

# 6 | Comment on the economic and financial results and other information

# 6.1 Legislative and regulatory framework

## Tariff regulation

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

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

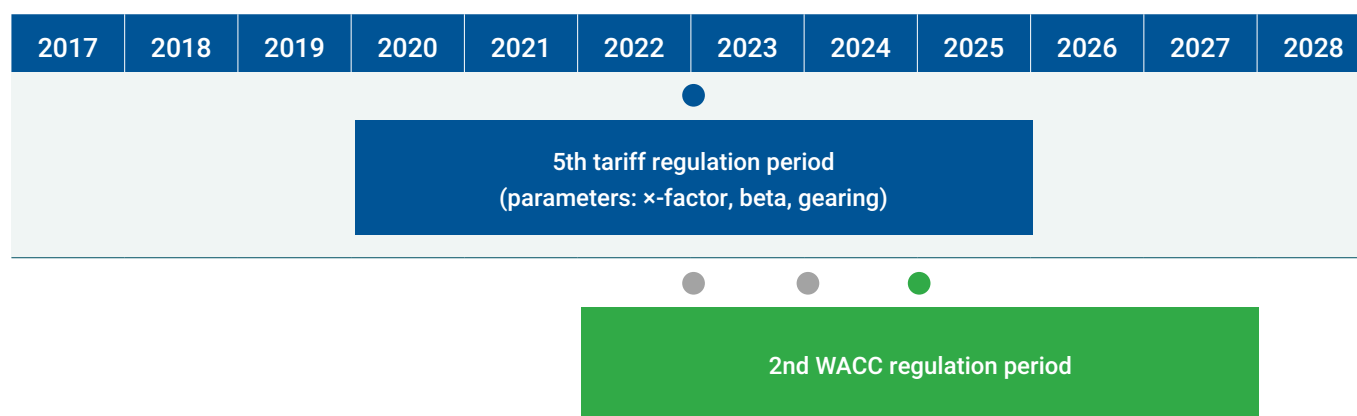
- | the cost of net invested capital for RAB (Regulatory Asset Base) purposes through the application of a rate of return of the same;
- | economic-technical amortisation/depreciation, hedging investment costs;
- | operating costs, hedging operational costs.

The main rate elements are reported below on the basis of the regulatory framework (Resolution no. 570/2019/R/gas as amended)

### Highlights fifth regulatory period (from 1/1/2020 to 31/12/2025)

End of Regulatory period (TARIFFS)	31 december 2025
Calculation of net invested capital recognized for regulatory purposes (RAB) *	Revalued historical cost Parametric method for centralised asset base
Return on net invested capital recognized for regulatory purposes (WACC <sub>pre-tax</sub> )	Distribution and Metering: 6.3% Years 2020- 2021
Incentives on new Investment	Return on investments t-1 to offset regulatory time lag (from 2013)
Efficiency Factor (X-factor)	Distribution operating costs: 3.53% for large companies (RDP > 300.000) 4.79% for medium companies (RDP > 50.000) 6.59% for small companies (RDP < 50.000) Metering operating costs: 0% Commercialization operating costs: 1,57%

(\*) The RAB of the companies currently included in the scope of consolidation, calculated by applying the criteria adopted by the Authority, with reference to investments made up to 31 December 2021, in the definition of the reference tariffs, is equal to € 8.2 billion.



- Infra-period parameters review (x-factor, beta, gearing)
- WACC update if an increase in the main parameters results in a change of at least 50 bps of the WACC with respect to the current value
- Update of WACC parameters common to all services (RFnominal, FP, physical parameters, CRP, inflation, iBoxx indexes and cost of debt graduation)

**Resolution no. 570/2019/R/gas**, following the consultation process conducted with the documents for consultation no. 170/2019/R/gas and 410/2019/R/gas, approved the regulation of tariffs for gas distribution and metering services for the period 2020-2025.

In particular:

| the Authority confirmed the six-year duration of the tariff regulation period, as well as the division into two half-periods of three years each;

| with regard to the recognition of operating costs, the Authority provided that:

a. the initial level for 2020 of recognised operating costs be fixed by applying equal weight to the actual and recognised costs of the reference year 2018;

b. the rate of annual reduction of unit costs recognised to cover operating costs be set at:

| for the distribution service:

| 3.53%, for large companies (> 300,000 re-delivery points);

| 4.79%, for medium-sized enterprises (> 50,000 re-delivery points);

| 6.59%, for small businesses (< 50,000 re-delivery points);

| 0% for the metering service;

| 1.57% for the marketing service;

c. the level of the recognised standard cost for each switch reading be confirmed, for the first half of the regulation period, at € 5;

d. the recognition of costs relating to smart metering/remote management systems be confirmed based on the costs actually incurred for the first half of the regulation period, with the application of a ceiling and recognition in account;

e. the recognition of costs relating to meter checks be confirmed on the basis of the costs actually incurred with the application of recognition in account;

| with regard to the recognition of capital costs, the Authority provided that:

a. the adoption of a ceiling to tariff recognition for investments in distribution networks applied to locations with year of first supply after 2017 be confirmed for the fifth regulation period, to the extent set out in Resolution no. 704/2016/R/gas;

b. the weights to be applied for the recognition of smart meter investments made in the two-year period 2020-2021 be revised to 30% (from 40%) for the standard cost and to 70% (from 60%) for the actual cost and that the standard cost revision be referred to the investments in the metering service made in 2022;

c. a time horizon be adopted for the full recovery of "frozen" contributions aligned with the time horizon for the reimbursement of contributions subject to depreciation (about 34 years);

d. in relation to the recognition of residual costs of traditional meters class G6 or lower replaced with smart meters, an amount be set for the recovery of non-depreciation (IRMA), to be paid to the distribution companies over five years, equal to the difference between the residual non-depreciated value, calculated applying the pro-tempore regulatory

useful life in force, and the residual value, calculated by applying a useful life of 15 years; also providing for the recovery of non-depreciation for traditional meters installed in the period 2012-2014 replaced with smart meters;

e. following the equalisation of the  $\square$  asset parameter for distribution (0.439) and metering services (from 0.502 to 0.439), the rate of return on invested capital WACC be set at 6.3% until 2021, including for metering activities;

f. incentive regulation schemes for capital costs related to the distribution service, based on standard cost recognition logics, be introduced starting from investments made in 2022;

g. aspects related to the introduction of tools to support network innovation be addressed in a specific consultation document, which was published in February 2020;

| with regard to the methanisation of Sardinia, the Authority has established a specific tariff framework providing, for a period of three years, for a transitional equalisation mechanism that allows the tariff of the Sardinian sector to be equalised with that of the southern Italy sector;

| with regard to the application of the tariff regulation to isolated LNG networks and isolated networks supplied by gas supply trucks, the Authority has introduced transitional rules, providing that these networks may be assimilated to interconnected distribution networks for a period of five years, subject to submission of an application by the distribution company concerned.

The Company filed an appeal before the Regional Administrative Court of Lombardy, served on 24 February 2020, challenging the legitimacy of the **Resolution no. 570/2019/R/gas** in several respects, including the planned reduction in recognised operating costs to the distributors, the reduction in the return on capital invested in metering activities, confirmation of the cap on investments in start-up locations, the proposed single tariff sector for Sardinia with equalization mechanism limited to the first three years only, and the proposal for a fixed x-factor throughout the regulation period. By order of 3 February 2021, the Regional Administrative Court prepared a verification intended to respond to a number of queries of particular technical complexity, which were relevant for the purposes of defining the judgement. As part of the verification activities, the expert witnesses were given the chance to examine, among other things, the data of the separate annual accounts used by ARERA for the adoption of the disputed regulatory provisions. The verification operations must be completed no later than 30 March 2022. The hearing on the merits is set for 21 April 2022.

**Resolution no. 106/2020/R/gas** redetermined the reference tariffs for gas distribution and metering services for the years 2009-2018 based on the requests of several distribution companies to correct the data. The Resolution also redetermined the reference tariffs for distribution and metering services for 2018 for locations with first year of supply starting from 2017 based on the provisions of Resolution no. 570/2019/R/gas, in relation to the ceiling on the costs recognised to cover capital costs relating to the distribution service in start-up locations. In particular, for 2017 start-ups, the Authority no longer provides for application of the ceiling to the amount of recognised costs, which are therefore remunerated based on the costs actually incurred

**Resolution no. 107/2020/R/gas** determined the final reference tariffs for gas distribution and metering services for

2019, calculated on the basis of the actual balance sheet figures for 2018.

**Resolution No. 596/2020/R/gas** approved the mandatory tariffs for natural gas distribution, metering and marketing services and the bimonthly equalisation prepayment amounts for natural gas distribution service for the year 2021. The Resolution also determined the values expressed in euro/re-delivery points, valid for the year 2021, of the components to cover operating costs related to the distribution, metering and marketing service, as well as the component to cover centralised capital costs.

**Resolution no. 117/2021/R/gas** determined the final reference tariffs for gas distribution and metering services for 2020, calculated on the basis of the actual balance sheet figures for 2019.

**Resolution no. 122/2021/R/gas** determined the provisional reference tariffs for gas distribution and metering services for 2021, based on the preliminary balance sheet data for 2020 pursuant to Art.3, subsection 2, of the RTDG.

**Resolution no. 287/2021/R/gas** amended Article 57, subsection 1 of the RTDG, in order to standardise the criteria for decommissioning, for regulatory purposes, the traditional meters replaced in accordance with the Directives for gas metering unit commissioning set out by Resolution no. 631/2013/R/gas, as amended and supplemented. The Resolution establishes that, regardless of the class of the traditional meter replaced, the decommissioning carried out in accordance with the smart meter directives be conventionally deducted from the stratification of the historical gross values using the values of the gross fixed assets related to the assets installed earliest (*so-called regulatory FIFO*).

**Resolution no. 413/2021/R/gas** approved the amounts of operating costs relating to smart metering/remote management systems and concentrators, incurred by the companies which submitted an application for the year 2019.

**Resolution no. 414/2021/R/gas** granted the request to recognise the operating costs relating to smart metering/remote management systems and concentrators, incurred by the former Company Napoletana Gas for the year 2017, not approved by the previous Resolution no. 568/2020/R/gas, since it is subject to in-depth analysis by the Authority.

**Resolution no. 559/2021/R/gas** determined the amounts for the recovery of non-depreciation (*so-called IRMA*) for the G4 and G6 traditional metering units replaced with gas *smart meters* in accordance with the smart meter directives. The Resolution redetermined the tariffs of reference for the tariff years 2015-2020, in accordance with the new provisions relating to the methods for declaring the decommissioning of G4 and G6 traditional metering units replaced with smart meters.

**Resolution no. 575/2021/R/gas** concluded the proceeding, initiated with Resolution no. 141/2021/R/gas, for the implementation of the ruling of the Council of State no. 341/2021 confirming the adoption of a constant productivity recovery rate (*x-factor*) (rather than decreasing with offsetting) in the first semi-period 2014-2016 of the fourth regulation period, therefore maintaining the formulation of Article 11, subsection 1, of the RTDG 2014-2019 in force until 31 December 2016, approved with resolution no. 367/2014/R/gas.

**Resolution no. 614/2021/R/com**, following the process initiated with the documents for consultation no. 308/2021/R/gas

and 488/2020/R/gas, approved the criteria for determining and updating the rate of return on invested capital for the infrastructural services of the electricity and gas sectors for the 2022-2027 period (TIWACC 2022-2027) and, on the basis of the economic scenario, carried out the infra-period update of the WACC base parameters shared by all regulated infrastructural services of the electricity and gas sectors. The 2PWACC is split into two sub-periods, each lasting three years. Albeit maintaining a three-year update frequency of the parameters relating to the macroeconomic and fiscal context, the Authority introduced an annual update mechanism (at least for the first three-year period) for the macroeconomic variables, if the cumulative effect of the update of the parameters leads to a change in the WACC above a threshold of 50 bps. For gas distribution and metering service, the value of the WACC as of 2022 is set at 5.6%, in pre-tax real terms.

**Resolution No. 620/2021/R/gas** approved the mandatory tariffs for natural gas distribution, metering and marketing services and the bimonthly equalisation prepayment amounts for natural gas distribution service for the year 2022. The Resolution also determined the values expressed in euro/re-delivery points, valid for the year 2022, of the components to cover operating costs related to the distribution, metering and marketing service, as well as the component to cover centralised capital costs.

In addition, the Resolution:

- | extends to 2022 the tariff regime relating to the natural gas distribution networks interconnected with the national transmission system for the isolated networks, pending the conclusion of the proceeding for the definition of a graduation mechanism to protect the end customers connected to such isolated natural gas networks, initiated with Resolution no. 634/2021/R/gas;
- | requires the activation of the rate of change to cover unpredictable and exceptional events and changes in the regulatory framework, setting it at 0.9%, for the recognition of the higher costs deriving from the amendments to the tax framework following the entry into force from 1 January 2021 of the provisions on the single concession fee;
- | requires that the costs relating to the single fee incurred by companies in 2021 be included in the calculations of the 2021 final reference tariffs and recognised through revenue equalisation mechanisms for the distribution service.

**Resolution no. 634/2021/R/gas** postponed until 30 April of year *t* the publication of the provisional reference tariffs relating to year *t* and until 31 March of year *t*+1 the publication of the final reference tariffs relating to year *t*.

## Quality and safety of the gas distribution and metering service

With **Resolution no. 74/2021/S/gas** of 2 March 2021, the Authority issued Italgas Reti a fine of € 500,000, deeming the company to be in breach of a number of provisions of the Regulation on the Quality of Gas Distribution and Metering services for the 2014-2019 period, regarding the emergency intervention service for the natural gas distribution plant called "Castelnuovo Magra" managed by it. On 19 April 2021, Italgas Reti contested the aforesaid resolution, and the setting of a date for the hearing is currently pending.

With Resolution no. 232/2021/R/gas of 1 June 2021, the Au-

thority made a payment on account of the total net amount of the premiums relating to safety recoveries of the natural gas distribution service, for the year 2018, owing to distribution companies that gave their approval within the prescribed time limits, in the amount of 80%.

With **Resolution no. 596/2021/R/gas of 21 December 2021**, the Authority determined the premiums and penalties related to the safety recoveries of the natural gas distribution service for 2018. In particular, for subsidiaries and associates companies of Italgas S.p.A., the overall net amount (total premiums and penalties) due for the odourisation and dispersion components is: i) € 8,051,340 for Italgas Reti; ii) € 864,165 for Toscana Energia e iii) € 32,496 for Metano Sant'Angelo Lodigiano. For Umbria Distribuzione Gas, the total amount to be paid to the CSEA by way of balance is instead negative, for € 29,430.

## Commercial regulation of gas distribution and metering service

With **Resolution no. 63/2021/R/com** of 23 February 2021, the Authority defined, pursuant to Law Decree no. 124 of 26 October 2019, the procedures for application of the system for automatic recognition of social gas and water bonuses for economic hardship, replacing the regulatory provisions of the previous "on-demand" system. The automatic recognition of the social gas bonus has a duration of 12 months and the procedures for application take into account the entry into operation of the Integrated Information System (IIS) to cross-check direct supplies and the personal data of an ISEE household, received from INPS [the Italian Social Security Institute], with those listed in its Official Central Register, in order to identify a re-delivery point held by one of the household members.

With **Resolution no. 191/2021/R/com** of 11 May 2021, the Authority updated the retail monitoring system by requiring that the basic data, found by the IIS, be detected by switching in the gas sector and by the information pertaining to the extent of the re-delivery points served as part of the protection service and in the free market.

With **Resolution no. 257/2021/R/com** of 22 June 2021, the Authority supplemented and amended the aforesaid Resolution no. 63/2021/R/com, regarding methods for payment of portions of the 2021 social bonuses already accrued, the operator disclosure obligations to end customers and social bonuses for physical discomfort. In particular, for the direct customers of the natural gas sector, if the user associated with the re-delivery point during the bonus period is not the same user associated with the re-delivery point at the moment of identification of the eligible supply, the distribution companies must pay the previous accruals of the 2021 social bonuses in a lump sum to the user associated with the supply for the previous period and to notify him/her of this.

## Natural gas balancing service - Settlement

With **Resolution no. 227/2021/E/gas** of 1 June 2021, the Authority approved the programme for two inspections of gas distribution companies, concerning regulation of the physical and economic items of the natural gas balancing (settlement) service, with particular reference to the 2013-2018 period. The inspections aim to ascertain compliance with the provisions relating to the regulation of physical and economic items, the

accuracy of data used, the efficiency of the metering systems and the correct technical operation of the distribution network in relation to the parameters relevant for the purposes of the "delta in-out" control, which expresses the value of the difference between gas injected into the distribution network and gas taken from re-delivery points of the same network.

With **Resolution no. 604/2021/R/com** of 21 December 2021, the Authority defined the methods for compensating the settlement items deriving from the biennial prescription objections raised by the end customer and by the seller, maintaining the compensation activities of the economic charge pertaining to such items not connected to the settlement processes.

## Energy efficiency

On 12 February 2021, **Resolution no. 550/2020/R/efr** was contested, with which the tariff contribution for Energy Efficiency Certificates was determined for the year 2019. At present, the hearing on the merits has not yet been scheduled.

On 18 February 2021, a ruling was issued, with which the Regional Administrative Court of Lombardy declared that **Resolution no. 270/2020/R/efr** did not violate the judgement of the previous Regional Administrative Court of Lombardy ruling no. 2358/2019 on EECs. The latter states that Italian Ministerial Decree of 10 May 2018, in the part where it set the cap on the tariff recognition of costs incurred for the purchase of certificates at € 250/EEC, unlawfully exceeded the tariff powers granted to ARERA. The judgement was only given on the claim of nullity brought by Italgas Reti against Resolution no. 270, but the claim of annulment brought against the ruling has yet to be examined. At present, the setting of a date for a new hearing for the decision on the annulment claim is pending. On 18 May 2021, the Company contested Regional Administrative Court of Lombardy ruling no. 437 of 18 February 2021. By judgement no. 7837 of 23 November 2021, the Council of State confirmed judgement no. 437/2021, declaring that Resolution no. 270/2020/R/efr was null as a result of violation of the judgement. The judgement of the Council of State rejected the claim of nullity but left without prejudice the claim of annulment, which is still pending before the Regional Administrative Court of Lombardy.

On 21 May 2021, the new Ministerial Decree on Energy Efficiency Certificates was published, regulating the four-year period 2021-2024 and retroactively updating the 2020 obligation for distributors. In addition, it provides for the postponement of 2020 compliance from 21 May to 16 July 2021 and introduced a balancing mechanism of future obligations lying with distributors according to certificate availability.

With **Resolution no. 01/2020** of 16 June 2021, subsequently amended with Resolution 06/2021 following publication of the Ministerial Decree of 21 May 2021, the Authority updated the national quantitative obligations for the increase in energy efficiency of natural gas end uses, to be achieved in 2020 by distributors with more than 50,000 end customers connected to their distribution network as at 31 December 2018. For subsidiaries and affiliates of Italgas S.p.A., the **quantitative obligation for 2020**, rounded off to the nearest whole number on a commercial basis and expressed as a number of White Certificates, is: i) 429,881 for Italgas Reti; ii) 62,226 for Toscana Energia and iii) 3,181 for Umbria Distribuzione Gas.

With **Resolution no. 358/2021/r/efr** of 03 August 2021, the Authority declared the value of the definitive tariff contribution

for reference period 2020, which is € 260.00/Energy Efficiency Certificate;

With **Determination no. 16/2021** of 10 November 2021, the Authority defined and transmitted to the Ministry of the Ecological Transition and to the GSE the national quantitative obligations for the increase in energy efficiency of natural gas end uses, to be achieved in 2021 by distributors with more than 50 thousand end users connected to its distribution network as at 31 December 2019. For subsidiaries and associates of Italgas S.p.A., the **quantitative obligation for 2021**, expressed as a number of White Certificates, is: i) 150,380 for Italgas Reti; ii) 22,428 for Toscana Energia and iii) 1,161 for Umbria Distribuzione Gas.

With **Resolution no. 547/2021/r/efr** of 30 November 2021, the Authority ruled the extraordinary recognition, for reference period 2020, of an exceptional contribution for each certificate annulled during the July 2021 session, not above the achievement of its specific objective, equal to € 7.26/Energy Efficiency Certificate.

## Coronavirus emergency - main measures of the Authority

With Resolution no. 226/2020/E/com of 23 June 2020, the Authority extended to 31 March 2021, the deadline initially set at 30 June 2020 for the execution of the inspection programme pursuant to Resolution no. 531/2019/E/com on compliance with the Integrated Information System (IIS).

With Resolution no. 432/2020/R/com of 3 November 2020, the Authority introduced extraordinary measures regarding the output-based regulation of gas distribution services:

- | in relation to the slowdown in the replacement of network sections in non-compliant materials, it decreased the minimum obligation set for 31 December 2022 from 40% to 30%, leaving the deadlines for the subsequent intermediate and final obligations unchanged (75% in 2024 and 100% in 2025);
- | it stated that any applications for a derogation from the time frames provided for in the service quality regulation may be submitted by 30 June 2021, rather than 31 December 2020.

With **Resolution no. 501/2020/R/gas** of 1 December 2020, the Authority updated the deadlines of the gas smart meter commissioning obligations in at least 85% of existing redelivery points, with a metering unit class of less than or equal to G6, to 31 December 2021 for distribution companies with more than 200,000 end customers and 31 December 2022 for companies with between 100,000 and 200,000 end customers.

With **Resolution no. 81/2021/R/com** of 2 March 2021, the Authority extended the measures introduced with Resolution no. 248/2020/R/com intended to manage the reputational guarantee of the credit rating of sales companies in natural gas distribution contracts, in cases of downgrades related to the Covid-19 emergency. In particular, the Authority requires that, if, at the end of the twelve months following the downgrade of the rating, the issuer agency confirms the assessment previously expressed in light of the economic context connected with the ongoing health emergency, the network user can also continue to make use of such assessment in natural gas distribution contracts for the next twelve months.



## 6.2 Comment on the economic and financial results<sup>70</sup>

### 6.2.1 Comment on the economic and financial results

(€ million)	2020	2020(**) restated	2021	Abs. change	Change %
<b>Gas Distribution regulated revenues</b>	<b>1,394.3</b>	<b>1,394.3</b>	<b>1,294.5</b>	<b>(99.8)</b>	<b>(7.2)</b>
of which distribution revenue	1,183.7	1,183.7	1,200.1	16.4	1.4
of which Other distribution revenue	102.2	102.2	94.4	(7.8)	(7.6)
of which special items	108.4	108.4	-	(108.4)	-
<b>Adjusted gas distribution regulated revenue</b>	<b>1,285.9</b>	<b>1,285.9</b>	<b>1,294.5</b>	<b>8.6</b>	<b>0.7</b>
Other revenues	47.9	47.9	76.3	28.4	59.3
<b>Total revenues (*)</b>	<b>1,442.2</b>	<b>1,442.2</b>	<b>1,370.8</b>	<b>(71.4)</b>	<b>(5.0)</b>
<b>Adjusted total revenues</b>	<b>1,333.8</b>	<b>1,333.8</b>	<b>1,370.8</b>	<b>37.0</b>	<b>2.8</b>
Operating costs	(414.3)	(416.1)	(361.9)	54.2	(13.0)
of which special items	(51.9)	(51.9)	-	51.9	-
<b>Adjusted operating costs</b>	<b>(362.4)</b>	<b>(364.2)</b>	<b>(361.9)</b>	<b>2.3</b>	<b>(0.6)</b>
EBITDA	1,027.9	1,026.1	1,008.9	(17.2)	(1.7)
<b>Adjusted EBITDA</b>	<b>971.4</b>	<b>969.6</b>	<b>1,008.9</b>	<b>39.3</b>	<b>4.1</b>
Amortisation, depreciation and impairment	(424.6)	(420.5)	(425.7)	(5.2)	1.2
EBIT	603.3	605.6	583.2	(22.4)	(3.7)
<b>Adjusted EBIT</b>	<b>546.8</b>	<b>549.1</b>	<b>583.2</b>	<b>34.1</b>	<b>6.2</b>
Net financial expense	(49.2)	(49.2)	(60.4)	(11.2)	22.8
of which special items	-	-	(6.4)	(6.4)	-
<b>Adjusted net financial expense</b>	<b>(49.2)</b>	<b>(49.2)</b>	<b>(54.0)</b>	<b>(4.8)</b>	<b>9.8</b>
Net income from equity investments	1.5	1.5	2.5	1.0	66.7
<b>Gross profit</b>	<b>555.6</b>	<b>557.9</b>	<b>525.3</b>	<b>(32.6)</b>	<b>(5.8)</b>
<b>Adjusted gross profit</b>	<b>499.1</b>	<b>501.4</b>	<b>531.7</b>	<b>30.3</b>	<b>6.0</b>

<sup>70</sup> The paragraph "Comment on the economic and financial results" refers to the Italgas Group, which comprises: Italgas S.p.A., Italgas Reti S.p.A., Medea S.p.A., Gaxa S.p.A., Italgas Acqua S.p.A., Toscana Energia S.p.A., Seaside S.p.A., Bludigit S.p.A., Ceresa S.p.A. and Italgas NewCo S.r.l.

(€ million)	2020	2020(**) restated	2021	Abs. change	Change %
Income taxes	(152.0)	(152.7)	(141.9)	10.8	(7.1)
<i>taxation related to special items</i>	<i>(16.9)</i>	<i>(16.9)</i>	<i>1.5</i>	<i>18.4</i>	<i>-</i>
Adjusted income taxes	(135.1)	(135.8)	(143.4)	(7.6)	5.6
<b>Net profit</b>	<b>403.6</b>	<b>405.2</b>	<b>383.4</b>	<b>(21.8)</b>	<b>(5.4)</b>
<b>Net profit attributable to the Group</b>	<b>383.0</b>	<b>384.6</b>	<b>362.8</b>	<b>(21.8)</b>	<b>(5.7)</b>
Net profit attributable to minority shareholders	20.6	20.6	20.6	0.0	0.0
<b>Adjusted net profit</b>	<b>364.0</b>	<b>365.6</b>	<b>388.3</b>	<b>22.7</b>	<b>6.2</b>
<b>Adjusted net profit attributable to the Group</b>	<b>345.4</b>	<b>347.0</b>	<b>367.7</b>	<b>20.7</b>	<b>6.0</b>
Adjusted net profit attributable to minority interests	18.6	18.6	20.6	2.0	10.8

(\*) Unlike the legal statement, the reclassified income statement requires the listing of Total revenues and Operating costs net of the impact of IFRIC 12 "Service concession agreements" (€ 772.0 and € 668.2 million respectively in 2021 and 2020), connection contributions (€ 19.6 and € 19.5 million respectively in 2021 and 2020) and other residual components (€ 0.8 and € 3.2 million respectively in 2021 and 2020).

(\*\*) Up until 31 December 2020, the Group capitalised costs relating to the legally required periodic checks of volume conversion devices under operating costs, where such devices are present in the meters installed at the re-delivery points. At 31 December 2021, the Group retrospectively classified expenses relating to these checks amongst operating costs, in accordance with current accounting standards. In order to ensure comparability with the income statement items, the items relating to Operating costs (€ -1.8 million), Amortisation, depreciation and impairment (€ +4.1 million) and Income taxes (€ -0.7 million) were therefore adjusted as of 31 December 2020.

**Adjusted operating profit (adjusted EBIT)**, net of non-recurring items, achieved in financial year 2021, amounted to € 583.2 million, with an increase of € 34.1 million compared to 31 December 2020 (+6.2%) due to higher adjusted total revenues (€ 37.0 million; +2.8%), lower adjusted operating costs (€ -2.3 million; -0.6%), partially offset by higher amortisation, depreciation and impairment (€ 5.2 million; +1.2%).

**Adjusted net profit** for FY 2021, comes to € 388.3 million, was up by € 22.7 million, or +6.2%, on 2020 net profit.

**Adjusted net profit attributable to the Group** came to € 367.7 million and has increased on FY 2020 (€ 20.7 million; +6,0%).

## 6.2.2 Reconciliation of reported EBIT and net profit with adjusted EBIT and net profit

Italgas' management assesses Group performance on the basis of alternative performance indicators<sup>71</sup> not envisaged by IFRS, obtained by excluding special items from EBIT and net profit.

The income components are classified as special items, if significant, when: (i) they result from non-recurring events or transactions or from transactions or events which do not occur frequently in the ordinary course of business; or (ii) they result from events or transactions which are not representative of the normal course of business.

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion. Adjusted EBIT and adjusted net profit are not provided for by either IFRS or other standard setters. These performance metrics allow for analysis of the business trends, making it easier to compare results. The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IFRS.

<sup>71</sup> For the definition of alternative performance indicators, reference should be made to the chapter "Non-GAAP Measures" in this report.



The income components classed among special items in 2021 referred to:

| increased costs (€ 6.4 million) resulting from the bond buyback transaction finalised in February 2021, net of related taxes (€ 1.5 million)..

The effect on adjusted net profit was € 4.9 million in terms of lower expenses.

The income components classed among special items in 2020 referred to:

| the higher revenues associated with the contribution pursuant to Article 57 relating to the replacement of traditional meters with electronic ones (smart meters) due to the change in methodology over previous years and the recovery of non-depreciation (so-called IRMA) pursuant to DCO 545/2020/R/gas and Resolution no. 570/2019/R/gas, amounting to € 108.4 million;

| costs for staff leaving incentives incurred in the financial year and the provision for staff leaving incentives for a total amount of € 13.0 million;

| the provision for the repair of faulty meters, amounting to € 38.5 million, determined on the basis of faulty meters detected on the field as at 31 December 2020, estimated faults for the 2021-2026 period and agreements with the suppliers;

| expenses associated with the 2019-2021 co-investment plan, due to the adjustment of the number of rights assigned, amounting to € 0.4 million;

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

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

(€ million)	2020	2021
Total revenue	1,442.2	1,370.8
<i>Excluding special items</i>	<i>(108.4)</i>	-
Adjusted total revenues	1,333.8	1,370.8
Total operating costs	(416.1)	(361.9)
<i>Excluding special items</i>	<i>51.9</i>	-
Adjusted total operating costs	(364.2)	(361.9)
<b>EBITDA</b>	<b>1,026.1</b>	<b>1,008.9</b>
<i>Excluding special items</i>	<i>(56.5)</i>	-
<b>Adjusted EBITDA</b>	<b>969.6</b>	<b>1,008.9</b>
<b>EBIT</b>	<b>605.6</b>	<b>583.2</b>
<i>Excluding special items</i>	<i>(56.5)</i>	-
<b>Adjusted EBIT</b>	<b>549.1</b>	<b>583.2</b>
Net financial expense	(49.2)	(60.4)
<i>Excluding special items</i>	-	6.4
Adjusted net financial expense	(49.2)	(54.0)
Net income from equity investments	1.5	2.5
<b>Gross profit</b>	<b>557.9</b>	<b>525.3</b>

(€ million)	2020	2021
<i>Excluding special items</i>	(56.5)	6.4
<b>Adjusted gross profit</b>	501.4	531.7
Income taxes	(152.7)	(141.9)
<i>Excluding special items</i>	16.9	(1.5)
<b>Net profit (loss)</b>	405.2	383.4
<b>Net profit (loss) attributable to minority interests</b>	20.6	20.6
<b>Net profit (loss) attributable to the Group</b>	384.6	362.8
<i>Excluding special items</i>		
revenues pursuant to Article 57 (*)	(77.2)	-
financial expense from bond buyback (*)	-	4.9
expense for staff leaving incentives (*)	9.7	-
provision for faulty meters (*)	27.6	-
co-investment plans (*)	0.3	-
<b>Adjusted net profit (loss)</b>	365.6	388.3
<b>Adjusted net profit (loss) attributable to minority interests</b>	18.6	20.6
<b>Adjusted net profit (loss) attributable to the Group</b>	347.0	367.7

(\*) Net of the related tax effect.

### 6.2.3 Analysis of the Reclassified Income Statement items

#### TOTAL REVENUE

(€ million)	2020	2021	Abs. change	Change %
Total gas distribution regulated revenue	1,394.3	1,294.5	(99.8)	(7.2)
Distribution revenue	1,183.7	1,200.1	16.4	1.4
Other distribution revenue	102.2	94.4	(7.8)	(7.6)
of which special items	108.4	-	(108.4)	-
<b>Total adjusted gas distribution regulated revenue</b>	1,285.9	1,294.5	8.6	0.7
Other revenue	47.9	76.3	28.4	59.3
<b>Adjusted total revenue</b>	1,333.8	1,370.8	37.0	2.8
<b>Total revenue</b>	1,442.2	1,370.8	(71.4)	(5.0)

**Adjusted total revenues** for 2021 totalled € 1,370.8 million, up by € 37.0 million compared to 2020 (+2.8%).

**Adjusted gas distribution regulated revenues** increased by € 8.6 million compared to the same period of 2020 due to an increase in revenues from transmission (€ 16.4 million) offset by a reduction in other regulated gas distribution revenues (€ -7.8 million).

The increase in **distribution revenue** (€ 16.4 million), attributable to the increase in the RAB (€ 21.0 million), the effect of the deflator (€ 5.4 million), the contribution of the Sardinian networks (€ 8.1 million) and other regulation components (€ 4.8 million), mainly such as the tariff recognition of extra costs relating to the single asset fee (€ 1.9 million) and repayments for metrological checks (€ 2.2 million), more than offset the application of the X-factor according to the terms of ARERA Resolution 570/2019 (€ -7.9 million). Finally, lesser positive tariff balances are recorded than the previous year (€ -15.0 million).

The reduction of **other regulated revenues** (€ 7.8 million) is mainly linked to the lesser contribution pursuant to Article 57 of ARERA Resolution no. 367/14, as subsequently amended and supplemented, relative to the replacement of traditional meters with electronic ones (€ 13.9 million at 31 December 2021; € 30.2 million at 31 December 2020) partly offset by greater revenues from services to customers (€ 8.5 million), up on FY 2020 (very much impacted by the restrictive measures introduced as a result of the Covid-19 emergency).

**Other revenues** amounted to € 76.3 million as of 31 December 2021. The increase of € 28.4 million on the same period of 2020 is essentially linked to the increased activities in energy efficiency (€ 28.1 million) and revenues deriving from the sale of natural gas and LPG (€ 3.3 million), net of lesser revenues linked to sundry activities.

## OPERATING COSTS

(€ million)	2020	2021	Abs. change	Change %
<b>Fixed gas distribution costs</b>	<b>260.3</b>	<b>237.2</b>	<b>(23.1)</b>	<b>(8.9)</b>
net personnel cost	146.3	137.9	(8.4)	(5.7)
of which special items	0.4	-	(0.4)	-
net external costs	114.0	99.3	(14.7)	(12.9)
<b>Adjusted Fixed gas distribution costs</b>	<b>259.9</b>	<b>237.2</b>	<b>(22.7)</b>	<b>(8.7)</b>
<b>Other assets</b>	<b>24.9</b>	<b>53.5</b>	<b>28.6</b>	<b>-</b>
net personnel cost	3.6	5.3	1.7	47.2
net external costs	21.3	48.2	26.9	-
<b>Other costs and provisions</b>	<b>57.9</b>	<b>3.8</b>	<b>(54.1)</b>	<b>(93.4)</b>
of which special items	51.5	-	(51.5)	-
<b>Other adjusted costs and provisions</b>	<b>6.4</b>	<b>3.8</b>	<b>(2.6)</b>	<b>(40.6)</b>
EEC	5.0	(2.2)	(7.2)	-
Concession-related expenses	68.0	69.6	1.6	2.4
<b>Adjusted operating costs</b>	<b>364.2</b>	<b>361.9</b>	<b>(2.3)</b>	<b>(0.6)</b>
<b>Operating costs</b>	<b>416.1</b>	<b>361.9</b>	<b>(54.2)</b>	<b>(13.0)</b>

Up until 31 December 2020, the Group capitalised costs relating to the legally required periodic checks of volume conversion devices under operating costs, where such devices are present in the meters installed at the re-delivery points. At 31 December 2021, the Group retrospectively classified expenses relating to these checks amongst operating costs, in accordance with current accounting standards. In order to ensure comparability with the income statement items, the item relating to operating costs was adjusted as of 31 December 2020 (-€ 1.8 million).

**Adjusted operating costs** amounted to € 361.9 million. Compared with the same period in 2020, these have dropped by € 2.3 million due to the result of lesser i) net personnel costs (€ 6.3 million), ii) net costs in connection with Energy Efficiency Certificates (€ 7.2 million), iii) other costs and provisions (€ 2.6 million) and iv) net external costs of gas distribution (€ 14.7 million), partly offset by greater v) net external costs for energy efficiency and marketing of methane and other gases in Sardinia (€ 26.9 million) and vi) concession charges (€ 1.6 million).

## AMORTISATION, DEPRECIATION AND IMPAIRMENT

(€ million)	2020	2021	Abs. change	Change %
Amortisation and depreciation	419.6	424.8	5.2	1.2
Intangible assets IFRIC 12	339.8	344.8	5.0	1.5
Other Intangible Assets	43.5	40.9	(2.6)	(6.0)
Property, plant and equipment	36.3	39.1	2.8	7.7
of which amortisation of Right of Use	20.2	22.9	2.7	13.4
Impairment	0.9	0.9	0.0	-
	420.5	425.7	5.2	1.2

Up until 31 December 2020, the Group capitalised costs relating to the legally required periodic checks of volume conversion devices under operating costs, where such devices are present in the meters installed at the re-delivery points. At 31 December 2021, the Group retrospectively classified expenses relating to these checks amongst operating costs, in accordance with current accounting standards. In order to ensure comparability with the income statement items, the item relating to Amortisation, depreciation and impairment (+€ 4.1 million) was adjusted as of 31 December 2020.

**Amortisation, depreciation and impairment** (€ 425.7 million) increased by € 5.2 million (+1.2% compared to 31 December 2020) compared to the corresponding period of 2020, due mainly to the investments made in the previous financial year, offset by lower depreciation in relation to the replacement of traditional meters in view of the upcoming completion of the replacement plan (€ 1.5 million at 31 December 2021; € 17.7 million at 31 December 2020).

## NET FINANCIAL EXPENSE

(€ million)	2020	2021	Abs. change	Change %
Expense (income) on short-term and long-term financial debt	48.9	56.1	7.2	14.7
of which special items	0.0	6.4	6.4	-
Upfront fee	4.8	6.3	1.5	31.3
Other net financial expense (income)	(2.6)	(0.1)	2.5	(96.2)
Expenses (income) related to the discounting of environmental provisions and provisions for employee benefits	2.0	1.1	(0.9)	(45.0)
Other net financial expense (income)	(4.6)	(1.2)	3.4	(73.9)
Financial expense capitalised	(1.9)	(1.9)	-	-
<i>Adjusted net financial expense</i>	49.2	54.0	4.8	9.8
Net financial expense	49.2	60.4	11.2	22.8

**Adjusted net financial expense**, i.e. net of the accounting effects of the bond buyback (€ 6.4 million) finalised in February 2021, amounted to € 54.0 million at 31 December 2021, up by € 4.8 million on FY 2020, mainly due to i) lesser other net financial income for € 3.4 million and ii) higher upfront fees connected with the 2021 bond issue for € 1.5 million.

## NET INCOME FROM EQUITY INVESTMENTS

**Net income from equity investments**, of € 2.5 million at 31 December 2021, increased by € 1.0 million on FY 2020, mainly due to the contribution made by affiliates, measured using the equity method.

## INCOME TAXES

(€ million)	2020	2021	Abs. change	Change %
Current taxes	186.2	154.6	(31.6)	(17.0)
Net deferred taxes	(33.5)	(12.7)	20.8	(62.1)
<b>Income taxes</b>	<b>152.7</b>	<b>141.9</b>	<b>(10.8)</b>	<b>(7.1)</b>
<i>taxation related to special items</i>	<i>(16.9)</i>	<i>1.5</i>	<i>18.4</i>	<i>-</i>
<b>Adjusted income taxes</b>	<b>135.8</b>	<b>143.4</b>	<b>7.6</b>	<b>5.6</b>
Effective tax rate (%)	27.4%	27.0%	(0.4)	(1.3)
Adjusted effective tax rate (%)	27.1%	27.0%	(0.1)	(0.4)

Up until 31 December 2020, the Group capitalised costs relating to the legally required periodic checks of volume conversion devices under operating costs, where such devices are present in the meters installed at the re-delivery points. At 31 December 2021, the Group retrospectively classified expenses relating to these checks amongst operating costs, in accordance with current accounting standards. In order to ensure comparability with the income statement items, the item relating to Income taxes (-€ 0.7 million) was adjusted as of 31 December 2020

**Income taxes** came to € 141.9 million, down € 10.8 million compared to the same value of the previous year, essentially as a consequence of the lower period result. Note that the higher result for financial year 2020 was characterised by special items relative to the higher revenues associated with the Art. 57 contribution relative to the replacement of traditional meters with electric ones due to the change in methodology compared to previous years and the recovery of non-depreciation (so-called IRMA) pursuant to Consultation Document 545/2020/R/gas and Resolution no. 570/2019/R/gas, net of provisions for staff leaving incentives and recovery of metering instruments.

The **tax rate** was 27.0% (27.4% in 2020).

The reconciliation of the theoretical tax rate with the effective tax rate is described in the note "Income taxes" in the Notes to the consolidated financial statements.

## 6.2.4 Reclassified Statement of Financial Position

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

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

The Italgas' Reclassified Statement of Financial Position as at 31 December 2021, compared with that as at 31 December 2020, is summarised below:

(€ million)	31.12.2020(**)	31.12.2021	Abs. change
<b>Fixed capital (*)</b>	<b>6,707.2</b>	<b>7,106.2</b>	<b>399.0</b>
Property, plant and equipment	369.9	372.1	2.2
Intangible assets	6,511.5	6,938.1	426.6
Equity investments	34.2	35.1	0.9
Financial receivables and securities instrumental to operations	0.2	2.8	2.6
Net payables related to investments	(208.6)	(241.9)	(33.3)
<b>Net working capital</b>	<b>111.2</b>	<b>109.7</b>	<b>(1.5)</b>
<b>Provisions for employee benefits</b>	<b>(104.6)</b>	<b>(95.6)</b>	<b>9.0</b>
<b>Assets held for sale and directly related liabilities</b>	<b>0.1</b>	<b>2.2</b>	<b>2.1</b>
<b>NET INVESTED CAPITAL</b>	<b>6,713.9</b>	<b>7,122.5</b>	<b>408.6</b>
Shareholders' equity	1,977.4	2,142.5	165.1
attributable to the Italgas Group	1,737.4	1,891.4	154.0
attributable to minority shareholders	240.0	251.1	11.1
Net financial debt (***)	4,736.5	4,980.0	243.5
<b>HEDGING</b>	<b>6,713.9</b>	<b>7,122.5</b>	<b>408.6</b>

(\*) Net of the effects deriving from the application of IFRS 15.

(\*\*) Up until 31 December 2020, the Group capitalised costs relating to the legally required periodic checks of volume conversion devices under operating costs, where such devices are present in the meters installed at the re-delivery points. At 31 December 2021, the Group retrospectively classified expenses relating to these checks amongst operating costs, in accordance with current accounting standards. In order to ensure comparability with the balance sheet items, the items relating to intangible assets (-€ 5.1 million), shareholders' equity (-€ 3.6 million) and tax assets (+€ 1.5 million) were adjusted as of 31 December 2020.

(\*\*\*) At 31 December 2021, the item did not consider liabilities for € 5.6 million due to Conscoop, consisting of shareholder loans disbursed by it to Isgastrentatrè, later incorporated into Medea, insofar as they were considered part of the deferred purchase price settlement.

The **net invested capital** at 31 December 2021 amounted to € 7,122.5 million and consists of the items outlined below.

The **fixed capital** (€ 7,106.2 million) increased by € 399.0 million compared to 31 December 2020, essentially due to the increase in tangible and intangible assets (€ 428.8 million), net of the increase in net payables related to investments (€ 33.3 million).

The **intangible fixed assets** (€ 6,938.1 million), which include assets for services in concession posted in the accounts pursuant to IFRIC 12, recorded an increase of € 426.6 million mainly following investments of € 778.5 million, net of contributions received and the change in the scope of consolidation for € 47.0 million, less amortisation, depreciation and impairment for € 386.6 million and disposals and sales of € 13.5 million.

The **tangible fixed assets** (€ 372.1 million), which mainly related to property, plant and equip-



ment, recorded an increase of € 2.2 million principally due to the effect of investments of € 45.7 million, including € 14.9 million linked to the application of IFRS 16, net of depreciation of € 39.1 million, of which € 22.9 linked to the right of use pursuant to IFRS 16 and disposals and sales in the amount of € 3.9 million.

Below is an analysis of the change in **Property, plant and equipment** and **Intangible assets**:

(€ million)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
<b>Balance at 31 December 2020</b>	<b>369.9</b>	<b>6,332.7</b>	<b>178.8</b>	<b>6,881.4</b>
Investments	45.7	774.0	45.4	865.1
of which IFRS 16	14.9	-	-	14.9
Amortisation, depreciation and impairment	(39.1)	(344.5)	(42.1)	(425.7)
of which D&A pursuant to IFRS 16	(22.9)	-	-	(22.9)
Acquisition of companies and business units and asset	0.4	26.9	20.1	47.4
Contributions received	-	(40.9)	-	(40.9)
Disposals and sales	(3.9)	(12.8)	(0.7)	(17.4)
Other changes	(0.9)	(3.4)	4.6	0.3
<b>Balance at 31 December 2021</b>	<b>372.1</b>	<b>6,732.0</b>	<b>206.1</b>	<b>7,310.2</b>

Up until 31 December 2020, the Group capitalised costs relating to the legally required periodic checks of volume conversion devices under operating costs, where such devices are present in the meters installed at the re-delivery points. At 31 December 2021, the Group retrospectively classified expenses relating to these checks amongst operating costs, in accordance with current accounting standards. In order to ensure comparability with the balance sheet items, the item relating to intangible assets (-€ 5.1 million) was adjusted as of 31 December 2020.

The acquisition of companies and business units and asset item includes the effect of the purchases of assets of the Olevano sul Tusciano concession (€ 1.8 million), of the companies Ceresa (€ 20.3 million) and Isgastretantrè (€ 25.3 million).

Disposals and sales mainly include the effect of sales of real estate (€ 3.9 million) and the replacement of meters showing anomalies (€ 9.4 million).

Equity investments (€ 35.1 million) refer mainly to the companies Gesam Reti, Valdarno, Umbria Distribuzione Gas, Metano S. Angelo Lodigiano, Enerpaper and Reti Distribuzione.

Consolidated net working capital at 31 December 2021 amounts to € 109.7 million and is broken down as follows:

(€ million)	31.12.2020	31.12.2021	Abs. change
Trade receivables	462.2	388.6	(73.6)
Inventories	101.2	105.3	4.1
Tax receivables	64.4	71.6	7.2
Accruals and deferrals from regulated activities	202.8	115.8	(87.0)
Other assets	148.3	186.4	38.1
Trade payables	(303.0)	(300.9)	2.1
Provisions for risks and charges	(202.6)	(159.5)	43.1
Deferred tax liabilities	(55.2)	(50.8)	4.4
Tax payables	(43.5)	(12.1)	31.4
Other liabilities	(263.4)	(234.7)	28.7
	111.2	109.7	(1.5)

Up until 31 December 2020, the Group capitalised costs relating to the legally required periodic checks of volume conversion devices under operating costs, where such devices are present in the meters installed at the re-delivery points. At 31 December 2021, the Group retrospectively classified expenses relating to these checks amongst operating costs, in accordance with current accounting standards. In order to ensure comparability with the balance sheet items, the item relating to tax payables (-€ 1.5 million) was adjusted as of 31 December 2020.

Compared to 31 December 2020, net working capital fell by € 1.5 million due to: i) lower trade receivables (€ 73.6 million), mainly linked to the reduction of receivables due from the sales companies and the equalisation balance to CSEA; ii) an increase in inventories (€ 4.1 million) predominantly in relation to gas meters; iii) a decrease in net tax liabilities (€ 43.0 million) due mainly to the lower period taxable income; iv) a decrease in accruals and deferrals from regulated activities (€ 87.0 million) due to receivables relating to the contribution for meters pursuant to Art. 57 of ARERA Resolution no. 367/14 as amended, transferred to a factor; v) an increase in other assets (€ 38.1 million) mainly relating to the accessory billing components and receivables due from CSEA for safety incentives; vi) a decrease in trade payables (€ 2.1 million) relating to the equalisation balance due to CSEA; vii) a decrease in provisions for risks and charges (€ 43.1 million), mainly linked to the reduction of the reclamation provision (€ 25.5 million) and use of the provision for risks for operational restoration of metering instruments (€ 14.1 million); viii) a decrease in other liabilities for the period (€ 28.7 million), mainly for the accessory billing components, partly offset by the increase in payables for concession fees due to Municipalities.

It was pointed out that the Company had finalised factoring agreements with financial counterparties, on which basis the receivables claimed by the company could be transferred without recourse. In particular, transactions were completed for a total of € 306.2 million (2020: € 356.2 million) the factoring of receivables related to: i) trade receivables relating to distribution due on 31 December 2021 for € 66.6 million, ii) receivables due from CSEA for a total of € 182.9 million (additional components of € 44.3 million, cancellation of Energy Efficiency Certificates for € 37.9 million and contribution pursuant to Article 57 of ARERA Resolution no. 367/14 as subsequently amended and supplemented for € 100.7 million) and iii) other receivables for a total of € 56.7 million (tax, public grants).

## NET FINANCIAL DEBT

(€ million)	31.12.2020	31.12.2021	Abs. change
<b>Financial and bond debt</b>	<b>5,405.1</b>	<b>6,376.9</b>	<b>971.8</b>
Short-term financial debt (*)	677.7	571.6	(106.1)
Long-term financial debt	4,651.1	5,735.3	1,084.2
Finance lease payables - IFRS 16	76.3	70.0	(6.3)
<b>Financial receivables and cash and cash equivalents</b>	<b>(668.6)</b>	<b>(1,396.9)</b>	<b>(728.3)</b>
Cash and cash equivalents	(663.5)	(1,391.8)	(728.3)
Financial receivables	(5.0)	(5.0)	-
Securities not instrumental to operations	(0.1)	(0.1)	-
<b>Net financial debt (**)</b>	<b>4,736.5</b>	<b>4,980.0</b>	<b>243.5</b>
Finance lease payables - IFRS 16	76.3	70.0	(6.3)
<b>Net financial debt (excluding the effects pursuant to IFRS 16)</b>	<b>4,660.2</b>	<b>4,910.0</b>	<b>249.8</b>

(\*) These include the short-term portions of long-term financial debt.

(\*\*) At 31 December 2021, the item did not consider liabilities for € 5.6 million due to Conscoop, consisting of shareholder loans disbursed by it to Isgastrentatrè, later incorporated into Medea, insofar as they were considered part of the deferred purchase price settlement.

**Net financial debt** as at 31 December 2021 amounted to € 4,980.0 million, up by 243.5 million euros compared to 31 December 2020. Excluding the effects deriving from the application of IFRS 16, (€ 70.0 million), the net financial debt came to € 4,910.0 million (€ 4,660.2 million at the end of 2020).

**Gross financial and bond debt** as of 31 December 2021, amounting to € 6,376.9 million (€ 5,405.1 million as of 31 December 2020), relates to bonds (€ 4,591.5 million), loan agreements concerning European Investment Bank (EIB) funding (€ 828.1 million), liabilities pursuant to IFRS 16 (€ 70.0 million) and bank loans (€ 887.3 million).

**Cash**, amounting to € 1,391.8 million, up by € 728.3 million compared to 31 December 2020, is

held in current accounts immediately available with leading banks. The increase mainly stems from the funding generated by the bond issued in February 2021, with the aim of anticipating future financial needs.

The breakdown of gross financial debt by type of interest rate as at 31 December 2021 is as follows:

(€ million)	31.12.2020	%	31.12.2021	%
Fixed rate	4,676.3	86.5	5,910.9	92.7
Floating rate	728.8	13.5	466.0	7.3
<b>Gross financial debt</b>	<b>5,405.1</b>	<b>100.0</b>	<b>6,376.9</b>	<b>100.0</b>

Fixed-rate financial liabilities amounted to € 5,910.9 million and mainly refer to bonds (€ 4,591.5 million), EIB loans (€ 712.4 million), bank loans (€ 537.0 million) and financial liabilities pursuant to IFRS 16 (€ 70.0 million).

Fixed-rate financial liabilities increased by € 1,234.6 million compared to 31 December 2020, primarily due to the “dual-tranche” bond issue maturing in February 2028 and February 2033 for an overall total of € 1,000 million, partially offset by the buyback of bonds maturing in January 2022 and March 2024, for a total of € 255.7 million and the October 2021 subscription of two bank loans for a total of € 500.0 million, with a term of 3 years at zero rate. In view of the net liquidity from the “dual-tranche” bond issue, on 12 March 2021 Italgas cancelled the “Revolving Credit Facility” of € 500 million, maturing in October 2021 and completely unused.

Floating-rate financial liabilities were down by € 262.8 million due to the decreased use of bank credit lines, also thanks to the greater liquid funds available.

As at 31 December 2021, there were no loan agreements containing financial covenants and/or secured by collateral, with the exception of an EIB loan for nominal € 90 million taken out by Toscana Energia, which requires compliance with certain financial covenants.

Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. As at 31 December 2021, these commitments were respected.

## STATEMENT OF COMPREHENSIVE INCOME

(€ million)	2020	2021
Net profit	405.2	383.4
Other comprehensive income		
<i>Components reclassifiable to the income statement:</i>		
Change in fair value of cash flow hedge derivatives (Effective portion)	(10.3)	14.8
Tax effect	2.5	(3.6)
	(7.8)	11.2
<i>Components not reclassifiable to the income statement:</i>		
Actuarial gains (losses) from remeasurement of defined benefit plans for employees	(4.6)	1.9
Tax effect	1.3	(0.5)
	(3.3)	1.4
<b>Total other components of comprehensive income, net of tax effect</b>	<b>(11.1)</b>	<b>12.6</b>
<b>Total comprehensive income for the year</b>	<b>394.1</b>	<b>396.0</b>
Attributable to:		
Italgas	372.0	375.3
Minority interests	20.5	20.7
	392.5	396.0

## SHAREHOLDERS' EQUITY

(€ million)	2021
Shareholders' equity as at 31 December 2020	1,977.4
of which:	
Group shareholders' equity	1,737.4
Shareholders' equity of minority shareholders	240.0
Increase for:	
- 2021 comprehensive income	383.4
of which:	
Profit attributable to the Group	362.8
Profit attributable to minority shareholders	20.6
Stock grant reserve	2.2
IAS 19 valuation reserve	1.4

(€ million)	2021
Cash Flow Hedge valuation reserve	11.2
Payment of share capital by minority shareholders	11.3
	409.5
Decrease for:	
- Italgas 2020 dividend distribution	(224.3)
- 2020 dividend distributed to minority shareholders*	(19.5)
	(243.8)
- Other changes	
of which:	
<i>Attributable to the Group</i>	0.7
<i>Attributable to minority shareholders</i>	(1.4)
Group shareholders' equity	1,891.4
Shareholders' equity of minority shareholders	251.1
Shareholders' equity as at 31 December 2021	2,142.5

(\*) This is the extraordinary dividend paid by Toscana Energia.



## 6.2.5 Reclassified Statement of Cash Flows

The reclassified statement of cash flows provided below is the summary of the legally required cash flow statement. The reclassified statement of cash flows makes it possible to reconcile the change in cash and cash equivalents at the start and end of the period with the change in net financial debt at the start and end of the period. The measure which allows for the reconciliation between the two statements is the free cash flow<sup>72</sup>, i.e. the cash surplus or deficit remaining after the financing of investments.

### RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	2020(**)	2021
<b>Net profit</b>	<b>405.2</b>	<b>383.4</b>
<i>Correction:</i>		
Depreciation and amortisation and other non-monetary components	424.2	426.6
Net capital losses (capital gains) on asset sales and eliminations	(1.1)	3.6
Interest and income taxes	201.9	203.6
Change in working capital due to operating activities	(110.8)	76.5
Dividends, interest and income taxes collected (paid)	(176.2)	(261.8)
<b>Cash flow from operations (*)</b>	<b>743.2</b>	<b>831.9</b>
Technical investments	(740.0)	(809.3)
Other changes related to investments activities	(5.2)	14.6
Divestments and other changes	2.0	12.5
<b>Free cash flow before M&amp;A transactions</b>	<b>-</b>	<b>49.7</b>
Companies included in the scope of consolidation	(4.4)	(22.1)
Acquisition of business units and plants	(9.7)	(1.7)
<b>Free cash flow</b>	<b>(14.1)</b>	<b>25.9</b>
Change in short- and long-term financial debt and financial receivables	657.3	955.7
Reimbursements of financial liabilities for leased assets	(24.1)	(21.5)
Capital contribution from third parties	-	11.3
Equity cash flow	(211.4)	(243.1)
<b>Net cash flow for the year</b>	<b>407.7</b>	<b>728.3</b>

(\*) Net of the effects deriving from the application of IFRS 15.

(\*\*) Up until 31 December 2020, the Group capitalised costs relating to the legally required periodic checks of volume conversion devices under operating costs, where such devices are present in the meters installed at the re-delivery points. At 31 December 2021, the Group retrospectively classified expenses relating to these checks amongst operating costs, in accordance with current accounting standards. In order to ensure comparability with the income statement items, the items relating to Operating costs (€ -1.8 million), Amortisation, depreciation and impairment (€ +4.1 million) and Income taxes (€ -1.5 million) were adjusted as of 31 December 2020.

<sup>72</sup> The free cash flow alternatively closed: (i) the change in cash for the period, after the addition/subtraction of cash flows relating to financial payables/receivables (usage/repayment of financial receivables/payables) and equity (payment of dividends/capital contributions); (ii) the change in net financial debt for the period, after the addition/subtraction of flows of debt relating to equity (payment of dividends/capital contributions).

## CHANGE IN NET FINANCIAL DEBT

(€ million)	2020 <sup>(*)</sup>	2021
Free cash flow before M&A transactions	-	49.7
Change due to acquisitions of equity investments, business units and assets	(14.1)	(42.2)
Increase in finance lease payables	(25.7)	(15.2)
Equity cash flow	(211.4)	(243.1)
Capital contribution from third parties	-	11.3
Other changes (Difference between interest accounted for and paid)	-	(4.0)
<b>Change in net financial debt</b>	<b>(251.2)</b>	<b>(243.5)</b>

The cash flow from operating activities at 31 December 2021 amounted to € 831.9 million, with an increase of € 85.3 million compared to the previous year (+11.4%). In view of the flow from net investments, totalling € 782.2 million, the company generated a free cash flow before M&A transactions of € 49.7 million. As of 31 December 2021, the cash outflow from M&A transactions amounted to € 23.8 million, bringing the free cash flow to € 25.9 million.

Taking into account payment of the dividend for € 243.1 million, net financial debt increased by € 243.5 million.

## 6.3 Comment on the economic and financial results of Italgas S.p.A.

Italgas S.p.A. was incorporated on 1 June 2016 and listed on the Milan Stock Exchange from 7 November 2016.

### 6.3.1 Reclassified income statement

In view of Italgas S.p.A.'s nature as an industrial investment holding, the following reclassified Income Statement has been prepared, which inverts the order of the income statement items under Leg. Decree 127/91, presenting first those which relate to the financial operations, as this is the most significant income component for those companies<sup>73</sup>.

(€ million)	2020	2021	Abs. change	Change %
Income from investments	239.7	264.1	24.4	10.2
Interest income	35.3	38.4	3.1	8.8
of which special items	-	2.9	2.9	-
Interest expenses and other financial expenses	(52.8)	(61.5)	(8.7)	16.5
of which special items	-	(5.2)	(5.2)	-
<b>Financial income and expenses</b>	<b>222.2</b>	<b>241.0</b>	<b>18.8</b>	<b>8.5</b>
<b>Adjusted financial income and expenses</b>	<b>222.2</b>	<b>249.1</b>	<b>26.9</b>	<b>12.1</b>
Income from services	104.1	102.2	(1.9)	(1.8)
<b>Other operating income</b>	<b>104.1</b>	<b>102.2</b>	<b>(1.9)</b>	<b>(1.8)</b>
<b>Other operating costs</b>				
For staff	(59.9)	(48.8)	11.1	18.5
of which special items	9.0	-	(9.0)	-
For performance of non-financial services and other costs	(48.7)	(52.2)	(3.5)	(7.2)
Amortisation and depreciation	(6.6)	(5.3)	1.3	19.7
<b>Total of other operating costs</b>	<b>(115.2)</b>	<b>(106.3)</b>	<b>8.9</b>	<b>7.7</b>
<i>Total of other operating costs - adjusted</i>	<i>(106.2)</i>	<i>(106.3)</i>	<i>(0.1)</i>	<i>(0.1)</i>
<b>Gross profit</b>	<b>211.1</b>	<b>236.9</b>	<b>25.8</b>	<b>12.2</b>
<b>Adjusted gross profit</b>	<b>220.1</b>	<b>245.0</b>	<b>24.9</b>	<b>11.3</b>
Income taxes	3.7	2.7	(1.0)	(27.0)
<i>taxation related to special items</i>	<i>(2.2)</i>	<i>(1.9)</i>	<i>0.3</i>	<i>(11.6)</i>
Adjusted income taxes	1.5	0.8	(0.7)	(49.6)
<b>Net profit</b>	<b>214.8</b>	<b>239.6</b>	<b>24.8</b>	<b>(11.5)</b>
<b>Adjusted net profit</b>	<b>221.6</b>	<b>245.8</b>	<b>24.2</b>	<b>(10.9)</b>

<sup>73</sup> See Consob Communication 94001437 of 23 February 1994.

The **net profit** achieved in 2021 amounted to € 239.6 million, up by € 24.8 million from the corresponding value for 2020. **Adjusted net profit** came to € 245.8 million.

The income components classified as special items in 2021 regard i) lesser income (€ 2.9 million) supported for the renegotiation of a loan in respect of the subsidiary Medea, with effect as of 1 July 2021, net of the related taxation (€ 0.7 million) and ii) greater expense (€ 5.2 million) deriving from the bond buyback completed in February 2021, net of the related taxation (€ 1.3 million).

## 6.3.2 Analysis of the Reclassified Income Statement items

### FINANCIAL INCOME AND EXPENSES

(€ million)	2020	2021	Abs. change	Change %
Income from investments	239.7	264.1	24.4	10.2
Interest income	35.3	38.4	3.1	8.8
of which special items	-	2.9	2.9	
Interest expenses and other financial expenses	(52.8)	(61.5)	(8.7)	16.5
of which special items	-	(5.2)	(5.2)	-
<b>Adjusted financial income and expenses</b>	<b>222.2</b>	<b>249.1</b>	<b>18.8</b>	<b>8.5</b>
<b>Total financial income and expenses</b>	<b>222.2</b>	<b>241.0</b>	<b>26.9</b>	<b>12.1</b>

**Income from equity investments** (€ 264.1 million) essentially includes the dividends distributed by Italgas Reti subsidiaries (€ 240.4 million) and Toscana Energia (€ 20.0 million).

**Interest income** (€ 38.4 million) essentially relates to income from the intragroup loans granted by Italgas to its subsidiaries.

**Interest expense and other financial expense** (€ 61.5 million) refers to the costs relating to financial debt, and essentially concerns bond loan expense<sup>74</sup> (€ 54.6 million) and loans from banks (€ 6.6 million).

### OTHER OPERATING INCOME

(€ million)	2020	2021	Abs. change	Change %
Income from services	104.1	102.2	(1.9)	(1.9)
<b>Other operating income</b>	<b>104.1</b>	<b>102.2</b>	<b>(1.9)</b>	<b>(1.9)</b>

<sup>74</sup> The details of bond issues during the year and related terms are provided in the note "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities" in the Notes to the separate financial statements.

**Other operating income** (€ 102.2 million) refers mainly to chargebacks to subsidiaries of the costs incurred for the provision of services centrally managed by Italgas S.p.A. These services are regulated through agreements signed between Italgas S.p.A. and its subsidiaries and refer to the following areas: ICT, personnel and organisation, planning, administration, finance and control, procurement, general services, property and security services, legal and corporate affairs and compliance, health, safety and environment, institutional relations and regulation, external relations and communication, internal audit and Enterprise Risk Management (ERM).

## OTHER OPERATING EXPENSES

(€ million)	2020	2021	Var. ass.	Var. %
For staff	(59.9)	(48.8)	11.1	18.5
of which special items	9.0	-	(9.0)	-
For performance of non-financial services and other costs	(48.7)	(52.2)	(3.5)	(7.2)
Amortisation and depreciation	(6.6)	(5.3)	1.3	19.7
<b>Total of other operating costs - adjusted</b>	<b>(106.2)</b>	<b>(106.3)</b>	<b>(0.1)</b>	<b>(0.1)</b>
<b>Total of other operating costs</b>	<b>(115.2)</b>	<b>(106.3)</b>	<b>8.9</b>	<b>7.7</b>

Other operating expenses (€ 106.3 million) refer to personnel costs (€ 48.8 million) and costs for non-financial services, amortisation and other costs (€ 57.5 million). The latter includes costs for consulting and professional services (€ 8.3 million), ICT services (€ 22.2 million), costs relating to various service contracts (€ 10.7 million), other costs (€ 11.0 million).

Amortisation/depreciation (€ 5.3 million) reduces on 2020 following the transfer of IT assets to the subsidiary Bludigit.

## 6.3.3 Reclassified Statement of Financial Position

(€ million)	31.12.2020	31.12.2021	Abs. change
<b>Fixed capital</b>	<b>6,201.2</b>	<b>6,709.8</b>	<b>508.6</b>
Property, plant and equipment	15.8	12.3	(3.5)
Intangible assets	13.5	0.4	(13.1)
Equity investments	2,994.6	3,010.4	15.8
Financial receivables and securities instrumental to operations	3,181.0	3,687.8	506.8
Net payables (receivables) relating to investment activities	(3.7)	(1.1)	2.6
<b>Net working capital</b>	<b>(31.6)</b>	<b>(10.8)</b>	<b>20.8</b>
Provisions for employee benefits	(14.9)	(12.3)	2.6
<b>NET INVESTED CAPITAL</b>	<b>6,154.7</b>	<b>6,686.7</b>	<b>532.0</b>
Shareholders' equity	1,708.9	1,737.7	28.8
Net financial debt	4,445.8	4,949.0	503.2
<b>HEDGING</b>	<b>6,154.7</b>	<b>6,686.7</b>	<b>532.0</b>

**Net invested capital** amounted to € 6,686.7 million and rose by € 532.0 million compared to 31 December 2020, mainly as a result of the greater financial receivables instrumental to operations (€ 506.8 million).

**Equity investments** came to € 3,010.4 million and refer to the subsidiaries Italgas Reti, Italgas Acqua, Toscana Energia, Gaxa, Seaside, Italgas NewCo and Bludigit (€ 3,009.4 million) and joint ventures Umbria Distribuzione Gas and Metano S. Angelo Lodigiano (€ 1.0 million).

## NET WORKING CAPITAL

(€ million)	31.12.2020	31.12.2021	Abs. change
Trade receivables	49.1	37.2	(11.9)
Tax receivables	55.8	17.3	(38.5)
Deferred tax assets	9.0	4.7	(4.3)
Other assets	4.5	4.4	(0.1)
Trade payables	(32.9)	(17.1)	15.8
Provisions for risks and charges	(8.4)	(8.0)	0.4
Tax payables	(74.7)	(31.2)	43.5
Other liabilities	(34.0)	(18.1)	15.9
	<b>(31.6)</b>	<b>(10.8)</b>	<b>20.8</b>

**Net working capital** (€ 10.8 million) dropped by € 20.8 million on 31 December 2020, mainly as a result of (i) the reduction in net tax items (€ 0.7 million), (ii) the reduction in trade receivables (€ 11.9 million) and trade payables (€ 15.8 million) mainly for IT services, a business held by Bludigit since July 2021, (iii) the reduction in other liabilities (€ 15.9 million) mainly connected to IRS hedging transactions.

## NET FINANCIAL DEBT

(€ million)	31.12.2020	31.12.2021	Abs. change
<b>Financial and bond debt</b>	<b>5,268.9</b>	<b>6,547.8</b>	<b>1,278.9</b>
Short-term financial debt (*)	684.4	875.8	191.4
Long-term financial debt	4,571.6	5,662.5	1,090.9
Finance lease payables - IFRS 16	12.9	9.5	(3.4)
<b>Financial receivables and cash and cash equivalents</b>	<b>(823.1)</b>	<b>(1,598.8)</b>	<b>(775.7)</b>
Cash and cash equivalents	(657.1)	(1,384.6)	(727.5)
Financial receivables non-instrumental to operations	(166.0)	(214.2)	(48.2)
<b>Net financial debt</b>	<b>4,445.8</b>	<b>4,949.0</b>	<b>503.2</b>
Finance lease payables - IFRS 16	12.9	9.5	(3.4)
<b>Net financial debt (excluding the effects pursuant to IFRS 16)</b>	<b>4,432.9</b>	<b>4,939.5</b>	<b>506.6</b>

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



As at 31 December 2021, net financial debt, including the impacts of financial liabilities pursuant to IFRS 16 of € 9.5 million (€ 12.9 million in the corresponding period of 2020), amounted to € 4,949.0 million, up by € 503.2 million from 31 December 2020 (€ 4,445.8 million). Net of the impact of the application of IFRS 16, net financial debt amounted to € 4,939.5 million (€ 4,432.9 million as at 31 December 2020).

**Financial and bond debt** as at 31 December 2021 totalled € 6,547.8 million (€ 5,268.9 million as at 31 December 2020) and refer mainly to: bonds (€ 4,591.5 million), loan agreements with the European Investment Bank (EIB) (€ 750.4 million), (iii) payables to banks (€ 850.0 million) and (iv) financial liabilities pursuant to IFRS 16 (€ 9.5 million).

As at 31 December 2021, the breakdown of debt by type of interest rate, inclusive of liabilities for leases pursuant to IFRS 16 was as follows:

(€ million)	31.12.2020	%	31.12.2021	%
Fixed rate	4,527.0	85.9	6,082.1	92.9
Floating rate	741.9	14.1	465.7	7.1
<b>Gross financial debt</b>	<b>5,268.9</b>	<b>100.0</b>	<b>6,547.8</b>	<b>100.0</b>

Fixed-rate financial liabilities amounted to € 6,082.1 million and refer to bonds (€ 4,591.5 million), financial liabilities pursuant to IFRS 16 (€ 9.5 million), two EIB loans (€ 634.7 million) and bank loans (€ 846.4 million).

Fixed-rate financial liabilities increased by € 1,555.1 million compared to 31 December 2020, primarily due to the “dual-tranche” bond issue maturing in February 2028 and February 2033 for an overall total of € 1,000 million, partially offset by the buyback of bonds maturing in January 2022 and March 2024, for a total of € 255.7 million and the October 2021 subscription of two bank loans for a total of € 500.0 million, with a term of 3 years at zero rate.

Floating-rate financial liabilities were down by € 276.2 million due to the decreased use of bank credit lines, also thanks to the greater liquid funds available.

As at 31 December 2021, there are no loan contracts in place containing financial covenants and/or backed by real guarantees. Some of these contracts require, inter alia, compliance with: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. As at 31 December 2021, these commitments were respected.

### 6.3.4 Reclassified Statement of Cash Flows

(€ million)	2020	2021
<b>Net profit</b>	214.9	239.6
<i>Correction:</i>		
Depreciation and amortisation and other non-monetary components	6.6	4.1
Interest and income taxes	(225.9)	(240.9)
Change in working capital due to operating activities	19.6	(9.5)
Dividends, interest and income taxes collected (paid)	206.5	244.1
<b>Cash flow from operating activities</b>	221.7	237.4
Technical investments	(7.8)	(8.7)
Equity investments	-	(0.7)
Net financial investments instrumental to operations	(558.0)	(506.8)
Other changes related to investments activities	(2.6)	(2.6)
Divestments and other changes	-	4.6
<b>Free cash flow</b>	(346.7)	(276.8)
Change in financial receivables not related to operations	252.9	48.3
Change in current and non-current financial debt	791.4	1,181.8
Reimbursements of financial liabilities for leased assets	(2.3)	(2.2)
Equity cash flow	(207.1)	(223.6)
Other changes relating to non-monetary components	19.1	-
<b>Cash flow for the year</b>	507.3	727.5

#### CHANGE IN NET FINANCIAL DEBT

(€ million)	2020	2021
<b>Free cash flow</b>	(346.7)	(276.8)
Equity cash flow	(207.1)	(223.6)
Other changes (Difference between interest accounted for and paid)	19.1	(3.9)
Increase in finance lease payables	(2.5)	1.1
<b>Change in net financial debt</b>	(537.2)	(503.2)

## 6.4 Non - GAAP Measures

### Alternative performance indicators

On 5 October 2015, the ESMA (European Security and Markets Authority) published its guidance (ESMA/2015/1415) on the presentation criteria for alternative performance indicators (API or APM), which replaces the CESR/05-178b recommendations from 3 July 2016. The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IAS/IFRS.

The alternative performance indicator adopted in this report are illustrated below.

#### MAIN ALTERNATIVE PERFORMANCE INDICATORS

Alternative economic performance indicators	Description
Gas Distribution regulated revenue	Operating performance indicator representing revenue from regulated gas distribution activities, calculated by subtracting Other revenue from the Total revenue. Other revenue is revenue from unregulated activities, revenue for construction and enhancement of infrastructures recognised pursuant to IFRIC 12, the release of connection contributions relating to the financial year and any other components entered in the statement of reconciliation of the income statement of the subsequent chapter "Reconciliation of the reclassified income statement, statement of financial position and statement of cash flows".
Reclassified operating costs	Operating performance indicator representing the legally-required operating costs minus costs for construction and enhancement of the infrastructure recognised pursuant to IFRIC 12 and any other components entered in the statement of reconciliation of the income statement of the subsequent chapter "Reconciliation of the reclassified income statement, statement of financial position and statement of cash flows".
EBITDA	Operating performance indicator, calculated by subtracting from net profit the income taxes, net income from equity investments, net financial expense, amortisation, depreciation and impairment.
Adjusted EBITDA	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this Report) from EBITDA.
EBIT	Operating performance indicator, calculated by subtracting from net profit the income taxes, net income from equity investments and net financial expense.
Adjusted EBIT	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this Report) from EBIT.
Adjusted Earnings per Share	Indicator of the profitability of the company's shares, calculated as the ratio between the adjusted net profit attributable to the Group and the total number of shares.

Alternative capital performance indicators	Description
Net working capital	A capital indicator that expresses the capital employed in current and non-financial assets and liabilities. This is defined as the sum of the values relating to trade receivables and payables, inventories, tax receivables and payables, provisions for risks and charges, deferred tax assets, deferred tax liabilities and other assets and liabilities.
Fixed capital	A capital indicator that expresses the total fixed assets. It is defined as the sum of the values relating to items of Property, plant and equipment, Intangible assets net of Other liabilities relating to connection contributions, Equity investments and Net debt relating to investment activities.
Net invested capital	A capital indicator that expresses the investments made by the company in operations. This is defined as the sum of the values related to fixed capital, net working capital, provisions for employee benefits and assets held for sale and directly related liabilities.
Alternative financial performance indicators	Description
Cash flow from operating activities	It represents the net cash flow from the operating activity of the mandatory schemes, excluding the effects deriving from the application of the IFRS 15 accounting standard (Other liabilities relating to connection contributions).
Free cash flow before M&A transactions	It represents the cash surplus or deficit remaining after the financing of investments, excluding the flow deriving from Merger and Acquisition transactions.
Free cash flow	It represents the cash surplus or deficit remaining after financing of the investments.
Net financial debt	Determined as the sum of short and long-term financial debt, net of cash and cash equivalents and current financial assets, such as, for example, securities held for trading (note 18).

## 6.4.1 Reconciliation of the reclassified Income Statement, Statement of Financial Position and Statement of Cash Flows

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

In compliance with the ESMA provisions for the taxonomy of ESEF (European Single Electronic Format) annual financial statements, a number of items in the balance sheet and income statement were reclassified, also readjusting the values as at 31 December 2021.

For more details, see the "Financial Statements" section of the notes to the consolidated financial statements and separate financial statements.

### RECONCILIATION BETWEEN RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS AND THE LEGALLY REQUIRED FINANCIAL STATEMENTS

#### RECLASSIFIED INCOME STATEMENT

(€ million)	Reference to the explanatory notes of the consolidated financial statements	2020		2021			
		Figures from restated mandatory statement	Partial figures from restated mandatory statements	Figures from restated reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
<b>Revenues (from mandatory statements)</b>		2,126.8			2,163.2		
Revenues for construction and upgrading of distribution infrastructures IFRIC 12	(note 27)		(668.2)			(772.0)	
Release of connection contributions relating to the financial year	(note 27)		(19.5)			(19.6)	
Net income from Energy Efficiency Certificates	(note 27)		3.4			-	
Reimbursement of faulty meters	(note 27)		(0.2)			(0.8)	
<b>Total revenue (from reclassified statements)</b>				1,442.2			1,370.8
<b>Operating costs (from mandatory statements)</b>		(1,081.1)			(1,134.7)		
Revenues for construction and upgrading of distribution infrastructures IFRIC 12	(nota 27)		668.2			772.0	
Net income from Energy Efficiency Certificates	(nota 27)		(3.4)			-	
Reimbursement of faulty meters	(nota 27)		0.2			0.8	
<b>Operating costs (from reclassified statements)</b>				(416.1)			(361.9)
<b>EBITDA</b>				1,026.1			1,008.9

(€ million)	Reference to the explanatory notes of the consolidated financial statements	2020			2021		
		Figures from restated mandatory statement	Partial figures from restated mandatory statements	Figures from restated reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
Amortisation, depreciation and impairment (from mandatory statements)		(440.0)			(445.3)		
Release of connection contributions relating to the financial year	(note 27)		19.5			19.6	
Amortisation, depreciation and impairment (from reclassified statements)				(420.5)			(425.7)
EBIT		605.7		605.6	583.2		583.2
Net financial expense		(49.2)		(49.2)	(60.4)		(60.4)
Net income from equity investments		1.5		1.5	2.5		2.5
Gross profit		557.9		557.9	525.3		525.3
Income taxes		(152.7)		(152.7)	(141.9)		(141.9)
Net profit (loss)		405.2		405.2	383.4		383.4

## RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(€ million)	Reference to the explanatory notes of the condensed consolidated half-year financial statements	31.12.2020		31.12.2021	
		Partial figures from restated mandatory statements	Figures from restated reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
<b>Fixed capital</b>					
Property, plant and equipment			369.9		372.1
Intangible assets, of which:			6,511.5		6,938.1
Intangible assets	(note 14)	7,055.0		7,469.8	
from which to deduct Connection contributions	(note 21)	(543.5)		(531.7)	
Participating interests, composed of:			34.2		35.1
Equity investments measured using the equity method	(note 15)	29.3		30.1	
Other investments	(note 16)	4.9		5.0	
Financial receivables and securities instrumental to operations			0.2		2.8



(€ million)	Reference to the explanatory notes of the condensed consolidated half-year financial statements	31.12.2020		31.12.2021	
		Partial figures from restated mandatory statements	Figures from restated reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
(Where not expressly indicated, the item is obtained directly from the legally-required statement)					
Net payables relating to investment activities, composed of:			(208.6)		(241.9)
Payables for investment activities	(note 19)	(225.1)		(241.6)	
Payables due to Conscoop shareholders	(note 18)	-		(5.6)	
Receivables from investment/divestment activities	(note 9)	16.5		5.3	
<b>Total fixed capital (from reclassified statements)</b>			<b>6,707.2</b>		<b>7,106.2</b>
<b>Net working capital</b>					
Trade receivables			462.2		388.6
Inventories			101.2		105.3
Tax assets, composed of:			64.4		71.6
Current income tax assets	(note 11)	7.6		21.7	
Non-current income tax assets	(note 11)	-		22.9	
Other current tax assets	(note 12)	40.8		10.7	
IRES receivables for National Tax Consolidation Scheme	(note 9)	16.0		16.3	
Accruals and deferrals from regulated activities			202.8		115.8
Other assets, composed of:			148.3		186.5
Other receivables	(nota 9)	140.3		177.9	
Other assets	(nota 12)	8.0		7.9	
Other financial assets	(nota 20)	-		0.7	
Trade payables			(303.0)		(300.9)
Provisions for risks and charges			(202.6)		(159.5)
Deferred tax liabilities			(55.2)		(50.8)
Tax payables, composed of:			(43.5)		(12.1)
Current income tax liabilities	(note 11)	(34.4)		(3.4)	
Other tax liabilities	(note 21)	(9.0)		(8.7)	
Parent company's payables for liquidation of Group VAT	(note 19)	(0.1)		-	
Other liabilities, composed of:			(263.4)		(234.8)
Other payables	(note 19)	(239.4)		(220.9)	
Other liabilities	(note 21)	(2.7)		(7.2)	
Other financial liabilities	(note 20)	(21.3)		(6.7)	
<b>Total net working capital (from reclassified statements)</b>			<b>111.2</b>		<b>109.7</b>

(€ million)	Reference to the explanatory notes of the condensed consolidated half-year financial statements	31.12.2020		31.12.2021	
		Partial figures from restated mandatory statements	Figures from restated reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
(Where not expressly indicated, the item is obtained directly from the legally-required statement)					
Provisions for employee benefits			(104.6)		(95.6)
Assets held for sale and directly related liabilities, composed of:			0.1		2.2
Assets held for sale	(note 17)	0.1		2.2	
<b>NET INVESTED CAPITAL</b>			<b>6,713.9</b>		<b>7,122.5</b>
Shareholders' equity including minority interests			(1,977.4)		(2,142.5)
<b>Net financial debt</b>					
<i>Financial and bond debt, composed of:</i>			(5,405.1)		(6,376.9)
Long-term financial liabilities	(note 18)	(4,651.1)		(5,735.3)	
Short-term financial liabilities, composed of:					
Short-term portions of long-term financial debt	(note 18)	(97.7)		(208.0)	
Short-term financial liabilities:					
Short-term financial liabilities	(note 18)	(580.5)		(363.6)	
from which to deduct Factoring transactions in transit		0.5		-	
Financial liabilities pursuant to IFRS 16	(note 18)	(76.3)		(70.0)	
<i>Financial receivables and cash and cash equivalents, composed of:</i>			668.6		1,396.9
Cash:			663.5		1,391.8
Cash and cash equivalents	(note 7)	664.0		1,391.8	
from which to deduct Factoring transactions in transit		(0.5)			
Current financial assets, composed of:			5.1		5.1
Financial receivables non-instrumental to operations	(note 8)	5.0		5.0	
Other financial assets held for trading or available for sale	(note 8)	0.1		0.1	
<b>Total net financial debt (from reclassified statements)</b>			<b>(4,736.5)</b>		<b>(4,980.0)</b>
<b>HEDGING</b>			<b>(6,713.9)</b>		<b>(7,122.5)</b>

## RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	2020		2021	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
<b>Net profit</b>		405.2		383.4
<i>Correction:</i>				
Amortisation, depreciation and other non-monetary components:		428.3		426.6
Amortisation and depreciation	443.3		444.4	
Net impairment of property, plant and equipment and intangible assets	0.9		0.9	
Contributions for connections - uses	(19.5)		(19.6)	
Effect of valuation using equity method	(1.5)		(2.5)	
Non-monetary items (stock grants)	5.1		3.4	
Net capital losses (capital gains) on asset sales and eliminations		(1.1)		3.6
Interest, income taxes and other changes:		201.2		203.6
Interest income	(5.3)		(3.6)	
Interest expense	54.5		65.3	
Income taxes	152.0		141.9	
Change in working capital due to operating activities:		(110.8)		76.5
Inventories	(48.9)		(3.5)	
Trade and other receivables	11.9		35.1	
Trade and other payables	3.9		(50.4)	
Change to provisions for risks and charges	29.7		(43.5)	
Other assets and liabilities	(99.8)		148.4	
from which to deduct Deferrals for connection contributions - increases	(7.1)		7.7	
from which to deduct Deferrals for connection contributions - uses	19.5		(19.6)	
from which to deduct effects of transactions to municipalities	(10.6)		-	
Change in provisions for employee benefits	(8.6)		(9.6)	
other changes	(0.8)		-	
Dividends, interest and income taxes collected (paid):		(176.2)		(261.8)
Dividends collected	7.4		1.3	
Interest income	1.4		3.6	
Interest paid	(48.3)		(59.8)	
Income taxes (paid) refunded	(136.7)		(206.9)	
<b>Cash flow from operating activities</b>		<b>746.6</b>		<b>831.9</b>

(€ million)	2020		2021	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Technical investments:		(741.8)		(809.3)
Property, plant and equipment	(39.5)		(30.8)	
Intangible assets	(709.4)		(786.2)	
Contributions for connections - increases	7.1		7.7	
Other changes relating to investment activities:		(5.2)		14.6
Disinvestments:		2.0		12.5
Property, plant and equipment	2.0		1.3	
Intangible assets	11.2		-	
Change in receivables relating to investment activities	(11.2)		11.2	
<b>Free cash flow before M&amp;A transactions</b>	<b>1.6</b>		<b>49.7</b>	
Change in scope of consolidation		(4.4)		(22.1)
price paid for equity	(4.4)		(22.1)	
Business units and assets		(9.7)		(1.7)
<b>Free cash flow</b>		<b>(12.5)</b>		<b>25.9</b>
Change in financial debt:		657.3		955.6
Change in short- and long-term financial debt (*)	657.3		955.6	
Reimbursements of financial liabilities for leased assets		-24.1		(21.5)
Capital contribution from third parties		-		11.3
Equity cash flow		-211.4		(243.1)
<b>Net cash flow for the year</b>		<b>409.3</b>		<b>728.2</b>

(\*) The statement takes into account an adjustment of 0.5 made in 2020 for factoring income

**RECONCILIATION BETWEEN RECLASSIFIED FINANCIAL STATEMENTS OF ITALGAS S.P.A. AND THE LEGALLY REQUIRED FINANCIAL STATEMENTS**

**RECLASSIFIED INCOME STATEMENT**

(€ million)	Reference to the explanatory notes of the consolidated financial statements	2020			2021		
		Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
Revenues (from mandatory statements)		106.6			104.5		
Income for seconded personnel	(note 25)		(2.4)			(2.3)	
Total revenue (from reclassified statements)				104.1			102.2
Operating costs (from mandatory statements)		(111.0)			(103.4)		
Income for seconded personnel	(note 25)		2.4			2.3	
Operating costs (from reclassified statements)				(108.6)			(101.1)
EBITDA				(4.5)			1.1
Amortisation, depreciation and impairment		(6.6)		(6.6)	(5.3)		(5.3)
EBIT		(11.0)		(11.0)	(4.2)		(4.2)
Net financial expense		(17.4)		(17.4)	(23.1)		(23.1)
Net income from equity investments		239.7		239.7	264.1		264.1
Gross profit		211.2		211.2	236.9		236.9
Income taxes		3.7		3.7	2.7		2.7
Net profit (loss)		214.9		214.9	239.6		239.6

## RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(€ million)	Reference to the explanatory notes of the financial statements	31.12.2020		31.12.2021	
		Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
(Where not expressly indicated, the item is obtained directly from the legally-required statement)					
<b>Fixed capital</b>					
Property, plant and equipment			15.8		12.3
Intangible assets			13.5		0.4
Equity investments			2,994.6		3,010.4
Net payables related to investments			(3.7)		(1.1)
Financial receivables and securities instrumental to operations			3,181.0		3,687.8
<b>Total fixed capital (from reclassified statements)</b>			<b>6,201.2</b>		<b>6,709.8</b>
<b>Net working capital</b>					
Trade receivables			49.1		37.2
Inventories			-		-
Tax assets, composed of:			55.8		17.3
Income tax assets	(note 11)	-		12.6	
Other current tax assets	(note 12)	30.2		4.7	
IRES receivables for National Tax Consolidation Scheme	(note 9)	25.6		-	
Group VAT receivables	(note 9)	-		-	
Deferred tax assets			9.0		4.7
Other assets			4.5		4.4
Other current and non-current assets	(note 12 e 20)	4.5		4.4	
Trade payables			(32.9)		(17.1)
Provisions for risks and charges			(8.4)		(8.0)
Tax payables, composed of:			(74.7)		(31.2)
Income tax liabilities	(note 11)	(26.6)		(11.5)	
Other current tax liabilities	(note 21)	(1.6)		(1.4)	
Group VAT payables	(note 19)	(46.4)		(18.3)	
Other liabilities, composed of:			(34.0)		(18.1)
Other payables	(note 19)	(12.7)		(10.8)	
Other financial liabilities	(note 20)	(21.3)		(7.3)	

(€ million)	Reference to the explanatory notes of the financial statements	31.12.2020		31.12.2021	
		Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
<i>(Where not expressly indicated, the item is obtained directly from the legally-required statement)</i>					
Total net working capital (from reclassified statements)			(31.6)		(10.8)
Provisions for employee benefits			(14.9)		(12.3)
<b>NET INVESTED CAPITAL</b>			6,154.7		6,686.7
Shareholders' equity including minority interests			(1,708.9)		(1,737.7)
<b>Net financial debt</b>					
Financial and bond debt, composed of:			(5,268.9)		(6,547.8)
Long-term financial liabilities	(note 18)	(4,571.6)		(5,662.5)	
Short-term portions of long-term financial debt	(note 18)	(66.5)		(179.4)	
Short-term financial liabilities	(note 18)	(617.9)		(696.5)	
Financial liabilities pursuant to IFRS 16	(note 18)	(12.9)		(9.5)	
Financial receivables and cash and cash equivalents, composed of:			823.1		1,598.8
Financial receivables non-instrumental to operations	(note 9)	166.0		214.2	
Cash and cash equivalents	(note 7)	657.1		1,384.6	
<b>Total net financial debt (from reclassified statements)</b>			(4,445.8)		(4,949.0)
<b>HEDGING</b>			(6,154.7)		(6,686.7)

## RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	2020		2021	
	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
<b>Reclassified Statement of Cash Flows items and intersection of legally-required statement items</b>				
Net profit		214.9		239.6
<i>Correction:</i>				
Amortisation, depreciation and other non-monetary components:		6.6		4.8
Amortisation and depreciation	6.6		5.3	
Impairment of equity investments	-		(2.0)	
Non-monetary items (stock grants)	-		1.5	
Interest, income taxes and other changes:		(225.9)		(240.9)
Dividends and other income from equity investments	(239.7)		(261.4)	
Interest income	(35.3)		(38.4)	

(€ million)	2020		2021	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Interest expense	52.8		61.5	
Income taxes	(3.7)		(2.6)	
Change in working capital due to operating activities:		19.6		(10.2)
Inventories	-		-	
Trade and other receivables	(14.4)		36.5	
Trade and other payables	5.4		(34.3)	
Change to provisions for risks and charges	6.6		(0.4)	
Other assets and liabilities	25.7		(10.6)	
Other changes	(0.9)		0.0	
Change in provisions for employee benefits	(2.8)		(1.4)	
Dividends, interest and income taxes collected (paid):		206.5		244.1
Dividends and other income collected from equity investments	239.7		261.4	
Interest income	10.8		38.4	
Interest paid	(47.4)		(57.3)	
Income taxes (paid) refunded	3.4		1.6	
<b>Cash flow from operating activities</b>		<b>221.6</b>		<b>237.4</b>
Technical investments:		(565.8)		(516.2)
Property, plant and equipment	(0.6)		(1.3)	
Intangible assets	(7.2)		(7.4)	
Equity investments	(0.8)		(0.7)	
Financial receivables instrumental to operations	(558.0)		(506.8)	
Change in receivables relating to disinvestment activities		(2.6)		(2.6)
Disinvestments:		-		4.6
Operating activities sold	-		4.6	
<b>Free cash flow</b>		<b>(346.8)</b>		<b>(276.8)</b>
Change in financial receivables not related to operations		252.9		48.3
Change in short- and long-term financial debt		791.4		1,181.8
Change in financial liabilities for leased assets		(2.3)		(2.2)
Equity cash flow		(207.1)		(223.6)
Other changes relating to non-monetary components		19.1		-
<b>Cash flow for the year</b>		<b>507.2</b>		<b>727.5</b>



## 6.5 Other information

### Treasury shares

The company did not own any treasury shares as at 31 December 2021.

### Related party transactions

Based on Italgas' current ownership structure, Italgas related parties include, in addition to directors, statutory auditors, executives with strategic responsibilities, companies associated with the Group or under its joint control, also the subsidiaries directly or indirectly controlled by CDP, therefore including the shareholder Snam, and the Ministry of Economy and Finance (MEF). Transactions with these entities relate to the exchange of assets, the provision of services and, in the case of CDP, the provision of financial resources.

These transactions are part of ordinary business operations and are generally settled at arm's length, i.e. the conditions which would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Italgas Group.

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

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

CDP and CDP Reti consolidate Italgas pursuant to IFRS 10. In addition, through the Board of Directors' decision of 1 August 2019, CDP reclassified its investment in Italgas S.p.A. as a controlling interest pursuant to Article 2359, paragraph 1.2) of the Italian Civil Code and Article 93 of the CLF. Italgas is not subject to management and coordination activities by CDP.

As at 31 December 2021, Italgas manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in the paragraph "Related-party transactions" of the Notes to the consolidated and separate financial statements.

Relations with Key Managers are shown in the paragraph "Operating costs" of the Notes to the consolidated financial statements.

### Operating performance of subsidiaries

For information on the outlook of areas where Italgas operates in whole or in part through subsidiaries, please refer to "Operating performance" and "Comment on the economic and financial results" of this Report.

### Branch offices

In compliance with Art. 2428, fourth paragraph of the Italian Civil Code, note that the Italgas does not have secondary offices.

## Research and development

Research and development activities carried out by Italgas are not of a considerable amount. For more details, see the notes to the Consolidated Financial Statements.

## Significant events after year end

The significant transactions carried out after 31 December 2021 are summarised below. The Integrated Annual Report has been submitted to the examination of the Company's Board of Directors and its publication was authorised on 9 March 2022. Therefore, this document does not note any events that occurred subsequent to that date.

## Capital transactions

| On 09 March 2022, in execution of the 2018-2020 Co-Investment Plan approved by the Ordinary and Extraordinary Shareholders' Meeting of 19 April 2018, the Board resolved on the free allocation of a total of 477,364 new ordinary shares of the Company to the beneficiaries of said Plan (second cycle of the Plan) and started the execution of the second tranche of the capital increase resolved on by the aforesaid Shareholders' Meeting, for a nominal amount of € 591,931.36, taken from retained earnings.

## Legal and Regulatory

| With the ruling of 14 February 2022, the Regional Administrative Court of Lombardy upheld the appeal brought by Italgas Reti and annulled ARERA resolutions no. 163/2020/R/Gas and no. 567/2020/R/Gas with which the premiums and penalties related to the safety recoveries of the natural gas distribution service were determined in 2016 and 2017.

## Other events

| on 18 January 2022, Italgas signed an agreement with Buzzi Unicem, an international group focused on the production of cement, concrete and natural aggregates, for the conduct of a feasibility study relative to the development of Power-to-Gas plants in combination with CO2 (carbon) capture systems at the production plants of Buzzi Unicem, with a view to assuring greater environmental sustainability and support for the energy transition;

| on 28 January 2022, Medea completed the conversion from LPG to natural gas of the distribution networks serving the municipalities of Tortoli, Girasole, Loceri and Talana in the province of Nuoro (Basin 22), for a total of around 15,000 inhabitants and involving around 84 kilometres of network, also replacing traditional meters with smart meters. The operations in these 4 municipalities follow those already completed in December in Osini, Gairo, Sant'Elena, Ulassai, Seui (Basin 22) and Pattada (Basin 10) for a total of 34 Sardinian municipalities already converted from LPG to natural gas. With the switch to methane of Gairo Taquisara and Cardedu, expected for the spring, Medea will complete its conversion programme on the island, which involves a total of 500 kilometres of pipes supplied by 31 LNG cryogenic depots;

| on 1 February 2022, Italgas was included for the third year running in the **Sustainability Yearbook 2022**, the annual S&P Global publication that brings together experiences, success stories and best practices from world leading companies on sustainability matters. Italgas was included following the Corporate Sustainability Assessment (CSA) carried out in 2021. Italgas has also obtained "Gold Class Distinction" for its excellent sustainability performance;

The Italgas share has also been confirmed on the **FTSE4Good Index Series**, which includes the best companies that stand out for the attention paid to sustainable economic development.

| on 2 March 2022, with an outlay of \$ 15 million, Italgas strengthened its partnership with **Picarro Inc.** through the acquisition of a minority **share** in the capital of the US technological start-up company and world leader in sensors applied to gas distribution network monitoring as well as technologies for sectors characterised by the need to have extremely sensitive detection, such as environmental measurements of the concentration of dangerous atmospheric pollutants and the electronics industry to identify impurities in the environments dedicated to semiconductor production.

# DNF Information on the activities that are eligible and non-eligible to the Taxonomy of sustainable investments

## European taxonomy

The European taxonomy for sustainable activities was instituted with EU Regulation 2020/852 in order to define a unique criterion for the classification of sustainable economic activities from an environmental viewpoint. The European Union aims to provide companies, investors and policy managers with appropriate definitions for environmentally-sustainable activities, useful on the one hand to achieve the objectives set out in the Green Deal, directing their investments, and on the other to offer greater security to investors and companies in their green investment choices. With its investments in the gas networks aimed at making them carriers of renewable gases, in electronic meters, in energy efficiency and the ever greater reduction of potential grid losses, Italgas helps pursue that energy transition process necessary to achieve the European Green Deal objectives, while at the same time ensuring the stability of energy systems.

EU Regulation 2020/852 defines an activity as environmentally-sustainable if it makes a substantial contribution to achieving one of the following six objectives:

- | climate change mitigation;
- | climate change adaptation;
- | the sustainable use and protection of water and marine resources;
- | the transition to a circular economy;
- | pollution prevention and control;
- | the protection and restoration of biodiversity and ecosystems.

In particular, the Taxonomy, as it is defined today, establishes that an activity shall be:

- | eligible, if it comes under the list envisaged by the Regulation;
- | aligned, if in addition to making a significant contribution towards the adaptation and mitigation of climate change, in compliance with the technical examination criteria defined

by the Commission, it also does not have negative effects on the remaining objectives (Do No Significant Harm - DNSH) in respect of the minimum guarantees of safeguarding the protection of employment and human rights.

To date, the European Union has published delegated acts relating only to i) climate change mitigation and ii) climate change adaptation.

Starting 2022, and therefore applicable already from the 2021 financial statements, non-financial companies required to publish non-financial information in accordance with Article 19 *bis* or Article 29 *bis* of Directive 2013/34/EU are required to report the portion of turnover, capital expenditure and operating expenses considered Taxonomy-eligible and non-eligible. Italgas is subject to this obligation. At present, the definition of eligible activities is only disclosed in respect of the two objectives of climate change mitigation and climate change adaptation. For FY 2021, moreover, reporting relative to alignment with the Taxonomy is not mandatory.

For the other four objectives, the relevant delegated acts are expected for 2022, with application from 2023 and therefore applicable to the 2022 results.

The data reported in this section therefore satisfies the reporting obligation.

## Main assumptions

To define the portion of turnover, operating expenses and capital expenditure deriving from activities that are eligible or aligned with the taxonomy, for lack of a consolidated, shared practice on a sector level and in light of possible different technical interpretations of the EU Delegated Regulations 2021/2139 and 2021/2178 that supplemented Regulation 2020/852, Italgas has defined a standard of internal criteria. It therefore follows that the resulting values, expressing the best assumptions presently available for the Group, could be subject to future updates in view of changes or updates

of the reference regulations or the emerging of new shared standards.

It is also specified that the portion of activities that are non-eligible includes all activities not described in Delegated Regulation EU 2021/2139, as well as defined in Delegated Regulation EU 2021/2178, regardless of whether or not these activities make a significant contribution towards mitigating climate change or adapting to climate change.

## Area considered

The mapping of activities considered the scope made up of Italgas S.p.A. and its subsidiaries, going into detail of the individual activities carried out. The NACE code associated with the operating company has not been considered as a restriction for inclusion or exclusion, given that, in the case of Italgas and its subsidiaries, the NACE code in most cases reflects the core business and does not necessarily reflect the details required by the Taxonomy. For the definition of eligible activity, consistency was therefore considered with the definition of the activities included in the delegated acts.

Together with the process of defining eligible and non-eligible activities to the Taxonomy for current reporting purposes, Italgas has already started to assess and identify the actions necessary and aimed at defining the activities for Taxonomy to also comply with the disclosure obligations for 2023, also in the presence of possible changes or updates to regulations by the European Union or emerging of new shared standards.

## Materiality

No minimum materiality thresholds have been defined for the inclusion/exclusion of individual activities.

## Reporting principle

As the operator of a distribution network, Italgas acts to create the best possible conditions to guarantee that its network is "enabled" to the distribution of hydrogen and/or other renewable gases. It is not, however, responsible for the production of such gases nor for the definition of blending thresholds, which are activities carried out by other subjects. In considering the activities, it has been assessed how far the Company can act to facilitate and make possible, during the plan time frame, the distribution of other gases apart from methane.

## Eligible activities

In accordance with Delegated Regulation 2021/2139, which supplements Regulation 2020/852, the analysis carried out by Italgas has led to the identification of eligible activities falling under the following descriptions:

- | (4.14) Renewable gas and low carbon emission gas distribution and transmission networks in respect of the gas distribution business;
- | (7.5) Installation, maintenance and repair of metering, regulation and energy performance control devices and instruments of buildings in respect of metering;

- | (7.3) Installation, maintenance and repair of energy efficiency devices for all energy efficiency activities;
- | (7.6) Installation, maintenance and repair of renewable energy technologies;
- | (3.10) Manufacture of hydrogen;
- | (4.11) Storage of thermal energy;
- | (5.1) Construction, expansion and management of water collection, treatment and supply systems;
- | (5.2) Renewal of water collection, treatment and supply systems in respect of the drinking water sale and distribution companies;
- | (4.1) Production of electricity by means of solar-photovoltaic technology;
- | (4.15) Distribution of district heating/district cooling;
- | (8.1) Data processing, hosting and connected activities;
- | (8.2) Data-driven solutions for GHG emissions reductions;
- | (9.1) Close to market research, development and innovation;
- | (9.3) Professional services related to energy performance of buildings;

## Calculation method

The procedure continued with the assessment of activities for next steps. If an activity can be considered both in light of climate mitigation and climate adaptation, the main aim was assessed for which this activity was implemented and the main impacts, thereby guaranteeing no duplication of data.

The accounting standards underlying the determination of the portions of turnover, capital expenditure and operative expense eligible, are the same used to prepare the consolidated financial statements, as explained in the Notes and are consistent with Regulation 2020/852 and the Delegated Regulations of Taxonomy made available by the European Commission.

## Turnover eligible to the taxonomy

The portion of turnover eligible to the taxonomy, in compliance with paragraph 1.1.1 of Annex 1 to Regulation 2020/852, is calculated as the sum of revenues derived from products or services associated with activities eligible to the taxonomy, proportionally to the total net revenues of the group recorded in compliance with International Accounting Standard (IAS) no. 1, paragraph (82: (a)), shown in the Notes to the Consolidated Financial Statements in section 27.

More specifically, the eligible turnover includes the part share of the remuneration of the gas metering service, relative to the installation, maintenance and repair of digital meters. For the gas distribution activity, the following has been calculated: i) the part share of the RAB and related revenues connected with investments in the network suitable for the distribution of renewable and low-carbon gases including all requalification of the distribution network and its extensions, carried out with materials suitable for the new renewable gases and ii) the portion of turnover relating to activities involving the detection of leaks, the repair of existing gas pipelines and other elements of the network, aimed at reducing methane leaks. Revenues deriving from activities relating to the ESCOs and water ser-

vice have also been included, consistently with the taxonomy criteria.

The portion of turnover (revenues, net of the items relative to Service concession agreements) considered ineligible includes all activities not coming under the previous points.

## Operating expenses eligible to the taxonomy

The portion of admissible operating expenses (OPEX) is calculated as the ratio of operating costs related to activities or processes admissible to the Taxonomy proportionally to the operating expenses incurred (considered equal to 26.2% of the total operating expenses), in compliance with the provisions of subsection 1.1.2 of Annex 1 to Regulation 2020/852 and are explained in the Notes to the Consolidated Financial Statements in section 28.

The activities to which these expenses refer are those described in the previous section, in addition to the operating expenses related to real estate services and ICT.

## Capital expenditure eligible to the taxonomy

The portion of admissible capital expenses (CAPEX), in compliance with paragraph 1.1.2 of Annex 1 to Regulation 2020/852, is calculated as the ratio of investments in activities

or processes eligible to the taxonomy with respect to the increases in tangible and intangible assets in 2021, considered before amortisation/depreciation, impairment and any value adjustment, including those resulting from the recalculation and reduction in value and excluding changes in fair value. As indicated in Delegated Regulation 2021/2178, the increase in assets also includes the increases in tangible and intangible assets deriving from business combinations. CAPEX is booked in accordance with IAS 16 (73: (e) (i) and (iii)), IAS 38 (118: (e) (i)), and IFRS 16 (53: (h)) and are shown in the Notes to the Consolidated Financial Statements in sections 13 and 14 as well as in the Integrated Annual Report in section 4.3.

In particular, the admissible CAPEX includes all investments related to the installation, maintenance and repair of digital meters. For the gas distribution activity, the following has been included: i) the investments made in the network for the distribution of renewable and low-carbon gases, including all requalification of the distribution network and its extensions, carried out with materials suitable for the new renewable gases and ii) the portion of investments relating to activities involving the detection of leaks, the repair of existing gas pipelines and other elements of the network, aimed at reducing methane leaks. The CAPEX relative to the ESCOs, the water service, real estate and ICT were also included in line with the taxonomy criteria.

Turnover is reported, along with CAPEX and OPEX associated with the eligible activities. No information is supplied in respect of other KPIs, apart from that required by the Delegated Regulation (EU) 2021/2178.

(€ million)	U.o.m.	eligible	non-eligible
Revenues	%	25%	75%
OPEX	%	82%	18%
CAPEX	%	86%	14%

# DNF “Information on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)” Table

In 2020, the Group began improving its strategy for the fight against climate change, taking inspiration from the Financial Stability Board TCFD (Task Force on Climate-related Financial Disclosures) recommendations, which aim principally to guide the companies in providing their stakeholders with clear and comparable information on the risks and opportunities connected with climate change.

The contents of the table given below have been organised on the basis of four themed areas concerned by the TCFD recommendation: governance, strategy, risk management and metrics and objectives with a view to providing a clearer disclosure on such matters.

TCFD Recommendations	Disclosure
<b>GOVERNANCE</b> (organisation's governance model in connection with the risks and opportunities associated with climate change)	
a) Supervision of the Board of Directors on the risks and opportunities associated with climate change	The Italgas Group has a specific governance model on sustainability topics, also with a view to monitoring the impacts of climate change on corporate operations. Thanks to the involvement of top management in all strategic sustainability choices and the Italgas governance model, matters relating to climate change are taken into account when defining the Group's strategic and sustainability plan, in risk management policies, in defining the organisation's performance objectives and actions for their monitoring, etc. The Board of Directors, the Sustainability Committee and the Control, Risk and Related Party Transactions Committee are periodically informed as to aspects relating to climate change and the related initiatives; finally, at least once a quarter, the Board of Directors is informed about climate-altering emissions performance and the level of achievement of GHG targets, which are reported on in the Consolidated Half-Year Report, the Consolidated First and Third Quarter Results and the Integrated Annual Report.
b) Role played by the management in assessing and managing the risks and opportunities associated with climate change	

TCFD Recommendations	Disclosure
<b>STRATEGY</b> (current or potential impacts of the risks and opportunities associated with climate change on the organisation's business, strategy and financial planning)	
a) Risks and opportunities associated with climate change that the organisation has identified in the short-, medium- and long-term	As reported in the table of the paragraph entitled "Risk Management" in this document, Italgas considers, in connection with the risks relating to climate change, both physical risks and risks of transition, assessing the relevant impact.
b) Impacts of the risks and opportunities associated with climate change on the organisation's business, strategy and financial planning	Italgas puts sustainability firmly at the heart of its development model, a guiding element in defining strategic and operative choices to guarantee long-term growth. In the Strategic Plan, Italgas defines a macro-comprehensive scenario that includes contexts and trends of the Energy and Environmental Policies (decarbonisation - Paris Agreement, renewal sources, energy efficiency, sustainable mobility, power to gas and green gas) and presents its own Sustainability Plan. The Group's strategy is developed consistently with the United Nations Sustainable Development Goals.
c) Resilience of the strategy of the organisation, taking into account different climate-related scenarios, including a scenario of 2°C or less.	<p>The definition of the Strategy is also influenced by the internal monthly information, collection and reporting process on current and forecast GHG emissions and other matters relating to climate change (e.g. energy consumption), in which the data and main trends in consumption, scope 1, 2 and 3 emissions are analysed, through the use of specific KPIs, which make it possible to assess the effectiveness of the initiatives brought into play by the Group companies in terms of energy efficiency and the reduction of climate-altering emissions, in line with the objectives included in the 2021-2027 Strategic Plan.</p> <p>In recent years, Italgas' corporate strategy has been increasingly influenced by climate change matters and various initiatives have been developed with a view to reducing GHG emissions (e.g. leak detection using Picarro technology, conversion of the corporate fleet to methane gas, green gas initiatives, energy efficiency of the plants, etc.).</p> <p>In the short-term, the main elements impacting the development of Italgas' strategy are the regulatory aspects of climate change like the European policy objectives, whilst in the short-/medium-term, the technological aspects, such as, for example, the digitisation of assets as a factor enabling the distribution of renewable and low carbon emission gases.</p> <p>Italgas' strategy is outlined in the 2021-2027 Strategic Plan, which also highlights and considers elements such as:</p> <ul style="list-style-type: none"> <li>  the role of gas in the decarbonisation process;</li> <li>  the digital transformation and technological innovation that allow Italgas to also play a key role in the energy transition.</li> </ul>
<b>RISK MANAGEMENT</b> (how the organisation identifies, assesses and manages risks associated with climate change)	
a) Organisation's processes to identify and assess risks associated with climate change	The process of identifying, managing and monitoring risks and opportunities associated with climate change comes under the scope of the Enterprise Risk Management model described above.
b) The organisation's processes to manage risks associated with climate change	Risk reporting is shared/discussed with top management and the Control, Risk and Related Party Transactions Committee of Italgas, the Board of Statutory Auditors and the Supervisory Body to allow for assessments of the effectiveness of the Internal Control and Risk Management System.
c) How the processes of identifying, assessing and managing the risks associated with climate are integrated into the organisation's overall risk management	With reference to the risks connected with climate change and the related management methods, special reference is made to the risks of "Climate Change" described in the table given in the paragraph on "Risk Management" in this document.



TCFD Recommendations	Disclosure
<b>METRICS AND TARGETS</b> (metrics and targets used by the organisation to assess and manage the relevant risks and opportunities associated with climate change)	
a) Metrics used by the organisation to assess the risks and opportunities associated with climate change in line with its risk management process and strategy	Italgas shows its commitment to aspects relating to climate change through the careful monitoring of its energy consumptions and emissions and the implementation of specific initiatives aimed at reducing greenhouse gas emissions and increasing its energy efficiency performance and the search for and reduction of fugitive emissions. Italgas monitors the following GHG tCO <sub>2</sub> eq) emissions:
b) Scope 1, 2 and 3 greenhouse gas (GHG) emissions and related risks	<ul style="list-style-type: none"> <li>  Direct emissions (Scope 1): deriving from the civil consumption of gas, from industrial consumption of gas for preheating, from fuel consumptions for vehicles and grid losses ("fugitive emissions");</li> <li>  Indirect emissions (Scope 2): deriving from the consumption of electricity purchase and district heating;</li> <li>  other Indirect Emissions (Scope 3) deriving from business travel, outsourced activities (supply chain) and emissions relating to the production of energy purchased and consumed (fuel side, emissions linked to their extraction, production and transport; electricity side, emissions relating to the extraction, production and transport of the fuels used for generation and emissions relating to losses for transmission and distribution).</li> </ul>
c) Targets used by the organisation to manage the risks and opportunities associated with climate change and performance with respect to the targets	The Group has undertaken to reduce its CO <sub>2</sub> equivalent emissions by 30% by 2027 as compared with 2020 <sup>75</sup> .

<sup>75</sup> Considering the contribution of self-production through the recovery of energy that is otherwise dispersed. The reduction is measured with the same scope, excluding any changes following M&As and ATEM (Minimum Territorial Area) tenders.



# Independent Auditors' Report on the Consolidated Non-Financial Statement

**Deloitte.**

Deloitte & Touche S.p.A.  
Via Tortona, 25  
20144 Milano  
Italia

Tel: +39 02 83322111  
Fax: +39 02 83322112  
www.deloitte.it

## INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267/2018

**To the Board of Directors of  
Italgas S.p.A.**

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Italgas S.p.A. and its subsidiaries (hereinafter "Italgas Group" or "Group") as of December 31, 2021 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 9, 2022 (hereinafter "NFS").

Our limited assurance engagement does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph "Information on the activities that are eligible and non-eligible to the Taxonomy of sustainable investments" of the NFS.

### Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and Global Reporting Initiative Sustainability Reporting Standards established by GRI – Global Reporting Initiative ("GRI Standards"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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**Auditor's Independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the *International Ethics Standards Board for Accountants*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies *International Standard on Quality Control 1 (ISQC Italia 1)* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Auditor's responsibility**

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "*ISAE 3000 Revised*"), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art.3 of the Decree and taking into account the adopted reporting standard;
2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;
3. comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Italgas Group;
4. understanding of the following matters:
  - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
  - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
  - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a) of this report;

5. understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out interviews and discussions with the management of Italgas S.p.A. and with the employees of the main legal entities of the Group and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at group level:
  - a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
  - b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for the following subsidiaries Italgas S.p.A., Italgas Reti and Toscana Energia, which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits and remote meetings, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

### **Conclusion**

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Italgas Group as of December 31, 2021 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and GRI Standards.

Our conclusion on the NFS does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph "Information on the activities that are eligible and non-eligible to the Taxonomy of sustainable investments" of the NFS.



**Other matters**

The NFS for the year ended December 31, 2019, whose data are presented for comparative purposes, have been subject to a limited assurance engagement by another auditor that, on April 16, 2020 expressed an unmodified conclusion.

DELOITTE & TOUCHE S.p.A.

Signed by  
**Franco Amelio**  
Partner

Milan, Italy  
April 1, 2022

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

# Glossary

A glossary of financial, commercial and technical terms, as well as units of measurement, is available online at [www.italgas.it](http://www.italgas.it).

## Economic-financial terms

### Non-current assets

Balance sheet item which shows long-lasting assets, net of relative amortisation, depreciation and impairment losses. They are divided into the following categories: "Property, plant and equipment", "Compulsory inventories", "Intangible assets", "Equity investments", "Financial assets" and "Other non-current assets".

### Cash flow

Net cash flow from operating activities is represented by the cash generated by a company over a certain period of time. Specifically, the difference between current inflows (mainly cash revenue) and current cash outflows (costs in the period that generated cash outflows).

### Controllable fixed costs

Fixed operating costs of regulated activities, represented by the sum of "Total recurring personnel costs" and "Recurring external operating costs".

### Covenants

A covenant is an undertaking within a loan agreement whereby certain activities can or cannot be carried out by the borrower. Specifically, a covenant is defined as "financial" when it imposes a limit relating to the possibility of taking out a further loan, while in covenants relating to property, the clauses are aimed, inter alia, at limiting the use of financial leverage by the company, involving the obligation of maintaining a given ratio between balance sheet debt and capitalisation.

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

### Credit rating

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

### Dividend payout

Ratio between the dividend and net profit for the period, and equal to the percentage of profits paid out to shareholders in the form of dividends.

### Outlook

The outlook indicates the future rating prospects over a long period of time, usually two years. When it is "negative" it means that the rating is weak and that the rating agency has detected some critical elements. If the weakness factors persist or worsen, the rating may be downgraded.

### Notch

Risk level assigned by the rating agency, as part of the process of assigning the credit rating, which corresponds to a probability of default, i.e. of the issuer.

### R.O.E. (Return on equity)

Ratio between the net profit and shareholders' equity at the end of the period, able to express the return on own capital.

### R.O.I. Core (Return on investment)

Ratio of EBIT and net invested capital at period end, net of equity investments, capable of expressing operating profitability, indicating the company's capacity to remunerate invested capital from the results of its core business activities.

### Consolidated Finance Act (TUF)

Legislative Decree No. 58 of 24 February 1998, as amended.

### Comprehensive income

Includes both net income for the period and changes in shareholders' equity, which are recognised in shareholders' equity in accordance with international accounting standards (Other components of comprehensive income).

### Commercial and technical terms

### Thermal year

Time period into which the regulatory period is divided. Starting from the third regulatory period, the thermal year coincides with the calendar year.

## ARERA

The Italian Regulatory Authority for Energy, Networks and Environment (ARERA) is an independent body set up by Law no. 481 of 14 November 1995 to protect the interests of consumers and promote competition, efficiency and dissemination of services with adequate levels of quality, through regulation and control activities. The Authority's action, initially limited to the electricity and natural gas sectors, was later extended through a number of regulatory measures, in particular through Law Decree 201/11, converted to Law 214/11, to assign responsibility also for water services.

## ATEM

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

## Energy and Environmental Services Fund - CSEA

Public economic institution that operates in the fields of electricity, gas and water. Its primary mission is the collection of certain regulation components by operators; these components are collected in dedicated management accounts and subsequently disbursed to businesses according to the rules issued by the Authority. The CSEA is supervised by the Authority and the Ministry of Economy and Finance. The CSEA also, in relation to the entities administered, performs inspection activities aimed at administrative, technical, accounting and management assessments, consisting in hearing and comparing the entities involved, with recognition of locations and systems, research, testing and comparison of documents.

## White certificates

White Certificates, or Energy Efficiency Certificates (EEC) are negotiable securities that certify the energy savings achieved in the end uses of energy by taking action to increase energy efficiency. The White Certificate system is an incentive mechanism based on a mandatory primary energy saving regime for electric power and natural gas distributors. All entities eligible for the mechanism are entered in the Electronic Register of Energy Efficiency Certificates with the GME.

## End user

The consumer who buys gas for their own use.

## Network code

The document governing the rights and obligations of the parties involved in providing the gas distribution service.

## Gas distribution concession

The deed by which a local authority entrusts to a company the management of a natural gas distribution service which falls within the remit of said authority, and for which said company assumes the operational risk.

## Local tender

The local tender is the sole tender procedure for the provision of gas distribution services held in each of the 177 ATEMs (Minimum Territorial Areas) identified pursuant to Articles 1 and 2 of the Decree of the Ministry of Economic Development of 19 January 2011.

## Gas distributed or circulated

Amount of gas delivered to users of the distribution network at the delivery points.

## Italian Power Exchange (GME)

A joint stock company established by the GSE to which business management of the Electrical Energy Market was assigned according to criteria of transparency and objectiveness, with a view to promoting competition between producers and ensuring the availability of an adequate power reserve level. Previously known as the Italian Power Exchange, it changed its name on 19 November 2009. In particular, the GME manages the day-ahead energy market (MGP), the intraday market (MI), the daily product market (MPEG), the dispatching services market (MSD), the electric forward market (MTE) and the Platform for the physical delivery of financial contracts concluded on the Index (CDE). The GME also manages the Environment Markets (energy efficiency certificates market and the origin guarantees market) and the spot and futures markets for natural gas, as part of the natural gas market (MGAS). In the context of regasification, it organises and manages the PAR platform.

## Energy Services Manager (GSE)

Public company limited by shares with wholly public capital, with a central role in the promotion, incentive and development of renewable sources in Italy. The sole shareholder of the GSE is the Ministry of Economy and Finance, which exercises shareholder rights with the Ministry of Economic Development. The GSE controls three companies: the Acquirente Unico (AU; Single Buyer), Gestore dei Mercati Energetici (GME; Energy Markets Operator) and Ricerca sul Sistema Energetico (RSE; Energy System Research).

## Equalisation

Difference between revenues for the period (annual TRL) and those invoiced to retail companies. The net position with the

CSEA is established at the end of the thermal year and settled over the course of the year on the basis of advance payments.

## Regulatory period

This is the time period for which criteria are defined for setting tariffs for gas distribution services. The fourth regulatory period ended on 31 December 2019. The fifth regulatory period is now in progress, beginning on 1 January 2020 and ending on 31 December 2025.

## Delivery point

This is the point of demarcation between the gas distribution plant and the plant owned or managed by the end user at which the distribution company redelivers gas transported for supply to the end user, and at which metering occurs.

## Gas distribution service

Service of transporting natural gas through networks of local methane pipelines from one or more delivery points to redelivery points, generally at low pressure and in urban areas, for delivery to end users.

## Retail Company or Relco (Retail Company)

Company which, by way of a contract giving it access to the networks managed by a distributor, sells the gas.

## Regulatory Asset Base (RAB)

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Regulatory Authority for Energy, Networks and Environment (ARERA), for determining the reference tariff.

## Centralised RAB

The Centralised Regulatory Asset Base is made up of tangible fixed assets other than those included under local tangible fixed assets and intangible fixed assets (in other words non-industrial buildings and property, other tangible fixed assets and intangible fixed assets, such as, for example, remote management and remote-control systems, equipment, vehicles, IT systems, furniture and furnishings, software licenses).

## Local RAB

The Local Regulatory Asset Base for the distribution service consists of the following types of tangible fixed assets: land

on which industrial buildings, manufacturing buildings, major and minor plants, road and pipeline installations (connections) are located. Local Regulatory Asset Base relating to the metering service is made up of the following types of tangible fixed assets: traditional metering equipment and electronic metering equipment.

## Reimbursement value

The Reimbursement Value is the amount owed to outgoing operators on the termination of the service pursuant to Article 5 of the Decree of the Ministry of Economic Development No. 226 of 12 November 2011 in the absence of specific different calculation method forecasts contained in the documents of the individual concessions stipulated before 11 February 2012 (the date when Ministerial Decree No. 226/2011 came into force).

## RIV or Residual Industrial Value

The residual industrial value of the part of the plant owned by the outgoing operator. It is equal to the cost that should be incurred for its reconstruction as new, reduced by the value of the physical degradation and also including non-current assets under construction as indicated from the accounting records (Article 5(5) of Ministerial Decree No. 226/2011).

## TRL (Total Revenue Limit)

Total revenue allowed for distribution companies by the regulatory body to cover costs for providing distribution and metering services.

## WACC

Weighted Average Cost of Capital. Rate of return on net invested capital.