

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Italgas S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Italgas S.p.A. and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 december 2020, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Italgas S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Investments in service concession agreements related to the natural gas distribution and metering service and evaluation of their recoverable amount

Description of the key audit matter As of 31 December 2020, the Group accounts for intangible assets including the captions “Service concession agreements” and “Work in progress and payments on account IFRC 12”, respectively equal to Euro 6.560.975 thousand and Euro 315.206 thousand, mainly related to investments made for development and maintenance of the infrastructures related to the service concession agreements for the natural gas distribution and metering service. Investments made in the financial year relating to these items of intangible assets totalled EUR 668.738 thousand. The goodwill allocated to the cash-generating unit for the distribution and metering of natural gas amounts to Euro 64.000 thousand.

The natural gas distribution and metering sector is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, “ARERA”), which defines, among the others, the rules for the remuneration of the natural gas distribution and metering service. In particular, the regulated revenues for the natural gas distribution and metering service provided by the Group are determined by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized (RAB – Regulatory Asset Base), of the relative depreciation and of some operating expenses – the so-called “revenue cap”. The RAB value is determined by ARERA mainly through the “revalued historical cost” method.

At the end of the financial year, the Group's management assessed the recoverability of non-financial fixed assets related to the natural gas distribution and metering service.

The recoverability of these fixed assets is tested by comparing the carrying amount, represented by the net invested capital of the natural gas distribution and metering cash-generating unit with the recoverable amount represented by the higher of fair value and value in use.

In performing the impairment test, the recoverable amount of the assets was estimated based on the updated RAB at the balance sheet date. No impairment loss resulted from the test.

We believe that investments in service concession agreements related to the natural gas distribution and metering and the related impairment test represent a key audit matter for the Group's consolidated financial statements as of 31 December 2020 due to: (i) The relevance of the intangible assets related to such service concession agreements compared to the Group's total assets, (ii) the relevance of the investments made during the year, compared to the amount of the intangible assets for service concession agreements, (iii) their impact in determining the revenue cap for the remuneration of the natural gas distribution and metering service and (iv) the estimation component in determining the recoverable amount of the assets.

Paragraphs “3) Measurement criteria – Intangible assets”, “3) Measurement criteria – Impairment of non-financial fixed assets”, “5) Use of estimates”, “14) intangible assets” and “27) Revenue” of the consolidated financial statements include the disclosure on the investments for service concession agreements for the natural gas distribution and metering services and the relative impairment test.

Audit procedures performed

With reference to investments in service concession agreements for the natural gas distribution and metering services, our audit procedures included, among the others, the following:

- understand the processes for recognition of such investments in the financial statements and for impairment test;
- understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;
- critical analysis of the composition of the intangible assets caption, including the analysis of any unusual item;
- test the accurate start of depreciation when the asset is available for use, for the projects included in work in progress, even through the analysis of their aging;
- with reference to investments and disposals occurred during the period, selection of a sample of transactions and test of the compliance with the capitalization and disposal criteria provided by accounting standards;
- assessment of the consistency between the useful life used for the depreciation of the assets under concession and their regulatory useful life and reperforming of the periodic depreciation;
- obtain the impairment test calculation and discussion meetings with the Group's management in order to understand the impairment test methodology;
- assessment of the recoverable amount estimated by the Group and of the underlying assumptions (RAB determination) to the impairment test, also using the work of experts of the Deloitte network.

Finally, we assessed the adequacy of the disclosure provided in the notes to the consolidated financial statements and its compliance with the accounting standards.

Other aspects

The consolidated financial statements of the Group for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 16 April 2020.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Italgas S.p.A. has appointed us on 12 May 2020 as auditors of the Company for the years from 1 January 2020 to 31 December 2028.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Italgas S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Italgas Group as at 31 December 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Italgas Group as at 31 December 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Italgas Group as at 31 December 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Italgas S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Paola Mariateresa Rolli
Partner

Milan, Italy
25 March 2021

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