

Glossary

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