer to agreements between the public and private sectors on the development, financing, management and maintenance of infrastructure under concession by a grantor. The provisions relating to the service concession agreements are applicable for Italgas in its role as a public service natural gas distributor, i.e. they are applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the 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 (€85,192 thousand as at 31 December 2019) mainly concern information systems and applications in support of operating activities.

Intangible assets with an indefinite useful life (€68,654 thousand as at 31 December 2019) consist mainly of the goodwill that emerged during the year in connection with the process of allocating prices paid for the acquired companies (refer to the paragraph "Business combination transactions").

Although there are no impairment indicators, the Group decided to submit the entire value of the intangible assets to an impairment test in view of their significance. Based on their recoverable value, no impairment losses emerged.

Investments for the year, equal to €663,991 thousand, mainly relate to service agreements (€622,739 thousand) and industrial patent rights and intellectual property rights (€24,561 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 €376,829 thousand, includes the greater amortisation resulting from reducing the useful life of the traditional meters³³, 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 (€12,142 thousand as at 31 December 2019), relates to assets that have left the production process, pending elimination. The write-downs are determined on the basis of the comparison between the book value of the assets and the related recoverable value, represented by the greater of the fair value (net of disposal costs) and the value in use. In particular, as regards the value of the assets that fall within the scope of the regulated activities, the recoverable value is determined considering: (i) the amount quantified by the Authority on the basis of the rules that define the tariffs for the provision of the services to which are intended; (ii) any value that the Group expects to recover from the sale or at the end of the concession that regulates the service for which they are intended. 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. Finally, in 2019 there were no recoveries of previously written down values.

33 The useful life of the meters included in the project pursuant to ARERA resolutions 631/13, 554/15 and 669/18 was adjusted, in order to complete the amortisation process in line with the meter replacement plan, scheduled for completion by 2020.

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".

15.2.16 Equity investments valued using the equity method and other equity investments

The *equity investments valued using the equity method*, which amounts to €33,374 thousand (€174,955 thousand as at 31 December 2018) and the *other equity investments*, which total €324 thousand (€96 thousand as at 31 December 2018), breaks down as follows:

(€ thousands)	Equity investments in joint ventures	Other	Total
Value as at 31.12.2018	174,955	96	175,051
Increases for investments	29,941	312	30,253
Income (expense) from equity investments	14,882		14,882
Decrease for dividends	(14,135)		(14,135)
Decrease for full consolidation of Toscana Energia	(176,484)		(176,484)
Other changes	4,215	(84)	4,131
Value as at 31.12.2019	33,374	324	33,698

Income of valuation using the equity method (€14,882 thousand) mostly refers to Toscana Energia S.p.A., as of 30 September 2019.

The €176,484 thousand decrease in the valuation of Toscana Energia's equity is related to the completion of the transfer to Italgas S.p.A. of 2,897,778 shares, corresponding to 1.98% of the share capital of Toscana Energia. With this transaction, Italgas acquired control of Toscana Energia.

There are no real guarantees on the investments.

With regard to the recoverable value of equity investments, for companies operating exclusively in regulated businesses, recoverable value is calculated using the adjusted RAB value of the net financial position.

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. as at 31 December 2019", 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 for each significant joint venture³⁴, are reported below:

(€ thousands)	31.12.2019	
	Umbria Distribuzione Gas S.p.A.	Sant'Angelo Lodigiano S.p.A.
Current assets	2,965	602
- of which Cash and cash equivalents	2,049	183
Non-current assets	8,840	3,318
Total assets	11,805	3,920
Current liabilities	(2,321)	(1,506)
- of which Short-term financial liabilities	(14)	(700)
Non-current liabilities	(6,213)	(162)
- of which Long-term financial liabilities	(6,090)	
Total liabilities	(8,534)	(1,668)
Shareholders' equity	3,271	2,252
Equity investment held by the group %	45.00%	50.00%
Group interest	1,472	1,126
Other adjustments	(518)	(1,046)
Book value of the equity investment	954	80
Revenue	6,394	1,563
Operating costs	(5,668)	(912)

34 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)	31.12.2019	
	Umbria Distribuzione Gas S.p.A.	Sant'Angelo Lodigiano S.p.A.
Amortisation, depreciation and impairment	(478)	(162)
EBIT	248	489
Financial expense	(70)	(12)
Income taxes	(50)	(134)
Net profit	128	343
Total comprehensive income	128	343

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%), by A.S.M. Terni S.p.A. (40%) and by Acea S.p.A. (15%).

Umbria Distribuzione Gas, as the holder of an 11-year mandate, 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)	31.12.2019		
	Gesam Reti S.p.A.*	Valdarno S.r.l. in liquidation**	Enerpaper S.r.l.
Current assets	25,508	687	698
Non-current assets	54,961	20,848	400
Total assets	80,469	21,535	1,098
Current liabilities	(26,179)	(2,140)	(128)
Non-current liabilities	(5,364)	(1,278)	(442)
Total liabilities	(31,543)	(3,418)	(570)
Shareholders' equity	48,926	18,117	528
Equity investment held by the group %	21.76%	15.22%	10.00%
Group interest	10,648	2,758	53
Other adjustments	(639)	(1,894)	347
Book value of the equity investment	10,009	864	400
Revenue	12,358	2,616	249
Operating costs	(6,233)	(1,590)	(190)
Amortisation, depreciation and impairment	(3,788)	(417)	(71)
EBIT	2,337	609	(12)
Financial income (expense)	(506)	(10)	(20)
Income (expense) from equity investments	15,378		
Income taxes	(771)	(201)	(1)
Net profit	16,438	398	(34)
Total comprehensive income	16,438	398	(34)

* Company held by Toscana Energia for 42.96%; book value at cost of €19,758 thousand.

** Company held by Toscana Energia for 30.05%; book value at cost of €1.707 thousand.

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 owned 30.04% through Toscana Energia S.p.A.

Valdarno S.r.l. is a company set up by the Municipality of Pisa and by the three local public service companies (Toscana Energia S.p.a. – Gea/Acque S.p.a. – Cpt 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.

15.2.17 Assets held for sale

The *assets held for sale*, amounting to €2,076 thousand (€11,583 thousand as at 31 December 2018), relate to the sale to A2A Calore & Servizi of all the district heating activities currently managed in the municipality of Cologno Monzese.

The table below summarises the breakdown of Assets and Liabilities classified as available for sale:

(€ thousands)	31.12.2018	31.12.2019
Non-current assets held for sale		
Land	105	
Buildings	3,661	11
Plant and equipment		2,007
Industrial and commercial equipment	7,804	58
Other	13	
	11,583	2,076

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

Short-term financial liabilities, amounting to €408,638 thousand (€274,499 thousand as at 31 December 2018) and long-term financial liabilities, including short-term portions of long-term liabilities totalling €4,344,046 thousand (€3,749,283 thousand as at 31 December 2018), break down as follows:

(€ thousands)	31.12.2018				
	Short-term liabilities	Long-term liabilities			Total long-term liabilities
Short-term portion		Long-term portion due within 5 years	Long-term portion due beyond 5 years		
Bank loans	100,505	688	125,244	660,648	786,580
Bonds		32,411	744,713	2,135,740	2,912,864
Financial payables for leased assets (IFRS 16)		10,204	25,117	14,518	49,839
Other lenders	173,994				
	274,499	43,303	895,074	2,810,906	3,749,283

31.12.2019

Short-term liabilities	Long-term liabilities			Total long-term liabilities
	Short-term portion	Long-term portion due within 5 years	Long-term portion due beyond 5 years	
402,247	123,650	193,034	598,376	915,060
	31,297	746,169	2,576,840	3,354,306
	17,572	49,728	7,350	74,650
6,391				
408,638	172,519	988,931	3,182,566	4,344,016

Short-term financial liabilities

Short-term financial liabilities, amounting to €408,638 thousand, mainly relate to utilisations of uncommitted bank credit lines.

Short-term financial payables include the amount of €85,684 thousand which represents the residual portion of a loan of €90 million disbursed by the EIB to Toscana Energia, maturing on 30 June 2031. Following the acquisition control of Toscana Energia by Italgas and the consequent refinancing of short-term indebtedness to third parties with loans disbursed by Italgas, carried out by 31.12.2019, Toscana Energia asked the EIB for the necessary contractual consents (waivers), consents which are were formalized in 2020.

Therefore, in compliance with the provisions of paragraph 74 of IAS 1, at 31 December 2019 this loan was formally reclassified from non-current financial liabilities to current financial liabilities. In 2020, after obtaining the necessary consents (waivers), the loan was again reclassified among non-current financial liabilities.

In the management report, without changing the Group's net financial debt, in order to provide a representation of continuity and consistent with the factual situation that has occurred in the meantime, this EIB loan has been maintained in the long-term financial debt.

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

The weighted average interest rate on short-term financial liabilities was 0.23%.

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

Long-term financial liabilities, including short-term portions of long-term liabilities, amounted to €4,344,016 thousand (€3,749,283 thousand as at 31 December 2018).

Net of financial payables for leased assets (€74,650 thousand), the increase compared to 31 December 2018, amounting to €569,952 thousand, is mainly attributable to the issue of two new bond loans, respectively equal to the nominal value of €600 million at July 2019 and to the nominal value of €500 million at December 2019, partly offset by a decrease connected with the buyback of two previous bond loans totalling €650 million.

The breakdown of the bonds (€3,354,306 thousand at year-end 2019; €2,912,864 thousand as at 31 December 2018), with the issuing company, year of issue, currency, average interest rate and due date, is provided in the following table.

(€ thousands)

Issuing company	Issue (year)	Currency	Nominal Value	Adjustments (a)	Balance as at 31.12.2019	Rate (%)	Due date (year)
Euro Medium Term Notes							
ITALGAS S.p.A.	2017	€	268,360	(2)	268,358	0.500%	2022
ITALGAS S.p.A.	2017	€	750,000	5,185	755,185	1.625%	2027
ITALGAS S.p.A.	2017	€	480,945	2,455	483,400	1.125%	2024
ITALGAS S.p.A.	2018	€	750,000	7,698	757,698	1.625%	2029
ITALGAS S.p.A.	2019	€	600,000	(5,722)	594,278	0.875%	2030
ITALGAS S.p.A.	2019	€	500,000	(4,613)	495,387	1.000%	2031
			3,349,305	5,001	3,354,306		

(a) Includes issue premium/discount and accrual of interest.

Debts due to bank loans (€915,060 thousand as at 31 December 2019; €786,580 thousand as at 31 December 2018) mainly refer to term loans undersigned with the European Investment Bank – EIB (€773 million) and bank loans (€132 million).

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

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

Italgas, as at 31 December 2019, had unused committed credit lines amounting to €500 million maturing in October 2021.

Financial covenants and contractual negative pledge clauses

As at 31 December 2019 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 covenants. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. In relation to the EIB loan from Toscana Energia, please refer to the foregoing. For all other loans, at December 31, 2019 these commitments were respected.

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

Breakdown of net financial debt

In 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)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	138,476		138,476	262,237		262,237
B. Securities held for sale and to be held to maturity	119		119	119		119
C. Liquidity (A+B)	138,595		138,595	262,356		262,356
D. Financial receivables not held for operations				5,000		5,000
E. Short-term financial liabilities to banks*	254,207		254,207	532,288		532,288
F. Long-term financial liabilities to banks		785,892	785,892		791,410	791,410
G. Bonds	32,411	2,880,453	2,912,864	31,297	3,323,009	3,354,306
H. Short-term financial liabilities to related entities						
I. Long-term financial liabilities to related entities						
L. Other short-term financial liabilities	20,980		20,980			
M. Other long-term financial liabilities**	10,204	39,635	49,839	17,572	57,078	74,650
N. Gross financial debt (E+F+G+H+I+L+M)	317,802	3,705,980	4,023,782	581,157	4,171,497	4,752,654
O. Net financial debt (N-C-D)	179,207	3,705,980	3,885,187	313,801	4,171,497	4,485,298
Net financial debt (including IFRS 16 effects)	179,207	3,705,980	3,885,187	313,801	4,171,497	4,485,298
Reclassification from short-term financial debt to other debt	(20,980)		(20,980)			

(€ thousands)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
Reclassification from long-term financial payables to short-term financial payables				(85,684)	85,684	
Finance lease payables - IFRS 16	(10,204)	(39,635)	(49,839)	(17,572)	(57,078)	(74,650)
Net financial debt reconciliation	148,023	3,666,345	3,814,368	296,229	4,114,419	4,410,648
Directors' Report***						

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

** The values relate to finance lease payables - IFRS 16.

*** As at 31 December 2018, financial debt in the directors' report does not consider the liability of €21.0 million payable to CPL Concordia, composed of shareholder loans disbursed by CPL Concordia to EGN, which will be repaid by Italgas on exercise of the put&call option, in that these are considered part of the purchase price settlement for management purposes and (II) as at 31 December 2019 the reclassification from non-current financial payables to current financial payables of the loan disbursed by the EIB to Toscana Energia for 85.7 million euro.

15.2.19 Trade and other payables

Trade and other payables, which amount to €726,714 thousand (€564,663 thousand as at 31 December 2018) comprise the following:

(€ thousands)	31.12.2018	31.12.2019
Trade payables	230,930	299,090
Payments on account and prepayments	11,996	604
Payables for investment activities	138,412	230,277
Other payables	183,325	196,743
	564,663	726,714

Trade payables amounting to €299,090 thousand (€230,930 thousand as at 31 December 2018) relate mainly to payables to suppliers. The increase of the year is mainly attributable to Toscana Energia S.p.A. entering the scope of consolidation (€18,499 thousand).

Payables for investment activities equal to €230,277 (€138,412 thousand as at 31 December 2018) relate to payables to suppliers for technical activities.

Other payables (€196,743 thousand; €183,325 thousand as at 31 December 2018) break down as follows:

(€ thousands)	31.12.2018	31.12.2019
Payables - parent company for liquidation of Group VAT		56
Payables to the public administration	39,567	78,385
Payables to the Cassa per i Servizi Energetici e Ambientali (CSEA)	51,480	90,358
Payables to personnel	38,773	12,539
Payables to social security institutions	17,607	6,465
Payables to consultants and professionals	4,305	1,379
Other payables	31,593	7,561
	183,325	196,743

Payables to the public administration (€78,385 thousand) primarily involve payables to municipalities for concession fees for the distribution business.

Payables to the CSEA (€90,358 thousand) relate to several ancillary components of tariffs for the gas distribution service to be paid to this Fund (RE, RS, UG1 and GS)³⁵.

Payables to personnel (€12,539 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 and other payables, considering the limited time interval between the occurrence of the payable and its maturity, is an approximation of the fair value. The market value of trade and other payables is provided in the Note - "Guarantees, commitments and risks - Other information on financial instruments".

15.2.20 Other current and non-current liabilities

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

(€ thousands)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
Other liabilities from regulated activities						
Cash flow hedge derivative contracts	120	6,527	6,647	220	13,081	13,301
Other liabilities	2,770	451,273	454,043	126	558,433	558,559
- Accruals and deferrals connection contributions		449,229	449,229		555,881	555,881
- Liabilities for security deposits		919	919		2,218	2,218
- Other	2,770	1,125	3,895	126	334	460
	2,890	457,800	460,690	346	571,514	571,860

Other liabilities, totalling €558,559 thousand, mainly regard connection contributions totalling €555,881 thousand.

35 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.

15.2.21 Derivative financial instruments

The market value of derivative financial instruments at 31 December 2019 is analyzed below:

(€ thousands)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
Other assets				2,398		2,398
Cash flow hedge derivative financial instruments						
- Fair value hedging instruments on interest rates				2,398		2,398
Other liabilities	(120)	(6,527)	(6,647)	(220)	(13,081)	(13,301)
Cash flow hedge derivative financial instruments						
- Fair value hedging instruments on interest rates	(120)	(6,527)	(6,647)	(220)	(13,081)	(13,301)

On 28 December 2017 Italgas signed entered into an EIB loan amounted €360 million, expiring on 15 December 2037. The loan provides for the payment of half-yearly coupons and a variable rate equal to Euribor 6M + 0.355% spread.

On 15 January 2018 Italgas negotiated an Interest Rate Swap, effective from 15 January 2018, expiring in 2024 and coupon frequency corresponding to those of the loan one.

On 12 December 2016 Italgas entered into an EIB loan for an amount of €300 million, expiring on 30 November 2032. The loan provides for the payment of half-yearly coupons at a variable rate equal to Euribor 6M + 0.47% spread.

On 24 July 2019 Italgas also negotiated an Interest Rate Swap, effective from 24 July 2019, expiring in 2029 and frequency of the coupons corresponding to those of the loan one.

The main features are summarized below:

	Signing Date	(€)	Italgas interest rate	Bank interest rate	Coupon	Maturity date
Loan agreement EIB "Italgas Gas Network Upgrade"	28.12.2017	360,000,000.00	var EUR 6m +spread 0.355%		Half-yearly	15.12.2037
Interest Rate Swap derivative	15.01.2018	360,000,000.00	0.6195%	var EUR 6m	Half-yearly	2024
Loan agreement "Smart Metering"	12.12.2016	300,000,000.00	var EUR 6m +spread 0.47%		Half-yearly	30.11.2032
Interest Rate Swap derivative	24.07.2019	300,000,000.00	-0.056%	var EUR 6m	Half-yearly	30.11.2029

Assessments carried out did not reveal any impact on income statement in terms of ineffectiveness.

15.2.22 Provisions for risks and charges

Provisions for risks and charges, which amount to €169,563 thousand as at 31 December 2019 (€187,567 thousand as at 31 December 2018), comprise the following:

(€ thousands)	31.12.2018		
	Opening balance	Change in scope of consolidation	Provisions
Provisions for environmental risks and charges	130,178		
Risk provision for litigation	15,013		4,594
Provisions for other risks - energy efficiency certificates	13,887	15	6,923
Provision for retirement risks	12,190		2,500
Provision for op. restoration of metering	16,000		
Risk provision for ICT Snam contract	8,419		
Other personnel risk provisions	4,630		650
Risk provision for tax disputes	1,766	97	776
Other provisions	6,163	1,538	6,625
	208,246	1,650	22,068

(€ thousands)	31.12.2019		
	Opening balance	Change in scope of consolidation	Provisions
Provisions for environmental risks and charges	125,110	1,891	
Risk provision for litigation	13,943	1,671	3,683
Provisions for other risks - energy efficiency certificates	13,135	1,964	6,285
Provision for retirement risks	4,365		
Provision for op. restoration of metering	14,043	4,695	
Risk provision for ICT Snam contract	763		
Other personnel risk provisions	4,020	249	693
Risk provision for tax disputes	741	648	440
Other provisions	11,447	3,068	138
	187,567	14,186	11,239

31.12.2018

Increase for the passing of time	Uses		Other changes	Closing balance
	against charges	due to surplus		
182	(5,250)			125,110
	(1,096)	(4,284)	(284)	13,943
	(3,075)	(4,633)	18	13,135
	(10,314)	(11)		4,365
	(1,957)			14,043
	(5,919)	(1,737)		763
	(1,076)		(184)	4,020
	(1,546)	(352)		741
	(554)	(2,398)	73	11,447
182	(30,787)	(13,415)	(377)	187,567

31.12.2019

Increase for the passing of time	Uses		Other changes	Closing balance
	against charges	due to surplus		
978	(10,361)	(334)		117,284
	(1,094)	(5,928)	(95)	12,180
	(10,458)			10,926
	(2,361)		869	2,873
	(4,498)			14,240
	(763)			
	(1,093)	(4)	(754)	3,111
	(300)	(598)	(641)	290
	(2,745)	(1,798)	(1,451)	8,659
978	(33,673)	(8,662)	(2,072)	169,563

The provisions for environmental risks and charges (€117,284 thousand as at 31 December 2019; €125,110 thousand as at 31 December 2018) 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 risk provision for litigation (€12,180 thousand) included costs which the Company has estimated it will incur for existing lawsuits.

The Provisions for other risks - energy efficiency certificates (€10,926 thousand) are connected with reaching the Energy Efficiency Certificates targets (TEE) set by the Authority.

The risk provision for early retirement (€2,873 thousand) involves personnel incentive and mobility schemes.

The provision for operational restoration of metering, totalling €14,240 thousand, comprises the costs estimated for replacing/restoring operations of the G4 and G6 smart meters having operational problems and not covered by warranty.

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 sensitivity³⁶ 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 discount rate

Effect on net obligation at 31.12.2019	Decrease by 10%	Increase by 10%
Provisions for environmental risks and charges	662	(640)

³⁶ For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

15.2.23 Provisions for employee benefits

Provisions for employee benefits, which amount to €113,197 thousand as at 31 December 2019 (€107,878 thousand as at 31 December 2018) comprise the following:

(€ thousands)	31.12.2018	31.12.2019
Employee severance pay (TFR)	66,314	72,347
Supplementary healthcare provision for company executives of Eni (FISDE)	6,610	6,641
Gas Fund	28,550	26,735
Other provisions for employee benefits	6,404	7,474
	107,878	113,197

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. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods (€72,347 thousand as at 31 December 2018).

The supplementary healthcare provision (€6,641 thousand as at 31 December 2019) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current³⁷ and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group³⁸ executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

The Gas Fund (€26,735 thousand as at 31 December 2019) 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

³⁷ For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

³⁸ The fund provides the same benefits for Italgas Group executives.

place at the time of the elimination of the Gas Fund for the years 2015 to 2020³⁹; 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 (€7,474 thousand as at 31 December 2019) relate to seniority bonuses and the deferred cash incentive plan (IMD).

Deferred cash incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is provisioned when Italgas' commitment to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term incentive plans, which replaced the preceding stock option allocations, involve the payment, three years after allocation, of a variable cash bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final 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.

³⁹ Article 9-quinquiesdecies also stipulates that "... If monitoring shows that the extraordinary contribution pursuant to Article 9-decies is insufficient to cover the relative expenses, a decree issued by the Ministry of Labour and Social Policy, in concert with the Ministry of Economic Development and the Ministry of Economy and Finance, provides for the redetermination of the extraordinary contribution, the criteria for redistribution of the contribution between employers and the time periods and procedures for payment of the extraordinary INPS contribution".

The composition of and changes in provisions for employee benefits, determined by applying actuarial methods, are as follows⁴⁰:

(€ thousands)	31.12.2018					31.12.2019				
	Employee severance pay	FISDE	Gas Fund* provisions	Other provisions	Total	Employee severance pay	FISDE	Gas Fund* provisions	Other provisions	Total
Current value of the obligation at the start of the year	69,317	6,082	33,292	7,458	116,149	66,314	6,610	28,550	6,404	107,878
Change in scope of consolidation	835				835	6,624		1,342	269	8,235
Current cost		153		2,884	3,037	55	171		1,630	1,856
Cost for past services				132	132					
Cost for interest	955	83	473	20	1,531	983	97	439	24	1,543
Revaluations / (Impairment):	(859)	546	(2,496)	(838)	(3,647)	2,073	20	(14)	1,441	3,520
- Actuarial (Gains) / Losses resulting from changes in the demographic assumptions	23				23					
- Actuarial (Gains) / Losses resulting from changes in the financial assumptions	(598)	37	(152)		(713)	2,197	82	1,198	114	3,591
- Effect of past experience	(284)	509	(2,344)		(2,119)	(65)	(62)	(130)	111	(146)
- Other changes				(838)	(838)	(59)		(1,082)	1,216	75
Paid benefits	(3,658)	(255)	(2,903)	(3,495)	(10,311)	(5,755)	(257)	(3,712)	(2,448)	(12,172)
Effect of transfers	(276)	1	184	243	152	2,053		130	154	2,337
Current value of the obligation at the end of the year	66,314	6,610	28,550	6,404	107,878	72,347	6,641	26,735	7,474	113,197

* 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.

40 The table also provides a reconciliation of liabilities recorded for provisions for employee benefits.

Costs for defined-benefit plans recognised under other components of comprehensive income are broken down in the following table:

(€ thousands)	31.12.2018					31.12.2019				
	Employee severance pay	FISDE	Gas Fund	Other provisions	Total	Employee severance pay	FISDE	Gas Fund	Other provisions	Total
Revaluations / (Impairment):										
- Actuarial (Gains) / Losses resulting from changes in the demographic assumptions	23				23					
- Actuarial (Gains) / Losses resulting from changes in the financial assumptions	(598)	37	(152)		(713)	2,197	82	1,198	114	3,591
- Effect of past experience	(284)	509	(2,344)		(2,119)	(65)	(62)	(130)	111	(146)
- Other changes				(838)	(838)	(59)		(1,082)	1,216	75
	(859)	546	(2,496)	(838)	(3,647)	2,073	20	(14)	1,441	3,520

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:

	2018				2019			
	Employee severance pay	FISDE	Gas Fund	Other provisions	Employee severance pay	FISDE	Gas Fund	Other provisions
Discount rate (%)	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50
Inflation rate (%)*	1.50	1.50	N/A	1.50	1.50	1.50	N/A	1.50

* 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 change⁴¹ 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	
	Decrease by 0.5%	Increase by 0.5%
Effect on net obligation at 31.12.2019		
Employee severance pay	3,347	(3,183)
FISDE	517	(460)
Gas Fund*	895	(852)
Other provisions for employee benefits	117	(109)
	4,876	(4,604)

* The amount includes the estimate of the 10% INPS solidarity contribution applied to the amounts to allocate to the supplementary pension.

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(€ thousands)	31.12.2018					31.12.2019				
	Employee severance pay	FISDE	Gas Fund* provisions	Other provisions	Total	Employee severance pay	FISDE	Gas Fund* provisions	Other provisions	Total
Within the next year	1,434	284	2,737	2,628	7,083	1,884	284	1,536	3,834	7,538
Within five years	15,017	1,304	13,485	3,324	33,130	13,452	1,018	8,916	1,819	25,205
Beyond five and up to ten years	29,342	1,047	10,686	378	41,453	30,204	1,003	11,414	1,821	44,442
Beyond ten years	20,521	3,975	1,642	74	26,212	26,807	4,336	4,869		36,012
	66,314	6,610	28,550	6,404	107,878	72,347	6,641	26,735	7,474	113,197

* The amount includes the estimate of the 10% INPS solidarity contribution applied to the amounts to allocate to the supplementary pension.

41 With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

15.2.24 Deferred tax liabilities

Deferred tax liabilities of €346,146 thousand are stated net of offsettable deferred tax assets of €253,662 thousand.

(€ thousands)	31.12.2017	Change in scope of consolidation	Provisions	Uses	Other changes	31.12.2018
Deferred tax liabilities	300,852	(761)	4,777	(15,805)		289,063
Deferred tax assets	(206,062)	(2,907)	(25,542)	16,399	821	(217,291)
	94,790	(3,668)	(20,765)	594	821	71,772

(€ 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

There are no prepaid tax assets which cannot be offset.

Deferred tax liabilities and deferred tax assets break down as follows, based on the most significant temporary differences:

(€ thousands)	31.12.2018								
	Opening balance	Changes in scope of consolidation	Provisions	Uses	Impacts recorded in shareholders' equity	Other changes	Closing balance	of which: IRES	of which: IRAP
Deferred tax liabilities	300,852	(761)	4,777	(15,805)			289,063	263,526	25,537
Amortisation and depreciation exclusively for tax purposes	154,426	291	4,599	(7,757)			151,559	143,801	7,758
Revaluations of property, plant and equipment	124,324	67		(7,748)			116,643	99,270	17,373
Capital gains subject to deferred taxation	561	(38)	9	(151)			381	381	
Employee benefits	2,376						2,376	2,376	
Capitalisation of financial expense	2,860			(133)			2,727	2,321	406
Impairment losses on receivables in excess of tax deductibility and other temporary differences	16,305	(1,081)	169	(16)			15,377	15,377	
Deferred tax assets	(206,062)	(2,907)	(25,542)	16,399			821	(217,291)	(197,439)
Provisions for risks and charges and other non-deductible provisions	(49,011)	(586)	(6,432)	5,269		(5,748)	(56,508)	(49,269)	(7,239)
Non-repayable and contractual grants	(68,709)	(1,094)		1,598			(68,205)	(58,223)	(9,982)
Non-deductible amortisation and depreciation	(63,289)	(423)	(16,648)	8,744			(71,616)	(71,240)	(376)
Employee benefits	(21,296)		(315)	515		12,917	(8,179)	(6,683)	(1,496)
Other temporary differences	(3,757)	(804)	(2,147)	273		(6,348)	(12,783)	(12,024)	(759)
Net deferred tax liabilities	94,790	(3,668)	(20,765)	594		821	71,772	66,087	5,685

31.12.2019									
(€ thousands)	Opening balance	Changes 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

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 note "Income taxes" provides information about taxes for the year.

15.2.25 Shareholders' equity

Shareholders' equity, which amounts to €1,794,939 thousand as at 31 December 2019 (€1,329,347 thousand as at 31 December 2018) breaks down as follows:

(€ thousands)	31.12.2018	31.12.2019
Shareholders' equity attributable to Italgas	1,329,347	1,560,381
Share capital	1,001,232	1,001,232
Legal reserve	200,246	200,246
Share premium reserve	620,130	620,130
Cash flow hedge on derivative contracts reserve	(4,943)	(8,119)
Consolidation reserve	(323,907)	(323,907)
Reserve for business combinations under common control	(349,854)	(349,839)
Stock grant reserve	299	1,169
Other reserves	424	8,711
Retained earnings	(117,245)	6,777
Reserve for recalculation of defined-benefit plans for employees	(10,730)	(13,257)
Net profit (loss)	313,695	417,238
<i>to be deducted</i>		
- Treasury shares		
Shareholders' equity attributable to minority interests		234,558
	1,329,347	1,794,939

Share capital

The share capital as at 31 December 2019 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518.

Legal reserve

The legal reserve stood at €200,246 thousand as at 31 December 2019, unchanged compared to the previous year.

Share premium reserve

The share premium reserve stood at €620,130 thousand as at 31 December 2019 (unchanged compared to 31 December 2018).

Cash flow hedge on derivative contracts reserve

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

Consolidation reserve

The consolidation reserve of -€323,907 thousand is unchanged compared to the previous year as determined at the time of the first consolidation (2016) due to the difference between the purchase cost of the investment in Italgas Reti S.p.A. and the related net assets pertaining to the group.

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.

Reserve for business combination under common control

The reserve for business combinations under common control, equal to -€349,839 thousand, is relating to the purchase from Snam S.p.A. of 38.87% of the investment in Italgas Reti S.p.A.

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 2019, the reserve for recalculation of employee benefit plans (-€13,257 thousand) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19. 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 2017	(18,595)	5,244	(13,351)
Changes of the year 2018	3,647	(1,026)	2,621
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)

Treasury shares

As at 31 December 2019 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 31.12.2018	Shareholders' equity attributable to minority interests 31.12.2019	Net income attributable to minority interests 31.12.2018	Net income attributable to minority interests 31.12.2019
Toscana Energia S.p.A.		198,177		6,109
Toscana Energia Green S.p.A.		2,558		(74)
Gesam Gas S.p.A.		10,370		(59)
Valdarno S.r.l.		2,685		10
Medea S.p.A.		19,044		389
Gaxa S.r.l.		1,724		(63)
		234,558		6,361

The change in the shareholders' equity attributable to third parties is due to the acquisition of control of Toscana Energia (as reported in note 7 "Business combinations") and to the sale of the shares of Medea S.p.A. and Gaxa S.r.l. (ex Medea Newco S.p.A.) to the Marguerite fund II.

Dividends

In its meeting of 11 March 2020, the Board of Directors proposed to the Shareholders' Meeting the distribution of an ordinary dividend of €0,256 per share. The dividend will be paid out as of 20 May 2020, with an ex-coupon date of 18 May 2020 and a record date of 19 May 2020.

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 2019	Net assets 31.12.2019
Financial statements Italgas S.p.A.	223,624	1.704,996
Profit of the companies included in the consolidation	360,412	
Difference between book value of investments consolidated companies and shareholders' equity of the financial statements, including the result		(247,772)
Adjustments consolidation:		
Dividends net of the tax effect	(234,534)	
Income from valuation of equity investments with the equity method and other income from equity investments	74,962	103,425
Other consolidation adjustments net of the tax effect	(865)	(268)
Net income attributable to minority interests	(6,361)	
	193,614	(144,615)
Consolidated financial statements Group	417,238	1,560,381

15.2.26 Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €1,296,465 thousand as at 31 December 2019 comprise:

(€ thousands)	31.12.2018	31.12.2019
Guarantees given in the interest:	183,964	267,478
- of subsidiaries	183,964	267,478
Financial commitments and risks:	979,307	1,028,987
Commitments	937,005	768,606
Commitments for the purchase of goods and services	868,405	756,542
Other	68,600	12,064
Risks	42,302	260,381
- for compensation and litigation	42,302	260,381
	1,163,271	1,296,465

Guarantees

Guarantees of €267,478 thousand refer mainly to guarantees issued with regard to sureties and other guarantees issued in the favour of subsidiaries.

Commitments

The other commitments as at 31 December 2019 refer to the agreements to purchase business units for gas distribution. The enterprise value was established at €12 million, from which the net financial position upon closing of the transaction will be deducted.

Risks

Risks concerning compensation and litigation (€260,381 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

Introduction

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 "Elements of risk and uncertainty" section of the Directors' Report.

Interest rate risk

Fluctuations in interest rates affect the market value of Italgas' financial assets and liabilities and its net financial expense. The Italgas Group has adopted a centralised organisational model. In accordance with this model, Italgas' various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within the defined limits.

An increase in interest rates, not implemented – in full or in part – in the regulatory WACC, could have negative effects on the business and on the balance sheet, economic and financial situation of the Italgas Group as regards the variable component of outstanding debt and future loans.

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

As at 31 December 2019 the financial debt at floating rate was 12.2% and at fixed rate was 87.8%.

As at the same date, the Italgas Group used external financial resources in the following forms: 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).

Fixed-rate financial liabilities amounted to €4,103.6 million and refer to bonds (€3,354.3 million) and to three EIB loans: the first maturing in 2037 (€359.8 million), converted to fixed rate in January 2018 through a derivative hedging contract of the "Interest Rate Swaps" type maturing in 2024; the second maturing in 2032 (€299.8 million), converted to fixed rate in July 2019 through a derivative hedging contract of the "Interest Rate Swaps" type maturing in 2029; and the third (€89.8 million) relating to the EIB loan of Toscana Energia, with 1.049% fixed rate maturing in 2031.

Floating-rate liabilities amounted to €567.9 million and increased by €18.1 million due to the increased use of the bank lines, partially offset by the new derivative on the EIB loan.

Italgas, as at 31 December 2019, had unused committed credit lines amounting to €500 million.

As at 31 December 2019 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 covenants. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu* and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. In relation to the EIB loan from Toscana Energia, please refer to the note 18. For all other loans, at December 31, 2019 these commitments were respected.

Credit risk

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

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

As at 31 December 2019 there were no significant credit risks. Note that on average 95% of trade receivables relating to gas distribution are settled by the due date and over 99% within the next 4 days, confirming the strong reliability of the customers. Receivables from other activities are immaterial for the Company.

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

Liquidity risk

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

Italgas has signed loan agreements unused as at 31 December 2019. These credit lines (€500 million) may be used to address possible liquidity needs, where necessary, if the actual borrowing requirement is higher than estimated. Also note that at the same date, in addition to the funding from the banking system, the Euro Medium Term Notes (EMTN) programme, approved by the Italgas Board of Directors on 23 September 2019, has allowed issue of the remaining bonds worth €1,650 million to be placed with institutional investors.

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 Italgas' long-term debt, on 2 August 2019 and 26 September 2019 the rating agencies Fitch and Moody's confirmed the rating assigned to Italgas S.p.A., which are BBB+ with stable outlook and Baa2 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.

Debt covenant and default risk

As at 31 December 2019 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 covenants. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. In relation to the EIB loan from Toscana Energia, please refer to the note 18. For all other loans, at December 31, 2019 these commitments were respected.

The bonds issued by Italgas as at 31 December 2019 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.

Environmental regulations

With respect to environmental risk, while the Company 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.

Future payments for financial liabilities, trade and other payables

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments not discounted:

(€ thousands)	Balance as at 31.12.2018	Balance as at 31.12.2019	Portion with due date within 12 months	Portion with due date beyond 12 months	Due date				
					2021	2022	2023	2024	Beyond
Financial liabilities									
Bank loans	786,580	915,060	123,650	791,410	36,104	34,005	57,491	57,491	606,319
Bonds	2,900,000	3,354,306	31,297	3,323,009		267,086		479,083	2,576,840
Short-term liabilities	274,499	408,638	408,638						
Interest on loans			42,746	339,083	42,881	42,876	41,414	41,294	170,618
Liabilities for right of use	49,839	74,650	17,572	57,078	15,103	14,220	11,771	5,289	10,695
Interest for right of use			274	892	236	222	184	83	167
	4,010,918	4,752,654	624,177	4,511,472	94,324	358,409	110,860	583,240	3,364,639

With reference to the payment times with regard to trade and other payables, refer to the note "Short-term financial liabilities, long-term financial liabilities and short-term portions of 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 87.8% 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.

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 at 31.12.2018	Balance as at 31.12.2019	Balance as at 31.12.2018	Balance as at 31.12.2019	Balance as at 31.12.2018	Balance as at 31.12.2019
Financial instruments measured at amortised cost						
- Trade and other receivables	536,199	585,230				
- Other assets	147,384	136,185				
- Trade and other payables	564,663	726,714				
- Financial payables (b)	4,023,782	4,752,654	(45,442)	(67,947)		
Financial instruments measured at fair value						
- Financial assets (liabilities) for hedge derivative contracts	(6,647)	(13,300)			(4,943)	(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 31.12.2018		Balance as at 31.12.2019	
	Book value	Market value	Book value	Market value
Financial instruments measured at amortised cost				
- Financial receivables				
- Long-term financial debt	3,666,345	3,611,164	4,108,470	4,318,533

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.

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 an IRS derivative instrument classified level 2 and recorded under the note “Other current and non-current liabilities”.

Disputes and other measures

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

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

Criminal cases

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 several Italgas Reti managers and the public prosecutor of Rome requested that all persons under investigation be dismissed when they were concluded. The trial bundle has been assigned to the examining judge for the ruling. The examining judge asked the public prosecutor to carry out additional investigations at the hearing on 26 October 2018. After the further investigations were carried out, the public prosecutor requests that all persons under investigation be dismissed again. The injured parties objected and the examining judge scheduled the chambers for 20 March 2020 to discuss the objection to the request for dismissal.

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 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 committal for trial is in line with that of the notice of conclusion of the preliminary investigations with regard to the involvement of Italgas Reti, while the request for dismissal, 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 postponed to 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. On the occasion of this hearing, acknowledgement was given to indemnification of the heirs of the woman who died and of the other injured parties who therefore waived joining the proceedings as civil parties. The joining of proceedings as a civil party of the Municipality of Cerro Maggiore was admitted. Both the defence attorney of Italgas Reti and the defence attorneys of the accused employees of the Company requested a ruling of dismissal. The judge had some reservations on the requests of the defence attorneys. 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 trial hearing was held on 9 December 2019, during which regular appearance of the parties before the court was verified and to this regard exclusion of the civil party, Municipality of Cerro, was requested. A calendar subject to change was set for the actual investigation activity.

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. The Public Prosecutor requested to hear not only the witnesses on his list of witnesses, but also the two Italgas employees acquitted by the judge for the preliminary hearing and the employees of the optic fibre subcontracting company convicted during the abbreviated trial procedure. The judge however rejected the request as he considered it late, and referred the decision to a later date should it become absolutely necessary after the end of the investigation activity.

The witnesses subpoenaed by the Italgas Reti defence will be heard after all of the prosecution witnesses. The first hearing for examination of the witnesses is set for 8 June 2020.

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 due to causes still being ascertained, injured a worker of a contractor company. The Rome public prosecutor's office is carrying out preliminary investigations with which the Company collaborated. The public prosecutor recently entered four people into the register of suspects, including a former employee of Italgas Reti.

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 examining judge accepted the request for a special evidentiary hearing put forward by one of the suspects, aimed at ascertaining the reasons for the explosion. The expert operations are in progress.

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 measure 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 filed an appeal with the Court of Cassation. Italgas Reti has submitted a counterclaim for prudential reasons, in order to confirm the non-involvement of the company to the proceedings for lack of interest.

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 made to the Judicial Administrators and their assistants and consultants.

In the proceedings concerning the contesting of the statement 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. The Court of Cassation, Section II returned the final verdict of rejecting the appeal filed by Italgas Reti in chambers on 14 January 2020 despite the opposing opinion of the attorney general at the Court of Cassation.

Administrative disputes

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, arbitrarily charged Italgas Reti 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. In consideration of the introductory state of the proceedings, while awaiting preliminary analyses and based on an outside legal opinion, the Company sees no risk of losing the case such as to record it in these financial statements. With Order no. 01124/2020 published on 21 February 2020, the Lazio Regional Administrative Court, while waiting to pass judgement on the exception raised by the Municipality of Rome regarding the jurisdiction of the administrative court, suspended the measure with which the Municipality of Rome ordered Italgas Reti to pay penalties until 18 March 2020, when the next meeting in chambers will be held. Subsequently, following the health emergency, the hearing was postponed to a date to be defined.

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

With its measure dated 28 June 2018, GSE started control proceedings pursuant to art. 12 of the Ministerial Decree of 11 July 2017 on 55 packets of energy efficiency projects presented by Seaside and related to standard projects pertaining to 5T (replacement of single glass with double glass) and 6T (building insulation) forms. Subsequently, with measures of 29 March 2019 and 5 April 2019, the disqualification of the right to TEEs in relation to 2 packets was declared, due to alleged errors attributable to the Company's contractual counterparty, while the GSE requested the provision of additional documentation in relation to the other packets. An appeal before the Lazio Regional Administrative Court was filed against the measure of 5 April 2019 for the annulment of the same measure. On 22 October 2019, the Company filed an appeal for additional grounds against the measures issued by the GSE on 20 June 2019 and 3 July 2019, through which the Body reopened the preliminary investigation and requested the return of the amount of one of the 2 packets of energy efficiency projects (approximately €23,000). The date of the hearing is still to be set.

On 14 February 2020, the GSE accepted, by way of self-protection, the request to cancel the challenged measure, in any case cancelling the same packet of energy efficiency projects based on new grounds. Afterwards, with another measure dated 17 February 2020, the GSE cancelled all of the remaining 53 packets of energy efficiency projects that are the subject of the control proceedings pursuant to art. 12 of the Ministerial Decree of 11 July 2017 due to insufficient and/or irregular documentary evidence. Assessment of a possible contesting of the measures of 14 and 17 February 2020 is in progress.

Civil cases

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

With Decision no. 1862/2019 of 5 August 2019, published on 7 August 2019, the ordinary Court of Trani, Civil Section, rejected the petition with which the Municipality of Andria had requested ascertainment of its right to obtain payment from Italgas of the amount of €1,521,402.00, plus legal interest and monetary revaluation, by way of increased concession fee for the gas distribution service in the municipal territory from 1 January 2006 until 31 December 2011. With subsequent decision no. 2562/2019 of 25 November 2019, published on 29 November 2019, the ordinary Court of Trani, Civil Section, rejected the petition with which the Municipality of Andria had requested ascertainment of its right to obtain payment from Italgas of an amount plus legal interest and monetary revaluation by way of reimbursement for the restriction on the revenue from distribution owed to the Municipality by the company in so far as it is owner of the gas distribution plant in the relevant territory, from 1 January 2006 until 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 its decision no. 654/2017, the Veneto Regional Administrative Court rejected the appeal filed by the Company, considering that the free transfer of a portion of the distribution network had accrued upon original expiration of the concession relationship (2010). Italgas Reti appealed against the decision before the State Council. As a result of decision no. 654/2017, the Municipality of Venice asked Italgas Reti to pay a fee, whose amount is still to be determined, in connection with use of the plants freely transferred with its letter dated 2 February 2018. Italgas Reti challenged this request with appeal before the Veneto Regional Administrative Court.

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 - in this case, too - that, also against a claim for fees from the Municipality of Venice equivalent to remuneration of the Block A assets, in the absence of specific reference regulations, to date it is not possible to reliably determine the extent of the liability.

At the same time, following the mentioned decision of the State Council, the Company accelerated depreciation of the portion of network relating to Block A.

With decision no. 588/2019 of 24 January 2019, the State Council pronounced on a similar case relating to the devolution free of charge of a portion of a network relating to the existing concession with the Municipality of Cavallino Treponti. 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 Treponti 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 Treponti 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). Note - in this case, too - that, also against a claim for fees from the Municipality of Cavallino Treponti equivalent to remuneration of the Block A assets, in the absence of specific reference regulations, to date it is not possible 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 Treponti, respectively, rejecting the claims for appeal filed by Italgas Reti. Lastly, on 24 April 2019 the Municipality of Venice

served a writ of summons upon Italgas Reti, before the Court of Venice, for the assessment and consequent payment of € 59,006,552.03 as consideration for the use of the portion of the network subject to free donation for the period 1/6/2010-31/12/2018 as well as the sums due for the same title for the following period as of 31/12/2018 and up to the sentence.

Italgas Reti appeared before the court to challenge the quantification of the fee and to request the return of the amount unduly paid to the Municipality after the free transfer of Block A. After listening to the defence of the parties, at the first hearing on 12 September 2019 the judge postponed the case to 1 April 2020 for admission of the measures of inquiry.

Publiservizi S.p.A. / Italgas S.p.A. – Court of Florence

On 25 July 2019, the lawsuit against Italgas S.p.A. brought by Publiservizi S.p.A. and other shareholder Municipalities of Toscana Energia was notified. Claiming an alleged violation of a shareholders' agreement entered into by Italgas S.p.A. on 28 June 2018, Publiservizi S.p.A. requested that Italgas be sentenced to purchase 3% of the share capital of Toscana Energia S.p.A. (at the price of €70,000,000.00 specified in the notice of tender dated 20 July 2018) or in any case to execute the aforementioned shareholders' agreement and, subordinately, to pay Publiservizi €59,800,000.00 by way of compensation for damage due to non-fulfilment or, as an alternative, by way of enrichment without cause. The first hearing, held on 14 January 2020 before the Court of Florence, was adjourned until 6 May 2020. Italgas S.p.A., which appeared before the court within the time prescribed by the law, raised all objections helpful in demonstrating that the counterparty's claims are groundless.

Tax cases

Italgas Reti S.p.A. - Local duties

The risk provision for tax disputes as at 31 December 2019 referred to the pending cases with the Court of Cassation against negative rulings handed down by the Naples Regional Tax Commission in connection with assessments notified to the now incorporated former Napoletanagas S.p.A. for the waste disposal tax of the years 2010 and 2011 in the Municipality of Caserta.

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 2019.

Beneficiary	Grantor			Type of transaction	Amount €
	Name/Company name	Tax code	VAT reg. no.		
ITALGAS RETI S.P.A.	MORRO D'ORO	81000370676	00516370673	Plant account grants Law 784/80	14,416
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	28,793
ITALGAS RETI S.P.A.	AVEZZANO	81002910669	00159380666	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	9,840
ITALGAS RETI S.P.A.	TURRVALIGNANI	00224700682	00224700682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	1,415
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	12,979
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	21,840
ITALGAS RETI S.P.A.	POPOLI	00123600686	00123600686	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	1,341

Beneficiary	Grantor			Type of transaction	Amount €
	Name/Company name	Tax code	VAT reg. no.		
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
ITALGAS RETI S.P.A.	SCAFA	81000070680	00208610683	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	3,290
ITALGAS RETI S.P.A.	SELLIA	00311650790	00311650790	Plant account grants Law 784/80	90,421
ITALGAS RETI S.P.A.	SERRASTRETTA	00379460793.	00379460793.	Plant account grants Law 784/80	267,865
ITALGAS RETI S.P.A.	TAVERNA	00108070798	00108070798	Plant account grants Law 784/80	179,693
ITALGAS RETI S.P.A.	CATANZARO	00129520797	00129520797	Plant account grants Law 784/80	133,422
MEDEA S.P.A.	MUNICIPALITY OF LANUSEI	00139020911	00139020911	Plant account grants Resolution 54/28 of 22.11.2005 of the Autonomous Region of Sardinia Article 5	565,543
Total					1,333,018

15.2.27 Revenue

The breakdown of revenue for the year, which totalled €1,892,835 thousand as at 31 December 2019 (€1,641,296 thousand as at 31 December 2018) is shown in the following table.

(€ thousands)	2018	2019
Core business revenue	1,583,752	1,820,020
Other revenue and income	57,544	72,815
	1,641,296	1,892,835

Group revenue is earned exclusively in Italy and breaks down as follows.

Core business revenue

Core business revenue, which amounts to €1,820,020 thousand (€1,583,752 thousand as at 31 December 2019), is analysed in the table below:

(€ thousands)	2018	2019
Natural gas distribution	1,079,911	1,132,008
Revenues for infrastructure construction and improvements (IFRIC 12)	446,971	621,105
Technical assistance, engineering, IT and various services	49,779	60,343
Water distribution and sale	7,091	6,564
Gas sale		10,538
	1,583,752	1,820,020

Core business revenue refers primarily to the consideration for the natural gas distribution service (€1,132,008 thousand) and revenue deriving from the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to IFRIC 12 (€621,105 thousand).

Core business revenue is reported net of the following items, involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Italgas are paid in full to the Energy and Environmental Services Fund (CSEA).

(€ thousands)	2018	2019
RE-RS-UG1 fees	113,308	164,103
UG3 fees	36,152	23,289
Gas Bonus and GS fees	(12,594)	(16,183)
UG2 fees	(52,438)	(19,349)
	84,428	151,860

The fees in addition to the distribution service (€151,860 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 (€1,132,008 thousand) refers to natural gas transport on behalf of all commercial operators requesting access to the networks of the distribution companies based on the Network Code. This revenue was calculated based on Authority resolutions no. 775/2016/R/gas, 98/2019/R/gas and 128/2019/R/gas.

They include €22,889 thousand relating to the contribution pursuant to Article 57 of the Authority Resolution 367/14 which relates to the investment plan to replace traditional meters with smart meters, as set out in the smart metering project pursuant to Authority resolutions 631/13 and 554/15.

As instead concerns the new provisions regarding recognition of the residual costs of traditional meters of a class lower than or equal to G6 replaced with smart meters, the company did not reflect the impacts made by the change in methodology over the previous years in the financial statements since it believes that the requirements for recognising, pursuant to IFRS 15, them do not exist. It is waiting for the Manager of the Energy Infrastructure and Unbundling Department to identify operational modality for define the reconciliation between regulatory divestments and accounting divestments through his determination, as required by art. 11 of Resolution no. 570/2019/R/gas as well as the recovery of non-depreciation (IRMA) provided for by art. 57.3 of Annex A to Resolution no. 570/2019/R/gas.

Revenue from the sale of water (€6,564 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 €72,815 thousand, can be broken down as follows:

(€ thousands)	2018	2019
Income from gas distribution service safety recovery incentives	14,185	16,120
Net income from Energy Efficiency Certificates*	2,831	
Income from property investments	1,134	1,455
Plant safety assessment pursuant to Law Decree 40/04	2,785	2,451
Capital gains from sale of assets	292	11,134
Management refunds and chargebacks	1,867	6,941
Contractual penalties receivable	1,906	1,084
Revenue from regulated activities	14,325	14,892
Use of contributions for connections	15,188	16,250
Other revenue	3,031	2,488
	57,544	72,815

* Net of costs incurred for purchase of certificates.

Income from safety recovery incentives, equal to €16,120 thousand, relates to refunds paid by the Authority connected to achieving quality and technical standards relating to the natural gas distribution service.

15.2.28 Operating costs

The breakdown of operating costs for the period, which totalled €969,012 thousand, is shown in the following table:

(€ thousands)	2018	2019
Purchases, services and other costs	552,896	729,838
Personnel cost	233,672	239,174
	786,568	969,012

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 €621,105 thousand and are broken down as follows:

(€ thousands)	2018	2019
Purchase costs for raw materials, consumables, supplies and goods	102,968	115,100
Service costs	233,303	394,664
Costs for the use of third-party assets	18,352	13,182
Personnel cost	91,380	96,584
Other expense	968	1,575
	446,971	621,105

Purchases, services and other costs

Purchases, services and other costs, which amounted to €729,838 thousand, can be broken down as follows:

(€ thousands)	2018	2019
Purchase costs for raw materials, consumables, supplies and goods	128,640	164,143
Service costs	329,325	482,855
Costs for the use of third-party assets	81,197	83,857
Changes in raw materials, consumables, supplies and goods	(3,360)	(21,089)
Net provisions for risks and charges	2,982	1,141
Net provisions for impairment	402	(306)
Other expense	14,656	20,779
	553,842	731,380
<i>To be deducted:</i>		
Increases for own work	(946)	(1,542)
- of which service costs	(946)	(1,542)
	552,896	729,838

Purchase costs for raw materials, consumables, supplies and goods are analysed below:

(€ thousands)	2018	2019
Inventories	120,179	155,697
Purchase of water	1,948	2,302
Motive power	1,153	998
Purchase of fuel	3,711	3,456
Consumables	1,649	1,690
	128,640	164,143

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 (€115,100 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for services of €481,313 thousand relate to:

(€ thousands)	2018	2019
Project management and plant maintenance	168,089	334,182
Consultancy and professional services	63,898	59,921
Centralised service services	20,712	
Costs for personnel services	14,110	16,550
IT and telecommunications services	30,681	34,481
Electricity, water and other (utility) services	5,882	6,974
Insurance	5,615	5,284
Cleaning, security service and guard services	1,434	3,902
Advertising and entertainment	2,507	2,597
Other services	28,654	33,465
Use of risk provision	(12,257)	(14,501)
	329,325	482,855
<i>To be deducted:</i>		
Increases for own work	(946)	(1,542)
	328,379	481,313

Costs for services include costs relating to the construction and upgrading of gas distribution infrastructure (€394,664 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for project management and plant maintenance (€334,182 thousand) essentially relate to the extension and maintenance of gas distribution plants.

Costs for the use of third-party assets, of €83,857 thousand, regard:

(€ thousands)	2018	2019
Patent, license and concession fees	61,273	69,186
Leases and rentals	20,061	14,672
Use of risk provision	(137)	(1)
	81,197	83,857

Costs for use of third-party assets include costs relating to the construction and upgrading of gas distribution infrastructure (€13,182 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Changes in raw materials, consumables, supplies and goods (€21,089 thousand) were due mainly to the gas meter replacement plan.

Net provision for risks and charges, amounting to €1,141 thousand net of utilisations, refer mainly to the environmental risk provision and the TEE risk provision.

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 €20,779 thousand, are analysed below:

(€ thousands)	2018	2019
Gas distribution service safety improvement penalties	1,924	878
Other penalties	3,247	3,327
Indirect taxes, local taxes	7,906	8,905
Capital losses from disposal/recovery of property, plant and equipment and intangible assets	2,049	6,720
Membership fees	1,562	1,565
Costs for transactions, compensation and penalties	234	139
Use of risk provision	(4,690)	(13,220)
Charges attributable to Energy Efficiency Certificates	2,281	7,582
Other expense	143	4,883
	14,656	20,779

Gas distribution service safety improvement penalties (€878 thousand) relate to repayments, paid to the Authority, related to awards for gas distribution safety improvements for 2019.

Charges attributable to Energy Efficiency Certificates (€7,582 thousand) are fully covered by use of the relevant risk provision.

Other expense includes costs relating to the construction and upgrading of gas distribution infrastructure (€1,575 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Personnel cost

Personnel cost, totalling €239,174 thousand, breaks down as follows:

(€ thousands)	2018	2019
Wages and salaries	165,500	171,676
Social charges	50,908	54,481
Employee benefits	14,254	13,683
Secondment	(989)	(370)
Other expense	6,265	2,419
	235,938	241,889
<i>To be deducted:</i>		
Increases for own work	(2,266)	(2,715)
	233,672	239,174

The item includes costs relating to the construction and upgrading of gas distribution infrastructure (€96,584 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Employee benefits (€13,683 million) mainly regard expenses connected to the elimination of the Gas Fund, pursuant to Law no. 125 of 6 August 2015⁴².

More details are provided in the "Provisions for employee benefits" note.

42 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.

Average number of employees

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

Status	2018	2019
Executives	60	62
Managers	267	296
Office workers	1,975	2,247
Manual workers	1,329	1,464
	3,631	4,069

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

At 31 December 2019, there were 4,066 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 2019, amounted to €6,942 thousand and breaks down as follows:

(€ thousands)	2018	2019
Wages and salaries	5,119	5,254
Post-employment benefits	412	467
Other long-term benefits	1,103	1,221
	6,634	6,942

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 €1,938 thousand and remuneration due to Statutory Auditors amounted to €483 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.

15.2.29 Amortisation, depreciation and impairment

Amortisation, depreciation and impairment, totalling €407,781 thousand, breaks down as follows:

(€ thousands)	2018	2019
Amortisation and depreciation	399,507	405,873
- Property, plant and equipment	16,766	13,826
- Right of use pursuant to IFRS 16	7,195	15,218
- Intangible assets	375,546	376,829
Impairment	1,749	1,908
- Impairment of property, plant and equipment	657	
- Impairment of intangible assets	1,092	1,908
	401,256	407,781

The amount of €376,829 thousand, relating to the amortisation of the intangible assets, includes greater amortisation as a result of the reduction in the useful life of traditional meters⁴³, 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.

15.2.30 Financial income (expense)

Net financial expense, amounting to €69,295 thousand, comprises:

(€ thousands)	2018	2019
Financial income (expense)	(45,592)	(67,864)
Financial expense	(45,689)	(68,077)
Financial income	97	213
Other financial income (expense)	(1,373)	(1,431)
Other financial expense	(2,224)	(2,533)
Other financial income	851	1,102
	(46,965)	(69,295)

⁴³ 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.

(€ thousands)	2018	2019
Financial income (expense)	(45,592)	(67,864)
Borrowing costs:	(45,689)	(68,077)
- Interest expense on bonds	(38,358)	(59,250)
- Commission expense on bank loans and credit lines	(2,351)	(7,461)
- Interest expense on credit lines and loan expense due to banks and other lenders	(4,980)	(1,366)
Financial expense capitalised		
Income on financial receivables:	97	213
- Interest income and other income on financial receivables non-held for operations	97	213
Other financial income (expense)	(1,373)	(1,431)
- Capitalised financial expense	154	726
- Financial income (expense) connected with the passing of time (accretion discount)*	(2,193)	(2,112)
- Uses of risk provisions and financial expense	673	
- Expense for right of use pursuant to IFRS 16	(286)	(273)
- Other expenses	(380)	(874)
- Other income	659	1,102
	(46,965)	(69,295)

* 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".

Interest expense on bonds (€59,250 thousand) increased by €20,892 thousand compared to 2018 due to the effect, mainly of the bond buyback operation concluded on 11 December 2019, which resulted in overall charges of €18.3 million and interest accrued on bonds issued on 24 July 2019 and 11 December 2019, as well as interest accrued for the entire year on the bond issued in January 2018, for a total value of €2.7 million.

15.2.31 Income (expense) from equity investments

Income (expense) from equity investments, totalling €100,780 thousand, breaks down as follows:

(€ thousands)	2018	2019
Effect of valuation using the equity method	19,982	14,883
Income from valuation using the equity method	19,982	14,883
Other income (expense) from equity investments	17	85,897
Dividends	17	26
Other income from equity investments		85,871
	19,999	100,780

Net income from equity investments, amounting to €100,780 thousand (€19,999 thousand in the previous year) mainly went up due to recalculation of the value of the equity investment in Toscana Energia following acquisition of control pursuant to IFRS 3 - "Business Combinations", which generated a capital gain of €85,871 thousand.

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".

15.2.32 Income taxes

Income taxes for the year, amounting to €123,928 thousand (€112,811 thousand as at 31 December 2018) comprise:

(€ thousands)	2018			2019		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes	109,774	22,811	132,585	103,103	24,570	127,673
Current taxes for the year	111,322	22,427	133,749	105,770	24,270	130,040
Adjustments for current taxes pertaining to previous years	(1,548)	384	(1,164)	(2,667)	300	(2,367)
Deferred tax assets and liabilities	(18,828)	(946)	(19,774)	(4,107)	362	(3,745)
Deferred tax liabilities	(16,582)	(1,976)	(18,558)	(11,881)	(1,028)	(12,909)
Deferred tax assets	(2,246)	1,030	(1,216)	7,774	1,390	9,164
	90,946	21,865	112,811	98,996	24,932	123,928

Income taxes relate to current taxes amounting to €127,673 thousand (€132,585 thousand as at 31 December 2018) and net deferred tax assets totalling €3,745 thousand (€19,774 thousand as at 31 December 2018).

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)	2018		2019	
	Tax rate	Balance	Tax rate	Balance
IRES				
Gross profit		426,506		547,527
IRES tax calculated based on the theoretical tax rate	24.00%	102,361	24.00%	131,406
Changes compared to the theoretical rate:				
- Income from equity investments	(0.5%)	(2,065)	(3.9%)	(21,626)
- Temporary tax adjustment	(0.6%)	(2,710)	0.2%	1,083
- Current taxes for previous years	(0.4%)	(1,548)	(0.4%)	(2,217)
- "Super Iper amortisation and depreciation" tax benefit	(1.7%)	(7,200)	(1.6%)	(8,696)
- Other permanent differences	0.5%	2,108	(0.1%)	(430)
IRES taxes for the year through profit or loss	21.3%	90,946	18.2%	99,520

(€ thousands)	2018		2019	
	Tax rate	Balance	Tax rate	Balance
IRAP				
EBIT for IRAP		453,472		516,042
IRAP tax calculated based on the theoretical tax rate	4.2%	19,046	4.2%	21,674
Changes compared to the theoretical rate				
- Taxes for previous years	0.1%	384	0.1%	300
- Temporary tax adjustment	(0.1%)	(414)	0.0%	59
- Regional IRAP adjustments	0.6%	2,650	0.5%	2,960
- Other permanent differences	0.1%	199	(0.1%)	(585)
IRAP taxes for the year through profit or loss	4.9%	21,865	4.7%	24,408

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".

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)	2018			2019		
	Gross value	Tax impact	Net tax value	Gross value	Tax impact	Net tax value
Remeasurement of defined-benefit plans for employees	14,948	(4,218)	10,730	18,467	(5,210)	13,257
Change in fair value of cash flow hedge derivative financial instruments	6,505	(1,561)	4,944	10,682	(2,564)	8,118
Other components of comprehensive income	21,453	(5,779)	15,674	29,149	(7,774)	21,375
Deferred tax assets/liabilities		(5,779)			(7,774)	

15.2.33 Profit (loss) per share

The basic earnings per share, equal to €0.52, was calculated by dividing the net profit attributable to Italgas (€417,238 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 considering also the co-investment plan, is €0.52 per share.

15.2.34 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 CEO (or the Chairman, in the case of the CEO’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 are shown for the 2019 financial year. The nature of the most significant transactions is also stated.

Commercial and other transactions

Commercial and other transactions are analysed below:

(€ thousands)	31.12.2018			2018				
	Receivables	Payables	Guarantees and commitments	Costs (a)			Revenue (b)	
				Assets	Services	Other	Services	Other
Parent company								
- Cassa Depositi e Prestiti						7		
						7		
Companies under joint control and associates								
- Toscana Energia S.p.A.	4,671	171			(114)		4,607	191
- Umbria Distribuzione Gas S.p.A.	808				(46)		614	
- Metano Sant'Angelo Lodigiano S.p.A.	168				(43)		342	(1)
	5,647	171			(203)		5,563	190
Companies owned or controlled by the State								
- Eni Group	177,442	44,253	15		5,673		642,464	16,661
- Snam Group	631	6,615			20,435		(21)	(90)
- Enel Group	29,884	5,934			575		124,757	2,676
- Anas Group	3	582			575			
- Ferrovie dello Stato Group	60	154			530			46
- Finmeccanica Group	1							
- GSE Gestore Servizi Group	47	(37)			74			8
- Poste Italiane Group		127			6			
- Saipem Group		1,225			940			
	208,068	58,853	15		28,808		767,200	19,301
Total	213,715	59,024	15		28,612		772,763	19,491

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

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

(€ 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 S.p.A.	388				(37)		604	
- Metano Sant'Angelo Lodigiano S.p.A.	110				(43)		256	38
	498				(80)		860	38
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
- Finmeccanica Group								
- GSE Gestore Servizi Group	2,251	(29)			(2,519)			4
- Poste Italiane Group	292	755			846		299	
- Saipem Group		2,028			915			
	232,365	15,209	13		1,574		807,746	12,095
Other related parties								
- Cubo Gas Srl					1			
					1			
Total	232,863	15,236	13		1,632		808,606	12,133

(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.

Companies owned or controlled by the State

The main receivable commercial transactions refer to:

- the distribution of natural gas and personnel loans to Eni S.p.A.;
- real estate management services, IT services and personnel loans to Eni S.p.A.;
- distribution of natural gas to Enel Energia S.p.A.

The main payable commercial transactions refer to:

- services provided by Snam S.p.A.;
- the supply of electricity and methane gas for internal consumption by Eni S.p.A.;
- services regarding the management and maintenance of real estate, personnel services, canteen management and other general services by Eni Servizi S.p.A.

Financial transactions

Financial transactions can be broken down as follows:

(€ thousands)	31.12.2018		2018	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti				151
				151
Companies owned or controlled by the State				
- Snam Group				563
				563
Total				714

(€ thousands)	31.12.2019		2019	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti				296
				296
Companies owned or controlled by the State				
- Eni Group			128	
			128	
Total			128	296

Relations with the parent company CDP

The main financial transactions carried out with CDP specifically concern commissions on subscribed loans.

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)	31.12.2018			31.12.2019		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Statement of financial position						
Trade and other current receivables	536,199	213,715	39.9%	585,230	232,308	39.7%
Other current assets	13,677			6,764	10	0.1%
Other non-current assets	133,707	549	0.4%	129,421	545	0.4%
Short-term financial liabilities	274,499			408,638		
Short-term portions of short-term financial liabilities	43,303			172,519		
Trade and other payables	564,663	59,024	10.5%	726,714	15,059	2.1%
Other current liabilities	2,890	177	6.1%	346	177	51.2%
Long-term financial liabilities	3,705,980			4,171,497		
Other current liabilities	457,800			571,514		

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

(€ thousands)	2018			2019		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Income Statement						
Core business revenue	1,583,752	772,763	48.8%	1,820,020	808,606	44.4%
Other revenue and income	57,544	19,491	33.9%	72,815	12,133	16.7%
Purchases, services and other costs	552,896	29,477	5.3%	729,838	1,708	0.2%
Personnel cost	233,672	(865)	(0.4%)	239,174	(76)	
Financial expense	47,913	714	1.5%	70,610	296	0.4%
Financial income	948			1,315	128	9.7%

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)	2018	2019
Revenue and income	792,254	820,739
Costs and charges	(28,612)	(1,632)
Change in trade and other current receivables	11,672	(18,593)
Change in other assets		(10)
Change in trade and other payables	13,443	(141,581)
Interest collected (paid)	(714)	(168)
Net cash flow from operating activities	788,043	658,755
Net investments		
- Equity investments		141,353
Net cash flow from investment activities		141,353
Dividends distributed to third parties	(66,563)	(74,883)
Net cash flow from financing activities	(66,563)	(74,883)
Total cash flows with related entities	721,480	725,225

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

(€ thousands)	2018			2019		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Cash flow from operating activities	750,360	788,043		725,022	658,755	90.9%
Cash flow from investment activities	(668,960)			(701,831)	141,353	(20.1%)
Cash flow from financing activities	55,895	(66,563)		100,570	(74,883)	(74.5%)

15.2.35 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.

15.2.36 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.

15.2.37 Significant events after year end

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 finalized. The transaction was completed following the occurrence of the conditions precedent foreseen. In particular, Italgas Reti sold all district heating activities managed in the municipality of Cologno Monzese to A2A Calore & Servizi (A2A Group); at the same time, Unareti (A2A Group) transferred the natural gas distribution activities managed in seven Municipalities belonging to ATEM Alessandria to Italgas Reti. The district heating plant of Cologno Monzese consists of a distribution network of over 8 kilometers and it serves 52 heat exchange substations with heat sales of around 26.1 GWh. The seven gas distribution networks in the Municipalities of Castelnuovo Scivia, Pecetto di Valenza, Bassignana, Rivarone, Guazzora, Montecastello and Pietra Marazzi extend over a total of over 140 kilometers and serve approximately 4,200 users.

During the month of February, the so-called "Coronavirus emergency" in relation to the numerous cases of contagion throughout the national territory and the necessary urgent measures taken by the Health and Government Authorities to stem their spread.

The Company, already in the hours immediately following the first cases, set up a Crisis Committee which, in the light of the provisions and indications of the competent Authorities, constantly monitors the evolution of the emergency and adopts the appropriate measures while ensuring continuity and the efficiency of essential and necessary services, with particular regard to emergency services.

In order to ensure the health and safety of its people, the Company has adopted a series of initiatives aimed at limiting the mobility of staff and contractors to company offices, facilitating the smart working method, as well as the suspension of business trips. staff on the national territory. In compliance with the emergency measures issued by the Authorities, only the activities considered essential are ensured and all construction site activities have been suspended. The technical staff destined to carry out interventions outside the corporate headquarters, where required by current provisions, has been equipped with the necessary individual protection tools provided to deal with the emergency.

At present, impacts on development and investment initiatives resulting from the slowdown and suspension of activities, as well as from the deterioration of the macroeconomic context resulting from the spread of the pandemic at a global level, are not yet identifiable.

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. This Code defines, for each type of service, the rules that regulate the rights and obligations of the subjects involved in the process of providing the services themselves, as well as tools for mitigating the risk of default by customers. At present, the Company has not identified significant negative consequences on the regularity of payments by the gas sales companies.

With regard to access to credit, Italgas does not foresee significant negative impacts for 2020 taking into account the following: (i) the Company has liquidity deposited with leading credit institutions for an amount at 31.12.2019 equal to approximately €256 million and a committed credit line of €500 million with a pool of Italian and international banks, (ii) there are limited debt refinancing needs (the first repayment of a bond loan is scheduled for 2022),

(iii) the bond loans issued by Italgas at 31 December 2019 as part of the Euro Medium Term Notes program, they do not provide for compliance with covenants relating to the financial statement data, (iv) a possible downgrading of Italgas' rating or any guarantors beyond pre-established thresholds, could lead to the release of guarantees in favor of some lenders or an increase in the spreads applied.

The Company has also put in place initiatives to support the Coronavirus Emergency and in particular, in addition to facilitating a voluntary collection of funds by its employees, it has made donations to hospitals, healthcare facilities as well as to Civil Protection, also making available their skills and knowledge to the community.

With reference to the impacts, even potential, on revenues, costs, investments and expected cash flows deriving from the limitations imposed by the Coronavirus Emergency, the Company, to date, does not detect any evidence that could foresee significant effects on the 2020 results. To date, the Company is unable to estimate any material negative effects on the economic, financial and equity prospects of the following years should the situation prolong significantly. To date, the Company does not see factors of uncertainty such that it cannot consider it capable of continuing to operate as a functioning entity. These circumstances do not entail any adjustment to the financial statements at 31 December 2019 pursuant to IAS 10.

Further significant events occurring are described in the section "Other information" contained in the Directors' Report.

15.2.38 Publication of the financial statements

The financial statements were authorised for publication by the Board of Directors of Italgas at its meeting of 11 March 2020. 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 11 March and the date of approval by the Shareholders' Meeting.

15.3 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 58 of 24 February 1998, the undersigned Paolo Gallo and Giovanni Mercante, as CEO and Executive responsible for preparing the corporate 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 2019.

2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2019 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 2019:

- 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 Directors' 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.

11 March 2020

Chief Executive Officer

Paolo Gallo

Executive responsible for preparing
the corporate accounting documents

Giovanni Mercante

15.4 Independent Auditors' Report



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of Italgas SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Italgas Group (the Group), which comprise the statement of financial position as of 31 December 2019, the income statement, statement of comprehensive income, statement of changes in shareholders' equity, 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 consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Italgas SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters

Auditing procedures performed in response to key audit matters

Revenue recognition

Note 3 “Measurement criteria” and Note 27 “Revenues” to the consolidated financial statements as of 31 December 2019.

The recognition of revenues from distribution of natural gas is affected by regulatory schemes and is characterised by a distinction between the distributor’s revenues allowed by the regulator (the “Revenue Cap”) and amounts billed to customers. The “Revenue Cap” and the tariffs to be applied for customer billing are set, and published in specific regulations, by the Italian Regulatory Authority for Energy, Networks and the Environment (Autorità di Regolazione per Energia Reti e Ambiente, ARERA). The regulation also provides for equalisation mechanisms to be applied to a distributor’s revenues, based on which the difference between the “Revenue Cap” and amounts billed to customers generates an account receivable (if positive) or payable (if negative) from/to Energy and Environmental Service Fund (CSEA) - a public sector entity that manages certain tariff components paid by power, gas and water operators - which is settled in the following financial year.

In consideration of the significant volume of transactions and the complexity of the regulations applicable to the quantification of distribution revenues, we identified revenue recognition as a key audit matter with reference to the correct calculation of revenues.

In performing our auditing procedures we analysed, understood and evaluated the Group’s system of internal control over the business process “Revenue and Receivables” which includes internal controls over revenue recognition.

We identified and validated the operation and effectiveness of the relevant (manual and automated) controls over that process, also using the support of PwC network specialists in IT systems and business process analysis.

We verified the reconciliation of sales values in the general ledger to the Revenue Cap identified by ARERA based on the provisional tariffs established by ARERA for FY 2019 with Regulation 128/2019.

We verified the correct quantification of the accrual for equalisation with CSEA, based on the difference between the Revenue Cap and amounts billed to customers during the year.

Finally, we carried out external confirmation procedures with third parties to obtain evidence supporting the trade receivables recognised. For the parties where we did not receive balance confirmations we performed alternative procedures on the balance as of 31 December 2019 to obtain relevant and reliable supporting evidence.



Key Audit Matters

Auditing procedures performed in response to key audit matters

Capital expenditure relating to service concession agreements (IFRIC 12) and related impairment test

Note 3 “Measurement criteria” and Note 15 “Intangible assets” to the consolidated financial statements as of 31 December 2019.

“Service concession agreements” amounted to Euro 6,540 million as of 31 December 2019, accounting for 90% of total ‘Non-current assets’.

The gas distribution sector in which the Italgas Group operates is characterised by specific regulations issued by ARERA. In detail, the Group’s distribution revenues are determined by ARERA based on a predefined return on capital expenditure (assets under concession), depreciation and certain operating costs.

In consideration of the significant amounts of capital expenditure, we identified it as a key audit matter area with reference to the correct recognition of expenditure in accordance with “IFRIC 12 – Service concession agreements”.

During the year the Italgas Group made capital expenditure on intangible assets for about Euro 664 million mainly relating to service concession agreements for maintaining and developing distribution network and remote metering (Euro 623 million).

Amortization for the period amount to Euro 377 million, of which Euro 333 million relating to service concession agreements.

At the end of the year Management considered it appropriate to test for impairment the intangible assets recognized in accordance with IFRIC 12, regardless of the existence of possible impairment indicators, in light of the materiality of the amounts involved.

The recoverability of intangible assets was verified through a comparison between the

In performing our audit procedures we analysed, understood and evaluated the Group’s system of internal control over the business processes “Tangible and intangible assets” and “Capital expenditure” which include controls over the correct capitalisation of capital expenditure and the Management of tangible and intangible assets.

We identified and validated the operation and effectiveness of the relevant (manual and automated) controls over that process, also using the support of PwC network specialists in IT systems and business process analysis.

We verified the reconciliation of the asset register to the general ledger values, recalculated amortization charges for the period, on a sample basis, and verified decreases in the period, on a sample basis.

With reference to capital expenditure in the period we selected a sample of transactions and verified that they had been recognised in accordance with the capitalisation criteria established in the applicable financial reporting standards.

We analysed the aging of projects recognised in assets under construction and discussed with Management the key items of capital expenditure and their nature, with particular reference to the oldest projects in progress, in order to identify any indicators of impairment.

We examined the method adopted by Management to identify and assess possible indicators of impairment of intangible assets and to carry out impairment testing.



Key Audit Matters

carrying amount and the recoverable amount, this being the higher of fair value and value in use.

In detail, Management estimated the recoverable amount of intangible assets included in the regulated business making reference to the net invested capital for regulatory purposes defined by ARERA.

Based on this valuation no impairment losses were identified.

Auditing procedures performed in response to key audit matters

We obtained the impairment test from the Company and held meetings with management to understand the method applied. We obtained and verified the estimate of the intangible assets included in the regulated business as of 31 December 2019.

We verified that the carrying amounts of tangible and intangible assets used for the impairment test matched the values in the financial statements.

We re-performed the impairment test.

Finally, we verified the accuracy and completeness of the disclosures presented in note 15 to the consolidated financial statements as of 31 December 2019.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, Management uses the going concern basis of accounting unless Management either intends to liquidate Italgas SpA or to cease operations, or has no realistic alternative but to do so. Those Charged with Governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on



Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- We concluded on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 28 April 2017, the shareholders of Italgas SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Italgas SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Italgas Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Italgas Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Italgas SpA as of 31 December 2019 and are prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of Italgas SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that Management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Turin, 16 April 2020

PricewaterhouseCoopers SpA

Signed by

Mattia Molari
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

By
Italgas

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