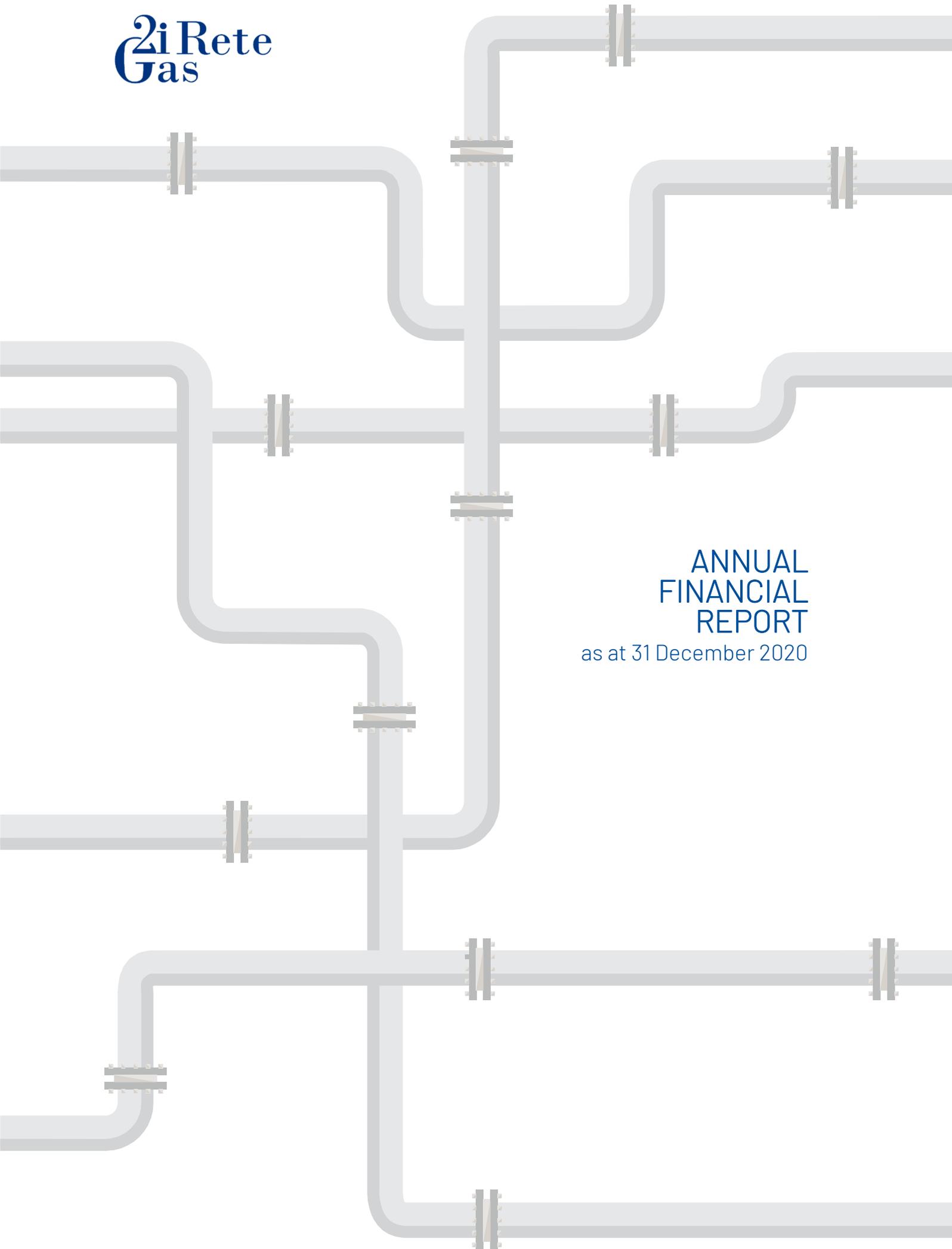




ANNUAL
FINANCIAL
REPORT
as at 31 December 2020



I Contents

I	Contents.....	2
II	Corporate Boards.....	5
III	Directors' Report	7
1.	Foreword	8
2.	Group structure and highlights	10
3.	Significant events during the reporting period.....	13
4.	Results of the 2i Rete Gas Group.....	14
5.	Regulatory and tariff framework	21
5.1	Regulation.....	21
5.2	Other significant events and/or aspects.....	30
5.3	Tariff framework.....	31
6.	Concession development and operation	34
6.1	Participation in ATEM tenders.....	34
6.2	Participation in ATEM tenders.....	36
6.3	Participation in tenders for the acquisition of companies	36
6.4	Concessions awarded	37
6.5	Concessions lost	37
6.6	Acquisition of companies	37
7.	Support for gas transport activities	38
7.1	Main regulatory changes	38
7.2	Relations with Traders and Customer Care	38
7.3	Gas Invoicing and Balancing	40
7.4	Metering	41
7.5	Commercial Development.....	43
8.	Plant construction, environment and safety	46
8.1	Gas distribution plants.....	46
8.2	Network and plant design	46
8.3	Service continuity and safety.....	47
8.4	Smart meters (Resolution 155/08)	48
8.5	Regulatory oversight.....	48

8.6	Innovation and research.....	48
9.	Quality, Safety and Environment	50
9.1	Management of the Integrated Quality, Safety and Environment (QSE) System.....	50
9.2	Prevention and Protection Service	51
9.3	Workplace injuries	51
9.4	Environmental issues.....	52
9.5	Technical and Commercial Quality, communication of commercial quality data to ARERA	53
9.6	Coordination of Safety at Worksites.....	53
9.7	Checks on Cilento Reti Gas operations	54
10.	Water sector.....	55
11.	Human resources	55
11.1	Company organisation.....	55
11.2	Relations with trade unions.....	56
11.3	Recruitment.....	57
11.4	Training and development.....	58
11.5	Staff administration	61
12.	IT systems	62
13.	Research and development	64
14.	Risk management	66
14.1	Operational risks.....	66
14.2	Risks linked to the development of the legal and regulatory context.....	66
14.3	Risks pertaining to gas distribution service tenders.....	67
14.4	Risks deriving from any likely reduction in natural gas consumption	67
14.5	Environmental and safety risks.....	68
14.6	Risks pertaining to energy transition.....	68
15.	Main features of the risk management and internal control systems in relation to financial disclosure	70
15.1	Foreword	70
15.2	Bodies supporting the B.o.D. which operate with a view to financial disclosure.....	71
15.3	Main features of the risk management and internal control systems in relation to financial disclosure.....	74
16.	Outlook.....	81
17.	Key figures of the Parent Company.....	82

17.1	Reclassified Income Statement	82
17.2	Reclassified Statement of Financial Position	83
18.	Reconciliation of Equity and Net Income for the year.....	84
IV	Consolidated financial statements of the 2i Rete Gas Group	85
1.	Income Statement	86
2.	Statement of Comprehensive Income	87
3.	Statement of Financial Position.....	88
4.	Statement of Cash Flows.....	90
5.	Statement of Changes in Equity.....	91
6.	Notes to the Consolidated Financial Statements	92
V	Report of the Board of Statutory Auditors	165
VI	Report of the Independent Auditors.....	166
VII	Statutory financial statements of 2i Rete Gas S.p.A.	167
1.	Income Statement	168
2.	Statement of Comprehensive Income	169
3.	Statement of Financial Position.....	170
4.	Statement of Cash Flows.....	172
5.	Statement of Changes in Equity.....	173
6.	Notes to the Statutory Financial Statements of 2i Rete Gas S.p.A.	174
7.	Proposed profit allocation for the year.....	229
VIII	Report of the Board of Statutory Auditors	230
IX	Report of the Independent Auditors.....	231

II Corporate Boards

Board of Directors	Board of Statutory Auditors	Independent Auditors
Chairman Paola Muratorio	Chairman Marco Antonio Modesto Dell'Acqua	PricewaterhouseCoopers S.p.A.
Deputy Chairman Carlo Michelini	Standing auditors Marco Giuliani Andrea Cioccarelli	
Chief Executive Officer Michele Enrico De Censi	Alternate auditors Giuseppe Panagia	
Directors Paolo Bugini Marion Calcine Rita Ciccone Rosaria Calabrese Stefano Gatti Carlo Maddalena		



Our office in Via Albricci in Milan

III Directors' Report

1. Foreword

In its economic bulleting published in January 2021¹ referring to the year 2020, the Bank of Italy reported a fresh drop in GDP in Q4, after an encouraging third quarter, when the economic recovery had been robust. Figures for the year felt the effects of the ongoing pandemic, particularly since March 2020. Not just Italy but the whole world was affected, and subsequent national lockdowns put a damper on a number of business sectors for many months.

Although the government introduced further measures to support families and businesses, the general picture points to difficulties carrying on at least until late spring 2021.

Annual GDP underwent a significant fall, down 9.2% on the previous year, business confidence indexes felt the effects of the health emergency in October and November, only to improve in December, with positive news about vaccination campaigns.

Trends regarding the gas distribution network and new connections were also significantly affected by the health emergency, with a drop in the number of connected customers

The 2020 report of the Italian Ministry of Economic Development on gas balancing shows a decrease in gross domestic gas consumption at the national level. In December 2020, gas consumption was 71,036 million cubic metres, - 4.4% compared to 74,321 million metres in the previous year.

It is noted that while this figure is significant when looking at production trends, it does not have a direct impact on the Group's financial results.

Looking at activities performed by the 2i Rete Gas Group, 2020 was a year in which a number of acquisitions (the companies Montelungo Gas S.r.l., Maierà Gas S.r.l., Cometam Gas S.r.l. and Powergas Distribuzione S.p.A.) was followed by relative mergers, which for the first three in the above list concluded within the year, and for the final company on 1 January 2021. These operations were carried out to rationalise the Group's structure and optimise costs relating to the presence of several companies.

For the financial year 2020 the Group's operational data (number of managed concessions, active redelivery points, Km of network managed) showed improvements compared with the previous year, thanks in part to the above-mentioned acquisitions. It is noted that in 2019 the Group felt the effects of the sale - in order to comply with the decision taken in agreement with the Anti-trust Authority regarding the 2018 acquisition of the company Nedgia - of its equity share in the company Murgia Reti Gas S.r.l., an SPV in which the Parent Company had placed the concessions, assets and liabilities relative to the ATEMs of Bari 2 and Foggia 1. Transported volumes were down slightly, while there was a rise in the number of managed redelivery points.

¹ Bank of Italy - Economic Bulletin No. 1 2020 dated 17 January 2020.

From an economic viewpoint, the Report shows a drop in revenues due to the introduction of the new tariff period. The company responded by making further optimisations, notwithstanding the difficult state of the economy in Italy and indeed worldwide. The Gross Operating Margin fell by 16.8 million euro, mainly due to the capital gain posted in 2019 following the mentioned sale of assets of the company Murgia S.r.l., while curbs on financial charges helped to keep up margins.

There was a net profit of 183.8 million euro, while the net financial position deteriorated further, feeling the effects over the year of the four mentioned acquisitions and normal business requirements.

The Group approves the Consolidated Financial Report at the same time as it approves its Non-Financial Disclosure ("NFD") in accordance with the provisions of Legislative Decree 254/2016.

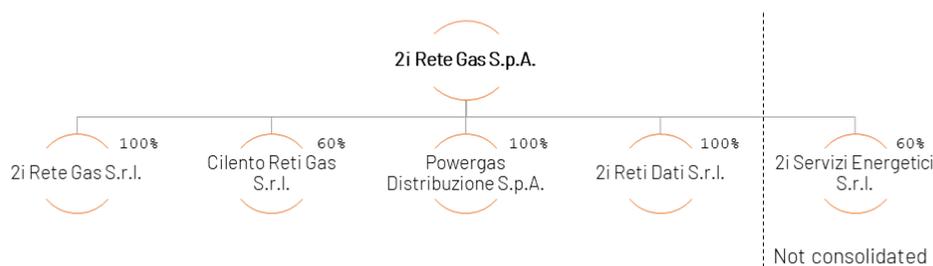
In addition to topics relating closely to sustainability and the path taken by the

Group on Environmental, Social and Corporate Governance questions, this year's DNF has sought to highlight the Group's approach to issues raised by the current pandemic, referring to all stakeholders, in particular Individuals and Suppliers.

In 2020, following the Board's approval of the Sustainability Framework and the relative Long-term Sustainability Plan, the Group began to work on specific goals, based on Sustainable Development Goals agreed upon by the United Nations. The macro areas covering Environmental, Social and Corporate Governance issues have all been considered: the Group has therefore formally undertaken to follow in an effort to provide a solid contribution to improving conditions for the environment and the community at large.

2. Group structure and highlights

The following diagram sets out the Group's equity investments at 31 December 2020:



The company 2i Rete Dati S.r.l. was founded during the year, but at 31.12.2020 it was not yet operational. This company will independently develop the data transmission business, taking advantage of the expertise acquired by the Group in recent years thanks to experience with data networks created to communicate with electronic meters.

It is also noted here that although 2i Servizi Energetici S.r.l. is 60% owned by the Group, it is controlled jointly with other shareholders. During the year efforts continued to raise energy efficiency, despite lagging behind the timetable it had set for itself, due to the ongoing pandemic, making it difficult to put forward suggestions and discuss them with the Administrations concerned.

As for the Group's highlights, the following table shows the key operating, income statement and statement of financial position indicators of the Group:

	31.12.2020	31.12.2019	2020 - 2019
Active concessions:	2,148	2,132	16
Active redelivery points:	4,355,413	4,342,719	12,694
Distributed Gas (Natural gas and LPG) in millions of cubic metres:	5,771	5,975	(204)
EBITDA in millions of euro:	514.4	531.1	(16.8)
Net income in millions of euro:	183.8	206.5	(22.7)
Managed networks in kilometers:	66,772	66,052	720

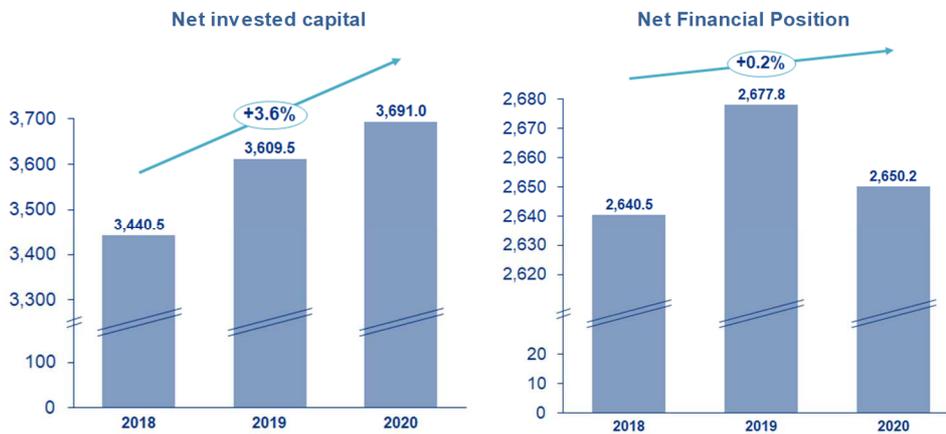
	31.12.2020	31.12.2019	2020 - 2019
Net financial position in millions of euro:	2,650.2	2,677.8	(27.6)
Net invested capital in millions of euro:	3,691.0	3,609.5	81.5

In order to better appreciate the development of some fundamental parameters for the Group over time, the diagrams below show the trend in the main income statement and statement of financial position indicators. For an analysis of the reported figures, reference should be made to section "Results of the 2i Rete Gas Group":

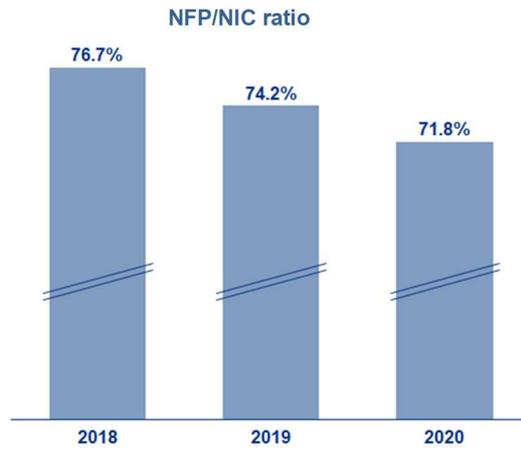
Trend in EBITDA from 2018 to 2020:



Trend in Net Invested Capital and Net Financial Position from 2018 to 2020:



In order to better appreciate the asset trend over the years, the diagram below shows the ratio of the Net Financial Position to Net Invested Capital:



The Net Financial Position to Net Invested Capital ratio – which in 2018 had grown following a relevant acquisition – fell again in 2019 and 2020 due to normal business performance.

3. Significant events during the reporting period

For the Group, just as for all businesses operating worldwide, 2020 was a challenging year, presenting an unknown factor that might have had a significant bearing on its way of doing business. Despite having to modify its traditional operational methods, the fact that the digitalisation process had been ongoing for years meant that the impact on the balance sheet and on operations was very modest. Notwithstanding the health emergency, the Group grew over the year thanks to the acquisition of four new companies, three of which merged directly during the year with the Parent Company, and laid the foundations for further growth, to be completed in 2021.

The merger of the fourth company with the Parent Company was completed on 1 January 2021.

Following this latest merger, the Group structure has again been optimised, despite having added a further 6,500 redelivery points and 9 human resources.

On the financial side, the Group renewed its debenture loan issue programme (*4 billion Medium Term Note Programme or EMTN Programme*) at the end of December 2020, so as to be ready to take advantage of particularly positive market conditions in the first months of 2021. In January 2021 the Parent Company issued a further 500 million euro of 10-year debenture

loans, with a pricing that represents the lowest coupon (irrespective of duration) since 2i Rete Gas has had recourse to public market. The main goals of the issue are to finance the future acquisition of the company IDG S.p.A. and to refinance issues maturing in coming years.

As in the previous year, also in 2020, as part of the annual rating review by both Standard and Poor's and Moody's, the Company disclosed the performance of its business and the key metrics for the two ratings agencies to assess its financial strength. In July 2020, both agencies confirmed the rating attributed in previous years (BBB Outlook Stable and Baa2 Outlook Stable, respectively). In 2020 Standard and Poors raised its "*Liquidity profile*" rating from *Adequate* to *Strong*, and in January 2021 confirmed this appraisal, also in light of the future acquisition of IDG S.p.A. from the Edison group.

4. Results of the 2i Rete Gas Group

The Group consistently uses over time certain popular non-IAS/IFRS measures. In particular, the income statement presents intermediate measures, such as EBITDA and EBIT, which are the algebraic sum of the items preceding them. As for statement of financial position data, similar considerations apply to net invested capital, net financial position, ESMA financial position, adjusted financial position, and accounting net financial debt, which are broken down in the following tables. As the measures used by the Group are not defined in the reference accounting standards, their definitions may not be aligned with those adopted by other companies/groups, and therefore they may not be comparable.

The result from operations for the year is shown in the table below and has been obtained by reclassifying the income statement data in accordance with operational criteria that conform to international practice and reporting the costs for the purchase of energy efficiency certificates net of the related revenue.

Millions of euro	31.12.2020	31.12.2019	Change
Revenue	1,038.8	1,057.1	(18.2)
Transport and sale of methane gas and LPG	674.4	681.5	(7.1)
Connection fees and accessory rights	14.8	15.0	(0.2)
Other sales and services	22.4	26.2	(3.8)
Revenue from intangible assets / assets under construc	296.5	284.9	11.6
Other revenue	30.7	49.5	(18.8)
Operating costs	(524.5)	(525.9)	1.5
Labour costs	(116.5)	(122.2)	5.8
Raw materials and inventories	(67.3)	(74.8)	7.5
Services	(292.2)	(274.0)	(18.2)
Other costs	(26.9)	(33.6)	6.7
Net allocations to provisions for risks and charges	(23.0)	(23.0)	(0.0)
Increase in fixed assets not subject to IFRIC 12	1.4	1.6	(0.3)
EBITDA	514.4	531.1	(16.8)
Amortisation, depreciation and write-downs	(200.6)	(204.3)	3.7
Amortisation, depreciation and impairment losses	(200.6)	(204.3)	3.7
EBIT	313.8	326.8	(13.0)
Net financial income (expenses) and income (expenses)	(54.8)	(60.7)	5.9
Pre-tax income	259.0	266.1	(7.1)
Income taxes for the year	(75.2)	(59.6)	(15.6)
Net income (expenses) from continuing operatio	183.8	206.5	(22.7)
Net income (expenses) from discontinued operat	-	-	-
Net income for the year	183.8	206.5	(22.7)

The interpretation of IFRIC 12, on which the presentation of the tables for the statutory and consolidated financial statements of the 2i Rete Gas Group is based, does not entail an impact on profits, but only the recognition of equal revenues and costs, which totalled 296.5 million euro in the year and relate to the construction of the distribution network infrastructure; therefore, for the purposes of easier analysis of any deviations, the income statement showing the consolidated revenue and costs, net of the impact of the application of the aforementioned interpretation, is also set out below.

Millions of euro	31.12.2020 without IFRIC 12	31.12.2019 without IFRIC 12	Change
Revenue	742.3	772.2	(29.9)
Transport and sale of methane gas and LPG	674.4	681.5	(7.1)
Connection fees and accessory rights	14.8	15.0	(0.2)
Other sales and services	22.4	26.2	(3.8)
Other revenue	30.7	49.5	(18.8)
Operating costs	(231.3)	(244.1)	12.9
Labour costs	(57.5)	(59.4)	1.9
Raw materials and inventories	(8.1)	(7.4)	(0.7)
Services	(118.0)	(123.3)	5.3
Other costs	(26.0)	(32.7)	6.7
Allocations to provisions for risks and charges	(23.0)	(23.0)	(0.0)
Increase in fixed assets not subject to IFRIC 12	1.4	1.6	(0.3)
EBITDA	511.0	528.0	(17.0)
Amortisation, depreciation and write-downs	(197.2)	(201.2)	4.0
Amortisation, depreciation and impairment losses	(197.2)	(201.2)	4.0
EBIT	313.8	326.8	(13.0)

Revenues totalled 742.3 million euro, decreasing by 29.9 million euro. Revenue from natural gas and LPG transport, which stood at 674.4 million euro, showed a decrease of 7.1 million euro; this figure is influenced by the further release in the year of remaining funds for tariffs applicable to concessions in which there is a network owned by third parties, totalling 22.3 million euro (in the previous year the first 21 million euro had been released), and by the new tariff definition for the period 2020-2025 as per resolution 570/2019/R/gas, which revised the tariff revenues constraint guaranteed to the sector.

Connection fees and associated costs, amounting to 14.8 million euro, were substantially in line with the previous year.

Revenue from other sales and services, totalling 22.4 million euro, was lower compared to the previous year: revenues from meter reading and the suspension and

reactivation of customers in arrears were down in 2020 due to the ongoing health emergency and related law provisions, which have hampered routine operations. The values for energy efficiency certificates are shown net, as the difference between revenue and related costs, including any allocation to the provisions for risks.

For this reason, other revenue does not include revenue for energy efficiency certificates, which has been set against related costs.

This item improved thanks largely to the estimated recognition of technical quality bonuses (pursuant to resolution 574/13), while capital gains on sales, totalling 1.9 million euro for the year, were impacted significantly last year by the recording of a net capital gain of 15 million euro, generated by the sale of SPV Murgia Reti Gas S.r.l. This item also includes revenues from recording tax credits for R&D and from revenues for plant safety testing (pursuant to Resolution 40/04).

Operating costs net of IFRIC 12 totalled 231.3 million euro, a fall of 12.9 million euro, due to a considerable drop in service costs and a larger contribution made by investments.

Labour costs totalled 57.5 million euro, net of capitalisation, and were down 1.9 million euro compared to the previous year, mainly due to the greater use of internal staff for investment activities.

Service costs were down by 5.3 million euro net of capitalisations during the year; like last year, Other costs felt the effects of net cost trends for TEE, which fell overall by 5.1 million euro, resulting in improved net margin, and of lower capital losses from the liquidation and sale of assets of 2.7 million euro. Other costs include the two 1 million euro donations, to the Fondo Fondazione Fiera - Ospedale in Fiera coronavirus fund and to the Civil Protection organisation, supporting efforts to combat the ongoing pandemic.

Finally, net allocations to provisions for risks and charges were substantially unchanged compared with the previous year. Net provisions for the year were allocated in respect of risks pertaining to plant malfunctioning and related repair costs (10.7 million euro), tariff risks (7.6 million euro), while another 1 million euro accounted for provisions for ATEM tender costs.

EBITDA therefore amounted to 511.0 million euro, further down 17.0 million euro compared to the prior-year period (528.0 million euro). The margin was affected by lower tariff revenues decided for the period 2020-2025 by ARERA and by the previous year's capital gain on the sale of the company Murgia Reti Gas S.r.l., offset by the release of the fund relative to the tariff of some localities and by greater operational efficiency in terms of Group management. COVID-19 had only a marginal effect on these figures thanks to the Group's resilience.

Amortisation, depreciation and write-downs, slightly down on the previous year, totalled 197.2 million euro.

These values were mainly the result of amortisations, and only marginally IFRS 16 right-of-use assets and depreciation, and are net of the portion of IFRS 16 assets capitalised in the year.

EBIT totalled, therefore, 313.8 million euro, compared with the previous year's 326.8 million euro, a 13 million euro drop caused by the differences mentioned above.

The negative gap between financial income and charges (-54.8 million euro) was lower than the previous year, thanks to the conclusion of the debenture loan tranche reaching maturity at the beginning of 2020, paid back within the set deadline.+ It should be noted that the financial costs of this tranche of the debenture loan are hedged by a derivative structure whose positive effects will continue throughout the duration of the loan.

The pre-tax profit was 259 million euro, a fall of just 7.1 million euro thanks to all Group optimisations.

The Group's income taxes for the year amounted to 75.2 million euro (they amounted to 59.6 million euro in 2019). However, the balance of the previous year also included the net effect between current and deferred taxation (approximately 13.9 million euro) resulting from the exemption of higher amounts arising from the merger between 2iRete Gas Impianti S.r.l. and 2i Rete Gas Impianti S.p.A. in 2018, the latter later merged with 2i Rete Gas S.p.A. during 2019.

As a consequence of the above, the net income for the year was 183.8 million euro, compared to 206.5 million euro in the previous year.

The financial position for the year is shown in the table below. This was obtained by reclassifying the statement of financial position in accordance with operational criteria.

Millions of euro	31.12.2020	31.12.2019	Change
	A	B	A-B
Net fixed assets	3,630.0	3,560.8	69.2
Property, plant and equipment	35.7	37.2	(1.5)
IFRS 16 Rights of use	24.3	28.8	(4.6)
Intangible assets	3,880.1	3,760.8	119.3
Equity investments	3.6	3.3	0.3
Other non-current assets	56.1	57.7	(1.6)
Other non-current liabilities	(331.1)	(323.1)	(8.0)
Fair value of derivatives	(38.8)	(4.0)	(34.8)
Net working capital:	54.0	67.2	(13.2)
Inventories	18.3	23.5	(5.2)
Trade receivables from third parties	234.9	250.7	(15.8)
Net receivables/(payables) for income taxes	8.8	(1.9)	10.7
Other current assets	211.5	201.4	10.2
Trade payables to third parties	(216.0)	(186.3)	(29.6)
Other current liabilities	(203.5)	(220.1)	16.6
Gross invested capital	3,684.0	3,628.0	56.0
Other provisions	(7.1)	18.4	(25.5)
Post-employment and other employee benefit:	40.3	43.6	(3.3)
Provisions for risks and charges	85.8	100.8	(14.9)
Net deferred taxes	(133.2)	(125.9)	(7.3)
Net invested capital	3,691.0	3,609.5	81.5
Assets held for sale	-	3.0	(3.0)
Liabilities held for sale	-	0.1	(0.1)
Equity	1,040.8	934.6	106.2
Net Financial Position	2,650.2	2,677.8	(27.6)

Net fixed assets, which mainly represent intangible assets related to gas distribution concessions, totalled 3,630 million euro, up 69.2 million euro compared to 31 December 2019 because of the standard trend in Group investments and the acquisitions carried out during the year.

It should be noted that the item "Rights of use IFRS 16" includes the rights of use of rented or hired assets related to long-term contracts for the use of third-party assets on an exclusive basis, as required under IFRS 16 applicable since 1 January 2019.

The increase in "other non-current liabilities", amounting to 8 million euro, was due to collection and release to income statement movements pertaining to medium/long-term accrued liabilities for connection, property development, equipment relocation and network extension fees.

The *fair value* in the year of the derivative contract entered into in August 2019 to hedge future issues of debenture loan tranches felt the negative effect of interest

rate trends, falling by 38.8 million euro. This item was offset, net of the relative tax, by a negative equity reserve.

Net working capital totalled 54 million euro and fell by 13.2 million euro compared to the previous year.

Trade receivables fell by 15.8 million euro, thanks in part to a factoring operation to offset delays in some receivable payments. The increase in other current assets and fall in current liabilities had a negative effect on net working capital, the result of a normal VAT credit situation and the negative effect of factoring of receivables due for EEC contributions.

At the same time, trade payables grew by 29.6 million euro due to the impetus of investments in the latter months of the year, while there was an increase in income tax receivables (+10.7 million euro compared with the previous year).

The value of inventories for the period was 18.3 million euro, a fall of 5.2 million euro on the previous year.

Therefore, due to the combined effect of the changes in net fixed assets and net working capital, gross invested capital increases by 56 million euro from 3,628 million euro in the previous year to 3,684 million euro at 31 December 2020.

Other provisions, the total balance of which was 7.1 million euro, fell by 25.5 million euro overall; this was affected by the remaining part of the provision created for tariff disputes and by changes to the deferred taxes fund, falling by 7.3 million euro. In 2019 this balance had been significantly affected by the exemption of the goodwill generated from extraordinary transactions completed in the previous year, in addition to deferred tax patterns relating to business operations.

Therefore, net invested capital increased from 3,609.5 million euro in the previous year to 3,691 million euro, up by 81.5 million euro.

Assets and liabilities held for sale were zero.

Equity rose from 934.6 million euro in 2019 to 1,040.8 million euro at 31 December 2020, due to the net impact of the following changes:

- 50 million euro decrease following the ordinary dividend payout;
- 27.6 million euro negative change in the reserves for derivative instruments and other reserves, net of the relevant tax impact;
- 183.8 million euro increase following the recognition of the result at 31 December 2020.

Minority interests stood at 1.9 million euro as at 31 December 2020.

The table below shows the breakdown of the items that make up the accounting net financial position, the adjusted net financial position and the ESMA net financial position:

Millions of euro	Notes			
		31.12.2020	31.12.2019	Changes
Medium-/long-term bank loans	27	(488.6)	(406.8)	(81.8)
Medium/long-term debenture loans	27	(2,265.0)	(2,265.0)	0.0
Short-term debenture loans	33	0.0	(267.1)	267.1
Cash and cash equivalents with third parties	22	187.0	353.3	(166.3)
Short-term financial receivables	20	1.8	1.3	0.5
Other current financial assets	21	0.0	0.9	(0.9)
Short-term financial debt	33	(36.4)	(40.0)	3.6
Current portion of medium-/long-term loans	34	(18.2)	(18.2)	-
Current financial liabilities	38	(17.1)	(20.0)	3.0
Non-current IFRS 16 financial liabilities	31	(18.4)	(22.5)	4.1
Current IFRS 16 financial liabilities	39	(5.3)	(6.1)	0.8
ESMA net financial position		(2,660.2)	(2,690.3)	30.1
Non-current financial assets	16	0.2	0.7	(0.5)
Adjusted net financial position		(2,660.0)	(2,689.6)	29.6
Non-current financial assets - costs on loan	16	0.6	0.9	(0.3)
Adjustment of payables due to costs on ST loan (IAS 39)	38	-	0.0	(0.0)
Adjustment of payables due to costs on MLT loan (IAS 39)	27	9.2	10.9	(1.7)
Net Financial Position		(2,650.2)	(2,677.8)	27.6
Negative fair value of derivatives	38	(38.8)	(4.0)	(34.8)
Accounting net financial debt		(2,689.0)	(2,681.8)	(7.2)

The net financial position moves from 2,677.8 million euro in 2019 to 2,650.2 million euro at 31 December 2020. The adjusted net financial position instead went from 2,689.6 million euro to 2,660 million euro, due to the standard business trend and to the payment of dividends for 50 million euro in 2020.

The statement of cash flows enables representation of the change in adjusted net financial position determined in accordance with the criteria used mainly by rating agencies.

The cash flows in the year reflected the standard business trend, both as regards the net financial position and as regards operations.

5. Regulatory and tariff framework

In addition to industry laws and regulations, natural gas distribution is specifically regulated by the Regulatory Authority for Energy, Networks and Environment - ARERA.

The Authority regulates the sectors it is responsible for through specific provisions, which specifically involve determining and updating infrastructure service tariffs, as well as defining the supply levels of these services and the rules for non-discriminatory access and use of the infrastructure.

In addition, the Authority has an advisory role with the Parliament and the Government, to which it can provide indications and proposals.

5.1 Regulation

2020 was the first year of the new regulatory period (2020-2025) for tariffs and the quality of the natural gas distribution service.

Right from the first half of 2020, the ARERA Board was busy taking regulatory decisions to ensure the security and continuity of energy supplies and essential public services in sectors governed by the Authority. Decisions were also a reaction to effects on the energy sector caused by the Covid-19 pandemic affecting Italy from the second half of February onwards. In the first months of the emergency in particular and in the first phase of full lockdown, the Authority had to consider and take urgent measures to mitigate the effects of the pandemic on

the public services within its jurisdiction.

The periodical meetings of the Authority, ordinarily focusing on the Strategic Framework and the reporting of activities performed, held in July, were this year dedicated to receiving observations and suggestions from stakeholders regarding public services and the Covid-19 emergency, in particular possible regulatory provisions to deal with the effects of the emergency and reset in motion processes that have been interrupted and/or slowed down due to the emergency.

Notwithstanding the emergency, during the year the Authority issued a number of measures relevant to the Group concerning the gas sector. Among these, of specific relevance to the gas distribution sector were several resolutions on (i) tariffs and the quality of distribution and metering services, (ii) gas metering and smart meters, (iii) energy efficiency objectives and contribution to the obtainment of white certificates (EECs) by obligated distributors, (iv) access to the gas distribution service and regulations pertaining to gas settlement, including through the Integrated Information System (SII), (v) data exchange among operators and with the SII, (vi) amendments to the directives for the connection of biomethane production plants to natural gas networks and incentives for the production of biomethane, (vii) the application of regulations governing tenders for the award

of gas distribution service contracts, viii) social bonuses (electricity, gas and water) and relief for the seismic events of 2016-2017 to protect end customers, and finally, (ix) controls on operators. Among the briefings and contributions made to the competent parliamentary committees on topics regarding the regulated sectors, ARERA also expressed technical opinions for the sectors within its jurisdiction regarding priorities for use of the Recovery fund, helping the Italian government and parliament to identify investments and reforms to which European funds should be allotted, in compliance with the priorities and guidelines set forth by the European Union for drafting recovery and resilience plans (PNRR). Finally, the Authority issued numerous provisions on the subject of water services, affecting residual water management situations of 2i Rete Gas S.p.A., which were however sold to third parties at the end of the year.

Actions relating to the Covid-19 emergency

As already mentioned, in 2020 the Authority focused on taking measures to guarantee the continuity of essential public services in the sectors within its jurisdiction and to mitigate the economic and management impacts arising from the Covid-19 emergency. As from March 2020 urgent decisions were taken to establish procedures for suspending supplies of electricity, natural gas (for domestic customers and multi-unit buildings for domestic use or other uses with consumption \leq 200,000 m³/year) and water in the case

of defaulting customers/users, and contractual clauses for the suspension/interruption of gas supplies other than natural gas distributed through the urban network, would not be applied for the period of effectiveness of the ministerial decree of 9 March 2020, namely from 10 March to 3 April 2020 (resolution 60/2020/R/com). Due to the continuing pandemic situation, this measure was renewed several times (resolutions 117/2020/R/com and 124/2020/R/com) and then, with reference only to domestic end customers, on 17 May 2020 (resolution 148/2020/R/com).

In addition to the creation of an ad hoc expenditure account c/o the Fund for Energy and Environmental Services (CSEA) for extraordinary and immediate financial resources to ensure, during the Covid emergency, the sustainability of actions for end customers in the electricity and gas sectors and end users in the water sector, in addition to measures taken for the whole country, implementing the provisions of Legislative Decree 9/2020, with specific provisions in the area of electricity, gas, water services and management of the integrated waste cycle for the first municipalities hit by the epidemic, placed by the Government in the so-called "red zones" (Bertonico, Casalpuusterlengo, Castelgerundo, Castiglione D'Adda, Codogno, Fombio, Maleo, San Fiorano, Somaglia, Terranova dei Passerini and Vò), with the suspension until 30 April 2020 of deadlines for the payment of invoices, and financial support for businesses operating in sales (resolution 75/2020/R/com). It was also decided to extend deadlines for sanction

procedures (resolution 74/2020/S/com), safeguarding the right to defence otherwise threatened by measures to combat Covid-19, suspending until 31 May 2020 deadlines for the investigation phase and the decision-making phase of ongoing procedures, with relief from the effects of requirements unmet in the first period of the epidemic. Deadlines for other requirements (data collection and information obligations with the Authority) were also put back (resolution 59/2020/R/com, decisions 5/2020 - DIEU and 3/2020 - DMRT).

In April additional urgent measures were taken regarding the provision of electricity transmission and natural gas distribution services (resolution 116/2020/R/com), allowing exceptions to the regulation contained in network codes regarding the management of possible payment defaults on the part of service users as a result of urgent measures protecting end customers pursuant to resolution 60/2020/R/com, exceptions to the regulation on guarantees provided by users for access to the network and provisions for distributors regarding the payment of system overheads to CSEA and to GSE. With no sign of the pandemic ending, these measures were extended and integrated for the months of May (resolution 149/2020/R/com) and June (resolution 192/2020/R/com), with the subsequent establishment (resolution 248/2020/R/com, adopted further to consultations in late May and mid-June with DCO 193/2020/R/com) of times and methods for the final payment of amounts billed in the period going from

1 April to 30 June 2020. Changes were also made to rules regarding ratings in the event of downgrades caused by the emergency.

Further to additional consultations begun in August (DCO 313/2020/R/com), extraordinary measures were introduced for the output-based regulation of gas and electricity distribution services in response to the Covid-19 emergency, taking into account the need raised by companies to allow a degree of flexibility in relation to service quality regulation obligations.

As from March, moreover, the Authority:

- informed operators that it would take into account the national emergency when applying regulatory provisions in the sectors under its jurisdiction (such as those regarding service quality indicators and related economic effects), and would rule out the possibility of economically damaging consequences for operators that provide the service in line with the primary goal of guaranteeing the continuity and availability of services in safe conditions for users and workers (the Authority also provided general information to operators for the safe performance of activities pertaining to the services regulated, as supplied by the Ministry for Economic Development);

- kept in close touch with operators, also through their associations, seeking reports on possible regulatory actions in the short and medium term to deal with the emergency in a more

effective and orderly fashion. This resulted in some of the measures mentioned above being taken.

Regulation on tariffs for the gas distribution and metering service

2020 was the first year of the 5th regulatory period (2020-2025), as per resolution 570/2019/R/gas, adopted in late 2019.

During the year, the Authority set the final tariffs for distribution and metering services for 2019 (Resolution 107/2020/R/gas) on the basis of the definitive financial data for 2018 as communicated by the companies (adjusting, for some companies and some specific localities, the final tariffs of previous years), the provisional tariffs for 2020, on the basis of the provisional data for 2019 (Resolution 127/2020/R/gas), the usual periodic updates of some tariff components (general system charges for the natural gas sector and tariffs for other gases) and, at year end (Resolution 596/2020/R/gas), the mandatory tariffs, bi-monthly equalisation payments on account for natural gas distribution and metering services for 2021.

Also, implementing resolution 570/2019/R/gas, in March changes were introduced (decision 4/2020 - DIEU) for the revaluation, with the start-up of new Local Area management operations, of the value of net fixed assets should they be at odds with sector averages, treating separately, in order to ascertain discrepancies, investments in smart meters from 2012 to 2017 and

all new distribution and metering investments undertaken from 2018 onwards.

With the conclusion in 2021 of the first regulatory period (2016-2021) for the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors, in October the Authority began work (with resolution 380/2020/R/com) on defining new criteria for determining and updating the WACC in the electricity and gas sectors for the second regulatory period, starting on 1 January 2022. The Authority said it would make only minor changes to the regulatory model adopted for the first period, relating to some specific aspects, such as the gearing level, the β parameter and the cost of debt.

Again in October, the Authority filed a report with the Italian Parliament and Government concerning article 114-ter of Legislative Decree 34/2020 (so-called "Relaunch" decree), in particular the full tariff coverage of investments in new networks and installations in specific parts of the country (Report 406/2020/I/gas). In this report the Authority highlighted some criticalities of the law, and recommended it be modified, to prevent the new provisions from hampering the efficient development of the gas distribution service. In early November, nevertheless, it commenced a procedure (with resolution 435/2020/R/gas) to apply the provisions of art. 114-ter of the Legislative Decree.

Finally, in December ARERA (with resolution 562/2020/R/com) recognised costs incurred by gas and electricity

distributors for debranding and relative communication policies.

Further information on tariffs is set out in section 5.3 "Tariff framework".

Regulation on quality for the gas distribution and metering service

With regard to regulating the quality of the gas distribution and metering service, provisions were taken to curb the impact of the epidemiological outbreak on operations, and during the course of 2020 initial levels and projected levels were calculated for companies participating in the incentive scheme for the gas distribution service for the period 2020-2025 (resolution 463/2020/R/gas).

In 2020, having performed all checks as required, the Authority set forth—in May for the year 2016 (Resolution 163/2020/R/gas) and in December for the year 2017 (resolution 567/2020/R/gas) - incentives and penalties in respect of service safety levels achieved by natural gas distributors with regard to gas odourisation level measurements and leak reduction. Among around 180 companies participating in the incentive scheme, 2i Rete Gas was awarded the highest overall incentive, both for 2016 and 2017 (as in previous years), underscoring a very high level of technical quality in managing its facilities.

Energy efficiency targets

As for energy efficiency targets and the relevant obligation to obtain the EECs (also called "white certificates"), in January, with Resolution 1/2020 DMRT, the data on the primary energy saving targets for 2020 assigned to electricity and natural gas distributors were defined and submitted to Italy's Ministry of Economic Development (MiSE) as well as Gestore dei Servizi Energetici (GSE) - a publicly-owned company promoting and supporting renewable energy sources in Italy (2i Rete Gas S.p.A. was overall assigned a target corresponding to 815,000 white certificates).

In July, following the ruling passed by the administrative court (TAR) of Lombardy, which in late November 2019 ordered the annulment of resolution 487/2018/R/efr and all subsequent amendments and additions (resulting also in the abrogation of the ministerial decree of 10.05.2018, due to its status as a related measure, in the part in which it had set a "cap" of 250 Euro for obligated parties for each EEC obtained) and further to consultations held in February and March 2020 (DCO 47/2020/R/efr), the Authority approved (with resolution 270/2020/R/efr) new ways of determining the tariff contribution to cover costs incurred by distributors obligated to make energy savings within the EEC mechanism. Among other aspects decided, this provision confirmed the value of the cap for the tariff contribution (250 €/EEC). Anticipating possible financial difficulties for obligated parties due to

the extension of the deadline for 2019 (from 31.05 to 30.11.2020, one of the provisions put in place by Law 77/2020 to mitigate the impact of the Covid-19 emergency), with the consequent deferment of payment of the contribution due for significant costs already incurred by companies, the latter were given the possibility of asking the CSEA for an extraordinary advance of 250 €/EEC, corresponding to 18% of the specific objective for 2019.

Finally, in December, resolution 550/2020/R/efr was passed to determine the amount of the tariff contribution to be given to obligated distributors as part of the EEC mechanism for the year 2019 (250 €/EEC, with a further unit payment of 4.49 €/EEC).

Smart gas metering regulation

In the sphere of smart metering, following reports from sectoral associations regarding the effects that the Covid-19 outbreak and relative mitigation measures have had on the operations of distribution companies (slow-down or suspension of installation activities and commissioning of gas smart meters), in December the Authority passed resolution 501/2020/R/gas, updating obligations for the commissioning of new electronic meters for at least 85% of redelivery points, in the G4-G6 meter class, putting back by a year the previous deadline (from 31.12.2020 to 31.12.2021 for companies with more than 200,000 end customers and from 31.12.2021 to 31.12.2022 for companies having between 100,000 and 200,000 end customers).

In December the Authority also recognised (with Resolution 568/2020/R/gas) the costs related to remote reading and management systems as well as concentrators incurred in 2017 and 2018 by the distribution companies (including 2i Rete Gas S.p.A.).

Access to the gas distribution service and rules pursuant to the network code and gas settlement

With regard to the regulation of physical and economic items of the natural gas balancing service (known as "settlement"), in 2020 additional urgent measures were taken (resolution 181/2020/R/gas) for the management of anomalous withdrawals detected during balancing sessions, starting with the January 2020 session, following the new procedure requiring the transmission of metering data through the Integrated Information System (SII). In June, changes were made to the Integrated Gas Settlement Text (TISG) to regulate - as part of activities assigned to the SII - the communication to distributors, distribution users (UdD) and balancing users (UdB) of any anomalies detected by SII during checks carried out when aggregating meter data, so that they could be corrected (resolution 222/2020/R/gas).

Resolution 28/2020/R/gas introduced provisions for the treatment of gas leaking from the distribution network during emergency situations or when pipelines/installations are damaged.

As regards the management of trade relations in the gas sector, further to temporary provisions adopted in early

2020 (resolution 9/2020/R/gas) to handle problems occurring during the start-up of the new procedure updating matching relations between the Balancing User and redelivery point on the distribution network, provisions were updated in March regarding the activation of "services of last resort" in the event of no valid matching relations (resolution 88/2020/R/gas).

In September the Authority illustrated its guidelines (DCO 330/2020/R/com) for modifying settlement rules with reference to cases in which the so-called "short" (two-year) prescription period, contested by the end customer in relations with his supplier, has consequences on operators in wholesale markets. The provision envisages the introduction of ways of offsetting costs arising from prescription exceptions, and a distributor accountability mechanism in the event of delayed adjustments arising from new metering data.

Data exchange among operators and with the Integrated Information System (SII)

With regard to provisions on the process of feeding redelivery point and metering data into the SII, which should have come into effect on 1 June 2020 (resolution 271/2019/R/gas, as amended), the Authority, in view of the emergency situation engendered by the Covid-19 outbreak, and following reports from associations representing firms operating in the sector, put back until 1 January 2021 (resolution 185/2020/R/gas) the coming into effect

of new information flows, with regard to the supply of measurements taken during technical interventions in addition to regular measurements.

In November changes to the rules for the functioning of the SII was approved, implementing technological advances made in the sphere of SII user communication tools and recent privacy legislation, in particular the GDPR regulation (resolution 455/2020/R/com).

Rules for gas distribution default service

With regard to the decision based on a request from an operator concerning exemption for payments due to the non- or delayed discontinuation of the service to redelivery points under default, evaluation criteria were added for claims of partial or full exemption for such payments (resolution 183/2020/R/gas).

The Authority then approved rules for procedures to identify natural gas last resort suppliers and default service suppliers as from 1 October 2020 (for the period 01.10.2020 - 30.09.2021), confirming the rules in place for the previous period and updating rules for the provision of the same services (resolution 283/2020/R/gas).

Updating Directives for the connection of biomethane production plants to natural gas networks

With regard to regulations for connecting biomethane production plants to natural gas networks, directives were

updated (resolution 64/2020/R/gas) with new technical references for identifying quality specifications for bio-methane to be fed into networks. As a result, changes to the network codes of the companies Snam Rete Gas S.p.A. and Infrastrutture Trasporto Gas S.p.A. were approved (resolution 164/2020/R/gas).

Provisions enabling the regulation for gas distribution service tenders

With regard to verification procedures within its jurisdiction, the Authority took decisions based on observations regarding the residual industrial value of plants (VIR) and/or tender documentation submitted by contracting authorities for some ATEM tenders (Trieste, Biella, Rome 2, Rome 4, Pordenone, Prato, Turin 5 - North-East, Cuneo 1 - North-West, Rimini; with a decision for the latter, taken in 2020 and published in the first days of 2021).

Safeguards for end customers

With regard to safeguarding end customers' rights, in November the Authority approved the new Rules for the operation of the Single Buyer Portal (Acquirente Unico), for the exchange of documents and information between the Energy and Environment Helpdesk and Market operators, as part of activities for the efficient management of complaints and conciliation procedures for the gas, electricity and water sectors (decision 10/2020 - DACU).

With regard to the regulation of the so-called "short prescription period", the Authority updated the regulation for

the electricity, gas and water sectors (resolutions 184/2020/R/com and 186/2020/R/idr) following changes made by art. 1, subsection 295 of the 2020 Budget Law.

On the subject of insurance for end customers in the gas sector to cover against the risk of accidents downstream of the redelivery point, the Authority established criteria (resolution 167/2020/R/gas) for new insurance for the period 2021-2024, and as from 1 January 2021 (resolution 484/2020/R/gas) updating the Cp fee covering relative charges (0.45 euro/redelivery point insured/year).

Regulation on the social bonus (electricity, gas and water)

A procedure was initiated (resolution 14/2020/R/com) in 2020 to implement new regulatory provisions (Law 157/19, converting art. 57-bis of Legislative Decree 124/19) introduced for the automatic recognition, as from 1 January 2021, of social bonuses for electricity and natural gas supplies and social bonuses for water for customers undergoing economic hardship, with the aim of guaranteeing supplies to all eligible parties without them having to file relative applications.

Further to consultations held in June (DCO 204/2020/R/com), the Authority proposed possible ways for the operation of the system to automatically recognise social bonuses (having consequences on activities performed by distribution firms). At the end of December, pending the adoption of the decision implementing the results of consultations, the Authority adopted

decision 11/2020 - DACU) for the management of the period of transition from the existing system to the new system for automatically recognising social bonuses.

Relief measures concerning the earthquakes occurred in 2016 and 2017

Following the provisions which were adopted in 2016, 2017 and 2018, the Authority approved further reliefs on electricity, gas and water bills for the communities struck by the earthquakes started in August 2016 with operational implications for the management of such reliefs by distributors and sellers (Resolutions 54/2020/R/com and 429/2020/R/com).

Checks on operators

On the question of checks on operators, the Authority ordered the usual annual campaign of telephone calls (50 checks) and inspections of gas distributors concerning compliance with emergency gas interventions, to be completed by 31 March 2021 (resolution 52/2020/E/gas).

The Authority approved (Resolution 27/2020/E/gas) a programme of 3 audits regarding service safety improvements to be carried out by 31 December 2020 and with reference to the data for 2018. The Authority will audit natural gas distribution companies selected from among those who have not been audited for the purposes of awarding incentives in the last 5 years, considering also their distribution across Italy.

In view of the impacts of the Covid-19 emergency, the Authority also ordered, with resolutions 78/2020/E/gas and 226/2020/E/com, an extension of the terms for the two inspection programmes begun in the final months of 2019, to check the correctness of data and procedures used by distribution companies for the natural gas balancing service (a total of 4 checks by 31 March 2020, extended to 31 December 2020) and for SII requirements on the part of companies performing sales and distribution activities in the electricity and natural gas markets (2 checks, by 30 June 2020, extended to 31 December 2020).

Water services

In the sphere of water services, in 2020 the Authority took decisions relating to the health emergency, tariff regulation (with the procedures needed for integrated water service tariffs for the third regulatory period 2020-2023) and service quality (starting the bonus/penalty procedure as per the Technical Quality Regulation incentive mechanism - RQT1 - and gathering data on contractual quality), as well as other aspects (e.g. accreditation of water operators in the Integrated Information System, handling of arrears and the social bonus in the water sector). This activity had an impact on operations still performed by 2i Rete Gas S.p.A. in the water sector, until they were sold to third parties at year end.

5.2 Other significant events and/or aspects

In March, the effects of the inspection carried out in June 2011 and of resolution VIS 53/11 came to a definitive conclusion, and in accordance with the decision of the State Council 3475/2019 annulling resolutions 626/2016/R/gas and 541/2017/R/gas, final reference tariffs for the years going from 2009 to 2018 for 2i Rete Gas S.p.A., regarding localities having municipality-owned assets, were re-calculated (resolution 83/2020/R/gas). With this final publication, the company released the funds that had been set aside for this purpose in previous years.

- With regard to the penalty procedure begun in 2019 against 2i Rete Gas S.p.A. for EEC-based violations regarding its obligations for 2016, the Authority dismissed the case (resolution 459/2020/S/efr) following corrections made by GSE regarding the allocation of a portion of the EECs annulled in the November 2018 and May 2019 sessions to the year 2016 (rather than 2018), thus completely fulfilling remaining obligations for that year and rendering the contested violation null and void.
- With regard to the ruling of TAR Lombardy no. 38/2020 which, in early 2020, brought about the partial annulment of resolution 32/2019/R/gas regarding the application of an additional component to the tariff for UG2k distribution (introduced to cover relief to retail sales companies with the re-calculation, in compliance with the previous ruling of the State Council, no. 4825/2016, of a parameter for determining the price of the raw material,

gas, for the standard offer market in the period 1 October 2010 - 30 September 2012), the Authority, further to consultations held in March and April, redefined in late June, the scope of application and calculation methods for the component UG2k (resolution 247/2020/R/gas), with the application of this component to all end customers connected to the distribution network, by means of two separate rates, based on yearly consumption. These provisions also relate to distribution companies, since the component UG2k, like the additional component UG2, forms part of the tariff applied by distribution companies, although for them it is only "passing", serving to cover the revenue needed to provide relief to sales companies.

- Resolution 358/2020/A, published in November, related to the calculation, for 2020, of the contribution towards running of the Authority to be made by operators in the electricity and gas sectors (0.31‰ of revenues as per financial statements approved for the year 2019, with an additional contribution corresponding to 0.02‰ of revenues for subjects carrying out one or more tariff-based infrastructural activities) and water service providers (0.27‰ of revenues).

As announced in resolution 570/2019/R/gas, which approved the RTDG for the period 2020-2025, in 2020 the Authority held consultations on the introduction of tools to support innovation and the optimisation of natural gas transport and distribution networks (DCO 39/2020/R/gas) and on final guidelines for criteria to incentivise

groupings of natural gas distribution companies.

- In addition to the above, during 2020 the Authority performed numerous consultations on issues regarding gas distribution both for the Company or its subsidiaries, with the publication of documents in regard to which the Company has put forward its observations and proposals on all the issues which it considers relevant.

Provisions and/or other events subsequent to 31 December 2020

With regard to energy efficiency goals, after 31.12.2020 a penalty procedure was begun (decision 1/2021/efr - DSAI) against 2i Rete Gas S.p.A. for a violation relating to energy efficiency certificates for the year 2018, as communicated by GSE to ARERA in August 2020. The charge relates to a portion of EECs annulled in the November 2018 and May 2019 sessions and allocated to the year 2016 (instead of 2018).

Among measures taken in the sphere of tender rules for assigning the gas distribution service, the Authority's observations about tender documentation drafted by the contracting authority of ATEM Rimini (resolution 572/2020/R/gas) and the contracting authority of ATEM La Spezia were published (resolution 501/2019/R/gas, passed in 2019 but not previously published).

No further significant facts and/or aspects have currently (15.02.2021) been noted relating to the regulation of the relevant Authority.

5.3 Tariff framework

With resolution 570/2019/R/gas, published on 27 December 2019, the tariff regulation for gas distribution and metering services was established for the fifth regulatory period 2020-2025, with a confirmed duration of six years, broken down into two three-year periods. As in the previous regulatory period, for the first tariff year of the fifth regulatory period, i.e. 2020, distribution and metering tariffs will continue applying according to the basic principles for determining the components of revenues related to remuneration and depreciation based on the annual update to net invested capital (RAB), considering the (net) investments made in the year t-1.

The invested capital of the distribution companies continues to be broken down into localised invested capital and centralised invested capital. The evaluation criterion for localised invested capital in distribution and metering is based essentially on the revised historical cost method, except for new investments in smart meters, whose cost continues to be determined as the weighted average between actual cost and the standard cost set by the Authority, with weights, for the 2020 tariffs, respectively of 60% and 40% while, for the following years, of 70% and 30% respectively. Investments planned for 2022 will see the introduction of regulatory incentive schemes for capital costs relating to the distribution service, based on a standard cost recognition method, and the review of standard cost levels for

smart meters, following in-depth studies.

The valuation criterion for centralised invested capital is based on a parametric method, except for assets regarding remote metering/remote management/concentrator systems, which are valued at effective cost. However, starting from 2018 tariffs, for the latter assets a ceiling will be set that includes the remuneration of capital, amortisation and depreciation and the recognition of operating costs.

The weighted average cost of capital (WACC) of natural gas distribution and metering operations—the bases for determining and updating said indicator from 1 January 2016 through 31 December 2021 were established with Resolution 583/2015/R/com—has been set for both services at 6.3% for the years 2020 and 2021 under Resolution 570/2020/R/gas.

With this resolution, the initial levels of operating costs and x-factors for the new regulatory period were also set. More specifically, as regards operating costs, the initial level was established on the basis of the separate annual accounts of the Unbundling Financial Statements of the operators, broken down by company size and customer density, remunerating operating costs as the weighted average, with equal weight, between the costs actually incurred and the costs recognised in the previous regulatory period. The x-factor, which shall be applied on a consistent basis throughout the regulatory period, was set at 3.53% for large companies. With respect to the costs for the metrological testing of meters

above G6 class, these will continue being recognised based on the actual costs incurred.

Under the same Resolution, the Authority also completed the regulatory framework of the portion of public and private contributions as at 31 December 2011 started with Resolution No. 573/2013/R/gas, envisaging as of 2020 complete amortisation thereof based on a 40-year useful life. Finally, with respect to the start-up localities concerned by Resolution 704/2016/R/gas, the Authority confirmed the cap on the recognition of investments starting with the 2018 tariffs, but this will apply only to the localities whose first year of service was after 2017. The measure includes audits to be performed in several stages, up to the sixth year, to establish whether such cap is exceeded, without prejudice to the correct interpretation and expectation of new Authority provisions regarding new methane gas supplies following the approval of the law converting the “Relaunch” Legislative Decree.

The “definitive” annual reporting on the investments for the purposes of determining the net invested capital of distribution and metering (RAB) for 2020 occurred regularly by computing capital changes in the previous year. The Authority will publish the “final” 2020 tariffs including the above-mentioned changes in the first months of 2021, and CSEA will apply them to the equalisation, which is scheduled to be calculated and settled by the end of 2021.

From a decision-making viewpoint, during 2020 the Authority proceeded with resolution 107/2020/R/gas to determine the “final” reference tariffs for

gas distribution and metering services for 2019 and with resolution 127/2020/R/gas to determine the "provisional" reference tariffs for gas distribution and metering services for 2020; these resolutions were supplemented by resolution 289/2020/R/gas. In addition, as for the cases where RABs are not in line with the industry average, with Decision no. 4/2020 the Authority has updated how to measure revalued net fixed assets for the purposes of both the comparison with the VIR and the disclosure of the estimated RABs in the calls for tenders and the subsequent tariff declaration. Resolution 380/2020/R/COM marked the start of a procedure for updating criteria for calculating the WACC for the relative regulatory period beginning on 1 January 2022 (PWACC).

In the same period, on the basis of the relevant resolutions, the tariff components destined to cover the system costs of the gas sector (RE, RS, GS, UG1, UG2, UG3) and the fees for arrears (CMOR) were updated.

In December, the Authority published, with Resolution 596/2020/R/gas, the 2021 mandatory tariffs for invoicing natural gas distribution and metering services, the amount of the bi-monthly equalisation payments on account, and the tariff options for gas other than natural gas. The same Resolution also approved the maximum amount that can be recognised in the tariff for higher costs arising from concession fees (COL) to be paid to municipalities pursuant to art. 46 bis of Italian Legislative Decree No. 159/2007.

Finally, it is noted that during the year the Authority published the consultation document 312/2020/R/gas illustrating the final guidelines for criteria to incentivise groupings between natural gas distribution companies and consultation document 545/2020/R/gas, illustrating guidelines for criteria for the mandatory replacement of traditional meters up to class G6, implementing Directives on smart meters and standardising criteria for the removal of meters up to class G6, replacing them with criteria drawn up for meters of class G6 and above.

As for activities directly concerning the Group, it is noted that the Authority with Resolution 541/2017/R/gas had retroactively redetermined, as of 2009, the reference tariffs for a list of locations which were subject to inspection in June 2011, where the local authorities are owners of parts of the methane gas distribution networks. Following the appeal presented to the Regional Administrative Court of Lombardy, with sentence no. 733 of 15 March 2018 the company's arguments were held as valid. This sentence was challenged by the Authority which appealed to the Italian Council of State. Ruling no. 3475 of 28 May 2019 rejected the appeal filed by the Authority which, with resolution no. 83/2020/R/gas of 24 March 2020, once again approved the tariffs for the years from 2009 to 2018, in compliance with Council of State sentence no. 3475/2019 invalidating the Authority's resolutions no. 626/2016/R/gas and no. 541/2017/R/gas.

6. Concession development and operation

Notwithstanding regulatory interventions in 2017, designed to simplify the procedure, the non-intervention of the Regions or of the Ministry for Economic Development has not helped to reduce the delays of contracting authorities in calling ATEM tenders. During 2020 an ATEM tender was called with an open procedure, that of ATEM Rimini (2nd half of year).

As at 31 December 2020, in relation to the 24 ATEM tenders on the ARERA dashboard, the instrument which sets out the information regarding the outcomes of the analysis of tender documentation sent by the contracting authorities as set out in article 9, para. 2 of Ministerial Decree no. 226 of 12 November 2011, the situation was as follows:

- Tender for ATEM Turin 2 – Plant of Turin, for which management of the Area has commenced;
- two tenders were completed with final assignment: Belluno (even though sub iudice) Milan 1 – City of Milan;
- there were four previously called tenders for which the evaluation of the offers presented is still ongoing by the tender commission: Turin 1, Udine 2, Valle d’Aosta and Naples 1;
- there were nine tenders for which ARERA has temporarily deferred the analysis of the tender with a request for additional documentation: Florence 1-Florence 2, Genoa 1, Lucca, Massa and Carrara, Verona 2, Vicenza 3, Modena 2, Biella and Turin 5;
- there are seven tenders for which ARERA has completed the analysis of the tender documentation sent by the contracting authorities and,

thus, the related announcements could be published: Rome 1, Venice 1, Forlì and Cesena, Modena 1, La Spezia, Trieste, Prato

The term for the submission of bids for ATEM Rimini (about 190 thousand active users and contract value falling in the region of 318 million euro) is still pending, with the relevant calls for tender being announced on 28 December 2020 and the deadline for the submission of bids being set on 30 September 2021.

As for so-called “non-ATEM” tenders, during 2020 the following procedures were called:

- the concession of the natural gas distribution service in the municipality San Giuliano in Puglia Province of Campobasso (CB), on 17.01.2020;
- Tender for concession of the natural gas distribution public service in the Municipality of Aldino (BZ), on 31.12.2020.

6.1 Participation in ATEM tenders

As regards the ATEM Turin 2 tender, Italgas Reti S.p.A., in its capacity as tender applicant, appealed against the ARERA decisions containing observations about tender documentation referring to the non-recognition in the tariff of the residual industrial value of plants (VIR) of the Municipality of Givoleto, rejected by the TAR of Milan in its ruling no. 467 of 09.03.2020 due to a lack of interest. After being awarded the tender, Italgas Reti contested the

actions of the Metropolitan City of Turin and of ARERA for not having required the contracting authority to bring the tender call into line with ARERA's instructions regarding the VIR to be recognised for 2i Rete Gas S.p.A. The TAR of Milan rejected Italgas's appeal following a public hearing held on 07 October 2020, in ruling no. 510/2021 .

On 26 June 2020, 2i Rete Gas S.p.A. submitted a bid as part of the ATEM Naples 1 tender. On 2 July 2020, the first public session was held, during which the Contracting Authority verified that both bidders, i.e. 2i Rete Gas S.p.A. and Italgas S.p.A., had provided appropriate administrative documentation and both were admitted to the next phase. The second phase was held in four public meetings (22 September, 29 September, 6 October and 13 October 2020), in which the Committee could verify technical documentation submitted by means of electronic media (cd-rom) and the hard copy list in the second envelope. The next public meeting is still to be convened to communicate the scores awarded to the technical proposals and to open the bids.

2i Rete Gas S.p.A. appealed to the TAR of Naples against the tender documents. Ruling no. 3437 of 31 July 2020 rejected the appeal and confirmed the legitimacy of the tender. In response to this ruling, 2iRG filed an appeal with the State Council, which has fixed a public hearing for 06 May 2021.

On 30 September 2019 2i Rete Gas S.p.A. submitted a bid as part of the

ATEM Udine 2 tender. On 23 December 2019, the first public session was held, during which the Contracting Authority verified that both bidders, i.e. 2i Rete Gas S.p.A. and AcegasApsAmga S.p.A., had provided appropriate administrative documentation and both were admitted to the next phase. On 3 August 2020 a meeting was held to verify the technical proposal submitted by 2i Rete Gas S.p.A.. The proposal was submitted on cd-rom, being too bulky to upload it to the website.

On 1 September 2017, 2i Rete Gas S.p.A. submitted a bid for the ATEM Belluno tender. On 16 January 2017, it also submitted a bid for the Milan 1 - City of Milan and Milan System tender through its subsidiary 2i Rete Gas S.r.l. (a company subject to management and coordination by 2i Rete Gas S.p.A.).

As for the tender for Milan 1, following the announcement of the final award to another distributor (Unareti S.p.A., a company in the A2A group) communicated on 3 September 2018, 2i Rete Gas S.r.l. on 3 October 2018 notified its appeal against the tender documents and the final award, as well as against the refusal of the Contracting Authority for full access to the tender documents.

After the Regional Administrative Court of Lombardy, with sentence no. 300 of 13 February 2019, had initially accepted 2i Rete Gas S.r.l.'s appeal, granting it the possibility to see the successful bidder's offer in full, the Council of State, with sentence no. 3936 of 12 June 2019, accepted Unareti S.p.A.'s

cross-appeal, thus rejecting 2i Rete Gas S.r.l.'s request for full access to the tender documents.

With regard to the appeal against the tender documents and the final award to Unareti S.p.A., the Regional Administrative Court of Milan, by Decision No. 2598 issued on 5 December 2019, partly upholding the appeals filed by both bidders excluded both Unareti S.p.A and 2i Rete Gas S.r.l., ordering that the tender be rescheduled. Rete Gas S.r.l. and the Municipality of Milan as well as Unareti S.p.A. filed an appeal with the Council of State against the aforesaid decision. Following the public hearing held on 9 July 2020, the State Council, further to an appeal meeting, passed ruling no. 5370/2020 on 7 September 2020, holding the tender called by the Municipality of Milan to be legitimate.

As regards the Belluno tender, in May 2019 proceedings got underway as the Tender Committee started to assess the four bids submitted (in addition to 2i Rete Gas S.p.A., bids were also submitted by Italgas Reti S.p.A., Ascopiave S.p.A. and Erogasmet S.p.A.). The assessment proceedings ended on 4 December 2019 with a final public session, during which the final ranking was drawn up, with Italgas Reti S.p.A. being the successful bidder, while AP Reti Gas S.p.A. ranked second, 2i Rete Gas S.p.A. ranked third and Erogasmet S.p.A. finished last. The final award, given to Italgas Reti SpA on 3 June 2020, was challenged by AP Reti Gas S.p.A. (second ranked), appealing to the TAR of Veneto. This appeal was rejected with ruling no. 1208 of 07.12.2020.

Also during 2020, the Group has been preparing and transmitting to the Municipal Administrations and/or the Contracting Authorities that requested it all the necessary documentation pursuant to Article 4 (Disclosure obligations for operators) and Article 5 (Compensation to the outgoing operator) of Italian Ministerial Decree 226/2011 in order to draft and subsequently issue the call for tenders. It is information which, should it be necessary, must be updated.

6.2 Participation in "non-AEM" tenders

With regard to the two tenders called during the year, 2i Rete Gas S.p.A. did not take part for strategic reasons.

With regard to the concession of the natural gas distribution service in the municipality of Cislano (Milan) on 31 July 2019, 2iRG filed an appeal with the Regional Administrative Court against the announcement of this call. The TAR upheld the appeal in ruling no. 1009/2020 on 8 June 2020, cancelling the tender documents. In response to this ruling, the Municipality of Cislano filed an appeal with the State Council, which has fixed a public hearing for 20 May 2021.

6.3 Participation in tenders for the acquisition of companies

In the year there were no calls or participation in tenders for the acquisition of public or private companies which manage the natural gas distribution service.

It is noted in this regard that a public procedure was called to search for an industrial partner for the companies Aemme Linea Distribuzione S.r.l. and NED Reti Distribuzione Gas S.r.l., operating in ATEM Milano 3. This procedure was not however of interest to the company.

6.4 Concessions awarded

In 2020 no concessions were awarded through gas distribution tenders.

6.5 Concessions lost

During the year the plants of San Gilio and Givoletto (ATEM Turin 2), corresponding to approximately 3,000 redelivery points, left the Group boundary.

Following the State Council ruling no. 3873 of 16 June 2020, cancelling the award to 2i Rete Gas S.p.A. of the gas distribution tender for San Nicola Baronia and a further 7 municipalities, these concessions had to be returned to the granting local authorities. As they were not operational, no active redelivery points left the Group boundary.

6.6 Acquisition of companies

On 30 April 2020, following the acquisition of three companies operating under BN Investimenti S.p.A. (itself a spin-off of Bonatti S.p.A.) - Maierà Gas S.r.l., Montelungo Gas S.r.l. and Cometam Gas S.r.l. (all three merged with 2i Rete Gas S.p.A. on 1 October 2020) - three new concessions entered

the Group boundary, corresponding to 11 municipalities (ATEM Caserta 2, Cosenza 1 and Reggio di Calabria-Vibo Valentia) with 1,000 active redelivery points and 3,000 potential ones.

On 15 September 2020 the acquisition of the company Powergas Distribuzione S.p.A. (merged with 2i Rete Gas S.p.A. as from 01 January 2021) became effective, entailing the entry of fifteen Concessions in the boundary: Castelpagano, Castelvetero in Val Fortore, Circello Colle Sannita, Fragneto l'Abate, Molinara, Morcone, Pago Veiano, Pesco Sannita, Reino, San Marco dei Cavoti, Santa Croce del Sannio (ATEM Benevento); Prata Principato d'Ultra (ATEM Avellino) Poggiomarino (Naples 4) and Cellole (Caserta 2), with around 5,500 redelivery points and 2,500 potential ones.

On 6 August 2020 a non-binding expression of interest was formalised for the acquisition of the entire share capital of the company Infrastrutture Distribuzione Gas S.p.A. (part of the Edison S.p.A. group), operating in the sphere of natural gas distribution in Italy, managing around 2,678 Km of networks, serving approximately 152,000 end customers in 5 regions, 13 provinces and 58 municipalities.

7. Support for gas transport activities

7.1 Main regulatory changes

As regards gas transport, also during 2020, ARERA issued several measures which are set out and explained in brief in section 5.2.

The processes and related upgrading of the company's information systems pertaining to legislation coming into force in 2020 were successfully implemented.

7.2 Relations with Traders and Customer Care

Management of trade processes during the COVID-19 emergency

The COVID-19 pandemic had a deep impact on trading operations during the course of 2020, especially during the period of national "lockdown" in the months of March, April and the first half of May 2020.

Safety protocols for the sector were implemented, and shared company practices were introduced with the aim of ensuring the utmost safety and protection for personnel, and by extension end customers, against the risk of contagion.

Following guidelines from the Ministry for Economic Development regarding work carried out in private homes, additional operational practices were implemented, working in concert with retail sales companies, requiring checks on the presence in the private home of persons subject to health surveillance

or voluntary quarantining measures, informing the declarant about relative liability in the event of untruthful declarations.

In compliance with existing legislation, top priority is given to the continuity and availability of the service, identifying essential services, such as first connections, re-connecting power supplies previously suspended due to arrears, disconnecting supplies for safety reasons, and guaranteeing, even in the first phase of the emergency, other commercial services such as disconnecting gas supplies for reasons other than safety, modifying or removing installations, inspections of metering systems, checks on consumption and operating pressure, replacement of meters at the request of retail sales companies or end customers, and reading meters.

Resolution 59/2020/R/com introduced the possibility for distribution companies to draw up "objective and documentable criteria for attributing force majeure causes for commercial services for which, because of the health emergency..., the standards set out by the Authority have not been met..." with reference to the non- or delayed provision of the requested commercial service, providing simplified supporting documentation.

The number of services provided in 2020 fell by about 14% over the year compared with the previous year in terms of new connections and by a little over 6% for disconnections requested by the end customer. This fall was most dramatic during the national

lockdown (up to 80% down for new connections and 55% for disconnections). The possibility of using force majeure reasons for suspensions and the non-performance of services was used in a very small number of cases within the 2i Rete Gas Group (0.5% of cases).

Finally, we stress the large impact on the management of defaulting payments during the health emergency which, in compliance with existing legislation (Resolution 60/2020/R/com as amended and Resolution 148/2020/R/com), led to the blocking of service suspensions due to arrears in the period going from 10/03 to 03/05, for domestic supplies, multi-unit buildings for domestic use and other uses, both with consumption $\leq 200,000$ m³/year.

The scope of application of this provision was later extended to 17 May 2020 only for domestic customers.

Major customers

In 2020, the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sales companies or traders).

The Group's main customers are Italian companies which are leaders on the gas market. In particular, Enel Energia was the only customer whose turnover exceeded 10% of the total during the year.

Commercial quality

The level of commercial quality is measured by means of a general company index showing the percentage of services not carried out within the standard time frames set by ARERA, pursuant to the provisions of Resolution 569/2019/R/gas and with reference to connections, reconnections, disconnections, quotations, and the execution of both simple and complex work.

The overall general quality index, pursuant to the provisions of Resolution No. 569/2019/R/gas, amounted to 0.33% and stood at 0.05% regarding specific levels – in line with the previous year (0.06%) – while it came in at 0.33% with regard to general levels (0.31% in the previous year).

Requirements of the Integrated Information System

In 2020, regulatory developments continued to expand and update the information and data in the Official Central Register (RCU) made available to the Integrated Information System (IIS).

In particular, the Group focused on minimising the number of misalignments with continuous improvements, in accordance with the recent regulations issued on settlement and measurement.

The legislative aim being pursued was to provide the IIS with a complete and accurate database to ensure the appropriate management of all commercial processes, with special reference to network access by selling companies, metering,

settlement and social bonus, based on the principle of shared responsibilities between the IIS and the distribution company.

With effect from 1 January 2020, the provisions of Resolution 148/2019/R/gas, which approves the new "Integrated text of provisions for the regulation of the physical and economic items of the natural gas balancing service (TISG)", were implemented.

Therefore, as of the same date, the new regulatory system is in force, which gives the Single Buyer, instead of the distribution company, responsibility for the execution of settlement processes.

In December 2020 the new version of SII technical specifications was published, introducing two new types of contractual transfer, effective as from 1 June 2021.

7.3 Gas Invoicing and Balancing

Invoicing of Transport and Services

Ordinary transport, commercial services and compensation activities were invoiced on a monthly and regular basis during 2020.

The activities and related IT developments connected with the invoicing of the new Cmor component introduced by Resolution 593/2017/R/com, in force since 1 January 2020, have been completed.

As part of the judicial actions undertaken pursuant to applicable laws concerning the discontinuation of the service to the Redelivery Points under default, the Group has continued charging back the legal costs it incurred for such proceedings.

The Group has upgraded its processes and the relevant IT tools to allow applying Resolution 54/2020/R/com, which implements Italian Legislative Decree 123 2019 on the reliefs for the communities struck by the seismic events of 24 August 2016 and their aftershocks: among other things, it extends until 31 December 2020 the suspension of electricity, gas, and integrated water service bill payments for utility customers associated with properties condemned as a result of the earthquake as well as utility customers in SAEs (*Soluzioni Abitative di Emergenza*, emergency housing solutions), and MAPREs (*Moduli Abitativi Provvisori Rurali Emergenziali*, emergency rural temporary housing modules). During this period, the requests submitted by sales companies to disconnect service for non-payment cannot be enforced with respect to the customers eligible for payment suspension.

In addition, said customers are excluded from the application of the CMOR fee to the seller: this exemption, already introduced under Resolution 810/2016/R/com as amended and supplemented, is to be extended through 1 August 2021.

Resolution 429/2020/R/com - Extension of tariff incentives in support of populations adversely affected by the seismic events starting on 24 August 2016 in Central Italy and on 21 August 2017 in the municipalities of Casamicciola Terme, Lacco Ameno and Forio, resulted in the extension until 31 December 2020 of tariff incentives previously provided for by resolution 252/2017/R/com. This decision also ordered the introduction and recognition until 31 December 2020 of tariff incentives that provide greater guarantees for users and supplies in the municipalities of

Casamicciola Terme, Lacco Ameno and Forio.

The Group defined the necessary adjustments to the provisions of Resolution 247/2020/R/gas, which redefines the scope of the UG2k component introduced under Resolution 32/2019/R/gas.

Compared with ARERA definitions in the previous resolution 89/2020/R/gas, as from 2021 the component UG2k will be applied to all end customers (including those with yearly consumptions [CApdr] above 200,000 Sm³) connected to the distribution network.

Activities relating to alignments of processes and systems with new regulatory provisions were completed during the course of 2020.

Gas Balances

During 2020, in February and July respectively, in compliance with Resolution 148/2019/R/gas TISG (Consolidated Gas Settlement Act), the Group completed the following activities:

- handover to national/regional transporters of data relating to the 2015, 2016, 2017 and 2018 adjustment sessions;
- handover to national/regional transporters of data relating to the 2019 adjustment session;

Specifically, certain technical and operational issues emerged when publishing the results of the balancing sessions held from January to April 2020, prompting ARERA to issue Emergency measures concerning gas settlement: Resolution 181/2020/R/gas, Resolution

222/2020/R/gas and relative Communication containing detailed operational information.

These measures specifically govern the process for examining any anomalies found, how to recover inconsistent data so as to properly aggregate metering data, and how and when to recalculate balances in extraordinary circumstances. Following the publication of the above Communication, Snam Rete Gas's head of balancing issued, in August 2020, the "Operating Procedure in accordance with the ARERA Communication dated 28 July 2020: "TISG: APPLICATION OF RESOLUTION 222/2020/R/GAS", defining methods for re-calculating material balances for the period February - October 2020. Operational activities in which the Group was involved were completed in December 2020.

In November 2020 the "Technical Committee between Operators and the SII Manager" was set up to discuss Settlement activities in the gas sector and resolve criticalities that emerged in the first 10 months of 2020, and also to consolidate the new process for calculating Monthly Balancing. These activities are ongoing.

During the year, "DELTA IN-OUT" monitoring and analysis activities continued and were honed, with special reference to cases of high deviations between the volume injected into and the volume withdrawn from the network, as a result of adjustment sessions.

7.4 Metering

As the roll-out of the new electronic meters continues, pursuant to Resolution

631/2013/R/gas (which replaced the previous Resolution ARG/gas 155 of 22 October 2008), manual meter readings at the redelivery points that still feature traditional meters have significantly declined. As at 31 December 2020, over 80% of the redelivery points operated by the Group transmitted data by smart metering. This decline has led to changes to the price of reading meters, since field operations have become more difficult and costly.

Following the entry into force of ARERA Resolution 271/2019/R/gas— subsequently deferred by Resolution 493/2019/R/gas to 1 June 2020—at the express request of industry players, a new regulation, Resolution 185/2020/R/gas, became effective, once again deferring the effective date of the streamlining of information flows containing the technical and metering data of the redelivery points.

This measure postpones the implementation of the new information flows as per Resolution 271/2019/R/gas with respect to the sharing of readings taken after performing technical services as well as periodic readings, concerning off-takes as from January 2021.

The Single Buyer also updated Technical Specifications for defining new information flows, with a view to making data management more efficient, particularly for the purposes of profiling and aggregating collections needed for settlement.

Conversely, the resolution confirmed that the information flows already transmitted to users between 1 June 2019 and 31 May 2020 must be shared with the Integrated Information System by 31 May 2020.

Company processes and systems were updated to implement regulatory provisions prior to 1 January 2021.

Finally, ARERA issued Resolution 184/2020/com, which supplements the rules governing the two-year statute of limitations. The resolution brings applicable regulations in line with Art.1 paragraph 295 of Law 160/2019 (“2020 Budget Law”), which became effective on 1 January 2020, and repealed the provision under art. 1 para. 5 of the previous 2018 Budget Law that ruled out the possibility of exceptions to the statute of limitations in the event of failed or inaccurate consumption readings for which customers have been found responsible.

The above-mentioned provisions refer to invoices in the first cycle of billing after the date on which the resolution is published, however any actions already carried out by sellers to implement the new provision introduced with the 2020 budget law for invoices already billed between 1 January 2020 and the aforementioned billing cycle remain valid.

In-house studies are still being carried out to bring affected company processes into line with the new provision.

A registered letter has been sent to end customers still in possession of a traditional meter that has not been read for more than 18 months with the aim of making contact and agreeing on an appointment to replace the current meter with a new electronic meter and at the same time taking a reading. Once it is installed and activated, the new electronic meter will allow remote readings, so that it will

no longer be necessary to go onto premises to read meters. This continuous acquisition of meter readings will obviate the possibility of the end customer having to pay large amounts should estimates be incorrect over long periods of time. It will also eliminate the possibility of users being able to object to payments referring to periods too far back in time.

7.5 Commercial Development

2i Rete Gas S.p.A. scope of consolidation

In 2020, 2i Rete Gas S.p.A. continued pursuing commercial initiatives to promote the use of natural gas in the areas with the highest potential in terms of unserved users and of redelivery points created but never activated. These initiatives involved 741 Municipalities throughout the country, mostly concentrated in Southern Italy: South 72% (534 municipalities), Centre 19% (143 municipalities), North 9% (64 municipalities).

The company is offering the following incentives:

- “Activation Zero”, launched in 54 Municipalities and dedicated to areas with higher potential in terms of redelivery points created but never activated; this initiative involves incentive campaigns on activation grants and document checks have been introduced by cancelling these fees for users of the distribution and consequently the end customers;
- “Subsidised connection”, launched in 424 Municipalities and dedicated to areas with higher potential in terms of unserved users, with the introduction of subsidies on the connection deployment contribution, in relation to the consideration due under the municipal concession for the delivery of the natural gas distribution service;
- Both of the above mentioned initiatives were launched in 262 Municipalities;

In addition, after building new natural gas networks, 2i Rete Gas S.p.A. launched 12 initiatives (7 in Apulia, 2 in Liguria and 1 in Veneto, Piedmont and Abruzzo, respectively) to subsidise connection fees, followed by a communication campaign consisting in the distribution of promotional material to the public.

The COVID-19 emergency allowed to hold only 2 events to promote natural gas: the first, held in Chieti in February 2020, featured several sales companies operating in the Reference Areas in central Italy; the second, also held in February, was a joint press conference with the mayor of Lecce to present the project to provide natural gas service in the so-called “Marine di Lecce”, in San Cataldo.

In December an online event was organised with the Municipality of Cisternino to present the promotion recently started in areas reached by natural gas supplies in the Municipality.

Cilento Project

Cilento Reti Gas S.r.l., a company which is 60% owned by 2i Rete Gas S.p.A., is engaged in the realisation of the natural gas distribution network in 31 municipalities which adhere to the agreement signed in 2010 in the areas of Bussento, Lambro and Mingardo, Gelbison and Cervati, Alento and Monte Stella.

Municipalities currently reached by gas supplies are Sapri, Camerota and Vibonati, joined at the end of 2020 by the municipalities of Torraca, Tortorella, Morigerati, Ispani, Caselle in Pittari and Casaleto Spartano. The network will continue to expand in 2021 in other municipalities joining the Programme Agreement, for which natural gas supplies will be connected by the end of 2023. In the first quarter of 2021 works will be completed on the construction of the natural gas distribution network in 6 Municipalities in the province of Salerno (Torraca, Morigerati, Caselle in Pittari, Casaleto Spartano, Tortorella and Ispani), which were connected to gas supplies in November and December 2020. Further works will commence in the municipalities of Torre Orsaia and San Giovanni a Piro.

In the same areas a communication plan was prepared and implemented at the same time as the work to lay the methane gas pipelines, in order to raise the awareness of citizens and to accelerate connections to the distribution network, highlighting, among other things, the possibility of using the subsidy for the cost of connection, which is available during construction of the plant.

New acquisitions

After acquiring 3 distribution companies during the year, the Group launched a specific commercial initiative on plants located in the province of Vibo Valentia, and specifically in the municipalities of Acquaro, Arena, Dasà, Gerocarne, Pizzoni, Sorianello, Soriano Calabro, and Vazzano, which became operational during the year.

The company launched a communication campaign in these municipalities to inform residents of the arrival of natural gas and its benefits in terms of savings compared to other energy sources; in addition, it introduced the "ACTIVATION ZERO" subsidy for those residents that are already connected to the network, waiving all activation and document review fees for the initial activation of the natural gas service.

To improve the performance of local firms, a training course was held in October for firms registered with the Chamber of Commerce of Vibo Valentia.

Agreements with installers

Following the introduction of the new "Installers Agreement" on 1 July 2019, a total of 67 firms have entered into the agreement, 7 of which are enterprises that had never previously worked with the Group.

21 of these firms are present in the South-East Department, 44 in the South-West Department and 2 in the North Department.

This agreement helps to reach potential new customers, to whom support is offered in all stages of the process, from re-

questing an estimate for a new connection to activation of a new redelivery point.

8. Plant construction, environment and safety

8.1 Gas distribution plants

During the year, a total of around 400 km of piping was laid, of which around 190 was medium pressure and 210 low pressure.

In line with the past years and in keeping with the Company's technological decisions, around 98% of the piping laid in the year was in HDPE (high-density polyethylene) which is a technologically advanced material widely used by the main international gas operators and has lower operating and laying costs compared to traditional coated steel.

Indeed, steel networks rolled out in 2020 totalled less than 10 km and chiefly referred to short stretches that were part of existing networks already made of steel. This work arises from the improvement needed to maintain levels of service and acquisition of new customers as well as to meet the concession obligations deriving from the agreements with the relevant Entities and rationalization initiatives in relation to plant distribution structure.

The total length of piping managed by 2i Rete Gas at 31 December 2020 was, therefore, over 66,000 km, servicing approximately 2,200 municipalities.

In addition, about 1,230 primary substations are included in the amount. Upstream of the distribution networks which the Group manages, they reduce, measure and odourise the gas from the national transport networks.

More specifically, the network consists for around 78% of steel piping, 22% of HDPE pipes, while a residual amount of less than 1% consists of cast iron pipes.

On the network there are over 15,900 secondary reduction groups with a capacity of at least 125 sm³/h to reduce pressure between the medium and low pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.

8.2 Network and plant design

Also in 2020, design work for preparing territorial tenders continued and, to this end, work continued to examine the technical details for the preparation of the technical proposals to be submitted during the tender along with the related design work for some areas of potential interest.

Preparations were completed during the year for the technical offer for the ATEM Naples 1 – City of Naples and Coastal System tender, for which the submission date has been moved from the end of March to mid-July by the contracting authority.

The project concerns the distribution service for the Municipality of Naples and a further five neighbouring municipalities (Portici, Ercolano, Torre del Greco, Torre Annunziata, San Giorgio a Cremano) for a total of 1,700 km of network serving about 400,000 end customers.

During the year, consistent with the action plans budgeted by the local units, a number of projects were also developed, their main purpose being to (i) interconnect existing plants to make their management more efficient or (ii) deploy new extensions to meet new requests.

Plans were also developed to extend the network to new areas not yet served by

the gas distribution service, or through natural gas supplies to new municipalities.

Major projects include:

- Proposed 23 km extension of the network in the Municipality of Aprilia;
- Proposed network extension and upgrading of the regulating and measuring station for balancing the Gottolengo system (14 concessions fed by a single regulating and measuring station) for about 13 km;
- Methane-conversion project for the locality of Monacizzo in the municipality of Torricella (TA) and the marinas of Torricella and Lizzano, a 14 km extension;
- Proposed extension of the gas distribution service to Via San Biagio, locality Valle, locality Lecara, locality Angilla, locality Ferraro and locality San Pietro for a total of 20 km;
- Proposed extension of the gas transport/distribution network in the Municipality of Teggiano for a total of 38 km to feed the neighbouring municipality of Sassano.

In addition to the above, emphasis is placed on projects for the potential injection of biomethane into distribution networks by producers in the Municipalities of Calimera (LE), San Nazzaro Sesia (NO), Acquaviva delle Fonti (BA), Terranova dei Passerini (LO).

8.3 Service continuity and safety

During the year, the Group carried out checks on the data concerning service continuity and safety processes as set out in Resolution 569/2019/R/gas.

The main monitored parameters relate to services showing the distributor's ability to promptly intervene in potentially dangerous situations (emergency interventions, intervention time), or to organise and carry out preventative checks to ensure correct monitoring of safety conditions (percentage of network subject to inspection, level of gas odourisation, percentage of network with cathodic protection).

In compliance with current ARERA regulations, by March 2021, the Group will publish the data on the 2020 technical standards. To this end, it retrieved the data the local units entered directly into the IT systems during the year, verifying whether they are correct and consistent as needed.

In general, in keeping with the experience of previous years, we can already confirm the qualitatively high level of the service both in comparison to the minimum service required and in relation to the service provided by competitors.

In terms of constant attention to the safety of plants and end customers, campaigns were undertaken regarding the preventative search for leaks: relating to the planned inspection on the distribution network, equal to about 80% of the high and medium pressure piping and over 60% of the low pressure piping.

As regards checks on the level of odourisation of the gas distributed, which were carried out in the field in order to provide a complete check on the real level of odourisation of such gas, data was recorded (around 16,000 gas chromatography tests) well above the minimum value required by ARERA (around 3,500

tests), a sign of the particular attention paid to service safety.

8.4 Smart meters (Resolution 155/08)

The installation of smart meters and the infrastructure for collecting consumption reading data continued in 2020. This is one of the most important projects of the Group, both from the point of view of innovative and technological content, and in terms of investment. The installation and use of new generation smart meters ensures greater accuracy and promptness in metering and prompt recording of actual consumption, while improving the effectiveness of corporate processes.

The Group's targets for 2020 were achieved, also in light of the Authority's obligations.

In addition to the installation of meters using a point-to-point technology (where data are transmitted via a SIM card across the mobile network), efforts continued for the deployment of a concentrator-based data transmission infrastructure – managed by us – allowing information from electronic meters to be collected using a point-to-multipoint technology (169 Mhz). Concentrators installed as at 31 December 2020 totalled 4,532.

The RF 169 Mhz network was delivered on 1 January 2021 to 2i Rete Dati S.r.l., a new company founded and fully owned by 2i Rete Gas.

8.5 Regulatory oversight

Also during 2020, the 2i Rete Gas Group took active part in regulatory oversight

both at national level, in numerous working groups and committees of the UNI-CIG (Italian Gas Committee), and in Europe.

8.6 Innovation and research

During the year tests on a new and innovative scheduled leak detection method already tried out on a limited number of km in the previous year were extended to cover 3,000 km. This methodology, by correlating the signals collected during the search with other climate and environment parameters, enables quicker undertaking of inspections and a wider scope of action compared to the coverage of the leak detector, with an increase in the areas subject to control.

New research corroborated the positive aspects of the technology, which make it possible to detect slight leaks also in areas in the vicinity of the leak detector and single out leaks even in the first stretches of overhead distribution lines.

In the second half of 2020 a three-year scientific cooperation agreement was signed by the Politecnico of Milan and the parent company 2i Rete Gas, centring on research into the management, development and exploitation of gas distribution technologies and procedures, with special reference to energy transition.

Studies were firstly identified, involving several Departments of the Politecnico, concerning the efficiency of cathodic protection and gas pre-heating processes, with in-depth studies of the

medium- and long-term compatibility of methane and hydrogen mixtures with current materials used for existing gas distribution plants.

9. Quality, Safety and Environment

9.1 Management of the Integrated Quality, Safety and Environment (QSE) System

Maintenance of Zi Rete Gas S.p.A. Integrated QSE System

The Parent Company Zi Rete Gas S.p.A. has implemented and maintains an Integrated Management System called "Quality, Health, Safety and Environment" for operations pertaining to

- Design, construction and installation of natural gas and LPG distribution networks and plants; IAF 28 sector
- Natural gas and LPG distribution (operation, maintenance and assistance for natural gas and LPG distribution networks and plants); IAF 26 sector

The Zi Rete Gas SpA Integrated System has been certified as conforming to reference regulatory standards indicated for Quality Management Systems, Environmental Management Systems and Health and Safety Management systems;

Certification obtained refers to the following standards:

- for Quality Management, UNI EN ISO 9001:2015;
- for Environmental Management, UNI EN ISO 14001:2015;
- for Health and Safety Management, UNI ISO 45001:2018 and BS OHSAS 18001:2007;

The organisational model implemented to manage Health and Safety has an absolving effect, as provided by Art.6 of Leg. Dec. 231/2001, resulting in the exemption of administrative liability by virtue of the

acquisition of certification of conformity with BS18001:2007.

All certificates were validated during the course of 2020 by the "Certiquality" Institute, recognised by the Italian Accreditation Agency "Accredia", up until their three-year expiry on 4 June 2021, by which time a three-year renewal verification will be requested and completed.

As mentioned above, in 2020 Certiquality undertook the third annual verification of the three-year certification period, which concluded with no Non-Conformities in respect of reference standards. The verification met all the requirements of certification standards, notwithstanding the COVID-19 emergency. Inspections at operational sites were carried out in regions that provided the least risk of contagion at the time of the verification, while "remote" interviews were conducted with central department heads.

To meet the required in-house supervisory requirements, during 2020 the QS&E Unit of the Operations Department scheduled inspection visits (internal audits), the purpose of which was to test-check the management model with reference to the standards expected by the Quality, Safety and Environment management system, as well as implementing the actions planned to control relevant risks. The internal audits were carried out by a team of internal auditors whose qualifications and skills met the requirements laid down by ISO Standard 19011:2018 "Guidelines for auditing management systems". Internal audits were carried out at 8 Head-office units, all 6 Departmental units and 21 of the 24 Territorial Area offices; for 3

areas of the North Department, due to the impact of the pandemic in the territories concerned, it was decided to put back inspections until 2021 for the wellbeing of the auditors and of operational staff.

Local QS&E officers also extended audits to a sample of Area secondary offices; All the visits enabled the recording, through sampling of all the processes managed, of the absence of any situation of serious non-conformity and the correct identification and implementation of the corrective actions needed to keep management aligned to the IMS.

Certification of 2i Rete Gas S.r.l.'s Quality System

The Certiquality Institute was also entrusted with the task of certifying compliance continuity for standard UNI EN ISO 9001:2015 in respect of the Quality Management System of 2i Rete Gas S.r.l., for which 2i Rete Gas S.p.A. is responsible by virtue of an ongoing service agreement.

In the first half of 2020 an audit was carried out relating to annual surveillance for the maintenance of certification.

The verification was planned and carried out in "off site" mode, validating certification, which will remain valid through 14 May 2021. The system was compliant without any flags being raised.

9.2 Prevention and Protection Service

Between January and February 2020, the annual meetings required by art. 35 of Italian Legislative Decree 81/08 were held with reference to 2019 activities. All Business Units discussed safety-related issues based on the events of the year. The following issues were addressed and discussed at the meetings: the trend in injuries and work-related illnesses; review of the Risk Assessment Document; verification of the suitability and effectiveness of protective equipment; assessment of training programmes; analysis of workplace health monitoring.

In March the final update of the Risk Evaluation Document was released to all Production Units, rendered necessary by the COVID-19 emergency.

The update concerns the addition of a "COVID-19 DOSSIER", constantly being updated, supporting document number 12 "Biological Agents".

9.3 Workplace injuries

As for injuries to operational staff, 2020 saw a decrease compared with the previous year.

Indeed, in the previous year, 16 "minor" accidents occurred (i.e. accidents with initial diagnosis of under 30 days) with regard to blue collars. In 2020 5 accidents occurred, all "minor"; none of these occurred while on duty travelling in company vehicles. Accidents related mainly to over-exertion and awkward movements as well as collisions against solid objects.

The year-end situation showed no injuries for white collar workers, compared with three accidents in 2019.

With regard to “commuting” accidents, operational personnel did not suffer any injuries in 2020, compared with 3 cases in 2019, while for white-collar workers there were 3 accidents in 2020 compared with 6 in 2019. The number of accidents for 2020 as a whole was 17 down on the previous year due to 11 fewer injuries to blue collar and 6 fewer injuries to white collar workers. Thus there were 8 work-related accidents in 2020, compared with 25 in 2019. This was in part due to the reduction in activities performed by blue collar workers and to new operating methods (e.g. the “Agile Work” initiative) for office staff, which undoubtedly helped to reduce commuting accidents. The Lost Day Rate and the Accident Frequency Rate showed a decrease.

In order to achieve “zero injuries”, the QS&E structure, in collaboration with the Head of the Prevention and Protection Service, continues auditing workplace safety at the territorial facilities as well as the work sites managed by contractors.

In 2020, due to the health emergency, in-person check-ups in surgeries were supplemented by telephone-based triage. Some services were suspended due to the issue of some ministerial decrees/clarifications from the Health Ministry, putting back the completion of check-ups to January 2021. Workplace health monitoring involved 585 Middle Managers/Clerks and 555 Manual Workers. The average age of employees examined was 52.1.

9.4 Environmental issues

The QSE structure of the Parent Company’s Operating Department constantly monitors material environmental aspects and ensures the Company is aligned with changes in environmental regulations.

The QSA structure issued the update of most corporate documents; such activity has continued in 2020 too.

The Corporate Environmental Analysis, the main document for the assessment of corporate environmental impacts, is in line with the requirements of the new version of UNI EN 14001:2015 and to the other system documents.

Also in 2020, it has continued removing asbestos from buildings as a preventative action, analysing on-site airborne fibres in collaboration with the Head of the Prevention and Protection Service. In the context of environmental system indicators, the adoption of the sustainability policy related to the new regulatory model allowed revision of the goals set and which were divided between parameters to monitor regulatory compliance and objectives for continuous improvement.

In the first case (regulatory compliance), in 2020 a check was made of the capacity for control by the organisation of the environmental aspects linked to the management of the companies’ worksites (generation of noise and vibrations, handling of land and rocks/waste/spills), the management of waste products by the 2i Rete Gas Group, the management of asbestos in properties in compliance with Italian Law 257/92 as amended and supplemented and Regional Regulations, the

correct management of the authorisation process for water discharges (Italian Legislative Decree 152/06 as amended and supplemented), and compliance with environmental restrictions in the planning and construction stages.

Environmental parameters, introduced as improvement goals and established by the sustainability policy, were in line with expectations for 2020.

The companies handle the non-hazardous and hazardous special waste they generate using processes complying with regulatory provisions, tracking it by keeping waste acceptance and deposit records as well as digitally using a specific application.

9.5 Technical and Commercial Quality, communication of commercial quality data to ARERA

During the course of 2020, random inspection visits were also carried out in the Territorial Areas, with 12 authority facilities being audited.

The check aimed to verify the quality of the documents certifying the service safety and continuity (management of the emergency service, management of leaks, management of checks on the level of odourisation of the gas distributed) which were guaranteed during 2019 and in the first half of 2020.

The overall assessment, referring to the selected sample, allows to issue a low-risk or no-risk opinion on the oper-

ations carried out. The proposed corrective or preventative actions, once implemented by the structures concerned, allowed to further improve the confidence on compliance of the audited data where necessary.

This activity was also geared towards ensuring that any changes to technical standards in force are constantly reflected in the instructions related to operating procedures monitored by ARERA and used as bid documentation during calls for tenders.

As for the events for Safety and Continuity, the QSE/SGL unit has ensured 6 inspections for 2020 aimed at determining the compliance of the registrations of the commercial quality of the service, carried out on samples selected on the basis of the Province's territory. The results recorded made it possible to certify, with some confidence, a reduced level of risk related to data non-compliance.

9.6 Coordination of Safety at Worksites

During the course of 2020, coordination by site construction safety key roles continued, as did monitoring activities aimed at ensuring appropriate management of safety aspects related to core and non-core business operations under Article 26 and under Title IV of Legislative Decree No. 81/08. Such tasks were performed on the basis of corporate instructions and procedures which, among other things, set out clear guidelines regarding the approach to safety issues at construction sites run by the 2i Rete Gas Group.

Company documents relating to the definition of roles and responsibilities of the figures involved were updated in implementation of the above.

As for safety coordination management in the executive stage at worksites, the activities undertaken by the internal and external safety coordinators involved throughout the whole company scope were monitored.

All CSEs use the same company format for reporting site visits (guaranteeing a uniform approach to carrying out controls), suitably integrated with checkpoints for the management of efforts to curb the Covid-19 virus at worksites, applying the Ministerial Protocol and the 2i Rete Gas construction site anti-contagion Safety Protocol.

In 2020, the internal and external CSEs drafted a total of 6,029 site visit reports, identifying a total of 1,117 non-conformities (NCs), all of which were remedied through actions carried out by the firms as instructed by the CSEs. In 2020, due to the pandemic, the programme of safety cross-checks at construction sites carried out by in-house CSEs, with the assistance of the QS&E/CSC head-office Unit, unfortunately underwent a substantial slowdown and changes.

The document "CSE Guidelines" was drawn up in 2020 to provide uniform criteria for the management of specific safety aspects, to be used in coordination and prevention activity performed by CSEs at 2i Rete Gas worksites.

This text is intended to be a practical tool for CSEs who, in addition to performing the activities relating to statutory obligations as set forth in Leg. Dec. 81/08, as amended, may order and

enact the same coordination and safety measures for similar situations at all 2i Rete Gas construction sites over the whole country.

9.7 Checks on Cilento Reti Gas operations

With reference to the commitments undertaken under shareholders' agreements and regulations governing activities underpinning technical, planning and works management operations, the QS&E Function of the Operational Management Department of 2i Rete Gas S.p.A. performs tasks pertaining to quality control and to the coordination of material testing activities carried out by the contractors selected by shareholder Bonatti.

During 2020, the Function coordinated 7 inspection visits on sites in the construction phase – both while work was in progress and during the testing of finished work – through surveys and sample tests. The results of such visits certified work conformity to technical specifications and quantities accounted for.

In relation to the materials supplied, 2i Rete Gas assured that checks were performed on the supplies required by Bonatti, such checks consisting of production visits or documentary audits on quality certifications and test outcome declarations. All materials that were test-checked were found to comply with the expected standards.

10. Water sector

On 31 December 2020 the water concessions of Santo Stefano al Mare and Riva Ligure (Imperia) were transferred to the single Area operator, Rivieracqua S.c.a.r.l., following a formal notice from the acting Commissioner of ATO Imperia, even though the procedure to define the residual industrial value of plants payable to 2i Rete Gas S.p.A. was yet to be completed.

On 22 December 2020 the sale of installations and contracts for the supply of drinking water in the municipalities of Ventimiglia di Sicilia, Baucina and Ciminna (Palermo) was completed.

So at 31 December 2020 the Group no longer possessed any water concessions.

11. Human resources

11.1 Company organisation

In 2020 the Organisation Unit focused efforts on consolidating results obtained in previous years in the first two phases of the Job Evaluation Project (in Territorial Areas and Departments respectively) and on commencing and developing the third and final phase of the Project, regarding central staff Units. This phase will probably conclude during 2021.

The first two phases of the JE project were consolidated by internally implementing an IT system for processing data on Territorial job profiles. Thanks

to this system, registered data can be updated regularly and in a timely fashion. It is designed for widespread use in the Human Resources department through user profiles calibrated to cater to user needs. This application has facilitated synergies between the main processes of the Human Resources department using JE data (e.g. training, compensation and development). Looking at phase three of the JE project, the analysis of staff functions got under way, with the completion during the year of analysis of more than 75% of the Units present. A "bottom-up" approach was adopted, with the direct involvement of Unit heads in all phases of the survey which, starting with the examination of activities, focused on pinpointing the skills (transversal or specialist) needed to do the tasks and the particular organisational aspects of individual Units analysed. Upon completion of this work, it will be possible to define Staff job profiles (with relative job description and specialist skills) which, added to those already identified for the Territory, will complete the company decalogue.

The extraordinary situation created in 2020 due to the pandemic made it necessary to collect and analyse data on IT equipment possessed by all staff, to be combined with data on their job duties, in preparation for the introduction in March of the new, simplified "smart working" system. In 2020 53% of the hours worked by office workers was done remotely, and all white collar workers worked at a distance for at least some time (with all staff gradually

receiving a laptop and a smartphone over the year). There was also more frequent monitoring of the various ways of being present and absent in the various offices and units. This information was given to a larger number of unit managers.

Finally, during the year the Unit provided support to relevant Functions with the updating of organisational documents, including two business organisation procedures regarding the process for managing smart meters and network cathodic protection systems and updating the workgroup regarding the company's Sustainability Policy.

11.2 Relations with trade unions

In 2020 measures were taken, adapted where necessary and managed to deal with the effects of the unexpected Covid-19 pandemic. In particular, social cushioning tools and forms of flexibility were adopted, allowing less rigid times for entering and leaving one's place of work. "Smart working" was adopted for the first time, the use of holidays accrued and special leave not used in previous years was increased, and the use of all instruments regulated by government authorities was facilitated.

The use of holidays accrued project continued in 2020, used as one of the most important tools for dealing with the health emergency and allowing flexibility, together with other statutory measures, such as income support as an alternative to the use of social cushioning.

A simplified form of smart working was adopted en masse, in keeping with government recommendations. A formula was extended to all employees, helping to reconcile personal with organisational needs, in particular carrying on working activities in order to ensure the continuity of public service provision for customers while safeguarding people's health.

Company committees were set up at a local and national level to verify on a monthly basis with managers, trade union and worker safety representatives the application of Government Protocols for Social Partners dated 14 March and 24 April 2020, with regular updates on activities and measures taken by the company to deal with the COVID-19 emergency.

The results relating to indicators for the 2019 performance bonus were finalised in a report signed by the parties concerned. The bonus benefited from de-taxation criteria, and employees were given the opportunity to convert the monetary component into benefits/services through the company application.

The company's welfare system was improved thanks to the use of measures to reconcile work and private life. A specific and experimental agreement was reached with the trade unions, entailing the closure of the head office on days before holidays (24 and 31 December) and in the week going from 10 to 14 August.

Despite the complex nature of the situation, negotiations with trade unions continued on the question of sponsored training, as part of technical and specialist training, with the aim of encouraging the involvement of human resources and creating value added.

Consultations and discussion with trade unions were undertaken positively for the merger of the companies Cometam Gas S.r.l., Montelungo Gas S.r.l. and Powergas Distribuzione S.p.A., following their acquisition. Integration procedures were completed with the merger operations in the second half of the year and at year end.

Trade union procedures at the beginning and end of the year were also successful as regards the sale of gas distribution concessions for ATEM Turin 2 and transfer of the drinking water distribution service in the municipalities of Santo Stefano al Mare and Riviera Ligure to Rivieracqua S.p.A., with the sale of installations and allotted human resources.

With regard to ATEM Naples, a trade union agreement was signed on service availability, following the entry of recently acquired and newly activated municipalities and the start-up of distribution plants (Cilento), which have made it necessary to re-distribute and standardise the perimeter of respective availability areas, reorganising them in existing and newly created zones.

Talks and updates are ongoing with national trade unions regarding technical and organisational matters.

The plan of action to ensure full compliance with the Ethical Code and company compliance with Leg. Dec. 231/01 was completed and updated.

Local trade union agreements were signed on site video surveillance and on privacy policies, following new instructions issued by the respective Authority.

Local bargaining proved crucial also for the logistic management of local offices as a tool for improving and increasing the effectiveness of workspace.

All employees of the Company are covered under collective bargaining agreements.

11.3 Recruitment

At 31 December 2020, the Group had 2,015 employees.

As part of a personnel advancement effort deemed as necessary to develop the company's strategy, 2i Rete Gas has embarked on a major long-term selection plan. In 2020, it resulted in 65 new hires, 61 of whom were recruited through new external selection schemes. External selection processes were conducted for a further 4 human resources, 3 hired with a staff leasing contract and 1 intern.

The reasons for hiring from outside were diverse, as they were partly related to the need to replace resources that had left the company, primarily for retirement reasons. It was also necessary to fill positions that had become vacant as a result of the job posting process or internal job rotation. The new positions were also partly required to address maternity leaves and staffing requirements.

The functions mainly involved in this recruitment process were:

- With regard to the Head-office: Procurement and Services, Network Commercial Services, Administration, Finance and Control;
- With regard to the territory: DTG North East, DTG South West and DTG South East.

As regards the internal job posting process, 21 recruiting procedures were started in 2020 for as many positions, with 13 applications being received and 5 selection processes being completed. Following the Covid-19 emergency, almost all selection processes were completed, without delay, thanks to videoconferencing platforms for the various interviews with applicants.

The breakdown of Group staff average balance at 31 December 2020 is provided below:

	2020	2019
Executives	32	34
Middle Managers	111	115
White collars	1,229	1,236
Blue collars	634	672
Total	2,006	2,057

11.4 Training and development

On the training front, different trainings were developed in 2020, focusing both on management and specialist themes (including language and IT skills), as well as on technical and safety themes.

The most relevant managerial courses given were as follows:

- a Project Management course aimed at around sixty staff;
- as part of the "Team Leader ICT" project, continuation of courses to develop managerial skills aimed at middle managers from the IT Department, involving all team leaders in a series of sessions to consolidate soft skills and people management capabilities, including individual managerial coaching meetings;
- a training course on Performance Evaluation, supporting as new evaluators User Management and Plant Maintenance contacts, for the management of motivational talks, partly in response to the broadening of performance evaluation to operational staff and new local area technical staff;
- in view of the difficulties arising from the sudden introduction of smart working due to the health emergency and the need to support the human resource manager in managing new forms of work and dialogue, courses were held on the remote management of collaborators and on forms of feedback in a remote working situation;
- with regard to specialist training: local initiatives continued for the training project on Conflict of interests and Privacy. Following the expansion of

the Purchases and Services department, specific courses were held for new hires on subjects pertaining to contracts and negotiation strategies and techniques in the b2b sphere;

- refresher courses were organised for the Human Resources Department: one on staff selection methods for local HR contacts, and others on specific Personnel Administration topics;

- with regard to courses on software applications, Excel and PowerPoint courses were held, and a more specific course was held on QLIK Sense.

As for technical and operational training, various important initiatives were launched and provided, in particular:

- the new course on Technical and Tender Specifications and the Fee and Remuneration List was given to illustrate all the innovations for contracts in 2019, with the participation of around 400 persons;

- the "Asset Management" project regarding the completion of new operational functions introduced in 2019 to enhance work processes, aimed at around 400 Area technicians;

- completion of the skill development project for general-purpose blue-collar staff converting their roles to (i) Maintenance Technician-Station Operator (39 resources involved), (ii) Smart Meter Skilled Worker (56 resources involved) and (iii) Cathodic Protection Skilled Worker (4 resources involved).

The project set out to enhance the professional skills of blue-collar staff, especially on topics and key skills relating to the company's core business. Area

managers helped to test learning levels reached and the acquisition of new skills needed to confirm the organisational move to a more specialist role;

- the new training course for new hires on the process and operating methods for A» and «B» First Response staff on call, involving around 40 persons;

- the 30 hour refresher course needed to retain the status of distribution plant surveillance operations personnel, in compliance with standard "UNI 11632:2016 - UNI PDR 39:2018", involving around 100 persons (formerly CIG 14 Guidelines);

- the first phase of training sought to harmonise methods and conduct for the testing of testers, aimed at around 15 persons;

- the training course on the application for the management of Cathodic Protection Systems, involving around 100 persons, and that on the "New Planning" SAP application for budgeting, forecasting and preclosing all territorial costs (capex and opex), with the participation of around 80 persons;

- training on cathodic protection, level 3 ISO and ISO updating to retain certification, involving around 20 persons; some colleagues also took part in a study on standard UNI 11094 organised by APCE;

- the training module on Plant Management and Maintenance, aimed at 54 persons.

In partnership with QSE and RSPP, the Group organised and rolled out the following Workplace Safety training initiatives:

- to deal with the COVID-19 emergency, training was given on "Company site and vehicle fleet access and use" and on "Operating methods for network management and maintenance and services to end customers", with the participation of 1,400 persons;
- refresher course for workers responsible for planning, installing and checking road signs in the presence of vehicle traffic for 596 persons;
- First response courses delivered to 55 people (basic course) and 61 people (refresher course);
- First response courses delivered to 55 people (basic course) and 61 people (refresher course);
- training on "environmental management" (waste management, document management, wastewater, environmental emergency, air emission and noise modules) for 75 persons;
- training and exams for "forklift vehicles with driver" and for "manual handling of loads" for 25 persons;
- Training on the "Role of the person in charge of safety at work" for 80 people;
- Skill-building training for new internal quality auditors on Quality in the industry sector;
- CSE (Safety Coordinator in Executive stage) 40-hour refresher course for 7 persons;
- ASPP (Prevention and Protection Service Officer) refresher module "A" .

Corporate climate

Despite 2020 being such a complex year, 2i Rete Gas continued efforts to coordinate an effective internal network of information flows, to make company goals clearer and shared by staff and to promptly inform employees of news and decisions relating to the Covid-19 emergency.

To deal with the emergency, all units directly involved in defining new and coherent working tools and models worked hard and collaborated to facilitate the introduction of "smart working". This change inevitably made it necessary to take a new approach to management, laying the foundations for a "cultural change" among all personnel and for the rapid development of tools and systems to support this change.

A more immediate form of «internal communication» came in the form of modern videoconferencing systems, overcoming the limits of distance and complexity of a territorial organisation.

This complex situation did not prevent us from achieving our goals, colleagues collaborating more closely and better relations forged between managers and their collaborators.

In 2020 too a series of meetings were arranged, including in virtual rooms, in which numerous people took an active role in committees set up to deal with the health emergency and in projects to share and harmonise operating procedures and make working processes

and practices more efficient and simpler, consolidating positive interpersonal relations, raising awareness of and a sense of pride in belonging to the same professional network, making the best use of mutual managerial experience and know-how.

The work performed by these groups reinforced the sense and importance of the company's motto "Noi2i facciamo rete". Those taking part in these initiatives personally experienced the benefits and satisfaction of feeling like part of a team and helping to create a shared value.

With reference to the plan of actions to evaluate work-related stress, initiatives got under way to introduce new ways of listening to personnel and discussing the most suitable solutions, with a view to disseminating and encouraging virtuous behaviour within the organisation.

11.5 Staff administration

In 2020 projects planned for the year were defined; below are the details:

Cancellation of Gas Fund - Compensation Amount

Italian Law no. 125 of 6 August 2015 suppressed the Gas Fund for welfare purposes and required companies to compensate employees for the pension entitlements that were abolished.

In addition, companies shall pay 10% interest on the compensation amounts held within the company as at 30 November 2020.

Considering the amount in question, it was decided to check the social security situations of each employee affected. These checks were completed in the first half of 2020. The results of the analysis were passed on to supplementary social security funds and to the provider of processing services. Individual analyses led to a re-calculation of the Gas Fund compensation amount for some employees.

Document Dematerialisation - Expense Reimbursements

The project to digitalise expense reimbursement documents was completed on 31 October 2020.

As from 1 November 2020 expense reports are now stored electronically. The aims of this new process are:

- Environmental sustainability - Reduce paper usage and archive space.
- Corporate efficiency - Reduce the time needed to organise and store expense receipts and eliminate the risk of document loss.
- Transparency - To monitor and check in real time the expense settlement process on the part of employees, and managers' awareness of the authorisation procedure.

Travel Policy – Drawing up of new guidelines

The company's new "Travel Policy" guidelines came into effect in October 2020.

COVID-19 Emergency - Administration and IT - Government-Paid Furlough Scheme and Welfare Changes

As a result of the health emergency and urgent legislative measures, significant changes were made in the first half of the year to the Time ed ADP payroll SAPs, which were then used throughout 2020.

The several adjustments introduced allowed the prompt implementation of changes introduced by Legislative Decree 17 March 2020 and Legislative Decree 19 May 2020, allowing employees to take advantage of the welfare and social security benefits.

Worker leave pursuant to Law 104/92 Covid and parental leave; Smart working; Temporary unemployment compensation.

The hours of temporary worker layoffs amounted to 1.1% of workable hours in 2020. Even if we consider only the months of Aprile and May, this percentage was 6.9% of workable hours in the period, with the rotation of about one third of the company's workforce, on average for a little over a week. The amounts advanced to the company's employees were authorised by the INPS institute and recovered by offsetting using the monthly DM form.

New, more flexible working hours were created and greater leeway was given for coming in to work late (albeit in exceptional circumstances) in order to schedule access to sites, limit crowding in communal company areas, prevent entry to work in peak hours for public transport and increase opportunities for employees/parents to manage their school-going children at a time when schools and recreational facilities are not always open or employ limited opening times.

12. IT systems

With regard to IT systems, 2020 saw a significant effort to ensure field personnel, contractors, and head office staff remained operational in the face of the COVID-19 emergency, which required implementing *Smart Working* for most employees.

Work was performed to upgrade central and distributed infrastructures and workstations and increase security, in order to maximise *Business Continuity* and ensure adequate *support for Collaboration*.

Specifically as regards infrastructure, Zi Rete Gas bolstered the data network of the Data Centres to support secure data traffic across all remote workstations, upgraded and enhanced the firewall infrastructure to support the shift of the entire workforce to remote work, procured and distributed further 700 notebooks, activated a new company document area to facilitate sharing documents securely even with colleagues who have to use their personal devices, and bolstered Cyber Security monitoring and protection services,

specifically with respect to email services (anti-phishing, anti-cryptolocker) as well as the perimeter security of Data Centres and network infrastructure. As for Business Continuity, the Group took steps primarily aimed at reducing the risk of disruptions to infrastructure and application services, avoiding operational inefficiencies of the technicians and staff working from home: it made the VPN network access infrastructure fully redundant, revised the plan for application and infrastructure operations with a new strategy aimed at concentrating upgrades to minimise the risk of disruption or unavailability of the service, enhanced the Quality Assurance process, prioritised essential services (regulation or Business Continuity) and postponed non-critical operations until the recovery phase, strengthened the IT call centre service to better handle the peaks in support requests regarding the use of computer tools while working from home, and made changes to on-site support at the head office to manage the servicing of workstations in accordance with anti-COVID prevention measures. The service of responding to Fault Report calls was turned into a Smart Working remote activity, in order to minimise the risk of poor service, taking into account the vehement return of the contagion in the autumn. As for the Support to Collaboration, 2i Rete Gas took steps to promote and facilitate remote collaboration between colleagues in day-to-day and planning operations while working from home by setting up and activating the Microsoft Teams platform and issuing guidelines

to recommend effective and sustainable smart working practices.

In tandem with efforts to support operations during the health emergency, a number of initiatives were undertaken to support company trends within the Group, with the integration in company systems and in 2i Rete Gas of distribution companies from the Bonatti Group and of PowerGas, and with the transfer of RF WM-Bus 169 MHz network assets to the subsidiary 2i Rete Dati S.r.l.

The ambitious action plan aimed at ensuring the protection, monitoring, and efficiency of processes relating to residential and industrial smart meters continued in 2020. In greater detail, the exchange of information with integrated Industrial SMs was optimised to make battery savings, the valve shut-off process for Point-to-Multipoint residential SMs was optimised, fully implementing Advanced Analytics algorithms integrated with the maintenance systems to properly prioritise inspections conducted by operating staff in the field, for both SMs and the WMBus 169 MHz RF radio network. NB IoT technology applied to Point-to-Point electronic meters was tried out for the first time with the knowledge that regulatory changes are around the corner in the sphere of radiomobile telecommunication.

In 2020 too information systems were the subject of important developments and updates to ensure the Compliance of processes further to changes made to legislation and regulations (a significant impact was made by the imple-

mentation of resolution 271/19, concerning measuring and balancing processes and relations with retails sales companies) and to complete the implementation of IFRS16 accounting standards, with the automation of relative feeding processes.

During the year the main actions of the *Asset Management* programme were completed, optimising the *end-to-end* process for the management of public funding, the integrated management of physical, cartographic, accounting information relating to works and the completion of new algorithms for disconnections.

As for Operational Efficiency Improvements, 2i Rete Gas gradually made the new system for managing network expansion contracts and the procurement of pipes acquired from a shared platform fully operational, as well as activated a complex programme to improve the reliability and quality of the IT systems that primarily support the performance of services and works and external interactions, so as to reduce anomalies and reimbursements as well as optimise the timeline of business operations

In addition to new workstations, with over 700 Notebooks and 500 smartphones to allow all personnel to go into Smart Working mode, during the year the upgrading of Data Center infrastructures was completed with the activation of the new server farm, expansion of the Data Center network infrastructure, upgrading of integration middleware and the complete overhaul of the *Data Protection* infrastructure. Distributed infrastructures

benefited from upgrades to the network infrastructure and the activation of new *Managed Printing Services*, with printers in all offices replaced.

In June, 2i Rete Gas activated the new platform for IT Service Management processes, so as to structure the management of IT operational processes, standardise the relevant procedures, and bolster the Governance mechanisms associated with the measurement of performance indicators and the monitoring of service level agreements.

A number of *Cyber Security* initiatives were undertaken in a number of areas: security and network infrastructures were upgraded (*firewall, proxy, network load balancer*), *Data Loss Prevention* solutions were implemented to comply with the GDPR regulation, an *Advisory Risk Security* programme was launched with the aim of identifying areas where security can be improved and coming up with a new SIEM solution for the future upgrading of the *Security Operation Center*. Also, thorough checks on the level of resilience to *Cyber Attacks* on the *IoT* infrastructure, consisting of over 4 million sensors and devices installed in managed installations, were carried out.

13. Research and development

During the year, research and development was undertaken in the IT sector and on the smart meter management system.

Experiments were carried out during the year on NB-IoT (NarrowBand Internet of

Things) technology, a new communication technology for point-to-point smart meters, with the aim of coming up with a valid and better-performing alternative to 2G.

Also in 2020 important trials were conducted on an innovative solution for the automated monitoring of odourisation levels by means of remote feedback.

The system is governed by a neural network that acquires the data of transported volumes from smart meters, historic data and weather forecasts, data referring to the plant's fluid dynamics and real values of the level of odourisation in the network. It is able to create a predictive model that can dynamically keep odourisation levels in line with regulatory limits. This solution seeks to mitigate the phenomena of hypo- or hyper-odourisation, and to:

- Raise network safety with the constant monitoring of the level of odourisation;
- Optimise the level of odourisation throughout the distribution network;
- Improve the environmental impact of the gas distribution network by reducing the level of sulphur in the network.

14. Risk management

This section concerning Enterprise Risk Management describes the main operational risks that characterise the sector in which the Group operates. Regarding liquidity, credit and market risks, reference should be made to the relevant section in the notes to the separate and consolidated financial statements.

14.1 Operational risks

Operating natural gas distribution networks involves the risks of malfunction or unanticipated interruption of the service, due to factors that are not under the Group's control, such as accidents, breakdowns or malfunctions of equipment or control systems, underperformance of the plants, and extraordinary events such as explosions, fires, earthquakes, landslides, and other natural disasters. These events can result in an interruption of the service, significant damage to people or property as well as the environment, and/or economic and social turmoil.

Any service interruptions, underperformance, or inadequacy of the Group structures and/or the consequent obligations to provide compensation could result in a reduction in revenue, an increase in costs, and/or regulatory actions.

To prevent these risks, and specifically the risk of natural events damaging the networks, the Group has entered into insurance policies that are considered adequate for the damage that could be incurred or caused.

The installation of so-called smart meters and infrastructures for the collection of data on consumption pursuant to ARERA Resolution 155/2008 is one of the Group's

most important projects in terms of innovative technology and investment levels.

The installation and use of new generation smart meters ensures greater accuracy and promptness in metering and prompt recording of actual consumption, while improving the effectiveness of corporate processes.

There is the risk however that the Group might be obliged to bear maintenance or replacement costs sooner than anticipated in its strategic plans and remunerated with tariffs, since smart meter technology and their supply market have only been created recently, and no historic data exist as to the duration of such meters or their technology. The ongoing smart meter implementation plan might also result in an increase in operating costs for the new meters, which in turn might raise technical and operational difficulties during their actual life cycle.

14.2 Risks linked to the development of the legal and regulatory context

The Group may be exposed to risks related to changes in the tariffs for regulated natural gas distribution activities. For example, a change in the regulatory variables or in the method used for regulation – including, but not limited to, in

how the contributions received to develop the network and infrastructure are included in the tariff in each regulated period – will impact the tariffs applicable to the Group's business, with negative repercussions on revenue and margin.

The regulatory period has a six-year duration, and the WACC (weighted average cost of capital) is reviewed every three years.

14.3 Risks pertaining to gas distribution service tenders

The Group's ability to perform its business activity depends on the gas distribution concessions granted by local Italian authorities.

While the Group is in a sound state in terms of market position and financial standing, there are no guarantees that it will be able to retain or renew concessions for the areas in which it operates, or obtain new concessions. Even if it is awarded new or renewed concessions, there is no guarantee that the Group will benefit from conditions that are generally equal to or better than existing ones (combination of payments and planned investments). The results of future tenders may give rise to legal disputes among concession holders, and even between the Group's gas distribution companies and other parties such as business operators and municipalities, in view of the complexity of regulations governing the new tender procedure.

In recent years however the Group has carefully studied and prepared its development strategy, and has all the financial

resources and know-how at its disposal to face up to this challenge.

14.4 Risks deriving from any likely reduction in natural gas consumption

Though the regulated income of the Group's operating companies does not directly depend on the distribution volumes, in regard to which the Group has not incurred any risks insofar as the volumes of the demand, a prolonged economic crisis or other external event that may lead to reduced customers served and/or customers gas consumption levels could give rise to government and/or regulatory interventions and changes to the regulatory framework, which could impact negatively on the Group.

In relation to the climate change objectives set out in 2015 at the Paris Conference between the Parties to the United Nations Framework Convention (UNFCCC) and to the further targets set at the EU level for a progressive decarbonisation of energy, the energy industry could, in the medium/long term, evolve towards new scenarios and arrangements where the role of gas in end uses could change as compared to today. In such scenarios, the number of customers served and the demand for gas could decrease, which could result in a lower use of the underlying infrastructures, with the risk of ending up with "stranded assets", i.e. capabilities that are not fully used during their entire amortisation period. On the other hand, the prospect of using existing infrastructures for the injection and

transport of renewable gas (e.g. bio-methane, synthetic methane from renewable sources or hydrogen) can contribute to the achievement of decarbonisation objectives, facilitating integration between different energy sectors (sector coupling), in particular between the electricity and gas sectors, while mitigating the risk of stranded assets.

With a view to interdependence between the gas and electricity sectors, gas infrastructures could indeed prove to play a major role in helping to produce greater quantities of energy from renewable electrical sources, offsetting their intermittence and variability by relying on storage mechanisms, thereby making a significant contribution to system flexibility.

14.5 Environmental and safety risks

Operating and maintaining gas distribution networks is potentially dangerous and could cause damage to third parties and/or Group employees. The Group is subject to Italian and European Union laws and regulations that govern health and safety to protect the public and employees.

As part of its operations, the Group uses potentially hazardous products and sub-products, and the work sites in which it operates are subject to laws and regulations (including zoning laws) regarding pollution, environmental protection, and the use and disposal of hazardous substances and waste.

These laws and regulations expose the Group to costs and liabilities associated

with its operations and plants, including in relation to waste disposal.

The costs for any future environmental restoration obligations involve uncertainty as to the extent of the contamination, the appropriate corrective actions, and the Group's responsibility - which are often hard to estimate.

To mitigate this risk, in addition to specific compliance procedure and a constant monitoring of the main environmental parameters managed, the Group has taken out specific insurance policies covering both the cost of containing a potential contamination as well as of the relevant restoration and damage caused.

14.6 Risks pertaining to energy transition

With regard to the possible decarbonisation of the energy system to combat climate change, it is possible in the very long term that some components of aggregate demand for natural gas might gradually be replaced for final uses by other energy sources (including so-called green gas) when pursuing decarbonisation goals. The long-term likelihood of a reduction in final uses of gas might therefore lead to a reduction in the use of natural gas distribution infrastructures, with the risk of having so-called "stranded assets" (infrastructures funded by the system that are used for an insufficient period of time for the investment to be repaid). With regard to unrecoverable assets in reference to the possible decline in the use of natural gas for final uses supplied by distribution networks, ARERA has indicated the possibility of considering briefer pay-back

periods for any infrastructures that may be affected.

In this regard, the Group is working on the transformation of its networks into digital infrastructures, in order to assess the technical and commercial feasibility of the distribution of gases other than methane, e.g. hydrogen and biomethane,

and contribute to the development of power-to-gas technology, producing gases that can be used in existing networks through renewable energy storage systems and energy efficiency projects.

15. Main features of the risk management and internal control systems in relation to financial disclosure

This section of the Directors' Report describes the main features of the Group's Corporate Governance, thus discharging the specific disclosure obligations envisaged pursuant to art. 123 bis of Italian Legislative Decree No. 58/1998 – Consolidated Law on Finance (known as TUF, Testo Unico della Finanza)(Report on corporate governance and shareholding structure) regarding the information required by paragraph 2, letter b).

15.1 Foreword

The Internal Control System adopted, in its broadest sense, is defined as a process undertaken by the Board of Directors (hereafter the "Board of Directors"), by Executives and by other people in the corporate structure, the purpose of which is to provide a reasonable guarantee concerning the achievement of all the corporate objectives, whether strategic, operational or in terms of legislative/regulatory compliance.

Specifically, the Internal Control System aims to provide reasonable assurance that the Company:

- respects the laws, regulations and internal procedures;
- safeguards the Company's assets;
- makes the accounting and operational information reliable;
- applies criteria of efficiency and effectiveness in the activities it undertakes.

The Internal Control System, in relation to the financial disclosure process, aims to identify and assess the actions or events whose occurrence or non-occurrence may jeopardise, in full or in part, the achievement of the objectives of trust-

worthiness, accuracy, reliability and timeliness of the above-mentioned disclosure.

In general reference to the whole Internal Control System and, in particular, to the Parent Company's financial disclosure, the Board of Directors defines the guidelines so that the Company:

- adopts an Internal Control System which refers directly to the models envisaged by relevant international best practice (i.e. the "Co.SO Report");
- the strategic, operational and legislative compliance risks of the Company and of the Group are adequately measured, monitored, managed and assessed through a suitable and structured risk analysis method;
- the organisational, methodological and operating conditions are created to ensure the adequacy, effectiveness and actual operation of the Internal Control System based on the approval of the Audit Plan and verification of the audit work undertaken by the Audit Bodies.

15.2 Bodies supporting the B.o.D. which operate with a view to financial disclosure

To ensure that the foregoing actions can be acted upon in practical terms, the Board of Directors interacts with the different Institutional Control Bodies, such as the Board of Statutory Auditors, the Supervisory Body pursuant to Legislative Decree 231/2001, the Independent Auditors and the Internal Audit function, ensuring that they are vested with such powers and means as necessary for the discharge of their respective functions and duties.

Board of Statutory Auditors

The Board of Statutory Auditors carries out the supervisory and control functions envisaged by the Italian Civil Code. Since the Parent Company is a "Body of public interest", on the basis of Article 19 of Italian Legislative Decree 39/2010, the Board of Statutory Auditors also acts as "internal control and audit committee", with duties to oversee:

- a) the financial disclosure process;
- b) effectiveness of the internal control, audit (if applicable) and risk management systems;
- c) audit of the annual accounts and consolidated accounts;
- d) independence of the statutory auditor or of the independent auditors, in particular as regards the provision of non-audit

services to the body whose accounts must be audited.

Supervisory Body and Organisational Model under Italian Legislative Decree 231/2001.

The Organisational Model is organised in the following terms:

- i. the General Part, which describes, after a short legal introduction to the contents of Italian Legislative Decree 231/2001 and the so-called predicate crimes to administrative liability, the aims of the Model, its structure, recipients, the changes and additions adopted, the Company's institutional and organisational arrangements (including a detailed description of the company structure and identification also of the services provided by third-party companies), the Code of Ethics, the powers and functions of the Supervisory Body, included in the regulation of the body itself, the information flows to it, the processes for training and informing staff, as well as the disciplinary system;
- ii. the Special Parts, which are divided depending on the categories of predicate crime considered herein. Specifically, the breakdown of each Special Part is as follows: description of the aims of the Special Part, identification of the types of relevant crime, list of the potentially sensitive processes connected to the specific types of crime, general principles of conduct and implementation, specific procedural principles, powers of the Supervi-

sory Body and flows from the heads/contact persons to the Body itself. With particular reference to the "information flows" to the Supervisory Body, which the latter needs to effectively undertake its control and consultancy work, also guaranteeing the complete traceability of the analyses undertaken on the key aspects, the aforementioned Model defines:

- the contents of the information flows to be provided by the Organisational Model heads/contact persons to the Supervisory Body;
- the envisaged reporting by the managers/contact persons, three times a year.

On 29 April 2015, the Board of Directors appointed the new Supervisory Body as the collective body responsible for overseeing the operation and compliance with the Organisation, Management and Control Model adopted, as well as its update, consisting respectively of:

- Attorney Daniela Mainini, Chairwoman of the S.B.;
- Marco Antonio Modesto Dell'Acqua
- Attorney Maria Cristina Fortunati, Head of the Legal and Corporate Affairs Department, under the General Affairs Directorate of the Company.

The Supervisory Body is called on to exercise the following activities or functions:

- supervision of the operation and compliance with the Organisational Model adopted;
- verification of the real suitability and adequacy of the Organisational Model adopted, in other words its real ability

to prevent the commission of predicate crimes to a potential administrative liability of the Company, pursuant to Italian Legislative Decree 231/2001

- monitoring of the effective implementation of the Organisational Model, pursuant to art. 7 para. 4 lett. a) of Italian Legislative Decree 231/2001, understood as the prolonged correspondence of this document to institutional and organisational arrangements, as well as to the core business;
- consultancy aimed at updating, integrating or changing the Organisational Model and the Code of Ethics adopted, on the basis of regulatory changes or new corporate needs;
- collection, examination and maintenance of all the information flows received or sent. In this regard, the Supervisory Body examines the reports sent every four months by the heads/contact persons pursuant to the Model, including the central Administration, Finance and Control Department.

Independent Auditors

The Shareholders' Meeting of 2i Rete Gas S.p.A., on 29 April 2015, appointed PricewaterhouseCoopers S.p.A. as its Independent Auditors for the years 2015-2023.

As provided for by art. 11 of Regulation (EU) no. 537/2014, the Independent Auditors will submit to the Board of Statutory Auditors, in its role as the "committee for internal control and audit", a report on fundamental issues arisen during the audit and, in particular, on the significant

failings found in the Internal Control System with reference to the financial disclosure process.

Internal Audit

The Board of Directors outsourced to COGITEK S.r.l. the Internal Audit, Compliance and Risk Analysis work as of 1 January 2015, under the coordination of Pierantonio Piana, who acts as the Head of Internal Audit.

The Head of Internal Audit reports to the Board of Directors and, through it, to the Chief Executive Officer (hereafter "Senior Management"), and is therefore independent from the heads of the operational areas, including Administration and Finance. He also has direct access to all the information needed to perform his role, as indicated in the "Mandate".

In 2016, the Group started insourcing the Internal Audit department by hiring two professionals that operate under the supervision of Pierantonio Piana.

The three-year audit plan is prepared on an annual rolling basis, following a structured and organic risk analysis whose method rests on international best practices known as ERM (Enterprise Risk Management) and CRSA (Control Risk Self Assessment). This analysis, which is updated every year in order to identify the most important areas to audit, enables the AI department to define the most appropriate areas and level of analysis to carry out "third line of defence" controls (process audit, compliance and follow-up audit), as well as to optimise the use of the dedicated resources.

The results of the risk analysis and the audit, as they are gradually carried out, are systematically illustrated to Senior Management, with a periodic summary for the Board of Directors, so that, should there be any weaknesses or potential weakness in the Internal Control System, they can be put right with suitable preventative/corrective measures required by AI, which are duly assigned, scheduled and monitored until their full completion. As from 2017, following this monitoring - the main aim of which is confirming the complete implementation of the aforementioned measures - systematic and related follow-up started in order to confirm whether the aforementioned plan effectively introduced the improvements to the internal control systems as hoped for during the audit.

The CFO and the Administration, Finance and Control Department

The System for risk management and internal control over financial disclosure is governed by the Chief Financial Officer (CFO), who is responsible for designing, implementing and approving the Accounting and Administrative Control Model, as well as assessing its application.

In carrying out his/her activities, the CFO:

- interacts with the Independent Auditors and with Internal Audit;
- is supported by the Department Heads involved who, in relation to their own area of responsibility, en-

sure the completeness and reliability of the information flows to the CFO for the purposes of preparing the financial disclosure;

- coordinates the activities undertaken by the Administrative Heads of relevant subsidiaries, who are responsible for the implementation, within their own company, together with the delegated bodies, of an adequate accounting control system to oversee administrative and accounting processes and assess their effectiveness over time, submitting the results to the Parent Company through an internal certification process.

Other corporate departments involved

The various corporate departments (and the organisational areas) - involved in the various core and support processes - are called on to follow the rules of correctness and transparency, accountability and traceability which are part of the procedural framework relating to every activity undertaken. The aforementioned departments also arrange to carry out the so-called "first" and "second" level controls on the process which precedes the final accounting figures, in order to guarantee the "soundness" and reliability of the latter.

15.3 Main features of the risk management and internal control systems in relation to financial disclosure

Given that the Parent Company, in setting up its own Internal Control System, has adhered to the indications on the

matter included in the relevant laws and regulations, including the Italian Civil Code, Italian Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance), specifically arts. 123 bis, paragraph 2 letter B, 184 and 185, the Market Abuse (Directive 2003/6/EC) Regulations 2005 and the Transparency (Directive 2004/109/EC) Regulations 2007 issued by the Central Bank of Ireland, Italian Legislative Decree No. 231/2001 (Organisational and Management Model under Italian Legislative Decree 231/01), Italian Legislative Decree 39/2010, as well as the applicable IAS/IFRS, the related description of the aforementioned system is hereafter set out following the sections of the new Co.SO Report framework which, in terms of international best practices, has been joined to ERM - Enterprise Risk Management.

In the "integrated" Co.SO, indeed, control mechanisms have been permeated by the management of risk inherent in all stages of the corporate governance system, from strategy to operations and business performance.

This framework consists of the core elements of an effective control system:

- Governance and culture - The core elements of effective Enterprise Risk Management. Governance in particular defines the so-called "management style" and guarantees, through the definition of structures, responsibilities and supervisory systems, the balancing of corporate governance, and provides guarantees for stakeholders

as regards corporate affairs. The risk culture is the foundation for supporting ethical values, namely the integrity, transparency and the "accountability" of conduct of those working in the company at all hierarchical levels.

With the company's top management and governing bodies promoting the idea of "continuous improvement", and risk analyses conducted on an annual basis, guidelines have been drafted on company procedures, key operating and IT control processes and so on. These updates set out to create an "ideal control environment" and a precise and increasingly targeted decision-making and behavioural benchmark for Top Management and for all employees.

As usual, the aforementioned documentation has been made available on the Company intranet, so that everyone working in the Company can access it and check the elements that may help support their work and make it compatible with Company values and the rules of "good governance".

Third parties have gradually become more involved in this rule-updating process. This includes suppliers and other firms, which have been subjected to increasing "qualification" actions and to increasingly stringent controls on transparent and correct conduct, also leading to ethical assessments and the evaluation of qualitative performance (e.g. "vendor rating").

To obtain good ratings in this sphere, suppliers are required to comply with the company's ethical principles, adding suitable contractual clauses linking them with the Company's values, with the possibility of accessing via the Web conduct guidelines made available to them by the Company (e.g. the general section of the Organisation and Management Model pursuant to Leg. Dec. 231/2001).

To improve the structure of top-down controls and the self-monitoring of workers, the HR Department is putting in place and gradually completing organisational analysis activities to avoid the possibility of substantial differences between the structure described in company documents and the actual operational structure present in the field.

- Strategy and goal-setting - This component focuses on the use of Risk Analysis in managerial and operational terms which, as already mentioned, is increasingly a part of all company activities. In this way, over time each level of the structure will be aware of the implicit risks of the duties being carried out, from strategic planning to functional and territorial operations.

The four types of risk considered in Risk Analysis (strategic, operational, reporting and legislative/regulatory compliance) provide a wealth of information about analysis of the corporate setting, the

definition of risk propensity, the appraisal of alternative strategies and drawing up of business goals.

Risk Analysis is an activity promoted, developed and run by the Internal Audit unit at the orders of Top Management and the Board of Directors (with approval of Audit Plan 2020-2022), which sets out to identify, assess and manage strategic, operational, financial/reporting risks and legislative/regulatory non-compliance risks that may potentially lie ahead on the company's future path.

This activity also includes a critical assessment of the system of "company defences" (controls) in relation to the aforementioned risks.

In this way, all components of the Company become aware (in a structured and organic manner) of the potential threats and related defensive weaknesses, as well as the need for rigorous prioritisation of actions and precise accountability and timing when implementing preventive/corrective action plans to deal with potential criticalities.

The Risk Analysis process is an exercise which, as noted, is carried out each year as of 2014 by the Company through annual updates; these updates take into account organisational, regulatory and legislative and/or business changes which characterise each year and other or further risk conditions which may emerge in the period.

As for the assessment - subject to updating the mapping of all Company processes where necessary -

the Group decided to have the various company heads (Top Management and process owners) self-assess risks, while the assessment of the controls adopted to combat such risks has been carried out by the Internal Audit Department (on the basis of the information gathered and the experiences gradually "accrued" from the audit work undertaken up to that moment).

The risks have been assessed in terms of "severity and probability", while the controls have been examined on the basis of their "adequacy and activation": all the assessments made by the various subjects responsible have been supported by specific measurements arranged for the purpose.

The assessments, updated in 2020, of the aforementioned risks and related controls have given rise to "plotting" them on their respective diagrams represented by the "theoretical risk profile" (risk appetite) and by the "control profile". These profiles - in agreement with Top Management - have been divided into acceptable ("tolerance of risks and reliability of controls") and unacceptable ("unacceptable risks and inadequate controls") areas.

The comparison between potential risks and related controls highlights the so-called "residual risks", in other words the unacceptable risks which have not been adequately managed by the controls and which may have an impact of any degree on various corporate objectives.

The results of the 2020 risk analysis, besides triggering a remediation plan process with prioritised interventions, enable the identification and scheduling of audit activities over the next three years (2021-2023 Audit Plan, endorsed by the Chief Executive Officer and to be approved by the next Board of Directors).

Also in 2020, the method was applied across the head office departments and local areas and enabled - as usual - a broad analysis of potential risks and the related controls under way, of which only a small percentage resulted not to be adequately managed and therefore subject to preventative/corrective plans, which moreover had already been completed or had made significant progress.

In conclusion, the risks that proved to be not adequately governed did not point to critical situations deemed to be important and/or significantly and completely out of control, since the company is keeping watch over all possible situations that might lead to difficulties for it, taking suitable organisational, IT security-related, regulatory, etc. measures on an ongoing basis.

- Performance: after the organisation has set out its strategy and goals in keeping with the desired risk profile, this component focuses on the principles of singling out and evaluating the risks that might have a bearing on the ability

to achieve goals and attain the desired performance. A holistic vision is captured regarding the likelihood of threats actually happening and of the size of such threats, with a view to deciding whether and to what extent they might have a bearing on performance and results.

Using the results of Risk Analysis, as well as control activities normally carried out by all organisations involved, integrated control activities are developed by operational and local departments (first-level controls), the Quality, Safety and Environment Department, Administration and Management Control Department, etc. (second-level controls) and the Internal Audit unit (third-level controls, in agreement with the Board of Statutory Auditors, the Supervisory Body under Italian Legislative Decree 231/01 and the external auditor).

The information principles underpinning the aforementioned controls, which are carried out, as noted, thanks to the increasingly broad and structured presence of adequately formalised and organised rules, concern the separation of duties and roles, the authorisation system for all accounting and managerial operations, their traceability with suitable documentation and registration, the detailing of choices, physical control over tangible and intangible assets, as well as accounting entries and operational recordings and any other issue under the Internal Audit's control.

The corporate support tools enabling the effective performance control work set out above are:

- Managerial Procedures, Operational Procedures, Operational Instructions and Technical Specifications;
- the Quality manual;
- the Accounting and Administrative Control System, through IT procedures on SAP;
- the Group Accounting Manual and chart of accounts – a document which aims to promote the development and implementation of standard accounting criteria within the Group as regards the recognition, classification and measurement of operations;
- the Operational instructions for financial statements and reporting and year-end timetables – documents which aim to inform the various departments of the detailed operating methods to manage the preparation of the financial statements within the established and agreed deadlines;
- the Administrative and Accounting Procedures – documents which establish the responsibilities and control rules to follow with particular reference to administrative and accounting processes;
- the three-year Audit Plan and the audit manuals;
- the continuous audit and continuous monitoring process promoted by the Internal Audit department, in order to improve the internal control system to prevent and/or identify any cases of non-

compliance with the law and/or internal regulations, fraud, unethical conduct, etc., which can be assessed in all the main corporate processes (accounts receivable, accounts payable, finance and cash management, human resources).

This approach is used to periodically “analyse” the company’s entire database to detect “all cited situations worthy of analysis and study” and not just “sample” situations normally checked by control bodies.

While Continuous Auditing is a tool used by the Internal Audit unit, Continuous Monitoring is “a new self-monitoring tool” designed to be provided to individual units and territories to conduct appropriate and recurring analyses to gauge performance of their governance and control systems. This tool is currently being examined by Top Management, the Operations Department and Company Departments to determine field application timing and methods. IA activity in this field will continue with a more selective choice of more sensitive aspects that merit further study.

Specifically, as for the various three-year Plans (2014/2016, 2015/2017, 2016/2018, 2017/2019, 2018/2020, 2019/2021, 2020/2022), the audit was conducted as follows, based on the findings of the annual Risk Analysis:

- In 2014 and in the years following the start-up of Cogitek S.r.l. business activity, specific audits

were carried out on local and functional processes with a view to ascertaining the “basic” conditions of the internal control system, with checks undertaken to verify the presence and efficacy of existing rules (strategies, policies, procedures, rules with reference to Leg. Dec. 231/01, in accordance with and/or on behalf of the Supervisory Body, regulatory aspects, etc.). This control activity was followed by the important job of setting out corporate rules, which continue to be finetuned.

- In the 2018-2020, 2019-2021, 2020-2022 Plans: the so-called “coverage audits” were completed, checking all corporate processes at least once through specific audits and subsequent specific Follow-ups.

Issues of particular relevance for the company business were tackled, to verify whether conduct was in line with the changing regulatory framework and to make sure that preventive/corrective plans enacted by company Departments further to evidence collected in audits/Follow Ups met the necessary functionality requirements and actually resulted in the hoped-for improvements to the internal control System.

These interventions - receiving the assistance of the Continuous Audit unit - set out to make sure that business operations actually abided by the principles of correctness, transparency, accountability and enforceability against third

parties for operations performed by both enterprises and company staff.

- Review and revision: The review and revision stage follows the prioritisation of risks identified through Risk Analysis, the definition of strategies and relative initiatives and actions needed to achieve “performance targets”. This entails the re-examination of ongoing changes and related risks, modifications to initiatives already under way to remedy performance deviations and the review of planned strategies. This is also an opportunity to understand how to improve the corporate governance process in general.

Review and revision activity refers in particular to the strategic and tactical information which must flow down from Senior Management throughout the corporate structure, so that all the parties involved in operations have adequate knowledge of the elements that are essential for managing their area of responsibility. For this “downward flow” there are tools that allow information about performance to “rise up” from the periphery to the centre, so that Top Management is able to verify whether strategies are being followed, and can then take corrective actions.

- Information, communication and reporting: The sharing and timely dissemination of information within the organisation is key to good internal control. Existing systems

and technologies are useful for communicating risks, with regard to uncertainties and opportunities and in order to acquire, process, manage and generate reports on risks, culture and performance/results.

In the Company, this takes place in accordance with the logic of the process of planning, budgeting and periodic reporting (e.g. Tableau de Bord/Monthly report) and pervades the main levels of the organisation. Moreover, this approach relates to the activities aimed at constantly checking over time the quality of the Internal Control System.

In parallel, on conclusion of the Risk Analysis and during the implemen-

tation of each annual Audit Plan, Internal Audit verifies the quality level of the Internal Control System, also in light of the complete implementation of the preventative/corrective measures assigned to the various process owners (Monitoring of action plans requested in audits/Follow ups).

This approach leads to a periodical summary from IA which, at least once a year and with the participation and agreement of the CEO, provides the Board of Directors with an assessment of the extent to which the internal control system has lived up to the expectations of "good governance".

16. Outlook

During 2021, further measures will be implemented to make the Group increasingly efficient and optimise the use of resources, ensuring at the same time cost containment.

Expected profitability for 2021 will reflect all the economies of scale achieved, and cost-effectiveness efforts made, by the Group, in addition, of course, to the interventions required by the regulator, including under Resolution No. 570/2019/R/gas, which, as described in chapter 5, governs tariffs for the next six years of the next regulatory period and market dynamics.

With regard to the COVID-19 crisis, the results of financial year 2021 may also be affected by the current situation and possible scenarios are currently being carefully considered. Taking into account the sector regulatory mechanisms, including in the light of the most recent measures, significant impacts on the Group are not envisaged, even though uncertainty remains about when there will be a return to normality and about the consequences of the pandemic on the economic system as a whole and on operators in the energy sector in which the Group operates.

In particular, the actions that the 2i Rete Gas Group intends to implement are aimed to:

- continue reducing the number of workplace injuries by improving work quality and safety across its operations;
- monitor and improve the approach to environmental, social and governance issues, relying on a sustainability policy and an updated plan capable of delivering concrete results on these issues;
- be granted AGCM authorisation to complete the acquisition of Infrastrutture Distribuzione Gas S.p.A., undertaking activities to integrate this company in the Group;
- optimise its local presence and act with ever increasing effectiveness where it is present;
- concentrate resources on the highest value-added network operations through increasingly focused and specialised operational structures;
- exploit the gas distribution infrastructure to offer to the greatest number of prospects the possibility of connecting to the network and using methane, the fossil fuel with the lowest environmental impact and with great flexibility also thanks to its scalable use, as well as promote the use and injection of renewable fuels such as biomethane and synthetic gas from power-to-gas in the network.

17. Key figures of the Parent Company

The income and financial position for the year are shown in summary in the tables below, which have been obtained by reclassifying the data from the Income statement and the Statement of Financial Position, respectively, in accordance with operational criteria complying with international practice.

17.1 Reclassified Income Statement

Millions of euro	31.12.2020	31.12.2019	2020 - 2019
Revenue	1,026.6	1,044.0	(17.4)
Transport and sale of methane gas and LPG	667.3	675.2	(7.9)
Connection fees and accessory rights	14.7	14.9	(0.2)
Other sales and services	23.9	27.8	(3.9)
Revenue from intangible assets / assets under construction	289.0	275.6	13.4
Other revenue	31.6	50.5	(18.9)
Operating costs	(515.6)	(515.7)	0.1
Labour costs	(116.4)	(122.2)	5.9
Raw materials and inventories	(67.3)	(74.8)	7.5
Services	(284.0)	(264.2)	(19.8)
Other costs	(26.6)	(33.4)	6.8
Allocations to provisions for risks and charges	(22.7)	(22.6)	(0.1)
Increase in fixed assets not subject to IFRIC 12	1.4	1.6	(0.3)
EBITDA	511.0	528.4	(17.4)
Amortisation, depreciation and write-downs	(199.6)	(203.4)	3.8
Amortisation, depreciation and impairment losses	(199.6)	(203.4)	3.8
EBIT	311.4	324.9	(13.5)
Net financial income (expenses) and income (expenses) from	(54.2)	(60.3)	6.2
Pre-tax income	257.2	264.6	(7.4)
Income taxes for the year	(74.6)	(59.1)	(15.5)
Net income (expenses) from continuing operations	182.6	205.5	(22.9)
Net income (expenses) from discontinued operations	-	-	-
Net income for the year	182.6	205.5	(22.9)

17.2 Reclassified Statement of Financial Position

Millions of euro	31.12.2020	31.12.2019	2020 - 2019
	A	B	A-B
Net fixed assets	3,603.6	3,538.4	65.2
Property, plant and equipment	35.7	37.2	(1.5)
IFRS 16 Rights of use	24.3	28.8	(4.6)
Intangible assets	3,833.6	3,727.1	106.5
Equity investments	19.5	12.1	7.5
Other non-current assets	56.0	57.7	(1.7)
Other non-current liabilities	(326.7)	(320.5)	(6.2)
Fair value of derivatives	(38.8)	(4.0)	(34.8)
Net working capital:	62.3	74.4	(12.1)
Inventories	18.3	23.5	(5.2)
Trade receivables from third parties and the Group	237.7	252.8	(15.1)
Net receivables/(payables) for income taxes	8.6	(1.5)	10.1
Other current assets	204.4	196.2	8.2
Trade payables to third parties and the Group	(206.4)	(178.8)	(27.6)
Other current liabilities	(200.4)	(217.9)	17.5
Gross invested capital	3,665.9	3,612.7	53.2
Other provisions	(8.1)	17.6	(25.8)
Post-employment and other employee benefits	40.2	43.6	(3.4)
Provisions for risks and charges	84.4	98.7	(14.3)
Net deferred taxes	(132.7)	(124.6)	(8.1)
Net invested capital	3,674.0	3,595.1	78.9
Assets held for sale	-	3.0	(3.0)
Liabilities held for sale	-	0.1	(0.1)
Equity	1,036.2	931.2	105.0
Net Financial Position	2,637.9	2,666.8	(28.9)

18. Reconciliation of Equity and Net Income for the year

The reconciliation of Equity and Net Income for the year shown in the financial statements at 31 December 2020 of 2i Rete Gas S.p.A. and the corresponding values in the consolidated financial statements are as follows:

Thousands of euro	Net income for the year recognised through profit or loss at 31.12.2020	Equity at 31.12.2020
Separate financial statements of 2i Rete Gas S.p.A.	182,593	1,036,150
Surplus of shareholders' equity from financial statements of subsidiaries used for the purposes of consolidation, compared to the carrying values of the equity investments in subsidiaries	1,524	1,595
Consolidation adjustments for:		
Consolidation difference allocated to concessions	(16)	2,522
Consolidation difference allocated to goodwill		974
Valuation of equity investments with the equity method	(251)	517
Intercompany margins	(8)	(297)
Deferred and prepaid taxes	7	(636)
Consolidated financial statements of 2i Rete Gas S.p.A.	183,848	1,040,825
Non-controlling interests	(372)	(1,905)
Consolidated financial statements of 2i Rete Gas S.p.A. - owners of the	183,476	1,038,921

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

IV Consolidated financial statements of the 2i Rete Gas Group

1. Income Statement

Thousands of euro	Notes	31.12.2020	of which from related parties	31.12.2019	of which from related parties
Revenue					
Revenue from sales and services	5.a	711,616	-	722,701	-
Other revenue	5.b	30,678	76	49,459	139
Revenue from intangible assets / assets under construction	5.c	296,533	-	284,892	-
Sub-Total		1,038,828		1,057,051	-
Costs					
Raw materials and consumables	6.a	67,285	-	74,773	-
Services	6.b	292,178	5,473	273,999	7,084
Personnel Costs	6.c	116,470	2,338	122,246	3,340
Amortisation, depreciation and impairment losses	6.d	200,560	-	204,281	-
Other operating costs	6.e	49,894	352	56,535	363
Capitalised costs for internal work	6.f	(1,361)	-	(1,619)	-
Sub-Total		725,026		730,217	
EBIT					
EBIT		313,802		326,834	
Income (expenses) from equity investments	7	(251)	(251)	79	80
Financial income	8	533	38	1,990	-
Financial expenses	8	(55,078)	-	(62,789)	-
Sub-Total		(54,796)		(60,720)	
Pre-tax income					
Pre-tax income		259,005		266,114	
Taxes for the period	9	75,157	-	59,597	-
Net income (expenses) from continuing operations					
Net income (expenses) from continuing operations		183,848		206,517	
Net income (expenses) from discontinued operations	10	-		-	
NET INCOME FOR THE YEAR					
NET INCOME FOR THE YEAR		183,848		206,517	
Net income for the year attributable to:					
- Owners of the Parent		183,476		206,383	
- Non controlling interests		372		135	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

2. Statement of Comprehensive Income

Thousands of euro	31.12.2020	31.12.2019
Net income recognised through profit or loss	183,848	206,517
- Net income attributable to owners of the Parent	183,476	206,383
- Net income attributable to non-controlling interests	372	135
Other comprehensive income		
<i>Items which will never be reclassified through profit/(loss):</i>		
Revaluations of net liabilities / assets for defined benefits - owners of the Parent	(278)	(752)
Deferred tax assets and liabilities on items which will never be classified through profit/(loss) - owners of the Parent	47	91
	(231)	(661)
<i>Items which may be reclassified subsequently through profit/(loss):</i>		
Change in fair value of hedging derivatives - non-controlling interests	(34,752)	(3,981)
Change in fair value of hedging derivatives reclassified in profit for the period - non-controlling interests	(1,238)	(1,235)
Change in fair value of hedging derivatives (tax effect) - non-controlling interests	8,340	956
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interests	297	296
	(27,352)	(3,964)
Total other comprehensive income	(27,584)	(4,625)
Total comprehensive income	156,264	201,892
Total comprehensive income attributable to:		
- Owners of the Parent	155,892	201,757
- Non controlling interests	372	135

Earnings per share: 0.5051 euro

Diluted earnings per share: 0.5051 euro

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

3. Statement of Financial Position

Assets

Thousands of euro	Notes	31.12.2020	of which from related parties	31.12.2019	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	35,699	-	37,223	-
IFRS 16 Rights of use	12	24,258	-	28,817	-
Intangible assets	13	3,880,135	-	3,760,807	-
Net deferred tax assets	14	133,205	-	125,911	-
Equity investments	15	3,608	3,485	3,349	3,226
Non-current financial assets	16	735	-	1,547	-
Other non-current assets	17	56,092	-	57,697	-
	<i>Total</i>	4,133,731		4,015,351	
Current assets					
Inventories	18	18,309	-	23,509	-
Trade receivables	19	234,913	77	250,680	130
Short-term financial receivables	20	1,816	499	1,330	-
Other current financial assets	21	20	19	879	-
Cash and cash equivalents	22	186,991	-	353,308	-
Income tax receivables	23	9,012	-	6,272	-
Other current assets	24	211,540	-	201,361	-
	<i>Total</i>	662,601		837,338	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	25	-	-	2,991	-
	<i>Total</i>	-		2,991	
TOTAL ASSETS		4,796,332		4,855,680	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

Liabilities

Thousands of euro	Notes	31.12.2020	of which from related parties	31.12.2019	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent 26					
Share Capital		3,639	-	3,639	-
Treasury Shares		-	-	-	-
Other Reserves		498,425	-	526,009	-
Retained earnings/(accumulated losses)		353,381	-	197,028	-
Net income for the year		183,476	-	206,383	-
Total equity - Owners of the Parent		1,038,921		933,058	
Equity - non-controlling interests					
Non-controlling interests		1,533	-	1,398	-
Net income for the year - non-controlling interests		372	-	135	-
Total equity - non-controlling interests		1,905		1,533	
TOTAL EQUITY		1,040,825		934,591	
Non-current liabilities					
Long-term loans	27	2,744,422	-	2,660,921	-
Post-employment and other employee benefits	28	40,286	-	43,559	-
Provision for risks and charges	29	7,355	-	8,128	-
Deferred tax liabilities	14	-	-	-	-
Non-current financial liabilities	30	38,753	-	4,001	-
Non-current IFRS 16 financial liabilities	31	18,395	-	22,539	-
Other non-current liabilities	32	331,077	-	323,108	-
	<i>Total</i>	3,180,288		3,062,256	
Current liabilities					
Short-term loans	33	36,427	-	307,088	-
Current portion of long-term loans	34	18,182	-	18,182	-
Short-term portion of long-term and short-term provisions	35	78,492	-	92,639	-
Trade payables	36	215,963	6,630	186,344	4,860
Income tax payables	37	258	-	8,186	-
Current financial liabilities	38	17,066	-	20,025	-
Current IFRS 16 financial liabilities	39	5,281	-	6,110	-
Other current liabilities	40	203,550	1	220,120	-
	<i>Total</i>	575,218		858,694	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	25	-	-	139	-
	<i>Total</i>	-		139	
TOTAL LIABILITIES		3,755,507		3,921,089	
TOTAL EQUITY AND LIABILITIES		4,796,332		4,855,680	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

4. Statement of Cash Flows

Thousands of euro		31.12.2020	31.12.2019
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	22	353,308	686,353
Cash flow from operating activities			
Pre-tax income		259,005	266,114
Taxes for the period	9	(75,157)	(59,597)
1. Net income for the period		183,848	206,517
Adjustments for:			
Depreciation	6.d	200,374	200,442
Impairment/(Reversals)/(Releases)	6.d	186	3,839
Capital (gains)/losses	5.b/6.e	8,115	(2,220)
Allocations to provisions for risks and charges and post-employment benefits		28,848	29,547
Financial (income)/expenses	7 and 8	54,796	60,720
Badwill from acquisition		(79)	
2. Total adjustments		292,240	292,329
Change in net working capital			
Inventories	18	5,205	439
Trade receivables	19	16,658	(17,782)
Trade payables	36	17,131	(21,793)
Other current assets	24	(9,786)	6,365
Other current liabilities	40	(16,680)	(3,186)
Net tax receivables/(payables)	23 and 37	(10,733)	7,696
Increase / (decrease) in provisions for risks and charges and post-employment ben	28, 29 and 35	(36,104)	(43,003)
Increase / (decrease) in provisions for deferred tax assets and liabilities	14	822	(43,200)
Other non-current assets	17	1,666	125
Other non-current liabilities	32	7,830	11,862
Financial income/(expenses) other than for financing	8	(69)	(1,124)
3. Total change in net working capital		(24,058)	(103,600)
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		452,029	395,246
Cash flow (used in)/generated by investing activities			
Net fixed assets		(307,073)	(243,291)
Purchase of subsidiary and income from equity investments	7 and 15	(9,989)	189
Cash acquired through company acquisition		632	-
C) CASH FLOW (USED IN)/GENERATED BY INVESTING ACTIVITIES		(316,430)	(243,102)
D) FREE CASH FLOW (B+C)		135,599	152,144
Cash flow from financing activities			
Dividend payout		(50,030)	(93,000)
Change in amortised cost	16, 27 and 34	2,010	2,107
Financial income/(expenses) relating to the FV of the derivative instrument from Cor	7 and 8	(1,238)	(1,235)
Financial income for financing activities	8	22	1,854
Financial (expenses) for financing activities	8	(54,498)	(61,509)
Receipts from debenture loan issues	27	100,000	
Debenture loan settlements	27 and 33	(267,100)	
Change in short-term and long-term financial debt	27 and 33	(21,755)	(322,950)
Change in other non-current financial assets	16	497	3
Change in other financial receivables	20 and 21	373	(628)
Change in financial leases IFRS 16	31, 39 and 11	(7,237)	(6,891)
Change in other financial payables	38	(2,960)	(2,941)
E) CASH FLOW FROM FINANCING ACTIVITIES		(301,915)	(485,190)
F) CASH FLOW FOR THE PERIOD (D+E)		(166,316)	(333,046)
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	22	186,991	353,308

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

5. Statement of Changes in Equity

Thousands of euro	Share capital and reserves						Net income for the year	Total - Owners of the Parent	Total - Non-controlling interests	Total consolidated equity
	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)				
Total 31 December 2018	3,639	286,546	728	9,349	208,765	159,812	155,457	824,296	1,403	825,699
<i>Allocation of income for 2018:</i>										
Distribution of income	-	-	-	-	-	155,457	(155,457)	-	-	-
- Dividend payout	-	-	-	-	-	(93,000)	-	(93,000)	-	(93,000)
<i>Total contribution from shareholders and payments to them as shareholders</i>										
- Other changes	-	-	-	-	25,246	(25,246)	-	-	-	-
- Other changes	-	-	-	-	-	5	-	5	(5)	-
- Change in IAS reserves	-	-	-	(3,964)	(661)	-	-	(4,625)	-	(4,625)
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	206,383	206,383	135	206,517
Total 31 December 2019	3,639	286,546	728	5,385	233,350	197,028	206,383	933,058	1,533	934,591
<i>Allocation of income for 2019:</i>										
Distribution of income	-	-	-	-	-	156,353	(156,353)	-	-	-
- Dividend payout	-	-	-	-	-	-	(50,030)	(50,030)	-	(50,030)
<i>Total contribution from shareholders and payments to them as shareholders</i>										
- Other changes	-	-	-	-	-	(0)	-	(0)	-	(0)
- Change in IAS reserves	-	-	-	(27,352)	(231)	-	-	(27,584)	-	(27,584)
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	183,476	183,476	372	183,848
Total 31 December 2020	3,639	286,546	728	(21,967)	233,118	353,381	183,476	1,038,921	1,905	1,040,825

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

6. Notes to the Consolidated Financial Statements

Format and contents of the Financial Statements

The 2i Rete Gas Group operates in the gas distribution sector. The Parent Company 2i Rete Gas S.p.A. is a public limited company and is located in Milan, Via Alberico Albricci, 10.

The territorial structure of the Parent Company consists of six departments. The departmental offices are:

- North West Department - Via Gazzoleto, 16/18 - 26100 Cremona (province of Cremona)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (province of Varese)
- North East Department - Via Serassi, 17/Rs - 24124 Bergamo (province of Bergamo)
- Central Department - Via Morettini, 39 - 06128 Perugia (province of Perugia)
- South-West Department - Via Boscofangone snc - 80035 Nola (province of Naples)
- South East Department - Via Enrico Mattei - 72100 Brindisi (province of Brindisi)

The Directors of 2i Rete Gas S.p.A., on 29 March 2021, approved these consolidated financial statements and agreed to make them available to Shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.

For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 29 March 2021.

These consolidated financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The consolidated financial statements for the year ended 31 December 2020 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The above standards and interpretations are hereinafter referred to as "IFRS-EU".

Reporting and valuation criteria

These consolidated financial statements have been drawn up using a standard application of the accounting standards set out below for all the years shown.

Basis of presentation

The consolidated financial statements consist of the Income Statement, the Statement of Comprehensive Income,

the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes.

The assets and liabilities reported in the Statement of Financial Position are classified on a "current/non-current" basis, separately disclosing the assets and liabilities held for sale.

Current assets, which include cash and cash equivalents, are those intended to be realised, sold or used during the Group's normal operating cycle or in the twelve months following the reporting period; current liabilities are those expected to be settled during the Group's normal operating cycle or in the twelve months following the reporting period. Items in the Income Statement are classified based on the nature of expenses, while the Statement of Cash Flows is presented using the indirect method.

The consolidated financial statements are presented in euro (the functional currency) and the values shown in the notes are expressed in thousands of euro, unless otherwise stated.

The consolidated financial statements have been prepared using the historical cost method, except for those items which, in accordance with the IFRS-EU, are measured at fair value, as indicated in the valuation criteria for the individual items.

These consolidated financial statements have been prepared on a going-concern basis, as set out more in detail in the Directors' Report.

Consolidation criteria

The consolidated financial statements are prepared consolidating the data of the Parent Company and of the investee companies it controls, directly or indirectly, on a line-by-line basis. Control exists when the Group is exposed to variable returns arising from its relationship with the Company, or has rights over such returns, and at the same time has the ability to affect them by exercising its power over the Company. The financial statements of subsidiaries are included in the consolidated financial statements from when the Parent Company starts to exercise control until the date when such control ends.

The Group accounts for business combinations by applying the acquisition method on the date when it effectively obtains control of the purchased company. In this regard, reference should be made to the section "Business combinations" below.

Third-party equity investments are valued in proportion to the related share of net identifiable assets of the purchased company at the acquisition date. The changes in the Group's stake in a subsidiary which do not entail loss of control are recognised as transactions among shareholders in their role as shareholders.

In the case of loss of control, the Group derecognises the subsidiary's assets and liabilities, any third-party equity investments and other equity items relating to the subsidiaries. The profit or loss arising from the loss of control is recognised through profit or loss. Any residual equity investment held in the

former subsidiary is measured at fair value at the date of loss of control.

In drawing up the consolidated financial statements, debit and credit items are derecognised, as well as costs and revenues of all significant transactions among the companies included in the scope of consolidation. Unrealised profits are also derecognised, as well as capital gains and losses arising from transactions among Group companies.

Use of estimates

Preparing the financial statements under the IFRS-EU requires the use of estimates and assumptions which impact the values of assets and liabilities and disclosure on contingent assets and liabilities at the reporting date, as well as on total revenues and costs in the reporting period. The estimates and the related assumptions are based on previous experience and other factors considered reasonable in the circumstances. They are adopted when the carrying amount of financial statement items cannot be easily deduced from other sources. The actual results might therefore differ from these estimates. The estimates and assumptions are periodically revised and the effect of each change is reflected in profit or loss, should that revision relate only to the year in question. Should the revision relate to both current and future years, the change is recorded in the year in which it is carried out and in the related future periods.

Revenue recognition

Revenue from gas transport is determined annually on the basis of the tariff regulation in force, which, as from 2009, sets forth the definition of the tariff revenue cap (known as VRT, Vincolo dei Ricavi Tariffari) which is allowed for each gas distribution company. On the basis of Resolution 570/2019/R/gas adopted at the end of 2019, parameters which regulate the calculation of the VRT for the years from 2020 to 2025 (Fifth Regulatory Period) have been defined.

This figure for revenue is accounted for in the invoicing of gas transport to sales companies and, to complement the VRT value, in the CSEA equalisation element.

Since it is necessary to base the VRT calculation on an asset recognition which is updated to the previous year, the Company must also estimate a growth rate for its average active Redelivery Points to enable the updating of the figure for the year just ended.

Therefore, the value indicated also includes an estimated element, whose impact is largely insignificant, connected to the increase in the average number of active Redelivery Points.

When the balance is calculated, the value of the VRT annually communicated by the ARERA by means of a specific resolution may be subject to change depending on the actual average number of Redelivery Points served and invoiced.

Pensions and other post-employment benefits

Some Company employees participate in pension plans which offer benefits based on their wage trend and years of service. In addition, some employees benefit from other post-employment benefit schemes.

The expenses and liabilities associated with these plans are calculated on the basis of estimates made by our actuarial consultants, who use a combination of statistical and actuarial elements, including statistics relating to past years and forecasts of future costs. Estimates are also made of death and withdrawal rates, assumptions on the future trend in discount rates, the rates of wage increases and trends in the cost of medical care.

These estimates can significantly differ from actual results, owing to changes in economic and market conditions, increases or decreases in withdrawal rates and the lifespan of participants, as well as changes in the actual cost of medical care. Such differences can have a substantial impact on the quantification of pension costs and other related charges.

Recoverability of non-current assets

The carrying amount of non-current assets and assets held for sale is periodically tested for impairment and whenever circumstances or events suggest that more frequent test is necessary.

Where the carrying amount of a group of fixed assets is considered to be im-

paired, it is written down to its recoverable value, as estimated on the basis of the use of the assets and their future disposal, in accordance with the Company's most recent plans.

The estimates of such recoverable values are considered reasonable. Nevertheless, possible changes in the factors for estimating such recoverable values could generate different results. For further details on the means of carrying out the impairment test and its results, reference should be made to the specific section.

Disputes

The 2i Rete Gas Group is involved in various legal disputes relating mainly to labour cases and litigation with some granting bodies.

Given the nature of these disputes, it is not always objectively possible to foresee the final outcome of these proceedings, some of which could end with a negative outcome.

The estimate of the provisions is the result of a complex process which entails subjective assessments by management. The provisions for risks recorded in the financial statements have been estimated to cover all the significant liabilities for cases where lawyers have noted a likely negative outcome and made a reasonable estimate of the amount of the loss.

Bad debt provision

This provision reflects the estimates of losses on the Company's receivables portfolio. Allocations have been made

for forecast losses on receivables, estimated on the basis of past experience in reference to receivables with similar credit risk, to current and historical unpaid amounts, write-offs and receipts as well as careful monitoring of the quality of the receivables portfolio and the current and forecast state of the economy and key markets.

Although the provision allocated is adequate, the use of different assumptions or a change in the economic circumstances could result in changes to the bad debt provision and, therefore, have an impact on profits.

The estimates and the assumptions are periodically revised and the impact of each change is reflected in profit or loss in the relevant year.

Equity investments in associates and companies subject to joint control

Equity investments in associates are those in which the Zi Rete Gas Group has considerable influence over the financial and operational policies, although not holding control or joint control.

Companies subject to joint control or joint ventures are companies where the Group, by virtue of an agreement, claims rights over net assets.

Equity investments in associates and in joint ventures are initially recognised at cost and subsequently recognised on an equity basis. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of profits or losses of the investee companies accounted for using the equity method,

until the date on which said considerable influence or joint control ends.

Business combinations

Business combinations subsequent to 1 January 2010 are recognised using the acquisition method envisaged by IFRS 3 (Revised). The identifiable assets acquired and the liabilities assumed are measured at their respective fair values at the acquisition date. Any surplus in the purchase cost over the fair value of the net assets acquired is accounted for as goodwill or, if a deficit, recognised in profit or loss. The carrying value of any goodwill is subject to annual impairment testing in order to identify any impairment.

Should it be possible to determine the fair value of the assets, liabilities and identifiable contingent liabilities only provisionally, the business combination is recognised using these provisional values. Any adjustment arising from the completion of the valuation process is recognised within 12 months of the acquisition date.

Transaction costs, other than those relating to the issue of debt securities and equity, which are incurred by the Group to make a business combination, are recognised as operating costs when incurred.

Combinations of entities under common control

Business combinations under which the participating companies are definitively controlled by the same company or companies both before and after the combination, and this control is not

temporary, are regarded as "under common control" transactions.

These transactions are not regulated by IFRS 3 or by other IFRSs. In the absence of a relevant international accounting standard, in compliance with the principle of prudence which entails application of the criterion of continuity of values for the net assets acquired, the Group has opted to recognise assets and liabilities from any combinations of entities under common control at the carrying value which these assets and liabilities had in the financial statements of the seller/acquiree or in the consolidated financial statements of the common controlling entity. Where the transfer values are higher than the historical values, the surplus is eliminated by writing down the Group's equity.

Property, plant and equipment

In compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting treatment of fixed assets. As better specified below, following application of IFRIC 12, some fixed assets which were previously considered as tangible are now reclassified as intangible.

Property, plant and equipment not relating to gas distribution concessions are recognised at historical cost, including directly attributable ancillary costs necessary for the asset to be ready; subject to any legal or implicit obligations, the cost may be increased

by the present value of the cost estimated for the dismantling and removal of the asset. The corresponding liability is recognised in liabilities under a specific provision for future risks and charges. Currently, no liability linked to the dismantling and removal of assets is recognised, since there are no legal or implicit obligations which justify such recognition.

The purchase or production cost includes the financial expenses relating to loans connected to the purchase of tangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of the asset are identifiable.

Some assets, which were revalued at the date of transition to the IFRS-EU or in previous periods, have been recognised on the basis of the revalued cost, considered as deemed cost.

Should significant parts of individual tangible assets have different useful lives, the identified components are recognised and depreciated separately.

The costs incurred subsequent to the purchase are recognised as an increase in the carrying amount of the asset to which they refer, when it is probable that future economic benefits deriving from the cost will flow to the Group and the cost of the item can be reliably determined. All other costs are recognised in profit or loss in the year in which they are incurred.

The cost of replacing part or all of an asset is recognised as an increase in

the value of the asset to which it refers and is depreciated over its residual useful life; the net carrying amount of the replaced unit is recognised in profit or loss, with recognition of any capital loss.

Property, plant and equipment are recognised net of accumulated depreciation and any impairment losses, determined as set out below.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life, which is reviewed annually; any changes are applied on a prospective basis. Depreciation begins when the asset is ready for use.

The estimated useful life of the main tangible assets is as follows:

Description	Useful Life
Land	-
Non-industrial buildings	50
Industrial buildings	50
Miscellaneous equipment	10 - 15 - 20
Office furniture and equipment	5 - 8.33 - 10
Electronic devices	5
Vehicles	5
Cars	4 - 5
Other	4 - 5 - 15

Land, both unbuilt and with industrial and non-industrial buildings, is not depreciated as it has an indefinite useful life, except for the land which is transferred for free at the end of the concession.

Intangible assets

As noted above, in compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting treatment of fixed assets. In particular,

since the Group is subject to demand risk, the accounting treatment which it considered correct to apply is that of intangible assets: all the proprietary infrastructure obtained under a concession contract is no longer recognised as tangible assets but classified as intangible assets.

Intangible assets are measured at purchase or internal production cost, when it is likely that the use of such assets will generate future economic benefits and the related cost can be reliably determined.

The cost includes directly attributable ancillary expenses necessary to make the assets ready for use. The cost includes the financial expenses relating to the loans connected to the purchase of intangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of the asset are identifiable.

Intangible assets which have a finite useful life are recognised net of accumulated amortisation and any impairment losses, determined as follows.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life, which is reviewed at least annually; any changes are applied on a prospective basis.

Amortisation begins when the intangible asset is ready for use.

The estimated useful life of the main tangible assets is as follows:

Description	Useful Life
Intellectual property rights	5 years
Concessions	concession life (*)
Licences, trademarks and similar rights	3 years
Goodwill	indefinite, subject to impairment testing
Other	5-7-10 years - useful life of contract

(*) Amortisation is calculated based on the realisable value estimated at the end of the concession life, where applicable. In case of concessions expired at the end of the reporting period and whose expiration date has been postponed, the residual value is reviewed taking into account the relevant expiration postponement.

Intangible assets which have an indefinite useful life are not systematically amortised but are tested at least annually for impairment.

As for concessions, the 2i Rete Gas Group holds the concession for the gas distribution service assigned by tender for a maximum period of 12 years by local authorities (municipalities, municipality groups and mountain communities). Through service agreements, local authorities can set the terms and conditions for the distribution service, as well as the quality levels to be achieved. The concessions are allocated on the basis of the financial conditions, quality and safety standards, investment plans and the technical and managerial capabilities offered.

As in the previous Report, it should be highlighted that a significant number of concessions managed by the 2i Rete Gas Group for gas distribution were terminated on the basis of their natural expiry or by law at 31 December 2010.

It should be recalled that, since the publication of Italian Legislative Decree 93/11 on 29 June 2011, local authorities can no longer call new tenders except within the provisions included in the so-called "Decreto Ambiti" and "Decreto Criteri" issued in 2011. For this reason, currently only the local authorities which had called tenders for the

assignment of gas distribution concessions prior to publication of Italian Legislative Decree 93/11 can proceed with such tenders. In all the other cases, tenders are suspended until municipalities are ready to call them on a territorial basis. In the meantime, the 2i Rete Gas Group is continuing with the management of the network in the same way as prior to the expiry.

Should the concession not be re-assigned to the Group, the Group would have the right to compensation equal to the industrial value of the assets used for the concession determined in accordance with the relevant laws.

Rights of use under IFRS 16

Rights of use under IFRS 16 are fixed assets reflected in the financial statements as of 1 January 2019 following first-time adoption of the standard in question.

The new standard on leases provides a single lessee accounting model requiring to recognise assets and liabilities for all leases.

The lessee must recognise the leased asset under tangible assets and at the same time recognise financial liabilities equal to the current value of future payments. The only exceptions allowed are short-term leases (for no more than 12 months) and leases of small assets (e.g., office furniture, computers) for which the accounting treatment remains similar to that currently adopted for operating leases.

In the mapping carried out, three main cases were identified which are of interest in the Group's contracts:

- Vehicle hire
- Property lease
- ICT services entailing exclusive use of the underlying assets

The Group organised and categorised these contracts, recording the relevant clauses for the purposes of IFRS 16 accounting, as well as establishing an incremental borrowing rate curve, which mirrors the real rate to which the Group would be subject in case of use of capital markets.

Impairment losses

Tangible and intangible assets are reviewed at least once a year to determine whether there is evidence of impairment. If such evidence exists, their recoverable amount is estimated.

The recoverable amount of goodwill and intangible assets with an indefinite useful life, if any, as well as that of intangible assets not yet available for use, is estimated at least annually.

For an asset which does not generate fully independent cash flows, including goodwill, the recoverable value is determined in relation to the cash generating unit (CGU) to which this asset belongs.

In this regard, please note that the Group as a whole is considered to be a CGU.

The recoverable amount is the higher of an asset's fair value, net of disposal costs, and its value in use.

In determining the value in use, the expected future cash flows are discounted using a discount rate which reflects the current market valuations of the cost of funding in relation to the timing and specific risks of the asset.

An impairment is recognised in profit or loss if the carrying amount of an asset, or of the CGU to which it is allocated, is higher than its recoverable amount.

The impairment of a CGU is first charged against the carrying amount of any goodwill allocated to the CGU, then proportionally, to reduce the other assets which make up the CGU.

Impairment losses are reversed if the impairment has been reduced or is no longer present or there has been a change in the assumptions used to determine the recoverable amount.

Impairment of goodwill can never be reversed in future years.

Inventories

Inventories are measured at the lower of cost and the net realisable value. The weighted average cost method is used, which includes relevant ancillary expenses. The net realisable value is the sale price estimated in normal business operations, net of the costs estimated for the sale or, where applicable, the replacement cost.

Financial instruments

The initial recognition of non-derivative financial assets and liabilities takes place, for loans, receivables and debt securities issued, at the moment when they originated, while for all the other financial assets and liabilities it takes place on the trading date.

Financial assets are derecognised when: i) the contractual rights to receive cash flows end; ii) when the Group has maintained the right to receive cash flows from the asset, but has taken on the contractual obligation

to pay them in full without any delay to a third party; or iii) when the Group has transferred the right to receive cash flows from the asset and has substantially transferred all the risks and benefits of ownership of the financial asset, or has transferred control over the financial asset.

Any residual involvement in the transferred asset which is originated or maintained by the Group is recorded as a separate asset or liability.

The Group derecognises a financial liability when the obligation specified in the contract was fulfilled or cancelled or had expired.

Fair Value Hierarchy under IFRS 13

In accordance with IFRS 13, assets and liabilities recognised at fair value in the consolidated financial statements are measured and classified based on the fair value hierarchy outlined by the standard, which consists in three levels based on the observability of the inputs to the corresponding valuation technique. Fair value hierarchy levels are based on the type of inputs used to determine fair value:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (e.g. quoted prices for similar assets or liabilities in

active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; market-corroborated inputs).

Level 3: unobservable data for the asset or liability, reflecting the assumptions that market participants should use in pricing the asset or liability, including the risk assumptions (of the model and the inputs used).

The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire fair value measurement requires judgement, taking into account factors specific to the asset or liability.

A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

If an observable input requires an adjustment using unobservable inputs and that adjustment is material to the measurement, the resulting measurement would be categorised within the same level as the lowest level input used.

The Group has implemented adequate controls to monitor all measurements, including those received from third parties. If those checks show that the

measurement cannot be considered as market corroborated, the instrument must be categorised within Level 3.

Financial assets measured at fair value through profit or loss

This category includes any financial assets held for trading or measured at fair value through profit or loss at the time of initial recognition.

Such assets are initially recognised at their fair value. The attributable transaction costs are recognised in profit or loss when they are incurred. Profit and losses from subsequent changes in their fair value are recognised in profit or loss.

Financial assets held to maturity

This category includes non-derivative financial instruments quoted in an active market that do not represent equity investments, which the Company can and intends to hold until maturity. They are initially recognised at fair value, including any transaction costs; subsequently, they are measured at amortised cost using the effective interest rate method, net of impairment (if any).

Any impairment losses are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate.

Loans and receivables

This category includes financial and trade receivables, including non-deriv-

ative debt securities, with fixed or determinable payments, that are not quoted on an active market and that the Group does not originally intend to sell.

At first, such assets are recognised at fair value, adjusted for any transaction costs, and subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment losses. Any impairment losses are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate.

Trade receivables falling due in line with generally accepted trade conditions are not discounted.

Receivables relating to energy efficiency certificates refer to contributions which will be awarded by the Fund for Energy and Environmental Services for certificates in the 2i Rete Gas Group's portfolio.

Receivables in general have been derecognised, since the right to receive the respective cashflows has been stopped when all the risks and benefits relating to the holding of credit have been substantially transferred or if the credit is deemed to be definitively uncollectable after all necessary recovery procedures have been completed. When the credit is cancelled, the relative fund is also eliminated if the credit had previously been written down.

Financial assets available for sale

This category includes debt securities, equity investments in other entities (if

classified as "available for sale") and financial assets that cannot be classified in other categories. Such assets are initially recognised at fair value increased by any transaction costs. After initial recognition, these instruments are measured at fair value against the other components of the statement of comprehensive income.

At the time of sale, retained earnings and accumulated losses are reclassified from other comprehensive income to profit or loss.

Where there is objective evidence that such assets have suffered an impairment loss, the accumulated loss is recognised in profit or loss. Such impairment losses, which cannot be subsequently reversed, are calculated as the difference between the carrying amount of the asset and the present value of future cash flows, discounted at the market interest rate for similar financial assets.

When the fair value cannot be reliably determined, these assets are recognised at cost adjusted for any impairment losses.

Cash and cash equivalents

This category is used to record cash and cash equivalents that are available on demand or at very short term, clear successfully and do not incur collection costs.

For the statement of cash flows, cash and cash equivalents comprise bank and post office deposits and cash in hand.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Trade payables falling due in line with generally accepted trade conditions are not discounted.

Financial liabilities

Financial liabilities other than derivatives are initially recognised at fair value at the settlement date, net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments

Derivatives, if any, are recognised at fair value and are designated as hedging instruments when the relationship between the derivative financial instrument and the hedged item is formally documented and the effectiveness of the hedge is high (based on a periodical assessment).

Recognition of the result of measurement at fair value depends on the type of hedge accounting adopted.

When the derivatives are used to hedge the risk of changes in the fair value of hedged assets or liabilities (fair value hedge), any changes in the fair value of the hedging instrument are recognised in profit or loss; likewise, adjustments to the fair values of the hedged assets or liabilities are also recognised in profit or loss.

When the derivatives are used to hedge the risk of changes in cash flows of hedged items (cash flow hedge), the changes in the fair value that are considered effective are recognised in other comprehensive income, and presented in a specific equity reserve, and subsequently reclassified to profit or loss in line with the economic effects produced by the hedged transaction.

The ineffective portion of the fair value of the hedging instrument is recognised in profit or loss.

Changes in the fair value of derivatives that no longer qualify for hedge accounting under IFRS-EU are recognised in profit or loss.

The accounting for such instruments is done at the trading date.

Financial and non-financial contracts (where they have not already been measured at fair value) are assessed to determine whether they contain any embedded derivatives that need to be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated so that it significantly changes the original associated cash flows.

Fair value is determined using the official prices for instruments traded on regulated markets. For instruments not traded on regulated markets, fair value is determined by discounting expected cash flows on the basis of the market interest rate curve at the end of the reporting period and translating amounts in currencies other than the euro at period-end exchange rates.

Employee benefits

Liabilities related to employee benefits paid upon or after leaving employment and in connection with defined benefit plans or other long-term benefits granted during the employment period are determined separately for each plan, using actuarial assumptions to estimate the amount of the future benefits that employees have accrued at the end of the reporting period. The liability is recognised on an accrual basis over the vesting period of the related rights. These measurements are performed by independent actuaries. Following the adoption of IAS 19 (2011), the actuarial gains/losses that emerge following these measurements are immediately recognised in other comprehensive income.

Where the Group shows a demonstrable commitment, with a detailed formal plan without realistic possibility of withdrawal, to a termination before retirement eligibility has been reached, the benefits due to employees in respect of the termination are recognised as a cost and measured on the basis of the number of employees that are expected to accept the offer.

Provisions for risks and charges

Allocations to provisions for risks and charges are recognised when, at the reporting date, there is a legal or implicit obligation towards third parties, as a result of a past event, the settlement of which is expected to result in an outflow of resources whose amount can be reliably estimated. Where the effect is significant, allocations are de-

terminated by discounting expected future cash flows using a pre-tax discount rate that reflects the current market value of the cost of funding in relation to timing and, if applicable, the specific risks of the obligation. If the amount is discounted, the periodic adjustment of the present value due to timing is recognised as a financial expense in profit or loss.

Contributions

Whether they are from public entities or third parties operating in the private sector, contributions are recognised at fair value when it is reasonably certain that they will be received and that the conditions for their recognition will be met.

Contributions received for specific expenditures are systematically recognised among other liabilities and taken to profit or loss over the period in which the related costs are incurred.

Public contributions (plant contributions) received for specific assets whose value is recognised among tangible and intangible assets are recognised among other liabilities and taken to profit or loss over the amortisation/depreciation period of the assets they refer to.

Private contributions (connection fees, including property subdivision contributions) are recognised in a specific liability item in the statement of financial position and taken to profit or loss in relation to the amortisation/depreciation period of the assets they refer to.

Revenue and costs

Revenue is recognised using the following criteria depending on the type of transaction:

- revenue from sales of asset is recognised when the significant risks and rewards of ownership of the assets sold are transferred to the buyer and their amount can be reliably determined and collected;
- revenue from gas transport is accrued on the basis of the tariffs and the related restrictions envisaged by legal provisions and by the provisions of ARERA, in force during the reporting period. The introduction of the new formula for gas transport revenue recognition, which was applied as from 2009, with the coming into force of Resolution ARG/gas 159/08, and largely reconfirmed in ARERA Resolutions 573/13, 367/14 and 570/19, led to the introduction of an equalisation mechanism which enables the relevant distribution companies' revenue to be calculated in order to remunerate the invested capital and the operating costs attributable to the gas distribution and metering service, regardless of the volumes distributed;
- revenue from the rendering of services is recognised in line with the stage of completion of the services. Should it not be possible to reliably determine the value of revenue, it is recognised up to the

amount of the costs incurred and expected to be recovered.

Costs are recognised when they relate to goods and services sold or used in the year or allocated through systematic accrual when it is not possible to identify their future benefit.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis in line with interest accrued on the net value of the related financial assets and liabilities using the effective interest rate method.

Dividends

Dividends from equity investments are recognised when the right of the shareholders to receive the dividend payment is established.

The dividends payable to third parties are recognised as a change in equity on the date on which they are approved by the Shareholders' Meeting.

Income taxes

Current income taxes for the year, recognised as "income tax payables" net of advances paid or as "income tax receivables" if the net balance is positive, are determined on the basis of the estimated taxable income and in accordance with the current fiscal regulations or the fiscal regulations essentially in force at the end of the reporting period.

Deferred tax liabilities and assets, which are set out in the tables as the net impact of the two items under assets, are calculated based on the temporary differences between the carrying amounts recorded in the financial statements and their corresponding values recognised for tax purposes by applying the tax rates effective on the date the temporary difference will be settled, based on the tax rates that are in force or essentially in force at the reporting date.

Deferred tax assets are recognised when recovery is likely, i.e. when sufficient future taxable income is expected to be available to recover the assets. Recoverability of deferred tax assets is re-examined at the end of each reporting period.

Taxes relating to components that are directly recognised in equity are also recognised in equity.

Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale rather than ongoing use are classified as held for sale and shown separately from the other assets and liabilities in the Statement of financial position. These non-current assets (or disposal groups) are initially recognised according to the appropriate IAS/IFRS that is applicable to each asset and liability and subsequently at the lower of their carrying amount and their fair value, net of selling costs. Any subsequent impairment loss is directly recognised against any non-current assets (or disposal groups) classified as held for sale

and recognised through profit or loss. The relevant carrying amounts for the previous year are not reclassified. A discontinued operation is a part of a business which has been sold or classified as held for sale and which:

- represents a significant branch or geographical area of activity;
- is part of a coordinated plan for the disposal of a significant branch or geographical area of activity, or
- is a subsidiary that was purchased only to be resold.

Results of discontinued operations, whether they have been sold or classified as held for sale and in the process of being sold, are recognised separately in profit or loss, net of tax effects. The corresponding values for the previous year, if any, are reclassified and recognised separately in profit or loss, net of tax effects, for comparative purposes.

Recently issued accounting standards

Pursuant to IAS 8, the following section "Accounting standards, amendments and interpretations applicable by the Group as from this year" sets out the main features of the amendments to the International Accounting Standards in force as from 1 January 2020 and of potential interest for the Group. In the following sections, there is an indication of the accounting standards and interpretations which have already been issued, but not yet come into force, or which have not yet been endorsed by the European Union and are

therefore not applicable for the drafting of the financial statements at 31 December 2020, the impact of which may be included as from the financial statements for subsequent years.

Accounting standards, amendments and interpretations applicable by the Group as from this year

As from 1 January 2020, some additions have been applied consequent to specific sections of the international accounting standards which have already been adopted by the Group in previous years.

The main changes are set out below:

- IAS 1 and IAS 8 - The IASB has made changes to IAS 1 and IAS 8 to standardise the definition of "material", with the aim of helping businesses to make judgements about the materiality of information. In particular, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The changes also clear up the meaning of the primary users of financial statements.
- IFRS 3 - Business combinations - A new definition of business has been introduced, according to which to qualify as a business combination an acquisition must include inputs and processes that make a substantial contribution to obtaining

an output. The definition of output is made more restrictive, with cost savings and other economic benefits being excluded as outputs. This means that more acquisitions will be qualified as asset acquisitions rather than business acquisitions. This change had no impact on the Group's 2020 financial statements.

- IFRS 9, IAS 39 and IFRS 7: changes to the reference interest rate. Regulation No. 2020/34 issued by the European Commission on 15 January 2020 endorsed amendments included in the document "Interest rate benchmark reform for the determination of interest rates", aimed at providing temporary exemptions from the application of certain provisions on hedge accounting for all hedge relationships on which the interest rate benchmark reform has a direct impact. Revision of the Conceptual Framework for Financial Reporting. The IASB has issued a Framework for Financial Reporting that will be used in decisions for defining standards, with immediate effect. The main changes entail:
 - raising the importance of governing financial information;
 - restoring the idea of prudence as a component of neutrality;
 - defining a company that draws up the financial statements, which may be a legal entity or part of one;
 - reviewing the definitions of assets and liabilities;
 - removing the threshold of probability for the recognition of items and adding information on derecognition;
- adding information on different measurement bases;
- stating that the statement of profit or loss is the primary indicator of performance and that, in principle, the income and expenses of other income statement items should be reclassified where this raises the relevance or faithful representation of the financial statements.
- IFRS 16 - "Leases". These changes introduce an optional accounting mode for lessees in the case of permanent rent concessions (rent holidays) or temporary Covid-19-related rent concessions.
- Lessees may elect to account rent concessions made up to 30 June 2021 as variable lease payments recognised directly in the income statement for the period in which the concession is applied, or to record it as a variation of the lease agreement with the consequent (mandatory) remeasurement of lease liability based on the revised rent, using a revised discount rate. These rent concessions have been recognised as variable lease payments, and thus recorded directly in the income statement for the period. This had no impact on the 2020 income statement.

Accounting standards and interpretations issued by IASB and not yet approved by the European Commission

None of these Standards or Interpretations was adopted early by the Group. In greater detail, the standards issued but not yet effective in 2020 are:

- Changes to IAS 1 - Presentation of financial statements - Classification of liabilities as current or non-current

These changes clarify the standards to be applied for the classification of liabilities as current or non-current. These amendments, applicable as from 1 January 2022, have still not been endorsed by the European Union.

- Changes to IAS 16 - Property, plant and equipment - Proceeds before intended use

These changes prohibit the deduction from the cost of an item of property, plant or equipment any amounts received from the sale of products while the asset in question is being prepared for its intended use. The proceeds of the sale of products and the relative production cost must be recognised in the income (profit or loss) statement. These amendments, effective as from 1 January 2022, have still not been endorsed by the European Union.

- Changes to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets - Onerous contracts - Cost of fulfilling a contract

These changes specify the costs to consider when appraising onerous contracts.

These amendments, effective as from 1 January 2022, have still not been endorsed by the European Union.

- Annual Improvements (2018-2020 period) issued in May 2020

These changes are limited to some standards (IFRS 1 First-time adoption of IFRS, IFRS 9 Financial instruments, IAS 41 Agriculture and examples illustrating IFRS 16 Leases) that clarify their formulation or rectify omissions or conflicts among IFRS standard requirements. These amendments, applicable as from 1 January 2022, have still not been endorsed by the European Union.

- Changes to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform (IBOR reform - phase 2)

These amendments, applicable as from 1 January 2022, have still not been endorsed by the European Union.

.

Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

5.a Revenue from sales and services – 711,616 thousand euro

"Revenue from sales and services" mainly refers to the gas transport activity and the connection fees.

Here is the breakdown of "Revenue from sales and services":

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Sales and services			
Gas and LPG transport	652,044	660,499	(8,455)
Release / (Allocation) to the provision for risks	22,348	20,974	1,374
Connection fees	9,306	8,850	456
Ancillary fees	5,515	6,172	(657)
Revenue from the sale of water	397	456	(58)
Ancillary services - water sector	639	429	209
Revenue from customer operations	59	53	7
Sundry revenue and other sales and services	21,308	25,269	(3,961)
Total revenue from sales and services	711,616	722,701	(11,085)

Revenue from gas transport totalled 652,044 thousand euro and mainly refers to the 2020 Tariff Revenue Cap for natural gas and LPG, together with revenue from adjustments relating to previous years.

This figure was calculated on the basis of ARERA Resolution 570/2019/R/gas which is valid for the 2020-2025 regulatory period.

Over the year the item in question fell by 11,085 thousand euro, due chiefly to a drop in the Tariff Revenue Cap, owing to the definition of the latest resolution on this matter.

Connection fees, totalling 9,306 thousand euro, increased by 456 thousand euro compared to the previous year owing to higher business in the second half of the year, thanks in part to strong commercial trends.

The strategy of gradually selling off the water concessions managed by the Group came to a conclusion during the year. The revenues posted therefore refer to remaining operations up to December 2020.

The item "sundry revenues and other sales and services" includes revenues relating to the suspension and reactivation of customers in arrears at the request of retail sales companies, which fell significantly during the year as a result of specific law provisions and the ongoing health emergency. The item also includes revenues pertaining to the T.Col tariff component (10,206 thousand euro, down on the previous year's figure of 11,905 thousand euro).

Revenue from readings was 5,238 thousand euro, slightly down compared with the previous year.

5.b Other revenue – 30,678 thousand euro

"Other revenue" fell by 18,780 thousand euro and was as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Other revenue			
Revenue from plant contributions	2,180	2,210	(30)
Revenue from contributions	22	-	22
Revenue from contributions - R&D tax credit	115	838	(723)
Revenue from contributions - tax credit for extraordinary events	9	-	9
Contingent assets	1,924	252	1,672
Revenue from Resolution 574/13	16,469	14,066	2,403
Rental income	360	501	(141)
Capital gains from assets	1,902	16,161	(14,259)
Compensation for damages	139	202	(64)
Other revenue and income and services	7,426	14,987	(7,561)
Other revenue from water business	-	130	(130)
Revenue and contribution concerning photovoltaic plants	133	111	22
Total other revenue	30,678	49,459	(18,780)

It should be noted that, since 2018, revenue, costs and allocations for energy efficiency certificates have been recognised in aggregate form, thus presenting only the net margin (positive or negative) for the year.

For this reason, the effect of EECs is reflected under "Other Costs".

As in previous years, revenue as per Resolution 574/2013/R/gas concerning the quality of gas distribution and metering services testifies to the Group's focus on the technical quality of its services. The positive result depends on both the number of gas chromatography tests undertaken by the distributor (a parameter which the Group can control) and on the fall in leaks at the distributor's plant (a parameter which cannot be governed directly by the distributor except through continuous monitoring). The estimate for this item increased compared with the previous year.

Capital gains from the sale of assets include a capital gain of 1.6 million euro for the sale of the ATEM Turin 2 concessions (San Gillio and Givoletto), while in the previous year they included the net economic impact of approximately 15 million euro deriving from the sale of the equity interest in Murgia Reti Gas S.r.l., an SPV containing the assets and liabilities pertaining to the concessions of ATEMs Bari 2 and Foggia 1 that were sold during the year.

Finally, the item "Other revenues and services" was down significantly on the previous year, when the item included about 4.5 million euro for the return of some amounts from the Naturgy group pertaining to guarantees specified in the agreement for the purchase of the equity interest in Nedgia S.p.A. Apart from this, the item mainly includes revenues from activities involving defaulting end customers, the administration of which is entrusted to the gas distributor. This activity declined significantly over the year due to the health emergency (-1.4 million euro over the year).

5.c Revenue from intangible assets / assets under construction – 296,533 thousand euro

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Revenue from intangible assets / assets under construction			
Revenue from intangible assets / assets under construction	296,533	284,892	11,642
Total revenue from intangible assets / assets under construction	296,533	284,892	11,642

As from 1 January 2010, the Company has been recognising this revenue pursuant to IFRIC 12 "Service Concession Arrangements".

Revenue from intangible assets and assets under construction represents the proportion of revenue directly attributable to the construction and enhancement of gas distribution networks held under concession. Since it is not possible to identify a specific item relating to the network construction service in the existing tariff system, this revenue is recognised to the extent of the costs incurred for the same purpose, and therefore has no impact on gross margin.

Over the year the item rose in value thanks to the timely review of investment plans, taking into due account the restrictions caused by the pandemic, and to efforts made in the second half of the year with extraordinary network maintenance.

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.

The following table provides a summary of the items relating to the Company's operating costs in order to ensure their compliance with the aforementioned standard.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Costs relating to revenue from intangible assets / assets under construction			
Raw materials and consumables	7,651	6,219	1,432
Costs for services	174,175	150,729	23,446
Other operating costs	896	880	16
Depreciation	3,329	3,093	236
Capitalised costs for materials, personnel and services	110,482	123,970	(13,488)
<i>of which personnel costs</i>	58,939	62,828	(3,889)
<i>of which raw materials and consumables</i>	51,543	61,142	(9,599)
Total costs relating to revenue from intangible assets / assets under construction	296,533	284,892	11,642

6.a Raw materials and consumables – 67,285 thousand euro

“Costs of raw materials and consumables” and the changes thereto compared to the previous year are detailed below:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	2,652	3,276	(624)
Stationery and printed materials	126	179	(53)
Various materials	59,302	70,880	(11,577)
(Change in inventories of raw materials)	5,205	439	4,766
Total costs of raw materials and consumables	67,285	74,773	(7,488)
- of which capitalised for intangible assets	59,194	67,361	(8,168)
- of which capitalised for other internal work	862	996	(134)

“Costs of raw materials and consumables” substantially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes; compared to the previous year, these costs decreased by 7,488 thousand euro overall, due in the main to fewer material acquisitions for network maintenance and meter installation. Due to the continuing pandemic, the Group had to review its investment plans, focusing in particular on the extraordinary maintenance of distribution networks.

6.b Services – 292,178 thousand euro

“Costs for services” are broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Costs for services			
Maintenance, repair and realisation of assets	173,663	144,537	29,126
Costs for electricity, power and water	2,989	2,825	163
Gas (for internal use)	3,346	3,720	(374)
Telephone and data transmission costs	2,224	2,580	(357)
Insurance premiums	4,176	4,275	(99)
Costs for services and other expenses relating to personnel	3,508	4,734	(1,226)
Fees	716	737	(21)
Legal and notary costs	1,484	2,706	(1,222)
Costs for company acquisitions and disposals	872	45	828
Advertising	92	180	(88)
IT services	8,736	9,458	(722)
Meter reading service	4,083	4,156	(73)
Audit fees	559	663	(104)
Repairs and emergency service	3,485	5,634	(2,149)
Plant certifications Resolution no. 40	439	489	(51)
Gas transport by third parties	1,544	2,649	(1,105)
Professional and other services	5,191	5,478	(287)
Other costs for services	8,269	8,800	(531)
Costs for the use of third-party assets			
Leases	881	1,215	(334)
Rentals	470	1,204	(735)
Other costs for the use of third-party assets	2,215	2,434	(220)
Fee for temporary occupation of public space (C.o.s.a.p.)	1,234	1,305	(70)
Municipal gas concession fees	62,001	64,173	(2,172)
Total	292,178	273,999	18,179
- of which capitalised for intangible assets	174,175	150,729	23,446

The aggregate figure of costs for services (also including costs for the use of third-party assets) is up compared to the previous year. This balance was affected by higher costs for investment activities, which were capitalised as per application of the IFRIC 12 interpretation. Net of capitalised costs, the item in question fell by around 5.3 million euro. On the one hand, there were higher maintenance and asset disposal costs (+29,126 thousand euro). On the other there was a fall in personnel costs due to the decline in mobility caused by the ongoing pandemic, and in first response costs, with a drop in the number of calls, in partic-

ular during the national lockdown, and in legal costs (- 1,222 thousand euro) due to the decline in activity pertaining to default situations, again as a consequence of the health emergency.

It is noted that costs for services still include the quota due to those contracts whose fees do not fall within the application of IFRS 16 (intra-annual or low-value leases).

The most significant changes from last year concerned the following:

- asset maintenance, repair and construction costs increased by 29,126 thousand euro due to an increase in operations carried out during the year on managed networks, where greater reliance was made on contracts with external firms. As summarised above, this item largely pertained to investment activities;
- 567 thousand euro decline in the costs for utilities (electricity, water, gas, phone) with an improvement in the financial terms of phone contracts;
- as already mentioned, there was a further decline in personnel costs due to reduced mobility during the year (1,226 thousand euro);
- the cost of the first response service fell again due to the fewer calls received, particularly during the national lockdown period;
- costs for the use of third-party assets, rentals, leases and hire charges continued to fall, while concession fees fell by 2,172 thousand euro, mainly owing to the variation of some fees carried out in the year.

6.C Personnel costs – 116,470 thousand euro

Personnel costs are broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Wages and salaries	85,202	88,677	(3,475)
Social security charges	25,973	27,267	(1,295)
Post-employment benefits	5,831	6,083	(252)
Asem/Fisde	(1)	(8)	7
Other personnel costs	(536)	(273)	(263)
Total personnel costs	116,470	121,746	(5,276)
Incentives to leave	-	500	(500)
Total personnel costs	116,470	122,246	(5,776)
- of which capitalised for intangible assets	58,939	62,828	(3,889)
- of which capitalised for other internal work	384	460	(76)

“Personnel costs” include all expenses incurred on an ongoing basis that, directly or indirectly, involve employees. They were down by 5,776 thousand euro, also due to changes in personnel in the year.

The table below shows employee changes in the year by category.

	Executives	Middle Managers	White collars	Blue collars	Total
Personnel as at 31 December 2019	33	112	1,257	655	2,057
Change in the scope of consolidation	-	1	4	4	9
Increase	-	-	47	16	63
Decrease	(1)	(3)	(67)	(43)	(114)
Change in category	-	3	(1)	(2)	-
Personnel as at 31 December 2020	32	113	1,240	630	2,015

There was an overall drop in the number of personnel during the year due to normal turnover, while the variation in the scope of consolidation relates to persons working in companies acquired during the year.

6.d Amortisation, depreciation and impairment losses – 200,560 thousand euro

Impairment, depreciation of tangible assets and rights of use and amortisation of intangible assets amounted to 200,560 thousand euro, slightly down by 3,722 thousand euro compared to the previous year.

This variation relates mainly to the reduced losses in value, due in 2019 to the impairment on assets sold in the LPG business, following acceptance of the offer for the sale of assets.

It should be noted that, with the introduction of IFRIC 12, amortisation mainly concerns the rights over concessions in which the Group manages the gas distribution networks.

This item is broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Depreciation	5,407	7,335	(1,929)
Amortisation of IFRS 16 rights of use	6,823	6,724	99
Amortisation	188,144	186,383	1,761
Impairment losses:			
- Impairment of tangible assets	-	557	(557)
- Impairment of intangible assets	22	3,556	(3,533)
- Write-down of trade receivables	164	(274)	437
Total amortisation and impairment	200,560	204,281	(3,722)
- of which capitalised for intangible assets	3,329	3,093	236

6.e Other operating costs – 49,894 thousand euro

“Other operating costs” decreased by 6,641 thousand euro compared to last year, with the capitalised quota basically unchanged, and are broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Other operating costs			
Remuneration of statutory auditors, Supervisory Body and Co	144	154	(10)
Remuneration of members of the Board of Directors	254	257	(3)
Association fees	335	492	(157)
Contribution to the Supervisory Authority	239	244	(5)
Compensation to customers	935	938	(3)
Municipal tax on property	483	504	(21)
CCIAA (chamber of commerce) fees and duties	511	603	(92)
Net costs for energy efficiency certificates	4,355	9,449	(5,093)
Tax on the occupation of public space (Tosap)	1,638	1,620	17
Capital losses on the disposal of assets	9,880	12,596	(2,716)
Capital losses on the sale of assets	137	1,345	(1,208)
Local and sundry taxes	707	1,376	(669)
Other costs	7,259	3,983	3,276
(Net) provision for risks and charges	23,017	22,972	45
Total other operating costs	49,894	56,535	(6,641)
- of which capitalised for intangible assets	896	880	16

The decrease in other operating costs mainly depends on:

- reduced net costs for energy efficiency certificates for the 2018, 2019 and 2020 target, down 5,093 thousand euro, mainly due to stock market price trends. It should be noted that effective 2018 expenses relating to these Certificates are shown net of the related revenue;
- capital losses on asset disposal were significantly down by 2,716 thousand euro, due to the drop in activity relating to the replacement of traditional meters with smart ones. Also during 2020, capital losses were partly absorbed by the use – to the extent of 10,821 thousand euro – of provisions specifically allocated for faulty meters that need replacing. It should also be stressed that a portion of the capital losses, where related to meters that at the date of replacement had not been fully amortised yet from a tariff perspective, is repaid by means of tariff based on an annual payment;

- charges for provisions for risks in line with previous year. The breakdown of the relevant provisions is shown in the comments on liabilities.

6.f Capitalised costs for internal work – (1,361) thousand euro

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work.

For this reason, the item now only includes those residual costs which can be capitalised but do not concern concessions. In the specific case, the value mainly refers to capitalisations of concentrators, equipment for the communication network of the new smart meters which are not part of the assets linked to the concessions.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Internal services	(384)	(460)	76
Other capitalised costs	(115)	(163)	48
Materials	(862)	(996)	134
Total capitalised costs for internal work	(1,361)	(1,619)	258

7. Income/(Expenses) from equity investments – (251) thousand euro

This item was affected by the economic impact of updating the equity values of associate companies 2i Servizi Energetici S.r.l. and Melegnano Energia Ambiente S.p.A..

8. Financial income/(expenses) – (54,545) thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
Financial income			
- Interest income from loans to employees	0	1	(1)
- Interest on arrears receivable	17	-	17
- Interest income from current accounts and post office deposits	22	1,854	(1,832)
- Interest income from receivables from customers	12	22	(10)
- Other financial interest and income	482	113	369
Total income	533	1,990	(1,457)
Financial expenses			
- Interest expense on medium/long-term loans	3,819	3,779	40
- Other expense on medium/long-term loans from banks	813	902	(89)
- Financial expenses on debenture loans	48,379	54,695	(6,317)
- Financial expenses from amortised cost	2,182	2,844	(662)
- Interest expense on short-term bank loans	0	0	0
- Interest expense on current bank accounts	-	0	(0)
- Discounting of post-employment and other employee benefits	431	756	(326)
- Interests on taxes	17	382	(365)
- Change in fair value of Interest Rate Swaps	-	20	(20)
- Change in fair value of hedging derivatives reclassified from comprehensive income	(1,238)	(1,235)	(3)
- Other financial and interest expense	132	122	10
- IFRS16 Financial Expenses	544	523	21
Total expenses	55,078	62,789	(7,711)
TOTAL FINANCIAL INCOME AND (EXPENSES)	(54,545)	(60,799)	6,254

Net financial expenses were mainly due to the recognition in the year of the interests relating to the debenture loans and the related amortised cost, and the related change in fair value of the hedging derivative, as well as to interest payable for used medium- and long-term lines of credit.

At 31 December 2020, the Group had 2,771,818 thousand euro in loans outstanding, including 2,265,000 thousand euro in the four instalments of the debenture loan expiring between 2024 and 2027, as well as 506,818 thousand euro in four credit lines.

Since 2014, the structure of the Group's debt has almost entirely moved to a fixed rate (2,590,000 thousand euro) thanks to the debenture loan instalments, lengthening the average duration of the existing debt and significantly reducing the cost of the debt itself at the same time.

The improved balance was due in particular to the repayment in January 2020 of the debenture loan tranche for which a pre-funding operation had been undertaken in 2019.

9. Taxes – (75,157) thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Current taxes			
Current income taxes: IRES	60,846	66,575	(5,729)
IREs substitute tax on realignment	-	17,727	(17,727)
Current income taxes: IRAP	13,413	15,102	(1,689)
Total current taxes	74,259	99,405	(25,145)
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	1,556	2,102	(546)
Positive adjustments for income taxes relating to previous years	(792)	(200)	(591)
Total adjustments for income taxes relating to previous years	765	1,902	(1,137)
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(3,438)	(5,887)	2,449
Prepaid taxes (allocation)/use	3,571	(35,822)	39,393
<i>Total current deferred and prepaid taxes</i>	<i>133</i>	<i>(41,709)</i>	<i>41,842</i>
Total deferred and prepaid taxes	133	(41,709)	41,842
TOTAL TAXES	75,157	59,597	15,560

The Group's income taxes for financial year 2020 totalled 75,157 thousand euro, up by 15,560 thousand euro; the prior year balance was due primarily to the effect of the substitute tax for exemption from goodwill arisen from the merger of 2i Rete Gas Impianti S.r.l. and 2i Rete Gas Impianti S.p.A. and the relevant recognition of deferred tax assets. Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES (corporate tax) of 60,846 thousand euro and IRAP (regional production tax) of 13,413 thousand euro; there is obviously no balance for the substitution tax relating to the above-mentioned exemption, which in the previous year made up 17,727 thousand euro of current taxes.

Deferred and prepaid taxes followed normal business trends; the comment made for the previous year's exemption remains valid for 2019 balances.

For more in-depth notes on this item, reference should be made to the relevant section of the notes to the Statement of financial position.

The net adjustments to income taxes relating to previous years are positive in this year for 765 thousand euro; these adjustments arose following the definitive calculation of taxes during the payment in June 2020.

The tax impact of IRES for 2020 is equal to 23.5%.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in force during the year to pre-tax profit, without taking into account the adjustments from previous years:

Thousands of euro

	31.12.2020	31.12.2019
Pre-tax profit	259,005	266,114
Theoretical IRES taxes	62,231	63,898
Lower taxes:		
- capital gains from exempt equity investments	-	3,607
- release of contributions taxed in prior years	1,606	1,686
- use of provisions	6,138	12,076
- release of provisions	7,910	467
- reversal of statutory amortisation / depreciation not deducted in prior year	4,210	1,850
- deducted tax amortisation	5,741	18
- deductible interest expense for previous years	-	0
- capital gains by instalments	-	17
- others	3,875	9,427
Higher taxes:		
- write-downs for the year	-	2
- allocations to provisions	10,538	9,816
- amortisation / depreciation on amounts that are not recognised for tax pur	3,989	4,144
- statutory amortisation / depreciation exceeding the fiscal limits	11,323	10,342
- reversal of excess fiscal amortisation / depreciation deducted in prior years	761	1,195
- capital losses on the disposal / sale of assets	-	12
- capital gains by instalments	222	222
- partially deductible costs	508	449
- taxes	60	192
- others	694	3,466
Total current income taxes (IRES)	60,846	64,590
IRAP	13,413	14,728
Total deferred and prepaid taxes	133	(41,709)
TOTAL INCOME TAXES FROM CONTINUING AND DISCONTINUED OPERATIONS	74,392	57,695

10. Discontinued operations - 0 thousand euro

The result from discontinued operations was zero, as in the previous year.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 35,699 thousand euro

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not related to gas distribution concessions. Such assets are recognised as intangible.

The breakdown and changes in property, plant and equipment in 2020 and 2019 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	11,947	40,332	9,355	24,916	57,015	13,688	4	157,257
Accumulated depreciation	-	(30,090)	(2,313)	(23,330)	(50,309)	(11,902)	-	(117,945)
Balance as at 31.12.2018	11,947	10,242	7,042	1,585	6,706	1,786	4	39,312
Increases (including Fixed assets classified as assets available for sale)	-	52	3,446	238	5,699	197	801	10,434
Commissioning	-	(2)	-	-	-	(2)	4	-
<i>Gross value</i>	-	(2)	-	-	-	(2)	4	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(2,728)	(582)	(869)	(23)	(464)	-	-	(4,666)
<i>Gross value</i>	(2,728)	(6,540)	(1,077)	(517)	(4,131)	-	-	(14,993)
<i>Acc. Depr.</i>	-	5,957	207	494	3,668	-	-	10,326
Reclassifications	-	(59)	550	-	(455)	-	-	35
<i>Gross value</i>	-	(70)	2,442	-	(2,337)	-	-	35
<i>Acc. Depr.</i>	-	11	(1,892)	-	1,881	-	-	(0)
Impairment losses	(531)	(27)	-	-	-	-	-	(557)
<i>Gross value</i>	(531)	-	-	-	-	-	-	(531)
<i>Acc. Depr.</i>	-	(27)	-	-	-	-	-	(27)
Depreciation	-	(1,311)	(819)	(411)	(3,823)	(972)	-	(7,335)
Total changes	(3,259)	(1,929)	2,308	(196)	957	(776)	805	(2,090)
Historical cost	8,688	33,772	14,167	24,637	56,247	13,884	809	152,204
Accumulated depreciation	-	(25,459)	(4,817)	(23,247)	(48,583)	(12,874)	-	(114,981)
Balance as at 31.12.2019	8,688	8,313	9,350	1,390	7,663	1,010	809	37,223
Contribution from change in the scope of consolidation:	-	-	-	3	26	-	-	29
<i>Gross value</i>	-	-	-	11	60	-	-	71
<i>Acc. Depr.</i>	-	-	-	(8)	(34)	-	-	(42)
Increases (including Fixed assets classified as assets available for sale)	-	3	2,692	748	1,455	76	118	5,094
Commissioning	-	2	-	-	748	18	(768)	-
<i>Gross value</i>	-	2	-	-	748	18	(768)	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Disposals	(759)	(13)	(445)	(1)	-	-	-	(1,218)
<i>Gross value</i>	(759)	(1,051)	(1,687)	(192)	(1,761)	-	-	(5,450)
<i>Acc. Depr.</i>	-	1,038	1,241	192	1,761	-	-	4,232
Reclassifications	-	-	(22)	-	-	-	-	(22)
<i>Gross value</i>	-	-	(1,600)	-	-	-	-	(1,600)
<i>Acc. Depr.</i>	-	-	1,578	-	-	-	-	1,578
Impairment losses	-	-	-	-	-	-	-	-
<i>Gross value</i>	-	-	-	-	-	-	-	-
<i>Acc. Depr.</i>	-	-	-	-	-	-	-	-
Depreciation	-	(840)	(859)	(552)	(2,652)	(504)	-	(5,407)
Total changes	(759)	(848)	1,366	198	(422)	(409)	(650)	(1,524)
Historical cost	7,929	32,727	13,572	25,204	56,749	13,979	159	150,319
Accumulated depreciation	-	(25,261)	(2,856)	(23,616)	(49,508)	(13,378)	-	(114,620)
Balance as at 31.12.2020	7,929	7,465	10,716	1,588	7,241	600	159	35,699

At 31 December 2020, the item changed by 1,524 thousand euro compared to 31 December 2019 due to the standard trend in business, sales and depreciation.

The increase in plant and equipment, on the other hand, was due to the installation of concentrators, data reception and transmission equipment which is part of the smart meter communication network and is excluded from the scope of application of IFRIC 12 since it is not recognised as service concession assets.

12. Rights of use under IFRS 16 – 24,258 thousand euro

Following the application of standard IFRS 16, hire, rental or lease contracts are carried in this item as exclusive use rights.

On initial recognition the Group has determined which contracts corresponded to the characteristics required by IFRS 16 and assessed their value on the basis of the residual fees to be paid at 1 January 2019, duly discounted.

It should be noted that a financial obligation for a similar amount was held under liabilities in these financial statements, since the Company adopted the “Modified retrospective” approach for the reconciliation of values relating to the rights of use.

Here below is the table of changes in assets for 2020.

Thousands of euro	IFRS 16 Property	IFRS 16 Vehicles	IFRS 16 ICT	Total
Historical cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Balance as at 31.12.2018	-	-	-	-
<i>First application of IFRS 16 as at 1 January 2019</i>	20,669	4,832	-	25,501
Gross value	20,669	4,832	-	25,501
Acc. Depr.	-	-	-	-
Increases (including Fixed assets classified as assets available for sale)	6,260	3,440	367	10,067
Commissioning	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Disposals	-	(27)	-	(27)
Gross value	-	(27)	-	(27)
Acc. Depr.	-	-	-	-
Reclassifications	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Impairment losses	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Depreciation	(4,184)	(2,517)	(23)	(6,724)
Total changes	22,746	5,727	344	28,817
Historical cost	26,929	8,244	367	35,540
Accumulated depreciation	(4,184)	(2,517)	(23)	(6,724)
Balance as at 31.12.2019	22,746	5,727	344	28,817
Increases (including Fixed assets classified as assets available for sale)	2,923	835	-	3,758
Change in rights of use	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Disposals	(1,402)	(92)	-	(1,494)
Gross value	(1,513)	(396)	-	(1,909)
Acc. Depr.	112	303	-	415
Reclassifications	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Impairment losses	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Depreciation	(4,394)	(2,337)	(92)	(6,823)
Total changes	(2,873)	(1,594)	(92)	(4,559)
Historical cost	28,339	8,683	367	37,389
Accumulated depreciation	(8,466)	(4,551)	(115)	(13,132)
Balance as at 31.12.2020	19,873	4,132	252	24,258

13. Intangible assets – 3,880,136 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions.

The breakdown and changes in intangible assets in 2020 and 2019 are shown below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets under construction and advances	Fixed assets under construction advances	Other intangible assets	Goodwill	Total
Historical cost	95,275	6,692,509	23,807	4,022	136,446	268,709	7,220,768
Accumulated amortisation	(90,687)	(3,348,485)	-	-	(99,334)	-	(3,538,506)
Balance as at 31.12.2018	4,588	3,344,023	23,807	4,022	37,113	268,709	3,682,262
Increases (including Fixed assets classified as assets available for sale)	392	249,424	35,548	4,106	6,222	-	295,692
Commissioning	-	16,179	(16,179)	(3,057)	3,057	-	-
Gross value	-	16,179	(16,179)	(3,057)	3,057	-	-
Acc. Amort.	-	-	-	-	-	-	-
Decreases	-	(22,432)	(455)	(81)	-	-	(22,969)
Gross value	-	(74,631)	(455)	(81)	(1,623)	-	(76,790)
Acc. Amort.	-	52,199	-	-	1,623	-	53,821
Reclassifications	-	(1,045)	1,010	-	-	-	(35)
Gross value	-	(1,045)	1,010	-	-	-	(35)
Acc. Amort.	-	0	-	-	-	-	0
Impairment losses	-	(3,421)	(34)	(101)	-	(1,214)	(4,769)
Gross value	-	(3)	(34)	(101)	-	-	(138)
Acc. Amort.	-	(3,418)	-	-	-	(1,214)	(4,632)
Fixed assets classified as assets available for sale	-	(2,990)	(0)	-	-	-	(2,991)
Gross value	-	(3,738)	(0)	-	-	-	(3,739)
Acc. Amort.	-	748	-	-	-	-	748
Amortisation	(2,168)	(168,865)	-	-	(15,351)	-	(186,383)
Total changes	(1,775)	66,850	19,890	867	(6,072)	(1,214)	78,545
Historical cost	95,668	6,878,695	43,697	4,889	144,102	268,709	7,435,759
Accumulated amortisation	(92,855)	(3,467,821)	-	-	(113,062)	(1,214)	(3,674,952)
Balance as at 31.12.2019	2,813	3,410,873	43,697	4,889	31,041	267,496	3,760,807
Contribution from change in the scope of consolidation:	0	9,009	10,143	-	304	1,735	21,191
Gross value	10	17,419	10,143	-	446	1,735	29,754
Acc. Amort.	(10)	(8,411)	-	-	(142)	-	(8,563)
Increases (including Fixed assets classified as assets available for sale)	472	267,985	28,558	1,612	10,497	-	309,125
Commissioning	-	41,810	(41,810)	(4,435)	4,435	-	-
Gross value	-	41,810	(41,810)	(4,435)	4,435	-	-
Acc. Amort.	-	-	-	-	-	-	-
Decreases	-	(21,719)	(987)	-	-	-	(22,706)
Gross value	(5)	(65,496)	(987)	-	-	-	(66,489)
Acc. Amort.	5	43,777	-	-	-	-	43,782
Reclassifications	-	102	-	(80)	-	-	22
Gross value	-	1,680	-	(80)	-	-	1,600
Acc. Amort.	-	(1,578)	-	-	-	-	(1,578)
Impairment losses	-	(4)	(19)	-	-	(134)	(156)
Gross value	-	(12)	(19)	-	-	(134)	(165)
Acc. Amort.	-	8	-	-	-	-	8
Fixed assets classified as assets available for sale	-	(2)	(1)	-	-	-	(3)
Gross value	-	(2)	(1)	-	-	-	(3)
Acc. Amort.	-	-	-	-	-	-	-
Amortisation	(1,721)	(173,875)	-	-	(12,548)	-	(188,144)
Total changes	(1,249)	123,307	(4,116)	(2,903)	2,688	1,601	119,328
Historical cost	96,145	7,142,080	39,580	1,986	159,480	270,311	7,709,582
Accumulated amortisation	(94,581)	(3,607,900)	-	-	(125,752)	(1,214)	(3,829,446)
Balance as at 31.12.2020	1,564	3,534,180	39,580	1,986	33,729	269,097	3,880,136

Non-tangible assets rose in value, compared with 31 December 2019, by 119,328 thousand euro, thanks in part to the contribution of acquisition operations amounting to 21,191 thousand euro.

The item "Concessions and similar rights" totalled 3,534,180 thousand euro, with a total change of 123,307 thousand euro.

The item refers to the recognition of the Group's rights over fixed assets as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions.

This item reflected investments to the extent of 267,985 thousand euro. This figure is supplemented by the contribution of companies acquired during the year, namely 9,009 thousand euro, and transfers to the income statement amounting to 41,810 thousand euro.

Disposals during the year amounted to (21,719) thousand euro. An impact was also made by reclassifications, and losses in value were a net 97 thousand euro. Amortisation totalled (173,875) thousand euro.

The amortisation of concession charges has been determined on a straight-line basis and on the basis of the estimated realisable value at the end of the concession.

The Group determined the terms of the concessions using the same criteria adopted in the previous year.

For concessions which have expired at the reporting date, and therefore are operating in an extension regime (prorogatio), the residual value has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that, pursuant to the Italian Ministry of Economic Development's Decree, of 19 January 2011 "Identification of local areas in the natural gas distribution sector" which came into force on 1 April 2011, according to art. 3, paragraph 3 of said Decree "as from the coming into force of this provision, the tenders for the assignment of the gas distribution service, as provided for by art. 14, paragraph 1, of Italian Legislative Decree No. 164 of 23 May 2000, for which the call for tender has not been published or for which the deadline for submitting offers has not expired, are awarded solely for the local areas established in Annex 1 forming an integral part of this provision" and that, in compliance with art. 14, paragraph 7 of Italian Legislative Decree No. 164/2000, "the outgoing operator, pursuant to art.14, paragraph 7, of Italian Legislative Decree No. 164 of 23 May 2000, in any case remains under obligation to continue managing the service until the start date of the new assignment".

"Concessions and similar rights - Fixed assets under construction and advances", totalling 39,580 thousand euro, included investments related to the concessions and not yet completed.

"Fixed assets under construction and advances", totalling 1,986 thousand euro, mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company.

During the year, 4,435 thousand euro in fixed assets under construction were completed.

"Other intangible assets" of 33,729 thousand euro include other long-term costs, also linked to the implementation of the remote reading system for smart meters.

"Goodwill" is equal to 269,097 thousand euro and is related to the deficit from the consolidation and merger of companies which had previously been subsidiaries. Changes during the year reflected the acquisition of four companies and the writing-off of sold concessions. This item was recognised in agreement with the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the Discounted Cash Flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use.

For the purposes of this estimate, the whole Group is considered as a Cash Generating Unit, consistently with the corporate vision.

In detail, cash flows are considered for a forecast period of 5 years, consistent with the 2i Rete Gas Group plan approved by the Board of Directors on 18 December 2020 and drafted on the going concern assumption, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the main assumptions are:

- continuity in concession management, since the redefinition of the relevant local areas resulting from the territorial tenders will be a concrete opportunity for the Group to expand its business on the competitive market also thanks to its economic capacity, available credit lines, and top position in a market that is experiencing concentration;
- the continuous management of end customers, with the assumption of a further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years;

The discount rates applied, the forecast period over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

Tax Rate	WACC (1)	Cash flow forecast period	TV (g) growth rate
28.6%	3.6%	2021 - 2025	0%

(1) Post-tax WACC is aligned to the average cost of financing of the best-performing peers in the sector

(2) IRAP + IRES rate

The value in use, determined in accordance with the aforementioned methods, was higher than the value of the net invested capital recorded in the financial statements.

The recoverability of the Group's invested capital was also confirmed by a further sensitivity analysis undertaken by considering possible changes in the key assumptions included in the business and financial plan used for the impairment test.

In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital), there would have to be damaging changes to the plan such as to reduce the net cash flows by around 20%, a percentage which is much higher than the reductions considered possible by the Group.

14. Net deferred tax assets – 133,205 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date. Deferred tax assets totalled 246,984 thousand euro, while deferred tax liabilities totalled 113,779 thousand euro.

Deferred tax assets and liabilities at 31 December 2020 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

Prepaid taxes grew due to normal operations during the year, in addition to the impact of 8,340 thousand euro due to changes to the valuation of the Fair Value of the hedging derivative.

With regard to deferred tax liabilities, in addition to normal changes, the balance rose due to the provision for taxes on the acquisition of companies during the year.

Considering, among other things, the flows estimated in the most recent business plans, the Group believes it can use deferred tax assets in the ordinary course of business.

The table below details changes in deferred tax assets and liabilities by type of temporary difference, determined according to the tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

Thousands of euro	Balance as at 31.12.2019	Adjustments to UNICO	Contribution from acquisition	Capital contributions from extraordinary operations during	Total	Increases recognised in		Decreases recognised in		Other changes		Balance as at 31.12.2020
						Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity	
Deferred income tax assets:												
allocation to provisions for risks and charges, deferred deductibility	24,236	-	-	124	24,361	10,206	-	(14,011)	-	5	-	20,560
allocation to provisions for incentives to leave and stock options	430	-	-	-	430	-	-	(163)	-	0	-	268
allocation to provisions for disputes	3,641	-	-	-	3,641	477	-	(928)	-	15	-	3,205
allocation to provisions for inventory obsolescence	3,272	-	-	-	3,272	47	-	(49)	-	4	-	3,274
impairment losses with deferred deductibility (impairment of receivables)	2,238	-	-	-	2,238	31	-	(274)	-	-	-	1,994
impairment losses with deferred deductibility (impairment of plants)	1,898	-	-	-	1,898	-	-	-	-	2	-	1,900
depreciation and amortisation of tangible and intangible assets with deferred deductibility	114,742	(975)	90	30	113,888	11,411	-	(3,622)	-	(54)	-	121,622
separation of land-buildings and component analysis	114	-	-	-	114	-	-	-	-	0	-	114
start-up costs	2,224	-	-	-	2,224	-	-	-	-	0	-	2,225
Post-employment and other employee benefits	3,772	-	5	-	3,777	1,322	-	(846)	-	3	-	4,256
cash deductible taxes and duties	(0)	-	-	-	(0)	-	-	-	-	-	-	(0)
proceeds subject to deferred taxation (connection fees)	34,415	-	-	-	34,415	-	-	(292)	-	(91)	-	34,032
deferred deductibility charges	15,650	-	-	-	15,650	17	-	(478)	-	18	-	15,208
goodwill	32,829	-	-	-	32,829	-	-	(6,357)	-	33	-	26,506
post-employment and other employee benefits - Italian Accounting Body (OCI)	2,348	-	-	-	2,348	-	100	-	(22)	-	3	2,429
derivative financial instruments (in case of a net negative change in the relevant equity reserve)	956	-	-	-	956	-	8,340	-	-	-	-	9,296
for losses recoverable in future years	1	-	-	-	1	-	-	-	-	(0)	-	1
other consolidation adjustments	122	-	-	(30)	92	4	-	(2)	-	-	-	95
Total	242,889	(975)	95	124	242,133	23,515	8,441	(27,021)	(22)	(65)	3	246,984
Deferred income tax liabilities:												
differences on tangible and intangible assets - additional depreciation and amortisation	20,324	-	52	-	20,377	224	-	(765)	-	4	-	19,839
differences on intangible assets - goodwill	5,479	(286)	-	-	5,194	-	-	-	-	1	-	5,195
separation of land-buildings and component analysis	3,821	-	-	-	3,821	-	-	-	-	5	-	3,826
allocation to assets of costs relating to company mergers	35,735	-	-	-	35,735	-	-	(2,115)	-	48	-	33,667
non-accounting deductions relating to impairment of equity investments, receivables and licenses	-	-	-	-	-	-	-	-	-	-	-	-
Post-employment and other employee benefits	1,113	-	-	-	1,113	-	-	-	-	-	0	1,114
proceeds subject to deferred taxation	4,311	-	-	-	4,311	1,161	-	(222)	-	0	-	5,250
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	2,656	-	-	-	2,656	-	-	-	(297)	-	-	2,359
other...	1,306	-	-	-	1,306	33	-	(205)	-	1	-	1,135
ASEM - Italian Accounting Body (OCI)	90	-	-	-	90	-	34	-	-	-	0	124
recognition of deferred taxes due to merger	42,002	-	-	139	42,141	608	-	(2,261)	-	51	-	40,539
other consolidation adjustments	139	-	736	(139)	736	-	-	(5)	-	-	-	731
5% dividends received allocated to future years on an accruals basis	0	-	-	-	0	-	-	-	-	-	-	0
Total	116,978	(286)	788	-	117,480	2,025	34	(5,573)	(297)	110	0	113,779
Net deferred tax assets	125,911	(689)	(693)	124	124,654	21,490	8,406	(21,448)	275	(174)	3	133,205

15. Equity investments – 3,608 thousand euro

The table on the following page shows the changes in the year for each equity investment, with the corresponding values at the beginning and end of the year, as well as the list of equity investments held in other companies.

Thousands of euro	Carrying amount	% ownership	Contribution from change in the scope of consolidation	Increases for the period	Disposals	Other increases	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	Changes in 2020						as at 31.12.2020					
Associates												
Equity Method												
Melegnano Energia Ambiente SpA	3,220	40.00%				82			3,220	851	3,302	40.00%
2i Servizi Energetici Srl	6	60.00%		510			(334)		6		182	60.00%
Other companies												
Valuation at cost												
Interporto di Rovigo S.p.A.	42	0.30%							42		42	0.30%
Fingranda S.p.A. in Liquidazione	26	0.58%							26		26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.28%							33		33	0.27%
Industria e Università S.r.l.	11	0.10%							11		11	0.09%
Terme di Offida SpA	1	0.19%							1		1	0.19%
Banca Popolare Pugliese	11	0.00%									11	0.00%
TOTAL EQUITY INVESTMENTS	3,349		-	510	-	82	(334)	-	3,338	851	3,608	

The tables below show the list of equity investments in associates and their values as recognised in the Group's financial statements at 31 December 2020:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income/loss in previous year (euro)	End of the reporting period	% ownership	Consolidated carrying amount (euro)
Melegnano Energie Ambiente SpA Zi Servizi Energetici Srl	Melegnano (MI)	4,800,000	8,255,357	4,971,614	205,807	31.12.2019	40%	3,302,143
	Milan	10,000	303,955	14,728	(402,286)	31.12.2020	60%	182,373

Finally, the equity investments in other companies at the same date were:

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income/loss in previous year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,702,070	1,618,607	160,311	31.12.2019	0.30%	41,634
Frignanda S.p.A. in Liquidazione	Cuneo	2,662,507	1,266,452	287	(71,575)	31.12.2019	0.58%	25,822
Agenzia di Polinzio S.p.A.	Bra (CN)	23,079,108	22,751,056	993,441	29,755	31.12.2019	0.27%	33,682
Industria e Università S.r.l.	Varese	13,440,528	11,120,543	-	(36,769)	31.12.2019	0.09%	10,989
Terme di Offida Spa	Offida (AP)	141,384	16,123	-	(8,501)	31.12.2019	0.19%	548
Banca Popolare Pugliese	Parabita (Le)	184,256,208	327,039,839	124,472,764	8,257,942	31.12.2019	0.01%	11,127

16. Non-current financial assets – 735 thousand euro

The item also includes the prepayment of transaction costs incurred to obtain credit lines, unused at 31 December.

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
Non-current prepaid financial expenses	551	869	(318)
Long-term loans to employees	12	18	(6)
Financial receivables due from others	171	660	(489)
Total	735	1,547	(813)

17. Other non-current assets – 56,092 thousand euro

This item decreased by 1,605 thousand euro compared to 31 December 2019; it is broken down as follows:

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
security deposits	3,638	3,579	59
receivables for plant contributions	560	560	-
tax receivables reimbursements applied for	306	1,598	(1,292)
prepaid promotional expenses	66	86	(20)
from municipalities for disposals of assets due to expiration of concessions	5,063	5,883	(820)
Non-current receivables from CSEA	31,303	30,243	1,060
other non-current assets	15,303	15,895	(592)
bad debt provision	(147)	(147)	-
Total	56,092	57,697	(1,605)

Guarantee deposits totalled 3,638 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

Receivables for contributions due, totalling 560 thousand euro, remained unchanged during the year, while receivables for applied-for tax reimbursements fell by 1,292 thousand euro due to the partial recognition of the reimbursement for the claim filed under Article 6 of Legislative Decree No. 185/2008 (Deduction from IRES of the IRAP portion for labour costs and interest expense).

The receivable due from municipalities for disposals of assets due to the expiration of concessions had a balance of 5,063 thousand euro, further down compared to the previous year. This item refers to receivables which are subject to legal challenge or similar ongoing procedures with municipalities in order to obtain the amount of the refund owed to the Group as outgoing operator for some concessions which have been ended over the years.

The balance of non-current receivables due from the Fund for Energy and Environmental Services (CSEA) referred to the amount payable to distribution companies for the conventional meters that must be replaced with smart ones pursuant to Resolution 155/09, but that had not yet been fully amortised through tariffs at the date of their replacement. This item increased further due to replacement operations during the year.

Finally, the 592 thousand euro decrease in other non-current assets included the balance of the advance payments of the fees that distribution companies must pay to contracting authorities for ATEM tenders (11,541 thousand euro at 31 December 2020), as well as the remaining amount of the prepaid expenses for the lease payment paid in advance by the Parent Company to the company API, which owns the networks operated in the municipality of Rozzano (2,500 thousand euro).

Current assets

18. Inventories – 18,309 thousand euro

Closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas distribution plants and, in particular, of the new smart meters.

The drop compared with the previous year of 5,200 thousand euro was basically due to fewer purchases of smart meters following the review of investments to deal with the pandemic.

The item includes the provision for the write-down of inventories equal to 504 thousand euro. The provision was set up to take into account inventories with unlikely future use. The Company uses the weighted average cost method.

19. Trade receivables – 234,913 thousand euro

Trade receivables were up 15,766 thousand euro compared to 31 December 2019.

This item is broken down as follows:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Receivables due from customers	238,949	256,086	(17,137)
- Bad debt provision	(8,076)	(8,323)	247
Receivables for returns under warranty	4,686	3,562	1,124
- Bad debt provision for returns under warranty	(646)	(646)	-
Total	234,913	250,680	(15,766)

Receivables due from third-party customers consist of trade receivables and receivables from operations and include receivables relating to gas distribution and to the invoicing of the residual activities in the water sector.

Such receivables are recognised net of a 8,076 thousand euro bad debt provision.

As for the impact assessment pursuant to IFRS 9, the company did not consider it had to update its assessments since the guarantees hedging receivables significantly reduce the risk of insolvency.

During the year the Parent Company took the opportunity to sell part of existing receivables to a primary factoring company in order to guarantee the punctuality of scheduled cash flows.

Receivables for returns under warranty, which are recognised net of the relevant bad debt provision, concern receivables due from manufacturers of meters for non-functioning assets which have long-term warranties. The amount is stated net of the bad debt provision to take account of changed contractual conditions and findings which lead to the belief that the receivable is no longer collectible.

Changes in the bad debt provision are set out below.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Opening balance	8,323	9,288	(965)
Allocations	942	663	279
Releases	(778)	(937)	159
Uses	(410)	(691)	280
Closing balance	8,076	8,323	(247)

The bad debt provision at 31 December 2020 was subject to taxes of 6,497 thousand euro (7,245 thousand euro at 31 December 2019).

The Group operated exclusively in Italy.

20. Short-term financial receivables – 1,816 thousand euro

Short-term financial receivables consisted for 1,261 thousand euro of financial receivables arising from the exercise of the right of withdrawal of Azienda Elettrica Valtellina e Valchiavenna. The amount reflects the estimate based on the preliminary withdrawal value that (i) was disputed by the company, (ii) was updated following payment of the company's dividend and (iii) will have to be updated based on the outcome of the ensuing litigation. The balance includes 499 thousand euro of receivables from associate company 2i Servizi Energetici.

21. Other current financial assets – 20 thousand euro

Other current financial assets contain the accrued interest income unpaid by 2i Servizi energetici at 31 December 2020.

22. Cash and cash equivalents – 186,991 thousand euro

Cash and cash equivalents fell by 166,316 thousand euro as a result of financial transactions completed during the year - repayment of debenture loan instalments expiring in January 2020 to the extent of 267,100 million euro – and thanks to normal operations.

Cash and cash equivalents are broken down as follows:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Bank deposits	186,070	352,944	(166,875)
Post office deposits	748	210	538
Cash in hand	174	153	21
Total	186,991	353,308	(166,316)

Cash associated with operating activities is held in bank and post office deposits.

23. Income tax receivables – 9,012 thousand euro

Income tax receivables concerned both IRES and IRAP, the 2,740 thousand euro increase in the year was due to the normal change for the payment of advances and balance during 2020.

24. Other current assets – 211,540 thousand euro

Other current assets rose by 10,179 thousand euro over the year, mainly due to an increase in VAT receivables (6,258 thousand euro) and an increase in Group receivables from CSEA (item to be compared with liabilities payable to CSEA among current liabilities) of 5,923 thousand euro owing to normal transactions with the Fund. It is noted that during the year the amount to be recognised for EECs was factored with a non-recourse formula, while amounts deriving from gas distribution service equalisation, from receivables for the so-called “non-commodity” UG2 and Gas Bonus components and from Technical Quality recognition were kept.

This item is broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Other tax receivables:			
VAT receivables reimbursements applied for	9,337	9,341	(4)
Receivables due from tax authorities for VAT	21,080	14,823	6,258
Other tax receivables	5	7	(2)
Other receivables:			
from social security and insurance agencies	493	1,538	(1,044)
receivables for plant contributions	1,791	2,649	(858)
from CSEA	169,003	163,079	5,923
Receivables from third parties for tender / concession expiration	2,410	1,299	1,111
from municipalities	246	246	-
from suppliers	3,290	3,827	(536)
Other receivables	2,550	4,854	(2,304)
Provision for other doubtful debts	(2,647)	(2,913)	266
Accrued income	45	22	24
Deferred charges for other multi-year fees	18	21	(2)
Deferred charges for property lease fees	445	445	-
Deferred charges for promotional expenses	20	24	(4)
Deferred charges for insurance premiums	1,054	100	954
Other deferred charges	2,398	2,000	397
Total	211,540	201,361	10,179

25. Assets held for sale – 0 thousand euro

In the year no amount was classified as assets held for sale, unlike in the previous year, when the value of assets pertaining to the San Gillio and Givoletto concessions was restated under this item.

Liabilities

Equity

26. Equity - 1,040,825 thousand euro

Equity rose by 106,235 thousand euro as a result of the following changes:

- decrease in the ordinary dividend pay-out for an overall amount of 50,000 thousand euro;
- negative change in IAS reserves for 27,584 thousand euro following the fair value adjustment of derivatives and the recognition of the discounting of defined benefits;
- 183,848 thousand euro increase in profit for the year.

Share capital - 3,639 thousand euro

The share capital at 31 December 2020 consisted of 363,851,660 ordinary shares of Zi Rete Gas S.p.A. and amounted to 3,639 thousand euro, entirely subscribed and paid up.

Share premium reserve - 286,546 thousand euro

The share premium reserve did not change in the year.

Legal reserve - 728 thousand euro

The legal reserve stood at 728 thousand euro and did not change during the year.

Reserves for valuation of derivatives - (21,967) thousand euro

The reserve for valuation of derivatives was created in 2016 following the execution of Forward Starting Interest Rate Swap contracts. In 2018, the swap was closed as planned, while the effect on the income statement is recorded on the basis of the interest expense flow of the Debenture Loan for the following 10 years. This movement is in addition to the fair value measurement of the new derivative contract opened in 2020.

Other reserves - 233,118 thousand euro

Other reserves fell marginally (231 thousand euro) owing to the recognition of the impact of the actuarial valuation of the Company's defined benefit plan in equity.

Retained earnings - 353,381 thousand euro

Retained earnings rose 156,353 thousand euro from the previous year as a result of the allocation of the profit for the year 2019.

Profit for the period - 183,848 thousand euro

The profit for 2020 was down 22,906 thousand euro vis-à-vis the previous year, when revenues had been based on parameters for the previous regulatory period, and extraordinary operations during the year (sale of Murgia Distribuzione Gas S.r.l. and exemption of goodwill) had had a large bearing on the final result.

Non-current liabilities

27. Long-term loans – 2,744,442 thousand euro

The item refers to the four instalments of the long-term debenture loan issued by the Parent Company expiring between 2014 and 2027 as well as 489 million euro in three credit lines.

The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

	Thousands of euro		Notional Value		Effective in force	Effective interest rate
	Balance 31.12.2020	Balance 31.12.2019	31.12.2020	31.12.2019		
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	100,000	-	100,000	-	0.25%	0.25%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	163,636	181,818	163,636	181,818	Eur+0,59%	0.07%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2025	500,000	500,000	500,000	500,000	2.20%	2.29%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs linked to loans (long term)	(9,215)	(10,897)				
TOTAL LONG TERM	2,744,422	2,660,921	2,753,636	2,671,818		

The maturity schedule of financial liabilities, whether medium-/long-term (2,753,636 thousand euro notional) or short-term (54,609 thousand euro – see point 33 and 34 of these notes), is shown in the following table:

	Thousands of euro		1 year	2 - 5 years	beyond 5 years
	Notional at 31.12.2020	Notional at 31.12.2019			
Short and medium/long-term bank loans and debenture loans					
Financing - Medium/long-term Capex Line	488,636	406,818	-	172,727	315,909
Financing - Short-term Capex Line	18,182	58,182	18,182	-	-
Medium/long-term debenture loans	2,265,000	2,265,000	-	1,100,000	1,165,000
Debenture loans due within next year	-	267,100	-	-	-
Other non-interest-bearing short-term financial payables	36,427	-	36,427	-	-
Total	2,808,245	2,997,100	54,609	1,272,727	1,480,909

The debenture loan regulation, issued for a market of institutional investors, does not provide for covenants.

The loans taken out with the European Investment Bank are subject to some covenants calculated on the basis of the consolidated financial statements that the Company must meet to continue using the credit lines.

The covenants concern the following indicators:

- Total net financial debt;
- RAB (Regulatory Asset Base);
- EBITDA;
- Net Financial Expenses.

As at 31 December 2020 the company met all covenants.

28. Post-employment and other employee benefits – 40,286 thousand euro

The Group provides employees with various types of benefits, including post-employment benefits, health benefits, compensation due instead of notice of dismissal (Indennità Sostitutive del Preavviso - ISP) and compensation due instead of energy discount (Indennità Sostitutive Sconto Energia).

The item includes provisions for post-employment defined benefit plans and other long-term employee benefits required by law or contract.

Pursuant to IAS 19 Revised, these “defined benefit obligations” were determined using the “Projected Unit Credit Method”, which requires to calculate the liability in proportion to the service already rendered at the reporting date, and not the service that could presumably be rendered overall.

In detail, the plans provided for the following benefits:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Post-employment benefits	30,192	31,649	(1,457)
ASEM health service	1,475	1,602	(127)
Fondo GAS	8,619	10,308	(1,689)
Total	40,286	43,559	(3,273)

An analysis of the main items is provided below.

Post-employment benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive post-employment benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.

Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of post-employment benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

Based on the Italian collective bargaining agreement for executives in the industrial sector, executives have the right to supplemental health care in addition to that provided by the Italian Health Service, during both the employment relationship and retirement. Asem and FASI, the health care fund set up for workers in Italy's electricity industry, reimburse medical expenses.

Fondo Gas

Italian Legislative Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the elimination of the so-called "Fondo Gas" (gas fund) as from 1 December 2015. The decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the 2014 contribution to Fondo Gas, for each full year or any part thereof that the person has been a member of the fund. Said amount can be set aside with the employer or paid as a contribution to a supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid to Fondo Gas shall be paid in a lump sum at the time of the final wage.

The Company set aside an additional amount during the year after revising the estimate based on the more accurate data available on the average seniority of current employees for the purposes of Fondo Gas.

The main assumptions in the actuarial estimates of employee benefit liabilities (Gas Provision and post-employment benefits) are set out below.

	31.12.2020	31.12.2019
Actuarial assumptions		
Discount rate	0.40%	1.00%
Annual rate of increase in cost of living	0.80%	1.00%
Rate of increase in cost of health spending	2.00%	2.00%
Demographic scenarios		
Mortality rate	ISTAT Table 2017	ISTAT Table 2017
Resignation rate < 50 years of age	2.00%	2.00%
Resignation rate > 50 years of age	nil	nil

29. Provisions for risks and charges – 7,355 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes, without taking into account the impact of disputes estimated to be settled in favour of the Group and those for which the potential expense cannot be measured reliably.

Provisions for risks and charges (considering both the short-term and the medium-/long-term portion) decreased by 14,919 thousand euro overall compared to the previous year. The table below shows the total provisions for risks and charges (both the short-term and the medium-/long-term portion). The short-term portion is disclosed separately.

Thousands of euro	31.12.2019		31.12.2020										
	Of which current portion	Of which non-current portion	Contribution from change in the scope of consolidation	Allocations	Releases	Uses	Other changes	Of which current portion	Of which non-current portion				
Provisions for litigation and disputes	6,530	-	6,530	-	1,331	(1,302)	(970)	-	5,589	-	5,589		
Provision for taxes and duties	1,423	-	1,423	-	1,062	(628)	(265)	-	1,591	-	1,591		
Provisions for disputes with personnel	100	-	100	-	-	-	-	-	100	-	100		
Provision for future charges	75	-	75	-	-	-	-	-	75	-	75		
Provision for disputes on concessions	25,876	25,876	-	104	5,055	(3,270)	(473)	(9)	27,282	27,282	-		
Other provisions for risks and charges	65,077	65,077	-	341	31,038	(27,626)	(18,740)	4	50,094	50,094	-		
Total	99,080	90,953	8,128	446	38,486	(32,826)	(20,449)	(5)	84,732	77,377	7,355		
Provisions for charges pertaining to leave incent	1,686	1,686	-	-	-	-	(571)	-	1,115	1,115	-		
Total	100,766	92,639	8,128	446	38,486	(32,826)	(21,020)	(5)	85,847	78,492	7,355		

Provisions for risks and charges amounted to 85,847 thousand euro overall. They consisted of a 78,492 thousand euro short-term portion and a 7,355 thousand euro long-term portion, and were broken down as follows:

- “Provisions for litigation and disputes”, 5,589 thousand euro, to cover contingent liabilities mainly arising from ongoing litigation cases;
- “Provision for taxes and duties”, amounting to 1,591 thousand euro, referred mainly to ongoing litigation or disputes concerning local taxes;
- “Provision for disputes with personnel”, amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in the year;
- “Provision for disputes on concessions”, totalling 27,282 thousand euro, generally includes the estimated costs associated with various disputes with municipalities. This line item rose by a net 1,407 thousand euro following the requests made by municipalities to revise the agreed concession fees, including uses of 473 thousand euro;
- “Other provisions for risks and charges”, amounting to 50,094 thousand euro, cover the costs that could potentially arise from the need for maintenance or replacement of meters not fully compliant with corporate standards, as well as the risk that the contribution to derecognise energy efficiency certificates does not

cover the cost to purchase such certificates in order to comply with regulatory obligations up to May 2021;

- “Provision for charges pertaining to incentives to leave”, totalling 1,115 thousand euro, addresses possible liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started during the year and are still under way. The provision was used during 2020 to the extent of 571 thousand euro.

The fiscal position of the Group has been defined up to 2014.

30. Non-current financial liabilities – 38,753 thousand euro

As at 31 December 2020, non-current financial liabilities reflected the negative fair value of the derivative contract opened by the Parent Company during the year. The fall of 34,752 thousand euro compared with the previous year is due to the rates curve at 31 December 2020, which shows more negative short- and medium-term values due to the global economic situation.

31. Non-current financial liabilities pursuant to IFRS 16 – 18,395 thousand euro

As at 31 December 2020, this item included financial liabilities falling due after 12 months deriving from the application of IFRS 16, i.e. payables arising from future leases that the Group will have to pay for the exclusive use of those assets whose hire, rental or lease contracts fall under the application of the aforesaid standard.

The table below shows details of maturities broken down by short, medium and long-term debt and by type of contract.

Thousands of euro	Present value of IFRS 16 cash flows 31.12.2020	1 year	2 - 5 years	beyond 5 years
ST/LT IFRS 16 Financial liabilities				
Non-current IFRS 16 financial liabilities	18,395	-	12,906	5,489
IFRS 16 Property			9,827	5,489
IFRS 16 Vehicles			2,915	-
IFRS 16 ICT			164	-
Current IFRS 16 financial liabilities	5,281	5,281	-	-
IFRS 16 Property		3,904		
IFRS 16 Vehicles		1,285		
IFRS 16 ICT		91		
Total	23,676	5,281	12,906	5,489

32. Non-current financial liabilities – 331,077 thousand euro

This item increased by 7,969 thousand euro compared to the previous year.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
payables to social security and insurance agencies	2,137	2,137	-
other payables	361	361	-
Deferred income for plant contributions	44,948	45,037	(90)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	283,632	275,573	8,059
Total deferred income	331,077	323,108	7,969

The change in deferred income is part of normal operations. The item must be read together with the short-term portion of "Other current liabilities".

Non-current liabilities

33. Short-term loans – 36,427 thousand euro

This item refers to the Parent Company's liability at 31 December 2020 to the factoring company for some proceeds received directly from customers waiting pending transfer to the factoring company, as per the non-recourse factoring contract. Last year's item was comprised of the debenture loan tranche, which was paid back on 2 January 2020.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
short-term payables due to banks	-	40,000	(40,000)
non-bank short-term payables due to third parties	36,427	-	36,427
short-term debenture loans	-	267,088	(267,088)
Total	36,427	307,088	(270,661)

34. Current portion of medium/long-term bank loans – 18,182 thousand euro

As at 31 December 2020, this item reflected the total instalments of the loan due to the EIB, the repayment of which was contractually scheduled to fall due within the following 12 months.

35. Current portion of long-term provisions and short-term provisions – 78,492 thousand euro

Comments and details on this item are provided in the section on provisions for risks and charges (note 29).

36. Trade payables – 215,963 thousand euro

This item includes all trade and operating liabilities of certain amount and timing. All reported payables were incurred in Italy.

Compared to 31 December 2019, the item fell by 29,619 thousand euro.

The breakdown of trade payables to third-party suppliers is set out below.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Suppliers	215,963	186,344	29,619
Total	215,963	186,344	29,619

The balance at 31 December 2020 mainly consists of residual amount payable to supplier companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from staff and operating support services, and from the purchase of electricity and gas service for internal use.

37. Income tax payables – 258 thousand euro

As at 31 December 2020, income tax payables were lower than in the previous year due to the normal trend in payments and advances paid, showing a drop of 7,928 thousand euro.

38. Current financial liabilities – 17,066 thousand euro

Current financial liabilities mostly refer to the interest expense accrued and not yet paid relating to the instalments of the debenture loan.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Accrued liabilities for interest on short-term bank loans and bank expenses	16,363	19,351	(2,988)
Other current financial payables	703	675	28
Total	17,066	20,025	(2,960)

39. Financial liabilities IFRS 16 – 5,281 thousand euro

As at 31 December 2020, this item included financial liabilities falling due within 12 months deriving from the application of IFRS 16. A breakdown of maturities by type of contract is provided under 31 above.

40. Other current liabilities – 203,550 thousand euro

Other current liabilities decreased in the year by 16,750 thousand euro, mainly due to the fall in "Other payables", an item which also includes the payable due to the Fund for Energy and Environmental Services (CSEA) for the items relating to various tariff components.

This item concerning the Fund for Energy and Environmental Services (CSEA) must be read also in light of the relevant receivables due from CSEA included under Other current assets.

Other current liabilities are set out below:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
other tax payables	3,869	4,191	(321)
payables to social security and pension agencies	10,446	11,479	(1,033)
other payables	174,054	189,207	(15,153)
accrued liabilities	4,105	4,285	(180)
deferred income	11,076	10,958	117
Total	203,550	220,120	(16,570)

Other tax payables, amounting to 3,869 thousand euro, are set out below.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
due to tax authorities for VAT	293	318	(25)
due to tax authorities for taxes withheld from employees	3,517	3,809	(292)
due to tax authorities for withholding taxes	59	64	(4)
other payables to tax authorities	0	0	(0)
Total	3,869	4,191	(321)

Amounts due to social security institutions, totalling 10,446 thousand euro, were down compared with the previous year, consistently with the changes in personnel during the year:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
due to INPS	9,087	9,449	(362)
due to other agencies	1,359	2,030	(671)
Total	10,446	11,479	(1,033)

Other payables, amounting to 174,054 thousand euro, are set out below.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Payables to employees	12,398	13,516	(1,119)
Payables to municipalities for rights and fees	305	405	(100)
Payables for connections and other payables to customers	2,586	2,524	62
Payables for security deposits and user advances	3,059	2,744	315
Payables to CSEA	148,812	163,329	(14,516)
Other payables	6,894	6,689	205
Total	174,054	189,207	(15,153)

Payables to the Fund for Energy and Environmental Services (CSEA) consist of 94,080 thousand euro payables for the entries that are transferred to the trading companies through the invoicing mechanism and then paid to CSEA, generally on a bi-monthly basis (UG1, UG2, UG3, Re, Gs and Rs) and residual payables mainly relating to the amount of equalisation for previous years and the current year totalling 39,038 thousand euro.

Accruals and deferred income, amounting to 15,181 thousand euro, are set out below.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Accrued liabilities			
Additional monthly accrual for employees	3,255	3,315	(60)
Other accrued liabilities	850	970	(120)
Total accrued liabilities	4,105	4,285	(180)
Deferred income			
Deferred income for plant contributions	2,197	2,169	28
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	8,865	8,776	89
Other deferred income	14	13	0
Total deferred income	11,076	10,958	117
Total accrued liabilities and deferred income	15,181	15,243	(63)

25. Liabilities held for sale – 0 thousand euro

At 31 December 2020 there were no such liabilities. In the previous year this item was comprised of liabilities relating to the concessions of San Gillio and Givoletto, which were disposed of on 31 January 2020.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

"Related parties" with whom the Group had dealings in 2020 included:

- F2i SGR S.p.A. - as the operating company of "F2i - Third Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i - Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato ad investitori qualificati")
- F2i SGR S.p.A. - as the operating company of "F2i - Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i - Secondo Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato a investitori qualificati")
- Finavias S.ar.l.
- Bonatti S.p.A.
- APG Infrastructure Pool 2017 II
- Melegnano Energia Ambiente S.p.A. (MEA S.p.A.)
- 2i Servizi Energetici S.r.l.

The definition of related parties includes key management personnel, including their close relatives, of the Parent Company as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the Parent exercises considerable influence. Key management personnel are those who have direct and indirect power and responsibility for planning, management, and control of company operations, including Directors and Auditors.

All the commercial balances are for transactions at market values.

Trade, financial and other transactions involving the Group, its parent companies and its subsidiaries are shown below.

Trade and other transactions

Year 2020

Thousands of euro	Trade		Trade	
	Receivables	Payables	Costs	Revenue
F2i SGR S.p.A	-	20	80	-
MEA SPA	9	-	-	9
APG Infrastructure Pool 2017 II	-	20	20	-
Bonatti Spa	12	6,528	5,459	12
2i Servizi Energetici Srl	57	15	15	56
Key management personnel, including directors and statutory auditors	-	49	2,590	-
Total	77	6,631	8,163	76

Year 2019

Thousands of euro	Trade		Trade	
	Receivables	Payables	Costs	Revenue
F2i SGR S.p.A	-	20	77	-
MEA SPA	2	-	-	9
APG Infrastructure Pool 2017 II	-	40	40	-
Bonatti Spa	-	4,674	7,082	3
2i Servizi Energetici Srl	128	3	3	128
Cioccarelli e Associati Srl	-	1	1	-
Key management personnel, including directors and statutory auditors	-	122	3,585	-
Total	130	4,860	10,788	139

Financial transactions

Year 2020

Thousands of euro	Financial		Financial		Dividends paid
	Receivables	Payables	Costs	Revenue	
F2i - Terzo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-				31,969
F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					4,056
Finavias S. à r.l.					13,975
MEA SPA				82	
2i Servizi Energetici Srl	518		334	38	
Key management personnel, including directors and statutory auditors					
Total	518	-	334	121	50,000

Year 2019

Thousands of euro	Financial		Costs	Financial	
	Receivables	Payables		Revenue	Dividends paid
F2i - Terzo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)				-	59,427
F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)				-	7,540
Finavias S. à r.l.				-	25,978
MEA SPA				80	
Total	-	-	-	80	92,945

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no significant extraordinary events or operations during the year which have not already been disclosed in this document.

Positions or transactions arising from atypical and/or unusual operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no positions or transactions arising from atypical and/or unusual operations during the year.

Fees for Directors, auditors and key management personnel

In 2020, the fees for directors, auditors and key management personnel, totalling 2,590 thousand euro, included 84 thousand euro in Auditors' fees, 254 thousand euro in Directors' fees and the rest refers to key personnel's fees.

Remuneration of the Independent Auditors

The 2020 remuneration of the independent auditors totalled 559 thousand euro and included the annual auditing of the statutory and consolidated financial statements, the auditing of the unbundling financial report and the statements required by ARERA, as well as certification activity in order to obtain R&D tax credit.

Public grants received

With reference to the changes introduced by Italian Law 124 of 4 August 2014 "Annual competition law", art. 1 para. 125-129, the Group companies received the following grants from public bodies during 2019:

Euro				
Name	Prov.	31.12.2020	Type	
MUNICIPALITY OF MAIERA	CS	18,146	PLANT CONTRIBUTIONS	
MUNICIPALITY OF ACQUARO	VV	105,699	PLANT CONTRIBUTIONS	
MUNICIPALITY OF ARENA	VV	70,320	PLANT CONTRIBUTIONS	
MUNICIPALITY OF DASA'	VV	108,045	PLANT CONTRIBUTIONS	
MUNICIPALITY OF GEROCARNE	VV	130,980	PLANT CONTRIBUTIONS	
MUNICIPALITY OF PIZZONI	VV	138,077	PLANT CONTRIBUTIONS	
MUNICIPALITY OF SORIANELLO	VV	73,691	PLANT CONTRIBUTIONS	
MUNICIPALITY OF SORIANO CALABRO	VV	253,084	PLANT CONTRIBUTIONS	
MUNICIPALITY OF VAZZANO	VV	61,919	PLANT CONTRIBUTIONS	
MUNICIPALITY OF RIPA TEATINA	CH	18,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF BASCIANO	TE	33,752	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF CADREZZATE	VA	18,262	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF CAPPELLE SUL TAVO	PE	8,254	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF CASTEL CASTAGNA	TE	15,592	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF CASTELLALTO	TE	13,440	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF CERMIGNANO	TE	12,035	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF ISOLA DEL GRAN SASSO	TE	13,894	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF L'AQUILA	AQ	93,408	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF PENNA SANT'ANDREA	TE	18,905	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF POLLUTRI	CH	25,680	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF R. DI CAMBIO R. DI MEZZO	AQ	363,558	CONTRIBUTIONS ABRUZZO RL 25/95	
MUNICIPALITY OF TERAMO	TE	498,443	CONTRIBUTIONS ABRUZZO RL 25/95	
MUNICIPALITY OF TORANO NUOVO	TE	5,638	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF TORNIMPARTE	AQ	7,656	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF TOSSICIA	TE	8,934	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
MUNICIPALITY OF LUCOLI	AQ	30,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001	
GSE - Gestore Servizi Energetici SpA		86,861		
MUNICIPALITY OF VIBONATI	SA	164,004	REGIONAL CONTRIBUTIONS	
MUNICIPALITY OF MORIGERATI	SA	333,559	REGIONAL CONTRIBUTIONS	
MUNICIPALITY OF TORRACA	SA	252,543	REGIONAL CONTRIBUTIONS	
MUNICIPALITY OF TORTORELLA	SA	503,389	REGIONAL CONTRIBUTIONS	
MUNICIPALITY OF ISPANI	SA	534,436	REGIONAL CONTRIBUTIONS	
Total public contributions collected		4,020,203		

Public grants from public administrations (State, regions, municipalities, etc.) during the year stood at 4,020,203 euro. This amount did not include any grants received from public administrations that had not yet been returned to the Group.

Contractual commitments and guarantees

The Company provided 151,472 thousand euro in guarantees to third parties. These guarantees include 106,389 thousand euro in bank guarantees and 45,083 thousand euro in insurance and other guarantees.

These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.

Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Group's financial statements.

Operating segment reporting

The Group is managed as a single business unit operating mainly in natural gas distribution through networks, and therefore management analyses the Group's operations as a whole.

The reporting format used by management to take operating decisions is aligned with the formats used in the consolidated financial statements shown herein, excluding the impact of IFRIC 12 and highlighted in note 5.c as well as in the section on costs.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Business combinations

Acquisition of Montelungo Gas S.r.l., Cometam Gas S.r.l. and Maierà Gas S.r.l..

On 30 April 2020, the parent company 2i Rete Gas S.p.A. acquired 100% of the capital of three companies held by BN Investimenti S.r.l., of the Bonatti Group: Montelungo Gas S.r.l., Cometam Gas S.r.l. and Maierà Gas S.r.l..

The acquisition took place against payment of a total consideration, net of the subsequent price adjustment, of 2.6 million euro.

For the purposes of consolidation, the assets acquired and the liabilities assumed were included as from 1 May 2020.

The following table summarises the value of the assets acquired and liabilities assumed from the three companies:

Millions of euro	Maierà Gas Srl	Montelungo Gas Srl	Cometam Gas Srl
ASSETS			
Property, plant and equipment	-	0.0	0.0
Intangible assets	1.2	1.6	10.3
Deferred tax assets	0.0	0.0	0.1
Other non-current assets	0.0	0.0	0.0
Trade receivables	0.0	0.0	0.9
Cash and cash equivalents	0.0	0.1	0.0
Income tax receivables	-	0.0	-
Other current assets	0.2	0.1	0.1
Total assets acquired	1.5	1.8	11.5
LIABILITIES			
Post-employment and other employee benefits	-	0.0	0.0
Short-term portion of long-term and short-term provisions	0.0	0.1	0.3
Trade payables	1.2	1.6	9.6
Income tax payables	0.0	0.0	-
Other current liabilities	-	0.0	0.0
Total liabilities assumed	1.2	1.7	9.9
Total Fair Value of net identifiable assets	0.2	0.1	1.6
Total transferred amount	0.2	0.1	2.2
Badwill generated by the acquisition	(0.1)	0.1	0.7

With respect to Montelungo Gas S.r.l., the goodwill recognised after the acquisition amounted to 0.1 million euro, i.e. the difference between the 0.1 million euro consideration paid and the fair value of net identifiable assets as at the date of acquisition of control (30 April 2020).

With respect to Cometam Gas S.r.l., the goodwill recognised after the acquisition amounted to 0.7 million euro, i.e. the difference between the 2.2 million euro consideration paid and the fair value of net identifiable assets as at the date of acquisition of control (30 April 2020).

Finally, with respect to Maierà Gas S.r.l., a badwill of 0.1 million euro was recognised after the acquisition, i.e. the difference between the 0.2 million euro consideration paid and the fair value of net identifiable assets as at the date of acquisition of control (30 April 2020).

The goodwills arising from the acquisition, which are not currently exempted from taxes, mainly refer to the development forecasts and the synergies expected from integration of the acquired company into the Group.

On the other hand, the badwill can be defined as the result of the "good deal" concluded, and is affected by subjective trading conditions.

The determination of the fair value of the assets acquired and liabilities assumed, although provisional from a technical point of view in accordance with IFRS 3, as at the date of drafting these financial statements is deemed completed.

In October 2020 the subsidiaries Montelungo Gas S.r.l., Maierà Gas S.r.l. and Cometam Gas S.r.l. were merged with the Company, effective retroactively as from 30 April 2020.

Acquisition of Powergas Distribuzione S.p.A.

On 15 September 2020, the Parent Company 2i Rete Gas S.p.A. acquired 100% of Powergas Distribuzione S.p.A. share capital.

The acquisition took place against payment of a total consideration, including the subsequent price adjustment, of 6.9 million euro.

For the purposes of consolidation, the assets acquired and the liabilities assumed were included

as from 16 September 2020.

The following table summarises the value of the assets acquired and liabilities assumed from the company:

Millions of euro	
ASSETS	
Property, plant and equipment	0.0
Intangible assets	6.3
Other non-current assets	0.1
Inventories	0.0
Trade receivables	0.1
Cash and cash equivalents	0.5
Income tax receivables	0.0
Other current assets	0.1
	-
Total assets acquired	7.0
LIABILITIES	
Post-employment and other employee benefits	0.1
Deferred tax liabilities	0.7
Other non-current liabilities	-
Trade payables	0.1
Income tax payables	0.1
Other current liabilities	0.1
Total liabilities assumed	1.1
Total Fair Value of net identifiable assets	6.0
Total transferred amount	6.9
Goodwill generated by the acquisition	1.0

The goodwill recognised after the acquisition totalled around 1 million euro, as the difference between the 6.9 million euro fee paid and the value of net identifiable assets at the date of acquisition of control (15 September 2020).

The goodwills arising from the acquisition, which are not currently exempted from taxes, mainly refer to the development forecasts and the synergies expected from integration of the acquired company into the Group.

The determination of the fair value of the assets acquired and liabilities assumed, although provisional from a technical point of view in accordance with IFRS 3, as at the date of drafting these financial statements is deemed completed.

Credit, liquidity and market risk

Credit risk

The 2i Rete Gas Group provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.

In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2020.

User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.

As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.

Outstanding guarantees and security deposits on trade receivables totalled 216,178 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant bad debt provision.

As at 31 December 2020, the Group's maximum exposure to credit risk amounted to 669.2 million euro:

Millions of euro	31.12.2020	31.12.2019	2020 - 2019
Third parties:			
Non-current financial assets	0.7	1.5	(0.8)
Other non-current financial assets (gross of bad debt provision)	56.2	57.8	(1.6)
Trade receivables (gross of bad debt provision)	243.6	259.6	(16.0)
Other current financial assets	1.8	2.2	(0.4)
Cash and cash equivalents	187.0	353.3	(166.3)
Other receivables (gross of bad debt provision)	179.8	177.5	2.3
Total	669.2	852.0	(182.8)

Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, the 2i Rete Gas Group is able to autonomously meet the financial requirements of its ordinary operations and ensure business continuity.

Besides the debenture loans issued between 2024 and 2027, the Company entered into two loans with the European Investment Bank in 2015 and 2016, totalling 425 million euro, plus a line of credit with a leading bank.

In order to properly disclose liquidity risk as required by IFRS 7, here below are the characteristics of the company's debt.

The contractual maturities of the financial liabilities outstanding at 31 December 2020 are set forth below:

Millions of euro	1 year	1 - 5 years	beyond 5 years
Financial liabilities as at 31 December 2020			
Long-term loans	-	172.7	315.9
Medium/long-term debenture loans	-	1,100.0	1,165.0
Short-term debenture loans	-		
Short-term loans	36.4		
Current portion of long-term loans	18.2		
Other long-term financial liabilities	38.8		
Other short-term financial liabilities	17.1		
Non-current IFRS 16 financial liabilities		12.9	5.5
Current IFRS 16 financial liabilities	5.3		
Total	115.7	1,285.6	1,486.4

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2019 are set forth below:

Millions of euro	1 year	1 - 5 years	beyond 5 years
Financial liabilities as at 31 December 2019			
Long-term loans	-	72.7	334.1
Medium/long-term debenture loans	-	600.0	1,665.0
Short-term debenture loans	267.1		
Short-term loans	40.0		
Current portion of long-term loans	18.2		
Other long-term financial liabilities	4.0		
Other short-term financial liabilities	20.0		
Non-current IFRS 16 financial liabilities		11.5	11.0
Current IFRS 16 financial liabilities	6.1		
Total	355.4	684.2	2,010.1

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.

It should be noted that loans are subject to a periodical check on the compliance with some financial parameters at consolidated level.

As at 30 December 2020, the Company met all of the covenants.

"Medium-/long-term debenture loans", totalling 2,265 million euro, refer to the aforementioned instalments issued by 2i Rete Gas and expiring between 2024 and 2027.

The Company's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance

with the financial covenants established by the lending banks, currently the Company does not face any problems in obtaining said refinancing.

The Company constantly monitors opportunities to optimise its financial structure. For an in-depth analysis of long-term loans, see note 27 in these financial statements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices as a result of changes in exchange rates, interest rates, or the prices of equity instruments.

Transactions that qualify for hedge accounting pursuant to the requirements of the accounting standards are designated as hedging transactions, while those that do not meet such requirements are classified as trading transactions, even though, from a management point of view, they have been entered into for hedging purposes.

The Group had no derivatives held for trading or for speculative purposes. During 2019, the Parent Company entered into 5 "Forward Starting Interest Rate Swap" hedging instrument contracts with a notional amount of 500 million euro. In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value.

The company has no financial assets held to maturity, available for sale or held for trading.

Thousands of euro	Notes	Carrying amount				Total	Fair value
		Measured at fair value	Derivatives	Receivables	Available for sale		
Financial assets measured at fair value							
Non-current financial assets	16	-	-	-	-	-	-
Financial assets not measured at fair value							
Non-current financial assets	16	-	-	735	-	735	735
Other non-current assets	17	-	-	56,026	-	56,026	56,026
Trade receivables	19-25	-	-	234,913	-	234,913	234,913
Short-term financial receivables	20	-	-	1,816	-	1,816	1,816
Other current financial assets	21	-	-	20	-	20	20
Cash and cash equivalents	22	-	-	186,991	-	186,991	186,991
Other current assets	24	-	-	207,604	-	207,604	207,604
TOTAL ASSETS				688,105		688,105	688,105
Financial liabilities measured at fair value							
IRS Derivatives	38	-	38,753	-	-	38,753	38,753
Financial liabilities not measured at fair value							
Long-term loan	27	-	-	-	488,636	488,636	488,636
Medium/long-term debenture loans	27	-	-	-	2,255,785	2,255,785	2,471,828
Non-current IFRS 16 financial liabilities	31	18,395	-	-	-	18,395	18,395
Other non-current liabilities	32	-	-	-	361	361	361
Short-term loans	33-34	-	-	-	54,609	54,609	54,609
Trade payables	36-25	-	-	-	215,963	215,963	215,963
Current financial liabilities	38	-	-	-	16,363	16,363	16,363
Current IFRS 16 financial liabilities	39	5,281	-	-	-	5,281	5,281
Other current liabilities	40	-	-	-	192,474	192,474	192,474
TOTAL LIABILITIES		23,676	38,753	-	-	3,224,192	3,286,620

In order to enable comparison, we propose the same table as the one used in 2019:

Thousands of euro	Notes	Measured at fair value	Carrying amount			Other financial liabilities and payables	Total	Fair value
			Derivatives	Receivables	Available for sale			
Financial assets measured at fair value								
Non-current financial assets	16		-				-	-
Financial assets not measured at fair value								
Non-current financial assets	16			1,547			1,547	1,547
Other non-current assets	17			57,611			57,611	57,611
Trade receivables	19-25			250,680			250,680	250,680
Short-term financial receivables	20			1,330			1,330	1,330
Other current financial assets	21			879			879	879
Cash and cash equivalents	22			353,308			353,308	353,308
Other current assets	24			198,771			198,771	198,771
TOTAL ASSETS				864,125			864,125	864,125
Financial liabilities measured at fair value								
IRS Derivatives	38		4,001				4,001	4,001
Financial liabilities not measured at fair value								
Long-term loan	27					406,818	406,818	406,818
Medium/long-term debenture loans	27					2,254,103	2,254,103	2,443,705
Short-term debenture loans	33					267,088	267,088	267,097
Non-current IFRS 16 financial liabilities	31	22,539					22,539	22,539
Other non-current liabilities	32					361	361	361
Short-term loans	33-34					58,182	58,182	58,182
Trade payables	36-25					186,344	186,344	186,344
Current financial liabilities	38					19,351	19,351	19,351
Current IFRS 16 financial liabilities	39	6,110					6,110	6,110
Other current liabilities	40					209,162	209,162	209,162
TOTAL LIABILITIES		28,649	4,001	-	-	3,401,408	3,434,059	3,623,670

With regard to financial assets not measured at fair value, as well as trade payables and other current liabilities, the carrying amount is considered to be a reasonable approximation of the fair value, as it is set forth in the tables above.

For the purposes of determining the fair value of the debenture loan, the Group has used the market valuations at the end of the reporting period.

Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts, and specifically interest rate swaps.

Concerning the current debt structure, 2,590 million euro out of a reported 2,772 million euro were not exposed to interest rate risk at 31 December 2020.

During 2019, the Parent Company entered into 5 forward start interest rate swap derivative contracts (with expiry date set at 10 years after the start date) with as many leading banks in order to hedge against the risk of an increase in interest rates on the future issue of the debenture loan planned to refinance part of the existing loan reaching maturity in the coming years.

Thousands of euro	Notional		Fair value		Fair value asset		Fair value liability	
	at 31.12.2020	at 31.12.2019	at 31.12.2020	at 31.12.2019	at 31.12.2020	at 31.12.2019	at 31.12.2020	at 31.12.2019
Cash flow hedge derivatives								
<i>Forward Start Interest Rate Swap</i>	500,000	500,000	(38,753)	(4,001)	-	-	(38,753)	(4,001)
Total Interest Rate Derivatives	500,000	500,000	(38,753)	(4,001)	-	-	(38,753)	(4,001)

The contract expiry dates are shown below:

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	at 31.12.2020	at 31.12.2019			
Cash flow hedge derivatives					
<i>Forward Start Interest Rate Swap</i>	500,000	500,000			500,000
Total Interest Rate Derivatives	500,000	500,000	-	-	500,000

Measurement is also shown, assuming an interest rate shocks of +0.10% and -0.10%:

Thousands of euro	Notional		-0.10%		Fair Value		+0.10%	
	at 31.12.2020	at 31.12.2019			at 31.12.2020		at 31.12.2019	
Cash flow hedge derivatives								
<i>Forward Start Interest Rate Swap</i>	500,000	500,000	(44,678)	(38,753)	(33,659)	(4,401)	(4,001)	(3,601)
Total	500,000	500,000	(44,678)	(38,753)	(33,659)	(4,401)	(4,001)	(3,601)

Significant events after the reporting period

On 22 January 2021 2i Rete Gas S.p.A., as part of the 4 billion euro EMTN Programme updated in December 2020, issued a new 10-year maturity 500 million euro debenture loan tranche, with a pricing that represents the smallest coupon (irrespective of duration) issued since 2i Rete Gas first resorted to public market. The main goals of the issue are to finance the future acquisition of the company IDG S.p.A. and to refinance issues maturing in coming years.

In January 2021 the contract was signed for the purchase of the company I.D.G. S.p.A. from the Edison Group, conditional upon the approval of the Italian Competition Authority. With this operation the Parent Company has taken on 152,000 end customers and 2,700 km of network in 58 served municipalities. The operation cost a total of 150 million euro. On 10 February 2021 the operation was reported to the Italian Competition Authority. On 26 February 2021 the Authority initiated a preliminary investigation pursuant to art.16 subsection 4 of Law 287/1990. This investigation is ongoing.

The provisional ranking calculated for the ATEM Naples 1 tender on 29 January 2021 gave 2i Rete Gas a higher score than the incumbent, Italgas S.p.A.. The tender committee has initiated the procedure for checking anomalies regarding submitted bids.

On 17 February 2021 an appeal was lodged with the Court of Cassation concerning the ATEM Milan 1 tender, in which the company 2i Rete Gas S.r.l. is one of the bidders. In early March 2021 the appeal was entered in the Court's list of cases.

V Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

* * * * *

**REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020**

* * * * *

To the Shareholders of 2i RETE GAS S.p.A.,

the Board of Directors has delivered to this Board the consolidated financial statements of the 2i Rete Gas Group.

The consolidated financial statements for the year ended December 31, 2020 have been prepared in accordance with the evaluation and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure of referred to in art. 6 of the (EC) Regulation n. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and, where compatible, by the rules of the Civil Code.

Pursuant to art. 37 of D. Lgvo. No. 39 of 10/27/2010, the accounting control was delegated to the Independent Auditors PricewaterhouseCoopers S.p.A. which did not report to the Board of Statutory Auditors critical or reprehensible facts relating to the content of the consolidated financial statements.

The 2020 consolidated financial statements include 5 Companies, including 2i Gas Rete S.p.A.

The scope of consolidation consists of the following Companies:

- 2i Rete Gas S.p.A.
- 2i Rete Gas S.r.l.
- 2i Rete Dati S.r.l.
- Cilento Reti Gas S.r.l.
- Power Gas Distribuzione S.p.A.

The related consolidation criteria are contained in paragraph “Consolidation criteria” of the notes to the consolidated financial statements for the year 2020. The financial statements of the subsidiaries, consolidated by the 2i Rete Gas Group, have been prepared by adopting, for each accounting period, the same accounting standards as the parent company and using, where applicable, the financial statements of the companies approved by the respective shareholders' meetings or, failing this, on the basis of draft report approved by the respective administrative bodies.

The Consolidated Financial Statements consist of the Balance Sheet, Income Statement, statement on variations of Shareholders' Equity, Cash Flow statement and Notes to the Financial Statements, accompanied by the Management Report on Operations and summarizes the following results, expressed in thousands of euro:

		31.12.2020	31.12.2019
Thousands of euro	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	11	35,699	37,223
IFRS 16 Rights of use	12	24,258	28,817
Intangible assets	13	3,880,135	3,760,807
Net deferred tax assets	14	133,205	125,911
Equity investments	15	3,608	3,349
Non-current financial assets	16	735	1,547
Other non-current assets	17	56,092	57,697
	<i>Total</i>	4,133,731	4,015,351
Current assets			
Inventories	18	18,309	23,509
Trade receivables	19	234,913	250,680
Short-term financial receivables	20	1,816	1,330
Other current financial assets	21	20	879
Cash and cash equivalents	22	186,991	353,308
Income tax receivables	23	9,012	6,272
Other current assets	24	211,540	201,361
	<i>Total</i>	662,601	837,338
Non-current assets (or assets included in disposal groups) held for sale			
Non-current assets (or assets included in disposal groups) held for sale	25	-	2,991
	<i>Total</i>	-	2,991
TOTAL ASSETS		4,796,332	4,855,680

Thousands of euro	Notes	31.12.2020	31.12.2019
EQUITY AND LIABILITIES			
Equity - Owners of the Parent			
	26		
Share Capital		3,639	3,639
Treasury Shares		-	-
Other Reserves		498,425	526,009
Retained earnings/(accumulated losses)		353,381	197,028
Net income for the year		183,476	206,383
Total equity - Owners of the Parent		1,038,921	933,058
Equity - non-controlling interests			
Non-controlling interests		1,533	1,398
Net income for the year - non-controlling interests		372	135
Total equity - non-controlling interests		1,905	1,533
TOTAL EQUITY		1,040,825	934,591
Non-current liabilities			
Long-term loans	27	2,744,422	2,660,921
Post-employment and other employee benefits	28	40,286	43,559
Provision for risks and charges	29		8,128
Deferred tax liabilities	14	-	-
Non-current financial liabilities	30	38,753	4,001
Non-current IFRS 16 financial liabilities	31	18,395	22,539
Other non-current liabilities	32	331,077	323,108
	<i>Total</i>	3,180,288	3,062,256
Current liabilities			
Short-term loans	33	36,427	307,088
Current portion of long-term loans	34	18,182	18,182
Short-term portion of long-term and short-term provisions	35	78,492	92,639
Trade payables	36	215,963	186,344
Income tax payables	37	258	8,186
Current financial liabilities	38	17,066	20,025
Current IFRS 16 financial liabilities	39	5,281	6,110
Other current liabilities	40	203,550	220,120
	<i>Total</i>	575,218	858,694
Non-current liabilities (or liabilities included in disposal groups) held for sale			
Non-current liabilities (or liabilities included in disposal groups) held for sale	25	-	139
	<i>Total</i>	-	139
TOTAL LIABILITIES		3,755,507	3,921,089
TOTAL EQUITY AND LIABILITIES		4,796,332	4,855,680

Thousands of euro	Notes	31.12.2020	31.12.2019
Revenue			
Revenue from sales and services	5.a	711,616	722,701
Other revenue	5.b	30,678	49,459
Revenue from intangible assets / assets under construction	5.c	296,533	284,892
Sub-Total		1,038,828	1,057,051
Costs			
Raw materials and consumables	6.a	67,285	74,773
Services	6.b	292,178	273,999
Personnel Costs	6.c	116,470	122,246
Amortisation, depreciation and impairment losses	6.d	200,560	204,281
Other operating costs	6.e	49,894	56,535
Capitalised costs for internal work	6.f	(1,361)	(1,619)
Sub-Total		725,026	730,217
EBIT		313,802	326,834
Income (expenses) from equity investments	7	(251)	79
Financial income	8	533	1,990
Financial expenses	8	(55,078)	(62,789)
Sub-Total		(54,796)	(60,720)
Pre-tax income		259,005	266,114
Taxes for the period	9	75,157	59,597
Net income (expenses) from continuing operations		183,848	206,517
Net income (expenses) from discontinued operations	10	-	-
NET INCOME FOR THE YEAR		183,848	206,517
Net income for the year attributable to:			
- Owners of the Parent		183,476	206,383
- Non controlling interests		372	135

The Board acknowledges the compliance of the consolidated financial statements with the facts and information of which it is aware following the participation of the corporate bodies, the exercise of its supervisory duties and its inspection and control powers.

It has to be noted that during the 2020 financial year the Company's activity was significantly affected by the health emergency linked to the COVID-19 pandemic. In particular, this sanitary situation made it necessary for all the structures of the Company to launch various initiatives to deal with the pandemic emergency, as well as the adoption

of provisions, protocols and precautions consistent with what has been decided, from time to time, by Public Authorities.

Finally, the Board acknowledges that it has verified the compliance and consistency of the Management Report on Operations with the data and results of the consolidated financial statements.

Milan/Sondrio, 7th April 2020

The Board of Statutory Auditors

Marco Antonio Dell'Acqua (President)

Andrea Cioccarelli (Effective Member)

Marco Giuliani (Effective Member)

VI Report of the Independent Auditors



2I RETE GAS SPA

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE
WITH ARTICLE 14 OF LEGISLATIVE DECREE 39/2010
AND ARTICLE 10 OF REGULATION (EU) 537/2014**

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020



Independent auditor's report

in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of 2i Rete Gas SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of 2i Rete Gas SpA and its subsidiaries (2i Rete Gas group), which comprise the statement of financial position as of 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the 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 2i Rete Gas group as of 31 December 2020, 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, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" of this report. We are independent of 2i Rete Gas SpA (the Company) based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311



Key Audit Matters

How our audit addressed the key audit matter

Capital expenditure for gas distribution network under service concession agreements

*Annual Financial Report
chapter III directors' report – paragraph 5
regulatory and tariff framework
chapter IV - consolidated financial statements –
paragraph 6 – notes to the consolidated financial
statements - note 13 intangible assets*

As of 31 December 2020 gas distribution service concessions and similar rights, recorded as intangible assets, amount to € 3,574 million, representing 75% of total assets. Costs capitalised during the year amount to € 297 million.

The group operates in the gas distribution industry. The industry is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA).

Revenues from gas distribution service are determined each year in accordance with the regulatory approved tariffs which are based mainly on a pre-established return on capital invested, plus amortisation and depreciation and operating costs.

Considering the magnitude of the capital expenditure made by the group and the direct correlation with the tariffs approved by ARERA, the proper capitalisation of costs related to service concession agreements in accordance with IFRIC12 represented a key matter in the audit of the consolidated financial statements.

We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification and testing of key controls.

We assessed the accounting policy adopted by the group in relation to the capitalisation of costs.

We performed detailed tests analysing, on a sample basis, the supporting documentation of costs capitalised to verify the accuracy, completeness and the proper period.

We have verified the accuracy and completeness of the disclosure made in the notes to the financial statements.

Key Audit Matters**How our audit addressed the key audit matter**

Recoverability of goodwill

*Annual Financial Report
chapter IV - consolidated financial statements –
paragraph 6 – notes to the consolidated financial
statements - note 13 intangible assets*

As of 31 December 2020 goodwill amounts to € 269 million, representing 6% of total assets.

Recoverability of the carrying amount of goodwill was tested for impairment at the year-end, in accordance with IAS36 – Impairment of Assets.

The recoverable amount of the group of cash generating units (CGU) “Gas distribution”, which represents the main segment of the group, to which goodwill is allocated, is measured using its value in use. Value in use is calculated on the basis of the expected future cash flows derived from 2021-2025 five years business plan approved by the Company board of directors on 18 December 2020.

The recoverable amount of the Gas distribution segment is compared with the carrying amount of assets and liabilities directly attributable to the segment, including goodwill.

Considering the magnitude of the carrying amount and the subjective judgment in some of the assumptions used for the calculation of the value in use, the impairment test of goodwill represented a key matter in the audit of the consolidated financial statements.

We have verified, with the assistance of PwC experts:

- the adequacy of the overall impairment testing process in accordance with the requirements of the relevant accounting standard;
- the allocation of goodwill to the group of cash generating units – CGU;
- the reasonableness of the key assumptions used when determining the value in use of the Gas distribution segment with specific focus on the projected growth rate of revenue, cost and capital expenditure and discount rate, including sensitivity analysis;
- the accuracy of the carrying amounts of assets and liabilities directly attributable to the Gas distribution segment;
- the mathematical accuracy of the calculation model used.

We have verified the accuracy and completeness of the disclosure made in the notes to the financial statements.



Key Audit Matters

How our audit addressed the key audit matter

Provisions for risks and charges

*Annual Financial Report
chapter IV - consolidated financial statements –
paragraph 6 – notes to the consolidated financial
statements - note 29 provisions for risks and
charges*

As of 31 December 2020 provisions for risks and charges amount to € 86 million and include probable liabilities as a result of past events for which the outflow can be reasonably estimated at the balance sheet date.

Provisions for risks and charges mainly relate to costs associated with various disputes with municipalities and costs that could potentially arise from maintenance or replacement of defective measurement equipment.

Given the magnitude of the accrued balances and the use of estimates made by management, the measurement of the provisions for risks and charges represented a key matter for the audit of the consolidated financial statements.

We have carried out the understanding and evaluation of key controls in place over the measurement of the provisions for risks and charges.

We have tested, on a sample basis, the documentation supporting the most significant balances to assess the adequacy of the accruals made.

We obtained confirmations from external lawyers appointed by the group, indicating the individual exposure in place and their assessment of the risk of potential liability.

We discussed with management the conclusions reached for measuring the provisions for risks and charges.

We verified the accuracy and completeness of the disclosure made in the notes to the financial statements.

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, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary for 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 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 intends either to liquidate 2i Rete Gas 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 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 auditors' 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 exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management 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 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 evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of 2i Rete Gas SpA at the general meeting held on 29 April 2015 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2015 through 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared in accordance with 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 39/2010



Management of 2i Rete Gas SpA is responsible for preparing a report on operations of 2i Rete Gas group as of 31 December 2020, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations with the consolidated financial statements of 2i Rete Gas group as of 31 December 2020 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the consolidated financial statements of 2i Rete Gas group as of 31 December 2020 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254/2016

Management of 2i Rete Gas SpA is responsible for the preparation of the non-financial disclosure in accordance with Legislative Decree 254/2016. We have verified that the non-financial disclosure was approved by the board of directors.

In accordance with article 3, paragraph 10, of Legislative Decree 254/2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 7 April 2021

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

VII Statutory financial statements of 2i Rete Gas S.p.A.

1. Income Statement

Euro	Notes	31.12.2020	of which from related parties	31.12.2019	of which from related parties
Revenue					
Revenue from sales and services	5.a	705,951,685	1,592,631	717,913,836	1,654,848
Other revenue	5.b	31,621,565	1,288,374	50,501,223	1,399,809
Revenue from intangible assets / assets under construct	5.c	289,016,526		275,606,846	
	Sub-Total	1,026,589,776		1,044,021,905	
Costs					
Raw materials and consumables	6.a	67,281,594		74,772,709	
Services	6.b	284,000,563	256,767	264,229,321	5,050
Personnel Costs	6.c	116,377,682	2,337,667	122,246,384	3,340,318
Amortisation, depreciation and impairment losses	6.d	199,601,352		203,427,103	
Other operating costs	6.e	49,278,097	325,254	56,022,809	342,519
Capitalised costs for internal work	6.f	(1,360,921)		(1,618,518)	
	Sub-Total	715,178,367		719,079,808	
		EBIT		324,942,097	
Income (expenses) from equity investments	7	-		194,857	196,160
Financial income	8	934,815	440,492	2,289,270	299,185
Financial expenses	8	(55,117,502)	(39,835)	(62,820,559)	(31,725)
	Sub-Total	(54,182,687)		(60,336,433)	
		Pre-tax income		264,605,664	
Taxes for the period	9	74,635,833		59,106,645	
		Net income (expenses) from continuing operations		205,499,019	
Gain on the sale of discontinued operations	10	-		-	
Tax effect	10	-		-	
		Net income (expenses) from discontinued operations		-	
		NET INCOME FOR THE YEAR		205,499,019	
		182,592,889		205,499,019	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

2. Statement of Comprehensive Income

Euro

	31.12.2020	31.12.2019
Net income recognised through profit or loss	182,592,889	205,499,019
Other comprehensive income		
<i>Items which will never be reclassified through profit/(loss):</i>		
Revaluations of net liabilities/assets for defined benefits	(272,793)	(752,003)
Deferred tax assets and liabilities on items which will never be classified through profit / (loss)	45,127	91,261
	(227,666)	(660,742)
<i>Items which may be reclassified subsequently through profit/(loss):</i>		
Change in fair value of hedging derivatives	(34,751,533)	(3,981,380)
Change in fair value of hedging derivatives reclassified in the income for the year	(1,238,302)	(1,234,918)
Deferred tax (assets)/liabilities from change in fair value	8,340,368	955,531
Deferred tax (assets)/liabilities from change in fair value of hedging derivatives reclassified in the income for the year	297,192	296,380
	(27,352,275)	(3,964,387)
Total other comprehensive income	(27,579,941)	(4,625,128)
Total comprehensive income / (loss) recognised in the year	155,012,948	200,873,890

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

3. Statement of Financial Position

Assets

Euro	Notes				
ASSETS		31.12.2020	of which from related parties	31.12.2019	of which from related parties
Non-current assets					
Property, plant and equipment	11	35,665,026		37,207,492	
IFRS 16 Rights of use	12	24,257,719		28,816,703	
Intangible assets	13	3,833,580,962		3,727,104,741	
Net deferred tax assets	14	132,689,441		124,567,632	
Equity investments	15	19,524,747	19,401,543	12,066,671	11,943,467
Non-current financial assets	16	734,764		1,547,344	
Other non-current assets	17	56,019,878		57,671,196	
	<i>Total</i>	4,102,472,537		3,988,981,778	
Current assets					
Inventories	18	18,307,032		23,509,262	
Trade receivables	19	237,742,526	4,960,721	252,843,900	4,073,119
Short-term financial receivables	20	18,916,066	17,599,187	16,885,493	15,555,946
Other current financial assets	21	122,560	122,128	969,127	89,943
Cash and cash equivalents	22	186,727,477		353,280,846	
Income tax receivables	23	9,141,358	178,787	6,649,357	385,905
Other current assets	24	204,427,671		196,181,829	
	<i>Total</i>	675,384,691		850,319,813	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	25	-		2,990,596	
	<i>Total</i>	-		2,990,596	
TOTAL ASSETS		4,777,857,228		4,842,292,188	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

Liabilities

Euro	Notes				
EQUITY AND LIABILITIES		31.12.2020	of which from related parties	31.12.2019	of which from related parties
Equity	26				
Share Capital		3,638,517		3,638,517	
Treasury Shares		-		-	
Other Reserves		498,428,951		526,008,892	
Retained earnings/(accumulated losses)		351,489,658		196,020,243	
Net income for the year		182,592,889		205,499,019	
TOTAL EQUITY		1,036,150,015		931,166,670	
Non-current liabilities					
Long-term loans	27	2,744,421,814		2,660,920,737	
Post-employment and other employee benefits	28	40,195,015		43,559,369	
Provision for risks and charges	29	7,355,058		8,127,512	
Deferred tax liabilities	14	-		-	
Non-current financial liabilities	30	38,752,695		4,001,162	
Non-current IFRS 16 financial liabilities	31	18,394,697		22,538,837	
Other non-current liabilities	32	326,676,492		320,488,404	
	<i>Total</i>	3,175,795,772		3,059,636,022	
Current liabilities					
Short-term loans	33	41,035,837	4,608,741	311,693,014	4,604,644
Current portion of long-term loans	34	18,181,818		18,181,818	
Short-term portion of long-term and short-term provisions	35	77,009,836		90,524,976	
Trade payables	36	206,420,455	349,712	178,806,583	426,113
Income tax payables	37	542,872	331,899	8,135,504	
Current financial liabilities	38	17,075,656	10,138	20,027,320	2,196
Current IFRS 16 financial liabilities	39	5,280,901		6,110,260	
Other current liabilities	40	200,364,066	1,053	217,870,807	
	<i>Total</i>	565,911,441		851,350,282	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	25	-		139,214	
	<i>Total</i>	-		139,214	
TOTAL LIABILITIES		3,741,707,213		3,911,125,518	
TOTAL EQUITY AND LIABILITIES		4,777,857,228		4,842,292,188	

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

4. Statement of Cash Flows

		31.12.2020	31.12.2019
Euro			
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	22	353,280,846	676,977,507
A) CASH AND CASH EQUIVALENTS ACQUIRED THROUGH COMPANY ACQUISITION		139,768	9,287,689
Cash flow from operating activities			
Pre-tax income		257,228,722	264,605,664
Taxes for the period	9	(74,635,833)	(59,106,645)
1. Net income for the period		182,592,889	205,499,019
Adjustments for:			
Depreciation	6.d	199,416,066	199,599,335
Impairment/(Reversals)/(Releases)	6.d	185,286	3,827,769
Capital (gains)/losses	5.b/6.e	8,087,205	(2,248,932)
Allocations to provisions for risks and charges and post-employment benefits	6.c/6.e	28,500,904	29,150,574
Financial (income)/expenses	7 and 8	54,182,687	60,336,433
Badwill from acquisition		(79,034)	
2. Total adjustments		290,293,114	290,665,179
Change in net working capital			
Inventories	18	5,202,229	439,224
Trade receivables	19	15,933,325	(4,155,221)
Trade payables	36	15,248,969	(40,043,586)
Other current assets	24	(7,926,277)	9,487,655
Other current liabilities	40	(17,544,986)	(3,881,083)
Net tax receivables/(payables)	23 and 37	(10,096,179)	7,470,791
Increase / (decrease) in provisions for risks and charges and post-employment b	28, 29 and 35	(36,063,849)	(43,202,932)
Increase / (decrease) in provisions for deferred tax assets and liabilities	14	685,270	(43,077,324)
Other non-current assets	17	1,655,875	113,134
Other non-current liabilities	32	6,048,874	10,130,677
Financial income/(expenses) other than for financing	8	(68,510)	(1,124,218)
3. Total change in net working capital		(26,925,258)	(107,842,882)
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		445,960,746	388,321,316
Cash flow (used in)/generated by investing activities			
Net fixed assets		(299,546,488)	(234,006,127)
Equity investments	7 and 15	(10,008,765)	188,962
C) CASH FLOW (USED IN)/GENERATED BY INVESTING ACTIVITIES		(309,555,253)	(233,817,165)
D) FREE CASH FLOW (B+C)		136,405,493	154,504,151
Cash flow from financing activities			
Payment of dividends		(50,029,603)	(93,000,484)
Change in amortised cost	16, 27 and 34	2,010,432	2,107,372
Financial income/(expenses) relating to the FV of the derivative instrument from	7 and 8	(1,238,302)	(1,234,918)
Financial income for financing activities	8	423,811	2,153,218
Financial (expenses) for financing activities	8	(54,537,989)	(61,540,508)
Change in short-term and long-term financial debt	27 and 33	(21,750,625)	(322,698,286)
Receipts from debenture loan issues	27	100,000,000	
Debenture loan settlements	27 and 33	(267,100,000)	
Other non-current financial assets	16	496,673	12,774,057
Change in other financial receivables	20 and 21	(1,184,006)	(16,120,269)
Change in financial leases IFRS 16	31, 39 and 11	(7,237,356)	(6,891,173)
Change in other current financial payables	38	(2,951,664)	(3,037,507)
E) CASH FLOW FROM FINANCING ACTIVITIES		(303,098,629)	(487,488,498)
F) CASH FLOW FOR THE PERIOD (D+E)		(166,693,136)	(332,984,347)
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	22	186,727,477	353,280,848

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

5. Statement of Changes in Equity

Euro	Share capital and reserves							Total
	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year	
Total 31 December 2018	3,638,517	286,546,491	727,703	9,349,381	208,760,313	159,471,525	129,652,861	798,146,791
Allocation of income for 2018:								
Distribution of income						129,652,861	(129,652,861)	-
Payment of dividends						(93,000,484)		(93,000,484)
Total contribution from shareholders and payments to them as shareholders								<i>(93,000,484)</i>
- Other changes (merger of CGM-Servizi-Impianti)					25,250,131	(103,659)		25,146,472
Net income for the year recognised in equity				(3,964,387)	(660,742)			(4,625,128)
Net income for the year recognised in profit or loss							205,499,019	205,499,019
Total 31 December 2019	3,638,517	286,546,491	727,703	5,384,995	233,349,702	196,020,243	205,499,019	931,166,670
Allocation of income for 2019:								
Distribution of income						155,469,415	(155,469,415)	-
Payment of dividends							(50,029,603)	(50,029,603)
Total contribution from shareholders and payments to them as shareholders								<i>(50,029,603)</i>
Net income for the year recognised in equity				(27,352,275)	(227,666)			(27,579,941)
Net income for the year recognised in profit or loss							182,592,889	182,592,889
Total 31 December 2020	3,638,517	286,546,491	727,703	(21,967,280)	233,122,036	351,489,659	182,592,889	1,036,150,015

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

6. Notes to the Statutory Financial Statements of 2i Rete Gas S.p.A.

Format and contents of the Financial Statements

The company 2i Rete Gas S.p.A., operating in the gas distribution sector, is a public limited company and is located in Milan, Via Alberico Albricci, 10.

The territorial structure of the Company consists of six departments.

The departmental offices are:

- North West Department - Via Gazzoleto, 16/18 - 26100 Cremona (province of Cremona)
- North Department - Via Francesco Rismondo, 14 - 21049 Tradate (province of Varese)
- North East Department - Via Serassi, 17/Rs - 24124 Bergamo (province of Bergamo)
- Central Department - Via Morettini, 39 - 06128 Perugia (province of Perugia)
- South-West Department - Via Boscofangone snc - 80035 Nola (province of Naples)
- South East Department - Via Enrico Mattei - 72100 Brindisi (province of Brindisi)

The Directors of 2i Rete Gas S.p.A., on 29 March 2021, approved these consolidated financial statements and agreed to make them available to Shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.

For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 29 March 2021.

These consolidated financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The consolidated financial statements for the year ended 31 December 2020 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The above standards and interpretations are hereinafter referred to as "IFRS-EU".

Reporting and valuation criteria

The statutory financial statements consist of the Income statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes. The financial statements are presented in euro and the values shown in the Notes to the statutory financial statements are expressed in thousands of euro.

The reporting and valuation criteria are the same as those adopted to draw up the Consolidated annual financial report, to which reference should be made, except as indicated hereafter.

In the statutory financial statements, equity investments in subsidiaries, jointly controlled companies and associates are valued at purchase cost.

When there is objective evidence of impairment, the recoverability is checked by comparing the carrying value with the recoverable value represented by the greater of the fair value, net of disposal costs, and the value in use. Should the grounds which caused the impairment no longer exist, the value of the equity investment is restated, up to the limits of the original cost.

The dividends received by subsidiaries and associates are recognised through profit or loss.

The 2020 financial statements show income statement and balance sheet data of 2i Rete Gas S.p.A. following the merger, effective retroactively as from 30 April 2020, with subsidiaries Montelungo Gas S.r.l., Maierà Gas S.r.l. and Cometam Gas S.r.l. In view of the modest contribution of the three companies to the Company's financial situation, the statements are largely comparable with those of the previous year. Where necessary, comments will underline differences due to the aforesaid merger.

Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

5.a Revenue from sales and services – 705,952 thousand euro

"Revenue from sales and services" mainly refers to the gas transport activity and the connection fees.

Here is the breakdown of "Revenue from sales and services":

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Sales and services			
Third parties:			
Gas and LPG transport	644,930	654,204	(9,274)
Release / (Allocation) to the provision for risks	22,348	20,974	1,374
Connection fees	9,277	8,825	452
Ancillary fees	5,457	6,114	(656)
Revenue from the sale of water	397	456	(58)
Ancillary services - water sector	639	429	209
Revenue from customer operations	59	50	8
Sundry revenue and other sales and services	21,252	25,208	(3,956)
Group companies:			
Sundry revenue and other sales and services	1,593	1,655	(62)
Total revenue from sales and services	705,952	717,914	(11,962)

Revenue from gas transport totalled 644,930 thousand euro and mainly refer to the 2020 Tariff Revenue Cap for natural gas and LPG.

This figure was calculated based on publication of ARERA Resolution 570/2019/R/gas which indicated the means for calculating the tariffs for the 2020-2025 regulatory period. Following the positive outcome of the dispute concerning the tariff revision of certain concessions where plants are partially owned by third parties, the related provisions were further released in 2020, eliminating the estimated risk and having a positive impact on the income statement to the extent of 22,348 thousand euro.

Connection fees, totalling 9,277 thousand euro, slightly increased by 452 thousand euro compared to the previous year owing to higher business development in the year.

Revenues from the water sales sector (totalling 1,095 thousand euro) were up on the previous year, but it is noted that at year end all of the Company's water concessions were sold, so as to focus on the Company's core business.

"Sundry revenue and other sales and services" included revenue associated with the suspension and reactivation of customers in arrears at the request of the sales companies, which totalled around 5,646 thousand euro (7,396 thousand euro in the prior year), as well as 10,206 thousand euro in revenue relating to the TCol tariff component, compared to 11,905 thousand euro in the previous year.

It is noted that due to law provisions activity to suspend customers in arrears was stopped due to the ongoing health emergency.

Revenues from meter reading were down slightly on the previous year (5,187 thousand euro), when resolution 102/2016/R/com had granted a higher revenue level to distributors for meter readings required by a transfer of registration.

"Sundry revenue and other sales and services" from Group companies included all the amounts charged back by the Parent Company to subsidiaries as a result of operations and staff services provided in the year. The intercompany model in place since 1 July 2018 envisages that the Parent Company operates in an integrated way also on behalf of the subsidiaries, charging back a fee in line with the market for the services provided. They were down slightly over the year due to the lesser work for subsidiary Cilento, undergoing a slowdown in its methane-conversion activity over the territory due to the effects of the pandemic.

5.b Other revenue – 31,622 thousand euro

"Other revenue" totalled 31,622 thousand euro (50,501 thousand euro in 2019), decreasing by 18,880 thousand euro, essentially due to the net capital gain posted in the previous year for the sale of the company Murgia Reti Gas S.r.l. and relative networks and concessions. In detail, the costs were as follows:

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
Other revenue			
Third parties:			
Revenue from plant contributions	2,153	2,186	(33)
Revenue from contributions - R&D tax credit	115	838	(723)
Revenue from contributions - tax credit for extraordinary events	9		9
Contingent assets	1,923	243	1,680
Revenue from Resolution 574/13	16,329	14,040	2,289
Rental income	360	501	(141)
Capital gains from assets	1,902	16,161	(14,259)
Compensation for damages	139	202	(64)
Other revenue from water business	-	130	(130)
Other revenue and income and services	7,336	14,827	(7,490)
Revenue and contribution concerning photovoltaic plants	133	111	22
Group companies:			
Other revenue and services	1,224	1,263	(39)
Total other revenue	31,622	50,501	(18,880)

Revenue as per Resolution 574/2013/R/gas concerning the quality of gas distribution and metering services testifies to the continuous Company's focus on the technical quality of its services. The result depends on both the number of gas chromatography tests undertaken by the distributor (a parameter that the Company can control) and on the fall in leaks at the distributor's plant (a parameter which cannot be governed directly by the distributor except through continuous monitoring).

As already mentioned, the item "Capital gains on asset disposal" was comprised last year not just of the result of normal sales of assets no longer of use for productive activity but also the net capital gain relating to the sale of the equity interest in Murgia Reti Gas S.r.l., whereas this year it is comprised of an extraordinary item: the sale of the San Gillio and Givoletto concessions following the award of the ATEM Turin 2 tender to another operator.

"Other revenue and income and services" were in line with the previous year. The item mainly consists of revenue from operations with defaulting end customers, whose administrative management was delegated to the gas distributor and also includes reimbursements from suppliers for equipment under guarantee. In 2019 this item included approximately 4.5 million euro reimbursed by the Naturgy Group for a tax dispute, as agreed in the contract for the acquisition of associate company Nedgia S.p.A.

Finally, "Other revenues and services" referred to intercompany balances concerning a series of services that the Parent Company provides to its subsidiaries. The value is practically unchanged.

5.c Revenue from intangible assets / assets under construction – 289,017 thousand euro

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Revenue from intangible assets / assets under construction			
Revenue from intangible assets / assets under construction	289,017	275,607	13,410
Total revenue from intangible assets / assets under construction	289,017	275,607	13,410

As from 1 January 2010, the Company has been recognising this revenue pursuant to IFRIC 12 "Service Concession Arrangements".

Revenue from intangible assets and assets under construction represents the proportion of revenue directly attributable to the construction and enhancement of gas distribution networks held under concession. Since it is not possible to identify specific items related to network construction service within the tariff structure, they are estimated to correspond to costs for a similar purpose, with zero impact on operating margin.

The increase in this item was mainly due to a related increase in investments during the year, with the change in the scope of consolidation resulting from the merger with the subsidiary also playing a role to this end.

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.

The following table provides a summary of the items relating to the Company's operating costs in order to ensure their compliance with the aforementioned standard.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Costs relating to revenue from intangible assets / assets under construction			
Raw materials and consumables	7,617	6,155	1,462
Costs for services	167,801	142,590	25,211
Other operating costs	893	874	19
Depreciation	3,285	3,107	178
Capitalised costs for materials, personnel and services	109,421	122,881	(13,460)
<i>of which personnel costs</i>	<i>58,018</i>	<i>61,868</i>	<i>(3,850)</i>
<i>of which raw materials and consumables</i>	<i>51,402</i>	<i>61,012</i>	<i>(9,610)</i>
Total costs relating to revenue from intangible assets / assets under construction	289,017	275,607	13,410

6.a Raw materials and consumables – 67,282 thousand euro

“Costs of raw materials and consumables” and the changes thereto compared to the previous year are detailed below:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Raw materials and consumables			
<i>Third parties:</i>			
Costs for the purchase of gas, water and lubricants	2,652	3,276	(624)
Stationery and printed materials	126	179	(53)
Various materials	59,302	70,879	(11,578)
(Change in inventories of raw materials)	5,202	439	4,763
Total costs of raw materials and consumables	67,282	74,773	(7,491)
- of which capitalised for intangible assets	59,019	67,168	(8,148)
- of which capitalised for other internal work	862	996	(134)

“Costs of raw materials and consumables” essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes. This item fell significantly during the year due to the fall in purchases of meters, the installation of which was slowed down by the ongoing pandemic.

6.b Services – 284,001 thousand euro

“Costs for services” are broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	168,150	137,459	30,690
Costs for electricity, power and water	2,977	2,812	165
Gas (for internal use)	3,253	3,673	(420)
Telephone and data transmission costs	2,221	2,579	(358)
Insurance premiums	4,119	4,213	(94)
Costs for services and other expenses relating to personnel	3,506	4,734	(1,229)
Fees	659	680	(21)
Legal and notary costs	1,351	2,543	(1,192)
Costs for company acquisitions and disposals	872	45	828
Advertising	91	180	(89)
IT services	8,719	9,458	(739)
Meter reading service	4,070	4,153	(83)
Audit fees	530	641	(111)
Repairs and emergency service	3,485	5,634	(2,149)
Plant certifications Resolution no. 40	439	489	(51)
Gas transport by third parties	1,544	2,649	(1,105)
Professional and other services	5,120	5,466	(347)
Other costs for services	8,255	8,795	(541)
Group companies:			
Other costs for services	1	2	(1)
Costs for the use of third-party assets			
Third parties:			
Leases	858	1,208	(350)
Rentals	469	1,204	(735)
Other costs for the use of third-party assets	2,203	2,411	(208)
Fee for temporary occupation of public space (C.o.s.a.p.)	1,233	1,292	(59)
Municipal gas concession fees	59,877	61,908	(2,032)
Total costs for services	284,001	264,229	19,771
- of which capitalised for intangible assets	167,801	142,590	25,211

The aggregate figure of costs for services (also including costs for the use of third-party assets) grew compared to the previous year (264,229 thousand euro). This balance was affected by higher costs for investment activities, which were capitalised as per application of the IFRIC 12 interpretation. Net of capitalised costs, the item in question fell by around 5.4 million euro. This variation was the result of the following factors:

- a 30,690 thousand euro rise resulting from the increased maintenance activity on distribution networks in the year by third parties (for a better understanding

of the phenomenon, it should be noted that the capitalisations for intangible assets grew by 29,502 thousand euro);

- a decline of 255 thousand euro overall in the costs for utilities (electricity, water, gas, phone) compared to the previous year thanks to increased savings on gas costs;
- personnel services and costs fell by 1,229 thousand euro, due to the decline in mobility during the year;
- lower legal costs regarding acquisition/sale activities, lower consultancy costs and above all lower costs relating to defaulting activity;
- costs for IT and telephony services fell during the year due to the optimisation and digitalisation of services effected in the previous year;
- a general fall in meter reading and first response service costs, totalling about 2,232 thousand euro, due to the drop in fault reports; this was probably due to the lack of countrywide mobility;
- there was a fall in rent, hire and leasing costs of 1,085 thousand euro, thanks to a more careful policy on the use of real estate but also the provisions of standard IFRS16, which records some costs as depreciation and financial charges;
- a 2,032 thousand euro fall in concessionaire fees over the previous year which was negatively impacted by the merger with subsidiary 2i Rete Gas Impianti S.p.A.

It is noted that service costs still include the cost quota for those contracts whose fees do not fall within the scope of application of IFRS 16 (intra-annual or low-value leases).

6.C Personnel costs – 116,378 thousand euro

Personnel costs are broken down as follows:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Wages and salaries	85,130	88,677	(3,547)
Social security charges	25,958	27,267	(1,310)
Post-employment benefits	5,827	6,083	(256)
Asem/Fisde	(1)	(8)	7
Other personnel costs	(536)	(273)	(263)
Total personnel costs	116,378	121,746	(5,369)
Non-recurring personnel costs			
Incentives to leave	-	500	(500)
Total non-recurring personnel costs	-	500	(500)
Total personnel costs	116,378	122,246	(5,869)
- of which capitalised for intangible assets	58,018	61,868	(3,850)
- of which capitalised for other internal work	384	460	(76)

“Personnel costs” include all expenses incurred on an ongoing basis that, directly or indirectly, involve employees; this item fell by 5,869 thousand euro, while the number of employees fell by 49 units.

Capitalisation for intangible assets fell by 3,850 thousand euro, less than the overall drop in the costs in question.

The table below shows employee changes in the year by category.

	Executives	middle Manager	White collars	Blue collars	Total
Personnel as at 31 December 2019	33	112	1,257	655	2,057
Merger contribution	-	-	1	1	2
Increase	-	-	47	16	63
Decrease	(1)	(3)	(67)	(43)	(114)
Change in category	-	3	(1)	(2)	-
Personnel as at 31 December 2020	32	112	1,237	627	2,008

6.d Amortisation, depreciation and impairment losses – 199,601 thousand euro

Depreciation, amortisation and impairment losses totalled 199,601 thousand euro, against 203,427 thousand euro in the previous year.

It should be noted that, with the application of IFRIC 12, amortisation mainly concerns the rights over concessions in which the Company manages the gas distribution networks.

Amortisation due to the rights of use under IFRS 16 stood at 6,823 thousand euro and accounted for the portion of annual cost relating to the exclusive use of leased or rented assets that are subject to IFRS 16.

This item is broken down as follows:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Depreciation	5,403	7,334	(1,930)
Amortisation of IFRS 16 rights of use	6,823	6,724	99
Amortisation	187,190	185,542	1,648
Impairment losses:			
Impairment of tangible assets	-	557	(557)
Impairment of intangible assets	22	3,556	(3,533)
Write down of trade and other receivables	163	(285)	448
Total depreciation, amortisation and impairment losses	199,601	203,427	(3,826)

6.e Other operating costs – 49,278 thousand euro

“Other operating costs” fell by 6,745 thousand euro overall, 5,093 thousand euro of which for the recognition of the lower net overall economic impact for the purchase of energy efficiency certificates. It should be noted that effective 2018, expenses relating to these Certificates are shown net of the related revenue.

With regard to capital losses on assets sold, the drop in values (by 2,715 thousand euro) are the result of continuous work to replace older networks. This was compounded during the year by a slowdown in the replacement of traditional meters with smart meters due to the ongoing health emergency.

Capital losses were partly absorbed by the use of provisions specifically allocated for faulty meters that need replacing. It should also be stressed that a portion of the capital losses, where related to meters that at the date of replacement had not been fully amortised yet from a tariff perspective, is repaid by means of tariff based on an annual payment;

Provisions for risks and charges did not undergo significant change during the year; for a more detailed description of provision trends, consult point 29 (Provisions for risks and charges) in these notes.

In detail, the costs were as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Other operating costs			
<i>Third parties:</i>			
Remuneration of statutory auditors, Supervisory Body and Coi	99	122	(22)
Remuneration of members of the Board of Directors	254	257	(3)
Association fees	333	492	(159)
Contribution to the Supervisory Authority	237	243	(6)
Compensation to customers	930	930	0
Municipal tax on property	482	504	(21)
CCIAA (chamber of commerce) fees and duties	507	596	(89)
Net costs for energy efficiency certificates	4,355	9,449	(5,093)
Tax on the occupation of public space (Tosap)	1,637	1,620	17
Capital losses on the disposal of assets	9,852	12,567	(2,715)
Capital losses on the sale of assets	137	1,345	(1,208)
Local and sundry taxes	703	1,370	(667)
Other costs	7,076	3,953	3,122
(Net) provision for risks and charges	22,675	22,576	99
Total other operating costs	49,278	56,023	(6,745)
- of which capitalised for intangible assets	893	874	19

6.f Capitalised costs for internal work – (1,361) thousand euro

The item includes those residual costs which can be capitalised but do not concern concessions. In the specific case, the value mainly refers to capitalisations of concentrators, equipment for the communication network of the new smart meters which are not part of the assets linked to the concessions.

7. Income/(Expenses) from equity investments - 0 thousand euro

The item in question usually includes the income from investments in subsidiaries, associates and other companies. There was no such income during the year.

8. Financial income/(expenses) – (54,183) thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Financial income			
Third parties:			
- Interest and other income from non-current financial assets			
- Interest income from loans to employees	0	1	(1)
- Sundry financial income			
- Interest on arrears receivable	17	-	17
- Interest income from current accounts and post office deposits	22	1,854	(1,832)
- Interest income from receivables from customers	12	22	(10)
- Other financial interest and income	482	113	369
Group companies:			
- Interest income	402	299	103
Total income	935	2,289	(1,354)
Financial expenses			
Third parties:			
- Interest expense on medium/long-term loans	3,819	3,779	40
- Other expense on medium/long-term loans from banks	813	902	(89)
- Financial expenses on debenture loans	48,379	54,695	(6,317)
- Financial expenses from amortised cost	2,182	2,844	(662)
- Interest expense on short-term bank loans	0	0	0
- Interest expense on current bank accounts	-	0	(0)
- Discounting of post-employment and other employee benefits	430	756	(326)
- Interests on taxes	17	382	(365)
- Change in fair value of Interest Rate Swaps	-	20	(20)
- Change in fair value of hedging derivatives reclassified from comprehensive	(1,238)	(1,235)	(3)
- Other financial and interest expense	132	122	10
- IFRS16 Financial Expenses	544	523	21
Group companies:			
- Interest expense	40	32	8
Total expenses	55,118	62,821	(7,703)
TOTAL FINANCIAL INCOME AND (EXPENSES)	(54,183)	(60,531)	6,349

Net financial expenses of 54,183 thousand euro were mainly due to the recognition in the year of the interests relating to the loans and debenture loans, the related amortised cost, and the related negative change in fair value of the hedging derivative. At 31 December 2020, the Company had 2,771,818 thousand euro in loans outstanding, including 2,265,000 thousand euro in the four instalments of the debenture loan expiring between 2024 and 2027, as well as 506,818 thousand euro in bank debt.

9. Taxes – 74,636 thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
Current taxes			
Current income taxes: IRES	60,480	66,065	(5,584)
IREs substitute tax on realignment	-	17,727	(17,727)
Current income taxes: IRAP	13,349	14,995	(1,647)
Total current taxes	73,829	98,787	(24,958)
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	1,555	2,102	(547)
Positive adjustments for income taxes relating to previous years	(744)	(196)	(548)
Total adjustments for income taxes relating to previous years	811	1,906	(1,096)
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(3,392)	(5,852)	2,461
Prepaid taxes (allocation)/use	3,388	(35,735)	39,122
	<i>Total current deferred and prepaid taxes</i>		
	(4)	(41,587)	41,583
Total deferred and prepaid taxes	(4)	(41,587)	41,583
TOTAL TAXES	74,636	59,107	15,529

Income taxes for 2020 totalled 74,636 thousand euro, up 15,529 thousand euro year-on-year.

Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES of 60,480 thousand euro and IRAP of 13,349 thousand euro.

The previous year had been significantly impacted by the exemption of recorded goodwill following the reverse merger of 2i Rete Gas Impianti S.r.l. in 2i Rete Gas Impianti S.p.A., which in turn was merged with 2i Rete Gas S.p.A. Currents taxes rose by 17,727 thousand euro, while provisions for relative advances rose for the same reason by 31,606 thousand euro.

The tax impact of IRES for 2020 is equal to 23.5%.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in force during the year to pre-tax profit, without taking into account the adjustments from previous years:

Thousands of euro

	31.12.2020	31.12.2019
Pre-tax profit	257,229	264,606
Theoretical IRES taxes - 2020:	61,735	63,505
Lower taxes:	29,185	29,098
- capital gains from exempt equity investments	-	3,607
- release of contributions taxed in prior years	1,603	1,682
- use of provisions	5,900	12,073
- release of provisions	7,910	467
- reversal of statutory amortisation / depreciation not deducted in prior years	4,193	1,834
- deducted tax amortisation	5,723	-
- capital gains by instalments	-	17
- others	3,857	9,418
Higher taxes:	27,931	29,672
- allocations to provisions	10,456	9,720
- amortisation / depreciation on amounts that are not recognised for tax purposes	3,955	4,111
- statutory amortisation / depreciation exceeding the fiscal limits	11,282	10,307
- reversal of excess fiscal amortisation / depreciation deducted in prior years	761	1,195
- capital losses on the disposal / sale of assets	-	12
- capital gains by instalments	222	222
- partially deductible costs	508	449
- taxes	59	192
- others	688	3,464
Total current income taxes (IRES)	60,480	64,079
IRAP - 2020:	13,349	14,621
Difference on previous years' tax estimates	-	2,359
IRES substitute tax on realignment	-	17,727
Total deferred and prepaid taxes	(4)	(41,587)
TOTAL INCOME TAXES FROM CONTINUING AND DISCONTINUED OPERATIONS	73,825	57,201

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero, as in the previous year.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 35,665 thousand euro

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not related to gas distribution concessions.

The breakdown and changes in intangible assets in 2020 and 2019 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	11,947	29,749	9,261	23,025	52,220	13,527	4	139,732
Accumulated depreciation	0	(22,671)	(2,297)	(21,448)	(46,612)	(11,778)	-	(104,805)
Balance as at 31.12.2018	11,947	7,078	6,964	1,577	5,608	1,749	4	34,927
Merger contribution:	-	3,164	78	8	1,098	37	-	4,385
Gross value	-	10,583	95	1,893	4,773	162	-	17,505
Acc. Depr.	-	(7,418)	(17)	(1,885)	(3,675)	(125)	-	(13,120)
Increases (including Fixed assets classified as assets available for sale)	-	52	3,446	238	5,699	197	801	10,434
Commissioning	-	(2)	-	-	-	(2)	4	-
Gross value	-	(2)	-	-	-	(2)	4	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	(2,728)	(582)	(869)	(23)	(464)	-	-	(4,666)
Gross value	(2,728)	(6,540)	(1,077)	(517)	(4,131)	-	-	(14,993)
Acc. Depr.	-	5,957	207	494	3,668	-	-	10,326
Reclassifications	-	(59)	533	-	(455)	-	-	18
Gross value	-	(70)	2,425	-	(2,337)	-	-	18
Acc. Depr.	-	11	(1,892)	-	1,881	-	-	(0)
Impairment losses	(531)	(27)	-	-	-	-	-	(557)
Gross value	(531)	-	-	-	-	-	-	(531)
Acc. Depr.	-	(27)	-	-	-	-	-	(27)
Depreciation	-	(1,311)	(817)	(411)	(3,823)	(972)	-	(7,334)
Total changes	(3,259)	1,235	2,371	(188)	2,056	(740)	805	2,280
Historical cost	8,688	33,772	14,150	24,639	56,224	13,884	809	152,167
Accumulated depreciation	0	(25,459)	(4,815)	(23,250)	(48,561)	(12,874)	-	(114,959)
Balance as at 31.12.2019	8,688	8,313	9,335	1,390	7,663	1,010	809	37,207
Merger contribution:	-	-	-	0	7	-	-	7
Gross value	-	-	-	1	11	-	-	12
Acc. Depr.	-	-	-	(1)	(4)	-	-	(4)
Increases (including Fixed assets classified as assets available for sale)	-	3	2,692	748	1,455	76	118	5,094
Commissioning	-	2	-	-	748	18	(768)	-
Gross value	-	2	-	-	748	18	(768)	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	(759)	(13)	(445)	(1)	-	-	-	(1,218)
Gross value	(759)	(1,051)	(1,687)	(192)	(1,761)	-	-	(5,450)
Acc. Depr.	-	1,038	1,241	192	1,761	-	-	4,232
Reclassifications	-	-	(22)	-	-	-	-	(22)
Gross value	-	-	(1,600)	-	-	-	-	(1,600)
Acc. Depr.	-	-	1,578	-	-	-	-	1,578
Impairment losses	-	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-	-
Acc. Depr.	-	-	-	-	-	-	-	-
Depreciation	-	(840)	(857)	(552)	(2,650)	(504)	-	(5,403)
Total changes	(759)	(848)	1,367	196	(440)	(409)	(650)	(1,542)
Historical cost	7,929	32,727	13,555	25,196	56,678	13,979	159	150,222
Accumulated depreciation	0	(25,261)	(2,853)	(23,611)	(49,454)	(13,378)	-	(114,557)
Balance as at 31.12.2020	7,929	7,465	10,702	1,585	7,224	600	159	35,665

As at 31 December 2020, this item changed by (1,542) thousand euro. Increases in the year pertaining to investments came in at 5,094 thousand euro against disposals totalling 1,218 thousand euro and negative reclassifications totalling 22 thousand euro and, finally, depreciation totalling 5,403 thousand euro.

The investment made in property, plant and equipment is broken down as follows:

Thousands of euro	31.12.2020	31.12.2019
Increases for internal services	499	470
Increases for materials	862	984
Increases for external acquisitions / services	3,733	8,980
Total	5,094	10,434

The increase in plant and equipment, on the other hand, was due to the continuation of installation of concentrators, data reception and transmission equipment which is part of the smart meter communication network and is excluded from the scope of application of IFRIC 12 since it is not recognised as assets connected to the locations under concession.

In compliance with the provisions of art. 10 of Italian Law No. 72/83, the historical figures (expressed in thousands of euro) for the monetary revaluations included in the asset categories and contained in the item in question and in that for intangible assets are broken down below:

LAND		LAND CONC	
Revaluation Law 576/75	15	Revaluation Law 576/75	1
Revaluation Law 72/83	12	Revaluation Law 72/83	15
Revaluation Law 413/91	281	Revaluation Law 413/91	0
Revaluation Law 350/03	2,091	Revaluation Law 350/03	77
Total revaluations of land and buildings	2,399	Total revaluations of land and buildings	93
BUILDINGS		BUILDINGS CONC	
Revaluation Law 576/75	14	Revaluation Law 576/75	16
Revaluation Law 72/83	5	Revaluation Law 72/83	96
Revaluation Law 413/91	337	Revaluation Law 413/91	138
Revaluation Law 350/03	2,766	Revaluation Law 350/03	2,157
Total revaluations of land and buildings	3,122	Total revaluations of land and buildings	2,407
PLANT AND EQUIPMENT		INDUSTRIAL AND COMMERCIAL EQUIPMENT	
Revaluation Law 576/75	2,267	Revaluation Law 576/75	1
Revaluation Law 72/83	18,244	Revaluation Law 72/83	10
Revaluation Law 413/91	22	Revaluation Law 350/03	6
Revaluation Law 342/00	8,836	Total revaluations of industrial and commercial equ	17
Revaluation Law 350/03	493,506		
Total revaluations of plant and equipment	522,875		
OTHER ASSETS			
Revaluation Law 576/75	1		
Revaluation Law 72/83	11		
Revaluation Law 350/03	7		
Total revaluations of other assets	18		

12. Rights of use under IFRS 16 – 24,258 thousand euro

Following the application of IFRS 16, hire, rent and lease contracts which up to 2018 had a single representation with the impact of the fees paid in the year on the income statement (under Fees for use of third-party assets in costs for services), are represented in this item as rights of use of a particular asset. On initial recognition

the Group has determined which contracts corresponded to the characteristics required by IFRS 16 and assessed their value on the basis of the residual fees to be paid at 1 January 2019, duly discounted.

A financial obligation for a similar amount was held under liabilities in these financial statements, since the Company adopted the "Modified retrospective" approach for the reconciliation of values relating to the rights of use.

Here below is the table of changes in assets for 2020.

Thousands of euro	IFRS 16 Property	IFRS 16 Vehicles	IFRS 16 ICT	Total
Balance as at 31.12.2018	-	-	-	-
<i>First application of IFRS 16 as at 1 January 2019</i>	20,669	4,832	-	25,501
Gross value	20,669	4,832	-	25,501
Acc. Depr.	-	-	-	-
Increases (including Fixed assets classified as assets available for sale)	6,260	3,440	367	10,067
Disposals	-	(27)	-	(27)
Gross value	-	(27)	-	(27)
Acc. Depr.	-	-	-	-
Depreciation	(4,184)	(2,517)	(23)	(6,724)
Total changes	22,746	5,727	344	28,817
Historical cost	26,929	8,244	367	35,540
Accumulated depreciation	(4,184)	(2,517)	(23)	(6,724)
Balance as at 31.12.2019	22,746	5,727	344	28,817
Increases (including Fixed assets classified as assets available for sale)	2,923	835	-	3,758
Disposals	(1,402)	(92)	-	(1,494)
Gross value	(1,513)	(396)	-	(1,909)
Acc. Depr.	112	303	-	415
Depreciation	(4,394)	(2,337)	(92)	(6,823)
Total changes	(2,873)	(1,594)	(92)	(4,559)
Historical cost	28,339	8,683	367	37,389
Accumulated depreciation	(8,466)	(4,551)	(115)	(13,132)
Balance as at 31.12.2020	19,873	4,132	252	24,258

13. Intangible assets - 3,833,581 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions.

The breakdown and changes in intangible assets in 2019 and 2020 are shown below:

Thousands of euro	Patent and	Concessions	Concessions	Fixed assets	Other	Goodwill	Total
	intellectual property		and similar rights -	under construction	intangible		
	rights	and similar rights	Fixed assets r construction and adva	advances	assets		
Historical cost	96,346	5,612,068	18,836	4,022	130,183	142,974	6,004,429
Accumulated amortisation	(91,923)	(2,837,229)	-	-	(95,149)	-	(3,024,301)
Balance as at 31.12.2018	4,423	2,774,839	18,836	4,022	35,034	142,974	2,980,128
Merger contribution:	165	547,605	2,097	-	2,078	124,884	676,829
<i>Gross value</i>	170	1,043,788	2,097	-	13,448	124,884	1,184,386
<i>Acc. Amort.</i>	(5)	(496,183)	-	-	(11,369)	-	(507,557)
<i>Increases (including Fixed assets classified as assets available for sale)</i>	392	248,657	27,030	4,106	6,222	-	286,407
Commissioning	-	15,617	(15,617)	(3,057)	3,057	-	-
<i>Gross value</i>	-	15,617	(15,617)	(3,057)	3,057	-	-
<i>Acc. Amort.</i>	-	-	-	-	-	-	-
Decreases	-	(22,403)	(455)	(81)	-	-	(22,939)
<i>Gross value</i>	-	(74,568)	(455)	(81)	(1,623)	-	(76,727)
<i>Acc. Amort.</i>	-	52,165	-	-	1,623	-	53,788
Reclassifications	-	0	(18)	-	-	-	(18)
<i>Gross value</i>	-	0	(18)	-	-	-	(18)
<i>Acc. Amort.</i>	-	0	-	-	-	-	0
Impairment losses	-	(3,421)	(34)	(101)	-	(1,214)	(4,769)
<i>Gross value</i>	-	(3)	(34)	(101)	-	(1,214)	(138)
<i>Acc. Amort.</i>	-	(3,418)	-	-	-	-	(4,632)
Fixed assets classified as assets available for sale	-	(2,990)	(0)	-	-	-	(2,991)
<i>Gross value</i>	-	(3,738)	(0)	-	-	-	(3,739)
<i>Acc. Amort.</i>	-	748	-	-	-	-	748
Amortisation	(2,168)	(168,023)	-	-	(15,351)	-	(185,542)
Total changes	(1,610)	615,041	13,002	867	(3,994)	123,670	746,977
Historical cost	96,909	6,841,821	31,839	4,889	151,286	266,644	7,394,601
Accumulated amortisation	(94,096)	(3,451,940)	-	-	(120,246)	-	(3,667,496)
Balance as at 31.12.2019	2,813	3,389,881	31,839	4,889	31,040	266,644	3,727,105
Merger contribution:	-	2,797	10,062	-	293	761	13,914
<i>Gross value</i>	-	3,065	10,062	-	294	761	14,183
<i>Acc. Amort.</i>	-	(268)	-	-	(1)	-	(269)
<i>Increases (including Fixed assets classified as assets available for sale)</i>	472	263,037	25,980	1,612	10,497	-	301,598
Commissioning	-	34,496	(34,496)	(4,435)	4,435	-	-
<i>Gross value</i>	-	34,496	(34,496)	(4,435)	4,435	-	-
<i>Acc. Amort.</i>	-	-	-	-	-	-	-
Decreases	-	(21,691)	(17)	-	-	-	(21,708)
<i>Gross value</i>	(5)	(65,429)	(17)	-	-	-	(65,451)
<i>Acc. Amort.</i>	5	43,738	-	-	-	-	43,743
Reclassifications	-	102	-	(80)	-	-	22
<i>Gross value</i>	-	1,680	-	(80)	-	-	1,600
<i>Acc. Amort.</i>	-	(1,578)	-	-	-	-	(1,578)
Impairment losses	-	(4)	(19)	-	-	(134)	(156)
<i>Gross value</i>	-	(12)	(19)	-	-	(134)	(165)
<i>Acc. Amort.</i>	-	8	-	-	-	-	8
Fixed assets classified as assets available for sale	-	(2)	(1)	-	-	-	(3)
<i>Gross value</i>	-	(2)	(1)	-	-	-	(3)
<i>Acc. Amort.</i>	-	-	-	-	-	-	-
Amortisation	(1,721)	(172,923)	-	-	(12,547)	-	(187,190)
Total changes	(1,249)	105,813	1,509	(2,903)	2,679	627	106,476
Historical cost	97,375	7,078,657	33,347	1,986	166,513	267,271	7,645,149
Accumulated amortisation	(95,812)	(3,582,962)	-	-	(132,794)	-	(3,811,568)
Balance as at 31.12.2020	1,563	3,495,694	33,347	1,986	33,719	267,271	3,833,581

Intangible assets reflected the contribution resulting from the merger of the three subsidiaries that became effective on 30 April 2020. As can be seen, this merger resulted in 13,914 thousand euro being reflected in the Parent Company's accounts.

The investment campaign remained particularly significant in 2020 notwithstanding the Covid-19 pandemic, which required a review of development plans, bringing them into

line with the new situation. Investments in the year totalled 301,598 thousand euro; there were decreases of 21,708 thousand euro, reclassifications of 22 thousand euro and amortisation and losses in value totalling 187,346 thousand euro.

The item "Patent and intellectual property rights" is not significant in terms of amounts recognised, while the item "Concessions and similar rights" includes the amounts relating to the recognition of the Company's rights as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions. The figure must be read together with the related item "Fixed assets under construction". The total of the two items shows a final balance including the merger contribution and after accumulated amortisation of 3,529,041 thousand euro.

The amortisation of concession charges was determined on a straight-line basis and on the basis of the estimated realisable value at the end of the concession. The Company determined the terms of the concessions using the same criteria adopted in the previous year.

For concessions which have expired at the reporting date, and therefore are operating in an extension regime (prorogatio), the residual value has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that, pursuant to the Italian Ministry of Economic Development's Decree, of 19 January 2011 "Identification of local areas in the natural gas distribution sector" which came into force on 1 April 2011, according to art. 3, paragraph 3 of said Decree "as from the coming into force of this provision, the tenders for the assignment of the gas distribution service, as provided for by art. 14, paragraph 1, of Italian Legislative Decree No. 164 of 23 May 2000, for which the call for tender has not been published or for which the deadline for submitting offers has not expired, are awarded solely for the local areas established in Annex 1 forming an integral part of this provision" and that, in compliance with art. 14, paragraph 7 of Italian Legislative Decree No. 164/2000, "the outgoing operator, pursuant to art.14, paragraph 7, of Italian Legislative Decree No. 164 of 23 May 2000, in any case remains under obligation to continue managing the service until the start date of the new assignment".

"Assets under construction and advances", standing at 1,986 thousand euro, mainly accounted for the year's investments in software that the Company developed to ensure a better digital management of the network and corporate operations. In the year the item was greatly impacted by the definitive introduction of some systems that caused major transfers of assets in progress (4,435 thousand euro).

"Other intangible assets" of 33,719 thousand euro include other long-term costs, such as capitalised costs linked to the implementation of the remote reading system for smart meters.

"Goodwill" is equal to 267,271 thousand euro and is related to the deficit from the merger of companies which had previously been subsidiaries. Changes during the year included the recognition of goodwill booked following the merger with the three companies acquired and the write-off of concessions sold. This item was recognised in agreement with the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the Discounted Cash Flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use.

For the purposes of this estimate, the whole Group is considered as a Cash Generating Unit, consistently with the corporate vision.

In detail, cash flows are considered for a forecast period of 5 years, consistent with the 2i Rete Gas Group plan approved by the Board of Directors on 18 December 2020 and drafted on the going concern assumption, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the two main assumptions are:

- continuity in concession management, since the redefinition of the relevant local areas resulting from the territorial tenders will be a concrete opportunity for the Group to expand its business on the competitive market given its economic capacity, available credit lines, and top position in a market that is experiencing concentration;
- the continuous management of end customers, with the assumption of a further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years;

The discount rates applied, the forecast period over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

Tax Rate (2)	WACC (1)	Cash flow forecast period	TV (g) growth rate
28.6%	3.6%	2021 - 2025	0%

(1) Post-tax WACC is aligned to the average cost of financing of the best-performing peers in the sector

The value in use, determined in accordance with the aforementioned methods, was higher than the value of the net invested capital recorded in the financial statements.

The recoverability of the Group's invested capital was also confirmed by a further sensitivity analysis undertaken by considering possible changes in the key assumptions included in the business and financial plan used for the impairment test.

In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital), there would have to be damaging changes to the plan such as to reduce the net cash flows by around 20%, a percentage which is much higher than the reductions considered possible by the Group.

14. Net deferred tax assets – 132,689 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date. Deferred tax assets totalled 245,511 thousand euro, while deferred tax liabilities totalled 112,821 thousand euro.

Deferred tax assets and liabilities at 31 December 2020 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

The most significant changes during the year, other than usual changes peculiar to the conduct of the business, pertained to deferred tax assets, totalling 8,340 thousand euro owing to the recognition of the tax impact of the negative fair value of the held derivative.

Considering, among other things, the flows estimated in the most recent business plans, the Group believes it can use deferred tax assets in the ordinary course of business.

The table below details changes in deferred tax assets and liabilities by type of temporary difference, determined according to the tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

	At 31.12.2019	Balance after adjustments to Unico	Capital contributions from extraordinary operations during the year	Total	Increases recognised in		Decreases recognised in		Other changes		Balance as at 31.12.2020
					Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity	
Thousands of euro											
Deferred income tax assets:											
allocation to provisions for risks and charges, deferred deductibility	23,693	-	124	23,818	10,206	-	(14,011)	-	5	-	20,017
allocation to provisions for incentives to leave and stock options	481	-	-	481	-	-	(163)	-	0	-	318
allocation to provisions for disputes	3,574	-	-	3,574	380	-	(648)	-	15	-	3,321
allocation to provisions for inventory obsolescence	3,272	-	-	3,272	47	-	(49)	-	4	-	3,274
impairment losses with deferred deductibility (impairment of receivables)	2,591	-	-	2,591	31	-	(274)	-	-	-	2,348
impairment losses with deferred deductibility (impairment of plants)	1,898	-	-	1,898	-	-	-	-	2	-	1,900
depreciation and amortisation of tangible and intangible assets with def	116,248	(975)	-	115,273	11,371	-	(3,602)	-	(54)	-	122,987
separation of land-buildings and component analysis	114	-	-	114	-	-	-	-	0	-	114
start-up costs	2,224	-	-	2,224	-	-	-	-	0	-	2,225
Post-employment and other employee benefits	3,613	-	-	3,613	1,322	-	(846)	-	3	-	4,092
cash deductible taxes and duties	(0)	-	-	(0)	-	-	-	-	-	-	(0)
proceeds subject to deferred taxation (connection fees)	31,770	-	-	31,770	-	-	(292)	-	(91)	-	31,387
deferred deductibility charges	15,642	-	-	15,642	17	-	(478)	-	18	-	15,200
goodwill	32,746	-	-	32,746	-	-	(6,335)	-	33	-	26,445
post-employment benefits - Italian Accounting Body (OCI)	2,507	-	-	2,507	-	99	-	(22)	-	3	2,587
derivative financial instruments (in case of a net negative change in the	956	-	-	956	-	8,340	-	-	-	-	9,296
for losses recoverable in future years	0	-	-	0	-	-	-	-	(0)	-	0
Total	241,329	(975)	124	240,479	23,373	8,439	(26,697)	(22)	(65)	3	245,511
Deferred income tax liabilities:											
differences on tangible and intangible assets – additional depreciation and amortisation	20,324	-	-	20,324	224	-	(761)	-	4	-	19,791
differences on intangible assets – goodwill	5,107	(286)	-	4,822	-	-	-	-	1	-	4,823
separation of land-buildings and component analysis	3,821	-	-	3,821	-	-	-	-	5	-	3,826
allocation to assets of costs relating to company mergers	35,897	-	-	35,897	-	-	(2,076)	-	48	-	33,869
post-employment benefits	1,113	-	-	1,113	-	-	-	-	-	0	1,114
proceeds subject to deferred taxation	4,305	-	-	4,305	1,158	-	(222)	-	0	-	5,242
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	2,656	-	-	2,656	-	-	-	(297)	-	-	2,359
other...	1,074	-	-	1,074	33	-	(205)	-	1	-	903
Derivative financial instruments and ASEM - Italian Accounting Body (OCI)	90	-	-	90	-	34	-	-	-	0	124
recognition of deferred taxes due to merger	42,373	-	-	42,373	608	-	(2,261)	-	51	-	40,771
Total	116,762	(286)	-	116,476	2,023	34	(5,524)	(297)	110	0	112,821
Net deferred tax assets	124,568	(689)	124	124,003	21,351	8,405	(21,173)	275	(174)	3	132,689

15. Equity investments – 19,525 thousand euro

The following table shows the changes in the year for each equity investment, with the corresponding values at the beginning and end of the year, as well as the list of equity investments held in other companies.

The balance rose significantly following the acquisition of the equity interest in Powergas Distribuzione S.p.A., by 6,928 thousand euro. Variations pertained to the increase and parallel reduction following the purchase and subsequent merger of the three affiliated companies Montelungo Gas S.r.l., Cometam Gas S.r.l. and Maierà Gas S.r.l. in the Parent Company.

It should be noted that 2i Servizi Energetici S.r.l. was recapitalised during the year. This company engages in the development of energy saving services intended for municipalities and private companies. It should be noted that, although a 60% equity interest is held in the aforesaid company, it was not consolidated inasmuch as the Company does not have control thereof.

The list of equity investments and the change in their value during 2020 are reported on the following page.

Thousands of euro	Carrying amount	% ownership	Merger contribution	Increases for the period	Disposals	Other changes	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	at 31.12.2019		Changes in 2020			at 31.12.2020				
A) Subsidiaries										
2i Rete Gas Srl	6,906	100%					6,906	-	6,906	100%
Cilento Reti Gas Srl	2,580	100%					2,580	-	2,580	100%
Montelungo Gas Srl		100%	(147)	147			-	-	0	
Cometam Gas Srl		100%	(2,236)	2,236			-	-	0	
Maierà Gas Srl		100%	(167)	167			-	-	0	
2i Rete Dati Srl				20			-	20	20	100%
Powergas Distribuzione Spa				6,928			-	6,928	6,928	100%
Total subsidiaries	9,486		(2,551)	9,499	-	-	9,486	6,948	16,434	
B) Associates										
Melegnano Energie Ambiente SpA	2,451	40%					2,451	-	2,451	40%
2i Servizi Energetici Srl	6	60%		510			6	510	516	60%
Total associates	2,457		-	510	-	-	2,457	510	2,967	
C) Other companies										
Interporto di Rovigo S.p.A.	42	0.30%					42	-	42	0.30%
Fingrandia S.p.A. in liquidazione	26	0.58%					26	-	26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.27%					33	-	33	0.27%
Industria e Università S.r.l.	11	0.09%					11	-	11	0.09%
Terme di Offida Spa	1	0.19%					1	-	1	0.19%
Banca Popolare Pugliese	11	0.01%					11	-	11	0.01%
Total other companies	123		-	-	-	-	123	-	123	
TOTAL EQUITY INVESTMENTS	12,067		(2,551)	10,009	-	-	12,067	7,458	19,525	

The following tables show the list of equity investments in subsidiaries and their values as recognised in the Company's financial statements at 31 December 2020:

A) Subsidiaries	Registered office	Share Capital (euro)	Equity (euro)	Profit / (Loss)	End of the reporting period	% ownership	Carrying amount	Equity (ITA GAAP) (euro)
Zi Rete Gas SRL	Milan	50,000	8,645,190	588,440	31.12.2020	100.00%	6,906,000	8,645,190
Cliento Reti Gas Srl	Acquaviva delle Fonti (BA)	4,300,000	4,477,430	832,409	31.12.2020	60.00%	2,580,000	2,686,458
Zi Rete Dati Srl	Milan	20,000	N/A	N/A	N/A	100.00%	20,000	N/A
Powergas Distribuzione Spa	Milan	1,032,000	4,181,413	174,653	31.12.2020	100.00%	6,928,076	4,181,413

As regards associates, on the other hand, the values at 31 December 2020 were as follows:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income/loss in previous year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Melegnano Energie Ambiente Spa	Melegnano (MI)	4,800,000	8,255,357	4,971,614	205,807	31.12.2019	40%	2,451,467
Zi Servizi Energetici Srl	Milan	10,000	303,955	14,728	(402,286)	31.12.2020	60%	516,000

Finally, the equity investments in other companies at the same date were:

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income/loss in previous year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,702,070	1,618,607	160,311	31.12.2019	0.30%	41,634
Fingrandia S.p.A. in liquidazione	Cuneo	2,662,507	1,266,452	287	(71,575)	31.12.2019	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	23,079,108	22,751,056	993,441	29,755	31.12.2019	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,120,543	-	(36,769)	31.12.2019	0.09%	10,989
Terme di Offida Spa	Offida (AP)	141,384	16,123	-	(8,501)	31.12.2019	0.19%	548
Banca Popolare Pugliese	Parabita (Le)	184,256,208	327,039,839	124,472,764	8,257,942	31.12.2019	0.01%	11,127

16. Non-current financial assets – 735 thousand euro

The item mainly includes the prepayment of transaction costs incurred to obtain credit lines, unused at 31 December 2020, and fell due to the issue of a revolving credit line during the year.

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
Non-current prepaid financial expenses	551	869	(318)
Long-term loans to employees	12	18	(6)
Financial receivables due from others	171	660	(489)
Total	735	1,547	(813)

17. Other non-current assets – 56,020 thousand euro

The item includes the following entries:

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
security deposits	3,572	3,559	13
receivables for plant contributions	560	560	-
tax receivables reimbursements applied for	306	1,598	(1,292)
prepaid promotional expenses	66	86	(20)
from municipalities for disposals of assets due to expiration of concessions	5,063	5,883	(820)
Non-current receivables from CSEA	31,297	30,236	1,060
other non-current assets	15,303	15,895	(592)
bad debt provision	(147)	(147)	-
Total	56,020	57,671	(1,651)

Guarantee deposits totalled 3,572 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The 560 thousand euro receivable for grants to be received was attributable to the recognition of the medium/long-term portion of receivables for grants related to plants to be received: this item was unchanged during the year.

Tax receivable reimbursements applied for of 306 thousand euro relate to reimbursement requests pursuant to art. 6, Leg. Decree 185/2008 (deduction from IRES of the IRAP portion for labour costs and interest expense). This value fell in the year due to the recognition and relative payment of these receivables by the tax authorities.

The receivable due from municipalities for disposals of assets due to the expiration of concessions had a balance of 5,063 thousand euro. This was the result of similar disputes or proceedings ongoing with some municipalities in order to define the amount of the refund owed to the Company as outgoing operator for the relevant concessions and plants already ended. Actions at a local level continued to settle outstanding situations, albeit at a reduced pace compared with the previous year due to the ongoing health emergency, which made field work more difficult.

The balance of non-current receivables due from CSEA, totalling 31,297 thousand euro, referred to the amount payable to distribution companies for the conventional meters that must be replaced by smart meters under Resolution 155/09 but that had not yet been fully amortised through tariffs at the date of their replacement. The considerable amount was due to the intense replacement activity that has taken place in recent years and will be repaid by CSEA according to the timeframe set out in the resolution.

Finally, other non-current assets are in line with previous years' figures and included the balance of the advance payments of the fees that distribution companies must pay to contracting authorities for ATEM tenders (11,541 thousand euro at 31 December 2020), as

well as the remaining amount of the prepaid expenses for the lease payment paid in advance to the company API, which owns the networks operated in the municipality of Rozzano (2,500 thousand euro).

Current assets

18. Inventories – 18,307 thousand euro

Closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas distribution plants and, in particular, of the new smart meters.

The balance for this item was down on the previous year due to reduced meter activity performed because of the ongoing health emergency.

The item includes the provision for the write-down of inventories equal to 504 thousand euro. The provision was set up to take into account inventories with unlikely future use. The Company uses the weighted average cost method.

19. Trade receivables – 237,743 thousand euro

Trade receivables are broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Third-party customers:			
Receivables due from customers	236,865	254,290	(17,425)
- Bad debt provision	(8,058)	(8,305)	247
Receivables for returns under warranty	4,686	3,562	1,124
- Bad debt provision for returns under warranty	(646)	(646)	-
Total	232,847	248,901	(16,054)
Group companies:			
Receivables due from subsidiaries	4,896	3,943	952
Total	4,896	3,943	952
TOTAL	237,743	252,844	(15,101)

Receivables due from third-party customers consist of trade receivables and receivables from operations and include receivables relating to gas distribution and to the invoicing of the residual activities in the water sector.

Such receivables are recognised net of a 8,058 thousand euro bad debt provision.

As for the impact assessment pursuant to IFRS 9, the company did not consider it had to update its assessments since the guarantees hedging receivables significantly reduce the risk of insolvency.

Receivables for returns under warranty, which are recognised net of the relevant bad debt provision, concern receivables due from manufacturers of meters for non-functioning assets which have long-term warranties. The amount is stated net of the bad debt provision to take account of changed contractual conditions and findings which lead to the belief that the receivable is no longer collectible.

Changes in the bad debt provision are set out below.

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
As at 31 December 2019	8,305	6,829	1,477
Merger contributions		2,453	(2,453)
Allocations	941	650	291
Releases	(778)	(935)	157
Uses	(410)	(691)	280
As at 31 December 2020	8,058	8,305	(247)

The bad debt provision at 31 December 2020 was subject to taxes of 6,489 thousand euro.

The breakdown of receivables due from subsidiaries is as follows:

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
Receivables due from subsidiaries:			
2i Rete Gas S.r.l.	2,439	2,169	270
Powergas Distribuzione Spa	24	-	24
Cilento Reti Gas S.r.l.	2,433	1,774	659
TOTAL	4,896	3,943	952

All the Company's operations are in Italy.

20. Short-term financial receivables – 18,916 thousand euro

Short-term financial receivables consisted, to the extent of 16,946 thousand euro, of receivables from subsidiary Cilento Reti Gas S.r.l. relating to the intercompany loan contract executed during the year and, to the extent of 1,260 thousand euro, of financial receivables arising from the exercise of the right of withdrawal by Azienda Elettrica Valtellina e Valchiavenna, and 499 thousand euro from associate company 2i Servizi Energetici S.r.l. for a loan agreement entered into during the year.

21. Other current financial assets – 123 thousand euro

Other financial current assets include current financial receivables from subsidiary Cilentto Reti Gas S.r.l. (103 thousand euro) and from 2i Servizi Energetici S.r.l. (19 thousand euro).

22. Cash and cash equivalents – 186,727 thousand euro

Cash and cash equivalents fell by 166,553 thousand euro as a result of financial transactions completed during the year – especially the repayment of debenture loan instalments to the extent of 267 million euro – and thanks to normal operations.

Cash and cash equivalents are broken down as follows:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Bank deposits	185,828	352,921	(167,093)
Post office deposits	748	210	538
Cash in hand	152	150	2
Total	186,727	353,281	(166,553)

Cash associated with operating activities is held in bank and post office deposits.

23. Income tax receivables – 9,141 thousand euro

Income tax receivables due from Italian tax authorities largely included 7,924 thousand euro and 1,039 thousand euro in receivables for IRES and IRAP, respectively.

24. Other current assets – 204,428 thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Other tax receivables:			
VAT receivables reimbursements applied for	9,337	9,341	(4)
Receivables due from tax authorities for VAT	17,562	12,848	4,714
Other tax receivables	5	7	(2)
Other receivables:			
from social security and insurance agencies	492	1,538	(1,046)
receivables for plant contributions	1,608	2,485	(877)
from CSEA	165,610	160,039	5,571
Receivables from third parties for tender / concession expiration	2,410	1,299	1,111
from municipalities	246	246	-
from suppliers	3,290	3,827	(537)
Other receivables	2,550	4,854	(2,304)
- Provision for other doubtful debts	(2,647)	(2,913)	266
Accrued income	45	22	24
Deferred charges for other multi-year fees	18	21	(2)
Deferred charges for property lease fees	445	445	-
Deferred charges for promotional expenses	20	24	(4)
Deferred charges for insurance premiums	1,054	100	954
Other deferred charges	2,382	2,000	382
Total	204,428	196,182	8,246

The item rose by 8,246 thousand euro mainly due to the 5,571 thousand euro receivables due from CSEA compared to the previous year; these receivables include, in addition to the amount arising from the equalisation of the gas distribution service (43,889 thousand euro), the amount arising from receivables for the "non-commodity" UG2 and the Gas Bonus components (66,911 thousand euro overall) and the recognition of Technical Quality (42,943 thousand euro). This year receivables for EECs are not included in this item, having been sold on a non-recourse basis to a leading factoring company.

The item is always correlated with the payables due to the Compensation Fund reported in note 40 "Other current liabilities".

VAT receivables both for the period and for tax reimbursement rose overall by 4,714 thousand euro owing to normal business trends.

25. Assets held for sale – 0 thousand euro

In the year no assets were classified as held for sale. It is noted that last year this item had amounts relative to the ATEM Turin 2 concessions, which were handed over to the operator which was awarded the tender in January 2020.

Liabilities

Equity

26. Equity – 1,036,150 thousand euro

Equity rose by 104,983 thousand euro as a result of the following changes:

- decrease in the ordinary dividend pay-out for an overall amount of 50,030 thousand euro;
- decrease in reserves for valuation of derivatives (27,352 thousand euro relating to the fair value measurement of the derivative) and in other reserves (for 228 thousand euro relating to the discounting of defined benefits) owing to the profit for the year recognised directly in equity;
- 182,593 thousand euro increase in profit for the year.

Share capital – 3,639 thousand euro

The share capital at 31 December 2020 consisted of 363,851,660 ordinary shares and was entirely subscribed and paid up; there were no changes during the year.

Share premium reserve – 286,546 thousand euro

The reserve was established at the time of the capital increase, and did not change during the year.

Legal reserve – 728 thousand euro

The legal reserve amounted to 728 thousand euro and was unchanged, after it reached the legal limit.

Reserves for valuation of derivatives – 21,967 thousand euro

The reserve for valuation of derivatives came into being in 2016 following the signing of Forward Starting Interest Rate Swaps; during 2018, the swap was closed as planned, but the impact on profit or loss will be recognised on the basis of the element covered by the derivative, i.e. the interest expense of the debenture loan for the next 10 years. In addition to showing the residual value of the derivative contract no longer subject to fair value fluctuations (such contract to be released to the Income Statement in the following 10 years), valuation as at 31 December 2020 showed a negative fair value of the derivative contract – having characteristics similar to the one closed in 2018 – which was entered into during 2019 (-26,411 thousand euro net of the related tax impact).

Other reserves – 233,122 thousand euro

Other reserves show a change compared to the previous year (228 thousand euro) owing to the recognition of the impact of the actuarial valuation of the Company's defined benefit plan in equity.

Retained earnings – 351,490 thousand euro

Retained earnings rose 155,469 thousand euro from the previous year as the general meeting resolved to distribute part of the profit for 2019 and allocate the rest to this reserve.

Profit for the period – 182,593 thousand euro

The table relating to the availability and possibility of distributing equity is shown below:

	Amount	Possibility of use	Amount available	Amount unavailable
Share Capital	3,638,517		0	3,638,517
Share premium reserve	286,546,491	A,B,C	286,546,491	
Legal reserve	727,703	B	0	727,703
Other reserves	195,596,638	A,B,C	195,596,638	
Reserves other than merger surplus	129,286,428	A,B	129,286,428	
Reserves other than FTA	(86,021,234)		(86,021,234)	
Reserves other than post-employment benefit (TFR)	(5,739,795)		(5,739,795)	
Reserves other than derivative measurement	(21,967,280)		(21,967,280)	
Retained earnings (accumulated losses)	351,489,659	A,B,C	351,489,659	
Net income for the year	182,592,889	A,B,C	182,592,889	
Total	1,036,150,015		1,031,783,795	4,366,220

Non-current liabilities**27. Long-term loans – 2,744,422 thousand euro**

The item refers to the four instalments of the long-term debenture loan issued by the company expiring between 2024 and 2027 as part of the overhaul of its financial structure, as well as the loans outstanding with the European Investment Bank and another leading lender.

The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

	Balance		Notional Value		Effective in force	Effective interest rate
	31.12.2020	31.12.2019	31.12.2020	31.12.2019		
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	100,000	-	100,000	-	0.25%	0.25%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	163,636	181,818	163,636	181,818	Eur+0,59%	0.07%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2025	500,000	500,000	500,000	500,000	2.20%	2.29%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs connected to loans (long term)	(9,215)	(10,897)				
TOTAL LONG TERM	2,744,422	2,660,921	2,753,636	2,671,818		

The maturity schedule of financial liabilities, whether medium-/long-term (2,753,636 thousand euro notional) or short-term (54,609 thousand euro - see point 33 and 34 of these notes), is shown in the following table:

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	31.12.2020	31.12.2019			
Short and medium/long-term bank loans and debenture loans					
Financing - Medium/long-term Capex Line	488,636	406,818	-	172,727	315,909
Financing - Short-term Capex Line	18,182	58,182	18,182	-	-
Medium/long-term debenture loans	2,265,000	2,265,000	-	1,100,000	1,165,000
Debenture loans due within next year	-	267,100	-	-	-
Other non-interest-bearing short-term financial payables	36,427	-	36,427	-	-
Total	2,808,245	2,997,100	54,609	1,272,727	1,480,909

The debenture loan regulation, issued for a market of institutional investors, does not provide for covenants.

The loans taken out with the European Investment Bank are subject to some covenants calculated on the basis of the consolidated financial statements that the Company must meet to continue using the credit lines.

The covenants concern the following indicators:

- Total net financial debt;
- RAB (Regulatory Asset Base);
- EBITDA;
- Net Financial Expenses.

As at 31 December 2020 the company met all covenants.

28. Post-employment and other employee benefits – 40,195 thousand euro

The Group provides employees with various types of benefits, including post-employment benefits, health benefits, compensation due instead of notice of dismissal (Indennità Sostitutiva del Preavviso - ISP) and compensation due instead of energy discount (Indennità Sostitutiva Sconto Energia).

The item includes provisions for post-employment defined benefit plans and other long-term employee benefits required by law or contract.

Pursuant to IAS 19 Revised, these “defined benefit obligations” were determined using the “Projected Unit Credit Method”, which requires to calculate the liability in proportion to the service already rendered at the reporting date, and not the service that could presumably be rendered overall.

In detail, the plans provided for the following benefits:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Post-employment benefits	30,109	31,649	(1,540)
ASEM health service	1,475	1,602	(127)
Fondo GAS	8,611	10,308	(1,697)
TOTAL	40,195	43,559	(3,364)

An analysis of the main items is provided below.

Post-employment benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive post-employment benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.

Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of post-employment benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

Based on the Italian collective bargaining agreement for executives in the industrial sector, executives have the right to supplemental health care in addition to that provided by the Italian Health Service, during both the employment relationship and retirement. Asem and FASI, the health care fund set up for workers in Italy's electricity industry, reimburse medical expenses.

Fondo Gas

Italian Legislative Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the elimination of the so-called "Fondo Gas" (gas fund) as from 1 December 2015. The decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the 2014 contribution to Fondo Gas, for each full year or any part thereof that the person has been a member of the fund. The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid to Fondo Gas shall be paid in a lump sum at the time of the final wage.

The main assumptions in the actuarial estimates of employee benefit liabilities (Gas Provision and post-employment benefits) are set out below.

	31.12.2020	31.12.2019
Actuarial assumptions		
Discount rate	0.40%	1.00%
Annual rate of increase in cost of living	0.80%	1.00%
Rate of increase in cost of health spending	2.00%	2.00%
Demographic scenarios		
Mortality rate	ISTAT Table 2017	ISTAT Table 2017
Resignation rate < 50 years of age	2.00%	2.00%
Resignation rate > 50 years of age	nil	nil

29. Provisions for risks and charges – 7,355 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes of the Company, without taking into account the effects of disputes that could have a positive outcome and those for which a possible charge cannot be reasonably quantified.

The table below shows the total provisions for risks and charges (both the short-term and the medium-/long-term portion). The long-term portion is disclosed separately.

Thousands of euro	Of which current portion		Of which non-current portion	Merger contribution	Allocations	Releases	Uses	Other changes	Of which current portion		Of which non-current portion
	at 31.12.2019	at 31.12.2020							at 31.12.2019	at 31.12.2020	
Provisions for litigation and disputes	6,530	-	6,530	-	1,331	(1,302)	(970)	-	5,589	-	5,589
Provision for taxes and duties	1,423	-	1,423	-	1,062	(628)	(265)	-	1,591	-	1,591
Provisions for disputes with personnel	100	-	100	-	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	-	75	-	75
Provision for disputes on concessions	24,808	24,808	-	104	4,717	(3,270)	(473)	(5)	25,880	25,880	-
Other provisions for risks and charges	64,031	64,031	-	341	31,014	(27,606)	(17,766)	-	50,014	50,014	-
Total	96,966	88,839	8,128	446	38,124	(32,807)	(19,475)	(5)	83,250	75,895	7,355
Provisions for charges pertaining to leave incen	1,686	1,686	-	-	-	-	(571)	-	1,115	1,115	-
Total	98,652	90,525	8,128	446	38,124	(32,807)	(20,046)	(5)	84,365	77,010	7,355

Provisions for risks and charges amounted to 84,365 thousand euro overall. They consisted of a 77,010 thousand euro short-term portion and a 7,355 thousand euro long-term portion, and were broken down as follows:

- “Provisions for litigation and disputes”, 5,589 thousand euro, to cover contingent liabilities mainly arising from ongoing litigation cases;
- “Provision for taxes and duties”, amounting to 1,591 thousand euro, referred mainly to ongoing litigation or disputes concerning local taxes;
- “Provision for disputes with personnel”, amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in the year;

- “Provision for disputes on concessions”, totalling 25,880 thousand euro, generally includes the estimated costs associated with various disputes with municipalities. This line item rose by a net 104 thousand euro following the merger effective on 30 April 2020, and changes (including releases, uses and allocations) of an overall amount of 968 thousand euro in relation to requests made by municipalities to revise the agreed concession fees;
- “Other provisions for risks and charges”, amounting to 50,014 thousand euro, cover the costs that could potentially arise from the need for maintenance or replacement of meters not compliant with corporate standards; during the year the remainder of the fund covering the risk of variations to some tariffs relating to concessions where third-party ownership is involved was released. Finally, the provision also includes the allocation for the risk that the contribution to derecognise energy efficiency certificates does not cover the cost to purchase such certificates in order to comply with regulatory obligations up to May 2020 to the tune of 6,716 thousand euro;
- “Provision for charges pertaining to incentives to leave”, totalling 1,115 thousand euro, addresses possible liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started during the year and are still under way.

The fiscal position of the Group has been defined up to 2014.

30. Non-current financial liabilities – 38,753 thousand euro

As at 31 December 2020, non-current financial liabilities reflected the negative fair value of the derivative contract opened by the Parent Company during the year.

31. Non-current financial liabilities IFRS 16 – 18,395 thousand euro

This item included financial liabilities falling due after 12 months deriving from the application of IFRS 16, i.e. payables arising from future leases that the Company will have to pay for the exclusive use of those assets whose hire, rental or lease contracts fall under the application of the aforesaid standard.

The table below shows details of maturities broken down by short, medium and long-term debt and by type of contract.

	Present value of IFRS 16 cash flows 31.12.2020	1 year	2 - 5 years	beyond 5 years
ST/LT IFRS 16 Financial liabilities				
Non-current IFRS 16 financial liabilities	18,395	-	12,906	5,489
IFRS 16 Property			9,827	5,489
IFRS 16 Vehicles			2,915	-
IFRS 16 ICT			164	-
Current IFRS 16 financial liabilities	5,281	5,281	-	-
IFRS 16 Property		3,904		
IFRS 16 Vehicles		1,285		
IFRS 16 ICT		91		
Total	23,676	5,281	12,906	5,489

32. Other non-current liabilities – 326,676 thousand euro

The item includes the following entries:

Thousands of euro	31.12.2020	31.12.2019	2020 - 2019
Deferred income:			
payables to social security and insurance agencies	2,137	2,137	-
other payables	361	361	-
Deferred income for plant contributions	41,491	43,314	(1,823)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	282,687	274,676	8,011
Total other non-current liabilities	326,676	320,488	6,188

The change in deferred income is part of normal operations. The item must be read together with the short-term portion of "Other current liabilities".

Non-current liabilities

33. Short-term loans – 41,036 thousand euro

The item in question refers primarily to non-recourse receivables sold to the factoring company and in any case collected by the Company, pending their transfer to the factoring company as per the sale contract.

Specifically:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
short-term payables due to banks	-	40,000	(40,000)
intercompany financial payables	4,609	4,605	4
non-bank short-term payables due to third parties	36,427		36,427
short-term debenture loans	-	267,088	(267,088)
Total	41,036	311,693	(270,657)

34. Current portion of medium/long-term bank loans – 18,182 thousand euro

As at 31 December 2020, this item reflected the total instalments of the loan due to the EIB, the repayment of which was contractually scheduled to fall due within the following 12 months.

35. Current portion of long-term provisions and short-term provisions – 77,010 thousand euro

The line item represents the current portion of the Company's provisions for risks. Comments and details on this item are provided in the section on provisions for risks and charges (note 29).

36. Trade payables – 206,420 thousand euro

This item includes all trade and operating liabilities of certain amount and timing. This item increased by 27,614 thousand euro compared to the previous year.

The breakdown of trade payables to third-party suppliers is set out below.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Suppliers	206,163	178,546	27,617
Total	206,163	178,546	27,617
Payables due to subsidiaries	258	261	(3)
Total	258	261	(3)
Total	206,420	178,807	27,614

Payables due to third-party suppliers increased, compared to the previous year, by 27,617 thousand euro under normal operating trends. As in previous year, the balance at 31 De-

December 2020 mainly consists of residual amount payable to companies to which gas distribution plant construction and maintenance is outsourced, to suppliers of materials and for the purchase of electricity and gas service for internal use.

As regards dealings with subsidiaries, the relevant payables are shown below:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Subsidiaries:			
Cilento Reti Gas S.r.l.	258	261	(3)
Total	258	261	(3)
TOTAL	258	261	(3)

37. Income tax payables – 543 thousand euro

At 31 December 2020, the Company had a debit balance due to the trend in the payments made on account.

38. Current financial liabilities – 17,076 thousand euro

Current financial liabilities mostly refer to the interest expense accrued and not yet paid relating to the three instalments of the debenture loan. They fell during the year thanks to the reimbursement in January 2020 of one of the maturing debenture loan tranches.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
Accrued liabilities for interest on short-term bank loans	16,363	19,350	(2,988)
Other current financial payables	703	675	28
Other Group's current financial payables	10	2	8
Total	17,076	20,027	(2,952)

39. Non-current financial liabilities – 5,281 thousand euro

As at 31 December 2020, this item included financial liabilities falling due within 12 months deriving from the application of IFRS 16. A breakdown of maturities by type of contract is provided under 31 above.

40. Other current liabilities – 200,364 thousand euro

Other current liabilities fell in the year by 17,507 thousand euro, mainly due to the decrease in "Other payables", an item which also includes the payable due to the Fund for

Energy and Environmental Services (CSEA) for the items relating to various tariff components and the decrease in deferred income.

Other current liabilities are set out below:

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
other tax payables	3,844	4,189	(345)
payables to social security and pension agencies	10,446	11,479	(1,033)
other payables	170,995	187,009	(16,014)
accrued liabilities	4,105	4,285	(180)
deferred income	10,975	10,909	66
Total	200,364	217,871	(17,507)

Other tax payables, amounting to 3,844 thousand euro, are set out below.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
due to tax authorities for VAT	268	318	(50)
due to tax authorities for taxes withheld from employees	3,517	3,809	(292)
due to tax authorities for withholding taxes	58	62	(4)
other payables to tax authorities	0	0	(0)
Total	3,844	4,189	(345)

Payables to welfare and social security agencies, amounting to 10,446 thousand euro, are set out below.

Thousands of euro			
	31.12.2020	31.12.2019	2020 - 2019
due to INPS	9,087	9,449	(362)
due to other agencies	1,359	2,030	(671)
Total	10,446	11,479	(1,033)

Other payables, amounting to 170,995 thousand euro, are set out below.

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
Payables to employees	12,376	13,516	(1,140)
Payables to municipalities for rights and fees	305	405	(100)
Payables for connections and other payables to customers	2,584	2,521	63
Payables for security deposits and user advances	2,933	2,600	333
Payables to CSEA	145,909	161,277	(15,368)
Other payables	6,888	6,689	198
Total	170,995	187,009	(16,014)

Payables to the Fund for Energy and Environmental Services (CSEA) consist of 92,778 thousand euro payables for the entries that are transferred to the trading companies through the invoicing mechanism and then paid to CSEA, generally on a bi-monthly basis (UG1, UG2, UG3, Gs, Re and Rs), 21,616 thousand euro payables relating to the equalisation amount for the current year and 15,944 thousand euro payables relating to the equalisation amount for previous years mainly due to equalisation adjustments. This item must be read also in light of the relevant receivables due from CSEA included under Other current assets.

Accruals and deferred income, amounting to 15,080 thousand euro, are set out below.

Thousands of euro

	31.12.2020	31.12.2019	2020 - 2019
Accrued liabilities			
Additional monthly accrual for employees	3,255	3,315	(60)
Other accrued liabilities	850	970	(120)
Total accrued liabilities	4,105	4,285	(180)
Deferred income			
Deferred income for plant contributions	2,126	2,145	(19)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	8,838	8,751	87
Property subdivision contributions	2,079	2,108	(29)
Connection fees	6,758	6,642	116
Other deferred income	11	13	(3)
Total deferred income	10,975	10,909	66
Total accrued liabilities and deferred income	15,080	15,194	(114)

25. Liabilities held for sale – 0 thousand euro

At 31 December 2020 no amounts were classified as Liabilities held for sale. In the previous year this item had a balance of 139 thousand euro owing to liabilities relating to the ATEM Turin 2 concessions, which were disposed of in January 2020.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

The following were defined as related parties for 2020:

- F2i SGR S.p.A. - as the operating company of "F2i - Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i - Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato ad investitori qualificati")
- F2i SGR S.p.A. - as the operating company of "F2i - Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i - Secondo Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato a investitori qualificati")
- Finavias S.ar.l.
- MEA S.p.A.
- Cilento Reti Gas S.r.l.
- 2i Rete Gas S.r.l.
- 2i Servizi Energetici S.r.l.
- Powergas Distribuzione S.p.A.
- APG Infrastructure Pool 2017 II

The definition of related parties also includes key management personnel, including their close relatives, of the Company as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the Company exercises considerable influence. Key management personnel are those who have direct and indirect power and responsibility for planning, management, and control of company operations, including the chief executive officer and the managers reporting to him, as well as Directors and Auditors.

The Group has a centralised cash management system equipped with intercompany current accounts as well as a tax consolidation contract which generates financial movements.

All the commercial balances are for transactions at market values.

Trade, financial and other transactions involving the Company, its parent companies and its subsidiaries are shown below.

Trade and other transactions

Year 2020

Thousands of euro	Trade		Costs	Trade	
	Receivables	Payables		Revenue	Revenue
F2i sgr Spa	-	20	80	-	-
MEA S.p.A	9	-	-	9	-
Cilento Reti Gas Srl	2,433	258	242	1,369	-
2i Rete GAS S.r.l.	2,439	-	-	1,424	-
2i Servizi Energetici Srl	57	15	15	56	-
Powergas Distribuzione Spa	24	-	-	24	-
APG Infrastruttura Pool 2017 II	-	20	20	-	-
Key management personnel, including directors and statutory auditors	-	38	2,563	-	-
Total	4,961	351	2,920	2,881	

Year 2019

Thousands of euro	Trade		Costs	Trade	
	Receivables	Payables		Revenue	Revenue
F2i sgr Spa	-	20	77	-	-
MEA S.p.A	2	-	-	9	-
Cilento Reti Gas Srl	1,774	261	2	1,603	-
2i Rete GAS S.r.l.	2,169	-	-	1,315	-
2i Servizi Energetici Srl	128	3	3	128	-
Cioccarelli e Associati Srl	-	1	1	-	-
APG Infrastruttura Pool 2017 II	-	40	40	-	-
Key management personnel, including directors and statutory auditors	-	101	3,564	-	-
Total	4,073	426	3,688	3,055	

Financial transactions

Year 2020

Thousands of euro	Financial		Costs	Financial	
	Receivables	Payables		Revenue	Dividends paid
F2i - Terzo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	31,969
F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	4,056
Finavias S. à r.l.	-	-	-	-	13,975
Cilento Reti Gas Srl	17,228	154	-	402	-
2i Rete GAS S.r.l.	154	4,797	40	-	-
2i Servizi Energetici Srl	518	-	-	38	-
Key management personnel, including directors and statutory auditors	-	-	-	-	-
Total	17,900	4,951	40	440	50,000

Year 2019

Thousands of euro	Financial Receivables	Financial Payables	Costs	Financial Revenue	Dividends paid
F2i - Terzo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	59,427
F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	7,540
Finavias S. à r.l.	-	-	-	-	25,978
MEA S.p.A	-	-	-	196	-
Cilento Reti Gas Srl	15,774	-	-	299	-
2i Rete GAS S.r.l.	258	4,607	-	32	-
Key management personnel, including directors and statutory auditors	-	-	-	-	-
Total	16,032	4,607	32	495	92,945

Key information regarding subsidiaries are shown below:

Equity investments

2i Rete Gas S.r.l.

Share capital - 50,000 euro

Registered office: Milan

Equity investment: 100%

2i Rete Gas S.r.l. is the concession operator of the natural gas distribution service in the municipality of Cinisello Balsamo.

The financial statements at 31 December 2020 showed a profit of 588 thousand euro and equity of 8,645 thousand euro.

Cilento Reti Gas S.r.l.

Share capital - 4,300,000 euro

Registered office: Acquaviva delle Fonti

Equity investment: 60%

Cilento Reti Gas S.r.l. is concessionaire for the natural gas distribution service in 28 municipalities in the Cilento area.

The financial statements at 31 December 2020 showed a profit of 832 thousand euro and equity of 4,477 thousand euro.

Powergas Distribuzione S.p.A.

Share capital - 1,032,000 euro

Registered office: Milan

Equity investment: 100%

Powergas Distribuzione S.p.A. is concessionaire for the natural gas distribution service in 8 municipalities in Campania and Calabria. On 1 January 2021 the company was merged with 2i Rete Gas S.p.A.

The financial statements at 31 December 2020 showed a profit of 175 thousand euro and equity of 4,181 thousand euro.

2i Rete Dati S.r.l.

Share capital - 20,000 euro

Registered office: Milan

Equity investment: 100%

2i Rete Dati is a company created to maximise the know-how acquired by the Group in managing the data transmission infrastructure during the network's development to collect smart meter readings.

The first accounting period will close on 31 December 2021.

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no significant extraordinary events or operations during the year which have not already been disclosed in this document.

Positions or transactions arising from atypical and/or unusual operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no positions or transactions arising from atypical and/or unusual operations during the year.

Fees for Directors, auditors and key management personnel

In 2020, the fees for directors, auditors and key management personnel, totalling 2,563 thousand euro, included 57 thousand euro in Auditors' fees, 254 thousand euro in Directors' fees and the rest refers to key personnel's fees.

Public grants received

With reference to the changes introduced by Italian Law 124 of 4 August 2014 "Annual competition law", art. 1 para. 125-129, during 2020, the following grants relating to the construction of gas networks were received from public bodies.

Euro			
Name	Prov.	at 31.12.2020	Type
MUNICIPALITY OF MAIERA	CS	18,146	PLANT CONTRIBUTIONS
MUNICIPALITY OF ACQUARO	VV	105,699	PLANT CONTRIBUTIONS
MUNICIPALITY OF ARENA	VV	70,320	PLANT CONTRIBUTIONS
MUNICIPALITY OF DASA'	VV	108,045	PLANT CONTRIBUTIONS
MUNICIPALITY OF GEROCARNE	VV	130,980	PLANT CONTRIBUTIONS
MUNICIPALITY OF PIZZONI	VV	138,077	PLANT CONTRIBUTIONS
MUNICIPALITY OF SORIANELLO	VV	73,691	PLANT CONTRIBUTIONS
MUNICIPALITY OF SORIANO CALABRO	VV	253,084	PLANT CONTRIBUTIONS
MUNICIPALITY OF VAZZANO	VV	61,919	PLANT CONTRIBUTIONS
MUNICIPALITY OF RIPA TEATINA	CH	18,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF BASCIANO	TE	33,752	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CADREZZATE	VA	18,262	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CAPPELLE SUL TAVO	PE	8,254	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTEL CASTAGNA	TE	15,592	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTELLALTO	TE	13,440	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CERMIGNANO	TE	12,035	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF ISOLA DEL GRAN SASSO	TE	13,894	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF L'AQUILA	AQ	93,408	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF PENNA SANT'ANDREA	TE	18,905	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF POLLUTRI	CH	25,680	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF R. DI CAMBIO R. DI MEZZO	AQ	363,558	CONTRIBUTIONS ABRUZZO RL 25/95
MUNICIPALITY OF TERAMO	TE	498,443	CONTRIBUTIONS ABRUZZO RL 25/95
MUNICIPALITY OF TORANO NUOVO	TE	5,638	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORNIMPARTE	AQ	7,656	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TOSSICIA	TE	8,934	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF LUCOLI	AQ	30,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
GSE - Gestore Servizi Energetici SpA		86,861	
Total public contributions collected		2,232,272	

Contractual commitments and guarantees

The Company provided 117,823 thousand euro in guarantees to third parties. These guarantees include 93,095 thousand euro in bank guarantees and 24,728 thousand euro in insurance and other guarantees.

These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.

Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Group's financial statements.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Business combinations

During 2020 Montelungo Gas S.r.l., Maierà Gas S.r.l. and Cometam Gas S.r.l. were acquired and merged.

For further details refer to the paragraph "Acquisition of Montelungo Gas S.r.l., Cometam Gas S.r.l. and Maierà Gas S.r.l." in the Annual Financial Report - Consolidated Financial Statements

Credit, liquidity and market risk

Credit risk

Zi Rete Gas provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.

In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2020.

User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by sales companies.

As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.

Outstanding guarantees and security deposits on trade receivables totalled 214,962 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant bad debt provision.

As at 31 December 2020, maximum exposure to credit risk stood at 685.3 million euro, showing a drop due to the payment of an installation of the debenture loan reaching maturity.

Millions of euro

	31.12.2020	31.12.2019	2020 - 2019
Third parties:			
Non-current financial assets	0.7	1.5	(0.8)
Other non-current financial assets (gross of bad debt provision)	56.2	57.8	(1.7)
Trade receivables (gross of bad debt provision)	241.6	257.9	(16.3)
Other current financial assets	1.8	2.2	(0.4)
Cash and cash equivalents	186.7	353.3	(166.6)
Other receivables (gross of bad debt provision)	176.2	174.3	1.9
Group companies:			
Trade receivables	4.9	3.9	1.0
Short-term financial receivables	17.2	15.6	1.6
Total	685.3	866.6	(181.3)

Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, 2i Rete Gas is able to autonomously meet the financial requirements of its ordinary operations and to ensure business continuity.

In addition to the debenture loans to be issued between 2024 and 2027, two loans have been taken out with the European Investment Bank, and one with a leading Italian bank.

In order to properly disclose liquidity risk as required by IFRS 7, here below are the characteristics of the company's debt.

The contractual maturities of the financial liabilities outstanding at 31 December 2020 are set forth below:

Millions of euro	1 year	2 - 5 years	beyond 5 years
Financial liabilities as at 31 December 2020			
Long-term loans	-	172.7	315.9
Medium/long-term debenture loans	-	1,100.0	1,165.0
Short-term loans	41.0		
Current portion of long-term loans	18.2		
Other long-term financial liabilities	38.8		
Other short-term financial liabilities	17.1		
Non-current IFRS 16 financial liabilities		12.9	5.5
Current IFRS 16 financial liabilities	5.3		
Total	120.3	1,285.6	1,486.4

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2019 are set forth below:

Millions of euro	1 year	2 - 5 years	beyond 5 years
Financial liabilities as at 31 December 2019			
Long-term loans		72.7	334.1
Medium/long-term debenture loans		600.0	1,665.0
Short-term debenture loans	267.1		
Short-term loans	44.6		
Current portion of long-term loans	18.2		
Other long-term financial liabilities	4.0		
Other short-term financial liabilities	20.0		
Non-current IFRS 16 financial liabilities		11.5	11.0
Current IFRS 16 financial liabilities	6.1		
Total	360.0	684.2	2,010.1

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.

It should be noted that loans are subject to a periodical check on the compliance with some financial parameters at consolidated level.

As at 30 December 2020, the Company met all of the covenants.

"Medium-/long-term debenture loans", totalling 2,265 million euro, refer to the aforementioned instalments issued by 2i Rete Gas and expiring between 2024 and 2027.

The Company's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance

with the financial covenants established by the lending banks, the Company should not face any problems in obtaining said refinancing.

The Company constantly monitors opportunities to optimise its financial structure. For an in-depth analysis of long-term loans, see note 27 in these financial statements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices as a result of changes in exchange rates, interest rates, or the prices of equity instruments.

Transactions that qualify for hedge accounting pursuant to the requirements of the accounting standards are designated as hedging transactions, while those that do not meet such requirements are classified as trading transactions, even though, from a management point of view, they have been entered into for hedging purposes.

As at 31 December 2020, the company did not hold any derivative trading contracts, while in 2019 it entered into an active hedging contract at the end of the year.

In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value at 31 December 2020. The company has no financial assets held to maturity, available for sale or held for trading.

Thousands of euro	Notes	carrying amount				Total	Fair value
		Measured at fair value	Derivatives	Receivables	Available for sale		
Financial assets measured at fair value							
Non-current financial assets	16	-	-	-	-	-	-
Financial assets not measured at fair value							
Non-current financial assets	16	-	-	735	-	735	735
Other non-current assets	17	-	-	55,954	-	55,954	55,954
Trade receivables	19-25	-	-	237,743	-	237,743	237,743
Short-term financial receivables	20	-	-	18,916	-	18,916	18,916
Other current financial assets	21	-	-	123	-	123	123
Cash and cash equivalents	22	-	-	186,727	-	186,727	186,727
Other current assets	24	-	-	200,508	-	200,508	200,508
TOTAL ASSETS		-	-	700,705	-	700,705	700,705
Financial liabilities measured at fair value							
IRS Derivatives	38	-	38,753	-	-	38,753	38,753
Financial liabilities not measured at fair value							
Long-term loan	27-34	-	-	-	488,636	488,636	488,636
Medium/long-term debenture loans	27	-	-	-	2,255,785	2,255,785	2,471,828
Non-current IFRS 16 financial liabilities	31	18,395	-	-	-	18,395	18,395
Other non-current liabilities	32	-	-	-	361	361	361
Short-term loans	33-34	-	-	-	59,218	59,218	59,218
Trade payables	36-25	-	-	-	206,420	206,420	206,420
Current financial liabilities	38	-	-	-	16,373	16,373	16,373
Current IFRS 16 financial liabilities	39	5,281	-	-	-	5,281	5,281
Other current liabilities	40	-	-	-	189,389	189,389	189,389
TOTAL LIABILITIES		23,676	38,753	-	-	3,216,183	3,278,612

In order to enable comparison, we propose the same table as the one used in 2019:

Thousands of euro	Notes	carrying amount					Total	Fair value
		Measured at fair value	Derivatives	Receivables	Available for sale	Other financial liabilities and payables		
Financial assets measured at fair value								
Non-current financial assets	16	-	-	-	-	-	-	
Financial assets not measured at fair value								
Non-current financial assets	16	-	-	1,547	-	1,547	1,547	
Other non-current assets	17	-	-	57,585	-	57,585	57,585	
Trade receivables	19-25	-	-	252,844	-	252,844	252,844	
Short-term financial receivables	20	-	-	16,885	-	16,885	16,885	
Other current financial assets	21	-	-	969	-	969	969	
Cash and cash equivalents	22	-	-	353,281	-	353,281	353,281	
Other current assets	24	-	-	193,592	-	193,592	193,592	
TOTAL ASSETS		-	-	876,704	-	876,704	876,704	
Financial liabilities measured at fair value								
IRS Derivatives	38	-	4,001	-	-	4,001	4,001	
Financial liabilities not measured at fair value								
Long-term loan	27-34	-	-	-	406,818	406,818	406,818	
Medium/long-term debenture loans	27	-	-	-	2,254,103	2,254,103	2,443,705	
Short-term debenture loans	33	-	-	-	267,088	267,088	267,097	
Non-current IFRS 16 financial liabilities	31	22,539	-	-	-	22,539	22,539	
Other non-current liabilities	32	-	-	-	361	361	361	
Short-term loans	33-34	-	-	-	62,786	62,786	62,786	
Trade payables	36-25	-	-	-	178,807	178,807	178,807	
Current financial liabilities	38	-	-	-	19,353	19,353	19,353	
Current IFRS 16 financial liabilities	39	6,110	-	-	-	6,110	6,110	
Other current liabilities	40	-	-	-	206,962	206,962	206,962	
TOTAL LIABILITIES		28,649	4,001	-	-	3,396,278	3,428,928	

With regard to financial assets not measured at fair value, as well as trade payables and other current liabilities, the carrying amount is considered to be a reasonable approximation of the fair value, as it is set forth in the tables above.

For the purposes of determining the fair value of the debenture loan, the Group has used the market valuations at the end of the reporting period.

Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts, and specifically interest rate swaps.

Concerning the current debt structure, 2,590 million euro out of a reported 2,772 million euro were not exposed to interest rate risk at 31 December 2019.

During 2019, the Company entered into 5 forward start interest rate swap derivative contracts (with expiry date set at 10 years after the start date) with as many leading banks in order to hedge against the risk of an increase in interest rates on the future issue of the debenture loan planned to refinance part of the existing loan reaching maturity in the coming years.

Thousands of euro	Notional		Fair value		Fair value liability	
	at 31.12.2020	at 31.12.2019	at 31.12.2020	at 31.12.2019	at 31.12.2020	at 31.12.2019
Cash flow hedge derivatives						
Forward Start Interest Rate Swap	500,000	500,000	(38,753)	(4,001)	(38,753)	(4,001)
Total Interest Rate Derivatives	500,000	500,000	(38,753)	(4,001)	(38,753)	(4,001)

The contract expiry dates are shown below:

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	at 31.12.2020	at 31.12.2019			
Cash flow hedge derivatives					
<i>Forward Start Interest Rate Swap</i>	500,000	500,000			500,000
Total Interest Rate Derivatives	500,000	500,000	-	-	500,000

Measurement is also shown, assuming an interest rate shocks of +0.10% and -0.10%:

Thousands of euro	Notional		-0.10%	Fair Value at 31.12.2020	+0.10%	-0.10%	Fair Value at 31.12.2019	+0.10%
	at 31.12.2020	at 31.12.2019						
Cash flow hedge derivatives								
<i>Forward Start Interest Rate Swap</i>	500,000	500,000	(44,678)	(38,753)	(33,659)	(4,401)	(4,001)	(3,601)
Total	500,000	500,000	(44,678)	(38,753)	(33,659)	(4,401)	(4,001)	(3,601)

Significant events after the reporting period

On 22 January 2021 2i Rete Gas S.p.A., as part of the 4 billion euro EMTN Programme updated in December 2020, issued a new 10-year maturity 500 million euro debenture loan tranche, with a pricing that represents the smallest coupon (irrespective of duration) issued since 2i Rete Gas first resorted to public market. The main goals of the issue are to finance the future acquisition of the company IDG S.p.A. and to refinance issues maturing in coming years.

In January 2021 the contract was signed for the purchase of the company I.D.G. S.p.A. from the Edison Group, conditional upon the approval of the Italian Competition Authority. With this operation the Parent Company has taken on 152,000 end customers and 2,700 km of network in 58 served municipalities. The operation cost a total of 150 million euro. On 10 February 2021 the operation was reported to the Italian Competition Authority. On 26 February 2021 the Authority initiated a preliminary investigation pursuant to art.16 subsection 4 of Law 287/1990. This investigation is ongoing.

The provisional ranking calculated for the ATEM Naples 1 tender on 29 January 2021 gave 2i Rete Gas a higher score than the incumbent, Italgas S.p.A.. The panel has initiated the procedure for checking anomalies regarding submitted bids.

Direction and coordination

The Company is not subject to direction and coordination, while it provides direction and coordination to the following companies:

- 2i Rete Gas S.r.l.
- Cilento Reti Gas S.r.l.
- Powergas Distribuzione S.p.A.
- 2i Rete Dati S.r.l.

7. Proposed profit allocation for the year

In relation to the above, we propose to:

- approve the Financial Statements of 2i Rete Gas S.p.A. at 31 December 2020, which show a profit of 182,592,889 euro and the accompanying Directors' Report;
- distribute, in regard to the profit for the year and taking into account that the legal reserve has reached 20% of the share capital, 0.3436 euro for each of the 363,851,660 shares, equal to a total of 125,019,430.38 euro;
- carry forward the residual 57,573,458.75 euro of the profit.

2i Rete Gas S.p.A.
The Chief Executive Officer
Michele Enrico De Censi

VIII Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020 IN ACCORDANCE WITH ART. 2429, CO. 2, C.C.

To the Shareholders of 2i RETE GAS S.p.A.,

this report was unanimously approved, in time for its filing at the company's registered office, within 15 days prior to the date of the call for the shareholders' meeting to approve the financial statements subject to comment.

The Board of Directors has thus made available the following documents approved on March 29, 2021, relating to the year ended December 31, 2020:

- draft financial statements, complete with explanatory notes;
- management report.

GENERAL INTRODUCTION

KNOWLEDGE OF THE COMPANY, ASSESSMENT OF RISKS AND REPORT ON ASSIGNMENTS

Taking into account the consolidated knowledge that the Board of Statutory Auditors declares to have on the Company and regarding:

- i) the type of activity performed;
- ii) its organizational and accounting structure;

also taking into account the size and problems of the company, we reiterate that the "planning" phase of the supervisory activity - in which it's necessary to assess the intrinsic risks and the critical issues with respect to the two parameters mentioned above - was implemented through the positive proof of what was already known and based on the information acquired over time.

It was therefore possible to confirm that:

- the typical activity carried out by the Company has not changed during the year in question and is consistent with the provisions of the corporate purpose;

- the organizational structure and the endowment of IT structures have remained substantially unchanged;

- the aforementioned finding is indirectly confirmed by comparing the results of the values expressed in the income statement for the last two years, ie the one in question (31.12.2020) and the previous one (31.12.2019). It is also possible to see how the company operated in 2020 in terms that are comparable to the previous year and, consequently, our controls were carried out on these assumptions having verified the substantial comparability of the values and the homogeneity of the results with those of the previous year.

The activities carried out by the Board concerned, temporally, the entire year and during the same year the meetings pursuant to art. 2404 c.c. have been held, and of these meetings specific reports were duly signed for unanimous approval.

ACTIVITY PERFORMED

During the periodic audits, the Board continued to note the evolution of the activity carried out by the company, paying particular attention to contingent and/or extraordinary problems, in order to identify the economic and financial impact on the operating result and on the capital structure, as well as any risks such as those deriving from credit losses, that were monitored with constant frequency.

The auditing company PriceWaterhouseCoopers SpA, during the meetings held, did not report any problem.

The Board has therefore periodically assessed the adequacy of the organizational and functional structure of the company and its possible changes with respect to the minimum requirements postulated by the performance.

Relations with personnel operating in the aforementioned structure - directors, executives and external consultants - were inspired by mutual collaboration considering the roles assigned to each, and having clearly stated those of the Board of Statutory Auditors.

For the entire duration of the year it was found that:

- the administrative staff in charge of recording company facts has not substantially changed compared to the previous year;

- the level of its technical preparation remains adequate with respect to the type of ordinary corporate facts to be noted and demonstrates an adequate knowledge of company issues;

The information required by art. 2381, co. 5, of the Italian Civil Code, were provided by the Chief Executive Officer both during the meetings held and through the contacts/information flows: from all the above, it becomes evident that the Board of Directors, in substance and in form, complied with the requirements imposed by the cited regulation standard.

In conclusion, as far as it was possible to ascertain during the activity carried out during the year, the Board of Statutory Auditors can state that:

- the decisions taken by the administrative body were in compliance with the law and the Company by-laws and were not clearly imprudent or such as to compromise definitively the integrity of company assets;
- sufficient information were acquired on the general performance of the management and its foreseeable evolution, as well as on the most significant transactions, by size or characteristics, performed by the Company;
- the operations carried out were also compliant with the law and the company by-laws and not in potential conflict with the resolutions adopted by the shareholders' meeting or such as to compromise the integrity of the company assets;
- there are no specific remarks regarding the adequacy of the company's organizational structure, nor regarding the adequacy of the administrative and accounting system, nor about the reliability of the latter in correctly representing the management facts;
- during the course of the supervisory activity, as described above, no further significant facts emerged such as to require reporting in this report;
- no complaints have been received pursuant to art. 2408 c.c.;
- no complaints have been made pursuant to art. 2409, co. 7, c.c ..

OBSERVATIONS AND PROPOSALS ON THE REPORT AND TO ITS APPROVAL

The draft financial statements for the year ended December 31, 2020 were approved by the Board of Directors on March 29, 2021 and consisted of the balance sheet, the income statement and the notes to the financial statements.

The Board of Directors has also prepared the management report pursuant to art. 2428 c.c ..

These documents, constituting the Consolidated financial reports as of 31 December 2020, were delivered to the Board of Statutory Auditors in time for them to be deposited at the company's headquarters accompanied by this report, regardless of the deadline set by art. 2429, co. 1, c.c ..

It is hereby acknowledged that the Board of Statutory Auditors had a number of meetings and exchanges of information also with PriceWaterhouseCoopers S.p.A. auditing firm on matters of their respective competence, and no relevant facts that it is considered appropriate to report here emerged from these exchanges. Finally, the Board of Statutory Auditors had a meeting with the Independent Auditors on the statutory audit plan for 2020 with particular reference to the changes introduced by Legislative Decree 139/2015 and EU Regulation No. 537/2014. This also in view of the supervisory function attributed to the Board - as "Internal audit and audit committee" - by article 19 of Legislative Decree No. 39/2010 on the statutory audit.

The Board of Statutory Auditors has acknowledged that the annual report of the Independent Auditors, pursuant to art. 14 Legislative Decree 27 January 2010, n. 39, to the financial statements for the year ended December 31, 2020, in implementation of the aforementioned regulatory changes, contains both the judgment on the compliance of the management report with the legal requirements, and the declaration that it does not present significant errors such as to prejudice its truthfulness and correctness.

The report that does not highlight any significant deviations, or negative judgments or impossibility to express an opinion or information requirements and therefore the judgment released is positive.

In addition to the audit report, which is without qualifications or references to requirement of information, the Independent Auditors have communicated to the Board of Statutory Auditors the "additional report" pursuant to art. 11 of the cited EU Regulation n. 537/2014. This report, which will be duly submitted to the administrative body, contains, among other things, the declaration of independence of the auditing company, a summary of the significant issues identified during the statutory audit, as well as the confirmation that they have not been detected "significant deficiencies" in the system of internal controls on the financial reporting process.

The Independent Auditors included the declaration of their independence in the additional report pursuant to art. 11 of the cited EU Regulation n. 537/2014: the Board of Statutory Auditors verified, even continuously, the existence of this requirement.

Finally, it does not appear to the Board that the Company has conferred tasks on subjects or companies linked to PriceWaterhouseCoopers S.p.A. by ongoing relations, with the exception of what already disclose in the notes to the Financial Report and submitted to this Board during the year.

The draft financial statements were then examined, for which the following additional information is provided:

- the evaluation criteria of the assets and liabilities items subject to this mandatory requirement have been checked and have not been substantially different from those adopted in previous years, in accordance with the provisions of art. 2426 c.c. ;
- the inscription of the goodwill took place with the consent of the Board of Statutory Auditors;
- attention was paid to the drafting of the report, to its general compliance with the law in its formation and structure, and in this regard there are no observations that should be highlighted in this report;
- compliance with the law concerning the preparation of the management report has been verified and in this regard there are no comments that should be highlighted in this report;
- in the preparation of the financial statements, the administrative body has not derogated from the provisions of the law pursuant to art. 2423, co. 4, c.c. ;
- the compliance of the financial statements with the facts and information that was known following the fulfilment of the typical duties of the Board of Statutory Auditors was verified and no other observations are highlighted in this regard;
- the accuracy of the information contained in the notes to the financial statements regarding the absence of active and passive financial and monetary positions that originally arose in currencies other than the euro was verified;
- information was acquired from the Supervisory Body (Organismo di Vigilanza) and no critical issues which should be highlighted in this report emerged with respect to the organizational model, which was constantly updated;
- about the proposal of the Board of Directors regarding the utilization of the net result for the year shown at the end of the management report, the board has nothing to observe, clarifying, however, that the decision on the matter lies with the Shareholders' meeting.

It has to be noted that during the 2020 financial year the Company's activity was significantly affected by the health emergency linked to the COVID-19 pandemic. In particular, this sanitary situation made it necessary for all the structures of the Company to launch various initiatives to deal

with the pandemic emergency, as well as the adoption of provisions, protocols and precautions consistent with what has been decided, from time to time, by Public Authorities.

RESULTS OF THE YEAR

The net result ascertained by the administrative body for the year ended December 31, 2020, as evident also from the reading of the financial statements, is positive for euro 182.592.889,00.

CONCLUSIONS

Based on the foregoing and to the extent brought to the attention of the Board of Statutory Auditors and on what has been verified by the periodic checks carried out, it is unanimously considered that there are no reasons impeding your approval of the draft financial statements for the year closed on 31 December 2020, as drafted and proposed by the Board of Directors and the consequent proposal to allocate the profit for the year.

Milan/Sondrio, 7th April 2020

The Board of Statutory Auditors

Marco Antonio Dell'Acqua (President)

Andrea Cioccarelli (Effective Member)

Marco Giuliani (Effective Member)

IX Report of the Independent Auditors



2I RETE GAS SPA

**INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE
39/2010 AND ARTICLE 10 OF REGULATION (EU) 537/2014**

SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020



Independent auditor's report

in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of 2i Rete Gas SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of 2i Rete Gas SpA (the “Company”), which comprise the statement of financial position as of 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2020, 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, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section “Auditor’s Responsibilities for the Audit of the Separate Financial Statements” of this report. We are independent of the Company based on ethic and independence regulations and standards 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311



Key Audit Matters

How our audit addressed the key audit matter

Capital expenditure for gas distribution network under service concession agreements

*Annual Financial Report
chapter III directors' report – paragraph 5
regulatory and tariff framework
chapter VII - statutory financial statements –
paragraph 6 – notes to the statutory financial
statements - note 13 intangible assets*

As of 31 December 2020 gas distribution service concessions and similar rights, recorded as intangible assets, amount to € 3,529 million, representing 74% of total assets. Costs capitalised during the year amount to € 289 million.

The Company operates in the gas distribution industry. The industry is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA).

Revenues from gas distribution service are determined each year in accordance with the regulatory approved tariffs which are based mainly on a pre-established return on capital invested, plus amortisation and depreciation and operating costs.

Considering the magnitude of the capital expenditure made by the Company and the direct correlation with the tariffs approved by ARERA, the proper capitalisation of costs related to service concession agreements in accordance with IFRIC12 represented a key matter in the audit of the separate financial statements.

We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification and testing of key controls.

We assessed the accounting policy adopted by the Company in relation to the capitalisation of costs.

We performed detailed tests analysing, on a sample basis, the supporting documentation of costs capitalised to verify the accuracy, completeness and the proper period.

We have verified the accuracy and completeness of the disclosure made in the notes to the financial statements.

Key Audit Matters

How our audit addressed the key audit matter

Recoverability of goodwill

*Annual Financial Report
chapter VII - statutory financial statements –
paragraph 6 – notes to the statutory financial
statements - note 13 intangible assets*

As of 31 December 2020 goodwill amounts to € 267 million, representing 6% of Company total assets.

Recoverability of the carrying amount of goodwill was tested for impairment at the year-end, in accordance with IAS36 – Impairment of Assets.

The recoverable amount of the group of cash generating units (“CGU”) “Gas distribution”, which represents the main activity of the Company, to which goodwill is allocated, is measured using its value in use. Value in use is calculated on the basis of the expected future cash flows derived from 2021-2025 five years business plan approved by the Company board of directors on 18 December 2020.

The recoverable amount of the Gas distribution segment is compared with the carrying amount of segment assets and liabilities, including goodwill.

Considering the magnitude of the carrying amount and the subjective judgment in some of the assumptions used for the calculation of the value in use, the impairment test of goodwill represented a key matter in the audit of the separate financial statements.

We have verified, with the assistance of PwC experts:

- the adequacy of the overall impairment testing process in accordance with the requirement of the relevant accounting standard;
- the allocation of goodwill to the group of cash generating units – CGU;
- the reasonableness of the key assumptions used when determining the value in use of the Gas distribution segment, with specific focus on the projected growth rate of revenue, cost and capital expenditure and discount rate, including sensitivity analysis;
- the accuracy of the carrying amounts of assets and liabilities directly attributable to the Gas distribution segment;
- the mathematical accuracy of the calculation model used.

We have verified the accuracy and completeness of the disclosure made in the notes to the financial statements.



Key Audit Matters

How our audit addressed the key audit matter

Provisions for risks and charges

*Annual Financial Report
chapter VII - statutory financial statements –
paragraph 6 – notes to the statutory financial
statements – note 29 provisions for risks and
charges*

As of 31 December 2020 provisions for risks and charges amount to € 84 million and include probable liabilities as a result of past events for which the outflow can be reasonably estimated at the balance sheet date.

Provisions for risks and charges mainly relate to costs associated with various disputes with municipalities and costs that could potentially arise from maintenance or replacement of defective measurement equipment.

Given the magnitude of the accrued balances and the use of estimates made, the measurement of the provisions for risks and charges was a key matter for the audit of the separate financial statements.

We have carried out the understanding and evaluation of key controls in place over the measurement of the provisions for risks and charges.

We have tested, on a sample basis, the documentation supporting the most significant balances to assess the adequacy of the accruals made.

We obtained confirmations from external lawyers appointed by the Company, indicating the individual exposures in place and their assessment of the risk of potential liability.

We discussed with management the conclusions reached for measuring the provisions for risks and charges.

We verified the accuracy and completeness of the disclosure made in the notes to the financial statements.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to



enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either to liquidate the Company 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 Company financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 separate financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company 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 separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;



- we evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of 2i Rete Gas SpA at the general meeting held on 29 April 2015 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2015 through 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared in accordance with 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 39/2010

Management of 2i Rete Gas SpA is responsible for preparing a report on operations of 2i Rete Gas SpA as of 31 December 2020, including its consistency with the relevant separate financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations with the separate financial statements of the



Company as of 31 December 2020 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the separate financial statements of the Company as of 31 December 2020 and is prepared in compliance with the law. With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 7 April 2021

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers