

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company information

The Italgas Group, consisting of Italgas S.p.A., the consolidating company, and its subsidiaries (hereinafter referred to as "Italgas", the "Italgas Group" or the "Group"), is an integrated group at the forefront of the regulated natural gas sector and a major player in terms of invested capital in its regulatory asset base (RAB⁶⁹) in the sector.

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

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

As at 31 December 2020, CDP S.p.A. owns, via CDP Reti S.p.A.⁷⁰ 26.05% of the share capital of Italgas S.p.A.

Italgas S.p.A. it is not subject to management and coordination activities. Italgas S.p.A. exercises management and coordination activities for its subsidiaries pursuant to art. 2497 and ss. of the Civil Code.

1) Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) as well as the interpretive documents still in force issued by the IFRS Interpretations Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, before that, by the Standing Interpretations Committee (SIC). For sake of simplicity, all of the aforementioned standards and interpretations will hereafter be referred to as "IFRS" or "International Accounting Standards".

The consolidation principles and measurement criteria of the previous year are applied in the 2020 consolidated financial statements, except for the international accounting standards that came into force starting from 1 January 2020, which are described in the following section "Accounting principles and interpretations applicable from 2020" of said report.

The consolidated financial statements are prepared on a going-concern basis, using the historical cost method, taking into account value adjustments where appropriate,

with the exception of the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.

The consolidated financial statements as at 31 December 2020, approved by Italgas S.p.A.'s Board of Directors at the meeting of 10 March 2021, were subjected to an audit by Deloitte & Touche S.p.A., which - as the main auditor - is responsible for auditing the separate financial statements of Italgas S.p.A. and its subsidiaries.

The consolidated financial statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in thousands of Euro, unless otherwise specified.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BY THE IASB (INTERNATIONAL ACCOUNTING STANDARDS BOARD), APPROVED BY THE EUROPEAN UNION (EU) AND IN FORCE SINCE 1/1/2020

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

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

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

⁶⁹ The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Italian Electricity, Gas and Water Authority (AEEGSI) for determining base revenues for the regulated businesses.

⁷⁰ CDP S.p.A. holds 59.10%.

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

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

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

The changes made did not significantly impact the Group's consolidated financial statements as at 31 December 2020.

NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED PREVIOUSLY AND APPROVED BY THE EUROPEAN UNION BUT NOT YET IN FORCE

On 25 June 2020, the IASB issued an amendment to IFRS 4 "Insurance Contracts" which made it possible to extend the date of exemption from application of IFRS 9 to contracts issued by insurance companies to the financial years following 1 January 2023.

This amendment, transposed by the EU on 15 December 2020 with publication in the Official Journal the next day, will be applicable from 1 January 2021.

The company does not expect any significant impacts on the Group's consolidated financial statements following application of the amendment.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPROVED BY THE EUROPEAN UNION AS AT THE DATE OF REFERENCE OF 31 DECEMBER 2020

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

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

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

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

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

On 25 June 2020, the IASB issued the document **"Amendments to IFRS 17 Insurance Contracts"**. The main changes included:

- deferment of the initial application date of the IFRS 17 by two years (annual periods starting from 1 January 2023 or later);

- corresponding deferment of application of the IFRS 9 to insurance contracts from 1 January 2023;
- exclusion from the scope of application for specific contracts (e.g. those stipulated with credit cards that provide insurance coverage).

The changes to the IFRS 17 are effective for financial years starting on or after 1 January 2023. Early application is permitted.

On 27 August 2020, the IASB published the document “Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)”, which specified the effects on financial reporting in the event that, following the reform on IBOR interbank rates (e.g. LIBOR, EURIBOR and TIBOR), alternative reference rates are adopted in the measurement of financial instruments. In particular, it outlined how to implement the changes in the financial assets, financial liabilities, lease liabilities, accounting requirements for hedging operations and reporting requirements pursuant to IFRS 7. In summary, the effects on the financial assets, financial liabilities and lease liabilities are summarised in an amendment to the effective reference rate used in the measurements, whereas on the hedging instruments, the change from the IBOR to alternative reference rates does not cause an interruption to hedge accounting. The amendments are effective for financial years starting on or after 1 January 2021, with early application permitted.

The company does not expect the aforesaid standards and/or amendments to have any significant impacts on the Group's consolidated financial statements.

CHANGE IN ACCOUNTING CRITERIA

The consolidation principles and measurement criteria explained in the latest Annual Report, to which the reader is referred, are applied in the 2020 consolidated financial statements, except for the international accounting standards that came into force starting from 1 January 2020, which were previously explained in the section “Accounting principles and interpretations applicable from 2020” of the same Annual Report.

2) Consolidation principles

The consolidated financial statements comprise the financial statements of Italgas S.p.A. and of the companies over which the Company has the right to exercise direct or indirect control, as defined by IFRS 10 – “Consolidated Financial Statements”. Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the affiliate;
- is entitled to receive a share of or is exposed to the variable profits and losses of the affiliate;
- is able to exercise power over the affiliate in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an affiliate depends.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the Appendix “Subsidiaries, associates and equity investments of Italgas S.p.A. as at 31 December 2020”, which is an integral part of these notes. All financial statements of consolidated companies close at 31 December and are presented in Euro.

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Figures relating to subsidiaries are included in the consolidated financial statements from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.

The assets, liabilities, income and expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders' equity of each of the participated entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control.

The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders' equity, the income statement and the statement of comprehensive income.

Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders' equity pertaining to shareholders of the parent company and minority interests are adjusted to reflect the change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under shareholders' equity pertaining to shareholders of the parent company.

Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders' equity transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

EQUITY INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is a participated company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies but does not have control or joint control⁷¹. It is assumed that the investor has significant influence (unless there

⁷¹ Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

is proof to the contrary) if it holds, directly or indirectly through subsidiaries, at least 20% of the exercisable voting rights.

A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.

BUSINESS COMBINATIONS

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.

The shareholders' equity of these participated companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.

Where total control is not acquired, the share of shareholders' equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill (the "partial goodwill method"). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the "full goodwill method"). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (partial goodwill method or full goodwill method) is made based on each individual business combination transaction.

If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement.

When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

BUSINESS COMBINATIONS INVOLVING ENTITIES UNDER JOINT CONTROL

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as "business combinations of entities under common control". Such transactions do not fall within the scope of application of IFRS 3 and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired predating the transaction or, where available, at the values from the consolidated financial statements of the common ultimate parent. With regard to business transfers under common control, the transferee entity should record the business transferred at its historical book value increasing its shareholders' equity by this amount; the transferring entity will record the equity investment in the transferee entity for the same amount as the increase in the shareholders' equity of the latter.

This accounting treatment is based on the Preliminary Guidelines on IFRS (OPI 1 Revised) - "Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements" issued by Assirevi in October 2016.

INTRAGROUP TRANSACTIONS THAT ARE ELIMINATED IN THE CONSOLIDATION PROCESS

Unrealised gains from transactions between consolidated companies are derecognised, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they effectively represent impairment of the asset transferred.

3) Measurement criteria

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

Property, plant and equipment

Property, plant and equipment is recognised at the cost of purchase or production, including directly allocable ancillary costs needed to make the assets available for use. The cost also takes into account capitalised expense until such a time as the asset becomes operational, as well as any dismantling, restoration and reclamation expense in line with the provisions of IAS 37.

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/value of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses are posted to the income statement in the period when they are incurred.

If impairment indicators are present, the book value of property, plant and equipment is verified to identify any impairment (see the paragraph "Impairment of property, plant and equipment and intangible assets with a finite useful life" on page 220, for more details).

RIGHTS OF USE

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

- a. the amount of the initial measurement of the liability of the lease;
- b. the payments due for the lease made on the date or before the starting date, net of lease incentives received;
- c. the initial direct costs incurred; and
- d. the costs for dismantling and restoring the site.

The liabilities of the leases include the following payments for the right of use of the underlying asset along the duration of the lease unpaid as at the starting date:

- a. the fixed payments, net of any lease incentives receivable;
- b. the variable payments due for the lease that depend on an index or rate;
- c. the amounts payable by way of warranties of the residual value;
- d. the price for exercising the right to purchase where there is the reasonable certainty of exercising the option; and
- e. the payments of lease termination penalties where lease termination is provided for.

The discount rate used is the embedded interest rate of the lease for the remaining duration of the lease, if such rate is not easy to determine, the marginal loan interest rate of the Group as at the recalculation date is used.

In determining the duration of the lease, the Group considered the presence of renewal and cancellation options respectively for the lessee, the lessor or both.

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

The duration of the lease is calculated by taking into account the non-voidable lease period, together with any periods covered by an option to extend the agreement if it is reasonably certain that this option will be exercised, or any period covered by an option to terminate the lease contract, if the Group deems it reasonably certain that such option will not be exercised.

In the event of any significant changes in events and circumstances under the Group's control that make it appropriate to change the assessment of the reasonable certainty of exercising the options, the Group will redetermine the duration of the lease.

After initial recognition, the right-of-use asset is adjusted to take into account (i) the amortization portions, (ii) any impairment losses and (iii) the related effects and any restatements of the leasing liability.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset. Depreciation starts when the asset is available and ready for use.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	ANNUAL DEPRECIATION RATE (%)
Land and building	
– Industrial buildings	2%
– Civil buildings	3%
Plant and equipment	
– Other plant and equipment	4%
Industrial and commercial equipment	
– Office furniture and machinery	12% - 33,3%
– Transportation vehicles	20% - 25%
Rights of use	duration of the lease agreement

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.

Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale" section).

Depreciation rates are reviewed each year and are altered if they do not adequately reflect the future benefits expected. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.

Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset, if lower.

INTANGIBLE ASSETS

Intangible assets are those assets without identifiable physical form which are controlled by the company and capable of producing future economic benefits, as well as goodwill, when purchased for consideration. Intangible assets are reported at the cost of purchase or internal production, when their use is likely to generate future benefits and the relative cost can be reliably determined.

They may not be revalued, even through the application of specific laws.

Development costs are only recognised as intangible assets when the Group can prove the technical feasibility of completing the intangible asset and can demonstrate that it has the ability, intention and available resources to complete the asset for use or sale. Research costs are recognised in the income statement.

Intangible fixed assets with a finite useful life are measured at cost, net of amortisation and accumulated impairment losses. Goodwill and other intangible assets with an

indefinite useful life are not subject to amortisation, but are tested at each reporting date, as provided for by IAS standard 36, to check for impairment losses to be reflected in the financial statements.

Intangible assets are eliminated at the time they are decommissioned, or when no future economic benefit is expected from their use; the related profit or loss is posted in the income statement.

SERVICE CONCESSION AGREEMENTS

Intangible assets include service concession agreements between the public and private sectors for the development, financing, management and maintenance of infrastructures under concession in which: (i) the grantor controls or regulates the services provided by the operator through the infrastructure and the related price to be applied; and (ii) the grantor controls any significant remaining interest in the infrastructure at the end of the concession by owning or holding benefits, or in some other way. The provisions relating to the service concession agreements are applicable for Italgas in its role as a public service distributor of natural gas and other gases, i.e. they are applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the ARERA, holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service. They also apply to the integrated water service agreements.

The Group applies the intangible asset model as provided for by IFRIC 12 for the accounting of service concession agreements. The intangible asset is accounted for at the cost both on initial recognition and for subsequent recognition. Revenue and costs originating from network construction and other services are recognised and measured applying IFRS 15. Construction services and improvements carried out on behalf of the grantor are accounted for as changes to work in progress on order.

AMORTISATION OF INTANGIBLE ASSETS

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset. Amortisation starts when the asset is ready for use.

The amount to be amortised is the book value, reduced by the projected net realisable value at the end of the asset's useful life if this is significant and can be reasonably determined.

The table below shows the annual amortisation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	ANNUAL AMORTISATION RATE (%)
Patent rights and intellectual property rights	20% - 33,3%
Concession expenses	Depending on the duration of the agreement
Land and buildings (concession agreements)	
– Industrial buildings	2,5% - 5%
– Light constructions	9% - 10%
Plant and equipment (concession agreements)	
– Gas distribution network	1,67% - 5%
– Principal and secondary facilities	4% - 6%
– Gas derivation plants	2% - 5,4%
Industrial and commercial equipment (concession agreements)	
– Metering and control equipment	6,7% - 20%

CONTRIBUTIONS

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of the related assets.

Operating grants are recognised in the income statement on an accrual basis, consistent with the relative costs incurred.

IMPAIRMENT OF NON-FINANCIAL FIXED ASSETS

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value adjusted for disposal costs (see "Fair value measurement") or the value in use, whichever is greater.

As regards the value of the non-financial fixed assets falling within the scope of the regulated activities, the recoverable value is determined considering: (i) the amount quantified by the Authority based on the rules used to define the tariffs for provision of the services for which they are intended; (ii) any value that the group expects to recover from their sale or at the end of the concession governing the service for which they are intended; (iii) the cash flows expected from the use of

the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Similarly to what happens for the quantification of tariffs, also the quantification of the recoverable value of the assets falling within the scope of regulated activities takes place on the basis of current regulatory provisions.

With reference to non-financial fixed assets not falling within the scope of the regulated activities, the value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets ("cash-generating units" or CGUs).

The CGUs identified by the Group are the following: Natural gas distribution and measurement, Other gas distribution and measurement, Sale of other gases, Integrated water service, Various activities (Esco).

If the reasons for impairment losses no longer apply, the assets are revalued, and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

IMPAIRMENT OF GOODWILL, INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE AND INTANGIBLE ASSETS NOT YET AVAILABLE FOR USE

The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the level of the smallest aggregate, on the basis of which the Company's management directly or indirectly assesses the return on investment, including goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the CGU. Goodwill impairment losses cannot be reversed.

EQUITY INVESTMENTS VALUED USING THE EQUITY METHOD

Equity investments in joint ventures and associates are valued using the equity method.

In applying the equity method, equity investments are initially recognised at cost and subsequently adjusted

to take into account: (i) the participant's share of the results of operations of the affiliate after the date of acquisition, and (ii) the share of the other components of comprehensive income of the affiliate. Dividends paid out by the affiliate are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the "Consolidation principles" section).

In the case of assumption of an association (joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of revaluing the book value of the equity investments held prior to assumption of association (or joint control) is posted to the income statement, including any components recognised under other components of comprehensive income. When the transfer of equity investments entails loss of joint control or significant influence over the affiliate, the following are recognised in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of the booked amount transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the affiliate that will be taken to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria.

If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the book value with the related recoverable value determined using the criteria indicated in the section "Impairment of non-financial fixed assets".

When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under "Income (expense) from equity investments".

The parent company's share of any losses of the participated company, greater than the equity investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the participated company or, in any event, to covering its losses.

MINORITY INTERESTS

Financial assets representing minority interests, since they are not held for trading, are measured at fair value with the effects recognised in the income statement.

INVENTORIES

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisable value, which is the amount that the company expects to receive from their sale in the normal course of business.

The cost of natural gas inventories is determined using the weighted average cost method.

The value of obsolete and slow-moving inventories is written down in relation to the possibility of use or realisation, through the allocation of a specific obsolescence fund.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.

They are recorded at their nominal value, which corresponds to the fair value.

FINANCIAL INSTRUMENTS

Financial instruments are any contracts that give rise to a financial asset for one entity and a financial liability or equity instrument for another entity; they are recognised and measured in accordance with IAS 32 and IFRS 9.

FINANCIAL ASSETS - DEBT INSTRUMENTS

Depending on the characteristics of the instrument and of the business model adopted for its management, financial assets representing debt instruments are classified in the following three categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value with the effects recognised in the other comprehensive income components (hereinafter also referred to as OCI); (iii) financial assets measured at fair value with the effects recognised in the income statement.

Initial recognition is at fair value; for those trade receivables without a significant financial component, the initial recognition value is represented by the transaction price.

Following initial recognition, the financial assets that generate contractual cash flows representing only payments of capital and interest are measured at amortised cost if held with the aim of collecting their contractual cash flows (so-called hold to collect business model). Based on the amortised cost method, the initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording.

The receivables and other financial assets measured at amortised cost are presented in the balance sheet net of their provision for impairment losses.

The financial assets representing debt instruments whose business model includes both the possibility to collect contractual cash flows and the possibility to realise capital gains on transfers (so-called hold to collect and sell

business model) are measured at fair value with the effects recorded on OCI (hereinafter also FVTOCI).

In this case the fair value changes in the instrument are recognised in shareholders' equity amongst the other components of comprehensive income. The cumulative amount of the changes in fair value, recognised in the shareholders' equity provision that includes the other components of comprehensive income, is reversed to the income statement when the instrument is derecognised. The interest income, calculated using the effective interest rate, exchange rate differences and impairment losses, is recognised on the income statement.

A financial asset representing a debt instrument that is not measured at amortised cost or at FVTOCI is measured at fair value with the effects recognised in the income statement (hereinafter referred to as FVTPL).

When the purchase or sale of financial assets is made according to a contract requiring that the transaction be regulated and that the asset be delivered within a certain number of days, established by the market control Authorities or by market agreements (e.g. purchase of securities on regulated markets), the transaction is recognised on the settlement date.

Disposals of financial assets are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

IMPAIRMENT OF FINANCIAL ASSETS

Recoverability of the financial assets representing debt instruments not measured at fair value with effects on the income statement is measured on the basis of the so-called "expected credit loss model".

In particular, the expected losses are generally determined based on the product between: (i) the exposure to the counterparty net of the relevant mitigants (Exposure At Default, EAD); (ii) the probability that the counterparty does not meet its payment obligation (Probability of Default, PD); (iii) the estimate, in percentage terms, of the amount of credit that will be unable to be recovered in case of default (Loss Given Default, LGD) defined on the basis of prior experiences and possible attemptable recovery actions (e.g. out-of-court actions, legal disputes, etc.).

To this regard, to determine the probability of default of the counterparties the internal ratings already used for the assignment were adopted; the probability of default for the counterparties represented by state entities and in particular for the national oil companies, basically depicted by the probability of a late payment, is determined using the country risk premiums adopted to determine WACCs for the impairment of the non-financial assets as input.

For the retail customers not characterised by internal ratings, measurement of the expected losses is based on a matrix provision built by grouping, if advisable, the receivables in appropriate clusters to which impairment percentages defined on the basis of prior loss experience are applied. If necessary, those percentages are adjusted to take into account forward looking information on the credit risk of the counterparty or of clusters of counterparties.

FINANCIAL LIABILITIES

Financial liabilities other than derivative instruments, including financial payables, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as demonstrated in "Financial assets" above.

Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset in the balance sheet when there is the currently exercisable legal right to compensation and there is the intention of settling the transaction on a net basis (i.e. realizing the asset and at the same time extinguishing the liability).

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments, including embedded derivatives, are assets and liabilities recognised at fair value according to the criteria indicated under the following point "Fair value measurement".

As part of the strategy and objectives defined for risk management, defining transactions as hedging requires: (i) checking the existence of an economic ratio between hedged object and hedging instrument such as to achieve the offsetting of the relevant changes in value and that this offsetting ability is not invalidated by the counterparty's level of credit risk; (ii) the definition of a ratio consistent with the risk management objectives within the scope of the defined risk management strategy, taking the appropriate rebalancing actions if necessary. The changes introduced to the risk management objectives, the conditions previously specified for defining transactions as hedging not met, or implementation of rebalancing transactions bring about the total or partial prospective discontinuation of the hedging.

When the hedge derivatives cover the risk of change in the fair value of the instruments to be hedged (fair value hedge; e.g. hedging the variability of the fair value of fixed rate asset/liability), the derivatives are recognised at fair value with the effects recorded in the income statement; consistently, the hedged instruments are adjusted to reflect the changes in fair value associated with the hedged risk in the income statement, regardless of the forecast of a different measurement criterion usually applicable to the type of instrument.

When the derivatives cover the risk of change in the cash flows of the hedged instruments (cash flow hedge; e.g. hedging the variability of the asset/liability cash flows due to fluctuations in interest rates or exchange rates), the changes in fair value of the derivatives considered effective are initially recognised in the shareholders' equity provision pertaining to the other components of comprehensive income and afterwards recorded in the income statement in line with the economic effects generated by the hedged transaction. In the case of hedging future transactions

involving the recognition of a non-financial asset or liability, the cumulative changes in the fair value of the hedge derivatives recognised in the shareholders' equity are recorded to adjust the book value of the asset/liability of the non-financial asset/liability hedged (basis adjustment).

The non-effective portion of the hedge is recognised in the income statement item "Financial (expense)/income".

The changes in the fair value of the derivatives that do not meet the conditions to be defined as hedging, including any ineffective components of the hedge derivatives, are recorded in the income statement. Specifically, the changes in fair value of the non-hedge derivatives on interest rates and currencies are recognised in the income statement item "Financial (expense)/income".

The embedded derivatives incorporated in financial assets are no longer separated in accounting; in this case, the entire hybrid instrument is classified based on the general financial asset classification criteria. The embedded derivatives incorporated in financial liabilities and/or non-financial assets are separated by the main contract and are recognised separately if the embedded instrument: (i) meets the definition of derivative; (ii) as a whole is not measured at fair value with the effects recognised in the income statement (FVTPL); (iii) if the characteristics and risks of the derivative are not closely tied to those of the main contract. The existence of embedded derivatives to separate and measure separately is checked when the company joins the contract and afterwards when there are amendments to the conditions of the contract that bring about significant changes in the cash flows it generates.

FAIR VALUE MEASUREMENT

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by putting the asset to its highest and best use or by selling it to another market participant capable of using it in such a way as to maximise its value. The maximum and best use of an asset is determined from the perspective of market operators, also hypothesising that the company intends to put it to a different use; the current use by the company of a non-financial asset is assumed to be the maximum and best use of this asset, unless the market or other factors suggest that a different use by market operators would maximise its value.

The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The fair value of the financial instruments is

determined considering the credit risk of the counterparty of a financial asset ("Credit Valuation Adjustment" - CVA) and the risk of default by the same entity with reference to a financial liability ("Debit Valuation Adjustment" - DVA).

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: inputs represented by (unmodified) quoted prices on active markets for assets or liabilities identical to those that can be accessed as at the valuation date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs that cannot be observed for the asset or liability.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable, and the asset or discontinued operations are available for immediate sale in their current condition. In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that affiliate are classified as held for sale, regardless of whether a non-controlling investment is maintained following the sale. Checking that the conditions required to classify an item as held for sale requires that the Company's management made subjective assessments and formulate reasonable and realistic assumptions based on the information available.

Non-current assets held for sale, current and non-current assets related to disposal groups and directly associated liabilities are recognised in the Statement of Financial Position separately from the Company's other assets and liabilities.

The assets and liabilities falling within a disposal group are measured according to the accounting standards applicable to them right before being classified as held for sale. Afterwards, the non-current assets held for sale and non-current assets in disposal groups are not amortised or depreciated and are measured at the lower between the book value and the related fair value, less any sales costs (please refer to the forgoing point "Fair value measurement").

The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.

Any negative difference between the book value of the non-current assets and the fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year.

Provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at a value representing the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits deriving from the contract, and the cost to terminate the contract.

When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".

When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset and posting to the income statement is accomplished through amortisation. The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.

Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.

The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

PROVISIONS FOR EMPLOYEE BENEFITS

POST-EMPLOYMENT BENEFITS

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as “defined-benefit” or “defined-contribution” plans.

_ Defined-benefit plans

The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accrual basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in “Financial income (expense)”.

_ Defined-contribution plans

In defined-contribution plans, the Company's obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.

The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

OTHER LONG-TERM PLANS

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

DISTRIBUTION OF DIVIDENDS

The distribution of dividends to the Company's Shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company's Shareholders or, in the case of interim dividends, by the Board of Directors.

REVENUE

The recognition of revenue from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the price of the transaction; (iv) allocation of the price of the transactions to the performance obligations identified based on the standalone selling price of each good or service; (v) recognition of the revenue when its performance obligation has been met, or when the promised good or service is transferred to the customer; the transfer is considered completed when the customer gains control of the good or service, which can occur over time or at a specific point in time.

As regards the activities carried out by the Italgas Group, revenue is recognised when the service is provided. The largest share of revenue relates to regulated activities, the income from which is governed by the regulatory framework established by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, ARERA). Therefore, the economic conditions of the services provided are defined in regulatory schemes and not on a negotiation basis. In reference to the distribution and metering of natural gas, the difference between revenues recognised by the regulator (“Revenue cap”) and actual accrued revenue is posted in the Statement of Financial Position under the item “Trade and other receivables” if positive, and under the item “Trade and other payables”, if negative, in that it will be subject to monetary settlement with Cassa per i Servizi Energetici e Ambientali (CSEA)⁷².

Allocations of revenue relating to services partially rendered are recognised by the fee accrued, as long as it is possible to reliably determine the stage of completion and there are no significant uncertainties over the amount and the existence of the revenue and the relative costs; otherwise they are recognised within the limits of the actual recoverable costs.

Items of property, plant and equipment not used in concession services, transferred from customers (or realised with the cash transferred from customers) and depending on their connection to a network for the provision of supply, are recognised at fair value as a contra-entry to revenue in the income statement. When the agreement stipulates the provision of multiple services (e.g. connection and supply of goods), the service for which the asset was transferred from the customer is checked and, accordingly, the disclosure of the revenue is recognised on connection or for the shorter of the term of the supply and the useful life of the asset.

Revenue is recorded net of returns, discounts, allowances and bonuses, as well as directly related taxes.

Revenue is reported net of items involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Italgas are paid in full to the Energy and Environmental Services Fund (CSEA). Gross and net presentation of revenue is described in more detail in the Notes to the consolidated financial statements (see “Revenue” note).

⁷² Law No. 208 of 28 December 2015 (2016 Stability Law) makes provision, in Article 1, paragraph 670, for the transformation of the Cassa Conguaglio per il Settore Elettrico (CCSE) into a state-controlled Cassa per i Servizi Energetici e Ambientali (CSEA) as of 1 January 2016. The transformation of the CCSE into a state-controlled company and the change of name do not, in any way, either cause discontinuity in the functional relations of the CSEA (formerly the CCSE) with regulated parties or with suppliers.

Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue and costs.

DIVIDENDS RECEIVED

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

COSTS

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

ENERGY EFFICIENCY CERTIFICATES

The Energy Efficiency Certificates purchased during the year are entered in the income statement at the cost borne. The relevant contribution that CSEA will pay at the time the certificates are cancelled is booked as a reduction of the cost borne and is calculated based on the repayment price scheduled at year-end. A special risk provision is allocated to cover the future expected charges to fulfil the year's objective calculated as the difference between the cost to be borne and its cancellation contribution.

INCOME TAXES

Current income taxes are calculated by estimating the taxable income. Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/recovered to/from the tax Authorities under the prevailing tax regulations and rates or those essentially approved at the reporting date.

Regarding corporation tax (IRES), Italgas has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up. The projected payable is recognised under "Current income tax liabilities".

The regulations governing Italgas Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidaries with positive taxable income pay the amount due to Italgas. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;

- subsidaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate financial statements, receive from their shareholders - in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability - or from Italgas in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

Regional production tax (IRAP) is recognised under the item "Current income tax liabilities" / "Current income tax assets".

Deferred income tax assets and liabilities are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates or those essentially approved for future years. Deferred tax assets are recognised when their recovery is considered probable; specifically, the recoverability of deferred tax assets is considered probable when taxable income is expected to be available in the period in which the temporary difference is cancelled, allowing the activation of the tax deduction. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset. The balance of the offsetting, if it results in an asset, is recognised under the item "Deferred tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

Income tax assets with elements of uncertainty are recognised when they are regarded as likely to be obtained.

OPERATING SECTORS

The Group mainly operates in gas distribution and metering, and on a residual basis in the distribution, metering and sale of gases other than natural gas (LPG and propane air) and the integrated water service; owing to the irrelevance of this residual line of business, a single operating sector was identified pursuant to IFRS 8, which is gas distribution and metering.

4) Financial Statements

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of financial statements" (hereinafter "IAS 1"). In particular:

- the Statement of Financial Position items are broken down into assets and liabilities, and then further into "current or non-current items"⁷³;

⁷³ The assets and liabilities are classified as current if: (i) their realisation/settlement is expected in the company's normal operating cycle or within twelve months after the financial year-end; (ii) they are composed of cash or cash equivalents which do not have restrictions on their use over the twelve months following the year-end date; (iii) they are mainly held for trading purposes; or (iv) with reference to liabilities, the company does not have the unconditional right to defer settlement of the liability for at least twelve months from the financial year closing date.

- the Income Statement classifies costs by type, since this is deemed to be the best way of representing the Group's operations and is in line with international best practice;
- the Statement of Comprehensive Income shows the profit or loss in addition to the income and expense recognised directly in shareholders' equity as expressly provided for by the IFRS;
- the Statement of Changes in Shareholders' Equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in Shareholders' equity;
- the Statement of Cash Flows is prepared using the "indirect" method, adjusting the profit for the year of non-monetary components.

It is believed that these statements adequately represent the Group's situation with regard to its Statement of Financial Position, Income Statement and Statement of Cash Flows.

Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement.

With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in the note "Related party transactions", are shown separately in the financial statements.

For improved presentation of financial reporting, also aimed at progressive alignment with the IFRS Taxonomy published by the IFRS Foundation, some Balance Sheet and Income Statement items have been reclassified as shown below.

BALANCE SHEET

(€ THOUSANDS)	31.12.2019			RESTATEMENT STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	RESTATEMENT STATEMENT VALUE 2019	
ASSETS				ASSETS
Current assets				Current assets
Cash and cash equivalents	262,237		262,237	Cash and cash equivalents
Other financial assets measured at fair value with effects on OCI	119	(119)		
Other financial assets	5,000	(5,000)		
		5,119	5,119	Current financial assets
Trade and other receivables	585,230		585,230	Trade and other receivables
Inventories	52,295		52,295	Inventories
Current income tax assets	23,046		23,046	Current income tax assets
Reclassification from other current assets		2,398	2,398	Other current financial assets
Other current tax assets	50,423	(50,423)		
Reclassification in other current assets		50.423		

(€ THOUSANDS)	31.12.2019			RESTATED STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	RESTATED STATEMENT VALUE 2019	
Other current assets	6,764	(2,398)		
			54,789	Other current non-financial assets
	985,114		985,114	
Non-current assets				Non-current assets
Property, plant and equipment	350,001		350,001	Property, plant and equipment
<i>of which related to Right of Use (*)</i>	75,790			
Intangible assets	6,731,989		6,731,989	Intangible assets
Equity investments valued using the equity method	33,374		33,374	Equity investments valued using the equity method
Other equity investments	324	(324)		
Other financial assets	155	(155)		
Reclassification in Non-current financial assets		479	479	Non-current financial assets
Deferred tax assets				Deferred tax assets
Other non-current assets	129,421		129,421	Other non-current non-financial assets
	7,245,264		7,245,264	
Non-current assets held for sale	2,076		2,076	Non-current assets held for sale
TOTAL ASSETS	8,232,454		8,232,454	TOTAL ASSETS
LIABILITIES AND SHAREHOLDERS' EQUITY				LIABILITIES AND SHAREHOLDERS' EQUITY
Current liabilities				Current liabilities
Short-term financial liabilities	408,638			
Short-term portions of long-term financial liabilities	172,519	(172,519)		
<i>of which related to Right of Use (*)</i>	17,572			
Restated short-term financial liabilities		172,519		
			581,157	Short-term financial liabilities
Trade and other payables	726,714		726,714	Trade and other payables
Current income tax liabilities	1,708		1,708	Current income tax liabilities
Other current tax liabilities	9,335	(9,335)		
Other current liabilities	346	(346)		
		9,461	9,461	Other current non-financial liabilities

(€ THOUSANDS)	31.12.2019			RESTATED STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	RESTATED STATEMENT VALUE 2019	
Restated other current financial liabilities		220	220	Other current financial liabilities
	1,319,260		1,319,260	
Non-current liabilities				
Long-term financial liabilities	4,171,497		4,171,497	Long-term financial liabilities
<i>of which related to Right of Use (*)</i>	57,078			
Provisions for risks and charges	169,563		169,563	Provisions for risks and charges
Provisions for employee benefits	113,197		113,197	Provisions for employee benefits
Deferred tax liabilities	92,484		92,484	Deferred tax liabilities
Other non-current liabilities	571,514	(571,514)		
Reclassification from Other non-current liabilities		13,081	13,081	Other non-current financial liabilities
Reclassification from Other non-current liabilities		558,433	558,433	Other non-current non-financial liabilities
	5,118,255		5,118,255	
TOTAL LIABILITIES	6,437,515		6,437,515	TOTAL LIABILITIES
SHAREHOLDERS' EQUITY				SHAREHOLDERS' EQUITY
<i>Italgas shareholders' equity</i>				<i>Italgas shareholders' equity</i>
Share capital	1,001,232		1,001,232	Share capital
Reserves	141,911		141,911	Reserves
Profit (loss) for the year	417,238		417,238	Profit (loss) for the year
Total Italgas shareholders' equity	1,560,381		1,560,381	Total Italgas shareholders' equity
Minority interests	234,558		234,558	Minority interests
TOTAL SHAREHOLDERS' EQUITY	1,794,939		1,794,939	TOTAL SHAREHOLDERS' EQUITY
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,232,454		8,232,454	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

(*) the "of which related to Right of Use" is analysed in detail in the subsequent note corresponding to the item in the financial statements.

INCOME STATEMENT

(€ THOUSANDS)

2019 FINANCIAL STATEMENTS ITEMS	2019			RESTATEMENT STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	2019 RESTATEMENT VALUE	
REVENUE				REVENUE
Core business revenue	1,820,020		1,820,020	Revenue
Other revenue and income	72,815			
Reclassified income from seconded personnel		604		
			73,419	Other revenue and income
	1,892,835		1,893,439	
OPERATING COSTS				
Purchases, services and other costs	(729,838)			
Reclassified costs for raw materials, consumables, supplies and goods		(164,143)		
Reclassified changes to raw materials, consumables, supplies and goods		21,089		
			(143,054)	Costs for raw materials, consumables, supplies and goods
Reclassified costs for services		(481,313)		
Reclassified costs from personnel received on loan		(234)		
			(481,547)	Costs for services
Reclassified costs for leased assets		(83,857)	(83,857)	Costs for leased assets
Labour cost	(239,174)	(239,174)		
Reclassified income from seconded personnel		(604)		
Reclassified costs from personnel received on loan		234		
			(239,544)	Personnel cost
Reclassified net provisions for risks and charges		(1,141)	(1,141)	Net provisions for risks and charges
Reclassified net provisions for impairment		306	306	Net provisions for impairment
Reclassified other expenses		(20,779)	(20,779)	Other expenses
	(969,012)		(969,616)	
AMORTISATION, DEPRECIATION AND IMPAIRMENT	(407,781)		(407,781)	AMORTISATION, DEPRECIATION AND IMPAIRMENT
of which amortisation of Right of Use	15,218			

2019 FINANCIAL STATEMENTS ITEMS	2019			RESTATEMENT STATEMENT ITEMS
	2019 STATEMENT VALUE	RECLASSIFICATIONS	2019 RESTATEMENT VALUE	
EBIT	516,042		516,042	
FINANCIAL INCOME (EXPENSE)				FINANCIAL INCOME (EXPENSE)
Financial expense	(70,610)		(70,610)	Financial expense
— of which financial expense Right of Use (*)	(273)			
Financial income	1,315		1,315	Financial income
Derivative financial instruments				Derivative financial instruments
	(69,295)		(69,295)	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS				INCOME (EXPENSE) FROM EQUITY INVESTMENTS
Effect of valuation using the equity method	14,883		14,883	Effect of valuation using the equity method
Other income (expense) from equity investments	85,897		85,897	Other income (expense) from equity investments
	100,780		100,780	
Gross profit	547,527		547,527	Gross profit
Income taxes	123,928		123,928	Income taxes
Net profit (loss) for the year	423,599		423,599	Net profit (loss) for the year
Attributable to Italgas	417,238		417,238	Attributable to Italgas
Minority interests	6,361		6,361	Minority interests
Net earnings (loss) per share attributable to Italgas (€ per share)				Net earnings (loss) per share attributable to Italgas (€ per share)
— basic and diluted	0.52		0.52	— basic and diluted

(*) the "of which related to Right of Use" is analysed in detail in the subsequent note corresponding to the item in the financial statements.

DEFERRED IMPLEMENTATION OF THE ESEF REGULATION ON THE TAGGING OF CONSOLIDATED FINANCIAL STATEMENTS OF LISTED COMPANIES

In view of the difficulties facing the business world due to the crisis caused by the COVID-19 pandemic, in mid-February, the European Parliament and European Council approved an amendment to the Transparency Directive, enabling Member States to postpone by one year the obligation to publish financial reports using the aforesaid European single electronic format.

In order to take advantage of the aforesaid extension, Article 3, paragraph 11-sexies of the conversion law (Senate Deed no. 2101) of the "Milleproroghe" Decree (Decree-Law no. 183 of 31 December 2020), in the final text approved by the Chamber of Deputies and the Senate of the Republic, states that the provisions of the ESEF Regulation shall apply to financial reports relating to financial years starting from 1 January 2021.

5) Use of estimates

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are given below about the main accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on results of subsequent years.

IMPAIRMENT OF ASSETS

Measurement of tangible and intangible assets, including goodwill, requires recording of these in the financial statements for a value no higher than their recoverable value (so-called Impairment test).

To determine the recoverable value, the Group generally applies the value in use criterion. Value in use is defined as:

- i. The estimated value of Net Invested Capital updated to the balance sheet date attributed to these assets for tariff purposes (RAB - Regulatory Asset Base) by ARERA, net of the flat-rate components, employee severance pay and contributions received. RAB is the reference basis for determining the service tariffs and, therefore, the cash flows generated from assets⁷⁴. The RAB value is defined using the revalued historical cost method for Fixed Capital and on a flat-rate basis for Working Capital and employee severance pay;
- ii. The reimbursement value (RV) for ATEM tenders. The RV is the amount to be paid to the operator selling the infrastructure following the tender procedure;
- iii. the present value of the future cash flows expected to be derived from the asset being measured. These flows are determined in line with the most recent business plan approved by management, which is based not only on developments in the regulations, but also on estimates relating to reference market trends and investment and divestment decisions. In the process of determining the recoverable value, flows are discounted at a discount rate that reflects current market conditions, the time value of money and the specific risks of the asset.

More information on the impairment test carried out by the Company's management on property, plant and equipment and on intangible assets can be found in the "Impairment of non-financial fixed assets" section.

The recoverable value is sensitive to the estimates and assumptions used to determine the total invested capital, cash flows and discount rates applied. Therefore, possible variations in the estimation of the factors on which the calculation of the aforesaid recoverable values is based could result in different measurements.

Analysis of each of the groups of non-financial assets is unique and requires use by the company's management of estimates and assumptions considered prudent and reasonable in relation to the specific circumstances.

BUSINESS COMBINATIONS

Recognition of business combination transactions requires determination of the fair value of any assets and liabilities acquired as a result of obtaining control of the business. With the help of independent professionals, the company's

management measured the fair value of assets, liabilities and potential liabilities, on the basis of information on facts and circumstances available at the acquisition date.

Determination of the fair value of assets and liabilities acquired is subject to estimates and measurements by the company's management. Possible variations in the estimation of the factors on which determination of the fair value is based could generate different measurements.

Analysis of each business combination transaction is unique and requires use by the company's management of estimates and assumptions considered prudent and reasonable in relation to the specific circumstances.

ENVIRONMENTAL LIABILITIES

The Italgas Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out.

The measurement of future liabilities in connection with reclamation and restoration obligations in relation to sites and/or land on which the company carries out its business is a complex process based on technical and financial assumptions made by the company's management and supported by independent experts where necessary.

The restoration cost estimate is discounted using a risk-free rate in accordance with IAS 37. The estimate is made using a principle of prudence based on the known market, legislative and technological conditions at the time of measurement.

The estimates are reviewed at each balance sheet date to verify that the amounts recorded are the best reflection of the costs the Group will face. If any significant variations are found, the amounts are adjusted. The key factors for revising cost estimates are the revision of the timeframes for implementing the site reclamation and restoration plan, developments in the technologies and environmental regulations and discount rate trends.

Measurement of environmental liabilities recorded in the financial statements takes into account the environmental legislation currently in force. However, this measurement could be subject to variations, even to a significant extent, in relation to: (i) the possibility of further contamination arising; (ii) the results of current and future refurbishment and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes concerning the environmental liability for specific sites and the difficulty of determining the potential consequences of this, including in relation to the liability of other parties and any indemnity.

PROVISIONS FOR EMPLOYEE BENEFITS

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.

⁷⁴ The use of the RAB for the purposes of estimating the recoverable value is a generally accepted method within the regulated utility sectors.

The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.

Differences in the value of net liabilities relating to employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income. Actuarial assumptions are also used to determine other long-term employee benefit obligations; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.

PROVISIONS FOR RISKS AND CHARGES

In addition to the amounts allocated to the provisions for environmental liabilities, Italgas recorded provisions mainly relating to the following in the financial statements: (i) operational restoration of metering instruments; (ii) legal and tax disputes; (iii) staff leaving incentives; (iv) expenses related to meeting the Energy Efficiency Certificates targets (EEC) set by the Authority.

The provision for operational restoration of metering instruments is determined by the company's management on the basis of assumptions that take into account (i) hypothesised malfunctioning of smart meters currently installed; (ii) the warranties agreed with the meter suppliers; (iii) the estimated costs for replacing the smart meters.

Provisions are made to cover the risk of future outlay for the cases set out above. The value of the provisions recorded in the financial statements for such risks reflects the best estimate made by the company's management with the support of independent professionals at the preparation date of this document. This estimate involves making assumptions based on factors that may vary over time, which could, therefore, produce a significantly different outcome with respect to the current estimates made by the company's management for the preparation of the Group's financial statements.

6) Business combination transactions

The verification and corresponding accounting in relation to the acquisition of Toscana Energia was completed during the financial year, with a reduction of €1,216 thousand compared to the previously recorded goodwill. The analysis of the transactions is given below:

(€ THOUSANDS)	ACQUISITION OF COMPANIES
	TOSCANA ENERGIA GROUP
Cash and cash equivalents	16,715
Trade and other receivables	42,912
Inventories	4,741
Tax assets	10,648
Other current assets	306
Current assets	75,322
Property, plant and equipment	44,510
Intangible assets	891,250
Equity investments	26,538
Deferred tax assets	40,742
Other non-current assets	417

(€ THOUSANDS)	ACQUISITION OF COMPANIES
	TOSCANA ENERGIA GROUP
Non-current assets	1,003,457
TOTAL ASSETS	1,078,779
Short-term financial liabilities	326,453
Trade and other payables	19,610
Tax liabilities	9,308
Current liabilities	355,371
Long-term financial liabilities	104,699
Provisions for risks and charges	14,077
Provisions for employee benefits	8,635
Deferred tax liabilities	60,089
Other non-current liabilities	109,902
Non-current liabilities	297,402
TOTAL LIABILITIES	652,773
NET VALUE OF ACQUIRED ASSETS	426,006
GOODWILL	54,274
PRICE OF THE ACQUIRED ASSETS	539,000
of which paid	13,703

7) Cash and cash equivalents

Cash and cash equivalents, equal to €664,026 thousand (€262,237 thousand as at 31 December 2019), refer to current account deposits held at banks.

The item includes a deposit account of €230 million, the contractual terms of which provide for prompt disposal if requested by the company and an insignificant risk of changes in value.

Cash and cash equivalents are not subject to any usage restrictions.

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

8) Current financial assets

Current financial assets, amounting to €5,120 thousand (€5,119 thousand as at 31 December 2019), relate to financial receivables from credit institutions that can be liquidated in the short-term (€5,001 thousand) and to the remaining amount of the equity investment of Italgas Reti S.p.A. in Acqua Campania S.p.A. (€119 thousand).

9) Trade and other receivables

Trade and other receivables, which amount to €635,028 thousand (€585,230 thousand as at 31 December 2019) comprise the following:

(€ THOUSANDS)	31.12.2019	31.12.2020
Trade receivables	474,035	462,174
Receivables from investment/divestment activities	5,278	16,522
Other receivables	105,917	156,332
	585,230	635,028

Trade receivables (€462,174 thousand as at 31 December 2020 and €474,035 thousand as at 31 December 2019), mainly relate to the gas distribution service and ancillary services. They predominantly concern receivables from sales companies, of which from Eni S.p.A. Group for €203,532 thousand, Enel Group for €42,669 thousand and the Cassa per i Servizi Energetici e Ambientali (CSEA) relating to equalisation⁷⁵ (€28,588 thousand).

These are reported net of the provision for impairment losses (€15,494 thousand at 31 December 2020 and €16,368 thousand at 31 December 2019). Changes in the provision for impairment losses on receivables during the year are shown below:

(€ THOUSANDS)	PROVISION FOR IMPAIRMENT LOSSES AT 31.12.2018	CHANGE IN SCOPE OF CONSOLIDATION	PROVISIONS	USES	PROVISION FOR IMPAIRMENT LOSSES AT 31.12.2019
Trade receivables	18,879	2,691	66	(6,156)	15,480
Other receivables	879		9		888
	19,758	2,691	75	(6,156)	16,368

(€ THOUSANDS)	PROVISION FOR IMPAIRMENT LOSSES AT 31.12.2019	PROVISIONS	USES	PROVISION FOR IMPAIRMENT LOSSES AT 31.12.2020
Trade receivables	15,480		(874)	14,606
Other receivables	888			888
	16,368		(874)	15,494

The provision for impairment of receivables reflects estimated losses in connection with the company's credit portfolio. Provisions are made for expected losses on receivables, estimated both on the basis of past experience with receivables with similar credit risk and on the basis of future expected loss on open positions as at the balance sheet date, as well as careful monitoring of the quality of credit portfolios.

Receivables for investment/divestment activities (€16,522 thousand as at 31 December 2020 and €5,278 thousand as at 31 December 2019) involve receivables for sales of property, plant and equipment and intangible assets.

Other receivables (€156,332 thousand as at 31 December 2020 and €105,917 thousand as at 31 December 2019) break down as follows:

(€ THOUSANDS)	31.12.2019	31.12.2020
IRES receivables for the national tax consolidation scheme	14,205	15,996
Receivables from the Cassa per i Servizi Energetici e Ambientali (CSEA)	43,627	102,769
Receivables from the Public administration	22,274	10,292
Advances to suppliers	21,153	19,737
Receivables from personnel	4,545	2,975
Other receivables	113	4,563
	105,917	156,332

⁷⁵ The mechanism based on which the differences between what is invoiced to sales companies and the revenue restrictions defined by the Authority are recorded as debits/credits from the CSEA.

IRES receivables for the national tax consolidation scheme (€15,996 thousand as at 31 December 2020) concern receivables from the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2004 to 2007 (pursuant to Article 6 of Decree-Law no. 185 of 28 November 2008, converted by Law no. 2 of 28 January 2009) and to tax years 2007 to 2011 (pursuant to Decree-Law no. 201/2011).

Receivables from the CSEA (€102,769 thousand as at 31 December 2020) mainly relate to the additional components of the gas distribution tariffs for €101,700 thousand (Safety incentives, UG2⁷⁶ and Bonus Gas⁷⁷). The increase takes into account the repositioning among Other receivables of the safety incentives previously shown among trade receivables (€41,738 thousand as at 31 December 2019).

Receivables from public administrations (€10,292 thousand as at 31 December 2020) relate to receivables from Municipalities.

The market value of trade and other receivables is analysed in the Note "Guarantees, commitments and risks - Other information about financial instruments". All receivables are in Euro.

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

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

(€ THOUSANDS)	31.12.2019			31.12.2020		
	TRADE RECEIVABLES	OTHER RECEIVABLES (*)	TOTAL	TRADE RECEIVABLES	OTHER RECEIVABLES (*)	TOTAL
Receivables not overdue	446,631	111,195	557,826	417,520	172,854	590,374
Receivables overdue:	27,404		27,404	44,654		44,654
– from 0 to 3 months	6,886		6,886	15,929		15,929
– from 3 to 6 months	1,910		1,910	1,430		1,430
– from 6 to 12 months	3,860		3,860	4,596		4,596
– over 12 months	14,748		14,748	22,699		22,699
	474,035	111.195	585,230	462,174	172.854	635,028

(*) The item includes I Receivables from investment/divestment activities

The receivables past due, which total €44,654 thousand mainly regard receivables from Public administrations.

The average credit collection times are 2 days. No interest is charged on expiring credits.

Note that the Company has finalised factoring agreements with financial counterparties on the basis of which the Company's receivables can be factored without recourse. In particular, transactions were completed for the sale of receivables related to: i) trade receivables for distribution due on 31 December 2020 for a collection equal to a total

of €85.3 million, (ii) receivables from CSEA for a collection equal to €100.5 million, (iii) credits related to Energy Efficiency Certificates for a collection equal to €131.8 million and (iv) tax receivables for a collection equal to €38.6 million.

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

Specific information on credit risk is provided in the note "Guarantees, commitments and risks - Financial risk management - Credit risk".

⁷⁶ Additional component of the distribution tariff for the purpose of containing the cost of the gas service for low consumption end users.

⁷⁷ Component relating to requests for subsidies for natural gas provision by economically disadvantaged customers.

10) Inventories

Inventories, which amount to €101,184 thousand, are analysed in the table below:

(€ THOUSANDS)	31.12.2019			31.12.2020		
	GROSS VALUE	PROVISION FOR IMPAIRMENT LOSSES	NET VALUE	GROSS VALUE	PROVISION FOR IMPAIRMENT LOSSES	NET VALUE
Inventories						
— Raw materials, consumables and supplies	53,886	(1,591)	52,295	102,138	(954)	101,184
— Finished products and goods						
	53,886	(1,591)	52,295	102,138	(954)	101,184

Inventories of raw materials, consumables and supplies (€101,184 thousand at 31 December 2020) mainly consisted of gas meters in connection with the replacement plan. The provision for impairment losses is €954 thousand.

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

11) Current and non-current income tax assets/liabilities

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

(€ THOUSANDS)	31.12.2019			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Income tax assets	23,046		23,046	4,251	3,340	7,591
— IRES	22,914		22,914	4,248	3,340	7,588
— IRAP	132		132	3		3
Income tax liabilities	1,708		1,708	35,934		35,934
— IRES	688		688	34,022		34,022
— IRAP	1,020		1,020	1,912		1,912

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

12) Other current and non-current non-financial assets

Other current non-financial assets, amounting to €84,168 thousand, and *other non-current non-financial assets*, amounting to €167,441 thousand, break down as follows:

(€ THOUSANDS)	31.12.2019			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Other regulated activities		126,877	126,877	38,618	164,148	202,766
Other assets	54,789	2,544	57,333	45,550	3,293	48,843
– Other current taxes	50,423		50,423	40,818		40,818
– Prepayments	4,274	215	4,489			
– Security deposits		2,254	2,254			
– Other	92	75	167	4,732	3,293	8,025
	54,789	129,421	184,210	84,168	167,441	251,609

Other regulated activities (€202,766 thousand as at 31 December 2020) essentially relate to the tariff recognition, by the Authority, following the plan to replace traditional meters with electronic meters.

The *other current tax assets*, amounting to €40,818 thousand (€50,423 thousand as at 31 December 2019) refer to VAT receivables for €36,138 thousand (€46,372 thousand as at 31 December 2019) and to other taxes for €4,680 thousand (€4,051 thousand as at 31 December 2019).

13) Property, plant and equipment

Property, plant and equipment, which amounts to €369,899 thousand as at 31 December 2020 (€350,001 thousand at 31 December 2019), breaks down as follows:

(€ THOUSANDS)	31.12.2019						
	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT	TOTAL
Cost at 31.12.2018	12,108	386,088	14,495	132,851	1,559	1,247	548,348
Right of use 1.1.2019		37,002		19,658			56,660
Investments		28,550	1,487	3,702	13	2,715	36,467
Right of use investments		2,603		23,737	13,212		39,552
Divestments	(78)	(520)		(3,072)	(973)	(73)	(4,716)
Disposals of Right of use		(5,879)		(4,010)	(24)		(9,913)
Change in scope of consolidation	1,085	25,466	28,564	7,557	12,670	8,721	84,063
Change in scope of consolidation Right of use		4,668		1,707	206		6,581
Other changes	(68)	196	(12,042)	2,901	1,645	(400)	(7,768)
Other change in Rights of use		(316)		(932)	1,034		(214)
Cost at 31.12.2019	13,047	440,856	32,504	164,441	29,342	12,210	692,400
Accumulated amortisation at 31.12.2018		(183,143)	(5,717)	(94,719)	(704)		(284,283)
Amortisation of Right of use 1.1.2019		(3,762)		(3,473)			(7,235)
Amortisation and depreciation		(6,454)	(852)	(6,345)	(175)		(13,826)
Amortisation of Right of use		(4,876)		(8,292)	(2,050)		(15,218)
Divestments		354		2,599	906		3,859
Disposals of Right of use		3,747		3,286			7,033
Change in scope of consolidation		(8,742)	(11,804)	(6,791)	(15,500)		(42,837)
Change in scope of consolidation amortisation of Right of use		(1,044)		(445)	(26)		(1,515)
Other change in Rights of use		62		157	(160)		59
Other changes		89	4,672	(1,229)	1,485		5,017
Accumulated depreciation at 31.12.2019		(200,007)	(13,701)	(111,779)	(16,224)		(341,711)
Provision for impairment losses at 31.12.2018			(4,199)	(657)		(31)	(4,887)
Change in scope of consolidation					(1,259)		(1,259)
Other changes			4,199		1,259		5,458
Provision for impairment losses at 31.12.2019				(657)		(31)	(688)
Net balance at 31.12.2018	12,108	202,945	4,579	37,475	855	1,216	259,178
Net balance at 31.12.2019	13,047	240,849	18,803	52,005	13,118	12,179	350,001
— of which Right of use		32,205		31,393	12,192		75,790

(€ THOUSANDS)	31.12.2020						
	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT	TOTAL
Cost at 31.12.2019	13,047	440,856	32,504	164,441	29,342	12,210	692,400
Right of use 1.1.2020		38,078		40,160	14,428		92,666
Investments	10	14,089	922	7,240	44	17,197	39,502
Right of use investments		9,872		6,721	9,887		26,480
Divestments	(43)	(1,893)	(308)	(14,911)	(2,798)	(54)	(20,007)
Disposals of Right of use		(1,107)		(290)			(1,397)
Other changes	1	321	1,052	767	(5)	(10,409)	(8,273)
Other change in Right of use		(1,216)		(1,882)	1,402		(1,696)
Cost at 31.12.2020	13,015	460,922	34,170	162,086	37,872	18,944	727,009
Accumulated depreciation at 31.12.2019		(200,007)	(13,701)	(111,779)	(16,224)		(341,711)
Amortisation of Right of use 1.1.2020		(5,873)		(8,767)	(2,236)		(16,876)
Amortisation and depreciation		(7,369)	(1,736)	(6,593)	(414)		(16,112)
Amortisation of Right of use		(5,854)		(10,019)	(4,362)		(20,235)
Divestments		1,128	116	14,766	2,761		18,771
Disposals of Right of use		518		180			698
Other change in Right of use		1,199		543	(59)		1,683
Other changes		8	475	(1)	2		484
Accumulated amortisation at 31.12.2020		(210,377)	(14,846)	(112,903)	(18,296)		(356,422)
Provision for impairment losses at 31.12.2019				(657)		(31)	(688)
Provision for impairment losses at 31.12.2020				(657)		(31)	(688)
Net balance at 31.12.2019	13,047	240,849	18,803	52,005	13,118	12,179	350,001
Net balance at 31.12.2020	13,015	250,545	19,324	48,526	19,576	18,913	369,899
<i>— of which Right of use</i>		<i>35,617</i>		<i>26,646</i>	<i>19,060</i>		81,323

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

RIGHT OF USE (*)

(€ THOUSANDS)	1.1.2020	DEPRECIATION	INCREASES	DECREASES	OTHER CHANGES	31.12.2020
Buildings	32,204	(5,852)	9,865	(587)	(13)	35,617
— operating properties	32,204	(5,852)	9,865	(587)	(13)	35,617
Industrial and commercial equipment	30,104	(10,035)	6,725	(112)	(36)	26,646
— ICT	3,981	(2,665)	2,284	(88)	(1)	3,511
— motor vehicles	26,123	(7,370)	4,441	(24)	(35)	23,135
Other assets	13,482	(4,348)	9,890		36	19,060
	75,790	(20,235)	26,480	(699)	(13)	81,323
Interest expense (included in financial expense)	304					

(*) included in the item "Property, plant and equipment" of the Balance Sheet

The land and buildings, amounting to €263,560 thousand, mainly include buildings for office use, workshops, warehouses and warehouses used in business activities of which rights of use equal to €35,617 thousand.

Plant and machinery (€19,324 thousand) mainly relate to the complex of infrastructures dedicated to heat distribution.

Industrial and commercial equipment (€48,526 thousand) mainly include ICT infrastructures, vehicles and other equipment of which use rights amounting to €26,646 thousand.

Below is a brief description of the main changes that occurred during the year.

The investments for the year (€65,982 thousand) include the increases relating to the rights of use for buildings and equipment (motor vehicles and computer equipment) pursuant to IFRS 16 (€26,480 thousand). Depreciation (€36,347 thousand) refers to economic and technical

depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company, of which €20,235 thousand regard the rights of use pursuant to IFRS 16.

During the year, there were no changes in the estimated useful life of assets or in the depreciation rates applied and explained by category in the Note - "Measurement criteria - Property, plant and equipment".

The provision for impairment losses (€688 thousand) mainly relates to a cogeneration plant.

Property, plant and equipment of the Company are not collateralised and there are no restrictions on the ownership of property, plant and equipment.

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

14) Intangible assets

Intangible assets, which amount to €7,060,110 thousand as at 31 December 2020 (€6,731,989 as at 31 December 2019) break down as follows:

(€ THOUSANDS)	31.12.2019						
	DEFINITE USEFUL LIFE					INDEFINITE USEFUL LIFE	
	SERVICE CONCESSION AGREEMENTS	INDUSTRIAL PATENT RIGHTS AND INTELLECTUAL PROPERTY RIGHTS	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT IFRIC 12	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT	OTHER INTANGIBLE ASSETS	GOODWILL	TOTAL
Cost at 31.12.2018	8,882,698	366,315	125,703	27,947	39,095	35,512	9,477,270
Investments	468,074	24,561	154,665	10,664	6,027		663,991
Government grants			(767)				(767)
Change in the scope of consolidation	1,508,627	329	826	3	36,706	55,490	1,601,981
Divestments	(146,881)	(20)	(48)	(305)	(589)		(147,843)
Other changes	72,374	40,006	(47,198)	(24,101)	15,984	(22,348)	34,717
Cost at 31.12.2019	10,784,892	431,191	233,181	14,208	97,223	68,654	11,629,349
Accumulated amortisation at 31.12.2018	(3,705,764)	(295,821)			(35,178)		(4,036,763)
Amortisation and depreciation	(333,065)	(32,801)			(10,963)		(376,829)
Change in the scope of consolidation	(561,583)	(252)			(22,007)		(583,842)
Divestments	141,943	(1)			490		142,432
Other changes	(9,431)	(17,124)			(3,661)		(30,216)
Accumulated depreciation at 31.12.2019	(4,467,900)	(345,999)			(71,319)		(4,885,218)
Provision for impairment losses at 31.12.2018	(6,488)			(2,096)			(8,584)
(Write-down)/Value restorations	(1,856)			(52)			(1,908)
Change in the scope of consolidation	(2,271)						(2,271)
Other changes	621						621
Provision for impairment losses at 31.12.2019	(9,994)			(2,148)			(12,142)
Net balance at 31.12.2018	5,170,446	70,494	125,703	25,851	3,917	35,512	5,431,923
Net balance at 31.12.2019	6,306,998	85,192	233,181	12,060	25,904	68,654	6,731,989

(€ THOUSANDS)	31.12.2020						
	DEFINITE USEFUL LIFE					INDEFINITE USEFUL LIFE	
	SERVICE CONCESSION AGREEMENTS	INDUSTRIAL PATENT RIGHTS AND INTELLECTUAL PROPERTY RIGHTS	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT IFRIC 12	WORK IN PROGRESS AND PAYMENTS ON ACCOUNT	OTHER INTANGIBLE ASSETS	GOODWILL	TOTAL
Cost at 31.12.2019	10,784,892	431,191	233,181	14,208	97,223	68,654	11,629,349
Investments	522,418	29,422	146,320	9,360	3,842		711,362
Government grants			(1,968)				(1,968)
Acquisition of business units	19,769						19,769
Divestments	(88,644)	(47)	(117)	(37)	(11)		(88,856)
Other changes	81,597	10,213	(62,210)	(11,870)	(68)	(1,216)	16,446
Cost at 31.12.2020	11,320,032	470,779	315,206	11,661	100,986	67,438	12,286,102
Accumulated depreciation at 31.12.2019	(4,467,900)	(345,999)			(71,319)		(4,885,218)
Amortisation and depreciation	(359,337)	(35,886)			(11,673)		(406,896)
Divestments	77,239	6			11		77,256
Other changes	217	56			16		289
Accumulated amortisation at 31.12.2020	(4,749,781)	(381,823)			(82,965)		(5,214,569)
Provision for impairment losses at 31.12.2019	(9,994)			(2,148)			(12,142)
(Write-down)/Value restorations	(933)						(933)
Other changes	1,651			1			1,652
Provision for impairment losses at 31.12.2020	(9,276)			(2,147)			(11,423)
Net balance at 31.12.2019	6,306,998	85,192	233,181	12,060	25,904	68,654	6,731,989
Net balance at 31.12.2020	6,560,975	88,956	315,206	9,514	18,021	67,438	7,060,110

Service concession agreements (€6,560,975 thousand as at 31 December 2020) refer to agreements between the public and private sectors on the development, financing, management and maintenance of infrastructure under concession by a grantor. The provisions relating to the service concession agreements apply to Italgas in the context of its public natural gas distribution and metering service, i.e. they are applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the Authority, holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service.

Industrial patent rights and intellectual property rights (€88,956 thousand as at 31 December 2020) mainly concern information systems and applications in support of operating activities.

Other intangible assets (€18,021 thousand as at 31 December 2020) predominately concern extraordinary maintenance of other assets.

Intangible assets with an indefinite useful life (€67,438 thousand as at 31 December 2020) consist mainly of the goodwill that emerged during the year in connection with the process of allocating prices paid for the acquired companies. The change of €1,216 thousand is related to the conclusion of the verification and related accounting for the acquisition of Toscana Energia.

Work in progress and payments on account IFRC 12, of €315,206 thousand, refer mainly to new networks under construction.

Investments for the year, equal to €711,362 thousand, mainly relate to service agreements (€669,327 thousand) and industrial patent rights and intellectual property rights (€29,422 thousand).

Acquisitions of assets and business units, of €19,769 thousand, relate mainly to:

- the agreement concluded on 31 January 2020 with Unareti (A2A Group), which led to the acquisition of the natural gas distribution business in seven municipalities belonging to the Alessandria 4 ATEM (€3,000 thousand);
- the signing, on 31 January 2020, of the systems handover report for the Turin 2 territorial area (€4,964 thousand) with the Città Metropolitana di Torino (Metropolitan City of Turin) contracting authority and the outgoing operators;
- the finalisation, on 5 November 2020, of the service agreement for the performance of natural gas distribution activities in the Municipality of Castel San Giorgio (Salerno 3 ATEM, €3,120 thousand);
- the gas distribution service in the Municipality of Viadana, following the completion of the arbitration award that led to an increase in fixed assets of €8,764 thousand.

Amortisation refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company. The amount, equal to €406,896 thousand, includes the greater amortisation resulting from reducing the useful life of the traditional meters⁷⁸, subject to the plan to replace them with electronic meters, required by ARERA resolutions under the scope of the implementation of the smart metering plan.

The provision for impairment losses, of €11,423 thousand, essentially relates to service concession agreements.

Research and development expenses of the period are not of a considerable amount.

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

IMPAIRMENT TEST

The impairment test is conducted for all CGUs with impairment indicators and/or goodwill allocated to them. In 2020, the test was carried out for all the main CGUs, regardless of the presence of impairment indicators and/or goodwill.

The impairment test therefore concerned the following CGUs (cash generating units): Natural gas distribution and metering, Distribution and metering of other gases, Sale of other gases, Integrated water service, Other activities (ESCos).

As required by the reference accounting standards (IAS 36), impairment testing was conducted on assets and goodwill by determining their recoverable value and comparing this with the net book value of the CGUs to which they belong.

Goodwill posted to the financial statements is allocated as follows:

- i. €64.0 million for the Natural gas distribution and metering CGU;
- ii. €2.2 million for Distribution and metering of other gases;
- iii. €1.2 million for Other activities (ESCos).

With reference to the Natural gas distribution and metering CGU and the Integrated water service CGU, the recoverable value was defined in accordance with the estimated value of Net Invested Capital attributed to such assets for tariff purposes (RAB - Regulatory Asset Base⁷⁹) by the Authority.

The use of the RAB for the purpose of estimating the recoverable value is a generally accepted method within the regulated utility sectors; reasonable changes in valuation inputs would not lead to impairment of asset value.

With reference to the other CGUs, the recoverable value was determined using the Discounted Cash Flow (DCF) Method based on the flows resulting from the 2020-2026 business plan. No impairment was found as a result of the test carried out. A sensitivity analysis was also carried out on the WACC used to determine the recoverable value.

⁷⁸ The useful life of the meters included in the project pursuant to ARERA resolutions 631/13, 554/15, 669/18 and 501/20 was adjusted, in order to complete the amortisation process in line with the meter replacement plan.

⁷⁹ RAB is the reference basis for determining the service tariffs and, therefore, the cash flows generated from assets. The RAB value is defined using the revalued historical cost method for Fixed Capital and on a flat-rate basis for Working Capital and employee severance pay.

15) Equity investments valued using the equity method

Equity investments valued using the equity method, which amount to €29,301 thousand (€33,374 thousand at 31 December 2019) break down as follows:

(€ THOUSANDS)	31.12.2019	INCOME (EXPENSE) FROM EQUITY INVESTMENTS	DECREASE FOR DIVIDENDS	OTHER CHANGES	31.12.2020
Umbria Distribuzione Gas S.p.A.	1,326	221			1,547
Sant'Angelo Lodigiano S.p.A.	1,128	129	(155)		1,102
Gesam Reti S.p.A.	25,078	1,022	(7,262)	1,878	20,716
Valdarno S.r.l. in liquidation	5,443	119			5,562
Enerpaper S.r.l.	399	(25)			374
	33,374	1,466	(7,417)	1,878	29,301

Income from valuation using the equity method, of €1,466 thousand, refers mainly to the company Gesam Reti (€1,022 thousand).

The decrease for dividends, of €7,417 thousand concerns the company Gesam Reti (€7,262 thousand) and Metano Sant'Angelo Lodigiano (€155 thousand).

Other changes, of €1,878 thousand, concern the additional valuation of the business combination relating to Toscana Energia for its affiliate Gesam Reti.

There are no real guarantees on the investments.

With regard to the recoverable value of equity investments, for companies operating exclusively in regulated businesses, the recoverable value is calculated using the adjusted RAB value of the net financial position, while for companies operating in other businesses, it is estimated based on future cash flows from business plans. In the light of the positive performance of those companies, the value estimated in this way is higher for all equity investments than the value recorded in the financial statements, and therefore there are no losses in value.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the Appendix "Subsidiaries, associates and equity investments of Italgas S.p.A. at 31 December 2020", which is an integral part of these notes.

OTHER INFORMATION ON EQUITY INVESTMENTS

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates are provided below.

EQUITY INVESTMENTS IN JOINT VENTURES

The IFRS-compliant economic and financial data on equity investments in joint ventures operating in the distribution of natural gas⁸⁰ are reported below according to their relevance.

⁸⁰ Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method.

(€ THOUSANDS)	31.12.2020
	COMPANIES UNDER JOINT CONTROL
Current assets	6.406
— of which Cash and cash equivalents	3.073
Non-current assets	12.494
Total assets	18.900
Current liabilities	(7.487)
— of which Short-term financial liabilities	(742)
Non-current liabilities	(5.772)
— of which Long-term financial liabilities	(5.499)
Total liabilities	(13.259)
Shareholders' equity	5.641
Group interest	2.649
Value of the equity investment	2.649
Revenue	7.713
Operating costs	(6.457)
Amortisation, depreciation and impairment	(655)
EBIT	601
Financial expense	(93)
Income taxes	(143)
Net profit	365
Total comprehensive income	365

UMBRIA DISTRIBUZIONE GAS S.p.A.

Umbria Distribuzione Gas S.p.A. operates in the natural gas distribution segment in Umbria.

The share capital of Umbria Distribuzione Gas S.p.A. is held by Italgas S.p.A. (45%), A.S.M. Terni S.p.A. (40%) and Acea S.p.A. (15%).

Umbria Distribuzione Gas manages the natural gas distribution service in the Terni municipality, making use of an integrated system of infrastructures, owned by Terni Reti S.r.l., a wholly-owned subsidiary of the Terni municipality, comprising stations for withdrawing gas from the transportation network, pressure reduction plants, the local transportation and distribution network, user derivation plants and redelivery points comprising technical equipment featuring meters at the end users.

The corporate governance rules establish that the decisions on the significant activities have to be taken with the unanimous consent of the private partner (Italgas S.p.A.) and the Public Partner (Municipalities).

METANO SANT'ANGELO LODIGIANO S.p.A.

Metano Sant'Angelo Lodigiano S.p.A. operates in the natural gas distribution sector in the municipalities of Sant'Angelo Lodigiano (LO), Villanova del Sillaro, Bargano (LO), Castiraga Vidardo (LO), Marudo (LO) and Villanterio (PV).

The corporate governance rules establish that the decisions on the significant activities have to be taken with the unanimous consent of the private partner (Italgas S.p.A.) and the Public Partner (Municipalities).

EQUITY INVESTMENTS IN ASSOCIATES

The IFRS-compliant economic and financial data for each significant associate, are reported below:

(€ THOUSANDS)	31.12.2020		
	GESAM RETI S.P.A.	VALDARNO S.R.L. IN LIQUIDATION	ENERPAPER S.R.L.
Current assets	10,154	588	886
— of which Cash and cash equivalents	3,417	1	288
Non-current assets	54,156	20,819	443
Total assets	64,310	21,407	1,329
Current liabilities	(7,065)	(1,515)	(223)
— of which Short-term financial liabilities	(1,605)	(929)	
Non-current liabilities	(21,985)	(1,380)	(829)
— of which Long-term financial liabilities	(16,828)	(122)	(801)
Total liabilities	(29,050)	(2,895)	(1,052)
Shareholders' equity	35,260	18,512	277
Equity investment held by the group %	42.96%	30.05%	10.00%
Group interest	15,148	5,562	28
Other adjustments	5,568		346
Value of the equity investment	20,716	5,562	374
Revenue	13,912	3,179	554
Operating costs	(7,434)	(2,295)	(645)
Amortisation, depreciation and impairment	(3,437)	(391)	(102)
EBIT	3,041	493	(193)
Financial Income (Expense)	(273)	(16)	(26)
Income taxes	(886)	(160)	(29)
Net profit	1,882	317	(248)
Total comprehensive income	1,882	317	(248)

GESAM RETI S.P.A.

Gesam Reti S.p.A. operates in the natural gas distribution and network management sector (owned 42.96% by Toscana Energia S.p.A.) in the municipality of Lucca and in another 7 municipalities of the province.

VALDARNO S.R.L. IN LIQUIDATION

Valdarno S.r.l. is a real estate management company in liquidation owned 30.04% through Toscana Energia S.p.A.

ENERPAPER S.R.L.

Enerpaper S.r.l. operates in Turin, is 10% owned through Seaside S.r.l., whose activities carried out on its own behalf or on behalf of third parties are mostly focused on energy efficiency, building production in general, development, production, installation and sale of innovative products or services having high technological value.

16) Non-current financial assets

Non-current financial assets, amounting to €5,072 thousand (€479 thousand as at 31 December 2019), are broken down as follows:

(€ THOUSANDS)	31.12.2019	31.12.2020
Financial receivables instrumental to operations	155	156
Other equity investments	324	4,916
	479	5,072

The item includes the equity investments in Reti Distribuzione and Isgas33, which are measured at Fair Value with the effects recognised in the income statement.

The increase of €4,593 thousand concerns the acquisition, on 26 May 2020, through the subsidiary Italgas Reti, of 15% of the company Reti Distribuzione from the company Azienda Energia e Gas Società Cooperativa. Reti Distribuzione operates the natural gas distribution service across an area encompassing 49 municipalities located in the Canavese, Valle Orco and Soana areas, and in the Municipality of Saluggia, for a total of 32 thousand re-delivery points. The consideration for the transaction was €4.6 million.

17) Assets held for sale

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

18) Short-term and long-term financial liabilities

Short-term financial liabilities, amounting to €698,406 thousand (€581,157 thousand as at 31 December 2019) and long-term financial liabilities, totalling €4,707,145 thousand (€4,171,497 thousand as at 31 December 2019), break down as follows:

(€ THOUSANDS)	31.12.2019					
	SHORT-TERM LIABILITIES			LONG-TERM LIABILITIES		
	SHORT-TERM LIABILITIES	SHORT-TERM PORTION OF LONG-TERM LIABILITIES	TOTAL SHORT-TERM LIABILITIES	LONG-TERM PORTION DUE WITHIN 5 YEARS	LONG-TERM PORTION DUE BEYOND 5 YEARS	TOTAL LONG-TERM LIABILITIES
Bank loans	402,247	123,650	525,897	193,034	598,376	791,410
Bonds		31,297	31,297	746,169	2,576,840	3,323,009
Financial payables for leased assets (IFRS 16)		17,572	17,572	49,728	7,350	57,078
Other shareholders	6,391		6,391			
	408,638	172,519	581,157	988,931	3,182,566	4,171,497

(€ THOUSANDS)	31.12.2020					
	SHORT-TERM LIABILITIES			LONG-TERM LIABILITIES		
	SHORT-TERM LIABILITIES	SHORT-TERM PORTION OF LONG-TERM LIABILITIES	TOTAL SHORT-TERM LIABILITIES	LONG-TERM PORTION DUE WITHIN 5 YEARS	LONG-TERM PORTION DUE BEYOND 5 YEARS	TOTAL LONG-TERM LIABILITIES
Bank loans	600,210	44,160	644,370	237,794	592,047	829,841
Bonds		33,279	33,279	1,242,336	2,578,920	3,821,256
Financial payables for leased assets (IFRS 16)		20,250	20,250	48,043	8,004	56,047
Other shareholders	507		507	1		1
	600,717	97,689	698,406	1,528,174	3,178,971	4,707,145

Loans are initially recognized at cost represented by the fair value of the value received net of the accessory charges for the acquisition of the loan. After this initial recognition, the loans are recognized with the amortized cost criterion calculated by applying the effective interest rate. All financial liabilities are accounted for according to the amortized cost method.

SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, of €698,406 thousand (€581,157 thousand as at 31 December 2019), including the short-term portions of long-term liabilities, mainly refer to the use of uncommitted credit lines.

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

LONG-TERM FINANCIAL LIABILITIES

Long-term financial liabilities amount to €4,707,145 thousand overall (€4,171,497 thousand as at 31 December 2019).

Net of the financial payables for leased assets (€56,047 thousand), the increase of €536,678 thousand compared to 31 December 2019 was mainly attributable to the bond issue completed in June for a nominal value of €500 million.

The breakdown of the bonds (€3,854,535 thousand), with the issuing company, year of issue, currency, average interest rate and due date, is provided in the following table.

(€ THOUSANDS)

ISSUING COMPANY	EMISSION (YEAR)	CURRENCY	NOMINAL VALUE	ADJUSTMENTS (a)	BALANCE AS AT 31.12.2020	RATE (%)	DUE DATE (YEAR)
Euro Medium Term Notes							
ITALGAS S.p.A.	2017	€	750,000	6,015	756,015	1.625%	2027
ITALGAS S.p.A.	2017	€	268,360	621	268,981	0.500%	2022
ITALGAS S.p.A.	2017	€	480,945	2,761	483,706	1.125%	2024
ITALGAS S.p.A.	2017	€	750,000	8,041	758,041	1.625%	2029
ITALGAS S.p.A.	2019	€	600,000	(3,805)	596,195	0.875%	2030
ITALGAS S.p.A.	2019	€	500,000	(4,303)	495,697	1.000%	2031
ITALGAS S.p.A.	2020	€	500,000	(4,100)	495,900	0.250%	2025
			3,849,305	5,230	3,854,535		

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

The breakdown of bank loans, amounting to €1,474,211 thousand is provided in the table below.

(€ THOUSANDS)

TYPE	ISSUE (YEAR)	CURRENCY	NOMINAL VALUE	ADJUSTMENTS (a)	BALANCE AS AT 31.12.2020	RATE (%)	DUE DATE (YEAR)
ITALGAS S.p.A. - EIB	2017	€	360,000	(191)	359,809	0.35+Euribor 6M	2037
ITALGAS S.p.A. - EIB	2015	€	124,000		124,000	0.14+Euribor 6M	2035
ITALGAS S.p.A. - EIB	2016	€	300,000	(194)	299,806	0.47+Euribor 6M	2032
TOSCANA ENERGIA S.p.A - EIB	2016	€	85,909	(30)	85,879	1.049%	2031
Bank loans					604,717		
			869,909	(415)	1,474,211		

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

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

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

Italgas, as at 31 December 2020, had unused committed credit lines amounting to €500 million maturing in October 2021.

There are no breaches of clauses related to the loan agreements. See the paragraph "Financial covenants and negative pledge contractual clauses" on page 252.

BREAKDOWN OF TOTAL FINANCIAL LIABILITIES BY INTEREST RATE TYPE

As at 31 December 2020, the breakdown of debt by type of interest rate, inclusive of liabilities for leases pursuant to IFRS 16 was as follows:

(€ MILLION)	31.12.2019	%	31.12.2020	%
Fixed rate	4,178.4	88.0	4,676.3	86.5
Variable rate	567.8	12.0	728.8	13.5
Gross financial debt	4,746.2	100.0	5,405.1	100.0

FINANCIAL COVENANTS AND NEGATIVE PLEDGE CONTRACTUAL CLAUSES

As at 31 December 2020 there are no loan agreements containing financial covenants and / or secured by collateral, with the exception of the EIB loan signed by Toscana Energia for an amount of €90 million which provides for compliance with certain financial covenants⁸¹. Some of these contracts provide, inter alia, for the following: (i) negative pledge undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights

⁸¹ The contracts include a clause for which, in the event of a significant reduction in EBITDA deriving from the loss of concessions, an obligation to inform the EIB and a subsequent consultation period is envisaged, at the end of which early repayment of the loan may be requested. The economic-financial parameters as at 31 December 2020 are respected.

of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) pari passu and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. These commitments were satisfied as at 31 December 2020.

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

These criteria were met as of 31 December 2020, see the paragraph "Rating risk" on page 269.

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

BREAKDOWN OF NET FINANCIAL DEBT

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

(€ THOUSANDS)	31.12.2019			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
A. Cash and cash equivalents	262,237		262,237	664,026		664,026
B. Securities held for sale and to be held to maturity	119		119	119		119
C. Liquidity (A+B)	262,356		262,356	664,145		664,145
D. Financial receivables not held for operations	5,000		5,000	5,001		5,001
E. Short-term financial liabilities to banks	532,288		532,288	644,877		644,877
F. Long-term financial liabilities to banks		791,410	791,410		829,842	829,842
G. Bonds	31,297	3,323,009	3,354,306	33,279	3,821,256	3,854,535
H. Short-term financial liabilities to related entities						
I. Long-term financial liabilities to related entities						
L. Other short-term financial liabilities						
M. Other long-term financial liabilities (*)	17,572	57,078	74,650	20,250	56,047	76,297
N. Gross financial debt (E+F+G+H+I+L+M)	581,157	4,171,497	4,752,654	698,406	4,707,145	5,405,551
O. Net financial debt (N-C-D)	313,801	4,171,497	4,485,298	29,260	4,707,145	4,736,405

(*) The values relate to finance lease payables - IFRS 16.

Net financial debt at 31 December 2020, including the effects of the application of IFRS 16, of € 76.3 million, amounted to € 4,736.5 million, up by € 251.2 million (€ 4,485.3 million as of 31 December 2019). Net of that effect, net financial debt amounted to € 4,660.2 million (€ 4,410.6 million as of 31 December 2019, up by € 249.6 million).

Gross financial and bond debt at 31 December 2020 totalled € 5,405.6 million (€ 4,752.7 million at 31 December 2019) and refers to: (i) bonds (€ 3,854.5 million), (ii) loan agreements with the European Investment Bank (EIB) (€ 869.5 million), (iii) bank loans (€ 604.8 million) and financial liabilities pursuant to IFRS 16 (€ 76.3 million).

Cash, amounting to € 664 million, is held in current accounts and fixed-term deposits that can be immediately liquidated with leading banks.

19) Trade and other payables

Trade payables and other payables, which amount to €767,555 thousand (€726,714 thousand as at 31 December 2019), comprise the following:

(€ THOUSANDS)	31.12.2019	31.12.2020
Trade payables	299,090	303,021
Payments on account and prepayments	604	2,402
Payables for investment activities	230,277	225,109
Other payables	196,743	237,023
	726,714	767,555

Trade payables of €303,021 thousand (€299,090 thousand as at 31 December 2019) relate mainly to payables to suppliers.

Payables for investment activities equal to € 225,109 thousand (€ 230,277 thousand as at 31 December 2019) relate to payables to suppliers for technical activities.

Other payables, amounting to €237,023 thousand (€196,743 thousand as at 31 December 2019) break down as follows:

(€ THOUSANDS)	31.12.2019	31.12.2020
Payables - parent company for liquidation of Group VAT	56	56
Payables to the public administration	78,385	46,043
Payables to the Cassa per i Servizi Energetici e Ambientali (CSEA)	90,358	139,316
Payables to personnel	12,539	34,229
Payables to social security institutions	6,465	14,934
Payables to consultants and professionals and other payables	8,940	2,445
	196,743	237,023

Payables to the public administration (€46,043 thousand) primarily involve payables to municipalities for concession fees for the distribution business.

Payables to the CSEA (€139,316 thousand) relate to safety penalties for €24,224 thousand and to several ancillary components of tariffs relating to the gas distribution service to be paid to this Fund (RE, RS, UG1 and GS)⁸² for the remaining amount. The increase takes into account the repositioning among Other payables of the ARERA penalties previously shown among trade payables (€11,015 thousand as at 31 December 2019).

Payables to personnel (€34,229 thousand) involve payables mainly for holidays accrued and not taken, the fourteenth months' pay and performance-related pay.

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

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

20) Other current and non-current financial assets/liabilities

The market value of the derivative financial instruments as at 31 December 2020 is analysed below:

(€ THOUSANDS)	31.12.2019			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Other assets	2,398		2,398			
Derivative financial instruments Cash flow hedge						
— Fair value interest rate hedging instruments	2,398		2,398			
Other liabilities	(220)	(13,081)	(13,301)	(299)	(21,002)	(21,301)
Derivative financial instruments Cash flow hedge						
— Fair value interest rate hedging instruments	(220)	(13,081)	(13,301)	(299)	(21,002)	(21,301)

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

On 15 January 2018 Italgas entered into an Interest Rate Swap, effective from 15 January 2018, expiring in 2024 and with the same coupon frequency as the loans.

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

On 24 July 2019 Italgas also entered into an Interest Rate Swap, effective from 24 July 2019, expiring in 2029 and with the same coupon frequency as the loans.

⁸² These components refer to: (i) RE - Variable portion to cover the expenses for calculating and implementing energy savings and the development of renewable energy sources in the natural gas sector; (ii) RS - Variable portion as coverage for expenses for gas services quality; (iii) UG1 - Variable portion to cover any imbalances in the equalisation system and to cover any adjustments; and (iv) GS - Variable portion to cover the tariff compensation system for economically disadvantaged customers.

The IRS characteristics are summarised below:

	DATE STIPULATED	AMOUNT	ITG RATE	BANK RATE	COUPON	EXPIRATION DATE
"Italgas Gas Network Upgrade" EIB loan	28.12.2017	360,000,000.00	var. EUR 6M + spread 0.355%		half-yearly	15.12.2037
IRS derivative	15.01.2018	360,000,000.00	0.6195%	var EUR 6m	half-yearly	15.12.2024
"Smart Metering" EIB loan	12.12.2016	300,000,000.00	var. EUR 6M + spread 0.47%		half-yearly	30.11.2032
IRS derivative	24.07.2019	300,000,000.00	-0.056%	var EUR 6m	half-yearly	30.11.2029

These derivative contracts are accounted for using hedge accounting rules. The effectiveness testing carried out as at 31 December 2020 did not show any impacts on the income statement in terms of ineffectiveness.

21) Other current and non-current non-financial liabilities

Other current non-financial liabilities, amounting to €9,118 thousand (€9,461 thousand as at 31 December 2019) and *other non-current non-financial liabilities*, amounting to €546,054 thousand (€558,433 thousand as at 31 December 2019), are broken down as follows:

(€ THOUSANDS)	31.12.2019			31.12.2020		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Other tax liabilities	9,335		9,335	9,011		9,011
Accruals and deferrals connection contributions		555,881	555,881		543,484	543,484
Liabilities for security deposits		2,218	2,218		2,570	2,570
Other	126	334	460	107		107
	9,461	558,433	567,894	9,118	546,054	555,172

Other non-current liabilities, totalling €546,054 thousand, mainly regard connection contributions totalling €543,484 thousand.

Other current tax liabilities of €9,011 thousand mainly refer to payables to the tax Authorities for IRPEF withholdings for employees (€8,385 thousand).

22) Provisions for risks and charges

Provisions for risks and charges, which amount to €202,617 thousand as at 31 December 2020 (€169,563 thousand as at 31 December 2019), comprise the following:

(€ THOUSAND)	31.12.2019							
	OPENING BALANCE	CHANGE IN SCOPE OF CONSOLIDATION	PROVISIONS	DISCOUNTING	USES AGAINST CHARGES	USES DUE TO SURPLUS	OTHER CHANGES	CLOSING BALANCE
Provisions for environmental risks and charges	125,110	70		976	(10,361)	(334)		115,461
Provisions for site decommissioning risks and charges		1,821		2				1,823
Risk provision for litigation	13,943	1,671	3,683		(1,094)	(5,928)	(95)	12,180
Provisions for other risks - energy efficiency certificates	13,135	1,964	6,285		(10,458)			10,926
Provision for retirement risks	4,365				(2,361)		869	2,873
Provision for operational restoration of metering instruments	14,043	4,695			(4,498)			14,240
Provision for contractual risks	763				(763)			
Other personnel risk provisions	4,020	249	693		(1,093)	(4)	(754)	3,111
Risk provision for tax disputes	741	648	440		(300)	(598)	(641)	290
Other provisions	11,447	3,068	138		(2,745)	(1,798)	(1,451)	8,659
	187,567	14,186	11,239	978	(33,673)	(8,662)	(2,072)	169,563

(€ THOUSAND)	31.12.2020						
	OPENING BALANCE	PROVISIONS	DISCOUNTING	USES AGAINST CHARGES	USES DUE TO SURPLUS	OTHER CHANGES	CLOSING BALANCE
Provisions for environmental risks and charges	115,461	58	1,228	(8,265)			108,482
Provisions for site decommissioning risks and charges	1,823	3,334	(23)			543	5,677
Risk provision for litigation	12,180	3,241		(524)	(2,099)	1	12,799
Provisions for other risks - energy efficiency certificates	10,926	4,980		(7,668)		1	8,239
Provision for retirement risks	2,873	10,000		(91)			12,782
Provision for operational restoration of metering instruments	14,240	38,600		(8,004)		(286)	44,550
Other personnel risk provisions	3,111	1,585		(1,557)	(106)	2	3,035
Risk provision for tax disputes	290				(76)	(43)	171
Other provisions	8,659	371		(2,054)	(383)	289	6,882
	169,563	62,169	1,205	(28,163)	(2,664)	507	202,617

The provisions for environmental risks and charges (€108,482 thousand as at 31 December 2020; €115,461 thousand as at 31 December 2019) mainly included costs for environmental soil reclamation, pursuant to Law 471/1999, as subsequently amended, primarily for the disposal of solid waste, in relation to the distribution business. The provision is discounted, using a risk-free rate as required by IAS 37 in consideration of a disbursement forecast up to 2048.

The risk provision for litigation (€12,799 thousand) included costs which the Group has estimated it will incur for existing lawsuits.

The Provisions for other risks - energy efficiency certificates (€8,239 thousand) are connected with reaching the Energy Efficiency Certificates targets (TEE) set by the Authority.

The provision for operational restoration of metering instruments, totalling €44,550 thousand, comprises the costs estimated for replacing/restoring operations of the G4 and G6 smart meters having operational problems and not covered by warranty. The related provision, equal to €38.5 million, was determined on the basis of the anomalies of the meters detected in the field as at 31 December 2020, the estimated occurrences for the period 2021 - 2026 and the agreements with suppliers.

The risk provision for early retirement (€12,782 thousand) involves personnel incentive and mobility schemes.

As part of a reorganization started from December 2020 and which will continue in the next year, with the aim of managing the digital transformation, an agreement was signed with the Trade Union Representation of the Italgas Group Executives, following which the Group has committed to providing an economic incentive for managerial staff who are about to meet the requirements to be able to access the first pension that is temporally useful and in force from time to time ("Quota 100" pension, early retirement, old-age pension, "Woman Option" pension, etc.).

In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.

The sensitivity⁸³ of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(€ THOUSANDS)	CHANGE IN DISCOUNTING RATES	
	REDUCTION OF 10%	INCREASE OF 10%
EFFECT ON NET OBLIGATION AT 31.12.2020		
Provisions for environmental risks and charges	611	(601)

23) Provisions for employee benefits

Provisions for employee benefits, which amount to €104,622 thousand as at 31 December 2020 (€113,197 thousand as at 31 December 2019) comprise the following:

(€ THOUSANDS)	31.12.2019	31.12.2020
Employee severance pay (TFR)	72,347	67,644
Supplementary healthcare provision for company executives of Eni (FISDE)	6,641	8,621
Gas Fund	26,735	24,257
Other provisions for employee benefits	7,474	4,100
	113,197	104,622

⁸³ For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

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

The supplementary healthcare provision (€8,621 thousand as at 31 December 2020) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current⁸⁴ and retired executives. FISDE provides financial supplementary healthcare benefits to Eni Group⁸⁵ executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

The Gas Fund (€24,257 thousand as at 31 December 2020) relates to the estimate, made on an actuarial basis, of the charges sustained by the employer due to the elimination, as of 1 December 2015, of the fund pursuant to Law 125 of 6 August 2015. In particular, Articles 9-decies and 9-undecies of the Law stipulate that the employer must cover: (i) an extraordinary contribution to cover expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020⁸⁶; and (ii) a contribution

in favour of those registered or in voluntary continuation of the contribution, that as at 30 November 2015 were not entitled to supplementary pension benefits from the eliminated Gas Fund, of 1% for each year of registration in the supplementary fund, multiplied by the social security tax base relating to the same supplementary fund for 2014, to be allocated through the employer or the supplementary pension scheme.

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

The other provisions for employee benefits (€4,100 thousand as at 31 December 2020) relate to seniority bonuses and the long-term incentive plans (LTI).

The long-term incentive plans (IAS 19) provide, after three years from the assignment, the disbursement of a variable monetary benefit linked to a company performance parameter not linked to the share price. Obtaining the benefit is linked to the achievement of certain future performance levels, and conditional on the assignee's stay in the company in the three years following the assignment (so-called "Vesting period"). This benefit is allocated pro-rata temporis over the three-year period according to the final balance of the performance parameters.

Seniority bonuses are benefits paid upon reaching a minimum service period at the Company and are paid in kind.

Deferred cash incentive plans, long-term cash incentive plans and seniority bonuses are classified as other long-term benefits pursuant to IAS 19.

The composition of and changes in provisions for employee benefits, determined by applying actuarial methods, are as follows⁸⁷:

(€ THOUSANDS)	31.12.2019					31.12.2020				
	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL
Current value of the obligation at the start of the year	66,314	6,610	28,550	6,404	107,878	72,347	6,641	26,735	7,474	113,197
Change in scope of consolidation	6,624		1,342	269	8,235					
Current cost	55	171		1,630	1,856	150	161		1,540	1,851
Cost for interest	983	97	439	24	1,543	518	49	202	16	785

⁸⁴ For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

⁸⁵ The fund provides the same benefits for Italgas Group executives.

⁸⁶ Article 9-quinquiesdecies also stipulates that "... If monitoring shows that the extraordinary

contribution pursuant to Article 9-decies is insufficient to cover the relative expenses, a decree issued by the Ministry of Labour and Social Policy, in concert with the Ministry of Economic Development and the Ministry of Economy and Finance, provides for the redetermination of the extraordinary contribution, the criteria for redistribution of the contribution between employers and the time

periods and procedures for payment of the extraordinary INPS contribution".

⁸⁷ The table also provides a reconciliation of liabilities recorded for provisions for employee benefits.

(€ THOUSANDS)	31.12.2019					31.12.2020				
	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL
Revaluations / (Impairment):	2,073	20	(14)	1,441	3,520	1,323	2,103	(101)	(93)	3,232
– Actuarial (Gains) / Losses resulting from changes in the demographic assumptions						107				107
– Actuarial (Gains) / Losses resulting from changes in the financial assumptions	2,197	82	1,198	114	3,591	3,035	99	1,177		4,311
– Effect of past experience	(65)	(62)	(130)	111	(146)	(1,956)	2,004	(18)	(224)	(194)
– Other changes	(59)		(1,082)	1,216	75	137		(1,260)	131	(992)
Paid benefits	(5,755)	(257)	(3,712)	(2,448)	(12,172)	(6,694)	(333)	(5,563)	(266)	(12,856)
Effect of transfers	2,053		130	154	2,337			2,984	(4,571)	(1,587)
Current value of the obligation at the end of the year	72,347	6,641	26,735	7,474	113,197	67,644	8,621	24,257	4,100	104,622

(*) Concerns the measurement of the liabilities arising from: (i) the contribution in favour of those registered or in voluntary continuation of the contribution, equal to 1% for each year of registration in the Gas Fund multiplied by the social security tax base for 2014, (ii) the extraordinary contribution for expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020.

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

	2019				2020			
	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND	OTHER PROVISIONS	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND	OTHER PROVISIONS
Discount rate (%)	1.50	1.50	1.50	1.50	-0.04	0.46	-0.05	0.40
Inflation rate (%) (*)	1.50	1.50	N/A	1.50	0.70	N/A	N/A	0.70

(*) With reference to the other provisions, the rate refers only to the seniority bonuses.

The discount rate adopted was determined by considering the yields on corporate bonds issued by Eurozone companies with AA ratings.

The employee benefit plans recognised by Italgas are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible change⁸⁸ in the discount rate at the end of the year.

The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(€ THOUSANDS) EFFECT ON NET OBLIGATION AT 31.12.2020	DISCOUNT RATE			
	REDUCTION		INCREASE	
	%	AMOUNT	%	AMOUNT
Employment severance pay	(0.54%)	2,367	0.46%	(2,278)
FISDE	(0.04%)	586	0.96%	(528)
Gas Fund	(0.55%)	787	0.45%	(747)
Other provisions for employee benefits	(0.40%)	225	0.60%	(17)
		3,965		(3,570)

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(€ THOUSANDS)	31.12.2019					31.12.2020				
	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL	EMPLOYEE SEVERANCE PAY	FISDE	GAS FUND (*)	OTHER PROVISIONS	TOTAL
Within the next year	1,884	284	1,536	3,834	7,538	6,724	356	522	1,816	9,418
Within five years	13,452	1,018	8,916	1,819	25,205	20,764	1,285	4,965	838	27,852
Beyond five and up to ten years	30,204	1,003	11,414	1,821	44,442	25,046	1,394	9,549	834	36,823
Beyond ten years	26,807	4,336	4,869		36,012	15,110	5,586	9,221	612	30,529
	72,347	6,641	26,735	7,474	113,197	67,644	8,621	24,257	4,100	104,622

(*) The amount includes the estimate of the 10% INPS solidarity contribution applied to the amounts to allocate to the supplementary pension.

⁸⁸ With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

24) Net deferred tax liabilities

Net deferred tax liabilities of €55,215 thousand are stated net of offsettable deferred tax assets of €268,637 thousand.

(€ THOUSANDS)	31.12.2018	CHANGE IN SCOPE OF CONSOLIDATION	PROVISIONS	USES	OTHER CHANGES	31.12.2019
Deferred tax liabilities	289,063	60,089	1,852	(12,804)	7,946	346,146
Deferred tax assets	(217,291)	(40,742)	(20,770)	27,173	(2,032)	(253,662)
	71,772	19,347	(18,918)	14,369	5,914	92,484

(€ THOUSANDS)	31.12.2019	PROVISIONS	USES	OTHER CHANGES	31.12.2020
Deferred tax liabilities	346,146	7,314	(30,033)	425	323,852
Deferred tax assets	(253,662)	(34,348)	23,569	(4,196)	(268,637)
	92,484	(27,034)	(6,464)	(3,771)	55,215

There are no prepaid income taxes which cannot be offset.

Deferred tax liabilities and deferred tax assets break down as follows, based on the most significant temporary differences:

(€ THOUSANDS)	31.12.2019								
	OPENING BALANCE	CHANGE IN SCOPE OF CONSOLIDATION	PROVISIONS	USES	IMPACTS RECORDED IN SHAREHOLDERS' EQUITY	OTHER CHANGES	CLOSING BALANCE	OF WHICH: IRES	OF WHICH: IRAP
Deferred tax liabilities	289,063	60,089	1,852	(12,804)	(832)	8,778	346,146	318,484	27,662
Amortisation and depreciation exclusively for tax purposes	151,559	60,089	24	(7,975)			203,697	193,270	10,427
Revaluations of property, plant and equipment	116,643			(3,516)			113,127	96,278	16,849
Capital gains subject to deferred taxation	381		1,905	(520)			1,766	1,766	
Employee benefits	2,376					8,778	11,154	11,154	
Capitalisation of financial expense	2,727			(135)			2,592	2,206	386
Impairment losses on receivables in excess of tax deductibility and other temporary differences	15,377		(77)	(658)	(832)		13,810	13,810	
Deferred tax assets	(217,291)	(40,742)	(20,770)	27,173	(14,120)	12,088	(253,662)	(234,648)	(19,014)
Provisions for risks and charges and other non-deductible provisions	(56,508)		(3,782)	10,851			(49,439)	(43,105)	(6,334)
Non-repayable and contractual grants	(68,205)			1,582	(734)		(67,357)	(57,499)	(9,858)
Non-deductible amortisation and depreciation	(71,616)	(40,742)	(14,193)	11,255	(1,391)		(116,687)	(116,074)	(613)
Employee benefits	(8,179)						(8,179)	(6,683)	(1,496)
Other temporary differences	(12,783)		(2,795)	3,485	(11,995)	12,088	(12,000)	(11,287)	(713)
Net deferred tax liabilities	71,772	19,347	(18,918)	14,369	(14,952)	20,866	92,484	83,836	8,648

(€ THOUSANDS)	31.12.2020							
	OPENING BALANCE	PROVISIONS	USES	IMPACTS RECORDED IN SHAREHOLDERS' EQUITY	OTHER CHANGES	CLOSING BALANCE	OF WHICH: IRES	OF WHICH: IRAP
Deferred tax liabilities	346,146	7,314	(30,033)		425	323,852	312,150	11,702
Amortisation and depreciation exclusively for tax purposes	203,697	881	(12,315)			192,263	181,014	11,249
Revaluations of property, plant and equipment	113,127		(12,239)			100,888	100,888	
Capital gains subject to deferred taxation	1,766	1,126	(842)			2,050	2,050	
Employee benefits	11,154	2,249	(1,222)			12,181	12,094	87
Capitalisation of financial expense	2,592		(133)			2,459	2,093	366
Impairment losses on receivables in excess of tax deductibility and other temporary differences	13,810	3,058	(2,857)			14,011	14,011	
Other temporary differences			(425)		425			
Deferred tax assets	(253,662)	(34,348)	23,569	(3,725)	(471)	(268,637)	(245,597)	(23,040)
Provisions for risks and charges and other non-deductible provisions	(49,439)	(13,909)	8,275			(55,073)	(47,360)	(7,713)
Non-repayable and contractual grants	(67,357)		2,667			(64,690)	(52,437)	(12,253)
Non-deductible amortisation and depreciation	(116,687)	(18,295)	10,838			(124,144)	(123,455)	(689)
Employee benefits	(8,179)	(1,327)	978	(1,248)		(9,776)	(8,209)	(1,567)
Other temporary differences	(12,000)	(817)	811	(2,477)	(471)	(14,954)	(14,136)	(818)
Net deferred tax liabilities	92,484	(27,034)	(6,464)	(3,725)	(46)	55,215	66,553	(11,338)

Deferred tax assets and deferred tax liabilities are considered to be long term.

It should be noted that there are no deductible temporary differences, tax losses and unused tax credits for which, in the balance sheet, the deferred tax asset is not recognized.

Furthermore, there are no temporary differences relating to investments in subsidiaries, branches and associated companies, and to jointly controlled investments, for which a deferred tax liability has not been recognized.

The Group has considered it appropriate to allocate deferred tax assets on temporary differences as at 31 December 2020 as it believes there is a probability of their recovery.

The note "Income taxes" provides information about taxes for the year.

25) Shareholders' equity

Shareholders' equity, which amounts to €1,981,042 thousand as at 31 December 2020 (€1,794,939 thousand as at 31 December 2019) breaks down as follows:

(€ THOUSANDS)	31.12.2019	31.12.2020
Shareholders' equity attributable to Italgas	1,560,381	1,740,901
Share capital	1,001,232	1,001,232
Legal reserve	200,246	200,246
Share premium reserve	620,130	620,130
Reserve Cash Flow Hedge on derivative contracts	(8,119)	(15,962)
Consolidation reserve	(323,907)	(323,907)
Reserve for business combinations under common control	(349,839)	(349,839)
Stock grant reserve	1,169	5,635
Other reserves	8,711	19,926
Profits relating to previous years	6,777	216,876
Reserve for recalculation of defined-benefit plans for employees	(13,257)	(16,408)
Net profit (loss)	417,238	382,972
to be deducted		
– Treasury shares		
Shareholders' equity attributable to minority interests	234,558	240,141
	1,794,939	1,981,042

SHARE CAPITAL

The share capital as at 31 December 2020 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518 unchanged compared to the previous year.

LEGAL RESERVE

The legal reserve stood at €200,246 thousand as at 31 December 2020, unchanged compared to the previous year.

SHARE PREMIUM RESERVE

The share premium reserve stood at €620,130 thousand as at 31 December 2020 (unchanged compared to 31 December 2019).

RESERVE CASH FLOW HEDGE ON DERIVATIVE CONTRACTS

The reserve includes the negative fair value of the IRS derivative net of the related tax effect.
The reserve moves with the accounting of financial flows

deriving from instruments which, for the purposes of IFRS 9, are intended as "instruments to hedge financial flows". The related tax effect is reported in the item "tax effect" of the "Reclassifiable components in the income statement" within the statement of comprehensive income.

CONSOLIDATION RESERVE

The consolidation reserve of €-323,907 thousand is unchanged compared to the previous year as determined at the time of the first consolidation (2016) following the deed of sale by Snam S.p.A. to Italgas S.p.A. 38,87% of the equity investment in Italgas Reti S.p.A. (difference between the purchase cost of the investment in Italgas Reti S.p.A. and the related net assets pertaining to the group).

RESERVE FOR BUSINESS COMBINATIONS UNDER COMMON CONTROL

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

STOCK GRANT RESERVE

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

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

vesting period as a component of the personnel costs, with a contra entry in the equity reserves.

On 10 March 2021, the Board of Directors resolved: (i) the free allocation of no. 632,852 ordinary shares of the Company to the beneficiaries of the plan by virtue of the rights assigned (so-called first click of the plan) to the same beneficiaries and accrued pursuant to the provisions of the same plan at the end of the related performance period (2018-2020); and (ii) the execution of the first tranche of the capital increase serving the plan, for a nominal amount of €784,736.48 drawn from retained earnings reserves, with the issue of no. 632,852 new ordinary shares.

OTHER RESERVES

The other reserves relate to the effects deriving from the valuation of equity investments.

RESERVE FOR RECALCULATION OF DEFINED-BENEFIT PLANS FOR EMPLOYEES

As at 31 December 2020, the reserve for recalculation of employee benefit plans (€-16,408 thousand) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19. The changes in the reserve during the course of the year are shown below:

(€ THOUSANDS)	GROSS RESERVE	TAX EFFECT	NET RESERVE
Reserve as at 31 December 2018	(14,948)	4,218	(10,730)
Changes of the year 2019	(3,519)	992	(2,527)
Reserve as at 31 December 2019	(18,467)	5,210	(13,257)
Changes of the year 2020	(4,388)	1,237	(3,151)
Reserve as at 31 December 2020	(22,855)	6,447	(16,408)

TREASURY SHARES

As at 31 December 2020 Italgas did not have any treasury shares in its portfolio.

SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

The Shareholder's equity attributable to minority interests is broken down below:

(€ THOUSANDS)	SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MINORITY INTERESTS 31.12.2019	SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MINORITY INTERESTS 31.12.2020	NET INCOME ATTRIBUTABLE TO MINORITY INTERESTS 31.12.2019	NET INCOME ATTRIBUTABLE TO MINORITY INTERESTS 31.12.2020
Toscana Energia S.p.A.	211,232	208,302	6,109	21,384
Toscana Energia Green S.p.A.	2,558	2,744	(74)	469
Medea S.p.A.	19,044	27,635	389	(936)
Gaxa S.r.l.	1,724	1,460	(63)	(263)
	234,558	240,141	6,361	20,654

DIVIDENDS

In its meeting of 10 March 2021, the Board of Directors proposed to the Shareholders' Meeting the distribution of an ordinary dividend of €0.277 per share. The dividend will be paid out as of 26 May 2021, with an ex-coupon date of 24 May 2021 and a record date of 25 May 2021.

RECONCILIATION STATEMENT OF THE RESULT FOR THE YEAR AND OF THE SHAREHOLDERS' EQUITY OF ITALGAS S.P.A. WITH THE CONSOLIDATED ONES.

(€ THOUSANDS)	PROFIT NET 2020	SHAREHOLDERS' EQUITY 31.12.2020
Financial statements Italgas S.p.A.	214,825	1,708,940
Profit of the companies included in the consolidation	437,173	
Difference between book value of investments consolidated companies and shareholders' equity of the financial statements, including the result		160,874
Adjustments consolidation:		
Dividends net of the tax effect	(239,500)	
Income from valuation of equity investments with the equity method and other income from equity investments	(5,792)	32,001
Other consolidation adjustments net of the tax effect	(3,080)	79,226
Net income attributable to minority interests	(20,654)	(240,140)
	168,147	31,961
Consolidated financial statements Group	382,972	1,740,901

26) Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €1,693,067 thousand as at 31 December 2020 comprise:

(€ THOUSANDS)	31.12.2019	31.12.2020
Guarantees given in the interest:	267,478	366,575
— of subsidiaries	267,478	366,575
Financial commitments and risks:	1,028,987	1,326,492
Commitments	768,606	1,028,356
Commitments for the purchase of goods and services	756,542	1,024,084
Other	12,064	4,272
Risks	260,381	298,136
— for compensation and litigation	260,381	298,136
	1,296,465	1,693,067

GUARANTEES

Guarantees of €366,575 thousand refer mainly to guarantees issued with regard to sureties and other guarantees issued in the favour of subsidiaries.

COMMITMENTS

At 31 December 2020, commitments with suppliers to purchase property, plant and equipment and provide services relating to the purchase of property, plant and equipment and intangible assets under construction amounted to €1,024 million.

The other commitments refer to the agreements for the purchase of assets and business units for gas distribution (in particular the purchase of the gas distribution company branches of Terzigno and Olevano and the purchase of Isgas33). Overall valuation was established at €29 million to which the estimated net financial position at the closing of the transaction equal to €25 million will be deducted.

The other undervalued commitments concern:

The acquisition of 51% of the share capital of ACAM Gas S.p.A. by the subsidiary Italgas Reti, which took place in 2015, involves mutual commitments by the parties in relation to the first public tender for the awarding of the La Spezia ATEM.

The acquisition of the equity investment of Enerco Distribuzione by the subsidiary Italgas Reti, which took place in 2017, is subject to an ownership price adjustment (so-called "earn-out") clause.

The acquisition of the "Alessandria 4 ATEM" business unit by the subsidiary Italgas Reti, which took place in 2020, is subject to a price adjustment (so-called "earn-out") clause if the Alessandria 4 ATEM tender is awarded within 10 years of the signing date and if the contracting Authority in the aforesaid tender procedure recognises a higher reimbursement value than the pro forma value under the agreement, for the same year of reference.

RISKS

Risks concerning compensation and litigation (€298,136 thousand) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

FINANCIAL RISK MANAGEMENT

FOREWORD

Italgas has established the Enterprise Risk Management (ERM) unit, which reports directly to the Finance and Service General Manager and oversees the integrated process of managing corporate risk for all Group companies. The main objectives of the ERM are to define a homogeneous and transversal risk assessment model, to identify priority risks and to guarantee the consolidation of mitigation actions and the development of a reporting system.

The ERM methodology adopted by the Italgas Group is in line with the reference models and existing international best practices (COSO Framework and ISO 31000).

The ERM unit operates as part of the wider Internal Control and Risk Management System of Italgas.

The main corporate financial risks identified, monitored and, where specified below, managed by Italgas are as follows:

- risk arising from exposure to fluctuations in interest rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

There follows a description of Italgas' policies and principles for the management and control of the risks arising from the financial instruments listed above. In accordance with IFRS 7 - "Financial instruments: Additional information", there are also descriptions of the nature and size of the risks resulting from such instruments.

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

INTEREST RATE RISK

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

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

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

As at 31 December 2020 the financial debt at floating rate was 13.5% and at fixed rate was 86.5%. Refer to the paragraph "Short-term and long-term financial liabilities" on page 250, for further details.

Some of these contracts provide, inter alia, for the following: (i) negative pledge undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) pari passu and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. These commitments were satisfied as at 31 December 2020.

CREDIT RISK

Credit risk is the exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of amounts owed may have a negative impact on the financial results and financial situation of Italgas. It cannot be excluded that Italgas may have liabilities and / or losses deriving from the non-fulfillment of its customers' payment obligations.

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

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

In addition, in order to manage credit risk, the Group has defined procedures for monitoring and evaluating its customer portfolio. The reference market is the Italian one.

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

LIQUIDITY RISK

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

Italgas does not foresee any significant negative impacts, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of € 663.5 million as at 31 December 2020 and a completely undrawn committed long-term credit line of € 500 million, maturing in October 2021, taken out with a pool of Italian and international banks, (ii) there are limited requirements to refinance debt (the first bond repayment is due in 2022), (iii) the bonds issued by Italgas as at 31 December 2020, as part of the Euro Medium Term Notes Programme, do not require the observance of covenants relating to the data in the financial statements.

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

RATING RISK

With reference to the long-term debt of Italgas, on 3 December 2020, the rating agencies Moody's and Fitch confirmed the rating assigned to Italgas S.p.A. as level BAA2 with stable outlook and BBB+ with stable outlook, respectively. Based on the methodologies adopted by the rating agencies, a downgrade of one notch in the

Italian Republic's current rating could trigger a downward adjustment in Italgas' current rating, could have an impact on the cost of future debt.

DEBT COVENANT AND DEFAULT RISK

As at 31 December 2020 there are no loan agreements containing financial covenants and / or secured by collateral, with the exception of the EIB loan signed by Toscana Energia for an amount of €90 million which provides for compliance with certain financial covenants⁸⁹. Some of these contracts provide, inter alia, for the following: (i) negative pledge undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) pari passu and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. In relation to the EIB loan of Toscana Energia, refer to the note "Short-term financial liabilities and long-term financial liabilities". For all other ones, these commitments were satisfied as at 31 December 2020.

The bonds issued by Italgas as at 31 December 2020 as part of the Euro Medium Term Notes programme provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

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

With reference to the EIB, the relative contracts contain a clause whereby, in the event of a significant reduction in EBITDA resulting from the loss of concessions, there is a disclosure obligation to the EIB and a subsequent consultation period, after which the early repayment of the loan may be required.

These cases are carefully monitored by the Group in the context of financial management and business performance.

ENVIRONMENTAL REGULATIONS

With respect to environmental risk, while the Group believes that it operates in substantial compliance with the laws and regulations and considering the adjustments to environmental regulations and actions already taken, it cannot be ruled out that the Company may incur costs or liabilities, which could be significant.

It is difficult to foresee the repercussions of any environmental damage, partly due to new laws or regulations that may be introduced for environmental protection, the impact of any new technologies for environmental clean-ups, possible litigation and the difficulty in determining the possible consequences, also with respect to other parties' liability and any possible insurance compensation.

⁸⁹ The contracts include a clause for which, in the event of a significant reduction in EBITDA deriving from the loss of concessions, an obligation to inform the EIB and a subsequent consultation period is envisaged, at the end of which early repayment of the loan may be requested. The economic-financial parameters as at 31 December 2020 are respected.

As described in the Annual Report, in recent years, Italgas' corporate strategy has been increasingly influenced by the issues of climate change and various initiatives have been developed aimed at reducing GHG emissions (e.g. research for leaks dispersion through Picarro technology, conversion of the company fleet to methane gas, green gas initiatives, etc.).

In the short term, the main elements that influence the development of Italgas strategy are the regulatory aspects of climate change such as the objectives of European policy, while in the short-medium term, the efficient supply of natural gas, aimed at reducing the impacts on changes climatic.

As part of the Strategic Plan document, Italgas defines a macro-overall scenario that includes frameworks and trends in Energy and Environmental Policies (de-carbonization - Paris Agreement, renewables, energy efficiency, sustainable mobility, Power to Gas and green gas) and presents its Sustainability Plan. Group's strategy is developed in accordance with the United Nations Sustainable Development Goals.

Italgas' strategy is set out in the 2020-2026 Strategic Plan, which highlights and considers elements such as i) the role of gas in the decarbonisation process and ii) the digital transformation and technological innovation that allow Italgas to also play a key role in the energy transition; etc.

Group carefully monitors the various risks and the consequent financial impacts (which to date could mainly concern issues of impairment and recoverability of the value of assets and IAS 37 provisions) that could derive from environmental issues and linked to climate change.

ANALYSIS OF DUE DATES FOR FINANCIAL LIABILITIES

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments not discounted:

(€ THOUSANDS)	DUE DATE								
	BALANCE AS AT 31.12.2019	BALANCE AS AT 31.12.2020	PORTION WITH DUE DATE WITHIN 12 MONTHS	PORTION WITH DUE DATE BEYOND 12 MONTHS	2022	2023	2024	2025	BEYOND
Financial liabilities									
Bank loans	915,060	874,001	44,160	829,841	41,994	65,448	65,448	65,448	591,502
Bonds	3,354,306	3,854,535	33,279	3,821,256	267,709		479,378	495,249	2,578,920
Short-term liabilities	408,638	600,717	600,717						
Interest on loans				166,375	22,102	22,072	22,072	22,072	78,056
Liabilities Right of use	74,650	76,297	20,250	56,047	18,337	15,881	8,877	4,988	7,964
Interest Right of use			295	740	232	172	119	79	138
	4,752,654	5,405,550	698,701	4,874,259	350,373	103,574	575,895	587,837	3,256,580

With reference to the payment times with regard to trade and other payables, refer to the note "Short-term and long-term liabilities" in the consolidated financial statements.

As for the sensitivity on the interest rate, any changes in interest rates do not lead to significant effects in

consideration of the fact that 86.5% of the Group's financial debt is at fixed rate.

Please refer to note "Trade and other receivables" for the breakdown of receivable by due date bracket.

MARKET VALUE OF FINANCIAL INSTRUMENTS

Below is the classification of financial assets and liabilities measured at fair value in the Statement of Financial Position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

- a. level 1: listed prices (unadjusted) on active markets for identical financial assets or liabilities;
- b. level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
- c. level 3: inputs not based on observable market data.

In connection with the above, classification of the assets and liabilities measured at fair value in the Statement of Financial Position according to fair value concerned two IRS derivative instruments classified level 2 and recorded under the note "Other current and non-current financial liabilities".

Equity investments measured at fair value with effects posted to the income statement fall under fair value category level 3.

OTHER INFORMATION ON FINANCIAL INSTRUMENTS

With reference to the categories established by IFRS 9 "Financial instruments", the book value of financial instruments and their relative effects on results and on equity can be analysed as follows:

(€ THOUSANDS)	BOOK VALUE		INCOME / EXPENSE RECOGNISED TO INCOME STATEMENT		INCOME / EXPENSE RECOGNISED TO SHAREHOLDERS' EQUITY (a)	
	BALANCE AS 31.12.2019	BALANCE AS 31.12.2020	BALANCE AS 31.12.2019	BALANCE AS 31.12.2020	BALANCE AS 31.12.2019	BALANCE AS 31.12.2020
Financial instruments measured at amortised cost						
– Cash	262,237	664,026				
– Current financial assets	5,119	5,120				
– Trade and other receivables	585,230	635,028				
– Non-current financial assets	155	156				
– Other investments	324	4,916				
– Other current and non-current non-financial assets	184,210	251,609				
– Trade and other payables	726,714	767,555				
– Financial payables (b)	4,752,654	5,405,551	(67,947)	(53,984)		
– Other current and non-current non-financial liabilities	567,894	555,172				
Financial instruments measured at fair value						
– Financial assets (liabilities) for hedge derivative contracts	(13,301)	(21,301)			(5,721)	

(a) Net of tax effect.

(b) The effects in the income statement are recognised in the item "Financial income (expense)".

The table below provides a comparison between the book value of financial assets and liabilities and their respective fair value.

(€ THOUSANDS)	BALANCE AS AT 31.12.2019		BALANCE AS AT 31.12.2020	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Financial instruments measured at amortised cost				
— Long-term financial debt	4,108,470	4,318,533	4,724,030	5,039,078

The book value of trade receivables, other receivables and financial payables is close to the related fair value measurement, given the short period of time between when the receivable or the financial payable arises and its due date.

DISPUTES AND OTHER MEASURES

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

Below is a summary of the most significant proceedings; no provisions have been made pursuant to IAS 37 for these proceedings in the financial statements, as the company deems that the risk of an adverse outcome is possible, but not likely, or the amount of the allocation cannot be reliably estimated.

ADMINISTRATIVE DISPUTE

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

The Municipality of Rome, where Italgas Reti carries out the service of gas distribution on the basis of a specific Service Contract, after a series of discussions aiming at reaching an agreement for the adjustment of timetable for the implementation of the Business plan, which is an integral part of the above-mentioned Contract, charged Italgas Reti, arbitrarily, with alleged delays in the execution of the Plan itself. In rejecting the claims of the Municipality of Rome, Italgas Reti had already filed an appeal with the Lazio Regional Administrative Court on 11 January 2019 for cancellation of the notice with which the Municipality of Rome had starting the procedure to apply default penalties and supplemented it on 30 August 2019 due to reasons added following further notices of the Municipality of Rome. On 19 December, the Municipality of Rome served the Managerial Resolution dated 6 September 2019 that i) set €91,853,392.79 as the alleged amount owed by Italgas Reti by way of penalties for the supposed delay in implementing the business plan covered by the gas concession contract, ii) levied the bank guarantee issued to guarantee the proper execution of the above Service Contract, in the case in which the penalties should not be paid within the deadline of 90 days from notification of the resolution.

With its appeal of 20 January 2020, Italgas contested the above-mentioned Managerial Resolution at the Lazio Regional Administrative Court and submitted, as a precautionary measure, a petition to suspend the effect of the measure in so far as it is illegitimate from different perspectives, including i) invalidity due to vagueness of the penalty clause, ii) non-existence and/or in any case non-chargeability of the company for the non-fulfilments challenged by the Municipality of Rome, iii) waiver by the Municipality of Rome to promptly apply the penalties, iv) violation of the procedure to impose the penalties. Pending the in-depth investigations and based on an external legal opinion, the company does not see a risk of an adverse outcome that would have to be reported in these financial statements. The precautionary application was conditionally granted with order no. 1124/2020 - confirmed, again conditionally, with precautionary decree no. 1636/2020 - by which the effectiveness of the contested acts was suspended until the chamber proceedings scheduled for 22 April 2020. However, the Board expressed some doubts concerning the existence of its jurisdiction, inviting the parties to file briefs prior to the chamber proceedings scheduled for 22 April 2020.

In light of these circumstances, the lodging of an appeal before the Court of Cassation was proposed for the prior settlement of jurisdiction, pending judgement before the Regional Administrative Court. The appeal was notified on 18 April 2020 and filed in the office of the clerk of the court on 20 April 2020. It was entered in the General Registry under no. 10196/2020. The hearing was held on 15 December 2020 and, with an order of 12 January 2021, the Court of Cassation declared the jurisdiction of the ordinary court. Italgas therefore resumed the proceedings before the Court of Rome on 11 February 2021. The next hearing is scheduled for 1 July 2021.

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

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

Pending the investigations and on the basis of an external legal opinion, the Company does not believe there is a probable risk of losing for the purpose of allocating a provision in the financial statements.

CIVIL DISPUTE

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

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

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

Italgas Reti appealed against the acts through which the Municipality of Venice had deducted from the residual industrial value due to Italgas Reti as the outgoing operator, the value of a portion of the distribution network (Block A), which as at 31 December 2014 had a residual industrial value of about €31 million. The Municipality of Venice claims to have acquired - through a free transfer - ownership of Block A at the end of the original concession deed (2010).

However, according to Italgas Reti, the expiry of the concession and therefore the accrual of entitlement to the free transfer was postponed to 2025 on the basis of the subsequent additional amending deed to the original concession deed, signed by the parties in 1995.

With Ruling no. 654/2017, the Regional Administrative Court of Veneto rejected the appeal lodged by the company, deeming that the free acquisition of a portion of the distribution network had fallen due on the original expiry date of the concession relationship (2010). Italgas Reti appealed against the ruling before the Council of State. Following ruling no. 654/2017, in a letter dated 2 February 2018, the Municipality of Venice requested Italgas Reti to pay a fee, the amount of which to be defined, for use of the plants subject to free acquisition. Italgas Reti appealed against this request before the Regional Administrative Court of Veneto.

Decision no. 4104/2018 was filed on 4 July 2018, by which the State Council rejected the appeal brought by Italgas Reti against decision no. 654/2017 pronounced by the Veneto Regional Administrative Court, confirming the acquisition free of charge in favour of the Municipality of Venice of assets included in Block A, as well as the Company's obligation to pay a fee for use of the portion of network devolved free of charge.

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

At the same time, following the aforementioned provision of the Council of State, the Company has expedited the depreciation of part of the network relating to the "Block A".

With ruling no. 588/2019 of 24 January 2019, the Council of State ruled on a similar matter relating to the free acquisition of a portion of the network relating to the concession in place with the Municipality of Cavallino-Treporti.

In fact, Italgas manages the public natural gas distribution service in the aforementioned Municipality under the terms of concession agreements at the time accepted by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino-Treporti was established in 1999 as a spin-off portion of the geographic area already falling within the Municipality of Venice.

With the aforementioned decision, the State Council sanctioned the free-of-charge acquisition in favour of the Municipality of Cavallino Treporti of assets included in Block A, as well as the Company's obligation to pay a fee for use of the portion of network devolved free of charge.

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

With subsequent Decisions no. 2177 and no. 2178 of 21 March 2019, published on 2 April 2019, the State Council confirmed the previous rulings on the free transfer of "Block A" to the Municipality of Venice and to the Municipality of Cavallino Treporti, respectively, rejecting the claims for appeal filed by Italgas Reti.

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

December 2020, due to the health emergency and, most recently, to 29 December 2020. At present, therefore, the judge's decision on the preliminary investigation is pending.

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

Following the rulings of the Council of State on the free transfer of Block A, the Municipality of Cavallino-Treporti served a writ on Italgas Reti S.p.A, summoning it before the Court of Venice, requesting that it be ordered to pay €4,669,129.00 or a different amount as payment due under the current tariff regulation for the use of the plants comprising the so-called "Block A", which became the property of the Municipality of Cavallino-Treporti as a result of the Concession no. 19309/1970 from 1 June 2010 until 31 December 2018, and of the assets in Block A. With an appearance and response filed on 25 November 2020, Italgas Reti appeared in court. In the same appearance, a counterclaim was made for the Municipality of Cavallino to be ordered to repay the total amount of €37,313.69 paid in fees for the occupation of public spaces and areas (COSAP) for Block A in the period from 1 January 2013 to 31 December 2018. The first appearance hearing was held on 17 December 2020, following which the judge granted the parties the time limits for the preliminary statements and adjourned the case to the hearing of 1 April 2021 for the admission of evidence.

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

On 25 July 2019, a writ of summons was served on Italgas S.p.A. by Publiservizi S.p.A. and other Municipalities with stakes in Toscana Energia which, claiming the alleged violation of a shareholders' agreement signed between said parties and Italgas S.p.A. on 28 June 2018, demanded that Italgas be ordered to acquire a 3% stake in Toscana Energia S.p.A. (for the price of €70,000,000.00 indicated in the tender notice of 20 July 2018) or, in any case, to fulfil the aforementioned shareholders' agreement and, in the alternative, to pay Publiservizi €59,800,000.00 by way of compensation for damages for breach or, alternatively, by way of unjust enrichment. The first hearing, held on 14 January 2020 before the Court of Florence, was adjourned first to 6 May 2020, then, due to the health emergency, to 25 November 2020 and, most recently, to 28 April 2021. Italgas S.p.A., which entered an appearance within the legal term, raised all the objections required to prove that the counterparty's claims were groundless.

ITALIAN COMPETITION AUTHORITY (AGCM)

A540 PRELIMINARY INVESTIGATION PROCEDURE - UNLAWFUL CONDUCT OF ITALGAS/ATEM VENEZIA 1, ORDER NO. 28249 OF 27 MAY 2020

With the order of 27 May 2020, served on Italgas Reti on 3 June 2020, the AGCM - pursuant to Article 14 of Law 287/90 and on the recommendation of the Municipality of Venice - initiated the A540 preliminary investigation procedure against Italgas Reti for the establishment of an alleged abuse of dominant position in breach of Article 102 of the TFEU for "refusing to provide the information requested, considered essential for the purposes of preparing the documents required for the contracting Authority to call for tenders for the ATEM [Venice 1]", where Italgas Reti is responsible for gas distribution in 6 municipalities out of 8, comprising 97% of the redelivery points in the ATEM.

In particular, Italgas Reti was accused of refusing to provide or unjustifiably delaying provision of the tariff evidence for the assets of "Block A" (which the Council of State found to be the property of the Municipality of Venice in ruling no. 4104 of 4 July 2018) as at 31 December 2018, as specified in Article 4, paragraph 1, letter f) of Italian Ministerial Decree no. 226/2011, as well as the historical costs of the block's assets, further broken down by city area (old city centre and islands, Lido and Mestre), updated as at 31 December 2017 and 31 December 2018, in accordance with the details given in Annex B of the standard tender notice and point 19 of the Guidelines on criteria and application methods for assessment of the reimbursement value of natural gas distribution plants, approved by the Ministry of Economic Development (MISE) on 22 May 2014.

Italgas submitted a commitment proposal on 1 October 2020. The AGCM then admitted the commitments for the market test, setting the deadline for submitting comments at 20 November. Italgas Reti then had the opportunity to examine the comments received and to submit an integrated commitment proposal on 21 December 2020 in the light of the feedback received. On 3 March 2021, the AGCM accepted Italgas' undertakings and consequently closed the investigations without establishing any wrongdoing by the company.

CRIMINAL DISPUTE

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

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

The incident, which took place due to causes that are still being investigated, caused a fire that involved three people. Two of them, workers for an Italgas Reti contractor, suffered mild injuries. The third person – an Italgas Reti employee – died after a few weeks despite medical treatment. The preliminary investigations involved some Italgas Reti managers. On completion of the investigations, the Public Prosecutor's office of Rome requested that the case be discontinued for all persons under investigation. The file was assigned to the Judge for Preliminary Investigations for the decision. At the hearing of 26 October 2018, the Judge for Preliminary Investigations requested the Public Prosecutor to carry out further investigations. Following the additional investigations, the Public Prosecutor once again requested that the case be discontinued for all persons under investigation. The injured parties objected and the Judge for Preliminary Investigations scheduled the Chamber proceedings for 20 March 2020 for discussion of the objection to the request for the case to be discontinued. This was later postponed to 25 September 2020 due to the ongoing health emergency. The judge set aside the ruling at that hearing. The ruling was made on 17 November 2020: The Judge for Preliminary Investigations did not grant the second request for dismissal and ordered the Public Prosecutor to charge the individuals under investigation.

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

The public prosecutor at the Court of Busto Arsizio opened criminal proceedings against several Italgas Reti executives, technicians and manual workers in relation to an incident that took place on 11 November 2015 during an emergency intervention. The incident was caused by a gas

leak due to a gas leak due to remotely guided boring works for the laying of a fibre optic cable carried out by a third party.

The explosion occurred while interception activities were being completed on the section involved in the damage, causing the collapse of a house at No. 39 and the death of the woman who lived there, a serious injury to an Italgas Reti employee and to two other people who suffered mild injuries. A notice was served on 24 April 2017 advising of the conclusion of the preliminary investigations pursuant to Article 415-bis of the Code of Criminal Procedure of the persons under investigation and Italgas Reti, with regard to which it was alleged the occupational safety prevention measures had failed to be adopted. On 30 April 2018 the trial documents still being served were acquired from the office of the clerk of the Court of Busto Arsizio: request for committal for trial, request for dismissal regarding several natural persons under investigation, list of witnesses for the public prosecutor's office. The content of the request for remand is in line with those of the notification of conclusion of the preliminary investigations with regard to the involvement of Italgas Reti, while the request for application seeking, subsequently received by the Judge in the preliminary hearing, also included Italgas Reti's principal. On 4 May 2018 notification of the preliminary hearing being set for 26 June 2018 was served together with the request for committal for trial. The hearing, however, was not then held and was postponed until 23 October 2018. There were no applications to join proceedings as a civil party at the 23 October 2018 hearing, and the judge acknowledged the negotiations in progress with the injured parties, so the hearing was postponed until 23 January 2019. During that hearing the payment was acknowledged for the indemnification of the descendants of the dead person and the other injured parties, who then waived the option to initiate civil proceedings. The Municipality of Cerro Maggiore was allowed to initiate civil proceedings. Both the Italgas Reti defence and that of the Company's employees asked for the indictment to be dismissed. The judge reserved their decision on request of the defending counsels. At the subsequent hearing of 19 March 2019, the Judge for the Preliminary Hearing pronounced the dismissal for the two employees of Italgas Reti for not having committed the act. A conviction was issued against those requesting the abbreviated trial procedure, employees of the subcontracting company for the laying of the optic fibre cable, rejecting the request for damages of the civil party, the Municipality of Cerro Maggiore. On the hearing of 9 December 2019 the Judge called for the indictment of the Company Italgas Reti and its three employees, in addition to the defendants of company contracting the laying of the fibre optic cable. The first hearing was held on 9 December 2019, during which it was ascertained that the parties had been duly served and appeared. Exclusion of the civil claimant, the Municipality of Cerro, was requested. A schedule, subject to change, was also fixed for the actual investigation.

The judge rejected the preliminary claims at the hearing on 13 January 2020, considering that the Municipality of Cerro Maggiore might have sustained damage to its image, the demonstration of which is left to the continuation of the proceedings. In addition to the witnesses on its list, the Public Prosecutor also requested to hear the two Italgas employees acquitted by the Judge for the Preliminary Hearing and the employees of the fibre optic subcontracting company sentenced during the abbreviated trial procedure. However, the judge rejected the request, deeming it belated, and postponed the decision to a later

stage of the proceedings, if strictly necessary following the outcome of the investigation. The witnesses summoned by the Italgas Reti defence shall be heard once all the witnesses of the prosecution have been heard. The first hearing for the examination of witnesses, scheduled for 8 June 2020, was postponed to 7 September 2020 due to the health emergency. The hearings of the prosecution's witnesses began during the hearing of 7 September 2020 and continued on a weekly basis. The hearings of the defence witnesses began at the hearings of 9 November 2020 and 23 November 2020. Examination of the defendants was completed at the subsequent hearing of 8 February 2021 (two of the defendants employed by Italgas Reti were heard) and the next hearing, for the examination and cross-examination of the expert witnesses, has been set for 8 March 2021. At the hearing of 8 March 2021, the civil claimant waived the hearing of its expert, and our expert witnesses were heard. The next hearing will be held on 19 April for the expert examination of two defendants of the contracting company and to conclude the investigation. The prosecutor has filed a list of documents and the defence of the two defendants of the contracting party has also requested to hear a defendant from the subcontracting company in the related proceedings.

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

The public prosecutor at the Court of Rome opened an investigation in relation to the incident that took place on 2 May 2018 during a repair job on the gas distribution network in the Municipality of Rome.

The incident, which took place in via Saba 68, injured a worker of a contractor company. The Public Prosecutor's Office of Rome declared that four people were under investigation, one of whom a former Italgas Reti employee, from January 2020. On 12 November 2020, the Public Prosecutor's Office served notice of conclusion of the preliminary investigations on the former Italgas Reti employee, together with the employer of the contractor, the supervisor and a specialised worker of the same company, on charges of serious injury caused by negligence and violation of Italian Legislative Decree 81/2008.

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

The public prosecutor at the Court of Velletri opened an investigation relating to the incident on 10 June 2019 in the municipality of Rocca di Papa, caused by the rupture of an Italgas Reti pipe by a company carrying out works for the same Municipality.

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

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

Investigations was set for 5 July 2020 and later extended to 31 August 2020. The expert witness report was made available on 10 September 2020. The hearing before the Judge for Preliminary Investigations, initially scheduled for 1 October 2020, was postponed to 16 October 2020, during which the evidentiary hearing took place, with discussion of the expert witness report. The preliminary investigation by the Public Prosecutor is therefore currently ongoing.

Actions promoted by Italgas Reti following the Judicial Administration phase

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

Italgas Reti, through an appeal filed on 24 October 2016, opposed the settlement order of the expert witnesses of the Court of Palermo, challenging its non-involvement and, alternatively, the excess compensation paid. With its Order of 23 January 2018, the Court of Palermo acknowledged that Italgas Reti is not required to pay the costs of the Public Prosecutor's Office consultants as they are not connected with the prevention measures. The consultants have filed an appeal to the Court of Cassation. Italgas Reti has not submitted a counterclaim for prudential reasons, in order to confirm the non-involvement of the company to the proceedings for lack of interest. The date of the hearing is still to be set.

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

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

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

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

PUBLIC FUNDS RECEIVED

With reference to the new rules introduced by Law no. 124 of 4 August 2017 "Annual competition law", under Article 1, paragraphs 125-129, please note that the following grants from public Authorities relating to the construction of gas networks were collected in 2020.

BENEFICIARY	GRANTOR			TYPE OF TRANSACTION	AMOUNT €
	NAME COMPANY NAME	TAX CODE	VAT NUMBER		
ITALGAS RETI S.P.A.	MORRO D'ORO	81000370676	00516370673	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	14,421.08
ITALGAS RETI S.P.A.	CASALINCONTRADA	00273020693	00273020693	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	89,573.19
ITALGAS RETI S.P.A.	CARAMANICO TERME	00228670683	00228670683	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	21,240.00
ITALGAS RETI S.P.A.	CIVITAQUANA	80001190687	00219500683	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	23,280.00

BENEFICIARY	GRANTOR			TYPE OF TRANSACTION	AMOUNT €
	NAME COMPANY NAME	TAX CODE	VAT NUMBER		
ITALGAS RETI S.P.A.	MONTEFINO	81000330670	81000330670	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	30,782.64
ITALGAS RETI S.P.A.	BUSSI SUL TIRINO	00231710682	00231710682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	42,199.65
ITALGAS RETI S.P.A.	SILVI	81000550673	00175740679	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	20,473.88
ITALGAS RETI S.P.A.	BUCCHIANICO	00251860598	00251860598	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	28,792.81
ITALGAS RETI S.P.A.	CASTIGLIONE MESSER RAIMONDO	80003890672	00195720677	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	9,720.00
ITALGAS RETI S.P.A.	CASTILENTI	81000270678	00824050678	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	8,287.04
ITALGAS RETI S.P.A.	INTRODACQUA	00197560667	00197560667	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	19,868.50
ITALGAS RETI S.P.A.	ELICE	00221990682	00221990682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	12,978.97
ITALGAS RETI S.P.A.	CATIGNANO	80001570680	00221020688	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	43,680.00
ITALGAS RETI S.P.A.	PINETO	00159200674	00159200674	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	2,160.00
ITALGAS RETI S.P.A.	SELLIA	00311650790	00311650790	Plant account grants Law 784/80	50,000.00
MEDEA S.P.A.	PORTO TORRES	00252040902	00252040902	Plant account grants Resolution 54/28 of 22.11.2005 of the Autonomous Region of Sardinia Article 5	1,551,011.57
TOSCANA ENERGIA GREEN S.p.A.	TUSCANY REGION	01386030488	01386030488	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	109,000.00
					2,077,469.33

CORONAVIRUS EMERGENCY

In the early months of 2020 the COVID-19 virus spread worldwide, to the extent that on 11 March 2020 the World Health Organisation declared there was a global "pandemic".

The epidemic developed very quickly, resulting in a significant number of infections and forcing several governments to place restrictive measures on the movement of people and on the performance of company and production activities in order to contain the spread of the virus.

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

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

In 2020, the ESMA published two public statements on the pandemic, the first entitled "Implication of the COVID-19 outbreak on the half-yearly financial reports" of 20 May 2020 and the second "European common enforcement priorities for 2020 annual financial reports" of 28 October 2020.

In particular, the objective of the latter document was to guide management teams in the preparation of the 2020 annual financial statements, placing particular attention on the need to provide adequate information about the effects of the pandemic on the various areas of the financial statements for the year just closed.

In the light of the ESMA documents, an update and in-depth analysis are provided below with respect to what has already been illustrated in the 2019 Annual Financial Report.

In particular, specific thematic areas have been identified below which, with reference to the individual IFRS, have been elaborated hereunder in order to provide a better understanding of the information in accordance with the dictates of IAS 1.

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

BUSINESS CONTINUITY (IAS 1)

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

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

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

In compliance with the measures issued by the Authorities, activities deemed essential were in fact guaranteed (e.g. emergency interventions, work linked to plant safety and efficiency, etc.), temporarily suspending technical activities that could be postponed.

Work on networks and interventions at user premises, including the replacement of traditional meters with smart meters, gradually resumed from the start of May as provided for and permitted by the legislator.

Unless there are unforeseeable future resurgences of the health emergency, which reasonably should be countered by ongoing vaccinations, the Company believes it will be able to confirm its investment plans, having already proven in 2020 that it was able to overcome delays in its original plans to carry out works, with particular reference to the implementation of the network digitisation projects, the installation of "smart" meters and the methanisation of Sardinia, in addition to the usual maintenance and development activities of the networks managed.

Similarly, Italgas confirmed the strategic priorities included in its 2020-2026 Strategic Plan, with reference to both participation in area tenders to award the natural gas distribution service, and potential acquisitions, which will strengthen territorial presence and enable the scope of activities to grow.

FINANCIAL INSTRUMENTS (IFRS 9, IFRS 7 AND IFRS 13)

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

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

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

Moreover, with Resolution no. 248/2020/R/com of 30 June 2020, the Authority required sales companies to pay the balance of the total amounts invoiced by distributors and not paid during the derogation period, as a lump sum in September or in three instalments from September to November. As at 31 December 2020, the sales companies

have complied with their obligations in accordance with the time frames of the above-mentioned Resolution no. 248/2020/R/com.

With regard to access to credit, Italgas does not foresee any significant negative impacts, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of €663.5 million as at 31 December 2020 and a completely undrawn committed long-term credit line of €500 million, maturing in October 2021, taken out with a pool of Italian and international banks, (ii) there are limited requirements to refinance debt (the first bond repayment is due in 2022), (iii) the bonds issued by Italgas as at 31 December 2020, as part of the Euro Medium Term Notes Programme, do not require the observance of covenants relating to the data in the financial statements.

Any downgrading of the rating of Italgas or of any guarantors in excess of pre-established thresholds, could lead to the issuance of guarantees for certain lenders or a rise in the spreads applied.

The company's financial soundness is confirmed by the success of i) the bond issue of €500 million, completed on 24 June 2020, implementing the EMTN Programme (renewed on 20 October 2020 for €6.5 billion) and ii) the "dual-tranche" bond issue maturing in February 2028 and February 2033, both for a total of € 500 million each, implementing the aforesaid Programme, which ended in February 2021, and the simultaneous Tender Offer launched by Italgas on its own bonds, iii) as well as by the confirmation on 3 December 2020 of the rating by Fitch as BBB+ with a stable outlook.

Classification and measurement

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

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

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

Hedge accounting

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

Fair value

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

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

Financial risk management

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

Financial instruments impairment test

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS AND EQUITY INVESTMENTS (IAS 36)

The Italgas Group, consisting of Italgas S.p.A., the consolidating company, and its subsidiaries, is an integrated group at the forefront of the regulated natural gas sector and a relevant player in terms of invested capital in its regulatory asset base (RAB) in the sector.

RAB (Regulatory Asset Base) is calculated on the basis of the rules defined by the Italian Electricity, Gas and Water Authority (AEEGSI) for determining base revenues for regulated businesses.

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

In particular, as regards the value of property, plant and equipment under concession that fall within the scope of regulated activities, their recoverable value is determined by considering: (i) the amount quantified by the Authority on the basis of the rules that define the tariffs for the provision of the services they are intended for; (ii) the value the group

expects to recover from the transfer or at the end of the concession that governs the service for which they are intended.

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

At the end of 2019, ARERA issued Resolution 570/2019/R/gas, with which it approved the regulation of tariffs for gas distribution and metering services for the period 2020-2025.

This resolution defined the method for calculating the RAB (revalued historic cost and centralised assets) and the related WACC with the related parameters (risk-free rate, beta, inflation, gearing, cost of debt, tax rate) throughout the next five-year period.

Considering the temporary interruption of some operating activities mainly regarding worksites or user services, the stability of the regulatory framework meant the effects on business profitability and on the expected cash flows could be significantly limited. In the light of the foregoing, no impairment losses emerged as at 31 December 2020 relating to the recoverability of the asset and goodwill values.

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

LEASES (IFRS 16)

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

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

REVENUE RECOGNITION (IFRS 15)

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

The most significant part of Italgas' revenue relates to regulated activities, the income of which are governed by the regulatory framework defined by ARERA. Therefore, the economic conditions of the services provided are defined in regulatory schemes and not on a negotiation basis. In reference to the distribution of natural gas, the

difference between revenues recognised by the regulator ("Revenue cap") and actual accrued revenue is posted in the Statement of Financial Position under the item "Trade and other receivables" if positive, and under the item "Trade and other payables", if negative, in that it will be subject to monetary settlement with Cassa per i Servizi Energetici e Ambientali (CSEA).

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

GOVERNMENT INCENTIVES AND TAX AREA (IAS 12 AND 20)

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

Italgas benefited from the exclusion from payment of the 2019 IRAP balance and the first 2020 IRAP instalment; these payments, pursuant to article 24 of Decree-Law no. 34 of 19 May 2020, converted with amendments by Law no. 77 of 17 July 2020, are not payable by Companies whose revenues did not exceed €250 million in the 2019 tax period. These provisions are nevertheless applied in accordance with the limits and conditions envisaged by the communication of the European Commission dated 19 March 2020 (C(2020) 1863 Final), "Temporary framework for state aid measures to support the economy in the current COVID-19 outbreak", as amended.

Considering the uncertainty around the interpretation and application of these provisions, the legislator subsequently postponed the deadline of the payments to 30 April 2021, making it possible to implement them, without the application of fines or interest in the event of misapplication of said provisions in relation to determination of the limits and conditions envisaged by said European Commission communication.

The Italgas Group also carried out the required obligations for the purposes of applying the tax credit for expenses incurred in 2020 to sanitise the rooms and equipment used, as well as for the purchase of personal protective equipment and other devices intended to guarantee the health of workers, as per article 125 of Law Decree no. 34 of 19 May 2020, converted by Law no. 77 of 17 July 2020 and the tax credit for advertising investments incurred in 2020, set out by article 186 of the same Law Decree no. 34 of 19 May 2020, converted by Law no. 77 of 17 July 2020.

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

OTHER LIABILITIES

Provisions for risks and onerous contracts (IAS 37)

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

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

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

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

There were no changes to the approach used, to date, to determine the actuarial assumptions required to calculate the various liabilities of the employee benefits according to IAS 19. Therefore, there were no methodological amendments or specific changes to the economic, demographic, financial or behavioural assumptions (e.g. turnover).

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

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

MAIN ECONOMIC IMPACTS DIRECTLY ATTRIBUTABLE TO COVID-19

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

(€ THOUSANDS)	2020
Purchase of consumables (disinfectant, gloves, masks, etc.) and services	4,890
Liberal donations	1,744

27) Revenue

The breakdown of *revenue* for the year, which totalled €2,127,286 thousand as at 31 December 2020 (€1,893,439 thousand as at 31 December 2019) is shown in the following table.

(€ THOUSANDS)	2019	2020
Revenue	1,820,020	2,058,442
Other revenue and income	73,419	68,844
	1,893,439	2,127,286

Group revenue is earned exclusively in Italy.

REVENUE

Revenue, which amounts to €2,058,442 thousand (€1,820,020 thousand as at 31 December 2019), is analysed in the table below:

(€ THOUSANDS)	2019	2020
Natural gas distribution	1,132,008	1,322,303
Revenues for infrastructure construction and improvements (IFRIC 12)	621,105	668,738
Technical assistance, engineering, IT and various services	49,805	46,850
Water distribution and sale	6,564	7,515
Gas sales	10,538	13,036
	1,820,020	2,058,442

Revenue refers primarily to the consideration for the natural gas distribution service and other regulated revenues (€1,322,303 thousand) and revenue deriving from the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to IFRIC 12 (€668,738 thousand).

Revenue is reported net of the following items, involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Italgas are paid in full to the Energy and Environmental Services Fund (CSEA).

(€ THOUSANDS)	2019	2020
RE-RS-UG1 fees	164,103	153,656
UG3 fees	23,289	21,528
Gas Bonus and GS fees	(16,183)	(15,377)
UG2 fees	(19,349)	(19,679)
	151,860	140,128

The fees in addition to the distribution service (€140,128 thousand) mainly relate to the following fees: (i) RE, to cover the expenses for calculating and implementing energy savings and the development of renewable energy sources in the gas sector; (ii) RS, as coverage for gas services quality; (iii) UG1, to cover any imbalances in and adjustments to the equalisation system; (iv) UG2, to cover the costs of retail sales marketing; (v) UG3int, to cover expenses connected to the interruption of services; (vi) UG3ui, to cover expenses connected to any imbalances in specific equalisation mechanism balances for the Default Distribution Service Provider (FDD) as well as the expenses for payment delays incurred by Suppliers of Last Instance (FUI), limited to end customers for which the supply cannot be suspended; (vii) UG3ft, to fund the expense account for the service of temporary providers on the transport network; (viii) GS, to cover the tariff compensation system for economically disadvantaged customers.

Gas distribution revenue (€1,322,303 thousand) refers to natural gas distribution on behalf of all commercial operators

requesting access to the networks of the distribution companies based on the Network Code. These revenues include the higher revenues associated with the contribution pursuant to Article 57 Resolution ARERA n. 570/2019/R/gas relating to the replacement of traditional meters with electronic smart meters due to the change in methodology over previous years and the recovery of non-depreciation (so-called IRMA) ex DCO 545/2020/R/gas and Resolution no. 570/2019/R/gas, for a total of €108,385 thousand.

With reference to the higher revenues pursuant to Article 57, the company recorded the impacts in the financial statements by virtue of Consultation Document no. 545/2020/R/gas, whereby the Authority announced the amendment to the RTDG 2020-2025, proposing that disposals relating to meters up to class G6 be determined using the so-called regulatory FIFO method and that this criterion be extended to the disposals of traditional meters higher than class G6, thereby making the criterion for determining residual depreciation uniform for all meters disposed of under the Directives.

The higher contribution is also made up of the amount for the recovery of non-depreciation (so-called IRMA) relating to meters class G6 or lower replaced with the smart meters introduced by Resolution no. 570/2019/R/gas.

Revenue from the sale of water (€7,515 thousand) relates to the water distributed by Italgas Acqua, established on 1 January 2018 after the successful proportional partial demerger of Italgas Reti to a newco through assignment

to the latter of the "former Napoletanagas water business unit" became effective.

OTHER REVENUE AND INCOME

Other revenue and income, which amounted to €68,844 thousand, can be broken down as follows:

(€ THOUSANDS)	2019	2020
Income from gas distribution service safety recovery incentives	16,120	23,445
Plant safety assessment pursuant ex DL 40/04	2,451	2,281
Capital gains from sale of assets	11,134	5,016
Sundry management refunds and chargebacks	6,941	662
Contractual penalties receivable	1,084	812
Revenue from regulated activities	14,892	8,381
Connection contribution uses	16,250	19,564
Revenue from seconded personnel	604	223
Other revenue	3,943	8,460
	73,419	68,844

Income from safety recovery incentives, equal to €23,445 thousand, relates to refunds paid by the Authority connected to achieving quality and technical standards relating to the natural gas distribution service.

28) Operating costs

The breakdown of operating costs for the period, which totalled €1,079,811 thousand, is shown in the following table:

(€ THOUSANDS)	2019	2020
Purchase costs for raw materials, consumables, supplies and goods	143,054	123,896
Costs for services	483,089	536,240
Costs for the use of third-party assets	83,857	87,555
Personnel cost	242,259	269,853
Net provisions for risks and charges	1,141	44,499
Net provisions for impairment	(306)	(16)
Other expenses	20,779	20,124
<i>To be deducted:</i>		
Increases for own work	(4,257)	(2,340)
— of which costs for services	(1,542)	(651)
— of which labour costs	(2,715)	(1,689)
	969,616	1,079,811

Operating costs relating to the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to what is set forth in IFRIC 12, amount to €668,738 thousand and are broken down as follows:

(€ THOUSANDS)	2019	2020
Purchase costs for raw materials, consumables, supplies and goods	115,100	94,261
Costs for services	394,664	457,458
Costs for the use of third-party assets	13,182	8,572
Personnel cost	96,584	107,288
Other expenses	1,575	1,159
	621,105	668,738

Costs for raw materials, consumables, supplies and goods, amounting to €123,896 thousand (€143,054 as at 31 December 2019), comprise the following:

(€ THOUSANDS)	2019	2020
Inventories	134,608	108,072
Purchase of water	2,302	2,638
Motive power	998	1,129
Purchase of fuel	3,456	2,442
Consumables	1,690	9,615
	143,054	123,896

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

Purchase costs for raw materials, consumables, supplies and goods include costs relating to the construction and upgrading of gas distribution infrastructure (€94,261 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for services of €535,589 thousand relate to:

(€ THOUSANDS)	2019	2020
Project management and plant maintenance	334,182	408,846
Consultancy and professional services	59,921	51,025
Costs for personnel services	16,550	10,899
IT and telecommunications services	34,481	39,018
Electricity, water and other (utility) services	6,974	5,733
Insurance	5,284	5,434
Cleaning, security service and guard services	3,902	3,613
Advertising and entertainment	2,597	2,869
Other services	33,699	24,645
Use of risk provision	(14,501)	(15,842)
	483,089	536,240
<i>To be deducted:</i>		
Increases for own work	(1,542)	(651)
	481,547	535,589

Costs for services include costs relating to the construction and upgrading of gas distribution infrastructure (€457,458 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for project management and plant maintenance planning (€408,846 thousand) essentially relate to the extension and maintenance of gas distribution plants.

Costs for the use of third-party assets, of €87,555 thousand, regard:

(€ THOUSANDS)	2019	2020
Patent, license and concession fees	69,186	77,203
Leases and rentals	14,672	10,635
Use of risk provision	(1)	(283)
	83,857	87,555

Costs for use of third-party assets include costs relating to the construction and upgrading of gas distribution infrastructure (€8,572 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Personnel cost, totalling €268,164 thousand, breaks down as follows:

(€ THOUSANDS)	2019	2020
Wages and salaries	171,676	180,419
Social charges	54,481	55,740
Employee benefits	13,683	14,316
Other expenses	2,419	19,378
	242,259	269,853
<i>To be deducted:</i>		
Increases for own work	(2,715)	(1,689)
	239,544	268,164

The item includes costs relating to the construction and upgrading of gas distribution infrastructure (€107,288 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Employee benefits (€14,316 million) mainly regard expenses connected to the elimination of the Gas Fund, pursuant to Law no. 125 of 6 August 2015⁹⁰.

Other expenses of €19,378 thousand, in particular refer to charges for the incentive plan for senior executives (co-investment plan).

Stock Grant plans reserved for employees of the Company, the fair value of the option, determined at the time of granting (calculating it on the basis of the "Black-Scholes" economic-actuarial method) is recognized as a cost in the income statement over the period of accrual of the benefit, with a balance sheet corresponding to a reserve set up in the shareholders' equity.

More details are provided in the "Provisions for employee benefits" note.

AVERAGE NUMBER OF EMPLOYEES

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

PROFESSIONAL QUALIFICATION	2019	2020
Executives	62	60
Managers	296	302
Office workers	2,247	2,239
Manual workers	1,464	1,430
	4,069	4,031

⁹⁰ As of 1 December 2015, Law no. 125 of 6 August 2015 eliminated the General compulsory disability, old age and survivors' insurance supplementary fund for employees of private gas companies (the "Gas Fund") in which roughly 3,500 people in the Group participated, particularly in the distribution sector. The Law set a series of additional contributions that the employer must cover.

The average number of employees is calculated on the basis of the monthly number of employees for each category. At 31 December 2020, there were 4,026 employees on average.

REMUNERATION DUE TO KEY MANAGEMENT PERSONNEL

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities ("key management personnel"), in office at 31 December 2020, amounted to €7,242 thousand and breaks down as follows:

(€ THOUSANDS)	2019	2020
Wages and salaries	5,254	5,536
Post-employment benefits	467	559
Other long-term benefits	1,221	1,147
	6,942	7,242

REMUNERATION DUE TO DIRECTORS AND STATUTORY AUDITORS

Remuneration due to Directors, except for the Chairman and the CEO who form part of the key management personnel as explained in the foregoing paragraph, amounted to €1,703 thousand and remuneration due to Statutory Auditors amounted to €498 thousand (Article 2427, no. 16 of the Italian Civil Code). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor giving rise to a cost for the Company, even if not subject to personal income taxes.

Net allocations to the provision for risks and charges, amounting to € 44,499 thousand net of utilisations, refer mainly to the provision for operational restoration of metering instruments to cover the costs estimated for replacing/restoring G4 and G6 smart meter functions with operational problems and not covered by warranty.

For more details on the changes in provisions for risks and charges, please refer to the note "Provisions for risks and charges".

Other expenses, of €20,124 thousand, are analysed below:

(€ THOUSANDS)	2019	2020
Gas distribution service safety improvement penalties	878	473
Other penalties	3,327	7,844
Indirect taxes, local taxes	8,905	6,552
Capital losses from disposal/recovery of property, plant and equipment and intangible assets	6,720	3,866
Membership fees	1,565	1,679
Costs for transactions, compensation and penalties	139	155
Use of risk provision	(13,220)	(9,721)
Charges attributable to Energy Efficiency Certificates	7,582	4,271
Other expenses	4,883	5,005
	20,779	20,124

Gas distribution service safety improvement penalties (€473 thousand) relate to repayments, paid to the Authority, related to awards for gas distribution safety improvements for 2020.

Charges attributable to Energy Efficiency Certificates (€4,271 thousand) are fully covered by use of the relevant risk provision.

The other expenses include costs relating to the construction and upgrading of gas distribution infrastructure (€1,159 thousand) recognised pursuant to IFRIC 12.

29) Amortisation, depreciation and impairment

Amortisation, depreciation and impairment, totalling €444,176 thousand, breaks down as follows:

(€ THOUSANDS)	2019	2020
Amortisation and depreciation	405,873	443,243
– Property, plant and equipment	13,826	16,112
– Right of use pursuant to IFRS 16	15,218	20,235
– Intangible assets	376,829	406,896
Impairment	1,908	933
– Impairment of intangible assets	1,908	933
	407,781	444,176

The amount of €406,896 thousand, relating to the amortisation of the intangible assets, includes greater amortisation as a result of the reduction in the useful life of traditional meters⁹¹, subject to the plan to replace them with smart meters, required by AEEGSI resolutions under the scope of the implementation of the smart metering reading plan.

The write-downs of intangible assets of €933 thousand (€1,908 thousand in 2019) relate to the exit from the production process of some assets.

⁹¹ The useful life of the meters included in the project pursuant to ARERA resolutions 631/13 and 554/15 was adjusted, in order to complete the amortisation process in line with the meter replacement plan.

30) Financial Income (expense)

Net financial expense, amounting to €49,209 thousand, comprises:

(€ THOUSANDS)	2019	2020
Financial Income (expense)	(67,864)	(53,669)
Financial expense	(68,077)	(53,941)
Financial income	213	272
Other financial income (expense)	(1,431)	4,460
Other financial expenses	(2,533)	(566)
Other financial income	1,102	5,026
	(69,295)	(49,209)

(€ THOUSANDS)	2019	2020
Financial Income (expense)	(67,864)	(53,669)
Borrowing costs:	(68,077)	(53,941)
– Interest expense on bonds	(59,250)	(45,919)
– Commission expense on bank loans and credit lines	(7,461)	(6,298)
– Interest expense on credit line and loan expense due to banks and other lenders	(1,366)	(1,724)
Financial expense capitalised		
Income on financial receivables:	213	272
– Interest income and other income on financial receivables non-held for operations	213	272
Other financial income (expense):	(1,431)	4,460
– Capitalised financial expense	726	1,884
– Financial income (expense) connected with the passing of time (accretion discount) (*)	(2,112)	(2,022)
– Uses of risk provisions and financial expense		
– Expense for right of use pursuant to IFRS 16	(273)	(304)
– Other expenses	(874)	(124)
– Other income	1,102	5,026
	(69,295)	(49,209)

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

31) Income (expense) from equity investments

Income (expense) from equity investments, totalling €1,515 thousand, breaks down as follows:

(€ THOUSANDS)	2019	2020
Effect of valuation using the equity method	14,883	1,466
Capital gains from valuation using the equity method	14,883	1,466
Other income (expense) from equity investments	85,897	49
Dividends	26	25
Other income from equity investments	85,871	24
	100,780	1,515

The reduction of €99,295 thousand compared to 2019 refers to the equity valuation of Toscana Energia until 30 September 2019.

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in the note "Equity investments valued using the equity method".

32) Income taxes

Income taxes for the year, amounting to €151,979 thousand (€123,928 thousand as at 31 December 2019) comprise

(€ THOUSANDS)	2019			2020		
	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
Current taxes	103,103	24,570	127,673	152,441	33,036	185,477
Current taxes for the year	105,770	24,270	130,040	151,495	32,325	183,820
Adjustments for current taxes pertaining to previous years	(2,667)	300	(2,367)	946	711	1,657
Deferred and prepaid taxes	(4,107)	362	(3,745)	(29,665)	(3,833)	(33,498)
Deferred taxes	(11,881)	(1,028)	(12,909)	(19,816)	(2,903)	(22,719)
Prepaid taxes	7,774	1,390	9,164	(9,849)	(930)	(10,779)
	98,996	24,932	123,928	122,776	29,203	151,979

Income taxes relate to current taxes amounting to €185,477 thousand (€127,673 thousand as at 31 December 2019) and net prepaid taxes with a positive effect of €33,498 thousand (€3,745 thousand as at 31 December 2019).

The rates applied and provided for by tax regulations for current taxes are 24% for IRES and 4.2% for IRAP.

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) rate in force in Italy) with the actual tax charge for the year can be broken down as follows:

(€ THOUSANDS)	2019		2020	
	TAX RATE	BALANCE	TAX RATE	BALANCE
IRES				
Gross profit		547,527		555,605
IRES tax calculated based on the theoretical tax rate	24.00%	131,406	24.00%	133,345
Changes compared to the theoretical rate:				
– Income from equity investments	(3.9%)	(21,626)	0.5%	2,893
– Temporary tax adjustment	0.2%	1,083		
– Current taxes for previous years	(0.4%)	(2,217)	0.0%	138
– “Super Iper amortisation and depreciation” tax benefit	(1.6%)	(8,696)	(2.2%)	(12,067)
– Other permanent differences	(0.1%)	(430)	(0.4%)	(2,305)
IRES taxes for the year through profit or loss	18.2%	99,520	22.0%	122,004

(€ THOUSANDS)	2019		2020	
	TAX RATE	BALANCE	TAX RATE	BALANCE
IRAP				
EBIT for IRAP		516,042		603,299
IRAP tax calculated based on the theoretical tax rate	4.2%	21,674	4.2%	25,339
Changes compared to the theoretical rate				
– Taxes for previous years	0.1%	300	0.0%	24
– Temporary tax adjustment	0.0%	59		
– Regional IRAP adjustments	0.5%	2,960	0.7%	4,012
– Other permanent differences	(0.1%)	(585)	0.1%	600
IRAP taxes for the year through profit or loss	4.7%	24,408	5.0%	29,975

An analysis of deferred tax assets and liabilities based on the nature of the significant temporary differences that generated them can be found in the note "Deferred tax liabilities".

Pursuant to Article 157 of Decree-Law no. 34 of 19 May 2020, converted, with amendments, by Law no. 77 of 17 July 2020, amended by Article 22-bis of Decree Law no. 183 of 31 December 2020, converted, with amendments, by Law no. 21 of 26 February 2021, notifications of investigations, disputes, imposition of penalties, recovery of tax credits, settlements and adjustment and settlement, for which the time limits expired between 8 March 2020 and 31 December 2020 - including documents relating to IRES and IRAP declarations for the 2015 tax year - had to be issued by 31 December 2020, but may be filed in the period between 1 March and 28 February 2022.

TAXES RELATED TO COMPONENTS OF COMPREHENSIVE INCOME

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

(€ THOUSANDS)	2019			2020		
	GROSS VALUE	TAX IMPACT	NET TAX VALUE	GROSS VALUE	TAX IMPACT	NET TAX VALUE
Remeasurement of defined-benefit plans for employees	18,467	(5,210)	13,257	22,814	(6,406)	16,408
Change in fair value of cash flow hedge derivative financial instruments	10,682	(2,564)	8,118	21,003	(5,041)	15,962
Other components of comprehensive income	29,149	(7,774)	21,375	43,817	(11,447)	32,370
Deferred tax assets/liabilities		(7,774)			(11,447)	

33) Profit (loss) per share

The earnings per basic share, equal to €0.47, was calculated by dividing the net profit attributable to Italgas (€382,972 thousand) by the weighted average number of Italgas shares outstanding during the year (809,135,502 shares).

The diluted earnings per share was calculated by dividing the net profit by the weighted average number of shares outstanding during the period, excluding any treasury shares, increased by the number of shares that could potentially be added to those outstanding as a result of the assignment or disposal of treasury shares in the portfolio for stock option plans. The diluted earnings per share, calculated also considering the co-investment plan, was €0.47 per share.

The diluted earnings per share is calculated by dividing the net profit attributable to Italgas (€382,972 thousand) by the weighted average number of shares outstanding during the period, excluding any treasury shares, increased by the number of shares that could potentially be added to those outstanding as a result of the assignment or disposal of treasury shares in the portfolio for stock grant plans. The diluted earnings per share, calculated also considering the co-investment plan, was €0.47 per share.

34) Related party transactions

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

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

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

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

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

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

COMMERCIAL AND OTHER TRANSACTIONS

Commercial and other transactions are analysed below:

(€ THOUSANDS)	31.12.2019			2019				
	RECEIVABLES	PAYABLES	GUARANTEES AND COMMITMENTS	COSTS (A)			REVENUE (B)	
				ASSETS	SERVICES	OTHER	SERVICES	OTHER
Parent company								
— Cassa Depositi e Prestiti		27			137			
		27			137			
Companies under joint control and associates								
— Umbria Distribuzione Gas	388				39		604	76
— Metano Sant'Angelo Lodigiano	110				(43)		256	38
	498				(4)		860	114
Companies owned or controlled by the State								
— Eni Group	189,412	7,449	13		979		666,069	8,370
— Snam Group	3,258	4,212			314		709	1,396
— Enel Group	36,889	(79)			302		140,669	2,026
— Anas Group	12	603			342			
— Ferrovie dello Stato Group	251	270			395			299
— GSE Gestore Servizi Group	2,251	(29)			(2,519)			4
— Poste italiane Group	292	755			846		299	
— Saipem Group		2,028			915			
					1,574		807,746	12,095
Other related parties								
— Cubo Gas					1			
	232,365	15,209	13		1			
Total	232,863	15,236	13		1,708		808,606	12,209

(a) Include costs for goods and services for investment.
(b) Gross of the tariff components having contra entry in costs.

(€ THOUSANDS)	31.12.2020			2020				
	RECEIVABLES	PAYABLES	GUARANTEES AND COMMITMENTS	COSTS (A)			REVENUE (B)	
				ASSETS	SERVICES	OTHER	SERVICES	OTHER
Parent company								
<div><div></div>Cassa Depositi e Prestiti</div>		100			143			
		100			143			
Companies under joint control and associates								
<div><div></div>Umbria Distribuzione Gas</div>	201						614	37
<div><div></div>Metano Sant'Angelo Lodigiano</div>	347				(2)		306	95
<div><div></div>Gesam Reti</div>	29							
<div><div></div>Valdarno in liquidation</div>		140			421	272		
	577	140			419	272	920	132
Companies owned or controlled by the State								
<div><div></div>Eni Group</div>	204,005	17,405	3,593	762	1,406	690,242	6,131	
<div><div></div>Snam Group</div>	4,859	4,691	122	288	2	235	1,499	
<div><div></div>Enel Group</div>	42,606	2,485	1	148	415	162,030	1,524	
<div><div></div>Anas Group</div>	22	731		2	385		63	
<div><div></div>Ferrovie dello Stato Group</div>	208	72		7	758		146	
<div><div></div>GSE Gestore Servizi Group</div>	1,581	(31)		4	18,963		5	
<div><div></div>Poste italiane Group</div>	3	354		577		5		
<div><div></div>Terna Group</div>							16	
<div><div></div>Saipem Group</div>		187		311				
	253,284	25,894	3,716	2,099	21,929	852,512	9,384	
Other related parties								
<div><div></div>Eur Group</div>		4			2			
		4			2			
Total	253,861	26,138	3,716	2,661	22,203	853,432	9,516	

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

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

COMPANIES UNDER JOINT CONTROL AND ASSOCIATES

The main receivable commercial transactions mostly regarded IT supplies to Umbria Distribuzione Gas S.p.A. and Metano Sant'Angelo Lodigiano S.p.A.

The main receivable commercial transactions mainly regard IT services.

COMPANIES OWNED OR CONTROLLED BY THE STATE

The main receivable commercial transactions refer to:

- the distribution of natural gas and personnel loans to the Eni Group;
- the distribution of natural gas to Enel Energia S.p.A.
- The main payable commercial transactions refer to:
- the supply of electricity and methane gas for internal consumption by the Eni Group;

FINANCIAL TRANSACTIONS

Financial transactions can be broken down as follows:

(€ THOUSANDS)	31.12.2019		2019	
	RECEIVABLES	PAYABLES	INCOME	EXPENSE
Parent company				
– Cassa Depositi e Prestiti				296
				296
Companies under joint control and associates				
– Valdarno in liquidation		3,167		
		3,167		
Companies owned or controlled by the State				
– Eni Group			128	
			128	
Total		3,167	128	296

(€ THOUSANDS)	31.12.2020		2020	
	RECEIVABLES	PAYABLES	INCOME	EXPENSE
Parent company				
— Cassa Depositi e Prestiti				299
				299
Companies under joint control and associates				
— Valdarno in liquidation		2,633		
		2,633		
Total		2,633		299

RELATIONS WITH THE PARENT COMPANY CDP

The main financial transactions carried out with CDP specifically concern commissions on subscribed loans.

The main financial relationships with Valdarno S.r.l. in liquidation relate to rent payable for rights of use (pursuant to IFRS 16).

Transactions with Directors, Statutory Auditors and key managers, with reference in particular to their remuneration, are described in the note "Operating costs", to which reference is made.

IMPACT OF RELATED-PARTY TRANSACTIONS OR POSITIONS ON THE STATEMENT OF FINANCIAL POSITION, INCOME STATEMENT AND STATEMENT OF CASH FLOWS

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

(€ THOUSANDS)	2019			2020		
	TOTAL	RELATED ENTITIES	INCIDENCE %	TOTAL	RELATED ENTITIES	INCIDENCE %
Statement of financial position						
Trade and other receivables	585,230	232,308	39.7%	635,028	253,182	39.9%
Other current non-financial assets	54,789	10	0.0%	84,168	5	0.0%
Other non-current non-financial assets	129,421	545	0.4%	167,441	674	0.4%
Short-term financial liabilities	581,157	521	0.1%	698,406	536	0.1%
Trade and other payables	726,714	15,059	2.1%	767,555	25,963	3.4%
Other current non-financial liabilities	9,461	177	1.9%	9,118	175	1.9%
Long-term financial liabilities	4,171,497	2,646	0.1%	4,707,145	2,097	0.0%
Other non-current non-financial liabilities	558,433			546,054		

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

(€ THOUSANDS)	2019			2020		
	TOTAL	RELATED ENTITIES	INCIDENCE %	TOTAL	RELATED ENTITIES	INCIDENCE %
Income Statement						
Revenue	1,820,020	808,606	44.4%	2,058,442	853,432	41.5%
Other revenue and income	73,419	12,209	16.6%	68,844	9,516	13.8%
Costs for raw materials, consumables, supplies and goods	143,054	(486)	(0.3%)	123,896	3,716	3.0%
Costs for services	481,547	2,967	0.6%	535,589	2,661	0.5%
Costs for leased assets	83,857	705	0.8%	87,555	1,414	1.6%
Personnel cost	239,544			268,164		
Other expenses	20,779	(1,478)	(7.1%)	20,124	20,789	
Financial expense	70,610	296	0.4%	54,507	299	0.5%
Financial income	1,315	128	9.7%	5,298		

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

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

(€ THOUSANDS)	2019	2020
Revenue and income	820,815	862,948
Costs and charges	(1,708)	(28,580)
Change in trade and other current receivables	(18,593)	(20,874)
Change in other assets	(10)	(124)
Change in trade and other payables	(141,581)	10,904
Change in other current liabilities		(2)
Interest collected (paid)	(168)	(299)
Net cash flow from operating activities	658,755	823,973
Net investments		
— Equity investments	141,353	(520)
Net cash flow from investment activities	141,353	(520)
Dividends distributed to minority shareholders	(74,883)	(81,944)
Increase (decrease) in financial debt		(534)
Net cash flow from financing activities	(74,883)	(82,478)
Total cash flows to related entities	725,225	740,975

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

(€ THOUSANDS)	2019			2020		
	TOTAL	RELATED ENTITIES	INCIDENCE %	TOTAL	RELATED ENTITIES	INCIDENCE %
Cash flow from operating activities	725,022	658,755	90.9%	763,507	823,973	107.9%
Cash flow from investment activities	(701,831)	141,353	(20.1%)	(773,472)	(520)	0.1%
Cash flow from financing activities	100,570	(74,883)	(74.5%)	411,754	(82,478)	(20.0%)

35) Significant non-recurring events and transactions

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

36) Positions or transactions arising from atypical and/or unusual transactions

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

37) Significant events after year end

Further significant events occurring after year end are described in the section "Other information" in the financial statements.

38) Publication of the financial statements

The financial statements were authorised for publication by the Board of Directors of Italgas at its meeting of 10 March 2021. The Board of Directors authorised the Chairman and the Chief Executive Officer to make any changes which might be necessary or appropriate for finalising the form of the document during the period between 10 March and the date of approval by the Shareholders' Meeting.