ANNUAL FINANCIAL REPORT

as at 31 December 2019

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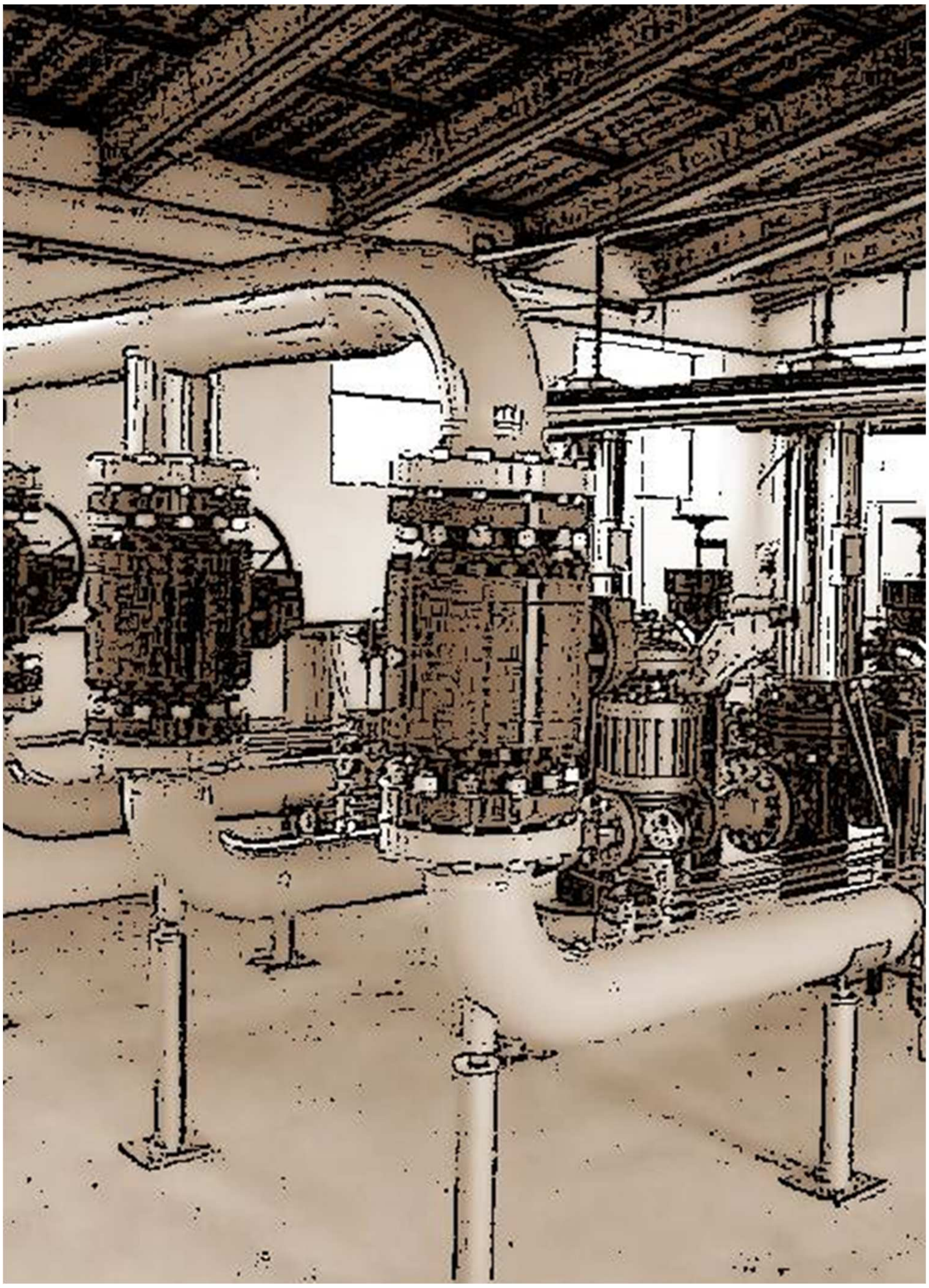
II Corporate Boards

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



City Gate Interior

III Directors' Report

1. Foreword

According to the Bank of Italy's recent Economic Bulletin released in January 2020[1] for the year 2019, GDP appears to have remained virtually unchanged in the fourth quarter. The Bank of Italy also underscored that this evaluation could surprise to the downside if the weakness of the industrial cycle were to affect also services.
Year over year, GDP improved by a mere 0.2% overall, as planned investments, business confidence and industrial production showed a cautious approach, with slight further declines in the last quarter.

The trend in the growth of the gas distribution network and new connections to it, although showing a slight rise in the number of active customers, is still influenced by the lower level of optimism among construction companies, experiencing a very limited growth in the year.

Although not impacting directly on the Group's Income Statement, the 2019 report of the Italian Ministry of Economic Development on gas balancing shows an increase in gross domestic gas consumption at the national level. In December 2018, gas consumption was 74,321 million cubic metres, +2.3% compared to 72,666 million metres in the previous year.

As to the activities carried out by the 2i Rete Gas Group, 2019 was a year in which the acquisitions completed in the previous year consolidated, as merger operations were carried out with a view to rationalising the Group structure and increasing cost effectiveness in relation to costs associated with the presence of several companies.
In 2019, the Group' operating data (number of concessions managed, active redelivery points, kilometres of network managed) showed a slight drop over the previous year, chiefly due to the sale of the equity interest held in Murgia Reti Gas S.r.l., a vehicle company in which the Parent Company had transferred the concessions, its assets and payables related to Bari 2 and Foggia 1 ATEMs [municipal areas covered by a single gas distribution network operator]. While the volumes transported remained virtually stable, net of the above-mentioned sale, the number of Redelivery Points under management increased marginally. From a profit and loss perspective, the Report shows a significant increase in EBITDA, while financial costs increased as a result of the operation for the issue of part of the existing bond loan completed in September 2018, which operation was deemed necessary to safely refinance the instalments reaching maturity in mid 2019 and early 2020.
As a result, net income for the year stood at 206.5 million euro, showing a clear increase compared to the previous year, following (i) a release to income of provisions for risks previously

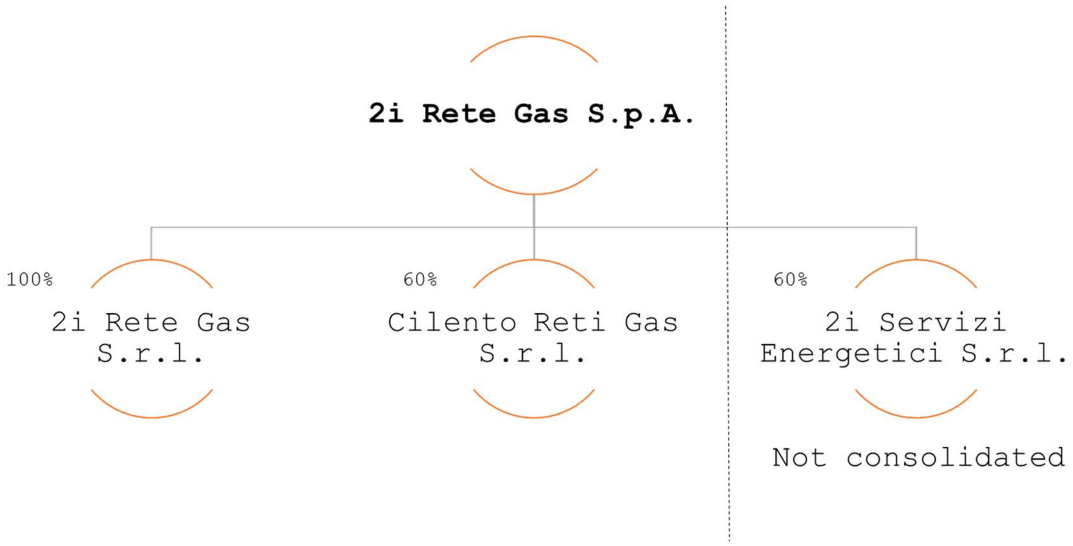
[1] Bank of Italy - Economic Bulletin No. 1 2020 dated 17 January 2020.

allocated in connection with a tariff-related dispute, which was settled favourably for the Group, and (ii) an improvement in cost-effectiveness of group companies.
Movements in net financial position during the year occurred based on normal business needs.

As has been the case since 2017, the Group approves the Consolidated Financial Report at the same time as it approves its Non-Financial Disclosure ("NFD") in accordance with the provisions of Legislative Decree 254/2016. Over the years, the document has become a tool for providing insights into and conveying the Group's values and approach to non-financial issues, which the Group has always pursued vigorously.
In particular, in 2019 the Group endeavoured to finalise a formal version of its Sustainability Policy with a view to the Sustainable Development Objectives agreed by the United Nations Organisation, so that as of 2020 it could rely on its own Sustainability Plan based on macro areas covering Environmental, Social and Corporate Governance issues. As a result, the 2019 NFD already reflects the development guidelines that — effective 2020 — the Group has formally undertaken to follow in an effort to provide a solid contribution to improving conditions for the environment and the community at large.

2. Group structure and highlights

The following diagram sets out the Group's equity investments at 31 December 2019:



During the year, the company Servizi Energetici S.r.l. was also established. However, due to agreements in place with the minority shareholder, it is not controlled by the Parent Company, even though the latter holds a 60% interest in it.
As for the Group's highlights, the following table shows the key operating, income statement and statement of financial position indicators of the Group:

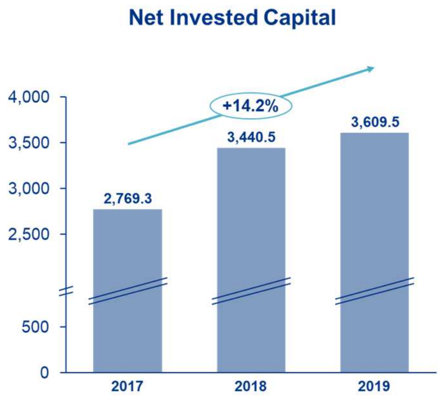
	31.12.2019	31.12.2018	2019 - 2018
Active concessions:	2,132	2,150	(18)
Active redelivery points:	4,342,719	4,395,955	(53,236)
Distributed Gas (Natural gas and LPG) in millions of cubic metres	5,975	6,040	(65)
EBITDA in millions of euro:	531.1	461.2	70
Net income in millions of euro:	206.5	155.4	51
Managed networks in kilometers:	66,052	66,263	(211)

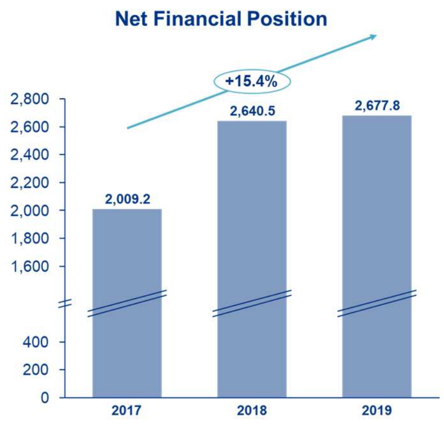
	31.12.2019	31.12.2018	2019 - 2018
Net financial position in millions of euro:	2,677.8	2,640.5	37
Net invested capital in millions of euro:	3,609.5	3,440.5	169

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

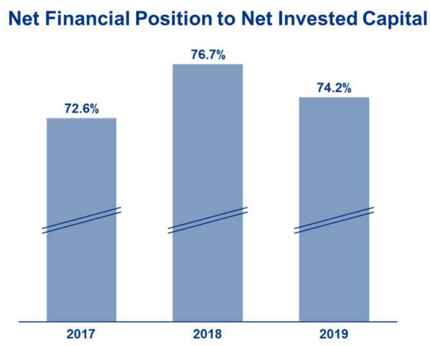
Trend in EBITDA from 2017 to 2019:

Trend in Net Invested Capital and Net Financial Position from 2017 to 2019:





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



The Net Financial Position to Net Invested Capital ratio — which in 2018 had grown following the acquisition financed through a bond issue — fell again in 2019 due to normal business performance.

3. Significant events during the reporting period

For the Group, 2019 proved to be a year of consolidation of the transactions completed in the previous year, with a number of internal reorganisation efforts aimed at increasing the Group's efficiency and effectiveness.
It should be noted that in 2018 the whole share capital of Nedgia S.p.A. and Gas Natural Italia S.p.A. was purchased from the Naturgy Group.
The Group, therefore, included among its concessions the 223 concessions managed by the Naturgy Group in Italy, equal to almost 460 thousand customers and a distribution network of around 7,300 km, as well as around 250 staff within its scope.

An initial phase of organisational and corporate integration had already been carried out during the course of 2018, with an initial merger and spin-off transaction designed to streamline the Group's organisational setup in the shortest possible time. On the other hand, the merger of the two main newly-acquired companies was completed in 2019, with a view to enhancing also the corporate structure.

In connection with the same transaction, consistent with the acquisition authorisation process as requested by the Antitrust Authority, a preliminary agreement was entered into with the Estra Group for the sale of the assets and liabilities relating to the concessions that were already part of 2i Rete Gas S.p.A.'s scope, such concessions being located in Bari 2 and Foggia 1 ATEMs. In pursuance of the aforesaid preliminary agreement, on 1 April 2019 a transaction was completed for the disposal of the equity interest held in Murgia Reti Gas S.r.l., a corporate vehicle where the above-mentioned concessions, assets and related operating staff were transferred.

2019 also saw the merger of Compagnia Generale Metanodotti S.r.l. into the Parent Company. The small company was acquired in 2018 and held a single concession, 60 km. of network and around 3,000 users.

With regard to financial transactions, in August 2019 the Parent Company entered into a new forward start swap derivative agreement to hedge future debenture loan issues expected to be launched in the next few years.

As in 2018, also in 2019, as part of the annual rating review by both Standard and Poor's and Moody's, the Company disclosed the performance of its business and the key metrics for the two ratings agencies to assess its financial strength. On 24 July 2019, both agencies confirmed the rating attributed in previous years (BBB Outlook Stable and Baa2 Outlook Stable, respectively); Standard and Poor's rated the "Liquidity profile" as "Adequate" again in 2019.

4. Results of the 2i Rete Gas Group

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

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

Millions of euro	**31.12.2019**	**31.12.2018**	**Change**
Revenue	**1,057.1**	**985.6**	**71.5**
Transport and sale of methane gas and LPG	681.5	639.4	42.1
Connection fees and accessory rights	15.0	15.0	0.0
Other sales and services	26.2	28.1	(1.9)
Revenue from intangible assets / assets under construc	284.9	265.9	18.9
Other revenue	49.5	37.2	12.3
Operating costs	**(525.9)**	**(524.4)**	**(1.5)**
Labour costs	(122.2)	(125.5)	3.3
Raw materials and inventories	(74.8)	(78.4)	3.6
Services	(274.0)	(268.0)	(6.0)
Other costs	(33.6)	(39.9)	6.3
Allocations to provisions for risks and charges	(23.0)	(13.4)	(9.5)
Increase in fixed assets not subject to IFRIC 12	1.6	0.8	0.8
EBITDA	**531.1**	**461.2**	**69.9**
Amortisation, depreciation and write-downs	**(204.3)**	**(189.8)**	**(14.5)**
Amortisation, depreciation and impairment losses	(204.3)	(189.8)	(14.5)
EBIT	**326.8**	**271.4**	**55.5**
Net financial income (expenses) and income (expenses)	(60.7)	(54.8)	(5.9)
Pre-tax income	**266.1**	**216.5**	**49.6**
Income taxes for the year	(59.6)	(61.1)	1.5
Net income (expenses) from continuing operatio	**206.5**	**155.4**	**51.1**
Net income (expenses) from discontinued operat	-	-	-
Net income for the year	**206.5**	**155.4**	**51.1**

The interpretation of IFRIC 12, on which the presentation of the tables for the statutory and consolidated financial statements of the 2i Rete Gas Group is based, does not entail an impact on profits, but only the recognition of equal revenues and costs, which totalled 284.9 million euro in the year and relate to the construction of the distribution network infrastructure; therefore, for the purposes of easier analysis of any deviations, the income statement showing the consolidated revenue and costs, net of the impact of the application of the aforementioned interpretation, is also set out below.

Millions of euro	31.12.2019 without IFRIC 12	31.12.2018 without IFRIC 12	Change
Revenue	**772.2**	**719.6**	**52.6**
Transport and sale of methane gas and LPG	681.5	639.4	42.1
Connection fees and accessory rights	15.0	15.0	0.0
Other sales and services	26.2	28.1	(1.9)
Revenue from intangible assets / assets under construc	(0.0)	(0.0)	0.0
Other revenue	49.5	37.2	12.3
Operating costs	**(244.1)**	**(258.4)**	**14.3**
Labour costs	(59.4)	(67.8)	8.4
Raw materials and inventories	(7.4)	(7.7)	0.3
Services	(123.3)	(131.3)	8.0
Other costs	(32.7)	(39.0)	6.3
Allocations to provisions for risks and charges	(23.0)	(13.4)	(9.5)
Increase in fixed assets not subject to IFRIC 12	1.6	0.8	0.8
EBITDA	**528.0**	**461.2**	**66.9**
Amortisation, depreciation and write-downs	**(201.2)**	**(189.8)**	**(11.4)**
Amortisation, depreciation and impairment losses	(201.2)	(189.8)	(11.4)
EBIT	**326.8**	**271.4**	**55.5**

Revenue totalled 772.2 million euro, increasing by 52.6 million euro.
Revenue from natural gas and LPG transport, which stood at 681.5 million euro, showed an increase of 42.1 million euro, chiefly due to (i) provisions being released at the end of 2019 to the extent of 21.0 million euro – such provisions being allocated in previous years with respect to a dispute arising between 2i Rete Gas S.p.A. and ARERA on the tariffs applicable to concessions where a network owned by third parties was present – and (ii) the normal impact of the tariff revenue cap, given the investments made in previous years.

Connection fees and associated costs, amounting to 15 million euro, were in line with the previous year.
Revenue from other sales and services, totalling 26.2 million euro, was slightly lower compared to the previous year. While this item showed a positive trend mainly due to the performance of revenue from meter readings and the suspension and

reactivation of customers in arrears, no revenue was generated during the year from the activities carried out by 2i Rete Gas Servizi regarding the provision of administrative services to the Edison Group, which services were provided to the company in an initial period as part of the purchase agreements entered into with the Naturgy Group companies in Italy.
As already noted previously, the values for energy efficiency certificates are shown net, as the difference between revenue and related costs, including any allocation to the provisions for risks.
For this reason, other revenue, as recognised in 2018, does not include revenue for energy efficiency certificates, which has been set against related costs.
The major contribution to this item is therefore to be found in the amount of the capital gain from the sale of Murgia Reti Gas S.r.l. (a company that was sold in order to comply with the requirements laid down by the Antitrust Authority following the purchase of Nedgia S.p.A.), including the business line relating to certain concessions held by Bari 2 and Foggia 1 ATEMs, totalling a net capital gain of 15.0 million euro, as compared with a capital gain of 1.4 million euro earned on the sale of some water concessions in the previous year. This item also includes revenue generated under Resolution No. 574/13, which was virtually in line with the previous year, revenue deriving from the recognition of the tax credit for Research and Development (-0.9 million euro in the period) as well as revenue from refunds from suppliers and revenue from plant safety audits (as pursuant to Resolution No. 40/04).

Operating costs, totalling 244.1 million euro, dropped by 14.3 million euro due to the greater efficiencies developed during the year following the consolidation of the Group, particularly on costs for services, and the greater contribution of investments. It should be noted that, following the introduction of IFRS 16, costs that in 2018 were held as leasing costs were reflected in these financial statements as amortisation and financial costs generated by rights of use capitalised since the beginning of the year.

Labour costs totalled 59.4 million euro, net of capitalisation, and were down 8.4 million euro compared to the previous year, due both to the greater use of internal staff for investment activities and to efficiency measures developed in the year.
Costs for services decreased by 8.0 million euro, mainly due to items concerning the use of third party assets. Indeed, effective 2019, IFRS 16 requires that lease, rental and kindred contracts on assets that are intended for exclusive use by the company and fall under the scope of the principle, must be held under the assets of the company as fixed assets, while the related cost must be reflected under amortisation. In these financial statements, these costs caused the balance of amortisation for the year to be increased.
A proforma situation of 2018 was not prepared, as the change was due to the application of a new standard.

Specifically, other costs include the trend in net costs for energy efficiency certificates which rose by 1.7 million euro overall, as well as lower accelerated capital losses and sale of assets for 5.3 million euro.

Finally, net allocations to provisions for risks and charges increased by 9.5 million euro compared with the previous year, with a negative impact on the income statement totalling 23 million euro. Net provisions for the year were allocated in respect of risks pertaining to plant malfunctioning and related repair costs (12.7 million euro), costs related to litigation with business counterparties (2.6 million euro) and tariff risks (3.7 million euro), while another 0.8 million euro accounted for provisions for ATEM tender costs.

As a result, EBITDA came in at 528 million euro, up a further 65.6 million euro over the previous year (461.2 million euro) thanks to (i) revenue from the capital gain on the aforesaid sale of the equity interest held in Murgia Reti Gas S.r.l., (ii) the release of provisions for the tariff dispute concerning municipal networks and (ii) operating efficiencies deriving from a better and more organic management of the Group. Furthermore, it is noted that, following the implementation of IFRS 16, the costs relating to the use of third-party assets are no longer included under costs for services, but appear on the income statement as extra amortisation and depreciation and financial expenses.

Amortisation, depreciation and write-downs, up on the previous year, totalled 201.2 million euro.
These figures, mainly pertaining to the amortisation of intangible assets and under IFRS, also include the amortisation of the purchase price allocation made in the previous financial year and are net of the amounts capitalised during the year.

EBIT totalled, therefore, 326.8 million euro while in 2018 it amounted to 271.4 million euro, thus improving by 55.5 million euro.

Financial income and expenses, showing a negative balance of 60.7 million euro, increased compared with the previous year as a consequence, among other things, of the full impact on accounts resulting from interest expense of the debenture loan issued in September 2018 to hedge the note tranche reaching maturity in mid 2019 and early 2020, such interest expense being repaid at the reporting date. It should be noted that the financial costs of this tranche of the debenture loan are hedged by a derivative structure whose positive effects will continue throughout the duration of the loan.

Pre-tax profit totalled 266.1 million euro and was thus up by 49.6 million euro compared to 2018 (approximately +23%).

The Group's income taxes for the year amounted to 59.6 million euro (they amounted to 61.1 million euro in 2018). In addition to ordinary tax movements, the 2019 balance includes the net effect between current and deferred taxation (13.9 million euro) resulting from the exemption of higher amounts arising from the merger between Rete Gas Impianti S.r.l. and Rete Gas Impianti S.p.A. in 2018, the latter later merged into Rete Gas S.p.A. during 2019.

As a consequence of the above, the net income for the year was 206.5 million euro, up by 51.1 million euro compared to the previous year.
The financial position for the year is shown in the table below. This was obtained by reclassifying the statement of financial position in accordance with operational criteria.

Millions of euro	**31.12.2019**	**31.12.2018**	**Change**
	A	**B**	**A-B**
Net fixed assets	**3,560.8**	**3,474.3**	**86.5**
Property, plant and equipment	37.2	39.3	(2.1)
Rights of use IFRS 16	28.8	-	28.8
Intangible assets	3,760.8	3,682.3	78.5
Equity investments	3.3	3.5	(0.1)
Other non-current assets	57.7	57.7	(0.0)
Other non-current liabilities	(323.1)	(308.4)	(14.7)
Fair value of derivatives	(4.0)	-	(4.0)
Net working capital:	**67.2**	**39.4**	**27.7**
Inventories	23.5	23.9	(0.4)
Trade receivables from third parties	250.7	232.6	18.1
Net receivables/(payables) for income taxes	(1.9)	5.8	(7.7)
Other current assets	201.4	207.7	(6.4)
Trade payables to third parties	(186.3)	(207.6)	21.3
Other current liabilities	(220.1)	(223.0)	2.9
Gross invested capital	**3,628.0**	**3,513.7**	**114.2**
Other provisions	**18.4**	**73.3**	**(54.9)**
Post-employment and other employee benefits	43.6	45.6	(2.0)
Provisions for risks and charges	100.8	110.4	(9.6)
Net deferred taxes	(125.9)	(82.7)	(43.2)
Net invested capital	**3,609.5**	**3,440.5**	**169.1**
Assets held for sale	**3.0**	**32.7**	**(29.7)**
Liabilities held for sale	**0.1**	**6.9**	**(6.8)**
Equity	**934.6**	**825.7**	**108.9**
Net Financial Position	**2,677.8**	**2,640.5**	**37.3**

Net fixed assets, which mainly represent intangible assets related to gas distribution concessions, totalled 3,560.8 million euro, up 86.5 million euro compared to 31 December 2018 because of the standard trend in Group investments.

The new item "Rights of use" includes the rights of use of rented or hired assets which mirror the prerequisites established by IFRS 16. In particular, these rights, which at 31 December 2019 account for 28.8 million euro of the Group's fixed assets, relate to long-term contracts for the use of third-party assets on an exclusive basis, as required under IFRS 16 applicable since 1 January 2019. The related fixed assets are calculated as the discounted sum of future lease payments that the Group will be required to make under existing contracts until expiry thereof or until the most likely date of termination. The increase in "other non-current liabilities", amounting to 14.7 million euro, was due to collection and release to income statement movements pertaining to medium/long-term accrued liabilities for connection, property development, equipment relocation and network extension fees.
Finally, the fair value of derivatives showed a negative amount of (4.0) million euro due to the fair value measurement of the derivative contract entered into in August 2019 to hedge future issues of debenture loan tranches.

Net working capital totalled 67.2 million euro and increased by 27.7 million euro compared to the previous year.
Specifically, trade receivables increased by 18.1 million euro since they are linked to the trend in volumes transported in the last few months of the year compared to the previous year. The increase in other current assets and liabilities, with an impact on working capital in the region of 3.5 million, was due to ordinary market trends.
Trade payables, on the other hand, decreased by 21.3 million euro, resulting in a net impact between trade payables and trade receivables of 3.2 million euro, while the reduction in income tax receivables increased working capital by 7.7 million euro.
The change in inventories during the period did not have a significant impact on working capital.

Therefore, due to the combined effect of the changes in net fixed assets and net working capital, gross invested capital increased by 114.2 million euro from 3,513.7 million euro in the previous year to 3,628 million euro at 31 December 2019. Of these 114.2 million euro-, 28.8 million euro related to the recognition of rights of use according to IFRS 16, with a corresponding entry in Group's financial payables.

Sundry provisions, totalling 18.4 euro, were down 54.9 million euro overall, largely due to changes in the provision for deferred taxes, which were down 43.2 million euro chiefly due to the exemption of the goodwill generated from extraordinary transactions completed in the previous year, in addition to deferred tax patterns relating to business operations.

Therefore, net invested capital increased from 3,440.5 million euro in the previous year to 3,609.5 million euro, up by 169.1 million euro.

Assets and liabilities held for sale include assets totalling 3.0 million euro relating to the San Gillio and Givoletto concessions, which were held for disposal following ATEM Turin 2 tender being awarded to another operator. In the previous year, this item included assets and liabilities relating to the business unit dealing with the concessions of ATEM Bari 2 and Foggia 1, which were held for sale.

Equity rose from 825.7 million euro in 2018 to 934.6 million euro at 31 December 2019, due to the net impact of the following changes:

- 93 million euro decrease following the ordinary dividend payout;
- 4.6 million euro negative change in the reserves for derivative instruments and other reserves, net of the relevant tax impact;
- 206.5 million euro increase following the recognition of the result at 31 December 2019.

Minority interests stood at 1.5 million euro as at 31 December 2019.

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

Millions of euro	Notes	**31.12.2019**	**31.12.2018**	**Changes**
Medium-/long-term bank loans	27	(406.8)	(425.0)	18.2
Medium-/long-term debenture loans	27	(2,265.0)	(2,532.1)	267.1
Short-term debenture loans	33	(267.1)	(362.8)	95.7
Cash and cash equivalents with third parties	22	353.3	686.4	(333.0)
Short-term financial receivables	20	1.3	1.4	(0.1)
Other current financial assets	21	0.9	0.2	0.7
Short-term payables due to banks	33	(40.0)	0.1	(40.1)
Current portion of medium-/long-term loans	34	(18.2)	-	(18.2)
Current financial liabilities	38	(20.0)	(23.3)	3.2
IFRS 16 Non-current financial liabilities	31	(22.5)		(22.5)
IFRS 16 Current financial liabilities	39	(6.1)		(6.1)
ESMA net financial position		**(2,690.3)**	**(2,655.1)**	**(35.2)**
Non-current financial assets	16	0.7	0.7	(0.0)
Adjusted net financial position		**(2,689.6)**	**(2,654.4)**	**(35.2)**
Non-current financial assets - costs on loan	16	0.9	0.3	0.5
Adjustment of payables due to costs on ST loan (IAS 39)	38	0.0	0.3	(0.3)
Adjustment of payables due to costs on MLT loan (IAS 39)	27	10.9	13.2	(2.3)
Net Financial Position		**(2,677.8)**	**(2,640.5)**	**(37.3)**
Negative fair value of derivatives	38	(4.0)	-	(4.0)
Accounting net financial debt		**(2,681.8)**	**(2,640.5)**	**(41.3)**

The net financial position moves from 2,640.5 million euro in 2018 to 2,677.8 million euro at 31 December 2019. The adjusted net financial position instead went from 2,654.4 million euro to 2,689.6 million euro, due to the standard business trend.
To a significant extent, the increase was due to financial liabilities arising following the application of IFRS 16, which had a negative effect on the year totalling 28.6 million euro.

The statement of cash flows enables representation of the change in adjusted net financial position determined in accordance with the criteria used mainly by rating agencies.
The cash flows in the year reflected the standard business trend, both as regards the net financial position and as regards operations.

5. Regulatory and tariff framework

In addition to industry laws and regulations, natural gas distribution is specifically regulated by the Regulatory Authority for Energy, Networks and Environment – ARERA. The Authority regulates the sectors it is responsible for through specific provisions, which specifically involve determining and updating infrastructure service tariffs, as well as defining the supply levels of these services and the rules for non-discriminatory access and use of the infrastructure.

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

5.1 Regulation

2019 saw the completion of the the first year of activity of the new Board of the Authority, which took office on 30 August 2018. In the first part of the year, the Board mainly focused on updating its 2019-2021 Strategic Framework, which was eventually approved and published in June (Resolution No. 242/2019/A) following consultation with the stakeholders in April and May and public hearings held in May. The Strategic Framework sets out the guidelines that will guide the Authority's activities, outlining the strategic objectives and the main lines of action for the 2019-2021 period, consistent with the national and European industry outlook.

In addition to the overarching goal of consumer protection — which is in line with its institutional purposes and applies across the board to all regulated sectors, and further given the need for consumers to act more and more as informed players in the energy and environmental landscape — the Strategic Framework pursues, with respect to the energy area, the following objectives: effective development of energy markets (as part of an increasingly Europe-wide integrated policy), selective development and efficient use of energy infrastructure, promotion of a consistent framework of European and national regulations. All these objectives need to be pursued based on system innovation-oriented regulatory approach .

During the year, the Authority issued a number of measures relevant to the Group concerning the gas sector. Among these, of specific relevance to the gas distribution sector were several resolutions on (i) tariffs and the quality of distribution and metering services (aimed in particular at defining the regulation of tariffs and quality for the new 2020-2025 regulatory period), (ii) gas metering and smart meters, (iii) energy efficiency objectives and contribution to the obtainment of white certificates by distributors who are required to do so, (iv) access to the gas distribution service and regulations pertaining to gas settlement, including through the Integrated Information System (IIS), (v) data exchange between operators and with the IIS, (vi) amendments to the directives for the connection of biomethane production plants

to the natural gas networks and incentives for the production of biomethane, (vii) social bonuses (electricity, gas and water), (viii) the application of regulations governing tenders for the award of gas distribution service contracts and, finally, (ix) controls on operators.
As part of its briefs and contributions to the relevant Parliamentary Commissions regarding issues related to the regulated sectors, ARERA also submitted its considerations on the prospects for implementing and adapting the National Energy Strategy to the 2021-2030 Italian National Integrated Plan for Energy and the Climate (PNIEC).
The Authority finally issued several provisions on water services, which affect the Parent Company's residual water management situations.

Regulation on tariffs for the gas distribution and metering service

During the course of 2019, ARERA developed the procedure – initiated by Resolution 529/2018/R/gas – to define the regulation on tariffs and quality of gas distribution and metering service for the fifth period of regulation. The procedure was developed based on a three-step consultation phase. The first phase (Consultation Paper No. 170/2019/R/gas) covered lines of action on tariffs and (technical and commercial) service quality, while the other two covered, more specifically, guidelines for the regulation of service quality and the regulatory period term (Consultation Paper No. 338/2019/R/gas) and guidelines on tariff regulatory criteria for the new regulatory period to be started as of 2020 (Consultation Paper No. 410/2019/R/gas), respectively.
Following consultations, at the end of December (Resolution 570/2019/R/gas), the Authority approved the tariff regulation for gas distribution and metering services (RTDG) for the 2020-2025 period, confirming a 6-year regulatory period term, with two 3-year half periods.
As regards capitalisation, the Authority maintained the criterion whereby investments are recognised ex-post, but confirmed, on the one hand, its intention to introduce – starting from investments made in 2022 (2023 tariff) – an incentive regulation for capital costs related to new gas distribution investments, based on a standard cost recognition rationale (as is in fact the case for metering in relation to new investments in smart meter gas) and, on the other hand, the inclusion of a cap (introduced by Resolution No. 704/2016/R/gas – € 5,250 per redelivery point) for the recognition of investments per redelivery point in newly-methane-converted areas, even though it announced revised methods of application, extending to the 6th year the time horizon for the final audit on the level of investment made in relation to redelivery points activated. These provisions are of particular relevance to subsidiary Cilento Reti Gas S.r.l., which is deploying new methane supplies in several municipalities of Cilento.
With regard to gas distribution-specific WACC components (beta and gearing), beta was maintained at the

same level as in the previous regulatory period (measuring beta being aligned with such level). Gearing, which was already updated in 2019 on the occasion of the revision of WACC basic parameters for all regulated infrastructure services, was likewise confirmed for the first-half of the regulatory period, i.e. until 2022. With regard to the treatment of "suspended" contributions, following discussions during the consultations, the Authority adopted a positive gradual approach, aligning the time horizon for their write-off with that of contributions already released in the previous regulatory period.

With regard to operating costs, the application of the "price cap" method was maintained, with an initial level of recognised cost equal to the average of actual costs and costs recognised in 2018, such figure being then carried forward to 2020 and adjusted based on inflation and the X-factor for 2019 and 2020. By the end of the regulatory period, (i) the efficiencies achieved in the previous regulatory period are expected to be fully transferred to end customers and (ii) half of the differentiation of the costs recognised by company size is expected to be gradually absorbed, with the adoption of X-factor values appropriate for such a convergence, although decreasing within the period. At the start of the regulatory period, this will result in a significant reduction in OPEX recognised for the distribution service. As to metering, the Authority applied, by converse, a slight upward adjustment of recognised OPEX, keeping the X-factor still at 0% for the first half-period (2020-2022).

With regard to metering, provisions have also been set forth to allow the complete recovery of investment costs relating to traditional class G4 and G6 meters replaced by new electronic meters, due to a reduction, as of 2014, of the relevant regulatory service life from 20 to 15 years. As regards the tariff regulation applicable to isolated networks powered with LNG or stationary tanker trucks, effective 2021 these networks will be treated in the same way as networks powered with gas other than natural gas. Upon specific request, it will be possible to continue to apply (temporarily for a maximum of 5 years, as of 2021) the tariff regulation governing natural gas distribution networks interconnected with the transport network if an approved project for interconnection with the national transport system is in place.

By Resolution No. 570/2019/R/gas, the Authority also announced the adoption — in 2020 — of a measure concerning incentives operator combinations, including both pro-competitive measures for the growth of operators in individual ATEMs and measures for general combinations, independent of the size of the company that carries out such combinations, with possible adjustments depending on the size of the parties involved in combination deals. Finally, with regard to the question submitted for consultation pursuant to Consultation Paper No. 410/2019/R/gas concerning the definition of guidelines for the conduct of cost-benefit analyses as under Ministerial Decree 226/11 in respect of tenders for the award of distribution services by municipal area, the Authority decided to carry out further investigations with the distribution companies and the local licensing authorities in relation to the preparation of such guidelines, as part of a specific procedure for the adoption of a measure in this regard.

In 2019, the Authority also set the final tariffs for distribution and metering services for 2018 (Resolution 98/2019R/gas and 127/2019/R/gas) on the basis of the definitive financial data for 2017 as communicated by the companies, the provisional tariffs for 2019, on the basis of the provisional data for 2018 (Resolution 128/2019/R/gas), the usual periodic updates of some tariff components (general system charges for the natural gas sector and tariffs for other gases) and, at year end, the mandatory tariffs and bi -monthly equalisation payments on account for natural gas distribution and metering services for 2020.

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

Regulation on quality for the gas distribution and metering service

As mentioned earlier, during the course of 2019 ARERA developed the procedure — initiated by Resolution 529/2018/R/gas — to define the regulation on the quality of gas distribution and metering service for the fifth period of regulation, together with the regulation on tariffs. After the first phase of consultation (pursuant to Consultation Paper No. 170/2019/R/gas) concerning lines of action on tariffs and on (technical and commercial) service quality, the Authority started a process for more specific consultations regarding the guidelines on the regulation of service quality for the new regulatory period starting in 2020 (Consultation Paper No. 338/2019/R/gas). Following consultations held, at the end of December (Resolution No. 569/2019/R/gas), the Authority approved the regulation governing the quality of gas distribution and metering services (RQDG) for the 2020-2025 period.

With regard to technical quality, decisions were made to update service requirements concerning cathodic protection of steel networks and introduce a new service requirement on leak elimination time. An obligation was introduced to install equipment to monitor operating pressure on low-pressure networks (to be completed by 2022 and with capitalised costs for pressure detection instruments being recognised ex-post, such instruments to be included in the “pipeline” type of assets). However, no significant changes were made to the bonus/penalty mechanism applicable to plant security, as only minor adjustments were made to the values of some specific application parameters.

With regard to commercial quality, notwithstanding the suggestions arisen from consultations and further in the light of the comments received, it was decided that no changes should be made (until 2022) to the standard turnaround time for the supply of services subject to automatic compensation in

the event of non-compliance, while any review of the standards relating to cost estimate lead time for any work to be performed was postponed to 2023.
The measure does not contain any provisions addressing the performance of metering data collection and its frequency, as they are expected to be set out in a later measure to be published in early 2020, coming into force on 1 July 2020. With regard to distribution network innovation, the Authority also set out to address this issue at a later stage pursuant to provisions to be adopted following specific consultations on the matter concerning the introduction of measures aimed at supporting innovation in transport and distribution networks, with the relevant consultation paper being expected to be published at the beginning of 2020.
In March 2019, having performed all checks as required, the Authority set forth (Resolution No. 75/2019/R/gas) incentives and penalties in respect of service safety levels achieved by natural gas distributors for the year 2015 with regard to gas odorisation level measurements and leak reduction. Among almost 200 companies participating in the incentive scheme, 2i Rete Gas was awarded the highest overall incentive, underscoring a very high level of technical quality in managing its facilities.

Energy efficiency targets

As for energy efficiency targets and the relevant obligation to obtain Energy Efficiency Certificates (EEC, also called "white certificates"), in January, with Resolution 1/2019 DMRT, the data on the primary energy saving targets for 2019 assigned to electricity and natural gas distributors were defined and submitted to Italy's Ministry of Economic Development (MiSE) as well as Gestore dei Servizi Energetici (GSE) - a publicly-owned company promoting and supporting renewable energy sources in Italy (companies in the 2i Rete Gas Group were overall assigned a target corresponding to 706,000 white certificates)
At the end of May — following the publication (on 13 May 2019, i.e. almost at the end of the mandatory year) of the MiSE Executive Decree approving the operational guidelines prepared by the GSE on the issue of "virtual" energy efficiency certificates — the Authority (Resolution No. 209/2019/R/efr) approved, to the extent as lying within its province, the procedures for implementing the provisions on "virtual" EECs defined by the GSE. Meanwhile, starting from 2019, the Authority also changed the methods to determine the tariff to be assigned to the parties subject to the obligation of obtaining the EEC (as defined by previous resolution 487/2018/R/efr), establishing that, to determine the average price for trading certificates for the purposes of setting the contribution, for bilateral trades, only the weighting is considered with quantities of EECs traded at a price below €250/EEC (rather than, as envisaged previously, all the EECs traded through bilateral agreements are considered at the price of only the certificates traded in the so-called "relevant" price interval for the purposes of determining the contribution). Following this change was a corresponding

amendment of the regulations governing bilateral transactions (Resolution No. 273/2019/R/efr). In July, by Resolution 4/2019 – DMRT, the amount of the final tariff contribution for 2018 (€248.89/EEC) was set pursuant to the applicable definition criteria.
Subsequently, however, the Lombardy Regional Administrative Court (TAR), in proceedings dealing with an appeal lodged by a company against Resolution No. 487/2018/R/efr (decision issued on 28 November 2019), annulled the above resolution, as amended (i.e., including Resolution No. 209/2019/R/efr), and further ruled the inapplicability of Ministerial Decree dated 10 May 2018 — holding that it qualified as a prior measure — in the part where it set a € 250.00 cap in respect of the contribution to be granted to obligated parties for each EEC obtained. Therefore, this thwarted the entire procedure for determining the contribution to be extended to obligated parties for each EEC (including the measures introduced with Resolution No. 209/2019/R/efr of May 2019). As a result, by Resolution No. 529/2019/R/efr dated 10 December 2019, the Authority embarked on a process to reform the procedures for determining the tariff contribution to be granted to obligated distributors as part of the white certificate scheme, consistent with the ruling issued by the Lombardy Regional Administrative Court.

Regulation on the quality of the gas smart metering service

As mentioned in the previous paragraph, Resolution No. 569/2019/R/gas did not introduce new provisions regarding the quality of the metering service and, in particular, the performance of metering data collection and its frequency, such provisions being scheduled to be introduced as part of a later measure to be adopted during 2020.
By Resolution No. 493/2019/R/gas, at the end of November the Authority amended the terms and timing of the entry into force of the provisions relating to the centralised management of technical data collected from redelivery points and measurement data as part of the IIS, with reference to the gas sector — such provisions being established pursuant to Resolution No.271/2019/R/gas — extending to 1 June 2020 the deadline of 1 February 2020 that had been set previously.
With regard to electronic meters, in September the Authority completed the multiservice smart metering tests started with Resolution No. 393/2013/R/gas. Even though it considered the ensuing results as partial and and linked to the specific nature of the tests, the Authority published and disclosed the results with a view to gaining further insights for possible economies of scope and cost-effectiveness that could arise from a better coordination between sector regulations governing metering activities, as part of a synergistic effort. Still on the subject of smart metering, with Resolution No. 537/2019/R/gas, in December the Authority approved recognition of operating costs related to remote reading and

management systems and concentrators incurred from 2011 to 2016 by distribution companies that adopted buy or mixed solutions, further to the procedure started in 2018 following the submission of related recognition requests.
In December, as part of the related procedure started in 2017 (Resolution No. 82/2017/R/gas), the Authority also defined (Resolution No. 522/2019/R/gas) principles and objectives in relation to the process of reorganisation of gas metering activities at the points of entry and egress of the transport network (i.e., including the REMI stations of distribution networks), instructing the main national gas transmission operator (Snam Rete Gas) to submit a document outlining operational lines of action for public consultation.

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

With regard to the regulations governing the physical and economic items of the natural gas balancing service (aka "settlement"), the Authority approved (Resolution No. 148/2019/R/gas) the new "Consolidated act containing provisions governing physical and economic items of the natural gas balancing service (TISG)" – replacing the previous act approved by Resolution No. 72/2018/R/gas – to implement the new rules on interim statements and the new provisions relating to the management of commercial relations as part of the IIS, which were adopted at the same time (Resolution No. 155/2019/R/gas). With regard to provisions governing relations between distribution companies, network users (retailers who use the network distribution networks and wholesalers who use the transport network) and the entity responsible for balancing gas volumes across the transport network, following consultations held in 2018, the Authority adopted provisions aimed at underpinning new procedures for managing the mapping of commercial relations between retailers and wholesalers, relying on a process whereby matching relations between retailers and redelivery points of the distribution network are updated through the IIS, which is expected to become operational with reference to matching relations valid as from 1 January 2020

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

Also, in 2019, the Authority continued the adoption of provisions aimed at the gradual extension, to the gas sector, of the SII, which has already been launched for the electricity sector and aimed, in the intention of the Authority, to facilitate information flows between energy distributors and sellers in many of the processes that they manage.
By approving the provisions relating to the process whereby redelivery point technical data and measurement data are fed into the IIS (Resolution No. 271/2019/R/gas, as later amended by Resolution No. 493/2019/R/gas), the Authority arranged, accordingly, for

changes to be made to the communication standards for the exchange of information between operators engaging in the gas sector (as further detailed with Resolution 6/2019 – DMRT).
In conjunction with the development of the IIS, the Authority started (Resolution No. 173/2019/A) a process for reviewing the Consolidated act on retail monitoring (TIMR), the purpose of which is, among other things, to ease disclosure obligations on the part of the operators by processing data sourced from the IIS.

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

As for the regulation regarding the injection of biomethane in the network, with the cancellation of the standstill provision following the publication of CEN EN 16723-1, implemented in Italy with the publication of UNI EN 16723-1, the Authority started proceedings to implement the provisions of Ministerial Decree of 02.03.2018 regarding incentives for the production of biomethane, which also includes the proceedings started in 2017 to update the directives for the connection of biomethane plants to natural gas networks. With its Resolution 27/2019/R/gas, the Authority updated the directive for biomethane plant connections to natural gas networks and implemented the provisions of the Ministerial Decree of 02.03.2018 regarding biomethane production incentives.

Provisions enabling the regulation for gas distribution service tenders

With regard to audit procedures lying within its province, the Authority adopted measures concerning observations on the amount of repayment and/or the tender documentation submitted by the contracting authorities for certain ATEMs (Modena 1, Naples 1, Prato, Rimini, Genoa 2).

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

During 2019, some changes were approved regarding the procedures for applying the compensation schemes for expenses incurred by indigent domestic customers for electricity, gas and water supplies (following, among other things, new provisions adopted on the establishment of the "citizen's basic income" and to amend the Equivalent Economic Status Indicator (locally known as ISEE) threshold granting access to social bonuses as of 1 January 2020). More specifically, by Resolution No. 165/2019/R/com, changes were introduced to the Consolidated acts on the procedures for applying the compensation schemes for expenses incurred by indigent domestic customers for electricity and natural gas supplies (TIBEG, to gain access to the electric and gas social bonus) and for water supply (TIBSI, to gain access to the water social bonus). The underlying purpose of such changes was to simplify, for the different stakeholders involved, the processes for discharging formalities for granting subsidies, including in relation to the provisions of Article 5(7) of Law Decree No. 4/2019, written, as amended, into Law No. 26/2019.

Checks on operators

As regards checks on operators, the Authority organised the usual annual campaign of telephone checks (50 checks) and inspections of gas distribution companies in regard to the regulation on the gas emergency service, as well as the usual campaign of technical controls (50 controls) on the level of odorisation, the effective gross calorific value and the gas pressure, to be carried out between 1 October 2019 and 30 September 2020.
The Authority also implemented two inspection visit programmes, each designed to (i) establish the accuracy of the data and the appropriateness of the procedures used by distribution companies in relation to the natural gas balancing service (*settlement*), contemplating a total of 4 audits to be performed by 31 March 2020, and (ii) ensure compliance with IIS-related requirements by companies engaging in sales and distribution activities in the electricity and natural gas markets (2 audits to be performed by 30 June 2020).

Water services

As regards water services, in 2019, the Authority adopted different provisions regarding the regulation of tariffs and the quality of the integrated water service as well as other aspects (such as regulating overdue payments and implementing in the water sector the system of safeguards in case of claims and for out-of-court settlement of disputes which is already active in the electricity and gas sectors), with impacts also on the remaining water services managed by the Parent Company.

5.2 Other significant events and/or aspects

Major activities carried out by the Authority which, however, did not have a direct impact on the Group's operations include:

- Pending completion of the procedure for establishing the incentives and penalties in respect of the safety levels achieved in 2016 by natural gas distributors and based on the steps already taken in 2018 regarding 2015 incentives, in July the Authority introduced (Resolution No. 305/2019/R/gas) the option of receiving an advance payment to the extent of 80% of the total net amount of the bonuses due (mathematical balance of bonuses and penalties) based on the outcome of the preliminary investigation carried out by the Authority. The approval and supply of the incentives referring to 2016 should be completed in the first few months of 2020, with the subsequent start of the work to determine the amounts of the bonuses/penalties also for subsequent years, as from 2017.
With the aim of coordinating its regulation with the innovations on electronic invoicing introduced by Italian Law 205/2017, the Authority established

with Resolution 246/2019/R/com changes and integrations to the measures already implemented at the end of 2018 (Resolution 712/2018/R/com) to manage, among other things, the invoicing documents and related attachments regarding the gas distribution service issued to sale companies.

- With a view to developing an output-based regulation, in June the Authority approved (Resolution 230/2019/R/gas) the application criteria for the cost-benefit analysis of development operations across the natural gas transport network, with some aspects also being of relevance to gas distribution.
- With regard to Resolution No. 626/2016/R/gas of November 2016 — whereby for some areas whose assets were owned by local authorities, and further to investigations conducted following the inspection visit carried out in June 2011, it was decided to reassess, as a matter of course, the applicable tariffs in respect of certain years starting from 2009 — in the light of the outcome of the appeal filed by the Company, which proved to be favourable to the latter in proceedings held both before the Regional Administrative Court and the Council of State, resulting in the annulment of Resolution No. 626/2016/R/gas — the Authority in November, in accordance with decision of the Council of State No. 3475/2019, notified 2i Rete Gas of the validity of the tariffs originally assessed for the areas concerned during the years spanning 2009-2016, together with the need to reassess for such areas the tariffs for the years spanning 2017-2018, which had been previously assessed based on the annulled resolution.
- As mentioned in the paragraph pertaining to energy efficiency objectives, the Executive Decree of MiSE approving the operational guidelines prepared by the GSE with regard to the issue of "virtual" energy efficiency certificates was published as late as 13 May 2019, close to the expiry of the mandatory period set at 31 May. Contrary to expectations, and with no possibility of reversal given the imminence of the expiry of the mandatory period on 31 May, the aforesaid decree introduced a different and more restrictive method of application as compared to the guidelines the operators had relied upon during the mandatory period in an effort to obtain the certificates. In this connection, 2i Rete Gas S.p.A. — which had in fact informed MiSE, GSE and ARERA of the considerable and lasting criticalities in reaching the quantitative energy efficiency targets, given the little amount of certificates available on the market (at prices, moreover, well above the maximum amount of the contribution paid to the obligated parties) and with no operational guidelines on "virtual" EECs being available despite almost a year-long wait — saw the GSE reject its application for the issuance of "virtual" EECs in an amount equal to the volume of certificates required to meet the minimum obligation under Article 14(3) of Ministerial Decree dated 11 January 2017 (with reference to 2018 and the residual portion of 2016), although it had already met 30% of such

minimum obligation pursuant to Article 14(a)(3) of the aforesaid decree. As a result, the Company disputed the rejection by GSE and MiSE and subsequently appealed against the measures that had not allowed it to fully meet its energy efficiency obligations in respect of the residual portion pertaining to 2016.

Pending the outcome of the appeal, ARERA meanwhile ordered (Resolution No. 45/2019/efr – DSAI dated 19 December 2019) that sanctions be inflicted on 2i Rete Gas S.p.A. for non-compliance with energy efficiency certificate obligations in relation to 2016, on the basis of the information provided by the GSE at the end of June 2019 about the results of the audits conducted on the achievement of energy efficiency objectives by the obligated parties.

During 2019, the Authority performed numerous consultations on issues regarding gas distribution both for the Company or its subsidiaries, with the publication of documents in regard to which the Company has put forward its observations and proposals on all the issues which it considers relevant.

Provisions and/or other events subsequent to 31 December 2019

After 31 December 2019, regarding the provisions adopted at the beginning of 2019 (Resolution No. 32/2019/R/gas) in compliance with Council of State Decision No. 4825/2016 annulling Resolution ARG/gas 89/10, in order to regulate the terms whereby the raw material price difference for the period 2010-2012 was to be returned to the sellers, with the corresponding revenue being expected to be collected through a sub-component of the UG2 component of the distribution tariff to be applied (as of 1 April 2019) to all redelivery points relating to customers whose gas supply contract contemplated a consumption of up to 200,000 Sm3/year, the Lombardy Regional Administrative Court, following an appeal filed by Confartigianato, partially annulled the provisions in question, deeming the option of socialising costs to be legitimate but contesting, precisely because of the general nature of the interests protected by socialisation, the non-general perimeter to which it was applied, i.e. only to customers with consumption of up to 200,000 Sm3/year. The Authority, unless there are further judicial developments, will therefore be required to review the application of the sub-component of the UG2 component of the distribution tariff, extending its application to all end customers, regardless of their annual consumption.

On the subject of new methods of managing commercial relations in the gas supply chain, where no valid retailer-redelivery point matching relation exists, the Authority — having identified a significant number of cases where non valid matching relation exists for a variety of wholesalers, resulting in the possible activation of services of last resort for a very high number of redelivery points — temporarily suspended (i.e., until 1 March 2020) the entry into force of some provisions related to the new procedures for managing matching relations between retailers and redelivery points, arranging at the same time (until 31 March 2020) for a default

transport service to be delivered for redelivery points lacking a valid retailer-redelivery point matching relation (Resolution No. 9/2020/R/gas).
By Decision No. 780/2020, published on 30 January 2020, the Council of State rejected the appeal filed by subsidiary Cilento Reti Gas S.r.l. against Decision No. 1202/2018 issued by the Lombardy Regional Administrative Court, which rejected the appeal filed by the aforesaid company against Resolution No. 704/2016/R/gas concerning the cap set for the recognition of investments made in redelivery points in areas where new methane supply had been deployed (such provision being later confirmed also for the 2020-2025 regulatory period with Resolution No. 570/2019/R/gas, albeit reference was also made to a review of the related application methods, as mentioned in the previous paragraph "Regulation on tariffs for the gas distribution and metering service").
By Consultation Paper No. 39/2020/R/gas published on 12 February 2020, the Authority started consultations as expected on the introduction of measures designed to support innovation and enhance transport and distribution networks, such consultations being scheduled to continue until 31 March 2020.

5.3 Tariff framework

In 2019, the distribution and metering tariffs continued to apply in accordance with the principles established in Resolution 367/2014/R/gas for the fourth regulatory period (2014-2019), in which the revenue elements related to remuneration and amortisation and depreciation are determined on the basis of the annual update of the net invested capital (RAB), taking account of the (net) investments made in the year t-1. The principles of the aforementioned Resolution were partially amended by Resolution 583/2015/R/com, which introduced a revised method for calculating the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors and partially by Resolutions 775/2016/R/gas and 904/2017/R/gas in reference to operating costs, the costs of meter checks, the costs for the remote reading/remote management/concentrator system ("TEL" and "CON") and to the standard costs of investments in G6 or below meters.

The invested capital of the distribution companies (RAB) continues to be broken down into localised invested capital and centralised invested capital. The evaluation criterion for localised invested capital in distribution and metering is based essentially on the revised historical cost method, except for new investments in smart meters whose cost is determined as the weighted average between actual cost and the standard cost set by the Authority, with weights for the 2019 tariffs respectively of 60% and 40%.
The valuation criterion for centralised invested capital is based on a parametric method, except for assets regarding remote metering/remote management/concentrator systems, which are

valued at effective cost. However, starting from the 2018 tariffs, the invested capital of such assets takes account of a ceiling that includes the remuneration of capital and the recognition of operating costs.
The rate of return on capital invested (WACC) in respect of natural gas distribution and metering operations is, for the year 2019 only, set by Resolution No. 639/2018/R/com at 6.3% and 6.8%, respectively.

As for operating costs recognised by the Authority on the basis of the opening levels of the operating costs (by company size and customer density) and established in Resolution 367/2014/R/gas, these were updated with inflation and subjected to an X-factor of 1.7% for large companies and 2.5% for small/medium sized companies for the distribution service and 0% for the metering and marketing service for 2017-2019. Since 2018 the costs for metering checks have been remunerated on the basis of the costs effectively incurred.

The "definitive" annual reporting on the investments for the purposes of determining the net invested capital of distribution and metering (RAB) for 2019 occurred regularly by computing capital changes in the previous year. The Authority will publish the "final" 2019 tariffs including the above-mentioned changes in the first months of 2020, and CSEA will apply them to the equalisation, which is scheduled to be calculated and settled by the end of 2020.

From the point of view of the work on resolutions, during the first half of 2019 the Authority proceeded with Resolution 98/2019/R/gas, integrated with Resolution 127/2019/R/gas, to determine the "final" reference tariffs for gas distribution and metering services for 2018 and with Resolution 99/2019/R/gas to redetermine some location tariffs of some operators for 2011-2017. In the same period, with resolution 128/2019/R/gas, the Authority set the "provisional" reference tariffs for natural gas distribution and metering services for 2019.
Similarly, on the basis of the relevant resolutions, the tariff components destined to cover the system costs of the gas sector (RE, RS, UG1, GS, UG2) were updated.
In December, the Authority published, with Resolution 571/2019/R/gas, the 2020 mandatory tariffs for invoicing natural gas distribution and metering services, the amount of the bi-monthly equalisation payments on account, and the tariff options for gas other than natural gas. The same Resolution also approved the maximum amount that can be recognised in the tariff for higher costs arising from concession fees (COL) to be paid to municipalities pursuant to art. 46 bis of Italian Law Decree No. 159/2007.

Following Resolution No. 529/2018/R/gas – whereby the Authority opened a procedure for drafting measures on tariffs and quality for the supply of gas distribution and metering services in the 2020-2025 regulatory period – in 2019 the Authority com-

pleted consultations with the operators (Consultation Papers 170/2019/R/gas, 410/2019/R/gas and 487/2019/R/gas), publishing the final measure with Resolution 570/2019/R/gas on 27 December 2019. This resolution set the initial levels of operating costs and X-factors. More specifically, as regards operating costs, the initial level was established on the basis of the separate annual accounts of the Unbundling Financial Statements of the operators, broken down by company size and customer density, remunerating operating costs as the weighted average between the costs actually incurred and the costs recognised in the previous regulatory period. As regards capital costs, it should be noted that the WACC figure of both services was unified and set at 6.3% for 2020 and 2021. With regard to the evaluation of the new investments, starting from investments made in 2022 (tariff year 2023) a standard cost recognition method will be applied to distribution. With regard to the metering service, on the other hand, the evaluation of new investments on electronic meters was confirmed as a weighted average between the actual cost and the standard cost set by the Authority. Under the same Resolution, the Authority completed the regulatory framework of the portion of public and private contributions as at 31 December 2011 started with Resolution No. 573/2013/R/gas, envisaging complete amortisation thereof based on a 40-year useful life.
Finally, in relation to start-up areas affected by Resolution No. 704/2016/R/gas, effective 2018 a cap will be applied to the recognition of investments made in areas where access to gas is first provided, as pursuant to Resolution No. 570/2019/R/gas. The measure includes audits to be performed in several stages, up to the sixth year, to establish whether such cap is exceeded.

As for activities directly concerning the Group, it is noted that the Authority with Resolution 541/2017/R/gas had retroactively redetermined, as from 2009 and up to 2013/2015, the reference tariffs for a list of locations which were subject to inspection in June 2011, where the local authorities are owners of parts of the methane gas distribution networks. Following the appeal presented to the Regional Administrative Court of Lombardy, with sentence no. 733 of 15 March 2018 the company's arguments were held as valid. This sentence was challenged by the Authority which appealed to the Italian Council of State. Following the public hearing on 14 March 2019, sentence no. 3475/2019 of 28 May 2019 was published and rejected the appeal brought by the Authority. On 30 December 2019, the sentence became final.

6. Concession development and operation

Despite the regulatory changes in 2017 aimed at simplifying the process and further given the lack of action — albeit Regional Authorities and, should they fail to do so, the Ministry for Economic Development (Law Decree 69/2013, Article 4(2)) are required to intervene by law under Article 3(1) of Law 226/11, as amended from time to time — the backlog of ATEM calls for tenders to be announced by the Contracting Authorities continued to increase. During the course of 2019, two ATEM calls for tenders were announced, one for ATEM Turin 1 – City of Turin (first half-year) and one for Naples 1 – City of Naples and Coastal System (second half-year).

As at 31 December 2019, in relation to the 18 ATEM tenders on the ARERA dashboard, the instrument which sets out the information regarding the outcomes of the analysis of tender documentation sent by the contracting authorities as set out in article 9, para. 2 of Ministerial Decree no. 226 of 12 November 2011, the situation was as follows:

- two tenders were completed with final assignment: Milan 1 – City of Milan (though sub judice) and Turin 2 – Plant of Turin;
- there were three previously called tenders for which the evaluation of the offers presented is still ongoing by the tender commission: Belluno, Udine 2 and Valle d'Aosta;
- there were seven tenders for which ARERA has temporarily deferred the analysis of the tender with a request for additional documentation: Florence 1-Florence 2, Genoa 1, Lucca, Massa and Carrara, Modena 1, Verona 2 and Vicenza 3;
- there are four tenders for which ARERA has completed the analysis of the tender documentation sent by the contracting authorities and, thus, the related announcements could be published: Rome 1, Venice 1, Forlì and Cesena, Modena 1.

On the other hand, the terms for the submission of bids for ATEMs Naples 1 – City of Naples and Coastal System (about 374,000 active users and contract value falling in the region of 652 million euro) are still pending, with the relevant calls for tender being announced on 23 August 2019 and the deadline for the submission of bids being set on 31 March 2020.

As for so-called "non-ATEM" tenders, during 2019 the following procedures were called:

- the concession, following project financing tendered and completed during 2018, of the final and executive design, works management and safety coordination for the realisation of reclamation work and concession of the distribution plant in the municipality of Cellole (CE), on 12 March 2019
- the concession of the natural gas distribution service in the municipality of Castel San Giorgio (SA), on 06 May 2019
- the concession of the natural gas distribution service in the municipality of Villa Santa Maria (CH), on 06 May 2019

- the concession of the natural gas distribution public service in the municipalities of Ortezzano (FM), Montelparo (FM), Monte Vidon Combatte (FM), Monte Rinaldo (FM) and Montalto delle Marche (AP), on 21 May 2019
- the concession of the natural gas distribution service in the municipality of Cisliano (Milan) on 31 July 2019, with 2iRG filing an appealing with the Regional Administrative Court against the announcement of this call for tender. A substantive hearing was scheduled to be held on 25 March 2020.

6.1 Participation in ATEM tenders

On 30 September 2019, 2i Rete Gas S.p.A. submitted a bid as part of the ATEM Udine 2 tender. On 23 December 2019, the first public session was held, during which the Contracting Authority verified that both bidders, i.e. 2i Rete Gas S.p.A. and AcegasApsAmga S.p.A., had provided appropriate administrative documentation and both were admitted to the next phase. A Tender Committee is expected to be appointed and the ensuing public meeting for the opening of the technical bids is expected to be held.

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

As for the tender for Milan 1, following the announcement of the final award to another distributor (Unareti S.p.A., a company in the A2A group) communicated on 03 September 2018, 2i Rete Gas S.r.l. on 03 October 2018 notified its appeal against the tender documents and the final award, as well as against the refusal of the Contracting Authority for full access to the tender documents.

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

With regard to the appeal against the tender documents and the final award to Unareti S.p.A., the Regional Administrative Court of Milan, by Decision No. 2598 issued on 5 December 2019, partly upholding the appeals filed by both bidders excluded both Unareti S.p.A and 2i Rete Gas S.r.l., ordering that the tender be rescheduled. Rete Gas S.r.l. and the Municipality of Milan as well as Unareti S.p.A. filed an appeal with the Council of State against the aforesaid decision. The hearing of oral arguments in respect of the appeal lodged by Unareti S.p.A. has already been scheduled for 9 July 2020. It is therefore extremely

likely that all three appeals will be discussed on that date.
As regards the Belluno tender, in May 2019 proceedings got underway as the Tender Committee started to assess the four bids submitted (in addition to 2i Rete Gas S.p.A., bids were also submitted by Italgas Reti S.p.A., Ascopiave S.p.A. and Erogasmet S.p.A.). The assessment proceedings ended on 4 December 2019 with a final public session, during which the final ranking was drawn up, with Italgas Reti S.p.A. being the successful bidder, while AP Reti Gas S.p.A. ranked second, 2i Reti Gas S.p.A. ranked third and Erogasmet S.p.A. finished last. Final award was pending.

Also during 2019, the Group has been preparing and transmitting to the Municipal Administrations and/or the Contracting Authorities that requested it all the necessary documentation pursuant to Article 4 (Disclosure obligations for operators) and Article 5 (Compensation to the outgoing operator) of Italian Ministerial Decree 226/2011 in order to draft and subsequently issue the call for tenders. It is information which, should it be necessary, must be updated.

6.2 Participation in "non-ATEM" tenders

2i Rete Gas S.p.A. on 10 July 2019 presented an offer for the tender called by the Municipality of Castel San Giorgio (SA), with around 1,250 active users, contract value around 5.1 million euro and 12-year duration as from the date of the signing the handover document, in relation to which on 27 September 2019 final awarding of the contract to Italgas Reti S.p.A. was formalised.

As for the tender called by the Consorzio della Media Valtellina per il Trasporto del Gas regarding the assignment of the technical management service of the network and the methane gas transport systems in Alta Valtellina, a service which was previously managed by 2i Rete Gas S.p.A. under the award of the previous procedure on 1 January 2015, the final assignment has been confirmed and the contract was finally signed on 26 November 2019.

6.3 Participation in tenders for the acquisition of companies

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

In this regard on 02 August 2018 the tender was called by the Municipality of Gaggiano (MI) for the sale of 100% of the shares of ASGA S.r.l., a company which manages the methane gas distribution service in the municipality of Gaggiano (MI), serving around 4,300 users, with the presentation date for participation on 17 October 2018.
Since no offers were received, on 2 January 2019 the Contracting Authority called the tender again, reducing the minimum bid and with 25 January 2019 as the new date to present any request to participate.
On 28 January 2019 2i Rete Gas S.p.A. received formal communication from the contracting authority of admittance to

the restricted stage of the procedure with 26 February 2019 indicated as the date to present offers. On 21 February 2019 the contracting authority notified the deferral of the above deadline to 01 July 2019, a deadline which was further deferred to 30 September 2019 with a communication of 28 June 2019. This second procedure also resulted in no bids being submitted, as shown in the notice sent by the Municipality of Gaggiano on 10 October 2019.

Following the submission of a non-binding bid and further to in-depth analysis, a bid was eventually submitted on 28 February 2020, such bid being binding on the company.

6.4 Concessions awarded

2i Rete Gas S.p.A., following the definitive assignment on 24 November 2017 of the tender called by the Municipality of San Nicola in Baronia (AV), as the lead municipality also for the municipalities of Carife, Castel Baronia, San Sossio Baronia, Campitella, Trevico, Vallata and Vallesaccarda, on 23 April 2018 signed the related service contract.
The outgoing operator S.I.DI.GAS S.p.A. notified on 12 March 2018 a writ of summons before the Court of Benevento to seek the condemnation of the Municipality or of 2iRG to pay the reimbursement value of the gas plants, which is not included in the tender call, for which the next hearing in the proceedings is set for 19 November 2019.
On 22 March 2018, the same company appealed to the Council of State against the sentence of the Regional Administrative Court of Salerno no. 276 of 21 February 2018, which had rejected on grounds of jurisdiction the appeal the company had made against the acts of the tender called by the Municipality of San Nicola Baronia. With its sentence no. 3217 of 29 May 2018, the Council of State accepted the appeal recognising the administrative jurisdiction, which had been rejected by the Regional Administrative Court of Salerno, and referred back to the same Court the decision on the merits of the appeal.
The Regional Administrative Court of Salerno, with its sentence no. 603 of 15 April 2019, accepted the appeal of S.I.DI.GAS S.p.A., thus annulling the tender.
On 10 July 2019, the Municipality of San Nicola in Baronia, in its capacity as the lead municipality of the other local authorities, appealed to the Council of State against the decision of the Regional Administrative Court of Salerno as above, without requesting suspension of the effectiveness of the sentence itself. Therefore, the dispute was not expected to be settled expeditiously.

6.5 Concessions lost

In the year, except for the concession portfolio of Murgia Reti Gas S.r.l., no concessions for methane gas distribution left the Group’s scope.

6.6 Concessions awarded

During the month of December, the acquisition of the Priero (Turin) Concession from Autogas Nord S.p.A. was completed with about 150 redelivery points, effective 1 January 2020.

6.7 Assets held for sale

On 13 December 2019, the sale of the 14 concessions for the distribution of LPG in 11 municipalities and related districts was completed, totalling approximately 2,000 redelivery points.

7. Support for gas transport activities

7.1 Main regulatory changes

As regards gas transport, also during 2018, ARERA issued several measures which are set out and explained in brief in section 5.2.
The processes and related upgrading of the company's information systems pertaining to legislation coming into force in 2019 were successfully implemented.

7.2 Relations with Traders and Customer Care

Major customers

In 2019, the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sales companies or traders).
The Group's main customers are Italian companies which are leaders on the gas market. In particular, Enel Energia was the only customer whose turnover exceeded 10% of the total during the year.

Commercial quality

The level of commercial quality is measured by means of a general company index showing the percentage of services not carried out within the standard time frames set by ARERA, pursuant to the provisions of Resolution 574/2013/R/gas and with reference to connections, reconnections, disconnections, quotations, and the execution of both simple and complex work.
The overall general quality index, pursuant to the provisions of Resolution No. 574/2013/R/gas, amounted to 0.31% and stood at 0.06% regarding specific levels – in line with the previous year (0.06%) – while it came in at 0.31% with regard to general levels (0.67% in the previous year, when it was affected by the acquisition of the Nedgia).

Requirements of the Integrated Information System

In the period, regulatory developments continued to expand and update the information and data in the Official Central Register [RCU] made available to the Integrated Information System.
More specifically, during the second half of the year the Group focused its efforts on identifying and correcting possible record mismatches between its database and the Official Central Registry (RCU) with the aim of minimising the number of mismatches and, as a result, enabling the activation of services of last resort, consistent with the Default Transport regulations pursuant to ARERA Resolution No. 155/2019/R/gas.
The legislative aim being pursued was to provide the IIS with a complete and accurate database to ensure the appropriate management of all commercial processes, with special reference to network access by selling companies, metering, settlement and social bonus, based on the principle of shared responsibilities

between the IIS and the distribution company.
During the first half of the year, in pursuance of the provisions set forth in ARERA Resolution No. 488/2018/R/gas, the processes and related information flows relating to the delivery of all measurements, with the exception of technical readings, to the IIS through the "Next Cloud" platform were upgraded. As a result, effective 1 May 2019 the experimental phase ended, thereby causing the obligation to provide measurement data directly to the selling companies to be no longer applicable as of that date.
Furthermore, the "transitory" process was defined for the supply, by the distribution companies, of the data used to calculate the so-called "annual consumption" by redelivery point, valid for the thermal year 2019-2020.
The process for implementing Resolution No. 593/2017/R/com on IT systems was completed. This Resolution introduced the indemnification system in the natural gas sector, including the management of the eligibility process for the seeking the suspension of the indemnity and the related communication flows with the IIS in force as of 1 July 2019, as well as the acknowledgement and payment of indemnities to the selling companies.
As a matter of fact, the objective of the reform is recognition of compensation to the user of the outgoing distribution service with reference to the credit relating to invoices that have not been paid by the end user, for residential buildings with annual consumption of no more than 200,000 smc and for other uses with annual consumption of no more than 50,000 smc, in the 4 months preceding the switch (final customer deciding to change supplier).
The analyses and developments under Resolution No. 72/2018/R/gas on settlement were successfully completed, with the first effective date of application being set on 1 January 2020.
Finally, analyses and developments are underway as envisaged by ARERA Resolution 271/2019/R/gas of 25 June 2019, subsequently supplemented by Resolution ARERA 493/2019/R/gas of 26 November 2019, which introduces provisions relating to the making available of technical and other data of redelivery points to the Integrated Information System and the metering data and change to the communication standards with reference to the gas sector.
Effective 1 June 2020, the Resolution will require that all types of readings, including self-reported and technical readings, as well as technical flows relating to meter changes, be fed into the IIS via the "Next Cloud" platform. Upon the Resolution becoming effective, the distribution companies will be required to feed into the IIS the same data for the period spanning June 2019-May 2020 according to procedures that will be provided by the Single Buyer.

7.3 Gas Invoicing and Balancing

Invoicing of Transport and Services

Developments have been gradually introduced linked to the "Electronic Invoicing among private individuals" project, introduced by the Stability Law 2018 and in force as from January 2019, by updating

the back-office applications and changing the flows exchanging invoicing documents with commercial counterparts.
Specifically, the so-called "Electronic invoicing among private individuals" includes the following corporate processes:

- Invoicing of transport
- Invoicing of commercial services to sale companies and document checks;
- Invoicing of the replacement fuel service using lorry-mounted gas cylinders;
- Invoicing of insurance for end users and the COL (municipal fee) component;
- Invoicing of commercial services requested directly by end users.

In addition, the requirements introduced by Resolution No. 712/2018/R/com of 27 December 2018, as amended by Resolution No. 246/2019/R/com of 19 June 2019, were fulfilled. With special reference to the issue of invoices containing attachments, the above Resolution amended the provisions governing gas transport invoicing, commercial services and documentary checks on selling companies.
Furthermore, having completed, in line with the regulatory deadlines, the updating of the invoicing process for the transport service as envisaged by Resolution 32/2019/R/gas of 29 January 2019, which introduced a new additional component to the tariff for the transport service, called UG2k, starting as from 01 April 2019, to be applied to all customers who have gas supply with consumption up to 200 thousand Smc, including contracts for public services.
In 2019, activities were defined to manage the requirements provided for by Resolution 587/2018/R/gas, which sets out the extension of the time frames for the validity of subsidies, up to 31 December 2020, for customers located in the so-called "red zones" concerning areas affected by 2017 and 2018 earthquakes.
In addition, activities for the deployment of IT developments connected with the invoicing of the new CMOR component introduced by Resolution No. 593/2017/R/com were reaching completion and were expected to become operational as of 1 January 2020.
As part of the judicial actions undertaken pursuant to applicable laws concerning the discontinuation of the service to the Redelivery Points under default, 2i Rete Gas has continued charging back the legal costs it incurred.
Furthermore, work continued to analyse the requirements introduced by the primary and sectoral legal provisions relating to the objection of limitation raised by the end user, the so-called "short prescription period" in force as from 1 January 2019.
Activities were completed in respect of the process for reviewing and changing business processes and systems following the enactment of the VAT group legislation (Articles 70(a) to (j) of Presidential Decree No. 663), which was introduced pursuant to Article 1(24) of Law No. 232 of 11 December 2016 (2017 Budget Law).
During the course of 2019, activities were also completed regarding the assessment and ensuing amendment of business processes and corporate information systems in relation to charging default interest to selling companies.

Ordinary transport, commercial services and compensation activities were invoiced on a monthly and regular basis during 2019.

Gas Balances

During 2019, in February and July respectively, in compliance with Resolution 229/2012/R/gas – TISG, the Group completed the following activities:

- handover to national/regional transporters of data relating to the 2014, 2015, 2016 and 2017 adjustment sessions;
- handover to national/regional transporters of data relating to the 2018 adjustment session.

The Group carried out the monthly activities associated with calculating the balance within the deadlines envisaged by applicable laws.

Work continued to control and analyse the changes introduced by the so-called "Settlement Reform" through participation in the related sector commissions and the work groups planned by the Balancing Manager.

Changes were successfully completed to the extent as necessary for the fulfilment of the portion of obligations pertaining to the operations of distribution companies, such as (i) amending the procedure for calculating the annual consumption for the 2019-2020 Gas Year, (ii) changing the procedure for the allocation of withdrawal profiles and (iii) managing statements in lieu of a notarised document submitted by distribution users.

Analyses continued to be carried out to the extent as necessary for the fulfillment of the remaining portion of the obligations pertaining to the other operations of distribution companies, such as (i) the introduction of dynamic profiling of consumption through a WKr coefficient, (ii) changing the management of commercial mapping and (iii) changing the procedure for providing preliminary data for the preparation of the interim financial statements.

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

7.4 Metering

The installation of new smart meters, envisaged by Resolution 631/2013/R/gas (which replaced the previous Resolution ARG/gas 155 of 22 October 2008), is making a significant difference to the work of taking meter readings; due to the coming into service of smart meters that can transmit metering data autonomously, over 75% of redelivery points managed by the group were reached and manual metering at redelivery points that still have traditional meters was significantly reduced.

Following the publication of Consultation Paper No. 487/2019/R/gas of 26 November 2019, further obligations are envisaged, including in relation to ATEM procurement trends, for large companies that acquire entities with less than 50,000 customers. More specifically, these obligations will require smart meters to be installed in 85% of the redelivery points acquired within 3 or, at most, 4 years after the acquisition.

The Consultation Paper also set out to:

- Change in minimum reading frequencies, with reading to be differentiated between redelivery points fitted with traditional meters and redelivery points fitted with smart meters, up to 5 000 smc p.a.;
- Introduce a new indemnity payment procedure in case of failure to acquire the effective reading data, this being applicable to redelivery points fitted with smart meters;
- Cancel the period between installation and commissioning of the smart meter, currently set at 4 months;
- Overcome the possibility to reclassify smart meters as traditional meters.

The new regulatory scenarios have radically changed the metering data field collection activity due to the significant and sharp reduction of traditional meters to be read.

Following the publication of ARERA Resolution No. 271/2019/R/gas of 25 June 2019, which introduced provisions relating to the process for feeding technical and master data of redelivery points into the IIS, providing metering data and notifying changes to the communication standards pertaining to the gas sector, and Resolution No. 493/2019/R/gas, which upheld the request for extension to 1 June 2020 of the deadline – originally set at 1 February 2020 – for the roll-out of the new information flows (containing metering and technical and master data of redelivery points as defined in the technical specifications of the IIS), actions got underway to upgrade business processes and corporate information systems in order to comply with legislation requirements.

The provisions call for the transmission to the IIS, by 31 May 2020, of the information flows previously transmitted to the Distribution Users in the period between 1 June 2019 and 31 May 2020, containing technical and metering data collected in the event work has been performed interventions on the meters, so that the IIS can use this information to complete the tasks assigned to it as part of the settlement process.

Finally, it should be noted that the resolution implementing the distributor's obligations regarding the end customer's objection to the "short limitation period", which is expected to become effective by the end 2019, has not yet been published. As a result, the regulatory scenario on the subject is still evolving.

7.5 Commercial Development

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

During 2019, in 2i Rete Gas S.p.A. most of the initiatives continued which were started during 2018 to incentivise the use of methane gas in the areas with highest potential in terms of users who do not have a service and where redelivery points have been created but never activated.

Similar initiatives were launched in other local areas, extending the geographical reach of the municipalities involved to a total of 453 municipalities across the national territory, with a large number of them being located in Southern Italy.

Specifically, the following initiatives were launched:

- "Activation Zero", launched in 18 Municipalities and dedicated to areas with higher potential in terms of redelivery points created but never activated; this initiative involves incentive campaigns on activation grants and document checks have been introduced by cancelling these fees for users of the distribution and consequently the end customers.

- "Subsidised connection", launched in 284 Municipalities and dedicated to areas with higher potential in terms of unserved users, with the introduction of subsidies on the connection deployment contribution, in relation to the consideration due under the municipal concession for the delivery of the natural gas distribution service;

- Both of the above mentioned initiatives were launched in 157 Municipalities.

Activities were launched in relation to new methane supply works, with over 34 initiatives launched throughout Italy, with the introduction of subsidies on the contributions to realise connections; furthermore, it was arranged to distribute informative material to potentially interested citizens.

The above initiatives contributed significantly to driving the customer base overall growth in 2019.

During the year, a number of round tables were also organised. They were attended by both selling companies and plumbing firms (installers) and construction companies operating in central and southern areas of Italy, respectively, who showed a special interest in the aforesaid subsidies.

In addition to analysing the results achieved thanks to the subsidies introduced, the meetings set out to promote exchanges with a view to identifying initiatives aimed at encouraging citizens to use natural gas, while driving interaction between selling companies and plumbing firms for possible collaboration.

Cilento Project

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

Currently the municipalities with gas are, as in 2018, Sapri, Camerota and Vibonati, while in the remaining municipalities the network is being built and the end of the project, with the introduction of gas to the final municipalities, is envisaged for 2023.

More specifically, during the first half of 2019 work got underway for the deployment of the natural gas distribution network in municipalities located in the province of Salerno (Torraca, Morigerati, Caselle in Pittari, Casaletto Spartano, Tortorella and Ispani).

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

Agreements with installers

During the year, the agreement entered into in 2018 was extended to 30 June 2019 for 90 out of 130 plumbing firms (installers).

The scope of the agreement is to assist customers in the various stages of the process, from requesting a cost estimate for a new connection to the activation of a redelivery point, where necessary, and the construction of the overhead connection branch.

At the same time, the agreement was revised and a new contractor qualification process was defined, which would become effective in the second half of 2019.

Therefore, effective 1 July 2019, the new agreement came into force, resulting in 62 qualified contractors being accredited with the new process at the end of the year.

Of the 62 qualified contractors, 20 operated in the South East Department and 42 in the South West Department.

8. Plant construction, environment and safety

8.1 Gas distribution plants

During the year, a total of around 406 km of piping was laid, of which around 170 was medium pressure and 236 low pressure.

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

Indeed, steel networks rolled out in 2019 totalled less than 10 km and chiefly referred to short stretches that were part of existing networks already made of steel.

This work arises from the improvement needed to maintain levels of service and acquisition of new customers as well as to meet the concession obligations deriving from the agreements with the relevant Entities and rationalization initiatives in relation to plant distribution structure.

The total length of piping managed by 2i Rete Gas at 31 December 2019 was, therefore, around 66,000 km, servicing approximately 2,200 municipalities.

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

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

On the network there are over 15,800 secondary reduction groups with a capacity of at least 125 sm3/h to reduce pressure between the medium and low pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.

8.2 Network and plant design

Also in 2019, design work for preparing territorial tenders continued and, to this end, work continued to examine the technical details for the preparation of the technical proposals to be submitted during the tender along with the related design work for some areas of potential interest.

During the year, consistent with the action plans budgeted by the local units, a number of projects were also developed, their main purpose being to (i) interconnect existing plants to make their management more efficient or (ii) deploy new extensions to meet new requests, totalling more than 200 km.

Below are some of the most significant interconnection projects developed:

- Province of Messina: interconnection project by extending a 4th-species feeder for interconnection between Caronia system and San Fratello and Sant'Agata di Militello (other distributor) system and for the supply of methane in the Municipality of Acquedolci. Network extension totalled 37 km;
- Province of Catanzaro: project to interconnect six REMI stations (sta-

tions located in Amaroni, Cortale, Girifalco, Jacurso, Maida, Vallefiorita) now serving as many distribution systems (former Calabria 14 Basin) separated from one other, totalling approximately 26 km;
- Province of Vibo Valentia: project to interconnect the former Calabria 3 Basin (Municipalities of Cessaniti, Francica, Filandari, Ionadi, Limbadi, Mileto, Rombiolo, San Calogero, San Costantino Calabro, San Gregorio d'Ippona), totalling approximately 28 km;
- Province of Reggio Calabria and Vibo Valentia: project to interconnect the former Calabria 11 Basin (Municipalities of Dinami, San Pietro di Caridà, Candidoni, Laureana di Borrello, Feroleto della Chiesa, Galatro, Anoia, Maropati), totalling approximately 29 km.

On the other hand, projects entailing extension to new areas included:

- Province of Palermo: extension of approximately 17 km in the San Nicola L'Arena area in the municipality of Trabia;
- Province of Bergamo: network extension totalling approximately 7 km in the hamlets of Miragolo in the Municipality of Zogno;
- Province of Lecce: network extension totalling approximately 6 km for the delivery of gas distribution service in some districts in the Municipality of Ruffano;
- Province of Latina: network extension totalling approximately 12 km in the Municipality of Aprilia for Zona Castello 45;
- Province of Vibo Valentia: network extension totalling approximately 8 km in the Municipality of Cessaniti, Pannaconi district;
- Province of Cosenza: network extension totalling approximately 7 km in the Municipality of San Nicola Arcella for the supply of methane in the Atrigna district.

In addition to the above, emphasis is placed on projects for the potential injection of biomethane into distribution networks by producers in the Municipalities of Chieti, Porto Empedocle (Agrigento), Valeggio sul Mincio (Verona), Gottolengo (Brescia).

8.3 Service continuity and safety

During the year, the Group carried out checks on the data concerning service continuity and safety processes as set out in Resolution 574/2013/R/gas.
The main monitored parameters relate to services showing the distributor's ability to promptly intervene in potentially dangerous situations (emergency interventions, intervention time), or to organise and carry out preventative checks to ensure correct monitoring of safety conditions (percentage of network subject to inspection, level of gas odorisation, percentage of network with cathodic protection).
In compliance with current ARERA regulations, by the first months of 2020, the Group will publish the data on the 2019 technical standards. To this end, it re-

trieved the data the local units entered directly into the IT systems during the year, verifying whether they are correct and consistent as needed.

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

In terms of constant attention to the safety of plants and end customers, campaigns were undertaken regarding the preventative search for leaks: relating to the planned inspection on the distribution network, equal to about 80% of the high and medium pressure piping and over 65% of the low pressure piping.

As regards checks on the level of odorisation of the gas distributed, which were carried out in the field in order to provide a complete check on the real level of odorisation of such gas, data was recorded (around 18,000 gas chromatography tests) well above the minimum value required by ARERA (around 3,500 tests), a sign of the attention usually paid to service safety by the Group.

8.4 Smart meters (Resolution 155/08)

The installation of smart meters and the infrastructure for collecting consumption reading data continued in 2019. Thi is one of the most important projects of the Group, both from the point of view of innovative and technological content, and with reference to the terms of investment. The installation and use of new generation smart meters ensures greater accuracy and promptness in metering and prompt recording of actual consumption, while improving the effectiveness of corporate processes.

The Group's targets in 2019, also in light of the Authority's Resolutions, were achieved.

In addition to the installation of meters using a point-to-point technology (where data are transmitted via a SIM card across the mobile network), efforts continued for the deployment of a concentrator-based data transmission infrastructure — managed by us — allowing information from electronic meters to be collected using a point-to-multipoint technology (169 Mhz). Concentrators installed as at 31 December 2019 totalled 3,799.

8.5 Regulatory oversight

Also during 2019, the 2i Rete Gas Group took active part in regulatory oversight both at national level, in numerous working groups and committees of the UNI-CIG (Italian Gas Committee), and in Europe.

8.6 Innovation and research

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

The objective of the experimentation was to test in the field the effectiveness of the technology, to understand directly its specific nature, and to refine its use for future company applications.

During the year, a research scheme was entered into with the Polytechnic University of Milan with the aim of gaining insights into gas network behaviour following biomethane injections.

During the second half of the year, the Department of Energetics of the Polytechnic University of Milan was provided with the cartographic, physical and consumption-related information required for the research project, which was expected to be completed by the first half of 2020.

9. Quality, Safety and Environment

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

Maintenance of 2i Rete Gas S.p.A. Integrated QSE System

2i Rete Gas S.p.A. has implemented and maintains an Integrated Management System called "Quality, Health, Safety and Environment" for operations pertaining to

- Design, construction and installation of natural gas and LPG distribution networks and plants; IAF 28 sector
- Natural gas and LPG distribution (operation, maintenance and assistance for natural gas and LPG distribution networks and plants); IAF 26 sector
- 2i Rete Gas SpA's Quality, Safety and Environment System is certified in compliance with the regulatory standards applicable to Quality Management Systems (ISO Standard 9001:2015) and Environmental Management Systems (ISO Standard 14001:2015), while the Health and Safety Management System, previously certified in compliance with British Standard OHSAS 18001:2007, was also certified in 2019 in compliance with the latest ISO Standard, i.e. 45001:2018.
- Currently, therefore, 2i Rete Gas S.p.A. operates with a Certified Management System which conforms to:
- UNI EN ISO Standard 9001:2015 with regard to Quality Management, with the relevant certificate being valid through 4 June 2021;
- UNI EN ISO Standard 14001:2015 with regard to Environmental Management, with the relevant certificate being valid through 4 June 2021;
- UNI ISO Standard 45001:2018 with regard to Health and Safety Management, with the relevant certificate being valid through 4 June 2021 and to BS OHSAS 18001:2007, with the relevant certificate being valid through 11 March 2021, when British Standard Institution is expected to withdraw this standard.

Periodic conformity audits relating the three "historical" reference frameworks and the certification switch to the new standard was entrusted to the "Certiquality" Institute, which is recognised by the Italian Accreditation Agency "Accredia"".
Audits were completed without any significant issues being flagged as non-compliance with the provisions set forth in the relevant Standards.
To meet the required supervisory requirements, during 2019 the QS&E Function of the Operations Department scheduled 53 inspection visits (internal audits), the purpose of which was to test-check the management model with reference to the standards expected by the Quality, Safety and Environment management system, as well as implementing the actions planned to control relevant risks.
The internal audits were carried out by a 15-member team of internal auditors whose qualifications and skills met the requirements laid down by ISO Standard 19011:2018 "Guidelines for auditing management systems".

All audits were planned and completed in line with the above schedule.
The internal audits involved 7 head-office units, all 6 Departmental units and all 24 Territorial Area offices, as well as 15 branch Territorial offices; during the period, an internal audit was also performed with regard to management-related operations that 2i Rete Gas S.p.A. carried out on behalf of its subsidiaries 2i Rete Gas Impianti and 2i Rete Gas S.r.l..
All the visits enabled the recording, through sampling of all the processes managed, of the absence of any situation of serious non-conformity and the correct identification and implementation of the corrective actions needed to keep management aligned to the IMS.

Certification of the Quality System of 2i Rete Gas S.r.l. and 2i Rete Gas Impianti S.p.A.

Certiquality was engaged also to certify compliance continuity of the quality management systems of 2i Rete Gas S.r.l. and the integrated QSE management of 2i Rete Gas Impianti.
The periodic supervisory audits conducted on 2i Rete Gas S.r.l Quality Management system according to UNI EN ISO Standard 9001:2015 allowed the certificate to remain valid through 14 May 2021. The system was compliant without any flags being raised.

The periodic supervisory auditing of 2i Rete Gas Impianti Management System allowed the 9001:2015, 14001:2015 and 18001:2007 certificates of conformity to continue to be binding, facilitating the subsequent phase of merger by incorporation into 2i Rete Gas S.p.A., with consequent expiry of the validity of the three certificates held by 2i Rete Gas Impianti effective 20 September 2019.

9.2 Prevention and Protection Service

Between January and February 2019, the annual meetings required by art. 35 of Italian Legislative Decree 81/08 were held with reference to 2018 activities. All Business Units discussed safety-related issues based on the events of the year. The following issues were addressed and discussed at the meetings: the trend in injuries and work-related illnesses; review of the Risk Assessment Document; verification of the suitability and effectiveness of protective equipment; assessment of training programmes; analysis of workplace health monitoring.
In September, the final update of the Risk Assessment Document was issued in all the Business Units. The update was necessary for the appointment of new Competent Doctors and Coordinating Doctor following the assignment to a new support unit for health surveillance.

9.3 Workplace injuries

As for injuries to operational staff, 2019 saw a decrease compared with the previous year.
Indeed, in the previous year, 15 “minor” accidents occurred (i.e., accidents with initial diagnosis of under 30 days)

with regard to blue collars. In 2019, 13 accidents occurred. It should be noted that four of them occurred while travelling with company vehicles, three of which qualified as passive and one as active.

The year-end accident report showed three accidents involving white collars, as opposed to a single accident occurred in 2018.

Besides the above injuries, commuting accidents also occurred, 3 involving blue collars and 6 involving white collars as they travelled from/to work. In 2018, commuting accidents at year end amounted to 6 for white collars and 2 for blue collars.

The overall trend in injuries in 2019 was 1 unit up on the previous year owing to +2 accidents among clerks and -1 accident among operational staff, for a total of 25 injuries compared to 24 in 2018. The Lost Day Rate showed a decrease, while the Accident Frequency Rate rose.

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

In 2019, workplace health monitoring ensured the implementation of the planned programme according to the findings of the risk assessment and based on the healthcare protocol approved by employers and by company doctors. Workplace health monitoring involved 618 Middle Managers/Clerks and 680 Manual Workers. The average age of employees examined was 52.1.

9.4 Environmental issues

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

The QSA structure issued the update of most corporate documents; such activity has continued in 2019 too.

The Corporate Environmental Analysis, the main document for the assessment of corporate environmental impacts, was updated to align it to the requirements of the new version of UNI EN 14001:2015 and to the other system documents.

Also in 2019, it has continued removing asbestos from buildings as a preventative action, analysing on-site airborne fibres in collaboration with the Head of the Prevention and Protection Service.

In the context of environmental system indicators, the transition to the new regulatory model allowed revision of the goals set and which were divided between parameters to monitor regulatory compliance and objectives for continuous improvement.

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

Law 257/92 as amended and supplemented and Regional Regulations, the correct management of the authorisation process for water discharges (Italian Legislative Decree 152/06 as amended and supplemented), and compliance with environmental restrictions in the planning and construction stages.
As for the improvement goals, parameters were introduced to control consumption of raw materials and natural resources (consumption of fuel for operational vehicles, consumption of paper for printing and orientation to use recycled paper as an alternative to "virgin" paper, primary energy consumption for technological purposes in the decompression process and in the cathodic protection process), atmospheric emissions (emissions from the car fleet, raising efficiency for thermal plants for preheating of gas, prevention of release of asbestos fibres with preventative work on structures where asbestos is present), optimisation of handling of special waste ("non-hazardous" and "hazardous sent for recovery"), and control over the quantity of the waste produced.
All environmental parameters are in line with expectations.
During the course of 2020, the collection of information will make it possible to hone and identify new environmental performance indicators and objectives, to be shared with Energy Management.
The companies handle the non-hazardous and hazardous special waste they generate using processes complying with regulatory provisions, tracking it by keeping waste acceptance and deposit records as well as digitally using a specific application.

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

During the course of 2019, random inspection visits were also carried out in the Territorial Areas, with 11 authority facilities being audited.
The check aimed to verify the quality of the documents certifying the service safety and continuity (management of the emergency service, management of leaks, management of checks on the level of odorisation of the gas distributed) which were guaranteed during 2018 and in the first half of 2019.
The overall assessment, referring to the selected sample, allows to issue a low-risk or no-risk opinion on the operations carried out. The proposed corrective or preventative actions, once implemented by the structures concerned, allow to further improve the confidence on compliance of the audited data where necessary.
This activity was also geared towards ensuring that any changes to technical standards in force are constantly reflected in the instructions related to operating procedures monitored by ARERA and used as bid documentation during calls for tenders.
As for the events for Safety and Continuity, the QSE/SGI unit has ensured 8

inspections for 2019 aimed at determining the compliance of the registrations of the commercial quality of the service, carried out on samples selected on the basis of the Province's territory. The results recorded made it possible to certify, with some confidence, a moderate level of risk related to data non-compliance.

9.6 Coordination of Safety at Worksites

During the course of 2019, coordination by site construction safety key roles continued, as did monitoring activities aimed at ensuring appropriate management of safety aspects related to core and non-core business operations under Article 26 and under Title IV of Legislative Decree No. 81/08. Such tasks were performed on the basis of corporate instructions and procedures which, among other things, set out clear guidelines regarding the approach to safety issues at construction sites run by the 2i Rete Gas Group.
Company documents relating to the definition of roles and responsibilities of the above figures were updated in implementation of the above.
As for safety coordination management in the executive stage at worksites, the activities undertaken by the internal and external safety coordinators involved throughout the whole company scope were monitored.
All the CSEs are using the same format for reporting site visits, so that a uniform approach is guaranteed by them in carrying out the controls.
In 2019, the internal and external CSEs drafted a total of 5,813 site visit reports, identifying a total of 1,230 nonconformities (NCs), all of which were remedied through actions carried out by the firms as instructed by the CSEs.
In 2019, safety cross-checks continued, i.e. checks at construction sites conducted by internal CSEs, with the support of the QS&A/CSC head-office business unit, using internal resources on contracts other than those awarded to them.
Besides confirming or otherwise the picture set out by the external CSE regarding the safety performance of the companies entrusted to the CSE, this activity provided a way to verify the onsite approach of the internal CSEs who, in the cases considered in 2019, has proven professional and in line with company requirements.

9.7 Checks on Cilento Reti Gas operations

With reference to the commitments undertaken under shareholders' agreements and regulations governing activities underpinning technical, planning and works management operations, the QS&A Function of the Operational Management Department of 2i Rete Gas S.p.A. performs tasks pertaining to quality control and to the coordination of material testing activities carried out by the contractors selected by shareholder Bonatti.
During 2019, the Function coordinated 8 inspection visits on sites in the construction phase – both while work was in progress and during the testing of

finished work — through surveys and sample tests. The results of such visits certified work conformity to technical specifications and quantities accounted for.
In relation to the materials supplied, 20 checks were performed on the supplies required by Bonatti, such checks consisting of production visits or documentary audits on quality certifications and test outcome declarations. All materials that were test-checked were found to comply with the expected standards.

10. Water sector

On 29 March 2019 and following the signing of a specific agreement, the drinking water distribution service in the municipality of Carate Urio (CO) was transferred to the operator of the integrated water service in the lariana province, Como Acqua S.r.l.
Therefore, on 31 December 2019 the residual business in the water sector managed by 2i Rete Gas S.p.A. consists of just two concessions for drinking water distribution in the municipalities of Riva Ligure and Santo Stefano al Mare, both in the province of Imperia, and the supply of drinking water in the municipalities of Ventimiglia di Sicilia, Baucina and Ciminna, all in the province of Palermo.

11. Human resources

11.1 Company organisation

In 2019, the organisational change in the Human Resources Department, made in October 2018, materialised with the creation of the "Organisation" Unit. This change resulted in a greater focus on and a more analytical approach to organisational issues.
During the year, the new Unit mainly dealt with the completion of the first phase of the Job Evaluation project, concerning the Operating Areas, as well as the start and completion of the second phase of such project, which involved the Departments. The classification of all the technical and operational territory-wide roles was then completed, with the main operational efficiency drivers also being defined. The work carried out made it possible to draw up a consistent list of professional profiles encompassing all territory-wide roles, the purpose being to facilitate the future application of training, compensation and development tools, while allowing the required staffing actions to be identified more accurately.
During the job description processing phase, the Job Evaluation project required the main business processes to be examined, highlighting the most relevant operational differences among territorial organisations, among which — with the support of the technical functions — best practices were identified to be shared with the employees. The successful outcome of the operation also encouraged initiatives to be established with a view to sharing and

disseminating know-how among the territories.

As in the previous year, actions were once again undertaken regarding the organisation of the Cilento Methane Conversion Project, reviewing the effort resulting from new activities arisen as well as from the expansion of previous activities as the project moved forward.

This analysis outlined the need to reinforce the team, especially with regard to qualified resources for the monitoring and supervision of construction site operations. The type of resources to be recruited was narrowed down by relying on the classification method introduced with the Job Evaluation project.

11.2 Relations with trade unions

In 2019, a number of efforts launched in the previous year were completed by involving and engaging trade union organisations at a national, local and company level.

In particular, the Industrial Relations Protocol was signed, following a process that proved crucial to identifying contractual rules and the scope of action of trade union activity in regulating relations between the company and national, local and internal trade unions.

Upon completion of the procedure that authorised the purchase of Nedgia S.p.A., statutory and union formalities were discharged ahead of the transfer of the company business unit that was part of ATEMs Bari 2 and Foggia 1, consistent with the measure issued by the Antitrust Authority.

A number of agreements were entered into regarding sponsored training as part of corporate, technical and specialist training programmes and opportunities, which were promoted with a view to encouraging a target-oriented engagement of resources and promoting staff refresher training to meet the changing needs of the industry.

The agreement on the corporate Performance Bonus for the 2019-2021 three-year period was signed, such agreement implementing the recent regulatory changes in welfare and tax benefits.

The projects for the improvement of branch offices were managed at a local level, with the involvement of the unions, with a view to increasing logistic efficiency and improving workspaces.

In 2019, an agreement was signed for the renewal of the three-year national collective bargaining agreement applicable to the (Gas-Water) industry, with company representatives proactively participating in negotiations and contract text execution.

11.3 Selection

At the end of 2019, the Group had 2,057 employees.

As part of a personnel advancement effort deemed as necessary to develop the company's strategy, 2i Rete Gas has embarked on a major long-term selection plan. In 2019, it resulted in 65 new hires, 47 of whom were recruited through new selection schemes.

Thanks to the integration of 2iRG Servizi S.p.A. and the relocation of its staff promoting their skills, in-house

cover of some positions was possible in structures where extra staff were envisaged.
The reasons for hiring from outside were diverse, as they were partly related to the need to replace resources that had left the company, primarily for retirement reasons. It was also necessary to fill positions that had become vacant as a result of the job posting process or internal job rotation. The new positions were also partly required to address maternity leaves and staffing requirements.
The functions mainly involved in this recruitment process were:

- With regard to the Head-office: Procurement and Services, Network Commercial Services, Operations and Information Services;
- With regard to the territory: DTG North and DTG North East.

As regards the internal job posting process, 28 recruiting procedures were started in 2019 for as many positions, with 55 applications being received and 8 selection processes being completed Following the final commissioning of the SAP Success Factors application for recruitment and selection processes, all activities are now managed within the platform, with the exception of recruitment relating to protected categories, in respect of which different recruitment sources are usually relied upon.
The breakdown of staff average balance at 31 December 2019 is provided below:

	2019	2018
Executives	34	33
Middle Managers	115	113
Clerks	1,236	1,183
Manual Workers	672	693
Total	**2,057**	**2,022**

11.4 Training and development

On the training front, different trainings were developed in 2019, focussing both on management and specialist themes (including language and IT skills), as well as on technical and safety themes.

As for managerial training, in the first few months of the year a project was undertaken dedicated to young staff and aimed at dveveloping and/or consolidating the soft skills of junior professionals; in this training program important issues were addressed for the personal/professional development of skills linked to effective communication, problem-solving and self-empowerment.

A coaching course dedicated to leadership and executive roles was organised during the year.

Regarding the specialist issues aimed at supporting employees in carrying out their duties, we may note in particular the organisation and supply of sessions on the most used applications software or those with more specific content (QGIS and Acca Primus). November saw the resumption of the project specifically designated for new middle managers of the Information

Systems Function, known as "IT Leaders".

In addition, a course was staged on the Code on Procurement under Legislative Decree 50/2016, mainly intended for Area and Department Managers.
An e-learning course on Legislative Decree 231 was also delivered. Training on Legislative Decree 38 continued to be delivered across the territory, with a specific focus on conflict of interest.
Courses dedicated to the Human Resources Department were organised on salary policies, personnel selection and administration as well as a specialist accounting and taxation course intended for personnel in the Administration, Finance and Control functions.

With regard to specialist issues, a training effort on main issues related to tariffs and fees was carried through thanks to the commitment and support of internal lecturers. A business project management training/information project was also launched.

A major endeavour introduced in 2019 was the organisation of a two-day team building and training event involving all the heads of the Supply Service Management and Plant Operation and Maintenance function. The scheme is part of a broader middle management engagement and empowerment project aimed at establishing working groups on process streamlining and innovation. The event will be held again in 2020.
In addition, an information plan on company welfare was rolled out. The plan proved useful in providing an overview of the underlying benefits and services and explaining in further detail how the platform dedicated to all personnel works.

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

- The skill development project designed to advance general-purpose blue-collar staff to the roles of (i) Maintenance Technician-Station Operator (39 resources involved), (ii) Smart Meter Skilled Worker (56 resources involved) and (iii) Cathodic Protection Skilled Worker (4 resources involved). The project sets out to enhance the professional skills of blue-collar staff, especially on issues and core competences relating to the company's core business;
- The "Asset Management – Line 'F' Transitory" project, consisting of the introduction of new operational functions to improve the processes related to works (approximately 400 Area technicians involved);
- Continuation of the First Response training course (approximately 130 resources involved);
- new training activities on the instrumentation/devices for the preheating process in gas reduction and measurement cabins and on the "Webpressure" application implemented for management of the peripheral cabins of 2iRG Impianti, involving over 100 staff in the various local departments;
- training on new IT development to manage surveillance work by internal staff and external companies, involving

117 colleagues from all the departments;

- New preparatory training sessions for personnel involved in distribution plant surveillance operations in accordance with UNI 11632, involving approximately 40 resources (under CIG 14 Guidelines);
- new training activities on "steel welding in accordance with UNI EN ISO 9606-1" - "welding of polyethylene in accordance with UNI 10761-2012" for 32 colleagues from various departments.
- New training courses delivered across the territory as regards the SIR application, which manages the company cartography. The purpose of the course is to increase the number of "cartographers" in the Areas ahead of new application developments that will require more specific training than as currently needed;
- Second training course delivered to personnel coming from other areas to fill the operational gaps still existing after about a year after integration;
- Training on the new process of purchasing piping from firms, which involved both area technicians and personnel from external firms.

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

- First response courses delivered to 56 people (basic course) and 123 people (refresher course) across all departments;
- Firefighting courses delivered to approximately 170 people (basic course) and 200 people (refresher course) across all departments;
- courses on breathing apparatus for 25 staff from some departments;
- courses for staff for electrical works (skilled/trained) for around 90 employees from the ESE structure (Head Office CE + Branch Office);
- internal training on the manual movement of loads for 33 employees from some departments;
- internal training on the management of emergencies in buildings and evacuation testing for 22 employees in one department.
- Training on the role of the person in charge of safety at work (53 people);
- Training delivered to head-office and department-based internal auditors with a view to providing new skills and refresher training to internal auditors of Health and Safety at Work Management Systems (ISO 45001);
- Skill-building training for new internal quality auditors on Quality in the industry sector.

Corporate climate

2i Rete Gas, following the experience of the previous assessment on work-related stress undertaken in 2015, decided to schedule a new survey on the main risk factors and on the corporate climate. The objective was both to assess the progress of the action plan which had been defined in the past and to implement new solutions and initiatives to favour a positive and collaborative climate and so continuous improvement in the work environment.

The results of the survey and the new action plan were shared with the company management, the Workers' Safety Representatives and the entire workforce by holding specific meetings.

11.5 Staff administration

Financial year 2019 was characterised by various activities and commitments in different areas:

Disabled People

The challenges set by complex company organisation spreading across virtually the entire Italian territory, together with the need to comply with the obligations of disabled personnel quota, were met by defining an internal procedure ensuring ongoing monitoring of legal obligations regarding the employment of disabled people, identifying the different stakeholders involved in order to ensure compliance with legal obligations.

National accident at work (INAIL) premium rate items

The interdepartmental decree dated 27 February 2019 changed the criteria for calculating INAIL premium rates and significantly reduced processing, causing the number of rate items to drop from 739 to 595. The foregoing and the recent analysis of the tasks carried out by the Organisation function made it possible to establish whether the rate items matched with the entire workforce.

Meal vouchers

The feasibility analysis started in previous years made it possible to complete the paper-to-electronic-voucher transition project, effective 1 December 2019.
Employees were provided with electronic cards on which the meal vouchers they have earned are credited.
The new system made it possible to reduce turnaround time as well as the time for delivery across the territories, while curbing company costs as a result of the higher tax exemption ceiling.

12. IT systems

Activities relating to information systems were defined by a number of initiatives aimed at (i) underpinning the Group's corporate evolution and development activities, (ii) ensuring process compliance following changes brought about by standardisation and regulation, (iii) enabling the roadmap to be maintained with regard to the project for the commissioning and management of electronic gas meters, (iv) completing asset management projects, (v) supporting operational efficiencies, including by applying big data and advanced analytics solutions to core business processes (e.g. metering management), and (vi) implementing stronger measures designed to protect against cybercrime attacks.

With regard to support for corporate developments, the project for the integration of the companies acquired during the course of 2018 from the Naturgy group was completed, resulting — in October — in 2i Rete Gas Impianti being integrated with the parent company. In the first four-month period of the year, activities were carried out to ensure that the sale of the plants relating to the concessions in the Bari 2 and Foggia 1 areas became operational on the systems as of May, consistent with the commitments undertaken with AGCM, while in the last four months activities were carried out to ensure that the sale of the LPG plants and the acquisition of the concession in the Municipality of Priero also became operational.

To provide full support to the Cilento Methane Conversion project, systems were upgraded to enable enhanced management with a view to facilitating progress and project cost reporting, the management of business processes and control over the growth of users connected to the network, as well as the management of plant construction operations in 28 Municipalities.

Systems were significantly strained again in 2019 to ensure compliance with legislation, with special reference to the implementation of the new functions required to implement IAS IFRS16 accounting standard, and regulatory compliance with special emphasis on business processes (new switching process defined by Resolution No. 77/18, revision of compensation calculation and detection schedule under Resolution No. 522, new method of calculating CA, implementation of information exchanges with the Integrated Information System (IIS) aimed at calculating balancing as of 2020, Contract Termination and Activation of Services of Last Instance through the IIS).

As part of the Smart Meter Project, the activities were finalised to maximise the implementation of the meters installed, providing analysis of the communications to optimise the RF 169 Mhz network and to identify the issues of phone network coverage with GPRS. The work was completed to improve the efficiency of the communication between the central system and meters, both in order to maximise the duration of the batteries and for better management of the processes of remote meter reading and management. To this end, the adoption of Big Data & Advanced Analytics solutions played a role in proactively identifying meter communication issues and directing field actions in a timely and efficient manner, so as to supervise the meter commissioning process while ensuring a high level of service required in order to guarantee remote reading and remote management process execution, with remote solenoid valve shutoff.

The activities carried out as part of the Asset Management Enhancement Programme — which was designed to ensure a consistent and integrated management of assets with a view to achieving greater efficiency and better accuracy during operations, thereby underpining corporate strategic decisions — made it possible to complete most of the functions supporting asset valuations, concession contract management, administrative and tariff assets, public and private contributions, enhancement of accounting processes related to works completed and graphic and alphanumeric management of plant master data. In particular, the new concession contract management system came on stream. In addition to managing concession agreements, the system allows work-related final accounting processes to be managed in a consistent, controlled and regularly updated manner, with allocation of ownership data and assignment of the plants maintained or built. Other functions implemented include algorithms for the simultaneous management of administrative and tariff asset disposals and the first functions related to the system management of private and public contributions.

The experience gained in Big Data & Advanced Analytics technologies as part of the smart meter project was extended to other operational processes, for the purpose of (i) ensuring better control and monitoring of activities that have an impact on technical and commercial quality, and (ii) increasing the effectiveness and efficiency of the metering management process, with special reference to the functional validation used to identify — based on consumption and proactively — irregularities related to service supply.

As regards Cyber Security, several initiatives were launched with the aim of increasing the level of resilience to cyber attacks and implementing protection measures consistently with the application of the GDPR. With reference to the latter, a Data Loss Prevention solution was, among other things, implemented to increase the level of information protection, both in terms of supervision and monitoring as well as control.

Finally, a number of actions were undertaken during the course of the year for the technological upgrade of the central datacenter infrastructure (completion thereof expected in 2020) and distributed infrastructure, enhancing connectivity with the operational offices, as well as upgrading individual equipment of all personnel.

With the aim of achieving operational efficiency, with particular reference to the operational model and the management of IT services, the revision of the IT processes was carried out in line with best market practice, through a detailed Project Management program with the objective of optimising the management of projects and services to maintain and develop the systems of the application mapping. In this context, the competitive purchase process for Application Maintenance services for the next three years was completed, with a particular focus on operational efficiency and on improving the quality of the systems and service levels offered.

13. Research and development

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

14. Risk management

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

14.1 Operational risks

Operating natural gas distribution networks involves the risks of malfunction or unanticipated interruption of the service, due to factors that are not under the Group's control, such as accidents, breakdowns or malfunctions of equipment or control systems, underperformance of the plants, and extraordinary events such as explosions, fires, earthquakes, landslides, and other natural disasters. These events can result in an interruption of the service, significant damage to people or property as well as the environment, and/or economic and social turmoil.
Any service interruptions, underperformance, or inadequacy of the Group structures and/or the consequent obligations to provide compensation could result in a reduction in revenue, an increase in costs, and/or regulatory actions.
To prevent these risks, and specifically the risk of natural events damaging the networks, the Group has entered into insurance policies that are considered adequate for the damage that could be incurred or caused.

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

The Group may be exposed to risks related to changes in the tariffs for regulated natural gas distribution activities. For example, a change in the regulatory variables or in the method used for regulation – including, but not limited to, in how the contributions received to develop the network and infrastructure are included in the tariff in each regulated period – will impact the tariffs applicable to the Group's business, with negative repercussions on revenue and margin.
The regulatory period has a six-year duration, and the WACC (weighted average cost of capital) is reviewed every three years.

14.3 Risks deriving from any likely reduction in natural gas consumption

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

In relation to the climate change objectives set out in 2015 at the Paris Conference between the Parties to the United Nations Framework Convention (UNFCCC) and to the further targets set at the EU level for a progressive decarbonisation of energy, the energy industry could, in the medium/long term, evolve towards new scenarios and arrangements where the role of gas in end uses could change as compared to today. In such scenarios, the number of customers served and the demand for gas could decrease, which could result in a lower use of the underlying infrastructures, with the risk of ending up with “stranded assets”, i.e. capabilities that are not fully used during their entire amortisation period. On the other hand, the prospect of using existing infrastructures for the injection and transport of renewable gas (e.g. biomethane, synthetic methane from renewable sources or hydrogen) can contribute to the achievement of decarbonisation objectives, facilitating integration between different energy sectors (sector coupling), in particular between the electricity and gas sectors, while mitigating the risk of stranded assets.
With a view to interdependence between the gas and electricity sectors, gas infrastructures could indeed prove to play a major role in helping to produce greater quantities of energy from renewable electrical sources, offsetting their intermittence and variability by relying on storage mechanisms, thereby making a significant contribution to system flexibility.

14.4 Environmental and safety risks

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

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

These laws and regulations expose the Group to costs and liabilities associated with its operations and plants, including in relation to waste disposal.

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

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

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

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

15.1 Foreword

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

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

The Internal Control System, in relation to the financial disclosure process, aims to identify and assess the actions or events whose occurrence or non-occurrence may jeopardise, in full or in part, the achievement of the objectives of trustworthiness, accuracy, reliability and timeliness of the above-mentioned disclosure.

In general reference to the whole Internal Control System and, in particular, to the Parent Company's financial disclosure, the B.o.D. defines the guidelines so that the Company:

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

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

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

Board of Statutory Auditors

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

a) the financial disclosure process;

b) effectiveness of the internal control, audit (if applicable) and risk management systems;

c) audit of the annual accounts and consolidated accounts;

d) independence of the statutory auditor or of the independent auditors, in particular as regards the provision of non-audit services to the body whose accounts must be audited.

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

The Organisational Model is organised in the following terms:

i. the General Part, which describes, after a short legal introduction to the contents of Italian Legislative Decree 231/2001 and the so-called predicate crimes to administrative liability, the aims of the Model, its structure, recipients, the changes and additions adopted, the Company's institutional and organisational arrangements (including a detailed description of the company structure and identification also of the services provided by third-party companies), the Code of Ethics, the powers and functions of the Supervisory Body, included in the regulation of the body itself, the information flows to it, the processes for training and informing staff, as well as the disciplinary system;

ii. the Special Parts, which are divided depending on the categories of predicate crime considered herein. Specifically, the breakdown of each Special Part is as follows: description of the aims of the Special Part, identification of the types of relevant crime, list of the potentially sensitive processes connected to the specific types of crime, general principles of conduct and implementation, specific procedural principles, powers of the Supervisory Body and flows from the heads/contact persons to the Body itself. With particular reference to the "information flows" to the Supervisory Body, which the latter needs to effectively undertake its control and consultancy work, also guaranteeing the complete traceability of the analyses undertaken on the key aspects, the aforementioned Model defines:

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

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

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

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

- supervision of the operation and compliance with the Organisational Model adopted;
- verification of the real suitability and adequacy of the Organisational Model adopted, in other words its real ability to prevent the commission of predicate crimes to a potential administrative liability of the Company, pursuant to Italian Legislative Decree 231/2001
- monitoring of the effective implementation of the Organisational Model, pursuant to art. 7 para. 4 lett. a) of Italian Legislative Decree 231/2001, understood as the prolonged correspondence of this document to institutional and organisational arrangements, as well as to the core business;
- consultancy aimed at updating, integrating or changing the Organisational Model and the Code of Ethics adopted, on the basis of regulatory changes or new corporate needs;
- collection, examination and maintenance of all the information flows received or sent. In this regard, the Supervisory Body examines the reports sent every four months by the heads/contact persons pursuant to the Model, including the central Administration, Finance and Control Department.

Independent Auditors

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

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

Internal Audit

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

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

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

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

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

The CFO and the Administration, Finance and Control Department

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

In carrying out his/her activities, the CFO:

- interacts with the Independent Auditors and with Internal Audit;
- is supported by the Department Heads involved who, in relation to their own area of responsibility, ensure the completeness and reliability of the information flows to the CFO for the purposes of preparing the financial disclosure;
- coordinates the activities undertaken by the Administrative Heads of relevant subsidiaries, who are responsible for the implementation, within their own company, together with the delegated bodies,

of an adequate accounting control system to oversee administrative and accounting processes and assess their effectiveness over time, submitting the results to the Parent Company through an internal certification process.

Other corporate departments involved

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

15.3 Description of the main features of the risk management and internal control system in relation to financial disclosure

Given that the Parent Company, in setting up its own Internal Control System, has adhered to the indications on the matter included in the relevant laws and regulations, including the Italian Civil Code, Italian Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance), specifically arts. 123 bis, paragraph 2 letter B, 184 and 185, the Market Abuse (Directive 2003/6/EC) Regulations 2005 and the Transparency (Directive 2004/109/EC) Regulations 2007 issued by the Central Bank of Ireland, Italian Legislative Decree No. 231/2001 (Organisational and Management Model under Italian Legislative Decree 231/01), Italian Legislative Decree 39/2010, as well as the applicable IAS/IFRS, the related description of the aforementioned system is hereafter set out following the sections of the Co.SO Report framework.

Control environment

The control environment consists of the collection of corporate values which represent the organisational and behavioural prerequisites needed for a transparent and virtuous management style, which leads to sound and correct management of the Company: it refers, in particular, to the ethical values expressed by the Company, to the organisational structure, to the system of proxies and delegated powers, to the operational and regulatory framework, etc.

In order to consolidate these favourable corporate governance conditions, the Company has therefore continued in its updating/drafting of guidelines, corporate procedures, as well as the essential operational and IT control processes, which are a precise decision-making and behavioural guide for Top Management and all employees.

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

Likewise, third parties (and in particular suppliers, who have undergone an increasingly intensive form of "pre-approval" to ensure they do not engage in non-transparent or incorrect conduct, including by calculating ethical ratings) are required to comply with the ethical principles in the aforementioned documents, agreeing to specific clauses in the contracts they enter into with the Group and sharing them.

These external subjects, in order to respect the ethical principles and the Company values mentioned above, have the chance to access online the indications on conduct that the Company has made available to them (e.g. the aforementioned Organisational and Management Model pursuant to Italian Legislative Decree 231/2001 - General part).

Risk assessment

This is the activity promoted, developed and managed by Internal Audit, on the indication of the B.o.D. (2019-2021 Audit Plan) which aims to identify, evaluate and manage strategic, operational, financial and legislative and regulatory compliance risks that the Company may encounter. This activity also includes critical assessment of the system of "company defences" against the aforementioned risks.

In fact, the primary objective of Risk Analysis - which is undertaken, as already noted, by making precise and timely reference to the most common international best practices, such as ERM-Enterprise Risk Management and CRSA-Control Risk Self-Assessment - is to make the Company aware, in a structured and complete way, of the aforementioned potential threats and the related weaknesses of the existing defences, as well as deploying, with a rigorous approach to priority interventions and with precise responsibilities and timeframes, the most suitable preventative/corrective action plans aimed at remedying the potential weaknesses that have been identified.

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

As for the assessment - subject to updating the mapping of all Company processes where necessary - the Group decided to have the various company heads (Top Management and process owners) self-assess risks, while the assessment of the controls adopted to combat such risks has been carried out by the Internal Audit Department (on the basis of the information gathered and the experiences gradually "accrued" from the audit work undertaken up to that moment).
The risks have been assessed in terms of "severity and probability", while the controls have been examined on the basis of their "adequacy and activation": all the assessments made by the

various subjects responsible have been supported by specific measurements arranged for the purpose.

The assessments, updated in 2019, of the aforementioned risks and related controls have given rise to "plotting" them on their respective diagrams represented by the "theoretical risk profile" (risk appetite) and by the "control profile". These profiles – in agreement with Top Management – have been divided into acceptable and unacceptable areas ("risk tolerance and control weaknesses").
As already happened in the Risk Analysis of previous years, the 2019 update took as a reference very broad unacceptable areas (especially for legislative and regulatory compliance risks) in order to reach a particularly cautious risk assessment for the business.

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

The results of the 2019 risk analysis, besides triggering a remediation plan process with prioritised interventions, enable the identification and scheduling of audit activities over the next three years (2020-2022 Audit Plan, endorsed by the Chief Executive Officer and to be approved by the B.o.D.).

Also in 2019, the method was applied across the head office departments and local areas and enabled - as usual - a broad analysis of potential risks and the related controls under way, of which only a small percentage resulted not to be adequately managed and therefore subject to preventative/corrective plans, which moreover had already been completed or had made significant progress.

Control activity

These are control activities carried out by the operational and local departments (first-level controls), the Quality, Safety and Environment Department, the Administration Department, Management Control, etc. (second-level controls) and Internal Audit (third-level controls, in agreement with the Board of Statutory Auditors, the Supervisory Body under Italian Legislative Decree 231/01, the external auditor).

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

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

- Managerial Procedures, Operational Procedures, Operational Instructions and Technical Specifications;
- the Quality manual;
- the Accounting and Administrative Control System, through IT procedures on SAP;
- the Group Accounting Manual and chart of accounts – a document which aims to promote the development and implementation of standard accounting criteria within the Group as regards the recognition, classification and measurement of operations;
- the Operational instructions for financial statements and reporting and year-end timetables – documents which aim to inform the various departments of the detailed operating methods to manage the preparation of the financial statements within the established and agreed deadlines;
- the Administrative and Accounting Procedures – documents which establish the responsibilities and control rules to follow with particular reference to administrative and accounting processes;
- the three-year Audit Plan and the audit manuals;
- the continuous audit and continuous monitoring managed by the IA department, in order to improve the internal control system to prevent and/or identify any cases of non-compliance with the law and/or internal regulations, which can be assessed in all the main corporate processes (accounts receivable, accounts payable, finance and cash management, human resources). This approach – defined on the basis of 65 red flags – can periodically "analyse" the whole company database in order to systematically record "all possible situations requiring closer analysis and scrutiny".

While Continuous Audit is a tool used by the Internal Audit Function for recurring institutional analyses carried out in an extremely pervasive, recurrent, effective and efficient manner, Continuous Monitoring is "a new self-monitoring tool" designed to be provided to the individual functions and territories to conduct appropriate and recurring analyses to gauge performance of their control systems.
The above description of the tools and procedures is subject to continuous improvement following control activities undertaken by each control body during their own institutional work.

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

- Since Cogitek S.r.l. became operational in 2014 — performing audits designed for territory-related business processes — audits on operational behaviour have been performed over the past years to establish compliance with the rules issued (strategies, policies, procedures, provisions under Legislative Decree 231/01, in agreement with and/or on behalf of the Supervisory Body, i.e. regulatory issues). The "Continuous auditing/anti-fraud" system has been implemented gradually with the goal of reaching total "coverage audit", i.e. the completion of audits on territory-related and head-office-related business processes.

- Plan 2018 – 2020 and 2019 - 2021: Completion of the coverage audit with the follow-up on especially significant issues for its business to ascertain that the preventative/corrective plans put in place by the Departments meet the necessary operational requirements and actually deliver the results expected for the improvement of the Internal Control System. Since 2018, targeted and in-depth follow-up actions have been carried out across the territories with the aim of analysing, in addition to the foregoing issues, behavioural aspects related to the employees to ascertain the fairness, transparency, documentability and enforceability against third parties of technical operations carried out by both contractors and internal staff. Finally, during this period, the "Continuous auditing/anti-fraud" system became fully operational, while "Continuous Monitoring" came on stream within corporate functions/territories in order to achieve the above-mentioned objectives.

Information and communication

This refers, in particular, to the strategic and tactical information which must flow down from Senior Management throughout the corporate structure, so that all the parties involved in operations have adequate knowledge of the elements that are essential for managing their area of responsibility. In the Group, this disclosure takes place in accordance with the planning, budgeting and periodic reporting process (e.g. *Tableau de Bord*) and extends through the main levels of the organisation.

Monitoring

It relates to the activities aimed at constantly checking over time the quality of the Internal Control System. This approach is applied periodically by Internal Audit, which is called on to provide the B.o.D. – at least annually – with an assessment on the alignment of the Company's Internal Control System with the aforementioned expectations. In parallel, on conclusion of the risk analysis and each annual Audit Plan, Internal Audit verifies the quality level of the Internal Control System, also in light of the complete implementation of the preventative/corrective measures assigned to the various process owners.

16. Outlook

During 2020, further measure will be implemented to make the Group increasingly efficient and optimise the use of resources, ensuring at the same time cost containment.
Expected profitability for 2020 will reflect all the economies of scale achieved, and cost-effectiveness efforts made, by the Group, in addition, of course, to the interventions required by the regulator, including under Resolution No. 570/2019/R/gas, which, as described in chapter 5, governs tariffs for the next six years of the next regulatory period and market dynamics.
With regard to the COVID-19 crisis, the results of financial year 2020 may also be affected by the current situation and possible scenarios are currently being carefully considered. Taking into account the sector regulatory mechanisms, including in the light of the most recent measures, the impact on the Group should not be particularly significant, even though much will depend on back-to-normal timeframes and on the consequences on the overall economic system and on the operators of the energy supply chain in which the Group operates.

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

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

17. Key figures of the Parent Company

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

17.1 Reclassified Income Statement

Millions of euro	**31.12.2019**	**31.12.2018**	**2019 - 2018**
Revenue	**1,044.0**	**887.8**	**156.2**
Transport and sale of methane gas and LPG	675.2	556.4	118.8
Connection fees and accessory rights	14.9	14.1	0.8
Other sales and services	27.8	39.3	(11.5)
Revenue from intangible assets / assets under construction	275.6	240.0	35.6
Other revenue	50.5	38.0	12.5
Operating costs	**(515.7)**	**(488.6)**	**(27.1)**
Labour costs	(122.2)	(117.5)	(4.7)
Raw materials and inventories	(74.8)	(75.6)	0.8
Services	(264.2)	(250.6)	(13.6)
Other costs	(33.4)	(34.4)	0.9
Allocations to provisions for risks and charges	(22.6)	(11.3)	(11.3)
Increase in fixed assets not subject to IFRIC 12	1.6	0.8	0.8
EBITDA	**528.4**	**399.2**	**129.1**
Amortisation, depreciation and write-downs	**(203.4)**	**(160.7)**	**(42.7)**
Amortisation, depreciation and impairment losses	(203.4)	(160.7)	(42.7)
EBIT	**324.9**	**238.5**	**86.4**
Net financial income (expenses) and income (expenses) from equity investments	(60.3)	(55.8)	(4.5)
Pre-tax income	**264.6**	**182.7**	**81.9**
Income taxes for the year	(59.1)	(53.1)	(6.0)
Net income (expenses) from continuing operations	**205.5**	**129.7**	**75.8**
Net income (expenses) from discontinued operations	**-**	**-**	**-**
NET INCOME FOR THE YEAR	**205.5**	**129.7**	**75.8**

17.2 Reclassified Statement of Financial Position

Millions of euro	31.12.2019	31.12.2018	2019 - 2018
	A	B	A-B
Net fixed assets	**3,538.4**	**3,508.9**	**29.5**
Property, plant and equipment	37.2	34.9	2.3
Rights of use IFRS 16	28.8	-	28.8
Intangible assets	3,727.1	2,980.1	747.0
Equity investments	12.1	747.0	(735.0)
Other non-current assets	57.7	53.9	3.8
Other non-current liabilities	(320.5)	(307.1)	(13.4)
Fair value of derivatives	(4.0)	-	(4.0)
Net working capital:	**74.4**	**41.8**	**32.6**
Inventories	23.5	23.9	(0.4)
Trade receivables from third parties and the Group	252.8	231.5	21.4
Net receivables/(payables) for income taxes	(1.5)	3.7	(5.2)
Other current assets	196.2	167.8	28.4
Trade payables to third parties and the Group	(178.8)	(200.2)	21.4
Other current liabilities	(217.9)	(184.9)	(32.9)
Gross invested capital	**3,612.7**	**3,550.7**	**62.0**
Other provisions	**17.6**	**59.8**	**(42.1)**
Post-employment and other employee benefits	43.6	45.3	(1.7)
Provisions for risks and charges	98.7	99.6	(1.0)
Net deferred taxes	(124.6)	(85.1)	(39.5)
Net invested capital	**3,595.1**	**3,490.9**	**104.2**
Assets held for sale	**3.0**	**32.7**	**(29.7)**
Liabilities held for sale	**0.1**	**6.9**	**(6.8)**
Equity	**931.2**	**798.1**	**133.0**
Net Financial Position	**2,666.8**	**2,718.5**	**(51.7)**

18. Reconciliation of Equity and Net Income for the year

The reconciliation of Equity and Net Income for the year shown in the financial statements at 31 December 2019 of 2i Rete Gas S.p.A. and the corresponding values in the consolidated financial statements are as follows:

Thousands of euro	**Net income for the year recognised through profit or loss at 31.12.2019**	**Equity at 31.12.2019**
Separate financial statements of 2i Rete Gas S.p.A.	205,499	931,167
Surplus of shareholders' equity from financial statements of subsidiaries used for the purposes of consolidation, compared to the carrying values of the equity investments in subsidiaries	1,139	2,852
Derecognition of income from intercompany liquidation		
Consolidation adjustments for:		
Consolidation difference allocated to concessions	0	0
Consolidation difference allocated to goodwill		0
Valuation of equity investments with the equity method	(116)	768
Intercompany margins	(10)	(289)
Deferred and prepaid taxes	5	92
Consolidated financial statements of 2i Rete Gas S.p.A.	206,517	934,591
Non-controlling interests	**(135)**	**(1,533)**
Consolidated financial statements of 2i Rete Gas S.p.A. - owners of the	**206,383**	**933,058**

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

IV Consolidated financial statements of the 2i Rete Gas Group

1. Income Statement

Thousands of euro	Notes	31.12.2019	of which from related parties	31.12.2018	of which from related parties
Revenue					
Revenue from sales and services	5.a	722,701	-	682,457	
Other revenue	5.b	49,459	139	37,159	9
Revenue from intangible assets / assets under construction	5.c	284,892	-	265,949	
Sub-Total		**1,057,051**	-	**985,566**	
Costs					
Raw materials and consumables	6.a	74,773	-	78,410	
Services	6.b	273,999	7,084	268,014	364
Personnel Costs	6.c	122,246	3,340	125,502	2,635
Amortisation, depreciation and impairment losses	6.d	204,281	-	189,813	
Other operating costs	6.e	56,535	363	53,313	461
Capitalised costs for internal work	6.f	(1,619)	-	(843)	
Sub-Total		**730,217**		**714,208**	
EBIT		**326,834**		**271,358**	
Income (expenses) from equity investments	7	79	80	2,179	(1,183)
Financial income	8	1,990	-	515	
Financial expenses	8	(62,789)	-	(57,528)	13
Sub-Total		**(60,720)**		**(54,834)**	
Pre-tax income		**266,114**		**216,524**	
Taxes for the period	9	59,597	-	61,084	
Net income (expenses) from continuing operations		**206,517**		**155,440**	
Net income (expenses) from discontinued operations	10	**0**		-	
NET INCOME FOR THE YEAR		**206,517**		**155,440**	
Net income for the year attributable to:					
- Owners of the Parent		206,383		155,457	
- Non controlling interests		135		(17)	

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

2. Statement of Comprehensive Income

Thousands of euro	31.12.2019	31.12.2018
Net income recognised through profit or loss	**206,517**	**155,440**
- Net income attributable to owners of the Parent	206,383	155,457
- Net income attributable to non-controlling interests	135	(17)
Other comprehensive income		
Items which will never be reclassified through profit/(loss):		
Revaluations of net liabilities / assets for defined benefits - owners of the Parent	(752)	753
Deferred tax assets and liabilities on items which will never be classified through profit/(loss) - owners of the Parent	91	(216)
	(661)	538
Items which may be reclassified subsequently through profit/(loss):		
Change in fair value of hedging derivatives - non-controlling interests	(3,981)	(8,280)
Change in fair value of hedging derivatives reclassified in profit for the period - non-controlling interests	(1,235)	(403)
Change in fair value of hedging derivatives (tax effect) - non-controlling interests	955.53	1,987
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interests	296	97
	(3,964)	(6,599)
Total other comprehensive income	**(4,625)**	**(6,061)**
Total comprehensive income	**201,892**	**149,379**
Total comprehensive income attributable to:		
- Owners of the Parent	201,757	149,396
- Non controlling interests	135	(17)

Earnings per share: 0.5676 euro

Diluted earnings per share: 0.5676 euro

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

3. Statement of Financial Position

Assets

Thousands of euro	Notes	31.12.2019	of which from related parties	31.12.2018	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	37,223	-	39,312	
Rights of use IFRS 16	12	28,817	-	-	
Intangible assets	13	3,760,807	-	3,682,262	
Net deferred tax assets	14	125,911	-	82,716	
Equity investments	15	3,349	3,226	3,459	3,336
Non-current financial assets	16	1,547	-	1,025	
Other non-current assets	17	57,697	-	57,710	
	Total	**4,015,351**		**3,866,484**	
Current assets					
Inventories	18	23,509	-	23,948	
Trade receivables	19	250,680	130	232,624	27
Short-term financial receivables	20	1,330	-	1,394	
Other current financial assets	21	879	-	187	
Cash and cash equivalents	22	353,308	-	686,353	
Income tax receivables	23	6,272	-	14,633	
Other current assets	24	201,361	-	207,726	
	Total	**837,338**		**1,166,865**	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	25	2,991	-	32,681	
	Total	**2,991**		**32,681**	
TOTAL ASSETS		**4,855,680**		**5,066,030**	

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Liabilities

Thousands of euro	Notes	31.12.2019	of which from related parties	31.12.2018	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent	26				
Share Capital		3,639	-	3,639	
Treasury Shares		-	-	-	
Other Reserves		526,009	-	505,388	
Retained earnings/(accumulated losses)		197,028	-	159,812	
Net income for the year		206,383	-	155,457	
Total equity - Owners of the Parent		**933,058**		**824,296**	
Equity - non-controlling interests					
Non-controlling interests		1,398	-	1,420	
Net income for the year - non-controlling interests		135	-	(17)	
Total equity - non-controlling interests		**1,533**		**1,403**	
TOTAL EQUITY		**934,591**		**825,699**	
Non-current liabilities					
Long-term loans	27	2,660,921	-	2,943,857	
Post-employment and other employee benefits	28	43,559	-	45,606	
Provision for risks and charges	29	8,128	-	9,916	
Deferred tax liabilities	14	-	-	-	
Non-current financial liabilities	30	4,001	-	-	
IFRS 16 Non-current financial liabilities	31	22,539	-	-	
Other non-current liabilities	32	323,108	-	308,442	
	Total	**3,062,256**		**3,307,821**	
Current liabilities					
Short-term loans	33	307,088	-	362,651	
Current portion of long-term loans	34	18,182	-	-	
Short-term portion of long-term and short-term provisions	35	92,639	-	100,476	
Trade payables	36	186,344	4,860	207,608	1,291
Income tax payables	37	8,186	-	8,851	
Current financial liabilities	38	20,025	-	22,966	
IFRS 16 Current financial liabilities	39	6,110	-	-	
Other current liabilities	40	220,120	-	223,036	220
	Total	**858,694**		**925,586**	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	25	139	-	6,923	
	Total	**139**		**6,923**	
TOTAL LIABILITIES		**3,921,089**		**4,240,331**	
TOTAL EQUITY AND LIABILITIES		**4,855,680**		**5,066,030**	

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4. Statement of Cash Flows

Thousands of euro		31.12.2019	31.12.2018
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	22	**686,353**	**816,138**
Cash flow from operating activities			
Pre-tax income		266,114	216,524
Taxes for the period	9	(59,597)	(61,084)
1. Net income for the period		**206,517**	**155,440**
Adjustments for:			
Depreciation and amortisation	6.d	200,442	189,302
Write-downs/(Write-ups)	6.d	3,839	511
Capital (gains)/losses	5.b/6.e	(2,220)	20,814
Allocations to provisions for risks and charges and post-employment benefits		29,547	25,599
Financial (income)/expenses	7 and 8	60,720	54,834
2. Total adjustments		**292,329**	**291,059**
Change in net working capital			
Inventories	18	439	(2,901)
Trade receivables	19	(17,782)	70,528
Trade payables	36	(21,793)	(12,760)
Other current assets	24	6,365	(10,633)
Other current liabilities	40	(3,186)	15,091
Net tax receivables/(payables)	23 and 27	7,696	24,507
Increase / (decrease) in provisions for risks and charges and post-employment ben	28, 29 and 35	(43,003)	(12,158)
Increase / (decrease) in provisions for deferred tax assets and liabilities	14	(43,200)	(11,081)
Other non-current assets	17	125	(5,331)
Other non-current liabilities	32	11,862	(196)
Financial income/(expenses) other than for financing	8	(1,124)	(856)
3. Total change in net working capital		**(103,600)**	**54,210**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**395,246**	**500,709**
Cash flow (used in)/generated by investing activities			
Net fixed assets		(243,291)	(283,231)
Purchase of subsidiary and income from equity investments	7 and 15	189	(722,722)
Cash acquired through company acquisition		0	1,916
C) CASH FLOW (USED IN)/GENERATED BY INVESTING ACTIVITIES		**(243,102)**	**(1,004,037)**
D) FREE CASH FLOW (B+C)		**152,144**	**(503,328)**
Cash flow from financing activities			
Dividend payout		(93,000)	(85,032)
Change in reserves		0	0
Change in amortised cost	16, 27 and 34	2,107	(502)
Change in fair value of IRS derivatives	20 and 33	0	0
Financial income/(expenses) relating to the Fv of the derivative instrument	7 and 8	0	0
Financial income/(expenses) relating to the Fv of the derivative instrument from Con	7 and 8	(1,235)	(403)
Financial income for financing activities	8	1,854	400
Financial (expenses) for financing activities	8	(61,509)	(56,557)
New loan	27	0	0
Receipts from debenture loan issues	27		500,000
Change in short-term financial debt	33	(341,132)	(562)
Current portion of long-term loans	34	18,182	(17)
Change in amortised cost	30	0	(72)
Change in other non-current financial assets	16	3	12,744
Change in other financial receivables	20 and 21	(628)	137
Change in financial leases IFRS 16	31, 39 and 11	(6,891)	
Change in other financial payables	38	(2,941)	3,407
E) CASH FLOW FROM FINANCING ACTIVITIES		**(485,190)**	**373,543**
F) CASH FLOW FOR THE PERIOD (D+E)		**(333,046)**	**(129,785)**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	22	**353,308**	**686,353**

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5. Statement of Changes in Equity

	Share capital and reserves									
Thousands of euro	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year	**Total - Owners of the Parent**	**Total - Non-controlling interests**	**Total consolidated equity**
Total 31 December 2017	**3,639**	**286,546**	**728**	**15,948**	**206,939**	**124,508**	**121,624**	**759,932**	**-**	**759,932**
Allocation of income for 2017:										
Distribution of income	-	-	-	-	-	121,624	(121,624)	**-**	-	**-**
- Dividend payout	-	-	-	-	-	(85,032)	-	**(85,032)**	-	**(85,032)**
Total contribution from shareholders and payments to them as shareholders								***(85,032)***		***(85,032)***
- Other changes	-	-	-	-	1,275	(1,275)	-	**-**	-	**-**
- Other changes	-	-	-	-	14	(14)	-	**-**	1,420	**1,420**
- Change in IAS reserves	-	-	-	(6,599)	538	-	-	**(6,061)**	-	**(6,061)**
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	155,457	**155,457**	(17)	**155,440**
Total 31 December 2018	**3,639**	**286,546**	**728**	**9,349**	**208,765**	**159,812**	**155,457**	**824,296**	**1,403**	**825,699**
Allocation of income for 2018:										
Distribution of income	-	-	-	-	-	155,457	(155,457)	**-**	-	**-**
- Dividend payout	-	-	-	-	-	(93,000)	-	**(93,000)**	-	**(93,000)**
Total contribution from shareholders and payments to them as shareholders								***(93,000)***		***(93,000)***
- Other changes	-	-	-	-	25,246	(25,246)	-	**-**	-	**-**
- Other changes	-	-	-	-	-	5	-	**5**	(5)	**-**
- Change in IAS reserves	-	-	-	(3,964)	(661)	-	-	**(4,625)**	-	**(4,625)**
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	206,383	**206,383**	135	**206,517**
Total 31 December 2019	**3,639**	**286,546**	**728**	**5,385**	**233,350**	**197,028**	**206,383**	**933,058**	**1,533**	**934,591**

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6. Notes to the Consolidated Financial Statements

Format and contents of the Financial Statements

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

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

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

The Directors of 2i Rete Gas S.p.A., on 25 March 2020, approved these consolidated financial statements and agreed to make them available to Shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.

For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 25 March 2020.
These consolidated financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The consolidated financial statements for the year ended 31 December 2019 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The above standards and interpretations are hereinafter referred to as "IFRS-EU".

Reporting and valuation criteria

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

Basis of presentation

The consolidated financial statements consist of the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes.

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

Current assets, which include cash and cash equivalents, are those intended to be realised, sold or used during the Group's normal operating cycle or in the twelve months following the reporting period; current liabilities are those expected to be settled during the Group's normal operating cycle or in the twelve months following the reporting period.

Items in the Income Statement are classified based on the nature of expenses, while the Statement of Cash Flows is presented using the indirect method.

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

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

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

Consolidation criteria

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

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

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

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

former subsidiary is measured at fair value at the date of loss of control.
In drawing up the consolidated financial statements, debit and credit items are derecognised, as well as costs and revenues of all significant transactions among the companies included in the scope of consolidation. Unrealised profits are also derecognised, as well as capital gains and losses arising from transactions among Group companies.

Use of estimates

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

Revenue recognition

Revenue from gas transport is determined annually on the basis of the tariff regulation in force, which, as from 2009, sets forth the definition of the tariff revenue cap (known as VRT, *Vincolo dei Ricavi Tariffari*) which is allowed for each gas distribution company. On the basis of Resolution 573/2013/R/gas of December 2013, parameters which regulate the calculation of the VRT for the years from 2014 to 2019 (Fourth Regulatory Period) have been defined.
This figure for revenue is accounted for in the invoicing of gas transport to sales companies and, to complement the VRT value, in the CSEA equalisation element.
Since it is necessary to base the VRT calculation on an asset recognition which is updated to the previous year, the Company must also estimate a growth rate for its average active Redelivery Points to enable the updating of the figure for the year just ended.
Therefore, the value indicated also includes an estimated element, whose impact is largely insignificant, connected to the increase in the average number of active Redelivery Points.
When the balance is calculated, the value of the VRT annually communicated by the ARERA by means of a specific resolution may be subject to change depending on the actual average number of Redelivery Points served and invoiced.

Pensions and other post-employment benefits

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

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

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

Recoverability of non-current assets

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

Where the carrying amount of a group of fixed assets is considered to be impaired, it is written down to its recoverable value, as estimated on the basis of the use of the assets and their future disposal, in accordance with the Company's most recent plans.

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

Disputes

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

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

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

Bad debt provision

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

for forecast losses on receivables, estimated on the basis of past experience in reference to receivables with similar credit risk, to current and historical unpaid amounts, write-offs and receipts as well as careful monitoring of the quality of the receivables portfolio and the current and forecast state of the economy and key markets.
Although the provision allocated is adequate, the use of different assumptions or a change in the economic circumstances could result in changes to the bad debt provision and, therefore, have an impact on profits.
The estimates and the assumptions are periodically revised and the impact of each change is reflected in profit or loss in the relevant year.

Equity investments in associates and companies subject to joint control

Equity investments in associates are those in which the 2i Rete Gas Group has considerable influence over the financial and operational policies, although not holding control or joint control.
Companies subject to joint control or joint ventures are companies where the Group, by virtue of an agreement, claims rights over net assets.
Equity investments in associates and in joint ventures are initially recognised at cost and subsequently recognised on an equity basis. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of profits or losses of the investee companies accounted for using the equity method, until the date on which said considerable influence or joint control ends.

Business combinations

Business combinations subsequent to 1 January 2010 are recognised using the acquisition method envisaged by IFRS 3 (Revised). The identifiable assets acquired and the liabilities assumed are measured at their respective fair values at the acquisition date. Any surplus in the purchase cost over the fair value of the net assets acquired is accounted for as goodwill or, if a deficit, recognised in profit or loss. The carrying value of any goodwill is subject to annual impairment testing in order to identify any impairment.
Should it be possible to determine the fair value of the assets, liabilities and identifiable contingent liabilities only provisionally, the business combination is recognised using these provisional values. Any adjustment arising from the completion of the valuation process is recognised within 12 months of the acquisition date.
Transaction costs, other than those relating to the issue of debt securities and equity, which are incurred by the Group to make a business combination, are recognised as operating costs when incurred.

Combinations of entities under common control

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

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

Property, plant and equipment

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

Property, plant and equipment not relating to gas distribution concessions are recognised at historical cost, including directly attributable ancillary costs necessary for the asset to be ready; subject to any legal or implicit obligations, the cost may be increased by the present value of the cost estimated for the dismantling and removal of the asset. The corresponding liability is recognised in liabilities under a specific provision for future risks and charges. Currently, no liability linked to the dismantling and removal of assets is recognised, since there are no legal or implicit obligations which justify such recognition.
The purchase or production cost includes the financial expenses relating to loans connected to the purchase of tangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of the asset are identifiable.
Some assets, which were revalued at the date of transition to the IFRS-EU or in previous periods, have been recognised on the basis of the revalued cost, considered as deemed cost.

Should significant parts of individual tangible assets have different useful lives, the identified components are recognised and depreciated separately.
The costs incurred subsequent to the purchase are recognised as an increase in the carrying amount of the asset to which they refer, when it is probable that future economic benefits deriving from the cost will flow to the Group and the cost of the item can be reliably determined. All other costs are recognised in profit or loss in the year in which they are incurred.
The cost of replacing part or all of an asset is recognised as an increase in

the value of the asset to which it refers and is depreciated over its residual useful life; the net carrying amount of the replaced unit is recognised in profit or loss, with recognition of any capital loss.
Property, plant and equipment are recognised net of accumulated depreciation and any impairment losses, determined as set out below.

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

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

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

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

Intangible assets

As noted above, in compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting treatment of fixed assets. In particular, since the Group is subject to demand risk, the accounting treatment which it considered correct to apply is that of intangible assets: all the proprietary infrastructure obtained under a concession contract is no longer recognised as tangible assets but classified as intangible assets.

Intangible assets are measured at purchase or internal production cost, when it is likely that the use of such assets will generate future economic benefits and the related cost can be reliably determined.
The cost includes directly attributable ancillary expenses necessary to make the assets ready for use. The cost includes the financial expenses relating to the loans connected to the purchase of intangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of the asset are identifiable.

Intangible assets which have a finite useful life are recognised net of accumulated amortisation and any impairment losses, determined as follows.
Amortisation is calculated on a straight-line basis over the item's estimated useful life, which is reviewed at least annually; any changes in amortisation methods are applied on a prospective basis.
Amortisation begins when the intangible asset is ready for use.
The estimated useful life of the main intangible assets is as follows:

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

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

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

As for concessions, the 2i Rete Gas Group holds the concession for the gas distribution service assigned by tender for a maximum period of 12 years by local authorities (municipalities, municipality groups and mountain communities). Through service agreements, local authorities can set the terms and conditions for the distribution service, as well as the quality levels to be achieved. The concessions are allocated on the basis of the financial conditions, quality and safety standards, investment plans and the technical and managerial capabilities offered.
As in the previous Report, it should be highlighted that a significant number of concessions managed by the 2i Rete Gas Group for gas distribution were terminated on the basis of their natural expiry or by law at 31 December 2010.
It should be recalled that, since the publication of Italian Legislative Decree 93/11 on 29 June 2011, local authorities can no longer call new tenders except within the provisions included in the so-called "Decreto Ambiti" and "Decreto Criteri" issued in 2011. For this reason, currently only the local authorities which had called tenders for the assignment of gas distribution concessions prior to publication of Italian Legislative Decree 93/11 can proceed with such tenders. In all the other cases, tenders are suspended until municipalities are ready to call them on a territorial basis. In the meantime, the 2i Rete Gas Group is continuing with the management of the network in the same way as prior to the expiry.
Should the concession not be reassigned to the Group, the Group would have the right to compensation equal to the industrial value of the assets used for the concession determined in accordance with the relevant laws.

Rights of use under IFRS 16

Rights of use under IFRS 16 are fixed assets reflected in the financial statements as of 1 January 2019 following first-time adoption of the standard in question.
The new standard on leases provides a single lessee accounting model requiring to recognise assets and liabilities for all leases.
The lessee must recognise the leased asset under tangible assets and at the same time recognise financial liabilities equal to the current value of future payments. The only exceptions allowed are short-term leases (for no more than 12 months) and leases of small assets (e.g., office furniture, computers) for which the accounting treatment remains similar to that currently adopted for operating leases.
The Group adopted the new standard, the most significant effect of which was the recognition of fixed assets as

Rights of use under IFRS 16 net of depreciation and amortisation for the year, holding at the same time a similar amount under financial payables.
Accordingly, costs no longer include a large part of the costs for the use of third-party assets, but depreciation and related financial expenses.
In the mapping carried out, three main cases were identified which are of interest in the Group's contracts:
- Vehicle hire
- Property lease
- ICT services entailing exclusive use of the underlying assets

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

Impairment losses

Tangible and intangible assets are reviewed at least once a year to determine whether there is evidence of impairment. If such evidence exists, their recoverable amount is estimated.
The recoverable amount of goodwill and intangible assets with an indefinite useful life, if any, as well as that of intangible assets not yet available for use, is estimated at least annually.
For an asset which does not generate fully independent cash flows, including goodwill, the recoverable value is determined in relation to the cash generating unit (CGU) to which this asset belongs.
In this regard, please note that the Group as a whole is considered to be a CGU.
The recoverable amount is the higher of an asset's fair value, net of disposal costs, and its value in use.
In determining the value in use, the expected future cash flows are discounted using a discount rate which reflects the current market valuations of the cost of funding in relation to the timing and specific risks of the asset.
An impairment is recognised in profit or loss if the carrying amount of an asset, or of the CGU to which it is allocated, is higher than its recoverable amount.
The impairment of a CGU is first charged against the carrying amount of any goodwill allocated to the CGU, then proportionally, to reduce the other assets which make up the CGU.
Impairment losses are reversed if the impairment has been reduced or is no longer present or there has been a change in the assumptions used to determine the recoverable amount.
Impairment of goodwill can never be reversed in future years.

Inventories

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

Financial instruments

The initial recognition of non-derivative financial assets and liabilities takes place, for loans, receivables and debt securities issued, at the moment when they originated, while for all the other financial assets and liabilities it takes place on the trading date.
Financial assets are derecognised when: i) the contractual rights to receive cash flows end; ii) when the Group has maintained the right to receive cash flows from the asset, but has taken on the contractual obligation to pay them in full without any delay to a third party; or iii) when the Group has transferred the right to receive cash flows from the asset and has substantially transferred all the risks and benefits of ownership of the financial asset, or has transferred control over the financial asset.
Any residual involvement in the transferred asset which is originated or maintained by the Group is recorded as a separate asset or liability.
The Group derecognises a financial liability when the obligation specified in the contract was fulfilled or cancelled or had expired.

Fair Value Hierarchy under IFRS 13

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (e.g. quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; market-corroborated inputs).

Level 3: unobservable data for the asset or liability, reflecting the assumptions that market participants should use in pricing the asset or liability, including the risk assumptions (of the model and the inputs used).
The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire fair value measurement requires judgement, taking into account factors specific to the asset or liability.

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

within which those inputs are categorised.
If an observable input requires an adjustment using unobservable inputs and that adjustment is material to the measurement, the resulting measurement would be categorised within the same level as the lowest level input used.
The Group has implemented adequate controls to monitor all measurements, including those received from third parties. If those checks show that the measurement cannot be considered as market corroborated, the instrument must be categorised within Level 3.

Financial assets measured at fair value through profit or loss

This category includes any financial assets held for trading or measured at fair value through profit or loss at the time of initial recognition.
Such assets are initially recognised at their fair value. The attributable transaction costs are recognised in profit or loss when they are incurred. Profit and losses from subsequent changes in their fair value are recognised in profit or loss.

Financial assets held to maturity

This category includes non-derivative financial instruments quoted in an active market that do not represent equity investments, which the Company can and intends to hold until maturity. They are initially recognised at fair value, including any transaction costs; subsequently, they are measured at amortised cost using the effective interest rate method, net of impairment (if any).
Any impairment losses are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate.

Loans and receivables

This category includes financial and trade receivables, including non-derivative debt securities, with fixed or determinable payments, that are not quoted on an active market and that the Group does not originally intend to sell.
At first, such assets are recognised at fair value, adjusted for any transaction costs, and subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment losses. Such impairment losses are calculated as the difference between the carrying amount of the asset and the present value of future cash flows, discounted at the original effective interest rate.
Trade receivables falling due in line with generally accepted trade conditions are not discounted.
Receivables relating to energy efficiency certificates refer to contributions which will be awarded by the Fund for Energy and Environmental Services for certificates in the 2i Rete Gas Group's portfolio.

Financial assets available for sale

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

classified as "available for sale") and financial assets that cannot be classified in other categories. Such assets are initially recognised at fair value increased by any transaction costs. After initial recognition, these instruments are measured at fair value against the other components of the statement of comprehensive income.
At the time of sale, retained earnings and accumulated losses are reclassified from other comprehensive income to profit or loss.
Where there is objective evidence that such assets have suffered an impairment loss, the accumulated loss is recognised in profit or loss. Such impairment losses, which cannot be subsequently reversed, are calculated as the difference between the carrying amount of the asset and the present value of future cash flows, discounted at the market interest rate for similar financial assets.
When the fair value cannot be reliably determined, these assets are recognised at cost adjusted for any impairment losses.

Cash and cash equivalents

This category is used to record cash and cash equivalents that are available on demand or at very short term, clear successfully and do not incur collection costs.
For the statement of cash flows, cash and cash equivalents comprise bank and post office deposits and cash in hand.

Trade payables

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

Financial liabilities

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

Derivative financial instruments

Derivatives, if any, are recognised at fair value and are designated as hedging instruments when the relationship between the derivative financial instrument and the hedged item is formally documented and the effectiveness of the hedge is high (based on a periodical assessment).
Recognition of the result of measurement at fair value depends on the type of hedge accounting adopted.
When the derivatives are used to hedge the risk of changes in the fair value of hedged assets or liabilities (fair value hedge), any changes in the fair value of the hedging instrument are recognised in profit or loss; likewise, adjustments to the fair values of the hedged assets or liabilities are also recognised in profit or loss.
When the derivatives are used to hedge the risk of changes in cash flows of hedged items (cash flow hedge), the

changes in the fair value that are considered effective are recognised in other comprehensive income, and presented in a specific equity reserve, and subsequently reclassified to profit or loss in line with the economic effects produced by the hedged transaction.

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

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

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

Employee benefits

Liabilities related to employee benefits paid upon or after leaving employment and in connection with defined benefit plans or other long-term benefits granted dur ing the employment period are determined separately for each plan, using actuarial assumptions to estimate the amount of the future benefits that employees have accrued at the end of the reporting period. The liability is recognised on an accrual basis over the vesting period of the related rights. These measurements are performed by independent actuaries. Following the adoption of IAS 19 (2011), the actuarial gains/losses that emerge following these measurements are immediately recognised in other comprehensive income.
Where the Group shows a demonstrable commitment, with a detailed formal plan without realistic possibility of withdrawal, to a termination before retirement eligibility has been reached, the benefits due to employees in respect of the termination are recognised as a cost and measured on the basis of the number of employees that are expected to accept the offer.

Provisions for risks and charges

Allocations to provisions for risks and charges are recognised when, at the reporting date, there is a legal or implicit obligation towards third parties, as a result of a past event, the settlement of which is expected to result in an outflow of resources whose amount can be reliably estimated. Where the effect is significant, allocations are determined by discounting expected future cash flows using a pre-tax discount rate that reflects the current market value of the cost of funding in relation to timing and, if applicable, the specific risks of the obligation. If the amount is discounted, the periodic adjustment of the present value due to timing is recognised as a financial expense in profit or loss.

Contributions

Whether they are from public entities or third parties operating in the private sector, contributions are recognised at fair value when it is reasonably certain that they will be received and that the conditions for their recognition will be met.
Contributions received for specific expenditures are systematically recognised among other liabilities and taken to profit or loss over the period in which the related costs are incurred.
Public contributions (plant contributions) received for specific assets whose value is recognised among tangible and intangible assets are recognised among other liabilities and taken to profit or loss over the amortisation/depreciation period of the assets they refer to.
Private contributions (connection fees, including property subdivision contributions) are recognised in a specific liability item in the statement of financial position and taken to profit or loss in relation to the amortisation/depreciation period of the assets they refer to.

Revenue and costs

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

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

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

Financial income and expenses

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

Dividends

Dividends from equity investments are recognised when the right of the shareholders to receive the dividend payment is established.
The dividends payable to third parties are recognised as a change in equity on the date on which they are approved by the Shareholders' Meeting.

Income taxes

Current income taxes for the year, recognised as "income tax payables" net of advances paid or as "income tax receivables" if the net balance is positive, are determined on the basis of the estimated taxable income and in accordance with the current fiscal regulations or the fiscal regulations essentially in force at the end of the reporting period.
Deferred tax liabilities and assets, which are set out in the tables as the net impact of the two items under assets, are calculated based on the temporary differences between the carrying amounts recorded in the financial statements and their corresponding values recognised for tax purposes by applying the tax rates effective on the date the temporary difference will be settled, based on the tax rates that are in force or essentially in force at the reporting date.
Deferred tax assets are recognised when recovery is likely, i.e. when sufficient future taxable income is expected to be available to recover the assets. Recoverability of deferred tax assets is re-examined at the end of each reporting period.
Taxes relating to components that are directly recognised in equity are also recognised in equity.

Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale rather than ongoing use are classified as held for sale and shown separately from the other assets and liabilities in the Statement of financial position. These non-current assets (or disposal groups) are initially recognised according to the appropriate IAS/IFRS that is applicable to each asset and liability and subsequently at the lower of their carrying amount and their fair value, net of selling costs. Any subsequent impairment loss is directly recognised against any non-current assets (or disposal groups) classified as held for sale and recognised through profit or loss. The relevant carrying amounts for the previous year are not reclassified.

A discontinued operation is a part of a business which has been sold or classified as held for sale and which:

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

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

Recently issued accounting standards

Pursuant to IAS 8, the following section "Accounting standards, amendments and interpretations applicable by the Group as from this year" sets out the main features of the amendments to the International Accounting Standards in force as from 1 January 2019 and of potential interest for the Group.
In the following sections, there is an indication of the accounting standards and interpretations which have already been issued, but not yet come into force, or which have not yet been endorsed by the European Union and are therefore not applicable for the drafting of the financial statements at 31 December 2019, the impact of which may be included as from the financial statements for subsequent years.

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

As from 1 January 2019, some additions have been applied consequent to specific sections of the international accounting standards which have already been adopted by the Group in previous years. The new accounting standard IFRS 16 has also been applied.

The main changes are set out below:

- IFRS 16 – Leases – The new standard on leases, which has replaced the previous IAS 17, provides a single lessee accounting model requiring to recognise assets and liabilities for all leases. The concept of operating lease has therefore disappeared.
  The lessee must recognise the leased asset under tangible assets and at the same time recognise financial liabilities equal to the current value of future payments. The only exceptions allowed are short-term leases (for no more than 12 months) and leases of small assets (e.g., office furniture, computers) for which the accounting treatment remains similar to that currently adopted for operating leases. If a lease includes a service, the latter cannot be capitalised.
  The Group adopted the new standard, the most significant effect of which was the recognition of fixed

assets as Rights of use under IFRS 16 to the extent of 28.3 million euro net of depreciation and amortisation for the year, holding at the same time a similar amount under financial payables.

Accordingly, costs no longer include a large part of the costs for the use of third-party assets, but depreciation and related financial expenses.

The method which has been applied for recognition is the so-called "Modified retrospective approach", as allowed by the standard, integrated with some considerations on small assets and on the residual duration of some lease contracts.

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

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

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

International accounting standard and/or interpretations issued but still not in force in 2019

Regulation No. 2019/2104 issued by the European Commission on 29 November 2019 endorsed amendments to IAS 1 and IAS 8, "Definition of material" (hereinafter referred to as "Amendments to IAS 1 and IAS 8"), aimed at clarifying, and making consistent within IFRSs and other publications, the definition of "material" to help companies when judging whether information is material.

In particular, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020.

Regulation No. 2020/34 issued by the European Commission on 15 January 2020 also endorsed amendments to IFRS 9, IAS 39 and IFRS 7 included in the document "Interest rate benchmark reform for the determination of interest rates", aimed at providing temporary exemptions from the application of certain provisions on hedge accounting for all hedge relationships on which the interest rate benchmark reform has a direct impact. The amendments to IFRS 9, IAS 39 and IFRS 7 are required to be applied for annual periods beginning on or after 1 January 2020.

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

On 18 May 2017, the IASB issued IFRS 17 "Insurance Contracts" (hereinafter "IFRS 17"), which defines how insurance contracts issued and reinsurance contracts held are accounted for.

The provisions of IFRS 17, which supersede those currently set out in IFRS 4 “Insurance Contracts”, are required to apply for annual periods beginning on or after 1 January 2021.

On 22 October 2018, the IASB issued amendments to IFRS 3 “Business Combinations” (hereinafter referred to as “amendments to IFRS 3”) to provide clarification on the definition of business.
The amendments to IFRS 3 are effective as from years starting on or after 1 January 2020.

On 23 January 2020, the IASB issued amendments to IAS 1 “Presentation of Financial Statements”: Classification of Liabilities as Current or Non-current”, aimed at providing clarification on the classification of liabilities as current or non-current. The amendments to IAS 1 are effective as from years starting on or after 1 January 2022.
The adoption of these standards is not expected to have a significant impact on the Group’s financial statements.
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Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

5.a Revenue from sales and services – 722,701 thousand euro

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

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

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Sales and services			
Gas and LPG transport	660,499	639,542	20,956
Release / (Allocation) to the provision for risks	20,974	(152)	21,126
Connection fees	8,850	8,591	259
Ancillary fees	6,172	6,387	(215)
Revenue from the sale of water	456	804	(349)
Ancillary services - water sector	429	120	309
Revenue from customer operations	53	46	6
Sundry revenue and other sales and services	25,269	27,118	(1,850)
Total revenue from sales and services	**722,701**	**682,457**	**40,244**

Revenue from gas transport totalled 660,499 thousand euro and mainly refers to the 2019 Tariff Revenue Cap for natural gas and LPG, together with revenue from adjustments relating to previous years.
This figure was calculated on the basis of ARERA Resolution 367/2014/R/gas which is valid for the fourth regulatory period up to 2019.
During the year, this item increased by a total of 40,244 thousand euro, partly due to the effect — to the extent of 20,974 thousand euro — of the release of provisions for risks regarding a possible tariff revision of certain concessions where plants are partially owned by third parties, following the successful outcome of the dispute between the Parent Company and the Authority. On the other hand, the 20,956 thousand euro increase in gas and LPG transport was due to a growth in the Regulatory Asset Base (RAB) as a result of investments made in previous periods and an increase in the regulatory WACC recognised.

Connection fees, totalling 8,850 thousand euro, increased by 259 thousand euro compared to the previous year owing to higher business in the year.

Revenue from the sale of water further decreased by 33 thousand euro overall, in line with the strategy of gradual disposal of the water concessions managed by the Company and almost fully achieved.

“Sundry revenue and other sales and services” included revenue associated with the suspension and reactivation of customers in arrears at the request of the sales companies, which totalled around 7,401 thousand euro (7,293 thousand euro in the prior year), as well as 11,905 thousand euro in revenue relating to the TCol tariff component, compared to 10,319 thousand euro in the previous year.
The decrease was entirely due to the lack of revenue from 2i Rete Gas Servizi operations, as in 2018 the company provided administrative and staff services to the Edison Group following the purchase of Naturgy Group companies in Italy.
Revenue from readings was 5,419 thousand euro, up compared with the previous year, owing to Resolution 102/2016/R/com and the related revenue recognised to distributors for the reading of meters during the transfer phase.

5.b Other revenue – 49,459 thousand euro

“Other revenue” rose by 12,299 thousand euro and was as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Other revenue			
Third parties:			
Revenue from plant contributions	2,210	2,326	(116)
Revenue from contributions - R&S tax credit	838	1,765	(928)
Contingent assets	252	309	(56)
Revenue from Resolution 574/13	14,066	14,126	(59)
Rental income	501	540	(40)
Capital gains from assets	16,161	1,399	14,762
Compensation for damages	202	1,180	(978)
Other revenue and income and services	14,987	15,009	(22)
Other revenue from water business	130	504	(375)
Revenue and contribution concerning photovoltaic plant	111	-	111
Total other revenue	**49,459**	**37,159**	**12,299**

It should be noted that, since 2018, revenue, costs and allocations for energy efficiency certificates have been recognised in aggregate form, thus presenting only the net margin (positive or negative) for the year.
For this reason, the effect of EECs is reflected under "Other Costs".

The tax credit for Industry 4.0 this year dropped by 928 thousand euro due to lower costs incurred for the digitisation of distribution network management during the year.

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

Gains on asset disposals included a capital gain of 16.2 million euro net of the related goodwill, which was written off, relating to the sale of the equity interest held in Murgia Reti Gas S.r.l., a special purpose vehicle containing the assets and liabilities pertaining to the concessions of ATEMs Bari 2 and Foggia 1 that were sold during the year. In the previous year, this item included capital gains from the sale of the water concession business lines.

Finally, "Other revenue and income and services" were in line with the previous year. The item mainly consists of revenue from operations with defaulting end customers, whose administrative management was delegated to the gas distributor and also includes reimbursements from suppliers for equipment under guarantee.

5.c Revenue from intangible assets / assets under construction – 284,892 thousand euro

	31.12.2019	31.12.2018	2019 - 2018
Revenue from intangible assets / assets under construction			
Revenue from intangible assets / assets under construction	284,892	265,957	18,935
Total revenue from intangible assets / assets under construction	**284,892**	**265,957**	**18,935**

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

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

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.
The following table provides a summary of the items relating to the Company's operating costs in order to ensure their compliance with the aforementioned standard.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Costs relating to revenue from intangible assets / assets under construction			
Raw materials and consumables	6,219	5,852	367
Costs for services	150,729	136,699	14,030
Other operating costs	880	865	15
Depreciation	3,093	-	3,093
Capitalised costs for materials, personnel and services	123,970	122,540	1,430
Total costs relating to revenue from intangible assets / assets under construction	**284,892**	**265,957**	**18,935**

6.a Raw materials and consumables – 74,773 thousand euro

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

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	3,276	3,142	133
Stationery and printed materials	179	266	(88)
Various materials	70,880	77,864	(6,984)
(Change in inventories of raw materials)	439	(2,863)	3,302
Total costs of raw materials and consumables	**74,773**	**78,410**	**(3,637)**
- of which capitalised for intangible assets	67,361	70,704	(3,342)
- of which capitalised for other internal work	996	841	154

"Costs of raw materials and consumables" substantially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes; compared to the previous year, these costs decreased by 3,637 thousand euro overall.

6.b Services – 273,999 thousand euro

"Costs for services" are broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	144,537	131,072	13,465
Costs for electricity, power and water	2,825	3,392	(567)
Gas (for internal use)	3,720	3,585	134
Telephone and data transmission costs	2,580	3,198	(617)
Insurance premiums	4,275	4,483	(209)
Costs for services and other expenses relating to personnel	4,734	5,694	(959)
Fees	737	689	49
Legal and notary costs	2,706	1,966	741
Costs for company acquisitions and disposals	45	305	(260)
Staff and other services	-	535	(535)
Advertising	180	87	93
IT services	9,458	9,554	(95)
Meter reading service	4,156	4,911	(756)
Audit fees	663	769	(106)
Repairs and emergency service	5,634	6,356	(722)
Plant certifications Resolution no. 40	489	466	24
Gas transport by third parties	2,649	2,469	180
Professional and other services	5,478	5,028	450
Other costs for services	8,800	7,603	1,198
Costs for the use of third-party assets			
Third parties:			
Leases	1,215	5,362	(4,147)
Rentals	1,204	4,613	(3,409)
Other costs for the use of third-party assets	2,434	1,925	509
Fee for temporary occupation of public space (C.o.s.a.p.)	1,305	1,238	66
Municipal gas concession fees	64,173	62,714	1,459
Total	**273,999**	**268,014**	**5,985**
- of which capitalised for intangible assets	150,729	136,699	14,030

The aggregate figure of costs for services (also including costs for the use of third-party assets) is up compared to the previous year. This balance includes, on the one hand, higher asset maintenance and construction costs (+13,465 thousand euro) almost entirely capitalised and stated herein according to interpretation IFRIC 12, and, on the other hand, a decrease in rents and leases as well as rentals, which during the year totalled (7,556) thousand euro due to the sole effect of IFRS 16, a standard that became effective on 1 January 2019 whereby (i) all costs pertaining to the use of third-party assets on an exclusive basis that fall under the aforesaid standard must be capitalised based on a measurement equal to the sum of future lease payments discounted, and (ii) the impact of the release of such costs on the income statement must be reflected through amortisation of such Rights of use.

The amount of 2,419 thousand euro that was still reflected among costs for services was therefore due to those contracts whose fees do not fall within the application of the IFRS 16 (intra-annual or low-value leases).

The most significant changes from last year concerned the following:

- asset maintenance, repair and construction costs increased by 13,465 thousand euro due to an increase in operations carried out during the year on managed networks, where greater reliance was made on contracts with external firms. As summarised above, this item largely pertained to investment activities;
- costs for utilities (electricity, water, gas, phone) were down 1,050 thousand euro, with an improvement in financial terms and conditions of telephone contracts thanks to the economies of scale achieved with the merger;
- meter reading service with lower costs compared to the previous year owing to the greater percentage of remotely read meters (down by 756 thousand euro), and the first response service, thanks to the economies of scale achieved;
- as for costs for the use of third-party assets, rentals, leases and hire charges fell overall by 7,556 thousand euro due to recognition based on IFRS 16, while concession fees rose by 1,459 thousand euro mainly owing to the revision of some fees carried out in the year.

6.C Personnel costs – 122,246 thousand euro

Personnel costs are broken down as follows:

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Wages and salaries	88,677	90,582	(1,905)
Social security charges	27,267	27,584	(317)
Post-employment benefits	6,083	6,005	78
Asem/Fisde	(8)	(8)	(0)
Other personnel costs	(273)	368	(641)
Total personnel costs	**121,746**	**124,532**	**(2,785)**
Non-recurring personnel costs			
Incentives to leave	500	970	(470)
Total non-recurring personnel costs	**500**	**970**	**(470)**
Total personnel costs	**122,246**	**125,502**	**(3,255)**
- of which capitalised for intangible assets	62,828	57,689	5,139
- of which capitalised for other internal work	460	2	459

"Personnel costs" include all expenses incurred on an ongoing basis that, directly or indirectly, involve employees. They were down by 2,785 thousand euro, also due to changes in personnel in the year.
Reference is also made to an increase in the use of internal staff for investment activities, particularly in the campaign for the installation of electronic meters (62,828 thousand euro capitalised as compared to 57,689 thousand euro in the previous year).

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

	Executives	Middle Managers	White collars	Blue collars	Total
Personnel at 31 December 2018	**35**	**122**	**1,253**	**704**	**2,114**
Increase	-	-	64	1	**65**
Decrease	(4)	(10)	(61)	(47)	**(122)**
Change in category	2	-	1	(3)	**-**
Personnel at 31 December 2019	**33**	**112**	**1,257**	**655**	**2,057**

During the year, there was an overall decrease in personnel both due to the sale of subsidiary Murgia Reti Gas S.r.l., for the disposal of assets and payables related to the concessions of ATEMs Bari 2 and Foggia 1, and a normal turnover of personnel.

6.d Amortisation, depreciation and impairment losses – 204,281 thousand euro

Impairment, depreciation of tangible assets and rights of use and amortisation of intangible assets amounted to 204,281 thousand euro, up by 14,468 thousand euro compared to the previous year.

This change refers both to the effect of the introduction of IFRS 16, whereby costs are shown in the income statement as depreciation and financial expenses, and to the impairment of the assets sold in the LPG business, following acceptance of the offer to sell the assets.
It should be noted that, with the introduction of IFRIC 12, amortisation mainly concerns the rights over concessions in which the Group manages the gas distribution networks.

This item is broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Depreciation	7,335	5,725	1,611
Amortisation of rights of use IFRS 16	6,724	-	6,724
Amortisation	186,383	183,578	2,806
Impairment losses:			
- Impairment of tangible assets	557	395	163
- Impairment of intangible assets	3,556	17	3,538
- Write-down of trade receivables	(274)	98	(372)
Total amortisation and impairment	**204,281**	**189,813**	**14,468**
- of which capitalised for intangible assets	3,093	-	3,093

6.e Other operating costs – 56,535 thousand euro

“Other operating costs” increased by 3,223 thousand euro compared to last year and are broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Other operating costs			
Third parties:			
Remuneration of Auditors, Supervisory Body and Committees	154	247	(93)
Remuneration of members of the Board of Directors	257	296	(38)
Association fees	492	539	(47)
Contribution to the Supervisory Authority	244	314	(70)
Compensation to customers	938	566	372
Municipal tax on property	504	531	(27)
CCIAA (chamber of commerce) fees and duties	603	506	97
Net costs for energy efficiency certificates	9,449	7,915	1,533
Tax on the occupation of public space (Tosap)	1,620	1,664	(43)
Capital losses on the disposal of assets	12,596	22,113	(9,516)
Capital losses on the sale of assets	1,345	101	1,245
Local and sundry taxes	1,376	2,053	(676)
Other costs	3,983	3,024	958
(Net) provision for risks and charges	22,972	13,444	9,529
Total other operating costs	**56,535**	**53,313**	**3,223**
- of which capitalised for intangible assets	880	865	15

The increase in other operating costs mainly depends on:

- 1,533 thousand euro increase in the net costs for energy efficiency certificates for the 2018 and 2019 target, mainly because prices rose during 2019. It should be noted that effective 2018, expenses relating to these Certificates are shown net of the related revenue;
- 9,516 thousand euro decrease in capital losses from the disposal of assets of, mainly due to the work to replace conventional meters with smart ones as well as the obsolete network. Capital losses were partly absorbed by the use — to the extent of 9,090 thousand euro — of provisions specifically allocated for faulty meters that need replacing. It should also be stressed that a portion of the capital losses, where related to meters that at the date of replacement had not been fully amortised yet from a tariff perspective, is repaid by means of tariff based on an annual payment;
- higher charges for provisions for risks of 9,529 thousand euro. The breakdown of the relevant provisions is shown in the comments on liabilities.

6.f Capitalised costs for internal work – (1,619) thousand euro

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work.
For this reason, the item now only includes those residual costs which can be capitalised but do not concern concessions. In the specific case, the value mainly refers to capitalisations of concentrators, equipment for the communication network of the new smart meters which are not part of the assets linked to the concessions.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Internal services	(460)	(2)	(459)
Other capitalised costs	(163)	(0)	(162)
Materials	(996)	(841)	(154)
Total capitalised costs for internal work	**(1,619)**	**(843)**	**(775)**

7. Income/(Expenses) from equity investments - 79 thousand euro

This item reflects an update of measurement of MEA subsidiary under the equity method.

8. Financial income/(expenses) – (60,799) thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Financial income			
- Interest income from loans to employees	1	1	-
- Interest income from current accounts and post office deposits	1,854	400	1,454
- Interest income from receivables from customers	22	11	11
- Other financial interest and income	113	103	10
Total income	**1,990**	**515**	**1,475**
Financial expenses			
- Interest expense on medium/long-term loans	3,779	3,791	(12)
- Other expense on medium-/long-term loans from banks	902	525	378
- Financial expenses on debenture loans	54,695	50,077	4,618
- Financial expenses from amortised cost	2,844	2,555	289
- Interest expense on short-term bank loans	0	-	0
- Interest expense on current bank accounts	0	12	(12)
- Discounting of post-employment and other employee benefits	756	764	(8)
- Interests on taxes	382	1	381
- Change in fair value of Interest Rate Swaps	20	-	20
- Change in fair value of hedging derivatives reclassified from comprehensive income	(1,235)	(403)	(832)
- Other financial and interest expense	122	206	(84)
- Financial Expenses IFRS16	523	-	523
Total expenses	**62,789**	**57,528**	**5,261**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(60,799)**	**(57,013)**	**(3,786)**

Net financial expenses of 60,799 thousand euro were mainly due to the recognition in the year of the interests relating to the debenture loans and the related amortised cost, and the related positive change in fair value of the hedging derivative.
At 31 December 2019, the Group had 2,997,100 thousand euro in loans outstanding, including 2,894,893 thousand euro in the five instalments of the debenture loan issued between 2014 and 2018, as well as 425,000 thousand euro in three credit lines from the European Investment Bank, in addition to 40 million euro used in relation to an uncommitted credit line.
Since 2014, the structure of the Group's debt has almost entirely moved to a fixed rate (2,727,100 thousand euro) thanks to the debenture loan, lengthening the average duration of the existing debt and reducing the cost of the debt itself at the same time.

9. Taxes – (59,597) thousand euro

This item is broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Current taxes			
Current income taxes: IRES	66,575	58,686	7,889
IRES substitute tax on exemption	17,727	-	17,727
Current income taxes: IRAP	15,102	13,680	1,422
Total current taxes	**99,405**	**72,366**	**27,039**
Income and expenses from tax consolidation			
(Income)/expenses from tax consolidation	-	(28)	28
Total income and expenses from tax consolidation	**-**	**(28)**	**28**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	2,102	0	2,102
Positive adjustments for income taxes relating to previous years	(200)	(135)	(66)
Total adjustments for income taxes relating to previous years	**1,902**	**(134)**	**2,036**
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(5,887)	(4,439)	(1,448)
Prepaid taxes (allocation)/use	(35,822)	(6,870)	(28,952)
Total current deferred and prepaid taxes	*(41,709)*	(11,309)	(30,400)
Adjustments to deferred taxes of previous years due to tax rate change	-	149	(149)
Adjustments to prepaid taxes of previous years due to tax rate change	-	41	(41)
Total adjusted deferred and prepaid taxes	-	*190*	*(190)*
Total deferred and prepaid taxes	**(41,709)**	**(11,119)**	**(30,591)**
TOTAL TAXES	**59,597**	**61,084**	**(1,487)**

The Group's income taxes for financial year 2019 totalled 59,597 thousand euro, down by 1,487 thousand euro due primarily to the effect of the substitute tax for exemption from goodwill arisen from the merger of 2i Rete Gas Impianti S.r.l. and 2i Rete Gas Impianti S.p.A. and the relevant recognition of deferred tax assets.

Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES (corporate tax) of 66,575 thousand euro and IRAP (regional production tax) of 15,102 thousand euro, in addition to the substitute tax relating to the above-mentioned exemption to the tune of 17,727 thousand euro.

Deferred and prepaid taxes follow the normal trend typical of the business, but reflect the positive impact of the exemption transaction.

For more in-depth notes on this item, reference should be made to the relevant section of the notes to the Statement of financial position.

The net adjustments to income taxes relating to previous years are positive in this year for 1,902 thousand euro; these adjustments arose following the definitive calculation of taxes during the payment in June 2019.

The tax impact of IRES for 2019 is equal to 24.3%.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in force during the year to pre-tax profit, without taking into account the adjustments from previous years:

Thousands of euro	31.12.2019	31.12.2018
Pre-tax profit	266,114	216,524
Theoretical IRES taxes	**63,898**	**49,096**
Lower taxes:		
- capital gains from exempt equity investments	3,607	225
- release of contributions taxed in prior years	1,686	1,870
- use of provisions	12,076	4,666
- release of provisions	467	576
- reversal of statutory amortisation / depreciation not deducted in prior year	1,850	1,526
- deducted tax amortisation	18	4,961
- deductible interest expense for previous years	0	-
- capital gains by instalments	17	-
- others	9,427	3,013
Higher taxes:		
- write-downs for the year	2	-
- allocations to provisions	9,816	8,640
- amortisation / depreciation on amounts that are not recognised for tax pur	4,144	2,717
- statutory amortisation / depreciation exceeding the fiscal limits	10,342	12,547
- reversal of excess fiscal amortisation / depreciation deducted in prior years	1,195	779
- capital losses on the disposal / sale of assets	12	22
- capital gains by instalments	222	222
- partially deductible costs	449	502
- connection fees	-	158
- taxes	192	370
- others	3,466	441
Total current income taxes (IRES)	**64,590**	**58,656**
IRAP	**14,728**	**13,680**
IRES and IRAP, exemption concerning previous years	**2,359**	**-**
IRES substitute tax on exemption	**17,727**	
Refund/payment of previous years' taxes	**-**	**-**
Total deferred and prepaid taxes	**(41,709)**	**(11,119)**
TOTAL INCOME TAXES FROM CONTINUING AND DISCONTINUED OPERATIONS	**57,695**	**61,217**

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero, as in the previous year.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 37,223 thousand euro

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not related to gas distribution concessions. Such assets are recognised as intangible.
The breakdown and changes in property, plant and equipment in 2019 and 2018 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	12,750	33,570	6,838	22,684	49,004	13,505	2	138,352
Accumulated depreciation	-	(24,459)	(1,870)	(20,888)	(42,928)	(10,748)	-	(100,894)
Balance at 31.12.2017	**12,750**	**9,111**	**4,968**	**1,796**	**6,076**	**2,756**	**2**	**37,458**
Contribution from change in the scope of consolidation:	-	3,210	80	0	2,263	91	-	5,644
Gross value	-	10,583	1,017	9	5,367	445	-	17,421
Acc. Depr.	-	(7,373)	(938)	(9)	(3,104)	(354)	-	(11,777)
Increases (including Fixed assets classified as assets available for sale)	-	160	2,504	175	1,367	23	2	4,231
Entry into service	-	-	-	-	-	(0)	0	-
Gross value	-	-	-	-	-	(0)	0	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	(803)	(1,035)	-	0	(9)	(19)	-	(1,865)
Gross value	(803)	(3,981)	-	(8)	(51)	(283)	-	(5,126)
Acc. Depr.	-	2,946	-	8	42	265	-	3,261
Reclassifications	-	-	(7)	102	(60)	-	-	35
Gross value	-	-	(933)	2,055	1,358	-	-	2,480
Acc. Depr.	-	-	926	(1,954)	(1,418)	-	-	(2,446)
Impairment losses	-	(395)	-	-	-	-	-	(395)
Gross value	-	-	-	-	-	-	-	-
Acc. Depr.	-	(395)	-	-	-	-	-	(395)
Fixed assets classified as assets available for sale	-	-	(70)	-	(2)	-	-	(72)
Gross value	-	-	(71)	-	(30)	-	-	(101)
Acc. Depr.	-	-	2	-	28	-	-	30
Depreciation	-	(809)	(434)	(488)	(2,929)	(1,065)	-	(5,724)
Total changes	**(803)**	**1,131**	**2,074**	**(211)**	**630**	**(970)**	**2**	**1,854**
Historical cost	11,947	40,332	9,355	24,916	57,015	13,688	4	157,257
Accumulated depreciation	-	(30,090)	(2,313)	(23,330)	(50,309)	(11,902)	-	(117,945)
Balance at 31.12.2018	**11,947**	**10,242**	**7,042**	**1,585**	**6,706**	**1,786**	**4**	**39,312**
Increases (including Fixed assets classified as assets available for sale)	-	52	3,446	238	5,699	197	801	10,434
Entry into service	-	(2)	-	-	-	(2)	4	-
Gross value	-	(2)	-	-	-	(2)	4	-
Acc. Depr.	-	-	-	-	-	-	-	-
Disposals	(2,728)	(582)	(869)	(23)	(464)	-	-	(4,666)
Gross value	(2,728)	(6,540)	(1,077)	(517)	(4,131)	-	-	(14,993)
Acc. Depr.	-	5,957	207	494	3,668	-	-	10,326
Reclassifications	-	(59)	550	-	(455)	-	-	35
Gross value	-	(70)	2,442	-	(2,337)	-	-	35
Acc. Depr.	-	11	(1,892)	-	1,881	-	-	(0)
Impairment losses	(531)	(27)	-	-	-	-	-	(557)
Gross value	(531)	-	-	-	-	-	-	(531)
Acc. Depr.	-	(27)	-	-	-	-	-	(27)
Fixed assets classified as assets available for sale	-	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-	-
Acc. Depr.	-	-	-	-	-	-	-	-
Depreciation	-	(1,311)	(819)	(411)	(3,823)	(972)	-	(7,335)
Total changes	**(3,259)**	**(1,929)**	**2,308**	**(196)**	**957**	**(776)**	**805**	**(2,090)**
Historical cost	8,688	33,772	14,167	24,637	56,247	13,884	809	152,204
Accumulated depreciation	-	(25,459)	(4,817)	(23,247)	(48,583)	(12,874)	-	(114,981)
Balance at 31.12.2019	**8,688**	**8,313**	**9,350**	**1,390**	**7,663**	**1,010**	**809**	**37,223**

At 31 December 2019, the item decreased by 2,090 thousand euro compared to 31 December 2018 due to the standard trend in business, sales and depreciation.

The increase in plant and equipment, on the other hand, was due to the installation of concentrators, data reception and transmission equipment which is part of the smart meter communication network and is excluded from the scope of application of IFRIC 12 since it is not recognised as service concession assets.

12. Rights of use under IFRS 16 – 28,817 thousand euro

Following the application of IFRS 16, hire, rent and lease contracts which up to 2018 had a single representation with the impact of the fees paid in the year on the income statement (under Fees for use of third-party assets in costs for services), are represented in this item as rights of use of an asset.
On initial recognition the Group has determined which contracts corresponded to the characteristics required by IFRS 16 and assessed their value on the basis of the residual fees to be paid at 1 January 2019, duly discounted.
For this reason, under assets a new item has been created to include the value of these rights. A financial obligation for a similar amount was held under liabilities in these financial statements, since the Company adopted the "Modified retrospective" approach for the reconciliation of values relating to the rights of use. For better disclosure of the process applied to determine the opening value and to manage such assets, reference should be made to the specific paragraph 19 (Accounting standards, evaluation criteria and use of estimates), in the section dedicated to IFRS 16.

Here below is the table of changes in assets for 2019.

Thousands of euro	Property IFRS 16	Vehicles IFRS 16	ICT IFRS 16	Total
Historical cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Balance at 31.12.2018	**-**	**-**	**-**	**-**
First application of IFRS 16 at 1 January 2019	20,669	4,832	-	**25,501**
Gross value	20,669	4,832	-	**25,501**
Acc. Depr.	-	-	-	-
Increases (including Fixed assets classified as assets available for sale)	6,260	3,440	367	**10,067**
Entry into service	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Disposals	-	(27)	-	**(27)**
Gross value	-	(27)	-	**(27)**
Acc. Depr.	-	-	-	-
Reclassifications	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Impairment losses	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Depreciation	(4,184)	(2,517)	(23)	**(6,724)**
Total changes	**22,746**	**5,727**	**344**	**28,817**
Historical cost	26,929	8,244	367	**35,540**
Accumulated depreciation	(4,184)	(2,517)	(23)	**(6,724)**
Balance at 31.12.19	**22,746**	**5,727**	**344**	**28,817**

13. Intangible assets – 3,760,807 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions.
The breakdown and changes in intangible assets in 2019 and 2018 are shown below:

Thousands of euro	Patent and intell. prop. rights intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets r construction and adva	Fixed assets under construction advances	Other fixed assets	Goodwill	Total
Historical cost	91,644	5,510,257	14,467	3,278	110,595	142,974	**5,873,215**
Accumulated depreciation	(87,081)	(2,774,412)	-	-	(74,362)	-	**(2,935,855)**
Balance at 31.12.2017	**4,563**	**2,735,845**	**14,467**	**3,278**	**36,233**	**142,974**	**2,937,360**
Contribution from change in the scope of consolidation:	-	570,554	-	-	2,421	125,735	**698,709**
Gross value	-	1,049,037	-	-	15,005	125,735	**1,189,778**
Acc. Depr.	-	(478,483)	-	-	(12,585)	-	**(491,068)**
Increases (including Fixed assets classified as assets available for sale)	2,806	247,383	18,594	3,432	11,373	-	**283,587**
Entry into service	856	8,544	(8,544)	(2,689)	1,833	-	**(0)**
Gross value	856	8,544	(8,544)	(2,689)	1,833	-	**(0)**
Acc. Depr.	-	-	-	-	-	-	**-**
Decreases	-	(21,726)	(26)	-	(317)	-	**(22,069)**
Gross value	-	(61,592)	(26)	-	(2,344)	-	**(63,962)**
Acc. Amort	-	39,866	-	-	2,027	-	**41,893**
Reclassifications	(29)	(4)	-	-	(2)	-	**(35)**
Gross value	(30)	988	-	-	(15)	-	**943**
Acc. Amort	1	(992)	-	-	13	-	**(978)**
Impairment losses	-	(1)	(17)	-	-	-	**(17)**
Gross value	-	(1)	(17)	-	-	-	**(18)**
Acc. Amort	-	0	-	-	-	-	**0**
Fixed assets classified as assets available for sale	-	(31,028)	(667)	-	-	-	**(31,696)**
Gross value	-	(62,108)	(667)	-	-	-	**(62,775)**
Acc. Amort	-	31,079	-	-	-	-	**31,079**
Amortisation	(3,607)	(165,543)	-	-	(14,428)	-	**(183,578)**
Total changes	**25**	**608,178**	**9,340**	**743**	**879**	**125,735**	**744,902**
Historical cost	95,275	6,692,509	23,807	4,022	136,446	268,709	**7,220,768**
Accumulated amortisation	(90,687)	(3,348,485)	-	-	(99,334)	-	**(3,538,506)**
Balance at 31.12.2018	**4,588**	**3,344,023**	**23,807**	**4,022**	**37,113**	**268,709**	**3,682,262**
Increases (including Fixed assets classified as assets available for sale)	392	249,424	35,548	4,106	6,222	-	**295,692**
Entry into service	-	16,179	(16,179)	(3,057)	3,057	-	**-**
Gross value	-	16,179	(16,179)	(3,057)	3,057	-	**-**
Acc. Depr.	-	-	-	-	-	-	**-**
Decreases	-	(22,432)	(455)	(81)	-	-	**(22,969)**
Gross value	-	(74,631)	(455)	(81)	(1,623)	-	**(76,790)**
Acc. Amort	-	52,199	-	-	1,623	-	**53,821**
Reclassifications	-	(1,045)	1,010	-	-	-	**(35)**
Gross value	-	(1,045)	1,010	-	-	-	**(35)**
Acc. Amort	-	0	-	-	-	-	**0**
Impairment losses	-	(3,421)	(34)	(101)	-	(1,214)	**(4,769)**
Gross value	-	(3)	(34)	(101)	-	-	**(138)**
Acc. Amort	-	(3,418)	-	-	-	(1,214)	**(4,632)**
Fixed assets classified as assets available for sale	-	(2,990)	(0)	-	-	-	**(2,991)**
Gross value	-	(3,738)	(0)	-	-	-	**(3,739)**
Acc. Amort	-	748	-	-	-	-	**748**
Amortisation	(2,168)	(168,865)	-	-	(15,351)	-	**(186,383)**
Total changes	**(1,775)**	**66,850**	**19,890**	**867**	**(6,072)**	**(1,214)**	**78,545**
Historical cost	95,668	6,878,695	43,697	4,889	144,102	268,709	**7,435,759**
Accumulated amortisation	(92,855)	(3,467,821)	-	-	(113,062)	(1,214)	**(3,674,952)**
Balance at 31.12.2019	**2,813**	**3,410,873**	**43,697**	**4,889**	**31,041**	**267,496**	**3,760,807**

Intangible assets increased by 78,545 thousand euro compared to 31 December 2018.

The item "Concessions and similar rights" totalled 3,344,023 thousand euro in 2018 and 3,410,873 thousand euro in 2019, with a total change of 66,850 thousand euro.
The item refers to the recognition of the Group's rights over fixed assets as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions.
This item reflected investments to the extent of 295,692. This item includes both disposals made during the year, totalling (22,969) thousand euro, and impairment losses due to the revision of the valuation of LPG sales and distribution concessions. The item was also affected by restatements to the extent of (3,026) thousand euro chiefly due to San Gillio and Givoletto concessions being held as assets available for sale and, lastly, depreciation to the extent of (186,383) thousand euro.

The amortisation of concession charges has been determined on a straight-line basis and on the basis of the estimated realisable value at the end of the concession.
The Group determined the terms of the concessions using the same criteria adopted in the previous year.

For concessions which have expired at the reporting date, and therefore are operating in an extension regime (prorogatio), the residual value has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that, pursuant to the Italian Ministry of Economic Development's Decree, of 19 January 2011 "Identification of local areas in the natural gas distribution sector" which came into force on 1 April 2011, according to art. 3, paragraph 3 of said Decree "as from the coming into force of this provision, the tenders for the assignment of the gas distribution service, as provided for by art. 14, paragraph 1, of Italian Legislative Decree No. 164 of 23 May 2000, for which the call for tender has not been published or for which the deadline for submitting offers has not expired, are awarded solely for the local areas established in Annex 1 forming an integral part of this provision" and that, in compliance with art. 14, paragraph 7 of Italian Legislative Decree No. 164/2000, "the outgoing operator, pursuant to art. 14, paragraph 7, of Italian Legislative Decree No. 164 of 23 May 2000, in any case remains under obligation to continue managing the service until the start date of the new assignment".
"Concessions and similar rights – Fixed assets under construction and advances", totalling 43,697 thousand euro, included investments related to the concessions and not yet completed.
"Fixed assets under construction and advances", totalling 4,889 thousand euro, mainly consisted of investments in software which is being developed to guarantee better and more precise management of the Company.
During the year, 3,057 thousand euro in fixed assets under construction were completed.

"Other intangible assets" of 31,041 thousand euro include other long-term costs, also linked to the implementation of the remote reading system for smart meters.

"Goodwill" is equal to 267,496 thousand euro and is related to the deficit from the consolidation and merger of companies which had previously been subsidiaries. Movements in this item during the year pertained to the write-off in relation to the concessions sold. This item was recognised in agreement with the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the Discounted Cash Flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use.
For the purposes of this estimate, the whole Group is considered as a Cash Generating Unit, consistently with the corporate vision.
In detail, cash flows are considered for a forecast period of 5 years, consistent with the 2i Rete Gas Group plan approved by the Board of Directors on 15 January 2020 and drafted on the going concern assumption, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the main assumptions are:

- continuity in concession management, since the redefinition of the relevant local areas resulting from the territorial tenders will be a concrete opportunity for the Group to expand its business on the competitive market also thanks to its economic capacity, available credit lines, and top position in a market that is experiencing concentration;
- the continuous management of end customers, with the assumption of a further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years;

The discount rates applied, the forecast period over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

Tax Rate	WACC (1)	Cash flow forecast period	TV (g) growth rate
28.6% (2)	3.6%	2020 - 2024	0%

(1) Post-tax WACC is aligned to the average cost of financing of the best-performing peers in the sector
(2) IRAP + IRES rate

The value in use, determined in accordance with the aforementioned methods, was higher than the value of the net invested capital recorded in the financial statements.

The recoverability of the Group's invested capital was also confirmed by a further sensitivity analysis undertaken by considering possible changes in the key assumptions included in the business and financial plan used for the impairment test.
In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital), there would have to be damaging changes to the plan such as to reduce the net cash flows by around 26%, a percentage which is much higher than the reductions considered possible by the Group.

14. Net deferred tax assets – 125,911 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date. Deferred tax assets totalled 242,889 thousand euro, while deferred tax liabilities totalled 116,978 thousand euro.

Deferred tax assets and liabilities at 31 December 2019 were determined using the tax rates in force: 24% for IRES and 4.53% for IRAP.

Deferred tax assets increased mainly due to the effect of the exemption occurred during the year in respect of the goodwill arisen from the merger of 2i Rete Gas Impianti S.r.l. and 2i Rete Gas Impianti S.p.A. and recognition of the related deferred tax assets.
As for deferred tax liabilities, the 2,375 thousand euro increase was due to the normal change in the year; on the other hand, decreases were 7,997 thousand euro, and include the recognition of the effects of mergers (for 2,358 thousand euro).

Considering, among other things, the flows estimated in the most recent business plans, the Group believes it can use deferred tax assets in the ordinary course of business.

The table below details changes in deferred tax assets and liabilities by type of temporary difference, determined according to the tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

Thousands of euro	At 31.12.2018	Capital contributions from extraordinary operations during the year	Total	Increases recognised in		Decreases recognised in		Other changes		Reclassifications (if any) under the item Available for sale	Adjustments (if any) under the item Available for sale	Balance at 31.12.2019
				Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity			
Deferred income tax assets:												
allocation to provisions for risks and charges, deferred deductibility	**26,423**		26,423	10,776	-	(13,095)	-	133	-	-	-	**24,236**
allocation to provisions for incentives to leave and stock options	**673**		673	143	-	(394)	-	9	-	-	-	**430**
allocation to provisions for disputes	**4,037**		4,037	567	-	(778)	-	(185)	-	-	-	**3,641**
allocation to provisions for inventory obsolescence	**3,298**		3,298	31	-	(54)	-	(4)	-	-	-	**3,272**
impairment losses on assets, deferred deductibility (receivables write-downs)	**2,554**		2,554	2	-	(291)	-	(27)	-	-	-	**2,238**
impairment losses on assets, deferred deductibility (plant write-downs)	**1,899**		1,899	-	-	-	-	(2)	-	-	-	**1,898**
depreciation and amortisation of tangible and intangible assets, deferred deductibility	**109,110**		109,110	10,479	-	(5,013)	-	(8)	-	174	-	**114,742**
separation of land / buildings and component analysis	**114**		114	-	-	-	-	(0)	-	-	-	**114**
start-up costs	**2,225**		2,225	-	-	-	-	(0)	-	-	-	**2,224**
post-employment and other employee benefits	**3,940**	13	3,953	1,188	-	(1,365)	-	(4)	-	-	-	**3,772**
cash deductible taxes and duties	**(0)**		(0)	-	-	-	-	-	-	-	-	**(0)**
proceeds subject to deferred taxation (connection fees)	**34,618**		34,618	-	-	(175)	-	(28)	-	-	-	**34,415**
deferred deductibility charges	**13,434**		13,434	9	-	(2)	-	2,209	-	-	-	**15,650**
goodwill	**1,133**		1,133	31,606	-	(22)	-	113	-	-	-	**32,829**
post-employment benefits - Italian Accounting Body (OCI)	**2,238**	(12)	2,226	-	125	-	-	-	(3)	-	-	**2,348**
derivative financial instruments (in case of a net negative change in the relevant equity reserve)	**-**		-	-	956	-	-	-	-	-	-	**956**
for losses recoverable in future years	**1**		1	-	-	-	-	-	-	-	-	**1**
other consolidation adjustments	**118**	(1)	117	7	-	(2)	-	-	-	-	-	**122**
Total	**205,814**	**-**	**205,814**	**54,807**	**1,081**	**(21,190)**	**-**	**2,205**	**(3)**	**174**	**-**	**242,889**
Deferred income tax liabilities:												
differences on tangible and intangible assets – additional depreciation and amortisation	**23,030**		23,030	269	-	(3,006)	-	(0)	-	31	-	**20,324**
differences on intangible assets – goodwill	**5,481**		5,481	-	-	-	-	(1)	-	-	-	**5,479**
separation of land / buildings and component analysis	**3,826**		3,826	-	-	-	-	(4)	-	-	-	**3,821**
allocation to assets of costs relating to company mergers	**37,991**		37,991	-	-	(2,206)	-	(50)	-	-	-	**35,735**
post-employment benefits	**1,114**		1,114	-	-	-	-	-	(0)	-	-	**1,113**
proceeds subject to deferred taxation	**3,352**		3,352	1,181	-	(222)	-	(0)	-	-	-	**4,311**
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	**2,856**		2,856	97	-	-	(296)	-	-	-	-	**2,656**
other…	**1,480**		1,480	33	-	(205)	-	(2)	-	-	-	**1,306**
derivative financial instruments and ASEM - Italian Accounting Body (OCI)	**59**		59	-	31	-	-	-	(0)	-	-	**90**
recognition of deferred taxes due to merger	**43,772**		43,772	795	-	(2,358)	-	(209)	-	-	-	**42,002**
other consolidation adjustments	**139**		139	-	-	-	-	-	-	-	-	**139**
5% dividends received allocated to future years on an accruals basis	**0**	-	0	-	-	-	-	-	-	-	-	**0**
Total	**123,099**	**-**	**123,099**	**2,375**	**31**	**(7,997)**	**(296)**	**(266)**	**(0)**	**31**	**-**	**116,978**
-				-	-	-	-	-	-	-	-	
-												
Net deferred tax assets	**82,715**	**-**	**82,715**	**52,432**	**1,049**	**(13,193)**	**296**	**2,470**	**(2)**	**143**	**-**	**125,911**

15. Equity investments – 3,349 thousand euro

The table on the following page shows the changes in the year for each equity investment, with the corresponding values at the beginning and end of the year, as well as the list of equity investments held in other companies.

Thousands of euro	Carrying amount	% ownership	Increases for the period	Disposals	Other decreases	Adjust-ments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	at 31.12.2018							at 31.12.2019		
Associates										
Equity Method										
Melegnano Energia Ambiente SpA	3,336	**40.00%**	(116)				2,451	768	3,220	**40.00%**
2i Servizi Energetici Srl	0	**0.00%**	6				-	6	6	**60.00%**
Other companies										
Valuation at cost										
Interporto di Rovigo S.p.A.	42	**0.30%**					42		42	**0.30%**
Fingranda S.p.A.	26	**0.58%**					26		26	**0.58%**
Agenzia di Pollenzo S.p.A.	33	**0.27%**					33		33	**0.27%**
Industria e Università S.r.l.	11	**0.09%**					11		11	**0.09%**
Terme di Offida SpA	1	**0.19%**					1		1	**0.19%**
Asogas S.p.A. in liquidazione	-	**9.00%**					-		-	**9.00%**
Banca Popolare Pugliese	11	**0.00%**							11	**0.00%**
TOTAL EQUITY INVESTMENTS	**3,459**		**(110)**	**-**	**-**	**-**	**2,564**	**774**	**3,349**	

The tables below show the list of equity investments in associates and their values as recognised in the Group's financial statements at 31 December 2019:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Consolidated carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	8,539,951	5,518,155	200,674	31.12.2018	40.00%	3,219,820
2i Servizi Energetici Srl	Milan	10,000				pending approval of first set of financial statements	60.00%	6,000

Finally, the equity investments in other companies at the same date were:

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,541,759	1,452,858	73,167	31.12.2018	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,390,027	22,701	(198,691)	31.12.2018	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,962,113	955,698	14,153	31.12.2018	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,157,312	0	(30,308)	31.12.2018	0.09%	10,989
Terme di Offida Spa	Offida (AP)	141,384	24,624	0	(8,345)	31.12.2018	0.19%	548
Asogas S.p.A. (liquidated)		Removed from the Business Register on 24/12/2019						
Banca Popolare Pugliese	Parabita (Le)	184,828,872	312,914,069	131,896,327	9,550,873	31.12.2018	0.01%	11,127

16. Non-current financial assets – 1,547 thousand euro

The item also includes the prepayment of transaction costs incurred to obtain credit lines, unused at 31 December 2019, and includes the revolving line obtained in the year.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Non-current prepaid financial expenses	869	368	500
Long-term loans to employees	18	42	(24)
Financial receivables due from others	660	614	46
Total	**1,547**	**1,025**	**523**

17. Other non-current assets – 57,697 thousand euro

This item decreased by 13 thousand euro compared to 31 December 2018; it is broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
security deposits	3,579	3,381	198
receivables for plant contributions	560	560	-
tax receivables reimbursements applied for	1,598	1,598	-
prepaid promotional expenses	86	110	(24)
from municipalities for disposals of assets due to expiration of concessions	5,883	7,131	(1,247)
Non-current receivables from CSEA	30,243	28,662	1,581
other non-current assets	15,895	16,416	(521)
bad debt provision	(147)	(147)	-
Total	**57,697**	**57,710**	**(13)**

Guarantee deposits totalled 3,579 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

Receivables for grants to be received, amounting to 560 thousand euro, and receivables for tax refund claims, amounting to 1,598 thousand euro, did not change during the year, the latter relating to a claim filed under Article 6 of Law Decree No. 185/2008 (Deduction from IRES of the IRAP portion for labour costs and interest expense).

The receivable due from municipalities for disposals of assets due to the expiration of concessions had a balance of 5,883 thousand euro, further down compared to the previous year. This item refers to receivables which are subject to legal challenge or similar ongoing procedures with municipalities in order to obtain the amount of the refund owed to the Group as outgoing operator for some concessions which have been ended over the years. This year, too, the Company placed special emphasis on this issue, unlocking a further tranche of receivables.

The balance of non-current receivables due from the Fund for Energy and Environmental Services (CSEA) referred to the amount payable to distribution companies for the conventional meters that must be replaced with smart ones pursuant to Resolution 155/09, but that had not yet been fully amortised through tariffs at the date of their replacement. This item increased further due to replacement operations during the year.

Finally, the 521 thousand euro decrease in other non-current assets included the balance of the advance payments of the fees that distribution companies must pay to contracting authorities for ATEM tenders (11,302 thousand euro at 31 December 2019), as well as the remaining amount of the prepaid expenses for the lease payment paid in advance by the Parent Company to the company API, which owns the networks operated in the municipality of Rozzano (2,875 thousand euro).

Current assets

18. Inventories – 23,509 thousand euro

Closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas distribution plants and, in particular, of the new smart meters.
The item includes the provision for the write-down of inventories equal to 511 thousand euro. The provision was set up to take into account inventories with unlikely future use.
The Company uses the weighted average cost method.

19. Trade receivables – 250,680 thousand euro

Trade receivables were up 18,056 thousand euro compared to 31 December 2018.

This item is broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Receivables due from customers	256,086	240,443	15,643
- Bad debt provision	(8,323)	(9,288)	965
Receivables for returns under warranty	3,562	2,114	1,448
- Provision for receivables for returns under warranty	(646)	(646)	-
Total	**250,680**	**232,624**	**18,056**

Receivables due from third-party customers consist of trade receivables and receivables from operations and include receivables relating to gas distribution and to the invoicing of the residual activities in the water sector.
Such receivables are recognised net of a 8,323 thousand euro bad debt provision.
As for the impact assessment pursuant to IFRS 9, the company did not consider it had to update its assessments since the guarantees hedging receivables significantly reduce the risk of insolvency.
Receivables for returns under warranty, which are recognised net of the relevant bad debt provision, concern receivables due from manufacturers of meters for non-functioning assets which have long-term warranties. The amount is stated net of the bad debt provision to take account of changed contractual conditions and findings which lead to the belief that the receivable is no longer collectible.
Changes in the bad debt provision are set out below.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
At 31 December 2018	**9,288**	**9,057**	**230**
Contribution from change in the scope of consolidation	-	1,896	(1,896)
Allocations	663	978	(315)
Releases	(937)	(879)	(57)
Uses	(691)	(1,765)	1,074
At 31 December 2019	**8,323**	**9,288**	**(965)**

The bad debt provision at 31 December 2019 was subject to taxes of 7,245 thousand euro (9,062 thousand euro at 31 December 2018).

The Group operated exclusively in Italy.

20. Short-term financial receivables – 1,330 thousand euro

Short-term financial receivables consisted for 1,304 thousand euro of financial receivables arising from the exercise of the right of withdrawal of Azienda Elettrica Valtellina e Valchiavenna. The amount reflects the estimate based on the preliminary withdrawal value that (i) was disputed by the company, (ii) was updated following payment of the company's dividend and (iii) will have to be updated based on the outcome of the ensuing litigation.

21. Other current financial assets – 879 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2019.

22. Cash and cash equivalents – 353,308 thousand euro

Cash and cash equivalents fell by 333,046 thousand euro as a result of financial transactions completed during the year — repayment of debenture loan instalments to the extent of 362.7 million euro — and thanks to normal operations.

Cash and cash equivalents are broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Bank deposits	352,944	685,721	(332,777)
Post office deposits	210	491	(282)
Cash in hand	153	141	13
Total	**353,308**	**686,353**	**(333,046)**

Cash associated with operating activities is held in bank and post office deposits. Cash holdings were used on 2 January 2020 to repay a debenture loan instalment amounting to 267,100 thousand euro.

23. Income tax receivables – 6,272 thousand euro

Income tax receivables concerned both IRES and IRAP, the 8,361 thousand euro decrease in the year was due to the normal change for the payment of advances and balance during 2019.

24. Other current assets – 201,361 thousand euro

Other current assets decreased by 6,365 thousand euro compared with the year ended 31 December 2018 chiefly due to a reduction in receivables due to the Group from CSEA (this item to be compared with payables to CSEA held under other current liabilities), totalling 9,217 thousand euro, due to normal transactions with the Fund. It should be noted that these receivables include the amount to be recognised for Energy Efficiency Certificates (15,392 thousand euro), the amount receivable arising from gas distribution service equalisation (24,451 thousand euro), receivables for the UG2 and Bonus Gas components (69,107 thousand euro) and receivables from Technical Quality recognition (40,003 thousand euro).
VAT receivables both for the period and for tax reimbursement rose overall by 2,952 thousand euro.

The item is broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Other tax receivables:			
VAT receivables reimbursements applied for	9,341	9,337	4
Receivables due from tax authorities for VAT	14,823	11,874	2,948
Other tax receivables	7	131	(124)
Other receivables:			
from social security and insurance agencies	1,538	1,161	376
receivables for plant contributions	2,649	2,854	(205)
from CSEA	163,079	172,296	(9,217)
from municipalities for disposals of assets due to expiration of concessions	1,299	1,299	-
from municipalities	246	246	-
from suppliers	3,827	3,497	329
Other receivables	4,854	5,185	(331)
Provision for other doubtful debts	(2,913)	(3,039)	126
Accrued income	22	83	(61)
Deferred expenses relating to other multi-year charges	21	23	(2)
Deferred expenses relating to real estate lease fees	445	555	(110)
Prepayment of promotional expenses	24	26	(2)
Deferred insurance premiums	100	57	43
Other deferred expenses	2,000	2,141	(140)
Total	**201,361**	**207,726**	**(6,365)**

25. Assets held for sale – 2,991 thousand euro

During the year, the San Gillio and Givoletto concessions were stated as assets held for sale. The sale of these concessions was completed on 31 January 2020 following the award of ATEM Turin 2 to another operator as part of a tender in which the Group had decided not to participate due to lack of adequate economic grounds. In the previous year, the assets transferred to Murgia Reti Gas relating to ATEMs Bari 2 and Foggia 1, a company eventually sold on 1 April 2019, were restated under this item.

Liabilities

Equity

26. Equity – 934,591 thousand euro

Equity rose by 108,892 thousand euro as a result of the following changes:

- decrease in the ordinary dividend pay-out for an overall amount of 93,000 thousand euro;
- negative change in IAS reserves for 4,625 thousand euro following the fair value adjustment of derivatives (negative for 3,964 thousand euro) and the recognition of the discounting of defined benefits, positive for 661 thousand euro;
- 206,383 thousand euro increase in profit for the year.

Share capital – 3,639 thousand euro

The share capital at 31 December 2019 consisted of 363,851,660 ordinary shares of 2i Rete Gas S.p.A. and amounted to 3,639 thousand euro, entirely subscribed and paid up.

Share premium reserve – 286,546 thousand euro

The share premium reserve did not change in the year.

Legal reserve – 728 thousand euro

The legal reserve stood at 728 thousand euro and did not change during the year.

Reserves for valuation of derivatives – 5,385 thousand euro

The reserve for valuation of derivatives was created in 2016 following the execution of Forward Starting Interest Rate Swap contracts. In 2018, the swap was closed as planned, while the effect on the income statement is recorded on the basis of the interest expense flow of the Debenture Loan for the following 10 years. This movement is in addition to the fair value measurement of the new derivative contract opened in 2019.

Other reserves – 233,350 thousand euro

Other reserves increased by 24,585 thousand euro compared to the previous year, mainly due to the (i) reclassification from retained earnings of 25,246 thousand euro following the merger between the Parent Company and some subsidiaries and, marginally, (ii) at-equity measurement of the effect of the actuarial valuation of the Group's defined benefit plan.

Retained earnings – 197,028 thousand euro

Retained earnings rose by 37,216 thousand euro compared to the previous year, following 2018 profit allocation, the reclassification of 25,246 thousand euro to other reserves following extraordinary operations to reorganise the Group and the dividend distribution in 2019.

Profit for the period – 206,383 thousand euro

Compared to the previous year, the operating result in 2019 showed an increase of 50,926 thousand euro due to the Group's better performance — partly thanks to the gain on the sale of the equity interest held in Murgia Reti Gas S.r.l. and the release of part of the provisions for risks — as well as an improvement in the Group's ROS.

Non-current liabilities

27. Long-term loans – 2,660,921 thousand euro

The item refers to the four instalments of the long-term debenture loan the Group issued between 2014 and 2018 as well as 425 million euro in three credit lines received from the European Investment Bank used between 2015 and 2017.
The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

Thousands of euro	Balance		Notional Value		Interest rate	Effective
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	in force	interest rate
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	181,818	200,000	181,818	200,000	Eur+0,59%	0.26%
Debenture loan expiring 2020	-	267,100	-	267,100		
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2025	500,000	500,000	500,000	500,000	2.20%	2.29%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs linked to loans (long term)	(10,897)	(13,243)				
TOTAL LONG TERM	**2,660,921**	**2,943,857**	**2,671,818**	**2,957,100**		

The maturity schedule of financial liabilities, whether medium-/long-term (2,671,818 thousand euro notional) or short-term (325,282 thousand euro – see point 33 and 34 of these notes), is shown in the following table:

Thousands of euro	**Notional**		**1 year**	**2 - 5 years**	**beyond 5 years**
	at 31.12.2019	**at 31.12.2018**			
Short-/Medium-/long-term bank loans and debenture loans					
Financing - Medium-/long-term Capex Line	406,818	425,000	-	72,727	334,091
Financing - Short-term Capex Line	58,182	-	58,182	-	-
Medium-/long-term debenture loans	2,265,000	362,793	-	600,000	1,665,000
Debenture loans due within next year	267,100	2,532,100	267,100	-	-
Other payables	-	157	-	-	-
Total	**2,997,100**	**3,320,050**	**325,282**	**672,727**	**1,999,091**

The debenture loan regulation, issued for a market of institutional investors, does not provide for covenants.

The loans taken out with the European Investment Bank are subject to some covenants calculated on the basis of the consolidated financial statements that the Company must meet to continue using the credit lines.
The covenants concern the following indicators:

- Total net financial debt;
- RAB (Regulatory Asset Base);
- EBITDA;
- Net Financial Expenses.

As at 31 December 2019, the company met all covenants under this facility.

28. Post-employment and other employee benefits – 43,559 thousand euro

The Group provides employees with various types of benefits, including post-employment benefits, health benefits, compensation due instead of notice of dismissal (Indennità Sostitutive del Preavviso - ISP) and compensation due instead of energy discount (Indennità Sostitutive Sconto Energia).

The item includes provisions for post-employment defined benefit plans and other long-term employee benefits required by law or contract.

Pursuant to IAS 19 Revised, these "defined benefit obligations" were determined using the "Projected Unit Credit Method", which requires to calculate the liability in proportion to the service already rendered at the reporting date, and not the service that could presumably be rendered overall.
In detail, the plans provided for the following benefits:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Post-employment benefits	31,649	33,269	(1,620)
ASEM health service	1,602	1,716	(114)
Fondo GAS	10,308	10,621	(313)
Total	**43,559**	**45,606**	**(2,047)**

An analysis of the main items is provided below.

Post-employment benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive post-employment benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.
Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of post-employment benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

Based on the Italian collective bargaining agreement for executives in the industrial sector, executives have the right to supplemental health care in addition to that provided by the Italian Health Service, during both the employment relationship and retirement. Asem and FASI, the health care fund set up for workers in Italy's electricity industry, reimburse medical expenses.

Fondo Gas

Italian Law Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the elimination of the so-called "Fondo Gas" (gas fund) as from 1 December 2015. The decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the 2014 contribution to Fondo Gas, for each full year or any part thereof that the person has been a member of the fund. Said amount can be set aside with the employer or paid as a contribution to a supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid to Fondo Gas shall be paid in a lump sum at the time of the final wage.
The Company set aside an additional amount during the year after revising the estimate based on the more accurate data available on the average seniority of current employees for the purposes of Fondo Gas.

The main assumptions in the actuarial estimates of employee benefit liabilities (Gas Provision and post-employment benefits) are set out below.

	31.12.2019	31.12.2018
Actuarial assumptions		
Discount rate	1.00%	1.60%
Annual rate of increase in cost of living	1.00%	1.50%
Rate of increase in cost of health spending	2.00%	2.50%
Demographic scenarios		
Probability of death/invalidity	ISTAT Table 2017	ISTAT Table 2014
Resignation rate < 50 years of age	2.00%	2.00%
Resignation rate > 50 years of age	nil	nil

29. Provisions for risks and charges – 8,128 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes, without taking into account the impact of disputes estimated to be settled in favour of the Group and those for which the potential expense cannot be measured reliably.

Provisions for risks and charges (considering both the short-term and the medium-/long-term portion) increased by 9,626 thousand euro overall compared to 31 December 2018. The table below shows the total provisions for risks and charges (both the short-term and the medium-/long-term portion). The short-term portion is disclosed separately.

Thousands of euro	31.12.2018	Of which current portion	Of which non-current portion	Allocations	Releases	Uses	Other changes	31.12.2019	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	8,236	-	8,236	1,596	(945)	(1,775)	(583)	6,530	-	6,530
Provision for taxes and duties	1,505	-	1,505	-	(65)	(18)	-	1,423	-	1,423
Provisions for disputes with personnel	100	-	100	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	75	-	75
Provision for disputes on concessions	25,075	25,075	-	6,660	(5,175)	(1,268)	583	25,876	25,876	-
Other provisions for risks and charges	73,044	73,044	-	31,513	(23,854)	(15,625)	(0)	65,077	65,077	-
Total	**108,036**	**98,119**	**9,916**	**39,769**	**(30,038)**	**(18,686)**	**0**	**99,080**	**90,953**	**8,128**
Provisions for charges pertaining to incentives t	2,356	2,356	-	500	-	(1,380)	210	1,686	1,686	-
Total	**110,392**	**100,476**	**9,916**	**40,269**	**(30,038)**	**(20,066)**	**210**	**100,766**	**92,639**	**8,128**

Provisions for risks and charges amounted to 100,766 thousand euro overall. They consisted of a 92,639 thousand euro short-term portion and a 8,128 thousand euro long-term portion, and were broken down as follows:

- "Provisions for litigation and disputes", 6,530 thousand euro, to cover contingent liabilities mainly arising from ongoing litigation cases;
- "Provision for taxes and duties", amounting to 1,423 thousand euro, referred mainly to ongoing disputes or claims on local taxes;
- "Provision for disputes with personnel", amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in the year;
- "Provision for disputes on concessions", totalling 25,876 thousand euro, generally includes the estimated costs associated with various disputes with municipalities. This line item rose by a net 800 thousand euro following the requests made by municipalities to revise the agreed concession fees, including uses of 1,268 thousand euro;
- "Other provisions for risks and charges", amounting to 65,077 thousand euro, cover the costs that could potentially arise from the need for maintenance or replacement of meters not fully compliant with corporate standards, as well as the risk of some tariff reviews related to concessions owned by third parties; during the period the Italian Council of State has finally made a decision in favour of the Parent Company in relation to the appeal against ARERA's decision to revise said tariffs for a number of concessions is still under discussion. Finally, the provision also includes the allocation for the risk that the contribution to derecognise energy efficiency certificates does not cover the cost to purchase such certificates in order to comply with regulatory obligations up to May 2020;
- "Provision for charges pertaining to incentives to leave", totalling 1,686 thousand euro, addresses possible liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started during the year and are still under way. The provision was used during 2019 to the extent of 1,380 thousand euro.

The fiscal position of the Group has been defined up to 2014.

30. Non-current financial liabilities – 4,001 thousand euro

As at 31 December 2019, non-current financial liabilities reflected the negative fair value of the derivative contract opened by the Parent Company during the year. In the previous year, there were no non-current financial liabilities.

31. Non-current financial liabilities pursuant to IFRS 16 – 22,539 thousand euro

As at 31 December 2019, this item included financial liabilities falling due after 12 months deriving from the application of IFRS 16, i.e. payables arising from future leases that the

Group will have to pay for the exclusive use of those assets whose hire, rental or lease contracts fall under the application of the aforesaid standard.
The table below shows details of maturities broken down by short, medium and long-term debt and by type of contract.

Thousands of euro

		Present value of cash flows IFRS 16 31.12.2019	1 year	2 - 5 years	beyond 5 years
ST/LT IFRS 16 Financial liabilities					
IFRS 16 Non-current financial liabilities		**22,539**	**-**	**11,501**	**11,038**
	Property IFRS 16			8,104	10,189
	Vehicles IFRS 16			3,142	849
	ICT IFRS 16			255	-
IFRS 16 Current financial liabilities		**6,110**	**6,110**	**-**	**-**
	Property IFRS 16		4,252		
	Vehicles IFRS 16		1,769		
	ICT IFRS 16		90		
Total		**28,649**	**6,110**	**11,501**	**11,038**

32. Other non-current liabilities – 323,108 thousand euro

This item decreased by 14,666 thousand euro compared to the previous year. The breakdown is set out below:

Thousands of euro

	31.12.2019	31.12.2018	2019- 2018
payables to social security and insurance agencies	2,137	2,137	-
other payables	361	361	-
Deferred income for plant contributions	45,037	43,018	2,020
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	275,573	262,927	12,646
Total deferred income	**323,108**	**308,442**	**14,666**

The change in deferred income is part of normal operations. The item must be read together with the short-term portion of “Other current liabilities”.

Current liabilities

33. Short-term loans – 307,088 thousand euro

The item in question mainly refers to the portion of the debenture loan due in 2020, as well as current account payables.
Specifically:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
short-term payables due to banks	40,000	157	39,843
short-term debenture loans	267,088	362,494	(95,405)
Total	**307,088**	**362,651**	**(55,562)**

34. Current portion of medium/long-term bank loans – 18,182 thousand euro

As at 31 December 2019, this item reflected the total instalments of the loan due to the EIB, the repayment of which was contractually scheduled to fall due within the following 12 months. In the prior year there was no current portion of medium/long-term bank loans.

35. Current portion of long-term provisions and short-term provisions – 92,639 thousand euro

The current portion of long-term provisions amounted to 92,639 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 29).

36. Trade payables – 186,344 thousand euro

This item includes all trade and operating liabilities of certain amount and timing. All reported payables were incurred in Italy.

Compared to 31 December 2018, the item fell by 21,264 thousand euro.

The breakdown of trade payables to third-party suppliers is set out below.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Suppliers	186,344	207,608	(21,264)
Total	**186,344**	**207,608**	**(21,264)**

The balance at 31 December 2019 mainly consists of residual amount payable to supplier companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from staff and operating support services, and from the purchase of electricity and gas service for internal use.

37. Income tax payables – 8,186 thousand euro

As at 31 December 2019, income tax payables were lower than in the previous year due to the normal trend in payments and advances paid, showing a drop of 665 thousand euro.

38. Current financial liabilities – 20,025 thousand euro

Current financial liabilities mostly refer to the interest expense accrued and not yet paid relating to the three instalments of the debenture loan issued between 2014 and 2018.

Thousands of euro

	31.12.2019	30.06.2018	2019 - 2018
Accrued liabilities for interest on short-term bank loans and bank expenses	19,351	22,343	(2,993)
Other current financial payables	675	623	52
Total	**20,025**	**22,966**	**(2,941)**

39. Current financial liabilities pursuant to IFRS 16 – 6,110 thousand euro

As at 31 December 2019, this item included financial liabilities falling due within 12 months deriving from the application of IFRS 16. A breakdown of maturities by type of contract is provided under 31 above.

40. Other current liabilities – 220,120 thousand euro

Other current liabilities decreased by 2,916 thousand euro during the year, mainly due to an increase in "Other payables". This item also included amounts due to the Fund for Energy and Environmental Services in respect of accounting records relating to different tariff components, and was offset by a decrease in deferred income to the extent of 10,461 thousand euro.
This item concerning the Fund for Energy and Environmental Services (CSEA) must be read also in light of the relevant receivables due from CSEA included under Other current assets.
Other current liabilities are set out below:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
other tax payables	4,191	4,009	182
payables to social security and pension agencies	11,479	12,170	(692)
other payables	189,207	181,348	7,859
accrued liabilities	4,285	4,088	197
deferred income	10,958	21,420	(10,461)
Total	**220,120**	**223,036**	**(2,916)**

Other tax payables, amounting to 4,191 thousand euro, are set out below.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
VAT payables	318	412	(94)
Employee withholding taxes	3,809	3,538	271
Withholding taxes	64	59	5
Other taxes	0	0	0
Total	**4,191**	**4,009**	**182**

Amounts due to social security institutions, totalling 11,479 thousand euro, were virtually in line with the previous year, taking into account changes in personnel during the year:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
due to INPS	9,449	10,036	(586)
due to other agencies	2,030	2,135	(105)
Total	**11,479**	**12,170**	**(692)**

Other payables, amounting to 189,207 thousand euro, are set out below.

	31.12.2019	31.12.2018	2019 - 2018
Payables to employees	13,516	15,705	(2,188)
Payables to municipalities for rights and fees	405	686	(282)
Payables for connections and other payables due to customers	2,524	2,083	441
User security deposits and advances	2,744	2,168	576
Payables to CSEA	163,329	153,798	9,531
Other payables	6,689	6,908	(219)
Total	**189,207**	**181,348**	**7,859**

Payables to the Fund for Energy and Environmental Services (CSEA) consist of 91,241 thousand euro payables for the entries that are transferred to the trading companies through the invoicing mechanism and then paid to CSEA, generally on a bi-monthly basis (UG1, UG2, UG3, Re, Gs and Rs) and residual payables mainly relating to the amount of equalisation for previous years and the current year totalling 59,053 thousand euro.

Accruals and deferred income, amounting to 15,243 thousand euro, are set out below.

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Accrued liabilities			
Additional monthly accrual for employees	3,315	3,343	(28)
Other accrued liabilities	970	746	224
Total accrued liabilities	**4,285**	**4,088**	**197**
Deferred income			
Deferred income for plant contributions	2,169	11,132	(8,963)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	8,776	10,201	(1,425)
Other deferred income	13	87	(74)
Total deferred income	**10,958**	**21,420**	**(10,461)**
Total accrued liabilities and deferred income	**15,243**	**25,508**	**(10,265)**

25. Liabilities held for sale – 139 thousand euro

As at 31 December 2019, this item reflected liabilities relating to the concessions of San Gillio and Givoletto. The sale of these concessions was completed on 31 January 2020 following the award of ATEM Turin 2 to another operator as part of a tender in which the Group had decided not to participate due to lack of adequate economic grounds. In the previous year, the liabilities relating to ATEMs Bari 2 and Foggia 1, which were disposed of on 1 April 2019, were restated under this item.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

“Related parties” with whom the Group had dealings in 2019 included:

- F2i SGR S.p.A. – as the operating company of “F2i – Third Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors” (“F2i – Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato ad investitori qualificati”)
- F2i SGR S.p.A. – as the operating company of “F2i – Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" (“F2i – Secondo Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato a investitori qualificati")
- Finavias Sarl
- Bonatti S.p.A.
- Studio Professionale Associato
- APG Infrastructure Pool 2017 II
- Melegnano Energia Ambiente S.r.l. (MEA S.p.A.)
- 2i Servizi Energetici S.r.l.

The definition of related parties includes key management personnel, including their close relatives, of the Parent Company as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the Parent exercises considerable influence. Key management personnel are those who have direct and indirect power and responsibility for planning, management, and control of company operations, including Directors and Auditors.

All the commercial balances are for transactions at market values.

Trade, financial and other transactions involving the Group, its parent companies and its subsidiaries are shown below.

Trade and other transactions

Year 2019

	Trade		Trade	
Thousands of euro	Receivables	Payables	Costs	Revenue
F2i SGR S.p.A	-	20	77	-
MEA SPA	2	-	-	9
APG Infrastructure Pool 2017 II	-	40	40	-
Bonatti Spa	-	4,674	7,082	3
2i Servizi Energetici Srl	128	3	3	128
Cioccarelli e Associati Srl	-	1	1	-
Key management personnel, including directors and statutory auditors	-	122	3,585	-
Total	**130**	**4,860**	**10,788**	**139**

Year 2018

	Trade		Trade	
Thousands of euro	Receivables	Payables	Costs	Revenue
F2i sgr Spa	-	20	86	-
MEA S.p.A	27	-	-	9
Software Design S.p.A.	-	223	360	-
Maepa Srl	-	-	4	-
APG Infrastructure Pool 2017 II	-	31	31	-
Bonatti SPA	-	714	4	-
Key management personnel, including directors and statutory auditors	-	523	2,975	-
Total	**27**	**1,511**	**3,459**	**9**

Financial transactions

Year 2019

	Financial		Financial		
Thousands of euro	Receivables	Payables	Costs	Revenue	Dividends paid
F2i – Terzo Fondo Ialiano per le Infrastrutture (managed by F2i sgr Spa)				-	59,427
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)				-	7,540
Finavias S. à r.l.				-	25,978
MEA SPA				80	
Total	**-**	**-**	**-**	**80**	**92,945**

Year 2018

	Financial		Financial		
Thousands of euro	Receivables	Payables	Costs	Revenue	Dividends paid
F2i – Terzo Fondo Ialiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S. à r.l.	-	-	-	-	23,752
MEA S.p.A	-	-	-	1,183	-
Bonatti SPA	-	-	13	-	-
Total	**-**	**-**	**13**	**1,183**	**84,981**

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no significant extraordinary events or operations during the year which have not already been disclosed in this document.

Positions or transactions arising from atypical and/or unusual operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no positions or transactions arising from atypical and/or unusual operations during the year.

Fees for Directors, auditors and key management personnel

In 2019, the fees for directors, auditors and key management personnel, totalling 3,586 thousand euro, included 88 thousand euro in Auditors' fees, 257 thousand euro in Directors' fees and the rest refers to key personnel's fees.

Remuneration of the Independent Auditors

The 2019, remuneration of the independent auditors totalled 663 thousand euro and included the annual auditing of the statutory and consolidated financial statements, the auditing of the unbundling financial report and the statements required by ARERA, and also auditing related to tax credit for research and development.

Public grants received

With reference to the changes introduced by Italian Law 124 of 4 August 2014 "Annual competition law", art. 1 para. 125-129, the Group companies received the following grants from public bodies during 2019:

2i Rete Gas S.p.A.

Euro

Name	Prov.	31.12.2019	Type
MUNICIPALITY OF CASTELLALTO	TE	13,440	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CANZANO	TE	18,262	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTEL CASTAGNA	TE	15,592	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTELLI	TE	8,624	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CERMIGNANO	AQ	12,035	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF LUCOLI	AQ	30,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORNIMPARTE	TE	7,656	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TOSSICIA	PE	8,934	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CAPPELLE SUL TAVO	TE	17,300	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORANO NUOVO	CH	5,638	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF POLLUTRI	CH	25,680	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF RIPA TEATINA	CH	18,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF AMENDOLARA	CS	18,009	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF ISOLA DEL GRAN SASSO	TE	13,894	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF PENNA SANT'ANDREA	TE	18,905	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
ABRUZZO REGION		7,602	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
GSE - Gestore Servizi Energetici SpA		145,542	
Total public contributions collected		**385,114**	

Cilento Reti Gas S.r.l.

Euro

Name	Prov.	31.12.2019	Type
MUNICIPALITY OF VIBONATI		1,607,235	PLANT CONTRIBUTIONS
Total public contributions collected		**1,607,235**	

Public grants from public administrations (State, regions, municipalities, etc.) during the year stood at 1,992,349 euro. This amount did not include any grants received from public administrations that had not yet been returned to the Group.

Contractual commitments and guarantees

The Company provided 145,512 thousand euro in guarantees to third parties. These guarantees include 102,595 thousand euro in bank guarantees and 42,917 thousand euro in insurance and other guarantees.
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.

Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Group's financial statements.

Operating segment reporting

The Group is managed as a single business unit operating mainly in natural gas distribution through networks, and therefore management analyses the Group’s operations as a whole.
The reporting format used by management to take operating decisions is aligned with the formats used in the consolidated financial statements shown herein, excluding the impact of IFRIC 12 and highlighted in note 5.c as well as in the section on costs.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Credit, liquidity and market risk

Credit risk

The 2i Rete Gas Group provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.
In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2019.
User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.
As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.
Outstanding guarantees and security deposits on trade receivables totalled 205,747 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant bad debt provision.

As at 31 December 2019, the Group's maximum exposure to credit risk amounted to 852 million euro:

Millions of euro

	31.12.2019	31.12.2018	2019- 2018
Non-current financial assets	1.5	1.0	0.5
Other non-current financial assets (gross of bad debt provision)	57.8	57.9	(0.0)
Trade receivables (gross of bad debt provision)	259.6	242.6	17.1
Other current financial assets	2.2	1.6	0.6
Cash and cash equivalents	353.3	686.4	(333.0)
Other receivables (gross of bad debt provision)	177.5	186.5	(9.0)
Total	**852.0**	**1,175.9**	**(323.9)**

Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, the 2i Rete Gas Group is able to autonomously meet the financial requirements of its ordinary operations and ensure business continuity.
Besides the debenture loans issued between 2014 and 2018, the Company entered into two loans with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used at 31 December 2019), in addition to two revolving lines.
In order to properly disclose liquidity risk as required by IFRS 7, here below are the characteristics of the company's debt.

The contractual maturities of the financial liabilities outstanding at 31 December 2019 are set forth below:

Millions of euro	1 year	1 - 5 years	beyond 5 years
Financial liabilities at 31 December 2019			
Long-term loans	-	72.7	334.1
Medium-/long-term debenture loans	-	600.0	1,665.0
Short-term debenture loans	267.1		
Short-term loans	40.0		
Current portion of long-term loans	18.2		
Other long-term financial liabilities	4.0		
Other short-term financial liabilities	20.0		
IFRS 16 Non-current financial liabilities		11.5	11.0
IFRS 16 Current financial liabilities	6.1		
Total	**355.4**	**684.2**	**2,010.1**

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2018 are set forth below:

Financial liabilities

Millions of euro	1 year	1 - 5 years	beyond 5 years
Financial liabilities at 31 December 2018			
Long-term loans	-	72.7	352.3
Medium-/long-term debenture loans		267.1	2,265.0
Short-term debenture loans	362.8		
Short-term loans	0.2		
Current portion of long-term loans	-		
Other long-term financial liabilities	-		
Other short-term financial liabilities	23.0		
Total	**385.9**	**339.8**	**2,617.3**

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.
It should be noted that loans are subject to a periodical check on the compliance with some financial parameters at consolidated level.
As at 31 December 2019, the Company has met all of the covenants.

"Medium-/long-term debenture loans", totalling 2,671.8 million euro, refer to the aforementioned instalments issued by 2i Rete Gas and expiring between 2021 and 2027.
The Company's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance

with the financial covenants established by the lending banks, currently the Company does not face any problems in obtaining said refinancing.
The Company constantly monitors opportunities to optimise its financial structure. For an in-depth analysis of long-term loans, see note 27 in these financial statements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices as a result of changes in exchange rates, interest rates, or the prices of equity instruments.

Transactions that qualify for hedge accounting pursuant to the requirements of the accounting standards are designated as hedging transactions, while those that do not meet such requirements are classified as trading transactions, even though, from a management point of view, they have been entered into for hedging purposes.

The Group had no derivatives held for trading or for speculative purposes.
During 2019, the Parent Company entered into 5 "Forward Starting Interest Rate Swap" hedging instrument contracts with a notional amount of 500 million euro.
In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value. The Company has no financial assets held to maturity or available for sale nor financial assets held for trading.

	Carrying amount							
Thousands of euro	**Notes**	**Designated at fair value**	**Derivatives**	**Receivables**	**Available for sale**	**Other financial liabilities and payables**	**Total**	**Fair value**
Financial assets measured at fair value								
Non-current financial assets	16		-				-	-
Financial assets not measured at fair value								
Non-current financial assets	16			1,547			1,547	1,547
Other non-current assets	17			57,611			57,611	57,611
Trade receivables	19-25			250,680			250,680	250,680
Short-term financial receivables	20			1,330			1,330	1,330
Other current financial assets	21			879			879	879
Cash and cash equivalents	22			353,308			353,308	353,308
Other current assets	24			198,771			198,771	198,771
TOTAL ASSETS			**-**	**864,125**	**-**	**-**	**864,125**	**864,125**
Financial liabilities measured at fair value								
IRS Derivatives	38		4,001				4,001	4,001
Financial liabilities not measured at fair value								
Long-term loan	27					406,818	406,818	406,818
Medium-/long-term debenture loans	27					2,235,921	2,235,921	2,443,705
Short-term debenture loans	33					267,088	267,088	267,097
IFRS 16 Non-current financial liabilities	31	22,539					22,539	22,539
Other non-current liabilities	32					361	361	361
Short-term loans	33-34					58,182	58,182	58,182
Trade payables	36-25					186,344	186,344	186,344
Current financial liabilities	38					19,351	19,351	19,351
IFRS 16 Current financial liabilities	39	6,110					6,110	6,110
Other current liabilities	40					209,162	209,162	209,162
TOTAL LIABILITIES		**28,649**	**4,001**	**-**	**-**	**3,383,227**	**3,415,877**	**3,623,670**

In order to enable comparison, we propose the same table as the one used in 2018:

Thousands of euro	Notes	Derivatives	Receivables	Available for sale	Other financial liabilities and payables	Total	Fair value
		Carrying amount					
Financial assets measured at fair value							
Non-current financial assets	15	-				-	-
Financial assets not measured at fair value							
Non-current financial assets	15		1,025			1,025	1,025
Other non-current assets	16		57,600			57,600	57,600
Trade receivables	18-37		232,624	112		232,736	232,736
Short-term financial receivables	19		1,394			1,394	1,394
Other current financial assets	20		187			187	187
Cash and cash equivalents	21		686,353			686,353	686,353
Other current assets	23		204,924			204,924	204,924
TOTAL ASSETS		**-**	**1,184,107**	**112**	**-**	**1,184,219**	**1,184,219**
Financial liabilities measured at fair value							
IRS Derivatives	35	-				-	-
Financial liabilities not measured at fair value							
Long-term loan	25				425,000	425,000	425,000
Medium-/long-term debenture loans	25				2,518,857	2,518,857	2,862,599
Financial liabilities for unwinding IRS	30-38				-	-	-
Other non-current liabilities	29				361	361	361
Short-term loans	30				362,651	362,651	362,651
Current portion of medium/long-term bank loans	31				-	-	-
Trade payables	33-37			4,774	207,608	212,382	212,382
Current financial liabilities	35				22,343	22,343	22,343
Other current liabilities	36				201,616	201,616	201,616
TOTAL LIABILITIES		**-**	**-**	**4,774**	**3,738,436**	**3,743,210**	**4,086,952**

With regard to financial assets not measured at fair value, as well as trade payables and other current liabilities, the carrying amount is considered to be a reasonable approximation of the fair value, as it is set forth in the tables above.

For the purposes of determining the fair value of the debenture loan, the Group has used the market valuations at the end of the reporting period.

Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts, and specifically interest rate swaps.
Concerning the current debt structure, 2,797 million euro out of a reported 2,997 million euro were not exposed to interest rate risk at 31 December 2019.

During the year, the Parent Company entered into 5 forward start interest rate swap derivative contracts (with start date set at 3 years time and expiry date set at 10 years after the start date) with as many leading banks in order to hedge against the risk of an increase in interest rates on the future issue of the debenture loan planned to refinance part of the existing loan reaching maturity in the coming years.

Thousands of euro	Notional		Fair value		Fair value asset		Fair value	
	at 31.12.2019	at 31.12.2018	at 31.12.2019	at 31.12.2018	at 31.12.2019	at 31.12.2018	at 31.12.2019	at 31.12.2018
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	-	(4,001)	-	-		(4,001)	
Total Interest Rate Derivatives	500,000	-	(4,001)	-	-		(4,001)	-

The contract expiry dates are shown below:

Thousands of euro	Notional at 31.12.2019	Notional at 31.12.2018	1 year	2 - 5 years	beyond 5 years
Cash flow hedge derivatives					
Forward Start Interest Rate Swap	500,000	-	-	-	500,000
Total Interest Rate Derivatives	500,000	-	-	-	500,000

Measurement is also shown, assuming an interest rate shock of +0.10% and -0.10%:

Thousands of euro	Notional at 31.12.2019	Notional at 31.12.2018	-0.10%	Fair Value at 31.12.2019	+0.10%	-0.10%	Fair Value at 31.12.2018	+0.10%
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	-	(4,401)	(4,001)	(3,601)			
Total	500,000	-	(4,401)	(4,001)	(3,601)			

Significant events after the reporting period

Following the first reports heralding the presence of the Coronavirus in Italy, as early as January 2020 the 2i Rete Gas Group took action to monitor and assess the impact of a possible spread of the infection. In February, in relation to the outbreak of COVID infections identified in Lombardy, largely affecting the municipalities of the Lodigiano area, the Parent Company set up a team (COVID-19 Team) to manage resources and activities in the territories specified in Ministry of Health Order issued on 23 February 2020, setting forth mobility restriction measures for such municipalities.

The COVID-19 Team, consisting of a group of people identified within the Company Management, coordinated the necessary actions to provide staff and all managers with guidelines, tools and equipment to cope with the emergency situation.

As early as on 23 and 24 February, the Group instructed employees from the Municipalities affected by the outbreak to stay at home, allowing them to work remotely. Employees who were already affected by diverse diseases, which could have increased the risk, or employees who had particular difficulties in reaching their workplace were likewise allowed to work remotely. Right from the outset, the Group provided guidance to its staff to avoid close contact with end customers, distributing the personal protective gear that was available.

As the situation evolved and in light of the changes to the increasingly stringent provisions adopted first by the Lombardy Region and then from time to time by the Government with Prime Ministry's Decree dated 1, 4, 8 and 9 March 2020, and in continuous coordination with the updates provided by the Civil Protection Committee, the Group implemented measures aimed at addressing both the need to protect the health and safety of its personnel and the need to guarantee the supply of essential services and business continuity.
Decisions were also made to ensure greater flexibility in working time and extend smart working capabilities to parents with children, after measures stopping the operation of nursery, primary and secondary schools had been issued.

The COVID-19 team, in conjunction with the Prevention and Protection Service and the Coordinating Competent Physician, also took containment measures designated for internal staff in relation to social distancing actions, providing information and guidance on monitoring their health, personal hygiene and workplace. Company office cleaning and disinfection efforts increased.

The Occupational Medicine Service, in conjunction with the Prevention and Protection Service, proactively monitor concerns from employees reporting possible cases of contagion. In an effort to direct the information flow towards a single channel, a corporate mailbox was set up and made available to all those in charge, who were provided with behavioural guidelines to be adopted depending on the cases to be dealt with.

In order to implement the provisions reflected in the aforementioned Prime Minister's Decree issued in March (which identified the areas concerned and regulated mobility in areas with "limited access" and then in "increased containment" areas), reliance on smart working was implemented to a larger scale, first in the northern production units and then, gradually in relation to the extension of the emergency, in the other central and southern production units. Employees were also encouraged to use any holidays accrued from previous years.

As at 17 March 2020, approximately 800 smart workers were connected to the corporate servers. This was made possible thanks to an organisational effort of the IT function and a number of technologies already implemented within the company, which were enhanced and fully exploited during the emergency. Secure connections, working on networked servers and the possibility to quickly activate conference rooms and sharing tools — together with the operational equipment already deployed across the territory, such as tablets equipped with remote management workforce systems — are enabling the company to guarantee the necessary operation without any particular criticalities.

The information campaign designed for all personnel is constantly updated, with messages and instructions being sent via corporate channels, text messaging,

email, corporate intranet site, in line with the evolution of the situation and the measures issued by the relevant authorities.
Consistent with company technical and organisational requirements, all personnel were authorised and informed beforehand through direct communications, emails and the corporate intranet, where guidelines were uploaded together with the disclosure describing "General Risks" and "Specific Risks".

While envisaging difficulties in reaching certain operational targets within the set time frame and expecting a delay in the achievement of certain business objectives, no problem is anticipated in 2020 from a business continuity perspective.
Results in 2020 may be affected by the current situation and possible scenarios are currently being carefully considered. Taking into account the sector regulatory mechanisms, including in the light of the most recent measures, the impact should not be particularly significant, even though much will depend on back-to-normal timeframes and on the consequences on the overall economic system and on the operators of the energy supply chain in which the Group operates.
The situation is, however, under careful evaluation by management so that appropriate decisions can be taken as quickly as the situation requires.

V Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

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REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

* * * * *

To the Shareholders of 2i RETE GAS S.p.A.,

the Board of Directors has delivered to this Board the consolidated financial statements of the 2i Rete Gas Group.

The consolidated financial statements for the year ended December 31, 2019 have been prepared in accordance with the valuation and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure of referred to in art. 6 of the (EC) Regulation n. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and, where compatible, by the rules of the Civil Code.

Pursuant to art. 37 of D. Lgvo. No. 39 of 10/27/2010, the accounting control was delegated to the Independent Auditors PricewaterhouseCoopers S.p.A. which did not report to the Board of Statutory Auditors critical or reprehensible facts relating to the content of the consolidated financial statements.

The 2019 consolidated financial statements include 3 Companies, including 2i Gas Rete S.p.A.

The scope of consolidation consists of the following Companies:

- 2i Rete Gas SpA

- 2i Rete Gas Srl

- Cilento Reti Gas S.p.A. (60% owned)

The related consolidation criteria are contained in paragraph 6 of the notes to the consolidated financial statements for the year 2019. The financial statements of the subsidiaries, consolidated by the 2i Rete Gas Group, have been prepared by adopting, for each accounting period, the same accounting standards as the parent company and using, where applicable, the financial statements of the companies approved by the respective shareholders' meetings or, failing this, on the basis of draft report approved by the respective administrative bodies.

The Consolidated Financial Statements consist of the Balance Sheet, Income Statement and Notes to the Financial Statements, accompanied by the Report on Operations and summarizes the following results, expressed in thousands of euro:

Thousands of euro	Notes	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Property, plant and equipment	11	37,223	39,312
Rights of use IFRS 16	12	28,817	-
Intangible assets	13	3,760,807	3,682,262
Net deferred tax assets	14	125,911	82,716
Equity investments	15	3,349	3,459
Non-current financial assets	16	1,547	1,025
Other non-current assets	17	57,697	57,710
	Total	**4,015,351**	**3,866,484**
Current assets			
Inventories	18	23,509	23,948
Trade receivables	19	250,680	232,624
Short-term financial receivables	20	1,330	1,394
Other current financial assets	21	879	187
Cash and cash equivalents	22	353,308	686,353
Income tax receivables	23	6,272	14,633
Other current assets	24	201,361	207,726
	Total	**837,338**	**1,166,865**
Non-current assets (or assets included in disposal groups) held for sale			
Non-current assets (or assets included in disposal groups) held for sale	25	2,991	32,681
	Total	**2,991**	**32,681**
TOTAL ASSETS		**4,855,680**	**5,066,030**

Thousands of euro	Notes	31.12.2019	31.12.2018
EQUITY AND LIABILITIES			
Equity - Owners of the Parent	26		
Share Capital		3,639	3,639
Treasury Shares		-	-
Other Reserves		526,009	505,388
Retained earnings/(accumulated losses)		197,028	159,812
Net income for the year		206,383	155,457
Total equity - Owners of the Parent		**933,058**	**824,296**
Equity - non-controlling interests			
Non-controlling interests		1,398	1,420
Net income for the year - non-controlling interests		135	(17)
Total equity - non-controlling interests		**1,533**	**1,403**
TOTAL EQUITY		**934,591**	**825,699**
Non-current liabilities			
Long-term loans	27	2,660,921	2,943,857
Post-employment and other employee benefits	28	43,559	45,606
Provision for risks and charges	29	8,128	9,916
Deferred tax liabilities	14	-	-
Non-current financial liabilities	30	4,001	-
IFRS 16 Non-current financial liabilities	31	22,539	-
Other non-current liabilities	32	323,108	308,442
	Total	**3,062,256**	**3,307,821**
Current liabilities			
Short-term loans	33	307,088	362,651
Current portion of long-term loans	34	18,182	-
Short-term portion of long-term and short-term provisions	35	92,639	100,476
Trade payables	36	186,344	207,608
Income tax payables	37	8,186	8,851
Current financial liabilities	38	20,025	22,966
IFRS 16 Current financial liabilities	39	6,110	-
Other current liabilities	40	220,120	223,036
	Total	**858,694**	**925,586**
Non-current liabilities (or liabilities included in disposal groups) held for sale			
Non-current liabilities (or liabilities included in disposal groups) held for sale	25	139	6,923
	Total	**139**	**6,923**
TOTAL LIABILITIES		**3,921,089**	**4,240,331**
TOTAL EQUITY AND LIABILITIES		**4,855,680**	**5,066,030**

Thousands of euro	Notes	31.12.2019	31.12.2018
Revenue			
Revenue from sales and services	5.a	722,701	682,457
Other revenue	5.b	49,459	37,159
Revenue from intangible assets / assets under construction	5.c	284,892	265,949
Sub-Total		**1,057,051**	**985,566**
Costs			
Raw materials and consumables	6.a	74,773	78,410
Services	6.b	273,999	268,014
Personnel Costs	6.c	122,246	125,502
Amortisation, depreciation and impairment losses	6.d	204,281	189,813
Other operating costs	6.e	56,535	53,313
Capitalised costs for internal work	6.f	(1,619)	(843)
Sub-Total		**730,217**	**714,208**
EBIT		**326,834**	**271,358**
Income (expenses) from equity investments	7	79	2,179
Financial income	8	1,990	515
Financial expenses	8	(62,789)	(57,528)
Sub-Total		**(60,720)**	**(54,834)**
Pre-tax income		**266,114**	**216,524**
Taxes for the period	9	59,597	61,084
Net income (expenses) from continuing operations		**206,517**	**155,440**
Net income (expenses) from discontinued operations	10	**0**	-
NET INCOME FOR THE YEAR		**206,517**	**155,440**
Net income for the year attributable to:			
- Owners of the Parent		206,383	155,457
- Non controlling interests		135	(17)

The Board acknowledges the compliance of the consolidated financial statements with the facts and information of which it is aware following the participation of the corporate bodies, the exercise of its supervisory duties and its inspection and control powers.

Given the fact that at the date of drafting of this report a number of extraordinary measures by the Government are effective in order to manage COVID 19 emergency, the Board, taking into consideration a forward looking perspective on year 2020, has been informed of the measures taken by the Company and reserves to request to the appropriate functions an informative flow on such topic, as to what pertains to the duties attributed to the Board of Directors pursuant art. 2403 cc.

Finally, the Board acknowledges that it has verified the compliance and consistency of the Management Report with the data and results of the consolidated financial statements.

Milan, 10/04/2020

The Board of Statutory Auditors

Dott. Marco Antonio Dell'Acqua (President)

Dott. Marco Giuliani (Effective Member)

Dott. Nicola Gaiero (Effective Member)

VI Report of the Independent Auditors

2I RETE GAS SPA

INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE 39/2010 AND ARTICLE 10 OF REGULATION (EU) 537/2014

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

Independent auditor's report

in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of 2i Rete Gas SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of 2i Rete Gas SpA and its subsidiaries (2i Rete Gas group), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of 2i Rete Gas group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of 2i Rete Gas SpA (the Company) based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters	***How our audit addressed the key audit matter***
Capital expenditure for gas distribution network under service concession agreements *Note 13 of the Annual Financial Report – consolidated accounts - intangible assets*	
As of 31 December 2019 gas distribution service concessions and similar rights amount to € 3,455 million, representing 71% of total assets. Costs capitalised during the year amount to € 285 million. The group operates in the gas distribution industry. The industry is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA). Revenues from gas distribution service are determined each year in accordance with the regulatory approved tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs. Considering the magnitude of the capital expenditure made by the group and the direct correlation with the tariffs approved by ARERA, the proper capitalisation of costs related to service concession agreements in accordance with IFRIC12 represented a key matter in the audit of the consolidated financial statements.	We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification and testing of key controls. We assessed the accounting policy adopted by the group in relation to the capitalisation of costs. We performed detailed tests analysing, on a sample basis, the supporting documentation of costs capitalised to verify the accuracy, completeness and the proper period.

Key Audit Matters	*How our audit addressed the key audit matter*
Recoverability of goodwill *Note 13 of the Annual Financial Report – consolidated accounts - intangible assets* As of 31 December 2019 goodwill amount to € 267 million, representing 6% of total assets. Recoverability of the carrying amount of goodwill was tested for impairment at the year-end, in accordance with IAS36 – Impairment of Assets. The recoverable amount of the group of cash generating units ("CGU") "Gas distribution", which represents the main sector of activity of the group, to which goodwill is allocated, is measured using its value in use. Value in use is calculated on the basis of the expected future cash flows derived from 2020-2024 five years business plan approved by the Company board of directors on 15 January 2020. The recoverable amount of the Gas distribution segment is compared with the carrying amount of segment assets and liabilities, including goodwill. Considering the magnitude of the carrying amount and the subjective judgment in some of the assumptions used for the calculation of the value in use, the impairment test of goodwill represented a key matter in the audit of the consolidated financial statements.	We have verified, with the assistance of experts of the PwC network: • the adequacy of the impairment testing process in accordance with the requirement of the accounting standard; • the allocation of goodwill to the group cash generating units – CGU; • the reasonableness of the key assumptions used when determining the value in use of the Gas distribution segment with specific focus on the projected growth rate of revenue, cost and capital expenditure and discount rate, including sensitivity analysis; • the accuracy of the carrying amounts of assets and liabilities directly attributable to the Gas distribution segment; • the mathematical accuracy of the calculation model used. We have verified the accuracy and completeness of the disclosure made in the notes to the consolidated financial statements.

Key Audit Matters	How our audit addressed the key audit matter
Provisions for risks and charges	
Note 29 of the Annual Financial Report – consolidated accounts section - provisions for risks and charges	
As of 31 December 2019 provisions for risks and charges amount to € 101 million and include probable liabilities as a result of past events for which the outflow can be reasonably estimated at the balance sheet date. Provisions for risks and charges mainly relate to costs associated with various disputes with municipalities, costs that could potentially arise from maintenance or replacement of defective measurement equipment, as well as the risk of a revision of some tariffs for concessions partially owned by third parties. Given the magnitude of the accrued balances and the use of estimates made by management, the measurement of the provisions for risks and charges was a key audit matter for the audit of the consolidated financial statements.	We have carried out the understanding and evaluation of key controls in place over the measurement of the provisions for risks and charges. We have tested, on a sample basis, the documentation supporting the most significant accruals to assess the adequacy of the accruals made. We obtained confirmations from external lawyers appointed by the group, indicating the individual positions in place and their assessment of the risk of potential liability. We discussed with management the conclusions reached for measuring the provisions for risks and charges. We verified the accuracy and completeness of the disclosure made in the notes to the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the group ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate 2i Rete Gas SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the group financial reporting process.

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

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

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

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of 2i Rete Gas SpA at the general meeting held on 29 April 2015 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2015 through 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared in accordance with article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/2010

Management of 2i Rete Gas SpA is responsible for preparing a report on operations of 2i Rete Gas group as of 31 December 2019, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations with the consolidated financial statements of the 2i Rete Gas group as of 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the consolidated financial statements of the 2i Rete Gas group as of 31 December 2019 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254/2016

Management of 2i Rete Gas SpA is responsible for the preparation of the non-financial disclosure in accordance with Legislative Decree 254/2016. We have verified that the non-financial disclosure was approved by the board of directors.

In accordance with article 3, paragraph 10, of Legislative Decree 254/2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 10 April 2020

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

VII Statutory financial statements of 2i Rete Gas S.p.A.

1. Income Statement

Euro	Notes	31.12.2019	of which from related parties	31.12.2018	of which from related parties
Revenue					
Revenue from sales and services	5.a	717,913,836	1,654,848	609,765,337	1,060,482
Other revenue	5.b	50,501,223	1,399,809	38,039,522	19,076,932
Revenue from intangible assets / assets under construct	5.c	275,606,846		239,985,075	
Sub-Total		**1,044,021,905**		**887,789,935**	
Costs					
Raw materials and consumables	6.a	74,772,709		75,576,150	1,695,900
Services	6.b	264,229,321	5,050	250,630,819	2,719,649
Personnel Costs	6.c	122,246,384	3,340,318	117,506,563	2,439,126
Amortisation, depreciation and impairment losses	6.d	203,427,103		160,683,323	
Other operating costs	6.e	56,022,809	342,519	45,688,567	378,225
Capitalised costs for internal work	6.f	(1,618,518)		(839,064)	
Sub-Total		**719,079,808**		**649,246,358**	
EBIT		**324,942,097**		**238,543,577**	
Income (expenses) from equity investments	7	194,857	196,160	1,395,774	400,000
Financial income	8	2,289,270	299,185	457,810	
Financial expenses	8	(62,820,559)	(31,725)	(57,684,152)	(200,891)
Sub-Total		**(60,336,433)**		**(55,830,568)**	
Pre-tax income		**264,605,664**		**182,713,009**	
Taxes for the period	9	59,106,645		53,060,148	
Net income (expenses) from continuing operations		**205,499,019**		**129,652,861**	
Gain on the sale of discontinued operations	10	-			
Tax effect	10	-			
Net income from discontinued operations	10	**-**		-	
NET INCOME FOR THE YEAR		**205,499,019**		**129,652,861**	

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

2. Statement of Comprehensive Income

Euro	31.12.2019	31.12.2018
Net income recognised through profit or loss	**205,499,019**	**129,652,861**
Other comprehensive income		
Items which will never be reclassified through profit/(loss):		
Revaluations of net liabilities/assets for defined benefits	(752,003)	746,820
Deferred tax assets and liabilities on items which will never be classified through profit / (loss)	91,261	(213,782)
	(660,742)	533,038
Items which may be reclassified subsequently through profit/(loss):		
Change in fair value of hedging derivatives	(3,981,380)	(8,279,620)
Change in fair value of hedging derivatives reclassified in the income for the year	(1,234,918)	(402,617)
Deferred tax (assets)/liabilities from change in fair value	955,531	1,987,109
Deferred tax (assets)/liabilities from change in fair value of hedging derivatives reclassified in the income for the year	296,380	96,628
	(3,964,387)	(6,598,500)
Total other comprehensive income	**(4,625,128)**	**(6,065,462)**
Total comprehensive income / (loss) recognised in the year	**200,873,890**	**123,587,399**

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

3. Statement of Financial Position

Assets

Euro	Notes				
ASSETS		**31.12.2019**	**of which from related parties**	**31.12.2018**	**of which from related parties**
Non-current assets					
Property, plant and equipment	11	37,207,492		34,927,086	
Rights of use IFRS 16	12	28,816,703			
Intangible assets	13	3,727,104,741		2,980,127,854	
Net deferred tax assets	14	124,567,632		85,111,601	
Equity investments	15	12,066,671	11,943,467	747,023,639	746,911,562
Non-current financial assets	16	1,547,344		1,024,669	
Other non-current assets	17	57,671,196		53,901,690	
	Total	**3,988,981,778**		**3,902,116,539**	
Current assets					
Inventories	18	23,509,262		23,948,486	
Trade receivables	19	252,843,900	4,073,119	231,465,913	22,823,892
Short-term financial receivables	20	16,885,493	15,555,946	1,393,718	
Other current financial assets	21	969,127	89,943	186,681	
Cash and cash equivalents	22	353,280,846		676,977,507	
Income tax receivables	23	6,649,357	385,905	6,778,767	192,095
Other current assets	24	196,181,829		167,787,303	
	Total	**850,319,813**		**1,108,538,376**	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	25	2,990,596		32,681,259	
	Total	**2,990,596**		**32,681,259**	
TOTAL ASSETS		**4,842,292,188**		**5,043,336,173**	

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

Liabilities

Euro	Notes				
EQUITY AND LIABILITIES		**31.12.2019**	**of which from related parties**	**31.12.2018**	**of which from related parties**
Equity	26				
Share Capital		3,638,517		3,638,517	
Treasury Shares		-		-	
Other Reserves		526,008,892		505,383,889	
Retained earnings/(accumulated losses)		196,020,243		159,471,525	
Net income for the year		205,499,019		129,652,861	
TOTAL EQUITY		**931,166,670**		**798,146,791**	
Non-current liabilities					
Long-term loans	27	2,660,920,737		2,943,857,013	
Post-employment and other employee benefits	28	43,559,369		45,263,316	
Provision for risks and charges	29	8,127,512		7,878,296	
Deferred tax liabilities	14	-		-	
Non-current financial liabilities	30	4,001,162		-	
IFRS 16 Non-current financial liabilities	31	22,538,837			
Other non-current liabilities	32	320,488,404		307,056,015	
	Total	**3,059,636,022**		**3,304,054,640**	
Current liabilities					
Short-term loans	33	311,693,014	4,604,644	431,295,921	68,802,104
Current portion of long-term loans	34	18,181,818		-	
Short-term portion of long-term and short-term provisions	35	90,524,976		91,749,093	
Trade payables	36	178,806,583	426,113	200,214,429	4,325,934
Income tax payables	37	8,135,504		3,056,243	
Current financial liabilities	38	20,027,320	2,196	22,965,457	
IFRS 16 Current financial liabilities	39	6,110,260			
Other current liabilities	40	217,870,807		184,930,446	203,261
	Total	**851,350,282**		**934,211,589**	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	25	139,214		6,923,153	
	Total	**139,214**		**6,923,153**	
TOTAL LIABILITIES		**3,911,125,518**		**4,245,189,382**	
TOTAL EQUITY AND LIABILITIES		**4,842,292,188**		**5,043,336,173**	

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

4. Statement of Cash Flows

Euro		31.12.2019	31.12.2018
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	**22**	**676,977,507**	**815,062,866**
A) CASH AND CASH EQUIVALENTS ACQUIRED THROUGH COMPANY ACQUISITION		**9,287,689**	**1,022,707**
Cash flow from operating activities			
Pre-tax income		264,605,664	182,713,009
Taxes for the period	9	(59,106,645)	(53,060,148)
Net income from *discontinued operation*	10	0	0
1. Net income for the period		**205,499,019**	**129,652,861**
Adjustments for:			
Depreciation	6.d	199,599,335	160,759,159
Write-downs / (Write-ups)	6.d	3,827,769	(75,836)
Capital (gains)/losses	5.b/6.e	(2,248,932)	17,794,779
Allocations to provisions for risks and charges and post-employment benefits	6.c/6.e	29,150,574	22,868,685
Financial (income)/expenses	7 e 8	60,336,433	55,830,568
2. Total adjustments		**290,665,179**	**257,177,354**
Change in net working capital			
Inventories	18	439,224	(4,977,107)
Trade receivables	19	(4,155,221)	43,080,864
Trade payables	36	(40,043,586)	(3,740,209)
Other current assets	24	9,487,655	2,578,493
Other current liabilities	40	(3,881,083)	(471,317)
Net tax receivables/(payables)	23 e 37	7,470,791	15,733,575
Increase / (decrease) in provisions for risks and charges and post-employment benefits	28, 29 e 35	(43,202,932)	(8,078,534)
Increase / (decrease) in provisions for deferred tax assets and liabilities	14	(43,077,324)	(8,947,407)
Other non-current assets	17	113,134	(2,239,233)
Other non-current liabilities	32	10,130,677	(572,788)
Financial income/(expenses) other than for financing	8	(1,124,218)	(873,831)
3. Total change in net working capital		**(107,842,882)**	**31,492,507**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**388,321,316**	**418,322,722**
Cash flow (used in)/generated by investing activities			
Net fixed assets		(234,006,127)	(256,960,348)
Equity investments	7 e 15	188,962	(735,703,321)
From discontinued operations		0	0
C) CASH FLOW (USED IN)/GENERATED BY INVESTING ACTIVITIES		**(233,817,165)**	**(992,663,669)**
D) FREE CASH FLOW (B+C)		**154,504,151**	**(574,340,946)**
Cash flow from financing activities			
Payment of dividends		(93,000,484)	(85,032,133)
Change in amortised cost	16, 27 e 34	2,107,372	(501,922)
Financial income/(expenses) relating to the Fv of the derivative instrument from Comprehen	7 e 8	(1,234,918)	(402,617)
Financial income for financing activities	8	2,153,218	393,703
Financial (expenses) for financing activities	8	(61,540,508)	(56,746,213)
Change in short-term and long-term financial debt	27 e 33	(322,698,286)	62,934,638
New loan	27		0
Receipts from debenture loan issues	27		500,000,000
Debenture loan settlements	27 e 33		
Other non-current financial assets	16	12,774,057	(1,563,464)
Change in other financial receivables	20 e 21	(16,120,269)	
Change in financial leases IFRS 16	31, 39 e 11	(6,891,173)	
Change in other current financial payables	38	(3,037,507)	3,406,658
E) CASH FLOW FROM FINANCING ACTIVITIES		**(487,488,499)**	**435,232,880**
F) CASH FLOW FOR THE PERIOD (D+E)		**(332,984,348)**	**(139,108,066)**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**22**	**353,280,848**	**676,977,507**

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

5. Statement of Changes in Equity

	Share capital and reserves							
Euro	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year	**Total**
Total 31 December 2017	**3,638,517**	**286,546,491**	**727,703**	**15,947,882**	**206,917,700**	**123,775,746**	**120,727,912**	**758,281,951**
Allocation of income for 2017:								
Distribution of income						120,727,912	(120,727,912)	**-**
Payment of dividends						(85,032,133)		**(85,032,133)**
Total contribution from shareholders and payments to them as shareholders								*(85,032,133)*
- Other changes (merger of Genia distribuzione)					1,309,574			**1,309,574**
Net income for the year recognised in equity				(6,598,500)	533,038			**(6,065,462)**
Net income for the year recognised in profit or loss							129,652,861	**129,652,861**
Total 31 December 2018	**3,638,517**	**286,546,491**	**727,703**	**9,349,381**	**208,760,313**	**159,471,525**	**129,652,861**	**798,146,791**
Allocation of income for 2018:								
Distribution of income						129,652,861	(129,652,861)	**-**
Payment of dividends						(93,000,484)		**(93,000,484)**
Total contribution from shareholders and payments to them as shareholders								*(93,000,484)*
- Other changes (merger of CGM-Servizi-Impianti)					25,250,131	(103,659)		**25,146,472**
Net income for the year recognised in equity				(3,964,387)	(660,742)			**(4,625,128)**
Net income for the year recognised in profit or loss							205,499,019	**205,499,019**
Total 31 December 2019	**3,638,517**	**286,546,491**	**727,703**	**5,384,995**	**233,349,702**	**196,020,243**	**205,499,019**	**931,166,670**

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

6. Notes to the Statutory Financial Statements of 2i Rete Gas S.p.A.

Format and contents of the Financial Statements

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

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

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

The Directors of 2i Rete Gas S.p.A., on 25 March 2020, approved these consolidated financial statements and agreed to make them available to Shareholders within the deadlines set forth in art. 2429 of the Italian Civil Code.

For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 25 March 2020.
These statutory financial statements are audited by PricewaterhouseCoopers S.p.A.

Compliance with IFRS/IAS

The statutory financial statements for the year ended 31 December 2019 have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to Regulation (EC) No. 1606/2002 and effective at the end of the year, the related SIC/IFRIC interpretations issued by the Interpretation Committee, in force at the same date. The above standards and interpretations are hereinafter referred to as "IFRS-EU".

Reporting and valuation criteria

The statutory financial statements consist of the Income statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes. The financial statements are presented in euro and the

values shown in the Notes to the statutory financial statements are expressed in thousands of euro.
The reporting and valuation criteria are the same as those adopted to draw up the Consolidated annual financial report, to which reference should be made, except as indicated hereafter.
In the statutory financial statements, equity investments in subsidiaries, jointly controlled companies and associates are valued at purchase cost.
When there is objective evidence of impairment, the recoverability is checked by comparing the carrying value with the recoverable value represented by the greater of the fair value, net of disposal costs, and the value in use. Should the grounds which caused the impairment no longer exist, the value of the equity investment is restated, up to the limits of the original cost.
The dividends received by subsidiaries and associates are recognised through profit or loss.
The 2019 financial statements show income statement and balance sheet data of 2i Rete Gas S.p.A. following the merger, effective retroactively as of 1 January 2019, with subsidiary 2i Rete Gas Impianti S.p.A. For this reason, 2019 balances are not readily comparable with those of the previous year. Where possible, comments will underline differences due to the aforesaid merger.

Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.

5.a Revenue from sales and services – 717,914 thousand euro

"Revenues from sales and services" mainly refer to the gas transport activity and the connection fees.

Here is the breakdown of “Revenue from sales and services”:

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Sales and services			
Third parties:			
Gas and LPG transport	654,204	556,552	97,651
Release / (Allocation) to the provision for risks	20,974	(152)	21,126
Connection fees	8,825	8,543	281
Ancillary fees	6,114	5,552	562
Revenue from the sale of water	456	804	(349)
Ancillary services - water sector	429	120	309
Revenue from customer operations	50	43	7
Sundry revenue and other sales and services	25,208	21,394	3,815
Group companies:			
Sundry revenue and other sales and services	1,655	16,909	(15,255)
Total revenue from sales and services	**717,914**	**609,765**	**108,148**

Revenue from gas transport totalled 654,204 thousand euro and mainly refer to the 2019 Tariff Revenue Cap for natural gas and LPG.
This figure was calculated based on publication of ARERA Resolution 367/2014/R/gas which indicated the means for calculating the tariffs for the fourth regulatory period. Following the positive outcome of the dispute concerning the tariff revision of certain concessions where plants are partially owned by third parties, the related provisions were released during the year, with an impact on the income statement to the extent of 20,974 thousand euro.

Connection fees, totalling 8,825 thousand euro, sligthly increased by 281 thousand euro compared to the previous year owing to higher business development in the year.

Revenue from the sale of water (935 thousand euro overall) were slightly down compared to the previous year, influenced by the gradual disposal in water concessions.

"Sundry revenue and other sales and services" included revenue associated with the suspension and reactivation of customers in arrears at the request of the sales companies, which totalled around 7,396 thousand euro (6,386 thousand euro in the prior year), as well as 11,905 thousand euro in revenue relating to the TCol tariff component, compared to 9,846 thousand euro in the previous year.
Revenue from readings was 5,365 thousand euro, up compared with the previous year, owing to Resolution 102/2016/R/com and the related revenue recognised to distributors for the reading of meters during the transfer phase.

"Sundry revenue and other sales and services" from Group companies included all the amounts charged back by the Parent Company to subsidiaries as a result of operations and staff services provided in the year. The intercompany model in place since 1 July 2018 envisages that the Parent Company operates in an integrated way also on behalf of the subsidiaries, charging back a fee in line with the market for the services provided. During the year, this item dropped significantly following the merger, on 1 January 2019, of the three subsidiary companies 2i Rete Gas Impianti S.p. A., 2i Rete Gas Servizi S.p.A. and Compagnia Generale Metanodotti S.r.l.

5.b Other revenue – 50,501 thousand euro

"Other revenue" in the previous financial statements also included the revenue from energy efficiency certificates, thus being particularly exposed to fluctuations in the market of energy efficiency certificates with decidedly more limited impact in terms of profits, given the formula for recognising the cancellation of these certificates.
For this reason, as from this year, revenue, costs and allocations for energy efficiency certificates are set out in aggregate form, showing only the (positive or negative) margin for the year.
"Other revenue" in 2019 totalled 50,501 thousand euro (38,040 thousand euro in 2018), increasing by 12,462 thousand euro, and are broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Other revenue			
Third parties:			
Revenue from plant contributions	2,186	2,211	(25)
Revenue from contributions - R&S tax credit	838	1,765	(928)
Contingent assets	243	309	(66)
Revenue from Resolution 574/13	14,040	13,144	897
Rental income	501	359	142
Capital gains from assets	16,161	1,399	14,762
Compensation for damages	202	1,160	(958)
Other revenue from water business	130	-	130
Other revenue and income and services	14,827	14,472	354
Revenue and contribution concerning photovoltaic plants	111		111
Group companies:			
Other revenue and services	1,263	3,219	(1,956)
Total other revenue	**50,501**	**38,040**	**12,462**

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

"Capital gains on asset disposal" during the year reflected not only ordinary transactions relating to the disposal of assets no longer deemed useful for production purposes, but also the net capital gain on the sale of the equity interest held in Murgia Reti Gas S.r.l, a special vehicle company through which 2i Rete Gas S.p.A. sold some concessions in the Bari 2 and Foggia 1 areas following instructions received by the Antitrust Authority, so that the acquisition of the company of the Naturgy Group in 2018 could be completed. This sale was completed in 2019 following a complex tender procedure and resulted in a gross capital gain of 16.2 million euro.

"Other revenue and income and services" were in line with the previous year. The item mainly consists of revenue from operations with defaulting end customers, whose administrative management was delegated to the gas distributor and also includes reimbursements from suppliers for equipment under guarantee.

Finally, "Other revenues and services" referred to intercompany balances concerning a series of services that the Parent Company provides to its subsidiaries. As already mentioned, the decrease during the year was to the mergers of most of the subsidiaries into the Parent Company with a view to enhancing the corporate structure.

5.c Revenue from intangible assets / assets under construction – 275,607 thousand euro

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Revenue from intangible assets / assets under construction			
Revenue from intangible assets / assets under construction	275,607	239,985	35,622
Total revenue from intangible assets / assets under construction	**275,607**	**239,985**	**35,622**

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

Revenue from intangible assets and assets under construction represents the proportion of revenue directly attributable to the construction and enhancement of gas distribution networks held under concession. Since it is not possible to identify specific items related to network construction service within the tariff structure, they are estimated to correspond to costs for a similar purpose, with zero impact on operating margin.
The increase in this item was mainly due to a related increase in investments during the year, with the change in the scope of consolidation resulting from the merger with the subsidiary also playing a role to this end.

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.
The following table provides a summary of the items relating to the Company's operating costs in order to ensure their compliance with the aforementioned standard.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Costs relating to revenue from intangible assets / assets under construction			
Raw materials and consumables	6,155	5,734	421
Costs for services	142,590	124,604	17,986
Other operating costs	874	846	27
Depreciation	3,107		3,107
Capitalised costs for materials, personnel and services	122,881	108,801	14,080
Total costs relating to revenue from intangible assets / assets under construction	**275,607**	**239,985**	**35,622**

6.a Raw materials and consumables – 74,773 thousand euro

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

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Raw materials and consumables			
Third parties:			
Costs for the purchase of gas, water and lubricants	3,276	3,036	239
Stationery and printed materials	179	189	(10)
Various materials	70,879	75,628	(4,748)
Group companies:			
Other costs	-	1,700	(1,700)
(Change in inventories of raw materials)	439	(4,977)	5,416
Total costs of raw materials and consumables	**74,773**	**75,576**	**(803)**
- of which capitalised for intangible assets	67,168	62,037	5,131
- of which capitalised for other internal work	996	836	159

"Costs of raw materials and consumables" essentially comprise the cost for the purchase of the materials, fuel and lubricants used in the process of laying the pipes.

6.b Services – 264,229 thousand euro

"Costs for services" are broken down as follows:

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	137,459	123,747	13,712
Costs for electricity, power and water	2,812	3,068	(256)
Gas (for internal use)	3,673	3,226	447
Telephone and data transmission costs	2,579	2,231	348
Insurance premiums	4,213	3,999	214
Costs for services and other expenses relating to personnel	4,734	4,925	(191)
Fees	680	657	22
Legal and notary costs	2,543	1,647	896
Costs for company acquisitions and disposals	45	305	(260)
Advertising	180	85	94
IT services	9,458	7,692	1,767
Meter reading service	4,153	4,455	(302)
Audit fees	641	585	56
Repairs and emergency service	5,634	5,625	9
Plant certifications Resolution no. 40	489	466	24
Gas transport by third parties	2,649	2,396	252
Professional and other services	5,466	4,755	711
Other costs for services	8,795	6,992	1,803
Group companies:			
Other costs for services	2	2,356	(2,353)
Costs for the use of third-party assets			
Third parties:			
Leases	1,208	4,893	(3,685)
Rentals	1,204	4,580	(3,376)
Other costs for the use of third-party assets	2,411	1,790	620
Fee for temporary occupation of public space (C.o.s.a.p.)	1,292	1,233	59
Municipal gas concession fees	61,908	58,922	2,986
Total costs for services	**264,229**	**250,631**	**13,599**
- of which capitalised for intangible assets	142,590	124,604	17,986

The aggregate figure of costs for services (also including costs for the use of third-party assets) grew compared to the previous year (250,631 thousand euro) due to these factors:

- a 13,712 thousand euro rise resulting from the increased maintenance activity on distribution networks in the year by third parties (for a better understanding of the phenomenon, it should be noted that the capitalisations for intangible assets grew in terms of the total costs for services by 17,986 thousand euro overall);

- a 540 thousand euro rise over the previous year regarding costs for utilities (electricity, water, gas, phone), such amount including both savings on electricity costs and an increase in gas costs;
- costs for IT services and telephone costs, which grew during the year due to the strong focus on service digitisation and programme enhancement, as part of the strategy for the upgrading of gas network management capabilities;
- a fall in costs related to meter reading and emergency service for a total of around 293 thousand euro, to be associated with the respective revenue;
- lower acquisition/disposal transaction costs offset by an increase in costs related to legal and advisory services, in a year in which the business entities acquired in 2018 were consolidated;
- a decrease in rental, lease and hire costs mainly due to the new method of accounting for costs related to the use of third-party assets, which as of 2019 are reflected in amortisation for rights of use,
- a 2,986 thousand euro rise in concessionaire fees over the previous year mainly due to the merger with subsidiary 2i Rete Gas Impianti S.p.A.

6.C Personnel costs – 122,246 thousand euro

Personnel costs are broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Wages and salaries	88,677	84,996	3,681
Social security charges	27,267	25,916	1,352
Post-employment benefits	6,083	5,635	448
Asem/Fisde	(8)	(8)	(0)
Other personnel costs	(273)	(2)	(271)
Total personnel costs	**121,746**	**116,537**	**5,210**
Non-recurring personnel costs			-
Incentives to leave	500	970	(470)
Total non-recurring personnel costs	**500**	**970**	**(470)**
Total personnel costs	**122,246**	**117,507**	**4,740**
- of which capitalised for intangible assets	**61,868**	**52,498**	**9,370**
- of which capitalised for other internal work	**460**	**2**	**459**

"Personnel costs" include all expenses incurred on an ongoing basis that, directly or indirectly, involve employees. They were up by 4,740 thousand euro.
It should be noted that the Company's personnel increased by 45 employees following the merger with subsidiary 2i Rete Gas Servizi S.p.A.

Capitalisation for intangible assets increased again after last year's standstill, after it had fallen due to the services provided to subsidiary 2i Rete Gas Impianti S.p.A. (currently merged) through an intercompany agreement.
The table below shows employee changes in the year by category.

	Executives	Middle Managers	White collars	Blue collars	Total
Personnel at 31 December 2018	**34**	**112**	**1,219**	**704**	**2,069**
Merger contribution	1	10	34	-	**45**
Increase	-	-	64	1	**65**
Decrease	(4)	(10)	(61)	(47)	**(122)**
Change in category	2	0	1	(3)	**-**
Personnel at 31 December 2019	**33**	**112**	**1,257**	**655**	**2,057**

6.d Amortisation, depreciation and impairment losses – 203,427 thousand euro

Depreciation, amortisation and impairment losses totalled 203,427 thousand euro, against 160,683 thousand euro in the previous year.
It should be noted that, with the application of IFRIC 12, amortisation mainly concerns the rights over concessions in which the Company manages the gas distribution networks.
The figures shown are affected by the merger with 2i Rete Gas Impianti S.p.A., as amortisation deriving from the transferred assets was added to amortisation already reflected in the Parent Company's accounts.
Impairment on intangible assets was due to the alignment of the value of the LPG concessions following receipt of an offer for the purchase thereof submitted by a leading operator.
Amortisation due to the rights of use under IFRS 16 made its appearance. This item stood at 6,724 thousand euro and accounted for the portion of annual cost relating to the exclusive use of leased or rented assets that are subject to IFRS 16.

This item is broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Depreciation	7,334	5,149	2,185
Amortisation of rights of use IFRS 16	6,724		6,724
Amortisation	185,542	155,610	29,932
Impairment losses:			
Impairment of tangible assets	557	395	163
Impairment of intangible assets	3,556	17	3,539
Write down of trade and other receivables	(285)	(487)	202
Total depreciation, amortisation and impairment losses	**203,427**	**160,683**	**42,744**

6.e Other operating costs – 56,023 thousand euro

“Other operating costs” rose by 10,334 thousand euro, 1,651 thousand euro of which for the recognition of the net overall economic impact for the purchase of energy efficiency certificates. It should be noted that as of 2018, costs relating to these Certificates are reflected net of the related revenue.
As regards capital losses on asset disposal, the 6,528 thousand euro drop over the previous period reflects a carefully planned policy for the replacement of older networks. However, they remained significant as a result of the policy for the replacement of traditional meters with smart meters and the necessary operations for the replacement of smart meters that proved faulty.
Capital losses were partly absorbed by the use — to the extent of 9,090 thousands euro — of provisions specifically allocated for faulty meters that need replacing. It should also be stressed that a portion of the capital losses, where related to meters that at the date of replacement had not been fully amortised yet from a tariff perspective, is repaid by means of tariff based on an annual payment.
The other significant item to explain the increase in the year is the allocation to provisions for risks and charges (up by 11,262 thousand euro); for a more detailed description of these allocations, reference should be made to point 29 (Provisions for risks and charges) of these notes.

In detail, the costs were as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Other operating costs			
Third parties:			
Remuneration of statutory auditors, Supervisory Body and Co	122	98	24
Remuneration of members of the Board of Directors	257	296	(38)
Association fees	492	464	28
Contribution to the Supervisory Authority	243	280	(38)
Compensation to customers	930	406	525
Municipal tax on property	504	437	67
CCIAA (chamber of commerce) fees and duties	596	479	116
Net costs for energy efficiency certificates	9,449	7,798	1,651
Tax on the occupation of public space (Tosap)	1,620	1,505	115
Capital losses on the disposal of assets	12,567	19,095	(6,528)
Capital losses on the sale of assets	1,345	99	1,246
Local and sundry taxes	1,370	886	484
Other costs	3,953	2,534	1,420
(Net) provision for risks and charges	22,576	11,313	11,262
Total other operating costs	**56,023**	**45,689**	**10,334**
- of which capitalised for intangible assets	874	846	27

6.f Capitalised costs for internal work – (1,619) thousand euro

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work.
For this reason, the item now only includes those residual costs which can be capitalised but do not concern concessions. In the specific case, the value mainly refers to capitalisations of concentrators, equipment for the communication network of the new smart meters which are not part of the assets linked to the concessions.

7. Income/(Expenses) from equity investments - 195 thousand euro

The item in question includes the income from investments in subsidiaries, associates and other companies. The balance of this item was — to the extent of 195 thousand euro — due to the dividend paid by subsidiary MEA.

8. Financial income/(expenses) – (60,531) thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Financial income			
Third parties:			
- Interest and other inocme from non-current financial assets			
- Interest income from loans to employees	1	1	0
- Sundry financial income			
- Interest income from current accounts and post office deposits	1,854	394	1,460
- Interest income from receivables from customers	22	11	11
- Other financial interest and income	113	53	61
Group companies:			
- Interest income	299	-	299
Total income	**2,289**	**458**	**1,831**
Financial expenses			
Third parties:			
- Interest expense on medium-/long-term loans	3,779	3,791	(12)
- Other expense on medium-/long-term loans from banks	902	525	378
- Financial expenses on debenture loans	54,695	50,077	4,618
- Financial expenses from amortised cost	2,844	2,555	289
- Interest expense on short-term bank loans	0	-	0
- Interest expense on current bank accounts	0	-	0
- Discounting of post-employment and other employee benefits	756	741	16
- Interests on taxes	382	1	381
- Change in fair value of Interest Rate Swaps	20		20
- Change in fair value of hedging derivatives reclassified from comprehensi	(1,235)	(403)	(832)
- Other financial and interest expense	122	196	(74)
- Financial Expenses IFRS16	523		523
Group companies:			
- Interest expense	32	201	(169)
Total expenses	**62,821**	**57,684**	**5,136**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(60,531)**	**(57,226)**	**(3,305)**

Net financial expenses of 60,531 thousand euro were mainly due to the recognition in the year of the interests relating to the debenture loans and the related amortised cost, and the related positive change in fair value of the hedging derivative. At 31 December 2019, the Company had 2,997,100 thousand euro in loans outstanding, including 2,532,100 thousand euro in the six instalments of the debenture loan issued between 2014 and 2018, as well as 465,000 thousand euro in three credit lines from the European Investment Bank, and two revolving lines – still unused – of 200 million euro and 245 million euro, respectively.

9. Taxes – 59,107 thousand euro

This item is broken down as follows:

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Current taxes			
Current income taxes: IRES	66,065	50,098	15,966
IRES substitute tax on exemption	17,727	-	17,727
Current income taxes: IRAP	14,995	11,642	3,353
Total current taxes	**98,787**	**61,740**	**37,047**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	2,102	-	2,102
Positive adjustments for income taxes relating to previous years	(196)	(106)	(91)
Total adjustments for income taxes relating to previous years	**1,906**	**(106)**	**2,012**
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(5,852)	(2,300)	(3,552)
Prepaid taxes (allocation)/use	(35,735)	(6,275)	(29,460)
Total current deferred and prepaid taxes	*(41,587)*	*(8,574)*	*(33,012)*
Adjustments to deferred taxes of previous years due to tax rate change	-	(13)	13
Adjustments to prepaid taxes of previous years due to tax rate change	-	13	(13)
Total adjusted deferred and prepaid taxes	-	*0*	*(0)*
Total deferred and prepaid taxes	**(41,587)**	**(8,574)**	**(33,012)**
TOTAL TAXES	**59,107**	**53,060**	**6,046**

Income taxes for 2019 totalled 59,107 thousand euro, up 6,046 thousand euro year-on-year.
Specifically, taxes represent the recognition of the charge for current taxes for the year, including IRES (corporate tax) of 66,065 thousand euro and IRAP (regional production tax) of 14,995 thousand euro, in addition to the impact on current taxes of the exemption of 17,727 thousand euro of 2i Rete Gas Impianti S.p.A. (currently merged in 2i Rete Gas S.p.A) following the reverse merger between 2i Rete Gas Impianti S.r.l. and 2i Rete Gas Impianti S.p.A..

Deferred and prepaid taxes reflected not only the normal business performance, but also the effect of the above-mentioned exemption transaction, which resulted in additional deferred tax assets totalling 31,606 thousand euro.
For more in-depth notes on this item, reference should be made to the relevant section of the notes to the Statement of financial position.

1,906 thousand euro in negative net adjustments to the income tax expense for prior years;

The tax impact of IRES for 2019 is equal to 24.2%.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in force during the year to pre-tax profit, without taking into account the adjustments from previous years:

Thousands of euro	31.12.2019	31.12.2018
Pre-tax profit	264,606	182,713
Theoretical IRES taxes - 2019:	**63,505**	**43,851**
Lower taxes:	**29,098**	**14,172**
- capital gains from exempt equity investments	3,607	225
- release of contributions taxed in prior years	1,682	1,763
- use of provisions	12,073	4,326
- release of provisions	467	485
- reversal of statutory amortisation / depreciation not deducted in prior years	1,834	1,507
- deducted tax amortisation	-	4,960
- capital gains by instalments	17	-
- others	9,418	907
Higher taxes:	**29,672**	**20,419**
- allocations to provisions	9,720	7,820
- amortisation / depreciation on amounts that are not recognised for tax purposes	4,111	-
- statutory amortisation / depreciation exceeding the fiscal limits	10,307	10,660
- reversal of excess fiscal amortisation / depreciation deducted in prior years	1,195	779
- capital losses on the disposal / sale of assets	12	22
- capital gains by instalments	222	222
- partially deductible costs	449	432
- connection fees	-	36
- taxes	192	92
- others	3,464	358
Total current income taxes (IRES)	**64,079**	**50,098**
IRAP - 2019:	14,621	11,642
Difference on previous years' tax estimates	2,359	-
IRES substitute tax on exemption	17,727	-
Total deferred and prepaid taxes	**(41,587)**	**(8,574)**
TOTAL INCOME TAXES FROM CONTINUING AND DISCONTINUED OPERATIONS	**57,201**	**53,166**

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero.

Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – 37,207 thousand euro

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not related to gas distribution concessions.
The breakdown and changes in tangible assets in 2018 and 2019 are shown below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	12,750	33,570	6,818	22,657	48,981	13,505	2	**138,282**
Accumulated depreciation	0	(24,459)	(1,870)	(20,869)	(42,905)	(10,748)	-	**(100,851)**
Balance at 31.12.2017	**12,750**	**9,111**	**4,948**	**1,788**	**6,076**	**2,756**	**2**	**37,430**
Merger contribution:	-	-	20	8	-	-	-	**28**
Gross value	-	-	20	30	1	-	-	**50**
Acc. Depr.	-	-	(0)	(22)	(1)	-	-	**(23)**
Business unit Contribution	-	-	-	78	613	-	-	**691**
Gross value	-	-	-	179	1,882	-	-	**2,061**
Acc. Depr.	-	-	-	(101)	(1,269)	-	-	**(1,370)**
Increases (including Fixed assets classified as assets available for sale)	-	160	2,494	168	1,356	23	2	**4,202**
Entry into service	-	-	-	-	-	(0)	0	**-**
Gross value	-	-	-	-	-	(0)	0	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Disposals	(803)	(1,035)	-	-	-	-	-	**(1,837)**
Gross value	(803)	(3,981)	-	(8)	-	-	-	**(4,791)**
Acc. Depr.	-	2,946	-	8	-	-	-	**2,954**
Reclassifications	-	-	-	-	29	-	-	**29**
Gross value	-	-	-	-	30	-	-	**30**
Acc. Depr.	-	-	-	-	(1)	-	-	**(1)**
Impairment losses	-	(395)	-	-	-	-	-	**(395)**
Gross value	-	-	-	-	-	-	-	**-**
Acc. Depr.	-	(395)	-	-	-	-	-	**(395)**
Fixed assets classified as assets available for sale	-	-	(70)	-	(2)	-	-	**(72)**
Gross value	-	-	(71)	-	(30)	-	-	**(101)**
Acc. Depr.	-	-	2	-	28	-	-	**30**
Depreciation	-	(763)	(428)	(465)	(2,464)	(1,029)	-	**(5,149)**
Total changes	**(803)**	**(2,033)**	**2,016**	**(211)**	**(468)**	**(1,007)**	**2**	**(2,503)**
Historical cost	11,947	29,749	9,261	23,025	52,220	13,527	4	**139,732**
Accumulated depreciation	0	(22,671)	(2,297)	(21,448)	(46,612)	(11,778)	-	**(104,805)**
Balance at 31.12.2018	**11,947**	**7,078**	**6,964**	**1,577**	**5,608**	**1,749**	**4**	**34,927**
Merger contribution:	-	3,164	78	8	1,098	37	-	**4,385**
Gross value	-	10,583	95	1,893	4,773	162	-	**17,505**
Acc. Depr.	-	(7,418)	(17)	(1,885)	(3,675)	(125)	-	**(13,120)**
Increases (including Fixed assets classified as assets available for sale)	-	52	3,446	238	5,699	197	801	**10,434**
Entry into service	-	(2)	-	-	-	(2)	4	**-**
Gross value	-	(2)	-	-	-	(2)	4	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Disposals	(2,728)	(582)	(869)	(23)	(464)	-	-	**(4,666)**
Gross value	(2,728)	(6,540)	(1,077)	(517)	(4,131)	-	-	**(14,993)**
Acc. Depr.	-	5,957	207	494	3,668	-	-	**10,326**
Reclassifications	-	(59)	533	-	(455)	-	-	**18**
Gross value	-	(70)	2,425	-	(2,337)	-	-	**18**
Acc. Depr.	-	11	(1,892)	-	1,881	-	-	**(0)**
Impairment losses	(531)	(27)	-	-	-	-	-	**(557)**
Gross value	(531)	-	-	-	-	-	-	**(531)**
Acc. Depr.	-	(27)	-	-	-	-	-	**(27)**
Depreciation	-	(1,311)	(817)	(411)	(3,823)	(972)	-	**(7,334)**
Total changes	**(3,259)**	**1,235**	**2,371**	**(187.622)**	**2,056**	**(740)**	**805**	**2,280**
Historical cost	8,688	33,772	14,150	24,639	56,224	13,884	809	**152,167**
Accumulated depreciation	0	(25,459)	(4,815)	(23,250)	(48,561)	(12,874)	-	**(114,959)**
Balance at 31.12.19	**8,688**	**8,313**	**9,335**	**1,390**	**7,663**	**1,010**	**809**	**37,207**

As at 31 December 2019, this item was clearly affected by the merger of the companies on 1 January 2019 to an overall extent of 4,385 thousand euro. Increases in the year pertaining to investments came in at 10,434 thousand euro against disposals totalling 4,666 thousand euro relating to the sale of property no longer used, impairment losses and negative reclassifications totalling 539 thousand euro and, finally, depreciation totalling 7,334 thousand euro.

The investment made in property, plant and equipment is broken down as follows:

Thousands of euro	31.12.2019	31.12.2018
Increases for internal services	470	2
Increases for materials	984	836
Increases for external acquisitions / services	8,980	3,364
Total	**10,434**	**4,202**

The increase in plant and equipment, on the other hand, was due to the continuation of installation of concentrators, data reception and transmission equipment which is part of the smart meter communication network and is excluded from the scope of application of IFRIC 12 since it is not recognised as assets connected to the locations under concession.

In compliance with the provisions of art. 10 of Italian Law No. 72/83, the historical figures (expressed in thousands of euro) for the monetary revaluations included in the asset categories and contained in the item in question and in that for intangible assets are broken down below:

LAND	
Revaluation Law 576/75	19
Revaluation Law 72/83	12
Revaluation Law 413/91	300
Revaluation Law 350/03	2,516
Total revaluations of land and buildings	**2,846**

LAND CONC	
Revaluation Law 576/75	1
Revaluation Law 72/83	15
Revaluation Law 413/91	0
Revaluation Law 350/03	77
Total revaluations of land and buildings	**93**

BUILDINGS	
Revaluation Law 576/75	19
Revaluation Law 72/83	5
Revaluation Law 413/91	364
Revaluation Law 350/03	3,377
Total revaluations of land and buildings	**3,765**

BUILDINGS CONC	
Revaluation Law 576/75	16
Revaluation Law 72/83	96
Revaluation Law 413/91	138
Revaluation Law 350/03	2,162
Total revaluations of land and buildings	**2,412**

PLANT AND EQUIPMENT CONC	
Revaluation Law 576/75	2,313
Revaluation Law 72/83	18,509
Revaluation Law 413/91	22
Revaluation Law 342/00	8,869
Revaluation Law 350/03	496,863
Total revaluations of plant and equipment	**526,576**

INDUSTRIAL AND COMMERCIAL EQUIPMENT	
Revaluation Law 576/75	1
Revaluation Law 72/83	10
Revaluation Law 350/03	6
Total revaluations of industrial and commercial equipment	**17**

OTHER ASSETS	
Revaluation Law 576/75	1
Revaluation Law 72/83	11
Revaluation Law 350/03	7
Total revaluations of other assets	**18**

12. Rights of use under IFRS 16 – 28,817 thousand euro

Following the application of IFRS 16, hire, rent and lease contracts which up to 2018 had a single representation with the impact of the fees paid in the year on the income statement (under Fees for use of third-party assets in costs for services), are represented in this item as rights of use of a particular asset. On initial recognition

the Group has determined which contracts corresponded to the characteristics required by IFRS 16 and assessed their value on the basis of the residual fees to be paid at 1 January 2019, duly discounted.
For this reason, under assets a new item has been created to include the value of these rights. A financial obligation for a similar amount was held under liabilities in these financial statements, since the Company adopted the "Modified retrospective" approach for the reconciliation of values relating to the rights of use. For better disclosure of the process applied to determine the opening value and to manage such assets, reference should be made to the specific paragraph 19 (Accounting standards, evaluation criteria and use of estimates), in the section dedicated to IFRS 16.

Here below is the table of changes in assets for 2019.

Thousands of euro	Property IFRS 16	Vehicles IFRS 16	ICT IFRS 16	Total
Balance at 31.12.2018	-	-	-	-
First application of IFRS 16 at 1 January 2019	20,669	4,832	-	**25,501**
Gross value	20,669	4,832	-	**25,501**
Acc. Depr.	-	-	-	-
Increases (including Fixed assets classified as assets available for sale)	6,260	3,440	367	**10,067**
Entry into service	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Disposals	-	(27)	-	**(27)**
Gross value	-	(27)	-	**(27)**
Acc. Depr.	-	-	-	-
Reclassifications	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Impairment losses	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Fixed assets classified as assets available for sale	-	-	-	-
Gross value	-	-	-	-
Acc. Depr.	-	-	-	-
Depreciation	(4,184)	(2,517)	(23)	**(6,724)**
Total changes	**22,746**	**5,727**	**344**	**28,817**
Historical cost	26,929	8,244	367	**35,540**
Accumulated depreciation	(4,184)	(2,517)	(23)	**(6,724)**
Balance at 31.12.19	**22,746**	**5,727**	**344**	**28,817**

13. Intangible assets – 3,727,105 thousand euro

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions.
The breakdown and changes in intangible assets in 2018 and 2019 are shown below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets construction and adv	Fixed assets under construction advances	Other fixed assets	Goodwill	Total
Historical cost	92,843	5,477,481	13,106	3,278	117,768	142,956	**5,847,432**
Accumulated depreciation	(88,283)	(2,754,876)	-	-	(81,535)	-	**(2,924,694)**
Balance at 31.12.2017	**4,560**	**2,722,605**	**13,106**	**3,278**	**36,233**	**142,956**	**2,922,738**
Merger contribution:	3	7,143	-	-	-	19	**7,165**
Gross value	41	14,240	-	-	12	19	**14,312**
Acc. Depr.	(38)	(7,098)	-	-	(12)	-	**(7,148)**
Increases (including Fixed assets classified as assets available for sale)	2,636	225,023	14,983	3,432	10,570	-	**256,644**
Entry into service	856	8,544	(8,544)	(2,689)	1,833	-	**(0)**
Gross value	856	8,544	(8,544)	(2,689)	1,833	-	**(0)**
Acc. Depr.	-	-	-	-	-	-	**-**
Decreases	-	(19,042)	(26)	-	-	-	**(19,067)**
Gross value	-	(51,112)	(26)	-	-	-	**(51,138)**
Acc. Depr.	-	32,070	-	-	-	-	**32,070**
Reclassifications	(29)	-	-	-	-	-	**(29)**
Gross value	(30)	-	-	-	-	-	**(30)**
Acc. Depr.	1	-	-	-	-	-	**1**
Impairment losses	-	-	(17)	-	-	-	**(17)**
Gross value	-	-	(17)	-	-	-	**(17)**
Acc. Depr.	-	-	-	-	-	-	**-**
Fixed assets classified as assets available for sale	-	(31,028)	(667)	-	-	-	**(31,696)**
Gross value	-	(62,108)	(667)	-	-	-	**(62,775)**
Acc. Depr.	-	31,079	-	-	-	-	**31,079**
Depreciation	(3,602)	(138,405)	-	-	(13,603)	-	**(155,610)**
Total changes	**(137)**	**52,235**	**5,730**	**743**	**(1,200)**	**19**	**57,390**
Historical cost	96,346	5,612,068	18,836	4,022	130,183	142,974	**6,004,429**
Accumulated depreciation	(91,923)	(2,837,229)	-	-	(95,149)	-	**(3,024,301)**
Balance at 31.12.2018	**4,423**	**2,774,839**	**18,836**	**4,022**	**35,034**	**142,974**	**2,980,128**
Merger contribution:	165	547,605	2,097.07	-	2,078	124,884	**676,829**
Gross value	170	1,043,788	2,097	-	13,448	124,884	**1,184,386**
Acc. Depr.	(5)	(496,183)	-	-	(11,369)	-	**(507,557)**
Increases (including Fixed assets classified as assets available for sale)	392	248,657	27,030	4,106	6,222	-	**286,407**
Entry into service	-	15,617	(15,617)	(3,057)	3,057	-	**-**
Gross value	-	15,617	(15,617)	(3,057)	3,057	-	**-**
Acc. Depr.	-	-	-	-	-	-	**-**
Decreases	-	(22,403)	(455)	(81)	-	-	**(22,939)**
Gross value	-	(74,568)	(455)	(81)	(1,623)	-	**(76,727)**
Acc. Amort	-	52,165	-	-	1,623	-	**53,788**
Reclassifications	-	0	(18)	-	-	-	**(18)**
Gross value	-	0	(18)	-	-	-	**(18)**
Acc. Amort	-	0	-	-	-	-	**0**
Impairment losses	-	(3,421)	(34)	(101)	-	(1,214)	**(4,769)**
Gross value	-	(3)	(34)	(101)	-	-	**(138)**
Acc. Amort	-	(3,418)	-	-	-	(1,214)	**(4,632)**
Fixed assets classified as assets available for sale	-	(2,990)	(0)	-	-	-	**(2,991)**
Gross value	-	(3,738)	(0)	-	-	-	**(3,739)**
Acc. Amort	-	748	-	-	-	-	**748**
Amortisation	(2,168)	(168,023)	-	-	(15,351)	-	**(185,542)**
Total changes	**(1,610)**	**615,041**	**13,002**	**867**	**(3,994)**	**123,670**	**746,977**
Historical cost	96,909	6,841,821	31,839	4,889	151,286	267,858	**7,394,601**
Accumulated amortisation	(94,096)	(3,451,940)	0	0	(120,246)	(1,214)	**(3,667,496)**
Balance at 31.12.2019	**2,813**	**3,389,881**	**31,839**	**4,889**	**31,040**	**266,644**	**3,727,105**

Intangible assets primarily reflected the contribution resulting from the merger of the three subsidiaries that became effective on 1 January 2019. As can be seen, this merger resulted in 676,829 thousand euro being reflected in the Parent Company's accounts.
The investment campaign, which continued to be most significant also in 2019, shows an increase of 286,407 thousand euro, decreases to the extent of 22,939 thousand euro, reclassifications totalling 3,009 thousand euro (of which 2,991 due to assets relating to the San Gillio and Givoletto concessions being held as "Assets available for sale", such concessions being discontinued following a tender for the award of ATEM Turin 2, in which the Company decided not to participate), as well as depreciation and impairment losses totalling 190,311 thousand euro.

The item "Patent and intellectual property rights" is not significant in terms of amounts recognised, while the item "Concessions and similar rights" includes the amounts relating to the recognition of the Company's rights as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions. The figure must be read together with the related item "Fixed assets under construction". The total of the two items shows a final balance including the merger contribution and after accumulated amortisation of 3,392,693 thousand euro.

The amortisation of concession charges was determined on a straight-line basis and on the basis of the estimated realisable value at the end of the concession. The Company determined the terms of the concessions using the same criteria adopted in the previous year.

For concessions which have expired at the reporting date, and therefore are operating in an extension regime (prorogatio), the residual value has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that, pursuant to the Italian Ministry of Economic Development's Decree, of 19 January 2011 "Identification of local areas in the natural gas distribution sector" which came into force on 1 April 2011, according to art. 3, paragraph 3 of said Decree "as from the coming into force of this provision, the tenders for the assignment of the gas distribution service, as provided for by art. 14, paragraph 1, of Italian Legislative Decree No. 164 of 23 May 2000, for which the call for tender has not been published or for which the deadline for submitting offers has not expired, are awarded solely for the local areas established in Annex 1 forming an integral part of this provision" and that, in compliance with art. 14, paragraph 7 of Italian Legislative Decree No. 164/2000, "the outgoing operator, pursuant to art. 14, paragraph 7, of Italian Legislative Decree No. 164 of 23 May 2000, in any case remains under obligation to continue managing the service until the start date of the new assignment".

“Assets under construction and advances”, standing at 4,889 thousand euro, mainly accounted for the year's investments in software that the Company developed to ensure a better digital management of the network and corporate operations.

"Other intangible assets" of 31,040 thousand euro include other long-term costs, such as capitalised costs linked to the implementation of the remote reading system for smart meters.

"Goodwill" is equal to 266,644 thousand euro and is related to the deficit from the merger of companies which had previously been subsidiaries. Changes during the year included the recognition of goodwill booked in 2i the Rete Gas Impianti S.p.A. following the merger with the latter and the write-off of concessions sold. This item was recognised in agreement with the Board of Statutory Auditors.

The estimate of the recoverable value of goodwill recognised in the financial statements is based on the Discounted Cash Flow model that uses estimates of future cash flows, applying an appropriate discount rate, to measure an asset's value in use.
For the purposes of this estimate, the whole Group is considered as a Cash Generating Unit, consistently with the corporate vision.
In detail, cash flows are considered for a forecast period of 5 years, consistent with the 2i Rete Gas Group plan approved by the Board of Directors on 15 January 2020 and drafted on the going concern assumption, plus the terminal value calculated with the perpetual income algorithm.

In this framework, the two main assumptions are:

- continuity in concession management, since the redefinition of the relevant local areas resulting from the territorial tenders will be a concrete opportunity for the Group to expand its business on the competitive market given its economic capacity, available credit lines, and top position in a market that is experiencing concentration;
- the continuous management of end customers, with the assumption of a further organic growth only on the already existing networks at a rate compatible with the experience on the market in recent years.

The discount rates applied, the forecast period over which projected cash flows are discounted, and the Group terminal value growth rate are detailed in the table below.

Tax Rate	WACC (1)	Cash flow forecast period	TV (g) growth rate
28.6% (2)	3.6%	2020 - 2024	0%

(1) Post-tax WACC is aligned to the average cost of financing of the best-performing peers in the sector
(2) IRAP + IRES rate

The value in use, determined in accordance with the aforementioned methods, was higher than the value of the net invested capital recorded in the financial statements.

The recoverability of the Group's invested capital was also confirmed by a further sensitivity analysis undertaken by considering possible changes in the key assumptions included in the business and financial plan used for the impairment test.
In particular, the simulation of a worsening scenario was done by changing the value of net cash flows within the plan. Without prejudice to all the other assumptions included in the plan, the analysis carried out showed that, in order to reach the indifference point (i.e. the value in use of the asset being equal to the net invested capital), there would have to be damaging changes to the plan such as to reduce the net cash flows by around 26%, a percentage which is much higher than the reductions considered possible by the Company.

14. Net deferred tax assets – 124,568 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date. Deferred tax assets totalled 241,329 thousand euro, while deferred tax liabilities totalled 116,762 thousand euro.

Deferred tax assets and liabilities at 31 December 2019 were determined using the tax rates in force: 24% for IRES and 4.53% for IRAP.

It should be noted that balances are affected by the merger of the three subsidiaries as aforesaid, so that as at 1 January 2019 both deferred tax assets and liabilities increased considerably by 23,470 thousand euro and 27,087 thousand euro, respectively.
The most significant changes during the year, other than usual changes peculiar to the conduct of the business, pertained to deferred tax assets, totalling 31,606 thousand euro, due to the exemption of goodwill arisen following the reverse merger of 2018 between 2i Rete Gas Impianti S.r.l. and 2i Rete Gas Impianti S.p.A. and the recognition of the tax impact of the fair value measurement relating to the derivative contract opened in August 2019, totalling 955 thousand euro.

The change in deferred taxes assets for the year refers to overall increases for 81,629 thousand euro and decreases for 21,172 thousand euro due to regular changes in the year.

Considering, among other things, the flows estimated in the most recent business plans, the Company believes it can use deferred tax assets in the ordinary course of business.

The table below details changes in deferred tax assets and liabilities by type of temporary difference, determined according to the tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

Thousands of euro	At 31.12.2018	Merger contribution	Capital contributions from extraordinary operations during the year	Total	Increases recognised in		Decreases recognised in		Other changes		Reclassifications (if any) under the item Available for sale	Adjustments (if any) under the item Available for sale	Balance at 31.12.2019
					Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity			
Deferred income tax assets:													
allocation to provisions for risks and charges, deferred deductibility	23,868	-	2,011	25,879	10,776	-	(13,095)	-	133	-	-	-	**23,693**
allocation to provisions for incentives to leave and stock options	673	-	51	723	143	-	(394)	-	9	-	-	-	**481**
allocation to provisions for disputes	3,550	-	529	4,079	455	-	(776)	-	(185)	-	-	-	**3,574**
allocation to provisions for inventory obsolescence	3,298	-	-	3,298	31	-	(54)	-	(4)	-	-	-	**3,272**
impairment losses on assets, deferred deductibility (receivables write-downs)	2,387	-	522	2,909	-	-	(291)	-	(27)	-	-	-	**2,591**
impairment losses on assets, deferred deductibility (plant write-downs)	1,899	-	-	1,899	-	-	-	-	(2)	-	-	-	**1,898**
depreciation and amortisation of tangible and intangible assets, deferred deductibility	90,296	-	20,334	110,630	10,443	-	(4,993)	-	(7)	-	174	-	**116,248**
separation of land / buildings and component analysis	114	-	-	114	-	-	-	-	(0)	-	-	-	**114**
start-up costs	2,225	-	-	2,225	-	-	-	-	(0)	-	-	-	**2,224**
post-employment and other employee benefits	3,794	-	-	3,794	1,188	-	(1,365)	-	(4)	-	-	-	**3,613**
cash deductible taxes and duties	(0)	-	-	(0)	-	-	-	-	-	-	-	-	**(0)**
proceeds subject to deferred taxation (connection fees)	31,973	-	-	31,973	-	-	(175)	-	(28)	-	-	-	**31,770**
deferred deductibility charges	13,421	-	5	13,426	9	-	(2)	-	2,209	-	-	-	**15,642**
goodwill	1,000	-	7	1,007	31,606	-	-	-	134	-	-	-	**32,746**
post-employment benefits - Italian Accounting Body (OCI)	2,374	11	-	2,385	-	125	-	-	-	(3)	-	-	**2,507**
derivative financial instruments (in case of a net negative change in the relevant equity reserve)	-	-	-	-	-	956	-	-	-	-	-	-	**956**
for losses recoverable in future years	0	-	0	0	-	-	-	-	-	-	-	-	**0**
Total	**180,873**	**11**	**23,459**	**204,342**	**54,651**	**1,080.60**	**(21,143)**	**-**	**2,226**	**(3)**	**174**	**-**	**241,329**
Deferred income tax liabilities:													
differences on tangible and intangible assets – additional depreciation and amortisation	23,030	-	-	23,030	269	-	(3,006)	-	(0)	-	31	-	**20,324**
differences on intangible assets – goodwill	5,109	-	-	5,109	-	-	-	-	(1)	-	-	-	**5,107**
separation of land / buildings and component analysis	3,826	-	-	3,826	-	-	-	-	(4)	-	-	-	**3,821**
allocation to assets of costs relating to company mergers	38,113	-	-	38,113	-	-	(2,167)	-	(50)	-	-	-	**35,897**
post-employment benefits	1,114	-	-	1,114	-	-	-	-	-	(0)	-	-	**1,113**
proceeds subject to deferred taxation	3,350	-	-	3,350	1,177	-	(222)	-	(0)	-	-	-	**4,305**
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	2,856	-	-	2,856	97	-	-	(296)	-	-	-	-	**2,656**
other...	1,248	-	-	1,248	33	-	(205)	-	(2)	-	-	-	**1,074**
Derivative financial instruments and ASEM - Italian Accounting Body (OCI)	59	-	-	59	-	31	-	-	-	(0)	-	-	**90**
recognition of deferred taxes due to merger	17,057	-	27,087	44,144	795	-	(2,358)	-	(209)	-	-	-	**42,373**
Total	**95,761**	**-**	**27,087**	**122,848**	**2,371**	**31**	**(7,957)**	**(296)**	**(266)**	**(0)**	**31**	**-**	**116,762**
Net deferred tax assets	**85,112**	**11**	**(3,628)**	**81,495**	**52,280**	**1,049**	**(13,185)**	**296**	**2,492**	**(2)**	**143**	**-**	**124,568**

15. Equity investments – 12,067 thousand euro

The following table shows the changes in the year for each equity investment, with the corresponding values at the beginning and end of the year, as well as the list of equity investments held in other companies.
The balance decreased significantly following the merger of the three associated companies — i.e. 2i Rete Gas Impianti S.p.A., 2i Rete Gas Servizi S.p.A. and Compagnia Generale Metanodotti S.r.l. — with the Parent Company.
Moreover, due to the aforesaid merger with 2i Rete Gas Impianti S.p.A., Cilento Reti Gas S.r.l. became a direct subsidiary of 2i Rete Gas S.p.A.
It should be noted that 2i Servizi Energetici S.r.l. was established during the year. This company engages in the development of energy saving services intended for municipalities and private companies. Although a 60% equity interest is held in the aforesaid company, it was not consolidated inasmuch as the Company does not have control thereof.

The list of equity investments and the change in their value during 2019 are reported on the following page.

Thousands of euro	Carrying amount	% ownership	Merger contribution	Increases for the period	Disposals	Other changes	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	at 31.12.2018			**Changes in 2019**				**at 31.12.2019**		
A) Subsidiaries										
2i Rete Gas Impianti SpA	**730,385**	**100%**				(730,385)	**730,385**	**(730,385)**	**-**	**0%**
Compagnia Generale Metanodotti Srl	**1,253**	**100%**				(1,253)	**1,253**	**(1,253)**	**-**	**0%**
2i Rete Gas Servizi SpA	**5,915**	**100%**				(5,915)	**5,915**	**(5,915)**	**-**	**0%**
2i Rete Gas Srl	**6,906**	**100%**					**6,906**	**-**	**6,906**	**100%**
Cilento Reti Gas Srl	**-**		2,580				**-**	**2,580**	**2,580**	**100%**
Total subsidiaries	**744,460**		**2,580**	**-**	**-**	**(737,554)**	**744,460**	**(734,974)**	**9,486**	
B) Associates										
Melegnano Energie Ambiente SpA	**2,451**	**40.00%**					**2,451**	**-**	**2,451**	**40%**
2i Servizi Energetici Srl	**0**	**0.00%**		6			**-**	**6**	**6**	**60%**
Total associates	**2,451**		**-**	**6**	**-**	**-**	**2,451**	**6**	**2,457**	
C) Other companies										
Interporto di Rovigo S.p.A.	**42**	**0.30%**					**42**	**-**	**42**	**0.30%**
Fingranda S.p.A.	**26**	**0.58%**					**26**	**-**	**26**	**0.58%**
Agenzia di Pollenzo S.p.A.	**33**	**0.27%**					**33**	**-**	**33**	**0.27%**
Industria e Università S.r.l.	**11**	**0.09%**					**11**	**-**	**11**	**0.09%**
Terme di Offida Spa	**1**	**0.19%**					**1**	**-**	**1**	**0.19%**
Asogas S.p.A. (liquidated)		**9.00%**					**-**	**-**	**-**	**9.00%**
Banca Popolare Pugliese	**-**		11				**-**	**11**	**11**	**0.01%**
Total other companies	**112**		**11**	**-**	**-**	**-**	**112**	**11**	**123**	
TOTAL EQUITY INVESTMENTS	**747,024**		**2,591**	**6**	**0**	**(737,554)**	**747,024**	**(734,957)**	**12,067**	

The following tables show the list of equity investments in subsidiaries and their values as recognised in the Company's financial statements at 31 December 2019:

A) Subsidiaries	Registered office	Share Capital (euro)	Equity (euro)	Profit / (Loss)	End of the reporting period	% ownership	Carrying amount	Equity (ITA GAAP) (euro)
2i Rete Gas SRL	Milan	50,000	8,056,750	802,325	31.12.2019	100.00%	6,906,000	8,056,750
Cilento Reti Gas Srl	Acquaviva delle Fonti (BA)	4,300,000	3,645,021	259,755	31.12.2019	60.00%	2,580,000	2,187,013

As regards associates, on the other hand, the values at 31 December 2019 were as follows:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	8,539,951	5,518,155	200,674	31.12.2018	40%	2,451,467
2i Servizi Energetici Srl	Milan	10,000				pending approval of first set of financial statements	60%	6,000

Finally, the equity investments in other companies at the same date were:

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income / loss latest year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,541,759	1,452,858	73,167	31.12.2018	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,390,027	22,701	(198,691)	31.12.2018	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,962,113	955,698	14,153	31.12.2018	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,157,312	0	(30,308)	31.12.2018	0.09%	10,989
Terme di Offida Spa	Offida (AP)	141,384	24,624	0	(8,345)	31.12.2018	0.19%	548
Asogas S.p.A. (liquidated)			Removed from the Business Register on 24/12/2019					
Banca Popolare Pugliese	Parabita (Le)	184,828,872	312,914,069	131,896,327	9,550,873	31.12.2018	0.01%	11,127

16. Non-current financial assets – 1,547 thousand euro

The item also includes the prepayment of transaction costs incurred to obtain credit lines, unused at 31 December 2019, and includes the revolving line obtained in the year.

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Non-current prepaid financial expenses	869	368	500
Long-term loans to employees	18	42	(24)
Financial receivables due from others	660	614	46
Total	**1,547**	**1,025**	**523**

17. Other non-current assets – 57,671 thousand euro

The item includes the following entries:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
security deposits	3,559	3,104	455
receivables for plant contributions	560	560	-
tax receivables reimbursements applied for	1,598	1,598	-
prepaid promotional expenses	86	110	(24)
from municipalities for disposals of assets due to expiration of concessions	5,883	7,131	(1,247)
Non-current receivables from CSEA	30,236	25,548	4,688
other non-current assets	15,895	15,998	(102)
bad debt provision	(147)	(147)	-
Total	**57,671**	**53,902**	**3,770**

Guarantee deposits totalled 3,559 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The 560 thousand euro receivable for grants to be received was attributable to the recognition of the medium/long-term portion of receivables for grants related to plants to be received: this item was unchanged during the year.

Tax receivable reimbursements applied for of 1,598 thousand euro relate to reimbursement requests pursuant to art. 6, Leg. Decree 185/2008 (Deduction from IRES of the IRAP portion for labour costs and interest expense). No changes whatsoever occurred regarding this item either.

The receivable due from municipalities for disposals of assets due to the expiration of concessions had a balance of 5,883 thousand euro. This was the result of similar disputes or proceedings ongoing with some municipalities in order to define the amount of the refund owed to the Company as outgoing operator for the relevant concessions and plants already ended. Efforts continued across the territory to resolve existing issues. The decrease in the balance was due to the successful outcome of part of the disputes settled during the year through out-of-court agreements.

The balance of non-current receivables due from CSEA, totalling 30,236 thousand euro, referred to the amount payable to distribution companies for the conventional meters that must be replaced by smart meters under Resolution 155/09 but that had not yet been fully amortised through tariffs at the date of their replacement. The considerable amount was due to the intense replacement activity that has taken place in recent years and will be repaid by CSEA according to the timeframe set out in the resolution.

Finally, other non-current assets are in line with previous years' figures and included the balance of the advance payments of the fees that distribution companies must pay to contracting authorities for ATEM tenders (11,302 thousand euro at 31 December 2019), as well as the remaining amount of the prepaid expenses for the lease payment paid in advance to the company API, which owns the networks operated in the municipality of Rozzano (2,875 thousand euro).

Current assets

18. Inventories – 23,509 thousand euro

Closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas distribution plants and, in particular, of the new smart meters.
This item shows a balance in line with the previous year. It should be noted that as of 2018, the operating management model requires that only Parent Company owns warehouses, with a view to increasing efficiency.
The item includes the provision for the write-down of inventories equal to 511 thousand euro. The provision was set up to take into account inventories with unlikely future use.
The Company uses the weighted average cost method.

19. Trade receivables – 252,844 thousand euro

Trade receivables are broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Third-party customers:			
Receivables due from customers	254,290	214,029	40,261
- Bad debt provision	(8,305)	(6,829)	(1,477)
Receivables for returns under warranty	3,562	2,114	1,448
- Provision for receivables for returns under warranty	(646)	(646)	-
Total	**248,901**	**208,669**	**40,232**
Group companies:			
Receivables due from subsidiaries	3,943	22,797	(18,854)
Total	**3,943**	**22,797**	**(18,854)**
TOTAL	**252,844**	**231,466**	**21,378**

Receivables due from third-party customers consist of trade receivables and receivables from operations and include receivables relating to gas distribution and to the invoicing of the residual activities in the water sector.
Such receivables are recognised net of a 8,305 thousand euro bad debt provision.
As for the impact assessment pursuant to IFRS 9, the company did not consider it had to update its assessments since the guarantees hedging receivables significantly reduce the risk of insolvency.
Receivables for returns under warranty, which are recognised net of the relevant bad debt provision, concern receivables due from manufacturers of meters for non-functioning assets which have long-term warranties. The amount is stated net of the bad debt provision to take account of changed contractual conditions and findings which lead to the belief that the receivable is no longer collectible.
Changes in the bad debt provision are set out below.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
At 31 December 2018	**6,829**	**9,028**	**(2,199)**
Merger contributions	2,453	22	2,431
Allocations	650	263	387
Releases	(935)	(750)	(185)
Uses	(691)	(1,734)	1,043
At 31 December 2019	**8,305**	**6,829**	**1,477**

The bad debt provision at 31 December 2019 was subject to taxes of 7,236 thousand euro.

The breakdown of receivables due from subsidiaries is as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Receivables due from parent companies:			
2I Rete Gas S.r.l.	2,169	2,688	(519)
2I Rete Gas Servizi S.p.A.	-	1,137	(1,137)
2I Rete Gas Impianti S.p.A.	-	18,899	(18,899)
Cilento Reti Gas S.r.l.	1,774	17	1,758
Compagnia Metanodotti Salentini S.rl.	-	57	(57)
TOTAL	**3,943**	**22,797**	**(18,854)**

All the Company's operations are in Italy.

20. Short-term financial receivables – 16,885 thousand euro

Short-term financial receivables consisted, to the extent of 15,556 thousand euro, of receivables from subsidiary Cilento Reti Gas S.r.l. relating to the intercompany loan contract executed during the year and, to the extent of 1,304 thousand euro, of financial receivables arising from the exercise of the right of withdrawal by Azienda Elettrica Valtellina e Valchiavenna. The amount is based on the estimate of the preliminary withdrawal value and was challenged by the company. It must be updated on the basis of an expert appraisal which was still ongoing at the reporting date.

21. Other current financial assets – 969 thousand euro

Other current financial assets contain the accrued interest income unpaid by the bank at 31 December 2019.

22. Cash and cash equivalents – 353,281 thousand euro

Cash and cash equivalents fell by 323,697 thousand euro as a result of financial transactions completed during the year — repayment of debenture loan instalments to the extent of 362.7 million euro — and thanks to normal operations.

Cash and cash equivalents are broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Bank deposits	352,921	676,348	(323,427)
Post office deposits	210	491	(282)
Cash in hand	150	138	12
Total	**353,281**	**676,978**	**(323,697)**

Cash associated with operating activities is held in bank and post office deposits.

23. Income tax receivables – 6,649 thousand euro

Income tax receivables for IRES and IRAP totalled 6,554 thousand euro (386 thousand euro of which for receivables relating to the tax consolidation contract) and 96 thousand euro, respectively.

24. Other current assets – 196,182 thousand euro

The item is broken down as follows:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Other tax receivables:			
VAT receivables reimbursements applied for	9,341	9,326	15
Receivables due from tax authorities for VAT	12,848	10,427	2,420
Other tax receivables	7	122	(115)
Other receivables:			
from social security and insurance agencies	1,538	1,111	427
receivables for plant contributions	2,485	1,943	542
from CSEA	160,039	134,779	25,260
from municipalities for disposals of assets due to expiration of concessions	1,299	1,299	-
from municipalities	246	246	-
from suppliers	3,827	3,356	471
Other receivables	4,854	5,010	(156)
- Provision for other doubtful debts	(2,913)	(2,472)	(441)
Accrued income	22	-	22
Deferred expenses relating to other multi-year charges	21	23	(2)
Deferred expenses relating to real estate lease fees	445	555	(110)
Prepayment of promotional expenses	24	26	(2)
Deferred insurance premiums	100	15	85
Other deferred expenses	2,000	2,021	(21)
Total	**196,182**	**167,787**	**28,395**

The item rose by 28,395 thousand euro mainly due to the overall increase of 25,260 thousand euro in receivables due from CSEA due to both normal business trend and the merger with 2i Rete Gas Impianti S.p.A, compared to the previous year; these receivables include, in addition to the amount which must be recognised for energy efficiency certificates (15,392 thousand euro), the amount arising from the equalisation of the gas distribution service (22,688 thousand euro), receivables for the UG2 components and the Gas Bonus (67,991 thousand euro in total) and the recognition of Technical Quality (39,890 thousand euro).
The item is correlated with the payables due to the Compensation Fund reported in note 40 "Other current liabilities" of an almost equal amount;
VAT receivables both for the period and for tax reimbursement rose overall by 2,420 thousand euro.

25. Assets held for sale – 2,991 thousand euro

During the year, the concessions relating to ATEM Turin 2 were held as assets for sale and were to be delivered to the successful bidder. In January 2020, the concessions were officially handed over to the successful bidder, while uncertainties remained as to the amount to be paid in relation to an appeal filed by the new operator against the Authority and the Contracting Authority of the tender procedure. In the previous year, the assets transferred to Murgia Reti Gas relating to ATEMs Bari 2 and Foggia 1, a company that was eventually sold on 1 April 2019, were restated under this item pursuant to the preliminary agreement entered into earlier in June with the counterparty Centria S.r.l.

Liabilities

Equity

26. Equity – 931,167 thousand euro

Equity rose by 133,020 thousand euro as a result of the following changes:

- decrease in the ordinary dividend pay-out of 0.2556 euro per share, for an overall amount of 93,000 thousand euro;
- increases resulting from the merger by incorporation of 2i Rete Gas Impianti S.p.A., 2i Rete Gas Servizi S.p.A. and Compagnia Generale Metanodotti S.r.l., totalling 25,146 thousand euro;
- decrease in reserves for valuation of derivatives (3,964 thousand euro relating to the fair value measurement of the derivative) and in other reserves (for 661 thousand euro relating to the discounting of defined benefits) owing to the profit for the year recognised directly in equity;
- 205,499 thousand euro increase in profit for the year.

Share capital – 3,639 thousand euro

The share capital at 31 December 2019 consisted of 363,851,660 ordinary shares and was entirely subscribed and paid up; there were no changes during the year.

Share premium reserve – 286,546 thousand euro

The reserve was established at the time of the capital increase, and did not change during the year.

Legal reserve – 728 thousand euro

The legal reserve amounted to 728 thousand euro and was unchanged, after reaching the legal limit.

Reserves for valuation of derivatives – 5,385 thousand euro

The reserve for valuation of derivatives came into being in 2016 following the signing of Forward Starting Interest Rate Swaps; during 2018, the swap was closed as planned, but the impact on profit or loss will be recognised on the basis of the element covered by the derivative, i.e. the interest expense of the debenture loan for the next 10 years. In addition to showing the residual value of the derivative contract no longer subject to fair value fluctuations (such contract to be released to the Income Statement in the following 10 years (+8,411 thousand euro), valuation as at 31 December 2019 showed a negative fair value of the derivative contract — having characteristics similar to the one closed in 2018 — which was entered into during the period (-3,026 thousand euro).

Other reserves – 233,350 thousand euro

Other reserves changed by 24,589 thousand euro compared to the previous year, owing to the merger of the three subsidiaries as previously mentioned and the recognition of the impact of the actuarial valuation of the Company's defined benefit plan in equity.

Retained earnings – 196,020 thousand euro

Retained earnings rose 36,549 thousand euro from the previous year as the general meeting resolved to distribute part of the profit for 2018 and allocate the rest to this reserve.

Profit for the period – 205,499 thousand euro

The net profit for 2019, compared to 2018 (129,653 thousand euro), increased by 75,846 thousand euro, largely due to the merger mentioned above and to the better operating result achieved.

The table relating to the availability and possibility of distributing equity is shown below:

	Amount	Possibility of use	Amount available	Amount unavailable
Share Capital	3,638,517			3,638,517
Share premium reserve	286,546,491	A,B,C	286,546,491	
Legal reserve	727,703	B	0	727,703
Other reserves	195,596,638	A,B,C	195,596,638	
Reserves other than merger surplus	129,286,428	A,B	129,286,428	
Reserves other than FTA	(86,021,234)		(86,021,234)	
Reserves other than post-employment benefit (TFR) m	(5,512,129)		(5,512,129)	
Reserves other than derivative measurement	5,384,995		5,384,995	
Retained earnings (accumulated losses)	196,020,243	A,B,C	196,020,243	
Net income for the year	205,499,019	A,B,C	205,499,019	
Total	**931,166,670**		**926,800,450**	**4,366,220**

Key:
A: Available for Share Capital Increase
B: Available to cover losses
C: Available to shareholders payment

Non-current liabilities

27. Long-term loans – 2,660,921 thousand euro

This item refers to (i) the four instalments of the long-term debenture loan issued between 2014 and 2018 by the Company as part of the overhaul of its financial structure, and (ii) existing loans, totalling 425 millions euro, with the European Investment Bank used between 2015 and 2017 (of which 18.2 million euro falling due within 12 months — see note 30 in the statement).
The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

Thousands of euro

	Balance		Notional Value		Interest rate	Effective
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	in force	interest rate
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	181,818	200,000	181,818	200,000	Eur+0,59%	0.26%
Debenture loan expiring 2020		267,100		267,100		
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2025	500,000	500,000	500,000	500,000	2.20%	2.29%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs connected to loans (long term)	(10,897)	(13,243)				
TOTAL LONG TERM	**2,660,921**	**2,943,857**	**2,671,818**	**2,957,100**		

The maturity schedule of financial liabilities, whether medium-/long-term (2,671,818 thousand euro notional) or short-term (325,270 thousand euro – see point 33 and 34 of these notes), is shown in the following table:

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	31.12.2019	31.12.2018			
Short-/Medium-/long-term bank loans and debenture loans					
Financing - Medium-/long-term Capex Line	406,818	425,000	-	72,727	334,091
Financing - Short-term Capex Line	58,182		58,182	-	-
Medium-/long-term debenture loans	2,265,000	2,532,100	-	600,000	1,665,000
Debenture loans due within next year	267,100	362,793	267,100	-	-
Total	2,997,100	3,319,893	325,282	672,727	1,999,091

The debenture loan regulation, issued for a market of institutional investors, does not provide for covenants.
The loans taken out with the European Investment Bank are subject to some covenants calculated on the basis of the consolidated financial statements that the Company must meet to continue using the credit lines.
The covenants concern the following indicators:
- Total net financial debt;
- RAB (Regulatory Asset Base);
- EBITDA;
- Net Financial Expenses.

As at 31 December 2019, the company met all covenants under this facility.

28. Post-employment and other employee benefits – 43,559 thousand euro

The Company provides employees with various types of benefits, including post-employment benefits, health benefits, payment in lieu of notice (Indennità Sostitutive of the Preavviso - ISP) and payment in lieu of energy discount (Indennità Sostitutive Sconto Energia).

The item includes provisions for post-employment defined benefit plans and other long-term employee benefits required by law or contract.

Pursuant to IAS 19, these "defined benefit obligations" were determined using the "Projected Unit Credit Method", which requires to calculate the liability in proportion to the service already rendered at the reporting date, and not the service that could presumably be rendered overall.
In detail, the plans provided for the following benefits:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Post-employment benefits	31,649	32,926	(1,277)
ASEM health service	1,602	1,716	(114)
Fondo GAS	10,308	10,621	(313)
TOTAL	**43,559**	**45,263**	**(1,704)**

An analysis of the main items is provided below.

Post-employment benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive post-employment benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.
Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of post-employment benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

Based on the Italian collective bargaining agreement for executives in the industrial sector, executives have the right to supplemental health care in addition to that provided by the Italian Health Service, during both the employment relationship and retirement. Asem and FASI, the health care fund set up for workers in Italy's electricity industry, reimburse medical expenses.

Fondo Gas

Italian Law Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the elimination of the so-called "Fondo Gas" (gas fund) as from 1 December 2015. The decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the 2014 contribution to Fondo Gas, for each full year or any part thereof that the person has been a member of the fund. Said amount can be set aside with the employer or paid as a contribution to a supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid to Fondo Gas shall be paid in a lump sum at the time of the final wage bill.

The main assumptions in the actuarial estimates of employee benefit liabilities (Gas Provision and post-employment benefits) are set out below.

	31.12.2019	31.12.2018
Actuarial assumptions		
Discount rate	1.00%	1.60%
Annual rate of increase in cost of living	1.00%	1.50%
Rate of increase in cost of health spending	2.00%	2.50%
Demographic scenarios		
Probability of death/invalidity	ISTAT Table 2017	ISTAT Table 2014
Resignation rate < 50 years of age	2.00%	2.00%
Resignation rate > 50 years of age	nil	nil

29. Provisions for risks and charges – 8,128 thousand euro

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes of the Company, without taking into account the effects of disputes that could have a positive outcome and those for which a possible charge cannot be reasonably quantified.

The table below shows the total provisions for risks and charges (both the short-term and the medium-/long-term portion). The long-term portion is disclosed separately.

Thousands of euro		Of which current portion	Of which non-current portion	Merger contribution	Allocations	Releases	Uses	Other changes		Of which current portion	Of which non-current portion
	at 31.12.2018								at 31.12.2019		
Provisions for litigation and disputes	6,393	-	6,393	1,843	1,596	(945)	(1,775)	(583)	6,530	-	6,530
Provision for taxes and duties	1,310	-	1,310	195	-	(65)	(18)	-	1,423	-	1,423
Provisions for disputes with personnel	100	-	100	-	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	-	75	-	75
Provision for disputes on concessions	22,574	22,574	-	1,771	6,323	(5,175)	(1,268)	583	24,808	24,808	-
Other provisions for risks and charges	66,819	66,819	-	5,229	31,453	(23,854)	(15,616)	(0)	64,031	64,031	-
Total	**97,271**	**89,393**	**7,878**	**9,038**	**39,372**	**(30,038)**	**(18,676)**	**0**	**96,966**	**88,839**	**8,128**
Provisions for charges pertaining to incentives to leave	2,356	2,356	-	-	500	-	(1,380)	210	1,686	1,686	-
Total	**99,627**	**91,749**	**7,878**	**9,038**	**39,872**	**(30,038)**	**(20,057)**	**210**	**98,652**	**90,525**	**8,128**

Provisions for risks and charges amounted to 98,652 thousand euro overall. They consisted of a 90,525 thousand euro short-term portion and a 8,128 thousand euro long-term portion, and were broken down as follows:

- "Provisions for litigation and disputes", 6,530 thousand euro, to cover contingent liabilities mainly arising from ongoing litigation cases.
- "Provision for taxes and duties", amounting to 1,423 thousand euro, referred mainly to ongoing disputes or claims about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;
- "Provision for disputes with personnel", amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in the year;

- "Provision for disputes on concessions", totalling 24,808 thousand euro, generally includes the estimated costs associated with various disputes with municipalities. This line item rose by a net 1,771 thousand euro following the merger occurred on 1 January 2019, and changes (including releases, uses and allocations) of an overall amount of 463 thousand euro in relation to requests made by municipalities to revise the agreed concession fees in view of a marginal use during the year;
- "Other provisions for risks and charges", amounting to 64,031 thousand euro, cover the costs that could potentially arise from the need for maintenance or replacement of meters not compliant with corporate standards, as well as the risk of some tariff reviews related to concessions owned by third parties. During the year, the Council of State has finally made a decision in favour of the Company in relation to the appeal against ARERA's decision to revise tariffs for a number of concessions. Therefore, a significant portion of the provision (equal to 20,974 thousand euro) has been released. Finally, the provision also includes the allocation for the risk that the contribution to derecognise energy efficiency certificates does not cover the cost to purchase such certificates in order to comply with regulatory obligations up to May 2020 to the tune of 7,152 thousand euro;
- "Provision for charges pertaining to incentives to leave", totalling 1,686 thousand euro, addresses possible liabilities that may arise from agreements defined or in the process of being defined for the incentives to leave which started during the year and are still under way.

The fiscal position of the Company has been defined up to 2014.

30. Non-current financial liabilities – 4,001 thousand euro

As at 31 December 2019, non-current financial liabilities accounted for the negative fair value of the derivative contract opened during the year. In the previous year, there were no non-current financial liabilities.

31. Non-current financial liabilities – 22,539 thousand euro

As at 31 December 2019, this item included financial liabilities falling due after 12 months deriving from the application of IFRS 16, i.e. payables arising from future leases that the Company will have to pay for the exclusive use of those assets whose hire, rental or lease contracts fall under the application of the aforesaid standard.
It should be noted that, since the Company opted for the "Modified retrospective" approach, the amount of the financial obligation arisen following the introduction of the standard is the same as the amount of the right of use.
The table below shows details of maturities broken down by short, medium and long-term debt and by type of contract.

Thousands of euro

		Present value of cash flows IFRS 16 31.12.2019	1 year	2 - 5 years	beyond 5 years
ST/LT IFRS 16 Financial liabilities					
IFRS 16 Non-current financial liabilities		**22,539**	**-**	**11,501**	**11,038**
	Property IFRS 16			8,104	10,189
	Vehicles IFRS 16			3,142	849
	ICT IFRS 16			255	-
IFRS 16 Current financial liabilities		**6,110**	**6,110**	**-**	-
	Property IFRS 16		4,252		
	Vehicles IFRS 16		1,769		
	ICT IFRS 16		90		
Total		**28,649**	**6,110**	**11,501**	**11,038**

32. Other non-current liabilities – 320,488 thousand euro

The item includes the following entries:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Deferred income:			
payables to social security and insurance agencies	2,137	2,137	-
other payables	361	361	-
Deferred income for plant contributions	43,314	43,018	296
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	274,676	261,540	13,136
Total other non-current liabilities	**320,488**	**307,056**	**13,432**

The change in deferred income is part of normal operations. The item must be read together with the short-term portion of "Other current liabilities".

Current liabilities

33. Short-term loans – 311,693 thousand euro

The item in question mainly refers to the portion of the debenture loan due in 2020, as well as short-term bank payables and current account payables.
Specifically:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
short-term payables due to banks	40,000	-	40,000
intercompany financial payables	4,605	68,802	(64,197)
short-term debenture loans	267,088	362,494	(95,405)
Total	**311,693**	**431,296**	**(119,603)**

34. Current portion of medium/long-term bank loans – 18,182 thousand euro

As at 31 December 2019, this item reflected the total instalments of the loan due to the EIB, the repayment of which was contractually scheduled to fall due within the following 12 months. In the prior year there was no current portion of medium/long-term bank loans.

35. Current portion of long-term provisions and short-term provisions – 90,525 thousand euro

The line item represents the current portion of the Company's provisions for risks. Comments and details on this item are provided in the section on provisions for risks and charges (note 29).

36. Trade payables – 178,807 thousand euro

This item includes all trade and operating liabilities of certain amount and timing.
This item decreased by 21,408 thousand euro compared to the previous year.

The breakdown of trade payables to third-party and Group suppliers is set out below.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Suppliers	178,546	196,367	(17,821)
Total	**178,546**	**196,367**	**(17,821)**
Payables due to subsidiaries	261	3,847	(3,586)
Total	**261**	**3,847**	**(3,586)**
Total	**178,807**	**200,214**	**(21,408)**

Payables due to third-party suppliers decreased, compared to the previous year, by 17,821 thousand euro under normal operating trends. The balance at 31 December 2019 mainly consists of residual amount payable to companies to which gas distribution plant construction and maintenance is outsourced, to suppliers of materials and for the purchase of electricity and gas service for internal use.
As regards dealings with subsidiaries, the relevant payables are shown below:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Subsidiaries:			
2I Rete Gas Impianti S.p.A.	-	1,985	(1,985)
2I Rete Gas Servizi S.p.A.	-	1,862	(1,862)
Cilento Reti Gas S.r.l.	261		261
TOTAL	**261**	**3,847**	**(3,586)**

37. Income tax payables – 8,136 thousand euro

At 31 December 2019, the Company had a debit balance due to the trend in the payments made on account.

38. Current financial liabilities – 20,027 thousand euro

Current financial liabilities mainly refer to the interest expense accrued and not yet paid relating to the instalments of the debenture loan issued.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Accrued liabilities for interest on short-term bank loans	19,350	22,343	(2,992)
Other current financial payables	675	623	52
Other Group's current financial payables	2	-	2
Total	**20,027**	**22,965**	**(2,938)**

39. Non-current financial liabilities – 6,110 thousand euro

As at 31 December 2019, this item included financial liabilities falling due within 12 months deriving from the application of IFRS 16. A breakdown of maturities by type of contract is provided under 31 above.

40. Other current liabilities – 217,871 thousand euro

Other current liabilities rose in the year by 32,940 thousand euro, mainly due to the increase in "Other payables", an item which also includes the payable due to the Fund for Energy and Environmental Services (CSEA) for the items relating to various tariff components and the decrease in deferred income.
Other current liabilities are set out below:

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
other tax payables	4,189	3,968	220
payables to social security and pension agencies	11,479	12,097	(618)
other payables	187,009	143,530	43,479
accrued liabilities	4,285	3,955	330
deferred income	10,909	21,381	(10,472)
Total	**217,871**	**184,930**	**32,940**

Other tax payables, amounting to 4,189 thousand euro, are set out below.

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
VAT payables	318	375	(57)
Employee withholding taxes	3,809	3,538	271
Withholding taxes	62	56	6
Other taxes	0	0	0
Total	**4,189**	**3,968**	**220**

Payables to welfare and social security agencies, amounting to 11,479 thousand euro, are set out below.

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
due to INPS	9,449	9,956	(507)
due to other agencies	2,030	2,141	(111)
Total	**11,479**	**12,097**	**(618)**

Other payables, amounting to 187,009 thousand euro, are set out below.

Thousands of euro	31.12.2019	31.12.2018	2019 - 2018
Payables to employees	13,516	15,096	(1,579)
Payables to municipalities for rights and fees	405	686	(282)
Payables for connections and other payables due to customers	2,521	2,081	440
User security deposits and advances	2,600	1,890	710
Payables to CSEA	161,277	119,789	41,488
Other payables	6,689	3,987	2,702
Total	**187,009**	**143,530**	**43,479**

Payables to the Fund for Energy and Environmental Services (CSEA) consist of 96,237 thousand euro payables for the entries that are transferred to the trading companies through the invoicing mechanism and then paid to CSEA, generally on a bi-monthly basis (UG1, UG2, UG3, Gs, Re and Rs), 33,014 thousand euro payables relating to the equalisation amount for the current year and 25,364 thousand euro payables relating to the equalisation amount for previous years mainly due to equalisation adjustments. This item must be read also in light of the relevant receivables due from CSEA included under Other current assets.

Accruals and deferred income, amounting to 15,194 thousand euro, are set out below.

Thousands of euro

	31.12.2019	31.12.2018	2019 - 2018
Accrued liabilities			
Additional monthly accrual for employees	3,315	3,256	60
Other accrued liabilities	970	699	271
Total accrued liabilities	**4,285**	**3,955**	**330**
Deferred income			
Deferred income for plant contributions	2,145	11,132	(8,987)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	8,751	10,166	(1,415)
Other deferred income	13	83	(70)
Total deferred income	**10,909**	**21,381**	**(10,472)**
Total accrued liabilities and deferred income	**15,194**	**25,335**	**(10,141)**

25. Liabilities held for sale – 139 thousand euro

As at 31 December 2019, liabilities relating to the concessions of ATEM Turin 2, which were disposed of in January 2020, were held under this item. In the previous year, this item included liabilities relating to ATEM concessions Bari 2 and Foggia 1, which were disposed of in April 2019, as pursuant to the preliminary agreement signed in 2018 with Centria S.r.l.

Related party disclosures

Related parties are identified in accordance with international accounting standards.

The following were defined as related parties for 2019:

- F2i SGR S.p.A. – as the operating company of "F2i – Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i – Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato ad investitori qualificati")
- F2i SGR S.p.A. – as the operating company of "F2i – Second Italian Infrastructure Fund, closed-end investment fund, reserved for qualified investors" ("F2i – Secondo Fondo Italiano per le Infrastrutture, fondo di investimento mobiliare di tipo chiuso, riservato a investitori qualificati")
- Finavias S.ar.l.
- MEA S.p.A
- Cilento Reti Gas S.r.l.
- 2i Rete GAS S.r.l.
- 2i Servizi Energetici S.r.l.
- Professionisti Associati Srl
- Cioccarelli e Associati S.r.l.
- APG Infrastructure Pool 2017 II

The definition of related parties also includes key management personnel, including their close relatives, of the Company as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the Company exercises considerable influence. Key management personnel are those who have direct and indirect power and responsibility for planning, management, and control of company operations, including the chief executive officer and the managers reporting to him, as well as Directors and Auditors.

The Group has a centralised cash management system equipped with intercompany current accounts as well as a tax consolidation contract which generates financial movements.
All the commercial balances are for transactions at market values.

Trade, financial and other transactions involving the Company, its parent companies and its subsidiaries are shown below.

Trade and other transactions

Year 2019

Thousands of euro	Trade Receivables	Payables	Trade Costs	Revenue
F2i sgr Spa	-	20	77	-
MEA S.p.A	2	-	-	9
Cilento Reti Gas Srl	1,774	261	2	1,603
2i Rete GAS S.r.l.	2,169	-	-	1,315
2i Servizi Energetici Srl	128	3	3	128
Cioccarelli e Associati Srl	-	1	1	-
APG Infrastructure Pool 2017 II	-	40	40	-
Key management personnel, including directors and statutory auditors	-	101	3,564	-
Total	**4,073**	**426**	**3,688**	**3,055**

Year 2018

Thousands of euro	Trade Receivables	Payables	Trade Costs	Revenue
F2i sgr Spa	-	20	86	-
2I Rete GAS Impianti SPA	18,899	1,985	1,627	17,410
2I Rete Gas Servizi SPA	1,137	1,862	2,363	1,295
MEA S.p.A	27	-	-	9
Cilento Reti Gas Srl	17	-	-	17
2i Rete GAS S.r.l.	2,688	-	62	1,358
C.G.M. Srl	57	-	-	49
Software Design S.p.A.	-	223	360	-
Maepa Srl	-	-	4	-
APG Infrastructure Pool 2017 II	-	31	31	-
Key management personnel, including directors and statutory auditors	-	409	2,700	-
Total	**22,824**	**4,529**	**7,233**	**20,137**

Financial transactions

Year 2019

Thousands of euro	Financial Receivables	Payables	Financial Costs	Revenue	Dividends paid
F2i – Terzo Fondo Ialiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	59,427
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	7,540
Finavias S. à r.l.	-	-	-	-	25,978
MEA S.p.A	-	-	-	196	-
Cilento Reti Gas Srl	15,774	-	-	299	-
2i Rete GAS S.r.l.	258	4,607	32	-	-
Key management personnel, including directors	-	-	-	-	-
Total	**16,032**	**4,607**	**32**	**495**	**92,945**

Year 2018

Thousands of euro	Financial Receivables	Payables	Financial Costs	Revenue	Dividends paid
F2i – Terzo Fondo Ialiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)	-	-	-	-	6,894
Finavias S. à r.l.	-	-	-	-	23,752
2I Rete GAS Impianti SPA	-	64,292	165	-	-
MEA S.p.A	-	-	-	400	-
2i Rete GAS S.r.l.	192	4,510	36	-	-
Key management personnel, including directors	-	-	-	-	-
Total	**192**	**68,802**	**201**	**400**	**84,981**

Key information regarding subsidiaries are shown below:

Equity investments

2i Rete Gas S.r.l.

Share capital – 50,000 euro

Registered office: Milan

Equity investment: 100%

2i Rete Gas S.r.l. is the concession operator of the natural gas distribution service in the municipality of Cinisello Balsamo.

The financial statements at 31 December 2019 showed a profit of 802 thousand euro and equity of 8,057 thousand euro.

Cilento Reti Gas S.r.l.

Share capital – 50,000 euro

Registered office: Acquaviva delle Fonti

Equity investment: 60%

Cilento Reti Gas S.r.l. is concessionaire for the natural gas distribution service in 28 municipalities in the Cilento area.

The financial statements at 31 December 2019 showed a profit of 260 thousand euro and equity of 3,645 thousand euro.

Significant extraordinary events and operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no significant extraordinary events or operations during the year which have not already been disclosed in this document.

Positions or transactions arising from atypical and/or unusual operations

Pursuant to CONSOB Communication of 28 July 2006 No. DEM/6064293, there were no positions or transactions arising from atypical and/or unusual operations during the year.

Fees for Directors, auditors and key management personnel

In 2019, the fees for directors, auditors and key management personnel, totalling 3,564 thousand euro, included 73 thousand euro in Auditors' fees, 257 thousand euro in Directors' fees and the rest refers to key personnel's fees.

Public grants received

With reference to the changes introduced by Italian Law 124 of 4 August 2014 "Annual competition law", art. 1 para. 125-129, during 2018, the following grants relating to the construction of gas networks were received from public bodies.

Euro

Name	Prov.	31.12.2019	Type
MUNICIPALITY OF CASTELLALTO	TE	13,440	PLANT CONTRIBUTIONS ABRUZZO RL 25/1995
MUNICIPALITY OF CANZANO	TE	18,262	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTEL CASTAGNA	TE	15,592	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CASTELLI	TE	8,624	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CERMIGNANO	TE	12,035	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF LUCOLI	AQ	30,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORNIMPARTE	AQ	7,656	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TOSSICIA	TE	8,934	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF CAPPELLE SUL TAVO	PE	17,300	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF TORANO NUOVO	TE	5,638	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF POLLUTRI	CH	25,680	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF RIPA TEATINA	CH	18,000	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF AMENDOLARA	CS	18,009	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF ISOLA DEL GRAN SASSO	TE	13,894	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
MUNICIPALITY OF PENNA SANT'ANDREA	TE	18,905	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
ABRUZZO REGION		7,602	PLANT CONTRIBUTIONS ABRUZZO RL 84/2001
GSE - Gestore Servizi Energetici SpA		145,542	
Total public contributions collected		**385,114**	

Contractual commitments and guarantees

Guarantees provided totalled 111,863 thousand euro (such a significant increase being largely due to the above-mentioned merger with the three subsidiaries) and referred to guarantees provided to third parties. These guarantees include 89,301 thousand euro in bank guarantees and 22,562 thousand euro in insurance and other guarantees.
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.
Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

Contingent liabilities and assets

Contingent liabilities

Currently there are no contingent liabilities.

Contingent assets

Currently there are no contingent assets.

Credit, liquidity and market risk

Credit risk

2i Rete Gas provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.
In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in 2019.
User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by sales companies.
As part of gas distribution operations, the credit lines to external counterparties are constantly and carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.
Outstanding guarantees and security deposits on trade receivables totalled 204,466 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant bad debt provision.

As at 31 December 2019, maximum exposure to credit risk stood at 866.6 million euro, showing a drop due to the payment of an installation of the debenture loan reaching maturity.

Millions of euro

	31.12.2019	31.12.2018	2019 - 2018
Third parties:			
Non-current financial assets	1.5	1.0	0.5
Other non-current financial assets (gross of bad debt provision	57.8	54.0	3.8
Trade receivables (gross of bad debt provision)	257.9	216.1	41.7
Other current financial assets	2.2	1.6	0.6
Cash and cash equivalents	353.3	677.0	(323.7)
Other receivables (gross of bad debt provision)	174.3	147.7	26.5
Group companies:			
Trade receivables	3.9	22.8	(18.9)
Short-term financial receivables	15.6	-	15.6
Total	**866.6**	**1,120.3**	**(253.7)**

Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, 2i Rete Gas is able to autonomously meet the financial requirements of its ordinary operations and to ensure business continuity.
Besides the debenture loans issued from 2014 to 2018, the Company entered into two loans with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used at 31 December 2019), and two revolving credit lines.
In order to properly disclose liquidity risk as required by IFRS 7, here below are the characteristics of the company's debt.

The contractual maturities of the financial liabilities outstanding at 31 December 2019 are set forth below:

Millions of euro	1 year	2 - 5 years	beyond 5 years
Financial liabilities at 31 December 2019			
Long-term loans		72.7	334.1
Medium-/long-term debenture loans		600.0	1,665.0
Short-term debenture loans	267.1		
Short-term loans	44.6		
Current portion of long-term loans	18.2		
Other long-term financial liabilities	4.0		
Other short-term financial liabilities	20.0		
IFRS 16 Non-current financial liabilities		11.5	11.0
IFRS 16 Current financial liabilities	6.1		
Total	**360.0**	**684.2**	**2,010.1**

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2018 are set forth below:

Millions of euro	1 year	2 - 5 years	beyond 5 years
Financial liabilities at 31 December 2018			
Long-term loans		72.7	352.3
Medium-/long-term debenture loans		267.1	2,265.0
Short-term debenture loans	362.8		
Short-term loans	68.5		
Other short-term financial liabilities	23.0		
Current financial liabilities			
Total	**454.3**	**339.8**	**2,617.3**

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.
It should be noted that loans are subject to a periodical check on the compliance with some financial parameters at consolidated level.
As at 31 December 2019, the Company has met all of the covenants.

"Medium-/long-term debenture loans", totalling 2,265 million euro, refer to the aforementioned instalments issued by 2i Rete Gas and expiring between 2021 and 2027.
The Company's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance

with the financial covenants established by the lending banks, the Company should not face any problems in obtaining said refinancing.
The Company constantly monitors opportunities to optimise its financial structure. For an in-depth analysis of long-term loans, see note 27 in these financial statements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices as a result of changes in exchange rates, interest rates, or the prices of equity instruments.

Transactions that qualify for hedge accounting pursuant to the requirements of the accounting standards are designated as hedging transactions, while those that do not meet such requirements are classified as trading transactions, even though from a management point of view they have been entered into for hedging purposes.

As at 31 December 2019, the company did not hold any derivative trading contracts, while it entered into an active hedging contract at the end of the year.

In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value at 31 December 2019. The company has no held to maturity or available for sale financial assets nor financial assets held for trading.

Thousands of euro		Carrying amount						
	Notes	Designated at fair value	Derivatives	Receivables	Available for sale	Other financial liabilities and payables	Total	Fair value
Financial assets measured at fair value								
Non-current financial assets	16		-				-	-
Financial assets not measured at fair value								
Non-current financial assets	16			1,547			1,547	1,547
Other non-current assets	17			57,585			57,585	57,585
Trade receivables	19-25			252,844			252,844	252,844
Short-term financial receivables	20			16,885			16,885	16,885
Other current financial assets	21			969			969	969
Cash and cash equivalents	22			353,281			353,281	353,281
Other current assets	24			193,592			193,592	193,592
TOTAL ASSETS		**-**	**-**	**876,704**	**-**	**-**	**876,704**	**876,704**
Financial liabilities measured at fair value								
IRS Derivatives	38		4,001				4,001	4,001
Financial liabilities not measured at fair value								
Long-term loan	27-34					406,818	406,818	406,818
Medium-/long-term debenture loans	27					2,235,921	2,235,921	2,443,705
Short-term debenture loans	33					267,088	267,088	267,097
IFRS 16 Non-current financial liabilities	31	22,539					22,539	22,539
Other non-current liabilities	32					361	361	361
Short-term loans	33-34					62,786	62,786	62,786
Trade payables	36-25					178,807	178,807	178,807
Current financial liabilities	38					19,353	19,353	19,353
IFRS 16 Current financial liabilities	39	6,110					6,110	6,110
Other current liabilities	40					206,962	206,962	206,962
TOTAL LIABILITIES		**28,649**	**4,001**	**-**	**-**	**3,378,096**	**3,410,746**	**3,618,539**

In order to enable comparison, we propose the same table as the one used in 2018:

Thousands of euro	Notes	Carrying amount: Designated at fair value	Derivatives	Receivables	Available for sale	Other financial liabilities and payables	Total	Fair value
Financial assets measured at fair value								
Non-current financial assets	15		-				-	-
Financial assets not measured at fair value								
Non-current financial assets	15			1,025			1,025	1,025
Other non-current assets	16			53,792	112		53,904	53,904
Trade receivables	18-37			231,466			231,466	231,466
Short-term financial receivables	19			1,394			1,394	1,394
Other current financial assets	20			187			187	187
Cash and cash equivalents	21			676,978			676,978	676,978
Other current assets	23			165,147			165,147	165,147
TOTAL ASSETS			**-**	**1,129,988**	**112**	**-**	**1,130,100**	**1,130,100**
Financial liabilities measured at fair value								
IRS Derivatives	35		-				-	-
Financial liabilities not measured at fair value								
Long-term loan	25-31					425,000	425,000	425,000
Medium-/long-term debenture loans	25					2,518,857	2,518,857	2,862,599
Other non-current liabilities	29					361	361	361
Short-term loans	30					431,296	431,296	431,296
Trade payables	33-37				529	200,214	200,743	200,743
Current financial liabilities	35					22,343	22,343	22,343
Other current liabilities	36				270	163,550	163,820	163,820
TOTAL LIABILITIES			**-**	**-**	**799**	**3,761,621**	**3,762,420**	**4,106,162**

With regard to financial assets not measured at fair value, as well as trade payables and other current liabilities, the carrying amount is considered to be a reasonable approximation of the fair value, as it is set forth in the tables above.

For the purposes of determining the fair value of the debenture loan, the Company has used the market valuations at the end of the reporting period.

Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts during the year, and specifically interest rate swaps.
Concerning the current debt structure, 2,797 million euro out of a reported 2,997 million euro were not exposed to interest rate risk at 31 December 2019.

During the year, the Company entered into 5 forward start interest rate swap derivative contracts (with start date set at 3 years time and expiry date set at 10 years after the start date) with as many leading banks in order to hedge against the risk of an increase in interest rates on the future issue of the debenture loan planned to refinance part of the existing loan reaching maturity in the coming years.

Thousands of euro	Notional at 31.12.2019	Notional at 31.12.2018	Fair value at 31.12.2019	Fair value at 31.12.2018	Fair value asset at 31.12.2019	Fair value asset at 31.12.2018	Fair value at 31.12.2019	Fair value at 31.12.2018
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	-	(4,001)	-	-		(4,001)	
Total Interest Rate Derivatives	500,000	-	(4,001)	-	-		(4,001)	-

The contract expiry dates are shown below:

Thousands of euro	**Notional**		**1 year**	**2 - 5 years**	**beyond 5 years**
	at 31.12.2019	**at 31.12.2018**			
Cash flow hedge derivatives					
Forward Start Interest Rate Swap	500,000	-			500,000
Total Interest Rate Derivatives	500,000	-	-	-	500,000

Measurement is shown assuming an interest rate shock of +0.10% and -0.10%:

Thousands of euro	**Notional**		**-0.10%**	**Fair Value**	**+0.10%**	**-0.10%**	**Fair Value**	**+0.10%**
	at 31.12.2019	**at 31.12.2018**		**at 31.12.2019**			**at 31.12.2018**	
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	-	(4,401)	(4,001)	(3,601)			
Total	500,000	-	(4,401)	(4,001)	(3,601)			

Significant events after the reporting period

Following the first reports heralding the presence of the Coronavirus in Italy, as early as January 2020 the 2i Rete Gas Group took action to monitor and assess the impact of a possible spread of the infection. In February, in relation to the outbreak of COVID infections identified in Lombardy, largely affecting the municipalities of the Lodigiano area, the 2i Rete Gas set up a team (COVID-19 Team) to manage resources and activities in the territories specified in Ministry of Health Order issued on 23 February 2020, setting forth mobility restriction measures for such municipalities.

The COVID-19 Team, consisting of a group of people identified within the Company Management, coordinated the necessary actions to provide staff and all managers with guidelines, tools and equipment to cope with the emergency situation.

As early as on 23 and 24 February, the Company instructed employees from the Municipalities affected by the outbreak to stay at home, allowing them to work remotely. Employees who were already affected by diverse diseases, which could have increased the risk, or employees who had particular difficulties in reaching their workplace were likewise allowed to work remotely. Right from the outset, the Company provided guidance to its staff to avoid close contact with end customers, distributing the personal protective gear that was available.

As the situation evolved and in light of the changes to the increasingly stringent provisions adopted first by the Lombardy Region and then from time to time by the Government with Prime Ministry's Decree dated 1, 4, 8 and 9 March 2020, and in continuous coordination with the updates provided by the Civil Protection Committee, the Company implemented measures aimed at addressing both the need to protect the health and safety of its personnel and the need to guarantee the supply of essential services and business continuity.

Decisions were also made to ensure greater flexibility in working time and extend smart working capabilities to parents with children, after measures stopping the operation of nursery, primary and secondary schools had been issued.

The COVID-19 team, in conjunction with the Prevention and Protection Service and the Coordinating Competent Physician, also took containment measures designated for internal staff in relation to social distancing actions, providing information and guidance on monitoring their health, personal hygiene and workplace. Company office cleaning and disinfection efforts increased.

The Occupational Medicine Service, in conjunction with the Prevention and Protection Service, proactively monitor concerns from employees reporting possible cases of contagion. In an effort to direct the information flow towards a single channel, a corporate mailbox was set up and made available to all those in charge, who were provided with behavioural guidelines to be adopted depending on the cases to be dealt with.

In order to implement the provisions reflected in the aforementioned Prime Minister's Decree issued in March (which identified the areas concerned and regulated mobility in areas with "limited access" and then in "increased containment" areas), reliance on smart working was implemented to a larger scale, first in the northern production units and then, gradually in relation to the extension of the emergency, in the other central and southern production units. Employees were also encouraged to use any holidays accrued from previous years.

As at 17 March 2020, approximately 800 smart workers were connected to the corporate servers. This was made possible thanks to an organisational effort of the IT function and a number of technologies already implemented within the company, which were enhanced and fully exploited during the emergency. Secure connections, working on networked servers and the possibility to quickly activate conference rooms and sharing tools — together with the operational equipment already deployed across the territory, such as tablets equipped with remote management workforce systems — are enabling the company to guarantee the necessary operation without any particular criticalities.

The information campaign designed for all personnel is constantly updated, with messages and instructions being sent via corporate channels, text messaging, email, corporate intranet site, in line with the evolution of the situation and the measures issued by the relevant authorities.
Consistent with company technical and organisational requirements, all personnel were authorised and informed beforehand through direct communications, emails and the corporate intranet, where guidelines were uploaded together with the disclosure describing "General Risks" and "Specific Risks".

While envisaging difficulties in reaching certain operational targets within the set time frame and expecting a delay in the achievement of certain business objectives, no problem is anticipated in 2020 from a business continuity perspective.
Results in 2020 may be affected by the current situation and possible scenarios are currently being carefully considered. Taking into account the sector regulatory

mechanisms, including in the light of the most recent measures, the impact should not be particularly significant, even though much will depend on back-to-normal timeframes and on the consequences on the overall economic system and on the operators of the energy supply chain in which the Company operates.
The situation is, however, monitored most closely under by management so that appropriate decisions can be taken as quickly as the situation requires.

Direction and coordination

The Company is not subject to direction and coordination, while it provides direction and coordination to the following companies:

- 2i Rete Gas S.r.l.
- Cilento Reti Gas S.r.l.

7. Proposed profit allocation for the year

In relation to the above, we propose to:

- approve the Financial Statements of 2i Rete Gas S.p.A. at 31 December 2019, which show a profit of 205,499,018.71 euro and the accompanying Directors' Report;
- distribute, in regard to the net income for the year and taking into account that the Legal Reserve has reached 20% of the share capital, 0,1375 euro for each of the 363,851,660 shares, equal to a total of 50.029.603,25 euro.
- carry forward the residual amount of the net income of 155.469.415,46 euro.

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

VIII Report of the Board of Statutory Auditors

2i RETE GAS S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS AT THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019 IN ACCORDANCE WITH ART. 2429, CO. 2, C.C.

To the Shareholders of 2i RETE GAS S.p.A.,

this report was approved unanimously and in time for its filing at the company's registered office, within 15 days prior to the date of the call for the shareholders' meeting to approve the financial statements subject to comment.
The Board of Directors has thus made available the following documents approved on March 25, 2020, relating to the year ended December 31, 2019:

- draft financial statements, complete with explanatory notes;
- management report.

GENERAL INTRODUCTION
KNOWLEDGE OF THE COMPANY, ASSESSMENT OF RISKS AND REPORT ON ASSIGNMENTS

Taking into account the consolidated knowledge that the Board of Statutory Auditors declares to have regarding the company and regarding:

i) the type of activity performed;
ii) its organizational and accounting structure;

also taking into account the size and problems of the company, we reiterate that the "planning" phase of the supervisory activity - in which it’s necessary to assess the intrinsic risks and the critical issues with respect to the two parameters mentioned above - was implemented through the positive proof of what was already known based on information acquired over time.
It was therefore possible to confirm that:
- the typical activity carried out by the company has not changed during the year in question and is consistent with the provisions of the corporate purpose;

- the organizational structure and the endowment of IT structures have remained substantially unchanged;
- the aforementioned finding is indirectly confirmed by comparing the results of the values expressed in the income statement for the last two years, ie the one in question (31.12.2019) and the previous one (31.12.2018). It is also possible to see how the company operated in 2019 in terms that are comparable to the previous year and, consequently, our controls were carried out on these assumptions having verified the substantial comparability of the values and the homogeneity of the results with those of the previous year.
The activities carried out by the Board concerned, temporally, the entire year and during the same year the meetings pursuant to art. 2404 c.c. have been held, and of these meetings specific reports were duly signed for unanimous approval.

ACTIVITY PERFORMED

During the periodic audits, the Board continued to note the evolution of the activity carried out by the company, paying particular attention to contingent and/or extraordinary problems, in order to identify the economic and financial impact on the operating result and on the capital structure, as well as any risks such as those deriving from credit losses, that were monitored with constant frequency.

The auditing company PriceWaterhouseCoopers SpA, during the meetings held, did not report any problem.

The Board has therefore periodically assessed the adequacy of the organizational and functional structure of the company and its possible changes with respect to the minimum requirements postulated by the performance.

Relations with personnel operating in the aforementioned structure - directors, executives and external consultants - were inspired by mutual collaboration in respect of the roles assigned to each, having clarified those of the Board of Statutory Auditors.

For the entire duration of the year it was found that:

- the administrative staff in charge of recording company facts has not substantially changed compared to the previous year;

- the level of its technical preparation remains adequate with respect to the type of ordinary corporate facts to be noted and demonstrates a sufficient knowledge of company problems;

- consultants and external professionals in charge of accounting, tax, corporate and employment law assistance have not changed. They therefore have all been able to develop a historical knowledge of the activity carried out and of the extraordinary management problems that have influenced the results of this report.

The information required by art. 2381, co. 5, of the Italian Civil Code, were provided by the Chief Executive Officer both during the meetings held and through the contacts/information flows: from all the above it follows that the Board of Directors, in substance and in form, complied with the requirements imposed by the cited standard.

In conclusion, as far as possible during the activity carried out during the year, the Board of Statutory Auditors can state that:

- the decisions taken by the administrative body were compliant with the law and the company by-laws and were not clearly imprudent or such as to compromise definitively the integrity of company assets;
- sufficient information were acquired on the general performance of the management and its foreseeable evolution, as well as on the most significant transactions, by size or characteristics, performed by the company;
- the operations carried out were also compliant with the law and the company by-laws and not in potential conflict with the resolutions adopted by the shareholders' meeting or such as to compromise the integrity of the company assets;
- there are no specific remarks regarding the adequacy of the company's organizational structure, nor regarding the adequacy of the administrative and accounting system, nor about the reliability of the latter in correctly representing the management facts;
- during the course of the supervisory activity, as described above, no further significant facts emerged such as to require reporting in this report;
- during the year 2019, and more precisely on 1 January 2019 , the two subsidiaries 2i Rete Gas Servizi S.r.l. and Compagnia Generale Metanodotti S.r.l. , merged by incorporation into the parent company 2i Rete Gas SpA , based on the resolution taken by the respective companies in the previous year.
- also during the 2019 financial year, on 1 October, the merger with 2i Rete Gas Impianti SpA, also a subsidiary of 2i Rete Gas SpA, took effect. The aforementioned merger had accounting and tax effectiveness at 1 January 2019
- no action had to be taken for omissions by the administrative body pursuant to art. 2406 of the Civil Code;

- no complaints have been received pursuant to art. 2408 c.c.;
- no complaints have been made pursuant to art. 2409, co. 7, c.c ..

OBSERVATIONS AND PROPOSALS ON THE REPORT AND TO ITS APPROVAL

The draft financial statements for the year ended December 31, 2019 were approved by the Board of Directors on March 25, 2020 and consisted of the balance sheet, the income statement and the notes to the financial statements.
The Board of Directors has also prepared the management report pursuant to art. 2428 c.c ..
These documents were delivered to the Board of Statutory Auditors in time for them to be deposited at the company's headquarters accompanied by this report, regardless of the deadline set by art. 2429, co. 1, c.c ..

It is hereby acknowledged that the Board of Statutory Auditors had a number of meetings and exchanges of information also with PriceWaterhouseCoopers S.p.A. auditing firm on matters of their respective competence, and no relevant facts that it is considered appropriate to report here emerged from these exchanges. Finally, the Board of Statutory Auditors had a meeting with the Indipendent Auditors on the statutory audit plan for 2019 with particular reference to the changes introduced by Legislative Decree 139/2015 and EU Regulation No. 537/2014. This also in view of the supervisory function attributed to the Board - as "Internal audit and audit committee" - by article 19 of Legislative Decree No. 39/2010 on the statutory audit.

The Board of Statutory Auditors has acknowledged that the annual report of the Independent Auditors, pursuant to art. 14 Legislative Decree 27 January 2010, n. 39, to the financial statements for the year ended December 31, 2019, in implementation of the aforementioned regulatory changes, contains both the judgment on the compliance of the management report with the legal requirements, and the declaration that it does not present significant errors such as to prejudice its truthfulness and correctness .
The report that does not highlight any significant deviations, or negative judgments or impossibility to express an opinion or information requirements and therefore the judgment released is positive.

In addition to the audit report, which is without qualifications or references to requirement of information, the Indipendent Auditors have communicated to the Board of Statutory Auditors the "additional report" pursuant to art. 11 of the cited EU Regulation n. 537/2014. This report, which will be duly submitted to the administrative body, contains, among other things, the declaration of independence of the auditing company, a summary of the significant issues identified during the statutory audit, as well as the confirmation that they have not been detected "significant deficiencies" in the system of internal controls on the financial reporting process.

The Independent Auditors included the declaration of their independence in the additional report pursuant to art. 11 of the cited EU Regulation n. 537/2014: the Board of Statutory Auditors verified, also continuously, the existence of this requirement.

Finally, it does not appear to the Board that the Company has conferred tasks on subjects or companies linked to PriceWaterhouseCoopers S.p.A. by ongoing relations, with the exception of what already disclosed in the notes to the Financial Report and submitted to this Board during the year.

The draft financial statements were then examined, for which the following additional information is provided:

- the valuation criteria of the assets and liabilities items subject to this mandatory requirement have been checked and have not been substantially different from those adopted in previous years, in accordance with the provisions of art. 2426 c.c .;
- the entry of the goodwill took place with the consent of the Board of Statutory Auditors;
- attention was paid to the drafting of the report, to its general compliance with the law in its formation and structure, and in this regard there are no observations that should be highlighted in this report;
- compliance with the law concerning the preparation of the management report has been verified and in this regard there are no comments that should be highlighted in this report;
- in the preparation of the financial statements, the administrative body has not derogated from the provisions of the law pursuant to art. 2423, co. 4, c.c .;
- the compliance of the financial statements with the facts and information that was known following the fulfilment of the typical duties of the Board of Statutory Auditors was verified and no other observations are highlighted in this regard;
- the accuracy of the information contained in the notes to the financial statements regarding the absence of active and passive financial and monetary positions that originally arose in currencies other than the euro was verified;
- information was acquired from the Supervisory Body (Organismo di Vigilanza) and no critical issues emerged with respect to the organizational model, which was constantly updated, which should be highlighted in this report;

- about the proposal of the Board of Directors regarding the utilization of the net result for the year shown at the end of the management report, the board has nothing to observe, clarifying, however, that the decision on the matter lies with the Shareholders' meeting.

Given the fact that at the date of drafting of this report a number of extraordinary measures by the Government are effective in order to manage COVID 19 emergency, the Board, taking into consideration a forward looking perspective on year 2020, has been informed of the measures taken by the Company and reserves to request to the appropriate functions an informative flow on such topic, as to what pertains to the duties attributed to the Board of Directors pursuant art. 2403 cc.

RESULTS OF THE YEAR

The net result ascertained by the administrative body for the year ended December 31, 2019, as evident also from the reading of the financial statements, is positive for euro 205,499,018.71.

CONCLUSIONS

Based on the foregoing and to the extent brought to the attention of the Board of Statutory Auditors and on what has been verified by the periodic checks that were carried out, it is unanimously considered that there are no reasons impeding your approval of the draft financial statements for the year closed on 31 December 2019, as drafted and proposed by the Board of Directors and the consequent proposal to allocate the profit for the year.

Milan/Sondrio, 10 April 2020

The Board of Statutory Auditors

dott. Marco Antonio Dell’Acqua (President)

dott. Marco Giuliani (Effective Member)

dott. Nicola Gaiero (Effective Member)

IX Report of the Independent Auditors

2I RETE GAS SPA

INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE 39/2010
AND ARTICLE 10 OF REGULATION (EU) 537/2014

SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

Independent auditor's report

in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of 2i Rete Gas SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of 2i Rete Gas SpA (the "Company"), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Separate Financial Statements of this report. We are independent of the Company based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

PricewaterhouseCoopers SpA

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Key Audit Matters	***How our audit addressed the key audit matter***
Capital expenditure for gas distribution network under service concession agreements	
Note 13 of the Annual Financial Report – statutory financial statements - intangible assets	
As of 31 December 2019 gas distribution service concessions and similar rights amount to € 3,422 million, representing 71% of total assets. Costs capitalised during the year amount to € 276 million. The Company operates in the gas distribution industry. The industry is regulated by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA). Revenues from gas distribution service are determined each year in accordance with the regulatory approved tariffs which are based on a pre-established return on capital invested, plus amortisation and depreciation and operating costs. Considering the magnitude of the capital expenditure made by the Company and the direct correlation with the tariffs approved by ARERA, the proper capitalisation of costs related to service concession agreements in accordance with IFRIC12 represented a key matter in the audit of the separate financial statements.	We performed an understanding and evaluation of the system of internal control over the capital expenditure cycle, with particular reference to identification and testing of key controls. We assessed the accounting policy adopted by the Company in relation to the capitalisation of costs. We performed detailed tests analysing, on a sample basis, the supporting documentation of costs capitalised to verify the accuracy, completeness and the proper period.

Key Audit Matters	How our audit addressed the key audit matter
Recoverability of goodwill	
Note 13 of the Annual Financial Report – statutory financial statements - intangible assets	
As of 31 December 2019 goodwill amount to € 267 million, representing 6% of total assets. Recoverability of the carrying amount of goodwill was tested for impairment at the year-end, in accordance with IAS36 – Impairment of Assets. The recoverable amount of the group of cash generating units ("CGU") "Gas distribution", which represents the main sector of activity of the Company, to which goodwill is allocated, is measured using its value in use. Value in use is calculated on the basis of the expected future cash flows derived from 2020-2024 five years business plan approved by the Company board of directors on 15 January 2020. The recoverable amount of the Gas distribution segment is compared with the carrying amount of segment assets and liabilities, including goodwill. Considering the magnitude of the carrying amount and the subjective judgment in some of the assumptions used for the calculation of the value in use, the impairment test of goodwill represented a key matter in the audit of the separate financial statements.	We have verified, with the assistance of experts of the PwC network: • the adequacy of the impairment testing process in accordance with the requirement of the accounting standard; • the allocation of goodwill to the group of cash generating units – CGU; • the reasonableness of the key assumptions used when determining the value in use of the Gas distribution segment, with specific focus on the projected growth rate of revenue, cost and capital expenditure and discount rate, including sensitivity analysis; • the accuracy of the carrying amounts of assets and liabilities directly attributable to the Gas distribution segment; • the mathematical accuracy of the calculation model used. We have verified the accuracy and completeness of the disclosure made in the notes to the separate financial statements.

Key Audit Matters	***How our audit addressed the key audit matter***
Provisions for risks and charges	
Note 29 of the Annual Financial Report – statutory financial statements - provisions for risks and charges	
As of 31 December 2019 provisions for risks and charges amount to € 99 million and include probable liabilities as a result of past events for which the outflow can be reasonably estimated at the balance sheet date. Provisions for risks and charges mainly relate to costs associated with various disputes with municipalities, costs that could potentially arise from maintenance or replacement of defective measurement equipment, as well as the risk of a revision of some tariffs for concessions partially owned by third parties. Given the magnitude of the accrued balances and the use of estimates made, the measurement of the provisions for risks and charges was a key audit matter for the audit of the separate financial statements.	We have carried out the understanding and evaluation of key controls in place over the measurement of the provisions for risks and charges. We have tested, on a sample basis, the documentation supporting the most significant accruals to assess the adequacy of the accruals made. We obtained confirmations from external lawyers appointed by the Company, indicating the individual positions in place and their assessment of the risk of potential liability. We discussed with management the conclusions reached for measuring the provisions for risks and charges. We verified the accuracy and completeness of the disclosure made in the notes to the separate financial statements.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company financial reporting process.

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

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

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

- we identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of 2i Rete Gas SpA at the general meeting held on 29 April 2015 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2015 through 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/2010

Management of 2i Rete Gas SpA is responsible for preparing a report on operations of 2i Rete Gas SpA as of 31 December 2019, including its consistency with the relevant separate financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations with the separate financial statements of the Company as of 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the separate financial statements of the Company as of 31 December 2019 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 10 April 2020

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers