E.S.TR.A. S.p.A.
Registered office in Via Ugo Panziera Prato (PO)
Fully paid-up share capital € 228,334,000.00
Tax code and Prato Companies Register number 02149060978,
Economic and Administrative Index no. 0505831

CONSOLIDATED FINANCIAL STATEMENTS AT 31 December 2020

OFFICERS

Board of Directors

Chairperson Francesco Macrì
CEO Alessandro Piazzi
General Manager Paolo Abati
Director Anna Scrosta
Director Roberta De Francesco

Board of Statutory Auditors

Rita Pelagotti *(Chairperson)*
Alessandro Mannelli
Michele Pietrucci

Independent Auditors
EY S.p.A.

Management Report on the Consolidated Financial Statements at 31 December 2020

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2020

1. HIGHLIGHTS OF THE YEAR

Despite the market context complicated by the COVID-19 epidemiological emergency, the Estra Group achieved very solid management results during the 2020 financial year, growing significantly on the 2019 financial year.

Diversification in the Group's business portfolio, balanced between free market and regulated activities, was the first element that made it possible to reduce the economic impact, given that regulated activities were not impacted over the short term by market phenomena linked to the pandemic.
Sector diversification in the industrial customer portfolio into sales of natural gas and electricity contributed further to containing the economic impact, combined with the prompt response by Group companies on an operational and organisational level to the changed context and the containment of costs so as to limit the economic-financial impact of the crisis, showing great resilience by the Group.

With the contribution of extraordinary income (reference is made to the paragraph on the business performance - economic data), the 2020 financial year closed with a reported profit of € 70.3 million, compared to € 17.5 the previous year. Excluding these non-recurring effects, the 2020 financial year nonetheless performed decidedly better, with adjusted net profit that went from € 11.0 million in 2019 to € 24.6 million in 2020.

Contributing to this result was the improved performance in all the Group's business segments, in particular, in the sector for the sale of natural gas and electricity, where margins contracted significantly in the first half of 2019 to then recover in the second part of the year.

While reference is made to the report below for more detailed information, it is noted that despite the Group having recorded adjusted revenue in the 2020 financial year that was down by € 225.1 million compared to 2019 (mainly due to the drop in the price of natural gas and electricity, lower gas volumes sold to the Italian Virtual Exchange [Punto di Scambio Virtuale - PSV] resulting from balancing activity and lower natural gas volumes supplied to industrial customers, typically at reduced margins), the 2020 financial year closed with a strong increase of € 106.7 million in the adjusted Gross operating margin (adjusted EBITDA), up by € 19.7 million (+ 23%) compared to 2019 (€ 87.0 million).

The adjusted operating result (adjusted EBIT) of € 45.5 million was up by € 14.6 million compared to 2019 (€ 30.9 million), following increased depreciation/amortisation and provisions for € 5.1 million.

Adjusted net profit at € 24.6 million was up by € 12.7 million compared to 2019, with improved financial management compared to 2019 for € 2.1 million and higher income taxes for € 4 million.

The Group's shareholders' equity at 31 December 2020 was € 392.4 million (€ 322.6 million at 31 December 2019), with shareholders' equity impacting for 57.4% on capital raised compared to 51.5% in 2019.

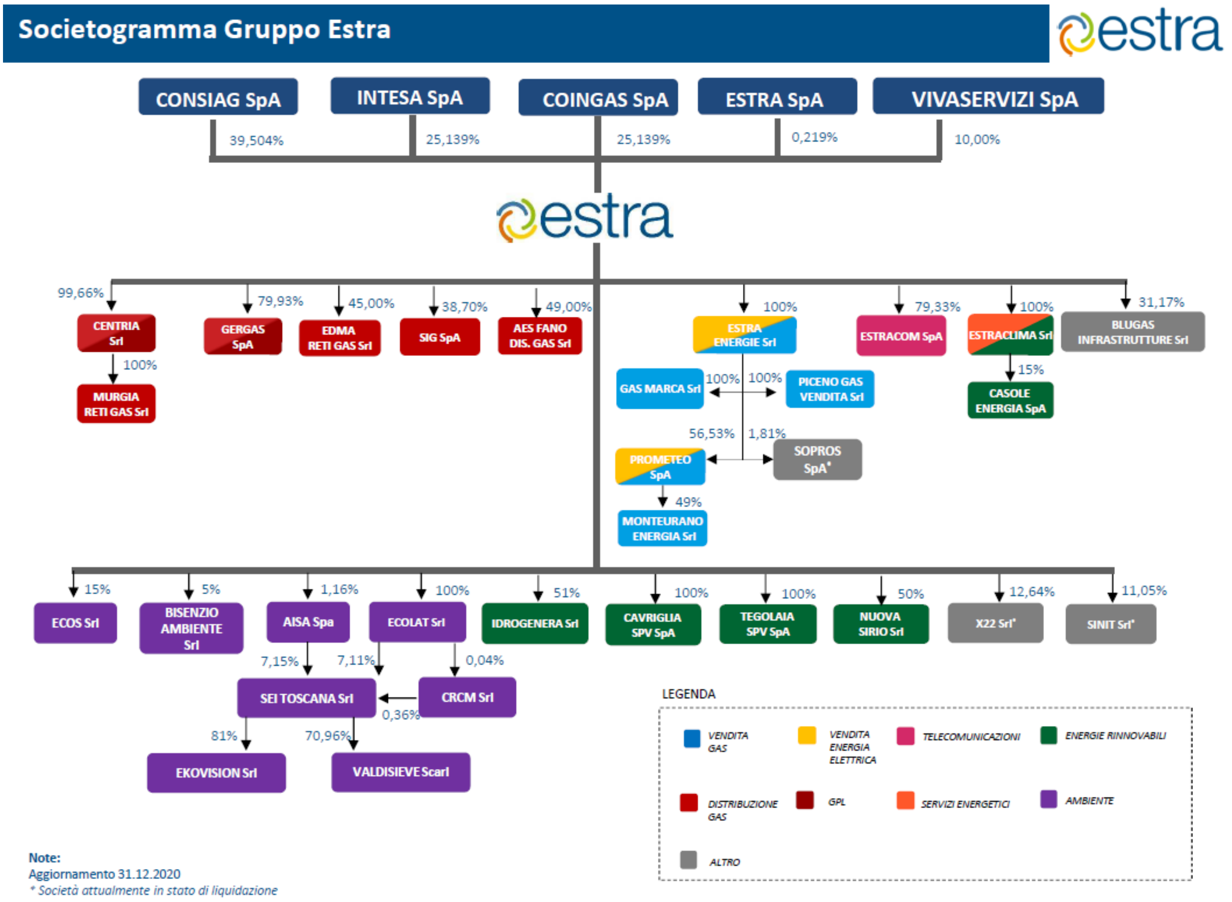
Net financial debt at year-end was € 291.4 million, improving on the result at 31 December 2019 (€ 304.2 million) mainly due to less investment activity during the financial year.

Continuing with the strategic approach adopted in recent years, the Group pursued its ongoing commitment in 2020 to generating value and growth over the medium and long term in all its activity sectors, concentrating on improving its operating performance and consolidating its presence in interest sectors, based on organic development policies and industrial operations.

With reference to the state of emergency in progress in Italy owing to the spread of the COVID-19 virus and to the consequent measures adopted by the competent Government Bodies, the Board of Directors of Estra constantly monitors developments in the situation. Please see the specific paragraph of the report for the main oversight carried out to guarantee business continuity and the performance of the work activities ensuring the protection of our employees and for considerations on the possible effects on the Group's economic and financial situation.

2. GROUP STRUCTURE

The chart below includes the companies directly or indirectly controlled by Estra which are part of the Estra Group, with an indication of the equity interests held in each of them.



Notes:
(1) Estra Energie holds 0.072% of Banca Popolare delle Province Molisane Scarl
(2) Ecolat holds an equity investment in the Cons.Eco consortium
(3) Company currently in liquidation
(4) Ecolat declared a stake of 11.27%

The Group is structured according to a model that provides for a Parent Company with activities of coordination and centralised management of corporate functions (strategic and organisational planning, financial and budget planning, marketing goals and policies, human resource management policies, strategies and practices, production scheduling, planning and control of business management, IT management), and special purpose entities operating in the following business segments:

- natural gas and electricity sales at the national level;
- natural gas distribution mainly in the regions of central Italy;
- trading of natural gas on Italian and foreign platforms;
- technical and operational management of telecommunication networks and marketing of telecommunication services, technical and operational management of LPG distribution networks and marketing of the same, production of electricity from renewable sources (in particular, photovoltaic), management of district heating plants and heat management, redevelopment and energy efficiency activities, waste selection and storage.

In addition, the Group's activities can be distinguished between regulated or semi-regulated activities, and free-market activities:

(a) "regulated and semi-regulated activities", that is activities performed only by entities in possession of a concession or authorisation on the basis of which they are performed, until expiry, at economic and contractual conditions which are, entirely or mainly, defined on the basis of criteria established by the competent authority. The Group performs the regulated activity of natural gas distribution and semi-regulated activities of LPG distribution and marketing and production of electricity from renewable sources;

(b) "free-market activities", that is activities performed by all operators in the sector in possession of the requisites provided for in the applicable legislation, at economic and contractual conditions which are mainly defined on the basis of free negotiation between the parties. The Group performs free-market activities for the sale of natural gas and electricity, natural gas trading, technical and operational management of telecommunication networks and marketing of telecommunication services, management of heating plants owned by third parties and heat management, requalification and energy efficiency activities, waste selection and storage.

The Estra Group operates, through subsidiaries, in joint ventures and associates, mainly in Tuscany, Umbria, Marche, Abruzzo, Molise, Apulia, Campania, Calabria and Sicily operating on a national basis in the sale of natural gas and electricity.

3. SIGNIFICANT EVENTS OF THE YEAR 2020

The following business development initiatives are noted in the scope of the investment strategy in the environmental segment from the perspective of diversifying the Group's business portfolio.

3.1 INVESTMENT AGREEMENT FOR THE ACQUISITION OF BISENZIO AMBIENTE S.R.L.

On 30 March 2020, Estra S.p.A., Consiag S.p.A. (shareholder with 39.504% of Estra S.p.A.) and Cipeco S.r.l signed an investment agreement for a series of corporate transactions aimed at the progressive joint acquisition by Estra S.p.A. and Consiag S.p.A. of 100% of the share capital of Bisenzio Ambiente S.r.l., which is wholly owned by Cipeco S.r.l.

The company Bisenzio Ambiente S.r.l. has as its purpose in particular the management of plants for the storage and chemical, physical and biological treatment of liquid hazardous and non-hazardous special waste and holds, following the contribution made by Cipeco S.r.l. an Integrated Environmental Authorisation (Autorizzazione Integrata Ambientale - A.I.A.) and operates a plant for the processing of hazardous and non-hazardous liquid special waste, in the start-up stage.

The purchase price for 100% of the share capital is € 10,078 thousand, subject to a revision clause in relation to the revenue achieved by the company in the first 36 or 48 months of operations, in addition to the purchaser taking over the financing provided to the seller for around € 7.7 million.

The investment agreement provides for Estra S.p.A. taking 5% of the share capital of Bisenzio Ambiente during 2020, and subsequently taking full control during the 2021 financial year.

In executing the signed agreement, on 30 March 2020, Estra acquired 5% of Bisenzio Ambiente based on the subscription of a share capital increase resolved by the shareholder Cipeco on 22/4/2020 in favour of third parties for € 39 thousand and at the same time, the disbursement of a loan of € 461 thousand. Following the share capital increase and as envisaged in the signed agreement, Estra then issued a financial guarantee to the Tuscany Region for € 1,867 thousand in accordance with the provisions pursuant to Tuscany Regional Executive Decree no. 743 of 6 August 2012 as amended.

Due to the pandemic emergency, the testing and start-up of the plant were delayed in respect of the initial timing, making it necessary to revise the timing and conditions originally agreed on between the parties to acquire control and the entire share capital. This had not yet been finalised at the date of this document.

3.2 INVESTMENT AGREEMENT FOR THE ACQUISITION OF ECOS S.R.L.

In executing the investment agreement signed on 24 April 2020 and its subsequent amendments, at the date of this document, Estra S.p.A. had acquired 100% of the share capital of Ecos S.r.l., the owner of a waste storage site extending over 9,500 square metres, operating on the domestic market in the management of special, hazardous and non-hazardous waste.
More specifically, the company is involved in:
- the disposal of hazardous and non-hazardous waste. Maximum capacity 75 kt (45 kt solid and hazardous liquid waste and 30 kt non-hazardous);
- Waste collection and transportation using own vehicles. The company transports hazardous and non-hazardous waste, waste subject to ADR regulations, packaged and loose waste;
- Reclamation of contaminated sites and treatment of cement-asbestos roofing.

In executing the investment agreement, Estra S.p.A.
- acquired 15% of Ecos on 24 April 2020 for € 15 thousand, whilst at the same time providing the company with a loan for € 355 thousand;
- completed the company acquisition on 26 January 2021, taking up the remaining 85% of the shares for € 1,760 thousand, of which € 350 thousand had already been paid at 31 December 2020.

The price of € 1,775 thousand takes into consideration the capital increase payment required in the company acquired to cover losses in the year following the asset adjustments to be made when preparing the 2020 financial statements.

The company was not consolidated in these financial statements because control was only acquired after the year-end.

3.3 FINANCIAL STATEMENT AND TAX REVALUATION/REALIGNMENT OF ASSETS

The Group chose to apply the regulations referring to revaluation and realignment as per Law no. 126 of 13 October 2020 containing the "Conversion into law with amendments of Decree-Law no. 104 of 14 August 2020", which provides for the revaluation of company assets for statutory accounting and tax purposes or the tax realignment of company assets for the tax recognition of the step-up values recorded in the financial statements at 31 December 2020, with the payment of 3% substitute tax.

Substitute tax must be paid over a maximum of three instalments for equal amounts, within the deadline for the balance on income taxes relating to the tax period when the revaluation was carried out (the first), and within the deadline set for the balance of income taxes referring to subsequent tax periods (the other two).
If the revalued assets are transferred against payment, prior to the fourth subsequent financial year in respect of the one when the revaluation was carried out (i.e. for "calendar year" tax payers, on a date prior to 1 January 2024), the cost prior to the revaluation is taken as a reference when calculating capital gains/losses.

To identify the assets that are applicable, legislation refers to Section II of Heading I of Law 342/2000 (entitled "revaluation of company assets"), namely tangible and intangible assets, excluding those where the production or trade in the assets refer to the company's business activity.

In terms of Article 11, paragraph 2 of Law 342/2000, referenced under paragraph 7 of Article 110 of Decree-Law 104/2020, the amounts recognised in the financial statements after the revaluation cannot exceed those effectively attributed to the assets with regard to their "extent, production capacity, and effective possibility of economic usage in the business".

The Group decided to apply this legislation to subsidiary owned networks and connections operating in the gas distribution sector for € 158,722 and to the goodwill recognised in the financial statements of companies operating in the natural gas sales sector following merger transactions for € 36,880 thousand.

With reference to the Notes for additional information, it is noted that these consolidated financial statements include the effects from the adjustment of assets/(liabilities) for deferred tax assets/liabilities recognised on the difference between the value of assets in the consolidated statements and the new amounts recognised for tax purposes at 31 December 2020. The adjustment resulted in the recognition of deferred tax assets for € 37,144 and the reversal of liabilities for deferred taxes for € 7,085 thousand, in addition to the recognition of the cost for the substitute tax of € 5,868 thousand, for an overall positive effect of € 48,989 thousand on the Income Statement item "Income taxes".

3.4 RATIONALISATION OF GAS DISTRIBUTION ACTIVITIES CONDUCTED IN THE TERRITORIAL AREA OF GROSSETO

During 2020, the Group completed the important rationalisation and simplification project for the gas distribution activities in the territorial area of Grosseto.

Based on the contribution by Centria S.r.l. (held for 99.65% by Estra), to Gergas S.p.A. (held for 79.93% by Estra), that became effective from 31 December 2020, of the business unit for the distribution of natural gas in the Municipalities of Arcidosso, Castel Del Piano, Cinigiano, Monte Argentario, Seggiano and Follonica, the Group has concentrated ownership and management of all assets relating to the distribution of natural gas in the pertinent Municipalities in the Province of Grosseto into Gergas S.p.A., from the perspective of reducing costs and achieving greater management efficiency.

More specifically, the company Gergas S.p.A. resolved a share capital increase from € 1,381,500 to € 1,910,500 based on the issue of 529,000 new ordinary shares with a nominal value of € 1.00 each, as well as an overall premium of € 11,459,000, offered for subscription by the company Centria Srl and released by the latter in kind, with the contribution of networks, plants and staff dedicated to gas distribution services relating to the 6 aforementioned Municipalities in the Province of Grosseto.

Following the contribution, the share capital of Gergas SpA is therefore at € 1,910,500, held for 57.80% by Estra and 27.69% by Centria, for 14.46% by the Municipality of Grosseto and for 0.05% by the Municipality of Campagnatico; the Group's controlling percentage went from 79.93% at 31 December 2019 to 85.39% at 31 December 2020.

Reference is made to the paragraph in the Notes on Business combinations for details on the transaction's accounting effects.

3.5 SETTLEMENT AGREEMENT WITH THE MUNICIPALITY OF PRATO

With regard to the dispute on determining the compensation to the Group as the outgoing operator of the natural gas distribution services for the Municipality of Prato (full details provided in the Notes), it is noted that with judgement no. 387/2020 published on 14/08/2020, the ordinary Court of Prato ordered Estra S.p.A. to pay the Municipality of Prato, the amount of € 6,000 thousand, plus interest, based on the provisions of a settlement agreement signed in 2011 to determine, *inter alia*, the amount of the compensation owed to the outgoing operator.

Instead the Court held that the Administrative Judge had jurisdiction in responding to the lawsuit filed in 2016 by Estra and Centria against the Municipality of Prato and Toscana Energia, in order to obtain an order against Toscana Energia, or alternatively the Municipality of Prato, for the payment of € 9,613 thousand, to supplement the lesser amount set out in the tender and recognised to the outgoing operator Centria for the delivery of the networks, in application of a contested indexation and revaluation mechanism, on the basis of the time that had passed between the call and the delivery of the networks.

The settlement agreement dated 02 December 2020, provided inter alia, for Estra and Centra's withdrawal of the challenge to the judgement, limited to the part ordering the payment to the Municipality of Prato; the Parties agreed on instalment-based payments for a total amount of € 6,050 thousand, including interest, in three annual instalments falling due on 31 January 2021, 31 January 2022 and 31 January 2023.

Following the negotiations that led to the aforementioned partial settlement being drawn up, and based on advice from legal counsel, it has been decided to undertake a challenge on the issue of jurisdiction (see in the Notes, the paragraph relating to the dispute regarding the compensation due to the outgoing operator for the natural gas distribution service in the Municipality of Prato).

As a consequence of the above, these consolidated financial statements were impacted for extraordinary expenses recognised under "Other operating expenses" for a total of € 6,000 thousand.

3.6 PUBLICATION OF TENDER TO ASSIGN THE PUBLIC NATURAL GAS DISTRIBUTION SERVICE FOR THE MUNICIPALITIES IN THE TERRITORIAL AREA OF PRATO

On 22/12/2020, the Municipality of Prato published the partial call for the tender with restricted procedures "*Assignment of the public natural gas distribution service through pipelines in the entire territory of the Municipalities in the Territorial Area of Prato*", continuing on 23/12/2020, with the publication in the Official Gazette of the Republic of Italy (GURI) no. 150 of the call to tender and completing the publication of the tender documentation and forms relating to the phase for submitting participation applications.

The subsidiary Centria, as the incumbent operator for the Area, immediately assessed the tender documentation and sent the following through to the contracting authority:
- questions and requests for clarification
- application to access the documentation
- participation application, currently pending on the outcome of admission.

The relevant tender procedure involves the entire Minimum Territorial Area (ATEM) of Prato, i.e. the Municipalities of Calenzano, Campi Bisenzio, Cantagallo, Carmignano, Lastra a Signa, Montale, Montemurlo, Montespertoli, Poggio a Caiano, Sesto Fiorentino, Signa Vaniano and Vernio, in addition to the Municipality of Prato that issued the tender individually in 2011, and which was awarded to Toscana Energia in 2015 with a 12-year validity. The Municipality of Prato territory will therefore fall under the management of the party awarded the tender for the ATEM once their contract expires in 2027.

The tender will be conducted on the basis of a restricted procedure, and the criterion for awarding the tender will be the most economically advantageous bid.
The appointment will be for a 12-year period. The contract amounts to € 251 million, of which € 92 million up until 30/08/2027, and € 160 million after this date, namely once the management of the Prato Municipality begins.
The reimbursement amount payable to the outgoing operators is provisionally set at € 169 million, of which approximately € 39 million referring only to the Municipality of Prato and around € 130 million for the remaining Municipalities, managed by Centria.
The ATEM PoDs number 191,555, of which 81,555 referring only to the Municipality of Prato, and 110,000 relating to the remaining Municipalities, managed by Centria.

During this phase, the companies that intend participating must show that they have the prerequisites set out in the tender, by submitting the necessary documentation, after which, the contracting authority will send the letter of invitation, 45 days after the deadline for the submission of application (15/03/2021). At the same time, the documents needed to draw up the bid and procedures and deadlines for submitting bids will be available on the digital platform; to date, these are as yet unknown.
The tender has strategic importance for the Group from the perspective of consolidation on the regulated gas distribution market.
Centria will focus strongly during 2021 on drafting the technical and administrative documentation needed, and generally, in preparing the tender submission.

4. COVID-19 EPIDEMIOLOGICAL EMERGENCY

In 2020, the entire world was impacted by the pandemic caused by the COVID-19 virus, which began spreading through Europe at the start of the year. Italy was the first European nation to be severely affected by the virus, to the extent that the Government imposed a general lockdown over the whole country on 9 March 2020.

From the outset, Estra's Board of Directors closely monitored developments and the regulations introduced from time to time, revising its operating plans to adapt to the most appropriate measures that could support its workers, the safety and security of services, and implementing containment measures to reduce the crisis' economic impact.

More specifically, as from February 2020, Estra established a Committee with the management of all subsidiaries, which subsequent to the issue of the "Shared Protocol regulating the measures to contain the spread of the COVID-19 virus in work environments" dated 14/03/2020 (subsequently attached to Prime Ministerial Decree of 26/04/2020) became the Group Committee for the management of the COVID-19

emergency (comprising the Health and Safety Officers of all Group companies, Company Workers' Health and Safety representatives and management representatives). The Committee dedicated to managing the emergency, adopted regulations with specific guidelines and operating instructions for the different contexts and organisations within Group companies.
Group management was constantly informed on developments in the emergency, implementing the measures that were necessary from time to time to ensure the highest possible level of safety in the workplace, while at the same time, ensuring continuity in public utility and essential services.

Given the "essential" services nature of the activities carried out, the Group did not suffer any interruptions with the lockdown, only some restrictions.
With reference to the main business activities, we note:

- regarding the distribution of natural gas: the restructuring of all investment activities that could be postponed because they were not directly linked to service security and continuity and the reduction of connections and supplies to customers over the lockdown period. In the months after the lockdown, activities normalised, albeit in compliance with anti-contagion regulations;
- regarding the sale of natural gas and electricity: i) a drop in consumption by retail and industrial customers due to the close down in activities over the lockdown and subsequent re-opening at reduced levels; ii) an increase in requests from domestic customers to pay on an instalment basis, and generally, longer collection times for receivables, which normalised over the second part of the year.

In this emergency context, diversification in the Group's business portfolio, balanced between free market and regulated activities, was the first aspect to reduce the economic impact, given that regulated activities were not impacted over the short term by market phenomena linked to the pandemic.

Sector diversification in the industrial customer portfolio into sales of natural gas and electricity contributed further to containing the economic impact, combined with the prompt response by Group companies on an operational and organisational level to the changed context and the containment of costs so as to limit the economic-financial impact of the crisis, showing great resilience by the Group.

Reference is made to the Non-Financial Declaration for further information on the impact of the COVID-19 pandemic on non-financial issues, the mitigation measures adopted and the social and staff related aspects (with specific focus on the aspects of health, safety in the workplace and remote working, as well as the policies in this regard in respect of employees and collaborators.

The Board of Directors continues to closely monitor developments in the health emergency, and even though the duration of the health emergency and the extent of the economic-social effects of COVID-19 Coronavirus are still uncertain, based on what has been outlined above, the Board believes that the impacts on the Group's financial and asset position will be reasonably limited in the 2021 financial year.

5. MARKET SCENARIO

Macroeconomic context

The macroeconomic context in 2020 was deeply impacted by the COVID-19 epidemic, which had begun in China and had spread globally in a few months, significantly affecting Europe and the United States. Most of the countries affected imposed stringent containment measures (including closing schools, suspending public events, limiting people's movements, stopping production), with consequences for the global economic and social scenario[1]. There was a contraction in economic activity during 2020, with the reduction in industrial production contributing, together with the stoppage in tourist flows and less trade related with global supply chains, but also the drop in private consumption, especially in the services segment, in a context marked by a sharp fall in employment[2]: contrary to other shocks to the global economy, the current crisis has impacted the services sector as well as industry, especially in the restaurant, entertainment and hospitality sectors. Global growth prospects are dependent on the outcome of the vaccination campaigns in many countries; there is still uncertainty however regarding the timing of the

[1] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 2/2020
[2] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 4/2020

large-scale distribution and administration of vaccines, with this determining the effects on the economic cycle[3].

The pandemic has impacted on global GDP, which according to data published by OCSE, contracted by 4.2% in 2020, recording -6.9% on 2019[4].
In so far as international trade is concerned, the reduction already recorded in the fourth quarter of 2019 continued into the first quarter of 2020, becoming more pronounced in the second, feeling the repercussions of the drop in demand in most economies, the stoppage in tourist flows and less trade over global supply chains. A partial recovery was seen in the third quarter, benefiting from the resumption in mobility and global production, which then slowed down again in the first three months of the year due to the new wave of the pandemic[5].
According to Bank of Italy estimates, the overall contraction in world trade in 2020 was at 9%, whereas a slight increase was recorded in 2019 at 0.6%[6].

The slowdown in economic growth was evident in most advanced countries. The United Kingdom was more severely affected by the pandemic (GDP -11.2% provisional on OCSE data), partly due to the new virus variants that heightened the spread and forced the country into lockdown, and partly, due to the strong weighting of the most affected services sector on the overall economy.
In terms of GDP performance in other advanced countries, Japan came down by 5.3% in 2020, whereas the United States fell by 3.7% (provisional on OCSE data)[7].
In China, where contagion was practically zero in the spring of 2020, was the only economy to grow in the year of COVID (GDP +1.8% provisional 2020).
Emerging economies also recorded a drop, in particular, India (GDP -9.9% provisional on OCSE data) and Brazil (GDP -6% provisional on OCSE data), whereas the contraction was slightly less in Russia (GDP -4.3% provisional on OCSE data).

According to European Union forecasts[8], in 2020, the economy in the Euro Area came down by 7.3%: GDP performance over the year in the Area fluctuated on the negative in the first and second quarter (respectively at -3.7% and -11.7%), rising higher than expected during the third quarter (+12.5%). The uptake in COVID-19 infections and more stringent containment measures caused a renewed weakening in economic activity during the last part of the year[9]. With regard to the main European countries, Italy, France and Spain, which had adopted the most drastic and longer lasting containment measures following the explosion of the health emergency, recorded a more significant drop in GDP during the first part of the year compared to Germany, which, on the other hand, had adopted restrictions that were shorter or did not extend to the whole country (GDP QII 2020: France -13.8%, Italy -13%, Spain -17.9%, Germany -9.8%)[10]. The measures to contain the spread of the virus impacted on private consumption in the Area (-8.1%), even though the introduction of policies favouring employment and incomes, could improve household spending[11].

In this international economic context, Italian GDP in 2020 decreased by 8.9% compared to the previous year (preliminary ISTAT estimate) despite increasing in the third quarter of the year by 16.1% compared to the previous quarter[12]. The comeback over the summer months can mainly be attributed to the easing in measures to deal with the spread of the virus.

Household spending followed the pandemic trend, contracting in the first half of the year (-11.4% in QII) and at the end of the year, and recovering over the summer months (+12.4% in QIII). The drop was more pronounced in the consumption of semi-durable and durable goods, and especially with regard to services in QII. Household disposable income came down in real terms, reflecting the decrease in work income and the propensity for saving which increased: this propensity was initially influenced by the mechanical effect

[3] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 1/2021
[4] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 1/2021
[5] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 4/2020
[6] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 1/2021
[7] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 1/2021
[8] Data prepared by Eurosystem, the Euro Area central banks' system responsible for implementing a single monetary policy, including the European Central Bank and central banks of countries in the European Union that have adopted the euro.
[9] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 1/2021
[10] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 1/2021
[11] Eurozone economic outlook 22/12/2020
[12] Preliminary estimate of GDP – ISTAT - 02 February 2021

impeding the purchase of goods and services consequent to the close down in non-essential activities, and remained high[13].

The pandemic crisis impacted heavily on youth employment, and on woman over the course of the year; the pandemic also led to a marked reduction in people employed with a fixed term contract. The repercussions on employment were eased by the support provided to business liquidity (non-repayable grants and state guarantees to access credit), extending the redundancy fund system (Cassa integrazione guadagni - CIG) at no cost and the freeze on dismissals; it is estimated that these interventions prevented around 600,000 dismissals, a third of which was thanks to the first two measures[14]. After two months in the negative, the employment rate rose again in the QIII of 2020, albeit weakly (+0.9%): the improvement referred only to employed people, whereas the down curve continued in the case of the self-employed (-0.3%)[15].

The suspension of "non-essential" services during the first lockdown, caused a sharp drop in industrial production, which then partially recovered in the middle of the year, sustained especially by capital and intermediate goods.

Manufacturing activity was weak in the first half of the year, recovering ground in the summer months, to bring the PMI index[16] above the expansion threshold; the same index remained below the expansion threshold for the services sector[17].

Regarding the exports of goods and services, there was a drop recorded mainly in exports to China between January and February (-21.6% on the exports of goods compared to the previous year's volumes), combined with the epidemic containment measures that the country adopted; subsequently and until the summer months, the contraction involved all the main outlet markets, except the United States, and all sectors, except food and chemical-pharmaceutical products.

Exports of services came down more significantly, due especially to less demand for tourist services; the tourism industry has an important weighting in the Italian economy, which is higher than the average in OCSE countries.

Exports recovered in the second part of the year (+30.7% in QIII), especially in the means of transport, mechanical, leather and clothing segments, to then slow down once again in the last part of the year.

Imports followed a similar trend: the drop referred to all sectors, except for textile products, sustained by the purchases of personal protection equipment from China.

Monetary policy

The leading countries adopted strongly expansionary measures during the whole of 2020 in response to the continued pandemic.

In March, the Federal Reserve reduced the target range for federal funds interest rates by a total of 150 base points, bringing it to 0.00-0.25 percent, it subsequently announced that the target range for interest rates would remain unchanged at the same levels until the end of 2023. At its meeting at the end of 2020, the Federal Reserve announced that the buying of securities would continue until substantial progress was achieved in reaching the targets of maximum employment and price stability.

In the first quarter of 2020, the European Central Bank announced a new € 750 billion securities purchasing programme (Pandemic Emergency Purchase Programme – PEPP) to tackle the Coronavirus emergency. This was aimed at counteracting the worsening financial conditions, provided for more flexible purchasing of public and private sector securities[18]. At its meeting on 10 December, the ECB Governing Council recalibrated monetary policy instruments in an expansionary sense, contributing to preserving favourable funding conditions in the face of the effects of the pandemic on the economy and pricing, which are lasting

[13] Our processing of data from Bollettino economico (Economic Bulletin) – Bank of Italy 2/3/4/2020 and 1/2021
[14] Lectio magistralis of Ignazio Visco - Governor of the Bank of Italy 16/12/2020 - Gran Sasso Science Institute Inauguration of the 2020-2021 academic year
[15] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 1/2021
[16] This is an index (acronym of Purchasing Managers' Index) which represents the surveys carried out on a sample of companies in which the interviewees are the managers of the procurement sector.
[17] Our processing of data from Bollettino economico (Economic Bulletin) – Bank of Italy 2/3/4/2020 and 1/2021
[18] Our processing of data from Bollettino economico (Economic Bulletin) – Bank of Italy 2/3/4/2020 and 1/2021

longer than what had been previously assumed. Net purchases of securities in the scope of the Expanded Asset Purchase Programme (APP[19]) and the Pandemic Emergency Purchase Programme (PEPP) brought the carrying amount on the two securities portfolios to € 2,909 billion at the end of December and € 698 billion at the end of November[20]: the strengthening of these two programmes aims to avoid premature restrictions on financial conditions, which would put the support provided to economic activity and inflation at risk[21].

Trends in the energy market

2020 was a turbulent year for the oil price: from the initial threat of 100 dollars/barrel in January, followed by the brief geo-political crisis between Iran and USA, to the most dramatic drop in history (-80%) due to the COVID-19 pandemic, closing off the year with a partial and slow recovery.

In general, the containment measures introduced to curb the spread of the virus caused a sharp contraction in the demand for oil (Dated Brent) with negative repercussions on the price, which recorded an annual average estimate of around 42 dollars/barrel, well below the 65 dollars/barrel in 2019 (-35%)[22]. The breach in the OPEC agreement (triggered by differences between Russia and Saudi Arabia) was also a reason for the drop, effectively removing the constraints on the supply of crude. After the drop in the first part of the year, with the introduction of precautionary measures introduced to deal with the health emergency, the price of crude recovered at least some value in the second half of 2020, appreciating by over 400% compared to the lows in April, and in the final weeks of the year, reaching peaks of 48 dollars/barrel. Contributing to the final rally were the gradual re-openings, encouraging news on the vaccines front and the decision to reduce supply by OPEC Plus producer countries[23].

A specific feature of this crisis was the demand-driven trend in pricing. Historically, oil shocks have occurred due to restrictions imposed on the supply front, or following monetary or political events (as in 1929 and in 1979), or if the growth in production is too sustained (as in 1986 and in 2014).[24]

In 2020, total energy consumption is estimated at 142.4 million TOE[25]. Compared to the previous year, volumes dropped by 10.6%, due primarily to the restrictions imposed by the lockdowns, which drastically affected the transport sector, bringing it the levels reported at the start of the 90's.[26]
The most affected source was coal, down by 30%, and with volumes decreasing by around one third compared to five years ago. Oil decreased by 17.4%, with its weighting over the total coming down from 37% in 2019 to 33.55% last year. Natural gas also decreased by 7%, but remains the main energy source at close to 40%. The only sources to have recorded a positive balance were renewables, growing by 2.6%. This was attributable to the increase in hydro and photovoltaic production, as well as the dispatching priority to cover the demand for electricity.

The energy invoice, that is the cost that the country bears for procurement abroad, at around € 23.3 billion, fell by 41%, losing approximately € 16 million on the previous year. The weighting on GDP therefore came down to 1.4% compared to 2.2% in 2019.

Regarding the electricity market, in the atypical year of 2020, the price to purchase energy (PUN)[27] touched on its lowest level at € 38.92/Mwh (-25.6% compared to 2019), following the trend that was common to all the main European energy listings[28]. The downward trend of the PUN that had already begun in the second half of 2019, corresponding to the falling prices of gas at the PSV, was emphasised by the 2020 health emergency, with gas consumption and costs also reaching historic lows, with negative peaks in April and May (€ -30/MWh). The high levels of supply in renewables also contributed to this decrease.

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[19] Instrument with which the central bank puts liquidity into the financial system, through the purchase of government and other bonds, supporting economic growth in the whole euro area and contributing to a return of inflation to levels lower than but close to 2%. Source: ECB official website
[20] Our processing of data from Bollettino economico (Economic Bulletin) – Bank of Italy 2/3/4/2020 and 1/2021
[21] *Bollettino economico* (*Economic Bulletin*) – Bank of Italy 1/2021
[22] Pre-consuntivo petrolifero 2020 – Unione Petrolifera (2020 Preliminary Oil Balance - Petroleum Industry Union)
[23] The "OPEC Plus" agreement signed at the end of 2016 by 24 countries with the objective of stabilising oil prices, currently involves 21 countries, 11 OPEC members (Saudi Arabia, Nigeria, Iraq, Kuwait, Angola, Ecuador, United Arab Emirates, Algeria, Congo, Gabon and Equatorial Guinea) and 10 non-OPEC countries (Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan and South Sudan).
[24] Il Sole 24 Ore - The great crash in oil demand in 2020: an x-ray
[25] TOE (Tonne of Oil Equivalent) is a unit of measurement of energy (1 TOE = 42 GJ)
[26] "Preconsuntivo Petrolifero 2020" – Unione Petrolifera (2020 Preliminary Oil Balance - Petroleum Industry Union)
[27] "Prezzo Unico Nazionale" - Single National Price
[28] GME Newsletter January 2021

Trades of electricity on the Day Ahead Market (DAM) were also impacted by the health emergency, never having recorded such low levels at 280.2 Twh, decreasing by 5.5% on 2019[29]. Over the counter trading recorded on the Electricity Power Exchange (PCE) and nominated on the DAM reached record lows of 70.3 TWh, falling by 15%. Volumes traded on the exchange on the other hand, held up with a drop of 1.9% and at 209.8 TWh, boosted by the GSE sales and the growth in exports. Based on this performance, market liquidity reached a new record high at 74.9% (+2.8 p.p.).

The effects of the pandemic were also reflected on the price of natural gas on the Italian Virtual Exchange (Punto di Scambio Virtuale nazionale - PSV), which touched record lows at € 10.55/ MWh, falling € 6/MWh (-35%) compared to 2019. [30] This trend was in line with the performance recorded on the main European hubs, where the TTF[31] also reached a record low falling by 31% and 4 MWh to reach € 9.39/MWh. The PSV-TTF spread touched on its lowest level since 2013, decreasing to € 1.16/MWh.

Overview of the Italian markets

The natural gas market

NATURAL GAS (Million m³)	**Financial year 2020**	**Changes %**
Imports	65,932	(6.9)
Domestic production	3,855	(14.8)
Delivery from storage	11,562	13.6
Total issued	**81,349**	**(4.9)**
Services and domestic use	30,976	(2.4)
Industrial use	13,202	(6.1)
Thermoelectric use	24,428	(5.7)
Exports, third-party networks and system consumption*	2,114	(6.8)
Total demand	**70,721**	**(4.4)**
Injections into storage	10,628	(8.2)
Total drawn down	81,349	(4.9)

** includes linepack variation, losses, consumption and unaccounted for gas*

On the demand side, natural gas consumption in 2020 came down, inverting the upward trend of 2019, recording 70,721 million m³ (-4.4% compared to 2019)[32]. The reduction in consumption was mainly concentrated in the first half of the year, more especially in the months of national lockdown to counter the unexpected health emergency. There was a gradual recovery during the second half, which partially eased the annual reduction.

These vicissitudes caused a generalised drop in various sectors, primarily in the industrial, 24,428 million m³ (-6.1%) and thermoelectric, 13,202 million m³ (-5.7%), whereas consumption in the civil sector, albeit at its lowest levels, had a more mitigated effect at 30,976 million m³ (-2.4%). Gas exports also touched on historic lows, at -6.8% for a total of 2,114 million m³.

A consistent contraction was also seen on the supply side. Imports came down by 6.9%, for a total of 65,932 million m³, with a net drop in imports via gas pipelines (28,295 million m³ and -5%), in particular, in the flows coming from Northern Europe at Passo Gries. A reversed trend was seen in the positive performance (+18%) of imports from Algeria to Mazara del Vallo (TP). Of note, the start of operations of the new TAP gas pipeline in November with point of entry at Melendugno (LE).

The drop in imports resulted in higher storage levels, which increased to record levels (+13.6%), at 11,562 million m³. On the contrary, injections into storage systems at 10,628 million m³ (-8.2%) were at their lowest levels since 2015.
The downward trend in domestic production continued, reaching a new historic low at 3,855 million m³ (-14.8%)[33].

Two new interesting developments in 2020 in the gas spot markets (MP-GAS) managed by the GME (Gestore Mercati Energetici - Energy Markets Operator):

[29] GME Newsletter January 2021
[30] GME Newsletter January 2021
[31] The TTF (Title Transfer Facility) is the natural gas trading hub of reference at European level
[32] GME Newsletter January 2021
[33] GME Newsletter January 2021

- the start of the System Gas Procurement (Approvvigionamento Gas di Sistema) segment in the scope of the day-ahead market (MGP-GAS) and intraday market (MI-GAS), where the party responsible for balancing procures the resources needed to operate the gas system, implementing Resolution 451/2019/R/Gas;
- the introduction of the weekend product within the day-ahead market (MGP-Gas) on a continual negotiation basis, with delivery on Saturday and Sunday. [34]

Trading reached new highs within this new structure, at 113 TWh (+43% compared to 2019, with a peak in April), sustained by the significant increases in trades on both the MGP-Gas (Day Ahead Market, +22%), and the MI-Gas (Intraday Market).[35]

The gas distribution sector is still in a preparatory stage with regard to the MTA bidding. The tenders issued are still few compared to those initially provided for in the calendar of the Ministry of Economic Development. At the end of 2020 the situation was:

- 12 ATEMs with calls for tenders published with restricted procedures still active: Monza Brianza 1, Varese 2, Verona 2, Lodi 1, Varese 3, Vicenza 3, Vicenza 4, Bergamo 2, Milan 4, Milan 3, Potenza 2, Prato;
- 1 ATEM with call for tenders published with open procedure still active: Rimini;
- 14 ATEMs with calls for tenders revoked, cancelled, suspended: Cremona 2 and 3, Alessandria 2, Turin 3, Udine 1, Perugia 2, Massa Carrara, Biella, Udine 3, Venice 1, Lucca, Monza and Brianza 2, Como 1, Bergamo 3, Brescia 1;
- 7 ATEMs with calls for tenders published with open procedures expired: Belluno (awarded to Italgas, contract signing suspended due to recourse to the Regional Administrative Court), Milan 1 (awarded to Unareti Gruppo A2A subsequently cancelled by the Regional Administrative Court), Turin 2 (awarded to Italgas), Aosta (awarded to Italgas), Udine 2 (bid submitted by AcegasApsAmgas spa and 2I Rete Gas), Turin 1, Naples 1 (bid submitted by Italgas and 2I Rete Gas).

With regard to the tariff regimen, the V Regulatory period began with the publication of Resolution ARERA 570/2019/R/GAS in December 2019; in line with the previous one, during the first tariff year of the fifth regulatory period, distribution and metering tariffs will be applied according to the basic principles, whereby the revenue components related to remuneration and depreciation /amortisation are determined on the basis of the annual updating of the net invested capital (RAB), taking into account investments (net) realised in the year t-1.
In respect of the remuneration rate for invested capital (WACC) for natural gas distribution and metering, the relevant determination and updating criteria for the period 1 January 2016 - 31 December 2021 were set by Resolution 583/2015/R/com; Resolution 570/2019/R/gas stipulated a single value of 6.3% for both services for 2020 and 2021.

The market for electricity and renewable energy sources

In 2020, the demand for electricity fell by over 5%, recording 302.8 TWh (compared to 319.6 Twh in 2019).

Electricity Balance Sheet (TWh)[36]			
Electricity (TWh)	**Financial year 2020**	**Financial year 2019**	**Changes %**
Net production (of which):	273.108	283.950	(3.8)
- Thermoelectric	175.376	187.317	(6.4)
- Hydroelectric	47.990	47.590	0.8
- Photovoltaic	25.549	23.320	9.6
- Wind	18.547	20.034	(7.4)
- Geothermal	5.646	5.689	(0.8)
Net import/export balance	32.200	38.141	(15.6)
Pumping consumption	2.557	2.469	3.6
Total demand	**302.751**	**319.622**	**(5.3)**

**Total demand= Net production + Foreign balance – Pumping consumption.*

[34] GME Newsletter January 2021
[35] The gas Day Ahead Market (DAM-GAS) and the Intraday Market involve two successive stages; in the first stage the negotiations are carried out according to the continual negotiation method, in the second stage according to the auction method. On the DAM-GAS, offers for the purchase and sale of gas are selected in relation to the calendar gas-day subsequent to that on which the auction trading session ends. On the MI-GAS, offers for the purchase and sale of gas are selected in relation to the same gas-day when the trading session occurs.
[36] Terna – Monthly Report on the Electrical System (December 2020)

Total net production intended for consumption[37], albeit down by 3.8%, with 270.6 TWh, met 89.4% of the domestic electricity requirement (in line with the value for 2019).
An increase was recorded in the hydroelectric component, with 47.99 TWh in 2020, increasing by 0.8% compared to the previous year, and in the photovoltaic component, with 25.55 TWh up by 9.6% compared to 2019. The other components recorded a downward trend: thermoelectric production with 175.38 TWh (-6.4%), wind production with 18.55 TWh (-7.4%) and geothermal with 5.65 TWh (-0.8%).
The net import/export balance came down significantly by 15.6%, losing 5.94 Twh compared to the previous year, with a value of 32.20 TWh.

The energy efficiency market

The twenty-first Conference of the Parties in Paris (COP21) in 2015, marked the moment when the world became actively concerned about the risks arising from climate change. The international commitment undertaken in Paris was then affirmed at COP24 in 2018, when 196 countries signed an implementation regulation (Rulebook), with the rules for monitoring future action plans. The Madrid climate conference (COP25), held at the beginning of December 2019, had the objective of aligning the interests of the countries as regards a number of crucial issues for the effective application of the COP21 agreement, such as the regulation of the carbon market. This agreement was not reached and all decisions on the subject were deferred to the COP26 in Scotland, which was not held in 2020 however due to the pandemic, and has been rescheduled for November 2021.

At European level, focus concentrated on decarbonisation, and as envisaged in the long-term strategic vision (28/11/2018 - COM (2018) 773), the European Union's target is to achieve carbon neutrality by 2050[38]. In this regard, at the start of 2020, the European Commission promoted the Green Deal, a package of measures aimed at transforming Europe into the first continent with zero climate impact: this refers to a roadmap to make the EU economy sustainable and reduce emissions to zero by 2050. A roadmap has been drawn up for the first two years, and a series of regulations will be issued to transform this political commitment into law.
In this context, Italy has submitted its proposed "*Integrated National Plan for Energy and Climate"* (PNIEC) based on which it intends radically transforming the economy, making it more respectful of people and the environment; the PNIEC sets out Italy's 2030 targets in the scope of energy efficiency, renewable sources and the reduction of CO_2 emissions. The Plan underlines the importance of energy security and a single energy market, providing concrete solutions to be implemented. The main objectives of the Plan are: acceleration of the decarbonisation process, investment in renewables, promoting energy efficiency in all sectors, the electrification of consumption, more specifically in the civil and transport sectors. The implementation of the Plan will be based on legislative decrees incorporating the European Directives on energy efficiency, renewable sources and the electricity and gas markets.

With regard to the targets for 2011-2020, detailed in the 2017 Energy Efficiency Action Plan (PAEE), namely the document prepared at the request of the European Commission, setting out Italy's pathway towards cutting energy demand, more than 77% of the final target in energy savings was achieved in 2019 (approximately 12 Mtep/year).

Risparmi energetici annuali conseguiti per settore nel periodo 2011-2019 e attesi al 2020 *(final energy, Mtep/year) under the terms of the PAEE2017*[39]

Sector	White certificates	Tax deductions	Thermal Account	Business 4.0	Italian Legislative Decree 192/05 and 26/6/15	Other*	Energy savings: Achieved in 2019	Energy savings: Expected at 2020	Target achieved (%)
Residential	0.75	3.11	0.14	-	1.63	0.04	5.67	3.67	154.4
Tertiary	0.16	0.03	0.05	-	0.08	0.04	0.36	1.23	29.4
Industry	2.21	0.04	-	0.51	0.15	0.24	3.16	5.10	61.9
Transport	0.01	-	-	-	-	2.77	2.77	5.50	50.4
Total final energy	**3.13**	**3.19**	**0.19**	**0.51**	**1.86**	**3.09**	**11.96**	**15.50**	**77.2**

** includes the energy savings deriving from the Structural Funds, PIF, Marebonus, Community Regulations and High Speed*

[37] Total net production intended for consumption = Total net production – Pumping consumption.
[38] Enea Annual Energy Efficiency Report 2020

[39] Enea Annual Energy Efficiency Report 2020

These energy savings derive for approximately 26% from the mandatory mechanism of white certificates (EECs - energy efficiency certificates) or from the obligatory regime of primary energy saving laid down for electricity and natural gas distributors with more than 50,000 customers.

The legislative and regulatory framework related to the market for energy efficiency certificates (EECs) underwent significant developments in 2019. As regards the mechanism for admission of energy efficiency projects, the Directorial Decree of 30 April 2019 changed the list of admissible energy efficiency projects. At the same time, an Operating Guide was prepared for the presentation of energy efficiency projects, including Sectoral Guides for different markets. In addition, in the Directorial Decree of 9 May 2019 the guidelines were defined for the issue of White Certificates not linked to energy efficiency projects (so-called virtual EECs[40]). The obligated subjects must have at least 30% of real EECs, with respect to the minimum obligation[41], to be able to obtain the issue of virtual EECs[42].

In 2020, the publication of Interministerial Decree of 1 July 2020 updated the list of projects eligible for the White Certificates system. The Decree forms part of the actions to consolidate policies promoting energy efficiency, as required by the Integrated National Plan for Energy and Climate, and precedes the Ministerial Decree that will be issued in coming months, setting the objectives for the White Certificates system for 2021-2024. In Resolution 270/2020/R/efr of 14 July 2020, ARERA approved the revision of the tariff contribution to be paid to distributors that fulfil the energy saving obligations in the context of the EEC mechanism[43].

During 2020, the GSE recognised 1,720,903 million EECs: the trend of total certificates recognised fell by approximately 41% compared to 2019, a year in which approximately 2.9 million certificates were recognised[44]. The average price recorded on the organised market in 2020 rose slightly (+1%), bringing it to € 262/TOE; volumes traded on the TEE market confirm the downward trend that had also characterised 2019, reaching 2,346,464 TOE (-17.8%).

Energy efficiency certificates – cumulative data[45]				
Year	Price (€/TOE)			Volumes traded
	Weighted average	Minimum	Maximum	(TOE)
2020	262.26	256.50	268.00	2.346464

On the subject of sustainable mobility, in a context where the registration of traditional vehicles in the last 9 months of 2020 came down by 34% compared to the same period the previous year, electric mobility is experiencing a counter trend. Registrations of electric vehicles (BEV and PHEV) grew by more than 150% over the timeframe in question, with almost 30 thousand electric vehicles registered in the first 9 months of 2020[46].

Playing a determining role in the significant growth of the electric car market in Italy were the incentives provided to purchase these cars (Ecobonus), the increase in the number of electrified models offered by car manufacturers and the additional growth of public access recharging infrastructure for electric vehicles.

There were over 16,000 recharging infrastructure units in August 2020 (+20% compared to the end of 2019)[47]. This growth was supported by the implementation of numerous projects by many utilities also through agreements with public administrations and industrial partnerships with car manufacturers and other entities linked to the mobility sector.

Once again in the context of mobility, the trends identified in the Smart Mobility Report that characterised 2020, include sharing and self-driving, as well the Vehicle-Grid Integration: the first recharging platforms to use dual direction energy flows from the grid to the vehicle and vice versa, and allowing the car battery to be used as a storage system.

[40] Energy Efficiency Certificates purchasable at € 260 within the last day of the year. These certificates do not represent a real and proper energy efficiency project, therefore they are called 'virtual' and offer operators the opportunity to fulfil their obligations to save primary energy.
[41] The minimum obligation is 60% of the White Certificates that constitute the obligation of the year “n”.
[42] GSE Annual White Certificates Report 2020
[43] GSE Annual White Certificates Report 2020
[44] GSE Annual White Certificates Report 2020
[45] GSE Annual White Certificates Report 2020
[46] Smart Mobility Report Energy & Strategy Group
[47] Smart Mobility Report Energy & Strategy Group

The mobility Bonus, provided under the Relaunch Decree of May 2020, providing incentives for the purchase of more sustainable means of transport, has driven the development of the micromobility market (motorised kick scooters and electric bicycles) and established new players, mainly in the form of start-ups[48].
Finally, the larger cities have seen a significant increase in the sharing of electric vehicles such as bicycles, kick scooters and scooters.

The telecommunications and digital services market

In the first nine months of 2020, the Telecommunication sector recorded a loss of € 1.10 billion, due mainly to the drop in revenue from the landline network (-497 million), and mobile network (-607 million).[49] One of the main factors contributing to this loss was the reduction in roaming traffic caused by the pandemic on the flows of foreign visitors entering and leaving Italy, as well as intense competition on the mobile front.

If on the one hand, the pandemic will be remembered negatively as one of the most serious economic, social and health crises in history, on the other, it has also profoundly accelerated the digitilisation process, with the contribution of the 5G infrastructure roll-out.
Ericsson has estimated that by the end of 2020, over one billion people, 15% of the world population, will be living in an area covered by 5G, whereas 220 million will be mobile 5G subscribers (the same report estimates 3.5 billion 5G subscriptions by 2026).[50]

The 5G trials ended in Italy in June 2020. The roll-out of 5G networks in Italy is currently lower when compared to other European countries, held back by a lack of infrastructure and compatible devices, as well as problems relating to setting up networks. For now, this type of network is already being used in Italy, especially in the North and more specifically in the Milan area[51].

ICT companies have shown their resilience in the face of the challenges posed by the crisis over the last year. According to data collected by Assintel, in the first nine months of the year, almost half of these companies were able to manage these difficulties, with 18.5% even growing their turnover.

With regard to the landline network, AGCOM has recorded an annual negative variation in accesses of 2.0%, down by 391,000 lines, for a total of 19.43 million. The aforementioned amount refers for the most part to accesses via FTTC (Fibre with a mixed copper network), whereas 39.1 % referred to accesses via copper, 7,4% via FWA (Fibre on fixed wireless access) and 8.1% on FTTH. Accesses via the copper network continue to decrease, recording -10.4% drop compared to September 2019, negative performance which goes contrary to the other sources (FTTC, FWA and FTTH recorded upward trends).[52]

Broadband accesses exceeded 17.8 million units, increasing by 374 thousand units on an annual basis. At the same time, ADSL lines lost 19.5%, with a drop of 1.46 million accesses, bringing down the number of lines to just over 6 million.

A single national network project was launched in 2020. In August, Tim accepted an offer from the American fund Kkr Infrastructure, to enter the newco FiberCop with a 37.5% stake for € 1.8 billion. Tim holds the majority stake in the company with 58%, whereas the remaining 4.5% is held by Fastweb. The secondary Tim network and fibre network developed by FlashFiber were transferred to FiberCop, with the intention of accelerating the move of customers from copper to fibre.[53] The merger between FiberCop and Open Fiber will produce the newco AccessCo, where at least 50% of the capital will be held by Tim. The independence and impartiality of AccessCo will be guaranteed by a shared governance mechanism with Cdp Equity[54].

With regard to mobile telephony, if all SIM are considered, at 30 September 2020, Vodafone was the leading operator in terms of market share (29.1%), followed by TIM (29%) and Windtre (26.1%). The latter two

[48] Smart Mobility Report Energy & Strategy Group
[49] AGCOM, Communications Observatory – COVID-19 Monitoring, no.1/2021
[50] Ericsson, Ericsson Mobility Report 2020
[51] 5G Map - https://www.speedtest.net/ookla-5g-map
[52] AGCOM, Communications Observatory no.4/2020
[53] Corcom - Launch of FiberCop: Tim accepts the Kkr offer of 1.8 billion
[54] Corcom - Go ahead for AccessCo, the Tim-Open Fibre newco. “Open” company with shared governance

recorded negative performance however. Of note, the continued growth of the French operator Iliad, who only entered the Italian market in 2018, but has already become the fourth established operator in Italy.[55]

Total active SIMs in Italy have risen to 104.1 million. This growth was sustained by the confirmed increase (+11.9% on an annual basis) of “M2M” SIMs[56], which reached 26.3 million. Whilst remaining the most prevalent at 77.8 million, “Human” SIMs continued their downward trend.[57]

Mobile virtual operators (MVO) at the same date, confirmed significant growth at 9.3% of the market share per number of total SIMs (9.68 million out of 104.1 million) and 12.3% of the total Human SIMs (9.57 million out of 77.8 million). A trend that is confirmed on the uptake despite the calculation not including the three mobile virtual operators Kena Mobile, ho. and Very Mobile, the MVOs of TIM, Vodafone and Windtre respectively.

Observing the trend of data traffic on an annual basis, the number of SIM cards with access to the Internet once again rose by 2.7%, reversing the downward trend characterising the previous year (56.9 million units in 2020 compared to 55.4 million in 2019). Traffic volumes also rose significantly, at +52.4% compared to the first nine months in 2019[58].

The environment market

The environment market is characterised by a high degree of complexity and managerial heterogeneity. The waste sector is made up of two main segments: Municipal Waste (MW) of domestic origin and Special Waste (SW) mainly from productive activities. The municipal and special waste chains include different stages: from the collection/pick-up and transport to recycling, treatment, recovery and disposal. Waste sector operators can operate in one, several or all the chain stages.

With regard to the municipal waste market, the country is organised into 57 Optimal Territorial Areas (OTAs), with Regions that have opted for a regional OTA and in others the size of the areas varies from the provincial to the sub-provincial scale.

The most recent available data on the situation in Italy shows that in 2019, approximately 30 million tons of urban waste was generated in Italy, slightly down on the amount in 2018 (-0.3%). Increases were only recorded in northern Italy (+0.5), with almost 14.4 million tons of waste, decreases were noted in Central Italy (-0.2%) with around 6.6 million tons and in the South (-1.5%) with 9.1 million tons.

In 2019, there were 658 municipal waste management plants operating in Italy: 355 in the North, 121 in Central Italy and 182 in the South. 345 are dedicated to treatment of the organic fraction of separate collection, 130 for the mechanical or biological treatment of waste, 131 landfill sites, with the addition of 37 incineration and 15 industrial plants that incinerate municipal waste[59].

Over the years, the increase in separate waste collection has resulted in a growing demand for new treatment plants, especially for the organic fraction; not all regions have sufficient structures to treat the quantities produced.
Over the last few years, the number of processing plants has increased with respect to landfills, in line with the European guidelines to replace dumping in landfills with the recovery of material and energy, contained in the Circular Economy Package, which also sets the target of 65% of separate collection by 2035[60].

In 2019, 50% of the waste produced and collected separately was sent to material recovery plants; full recycling, including the outgoing portion from mechanical and mechanical biological plants stood at 53.3% and referred to the following fractions: organic, paper and cardboard, glass, metal, plastic and wood.

21% of municipal waste is disposed of in landfills, the equivalent of almost 6.3 million tons, coming down by 3.3% compared to 2018. Only Central Italy recorded an increase (+19.4%), whereas consistent decreases in the use of landfills were recorded in the South (-15.2%), due mainly to the improved separate waste

[55] AGCOM, Communications Observatory no.4/2020
[56] Machine to machine, referring to SIM cards dedicated exclusively to data traffic, with limited or no human interaction.
[57] AGCOM, Communications Observatory no.4/2020
[58] AGCOM, Communications Observatory no.4/2020
[59] Press release Ispra Municipal Waste Report publication edition 2020
[60] Directive 2018/851/EU

collection in these areas. There were no significant changes in the North (-0.9%). In general terms, recourse to landfills has decreased over the last ten years by 58.2%, going from 15 million tons to around 6.3.

18% of municipal waste produced is incinerated, with this figure increasing by 1.4% compared to 2018. Of the 37 plants that are operational, 70.3% are located in the North, in particular in Lombardy and Emilia Romagna[61].
The current situation requires that improvements to the management system are accelerated, especially in certain areas of Italy (regarding waste treatment, only the North is at an advanced stage, maximising the recovery of materials and energy, thanks to the widespread availability of plants) in order to achieve the new challenging targets required by European legislation. Disposal at landfill sites needs to be halved over the next 15 years, the percentage of waste forwarded to material recovery treatments must increase significantly to ensure the targets of 60% for recycling by 2030 and 65% by 2035 are achieved[62].

Separate waste collection increased again in 2019: (+3.1% compared to 2018), to reach 61.3% of domestic production; the percentage has doubled since 2008. In absolute terms, separate waste collection is at 18.5 million tons, increasing by 913 thousand tons compared to 2018 (17.5 million tons). In the North, separate waste collection represents 69.6% of the total production of municipal waste, 58.1% in Central Italy and 50.6% in the South. Compared to 2018, the percentage of separate waste collection in the Southern regions grew by 4.5 points, in the central regions by 3,8 points and in the Northern regions by 1.9 points. For the first time, the South surpassed 50% of separate waste collection, confirming the upward trend of recent years[63].

In 2019, there were 8 regions that surpassed the 65% target set for separate waste collection: Veneto (74.7%), Sardinia (73.3%), Trentino Alto Adige (73.1%), Lombardy (72%), Emilia Romagna (70.6%), Marches (70.3%), Friuli Venezia Giulia (67.2%) and Umbria (66.1%).
Focusing on the region of Tuscany, based on data from the latest ISPRA Municipal Waste Report, in 2019, the region had achieved 60.2% in separate waste collection, with this figure rising consistently in recent years.

There are 45 municipal waste treatment and disposal plants in Tuscany, with this remaining practically unchanged over the last few years.

With regard to the Special Waste segment in Italy, the most recent data available in the 2020 edition ISPRA Municipal Waste Report refers to 2018. Figures show that production increased by 3.3% on the previous year (approximately 4.6 million tons), to reach over 143 million tons. Non-hazardous waste, representing 93% of the total produced, increased on the previous year by over 4 million tons (+3.3%), whereas hazardous waste increased by 376 thousand tons (+3.9%). Northern Italy produced almost 84.9 million tons (59.2% of the total domestic figure). Production in Central Italy was at 25.1 million tons (17.5% of the total), and in the South at 33.4 million tons (23.3%).

Among the economic activities that contribute most to the production of special waste, the construction and demolition sector is confirmed as the highest with over 60 million tons (42.5% of the total), followed by waste processing and reclamation activities (over 38 million tons produced accounting for 26.5% of the total) and manufacturing activities producing 28.6 million tons at just over 20% of the total. Other economic activities account in total for 11% of the total of special waste produced (15.8 million tons)[64].

In respect of special waste management activities (data relating to 2018 update in ISPRA Special Waste Report 2020 edition), this exceeds 152 million tons, of which 143 is non-hazardous (93.7% of the total managed) and the remaining 9.6 million is hazardous (6.3% of the total managed). There was a 3.7% increase in the overall waste managed compared to the previous year; in particular, just over 4 % was sent for recovery treatment and 4.5% for disposal.
The recovery of materials is prevalent at 67.7% (103.3 million tons). Disposal operations represent around 19.3% (30.7 million tons), whereas other management forms include co-incineration (1.3%), incineration (0.8%) and storage (10.9%). The North recovers more than half of the total waste managed overall at national level (53%).

[61] Press release Ispra Municipal Waste Report publication edition 2020
[62] "ISPRA Rapporto Rifiuti Urbani 2020" (2020 Municipal Waste Report)
[63] Press release Ispra Municipal Waste Report publication edition 2020
[64] Press release ISPRA Special Waste Report

There are a total of 10,813 special waste management plants (data referring to 2018), of which 6,232 in the North, 1,880 in Central Italy and 2,701 in the South. Lombardy has 2,138 infrastructures, accounting for around 19.8% of total plants in Italy. There are 4,425 plants dedicated to the recovery of materials (41% of the total)[65].

With regard to Tuscany, in 2018, regional production of special waste was at around 9.8 million tons, 6.8% of the national total. 95.3% (9.3 million tons) refers to non-hazardous waste and the remaining 4.7% (456 thousand tons) to hazardous waste.
The main types of waste produced consist of waste from construction and demolition operations (37.6% of total regional production) and waste deriving from the processing of waste and waste water (34.7%).

Despite the reduction in the total number of plants (837 in 2017 to 703 in 2018), Tuscany remains the region with the highest concentration of plants compared to other regions in central Italy, (around 37% of the infrastructure assets in the macro-area)[66].
Finally, in the environmental reclamation segment, 41 Sites of National Interest (SNIs) are operational at national level, and more than 20 thousand Sites of Regional Interest (SRIs) are active[67]. In Tuscany, there are 4,499 sites involved in reclamation procedures, of which 2,021 with procedures closed, 449 certified for completed reclamation, while 2,029 sites involved in reclamation procedures are active with a total area of 11,282 ha[68]. The contamination of the sites involved derives mainly from industrial activities, waste management and disposal and fuel distribution.

On a regulatory level, four legislative decrees were published in 2020, which incorporate the EU directives issued in 2018, and are included in the "Circular Economy Package":
- Italian Legislative Decree No. 119/2020 Incorporating Article 1 of EU Directive 2018/849 on end-of-life vehicles, batteries and accumulators and relative waste and on EEE and WEEE;
- Italian Legislative Decree No. 118/2020 Incorporating Articles 2 and 3 of EU Directive 2018/849 on end-of-life vehicles, batteries and accumulators and relative waste and on EEE and WEEE;
- Italian Legislative Decree 121/2020 Incorporating EU Directive 2018/850 on soil exploitation for the disposal of waste in landfill sites;
- Italian Legislative Decree 116/2020 Incorporating EU Directive 2018/851 on the management and tracing of waste and EU Directive 2018/852 on waste from packaging.

Special attention needs to be paid to Italian Legislative Decree 116/2020 referring to waste management. This provides for a fundamental reform of the system of extended producer responsibility (for goods), specifically identifying responsibilities, duties and roles, and incentivising the planning of products with the aim of reducing the production of waste and impact on the environment. To enforce compliance with these obligations, it also established a "National Producers Register". Another new important aspect introduced by Italian Legislative Decree 116/2020 is the establishment of a National Electronic Register to Trace Waste. Finally, on the subject of waste definition and classification, Italian Legislative Decree 116/2020 also amends and introduces new definitions for municipal waste and composite packaging.

6. ALTERNATIVE PERFORMANCE MEASURES

The ESTRA Group uses alternative performance measures (APMs) in order to transmit more effectively information on trends in the profitability of the businesses in which it operates, and on its capital and financial situation.

For a correct interpretation of these APMs we can note the following:
(i) these measures are made up exclusively starting from the Group's historical data and are not indicative of the Group's future performance;
(ii) the APMs must not be considered as replacements for the measures provided for in the accounting standards of reference (IFRSs);

[65] Press release ISPRA Special Waste Report
[66] ISPRA Special Waste Report 2020 edition
[67] Statues of reclamation procedures February 2021 – Ministry of the Environment
[68] Annuario dei dati ambientali (Environmental Data Yearbook) ARPAT 2020

(iii) the definitions of the measures used by the Group, as they do not come from the accounting standards of reference, may not be the same as those adopted by other companies and may therefore not be comparable with them.

In accordance with the guidelines published on 5 October 2015 by the European Securities and Markets Authority (ESMA/2015/1415), the content and the criterion for determining the APMs used in the present financial statements are explained below.

Economic alternative performance measures

- The income components are classified among **Non-Recurring Items**, if significant, when (i) they derive from events or operations whose occurrence is non-recurring, or from operations or events that do not reoccur frequently in the normal course of the activity, under the terms of CONSOB Resolution number 15519 of 27 July 2006 or (ii) they derive from events or operations not representative of the normal business activity, as in the case of expenses connected with the measurement or disposal of assets and extraordinary financial expenses consequent to redemption and/or early repayment, even if these occurred in previous years or are likely to occur in subsequent ones.
- **Total Revenues** are calculated adding together “Revenues from sales and services” and “Other operating revenues” indicated in the Group’s consolidated income statement.
- **Total Adjusted Revenues** corresponds to Total Revenues, defined above, adjusted to exclude non-recurring revenues as defined above.
- **External costs**, calculated adding together costs for “consumption of raw and ancillary materials and goods”, “Costs for services”, “Costs for the use of third-party assets” and “Other operating costs” indicated in the Group’s consolidated income statement.
- **Adjusted External Costs** corresponds to External Costs, defined above, adjusted to exclude Non-recurring items as defined above.
- The **gross operating margin or EBITDA** is a measure of operating performance and is calculated adding to the Net profit, deriving from Estra’s consolidated financial statements, the “net profit/(loss) of discontinued operations, “income tax for the year”, the result of “measurement of equity investments at shareholders’ equity”, “gains and losses on exchange rates”, “financial expenses”, “financial income” and “depreciation, amortisation, provisions and impairment losses”, deriving from the Group’s consolidated financial statements.
- **Adjusted EBITDA** corresponds to EBITDA, defined above, adjusted to exclude significant non-recurring revenues and costs as defined above. This parameter is not identified as an accounting measure in the context of the EU-IFRSs and therefore the determination criterion applied by the Group may not be the same as that adopted by other groups. This measure is used as a financial target in internal presentations and in external ones (to analysts and investors) and represents a measure useful for assessing the Group’s operating performance (as a whole and at the business unit level), also through a comparison of the operating profit of the period of reference with that of previous periods. This makes it possible to carry out analyses on the trends and compare the efficiencies achieved in the periods.
- **Adjusted EBIT** corresponds to the Operating result, coming from the Group’s consolidated financial statements, adjusted to exclude significant non-recurring revenues and costs as defined above. This parameter is not identified as an accounting measure in the context of the EU-IFRSs and therefore the determination criterion applied by the Group may not be the same as that adopted by other groups.
- **Adjusted Net profit** corresponds to the Net profit coming from the Group’s consolidated financial statements, adjusted to exclude significant non-recurring revenues and costs as defined above. This parameter is not identified as an accounting measure in the context of the EU-IFRSs and therefore the determination criterion applied by the Group may not be the same as that adopted by other groups.

Financial alternative performance measures

- **Fixed assets** are determined as the sum of: property, plant and equipment, intangible assets and goodwill, equity investments and other non-current financial assets.

- **Other non-current assets and liabilities** consist of the sum of the items “other non-current assets/liabilities”, deferred tax assets/liabilities”, “post-employment benefits” and “provisions for risks and charges”.
- **Net trade working capital** is defined by the sum of: inventories; trade receivables and payables.
- **Other current assets and liabilities** consists of the sum of the items“tax receivables/payables”, “other current assets/liabilities”
- **Net invested capital** is determined by the algebraic sum of “fixed assets”, “non-current assets/liabilities”, “net trade working capital” “other current assets/liabilities” and “assets held for resale”. This measure is used as a financial target in internal presentations (business plans) and in external ones (to analysts and investors) and represents a measure useful for assessing all the Group’s current and non-current operating assets and liabilities, as detailed above.
- **Net Financial Position** is a measure of the financial structure. This measure is therefore determined as the sum of the following items: cash and cash equivalents, portion within 12 months of m/l-term loans, portion beyond 12 months of m/l-term loans, short-term financial payables, other current financial assets/liabilities (such as receivable and payable financial instruments). This measure is used as a financial target in internal presentations (business plans) and in external ones (to analysts and investors) and represents a measure useful for assessing the Group’s level of financial debt, also through a comparison with previous periods. This makes it possible to carry out analyses on the trends and compare the efficiencies achieved in the periods.
- **Capital raised** is obtained from the sum of the net financial position and shareholders’ equity. This measure is used as a financial target in internal presentations (business plans) and in external ones (to analysts and investors) and represents the division of the sources of financing between own and third-party funds and is an indicator of the Group’s financial independence and solidity.

Financial and capital indices and ratios

- The solvency ratio is defined as the ratio between total non-current assets and total assets.
- The elasticity ratio is defined as the ratio between total current assets and total assets.
- The availability ratio is defined as the ratio between total non-current assets and total current assets.
- The Net Financial Debt / Equity ratio is the ratio between the net financial position and consolidated shareholders’ equity.
- The Net Financial Debt / Adjusted EBITDA ratio is the ratio between the net financial position and Adjusted EBITDA. The NFP/EBITDA index, shown as a multiple of EBITDA, is used as a financial target in internal presentations (business plans) and in external ones (to analysts and investors) and represents a measure of the ability of the operating activities to remunerate the net financial debt.
- The short-term ratio is the ratio between Current Financial Debt and Net Financial Debt.
- The long-term ratio is the ratio between Non-Current Financial Debt and Net Financial Debt.

Rotation indices

- Days sales outstanding are defined as the ratio between Trade receivables and Revenues from sales and services, multiplied by the days of the period of reference.
- Days payable outstanding are defined as the ratio between the sum of Trade payables and the sum of the consumption of raw and ancillary materials and goods, Costs for services, Costs for the use of third-party assets and Other operating costs, multiplied by the days of the period of reference.

Economic performance indices and ratios

- The EBITDA margin is calculated as the ratio between Adjusted EBITDA and Total Adjusted Revenues.
- ROE, that is Return On Equity, is the ratio between net profit and shareholders’ equity and is expressed as a percentage. This indicator is used as a financial target in internal presentations (business plans) and in external ones (to analysts and investors) and is intended to measure the profitability obtained by the investors in exchange for risk.

- ROI, that is return on net invested capital, is the ratio between operating profit and net invested capital and is expressed as a percentage. This indicator is used as a financial target in internal presentations (business plans) and in external ones (to analysts and investors) and is intended to measure the ability to produce wealth through operating activities and therefore to remunerate own funds and those of third parties.

7. BUSINESS PERFORMANCE – ECONOMIC DATA

The 2020 financial year shows significant growth compared to the corresponding period of the previous year.

With regard to the comparative data, balances at 31 December 2019 were restated to reflect the effects of Note 7.2 "Restatement of Acquisitions in 2019" in the Notes, to which reference is made for further details.

The main income data for the financial years ended 31 December 2020, 2019 restated and 2019 are shown in the table below:

Income Statement (amounts in thousands of euro)	Year ended 31 December					
	2020		2019 Restated		2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Total Revenues	**762,350**	**100%**	**996,922**	**100%**	**996,922**	**100%**
External consumption	(619,557)	(81%)	(864,594)	(87%)	(864,594)	(87%)
Personnel costs	(39,230)	(5%)	(39,348)	(4%)	(39,348)	(4%)
Income/(expenses) from commodity risk management	(1,205)	-	3582	-	3582	-
Portion of income/(expenses) from measurement of non-financial investments using the equity method	671	-	679	-	679	-
Gross operating margin (EBITDA)	**103029**	**14%**	**97,240**	**10%**	**97240**	**10%**
Amortisation and write-downs	(48,024)	(6%)	(46,971)	(5%)	(47,693)	(5%)
Provisions	(13,224)	(2%)	(11,744)	(1%)	(11,744)	(1%)
Operating result	**41,781**	**5%**	**38525**	**4%**	**37,803**	**4%**
Financial management	(9,662)	(1%)	(10,552)	(1%)	(10,552)	(1%)
Profit before taxes	**32,119**	**4%**	**27,973**	**3%**	**27,251**	**3%**
Income taxes for the year	38,167	5%	(10,306)	(1%)	(10,343)	(1%)
Net profit/(loss) from continuing operations	**70,286**	**9%**	**17667**	**2%**	**16,908**	**2%**
Net profit/(loss) from discontinued operations / assets held for sale	-	-	(208)	-	(208)	-
Net profit	**70,286**	**9%**	**17,459**	**2%**	**16,700**	**2%**
Profit/(loss) of non-controlling interests	111	-	72	-	72	-
Group profit/(loss)	70,175	9%	17,387	2%	16,628	2%

The table below illustrates the Adjusted Consolidated Revenues, Adjusted EBITDA, EBITDA and Operating Profit (EBIT), for the financial years ended 31 December 2020, 2019 Restated and 2019:

Income Statement (amounts in thousands of euro)	ADJUSTED Year ended 31 December					
	2020		2019 Restated		2019	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Total Revenues	**760,683**	**100%**	**985,784**	**100%**	**985,784**	**100%**
External consumption	(614,193)	(81%)	(863,663)	(88%)	(863,663)	(88%)
Personnel costs	(39,230)	(5%)	(39,348)	(4%)	(39,348)	(4%)
Income/(expenses) from commodity risk management	(1,205)	-	3582	-	3,582	-
Portion of income/(expenses) from measurement of non-financial investments using the equity method	671	-	679	-	679	-
Adjusted gross operating margin (Adjusted EBITDA)	**106,726**	**14%**	**87034**	**9%**	**87,034**	**9%**
Amortisation and write-downs	(48,024)	(6%)	(44,423)	(5%)	(45,145)	(5%)
Provisions	(13,224)	(2%)	(11,744)	(1%)	(11,744)	(1%)
Adjusted operating result (Adjusted EBIT)	**45,478**	**6%**	**30,867**	**3%**	**30,145**	**3%**
Adjusted financial management	(8,427)	(1%)	(10,552)	(1%)	(10,552)	(1%)
Adjusted gross profit	**37,051**	**5%**	**20,315**	**2%**	**19,593**	**2%**
Adjusted income taxes for the year	(12,451)	(2%)	(8,448)	(1%)	(8,485)	(1%)
Net profit/(loss) from continuing operations	**24,600**	**3%**	**11,867**	**1%**	**11,108**	**1%**
Net profit/(loss) from discontinued operations / assets held for sale	-	-	-	-	-	-
Adjusted net profit/(loss)	**24,600**	**3%**	**11,867**	**1%**	**11,108**	**1%**
Profit/(loss) of non-controlling interests	111	-	72	-	72	-
Adjusted Group profit/(loss)	24,489	3%	11,795	1%	11,036	1%

The Group's consolidated income statement 2020 and 2019 was affected by a number of income components which (i) derive from events or operations whose occurrence is non-recurring, or from operations or events that do not reoccur frequently in the normal course of the activity or (ii) derive from events or operations not representative of the normal business activity, even if these occurred in previous years or are likely to occur in subsequent ones, described below in detail.

The composition of elements defined by the Company's management as non-recurring, unusual or not representative of the normal business activity for the financial years ended 31 December 2020 and 2019 is presented below:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Settlement agreements on sale of Andali Energia S.r.l.	-	(1,547)
Coefficient k - Resolution 32/2019/R/gas of 29/01/2019	-	(7,312)
Changes in recognition of gas distribution security incentives	(507)	(2,279)
Recovery tariff components previous years	(1,160)	
Total non-recurring revenue	**(1,667)**	**(11,138)**
Capital losses on electronic meters	-	932
Redetermination concession fees previous years	(636)	-
Settlement agreement with the Municipality of Prato	6,000	-
Total non-recurring costs and revenues with impact on EBITDA	**3,697**	**(10,206)**
Write-down of property, plant and equipment following impairment test on the Idrogenera plant	-	346
Write-downs of property, plant and equipment gas distribution meters	-	2202
Total non-recurring costs and revenues with impact on Operating Profit (EBIT)	**3,697**	**(7,658)**
Write-downs of equity investment in Sei Toscana	1,235	-
Total non-recurring costs and revenues with impact on Profit before taxes	**4,932**	**(7,658)**
Deferred tax adjustment to recognise gains for tax purposes, pursuant to Law No. 126 of 13 October 2020	(48,989)	-
Cancellation of 2019 IRAP balance and first 2020 advance	(860)	-
Tax effect on non-recurring costs and revenues	(769)	1858
Total non-recurring costs and revenues with impact on Net Result deriving from operating activities	**(45,686)**	**(5,800)**
Adjustment to presumed realisable value of net assets of the subsidiary Useneko	-	208
Total non-recurring costs and revenues connected with discontinued operations / assets held for sale	**-**	**208**
Total non-recurring costs and revenues with impact on Net Result	**(45,686)**	**(5,592)**

In the 2020 financial year, the following non-recurring elements are noted (with a total positive impact on the net result of € 45,686 thousand):

- Higher revenues for security incentives on the gas distribution activity recognised in the 2020 financial year, following the change in the accounting criterion described in the notes to the statements in the comment on the item "other operating revenue" (€ 507 thousand);
- Recovery of tariff components referring to previous years in the natural gas distribution; sector (€ 1,160 thousand);
- Lower operating costs from the redetermination of concession fees for the distribution of natural gas in previous years with the granting Municipalities (€ 636 thousand). Reference is made to the paragraph in the Notes "Disputes with a number of granting Municipalities in the ope legis management stage of the natural gas distribution service";
- Extraordinary expenses resulting from the settlement agreement with the Municipality of Prato, as detailed in the Significant Events of the year (€ 6,000 thousand);
- Write-downs of equity investment in Sei Toscana S.r.l., as detailed in the Notes under the comment on equity investments (€ 1,235 thousand);
- Effects from the adjustment of assets/(liabilities) for deferred tax assets/liabilities recognised on the difference between the value of assets in the consolidated statements and the new amounts recognised for tax purposes at 31 December 2020, resulting from the Group's decision to apply the regulations referring to revaluation and realignment as per Law no. 126 of 13 October 2020 containing the "Conversion into law with amendments of Decree-Law no. 104 of 14 August 2020", as detailed in the Significant events of the year (€ 48,989 thousand);
- Lower income taxes resulting from the cancellation of the 2019 balance and first 2020 IRAP advance payment in terms of Art. 24 of the Relaunch Decree (€ 860 thousand).

The adjustments have a fiscal effect of € 769 thousand (lower income taxes).

The adjustments almost entirely affected the Group's profit.

In the 2019 financial year, the following non-recurring elements are noted (with a total positive impact on the net result of € 5,592 thousand):

- Revenue of € 1,547 thousand from the revision of the sales price for the company Andali Energia S.r.l., sold in 2017;
- Revenue of € 7,312 deriving from Resolution 32/2019/R/gas of 29/01/2019[69];
- Higher revenues for security incentives on the gas distribution activity recognised in the 2019 financial year, following the change in the accounting criterion described in the notes to the statements in the comment on the item "other operating revenue" (€ 2,279 thousand);
- Financial capital losses on the extraordinary elimination of malfunctioning electronic meters of € 932,000;
- Write-downs of property, plant and equipment for impairment of the mini-hydro power station built for the Municipality of Castel San Niccolò (AR) and of electronic meters for gas distribution, of € 346,000 and € 2,202,000 respectively, as described in the paragraph "Impairment testing pursuant to IAS 36 on the value of property, plant and equipment" and "Intangible assets";
- Result achieved by the subsidiary held for sale Useneko in the fraction of the year prior to the sale of € 208,000.

The adjustments have a fiscal effect of € 1,858 thousand (higher income taxes).
The adjustments had an effect only on the Group's profit.

The Group's business model is currently structured on the basis of Strategic Business Units (SBUs) which are attributable to the segments of Sale of gas and electricity, the Regulated Market that includes the Distribution of natural gas and the Distribution and sale of LPG and the "Corporate and Others" SBU, which includes the segments of digital services (telecommunications), energy efficiency (energy services and renewables), waste selection and storage (environment) and corporate services performed by the parent company.
During 2020, the Group restructured the Gas Distribution SBU, with the new name of Regulated Market, which also incorporates the distribution and sale of LPG due to the similarity of the activities carried out, assigning of targets and monitoring of results. Based on the above, the results for the distribution and sale of LPG have been included in the Regulated Market operating segment for the 2020 and 2019 financial years, where they had previously been included under the Corporate and Other SBU.
The gas and electricity sales sector also includes trading activity, carried out both for the purpose of improving the purchase and procurement conditions through the optimisation of the Group's assets (natural gas storage and transport capacity and flexibility of the long-term supply contract) ("Industrial portfolio"), and for the purpose of seizing opportunities for short-term additional profit, within predefined risk limits.
The division into SBUs reflects the reporting used by the Management for the analysis and planning of the businesses managed.

The table below illustrates total adjusted revenues, including revenues from sales and services and other revenues of each business area of the Estra Group for the financial years ended 31 December 2020 and 2019, with an indication of the significance, in percentage terms, compared to the Group's total consolidated revenues.

[69] *Resolution 32/2019/R/gas of 29/01/2019 - Compliance with Council of State Judgement 4825/2016 cancelling the Authority's decision ARG/gas 89/10 – ways to settle economic items between sellers and final customers for the period 2010-2012*. With the aforementioned Resolution, ARERA defined the ways to settle natural gas economic items between sellers and final customers for the period 2010-2012, in compliance with Council of State Judgement 4825/2016. This judgement had cancelled the value of the coefficient K, then in force in the QE formula of the regulated gas tariff, and enabled ARERA to redefine a more consistent value with respect to the arguments of the judgement. The resolution in question provides for the recovery of the necessary amounts, through an indirect mechanism, based on the application of an additional variable component of the distribution tariff to certain categories of customers. The income deriving from this component will be collected by the CSEA and paid in three sessions to the sellers with the right to it, on the basis of a system certifying the gas natural gas volumes withdrawn by the respective final customers in protection in the period considered. As a result of this Resolution, the natural gas sales companies of the Group were granted refunds for a total of € 7,312 thousand, recognised in the item "other operating revenue" of the consolidated financial statements at 31 December 2019.

	Year ended 31 December				Change in the period	
Total Adjusted Revenues (amounts in thousands of euro)	**2020**	**% of Total Adjusted Revenues**	**2019**	**% of Total Adjusted Revenues**	**2020 vs 2019**	**%**
Gas and electricity sales	669,349	88%	892,973	91%	(223,624)	(25%)
Regulated Market	106,418	14%	107,082	11%	(664)	(1%)
Corporate and other business areas	55,930	7%	60,847	6%	(4,917)	(8%)
Adjustments and eliminations	(71,014)	(9%)	(75,118)	(8%)	4,104	(5%)
Total Adjusted Revenues	**760,683**	**100%**	**985,784**	**100%**	**(225,101)**	**(23%)**

At 31 December 2020, the Group had achieved total adjusted revenues of € 760.7 million, decreasing by 23% compared to 2019. The decrease in revenue mainly refers to the Gas and electricity sales SBU, € 223.6 million and in particular, the reduction in revenue in the gas segment, due to:
i) decrease in commodity prices;
ii) reduced sales of natural gas to the PSV;
iii) lower volumes sold due to the milder temperatures especially during the winter months and reduced activity in the production sector over the lockdown period due to the health emergency.

Revenue was slightly down for the Regulated Market SBU (€ -664 thousand), where the entire year's management of the company Murgia Srl acquired in April 2019 was offset by the drop in revenue from the trading in energy efficiency certificates in the lower numbers of securities acquired.

The drop in revenue for the Corporate and Other SBU is attributable to the decrease in activity over the COVID-19 emergency period in the Energy services segment and reduced Parent Company Services revenue from other Group companies from the fall in operating costs.

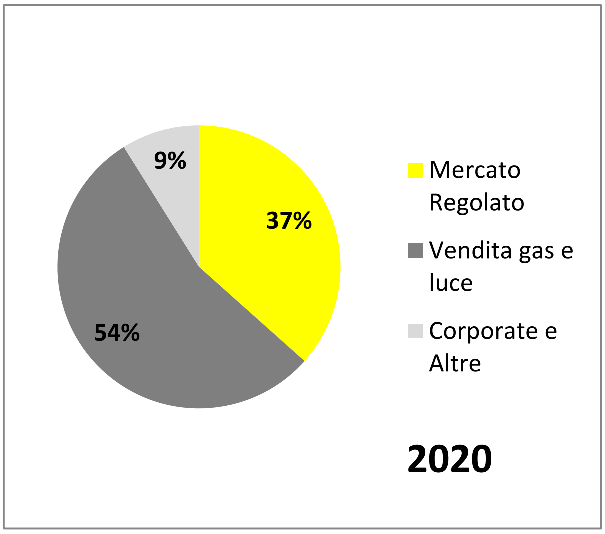
External costs decreased by € 249.5 million (-34%) with the impact on revenues that went from the 88% in 2019 to 81%. The decrease in External costs are primarily due to the lower costs to purchase commodities, and the reduction in commercial, general and administrative costs compared to 2019.
The cost of labour was stable, € 39.2 million in 2020 compared to € 39.3 in 2019. The consolidation of the subsidiary Murgia over the entire year and remuneration increases required by the national Collective Labour Agreement (CCNL) were offset by the reduction in company personnel due to the termination of employment and lower costs for overtime work.

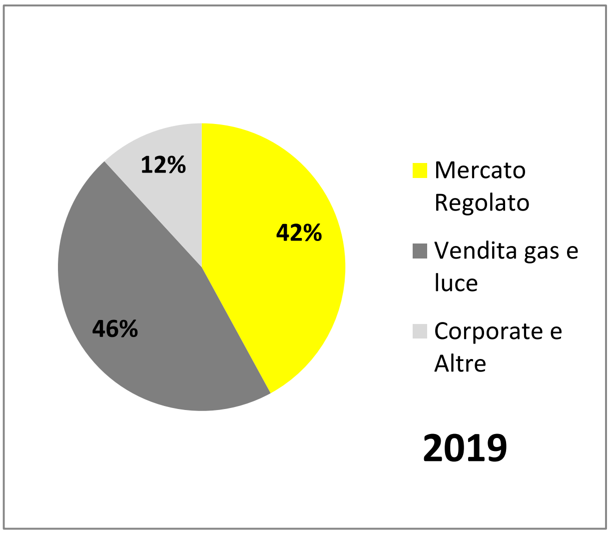
Commodity risk management expenses recorded in 2020 were at € 1.2 million compared to the positive value of € 3.6 million recorded in 2019, mainly attributable to the change in the fair value of commodity swaps used in the gas sales business.

Income from measurement of equity investments of a non-financial nature, € 671 thousand in 2020 (€ 679 thousand in 2019) related to the year result for the company Edma Reti Gas S.r.l.

Adjusted EBITDA was € 106.7 million, with an increase of € 19.7 million (+28%) compared to the € 87.0 million of 2019. The proportion of revenues went up from 9% to 14%.

Details are provided below on the breakdown of EBITDA among the various SBUs for 2020 and 2019, which shows a higher incidence for the Gas and electricity sales SBU, which went from 46% to 54% due to the significant increase in margins in the gas and electricity sales segments.





Depreciation, amortisation and write-downs amounted to € 48.0 million, increasing on the figures for the previous year (€ 44.4 million) from the consolidation of the company Murgia Srl over the entire year, the new investments in networks and gas distribution plants, in FTTH networks for the digital services segment and investments to develop the Group's sales network.
Provisions increased from € 11.7 to € 13.2 million and are mainly attributable to the Sales SBU.

As a result of the above, the Adjusted EBIT went from € 30.9 million in the 2019 Restated to € 45.5 million in 2020 with a positive change of € 14.6 million Euro (+47%).

Financial management had a negative balance of € 8.4 million, improving on the € 10.6 in 2019, due to *i)* the increase in income accrued on current bank accounts based on the higher remuneration on certain restricted amounts up until 31 December 2020 (€ 0.0 million) *ii)* the decrease in interests payable thanks to less average debt in 2020 compared to 2019, as well as the improvement in market rates (€ -1.2 million).
The decrease in financial expenses was partly offset by the lower interest income from customers (€ -0.5 million compared to 2019) for allowing instalment-based payments without interest for customers that had effective difficulty in paying their gas and electricity bills due to the COVID-19 emergency.

Adjusted profit before taxes was at € 37.1 million (€ 20.3 million in 2019).
Income taxes amounted to € 12.5 million with a tax rate of 33.6%, down compared to the 41.6% in the Restated 2019.
Adjusted net profit was € 24.6 million (€ 11.9 million in the Restated 2019).

8. BUSINESS PERFORMANCE - STATEMENT OF FINANCIAL POSITION

The data on the main financial positions at 31 December 2020, Restated 2019 and 2019 is provided below.

8.1 2020 FINANCIAL MEASURES COMPARED WITH 2019

Reclassified Balance Sheet	Year ended 31 December 2020		Year ended 31 December 2019 restated		Year ended 31 December 2019	
(amounts in thousands of euro)	**Amount**	**Proportion**	**Amount**	**Proportion**	**Amount**	**Proportion**
Intangible fixed assets	480,513	70.3%	481,375	76.8%	477,241	76.2%
Property, plant and equipment	105,341	15.4%	10,7327	17.1%	109,570	17.5%
Equity investments and non-current financial assets	39,777	5.8%	38,789	6.2%	38,789	6.2%
Fixed assets	**625,631**	**91.5%**	**627,490**	**100.1%**	**625,600**	**99.9%**
Other non-current assets and liabilities	(3,865)	(0.6%)	(53,306)	(8.5%)	(52,174)	(8.3%)
Net working sales capital	81,988	12.0%	90,903	14.5%	90,903	14.5%
Other current assets and liabilities	(19,997)	(2.9%)	(38,363)	(6.1%)	(38,363)	(6.1%)
Assets and Liabilities held for sale	-	-	-	-	-	-
Net Invested Capital	**683,757**	**100.0%**	**626,725**	**100.0%**	**625,966**	**100.0%**
Shareholders' Equity	**392,377**	**57.4%**	**322,552**	**51.5%**	**321,793**	**51.4%**
Net current financial debt	(37,481)	(5.5%)	(73,690)	(11.8%)	(73,690)	(11.8%)
Non-current financial debt	328,861	48.1%	377,863	60.3%	377,863	60.4%
Net Financial Debt	**291,380**	**42.6%**	**304,173**	**48.5%**	**304,173**	**48.6%**
Total sources of financing	**683,757**	**100.0%**	**626,725**	**100.0%**	**625,966**	**100.0%**

With reference to the financial year ended 31 December 2020, fixed assets went from € 627.5 million to € 625.6 million. The main investments referred to the implementation of networks, plants and meters for the Regulated Market SBU, developing the sales network for the Gas and electricity sales SBU and FTTH infrastructure implementation for digital services.

The notable difference in other non-current assets and liabilities, which went from € -53.3 to -3.9 million is attributable to the effects of the revaluation and/or realignment of assets for statutory accounting and tax purposes, with the recognition of deferred tax assets and the reversal of deferred taxes.
The decrease in commercial working capital is due to the lower inventories of gas in storage compared to the previous year and the reduction in trade receivables (€ -47.1 million), which was partially offset by the reduction in trade payables (€ -44.7 million).

The increase in current assets and liabilities is primarily attributable to the reduction in payables for dividends to be distributed and the credit for consumption taxes and gas and electricity surcharges recorded in 2020 compared to the liabilities recognised in 2019.
Net invested capital amounted to € 683.8 million, increasing by 9% compared to 2019.

Shareholders' equity at 31 December 2020 amounted to € 392.4 million (€ 322.6 million in the Restated at 31 December 2019). The changes occurring in the year refer to the significantly higher result for the period compared to the previous year, the positive effects of the revaluation and realignment of company assets (€ 49 million) and the improvement in current operations.
Shareholders' equity represented 57.4% of the financing sources, up compared to the 51.5% in the Restated 2019.
Net financial debt was € 291.4 million (€ 304.2 million in the Restated 2019), with a proportion of financing sources of capital raised that went down from 48.5% to 42.6%.

8.2 FINANCIAL STRUCTURE 2020 COMPARED WITH 2019

The composition of net financial debt at 31 December 2020 and 2019 is shown below. This derives from the consolidated financial statements for the years ended on the same dates, in compliance with the ESMA update of the CESR recommendations. The consistent implementation of Commission Regulation (EC) No 809/2004 implementing the "Prospectus Directive" dated 20 March 2013 (formerly CESR Recommendation 05-054b of 10 February 2005).

	Net financial debt (amounts in thousands of euro)	Year ended 31 December 2020	2019
A.	Cash	16	17
B.	Cash equivalents	160,233	195,731
C.	Securities held for trading	-	-
D.	**Cash and cash equivalents (A) + (B) + (C)**	**160,249**	**195,748**
E.	Current financial receivables	**13,546**	**34,797**
	- current derivative financial instruments	*13,449*	*34,130*
	- Interest income due from banks	*97*	*667*
F.	Current bank debt	32,509	31,601
G.	Current portion of non-current debt	93,784	88,271
	- bank debts	*87,925*	*82,182*
	- bonds issued	-	-
	- payables to other lenders for financial leases	*352*	*341*
	- payables to other lenders for operating leases	*4,072*	*4,313*
	- payables to shareholders for loans	*1,.435*	*1435*
H.	Other current financial debt	10,021	36,,983
	- current derivative financial instruments	10,021	36,983
I.	**Current financial debt (F) + (G) + (H)**	**136,314**	**156,855**
J.	**Net current financial debt (I) - (E) - (D)**	**(37,481)**	**(73,690)**
K.	Non-current bank debts	161,135	206,810
L.	Bonds issued	145,835	145,292
M.	Other non-current debt	21,891	25,761
	- payables to other lenders for financial leases	*4,401*	*4,753*
	- payables to other lenders for operating leases	*10,685*	*12,768*
	- payables to shareholders for loans	*6,805*	*8,240*
No.	**Non-current financial debt (K) + (L) + (M)**	**328,861**	**377,863**
O.	**Net financial debt (J) + (N)**	**291,380**	**304,173**

At 31 December 2020, net financial debt was € 291.4 million, improving of € 12.8 million compared to 31 December 2019.
The main changes refer to:
- the decrease in cash and cash equivalents (from € 195.7 million to € 160.2 thousand);
- the decrease in payables for derivative financial Instruments (€ 27 million), with this change partially offset by the reduction in receivables for current derivative instruments (€ 20.7 million);
- the reduction in non-current financial debt that went from € 377.9 thousand to € 328.9 million resulting from the decrease in non-current bank debts relating to the payments of instalments on medium and long-term loans.

8.3 MAIN FINANCIAL MEASURES 2020 AND 2019

The main financial measures are presented below on the basis of the consolidated financial statements at 31 December 2020 and 2019:

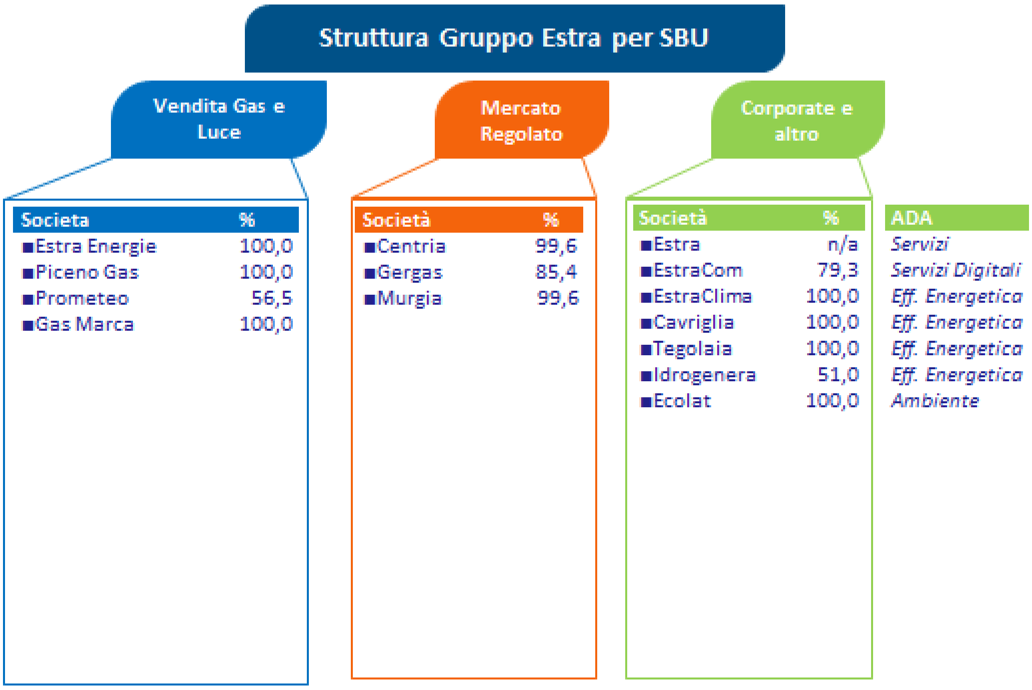
Consolidated financial measures	Year ended 31 December 2020	2019
Solvency ratio (total non-current assets / total assets)	59.4%	53.2%
Elasticity ratio (total current assets / total assets)	40.6%	46.8%
Availability ratio (total non-current assets / total current assets)	146.4%	113.9%
Net Financial Debt /Equity Ratio - (Leverage)	0.7	0.9
Net Financial Debt /Adjusted EBITDA Ratio	2.7	3.5
Short-term Financial Debt Ratio/Net financial debt	(0.1)	(0.2)
Long-term Financial Debt Ratio/Net financial debt	1.1	1.2

The main economic measures are presented below on the basis of the adjusted results of the consolidated financial statements at 31 December 2020 and 2019:

Economic measures	Year ended 31 December	
	2020	2019
EBITDA margin (Adjusted EBITDA/Revenues)	14.0%	8.8%
ROE (Adjusted net profit/Shareholders' equity)	6.3%	3.7%
ROI (Adjusted EBIT/Net invested capital)	6.7%	4.9%

9. BUSINESS PERFORMANCE – ANALYSIS BY STRATEGIC BUSINESS UNIT (SBU)

The chart below represents the Estra Group, with details of the companies that operate within the Strategic Business Units (SBUs), or business segments, with an indication of the related percentage of possession by the Parent Company Estra S.p.A.:



Below are the adjusted income statements for the financial years ended 31 December 2020 and 2019 for the strategic business units:

2020 Business segments (amounts in thousands of euro)	Regulated Market	Gas and electricity sales	Corporate and Others	Adjustments and eliminations	Total
Total Revenues	106,418	669,348	55,930	(71,014)	760,683
External costs	(53,317)	(598,759)	(33,130)	71014	(614,193)
Personnel costs	(14,714)	(11,228)	(13,288)	-	(39,230)
Income/(expenses) from commodity risk management	-	(1,205)	-	-	(1,205)
Portion of profit/(loss) from non-financial associates and joint ventures	671	-	-	-	671
EBITDA	**39,058**	**58,156**	**9,512**	**-**	**106,726**
Amortisation/ depreciation	(18,508)	(17,243)	(12,272)	-	(48,024)
Provisions	(280)	(12,783)	(161)	-	(13,224)
Operating result (EBIT)	**20,270**	**28,130**	**(2,921)**	**-**	**45,479**

Restated 2019 Business segments (amounts in thousands of euro)	Regulated Market	Gas and electricity sales	Corporate and Others	Adjustments and eliminations	Total
Total Revenues	107,082	892,973	60,847	(75,118)	985784
External costs	(56,512)	(845,592)	(36,677)	75118	(863,662)
Personnel costs	(14,666)	(10,808)	(13,874)	-	(39,348)
Income/(expenses) from commodity risk management	-	3,582	-	-	3,582
Portion of profit/(loss) from non-financial associates and joint ventures	679	-	-	-	679
EBITDA	**36,583**	**40,155**	**10,296**	**-**	**87,034**
Amortisation/ depreciation	(17,023)	(15,334)	(12,066)	-	(44,423)
Provisions	(166)	(11,331)	(247)	-	(11,744)
Operating result (EBIT)	**19,394**	**13,490**	**(2,017)**	**-**	**30,867**

9.1 REGULATED MARKET

The table below presents the main economic data related to the Estra Group's activity of distribution of natural gas and the sale and distribution of LPG for the financial years ended 31 December 2020 and 2019.

Regulated Market	Year ended 31 December				Change in the period	
Income statement of the operating segment (amounts in thousands of euro)	**2020**	**% of Total Adjusted Revenues**	**2019**	**% of Total Adjusted Revenues**	**2020 vs 2019**	**%**
Total Adjusted Revenues	**106,418**	**100%**	**107,082**	**100%**	**(664)**	**(1%)**
Adjusted external costs	(53,317)	(50%)	(56,512)	(53%)	3195	**(6%)**
Personnel costs	(14,714)	(14%)	(14,666)	(14%)	(48)	**-**
income/(expenses) from equity investments of a non-financial nature	671	1%	679	1%	(8)	**(1%)**
Adjusted EBITDA	**39,058**	**37%**	**36,583**	**34%**	**2475**	**7%**
Amortisation and write-downs	(18,508)	(17%)	(17,023)	(16%)	(1,485)	9%
Provisions	(280)	-	(166)	-	(114)	**69%**
Adjusted EBIT	**20,270**	**19%**	**19,394**	**18%**	**876**	**5%**

Trend of 2020 compared to 2019

At 31 December 2020, the Regulated Market SBU showed revenues from transmission tariffs of € 66.6 million, up compared to the € 65.2 million of the previous year. The difference was due to the management over the entire year of approximately 66,000 PoDs in the Bari 2 and Foggia 1 ATEMs, recognised by 2i Rete Gas with the start of management on 1 April 2019. 2020 tariff revenues were affected by the impact of the new RTDG tariff regulation 2020-2025, which includes a significant decrease in the opex distribution component and standardisation of investment remuneration between distribution and metering with the metering WACC that went from the previous 6.8% to line up with the 6.3% of distribution in 2020.
Revenue in the LPG segment came down from € 3.2 to 2.8 million.
Capitalised costs relating to extending the network and laying meters was stable at € 21.1 million.
Revenues for trading in energy efficiency certificates went down from € 9.7 million to € 7.1 million with a corresponding reduction in purchase costs. Other revenues increased (from € 7.8 to € 8.9 million) due to the increased plant security incentive and tariff adjustments. This increase offset the decrease in revenue from ancillary services to customers, which were down during the COVID-19 emergency period.

EBITDA amounted to € 39.1 million compared to € 36.6 in 2019. The contribution of M&A operations amounted to € 1.1 million. The increase in EBITDA is also attributable to greater operating efficiencies.
Depreciation/amortisation for corporate acquisitions and investments increased (€ +1.5 million).

EBIT was € 20.3 million (€ 19.4 in 2019) with a positive change of 5%.
The main operating data related to active PoDs and km of network went up, thanks to the new investments made.

The table below shows the main operating data of the Estra Group related to the Regulated Market (distribution of gas and LPG) for the financial years ended 31 December 2020 and 2019.

	Year ended 31 December		Change in the period	
Operating measures	**2020**	**2019**	**2020 vs 2019**	**%**
Gas input into the network (Mln m^3)	652	663	(11)	(1.7%)
Active PoDs ('000)	516	516	-	0.1%
Km of network	7015	6984	31	0.4%

10. TRANSACTIONS WITH RELATED PARTIES

Estra and the Group companies carry out transactions with related parties based on principles of transparency and correctness. These transactions generally relate to services provided to all customers (supply of gas, electricity, heat, etc.) and are governed by contracts and conditions normally applied in these situations.
If they are not services of the current type, the transactions are in any case governed on the basis of the normal conditions applied on the market.
The information on financial and economic transactions with related-party shareholders and associate companies are presented in the notes to the statements (note "Related parties").

10.1 GAS AND ELECTRICITY SALES

The table below presents the main economic data related to the Estra Group's sale of gas and electricity activity for the financial years ended 31 December 2020 and 2019.

Gas and electricity sales	**Year ended 31 December**				**Change in the period**	
Income statement of the operating segment **(amounts in thousands of euro)**	**2020**	**% of Total Adjusted Revenues**	**2019**	**% of Total Adjusted Revenues**	**2020 vs 2019**	**%**
Total Adjusted Revenues	**669,348**	**100%**	**892,973**	**100%**	**(223,625)**	**(25%)**
External costs	(598,759)	(89%)	(845,592)	(95%)	246,833	**(29%)**
Personnel costs	(11,228)	(2%)	(10,808)	(1%)	(420)	**4%**
Income/(expenses) from commodity risk management	(1,205)	-	3,582	-	(4,787)	(134%)
Adjusted EBITDA	**58,156**	**9%**	**40,155**	**4%**	**18,001**	**45%**
Amortisation and write-downs	(17,243)	(3%)	(15,334)	(2%)	(1,909)	12%
Provisions	(12,783)	(2%)	(11,331)	(1%)	(1,452)	**13%**
Adjusted EBIT	**28130**	**4%**	**13490**	**2%**	**14640**	**109%**

The revenues of the gas and electricity sales segment recorded a decrease of € 223.6 million compared to 2019 mainly as a result of:

- the reduction in gas sales due to the mild weather conditions and fall in production during the COVID-19 emergency period for € 50.7 million;
- the decrease in sales on the PSV and for balancing operations with revenues that went from € 89.2 million in 2019 to € 6.4 million in 2020;
- the decrease in sales to wholesale customers in the electricity segment, partially offset by the higher volumes sold to domestic customers. The overall changes in volumes resulted in a decrease of € 1.3 million in revenues.
- the reduction in unit sales tariffs, primarily in the gas segment, impacting for € 78 million on revenues;
- the decrease in the pass-through gas distribution components, due to lower volumes sold (€ -11 million).

Gas segment revenues represent 78% of the SBU's revenues (84% in 2019).

The EBITDA of the Gas and Electricity Sales SBU was € 58.2 million, up by € 18 million compared to the previous year and represented 54% of consolidated EBITDA (42% in 2019). The increase is attributable to:

i) improved procurement conditions and consolidation of commodity pricing risk hedging policies in the gas segment, *ii)* the increased margins in the electricity segment due to increased sales to domestic customers, *iii)* the policies to contain commercial, general and administrative costs.

Depreciation, amortisation and impairment losses, which amounted to € 17.2 million, rose compared to the figures of the previous year (€ 15.3 million in 2019), as a result of investments to develop the sales network. Provisions also increased, going from € 11.3 to 12.8 million. EBIT was € 28.1 million (€ 13.5 in 2019).

The table below shows the main operating data of the Estra Group related to the sale of natural gas and electricity for the financial years ended 31 December 2020 and 2019.

	Year ended 31 December				Change in the period	
Gas volumes (Mln m^3)	**2020**	**% of TOT**	**2019**	**% of TOT**	**2020 vs 2019**	**%**
Free final market	1,127	80.8%	1,251	64.8%	(124)	(9.9%)
Protected final market	203	14.6%	236	12.2%	(33)	(14.0%)
PSV market	65	4.6%	444	23.0%	(380)	(85%)
TOTAL	**1,394**	**95.4%**	**1,931**	**77.0%**	**(537)**	**(27.8%)**

	Year ended 31 December				Change in the period	
Ee volumes (Gwh)	**2020**	**% of TOT**	**2019**	**% of TOT**	**2020 vs 2019**	**%**
Free final market	731	95.6%	734	94.3%	(3)	(0.5%)
Protected final market	33	4.4%	44	5.7%	(11)	(24.3%)
TOTAL	**764**	**100.0%**	**778**	**100.0%**	**(14)**	**(1.8%)**

	Year ended 31 December				Change in the period	
Number of gas and electricity customers	**2020**	**% of TOT**	**2019**	**% of TOT**	**2020 vs 2019**	**%**
Free final market	563,697	69.0%	508,923	63.6%	54774	10.8%
Protected final market	253,470	31.0%	291,510	36.4%	(38,040)	(13.0%)
TOTAL	**817,167**	**100.0%**	**800,433**	**100.0%**	**16,734**	**2.1%**

10.2 CORPORATE AND OTHER ACTIVITIES

The segment "Corporate and Other Activities" includes digital services (telecommunications), energy efficiency (electricity and renewables), environment services, and the activities performed by the holding in terms of coordination and centralised management of corporate business functions for the other Group companies.
The table below presents the main economic data related to the Estra Group's other SBUs for the financial years ended 31 December 2020 and 2019.

Corporate and Others	**Year ended 31 December**				**Change in the period**	
Income statement of the operating segment **(amounts in thousands of euro)**	**2020**	**% of Total Adjusted Revenues**	**2019**	**% of Total Adjusted Revenues**	**2020 vs 2019**	**%**
Total Revenues	**55,931**	**100%**	**60,847**	**100%**	**(4,916)**	**(8%)**
Adjusted external costs	(33,131)	(59%)	(36,677)	(60%)	3,546	**(10%)**
Personnel costs	(13,288)	(24%)	(13,874)	(23%)	586	**(4%)**
Adjusted gross operating margin (EBITDA)	**9,512**	**17%**	**10,296**	**17%**	**(784)**	**(8%)**
Adjusted depreciation, amortisation and impairment losses	(12,273)	(22%)	(12,066)	(20%)	(207)	2%
Provisions	(161)	-	(247)	-	86	**(35%)**
Adjusted EBIT	**(2,922)**	**(5%)**	**(2,017)**	**(3%)**	**(905)**	**45%**

Decreased revenue for the Corporate and Others SBU is mainly attributable to the energy services segment, which had reduced its energy efficiency interventions with customers (condominiums) during the lockdown. Revenue from the holding's service activities also decreased in respect of Group companies in relation to the reduced administrative and general costs.

At 31 December 2020, the adjusted EBITDA of the Corporate and Others SBU was € 9.5 million compared to € 10.3 million in 2019.
The change can be attributed: *i)* to the improved margins for the digital services segment (+0.2) and the holding (+0.8), *ii)* the decrease in the energy efficiency segment (-1.3) and the environment segment (-0.5) due to the reduced production activities during the COVID-19 emergency.

The EBITDA of the corporate and other activities SBU accounted for 9% of the group's EBITDA (12% in 2019).
Depreciation, amortisation and provisions were stable for a total of € 12.3 million.

EBIT was a negative for € 2.9 million compared to € 2.0 million in 2019.

11. RECONCILIATION BETWEEN THE GROUP PROFIT/(LOSS) FOR THE PERIOD AND SHAREHOLDERS' EQUITY WITH THE ANALOGOUS FIGURES OF THE PARENT COMPANY

The reconciliation statement between the Group profit/(loss) for the period and shareholders' equity is presented below with the analogous figures of the parent company under the terms of Communication no. DEM/6064293 of 28-7-2006.

	Financial year 2020	
(thousands of euro)	**Group profit for the year**	**Total shareholders' equity**
Shareholders' equity and profit for the year as shown in the holding company's financial statements	**9.639**	**416.555**
Income and elimination of book value of fully consolidated companies	78.483	81.294
Reversal of write-downs of equity investments	1.235	1.617
Elimination of effects on intercompany capital gains	4.208	(117.750)
Consolidation Accounts, Equity Method	685	2.425
Other	359	(145)
Depreciation/amortisation of consolidation differences	(5.561)	(23.968)
Elimination of effects of intercompany mergers	2.301	7.470
Elimination of intercompany dividends	(21.175)	(1.668)
Group profit for the year and shareholders' equity as shown in the consolidated financial statements	**70.175**	**365.830**
Profit and shareholders' equity attributable to minority interests	111	26.547
Profit for the year and shareholders' equity as shown in the consolidated financial statements	**70.286**	**392.377**

12. SUBSEQUENT EVENTS

There were no significant events after the reporting date to note, with the exception of the acquisition of Ecos S.r.l. that is pending completion, as detailed in the section of the Notes relating to equity investments.

13. BUSINESS OUTLOOK

Continuing with the strategic approach adopted in recent years, the Group will pursue its ongoing commitment to generating value and growth over the medium and long term in all its activity sectors, concentrating on improving its operating performance and consolidating its presence in interest sectors, based on organic development policies and industrial operations.

In addition to the implementation of its strategies, the Group's results in 2021 may be affected by developments in the COVID-19 epidemic and other possible changes in the reference context such as, in particular, any new tariff measures issued by the Regulatory Authority, changes in the market context, trends in consumption, supplies, pricing and the policies for the procurement of commodities.

14. INDUSTRY REGULATIONS

The following is a summary of the highlights of legislative changes in 2020 in relation to the various areas of Estra Group business.

Transversal issues

COVID-19 EMERGENCY

"CURA ITALIA" DECREE (LAW 27 of 24 APRIL 2020 - DECREE-LAW No. 18 OF 17 MARCH 2020) - Introduced measures related to the COVID-19 epidemiological emergency (strengthening of the national health system, Civil Protection services and other public entities involved in the emergency, providing support to employment and workers, credit support for households and micro, small and medium enterprises, the suspension of tax and contribution payments, etc.).

RELAUNCH DECREE (LAW NO. 77 OF 17 JULY 2020 - DECREE-LAW NO. 34 OF 17 MARCH 2020) - Urgent measures related to health, support for work and the economy, and social policies related to the COVID-19 epidemiological emergency. The Decree provides € 54.9 billion to support businesses, households and workers in the economic recovery following the current pandemic. This is based on a series of measures related to health, support for work and the economy, social policies, etc.

SIMPLIFICATION DECREE (LAW NO. 120 OF 11 SEPTEMBER 2020 - DECREE-LAW 76/2020) - The Decree aims to simplify administrative procedures, eliminate and speed up bureaucratic formalities, digitalise the public administration, support the green economy and business activity.

AUGUST DECREE (LAW NO. 126/2020 OF 13 OCTOBER - DECREE-LAW 104/2020). Urgent measures to support the relaunch of the economy. The Decree introduces new measures relating to work, health, schools, local authorities, support and relaunching of the economy, as well as financial and tax interventions, and to support to the economic sectors most affected by the COVID-19 epidemiological emergency.

RELIEF DECREE - LAW NO. 176 OF 18 DECEMBER 2020 - DECREE-LAW NO. 137 OF 28 OCTOBER 2020 - As a result of this conversion, the following Decree-Laws were repealed 149/2020 (Ristori Bis), 154/2020 (Ristori Ter) and 157/2020 (Ristori Quater). The Decree provides additional urgent measures for the protection of health, support to workers and businesses, justice and safety related to the COVID-19 epidemiological emergency (updates to the social safety nets, extension of the redundancy fund, suspension of social security and welfare contributions relative to November 2020 for the most affected sectors, extraordinary leave for dependant parents and the so-called "baby-sitting bonus", total annual contribution exemption, applicable to first-level apprenticeship contracts, etc.).

GREEN DEAL (COM/2019/640)
The European Commission promoted the Green Deal, a package of measures aimed at transforming Europe into the first continent with zero climate impact: this refers to a roadmap to make the EU economy sustainable and achieve carbon neutrality by 2050. A roadmap has been drawn up for the first two years, and a series of regulations will be issued to transform this political commitment into law. A priority of the Green Deal is the decarbonisation of the European energy sector.

NEXT GENERATION EU – 21/07/2020
The Next Generation EU (NGEU) is an EU economic policy aimed at countering the recession and supporting recovery: it will provide a total of € 750 billion to all EU Member States over the period 2021-2024. Italy has been allocated € 209 billion (28% of the total), of which € 82 billion as a non-repayable contribution and € 127 billion as loans. The European Commission has provided guidelines for the investments, specifying that 37% of the expenditure should be assigned to environmental sustainability, energy efficiency and the circular economy, with 20% allocated to digitalisation.

2021 BUDGET LAW (LAW NO. 178 of 30/12/2020)

Energy efficiency
The budget law extends the tax deduction for work on the energy redevelopment of buildings and building renovation to 31 December 2021 (so-called Eco-bonus). It also extends the application of the 110%

deduction on energy efficiency works and anti-seismic works to 30 June 2022 (the previous deadline was 31 December 2021).

Electric mobility
- € 370 million has been allocated to incentives for purchasing new vehicles with a low environmental impact, with electric, hybrid or thermal Euro 6 engines.
- An additional incentive (that is not cumulative with the first) directed at households with a total income (Isee) of less than € 30,000. They will be allowed a 40% discount on the purchase price of an electric car.
- Amendment to the eligible expenditure for interventions to install infrastructure for the recharging of electric vehicles in buildings (if undertaken jointly with one of the interventions applicable for funding of the 110% Superbonus).

Waste (paragraph 1084)
The entry into force of the plastic tax has been postponed; this is a tax on the consumption of manufactured plastic products for single use (MACSI). More specifically, the tax will become applicable from 1 July 2021, instead of 1 January. Other changes introduced by the Budget Law: extends the bracket of tax payers required to pay taxes, raises the minimum amount for making payment and extends the Customs Authority's audit and control powers, bringing down the sanctions applicable in the event of infringements.

Natural gas sales

RESOLUTION 19 MAY 2020 - 167/2020/R/GAS. Provisions relating to insurance in favour of gas end customers for the four-year period 1 January 2021 - 31 December 2024. The provision set criteria to regulate the insurance against risks arising from the use of gas subsequent to the delivery point, benefiting end users of gas distributed via gas pipelines and transport networks over the period 1 January 2021 - 31 December 2024, and regulates the procedures for drawing up the relative insurance contract.

RESOLUTION 20 OCTOBER 2020 - 396/2020/R/GAS. Provisions on covering costs for the availability of strategic stores. The provisions have been approved regarding the covering of costs for the availability of strategic stores, implementing the provisions in this regard under the Simplification Decree, which stipulates that these costs are borne by the customers related to the distribution network points of delivery.

Electricity sales

RESOLUTION 26 MAY 2020– 190/2020/R/EEL. Urgent provisions on electricity tariffs, implementing Article 30 of Decree-Law No. 34 of 19 May 2020. Urgent measures needed to implement the provisions of the Relaunch Decree regarding the reduction of costs incurred by electricity users connected on low voltage, other than domestic usage, for the months of May, June and July 2020.

RESOLUTION 04 AUGUST 2020 - 311/2020/R/EEL. Provisions for the Environmental and Energy Services Fund following the reduction of expenditure incurred by electricity users connected on low voltage other than domestic usage, as provided by Article 30 of Decree-Law No. 34 of 19 May 2020, converted with Law No. 77 of 17 July 2020 and implemented by Authority Resolution 190/2020/EEL. The resolution provides for the Environmental and Energy Services Fund regarding the management of resources paid to the COVID-19 Emergency Account in terms of the Relaunch Decree-Law and compensation provided to distribution companies for lower income resulting from the provisions under Resolution 190/2020.R/EEL.

RESOLUTION 24 NOVEMBER 2020– 491/2020/R/EEL. Provisions for the incremental protection services to small enterprises in the electricity sector as per Law No. 124 of 4 August 2017 (annual law for the market and competition). Provisions approved for the incremental protection applicable to customers that do not choose a free market supplier on expiry of the protected pricing, which comes into effect from 1 January 2021 for a limited number of small enterprises (less than 200 thousand at the most, and from January 2022 for 16 million households and micro-enterprises.

RESOLUTION 22 DECEMBER 2020– 584/2020/R/EEL. Initial provisions on the information initiative for incremental protection service customers. In view of the end of the protected electricity pricing, the initial provisions have been issued regarding information on the so-called incremental protection service, which will replace the higher level of protection from 1 January, including the creation of an ad hoc section at the Arera site and obligation for future service suppliers to notify the relevant customers.

Natural gas and electricity sales

There follows a description of the main regulatory changes that have simultaneously affected sales of natural gas and electricity.

URGENT RESOLUTION MEASURES FOR THE COVID-19 EPIDEMIOLOGICAL EMERGENCY TO PROTECT CUSTOMERS AND END USERS (Resolutions 60/2020.R/COM - 117/2020/R/COM - 148/2020/R/COM). Stop to suspension of low voltage electricity supplies, gas and water and suspension of default reminders for the period relative to the COVID emergency decrees.

URGENT RESOLUTION MEASURES RELATED TO THE COVID-19 EPIDEMIOLOGICAL EMERGENCY, REFERRING TO THE PROVISION OF ELECTRICITY AND DISTRIBUTION OF NATURAL GAS TRANSPORT SERVICES. (Resolutions 70/2020/R/COM - 116/2020/R/COM - 149/2020/R/COM - 192/2020/R/COM). Defining a series of measures with the objective of alleviating the effects of the Coronavirus emergency for electricity and gas vendors, and in particular, the increase in unpaid bills by customers experiencing difficulties.

RESOLUTION 28 JANUARY 2020 - 14/2020/R/COM. Start of procedure to implement the provisions for the automatic recognition of social bonuses. Start of the procedures implementing the provisions under Article 57-bis, paragraph 5 of Decree-Law 124/19 on the automatic recognition of social bonuses referred to in the same Decree-Law.

RESOLUTION 12 MARCH 2020 - 59/2020/R/COM. Postponement of deadlines set to regulate the environmental and energy efficiency services and initial provisions on quality, in view of the COVID-19 emergency. No automatic indemnities for infringements of contract and commercial quality standards, if attributable to the Coronavirus emergency, and postponement of several deadlines for reporting and data notification in the energy, district heating, waste and water sectors.

RESOLUTION 17 MARCH 2020 - 76/2020/R/COM (and subsequent extension 140/2020/R/COM). Urgent provisions referring to electric bonus, gas bonus and water social bonus regarding the urgent measures introduced in Italy related to the COVID-19 epidemiological emergency.

RESOLUTION 26 MAY 2020 - 184/2020/R/COM - Integration and amendments to Authority Resolution 569/2018/r/com implementing the provisions under Article 1, paragraph 295 of Law No. 160 of 27 December 2019, on invoicing amounts referring to consumption dating back to more than two years ago. From 1 January 2020, electricity and gas customers and users of the integrated water service, falling under the categories specified by the law and applicable regulations, can "in any case" rely on the prescription regarding amounts invoiced relating to consumption older than 2 years. The change, introduced by the Budget Law 2020 (No. 160 of 2019), was integrated by the Energy Authority in the overall regulatory framework, revising the information notice to customers and users that sellers and operators must include in invoices, even in the event of related default payment and in the case of replies to written claims from customers and users in this regard.

LAW NO.77 OF 17 JULY 2020 (conversion with amendments of Decree-Law No. 34 of 17 March 2020, so-called Relaunch Decree). ART.129 - Gas and electricity excise duties - Monthly instalments of excise duties on gas and electricity for the months of May to September are reduced to 90%, calculated on the year's consumption. Only for the month of May, the payment deadline is moved from the 16 to 20 (Art.129).

RESOLUTION 27 OCTOBER 2020 - 426/2020/R/COM. Provisions to strengthen the disclosure obligations of the commercial conduct code to the advantage of retail market end customers. Introduction of new obligations for vendors, with amendments to the commercial conduct code on the issue of pre- and post-contract disclosure obligations.

RESOLUTION 455/2020/R/COM OF 10 NOVEMBER 2020 - Approval of the regulation for the operation of the updated Integrated Information System. This measure approves the operation regulation for the updated SII.

Natural gas distribution

RESOLUTION 570/2019/R/GAS OF 27 DECEMBER 2019 - Tariff regulation of the gas distribution and metering services for the 2020-2025 period. With this resolution the regulation of the tariffs of the gas distribution and metering services for the 2020-2025 regulatory period is approved.

RESOLUTION 01 APRIL 2020 - 106/2020/R/GAS. Redetermination of tariffs of reference for the services of distribution and metering of gas, for the years 2009-2018. This measure redetermines the tariffs of reference for the services of distribution and metering of gas for the years 2009-2018, on the basis of requests for correction of data received by 15 February 2020.

RESOLUTION 01 APRIL 2020 - 107/2020/R/GAS. Determination of final reference rates for gas distribution and measurement services for the year 2019. The Resolution determines the final reference rates for gas distribution and metering services for the year 2019, calculated on the basis of the balance sheet data for the year 2018; a material error found in the RTDG is rectified.

RESOLUTION 14 APRIL 2020 - 127/2020/R/GAS. Determination of the provisional tariffs of reference for the services of distribution and metering of gas, for the year 2020. Determination of the provisional reference tariffs for gas distribution and metering services for the year 2020 on the basis of the balance sheet data for the year 2019, pursuant to Article 3 (2) (a) of the RTDG.

RESOLUTION 30 JUNE 2020 - 248/2020/R/COM. Measures for the gradual "repayment" from the urgent transitory provisions arising from the COVID-19 emergency (RES. 116/2020/R/gas, 149/2020/R/gas e 192/2020/R/com), setting the procedures for the balance of the unpaid amount by users of electricity transport and natural gas distribution to distributors, as well as the general system expenses not already paid by distributors to CSEA.

RESOLUTION 21 JULY 2020 - 283/2020/R/GAS. Public procedures for identifying suppliers of last resort and suppliers of the default distribution service, starting from 1 October 2020. Public procedures for identifying suppliers of last resort and suppliers of the default distribution service, starting from 1 October 2020. Governs the competitive procedures for identifying suppliers of last resort and suppliers of the default distribution service starting from 1 October 2020 and updates the rules on providing said services.

RESOLUTION 28 JULY 2020 - 289/2020/R/GAS. Provisions on the tariffs of reference for the services of distribution and metering of gas, for the years 2017 to 2020. This measure approves the definitive tariffs of reference for the services of distribution and metering of gas for the year 2017-2019, and the provisional tariffs of reference for 2020, considering the requests for tariff redetermination presented by 6 distributor companies, as well as the redetermination of the bi-monthly advance equalisation amounts for 2020 in respect of the same companies.

RESOLUTION 03 NOVEMBER 2020– 432/2020/R/COM. Extraordinary measures regulating output-based electricity and gas distribution services in relation to the COVID-19 epidemiological emergency. This provision introduces the extraordinary measures regulating output-based electricity and gas distribution services in relation to the COVID-19 epidemiological emergency.

RESOLUTION 01 DECEMBER 2020 - 501/2020/R/GAS. Update of the obligations on putting smart gas meters (G4-G6) into service. The resolution postpones the deadlines by a year as set out in Annex A to Authority Resolution of 27 December 2013 - 631/2013/R/gas.

RESOLUTION 29 DECEMBER 2020 - 596/2020/R/GAS. Update of the tariffs for the gas distribution and metering services, for the year 2021. This measure approves the obligatory tariffs for the natural gas distribution, metering and marketing services, the different gas tariff options, and the amounts of bi-monthly equalisation in advance related to the natural gas distribution service.

Supply, transportation and storage of natural gas

Gas Settlement

RESOLUTION 04 FEBRUARY 2020 - 28/2020/R/GAS. Additional provisions for the adjustment of the variance fees for the period 2015-2019. The portion of the deltaIO attributable to these charges as from 1 January 2020 is assigned to the balancing entity, and is not divided among the balancing users.

RESOLUTION 18 FEBRUARY 2020 - 45/2020/R/GAS. Amendment of the Consolidated Text on Balancing (Testo Integrato del Bilanciamento - TIB) and definition of parameters for the fourth incentive period (4PI). Amendments made to the Consolidated Text on Balancing (TIB) and number parameters defined for the incentives for balancing entities, pursuant to Art. 9 of the Text for the fourth incentive period (4PI), valid as from 20 February 2020.

RESOLUTION 26 MAY 2020 - 181/2020/R/GAS. Urgent provisions on the subject of gas settlement. Procedures to manage anomalous withdrawals in the scope of the balancing sessions and postponement until 30 September 2020 of the deadlines to carry out the conferment of capacity pursuant to point 4 of Resolution 538/2019/R/gas. There are further considerations relating to the PoDs measured monthly, excluding the daily information.

RESOLUTION 16 JUNE 2020 - 181/2020/R/GAS. Additional provisions on the subject of gas settlement. Supplement to the Integrated gas settlement text aimed at regulating the notification to distribution companies, distribution and balancing users of the anomalies found for correction purposes, so that this is already possible with regard to the balancing for the month of May 2020.

Transport of natural gas

RESOLUTION 01 APRIL 2020 - 110/2020/R/GAS. New provisions with the coming into force of the reform of the processes of conferment of capacity at the points of exit and delivery of the transport network. This resolution approves new provisions relating to the entry into force referred to under point 6.2 of Resolution 147/2019/R/gas, postponing this until 1 October 2021.

RESOLUTION 04 AUGUST 2020 - 316/2020/R/GAS. Approval of the proposed updates to the network codes for the companies Snam Rete Gas S.p.A. and Società Gasdotti Italia S.p.A. Approval of the amendment proposals to the network code for Snam Rete Gas and Società Gasdotti Italia (SGI) regarding the financial guarantees for transport services, and only with regard to SGI, relative to the early termination of the transport contract in the event of failure to make payment or lapsing of the requirements to access the service.

RESOLUTION 29 SEPTEMBER 2020 - 355/2020/R/GAS. Provisions related to the rules of the transport default service, starting from 1 October 2020, in relation to regional transport networks. This measure defines provisions related to the rules of the transport default service on regional transport networks starting from 1 October 2020, following the non-performance of the procedures for identifying the FTTTs.

RESOLUTION 01 DECEMBER 2020 - 511/2020/R/GAS. Provisions referring to the technical interruptibility of withdrawals from the natural gas transport and distribution network, for the 2020/2021 thermal year, in terms of Ministry of Economic Development Decree of 30 September 2020. The Resolution adopts the provisions referring to the technical interruptibility of withdrawals from the natural gas transport and distribution network, for the 2020/2021 thermal year, in terms of Ministry of Economic Development Decree of 30 September 2020.

RESOLUTION 22 DECEMBER 2020 - 569/2020/R/GAS. Revision of the criteria for the recognition of unaccounted gas (GNC) on the transport networks and consequent amendments to the RTTG. This measure revises the criteria for the recognition of GNC in terms of the RTTG (Annex A to Resolution 114/2019/R/gas), introducing a mechanism for the partial adjustment of variances between GNC quantities recognised and those effectively recorded in a specific year.

Natural gas storage

RESOLUTION 05 MARCH 2020– 58/2020/R/GAS. Urgent provisions for the conferment of storage capacity for thermal year 2020/ 2021. Increase to the weighting relating to forward listings on products listed on the PSV compared to those of the TTF in determining the reserve price, keeping the ratio unchanged for each storage product, between the reserve price and intrinsic value of the storage capacity.

Renewable energy systems

RESOLUTION 05 MAY 2020 - 155/2020/R/EFR. Approval of type-contracts prepared by Gestore dei servizi energetici s.p.a. for the purposes of providing the incentives specified under Interministerial Decree of 4 July 2019. Type-contracts prepared by Gestore dei servizi energetici s.p.a. approved, for the purposes of providing the incentives specified under Interministerial Decree of 4 July 2019 (so-called Fer 1).

MINISTERIAL DECREE OF 16 SEPTEMBER 2020 - Identification of the incentive tariff for the remuneration of renewable sources plants in the experimental configurations of collective self-consumption and renewable energy communities. The Decree identifies the incentive tariff for the remuneration of renewable sources plants included in the collective self-consumption configurations and in renewable energy communities; it also identifies the limits and procedures for using and pricing the shared energy produced by photovoltaic plants accessing the deductions stipulated by Art. 119 of Decree-Law no. 34/2020.

Energy and Energy Efficiency Services

MINISTERIAL DECREE 30 JANUARY 2020 - VEHICLE TO GRID. CRITERIA AND PROCEDURES TO PROMOTE INTEGRATION BETWEEN ELECTRIC VEHICLES AND THE ELECTRICITY GRID. The Decree provides the criteria and procedures for promoting the spread of new technologies at national level: it refers to systems that can interact between electricity grids and electric vehicles, utilising the latter as a sort of mobile battery.

DIRECTIVE DMRT/EFC/01/2020 OF 31 JANUARY 2020 - PRIMARY ENERGY SAVING OBLIGATIONS REFERRING TO ELECTRICITY AND NATURAL GAS DISTRIBUTORS FOR THE OBLIGATION YEAR 2020. With this Directive, ARERA has forwarded to the Ministry of Economic Development and the GSE, the data relating to the primary energy saving obligation in respect of electricity and natural gas distributors for the obligation year 2020.

LEGISLATIVE DECREE NO. 48 OF 10 JUNE 2020 - INCORPORATION OF EUROPEAN DIRECTIVE ON ENERGY PERFORMANCE IN BUILDINGS. The Decree incorporates Directive (EU) 2018/844 amending Directive 2010/31/EU on the performance in construction and Directive 2012/27/EU on energy efficiency (economically efficient renovations, promoting the building of buildings with zero emissions, integration of recharging infrastructure in buildings, etc.).

INTERMINISTERIAL DECREE 1 JULY 2020 - WHITE CERTIFICATES. EXTENSION OF THE CATALOGUE OF ADMISSIBLE PROJECTS. The Decree updates the list of projects eligible for the White Certificates system: this refers to 11 new types of projects that range from rendering production lines efficient, fibre optics and PET bottles in the industrial sector, to interventions to use fuels with a low emission content (LNG) in the naval transport sector.

LEGISLATIVE DECREE NO. 73 OF 14 JULY 2020 – INCORPORATION OF EUROPEAN DIRECTIVE ON ENERGY EFFICIENCY. The Decree incorporates Directive (EU) 2018/200253 amending Directive 2012/27/EU on energy efficiency, providing a series of measures to improve energy efficiency from the perspective of national energy savings.

RESOLUTION 14 JULY 2020 - 270/2020/R/EFR. Revision of the tariff contribution assigned to distributors in the scope of the Energy Efficiency Certificates mechanism in execution of Lombardy RAC judgement no. 2538/2019. This measure approves the revision of the tariff contribution to be granted to distributors that fulfil the energy saving obligations in the context of the EEC mechanism, based on the outcome of the consultation document 47/2020/R/efr.

LAW NO.77 OF 17 JULY 2020 (conversion with amendments of Decree-Law No. 34 of 17 March 2020, so-called Relaunch Decree). ART.119 - Superbonus 110% - Extending tax deductions to 110% for the expenses incurred to implement energy efficiency interventions, provided that the building improves by at least two energy classes. The same 110% deduction is applicable for the expenses incurred to install photovoltaic plants together with the concurrent installation of storage systems, and for recharging stations for electric vehicles. Both condominiums and natural persons can benefit from this deduction.

RESOLUTION 15 DECEMBER 2020 - 550/2020/R/EFR. Determination of the tariff contribution assigned to distributors in the scope of the Energy Efficiency Certificates mechanism for the obligation year 2019 and approval of the update of the regulation on bilateral transactions. This provision sets the tariff contribution for the obligation year 2019 in terms of Resolution 270/2020/R/efr and approves the update to the Regulation in bilateral transactions prepared by the Gestore dei Mercati Energetici.

Telecommunications

AGCOM RESOLUTION OF 06 AUGUST 2020 - 284/20/CIR AND 285/20/CIR. Approval of the offers of reference of Telecom Italia related to the services of wholesale access to the ULL/SLU, Co-locazione, WLR, NGAN Infrastructures, End to End, Backhaul fixed network for the years 2019 and 2020. The main changes refer to the economic conditions for 2019 and 2020, of the flat-rate contributions for the activation of ULL/SLU/WLR services (and consequently, the technology migration contributions) dependent on the ancillary services costs provided by the System companies and the flat-rate termination contributions.

AGCOM RESOLUTION OF 06 AUGUST 2020 - 286/20/CIR. Approval of the offers of reference of Telecom Italia related to the services of wholesale access to the Bitstream copper and Bitstream NGA fixed network for the years 2019 and 2020. The main changes refer to the economic conditions for 2019 and 2020, of the flat-rate contributions for the activation and deactivation of the asymmetric Bitstream copper services.

LAW OF 11 SEPTEMBER 2020 - DECREE-LAW 16 JULY 2020, NO. 76, so-called SIMPLIFICATION DECREE-LAW: Urgent measures for simplification and digital innovation. Art.38 introduces simplification measures for the deployment of electronic communication networks, both with regard to mobile telecommunication networks with specific reference to the general authorisation procedure and changes to the radio-electric profile of already authorised plants.

AGCOM RESOLUTION OF 19/11/2020 - 335/20/CIR. Regulations relating to IP interconnection and interoperability for the supply of VoIP services on mobile networks. The regulation incorporates ST 770 for the IP interconnection on mobile networks and defines the timing for publishing reference offers and the migration process subdivided into stages, as well as the application procedures for the administrative migration instrument.

AGCOM RESOLUTION OF 28/12/2020 - 345/20/CIR. Launch of the proceeding and the public consultation concerning the approval, for 2019 and 2020, of the offers of reference of Telecom Italia relative to dedicated transmission capacity services (terminating circuits, interconnection flows, delivery kits and plant internal connections). This provision launches the public consultation on the economic and technical conditions for the offers of reference for 2019 and 2020 for TIM, relating to dedicated transmission capacity services in accordance with Resolution no. 333/20/CONS.

Environment

RESOLUTION 03 MARCH 2020 - 57/2020/R/RIF. Simplification of procedures regarding the tariff regulations for the integrated waste service and start of the procedure to verify regulatory consistency of the pertinent resolutions of the competent territorial entity.

LEGISLATIVE DECREE 18/2020 OF 17 MARCH 2020 - so-called **CURA ITALIA.** Art.113 introduces an extension until 30 June 2020 (subsequently extended further to 31 July by Legislative Decree 34/2020, so-called Relaunch), of the deadlines for certain formalities relative to waste management.

RESOLUTION 5 MAY 2020 - 158/2020/R/RIF. Introduction of tariff discount measures for non-domestic end users penalised by the lockdown on economic activity, due to the COVID-19 emergency, providing a reconfiguration of the variable portions for environmental services, as well as additional forms of protection for domestic users experiencing economic hardship**.**

RESOLUTION 23 JUNE 2020 - 238/2020/R/RIF. To ensure an economic and financial balance in management, ARERA has completed the emergency regulatory framework, providing temporary changes to the waste tariff method, providing mechanisms to cover the economic and financial charges related to the protection measures adopted for users, together with the possibility of anticipating the deferential charges in the 2020 tariff, to counter the COVID-19 emergency.

RESOLUTION 23 JUNE 2020 - 238/2020/R/RIF. Confirms the regulatory framework adopted in October 2019 for waste tax (TARI), following the monitoring undertaken, introducing elements of flexibility and support to the waste sector, to which territorially competent entities (ETC) can seek recourse to manage the exit from the emergency stage of the COVID-19 pandemic.

RESOLUTION 287 JULY 2019 – 299/2020/R/RIF. Postponement of the deadlines referred to in Authority Resolution 238/2020/R/RIF on hedging financial exposure in the integrated waste management service, separate waste, municipal collection, and similar services following the COVID-19 epidemiological emergency.

ITALIAN LEGISLATIVE DECREE No. 119/2020 OF 3 SEPTEMBER 2020 - Implementation of Directive (EU) 2018/849 relating to end-of-life vehicles. Incorporating EU Directive on end-of-life vehicles, batteries and accumulators and relative waste and on EEE and WEEE.

LEGISLATIVE DECREE 121/2020 OF 3 SEPTEMBER 2020: Incorporating EU Directive 2018/850 on soil exploitation for the disposal of waste in landfill sites. The Decree forms part of the Circular economy package of directives, and introduces new organic regulations for conferring waste to landfill sites, amending Legislative Decree No. 36 of 13 January 2003.

LEGISLATIVE DECREE 116/2020 OF 26 SEPTEMBER 2020 Incorporating EU Directive 2018/851 on the management and tracing of waste and EU Directive UE 2018/852 on waste from packaging.
The Decree amends Part IV of the so-called Environmental Consolidated Text (Legislative Decree 152/2006) relating to the management of packaging and the related waste.

RESOLUTION 24 NOVEMBER 2020 - 493/2020/R/RIF. Updating the Waste Tariff Method (MTR) in preparation of the tariffs for 2021, with specific reference to adjusting the monetary values on the basis of the provisions under Resolution 443/2019/R/rif, as well as extending the concessions provided by the Authority under Resolution 238/2020/R/RIF until 2021 to deal with the COVID-19 epidemiological emergency.

15. RISKS MANAGEMENT

Pursuant to Art. 2428 paragraph 2, section 6-bis) of the Italian Civil Code, as amended by Legislative Decree no. 394/03, the information required is shown below.

- ***Risk related to legislation and regulations***

The Group operates in a strongly regulated sector. Among the risk factors in its operations is therefore the not always foreseeable constant evolution of the laws and regulations applying to the electricity in natural gas sectors as well as the sectors involved in operating environmental services and the production of energy from renewable sources. The effects of changes in the regulatory framework, for example, can involve market operating methods, tariff plans, the quality of service levels required and obligations of a technical-operational nature. Regulatory changes resulting in conditions that are unfavourable for sector operators can have negative effects on the Group’s financial position in terms of lower revenues, reduced margins and/or the abandonment of initiatives already in progress. Given these risk factors, the Group adopts a policy of monitoring and managing legislative risk, in order to mitigate as much as possible its effects, through an articulated monitoring on several levels which provides for collaborative dialogue with the institutions and the government and regulatory organizations of the sector, the active participation in

associations and work groups established within these entities, and examination of legislative changes and the provisions issued by the sector Authority.
Moreover, constant dialogue is held with business units interested in the legislative changes, in order to appropriately assess potential impacts. Some of the main areas on which legislative changes focus are listed below:

- the laws regarding assignment of concessions for the gas and electricity distribution service;
- the regulation of economically significant local public services;
- changes in the market regulations regarding Green Certificates;
- the issues set forth in the European Union's Third Energy Package.

- ***Risks associated with the expiry of gas distribution concessions/contracts held by Estra and other Group companies***

With the exception of trading of natural gas, the performance of these activities in Italy is subject to concessions or authorisations. In particular:

(a) the natural gas distribution activities, and the technical/operational management of LPG distribution networks are performed on the basis of concessions issued by local public authorities;

(b) the sale of natural gas and electricity, the sale of LPG, the production of electricity from renewable sources, the technical/operational management of telecommunication networks and marketing of telecommunication services, the management of heating plants owned by third parties (in particular, heat management services) and heat management, energy redevelopment and efficiency activities are carried out subordinately to obtaining specific authorisations from the authorities competent each time.

Therefore, the Group is exposed to risks connected with the award, maintenance and loss of concessions and authorisations and with expired concessions.
In particular:

a) *<u>Risks connected with the award, maintenance and loss of concessions and with expired concessions</u>*
It cannot be guaranteed that the concessions that the Group holds will be granted to the Group again when they expire, or that any renewals will be obtained at economic conditions equal to the existing ones. In addition the Group may need to obtain further concessions, permits and/or authorisations, the procedures of which are often long, costly, complex and with unforeseeable results.

b) *<u>Risks connected with the award, maintenance and loss of authorisations</u>*
The activities of sale of natural gas and electricity, sale of LPG and management of photovoltaic plants for electricity production are carried out by the Group subordinately to obtaining specific authorisations from the authorities competent each time. These authorisations are granted on the basis of possession of certain requisites necessary for performing the service. It cannot be guaranteed that the authorisations obtained by the Group will not subsequently be revoked by the competent authorities. In addition the Group may need to obtain further authorisations, the procedures of which are often long, costly, complex and with unforeseeable results.

In particular, with reference to the gas distribution sector, we can note that most of the concessions that the Group holds derive from direct awards by single Municipalities or were awarded through public tender procedures organised by single Municipalities that today have expired.
With reference to expired concessions, the Group's activity continues in a regime of *prorogatio* and therefore the duration of the concession relationship is considered extended up to the moment in which the new tendering procedure is organised. During this period of prorogatio, the existing relationships between granting party and concession holder remain in force and therefore the concession holder of the service (i) remains obliged to continue the management of the service, limited to ordinary administration, up to the date on which the new award comes into effect, (ii) continues to receive the related tariff and (iii) is obliged to pay the fee to the granting entity.
Furthermore, outgoing operators fulfil all the obligations arising from the concession, including the payment of a concession fee payable to the granting entity.
With reference to the methods of renewing concessions, starting from the adoption of Italian Legislative Decree no. 164/2000 (the so-called Letta Decree) and of the related implementing decrees, the new awards for natural gas distribution will be assigned through public tender procedures, organised for Minimum Territorial Areas (Ambiti Territoriali Minimi - "ATEMs") by the lead Municipality identified as contracting authority by the granting entities.

Ministerial Decree 226/2011 defined the methods for performing the tender procedures organised by the ATEMs, also laying down the terms for the publication of the related call for tenders and the terms laid down so that, on the one hand, the Region responsible, after giving notice to subjects in default specifying a peremptory term to comply, will force the launch of the tender procedure, and, on the other, the MED will intervene in order to ensure that the procedure is launched. As of today, for most of the expired natural gas distribution concessions the terms provided for in Italian Ministerial Decree 226/2011 for the issue by the contracting authorities of new calls for tenders have also expired.
In the light of the above, it is not possible to determine the dates of publication by the ATEMs of calls for tenders for the renewal of the concessions nor for the award of any new concessions with respect to those that the Group holds. It cannot be guaranteed that the Group will be awarded the new contracts, nor that, if awarded, they will be at economic conditions equivalent to the existing ones.
Non-renewal of the concessions held by the Group or non-obtainment of new concessions could have negative effects on the business and prospects of the Issuer and the Group and on their economic and financial situation and equity.
In addition, even if the Group manages to win a new concession, the times for taking over the same following the completion of the tender procedure could be very long, owing also to appeals that could be lodged by the other operators that take part in the procedure, with negative effects on the business and prospects of the Group and on its economic and financial situation and equity.

- ***Risks associated with malfunctioning and/or breakdowns of the network and plant infrastructures***

In the operating sectors of Group companies the normal provision of services depends on properly functioning infrastructures (such as electricity and natural gas transport/distribution networks) and plants (storage, thermoelectric plants, waste-to-energy plants, etc.). Any suspension or restrictions in the operation of these infrastructures (for example, caused by human error, natural disaster, terrorist act, sabotage, judicial/administrative orders) could lead to total or partial stoppage of activities performed by Estra and the other Group companies, or could increase the costs of conducting such activities.

- ***Risks related to White Certificates***

Based on applicable legislation, the Group needs to achieve specific annual energy saving targets, as determined in the Ministry of Economic Development Decree for the four-year period from 2021 to 2024. Should the Group not obtain a sufficient number of “White certificates” to achieve the relevant annual target, these need to be acquired on the market. In addition, if the required number of “White certificates” is not submitted to ARERA, it will be subject to sanctions imposed by ARERA, and will have to purchase the missing number of “white certificates”. The market price of “white certificates” rose considerably in recent months.
To comply with its energy saving obligations, the Group intends producing “white certificates” directly or acquiring them on the market to achieve its annual target. If the number of "white certificates" produced directly by the Group is less than expected and/or if the price of "white certificates" should continue to increase in the future, the Group will incur higher costs which could negatively impact its business.

- ***Risks relating to quality standards***

The Group is obliged to comply with certain quality standards relating to the sale of natural gas and electricity to end users, as well as certain standards referring to safety, continuity and commercial quality with regard to the distribution of natural gas. Failure to comply with these standards could involve the Group paying claims to end users, sanctions and/or fines. Even though the Group believes that it currently complies with the relative quality and safety standards, any future breach of these standards could negatively impact on the business, financial conditions and operating results of the Group.

- ***Risks arising from the approval of new tariff systems***

On the basis of the current tariff system, the Group’s revenues are partly updated in accordance with criteria predetermined by ARERA - Autorità di Regolazione per Energia Reti e Ambiente - Regulatory Authority for Energy Networks and the Environment (formerly AEEGSI). We cannot exclude the industry regulatory authorities’ approval of new legislation and/or regulations, which may, possibly negatively, affect the Group’s revenues,.

- ***Risk related to competition***

The Group operates in a competitive scenario that places it in competition with Italian and multinational entities, some of which can avail of much greater financial resources. Despite the Group considering it has a competitive edge deriving from its strong local roots if - following expansion of the number of direct competitors - it is unable to retain its competitive strength on the market, it could record a drop in customers and/or see its margins decline, with subsequent negative effects on its activities and growth prospects, as well as on its financial position.

- ***Risks associated with future consumer trends***

With reference to the gas distribution business, on the basis of the current tariff system, the Group's revenues are partly updated annually in accordance with criteria predetermined by ARERA - Regulatory Authority for Energy Networks and the Environment, which reflect an implicit rate of annual growth of the volumes of natural gas put into the transport network. However, the amounts of natural gas introduced into the Italian transport network depend on factors beyond the Group's control, such as the price of natural gas compared to other fuels, electricity sector development, economic growth, climatic changes, environmental laws, the continuing availability of natural gas imported from abroad and the availability of sufficient transport capacity through import pipelines. With regard to gas and electricity sales, a negative trend or slow growth in the demand for gas and electricity could have an impact in terms of lower sales volumes of gas and electricity for the Group, subsequently reflected in a decrease in the Group's overall sales margins. Among the activities implemented in this respect, the Group monitors both the electricity load profile and gas consumption trends, at Italian and international macroeconomic scenario levels, based on updates published by the leading economic and financial forecast agencies. The analysis of such data aims to give an indication as far in advance as possible of potential electricity and gas demand trends, and consequently optimise sales accordingly. In addition, the adoption of a marketing diversification strategy counteracts, up to a point, any adverse market situation.

- ***Risks related to seasons and weather conditions***

The Group's activities are influenced by weather conditions like average temperatures that impact on overall consumption requirements. Significant changes in meteorological conditions from year to year could influence the demand for natural gas and electricity, which is typically higher in the colder winters (need for heating) and hot summers (need for air conditioning). Sudden meteorological changes could cause a significant change to normal demand and impact the Group's production from certain renewable sources. This could impact negatively on the Group's business, operating results and financial position.

- ***Environmental risks associated with Group activities***

The activities of Estra and other Group companies are subject to Italian and EU regulations on environmental protection and on health and safety, and every activity is performed in compliance with these regulations and with any authorisations requested and obtained. Though Estra's business activities are conducted in compliance with environmental and safety laws, it cannot be excluded however that this and other Group companies might incur costs or be held liable for environmental protection-related situations.

- ***Liquidity Risk***

Liquidity risk is defined as the risk that Estra and the Group may be unable to meet its payment obligations when they fall due. The Group's liquidity could be damaged by inability to sell products and services, unexpected cash outflows, the obligation to pay more guarantees or inability to access the capital markets. This situation may arise due to circumstances beyond the control of the Group, such as a general market disruption or an operational problem affecting the Group or third parties, or even the perception among market participants that the Group or other participants market are experiencing a more severe liquidity risk. The liquidity crisis and loss of confidence in financial institutions can increase the cost of financing the Group and hinder access to some of its traditional sources of liquidity.
Further information is contained in note no. 13 "Objectives and criteria of financial risk management".

- ***Risks associated with debt***

Estra and the Group obtains its financial resources mainly through traditional banking channels and using traditional instruments such as medium/long-term borrowings, mortgages, short-term bank loans and credit facilities, and cash inflows from operations as part of trade relations with borrowers for services provided and with lenders for the purchase of goods and services. The net debt of the Group is affected by the seasonality of the business carried out and consequently undergoes significant fluctuations during the year. Debt refinancing risks are managed by monitoring loan maturities and coordinating borrowings with types of investments, in terms of the liquidity of assets in which the Group companies invest. Estra and the Group enjoy a high standing with the banking system, as confirmed by the B1.1 credit rating assigned by the Cerved Rating Agency after an assessment of the company's creditworthiness. It remains implicit, however, that there is no guarantee that in future Estra and the Group will be able to obtain funding with the same methods, terms and conditions granted thus far. This situation could arise due to circumstances beyond Estra's control, such as general disruption of the reference market.

The existing bonds and loans provide for specific obligations that the Group has undertaken to observe.
In addition, some of the loan contracts signed and bond loans issued by the Group also provide for the Group having to observe, for the entire duration of the loan, certain capital-financial ratios, observance of which is verified, in general, every year (that is with reference to the reporting date of each financial year on the basis of the figures in the related consolidated financial statements or separate financial statements of the borrowing Group company). Failure to comply with these parameters could result in the execution of the acceleration clause and an earlier repayment obligation arising for the debtor.
These existing loan contracts also provide for a series of default events (in some cases, referable also to companies that are part of the Group).
The Group's ability to fulfil its obligations under the terms of the existing bank loan conditions depends on the Group's future operating and financial performance, which are in turn linked to the Group's ability to implement successfully its business strategy and to other economic, financial, competitive and legislative factors that are out of the Group's control.
The Group must therefore continue to allocate part of its cash flows to serving the financial debts, reducing the financial resources usable for the operating activity and/or for investments and also affecting its ability to distribute dividends.

At 31 December 2020, the Group was observing the financial parameters provided for in the existing loan contracts. Further information is contained in note no. 13 "Objectives and criteria of financial risk management".

- ***Risks associated with interest rates***

Estra and the Group are exposed to fluctuations in interest rates, especially as regards the extent of financial charges associated with borrowings. They mitigate the risk deriving from floating-rate loans through investments and the use of funds essentially indexed to short-term rates. In addition, the interest rate risk management policy pursues the aim of limiting such volatility by identifying a mix of fixed rate and floating rate medium/long-term loans and the use of IRS contracts signed with financial counterparties of primary standing and which limit interest rate fluctuations. Taking into account the active interest rate risk monitoring policies, any future rise in interest rates should not have particularly negative effects on the financial position of Estra and the Group.
Further information is contained in note no. 13 "Objectives and criteria of financial risk management".

- ***Risks associated with exchange rates***

At present there is no exposure to risks associated with changes in foreign exchange rates that could have a significant impact on the financial position of Estra and the Group, except as regards the amount reported under commodity price risk.

- ***Risks associated with commodity prices***

In reference to the characteristics of its operating sector, the Group is exposed to commodity price risk, i.e. the market risk associated with changes in energy raw materials prices (electricity and natural gas) and the related exchange rate, given that its purchases and sales are affected by price fluctuations in energy commodities, either directly or through indexing formulas. Group policy is designed to minimise the risk associated with fluctuating commodity prices by aligning the indexing of commodity purchases with commodity sales, the vertical exploitation of the various business chains and recourse to financial markets for hedging purposes.

- ***Risks associated with transactions with Group companies***

The Group has maintained, and still maintains, commercial relations with investee companies and associates. In particular, the main transactions carried out with related parties are attributable to: (I) service contracts in being with Group companies, including those not controlled, and with the shareholders Consiag, Coingas and Intesa; (ii) recharging of costs for personnel seconded by Estra Group companies to the shareholders Consiag and Intesa; (iii) rental contracts for the company offices of Prato, Arezzo and Siena, respectively from the shareholders Consiag, Coingas and Intesa; (iv) loan contracts with Consiag and Coingas; and (v) service contracts with EDMA Reti Gas.
Although the Group believes that the conditions provided for and effectively applied with respect to related party transactions are in line with normal market conditions, there is no guarantee that, if operations to which the related party transactions refer were concluded with third parties, the same would have negotiated and signed the related contracts, or performed the aforesaid operations, with the same conditions and methods.
Further information is contained in note no. 14 “Related parties”.

- ***Risks arising from current judicial proceedings***

Estra and the Group are involved in a number of civil, administrative (mainly related to ARERA (formerly AEEGSI) resolutions/decisions or to public service concessions), tax and labour law proceedings (both as plaintiff and as defendant), relating to ordinary operations in the natural gas distribution sector and the sale of natural gas and electricity, and which are immaterial to the value of Estra and/or the Group. In the presence of current commitments resulting from past events, that could be of a legal or contractual nature or are the result of conduct that could lead to an obligation, Estra and the Group have made reasonable allocations to specific provisions for liabilities and charges over the years that are indicated among liabilities in the financial statements.

- ***Operational risk***

Operational risk is the risk of losses caused by errors, infringements, interruptions, damages caused by internal processes, employees or systems or caused by external events. Estra and the Group companies, which in any case have developed specific procedures and operating instructions designed to mitigate and reduce operating risks, are however exposed to many kinds of operational risk, including the risk of fraud by employees and external parties, the risk of unauthorised transactions by employees or the risk of operating errors, including those resulting from faults or malfunction of the IT or telecommunications systems. The systems and methods for managing operational risk are designed to guarantee that such risks associated with corporate activities are appropriately kept under control. Any disruption or fault on these systems could have a negative impact on the financial position and operating results of Estra and the Group. These factors, especially during economic and financial crises, could result in the company or Group suffering losses, increased borrowing costs, impairment of assets held, with a potential negative impact on the liquidity of Estra and the Group and on its financial soundness. Legislative Decree 231/2001 introduced the regime of corporate administrative liability of entities to Italian law for certain offences committed in their interest or to their benefit by persons holding senior office positions or persons under their direction and supervision. In order to prevent commission of the offences contemplated in the Decree, Estra has adopted its own organisational, management and control model. The Model forms part of a more wide-ranging policy pursued by Estra and the Group to promote fairness and transparency in conducting its business activities and in its relations with third parties, which includes the Code of Ethics already adopted. Estra has also established a Supervisory Board, with independent powers of initiative and control, assigned to supervision of the functions of and compliance with the Model and to promote its constant updating. The monitoring by the Oversight Committee and the Model adopted make it possible to mitigate the exposure to risks of an operational nature.

- ***Risks associated with losses on receivables***

The credit risk of Estra and the Group is mainly attributable to the total trade receivables deriving from gas and electricity sales, which are not particularly concentrated as they are spread across a vast number of counterparties such as retail, business and public entities. In conducting its business activities the Group is exposed to the risk that, as a result of the financial position of the obligated party, the receivables may not be paid when due. Consequently the risks are attributable to the increase in the seniority of receivables, insolvency risk and the risk of an increase in receivables subject to bankruptcy proceedings with subsequent impairment that could result in the cancellation, wholly or in part, from the financial statements.

The Group adopts a policy of centralised credit management aimed at governing the assessment of customers' creditworthiness and other financial assets of the same, the monitoring of expected recovery flows, the issue of payment reminders, the granting, if considered necessary or opportune, of extended credit conditions, the request for bank or insurance sureties, the transfer of receivables of discontinued customers to external credit recovery companies and the management of legal disputes involving receivables related to the services provided. The payment terms generally applied to customers are governed by legislation and the standards of the free market; in the event of non-payment, default interest is applied in the amount indicated in the supply contracts and established by the current legislation. Provisions for the impairment of receivables reflect the best estimate of credit risk.
The default of one or more customers or counterparties significant for the Group or any increase in the default rate of customers or counterparties in general could have negative effects on the Group's business and prospects and on its economic, capital and financial situation.
Further information is contained in note no. 13 "Objectives and criteria of financial risk management".

- ***Risks associated with acquisitions carried out by the Group***

Although in preparation for the finalising of operations to purchase companies or business units the Company provides for the performance of due diligence activities on the operation, it cannot be excluded that in future there may emerge liabilities not covered by the contractual guarantees and/or that the transferors will not be able to comply with any requests for compensation.

- ***Risks associated with impairment related to goodwill and to intangible assets with a finite useful life***

Following business combinations completed over time, in accordance with the IFRSs, the Group has recognised in the assets goodwill related to the companies acquired, understood as the surplus of the cost of acquisition compared to the assets and liabilities acquired, and of intangible assets with a finite useful life, in particular gas and electricity customer portfolios, deriving from the business combinations.
If the macroeconomic and financial context changes in a way not in line with the estimates and assumptions formulated on assessment or if the Group finds in future a worsening of its ability to generate cash flows and economic results compared to the forecasts and estimates on which the impairment tests are based, it could become necessary to make adjustments to the carrying amount of the intangible assets recognised in the Group's consolidated financial statements, with the consequent need to book write-downs to the income statement, with negative effects on the Group's assets and prospects and on its economic, capital and financial situation.
Further information is contained in note no. 10.1.4 "Impairment tests".

- ***Risks associated with the failed or delayed implementation of the industrial strategy***

The Group intends to pursue a strategy of growth and development, focused in particular on its core businesses – the sale and distribution of gas and electricity, telecommunications and energy services. If the Group is unable to effectively implement its strategy or implement it within agreed time frames, or if the basic assumptions underlying the strategy do not prove to be correct, the Group's ability to increase its revenues and profitability could be affected and this could have an adverse effect on the Group's business and growth prospects, as well as on its economic and financial position.

- ***Information technology risks***

Estra and Group activities are managed through complex IT systems that support the main corporate operational, administrative and commercial processes. The inadequacy or failure to update these information systems according to the requirements of the business, their potential unavailability, the inappropriate handling of aspects relating to confidentiality and integrity of the information, represent potential risk factors to which the Group is exposed.
The inadequacy or failure to update these information systems according to the requirements of the business, their potential unavailability, the inappropriate handling of aspects relating to confidentiality and

integrity of the information, could entail negative effects on the Group's assets and prospects and on its economic, capital and financial situation.

- ***Cyber Security risks***

In a context of continual technological evolution the subject of cyber security assumes increasing significance together with the associated need to protect the IT systems against attacks that can lead to theft, loss or compromising of data and information with consequent impacts on business operations and the Group's reputation.
For this Estra has provided for, in its organisation, within the structure of the information systems, specific monitoring focused on cyber security and performs periodic activities to test the vulnerability of the systems.
In addition Estra, EstraCom and Centria have obtained UNI CEI ISO/IEC 27001 certification.

- ***Risks associated with insurance cover***

The Group companies carry out activities that may expose them to the risk of suffering or causing damage that is sometimes is difficult to predict and/or quantify. Although the administrative bodies have acted to take out insurance policies appropriate to the business carried on, in the case of events that for any reason are not covered by insurance or are capable of causing damage of an amount in excess of the cover, the Group companies would be liable for the charges, with consequent adverse effects on the economic and financial position.

- ***Risk relating to the Coronavirus pandemic***

The outbreak of the health crisis from the spread of COVID-19, also known as the Coronavirus, classified as a pandemic by the World Health Organisation (WHO) on 11 March 2020, could continue for an undetermined amount of time with significant health, social and economic consequences throughout the world, including in Italy where the Group operates. Besides a worsening of the global macroeconomic scenario and risk of deterioration in the credit profile of a significant number of countries (including Italy), the pandemic has already resulted in many business activities slowing down significantly.
The COVID-19 pandemic and government responses have had and continue to have a serious impact on global economic conditions, including: (i) significant fluctuations and volatility on financial markets; (ii) the temporary closure of many businesses, with the consequent loss in income and increase in unemployment; and (iii) the introduction of social distancing.

The consequences of the Coronavirus pandemic could impact on the business environment, legal, tax and regulatory frameworks. If the pandemic persists, the negative impact on the global economic could worsen. Should this be the case, it is difficult to foresee the impact that this situation could have on the Group's activities, operations, financial conditions and results.

To the extent that the COVID-19 pandemic could negatively impact on the Group's activities, operating results and financial conditions, it could also result in increasing some of the risks referred to above.

16. USE OF FINANCIAL INSTRUMENTS

The Group holds financial derivative instruments in the following categories:
- Non-current financial hedging derivatives, referable mainly to Interest Rate Swap (IRS) contracts hedging the risk of unfavourable changes in interest rates on long-term loans;
- Commodity Swaps entered into for the purpose of financial hedging on prices indices for the volumes sold, in order to limit the price risk deriving from specific operations for gas purchase at fixed price and resale at variable price (or vice versa) at different times;
- futures contracts on commodities purchased or sold that provide for physical delivery of the gas in subsequent years.

For more information on the objectives and criteria of financial risk management (Interest rate risk, sensitivity to the interest rate, credit risk, liquidity risk, default and covenant risk) please see the related paragraph in the notes to the statements.

17. NON-FINANCIAL DECLARATION

2020 is the fourth year of application of Italian Legislative Decree 254/2016, which imposes a number of disclosure obligations involving non-financial information for large entities of public interest. Estra, having issued on 28 November 2016, an unsecured and non-convertible bond loan on the regulated market of the Dublin Stock Exchange and having the dimensional characteristics in terms of employees, balance sheet and net revenues above the thresholds provided for in art. 2 paragraph 1, is subject to application of Italian Legislative Decree no. 254 of 30 December 2016.

The non-financial declaration contains the information on environmental and social subjects, and on matters related to the personnel, to respect for human rights, and to combating active and passive corruption significant for understanding the company's performance, its results, its situation and the impact of its activity.

The Estra Group, in accordance with the provisions of article 5, paragraph 3, letter b, of Italian Legislative Decree 254/2016, has prepared the consolidated non-financial declaration which constitutes a distinct report with respect to that on operations of the consolidated financial statements.

The 2020 consolidated non-financial declaration drawn up according to the GRI "core" reporting standard, approved by the Board of Directors on 18 March 2021, is available on the Group's website."

18. THE MAIN CHARACTERISTICS OF THE EXISTING RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM IN RELATION TO THE PROCESS OF FINANCIAL DISCLOSURE, ALSO CONSOLIDATED (DISCLOSURE UNDER THE TERMS OF ART. 123-BIS PARAGRAPH 2. B) OF ITALIAN LEGISLATIVE DECREE 58/98)

The completeness, correctness and promptness of the financial disclosure is ensured by the adoption of an effective and efficient Group internal control system, the subject of constant improvement and adjustment to the evolution of the corporate activities, the legislative framework and the economic and social context. A stimulation to improve the Internal Control System on Financial Disclosure was given by parliament with Italian Law 262/05.

The incorporation of the principles and rules established by the aforesaid law constitutes for Estra an important opportunity for improvement of its Internal Control System on Financial Disclosure, in order to make it constantly monitored, and methodologically more defined and documented, also to enable the subjects to which the control activity is entrusted to carry out their audits.

The system used for the formation of the 2020 financial statements comprises:
- identification of the controls that reside in the management processes overseeing the risks on financial disclosure;
- definition of the information flows that must run between the Estra Group's units and the Administration and Financial Statements area;
- codification of the tasks, responsibilities and deadlines of the units tasked with preparing the accounting documents;
- the procedures that define the operating methods adopted by Estra and by the Group companies for the main administrative/accounting processes and for preparing the corporate accounting documents.

As integral parts of the internal control system as a whole, the following components must also be considered:
- the Code of Ethics, containing the principles and general rules that characterise the organisation and that are in keeping with the business and market context;
- the organisation, management and control model adopted in order to ensure the prevention of the crimes contemplated by Italian Legislative Decree 231/2001.
- The rules that govern the activity of the company and the Group in terms of QSE (quality, environment and safety)

The Company has also launched a process of defining the integrated risk management model, which is based on standards recognised at the international level in the field of Enterprise Risk Management (ERM) developed according to the Reference Model generally accepted at the international level in the field of internal control, issued by the Committee of Sponsoring Organizations of the Treadway Commission (known as CoSO Report).

This ERM model is aimed at supporting the Management in identifying the main business risks and the methods through which they are managed, and at defining the methods through which to organise the monitoring system protecting against the aforesaid risks.

19. INFORMATION TECHNOLOGY ORGANIZATION

The architecture of Estra's IT system is characterised by a latest-generation software which has as database a management programme, certified at the international level, named SAP which contains the vertical SAP-ISU for managing energy (gas and electricity) customers on a standard DB2 database produced by IBM. The SAP IS-U module enables complete management of all activities related to customer relations (front-office, invoicing, printing of bills, post-invoicing, meter reading forwarding, etc.) and, through parametrisation functions, it can be configured on specific services of the company.

The IT system is based on ERP (Enterprise Resources Planning) software which integrates not only all the classical business functions typical of ERP but also CRM (Customer Relationship Management) functions and is integrated with a Business Intelligence programme named SAP-BW.

Besides the SAP application indicated above other specialised software programmes are used. A group of these programmes is connected to the SAP system through specific Connectors, such as ARXIVAR, document software for the electronic storage of documents coming into the company and for logging.
Other programmes are interfaced with the SAP system through ETL (Extract, Transform, Load, with reference to data in files), technology such as Uniweb for the management of treasury flows with banks, integrated with SAP or HR module ADP + Micronterl on a dedicated platform for the production of payslips and for managing personnel.

During 2020, a project was undertaken to replace the current ERP with NET@SUITE, the new platform that will manage all areas of the ESTRA Group. All the specialised software programmes present in ESTRA will be integrated with the new suite but not replaced except in particular cases. The development project is still in progress and will continue for the whole of 2021.

20. PERSONNEL AND TRAINING

The average workforce in 2020, taking into account seconded personnel, was 755 employees. The table below shows the numbers by category and the comparison with 2019:

Position	31 Dec 2020	31-Dec-19
Managers	22	21
Office workers and middle managers	576	573
Manual workers	157	163
Total	**755**	**756**

749 units were employed at 31 December 2020.

Most of the Group companies apply the gas and water National Collective Labour Agreement (CCNL). In this regard we can note that on 7 November 2019, Filctem Cgil, Femca Cisl, Uiltec Uil and the representatives of the employer associations ANFIDA, ANIGAS, IGAS, ASSOGAS and UTILITALIA signed a draft agreement for renewal of the gas and water CCNL 2019 – 2021. The main changes in the agreement concern: economic treatment, contracts and contractual dumping, reform of the grading system, contractual welfare and availability.

In Estra Group, promotion of human resources is a key element in close correlation with the strategies and objectives of growth, innovation and development, to create value for the enterprise and to guarantee high standards of quality and safety while respecting the territory.
In all this training of personnel is an instrument of fundamental importance, not only to ensure the necessary professional preparation for tackling the challenges of the future, but also for encouraging and maintaining a working environment characterised by a positive climate, collaboration and strong corporate identity.
Particular attention is paid to continual training on technical, professional and/or managerial skills, based on legislative obligations and on the analysis of specific individual and corporate training needs.

Total number and average number of training hours

	2020	2019
Total number of training hours	17,854	23,439
Average number of training hours per worker	23	29

The training was organised by the Human Resources Service and carried out both in and out of the company offices, with the support of internal/external trainers, making use in part of professional funds. Due to the COVID-19 emergency, many of the 2020 training hours were conducted remotely, in an e-learning or webinar format.

21. QUALITY, ENVIRONMENT AND SAFETY

To achieve the objectives set on the subject of quality, environment and safety, during financial year 2020 Estra SpA and the group companies Estra Energie, Promoteo and Estra Com, finalised their activity through concrete actions to optimise their management system, based on an Integrated System at the company level for the UNI EN ISO 9001:2015, UNI EN ISO 14001:2015, UNI ISO 45001:18 and UNI CEI ISO/IEC 27001:2013 certifications.

During 2020 the internal audits were regularly carried out as were those planned for the recertification and/or maintaining of existing systems or acquiring new certifications with a positive result.

The certifications for each company are detailed below:

- Estra SpA - adoption of an integrated system for UNI EN ISO 9001:2015, UNI EN ISO 14001:2015; UNI EN ISO 45001:18 and UNI CEI ISO/IEC 27001:2014 standards.
- Estra Energie - adoption of an integrated system for UNI EN ISO 9001:2015, UNI EN ISO 14001:2015 and UNI EN ISO 45001:18.
- Promoteo - adoption of an integrated system for UNI EN ISO 9001:2015, UNI EN ISO 14001:2015 and ISO 45001:18.
- Estra Com - adoption of an integrated system for UNI EN ISO 9001:2015, UNI EN ISO 14001:2015; UNI EN ISO 45001:18 and UNI CEI ISO/IEC 27001:2013 standards, with extension to the 27017 and 27018 guidelines;
- Centria - adoption of an integrated system for UNI EN ISO 9001:2015; UNI EN ISO 14001:2015; EMAS Regulation; UNI 45001:18; UNI CEI ISO/IEC 27001:2017; SA 8000:2014; as well as UNI CEI EN ISO 50001:2011; UNI EN ISO 3834-2:2006; UNI 11024:2017; UNI EN ISO 18295,:UNI ISO 55001:2015; ISO IEC 17025:2018;
- EstraClima - adoption of an integrated system for UNI EN ISO 9001:2015, UNI EN ISO 14001:2015; UNI EN ISO 45001:18 as well as UNI CEI 11352:2014; Regulation (EC) 303-2008;
- Gergas - adoption of an integrated standard for UNI EN ISO 9001:2015, UNI EN ISO 14001:2015; UNI EN ISO 45001:18.
- Ecolat - adoption of the standards UNI EN ISO 9001:2015, UNI EN ISO 14001:2015; UNI EN ISO 45001:18
- Murgia Reti Gas - adoption of an integrated system UNI EN ISO 9001:2015, UNI EN ISO 45001:18

Mandatory information on personnel

There were no:

- fatal work accidents involving personnel enrolled in the employee register, for which corporate responsibility was positively established;
- serious accidents at work that resulted in serious or very serious injury to personnel enrolled in the employee register, for which corporate responsibility was positively established;
- charges in respect of occupational diseases of employees or former employees and anti-mobbing actions for which the company was declared ultimately responsible.

Mandatory information on environment

There were no:
- environmental damages for which the company was found guilty in the final judgement;

- final sanctions or penalties imposed on the company for offences or environmental damage.

Information on the preparation and/or updating of the privacy policy document

In 2020, the Estra Privacy Function, on instructions from the Controller Estra implemented and continued with the compliance process initiated in 2019, to keep the Privacy Governance Model updated in terms of U Regulation 679/2016 (GDPR).
This compliance process included a number of parallel initiatives and activities, including:

- new corporate mapping of the company processes in relation to the areas and services defined in the company organisational and functional structure, and at the same time, updating the processing Register, a document aimed at tracking the processing carried out by the Controller and any processors, containing, inter alia, the purpose of the processing, a description of the categories of data subjects and personal data, the recipients, any transfers to third countries and a general description of the security measures;

- updating of the Controller and Processor's Register for the Processing of Data, combined with the preparation and formulation on the Privacy management platform of:
  - the "Privacy Organisational Structure" identifying the organisational and functional responsibilities;
  - "Designation and Authorisation for the processing of personal data for Company employees/administrators", specifying the processing and data operations linked to the professional roles involved;
  - "Pre-assessment of privacy risks", identifying the levels of risk associated with the activities carried out;
  - "Revision of Information Notice", in terms of EU Regulation 2016/679;
  - "Catalogue of Company Assets", with relative assignment of Company resources;
  - "Classification of suppliers" with drafting of a "Deed to appoint an external processor";
- support activity, in conjunction with the Information Systems function, in managing IT security and cyber security;

- updating the analysis model and assessment of DPIA (Data Protection Impact Assessment) risks in view of the new processing defined in the revised Register;

- based on the new company structure, planning to review roles, responsibilities and instructions given by the Controller to the Process Owner, authorised persons (formerly persons in charge of processing) and persons required by the Regulation (external processors, internal contact persons, joint Controllers for processing, Sub-Controllers), assigned to cover an "active" role during the planning, execution and monitoring stages of data processing;

- implementation and updating of existing procedures to manage requests from data subjects and conduct the relevant activity;

- issue of opinions and directives on the impact of privacy on company processes underway or being planned (Privacy by Design);

- identifying responsibilities and issuing of relevant operating procedures/instructions to manage possible personal data breaches;

- updating the legal framework on the entire company perimeter (contract template for tenders and contracts with partners and suppliers), so that this documentation is complete and updated in accordance with new legislation.

22. RESEARCH AND DEVELOPMENT

Innovation and research in the Estra Group have great relevance in strategic choices and in defining the products and services offered by the Group.

In particular, the Group is investing in research, development and innovation for optimisation, operational efficiency and the introduction of innovative technologies in its processes and products.

In financial year 2020 the Group performed various research activities in several business segments, also in partnership with Universities, Research Institutes and specialised software production companies.

For a description of the most important initiatives carried out in 2020 please see the Non-Financial Declaration.

23. FURTHER INFORMATION

Treasury shares and shares of parent companies
The Group holds 500,000 treasury shares, through Estra S.p.A., with a nominal value of € 500,000.
The Group does not own any shares/stakes of parent companies, directly or indirectly, or through a trustee.

Company offices
Estra S.p.A. has its registered office and administrative headquarters in Prato at Via Ugo Panziera, 16 and administrative secondary offices in Arezzo at Via Igino Cocchi, 14 and in Siena at Via Toselli 9/A.
The registered, administrative and operating offices of the Group companies are mainly distributed among these offices.

Prato, 18 March 2021

On behalf of the Board of Directors
The Chairperson of the Board of Directors
Francesco Macrì

Consolidated financial statements schedules

Consolidated Income Statement

Consolidated Income Statement		Year ended 31 December			
		2020		2019[1]	
(amounts in thousands of euro)	Notes	Amount	of which referring to Related parties (note 14)	Amount	of which referring to Related parties (note 14)
Revenue from sale of goods and services	8.1.1	748,414	4,969	967,943	3,681
Other operating revenue	8.1.2	13,936	959	28,979	889
Raw materials, ancillary materials and goods	8.2.1	(357,543)	(34)	(592,046)	(53)
Costs for services	8.2.2	(242,134)	(12,268)	(255,970)	(14,321)
Personnel costs	8.2.4	(39,230)	487	(39,348)	526
Depreciation, amortisation, provisions and write-downs	8.2.5	(61,248)		(58,715)	
Other operating costs	8.2.6	(19,880)	(9)	(16,579)	(29)
Income/(expenses) from commodity risk management	8.3	(1,205)		3,582	
Portion of income/(expenses) from measurement of non-financial investments using the equity method	8.4	671		679	
Operating result		**41,782**	**(5,897)**	**38,525**	**(9,308)**
Financial income	8.5	3,482	233	2,733	185
Financial expenses	8.6	(11,984)	(492)	(13,231)	(573)
Gains or losses on currency conversions		6		(1)	
Portion of income/(expenses) from valuation of financial investments using the equity method	8.7	(1,166)		(53)	
Profit before taxes		**32,119**	**(6,156)**	**27,973**	**(9,696)**
Income taxes for the year	8.8	38,167		(10,305)	
Net profit/(loss) from continuing operations		**70,286**	**(6,156)**	**17,668**	**(9,696)**
Net profit/(loss) from discontinued operations / assets held for sale	8.9	-		(208)	
Net profit		**70,286**	**(6,156)**	**17,460**	**(9,696)**
Profit/(loss) of non-controlling interests		111		72	
Group profit/(loss)		70,175		17,388	

Earnings per share (Note 11)	Year ended 31 December	
	2020	2019
Basic earnings per share ordinary shares	0.31	0.08
Diluted earnings per share ordinary shares	0.31	0.08

Earnings per share from continuing operations (Note 11)	Year ended 31 December	
	2020	2019
Basic earnings per share ordinary shares	0.31	0.08
Diluted earnings per share ordinary shares	0.31	0.08

Income components deriving from non-recurring transactions pursuant to CONSOB Resolution number 15519 dated 27 July 2006, which defines them as "income components (positive and/or negative) deriving from events or transactions occurring on a non-recurring basis, or from transactions or facts that are not frequently repeated in the usual course of activities, are recognised under Note 8.10 "Significant non-recurring, atypical and/or unusual transactions".
The result per share, net of non-recurring operations, in terms of Consob Resolution number 15519 of 27 July 2006 (with an amount of € 48,989 thousand), is 0.09.

[1] Balances for the year ended 31 December 2019 were restated to reflect the effects of Note 7.2 "Restatement of Acquisitions in 2019" in Notes, to which reference is made for further details.

Consolidated Statement of other Comprehensive Income

Consolidated Statement of other Comprehensive Income	Notes	Year ended 31 December	
(amounts in thousands of euro)		**2020**	**2019[2]**
Net profit		**70,286**	**17,460**
of which:			
Profit/(loss) of non-controlling interests		*111*	*72*
Group profit/(loss)		*70,175*	*17,388*
Other comprehensive income components that will subsequently be reclassified under profit/loss for the year (net of taxes)			
Change in cash flow hedge reserve	**9.1**	**6,846**	**(2,491)**
- Gains (losses) for the year from measurement		*9,008*	*(3,277)*
- Taxes		*(2,162)*	*786*
Total other comprehensive income components that will subsequently be reclassified under profit/loss for the year (net of taxes)		**6,846**	**(2,491)**
Other comprehensive income components that will not subsequently be reclassified under profit/loss for the year (net of taxes)			
Actuarial gains/(losses)	**9.2**	**(134)**	**(338)**
- Actuarial gains/(losses)		*(176)*	*(445)*
- Taxes		*42*	*107*
Total other comprehensive income components that will not subsequently be reclassified under profit/loss for the year (net of taxes):		**(134)**	**(338)**
Total other comprehensive income components net of taxes	**9**	**6,712**	**(2,828)**
of which:			
related to non-controlling interests		*(10)*	*(21)*
related to the Group		*6,722*	*(2,807)*
Result of comprehensive income statement		**76,997**	**14,631**
of which:			
Net comprehensive result pertaining to non-controlling interests		*101*	*51*
Net comprehensive result Group		*76,896*	*14,580*

[2] Balances for the year ended 31 December 2019 were restated to reflect the effects of Note 7.2 “Restatement of Acquisitions in 2019” in Notes, to which reference is made for further details.

Statement of consolidated financial position

Statement of consolidated financial position	Notes	Year ended 31 December			
		2020		2019[3]	
(amounts in thousands of euro)		Amount	of which referring to Related parties (note 14)	Amount	of which referring to Related parties (note 14)
Property, plant and equipment	**10.1.1**	105,341		107,327	
Goodwill	**10.1.3**	31,136		31,136	
Intangible assets	**10.1.5**	449,377		450,239	
Equity investments	**10.1.6**	26,107	26,107	27,250	27,250
Other non-current financial assets	**10.1.7**	13,670	4,873	11,539	4,873
Other non-current assets	**10.1.8**	5,448	524	5,286	443
Deferred tax assets	**10.1.9**	66,368		30,718	
NON-CURRENT ASSETS		**697,447**	**31,504**	**663,495**	**32,566**
Inventories	**10.2.1**	18,129		24,768	
Trade receivables	**10.2.2**	234,372	7,100	281,434	9,293
Tax receivables	**10.2.3**	21,813		12,400	
Other current assets	**10.2.4**	28,367		33,419	
Other current financial assets	**10.2.5**	13,546		34,797	
Cash and cash equivalents	**10.2.6**	160,249		195,748	
CURRENT ASSETS		**476,476**	**7,100**	**582,566**	**9,293**
TOTAL ASSETS		**1,173,923**	**38,604**	**1,246,061**	**41,858**
Share capital		228,334		228,334	
Reserves		67,321		51,094	
Group profit (loss) for the year		70,175		17,388	
Total Group Shareholders' Equity		**365,830**		**296,816**	
Capital and reserves attributable to non-controlling interests		26,436		25,665	
Profit (loss) attributable to non-controlling interests		111		72	
Total Shareholders' Equity attributable to non-controlling interests		**26,547**		**25,737**	
TOTAL SHAREHOLDERS' EQUITY	**10.3**	**392,377**		**322,553**	
Provisions for risks and charges	**10.4.1**	9,173		9,504	
Employee severance indemnity	**10.4.2**	8,511		8,281	
Non-current portion of medium/long-term loans	**10.4.3**	328,861	13,153	377,863	17,335
Deferred tax liabilities	**10.4.4**	27,477		46,081	
Other non-current liabilities	**10.4.5**	8,449		4,320	
Contractual liabilities	**10.4.6**	22,071		21,123	
NON-CURRENT LIABILITIES		**404,542**	**13,153**	**467,172**	**17,335**
Current portion of medium/long-term loans	**10.4.3**	93,784	3,370	88,271	3,729
Short-term borrowings	**10.5.1**	32,509		31,601	
Trade payables	**10.5.2**	170,513	4,139	215,299	5,227
Contractual liabilities	**10.4.6**	750		656	
Tax liabilities	**10.5.3**	12,910		18,726	
Other current liabilities	**10.5.4**	56,517	7,000	64,800	14,638
Other current financial liabilities	**10.2.5**	10,021		36,983	
CURRENT LIABILITIES		**377,004**	**14,509**	**456,336**	**23,594**
TOTAL LIABILITIES and Shareholders' Equity		**1,173,923**	**27,662**	**1,246,061**	**40,929**

[3] Balances for the year ended 31 December 2019 were restated to reflect the effects of Note 7.2 "Restatement of Acquisitions in 2019" in Notes, to which reference is made for further details.

Statement of changes to consolidated shareholders' equity

Statement of changes to consolidated shareholders' equity (Note 10.3) (thousands of Euro)	**Share capital**	**Share premium reserve**	**Legal reserve**	**Cash flow hedge reserve**	**IAS 19 reserve**	**Other reserves**	**Group net result**	**Group shareholders' equity**	**Shareholders' equity attributable to non-controlling interests**	**Total Shareholders' Equity**
Balances at 1 January 2019	**228,334**	**26,156**	**8,539**	**(414)**	**377**	**26,425**	**7,331**	**296,747**	**28,505**	**325,253**
Allocation of 2018 profit										
- *Consolidated profit for the previous year*			903			(6,210)	5,307			
- *Dividends*							(12,638)	(12,638)	(1,138)	(13,776)
- *Distribution of shareholders' equity reserves*						(2,000)		(2,000)		(2,000)
Other changes					1	125		126	(1,682)	(1,556)
Result of income statement							17,388	17,388	72	17,460
Other comprehensive income				(2,490)	(317)			(2,807)	(21)	(2,828)
Balances at 31 December 2019[4]	**228,334**	**26,156**	**9,442**	**(2,904)**	**61**	**18,340**	**17,388**	**296,816**	**25,737**	**322,553**
Allocation of 2019 profit										
- *Consolidated profit for the previous year*			485			9,902	(10,388)			
- *Dividends*							(7,000)	(7,000)	(363)	(7,363)
Other changes					(1)	(881)		(882)	1,073	191
Result of income statement							70,175	70,175	111	70,286
Other comprehensive income				6,846	(124)			6,722	(10)	6,712
Balances at 31 December 2020	**228,334**	**26,156**	**9,927**	**3,942**	**(64)**	**27,361**	**70,175**	**365,830**	**26,547**	**392,377**

[4] Changes to the balances for the year ended 31 December 2019 were restated to reflect the effects of Note 7.2 "Restatement of Acquisitions in 2019" in Notes, to which reference is made for further details.

Consolidated cash flow statement

Consolidated cash flow statement (amounts in thousands of euro)	Notes	Year ended 31 December 2020	2019[5]
Profit (loss) for the year		70,286	17,460
Income taxes	**8.8**	(38,167)	10,305
Interest expense (income)	**8.5- 8.6**	8,502	10,499
(Gains) Losses from the sale of assets	**8.2.5 – 8.2.1**	1,324	1,940
Profit for the year before taxes, interest, dividends and (gains)/losses		**41,946**	**40,204**
Depreciation/amortisation of tangible and intangible assets	**8.2.4**	48,024	44,424
Write-downs of tangible and intangible assets	**8.2.4**	-	2,548
Portion of contributions to financing for investments	**8.1.2**	(760)	(681)
Fair value changes recognised in operating profit/(loss)	**8.3**	(2,932)	(4,109)
Write-downs (revaluations) of investments	**8.4 -8.7**	495	(626)
Write-downs (revaluations) of assets held for sale/disposal	**8.9**	-	208
Employee severance indemnity provision	**8.2.3**	469	177
Allocations/(reversals) to provisions for risks and other allocations	**8.2.4 – 8.2.5**	2,142	1,319
Cash flows before changes in net working capital and other assets and liabilities		**89,384**	**83,464**
Changes to trade receivables	**10.2.2**	47,062	71,228
Changes to inventories	**10.2.1**	6,639	(16,094)
Changes to trade payables	**10.5.2**	(44,786)	(44,552)
Changes in other current assets and liabilities	**10.2.4 – 10.5.4**	5,261	(10,388)
Changes in tax assets and liabilities	**10.2.3 – 10.5.3**	(19,249)	(2,691)
Change in employee severance indemnity (net of allocation)	**10.4.2**	(415)	(591)
Cash flows after changes in net working capital and other changes		**83,897**	**80,376**
Interest received		3,482	2,733
Interest paid		(10,862)	(10,789)
Taxes paid		(14,184)	(2,429)
Utilisation of provisions		(2,473)	(1,724)
A Cash flows from operating activities		**59,860**	**68,167**
of which with related parties		**(5,052)**	**(9,470)**
Investments in tangible assets	**10.1.1**	(10,257)	(9,278)
Investments in intangible assets	**10.1.5**	(36,634)	(35,312)
Divestment of tangible and intangible assets	**10.1.1 – 10.1.5**	390	758
(Investments)/divestments of equity investments	**10.1.6**	(54)	440
Dividends received from equity-accounted companies	**10.1.6**	702	478
Divestments of assets held for sale/ disposal		-	442
(Acquisition) or disposal of subsidiaries net of cash and cash equivalents	**7.2**	-	(47,504)
Other changes from investment activities		(6)	82
B Cash flows from investment activities		**(45,859)**	**(89,894)**
of which with related parties		**-**	**-**
Increases/(decreases) in non-current financial assets and liabilities	**10.1.7 – 10.4.6**	(2,130)	937
Increases/(decreases) in current financial assets and liabilities	**10.2.5**	6,228	(281)
Increases/(decreases) in other non-current assets and liabilities	**10.1.8 – 10.4.5**	4,914	3,610
Increase (decrease) in short-term bank loans	**10.5.1**	903	20,180
Opening of new bank loans	**10.4.3**	75,000	121,500
Repayment of bank loans	**10.4.3**	(115,202)	(111,027)
Buy back bond loans	**10.4.3**	-	(38,800)
Repayment of shareholder loans	**10.4.3**	(1,435)	(1,435)
Repayment of other lenders	**10.4.3**	(332)	(332)
Lease liabilities issued	**10.4.3**	2,499	-
Repayment of lease liabilities	**10.4.3**	(4,832)	(3,766)
Opening loan expenses	**10.4.3**	(304)	(665)
Other changes	**10.3**	193	-
Payment of dividends to Parent Company shareholders	**10.3**	(14,638)	-
Payment of dividends to third parties	**10.3**	(363)	(1,138)
C Cash flows from financing activities		**(49,499)**	**(11,217)**
of which with related parties		**(16,154)**	**(1,663)**
Increase (decrease) in liquidity (A+B+C)		**(35,499)**	**(32,946)**
E Cash and cash equivalents at 1 January		**195,748**	**228,693**
F Cash and cash equivalents at 31 December		**160,249**	**195,748**

[5] Balances for the year ended 31 December 2019 were restated to reflect the effects of Note 7.2 "Restatement of Acquisitions in 2019" in Notes, to which reference is made for further details.

1. Corporate information

Estra S.p.A. Energia Servizi Territorio Ambiente and "Estra S.p.A." for short (hereinafter "ESTRA" or "Estra") is a joint stock company, registered in the Companies Register of Prato, with registered and administrative offices in Via Ugo Panziera, 16 in Prato, and administrative offices in Via Toselli, 9/a in Siena and in Via Igino Cocchi, 14 in Arezzo.

The activities of the Company and its subsidiaries are detailed in Note 4 Business Segments, whereas information on the Group structure is found in Note 6 Group information. Information on the Group's interaction with related parties is provided in Note 15 Transactions with related parties.

The consolidated financial statements for the year ended 31 December 2020 were submitted for the approval of the Company's Board of Directors on 18/03/2021.

2. Significant accounting policies

2.1 Basis of preparation

The Group Consolidated Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission, integrating the relative interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), previously known as the Standing Interpretations Committee (Sic), as well as the measures implemented by Art. 9 of Italian Legislative Decree no. 38/2005.

The Consolidated Financial Statements are denoted in thousands of Euro, and all figures are rounded off to thousands of Euro, unless specified otherwise.
The general principle in the preparation of these Consolidated Financial Statements is based on cost, except for assets and liabilities linked to trading and derivative instruments, measured at fair value.

The preparation of the Consolidated Financial Statements required management to use estimates; the main areas characterised by more significant estimates and assumptions, together with those impacting significantly on the situations presented, are detailed in the paragraph "Significant accounting estimates".

2.2 Financial statements schedules

Individual income statement items are classified according to their nature. We believe that this method, which is also followed by our main competitors and is in line with international practice, provides the best representation of the company's results.
As permitted by the revised IAS 1, the comprehensive income statement is presented in a separate document to the income statement, distinguishing between components that are reclassified or not in the income statement. The other components of the comprehensive income statement are also stated separately in the statement of changes to shareholders' equity.

The statement of financial position shows the distinction between current and non-current assets and liabilities, as detailed below. The cash flow statement is prepared using the indirect method, as permitted by IAS 7.

2.3 Consolidation criteria

The Consolidated Financial Statements include the financial statements of Estra S.p.A and its subsidiaries at 31 December 2020 and 2019.

Control is achieved when the Group is exposed or is entitled to variable returns, deriving from its relationship with the investee entity, and at the same time, has the ability to impact these returns by exercising its authority over said entity.
Specifically, the Group controls a subsidiary if and only if, the Group has:

- power over the investment entity (or holds valid rights that confer the effective ability to manage the significant activities of the investment entity);
- exposure or rights to variable returns deriving from the relationship with the investment entity;
- the ability to exercise its power over the investment entity so as to impact on the extent of its returns.

Generally, there is the assumption that a majority of voting rights confers control. In support of this assumption and when the Group holds less than a majority of voting rights (or similar rights), the Group considers all the relevant facts and circumstances to ascertain whether it controls the investment entity, including:

- Contract agreements with others holding voting rights;
- Rights deriving from contract agreements;
- Group voting rights and potential voting rights.

The Group reconsiders whether it has control or not when facts and circumstances indicate that changes have intervened in one or more of the three aspects significant for the purposes of defining control. The consolidation of a subsidiary begins when the Group obtains control and ceases once the Group loses this control. Assets, liabilities, revenue and costs for the subsidiary acquired or discontinued over the period are included in the consolidated financial statements from the date on which the Group obtains control, until the date when the Group no longer exercises control over the company.

Profit (loss) for the period and each of the other comprehensive income statement items are attributed to the Parent Company shareholders and minority interests, even if this implies that the minority interests have a negative balance. Where necessary, the appropriate adjustments are made to the financial statements of subsidiaries, to ensure they conform with the Group's accounting policies. All assets and liabilities, shareholders' equity, revenue, costs and intercompany financial flows relating to transactions between group entities are completely eliminated during the consolidation phase.

Changes to equity investments in a subsidiary that do not result in a loss of control are recognised under shareholders' equity.

If the Group should lose control of a subsidiary, the relevant assets (including goodwill), liabilities, minority interests and other shareholders' equity items must be eliminated, whereas any profit or loss is recorded in the income statement. The equity investment still held is then recognised at fair value. Similarly, in the event of acquiring control, any equity investment already held will be revalued at the corresponding fair value, with any profit or loss recognised in the income statement.

2.4 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are stated using the acquisition method. The acquisition cost is determined as the sum of the transferred fee measured at fair value at the acquisition date, and the amount for the minority interest in the acquired entity. For every business combination, the Group defines whether to measure the minority interest in the acquired entity at fair value, or in proportion to the portion of minority interest in the net assets identified in the acquired entity. Acquisition costs are recognised in the period and classified under administrative expenses.
When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities undertaken in accordance with contract conditions, economic and other pertinent conditions at the acquisition date. This includes checking to see whether an incorporated derivative should be separated from the primary contract.
If the business combination is implemented over different stages, the equity investment held previously is measured at fair value at the acquisition date and any resulting profit or loss is recorded in the income statement.

Any potential fee to be recognised, is recorded by the purchaser at fair value at the acquisition date. The change in fair value of the potential fee classified as an asset or liability, as a financial instrument falling in the scope of IFRS 9 Financial Instruments: recognition and measurement, must be recognised in the income statement.
Goodwill is initially recognised at cost, represented by the surplus of the combined fees paid and the amount recorded for minority interests in respect of the net acquired assets identified and liabilities undertaken by the Group. If the fair value of the net acquired assets exceeds the combination of the fee paid, the Group checks once again whether it correctly identified all the assets acquired and all liabilities undertaken, and reviews the procedures used to determine the amounts to recognise at the acquisition date. If the new assessment once again shows a fair value for the net acquired assets that is higher than the fee, the difference (profit) is recognised in the income statement.
After the initial statement, goodwill is measured at cost, net of accumulated impairment losses. For the purposes of checking the impairment, goodwill acquired in a business combination is allocated at the date of acquisition to each cash-generating unit in the Group which expects benefits from the combination synergies, regardless of whether other assets or liabilities from the acquired entity are allocated to these units.
If the goodwill is allocated to a cash-generating unit and the entity disposes of part of this unit's assets, the goodwill associated with the discontinued assets is included in the asset's carrying value when determining the gain or loss from the disposal. Goodwill associated with discontinued assets is determined on the basis of the values relative to the discontinued assets and the portion retained by the cash-generating unit.

b) Equity investments in associates and joint ventures

An associate is a company in which the Group exercises significant influence. Significant influence is intended as the power to participate in determining the company's financial and management policies, without having control or joint control.
A joint venture is an arrangement of joint control, whereby the parties holding joint control hold rights over the net assets in the arrangement. Joint control is intended as the sharing of an arrangement's control on the basis of a contract, which exists solely when decisions on the significant assets require unanimous consent by all parties sharing control.
The considerations made to determine significant influence or joint control are similar to those needed to determine control over subsidiaries.
The Group's equity investments in associates and joint ventures are measured using the equity method.
Based on the equity method, an investment in an associate or joint venture is initially recognised at cost. The investment's carrying value increases or decreases to record the portion of the participant's share of the gains and losses realised after the acquisition date. Goodwill pertinent to the associate or joint venture is included in the equity investment's carrying value and is not subject to separate impairment testing.
The year's statement of profit and loss reflects the portion of results from associates and joint ventures attributable to the Group. Any change in other items of the comprehensive income statement relating to that associate is recognised in the Group's comprehensive income statement. In addition, should an associate or joint venture record a change that is charged directly to shareholders' equity, the Group recognises its portion, where applicable, in the statement of changes to shareholders' equity. Unrealised profits and losses deriving from transactions between the Group and associates or joint ventures are eliminated in proportion to the shareholding in the associates or joint ventures.
The portion of the result from associates and joint ventures attributable to the Group represents the result net of taxes and the portion due to the associates' or joint ventures' other shareholders and is recognised in the Income statement before or after the operating result is recognised in relation to the correlation that exists between the associate's assets and those of the entity preparing the financial statements.
The financial statements for associates and joint ventures are prepared at the same reporting date as the Group. Where necessary, the Group may adjust these to bring them in line with Group accounting policies.

Subsequently to applying the equity method, the Group assesses whether to recognise an impairment in its equity investment in the associates or joint ventures. At each reporting date, the Group assesses whether there are any objective signs that equity investments in associates or joint ventures have undergone impairment. In this case, the Group calculates the loss as the difference between the recoverable value of the associate or joint venture and the recognised value of the latter in its own financial statements, recognising this difference in the Income Statement under "attributable share of profit/(loss) of associates and joint ventures".

On losing the significant influence over an associate or joint control over a joint venture, the Group assesses and records the remaining equity investment at fair value. The difference between the carrying value for the equity investment at the date of losing significant influence or joint control, and the fair value of the residual equity investment and fees received, is recognised in the income statement.

c) Current/non-current classification

Assets and liabilities in the Group's financial statements are classified on a current/non-current basis.

An asset is current when:

- one can suppose that it will be realised, or is held for sale or consumption through the normal operating cycle;
- it is held mainly for the purpose of trading;
- one can suppose that it will be realised within twelve months from the close of the financial period; or
- it comprises cash or cash equivalents, unless it is forbidden for these to be exchanged or utilised to extinguish a liability for at least twelve months from the close of the financial period.

A liability is current when:

- it is expected to be extinguished in the normal operating cycle;
- it is held mainly for the purpose of trading;
- it must be extinguished within twelve months from the close of the financial period; or
- the entity does not have an unconditional right to defer the settlement of the liability for at least twelve months from the close of the period.

Deferred and prepaid tax assets and liabilities are classified under non-current assets and liabilities.

d) Fair value measurement

The Group measures financial instruments such as derivatives and commodity trading futures contracts at fair value at each reporting date. A summary is provided below of the notes relating to the fair value of financial instruments, and the notes referring to fair value:

- Measurement methods, discretionary assessments and significant accounting estimates: Note 3 Discretionary assessments and significant accounting estimates;
- Quantitative information on the fair value measurement hierarchy: Note 10.5.5 Financial instruments and measurement at fair value;
- Financial Instruments (including those measured at amortised cost): Note 10.5.5 Financial instruments and measurement at fair value;

Fair value is the price that would be received to sell an asset, or would be paid to transfer a liability, in a regular transaction between market participants at the measurement date. The fair value measurement supposes that the sales transaction for the asset or transfer of the liability takes place:

- in the principal market for the asset or liability;
  or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market or most advantageous market must be accessible to the Group.
The fair value of an asset or liability is valued by adopting the assumptions that market participants would use in determining the price for the asset or liability, presuming that they are acting to satisfy their own economic interests in the best way possible.
A fair value measurement of a non-financial asset considers the ability of a market participant to generate economic benefits, making maximum and best use of the asset or selling it to another market participant that would make the maximum and best use thereof.

The Group uses valuation techniques that have been adapted to its circumstances, and where there is sufficient data available to measure the fair value, by maximising the use of relevant observable inputs, and minimising the use of unobservable inputs.
All assets and liabilities measured at fair value or recognised in the financial statements are classified according to the fair value hierarchy, as follows:

- Level 1 - quoted prices (without adjustment) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – valuation techniques where input data is unobservable for the asset or liability.

The fair value measurement is classified entirely at the same fair value hierarchy level where the input at the lowest hierarchy level used for the valuation, is classified.

For assets and liabilities recognised at fair value on a recurring basis in the financial statements, the Group determines whether transfers have occurred between the hierarchy levels, by reviewing the classification (based on the lowest level input, which is significant for the fair value measurement in its entirety) at each reporting date.
The Group determines the criteria and procedures for the measurement of recurring fair value such as derivatives and commodity trading futures contracts, and for non-recurring measurements, such as assets held for sale.

For the purposes of fair value disclosures, the Group determines the asset and liability classes based on the nature, characteristics and risks of the asset or liability and the fair value hierarchy level referred to above.

e) Revenue from disposal of goods and services

The ESTRA Group operates primarily in the sale of gas and electricity sector and in the gas distribution sector.

The Group considers whether there are other promises contained in the contract, which represent performance obligations, and to which a portion of the transaction fee needs to be allocated (for example, guarantees, customer loyalty plans). In determining the price for a sales transaction, the Group considers the effects resulting from a variable fee, significant financing components, non-monetary fees, and fees payable to the customer (if applicable).

If the promised fee in the contract includes a variable amount, the Group estimates the amount for the fee, to which it will be entitled in exchange for the transfer of the goods to the customer.
The variable fee is estimated at the time of signing the contract, and its recognition is not possible until it becomes highly probable that when the uncertainty associated with the variable fee is subsequently resolved, there will not be a significant reduction recognised in the cumulative revenue amount already recognised.

The following specific criteria need to be followed for the purposes of recognising revenue:

1. Sale of goods

Revenue is recognised when the entity has transferred control of the goods to the buyer, which generally occurs on the date of delivery of the goods.
Revenue from the sale of electricity and gas is recognised and accounted for at the time of providing the supply, recorded according to a predetermined calendar for consumption readings, and at the end of the period, includes the estimate for the supply of gas and electricity provided to final customers and not yet invoiced at 31 December. Revenue for the sale of electricity and gas is recognised and stated at the time of supply and includes the allocation for supplies rendered but not yet invoiced.

2. Provision of services

Revenue from distribution is recognised on the basis of the tariffs approved by the Italian Regulatory Authority for Electricity, Gas and Water [ARERA], and are subject to equalisation at the end of the period to reflect the remuneration approved by the Authority against the investments made, according to the accrual principle.
Revenue referring to the provision of services is recognised on the basis of the service rendered in accordance with the relative contracts.

3. Revenue from trading

Revenue from trading in natural gas is recognised as follows:

- Revenue from trading transactions that meet the so-called “own use exemption” is recognised at the time of provision, and stated separately from the relative costs to purchase the gas;
- Revenue deriving from trading transactions that do not meet the so-called “own use exemption”, but which envisage the physical delivery of the gas sold. In these circumstances, the Group only obtains control of the gas temporarily and instrumentally on the signing of the contracts. The transactions are put in place with various counterparties, in respect of whom there is a distinct credit risk. Moreover, the fee paid to the Group in these contracts is determined in order to maximise the margin from the transaction as a whole. This revenue is recognised net of the relevant purchase cost in the income statement under “expenses and income from commodity risk management”.

The sales and purchase obligations at the reporting date, in respect of which the delivery of the physical gas has not yet occurred, are measured at fair value through profit & loss in accordance with IFRS 9, and recorded in the income statement under “expenses and income from commodity risk management”. See also note n) on derivative instruments in this regard.

4. Contractual assets

Contract assets represent the entity’s right to obtain the fee agreed on against the transfer of control of the goods or services to the customer.
If the Group fulfils its obligation by transferring the goods or services to the customer prior to the latter paying the fee or prior to payment being due, the entity must record an asset deriving from a contract, excluding the amounts presented as credits.

5. Trade receivables

For the Group, a receivable represents the unconditional right to receive the fee (i.e. all that is needed is for the time to lapse so that payment of the fee may be received). Reference is made to the paragraph on standards in section p) Financial instruments - initial recognition and subsequent measurement.

6. Contractual liabilities

Contract-based liabilities represent an obligation to transfer goods or services to the customer, where the Group has already received the fee (or where a portion of the fee is outstanding). If the customer pays the fee before the Group has transferred control of the goods or services, the liability arising from the contract is recognised when payment is made or (if earlier), when is it due. Liabilities deriving from contracts are recognised as revenue when the Group satisfies the performance obligations in the relevant contract.

7. Costs of obtaining a contract

The Group pays commissions to acquire contracts via indirect sales channels. IFRS 15 requires that certain criteria must be met to record the incremental costs to obtain a contract and the costs incurred to execute the contract with the customer, under assets. Any capitalised costs to obtain contracts must be amortised on a straight line basis, based on the transfer of the goods or services by the entity to the customer. Incremental costs to obtain a contract and the costs to fulfil a contract are recorded as assets pursuant to IFRS 15.128, and the closing asset balance, amortisation amounts and any losses for impairment during the period are stated separately. Nonetheless, IFRS 15 does not make any stipulation regarding the classification of these assets and the relevant amortisation. Without a standard that deals specifically with the classification and presentation of costs to obtain contracts, the Group has adopted the general IAS 8 standard to select the appropriate accounting treatment. According to this standard, incremental costs to obtain a contract and the costs incurred to fulfil a contract, must be considered separately for recognition in the financial statements.
The Group has chosen a distinctive class of intangible assets in the statements of consolidated financial position, and the relevant amortisation in the same item relating to intangible assets amortisation in the scope of applying IAS 38 - Intangible assets.

f) Interest income

In the case of all financial instruments measured at amortised cost and interest-bearing financial assets classified as held for sale, interest income is recorded by using the effective interest rate (EIR), which is the rate discounting future collections, estimated across the financial instrument's expected life or a shorter time frame, where necessary, in relation to the financial asset's net carrying value. Interest income is classified under financial income in the income statement.

g) Dividends

Dividends are recognised when the Group is entitled to receive payment, which generally corresponds with the time the Shareholders' Meeting approves the distribution.

h) Public grants

Public grants are recorded when there is reasonable certainty that the grants will effectively be received, and that all the relevant conditions have been met. Grants relating to cost components are recognised as revenue on a straight line basis over the financial periods, so that they are commensurate to the cost they intend offsetting. The grant related to an asset is recognised as revenue, and stated in equal portions across the reference asset's expected useful life.
When the Group receives a non-monetary grant, the asset and relative contribution are recorded at nominal value, and stated in the income statement in equal portions across the reference asset's useful life.

i) Income taxes

i) Current taxes

Current tax assets and liabilities are measured at the amount that is expected to be recovered or paid to the tax authorities. The rates and tax regulations used to calculate the amount are those issued, or effectively in force at the reporting date.
Current taxes referring to items recognised directly under shareholders' equity are also recognised at equity and not in the income statement. Management periodically reviews the position taken on the tax returns, and in cases where tax regulations are subject to interpretation, and where appropriate, makes the necessary provisions.

ii) Deferred taxes

Deferred taxes are calculated by applying the liability method to the temporary differences at the reporting date between the tax asset and liability figures and the corresponding carrying value.

Deferred tax liabilities are recognised for all temporary taxable differences, except for:

- deferred tax liabilities deriving from the initial recognition of goodwill or an asset or liability in a transaction not representing a business combination, which at the time of the transaction, does not affect the accounting or tax balance;
- the reversal of taxable temporary differences related to equity investments in subsidiaries, associates and joint ventures, may be controlled, and it is probable that the reversal will not occur in the foreseeable future.

A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carried tax losses and credit can be utilised, unless:

- the deferred tax liabilities related to the temporary deductible differences derives from the initial recognition of goodwill or an asset or liability in a transaction not representing a business combination, which at the time of the transaction, does not influence the balance sheet or tax balance;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.
Deferred taxes referring to items recognised off the income statement are also recognised in the income statement, and therefore in shareholders' equity or the comprehensive income statement, according to the item they refer to.
Deferred tax assets and liabilities are offset where there is a legal basis, which allows for the offsetting of current tax assets and liabilities, and the deferred taxes refer to the same tax payer and same tax authorities.
Tax benefits gained as a result of a business combination, but which do not meet the criteria for separate recognition at the acquisition date, are subsequently recognised at the time when new information is obtained regarding the changes in facts and circumstances. The adjustment is recognised by reducing goodwill (up to the goodwill's value), in the event it was recorded during the measurement stage, or in the income statement, if recognised afterwards.

iii) **Uncertainty on treatments for income tax purposes**

In the definition of uncertainty it is considered whether a given tax treatment will be acceptable to the Tax Authority. If it is considered probable that the tax authority will accept the tax treatment (the term probable is understood as "more probable than not"), the Group recognises and measures its current or deferred tax assets and liabilities applying the rules of IAS 12.
Conversely, if there is uncertainty on treatments for income tax purposes, the Group reflects the effect of this uncertainty making use of the method that best provides for resolution of the uncertain tax treatment. The Group decides whether to take into consideration each uncertain tax treatment separately or jointly with one or more uncertain tax treatments, choosing the approach that best provides for the solution of the uncertainty. In assessing whether and in what way the uncertainty affects the tax treatment, the Group assumes that the Tax Authority will or will not accept an uncertain tax treatment presuming that the same, in the audit stage,will check the amounts that it has the right to examine and that it will be completely cognisant of all the related information. When it concludes that it is not probable that the tax authority will accept an uncertain tax treatment, the Group reflects the effect of this uncertainty in determining the current and deferred taxes, using the method of the expected value or the most probable amount, according to which method better provides for the solution of the uncertainty.
The Group makes significant use of professional judgement in identifying the solution of the uncertainties on treatments for income tax purposes and re-examines the judgements and estimates made in the presence of a change in the facts and circumstances that modify its forecasts on the acceptability of a certain tax treatment or the estimates made on the effects of the uncertainty, or both.

As the uncertain tax positions refer to the definition of income taxes, the Group presents uncertain tax assets/liabilities as current or deferred taxes.

j) Indirect taxes

Costs, revenue, assets and liabilities are recognised net of indirect taxes, such as value-added tax, except for:

- tax applied to the purchase of goods and services is not deductible; in this case this is recognised as part of the asset's purchase cost or part of the cost recorded in the income statement;
- trade receivables and payables include the applicable indirect tax.

The net amount of indirect tax that needs to be recovered or paid to the tax authorities is included among receivables or payables.

k) Non-current assets held for sale, disposal groups and discontinued operations

Non-current assets held for sale, disposal groups and discontinued operations, where the carrying amount will be recovered principally through a sale transaction instead of through continuing use are measured at the lower of the carrying amount and fair value less costs to sell. More specifically, a disposal group is a group of assets and directly associated liabilities, which are to be disposed of in a single transaction. Discontinued operations on the other hand, comprise a significant component of a group, such as for example, a major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale. In accordance with IFRS standards, data relating to non-current assets held for sale, disposal groups and discontinued operations are presented in two specific items of the financial statements: assets held for sale and liabilities directly associated to assets held for sale.
Non-current assets held for sale are not subject to amortisation and are measured at the lower of the carrying amount and relative fair value, less the sale costs; any difference between the carrying value and fair value reduced by the sales expenses is charged to the income statement as a write-down.
With sole reference to discontinued operations, the net economic results obtained pending the disposal process, the capital gains/losses deriving from the disposal itself and the corresponding comparative data for the period/previous period are presented under a specific item in the income statement: profit (loss) from discontinued assets/ held for sale.

l) Distribution of dividends and distribution of assets other than cash and cash equivalents

The Company records a liability against the distribution of cash or other assets other than cash and cash equivalents when the distribution is appropriately authorised, and is no longer at the Company's discretion. Based on Italian Company law, distribution is authorised when it is approved by shareholders. The corresponding amount is recognised in shareholders' equity.
The distribution of assets other than cash and cash equivalents, which do not refer to the distribution of a non-monetary asset controlled by the latter prior and after distribution, are measured at the fair value of the assets to distribute; the recalculation of fair value is recorded directly under shareholders' equity.
At the time of the dividend payment, any difference between the carrying value of the distributed assets and the carrying value of the payable dividend is recognised in the income statement.

m) Property, plant and equipment

Property, plant and equipment are entered at purchase or production cost inclusive of ancillary expenses, or at the amount based on an expert's appraisal of the company's assets in the case of business acquisitions, and is shown net of depreciation and any impairment. Production costs includes the direct and indirect costs for the portion reasonably attributable to the asset (for example: personnel costs, transport, customs duties, expenses to prepare installation premises, testing costs, notary and land register costs).

This cost also includes the costs to replace machinery and installations at the time they are incurred, provided they comply with recognition criteria. Where the periodic replacement of significant parts of plants and machinery is necessary, the Group depreciates these separately based on their specific useful life. Likewise, with major overhauls, the costs are included in the plant or machinery's carrying amount, as in the case of replacement, where the recognition criteria are met. All costs for repairs and maintenance are recognised in the income statement when they are incurred. The effective cost of dismantling and removing an asset at the end of its use is included in the asset's cost, should the recognition criteria be met for a provision.
The carrying amount of intangible assets is subject to a test to assess whether there has been any impairment, in particular when events or changes indicate that the carrying amount cannot be recovered (for further details, reference is made to the note "Impairment of non-current assets).
Amortisation begins when the asset is available for use. Assets under construction include the costs relating to the tangible asset that is not yet available for use. Tangible assets are depreciated on a straight-line basis annually, using economic and technical rates deemed representative of the assets' residual useful lives.

The table below provides the depreciation rates that were considered when depreciating assets.

Relating to gas distribution:

Category	Depreciation period
Land	not subject to depreciation
Industrial buildings	50 years
Urban networks and connections	50 years
Connections	40 years
Stations	10 years
Tanks and storage facilities	10 years
Facilities for remote operations	10 years
Metering equipment	10 years

Relating to other specific Group business sectors:

Category	Depreciation period
Heat - District heating network	30 years
Heat - Thermoelectric Plants	25 years
Heat - Heat management facilities under concession	7-9 years (contractual term)
Telephony - Conduits	40 years
Telephony - Optical and copper cables	20 years
Telephony – SDH node, networking, access and video surveillance equipment	8 years
Telephony – Hardware and mobile phones	5 years
Renewable energy - photovoltaic plants	20 years
Waste selection - Plant	25 years

With regard to the remaining asset categories, the depreciation rates applied are the following:

Category	Depreciation period
Lightweight constructions	10 years
Electronic machines	5 years
Furniture	8 years
Equipment	10 years
Industrial vehicles	5 years
Other vehicles	4 years

The carrying value of buildings, plants and machinery and any other significant component initially recorded, are eliminated at the time of disposal (i.e. the date when the purchaser obtains control thereof) or when no future economic benefit is expected from their use or disposal. The gain/loss emerging at the time of the asset's accounting elimination (calculated as the difference between the asset's carrying value and net fee) is recorded in the income statement.

The residual values, useful lives and depreciation methods for buildings, plants and machinery are reviewed at each reporting date, and corrected prospectively where appropriate.

n) Leases

At the time of signing a contract, the Group assesses whether or not it contains a lease. In other words, whether the contract confers the right of use of an identified asset over a period of time, in exchange for a fee.

The Group only operates as a lessee, adopting a single model to recognise and measure all leases, excluding short-term leases and the leases for low-value assets. The Group recognises liabilities relating to lease payments and assets for the right of use, which represents the right to utilise the asset underlying the contract.

Right-of-use assets

The Group recognises right-of-use assets from the date the lease starts (i.e. the date when the underlying asset is available for use). Right-of-use assets are measured at cost, net of cumulative amortisations and impairments, and adjusted for any redetermined lease liabilities. The cost of the right-for-use assets includes the amount for the recognised lease liabilities, the initial direct costs incurred and lease payments made at the start date or prior to the start, net of any incentives received. Right-of-use assets are amortised in equal portions from the effective date until the end of the assets' useful life, corresponding to its right of use, or if earlier, at the end of the lease term.

If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term, or if the cost of the asset corresponding to the right of use reflects the fact that the lessee will exercise the option to purchase, the lessee shall amortise the asset consisting of the right-of-use from the effective date until the end of the underlying asset's useful life.
Right-of-use assets are subject to impairment. Reference is made to the section "Impairment of non-financial assets".

Lease related liabilities

At the effective date of the lease, the Group recognises the lease liability, measuring it at the current value of the payments in respect of the lease that are unpaid at that date. The payments include the fixed payments (including basic fixed payments), net of any lease incentives to be received, the variable lease payments that are dependent on an index or rate, and the amounts to be paid by way of a guarantee or residual value. Lease payments also include the exercise price of the purchase option, if the lessee is reasonably certain that this option will be exercised by the Group, and the payment of any penalties to terminate the lease, if the lease term takes into account the Group exercising the option to terminate the lease.
Variable lease payments that are not dependant on an index or rate are recognised as costs over the period (unless there were incurred to produce inventories) when the event or the condition generating the payment occurred.

o) Financial expenses

Financial expenses directly attributable to the acquisition, construction or production of an asset that requires quite a long time before it becomes available for use, are capitalised on the cost of the asset. All financial expenses are recognised among the costs relating to the period in which they were incurred. Financial expenses comprise interest and the other costs that an entity may support to obtain the funding.

p) Intangible assets

Intangible assets acquired separately are initially recorded at cost, whereas those acquired via business combinations are recognised at fair value on the acquisition date. After initial recognition, intangible assets are recorded net of the accumulated amortisation and any impairments. Internally produced intangible assets,

excluding development costs, are not capitalised and are recorded in the income statement in the period they were incurred.
The useful life of intangible assets is measured as limited or indefinite.
Intangible assets with a limited life are amortised over their useful life and are subject to impairment testing, at any time there any indications that there may be possible losses in value. The amortisation period and method for an intangible asset with a limited life are reviewed at least at the end of each period. Changes in the expected useful life or ways in which future economic benefits associated with the asset will be realised, are recognised by changes to the amortisation period or method, as the case may be, and are considered as accounting estimate changes. Amortisations of intangible assets with a limited life are recognised in the income statement under the cost category relating to the function of the intangible asset.
Intangible assets with an indefinite life are not amortised, but are subject to annual impairment testing, both at individual level and at the cash-generating unit level. The assessment of the indefinite life is reviewed annually to determine whether this allocation is sustainable, otherwise the change from the indefinite useful life to limited useful life is applied on a prospective basis.
Gains or losses deriving from the elimination of an intangible asset are measured by the difference between the net revenue from the disposal (at the date when the purchaser gains control) and the carrying amount of the intangible asset, and are recognised in the Income Statement in the period in which the elimination takes place.
Gains or losses deriving from the sale of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset, and are recognised in the income statement at the moment when the risks and benefits associated with ownership of the asset are transferred to the purchaser.

Patents and licences

These are represented by identifiable, discernible assets under the company's control, which can generate future economic benefits; these rights are amortised across the relevant useful lives.

Service concession agreements

IFRIC 12 stipulates that when specific characteristics exist at the time of the concession, the infrastructure used to provide public services on a concession basis are recognised as intangible assets and/or as financial assets according to whether the concessionaire is entitled to a fee from the customer for the service provided and/or is entitled to receive this from the granting public entity.
The concession arrangements in place with granting entities and relating to the Group's gas distribution are recognised according to IFRIC 12, by applying the intangible asset model, because the underlying concessionary relationships do not guarantee the unconditional right in favour of the concessionaire to receive cash, or other financial assets.
Given that most of the work is tendered externally and that with the construction carried out internally, no separate distinction is made between the project margin and benefits recognised in the service remuneration tariff, this infrastructure is recorded on the basis of costs effectively supported, net of any contributions made by entities and/or private customers.
During the construction phase, the Group records a contract asset when the right to a fee in kind is not subject to performance risks.

Amortisations are calculated on the basis of what is stipulated in the respective agreements/concessions, taking into consideration the provisions under applicable legislation on concessions for gas distribution, and in particular: i) consistently for the lesser period between the economic-technical life of the assets under concession and the term of the concession itself, when on expiry, no compensation is paid to the outgoing manager (Reimbursement Value, or "RV"); ii) based on the economic-technical life of individual assets, when on the concessions' expiry, the assets are not freely transferable.

a) Financial instruments - Recognition and measurement

A financial instrument is any contract that gives rise to a financial asset for an entity and to a financial liability or an equity instrument for another entity.

b) Financial assets

Initial recognition and measurement

At the time of initial recognition, financial assets are classified based on the subsequent measurement method, i.e. at amortised cost, fair value recognised in profit and loss OCI and at fair value recognised in the income statement.
The classification of financial assets at the time of initial recognition depends on the characteristics of the contract cash flows for the financial assets and the business model the Group uses to manage them. Except for trade receivables that do no contain a significant financing component or where the Group has applied a practical expedient, the Group initially measures a financial asset at its fair value plus the transaction costs in the case of a financial asset not at fair value recognised in the income statement. Trade receivables that do not include a significant financing component or where the Group has applied a practical expedient are measured at the transaction price.
In order for a financial asset to be classified and measured at amortised cost or at fair value through OCI, it must generate cash flows that depend solely on the principal and interest on the principal amount to be repaid (i.e. solely payments of principal and interest or SPPI). This assessment is referred to as a SPPI test and is conducted at instrument level. Financial assets with cash flows that do not meet the requisites indicated above (e.g. SPPI) are classified and measured at fair value through profit or loss.
The Group's business model for managing financial assets refers to the way in which it manages its financial assets to generate cash flows. The business model determines whether the cash flows will derive from the collection of contract-based financial flows, from the sale of financial assets or both.
Financial assets classified and measured at amortised cost are held in the context of a business model whose objective is the possession of financial assets for the purpose of collecting contractual cash flows, while financial assets classified and measured at fair value through OCI are held in the context of a business model whose objective is achieved both through collecting contractual cash flows and through sale of the financial assets.
The purchase or sale of a financial asset that requires delivery within a time period generally set according to regulations or market practice (i.e. regular way trade) is recognised at the trade date, i.e. the date on which the Group has undertaken to buy or sell the asset.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified into four categories:
- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value recorded in the comprehensive income statement with reclassification of accumulated profit and loss (debt instruments);
- Financial assets at fair value recorded in the comprehensive income statement without the reversal of profit and loss accumulated at the time of elimination (capital representative instruments);
- Financial assets at fair value recognised in the income statement.

Financial assets at amortised cost (debt instruments)
Financial assets at amortised cost are subsequently measured using the effective interest criterion and are subject to impairment. Profit and loss are recorded in the Income Statement when the asset is eliminated, amended or revalued.
The Group's financial assets at amortised cost include trade receivables, a loan to an associate, a loan to a director included in other non-current financial assets.

Financial assets at fair value through OCI (debt instruments)
For assets from debt instruments measured at fair value through OCI, the interest income, the changes owing to exchange differences and write-downs, together with write-backs, are recognised in the income statement and are calculated in the same way as financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. At the moment of elimination, the cumulative fair value change recognised in OCI is reclassified in the income statement.
The Group's assets from debt instruments measured at fair value through OCI include investments in listed debt instruments included in other non-current financial assets.

Investments in equity instruments
At the moment of initial recognition, the Group may irrevocably choose to classify its investments in shares as equity instruments recognised at fair value through OCI when they meet the definition of equity instruments

under the terms of IAS 32 "Financial Instruments: Presentation" and are not held for trading. The classification is determined for each individual instrument.
Gains and losses made on these financial assets are never booked to the Income Statement. Dividends are recognised as other revenue in the income statement when the right to payment has been resolved, except when the Group benefits from this income as a recovery of part of the cost of the financial asset, in which case these gains are recognised in OCI. Equity instruments recognised at fair value through OCI are not subject to impairment tests.

Financial assets at fair value recognised in the income statement
Financial instruments at fair value with changes recorded in the income statement are recognised in the statement of financial position at fair value and the net changes in fair value recorded in the profit and loss statement for the period.
This category includes derivative instruments and listed equity investments that the Group has not chosen irrevocably to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit/(loss) for the year when the right to payment has been established.
Embedded derivatives contained in a non-derivative hybrid contract, in a financial liability or a non-financial principal contract, are separated from the principal contract and recognised as separate derivatives, if: their economic characteristics and the associated risks are strictly related to those of the principal contract; a separate instrument with the same conditions of the embedded derivative would satisfy the definition of a derivative; and the hybrid contract is not measured at fair value in the income statement. Embedded derivatives are measured at fair value, with changes in fair value recorded in the income statement. A redetermination occurs only when a change in the contract conditions significantly changes the cash flows otherwise expected or when a financial asset is reclassified to a different category from fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised firstly (i.e. removed from the Group's statement of financial position) when:
- the rights to receive cash flows from the asset are extinguished, or
- the Group has transferred to a third party the right to receive cash flows from the asset or has assumed the contractual obligation to pay them entirely and without delay and (a) has substantially transferred all the risks and benefits of ownership of the financial asset; or (b) has not transferred nor substantially kept all the risks and benefits of the asset, but has transferred control thereof.

If the Group has transferred the rights to receive cash flows from an asset or has signed an agreement on the basis of which it maintains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it assesses whether and to what extent it has kept the risks and benefits related to possession. If it has not either transferred or substantially kept all the risks and benefits of the asset or has not lost control thereof, the asset continues to be recognised in the Group's financial statements to the extent of its residual involvement in the said asset. In this case, the Group also recognises an associated liability. The asset transferred and the associated liability are measured so as to reflect the rights and obligations that remain pertinent to the Group.
When the residual involvement of the entity is a guarantee on the asset transferred, the involvement is measured on the basis of the lower between the amount of the asset and the maximum amount of the price received that the entity may have to repay.

Impairment

The Group records a write-down for expected loss (expected credit loss or ECL) for all financial assets represented by debt instruments not held at fair value recorded in the income statement. ECLs are based on the difference between the contract financial flows payable according to the contract and all the financial flows that the Group expects to receive, discounted to an approximation of the original effective interest rate. Expected cash flows include financial flows deriving from the execution of collateral or other credit guarantees that form an integral part of the contract conditions.
Expected losses are recognised over two stages. With regard to credit exposures where there has been no significant increase in credit risk from the initial recognition, losses on credit are recorded as they derive from the estimate of default events that are possible within the next 12-month period (12-month ECL). With regard to credit exposures where there has been a significant increase in credit risk from the initial recognition, the expected losses referring to residual period of exposure are fully recorded, regardless of the time when the default event is expected to occur ("Lifetime ECL").

For trade receivables and contract based assets, the Group applies a simplified approach to the calculation of expected losses. The Group does not therefore monitor changes in credit risk, but fully records the expected loss at each reporting date. The Group has prepared a matrix system based on historic information, which is revised in view of forecast elements with reference to specific types of debtors and their economic context, and is used as a tool to determine expected losses.

For assets represented by debt instruments measured at fair value through OCI, the Group applies the simplified approach permitted for assets with low credit risk. At each reporting date, the Group assesses whether it believes that the debt instrument has a low credit risk using all the available information that can be obtained without excessive costs or efforts. In carrying out this assessment, the Group monitors the creditworthiness of the debt instrument. In addition, the Group assumes that there has been a significant increase in credit risk when contractual payment are past due for more than 60 days.

A financial asset is eliminated when there is no reasonable expectation of recovering the contract-based financial flows.

c) Financial liabilities

Initial recognition assessment

Financial liabilities are classified, at the moment of initial recognition, among financial liabilities at fair value through profit or loss, among loans and financing, or among derivatives designated as hedging instruments.
All financial liabilities are recognised initially at fair value to which are added, in the case of loans, financing and payables, the transaction costs directly attributable to them.
The Group's financial liabilities include trade payables and other payables, loans and financing, including current account overdrafts and derivative financial instruments.

Subsequent measurement

For the purposes of subsequent measurement financial liabilities are classified into two categories:
- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (financing and loans)

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include liabilities held for trading and financial liabilities initially recognised at fair value through profit or loss.
Liabilities held for trading are all those assumed with the intention of extinguishing them or transferring them in the short term. This category includes in addition derivative financial instruments subscribed by the Group that are not designated as hedging instruments in a hedging relationship defined by IFRS 9. Embedded derivatives, separated from the main contract, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments.
Gains or losses on liabilities held for trading are recognised in the statement of profit/(loss) for the year.
Financial liabilities are designated at fair value through profit or loss from the date of first recognition, only if the criteria of IFRS 9 are met.

Financial liabilities at amortised cost (financing and loans)
This is the most significant category for the Group. After the initial recognition, loans are measured with the amortised cost criterion using the effective interest rate method. The gains and losses are accounted for in the income statement when the liability is extinguished, as well as through the amortisation process.
The amortised cost is calculated recognising the discount or premium on acquisition and the fees or costs that are an integral part of the effective interest rate. The amortisation at the effective interest rate is included among financial expenses in the statement of profit/(loss).
This category generally includes interest-bearing loans and receivables.

Derecognition

A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled. When an existing financial liability is replaced by another from the same provider, with substantially different conditions, or the conditions of an existing liability are substantially amended, this exchange or amendment is treated as an accounting derecognition of the original liability, accompanied by the recognition of a new liability, with any differences in the carrying amounts recorded in the statement of profit/(loss) for the year.

Offsetting of financial instruments

A financial asset and a financial liability can be offset and the net balance presented in the statement of financial position, if there is a current legal right to offset the amounts recognised in the accounts and there is the intention to extinguish the net residue, or to realise the asset and at the same time extinguish the liability.

d) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments including: currency forward contracts, interest rate swaps and forward contracts for the purchase of commodities to hedge, respectively, its exchange rate risks, interest rate risks and commodity price risks. These derivative financial instruments are initially recognised at fair value at the date in which the derivative contract is signed and, subsequently, they are measured at fair value. Derivatives are accounted for as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For hedge accounting purposes, hedges are of three types:

- fair value hedges in the case of hedging of the exposure against changes in the fair value of the asset or liability recognised or irrevocable commitment not recognised;
- cash flow hedges in the case of hedging of the exposure against changes in the cash flows attributable to a particular risk associated with all the assets or liabilities recognised or with a highly probable planned operation or the foreign currency risk on irrevocable commitment not recognised;
- hedging of a net investment in a foreign operation.

At the beginning of a hedging operation, the Group designates and formally documents the hedging relationship, to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.
The hedging relationship meets the criteria of admissibility for hedge accounting if it meets all the following hedging effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not prevail over the changes in value resulting from the said economic relationship;
- the hedging ratio of the economic relationship is the same as that resulting from the quantity of the hedged item that the Group effectively hedges and from the quantity of the hedging instrument that the Group uses effectively to hedge this quantity of hedged item.

The operations that meet all the qualifying criteria for hedge accounting are accounted for as follows:

Fair value hedges
The change in fair value of hedging derivatives is recognised in the statement of profit/(loss) for the year among other costs. The change in fair value of the hedged item attributable to the risk hedged is recognised as part of the carrying amount of the hedged item and is also recognised in the statement of profit/(loss) for the year among other costs.
As regards fair value hedges referred to items accounted for according to the criterion of amortised cost, each adjustment of the carrying amount is amortised in the statement of profit/(loss) for the year along the residual period of the hedging using the effective interest rate (EIR) method. The amortisation thus determined can begin as soon as there is an adjustment but cannot extend beyond the date in which the hedged item ceases to be adjusted as a result of the changes in fair value attributable to the risk hedged.
If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit/(loss) for the year.
When an unrecognised irrevocable commitment is designated as a hedged item, the subsequent cumulative changes in its fair value attributable to the risk hedged are accounted for as assets or liabilities and the corresponding gains or losses recognised in the statement of profit/(loss) for the year.

Cash flow hedges
The portion of gain or loss on the hedged instrument, related to the part of effective hedging, is recognised in the statement of other comprehensive income in the "cash flow hedge" reserve, while the ineffective part is recognised directly in the statement of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower between the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.
The Group uses forward currency contracts to hedge its exposure to exchange rate risk related both to planned transactions and to commitments already established; in the same way, it uses forward commodity contracts to hedge against the volatility of commodity prices. The ineffective part of forward currency contracts is recognised in other costs and the ineffective part of forward commodity contracts is recognised among other operating costs or income.
The Group designates only the spot component of forward contracts as a hedging instrument. The forward component is cumulatively recognised in OCI in a separate item.
The amounts accumulated among other comprehensive income are accounted for, according to the nature of the underlying hedged transaction. If the hedged operation subsequently entails the recognition of a non-financial component, the amount accumulated in shareholders' equity is removed from the separate component of shareholders' equity and included in the cost value or other carrying amount of the hedged asset or liability. This is not considered a reclassification of the items recognised in OCI for the period. This is valid also in the case of a hedged planned operation of a non-financial asset or a non-financial liability that subsequently becomes an irrevocable commitment to which the accounting of fair value hedging operations applies.
For any other cash flow hedging, the amount accumulated in OCI is reclassified to the income statement as an adjustment from reclassification in the same period or in the periods during which the hedged cash flows impact the income statement.
If the cash flow hedge accounting is interrupted, the amount accumulated in OCI must remain such if it is expected that the hedged future cash flows will occur. Otherwise, the amount must immediately be reclassified in profit/(loss) for the year as a reclassification adjustment. After the suspension, once the hedged cash flow occurs, any remaining amount accumulated in OCI must be accounted for according to the nature of the underlying transaction as described above.

At each reporting date, hedging financial instruments are subjected to an efficiency test to check if the cover has the requirements to qualify as effective hedging and to be recognised according to hedge accounting standards.

The derivative financial instruments used are measured at fair value in relation to the market forward curve at the reporting date, when the underlying of the derivative is traded on markets that present official and liquid forward price listings. In the case that the market does not present forward listings, provisional price curves are used, based on evaluation techniques.

The Group holds financial derivative instruments in the following categories:

- Non-current financial derivative hedging instruments, referring mainly to Interest Rate Swap (IRS) contracts to hedge the risk of unfavourable interest rates on loans or long-term leasing plans. The effective portion of changes in the fair value of derivatives is directly recognised in shareholders' equity under a specific equity provision called the "Cash flow hedge reserve", whereas the ineffective portion is recorded in the income statement. Amounts that are directly recognised in shareholders' equity are reflected in the comprehensive income statement.
- Commodity Swaps entered into for the purpose of hedging price indices for volumes sold, in order to limit price risk deriving from specific gas purchase transactions at a fixed price and resale at a variable price (or vice versa) at different times. Derivative changes in fair value that meet the IFRS 9 requirements to qualify as hedging instruments are recognised in a specific shareholders' equity reserve, called the "Cash flow hedge reserve". Changes to the fair value that do not meet the conditions, including formal ones, required by IFRS 9 to qualify as hedging instruments are recognised in the Income Statement.
- Commodity forward contracts to buy or sell that provide for the physical delivery of gas in subsequent periods. Their measurement depends on the classification of the instrument in one of the following categories:
  - Forward contracts used in gas trading, falling within the scope of application of IFRS 9 as "contracts entered into for trading, speculative and hedging purposes". These financial instruments are

measured at fair value at the reporting date with recording of the effects in the income statement under "Expenses/(income) from commodity risk management";

- Forward contracts used in the marketing of gas, not falling within the scope of application of IFRS 9, because they have been entered into to optimise the Group's own procurement and sales portfolio ("own use"). These financial instruments are recognised at the time of the physical delivery of the underlying commodity.

Further information is contained in the paragraph of the notes to the statements "Objectives and criteria for financial risk management - Risks associated with commodity prices".

e) Inventories

Inventories were recorded at the lower of the acquisition cost or production cost, including any ancillary costs, and the estimated realizable value based on market prices. The cost configuration adopted is that of the weighted average cost. Any obsolete or slow-moving inventories were written down on the basis of their possible use or implementation.
Gas storage inventories held for trading were measured at fair value, in relation to the official listings on the reference market at the valuation date.

f) Environmental securities: White certificates

The Group only holds Energy Efficiency Certificates (EECs) for own-use, i.e. in relation to its own requirements (Industrial Portfolio), whereas it holds no units/certificates for trading purposes (Trading Portfolio).
EECs held for own-use ("Industrial Portfolio") acquired to meet requirements, (determined in relation to the obligations accrued at year end), are recognised under current assets at fair value based on their expected realisable value.
Furthermore, a "Risk Provision" is allocated, for EECs that have not yet been acquired (to meet the year obligation) for the difference between the contribution value and market value of the EECs. The provision is recorded under "Other operating costs".

Accounting treatment according to the IFRS is the "Net liabilities approach", based on which the EEC purchase costs are recognised under "Other operating costs" at the time of purchase, whereas the contribution (ARERA/GSE) relating to cancelled EECs is recorded under "Other revenue and income" at the time of effective collection. The EECs in the portfolio at the reporting date are valued based on the contribution value recognised by ARERA/GSE for the current year, and are recognised under "Other revenue and income" and "Receivables from CCSE" [Electricity Equalisation Fund].

g) Losses in value for non-current assets

At each reporting date, the Group assesses whether losses in value indicators exist in relation to non-current assets. In this case, or in the cases where an annual impairment test is required, the Group estimates the recoverable value. The recoverable value is the higher between the asset or cash-generating unit's fair value, net of sales costs, and its value in use. The recoverable value is determined per individual asset, except when this asset generates cash that is not largely independent from what is generated from other assets or groups of assets. If the carrying value an asset is higher than its recoverable value, the asset has lost value and is consequently written down to its recoverable value.
In determining the value of use, the Group discounts estimated future financial flows to current value using a discount rate that reflects the market valuation for the current value of money and specific asset risks. Recent transactions on the market are considered when determining the fair value net of sales costs. If it is not possible to identify these transactions, an appropriate valuation model is used.
The Group bases its impairment test on detailed budgets and provisional calculations, prepared separately for each of the Group's cash-generating units allocated individual assets. A long-term growth rate is calculated in these budgets and provisional calculations to project future cash flows beyond the last year included in the plan.

Value impairments of assets in use are posted to the income statement in the cost categories consistent with the function of the asset which has shown the value impairment.

For assets other than goodwill, at each reporting date, the Group assesses any indications of a loss (or reduction) in value previously recorded, and where these indicators exist, estimates the asset's or CGU's recoverable value. The value of an asset that was previously written down can only be restored if there were changes in the assumptions on which the recoverable value calculation was based, subsequent to the recording of the last impairment. The recovery in value cannot exceed the carrying value that would have been determined, net of amortisations, had no impairment been recognised in previous periods.

Goodwill is subject to impairment testing at least once a year (at 31 December), and with greater frequency, when circumstances indicate that the entry value could be subject to a loss in value.
The impairment is determined by valuing the recoverable value for the cash-generating unit (or group of cash-generating units) that the goodwill refers to. An impairment loss is recognised when the recoverable value for a cash-generating unit is lower than the cash-generating unit's carrying value that the goodwill was allocated to. The loss in value for goodwill cannot be recovered in future periods.

h) Cash and cash equivalents and short-term deposits

Cash and cash equivalents include cash in hand and short-term deposits falling due within three months, which are not subject to significant risks of changes in value.
For the purposes of representation in the consolidated cash flow statement, cash and cash equivalents are represented by cash as defined above, net of bank overdrafts, as these are considered an integral part of the Group's liquidity management.

i) Provisions for risks and charges

Provisions for risks and charges are carried out when the Group must meet a current obligation (legal or implicit) resulting from a past event, when it is probable that resources must be disbursed to meet this obligation, and it is possible to reliably estimate the amount. When the Group considers that a risks and charges provision will be partly or entirely recovered (as in the case of risks covered by insurance policies), the indemnity is recorded separately and distinctly under assets, if and only if, it is reasonably certain. In this case, the cost of any provision is presented in the income statement, net of the amount recognised for the indemnity.
If the effect of the value of money over time is significant, provisions are discounted using a before tax discount rate, which, where appropriate, reflects the liabilities' specific risks. When the liability is discounted, the increase in the provision due to the passage of time is recorded as a financial expense.

j) Post-employment benefits

The employee severance indemnity (TFR) and pension funds are determined applying an actuarial methodology; the amount for the rights accrued in the period by employees is charged to the income statement under labour costs, whereas the figurative financial expense that the company would incur if it requested funding from the market for an amount equalling the severance pay indemnity is recorded under net financial income (expenses). The actuarial gains and losses that reflect the effects of the changes in the actuarial assumptions are recorded in the comprehensive income statement, taking into account employee's remaining average working life.
Based on Finance Law no. 296 of 27 December 2006, for the purposes of IAS 19, only liabilities relating to the severance indemnities accrued that have remained with the company were valued, because the accruing portions are paid to a separate entity (Complementary pension or National Pension Fund INPS). Consequent to these payments, the company will have no further obligations related to work provided in future by the employee.
Benefits guaranteed to employees and awarded concurrently or subsequent to their termination of employment, based on definite benefit plans (discounts on electricity, healthcare, other benefits) or long-term benefits (loyalty bonus) are recognised in the period when the right accrues.

Liabilities related to definite benefit programmes, net of any assets servicing the plan, are determined by independent actuaries based on actuarial assumptions, and are recorded in relation to the work needed to obtain the benefits.

2.5 Changes to accounting standards and disclosure

The Group has applied the standards or changes for the first that had come into effect from 1 January 2020. The Group has not adopted in advance any new standards, interpretations or amendments issued but not yet in force.

Amendments to IFRS 3: Definition of a business
The changes to IFRS 3 clarify that to be considered a business, the integrated combination of assets and goods must include at least an input and an underlying process that together contribute significantly to the capacity to create the output. It clarified further that a business may exist without including all the inputs and processes needed to create the output. These amendments did not have any impact on the Group's consolidated financial statements, but could impact on future years if the Group should carry out business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest rate benchmark reform
The amendments to IFRS9 and IAS 39 provide a number of practical expedients that are applied to hedge accounts that are impacted directly by the interest rate benchmark reform. A hedging account that is impacted by the reform is subject to uncertainty regarding the timing and extent of cash flows based on the benchmark rate with reference to the hedged instrument. These amendments will not impact on the Group's consolidated financial statements.

Amendments to IAS 1 and IAS 8 – definition of material
The amendments provide a new definition for material, which states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. These amendments did not have any impact on the consolidated financial statements, nor are any future impacts expected for the Group.

Conceptual Framework for Financial Reporting, issued on 29 March 2018
The Conceptual Framework does not represent a standard, and none of the concepts it contains have precedence over the concepts or requirements of a standard. The purpose of the Conceptual Framework is to support the IASB in developing standards, assist in developing consistent accounting policies where there are no applicable standards to the specific circumstances and help all the parties involved to understand and interpret the standards.
The revised version of the Conceptual Framework includes some new concepts, provides updated definitions and updated recognition criteria for assets and liabilities, and clarifies certain important concepts. These amendments did not have any impact on the Group's consolidated financial statements.

Amendment to IFRS 16 COVID-19 Related Rent Concessions
On 28 May 2020, the IASB published an amendment to the IFRS 16 standard. The amendment allows a lessee not to apply IFRS 16 on the accounting effects of contract changes due to reduced rentals provided by the lessor, as a direct consequence of the COVID-19 epidemic. The amendment introduces a practical expedient whereby the lessee can choose to measure the reduction in rental as if it were not a lease modification. A lessee that chooses this expedient accounts for these reductions as if they were not lease modifications in the scope of IFRS 16.
The amendments are applicable to financial statements for the accounting period starting 1 June 2020 or later. Early adoption is permitted. These amendments did not have any impact on the Group's consolidated financial statements.

2.6 Standards issued but not yet in force

The standards and interpretations that had already been issued but were not yet in force at the reporting date of the Group's consolidated financial statements are set out below. The Group intends to adopt these standards and interpretations when they come into force, if applicable.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a new complete standard related to insurance contracts that covers recognition and measurement, presentation and disclosure. When IFRS 17 comes into force it will replace IFRS 4 Insurance Contracts which was issued in 2005. IFRS 17 applies to all insurance contracts (for example: life, non-life, direct insurance, re-insurance) irrespective of the type of entity that issues them, and also to some guarantees and financial instruments with discretionary participation features.

Limited exceptions will apply to the scope. The general objective of IFRS 17 is to present an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast with the provisions of IFRS 4 which are largely based on maintaining the previous accounting policies, IFRS 17 provides a complete model for insurance contracts that covers all the significant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-term contracts.

IFRS 17 will be in force for financial years that begin on 1 January 2021 or subsequently, and will require the presentation of the comparative balances. Early application is permitted, in which case the entity must have adopted also IFRS 9 and IFRS 15 at the date of first application of IFRS 17 or previously. This standard does not apply to the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs from 69 to 76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is intended by the right to defer payment after the due date
- that the right to defer settlement must exist at the close of the financial year
- The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement.
- Only if an implicit derivative in a convertible liability is an equity instrument itself, the maturity of liability does not impact on its classification.

The amendments are applicable for financial periods beginning or after 1 January 2023, and may be applied retrospectively. The Group is currently assessing the impact that the amendments will have on its current position, and whether it may become necessary to renegotiate existing financing contracts.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments aim to replace references to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with references to the Conceptual Framework for Financial Reporting issued in March 2018, without any significant changes to the standard's requirements.

The Board has also added an exception to the IFRS 3 measurement criteria to avoid the risk of potential "day after" losses or profits "arising from liabilities and potential liabilities that would fall within the scope of IAS 37 or IFRIC 21 Levies, if contracted separately.

At the same time, the Board clarified that the existing guidance in IFRS 3 for potential assets will not be impacted by the update to the references to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are applicable for financial periods beginning 1 January 2022, and may be applied prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB published Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from deducting the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The entity recognises proceeds from the sale of these products and the costs to produce said products in the Income Statement.

The amendment will be effective for the annual periods beginning on or after 1 January 2022. It must be applied retrospectively to items of property, plants and equipment made available for use at the date the previous period began or later, in relation to the period when the entity applies the amendment for the first time.

No material impact is expected for the Group regarding these amendments.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB published amendments to IAS 37 to specify which costs an entity must consider when assessing whether a contract is onerous or loss-making.

The amendment requires the application of a directly-related cost approach. The costs referring directly to a contract for the supply of goods or services include both the incremental costs and costs directly attributable to contractual assets. General and administrative expenses are not directly related to a contract and are excluded, unless these are explicitly attributable to the counterparty on the basis of the contract.
The amendments are applicable for financial periods beginning or after 1 January 2022. The Group will apply these amendments to contracts where it has not yet fulfilled all its obligations at the start of the financial period when the Group will be applying these amendments for the first time.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of the annual improvements process 2018-2020 regarding IFRS standards, the IASB has published an amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards. This amendment allows a subsidiary that chooses to apply paragraph D16(a) of IFRS 1 to recognise the cumulative translation differences on the basis of the amounts recognised by the parent company, considering the IFRS transition date by the parent company. This amendment also applies to associates or joint ventures that choose to apply paragraph D16(a) of IFRS 1.
The amendment will be applicable for financial periods beginning or after 1 January 2022, and early application is permitted.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of the annual improvements process 2018-2020 regarding IFRS standards, the IASB has published an amendment to IFRS 9. The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees only include those paid or received between the debtor and lender, including the fees paid or received by the debtor or lender on behalf of others. An entity applies this amendment to financial liabilities that have been changed or traded after the date of the first financial year when the entity applies the amendment for the first time.
The amendment will be applicable for financial periods beginning or after 1 January 2022, and early application is permitted. The Group will apply this amendment to financial liabilities that have been changed or traded after the date of the first financial year when the entity applies this amendment for the first time.
No material impact is expected for the Group regarding this amendment.

IAS 41 Agriculture – Taxation in fair value measurements

As part of the annual improvements process 2018-2020 regarding IFRS standards, the IASB has published an amendment to IFRS 41 Agriculture. The amendment eliminates the requirements in paragraph 22 of IAS 41 referring to the exclusion of cash flows for taxation, when the fair value of an asset is measured for the purpose of IAS 41.
An entity applies this amendment prospectively to measure fair value as from the financial periods beginning or later than 1 January 2022, and early application is permitted.
No material impact is expected for the Group regarding this amendment.

3. Significant accounting judgements, estimates and assumptions

In terms of IFRS-EU, the preparation of the Group's financial statements requires directors to make discretionary assessments, estimates and assumptions that influence the figures for income, costs, assets and liabilities and the relevant disclosures, including potential liabilities. Management's estimates and opinions are based on prior experience and on all other aspects deemed reasonable in that case; they are adopted when the carrying value for assets and liabilities is not easy to discern from other sources. The final results may therefore differ from those estimates. Estimates and assumptions are revised periodically, and the effects of any changes are reflected in the income statement, where the revision refers only to that financial period. Where these changes involve both current and future financial periods, the change is recognised in the period when the revision was made and in the relevant future periods.
To provide a better understanding of the financial statements, note 3.2 "Significant accounting estimates" hereunder shows the main items affected by the use of accounting estimates and that include a significant component of opinions by management, highlighting the main assumptions used in the assessment process, in accordance with the aforementioned international accounting standards. The critical nature of these assessments lies in fact with the recourse made to assumptions and/or professional opinions relating to issues that are by nature uncertain.
Changes to the conditions underlying the assumptions and opinions adopted could impact significantly on subsequent results.
Additional information relating to the Group's exposure to risks and uncertainties is provided in the following paragraphs:

- Capital management;
- Objectives and criteria for financial risk management;
- Disclosure on sensitivity analysis.

3.1 Judgements

In applying the Group's accounting standards, directors have taken decisions based on the following discretionary assessments (excluding those that involve estimates), with a significant effect on the figures recorded in the financial statements.

(i) Joint control of an entity in which the Group holds less than the majority of shares

The Group with the shareholder Viva Servizi S.p.A. jointly controls the company EDMA Reti Gas S.r.l. at 31 December 2020, even though individually it holds 45% of the share capital. This is because on the basis of the Articles of Association and shareholder agreements that require the unanimous consent of both parties in decisions relating to significant assets, the Group jointly decides on the financial, management and strategic policies of the subsidiary together with Viva Servizi S.p.A.

Given the non-financial nature of the investment and the management and operational role played by the Group, the portion of the subsidiary's result attributable to the Group is measured using the equity method, and recorded in the income statement before the operating result.

(ii) Identification of Cash Generating Units (CGU)

In applying the provisions of IAS 36 "Impairment of Assets", goodwill recognised in the financial statements based on business combination operations is allocated to individual CGUs or groups of CGUs, in that they are expected to benefit from the combination. A CGU represents the smallest group of assets that generates cash flows that are largely independent.
In the process to identify the CGUs, management has taken into account the specific nature of the asset and business it belongs to (territorial area, business area, reference regulations, etc.), checking that the cash flows deriving from a group of assets is strictly independent and autonomous from those deriving from other assets (or groups of assets).

The assets included in each CGU are also identified on the basis of the procedures management uses to manage and monitor them in the scope of the business model adopted. More specifically, the following CGUs were identified:

* Sale of Gas and Electricity CGU
* Centria Regulated Market CGU
* Gergas Regulated Market CGU
* Murgia Regulated Market CGU

In addition, other CGUs were identified that overlap with individual companies falling in the scope of IFRS 8 as "Other SBUs", as specified in note 4 "Business Segments".

3.2 Significant accounting estimates

The application of generally accepted accounting standards for the preparation of the financial statements, requires that Management makes accounting estimates based on complex and/or subjective judgement, past experience and assumptions deemed reasonable and realistic on the basis of information known at the time of the estimate. The use of these estimates influence the value of assets and liabilities and the information related to potential assets and liabilities at the financial statements date, as well as the income and expense amounts in the reference period. Final results could differ from the estimates made, due to the uncertainties characterising the assumptions and conditions generating the estimates. The main accounting estimates which are considered critical included in the process to prepare the financial statements are shown below, in that they are highly dependent on subjective opinions, assumptions and estimates on issues that by their nature are uncertain. Any changes to the conditions on which the opinions, assumptions and estimates adopted are based, could impact significantly on subsequent results.

(i) Impairment of non-financial assets

An impairment is recorded in the value of a non-financial asset when events or changes in circumstances lead to the assumption that the carrying amount is not recoverable. The events that could determine a loss in an asset's value are changes to business plans, regulatory changes, a high turnover of customers, changes in market prices, reduced usage of plants. The decision whether to proceed with an impairment and quantification thereof depends on Management's assessments made on complex and highly uncertain aspects, which include future pricing trends, the impact of inflation, the customer drop-out or defection rate (churn rate).

The impairment occurs when the asset or cash generating unit's carrying value exceeds its recoverable value, which is the higher between its fair value less sales costs and its use value. Fair value less sales costs is the amount obtained from the sale of an asset or cash generating unit in a free transaction between cognisant and available parties, less the disposal costs. In determining this fair value, Management may also use technical reports prepared by third parties, especially with regard to the industrial value (RIV) of assets under concession. The calculation for the use value is based on the discounted cash flow model. The cash flows deriving from the forecast plans that are based on accurate estimates and do not include restructuring activities to which the Group has not yet committed or significant future investments that will increase the value of the assets making up the cash generating unit subject to the assessment. The recoverable value depends significantly on the discount rate used in the discounted cash flow model, as well as the expected cash flows in the future and growth rate used for the extrapolation. The key assumptions used to determine the recoverable value for the different cash generating units, including a sensitivity analysis test, are detailed in the following notes Impairment test pursuant to IAS 36 on the goodwill value (10.1.4 Impairment test pursuant to IAS 36 on the goodwill value) and Impairment test pursuant to IAS 36 on the value of property, plant and equipment (10.1.2 Impairment test pursuant to IAS 36 on the value of property, plant and equipment).

(ii) Business combinations

The recognition of business combination operations implies allocating the difference between the purchase cost and net carrying value to the assets and liabilities of the acquired business. For most assets and liabilities, the allocation of the difference is done by recording assets and liabilities at their fair value. If it is positive, the non-attributable portion is recognised in goodwill and if negative in the income statement. The allocation of the price paid on a provisional basis is subject to review/updating within the 12 months after the acquisition, with due regard for any new information on the facts and circumstances that existed at the acquisition date. In the allocation process, the Group bases itself on available information, and on external assessments for the more significant business combinations; the allocation process also requires an overall assessment to be made by Management, which is also made in relation to available information.

(iii) Amortisation/ depreciation

Amortisations/depreciations are calculated on the basis of the asset's estimated useful life, the residual concession term, the drop-out or defection rate (churn rate). Useful life is determined by Directors, with the help of technical experts at the time of recording the asset in the financial statements; the assessment regarding the useful life term is based on historic experience, market conditions, forecasts on future events that could impact on the useful life, including changes in technology. The Group periodically reviews changes in technology and the sector, the customer churn rate, the expenses for dismantling/closing, and the recovery value to update the residual useful life. This periodic update could involve a change to the amortisation/depreciation period, and therefore also the depreciation rate for future periods.

With regard to the term for concessions relating to the distribution of natural gas, Italian Legislative Decree no. 164/00 (Letta Decree) stipulated that all concessions must be put out to tender within the expiry of the so-called "transitory period", and that the new concession term could not exceed twelve years. On the outgoing operator's expiry of the concessions, a set indemnity is paid based on industrial estimate criteria, against the transfer of the distribution networks. In so far as the estimates conducted by directors are concerned when determining the depreciation/amortisation criteria, the assets' net carrying value on expiry of the concession should not be higher than the residual industrial value (RIV).

(iv) Defined benefit plans

The cost of defined benefit pension plans after employment and the current value of the defined benefit obligation are determined by using actuarial assessments. The actuarial assessment involves calculations using various assumptions that can differ from effective future developments. These assumptions include determining the discount rate, future salary increases, the mortality rates, and future pension increases. Due to the complexity of this assessment and its long-term nature, these estimates are especially sensitive to changes in the assumptions. All assumptions are reviewed on an annual basis.
The discount rate represents the parameter subject to the greatest variations. In determining the appropriate discount rate, directors use the corporate bond interest rate as a reference, in currencies consistent with the currencies for the defined benefit obligations, that are assigned a minimum AA rating by internationally recognised rating agencies and with average expiries corresponding to the expected term of the defined benefit obligation. Obligations are subject to an additional qualitative analysis and those that present a credit spread that is deemed excessive are eliminated from the obligations population on which the discount rate was calculated, because they do not represent a high-quality category of obligations.
The mortality rate is based on tables available for the specific mortality of each country. These mortality tables tend to vary only at intervals in relation to demographic changes. Future salary increases and pension increases are based on the expected inflation rate for each country. Additional information is provided in Note Employee severance indemnity.

(v) Fair value of financial instruments

When the fair value of an asset or liability in the statements of financial position cannot be measured on the basis of listing on an active market, the fair value is determined by using different valuation techniques, including the discounted cash flow model. The inputs used in this model are taken from observable markets, where possible, but should this not be possible, a certain level of estimation is required to define fair values. Estimates include considerations on variables such as liquidity risk and credit risk, if deemed relevant. Changes in the assumptions in these aspects could have an impact on the fair value of the financial instruments recorded.

(vi) Provisions for risks and write-downs

Provisions for risks are done on the basis of expectations of actual events, which according to available information and the support of lawyers and consultants assisting the Group, are deemed to be reasonably certain.

The recoverability of receivables recorded for the sale of electricity and gas, together with the need to record any write-downs in these, are the result of an assessment process by Company Management, involving complex and/or subjective opinions. The calculation is based on analyses by customer cluster, supplemented by specific analytical assessments, using a matrix for measuring the expected losses (provision matrix). The impairment percentages are determined on the basis of historical analyses conducted referring to losses on amounts payable by customers, in relation to the age of the receivable, the creditworthiness of the counterparty where available, average collection times and the status of the receivable (active, discontinued) and the historic trend of the uniform individual class taking into consideration and current information that could affect the expectations and estimates of loss on receivables. Receivable positions of the most significant amounts are analysed and, if appropriate, specifically written down.

(vii) Revenue recognition

Revenue from the sale of electricity and gas to business, retail and domestic customers is recognised and stated at the time of providing the supply, recorded according to a predetermined calendar for consumption readings, and include the estimate for the supply of gas and electricity provided to end customers and not yet invoiced at 31 December. This estimate is obtained as the difference between consumption (effective or estimated based on the customers' historic consumption and other factors that could influence consumption, such as weather conditions) already invoiced by the end of the financial period and the total quantity released into the distribution network net of the estimate of any network losses; the estimate is recorded in specific provisions for invoices to be issued. The volumes distributed and allocated are communicated by distributors and transporters, both nationally and locally, and are subject to potential revisions in subsequent years as provided for in the relevant regulations. The amount of gas and electricity volumes released into the network and not yet invoiced, obtained in this way, is measured according to the type of customer, based on the proportion of the respective volumes already invoiced during the period and on the related average tariff in force during the period.
The provision for revenue from invoices to be issued for the sale of gas and electricity to final customers is therefore the outcome of a complex estimate based on distributed and allocated volumes, subject to adjustments, and is influenced by the professional judgement of Company Management. Please see note 10.2.2 Trade receivables for further information.

(viii) Estimates on Lease agreements as lessee

In addition, starting from 1 January 2019, following application of IFRS16, the following significant accounting estimates were made, as a Group in its capacity as lessee:

- Lease term: the identification of the term of the rental contract is a very significant issue which entails the use of assumptions in particular for the assessment of the effects of renewal options at the end of the non-cancellable period. For the definition of the term of the lease the Group, in fact, considered the presence of renewal and cancellation options held respectively by the lessee, the lessor or both. In the presence of renewal options exercisable by both contractual parties it considered the existence or non-existence of significant economic disincentives in rejecting the renewal request as required by paragraph B34 of IFRS 16. In the presence of options exercisable by only one of the two parties it considered paragraph B35 of IFRS 16.
  With reference to the company offices, the application of the above, taking into account the specific facts and circumstances and the estimate on the exercise of the option being reasonably certain, entailed that a term up to the second renewal provided for in the contract was considered. This was based on the fact of not being able to consider reasonably certain the renewal beyond the second period or, at least, at the same conditions.

- After the starting date of the contract, the Group reviews the term of the same if there occurs a significant event or a significant change in the circumstances which, depending on the Group's intentions, has an effect on the lessee's reasonable certainty of exercising an option not previously included in its determination of the term of the lease or of not exercising an option previously included in its determination of the term of the lease. In June 2019, the IFRS Interpretation Committee began to discuss the topic of the lease term (project: Lease Term and Useful Life of Leasehold Improvements). In November 2019, a decision was published which clarifies how the concepts of non-cancellable period, lease term (considered for the purposes of recognition of the liability) and enforceable period (useful for identifying the moment in which the contract no longer generates enforceable rights and obligations) should be read and correlated together for the purposes of applying IFRS 16. The decision clarified that for the purposes of identifying the enforceable period a lessee must consider the contractual moment in which both parties involved can exercise their right to terminate the contract without incurring more than an insignificant penalty. The concept of penalty must not have a merely contractual meaning but should be seen considering all the economic aspects of the contract. Once the enforceable period has been identified, the lessor assesses in the presence of renewal or cancellability options for what period it is reasonably certain to control the right of use of the asset and therefore determines the lease term. At the date of preparation of these consolidated financial statements, the Group considered these discussions and conclusions and will continue to monitor the evolution over time.

- Definition of the discount rate: as in most rental contracts entered into by the Group, there is no implicit interest rate, the Group calculated an Incremental Borrowing Rate (IBR) that is the interest rate that the

Company will have to pay to obtain a loan, with a similar term and guarantees, necessary to obtain an asset of a value similar to the asset consisting of the right of use in a similar economic context.

The discount rate used to measure the value of the liabilities related to leasing contracts was calculated taking into consideration the country risk, the currency, the lease term, and the Group's credit risk. The discount rates used to measure the value of the liabilities related to leasing contracts in which the Group operates as lessee are in a range between 1.5% and 2.5%.

4. Segments information

For management purposes, the Group is organised into *strategic business units* ("SBU"), based on the products and services provided, and qualifying as business segments in terms of IFRS 8, as detailed below:

(i) Regulated Market

The SBU's activity includes the technical and operational management of the natural gas distribution network.

(ii) Natural gas and electricity sales

The SBU's activity is represented by the sale of methane gas and electricity on the wholesale and retail markets. Sales area support is provided by the gas and electricity procurement, dispatching, storage and logistics activities.
The segment also includes trading activity, carried out both for the purpose of improving the purchase and procurement conditions through optimisation of the Group's assets (natural gas storage and transport capacity and flexibility of the long-term supply contract) ("Industrial portfolio"), and for the purpose, within predefined risk limits, of seizing opportunities for short-term additional profit.

(iii) Corporate and other sectors

The "Corporate and other sectors" SBU includes:

- the technical and operational management of telecommunications networks and their marketing (this also includes activities related to video surveillance services, data transmission, telephony and internet access);
- the provision and exploitation of plants producing energy from renewable sources with particular reference to solar, wind and biomass sources;
- the management of heating systems owned by third parties (heat management services) and facility management;
- the marketing of liquid propane gas;
- the activity of waste selection and storage;
- the holding company's activities in terms of management and logistics support provided to other companies in the Group.

The other sectors have different economic characteristics, organisational criteria and performance, but do not exceed the quantitative thresholds such as to make separate disclosure necessary.

The Group operates entirely in Italy.

Directors separately assess the results achieved by business segments so as to make decisions regarding the allocation of resources and monitor performance. Sector performance is measured on the basis of results, which are assessed consistently with the result in the consolidated financial statements.
The Group's financial management (including costs and expenses on funding) and income taxes are managed at Group level, and are not allocated to operating sectors.

The transfer price between business segments is negotiated internally on the same basis as transactions with third parties.
Directors separately monitor only the activities of the operating sector, whereas liabilities are monitored at Group level.
A comparative analysis of the economic data per business segment is provided below for the 2020 and 2019 financial periods[716]:

Economic values per segment

Business segments	Regulated Market		Gas and electricity sales		Corporate and Others		Adjustments and eliminations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Total Revenues	108,085	109,361	669,348	900,285	55,930	62,394	(71,014)	(75,118)	762,350	996,922
External costs	(52,681)	(57,444)	(598,759)	(845,592)	(39,130)	(36,677)	71,014	75,118	(619,557)	(864,594)
Personnel costs	(14,714)	(14,666)	(11,228)	(10,808)	(13,288)	(13,874)			(39,230)	(39,348)
Income/(expenses) from commodity risk management			(1,205)	3,582					(1,205)	(3,582)
Portion of profit/(loss) from non-financial associates and joint ventures	671	679							671	679
Gross operating margin (EBITDA)	**41,361**	**37,931**	**58,156**	**47,467**	**3,512**	**11,843**	**-**	**-**	**103,029**	**97,240**
Amortisation and write-downs	(18,508)	(19,225)	(17,243)	(15,334)	(12,272)	(12,412)			(48,024)	(46,971)
Provisions	(280)	(166)	(12,783)	(11,331)	(161)	(247)			(13,224)	(11,744)
Operating result (EBIT)	**22,573**	**18,539**	**28,130**	**20,802**	**(8,921)**	**(816)**	**-**	**-**	**41,781**	**38,525**

Asset values per segment

Business segments	Regulated Market		Gas and electricity sales		Corporate and Others		Adjustments and eliminations		Total	
Sector activities	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Non-current assets	395,248	358,675	176,253	179,052	125,951	125,772	(5)	(4)	697,447	663,495
Current assets	58,191	55,054	277,853	345,706	186,086	245,771	(45,654)	(63,965)	476,476	582,566
Assets held for sale										
Total assets	**453,439**	**413,729**	**454,107**	**524,758**	**312,037**	**371,543**	**(45,659)**	**(63,969)**	**1,173,923**	**1,246,061**

Investments and business combinations per segment

Investments per operating sector	Regulated Market		Gas and electricity sales		Corporate and Others		Total	
(amounts in thousands of euro)	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Investments in intangible assets	21,772	21,070	11,331	11,600	3,531	2,643	36,634	35,312
Investments in intangible assets deriving from business combinations		53,591						53,591
Total investments (including business combinations) in intangible assets	21,772	74,661	11,331	11,600	3,531	2,643	36,634	88,903
Investments in tangible assets	432	417	963	515	8,862	9,403	10,257	10,335
Investments in tangible assets deriving from business combinations		437				8,960		9,397
Total investments (including business combinations) in property, plant and equipment	**432**	**854**	**963**	**515**	**8,862**	**18,362**	**10,257**	**19,732**
Total	**22,204**	**75,515**	**12,294**	**12,115**	**12,392**	**21,005**	**46,891**	**108,635**

716 Balances for the year ended 31 December 2019 were restated to reflect the effects of Note 7.2 "Restatement of Acquisitions in 2019" in Notes, to which reference is made for further details.

Reconciliation of result

(amounts in thousands of euro)	Year ended 31 December 2020	2019
Result for sectors (net of adjustments and eliminations)	**41,782**	**38,525**
Financial income	3,482	2,733
Financial expenses	(11,984)	(13,231)
Gains or losses on currency conversions	6	(1)
Portion of income/(expenses) from valuation of financial investments using the equity method	(1,166)	(53)
FINANCIAL MANAGEMENT	**(9,663)**	**(10,552)**
PROFIT BEFORE TAXES	**32,119**	**27,973**
Income taxes for the year	38,167	(10,305)
NET PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**70,286**	**17,668**
Net profit/(loss) from discontinued operations / assets held for sale	-	(208)
NET PROFIT/(LOSS) FOR THE YEAR	**70,286**	**17,460**

5. Capital management

For the purposes of Group capital management, this includes share capital issued, the share premium reserve, all other capital reserves attributable to the Parent Company's shareholders and the third party shareholders' equity. The main objective in capital management is to maximise value for shareholders. The Group manages the asset structure based on economic conditions and the requirements of financial covenants.

The Group controls the asset structure using a gearing ratio, referring to the ratio between net financial debt and consolidated shareholders' equity. The Group's policy requires that this ratio remains below 1. The Group includes under net financial debt, cash and cash equivalents, receivables and payables to credit institutions, payables to bondholders, leasing companies and shareholder loans, excluding discontinued operations. Also excluded are financial assets and liabilities deriving from the fair value measurement of derivative contracts and trading on commodities.

	(amounts in thousands of euro)	Year ended 31 December 2020	2019
	Cash and cash equivalents[(1)]	(160,249)	(195,748)
	Current financial receivables [(2)]	13,546	34,797
	Current financial debt [(3)]	136,314	156,855
	Net current financial debt	**(37,481)**	**(73,690)**
	Non-current financial debt [(4)]	328,861	377,863
D	**Net financial debt**	**291,380**	**304,173**
E	**Shareholders' equity**	**392,377**	**321,793**
D/E	***Leverage***	**0.74**	**0.94**

(1)Equal to the item Cash and cash equivalents; (2) Equal to the item Other current financial assets; (3) Equal to the sum of the items Current portion of medium/long-term loans, Short-term borrowings and Other current financial liabilities; (4) Equal to the item Non-current portion of medium/long-term loans

In order to achieve this objective, the Group's capital management aims, *inter alia*, to ensure that covenants associated with interest-bearing loans and bond loans are respected, as these define the asset structure requirements. Violations of covenants would entitle banks/lenders to ask for the immediate repayment of loans and funding.
Based on the information in the financial statements at 31 December 2020, there were no violations of covenants associated with funding and loans during the current period.

Please see paragraph Liquidity Risk for additional information.

6. Group information

Scope of consolidation

The table below shows the consolidation scope at 31 December 2020 compared with the consolidation scope at 31 December 2019:

			31-Dec-20				31-Dec-19			
Company name	Registered office	Primary activity	Portion attributable to the Group	Share of direct equity	Share of indirect equity	Notes	Portion attributable to the Group	Share of direct equity	Share of indirect equity	Notes
Parent company										
E.S.TR.A. S.p.A.		Holding								
Fully consolidated subsidiaries										
ESTRACOM S.p.A.	Prato (PO)	Telecommunications	**79.33%**	79.33%			**79.33%**	79.33%		
Estra Clima S.r.l.	Prato (PO)	Heat management	**100.00%**	100.00%			**100.00%**	100.00%		
E.S.TR.A. Energie S.r.l.	Siena (SI)	Gas sales	**100.00%**	100.00%			**100.00%**	100.00%		
Gergas S.p.A.	Grosseto (GR)	Gas distribution	**85.39%**	57.80%	27.69%	(3)	**79.93%**	79.93%		
Centria S.r.l.	Arezzo (AR)	Gas distribution	**99.65%**	99.65%			**99.65%**	99.65%		
Prometeo S.p.A.	Osimo (AN)	Gas and electricity sales	**56.53%**		56.53%	(1)	**56.53%**		56.53%	(1)
Piceno Gas S.r.l.	Ascoli Piceno (AP)	Gas sales	**100.00%**		100.00%	(1)	**100.00%**		100.00%	(1)
Cavriglia SPV S.P.A.	Prato (PO)	Renewable energies	**100.00%**	100.00%			**100.00%**	100.00%		
Tegolaia SPV S.p.A.	Fano (PU)	Renewable energies	**100.00%**	100.00%			**100.00%**	100.00%		
Gas Marca S.r.l.	Civitanova Marche (MC)	Gas sales	**100.00%**		100.00%	(1)	**100.00%**		100.00%	(1)
Idrogenera S.r.l.	Prato (PO)	Renewable energies	**51.00%**	51.00%			**51.00%**	51.00%		
Ecolat S.r.l.	Grosseto (GR)	Waste management	**100.00%**	100.00%			**100.00%**	100.00%		
Murgia Reti Gas S.r.l.	Arezzo (AR)	Gas distribution	**99.65%**		100.00%	(3)	**99.65%**		100.00%	(3)
Equity-consolidated joint ventures										
EDMA Reti Gas S.r.l.	Ancona (AN)	Gas distribution	**45.00%**	45.00%			**45.00%**	45.00%		
Nuova Sirio S.r.l.	Siena (SI)	Renewable energies	**50.00%**	50.00%			**50.00%**	50.00%		
Companies held for sale/disposal										
Sin.It. S.r.l.	Milan (MI)	Gas sales	**11.05%**	11.05%			**11.05%**	11.05%		
Equity-consolidated associates										
Blugas Infrastrutture S.r.l.	Cremona	Gas storage	**31.17%**	31.17%			**31.17%**	31.17%		
SIG S.p.A.	Ancona (AN)	Gas distribution	**38.70%**		38.70%		**38.70%**		38.70%	
A.E.S. Fano Distribuzione Gas S.r.l.	Fano (PU)	Gas distribution	**49.00%**		49.00%		**49.00%**		49.00%	
Monte Urano S.r.l.	Rome (RM)	Gas sales	**27.70%**		49.00%	(2)	**27.70%**		49.00%	(2)
Notes										
(1) through Estra Energie Srl										
(2) through Prometeo S.r.l.										
(3) through Centria										

The only change to the **scope of consolidation at 31 December 2020** compared to 31 December 2019, refers to the Group's increased shareholding in the company Gergas S.p.A. from 79.93% to 85.39% following the entry in to 27.69% of the company's share capital by Centria S.p.A., a company controlled by the Parent Company for 99.65%, as detailed in the paragraph below "Acquisitions of additional interests in companies already controlled".
It is noted further that the subsidiary Murgia Reti Gas S.r.l., which had been consolidated from 01 April 2019, was consolidated for 12 months in 2020.

7. Business combinations and disposals of assets, and acquisition and disposal of non-controlling interests

7.1 Acquisitions of additional interests in companies already controlled

During the 2020 financial year, 27.69% of Gergas S.p.A. was acquired by Centria Sr.l., which is controlled for 99.65% by the Parent Company, with a consequent increase in the Group's stake in the company going from 79.93% at 31 December 2019 to 85.39% at 31 December 2020.
More specifically, in the scope of rationalisation and simplification of the gas distribution activities in the territorial area of Grosseto, with effect from 31 December 2020, Centria S.p.A. conferred on Gergas S.p.A. the business unit for the distribution of natural gas in the Municipalities of Arcidosso, Castel Del Piano, Cinigiano, Monte Argentario, Seggiano and Follonica. The operation has concentrated ownership and management of all assets relating to the distribution of natural gas in the pertinent Municipalities in the Province of Grosseto into Gergas S.p.A., from the perspective of reducing costs and achieving greater management efficiency.
The conferral realised an increase in the share capital of Gergas S.p.A. from € 1,381,500 to € 1,910,500 based on the issue of 529,000 new ordinary shares with a nominal value of € 1.00 each, as well as an overall premium of € 11,459,000, subscribed by Centria S.r.l.
With regard to the accounting impacts of the transaction, it represents a partial acquisition of an additional interest, resulting in a profit of Euro 1,102 thousand, calculated as the difference between the fair value of the consideration paid (business unit conferred) and the amount of the third-party units reduced by the operation, recognised in equity as required by IFRS 10.B96.

A summary is provided below of the considerations paid, the carrying amount of the net assets acquired and the effects recognised in shareholders' equity:

Company	% Acquired	Carrying value of interest acquired	Consideration paid	Retained earnings/losses	IAS 19 discounted reserve
Gergas	5.47%	869	1,751	(881)	(1)

7.2 Restatement of 2019 financial year acquisitions

Acquisition of Murgia S.r.l.

On 01 April 2019, the Group acquired 100% of the share capital of Murgia Reti Gas S.r.l., a company newly incorporated by 2i Rete Gas, to which the ATEM Bari 1 business unit relating to concessions for the distribution service in the Municipalities of Conversano, Putignano, Rutigliano, Triggiano and Valenzano was contributed, together with the ATEM Foggia 2 business unit, relating to the concessions for the distribution service in the Municipalities of Chieuti, Lesina, San Severo, Serracapriola and Torremaggiore.

Through the transaction, the Estra Group acquired the management of approximately 544 km of distribution network (302 km in Bari 1 and 242 km in Foggia 2), for a total of around 66,000 Points of Delivery (PoDs).

For consolidation purposes, the accounting situation as of 01 April 2019, the acquisition date of the company's shares, was taken as a reference.
Net assets recognised in the financial statements at 31 December 2019 were based on provisional measurements of their fair value, as required by IFRS 3 B67, as the Group had requested an independent assessment on the networks, connections and other plants owned by Murgia S.r.l. which were functional to conducting the natural gas distribution service. This assessment had not yet been completed at the date when the 2019 financial statements were approved.
The assessment was completed during 2020, and showed a higher industrial value (VIR) for the assets pertinent to the distribution of natural gas, compared to the provisional estimate of € 6,378 thousand.
The comparative statement for 2019 was restated to reflect the adjustment in relation to the provisional amount, determining:

- an increase of € 1,857 thousand for the assets under concession recognised at fair value according to the "intangible assets method" provided for in IFRIC 12 based on: *i)* the updated estimate of the plant's industrial value (VIR) (€ 51,335 thousand compared to the provisional amount of € 44,957 thousand) and *ii)* from the surplus paid in relation to the price paid, of the current value of the cash flows generated by the concession in

the management period prior to the indexation and conducting of the tender (€ 4,754 thousand compared to the provisional amount of € 9,275 thousand);
- an increase of € 1,857 in liabilities from the deferred tax liabilities recognised on the temporary difference between the assets' industrial value and tax value.

The table below shows the fair value of the identifiable assets and liabilities at the acquisition date:

Balance Sheet	Fair value (Restated)	Fair value
NON-CURRENT ASSETS		
Property, plant and equipment	437	437
Intangible assets IFRIC 12	55,448	53,591
Deferred tax assets	641	641
	56,526	**54,669**
CURRENT ASSETS		
Tax receivables	1	1
Other current assets	623	623
Cash and cash equivalents	10	10
	634	**634**
TOTAL ASSETS	**57,160**	**55,302**
NON-CURRENT LIABILITIES		
Provisions for risks and charges		
Non-current portion of medium/long-term loans	440	440
Employee severance indemnity	833	833
Other non-current liabilities	46	46
Deferred tax liabilities	7,150	5,293
Contractual liabilities (connections contributions)	4,762	4,762
	13,232	**11,374**
CURRENT LIABILITIES		
Other current liabilities	1,843	1,843
	1,843	**1,843**
TOTAL LIABILITIES	**15,075**	**13,218**
TOTAL NET IDENTIFIABLE ASSETS	**42,085**	**42,085**
Price of the acquisition	**42,085**	**42,085**

The redetermined PPA at 01 April 2019 resulted in a consequent reduction in the amortisation for 2019 of goods under concession for € 577 thousand, gross of the relative tax effect.

From the acquisition date, Murgia Reti Gas contributed, net of intra-group eliminations, to the Group's financial year 2019 revenue for € 5,322 thousand, to the gross operating margin for € 3,177 thousand, and operating profit for € 187 thousand.

Acquisition of Ecolat S.r.l.

On 26 February 2019 Estra completed the acquisition of the company Ecolat S.r.l., in which it already had a 12% stake at 31 December 2018 following the subscription of a capital increase of € 124,000.

Full control was acquired through the sale by ETH S.r.l. of the equity investment representing the remaining 88% of the share capital at a price of € 6,380 thousand.

For the Group the acquisition represents entry into the integrated waste cycle, as the company, besides being the holder of an equity investment in SEI Toscana S.r.l., is the operator of a plant for the mechanical selection of mixed-material packaging coming from the separate collections of the Optimal Areas Tuscany South, Centre and Coast, and operator of a platform for the storage of municipal recoverable, assimilated and special waste and for selection of bulky waste, managing also the waste intermediation activity. The company also manages a collection centre which has an agreement with the municipality of Grosseto to enable private citizens to confer recoverable waste directly.

The company occupies a building which hosts the offices and the changing rooms for employees, an industrial shed that hosts the plant for mechanical selection of mixed-material packaging and an industrial shed used for garaging.

The company also holds other lesser assets on the basis of finance leases, accounted for under the terms of IFRS 16 and entered among balance sheet assets with recognition of the financial liability for the residual payments up to expiry of the related contracts.

For consolidation purposes, the available accounting situation closest to the acquisition date, 01 January 2019, was taken as a reference.
Based on the additional information learnt about the company's operations from the acquisition date, and a better representation in the financial statements, it was deemed appropriate to determine the fair value of the net assets recognised in the PPA, and specifically:

- confirm the fair values of the building and the industrial shed as amounts obtainable from a sale on the basis of expert appraisals of € 2,219 thousand;

- reduce the fair value of the selection plant as value in use discounting the future cash flows expected to derive from its continuous use, from € 5,358 thousand to € 2,970 thousand;

- confirm the value of the equity investment in Sei Toscana S.r.l. maintained at cost (€ 5,008 thousand), considering that this approximates to its fair value;

- reduce the deferred tax liabilities recognised on the temporary difference between the property, plant and equipment assets fair value and their tax value from € 1,640 thousand to € 952 thousand;

- recognise residual goodwill for € 1,700 thousand, reflecting the company's ability to produce future income from the business not related to the selection plant, and more specifically from the treatment of paper, packaging and other waste from private entities.

The table below shows the fair value of the identifiable assets and liabilities at the acquisition date:

Balance Sheet	Fair value (Restated)	Fair value
NON-CURRENT ASSETS		
Property, plant and equipment	6,572	8,960
Equity investments	5,007	5,007
Other non-current financial assets	2,900	2,900
Deferred tax assets	36	36
	14,514	**16,903**
CURRENT ASSETS		
Trade receivables	1,640	1,640
Current financial assets	93	93
Other current assets	108	108
Cash and cash equivalents	951	951
	2,792	**2,792**
TOTAL ASSETS	**17,307**	**19,695**
NON-CURRENT LIABILITIES		
Provisions for risks and charges	40	40
Non-current portion of medium/long-term loans	1,272	1,272
Employee severance indemnity	176	176
Deferred tax liabilities	952	1,640
	2,440	**3,128**
CURRENT LIABILITIES		
Current portion of medium/long-term loans	391	391
Trade payables	9,671	9,671
	10,062	**10,062**
TOTAL LIABILITIES	**12,501**	**13,190**
TOTAL NET IDENTIFIABLE ASSETS	**4,805**	**6,505**
Goodwill deriving from acquisition	**1,700**	
Price of the acquisition	**6,505**	**6,505**

From the acquisition date, Ecolat contributed, net of intra-group eliminations, to revenues for the year for € 4,422 thousand, to gross operating margin for € 902 thousand and to operating profit for € 317 thousand.

Restatement of comparative information 2019

The financial statements schedules for 2019 are shown below following the restatement of acquisitions in 2019, referred to above.

Statement of consolidated financial position (amounts in thousands of euro)	**Year ended 31 December 2019**	**Definitive allocation Murgia**	**Definitive allocation Ecolat**	**Year ended 31 December 2019 *restated***
Property, plant and equipment	109,570	-	(2,243)	107,327
Goodwill	29,436	-	1,700	31,136
Intangible assets	447,805	2,434	-	450,239
Equity investments	27,250	-	-	27,250
Other non-current financial assets	11,539	-	-	11,539
Other non-current assets	5,286	-	-	5,286
Deferred tax assets	30,718	-	-	30,718
NON-CURRENT ASSETS	**661,604**	**2,434**	**(544)**	**663,494**
Inventories	24,768	-	-	24,768
Trade receivables	281,434	-	-	281,434
Tax receivables	12,400	-	-	12,400
Other current assets	33,419	-	-	33,419
Other current financial assets	34,797	-	-	34,797
Cash and cash equivalents	195,748	-	-	195,748
CURRENT ASSETS	**582,566**	-	-	**582,566**
TOTAL ASSETS	**1,244,170**	**2,434**	**(544)**	**1,246,060**
Share capital	228,334	-	-	228,334
Reserves	51,094	-	-	51,094
Group profit (loss) for the year	16,629	656	103	17,388
Total Group Shareholders' Equity	**296,057**	**656**	**103**	**296,816**
Capital and reserves attributable to non-controlling interests	25,665	-	-	25,665
Profit (loss) attributable to non-controlling interests	72	-	-	72
Total Shareholders' Equity attributable to non-controlling interests	**25,737**	-	-	**25,737**
TOTAL SHAREHOLDERS' EQUITY	**321,793**	**656**	**103**	**322,553**
Provisions for risks and charges	9,504	-	-	9,504
Employee severance indemnity	8,281	-	-	8,281
Non-current portion of medium/long-term loans	377,863	-	-	377,863
Deferred tax liabilities	44,949	1,779	(647)	46,081
Other non-current liabilities	4,320	-	-	4,320
Contractual liabilities	21,123	-	-	21,123
NON-CURRENT LIABILITIES	**466,040**	**1,779**	**(647)**	**467,172**
Current portion of medium/long-term loans	88,271	-	-	88,271
Short-term borrowings	31,601	-	-	31,601
Trade payables	215,299	-	-	215,299
Contractual liabilities	656	-	-	656
Tax liabilities	18,726	-	-	18,726
Other current liabilities	64,800	-	-	64,800
Other current financial liabilities	36,983	-	-	36,983
CURRENT LIABILITIES	**456,336**	-	-	**456,336**
TOTAL LIABILITIES and Shareholders' Equity	**1,244,170**	**2,434**	**(544)**	**1,246,060**

Consolidated Income Statement (amounts in thousands of euro)	Year ended 31 December 2019	Definitive allocation Murgia	Definitive allocation Ecolat	Year ended 31 December 2019 restated
Revenue from sale of goods and services	967,943	-	-	967,943
Other operating revenue	28,979	-	-	28,979
Raw materials, ancillary materials and goods	(592,046)	-	-	(592,046)
Costs for services	(255,970)	-	-	(255,970)
Personnel costs	(39,348)	-	-	(39,348)
Depreciation, amortisation, provisions and write-downs	(59,437)	577	145	(58,715)
Other operating costs	(16,579)	-	-	(16,579)
Income/(expenses) from commodity risk management	3,582	-	-	3,582
Portion of income/(expenses) from measurement of non-financial investments using the equity method	679	-	-	679
Operating result	**37,803**	**577**	**145**	**38,525**
Financial income	2,733	-	-	2,733
Financial expenses	(13,231)	-	-	(13,231)
Gains or losses on currency conversions	(1)	-	-	(1)
Portion of income/(expenses) from valuation of financial investments using the equity method	(53)	-	-	(53)
Profit before taxes	**27,251**	**577**	**145**	**27,973**
Income taxes for the year	(10,342)	79	(42)	(10,305)
Net profit/(loss) from continuing operations	**16,909**	**656**	**103**	**17,668**
Net profit/(loss) from discontinued operations / assets held for sale	(208)	-	-	(208)
Net profit	**16,701**	**656**	**103**	**17,460**
Profit/(loss) of non-controlling interests	72	-	-	72
Group profit/(loss)	16,629	656	103	17,388

7.3 Subsidiaries with significant non-controlling interests

Details are provided below of the subsidiaries with significant non-controlling interests.
The economic-financial data is based on balances prior to intercompany eliminations.
Portion of shareholding interest held by non-controlling shareholders:

Company name (Fully consolidated subsidiaries)	Registered office	Currency	Primary activity	% of Non-Controlling Interests 2020	% of Non-Controlling Interests 2019
Prometeo S.p.A.	Osimo (AN)	Euro	Gas and electricity sales	43.47%	43.47%

Income statement (thousands of Euro)	Prometeo 2020	Prometeo 2019
Operating revenue		
Revenue from contracts with customers	108,275	123,674
Other operating revenue	814	2,492
	109,089	**126,166**
Operating costs		
Raw materials, ancillary materials and goods	(51,666)	(69,111)
Costs for services	(47,591)	(45,622)
Personnel costs	(1,992)	(1,906)
Depreciation, amortisation, provisions and write-downs	(6,501)	(6,790)
Other operating costs	(11)	(187)
	(107,761)	**(123,618)**
OPERATING PROFIT/(LOSS)	**1,328**	**2,548**
Financial income	199	267
Financial expenses	(169)	(288)
FINANCIAL MANAGEMENT	**30**	**(21)**
PROFIT BEFORE TAXES	**1,358**	**2,527**
Income taxes for the year	449	944
NET PROFIT/(LOSS) FOR THE YEAR	**909**	**1,583**

Balance Sheet (thousands of Euro)	Prometeo 2020	Prometeo 2019
NON-CURRENT ASSETS		
Property, plant and equipment	598	642
Goodwill	5,898	6,604
Intangible assets	3,904	3,347
Equity investments	1,071	1,071
Other non-current assets	41	40
Deferred tax assets	3,928	4,234
	15,440	**15,938**
CURRENT ASSETS		
Trade receivables	40,165	47,460
Tax receivables	4,422	3,950
Other current assets	1,356	2,437
Cash and cash equivalents	4,785	6,647
	50,728	**60,494**
TOTAL ASSETS	**66,168**	**76,432**
TOTAL SHAREHOLDERS' EQUITY	**17,468**	**16,578**
NON-CURRENT LIABILITIES		
Provisions for risks and charges	255	198
Employee severance indemnity	469	429
Non-current portion of medium/long-term loans	1,254	1,630
	1,978	**2,257**
CURRENT LIABILITIES		
Current portion of medium/long-term loans	182	186
Short-term borrowings	10,031	47
Trade payables	29,873	50,017
Tax liabilities	1,548	414
Other current liabilities	5,088	6,933
	46,722	**57,597**
TOTAL LIABILITIES and SE	**66,168**	**76,432**

7.4 Equity investments in joint ventures

At 31 December 2020 the Group holds a 45% equity interest in EDMA Reti Gas S.r.l., over which it exercises joint control with Viva Servizi S.p.A., shareholder with 55%, on the basis of the Articles of Association and shareholder agreements that require the unanimous consent of both parties in decisions relating to significant assets and to the financial, management and strategic policies of the investee.

The company operates in the natural gas distribution sector, managing gas intake and distribution plants and networks in the province of Ancona.

The equity investment was recognised at 31 December 2020 for € 10,124 thousand (€ 9,971 thousand at 31 December 2019) and accounted for using the equity method.

The table below shows the main economic and financial figures:

Balance Sheet	**31-Dec-20**	**31-Dec-19**
Assets under concession	29,738	28,565
Cash and cash equivalents	2,311	5,776
Equity	22,741	22,682
Bank loans	7,516	8,297
Income statement	**31-Dec-20**	**31-Dec-19**
Operating revenue	25,831	30,637
Operating costs	21,847	26,233
Depreciation, amortisation and provisions	2,218	2,597
Operating result	1,766	1,807
Net profit for the year	1,211	1,212

8. Notes on the main income statement items

8.1 Revenue

In the financial periods ended 31 December 2020 and 31 December 2019, revenue amounted to € 762,350 thousand and € 996,922 thousand respectively. The table below shows the breakdown between revenue from contracts with customers and other operating revenue:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Revenue from sale of goods and services	748,414	967,943
Other operating revenue	13,936	28,979
Total revenues	**762,350**	**996,922**

8.1.1 Revenue from sale of goods and services

The table below shows the breakdown of the revenue flows from the sale of Group goods and services for the year ended 31 December 2020 compared to the year ended 31 December 2019:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Revenue from methane gas distribution	39,162	37,739
Equalisation methane gas distribution	(7,511)	(10,676)
Revenue from sales and distribution of LPG	2,715	3,091
Revenue from sales of methane gas	517,493	736,982
Revenue from sales of electricity	144,048	146,177
Revenue from telecommunication services	5,188	4,853
Revenue from selection and conferment of waste	4,073	4,487
Revenue from other Group operations	18,051	19,732
Increases in non-current assets from in-house production	21,031	21,176
Current portion of contributions received	2,394	2,119
Revenue from post meter services and ancillary services	1,770	2,262
Revenue from sale of goods and services	**748,414**	**967,943**

The main changes refer to revenues from sales of methane gas, which recorded a decrease of € 219,490 thousand, mainly due to the drop in the price of raw materials, lower volumes sold and less gas balancing activity.

The item “Revenues from other Group operations” mainly referred to:

- Parent Company revenue for existing service contracts with Shareholders, associates and companies subject to joint control (€ 3,069 thousand);
- Revenues from the subsidiary Estra Clima S.r.l. core activity of heat management and maintenance (€ 8,184 thousand);
- revenue for electricity production from the photovoltaic systems located in Cavriglia (AR) of € 4,461 thousand;

The item “increases from in-house production”: refers primarily to the in-house costs for the work on the networks under concession.

Revenue from the sale of methane gas and electricity at 31 December 2020 and 2019 both includes the provision for the estimate on the electricity and gas supplies provided to final customers and not yet invoiced at 31 December. The estimate was based on the volumes distributed and assigned, as obtained from transporters, and subject to potential adjustments. In particular, the estimate of revenue accrued but not yet invoiced is determined as the difference between consumption already invoiced to customers by the end of the year and the quantities of gas and electricity input into the distribution network, net of the estimate of any network losses, taking into account the data made available at the end of the year by transporters, subject to potential revisions in subsequent years, as provided for in the reference law. This difference is measured, according to the type of customer, on the basis of the proportion of the respective volumes already invoiced and the related average tariff, in force during the year.

A list is provided below of the Group's revenue from contracts with customers for the year ended 31 December 2020, according to operating sector:

Year ended 31 December 2020		Business segments		
(amounts in thousands of euro)	**Total**	**Regulated Market**	**Gas and electricity sales**	**Corporate and Others**
Revenue from methane gas distribution	39,162	39,162		
Equalisation methane gas distribution	(7,511)	(7,511)		
Revenue from sales and distribution of LPG	2,715	2,715		
Revenue from sales of methane gas	517,493		517,493	
Revenue from sales of electricity	144,048		144,048	
Revenue from telecommunication services	5,188			5,188
Revenue from selection and conferment of waste	4,073			4,073
Revenue from other Group operations	18,051	1,563		16,488
Increases in non-current assets from in-house production	21,031	21,031		
Current portion of contributions received	2,394	810		1,584
Revenue from post meter services and ancillary services	1,770		1,770	
Revenue from sale of goods and services	**748,414**	**57,770**	**663,311**	**27,333**
Adjustments and eliminations	59,521	37,279	2,353	19,889
Total revenues gross of adjustments and eliminations between business segments	**807,935**	**95,049**	**665,664**	**47,222**

Since the end of financial year 2019 the Group has operated only in Italy, following the sale of the investee Useneko located in Poland.
As indicated in the main accounting standards applied, the Group mainly recognises revenue over a time frame consistent with the transfer of control of the goods and services provided.
The main performance obligations are those specific to the business sector and refer to the transfer of control of commodities to end customers, and the transportation and distribution costs for these, when the distribution network is managed based on applicable concessions and legislation.
The market conditions applied are in line with sector practices and applicable legislation.
The Group has the option of invoicing customers for the amounts corresponding to the performance provided.
With regard to the time frame for recognising revenue from connection contributions, these are consistent with the useful life of the corresponding assets recognised by the Group where this is a consistent legal obligation to provide the service.

8.1.2 Other operating revenue

The table below shows the breakdown of the Group's operating revenue for the year ended 31 December 2020, compared with the year ended 31 December 2019:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Energy Efficiency Certificates	7,080	9,683
Release of risk provisions	131	18
Revenue owing to Arera Resolution 32/2019/R/Gas	-	7,312
Other revenues	6,718	11,939
Gains extra-feature management	7	27
Other operating revenue	**13,936**	**28,979**

The item "Energy Efficiency Certificates" (TEE - Titoli Efficienza Energetica) contains the value of said certificates relative to the year 2020 as the tariff contribution pursuant to the ARERA resolutions, which had decreased on the previous year due to less certificates acquired.
The item refers to the contribution for the TEE's acquired from 1 January to 31 December, net of those sold (therefore 22,042 TEE). With Resolution 550/2020/R/efr of 15 December 2020, ARERA published the value of the tariff contribution of € 250.00/TEE, and the additional fee of € 4.49/TEE, payable to distributors in the scope of the energy efficiency certificates for the obligation year 2019. The contribution for certificates acquired up until 30 November 2020 was € 250/TEE, as per the Resolution, whereas an estimate was made for the certificates acquired in the December 2020, keeping to the amount of € 250/TEE (i.e. the maximum ceiling identified by the Authority with Resolution 270/2020/R/efr of 14 July 2020) as the average cost was higher. This further includes the additional contribution totalling € 164,702 and referring to the TEEs acquired during

2019 (36,682 TEEs, in the period from 1 June 2019 to 30 November 2020), as well as approximately € 1.4 million resulting from the sale of 5,327 TEEs.
It is noted that the "virtual" certificates, namely those purchased directly from the GME, do not lead to the recognition of costs and revenues, but only the recording (among costs) of the amount withheld by the GME at the time of disbursement of the contribution for the obligation year 2019.
The item "Revenue owing to Arera Resolution 32/2019/R/Gas" included in the 2019 amount relates to the recognition of the amounts related to the redetermination of the coefficient k for the years 2010-2012 as provided for in Arera Resolution 32/2019/R/Gas, which determined income of € 7,312 thousand.
The item "Other operating revenue" refers mainly to: i) recharging of costs incurred by the Parent Company on behalf of associates and joint ventures and ii) ancillary revenue related to gas distribution as indemnities to the sales company, revenues for document checks, refund of default expenses, work debited to third parties, ancillary services invoiced with the transmission and security incentives.
With regard to the security incentives for € 2,029 thousand in 2020 and € 3,425 in 2019, it is noted that revenue was recorded in the year when the incentive interventions were incurred, even though they are definitively recognised by the Authority in an appropriate resolution after the close of the period. During 2020 and 2019, the Group was able to conduct estimates more precisely and promptly, and overcome uncertainties regarding interpretations on the recognition of said amounts, making it possible to accurately quantify the incentives that had not yet been resolved. The Group's ability to provide estimates is corroborated by the subsequent Arera recognition, diverging only slightly from the amounts estimated and allocated. More specifically, it is noted that:

- In the 2019 financial statements, security incentives revenue was recognised for the work performed in financial year 2017 (€ 1,145 thousand) and already resolved by the Authority, and for the incentives due for the work performed in financial years 2018 (€ 1,180 thousand) and 2019 (€ 1,100 thousand) even in the absence of a specific resolution.
- In the 2020 financial statements, security incentives revenue was recognised for the work performed in financial year 2020 (€ 1,522 thousand) and already resolved by the Authority, and for the incentives due for the work performed in financial years 2018 and 2019 (€ 507 thousand) even in the absence of a specific resolution.

The 2019 balance also includes the revenue for price revision regarding the sale of Andali for € 1,547 thousand.

8.2 Operating costs

In the financial years ended 31 December 2020 and 31 December 2019, operating costs amounted to € 720,035 and € 962,658 respectively:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Raw materials, consumables and goods for resale	357,543	592,046
Costs for services	242,134	255,970
Personnel costs	39,230	39,348
Depreciation, amortisation, provisions, write-downs	61,248	58,715
Other operating costs	19,880	16,579
Operating costs	**720,035**	**962,658**

8.2.1 Purchase of raw and ancillary materials, consumables and goods for resale

The costs to purchase raw and ancillary materials, consumables and goods amounted to € 357,543 thousand for the year ended 31 December 2020 and to € 592,046 thousand for the year ended 31 December 2019.

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Purchase of raw and ancillary materials, consumables and goods	351,705	608,028
Changes in inventories	6,193	(15,638)
	357,898	**592,391**
minus:		
- increases from in-house production	(355)	(345)
Purchase of raw and ancillary materials, consumables and goods	**357,543**	**592,046**

The most significant component in this item refers to the gas purchase, transport and storage costs for € 297,503 thousand (€ 542,977 thousand in 2019) and the costs to purchase electricity for € 41,972 thousand (€ 51,560 thousand in 2019).
The changes in inventories related to the significant decrease of natural gas in storage at the end of financial year 2020 compared to the previous period.
The costs to purchase gas also include the purchase costs deriving from the long-term delivery contract to Tarvisio between Sinergie Italiane S.r.l. and Gazprom Export LLC, with the resale to the resale company Estra Energie S.r.l.
The costs for the purchase of raw and ancillary materials, consumables and goods for the provision of natural gas and electricity to final customers in 2020 decreased compared to 2019, in relation to revenue trends.

8.2.2 Costs for services

The table below shows the breakdown of the Group's costs for services for the year ended 31 December 2020, compared with the year ended 31 December 2019:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Professional fees	5,804	7,801
Cost for the renovation of third party plants and for tenders and maintenance	17,262	17,351
Costs for waste transport and disposal	984	1,284
Insurance	1,507	1,318
Technical, fiscal, administrative and notary fees and consulting services	7,383	6,881
Costs related to customer management and for the printing and delivery of bills	4,433	4,773
Telecommunications services	2,478	2,440
Costs for gas distribution to users	103,064	111,160
Costs for electricity transport and dispatching	77,505	76,726
Costs for advertising and sponsoring the Group's products	2,303	2,602
Expenses for gas concessions	8,768	9,091
Various rentals and leases	1,165	1,184
Other costs for services	12,582	15,474
minus:		
- increases from in-house production	(3,104)	(2,115)
Costs for services	**242,134**	**255,970**

The main change to the costs for services refers mainly to the costs for gas distribution to users, which was down in 2020 compared to the previous year due to the lower volumes of gas sold.
The decrease in the costs for professional fees, consulting and advertising expenses and sponsorships relates primarily to the reduced activity in the first part of the year following the lockdown.
Expenses for gas concessions refer to the fees paid to Municipalities that awarded the natural gas distribution and measuring service, and primarily:
- € 2,838 thousand to Municipalities that awarded services to Centria S.r.l. and shareholders of Coingas S.p.A., Consiag S.p.A. and Intesa S.p.A. (€ 2,619 thousand in 2019);
- € 513 thousand to Municipalities that awarded the service to Gergas S.p.A. (Grosseto) (€ 544 thousand in 2019);
- € 3,803 thousand to the Municipalities for which the natural gas distribution and measuring service was acquired in concession following public tender procedures (€ 5,393 thousand in 2019);
- € 656 thousand to Municipalities that awarded the service to Murgia Reti Gas S.r.l. in the Province of Bari and Foggia (€ 472 thousand in 2019).

This item further includes the lower operating costs from the redetermination of concession fees for the distribution of natural gas in previous years with the awarding Municipalities (€ 636 thousand). Reference is made to the paragraph in the Notes "Disputes with a number of awarding Municipalities in the ope legis management stage of the natural gas distribution service";

The item various rentals and leases is mainly related to costs for the rental of assets for which the Group availed itself of the exemptions granted by IFRS 16 and therefore did not recognise the financial liability and the related right of use. The leasing instalments are therefore recognised in the income statement on a straight-line basis for the duration of the respective contracts.

8.2.3 Personnel costs

The table below shows the breakdown of the Group's personnel costs for the year ended 31 December 2020, compared with the year ended 31 December 2019:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Wages and salaries	28,318	28,397
Social security contributions	9,388	9,307
Employee severance indemnity	1,778	1,658
Other costs	101	124
Seconded personnel from third parties	71	78
minus:		
- increases from in-house production	(426)	(216)
Personnel costs	**39,230**	**39,348**

8.2.4 Depreciation, amortisation, provisions and write-downs

The table below shows the breakdown of the Group's depreciation, amortisation, provisions and write-downs for the year ended t 31 December 2020, compared with the year ended 31 December 2019:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Amortisation of intangible assets	35,979	32,546
Depreciation of tangible assets	12,045	11,877
Write-down of intangible assets	-	2,202
Write-down of tangible assets	-	346
Write-down of trade receivables	13,027	11,682
Other provisions	197	62
Depreciation, amortisation, provisions and write-downs	**61,248**	**58,715**

For details of items relating to depreciation, amortization and write-downs of trade receivables, reference is made to the tables describing tangible assets, intangible assets and provisions for write-downs shown in the notes to the financial statements.
With regard to impairment of property, plant and equipment and intangible assets please see the notes ""Impairment tests pursuant to IAS 36" and "Intangible Assets".

8.2.5 Other operating costs

The table below shows the breakdown of the Group's operating costs for the year ended 31 December 2020, compared with the year ended 31 December 2019:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Other operating expenses	3,544	3,063
Settlement agreement with the Municipality of Prato	6,000	
Various indirect taxes	1,295	1,213
Purchase of Energy Efficiency Certificates	7,019	9,708
Membership fees	698	655
Losses on disposals	1,324	1,940
Other operating costs	**19,880**	**16,579**

The item "Purchase of Energy Efficiency Certificates" refers to the costs incurred to obtain energy saving certificates to fulfil the obligation imposed for 2020. With reference to the decrease in the item, please see the comments on revenue from energy efficiency certificates.
The capital losses on disposals originated mainly from *i)* the activity of replacing traditional meters according to

the obligations imposed by ARERA and *ii)* the activity of replacing electronic meters that were not working.
With reference to the disposals pursuant to point *i)* for € 501 thousand, we note that the QA component in the VRT refunding the distribution companies will continue to be recognised in the transmission tariffs for certain calibres for € 346 thousand, recorded under other revenue.

8.3 Income and expenses from commodity risk management

The item refers, as well as to the result of the natural gas trading activity, also to the change in fair value of financial derivatives (commodity swaps) used for the purpose of optimising the industrial portfolio and not accounted for as cash flow hedges. With reference to the latter please see what is explained in the paragraph IFRS 9 Financial Instruments – Implementation of Hedge Accounting above.
The table shows a breakdown of the item:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Margin of gas trading activity	398	(263)
Change in fair value of commodity swaps used in the marketing of electricity	106	(43)
Change in fair value of commodity swaps used in the marketing of gas	(1,709)	3,889
Total expenses from commodity risk management	**(1,205)**	**3,582**

Additional information is available in the note Financial Instruments and measurements at fair value.

8.4 Portion of income/expenses from valuation of non-financial investments using the equity method

In the years ended 31 December 2020 and 31 December 2019, income from the valuation of non-financial investments using the equity method amounted to € 671 thousand and € 679 thousand respectively.
The item refers to the portion attributable to the Group of the profit of the joint venture EDMA Reti Gas S.r.l., measured using the equity method. Given the non-financial nature of the investment and the management and operational role played by the Group, the portion of the subsidiary's profit attributable to the Group is recorded in the income statement before the operating profit.

8.5 Financial income

In the financial periods ended 31 December 2020 and 31 December 2019, financial income amounted to € 3,482 thousand and € 2,733 thousand respectively. The breakdown is as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Income from associates	233	185
Various income from others	3,066	2,371
Revaluation IRS derivatives	183	177
Financial income	**3,482**	**2,733**

Income from associates and joint ventures accrued on receivables recorded under financial assets for the loans granted to the latter.

"Other income" refers mainly to interest income accrued on bank and postal current accounts for Euro 1,533 thousand (Euro 596 thousand at 31 December 2019) and interest income from delayed payments charged to customers for Euro 1,154 thousand (Euro 1,611 thousand at 31 December 2019).

8.6 Financial expenses

In the financial periods ended 31 December 2020 and 31 December 2019, financial expenses amounted to € 11,984 thousand and € 13,231 thousand respectively. The breakdown is as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Interest payable on current bank accounts	31	218
Interest payable on loans and financial transactions	5,497	5,408
Interest payable on bonds	5,420	6,479
Other interest payable	334	352
Interest on arrears	29	13
Interest on employee severance costs	60	62
Interest payable on Shareholder loans	284	323
Interest payable on leases IFRS 16	329	376
Financial expenses	**11,984**	**13,231**

The decrease in this item refers to the lower average debt in the 2020 financial year compared to 2019, as well as the improved market rates.

8.7 Portion of income/expenses from measurement of financial equity investments using the equity method

In the years ended 31 December 2020 and 31 December 2019, the measurement of financial equity investments using the equity method resulted in expenses of € 1,166 thousand in 2020 and expenses of € 53 thousand in 2019.
The item refers to the measurement of associates and companies subject to joint control of a financial nature. Reference in this regard is made to the corresponding asset item in the Balance Sheet.

8.8 Income taxes for the year

In the financial periods ended 31 December 2020 and 31 December 2019, income taxes for the year amounted to € 38,167 thousand (positive income component) and € 10,305 thousand (negative income component) respectively:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Current taxes	18,647	15,944
Taxation of previous years	(444)	100
Current taxes	**18,203**	**16,044**
Deferred tax assets	(36,464)	(1,885)
Deferred taxes	(19,906)	(3,854)
Taxes for the year	**(38,167)**	**10,305**

With regard to current taxes, it is noted that the Group has chosen to adopt the national tax consolidation regime, the rules of which are contained in articles 117 to 129 of Italian Presidential Decree no. 917/1986. This optional regime envisages that the holding company is responsible for calculating a single taxable income for the entire Group, corresponding to the algebraic sum of net incomes of the companies covered, and consequently a single income tax payable for the Group companies.

In each fiscal year companies recording a loss have the right to receive as loss compensation an amount equal to the IRES tax rate applicable in that fiscal year, multiplied by the loss in question. Companies recording a surplus of interest expense or excess ROL have the right, if the surplus is used, to receive compensation equal to an agreed percentage of the lower taxes calculated on the surplus used.

The scope of consolidation includes the following companies held for above 50%: Estra Clima S.r.l., Centria S.r.l., Estra Energie S.r.l, Gergas S.p.A. and Estracom S.p.A.

Taxes for the year ended 31 December 2020 were affected by a positive non-recurring component for € 48,989 thousand, recognised under deferred tax assets/liabilities. Reference in this regard is made to the comments in the corresponding Balance Sheet item.

8.9 Net result for discontinued/held for sale assets

This item, only appearing in the 2019 comparative column for € 208 thousand, refers to the Polish company Useneko, operating in gas distribution segment in Poland, following its designation as a non-current asset held for sale.
The process to dispose of the equity investment was completed at the end of 2019.

8.10 Non-recurring items and/or unusual significant transactions

Both the Income Statements for 2020 and 2019 were impacted by extraordinary components, detailed in the comment on the Group's economic performance in the Report on Operations. With regard to the non-recurring components pursuant to Consob Resolution number 15519 dated 27 July 2006, it is noted that the determination of income taxes for the year were significantly influenced by the effects from the adjustment of assets/(liabilities) for deferred tax assets/liabilities recognised on the difference between the value of assets in the consolidated statements and the new amounts recognised for tax purposes at 31 December 2020, resulting from the Group's decision to apply the regulations referring to revaluation and realignment as per Law no. 126 of 13 October 2020 containing the "Conversion into law with amendments of Decree-Law no. 104 of 14 August 2020.
The adjustment resulted in a positive effect on income taxes for the year ended 31 December 2020 totalling € 48,989 thousand, as illustrated in the comment to the deferred tax assets and liabilities in the Balance Sheet.

9. Notes on the main comprehensive income statement items

9.1 Change in cash flow hedge reserve

In the financial periods ended 31 December 2020 and 31 December 2019, the change in the cash flow hedge reserve was positive for € 6,846 thousand and negative for € 2,490 thousand.
The item represents the component of comprehensive income incorporating the change to the "Cash flow hedge reserve" recorded for the effective position of hedging IRS derivatives.

9.2 Actuarial gains/(losses)

In the year ended 31 December 2020, actuarial losses amounted to € 134 thousand, compared to the actuarial losses of € 388 thousand recognised for the financial year ended 31 December 2019.
The item represents the component of comprehensive income incorporating the change to the "IAS 19 discounted reserve", recorded for the actuarial gains and losses arising from changes to the actuarial assumptions used in the employee severance indemnity valuation as per IAS 19.

10. Notes on the main balance sheet items

10.1 NON-CURRENT ASSETS

10.1.1 Tangible assets

In the financial periods ended 31 December 2020 and 31 December 2019, tangible assets amounted to € 105,341 thousand and € 107,327 thousand respectively.

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Land and buildings	21,462	22,968
of which for rights of use	*11,300*	*13,181*
Plants and machinery	71,253	68,141
of which for rights of use	*141*	*192*
Industrial and commercial equipment	1,310	1,580
of which for rights of use	*584*	*779*
Other assets	7,011	7,298
of which for rights of use	*2,928*	*2,489*
Payments on accounts and assets under construction	4,305	7,340
Tangible assets	**105,341**	**107,327**

Tangible assets are primarily represented by the following investments:

- a wood biomass co-generation plant and the related district heating network in the Municipality of Calenzano for € 1,860 thousand;
- plants and machinery relating to the implementation of telematic and telecommunications structures arising from activities undertaken by Estracom S.p.A. for € 20,019 thousand;
- a trigeneration plant located in Sesto Fiorentino owned by the subsidiary Estra Clima S.r.l. for € 708 thousand;
- photovoltaic systems for € 42,118 thousand;
- a property used as an office in Ancona and a property complex used as offices and warehouse located in the Municipality of Pettoranello del Molise in the province of Isernia of € 2,723 thousand;
- a municipal waste selection plant, with annexed premises, acquired during financial year 2019 with the consolidation of Ecolat S.r.l. for € 2,610 thousand.

With reference to photovoltaic systems, we can note that the Group manages two photovoltaic systems located in Cavriglia (AR) on the basis of a concession relationship entered into with the Municipality of Cavriglia, accounted for as a sale and leaseback transaction for € 29,895 thousand. Under the terms of the concession, after construction of the plant and the transfer of ownership to the Municipality, the Group did not lose control over it. It is therefore recognised as a tangible asset at the construction cost plus the dismantling costs and depreciation along the term of the concession. The value of the tangible asset also includes the current value for the future concession expenses recorded as indirect construction costs, and where a counter entry was made for a financial liability.

In addition to leased or rented goods recognised according to IFRS 16, property, plant and equipment includes in particular:

- under the item “Land and buildings”, the properties occupied by the Group and rented from shareholders for the company offices in Prato, Siena and Arezzo. The contracts with the Shareholders Intesa and Consiag have a term of three years starting from 01 January 2019, tacitly renewable for a further three. The contract with the Shareholder Coingas has a term of 6 years starting from 01 January 2020. The fees paid to shareholders in 2020 amounted to € 2,094 thousand. The fees are subject to annual review based on 75% of the change in the Italian National Institute of Statistics [ISTAT] cost of living index for the previous year. For the purposes of accounting under the terms of IFRS 16 the contractual term after the first renewal, that is 31 December 2024 was taken as a reference, considering it not reasonably certain that the Group will continue with the rental of the properties beyond this date at the current contractual conditions;

- the item “Other assets”, mainly refers to vehicles and IT equipment required in the Group’s operations.
-

The following changes were recorded in this item for the year ended 31 December 2020:

thousands of Euro	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other assets	Payments on accounts and assets under construction	Total
Cost or valuation						
At 1 January 2020	**28,930**	**109,448**	**4,264**	**22,879**	**7,340**	**172,861**
Increases	1,800	2,671	144	2,576	3,066	10,257
of which for rights of use	*1,092*			*1,677*		*2,769*
Sales/eliminations	(686)		(104)	(899)		(1,689)
of which for rights of use	*(686)*			*(694)*		*(1,380)*
Reclassifications		6,087		14	(6,101)	-
At 31 December 2020	**30,044**	**118,206**	**4,304**	**24,570**	**4,305**	**181,429**
Amortisation/ depreciation						
At 1 January 2020	**(5,962)**	**(41,307)**	**(2,684)**	**(15,581)**	**-**	**(65,534)**
Amortisation for the year	(3,253)	(5,646)	(331)	(2,815)		(12,045)
of which for rights of use	*(2,921)*	*(51)*	*(195)*	*(1,188)*		*(4,355)*
Sales/eliminations	633		21	837		1,490
of which for rights of use	*633*			*644*		*1,277*
Reclassifications						-
At 31 December 2020	**(8,582)**	**(46,953)**	**(2,994)**	**(17,559)**	**-**	**(76,089)**
Carrying amount						
At 31 December 2019	22,968	68,141	1,580	7,298	7,340	107,327
At 31 December 2020	21,462	71,253	1310	7,011	4,305	105,341

We specifically note the following for 2020:

- investments of the year of Euro 10,257 thousand mainly attributable (i) to the category “Land and buildings”, for a total of € 1,800 thousand among which we note in particular the purchase of a building adjacent to the head office of Ecolat for € 476 thousand and contract renewals for store rentals for € 698 thousand; (ii) to the category “Plants and machinery”, for a total of € 2,671 thousand referring mainly to plants and machinery related to the creation of telematic and telecommunications structures (iii) the category “Other assets”, for a total of € 2,576 referring primarily to hardware and office machines acquired on an ownership or right-of-use basis; (iv) to the category “Investments in progress and payments on account”, for a total of € 3,065 thousand related mainly to the creation of infrastructural cabling of the industrial areas in FTTH;

- depreciation for the period for € 12,045 thousand;

The following changes were recorded in this item for the year ended 31 December 2019:

thousands of Euro	**Land and buildings**	**Plants and machinery**	**Industrial and commercial equipment**	**Other assets**	**Payments on accounts and assets under construction**	**Total**
Cost or valuation						
At 1 January 2019	**9,880**	**101,869**	**3,138**	**24,319**	**4,801**	**144,007**
Effect 1 January 2019 IFRS 16	15,232			2,769		18,001
Increases	1,185	3,152	180	1,955	3,862	10,334
of which for rights of use	*471*			*900*		*1,371*
Sales/eliminations	(75)	(267)	(28)	(6,194)		(6,564)
of which for rights of use	*(75)*			*(41)*		*(116)*
Reclassifications		1,302		21	(1,323)	
Corporate acquisitions	2,708	3,738	974	8		7,428
Write-downs		(346)				(346)
At 31 December 2019	**28,930**	**109,448**	**4,264**	**22,878**	**7,340**	**175,248**
Amortisation/ depreciation						
At 1 January 2019	**(2,712)**	**(35,639)**	**(2,380)**	**(18,499)**		**(59,229)**
Amortisation for the year	(3,217)	(5,352)	(330)	(2,978)		(11,877)
of which for rights of use	*(2,894)*	*(73)*	*(195)*	*(1,149)*		*(4,310)*
Sales/eliminations	10	55	26	5,901		5,992
of which for rights of use	*10*			*10*		*20*
Reclassifications						
Corporate acquisitions	(43)	(372)		(4)		(420)
At 31 December 2019	**(5,962)**	**(41,307)**	**(2,684)**	**(15,580)**		**(65,533)**
Carrying amount						
At 31 December 2018	7,169	66,231	758	5,820	4,801	84,778
At 31 December 2019	22,968	68,141	1,580	7,298	7,340	107,327

We specifically note the following for 2019:

- effects deriving from first application of IFRS 16, as described in the paragraph of the notes "Changes to accounting standards and disclosure" and indicated distinctly in the above table. The effects regard: (i) the category "Land and buildings" mainly for the company offices of Prato, Siena and Arezzo occupied by the Group on the basis of rental contracts entered into with Consiag, Intesa and Coingas, respectively; (ii) the category "Other assets" mainly for motor vehicles and IT equipment functional to the Group's areas of business;

- investments of the year of Euro 10,334 thousand mainly attributable (i) to the category "Land and buildings", for a total of € 1,185 thousand among which we can note in particular the purchase of a property in Montepulciano (SI) used as an archive; (ii) to the category "Plants and machinery", for a total of € 3,152 thousand referred mainly to plants and machinery related to the creation of telematic and telecommunications structures and to the purchase of a cogeneration plant with district heating located in the Municipality of Ancona (iii) to the category "Investments in progress and payments on account", for a total of € 3,862 thousand related mainly to the creation of infrastructural cabling of the industrial areas in FTTH;

- net increases for corporate acquisitions for € 7,428, mainly related to the full consolidation of Ecolat S.r.l., as described in the paragraph of the notes on business combinations.

- depreciation for the period for € 11,877 thousand;

- write-downs of € 346,000, for which please refer to the paragraph "Impairment tests pursuant to IAS 36 on the value of property, plant and equipment" below.

10.1.2 Impairment tests pursuant to IAS 36 on the value of tangible assets

Financial year 2020

Following the analysis of both internal and external conditions, the Directors have not revised the impairment indicators referring to tangible assets, also taking into consideration the limited impact up to now of the COVID-19 health emergency, as detailed in paragraph 13.6 "*Risk relating to the Coronavirus pandemic*".

Financial year 2019

The directors noticed indications of impairment in reference to the mini-hydro power station built in the Municipality of Castel San Niccolò (AR) used for the purpose of hydroelectric production of the subsidiary Idrogenera S.r.l., recognised at a net carrying amount of € 76,000 at 31 December 2019.
The write-down made, of € 346,000, became necessary following the operating results lower than the plan forecasts and estimated cash flows insufficient to recover the cost of the investment. The plant is related to electricity production from renewable sources included in "Other business segments".

The impairment test compared the carrying amount recognised and the estimated recoverable value for the asset, calculated on the basis of its value in use.
For the value in use, the current value of estimate future cash flows was considered, which supposes that they will derive from the asset's continued use and disposal of the asset at the end of its useful life. The value in use was determined using the Discounted Cash Flow method, which estimates future cash flows and their discounting based on an appropriate discount rate.
The cash flow provisions represent the best estimates that the management could make based on the main assumptions underlying the plant's operations over the period 2020-2043 (annual production of electricity, maintenance costs and investments in the plant, energy sales tariffs).
The discount rate used to reflect the current market valuations with reference to the present value of money and specific risks associated with the asset, was estimated consistently with the considered cash flows, using the weighted average cost of capital (WACC) after tax of 6.5%. To complete this analysis, the directors recorded impairment in the current year for € 346,000 against a carrying amount, after depreciation of the period, of € 422,000 at 31 December 2019, which was recognised in the Income Statement under write-downs of property, plant and equipment. The net value of the asset amounted to € 76 thousand at 31 December 2019, after the write-down booked.
The calculation of the value in use is especially sensitive to the following assumptions:

- gross margin;
- discount rate.

The increase in the after-tax discount rate, or a reduction in the expected gross margin would result in a further reduction in the plant's value.

10.1.3 Goodwill

Goodwill recorded in the consolidated financial statements at 31 December 2020 (and 31 December 2019) refers to:

i) the following business combination operations prior to the FTA date, and for which the Group opted not to retrospectively apply IFRS 3:
   - goodwill recorded following the acquisition of Gergas S.p.A. relating to the "Gergas Regulated Market CGU" (€ 1,369 thousand);
   - goodwill recorded from the contributions of the gas customer management business units by Consiag S.p.A., Intesacom S.p.A. and Coingas S.p.A.; the acquisition against payment for the gas sales business units of Amag S.r.l., Valdarnotiberinagas S.r.l., Baiengas Commerciale S.r.l. and Offidagas S.r.l. and Esegas; the deficit from the merger by incorporation of Energeia S.r.l, into the complex relating to the "Sale of Gas and Electricity" CGU (€ 10,687 thousand).

ii) the following business combination operations after the date of FTA which amounted to € 17,380 thousand and can be broken down as follows:

- goodwill resulting from the Purchase Price Allocation from the acquisition of Metania S.r.l. in 2018 (€ 10,836 thousand);
- goodwill resulting from the Purchase Price Allocation from the acquisition of Gas Marca S.r.l. in 2018 (€ 6,544 thousand);
- goodwill resulting from the Purchase Price Allocation from the acquisition of Ecolat S.r.l. in 2019 as restated in these financial statements (€ 1,700 thousand);

The Group conducted impairment testing at 31 December 2020 and 31 December 2019, which as stated above, did not show any losses in value.

10.1.4 Impairment testing pursuant to IAS 36 on the value of goodwill

The goodwill acquired with the business combinations, for the purposes of the impairment was allocated to the "Gas and electricity sales", "Gergas Regulated Market" and "Other Ecolat waste management" cash generating units:

Carrying value of goodwill allocated to each cash generating unit:

	Gas and electricity sales		Regulated Market		Other		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Goodwill	28,067	28,067	1,369	1,369	1,700	1,700	31,136	31,136

The Group conducted its own impairment test at 31 December 2020 and 2019. The impairment test was prepared on the basis of the 2021-2025 business plan approved by the Board of Directors on 13 January 2021. The group monitors the recoverability of the assets on the basis of approved plans that take into consideration the synergies and strategies at the CGU level.

Gas and electricity sales

The recoverable value for the Gas and electricity sales cash generating unit was determined on the basis of the value in use calculation, where cash flow projections were used for the CGU, based on the most recent business plans available at the measurement date and approved by Company Management. The discount rate applied to the cash flow projections, net of tax is 5.7% in 2020 (5.9% in 2019). Cash flows were extrapolated using a growth rate of 1.5% in 2020 (1.5% in 2019), taken as the average growth rate for the business of gas and electricity sales over the long-term. On completion of these analyses, the directors did not detect any impairment to be attributed to the net assets of the Gas and electricity sales unit, including goodwill of Euro 28,067 thousand.

Key assumptions used in calculating the value in use and sensitivity to changes in assumptions

The value in use for the Gas and electricity sales CGU was especially sensitive to the following factors:
- gross margin;
- market share during the forecast period;
- discount rates.

Gross margin – The gross margin was based on the figures over the year prior to the start of the Plan's time frame, prudently assuming marginal increases related to increased efficiency. The increase in the costs of raw materials beforehand or not achieving the efficiency targets could result in a decreased margin compared to what is envisaged in the plan.

Market share assumptions - Management expects the market share in Gas and electricity sales to grow over the Plan's time frame, thanks also to the commercial investments envisaged for maintenance and the acquisition of new customers. Management recognises that it is possible that new players will enter the market and/or increased competition in the sector could impact significantly on the growth rate.

Discount rates – Discount rates reflect the specific market risk assessment for each cash flow generating unit, taking into consideration the value of money over time and the specific risks of the underlying activities, which were not already included in the cash flow estimates themselves. The calculation of the discount rate is based on the Group's specific circumstances and its business segments, resulted from weighted average capital cost

(WACC). The WACC takes into account both debt and equity. The cost of equity derives from the expected yield rate on investments. The cost of debt is based on the onerous funding that the Group has undertaken. The specific sector risk is incorporated, by applying specific beta factors. The beta factors are checked annually, based on available market information. The discount rates are adjusted to take into account quantities and specific time frames of future tax flows, so as to reflect an after-tax discount rate.

The sensitivity analysis was developed by focusing on CGU margins, assuming a 5% decrease, with a consequent reduction in cash flows over the course of the plan and in following years, and on a WACC increase of 5%.
The amounts obtained on this basis were also higher to those for the CGU, and therefore the analysis further confirmed the Gas and electricity sales CGU recorded value.

Regulated Market - Gergas
Goodwill results from the acquisition of Gergas, a company operating in gas distribution in Grosseto and Campagnatico.

Goodwill is negligible when compared with the comprehensive carrying value for the assets allocated to the Gergas Regulated Market unit. Nonetheless, given the uncertainties that still exist regarding the timing to announce and conduct tenders to renew gas distribution concessions/assignments, Directors decided to subject the goodwill to impairment testing, by comparing the carrying value for the gas distribution assets with the fair value net of sales costs (RIV).
To this end, an independent expert was appointed to estimate the Residual Industrial Value (RIV), which is the reference value for determining the right to compensation/reimbursements relating to networks, where the Group could lose the entirety of its concessions, following the tenders that will be announced to assign the concessions.

The recoverable value determined is higher than the asset's carrying value, by also applying reasonable sensitivity factors bringing down the Industrial Value. To complete the analysis, Directors did not record an impairment for carrying value recorded for the net assets in the Gergas Regulated Market unit, including goodwill for € 1,369 thousand.

Other - Ecolat waste management
Goodwill originates from the acquisition of Ecolat S.r.l., the company operating primarily in the mechanical selection of mixed-material packaging coming from the separate collections of the Optimal Areas Tuscany South, Centre and Coast and the recognition, on a residual basis in relation to the identifiable assets, of the company's ability to produce future income from the business not related to the selection plant, and more specifically from the treatment of paper, packaging and other waste from private entities.

The CGU recoverable value was determined on the basis of the value in use calculation, where cash flow projections of the relevant business sectors were used, based on the most recent business plan available at the measurement date and approved by Company Management. The discount rate applied to the cash flow projections, net of tax is 5.3 %. Cash flows were extrapolated using a growth rate of 1.5%. On completion of these analyses, the Directors did not detect any impairment to be attributed to the net assets under goodwill, having also applied reasonable sensitivity factors.

10.1.5 Intangible assets

In the financial periods ended 31 December 2020 and 31 December 2019, intangible assets amounted to € 449,377 thousand and € 450,239 thousand respectively.

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Industrial patent rights, licences and trademarks	3,485	3,538
Assets under concession	323,610	321,143
Customer listings	103,426	110,662
Other intangible assets	16,551	13,871
Intangible assets under construction	2,305	1,025
Intangible assets	**449,377**	**450,239**

Industrial patent rights, licences and trademarks refer mainly to third-party software user licences, amortized over 3 years.

Assets under concession relate to networks, plants, connections and other assets pertinent to natural gas distribution recognised according to the "intangible assets method" provided for in IFRIC 12 for existing concession relationships with the granting entities.
The natural gas distribution service is assigned on the basis of open public tenders, which do not refer to individual Municipalities, but rather to Minimum Geographic Areas (Ambiti Territoriali Minimi - ATEMs). Municipalities, cannot therefore independently assign the service on the basis of individual tenders.

However, before the adoption of Italian Legislative Decree no. 164/2000 (the so-called Letta Decree), the gas distribution service was assigned directly by individual Municipalities. Furthermore, after the adoption of Legislative Decree 164/2000 and up until the issuing of the relevant implementation decrees, the natural gas distribution service was assigned on the basis of open public tenders by individual Municipalities. Therefore, as of today's date, the Group still has some concessions assigned directly or by public tender by individual Municipalities.

In the event of the concessions' expiring, the term of the concession is deemed extended up until a new tender is announced. During this extension period, the relationship between the granting party and concession holder continues, and consequently, the latter is still obliged to manage the service, limited to the ordinary administration, up until the new assignment takes effect. Furthermore, the outgoing operators fulfils all the obligations arising from the concession, including the payment of the concession fee payable to the granting entity.

In the event that the Group does not succeed in being awarded new tenders to supply services that are continuing on an extension basis, at the time of taking over, the new operator shall pay the Group as the outgoing operator, for the transfer of the distribution networks from the outgoing operator to the new concession holder. This amount is determined according to the provisions in the concession contract. Without any specific provision (or without certain elements), the contract provisions are supplemented by the guidelines under Ministerial Decree 226/11.

With regard to the above, the technical assessment showed a Residual Industrial Value (RIV) for the networks, plants, connections and other assets pertinent to gas distribution and recorded under "Assets under concession" that was considerably higher than the carrying value in the consolidated financial statements.

On the basis of the analyses carried out on the recoverability of the value of the assets under concession related to natural gas distribution and recognised according to the "intangible asset method" provided for in IFRIC 12, indicators of permanent impairment emerged in relation to the class of electronic meters.

Customer listings mainly refers to determining the purchase price allocation (PPA) of the customer portfolios of the companies acquired in the business combinations conducted by the Group starting from 2015. The item is amortised over the amortisation period corresponding to the expected useful life for the customer lists, which is reassessed at the end of each financial period in relation to the historic and forecast losses of customers (so-called "Churn Rate"). In the financial periods ended 31 December 2020 and 31 December 2019, the customer listings were amortised over a 20-year time frame.

The item Other intangible assets refers mainly to the costs to acquire customers (contract costs) incurred by the Group's commercial companies, amortised over 5-years at a decreasing rate.

The Group checks annually whether there are any impairment indicators; specifically, for the customer listings and contract costs, this refers to checking the annual churn rate recorded for each gas and electricity sales company. The churn rate, also referred to as the drop-out or defection rate, is an indicator used to measure the loss of customers over a specific time period, and represents the percentage of customers that left the service (switch out) compared to the total number of customers using the service.

Based on the above, there were no impairments found at the end of 2020 with regard to intangible assets with a defined useful life.

The following changes were recorded in this item for the year ended 31 December 2020:

thousands of Euro	Industrial patent rights, licences and trademarks	Assets under concession	Customer listings	Other intangible assets	Intangible assets under construction	Total
Cost or valuation						
At 1 January 2020	**42,334**	**530,499**	**138,167**	**34,087**	**1,025**	**746,112**
Increases	2,936	21,178		11,240	1,280	36,634
Sales/eliminations		(4,146)				(4,146)
At 31 December 2020	**45,270**	**547,531**	**138,167**	**45,327**	**2,305**	**778,600**
Amortisation and write-downs						
At 1 January 2020	**(38,796)**	**(209,356)**	**(27,505)**	**(20,216)**		**(295,873)**
Amortisation for the year	(2,989)	(17,194)	(7,236)	(8,560)		(35,979)
Sales/eliminations		2,629				2,629
At 31 December 2020	**(41,785)**	**(223,921)**	**(34,741)**	**(28,776)**		**(329,222)**
Carrying amount						
At 31 December 2019	3,538	321,143	110,662	13,871	1,025	450,239
At 31 December 2020	3,485	323,610	103,426	16,551	2,305	449,377

We specifically note the following for 2020:

- investments for the period of € 36,634 thousand, referring primarily to:
  - the category "Assets under concession" for a total of € 21,178 thousand for investments made regarding the gas distribution networks;
  - the category "Industrial patent rights, licences and trademarks" for a total of € 2,936 thousand relating mainly to software costs;
  - the category "Other Intangible Assets" for a total of € 11,240 thousand, relating mainly to the costs to acquire customers incurred by the Group's gas and electricity sales companies;
  - the category "Fixed assets under construction" for a total of € 1,280 thousand, relating mainly to the costs to replace the current ERP with NET@SUITE, the new platform that will manage all areas of the ESTRA Group. The development project is still in progress and will continue for the whole of 2021.

- sales/eliminations for € 1,517 thousand mainly related to gas meters;

- amortisations for the period of € 35,979 thousand.

The following changes were recorded in this item for the year ended 31 December 2019:

thousands of Euro	Industrial patent rights, licences and trademarks	Assets under concession	Customer listings	Other intangible assets	Intangible assets under construction	Total
Cost or valuation						
At 1 January 2019	**39,982**	**428,839**	**137,963**	**22,775**	**250**	**629,809**
Increases	2,458	20,517	204	11,275	858	35,312
Sales/eliminations	(107)	(5,012)		(47)		(5,166)
Reclassifications				83	(83)	-
Corporate acquisitions		88,357				88,357
Write-downs		(2,202)				(2,202)
At 31 December 2019	**42,333**	**530,499**	**138,167**	**34,087**	**1,025**	**746,111**
Amortisation and write-downs						
At 1 January 2019	**(35,621)**	**(163,669)**	**(20,220)**	**(13,851)**		**(233,361)**
Amortisation for the year	(3,174)	(15,717)	(7,285)	(6,370)		(32,546)
Sales/eliminations		2,939		5		2,944
Reclassifications						-
Corporate acquisitions		(32,909)				(32,909)
At 31 December 2019	**(38,795)**	**(209,356)**	**(27,505)**	**(20,216)**		**(295,872)**
Carrying amount						
At 31 December 2018	4,361	265,170	117,743	8,924	250	396,448
At 31 December 2019	3,538	321,143	110,662	13,871	1,025	450,239

We specifically note the following for 2019:

- investments for the period € 35,312 thousand, referring primarily to:

- the category "Assets under concession" for a total of € 20,517 thousand for investments made regarding the gas distribution networks;
- the category "Industrial patent rights, licences and trademarks" for a total of € 2,458 thousand relating mainly to software costs;
- the category "Other Intangible Assets" for a total of € 11,275 thousand, relating mainly to the costs to acquire customers incurred by the Group's gas and electricity sales companies;

- net increases deriving from the acquisition of 100% of Murgia Reti Gas S.r.l. the consolidation of which brought in intangible assets for a total of € 55,448 thousand attributable to the gas distribution networks included in the scope of application of IFRIC 12;

- sales/eliminations for € 2,222 thousand mainly related to gas meters;

- amortisations for the period of € 32,546 thousand.

10.1.6 Equity investments

In the financial periods ended 31 December 2020 and 31 December 2019, equity investments amounted to € 26,107 thousand and € 27,250 thousand respectively.

Equity investments (amounts in thousands of euro)	Balance at 31 December 2019	Increases/ (Decreases)	Other changes	Revaluation/(write-down)	Balance at 31 December 2020
Edma Reti Gas S.r.l.	9,971			153	10,124
Nuova Sirio S.r.l.	17			37	54
Equity investments in companies subject to joint control	**9,988**			**190**	**10,178**
Blugas Infrastrutture S.r.l.	7,281			(68)	7,213
AES Fano	758			(75)	683
Monte Urano S.r.l.	866			(36)	830
SIG S.r.l	3,140			51	3,191
Equity investments in associates	**12,045**			**(128)**	**11,917**
AISA S.p.A.	45				45
Sinergie Italiane S.r.l.	-				0
Sei Toscana S.r.l.	5,008			(1,235)	3,773
Casole Energia S.r.l.	138			(24)	114
Ecos S.r.l.		15			15
Bisenzio Ambiente S.p.A.		39			39
Other companies	26				26
Equity investments in other companies	**5,217**	**54**		**(1,259)**	**4,012**
Total equity investments	**27,250**	**54**		**(1,197)**	**26,107**

The increases in the year refer to:

- the acquisition on 24 April 2020 of 15% of Ecos for € 15 thousand, whilst at the same time providing the company with a loan for € 355 thousand.
  The company owns a waste storage site extending over 9,500 square metres, operating on the domestic market in the management of special, hazardous and non-hazardous waste. More specifically, the company is involved in:
  - the disposal of hazardous and non-hazardous waste. Maximum capacity 75 kt (45 kt solid and hazardous liquid waste and 30 kt non-hazardous);
  - Waste collection and transportation using own vehicles. The company transports hazardous and non-hazardous waste, waste subject to ADR regulations, packaged and loose waste;
  - Reclamation of contaminated sites and treatment of cement-asbestos roofing.

- The acquisition of 5% of Bisenzio Ambiente based on the subscription of a share capital increase resolved by the shareholder Cipeco on 22/4/2020 in favour of third parties for € 39 thousand and at the same time, the disbursement of a loan of € 461 thousand.
  The company has as its purpose in particular the management of plants for the storage and chemical, physical and biological treatment of liquid hazardous and non-hazardous special waste and holds, following the contribution made by Cipeco S.r.l. an Integrated Environmental Authorisation (Autorizzazione Integrata Ambientale - A.I.A.) and operates a plant for the processing of hazardous and non-hazardous liquid special waste, in the start-up stage.

Both equity investment acquisitions were carried out on the basis of the investment agreements in force, regulating Estra's progressive acquisition of control in the future.
With regard to Ecos S.r.l., the acquisition was completed on 26 January 2021, taking up the remaining 85% of the shares for € 1,760 thousand, of which € 350 thousand had already been paid at 31 December 2020.

With regard to Bisenzio Ambiente S.r.l., the investment agreement provides for a series of corporate operations aimed at the progressive joint acquisition by Estra S.p.A. and Consiag S.p.A. of 100% of the share capital, which is wholly owned by Cipeco S.r.l.
The purchase price for 100% of the share capital is € 10,078 thousand, subject to a revision clause in relation to the revenue achieved by the company in the first 36 or 48 months of operations, in addition to the purchaser taking over the financing provided to the seller for around € 7.7 million.
Due to the pandemic emergency, the testing and start-up of the plant were delayed in respect of the initial timing, making it necessary to revise the timing and conditions originally agreed on between the parties to acquire control and the entire share capital. This had not yet been finalised at the date of this document.

With regard to the equity investment in SEI Toscana S.r.l., at 31 December 2020, a write-down was made for € 1,235 thousand, recognised to align the carrying value of the equity investment held to an extent of 11.27% of the share capital, to the corresponding portion of the subsidiary's shareholders' equity, recorded in the last approved financial statements (financial year 2019), as this was deemed a good approximation of its fair value.
The write-down refers to the subsidiary's loss for the 2019 financial year for around € 10,683 thousand, resulting largely from the recognition of the revenue adjustment for 2018 and 2019 in relation to efficient operating and investment costs for the integrated Waste management service managed by SEI, partially derecognised by ATO Toscana on first application of the criteria set by Arera.
Arera, assigned regulatory and control functions in the area of municipal waste, introduced these criteria as from 2020, effective also in respect of the 2018 and 2019 adjustments.
Within the scope of specific administrative proceedings, SEI Toscana immediately challenged the choices adopted by ATO Toscana Sud in applying the Arera methodology, which produce significant critical aspects in achieving economic and financial balance in its operations, and which, among other things, do not guarantee adequate tariff cover for the operating costs deriving from the changes to the service or perimeter characteristics.
Based on the complex management of the challenge application, its uncertain outcome and the updated multi-year economic-financial plan that shows the losses recorded in 2019 are recoverable and economic-financial balance restored, the portion pertaining to the loss for the financial year was deemed an impairment to the equity investment's value.
The other changes in equity investments result from applying the equity method.
With the exception of what has been stated above for the equity investment in Sei Toscana S.r.l., no indicators of permanent impairment were identified for any equity investments, and consequently no specific impairment tests were conducted.

With regard to Blugas Infrastrutture S.r.l., the investment is recognised at a carrying amount higher than the corresponding portion of the subsidiary's shareholders' equity at 31 December 2020 of € 2,232, following the allocation of a higher purchase price to the company's assets represented by:
- a 10% co-interest in the project for the construction and operation of the storage plant located in San Potito and Cotignola, Ravenna province, with the partner Edison Stoccaggio at 90%, as a result of a special concession ("San Potito and Cotignola Storage") awarded by the Ministry for Economic Development with the Ministerial Decree of 24/04/2009;
- an ownership interest of 70 million cubic metres of natural gas to be extracted from the Abbadesse field.

With regard to the San Potito and Cotignola Storage project, it should be noted that, following the discovery of a more complex geological situation than expected, Edison Stoccaggio had to significantly revise the originally approved project with a consequent reduction in storage capacity estimates. With this changed scenario, AEEGSI (now ARERA) with resolution 66/2016 dated 25 February 2016 redetermined the tariffs using a penalising mechanism that was questionably lawful, to reduce the revenue from the site capex (calculated according to the investment realised/ space performance achieved ratio), which will be applied each year up until the site regulation is completed, at the same time, requiring a partial adjustment for the lower revenue received, in relation to the space performance that the fully operational concession will guarantee. In addition only with regard to 2015, and once again based on resolution 531/2014/R/gas, the Authority made the recognition of certain revenue components (amortisation and incentive rates) conditional on the site becoming “commercially” operational, i.e. the date when the site began to commercially offer its capacity for storage services (2015), effectively postponing the recognition of these components by a year (as from 2016).

The co-holder Edison Stoccaggio strongly objected to the Authority’s argument, undertaking the opportune legal action to request the cancellation of this Resolution, so that the business revenue could be restored as per the original project. Therefore, following the rejection by the Lombardy RAC of the application, Edison Stoccaggio then presented an appeal to the Council of State, which is still pending. The CTU made delivery in March 2020. The Council’s decision is therefore expected shortly.

Without prejudice to the fact that the Company deems its arguments underlying the appeal to be valid, from estimates undertaken on the impact on the revenue of the multiple year project plan, there are no impairment indicators, in consideration of both the economic results that are in any case positive, and the implicit gains on the company’s assets; no write-down for impairment was thus made on the equity investment and the financial receivables.

With regard to the 11.05% shareholding in Sinergie Italiane S.r.l. we remind you that the company was put into liquidation with a shareholders' meeting resolution dated 13 April 2012. Previously, on 29 March 2012, the shareholders meeting had covered the deficit of € 88.7 million and reconstructed the share capital to € 1 million, through a cash contribution of € 89.7 million.

During subsequent years the company continued its business mainly limited to the purchase of gas from the Russian supplier Gazprom Export LLC and resale of the same to the shareholders or to the commercial companies owned by the Shareholders (Estra Energie S.r.l. for the shareholder Estra S.p.A.) The interim liquidation financial statements at 30 September 2019, prepared in compliance with art. 2490 of the Italian Civil Code, closed with negative shareholders’ equity of € 3.1 million (€ 6.5 million at 30 September 2018), after liquidation adjustments of € 32.8 million and profit for the period of € 3.5 million. Without prejudice to the uncertainty regarding the outcome of the proceedings, it is reasonable to expect that the company financial position will substantially be balanced at the end of the liquidation.

We note that, following the audit conducted on the investee by the Revenues Agency in relation to the periods 1 October 2012 – 30 September 2013 and 1 October 2013 – 30 September 2014 for income tax (IRES and IRAP) and VAT purposes, a formal tax audit report was issued, on 2 August 2019. This report contested an alleged over-invoicing by the investee in relation to the shareholders and the related commercial companies, including Estra Energie, for a total of € 14,854 thousand in the period 2012/2013 and € 14,144 thousand in the period 2013/2014. In particular, the Revenues Agency, believing that the Company had increased in the above years the selling price of natural gas to the commercial companies taking it up to more than what was provided for on the market, refused to recognise any of the mark-up applied by Sinergie Italiane S.r.l. in liquidation to the cost of natural gas purchased from the Russian supplier Gazprom Export LLC. On 17 January 2020 the investee presented its rebuttal arguments in order to reply to what was indicated by the Revenues Agency in the tax audit report to affirm the legitimacy of its operations. In relation to the ascertainment, the Revenues Agency also carried out an inspection at the Parent Company, to acquire documentation in relation to the transactions between Estra and the company Sinergie Italiane s.r.l. with reference to the tax year 2012 and subsequent years. The audit was completed on 30 September 2019 with the absence of substantial breaches and the ascertainment that between Estra and the company Sinit there have never been commercial transactions as these took place only and exclusively with the subsidiary Estra Energie S.r.l. for the purchase of natural gas.

10.1.7 Other non-current financial assets

In the financial periods ended 31 December 2020 and 31 December 2019, other non-current financial assets amounted to € 13,670 thousand and € 11,539 thousand respectively.

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Loans to companies subject to joint control	230	230
Loans to associates	4,643	4,643
Receivables from others	8,797	6,666
Other non-current financial assets	**13,670**	**11,539**

The tables below show the composition of loans to subsidiaries and their changes at 31 December 2020 compared to the previous financial period:

(amounts in thousands of euro)	Balance at 31 December 2019	Increases	Decreases	Other changes	Balance at 31 December 2020
Nuova Sirio S.r.l.	230				230
Loans to companies subject to joint control	**230**				**230**

(amounts in thousands of euro)	Balance at 31 December 2019	Increases	Decreases	Other changes	Balance at 31 December 2020
Blugas Infrastrutture S.p.A.	4,153				4,153
A.E.S. Fano Distribuzione Gas S.r.l.	490				490
Loans to associates	**4,643**				**4,643**

The item receivables from others refers mainly:
- for € 5,000 thousand to the amount paid at the time of being awarded the gas distribution contract for the Municipality of Rieti, and which will be refunded once the concession ends, and all plants, networks and other distribution service installations are delivered to the replacement operator, also present at 31 December 2019;
- for € 1,364 thousand to the receivable held by Ecolat S.r.l. in respect of Sei Toscana S.r.l., pending at 31 December 2019. Reference is this regard to made to the paragraph in the Notes "Ecolat dispute on the share capital increase in Sei Toscana S.r.l.";
- for a total of € 816 thousand to the loans provided in 2020 to the subsidiaries Ecos S.r.l. and Bisenzio Ambiente S.r.l., as detailed in the comment to equity investments in other companies.

10.1.8 Other non-current assets

In the financial periods ended 31 December 2020 and 31 December 2019, other non-current financial assets amounted to € 5,448 thousand and € 5,286 thousand respectively and mainly refer to long term guarantee deposits issued in favour of the Customs Agency by the subsidiary Estra Energie S.r.l. and to various suppliers for sales activities and gas storage.

10.1.9 Deferred tax assets

In the financial periods ended 31 December 2020 and 31 December 2019, deferred tax assets amounted to € 66,368 thousand and € 30,718 thousand respectively.

The table below shows the composition of deferred tax assets and their changes at 31 December 2020 compared to the previous financial period:

(amounts in thousands of euro)	Balance at 31 December 2019	Adjustment pursuant to Law 126/2020	Reversals/Uses	Allocations	Other changes	Balance at 31 December 2020
Amortisation/ depreciation	7,644		(123)	696		8,217
Risk provisions	1,099		(703)	435		831
Provision for write-downs	12,935		(4,104)	2,813	21	11,665
Contributions received on connections	3,174		(102)			3,072
Write-down of fixed assets	1,062		(70)			991
Lease accounting	167		(1)	23		189
Reversal intangible assets	236		(22)	2		216
Fair value derivatives	1,111				(883)	228
Discounted employee severance indemnity	247		(8)	23	44	307
Other	3,044		(937)	1,397	4	3,508
Higher tax value goodwill		3,544				3,544
Higher tax value assets under concession		33,600				33,600
Total	**30,718**	**37,144**	**(6,071)**	**5,391**	**(813)**	**66,368**

Financial statement and tax revaluation/realignment of assets

In the 2020 financial year, the Group chose to apply the regulations referring to revaluation and realignment as per Law no. 126 of 13 October 2020 containing the "Conversion into law with amendments of Decree-Law no. 104 of 14 August 2020", which provides for the revaluation of company assets for statutory accounting and tax purposes or the tax realignment of company assets for the tax recognition of the step-up values recorded in the financial statements of Group companies at 31 December 2020, with the payment of 3% substitute tax.

Substitute tax must be paid over a maximum of three instalments for equal amounts, within the deadline for the balance on income taxes relating to the tax period when the revaluation was carried out (the first), and within the deadline set for the balance of income taxes referring to subsequent tax periods (the other two).

If the revalued assets are transferred against payment, prior to the fourth subsequent financial year in respect of the one when the revaluation was carried out (i.e. for "calendar year" tax payers, on a date prior to 1 January 2024), the cost prior to the revaluation is taken as a reference when calculating capital gains/losses. To identify the assets that are applicable, legislation refers to Section II of Heading I of Law 342/2000 (entitled "revaluation of company assets"), namely tangible and intangible assets, excluding those where the production or trade in the assets refers to the company's business activity.

In terms of Article 11, paragraph 2 of Law 342/2000, referenced under paragraph 7 of Article 110 of Decree-Law 104/2020, the amounts recognised in the financial statements after the revaluation cannot exceed those effectively attributed to the assets with regard to their "extent, production capacity, and effective possibility of economic usage in the business".

The Group decided to apply this legislation to subsidiary owned networks and connections operating in the gas distribution sector for € 158,722 thousand and to the goodwill recognised in the financial statements of companies operating in the natural gas sales sector following merger transactions for € 36,880 thousand.

In accordance with IFRS accounting standards, the higher assets value emerging in subsidiaries' financial statements in compliance with the OIC, was not maintained, consequently creating a statutory accounting and tax misalignment. These consolidated financial statements include the effects from the adjustment of assets/(liabilities) for deferred tax assets/liabilities recognised on the difference between the value of assets in the consolidated statements and the new amounts recognised for tax purposes at 31 December 2020.

The adjustment resulted in:

- the recognition of deferred tax assets for € 3,544 thousand on goodwill not subject to taxation in the sale of the natural gas segment;
- the recording of deferred tax assets for € 33,600 thousand on the tax recognition of gains on assets under concession for gas distribution not recognised in the consolidated financial statements;
- the reversal of liabilities for deferred taxes for € 10,628 thousand following the gains on assets under concession for gas distribution not subject to taxation;

- the reversal of liabilities for deferred taxes for € 7,085 thousand following the customer listings in the sale of natural gas segment not subject to taxation;

- the recognition of costs for substitute tax payable for € 5,868 thousand.

The overall effect on the Income Statement item “Income taxes” was therefore positive for a total of € 48,989 thousand.
The table below shows the composition of deferred tax assets and their changes at 31 December 2019 compared to the previous financial period:

(amounts in thousands of euro)	Balance at 31 December 2018	Corporate acquisitions	Reversals/Uses	Allocations	Balance at 31 December 2019
Amortisation/ depreciation	6,393	628	(203)	827	7,644
Risk provisions	1,276		(414)	236	1,099
Provision for write-downs	11,463		(907)	2,378	12,935
Contributions received on connections	3,302		(128)		3,174
Write-down of fixed assets	550		(16)	528	1,062
Provision for early retirement of employees	95		(95)		-1
Lease accounting	143		(6)	29	167
Reversal intangible assets	223	27	(38)	23	236
Fair value derivatives	302			809	1,111
Discounted employee severance indemnity	127	22	(11)	110	247
Other	3,420		(1,332)	955	3,045
Total	**27,295**	**677**	**(3,149)**	**5,896**	**30,718**

The Group has accounted for the deferred tax assets relating to temporary differences between values which are significant for tax purposes and carrying amounts, where it considers probable that future taxable income will absorb the temporary differences that generated them. In determining deferred tax assets, reference was made to the IRES tax rate (corporate income tax) and, where applicable, the IRAP tax rate (regional production tax) applicable at the time the temporary differences are expected to be reversed. There are no problems expected regarding recoverability given the amount of the expected taxable income.

10.2 CURRENT ASSETS

10.2.1 Inventories

In the financial periods ended 31 December 2020 and 31 December 2019, inventories amounted to € 24,768 thousand and € 18,129 thousand respectively.
The item can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Materials inventories	4,526	4,128
Natural gas storage inventories	13,566	20,653
LPG inventories	286	236
Provision for stock devaluations	(249)	(249)
Inventories	**18,129**	**24,768**

Inventories primarily comprise:

- Spare parts for the maintenance and operation of gas distribution plants for € 3,695 thousand at 31 December 2020 (3,209 thousand at 31 December 2019), recorded at cost of acquisition or manufacture, including ancillary costs, which was lower than the market value;
- stored gas intended for supplies to final customers, measured at the lower value between the purchase cost including ancillary charges, and the estimated realisable value from the market trend for € 13,566 thousand (€ 20,653 thousand at 31 December 2019). The balance at 31 December 2019 also includes stored gas held for trading for € 445,000, measured at fair value in relation to official quotations on the reference market at the reporting date.

10.2.2 Trade receivables

In the financial periods ended 31 December 2020 and 31 December 2019, trade receivables amounted to € 234,372 thousand and € 281,434 thousand respectively.

The item can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Receivables from users and customers	227,272	272,141
Receivables from joint ventures	3,190	5,269
Receivables from associates	1,959	1,427
Receivable from holding companies	1,952	2,596
Trade receivables	**234,372**	**281,434**

The adjustment of the nominal value of receivables to their estimated realisable value was obtained using a write- down provision established for doubtful debts, referring mainly to trade receivables for the sale of gas and electricity to final customers. Changes in the provision are shown in the table below:

(amounts in thousands of euro)	**Balance at 31 December 2019**	**Uses during the year**	**Allocations for the year**	**Balance at 31 December 2020**
Provision for write-downs	**58,925**	(19,018)	13,027	**52,934**

(amounts in thousands of euro)	**Balance at 31 December 2018**	**Business combinations**	**Uses during the year**	**Allocations for the year**	**Balance at 31 December 2019**
Provision for write-downs	**53,193**	40	(5,989)	11,681	**58,925**

Trade receivables primarily refer to receivables from customers for the provision of gas and electricity and include the provision for invoices still to be issued, accruing to the current year and to previous ones, for the estimate of the gas and electricity supplied to final customers and not yet invoiced at 31 December.

The Group adopted a method to calculate the Provision for write-downs based on which the credit positions are analysed according to different risk profiles, determined in terms of creditor category and the stratification of prior credit. At each overdue level, based on the category, write-down percentages are applied that are calculated on a historic basis and subdivided according to credit ageing time brackets and customer clusters. Receivable positions of the most significant amounts are analysed and, if appropriate, specifically written down. For additional information on the calculation of the Provisions for Impairment of Receivables and the provision for invoices still to be issued for the gas and electricity supplied, please see the note "Significant accounting estimates".

For information on the receivables from Shareholders, companies subject to joint control and associates, please see the table referring to related parties transactions in the note "Transactions with Related parties".

The payment terms generally applied to customers are governed by legislation or regulations in force and are in line with the standards of the free market; in the event of non-payment, interest on arrears is charged in the amount indicated in the supply contracts and provided by existing legislation.
Reference is made to the paragraph "Credit Risk" for additional information on credit ageing.

10.2.3 Tax receivables

In the financial periods ended 31 December 2020 and 31 December 2019,tax receivables amounted to € 21,813 thousand and € 12,400 thousand respectively.

The item can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
VAT credit	2,281	5,244
IRES/IRAP credit	5,234	2,217
UTIF	10,420	3,879
Other tax receivables	3,878	1,060
Tax receivables	**21,813**	**12,400**

The significant increase in UTIF tax credits is mainly due to the difference between advances paid over the half-year, determined on the basis of consumption in 2019, and the tax effectively debited to customers over the period, which is lower compared to the end of the previous financial year.

10.2.4 Other current assets

In the financial periods ended 31 December 2020 and 31 December 2019, other current assets amounted to € 28,367 thousand and € 33,419 thousand respectively.
The item can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Receivables from the Energy Authority and GSE	19,472	21,502
Advances	1,791	3,281
Other receivables	5,639	5,739
Prepaid expenses	1,465	2,897
Other current assets	**28,367**	**33,419**

The item “Receivables from the Energy Authority” refers mainly to:

- the amounts due in application of the equalisation mechanism related to the restriction of total distribution revenues for subsidiaries operating in the sector, and for contributions related to reaching the energy saving targets;

- the amounts due to the Group companies operating in the natural gas sales sector under the terms of Arera resolution 32/2019/R/Gas in relation to redetermination of the coefficient k for the years 2010-2012, as described in the comments on other operating revenue.

Receivables recognised under current asses are all payable within twelve months.
All receivables are from entities operating in Italy, with the exception of insignificant amounts from EEC and Non-EEC entities for gas sales.
We can also note that:

- certain receivables and payables with the same counterparties are recognised separately between receivables and payables as they cannot be offset by law as a result of specific agreements between the parties;
- there were no receivables subject to constraints or restrictions of any kind or receivables for which it was decided to discount in compliance with sound accounting principles;
- there were no transactions with compulsory buy-back on maturity;
- there were no receivables in foreign currency.

10.2.5 Other current financial assets and other current financial liabilities

In the financial periods ended 31 December 2020 and 31 December 2019, other current financial assets amounted to € 13,546 thousand and € 34,797 thousand respectively, while other current financial liabilities amounted to € 10,021 thousand and € 36,983 thousand.

Current financial assets can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Interest income from banks	97	667
Derivative instruments	13,449	34,130
Other current financial assets	**13,546**	**34,797**

Derivative instruments included in other current financial assets are made up as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Forward commodity contracts	6,775	30,502
Cash Flow Hedge Commodity Swaps	5,534	1,533
Commodity Swaps with change in fair value through profit or loss	1,140	2,095
Derivative instruments	**13,449**	**34,130**

Current financial liabilities are broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Payable derivative financial instruments	10,021	36,983
Other current financial liabilities	**10,021**	**36,983**

Derivative instruments included in other current financial liabilities are made up as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Forward commodity contracts	7,078	29,476
Cash Flow Hedge Commodity Swaps	109	5,003
Commodity Swaps with change in fair value through profit or loss	2,385	1,736
Cash flow hedge Interest Rate Swaps	238	374
Interest Rate Swaps not designated as hedging instruments	211	394
Derivative instruments	**10,021**	**36,983**

Receivables from banks refer to the interest accrued on cash at the reporting date, credited by the bank on a subsequent date.

Forward contracts (to buy or sell) envisage the physical delivery of gas during future years, used in the gas trading activity. These financial instruments are measured at fair value at the reporting date with recording of the effects in the income statement under "Expenses/(income) from commodity risk management".
Forward contracts used for gas sales and entered into to optimise the company's own procurement and sales portfolio do not fall within the scope of application of IFRS 9 (so-called "own use"). These contracts are recognised at the time of the physical delivery of the underlying commodity.

Commodity Swaps do not envisage the physical exchange of gas, but are entered into to hedge price indices for volumes sold, in order to limit price risk deriving from specific gas purchase transactions at a fixed price and resale at a variable price (or vice versa) at different times. This category includes derivatives entered into in the context of trading activity and derivatives in the context of gas sales that do not meet the conditions required by IFRS 9 (including formal conditions), to qualify as hedges.

Interest Rate Swap (IRS) contracts hedge the risk of unfavourable interest rates on loans or long-term leasing plans. The effective portion of changes in the fair value of derivatives is directly recognised in shareholders' equity under a specific equity provision called the "Cash flow hedge reserve", whereas the ineffective portion is recorded in the income statement. Amounts that are directly recognised in shareholders' equity are reflected in the comprehensive income statement.

The table below shows the due dates, notional value and fair value of existing IRS contracts at 31 December 2020 and 31 December 2019:

(amounts in thousands of euro)	Year ended 31 December 2020		Year ended 31 December 2019	
	Positive/(negative) Fair Value	Notional	Positive/(negative) Fair Value	Notional
IRS Fixed Rate/Variable Rate maturing 30/06/2021 (MPS)	(3)	254	(20)	749
IRS Fixed Rate/Variable Rate maturing 28/12/2021 (UniCredit)	(211)	7,000	(394)	7,000
IRS Fixed Rate/Variable Rate maturing 28/06/2024 (Intesa)	(235)	2,440	(354)	3,061
IRS	**(449)**	**9,694**	**(768)**	**10,810**

Please see the paragraph "Interest rate Risk" for additional information.

10.2.6 Cash and cash equivalents

In the financial periods ended 31 December 2020 and 31 December 2019, cash and cash equivalents amounted to € 160,249 thousand and € 195,748 thousand respectively.
The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December 2020	2019
Bank and postal deposits	160,233	195,731
Cash and cash equivalents	16	17
Cash and cash equivalents	**160,249**	**195,748**

Deposits held with banks accrue interest based on variable daily deposit rates. Short-term deposits have various call dates, between one day and three months, in relation to the Group's financial requirements and accrue interest at short-term rates. Cash and cash equivalents recorded in the financial statements are free from usage restrictions.

10.3 SHAREHOLDERS' EQUITY

In the financial periods ended 31 December 2020 and 31 December 2019,shareholders' equity amounted to € 392,377 thousand and € 322,552 thousand respectively.
The change in the Group's equity at 31 December 2020 compared to 31 December 2019 is mainly due to:
- distribution of dividends to Shareholders (profit for the year 2019) by the Parent Company (€ 7,000 thousand);
- Effects resulting from the acquisition of non-controlling interests in the already-controlled company Gergas S.p.A. (€ -882 thousand). Please see the related point in the paragraph "Business combinations and corporate sales and acquisitions and disposals of non-controlling interests";
- result of the Group's comprehensive income statement (€ 76,897 thousand);

The change in the Group's equity at 31 December 2019 compared to 31 December 2018 is mainly due to:
- distribution of dividends to Shareholders (profit for the year 2018 and reserves) by the Parent Company (€ 14,638 thousand);
- Effects resulting from the acquisition of non-controlling interests in the already-controlled company Prometeo S.p.A. (€ 127 thousand). Please see the related point in the paragraph "Business combinations and corporate sales and acquisitions and disposals of non-controlling interests";
- result of the Group's comprehensive income statement (€ 14,580 thousand);

The change in shareholders' equity attributable to Non-Controlling Interests at 31 December 2020 compared to 31 December 2019 is mainly due to:

- Effects resulting from the acquisition of non-controlling interests in the already-controlled company Gergas S.p.A. (€ +882 thousand). Please see the related point in the paragraph "Business combinations and corporate sales and acquisitions and disposals of non-controlling interests";
- Waiver of the receivable to cover Idrogenera losses (€ 191 thousand);
- distribution of dividends to third party shareholders (- € 363 thousand).

- result of the Group's comprehensive income statement related to Non-Controlling Interests (+ € 101 thousand).

The change in shareholders' equity attributable to Non-Controlling Interests at 31 December 2019 compared to 31 December 2018 is mainly due to:

- Effects resulting from the acquisition of non-controlling interests in companies already controlled (- € 1,683 thousand). Please see the related point in the paragraph "Business combinations and corporate sales and acquisitions and disposals of non-controlling interests";
- Distribution of dividends to third parties (- € 1,138 thousand).
- result of the Group's comprehensive income statement related to Non-Controlling Interests (€ 50 thousand).

10.4 NON-CURRENT LIABILITIES

10.4.1 Provisions for risks and charges

In the financial periods ended 31 December 2020 and 31 December 2019, the provisions for risks and charges amounted to € 9,173 thousand and € 9,504 thousand respectively.

The table below shows the composition of the item and the change that occurred in 2020:

(amounts in thousands of euro)	31-Dec-19	Allocations	Uses	Reversal	31 December 2020
Agency indemnities	186	197	(47)	(103)	233
Disputes and legal defence expenses	4,023		(1,700)		2,323
Energy Efficiency Certificates	1,061	1,351	(488)		1,924
Other risks	3,730	675	(238)		4,167
Plant dismantling provision	504	22			526
Provisions for risks and charges	**9,504**	**2,245**	**(2,473)**	**(103)**	**9,173**

The item Disputes and legal defence costs is allocated based on the best estimate at the reporting date of the risk relating to expenses and obligations arising from ongoing lawsuits involving Group companies. Given that the time period to resolve the disputes cannot be reasonably predicted, the Group has not discounted the item.

Energy Efficiency Certificates refers to the risks associated with market trends in energy efficiency certificates, considering the remainder of the mandatory certificates to be purchased and the most recent estimate available for the contribution that will be recognised by the Authority.

Other risks refer mainly to the risks associated with the plants producing energy from renewable sources and technological equipment for telecommunications and to penalties related to the gas distribution business.

The item agency indemnities refer to the severance indemnity for sales agents of the Group's vendor companies.

The Plant dismantling provision is related to the concession relationship between the subsidiaries Cavriglia and Tegolaia and the granting Municipality. recognised in accordance with IAS 17.50 as a sale and leaseback transaction (IAS 17.59), as described in the paragraph on property, plant and equipment, to which you are referred.

The change during 2020 referred mainly to:

- Provisions for risks for Energy Efficiency Certificates of € 1,351 thousand to cover the risks associated with the performance of the market of energy efficiency certificates, considering the remainder of certificates to be purchased for all the obligation years still open, estimating the average purchase cost of the market compared to the maximum contribution recognised by the Authority (€ 250/EEC).

- Use of risk provisions for Energy Efficiency Certificates of € 488 thousand to cover the losses on EECs made in 2020 for the obligation year 2019;
- Use of the Provision for disputes and legal expenses for € 1,700 thousand to cancel the credit for the same amount recorded under other current assets, for the payment made on 17 November 2011 to the Municipality of Prato, following the settlement agreement referred to below in the paragraph “Main current litigations”;
- Provisions for € 675 thousand primarily referring to the estimate for the risk of sanctions and/or penalties pertinent to the gas distribution activity;
- Uses for € 238 thousand of provisions for risks and sanctions set aside in previous years, mainly related to the gas distribution business.

10.4.1.1 Main pending disputes

Dispute referring to the determination of the compensation due to the outgoing operator for the natural gas distribution service Municipality of Prato Toscana Energie

Following the award of the tender for the assignment of gas distribution services in the Municipality of Prato to Toscana Energie, on 31 August 2015, Centria, Toscana Energie and the Municipality of Prato signed the network delivery report (with the related installations and assets making up the gas distribution system), with the concurrent payment by Toscana Energie to Centria of compensation for the network of € 85,538 thousand plus VAT.

During the year 2016, Estra and Centria filed a lawsuit with the Court of Prato against the Municipality of Prato and Toscana Energia, in order to obtain the condemnation of Toscana Energia. Moreover, subordinate to the Municipality of Prato, they pretend the payment of Euro 9,613 thousand, to supplement the lesser amount provided in the call for the tender and recognized to the outgoing Centria operator for the networks delivery, in application of a contested indexation and revaluation mechanism, on the basis of the time passed between the call and the delivery of the networks.

Based on the alternative application in respect of the Municipality of Prato, there was, inter alia, an agreement signed by Estra and the Municipality of Prato on 17 November 2011 with which the parties had intended to settle mutual disputes concerning the amount of network compensation owed by the incoming operator to the outgoing operator, in view of Estra’s commitment to pay € 7,700 thousand to the Municipality of Prato (of which, € 1,700 thousand paid on 17 November 2011).

In the proceedings pending before the Court of Prato, Toscana Energie and the Municipality of Prato, argued for the unsubstantiated nature of the proposed application and presented a series of counter demands, and specifically:

- the Municipality of Prato submitted a counter-claim to obtain the payment of € 6,000 thousand due to the aforementioned settlement agreement provisions signed in 2011 to determine, inter alia, the value of the compensation due to the outgoing operator;
- Toscana Energia counter-claimed to obtain the payment of an amount of € 1,742 thousand based on an alleged different composition of the network from what had been represented by the outgoing operator.

With judgement no. 387/2020 published on 14/08/2020, the ordinary Court of Prato ordered Estra S.p.A. to pay the Municipality of Prato, the amount of € 6,000 thousand, plus interest, based on the provisions of a settlement agreement signed in 2011 to determine, *inter alia*, the amount of the compensation owed to the outgoing operator.

Instead the Court held that the Administrative Judge had jurisdiction in responding to the lawsuit filed in 2016 by Estra and Centria against the Municipality of Prato and Toscana Energia, in order to obtain an order against Toscana Energia, or alternatively the Municipality of Prato, for the payment of € 9,613 thousand, to supplement the lesser amount recognised to the outgoing operator Centria for the delivery of the networks, in application of a contested indexation and revaluation mechanism, on the basis of the time that had passed between the call and the delivery of the networks.

The settlement agreement dated 02 December 2020, provided inter alia, for Estra and Centra's withdrawal of the challenge to the judgement, limited to the part ordering the payment to the Municipality of Prato; the Parties agreed on instalment-based payments for a total amount of € 6,050 thousand, including interest, in three annual instalments falling due on 31 January 2021, 31 January 2022 and 31 January 2023.

Given the complex financial nature of this matter, instead of resuming the case before the RAC as initially envisaged with regard to having the Ordinary Judge's failed jurisdiction recognised, the Board of Directors has subsequently decided to take the matter on appeal to the Civil Court, opposing the first instance judgement, mainly on basis of three reasons:

(i) greater consistency with the line of defence and position taken in the first instance and the relative consolidation regarding some of the main arguments;
(ii) it is impossible for Estra Centria to pursue judgement at the RAC when Toscana Energia has submitted an appeal;
(iii) the fact that the RAC is set to give its decision on the 2015 administrative claim in November 2021, therefore expecting a quick decision regarding its Judge having jurisdiction.

On 26 February, a summons was consequently issued on appeal by Estra (and Centria). On the same date, a summons on appeal was received from Toscana Energia against the same first instance judgement.

As a consequence of the above, these consolidated financial statements were impacted for extraordinary expenses recognised under "Other operating expenses" for a total of € 6,182 thousand, including the taxation expense on the judgement.

With regard to the reservations expressed by Toscana Energia on signing the networks delivery report, some of which appear to already have been accepted by the Municipality of Prato, it was deemed prudent to retain the risk provisions for € 1,742 thousand recognised in previous financial years.

Notice of liquidation of registry, mortgage and land registry taxes

On 20 December 2019, the Parent Company and the subsidiary Centria received notices of liquidation of registry, mortgage and land registry taxes, as well as sanctions for a total of € 435,000 with reference to the corporate operations with which the companies Solgenera S.r.l. (now incorporated into Estra S.p.A.) and Centria S.r.l. contributed on 29.09.2016 to the company Estra Clima S.r.l. business units of theirs obtaining in exchange equity investments, of 44.69% and 39.43% respectively in the share capital of the conferee. These equity investments were subsequently (on 13.12.2016) transferred to the company Es.tr.a. S.p.A.at that time already a shareholder of the said Estra Clima S.r.l. with a 15.88% stake in the share capital.

Based on the external opinions also received, on 7 February 2020, the Group companies presented an appeal, considering the notices received unlawful and no provision has therefore been set aside in these consolidated financial statements. There have been no further developments subsequent to the submission of the appeal.

Disputes with a number of granting Municipalities in the *ope legis* management stage of the natural gas distribution service

The subsidiary Centria S.r.l. launched legal disputes with the Municipality of Seravezza and the Arno Valley Municipalities (Montevarchi, Cavriglia and Figline Valdarno) on the definition of the amount of the fees due to these Municipalities for the period, after the contractual expiry, in which Centria continued and is continuing to perform the activity of natural gas distribution in a regime of *prorogatio ope legis.*
In particular, the Company, supported by its lawyers, believes that it has the right to be granted a reduction of the fees established in the concession contracts, which expired during 2016 for Serravezza or during 2014 for the Arno Valley Municipalities.

In relation to the Municipality of Serravezza, the annual concession fee of which amounts contractually to approximately € 500,000, on 30/09/2019 a judgement was issued with which the Court of Lucca accepted Centria's arguments, ascertaining that the Municipality was and is obliged to renegotiate the fee after the expiry of the concession in observance of the general clauses of good faith and correctness, to preserve the economic and legal balance between the parties.

Following this decision, Centria S.r.l. and the Municipality of Serravazza signed a settlement agreement in May 2020 to quantify the fee payable to the Municipality for the 2016 and 2017 financial years, setting this at a total of € 861 thousand per year. The adjustment to the provision recognised in the financial statements for € 636 thousand, was recorded less the operating costs in these financial statements.
For the years 2018 to 2021, the fee has provisionally been calculated at € 150 thousand, pending legislative/judicial clarification or notification from the sector Authority on the issue of fees post-maturity. Pending this clarification, the company has prudentially posted the contract-based fees in the financial statements.

In relation to the Arno Valley Municipalities, the annual concession fees of which amount contractually to approximately € 2,200 thousand, an Arbitration Procedure launched by Centria in relation to the said Municipalities is still in being, with partial rulings, issued in September 2019 and January 2020, which did not resolve the dispute.
In particular, with the ruling issued in January 2020, in accepting one of the demands from Centria, the Board raised the question of constitutional legitimacy regarding the original interpretation rule (Art. 1, paragraph 453, l. no. 232/2016), which gives rise to the obligation for the operator to always pay the contract fee for the entire term of the ope legis management phase.
As it appears from the motivation, for the period 2014-2019, the Board deemed the 2014 agreement valid and effective, where it provides for the application of the contract conditions, even though this has currently not been followed by any conviction.
In the meantime, Centria has entered an appearance regarding the constitutionality and is waiting for the hearing to be set.
The Board still needs to hand down a decision on the exact effects of the aforementioned Agreement and the additional demand by Centria S.r.l. aimed at ascertaining the Municipality's obligation to renegotiate the content of the Agreement based on the rules of correctness and good faith (Articles 1175 and 1375 of the Italian Civil Code), so as to respect the legal-economic balance of the relationship between the parties.
Although the Company, assisted by its lawyers, believes that it has the right to a redetermination of the fees for the years after the contractual expiry, the outcome of the disputes launched and of the renegotiations with the Municipalities is still uncertain. Pending the dispute being finalised, in these financial statements, in continuity with the previous years, it was therefore decided to continue to recognise the entire amount contractually provided for at cost.

It is noted further that on 28/12/2020, Centria S.r.l. received a summons to appear before the Court of Arezzo from the Municipality of Arezzo, with the demand for arrears on the concession fees for 2014 to 2019, for a total of € 3,131 thousand, plus interest and monetary revaluation.
The demand is based on the assumption, contested by Centria S.r.l., of an existing agreement (formulated on the basis of an exchange of correspondence) whereby the company was obliged to pay an annual fee determined on a fixed amount of € 984 thousand as from 2011 and up until the European tenders pursuant to Art. 14 of Legislative Decree 164/2000 are awarded.
It is noted that the distribution of natural gas in the Municipality of Arezzo, relating to the original public management of the service in an association format, has lapsed with the application of the sector transition regime and is managed by Centria S.r.l. *ope legis* post expiry in the absence of a contract.
Supported by its lawyers, the Board of Directors believes that the Municipality's claim can be legitimately opposed. and has therefore made no provision to any risk provisions regarding this dispute.

Dispute of Ecolat on capital increase in Sei Toscana S.r.l.

The subsidiary acquired is currently in dispute with the investee Sei Toscana S.r.l. and certain shareholders, on the share capital increase of the latter resolved in December 2014 for € 30 million, to be subscribed in two tranches of € 12 million and € 18 million respectively, with maturity at 15 December 2015 and 30 September 2018.

In particular, with reference to the first tranche of € 12 million, Ecolat declared that it would pay up 75% of its quota by offsetting of its receivables deriving from a shareholder loan. The denial of this possibility by SEI triggered a dispute which saw, on the one hand, SEI Toscana proceeding to the sale pursuant to 2466 to the detriment of Ecolat transferring to the other shareholders a portion equivalent to 5.14% of the capital, on the other, Ecolat paying the amount of 75% of the capital increase twice, a first time by offsetting receivables and a second by payment in cash, giving rise to a receivable from SEI Toscana of € 1,365 thousand.

The amount is representative of the double payment of € 1,016 thousand and the amount of € 348,000 for the purchase of the quota of 1.09% made in fulfilment of the procedure pursuant to 2466 applied also to the detriment of the shareholder Cooplat. The quota of 5.14% is today the subject of judicial confiscation, while awaiting to be definitively released at the conclusion of the dispute.

The various disputes were in the meantime combined, with the call to hear the conclusions set for 26 April 2021, except for the judgement regarding the invalid sales, whilst still the subject of a meeting application, has been set to hear the conclusions on 20 January 2022.

Formal tax audit report issued in respect of Coopgas S.r.l. and subsequent notices of assessment

On 19 December 2017, the Finance Police [Guardia di Finanza] of Modena issued a formal tax audit report ["processo verbale di constatazione (PVC)"], against CoopGas S.r.l., a company acquired by the Group in February 2016 and subsequently merged by incorporation into Estra Energie S.r.l., whereby it formulated findings referring to (i) the alleged inaccuracy of the IRES and IRAP tax returns for the deduction of costs relating to non-existent transactions for € 195,000 during 2014 and sponsorship costs deemed to be non-deductible donations for € 325,000 in 2015, and (ii) the non-deductible VAT on the invoices for non-existent costs for about € 43,000, with reference to 2014.

The findings relating to 2014 gave rise to a report to the judicial authorities against the company representative at the time for having committed the action, since, according to the Finance Police, the documentation for the costs consisted of invoices relating to non-existent transactions.

It should be noted that the PVC is an act occurring during the course of proceedings and does not involve the penalties that could be imposed by the tax authorities when issuing an order confirming the PVC criteria, and consequently does not allow us to accurately quantify the risk related to the claim. Based on the findings and documentary evidence in the PVC, the Group has estimated the tax at around € 211,000 and about € 401,000 for the maximum penalties that could apply with the tax assessment.

Considering that there are not sufficient elements to open a dispute and challenge the above findings (related to conduct dating back to financial periods prior to the acquisition date of Coopgas), the Group believes it is plausible to accept the assessment notices, which in terms of the ordinary deadlines, should be notified by 31 December 2023, failing which they lapse. The Group has therefore set aside € 350,000 in the consolidated financial statements at 31 December 2017 to cover the probable expense for taxes and penalties, with the latter reduced by one third as provided for in the case of acceptance of the assessment notices.

In 2019, based on the assessment notices issued for 2014 relating to IRES, IRAP and VAT, a total of € 132,000 was paid in total for taxes, penalties and interest, by accepting the assessment notices.

Given that what was paid to settle the findings relating to 2014 does not diverge substantially from the provisions set aside at 31 December 2017, and considering that no notices have currently been received for 2015, the residual provision for € 218 thousand is deemed appropriate.

Notice of assessment on deductibility of goodwill

In June 2018, the Regional Tax Office [DRE] for Marche served Prometeo with an assessment notice for 2014, where the main finding referred to the derecognition for IRES, IRAP and Robin Tax purposes of the amortisation, quantified at € 148 thousand, applied to goodwill for around € 6,690 thousand, acquired on the basis of a business unit contribution operation.
Essentially, the tax authorities deem that in a business unit contribution operation the goodwill recognised by the transferee is always irrelevant for tax purposes, even when as in the case in question, the transferor transfers goodwill that is not subject to taxation.

In March 2020, the first-instance hearing was held and the Group received a favourable judgement. On 22 October 2020, the Regional Tax Commission submitted an appeal application in the second instance. In January 2021, Promoteo submitted the relevant rebuttal arguments to the appeal application.

Supported by its consultants, the Group believes the allegation raised to be unfounded, and therefore no provision has been made against the risks deriving from losing the dispute.

Dispute referring to the electricity surcharges pursuant to Decree-Law 511/1988

On 23 October 2019, in its judgement no. 27101, the Court of Cassation stated the legal principles whereby provincial surcharges are not applicable to excise duties on electricity as per Art. 6 of Decree-Law 511/88, in the applicable version, *ratione temporis*, subsequent to the amendments introduced by Art. 5, paragraph 1 of Italian Legislative Decree no. 26/2007. The judgement confirmed the non-application of the regulation in question, deeming it contrary to Art. 1, paragraph 2 of Directive 2008/118/EC of 2007, also following the interpretation provided by the EU Court of Justice ratified by specific judgements.
Even though in the scope of other pending proceedings, the Court of Cassation rejected the claims for reimbursement submitted by end consumers in respect of Customs Offices, in this case, finding the lack of passive legitimacy on the part of the end customer, as they are extraneous to the tax relationship established between the financial administration and the vendor company that acts as a withholding agent. In the aforementioned decisions, the Supreme Court nonetheless provided the end customer with the option of "conducting a civil case referring to the recovery of amounts unduly paid, directly in respect of the service provider".
Based on these pronouncements, electricity vendor companies are receiving a series of reimbursement demands from end customers, referring to amounts unduly paid for the provincial surcharges for the years 2010-2012 as these do not yet fall within the term of prescription provided for a civil action. It should be remembered further that the provincial surcharge for excise duty on electricity was applicable until its cancellation on 31 March 2012, in terms of Decree-Law no. 16/2012, and was applied to electricity usage up to 200,000 KWh monthly.
With regard to the demands for reimbursement of undue payments that could result in civil litigation, the supplier is essentially obliged to oppose the reimbursement claims made by end consumers, as it will be impossible to obtain a reversal from the Customs Agencies. Should the supplier acquiesce to the demands of its customers, the reversal operation in respect of the Financial Administration would become impossible, given the provisions under Art. 14, paragraph 4 of the Consolidated Excise Duties Text, which strictly sets the deadline to reimburse what has been paid at two years from the time of payment. Otherwise, the assumption of the civil court ordering the supplier to make the reimbursement, again on the basis of Art. 14, paragraph 4 of the Consolidated Excise Duties Text, requires the taxpayer to request the refund from the Financial Administration within ninety days of the civil court judgement becoming final, imposing the return of the amounts paid.
Even though this mechanism could generate advances paid to the end consumer by the supplier, when ordered to refund the payment, it theoretically excludes the risk of a liability for the vendor company, because the amounts that will be reimbursed by suppliers would be recovered based on subsequent compensation action in respect of the Tax Authority.
At the date of this document, the Group had received applications for reimbursements from customers, referring to 2010 and 2011, for a total of € 3,911 thousand, which resulted in 2 civil disputes being initiated for an amount of € 87 thousand.
Based on the above, the Group did not deem it necessary to make a specific allocation to the risk provisions.

10.4.2 Employee severance indemnity

The employee severance indemnity [TFR] provided for in Art. 2120 of the Italian Civil Code, from the point of view of recognition in the financial statements, qualifies as a defined benefit pension plans, and as such, is treated according to IAS 19, which requires the measurement of the relevant liability based on actuarial criteria.

The table below shows the changes during 2020 to the obligations for defined benefits and the fair value of the plan's assets:

Obligations for defined benefits 31/12/2019	Costs for services	Interests	Settled benefits	Expected obligations 31/12/2020	Actuarial losses/(gains) from experience	Actuarial losses/(gains) from changes to financial assumption	Obligations for defined benefits 31/12/2020
8,281	408	60	(424)	8,325	25	161	8,511

The main assumptions are summarised in the table below:

Summary of the Economic Technical Basis

	Year ended 31 December 2020	Year ended 31 December 2019
Annual discount rate	0.34%	0.77%
Annual inflation rate	0.80%	1.50%
Annual severance indemnity increase rate	2.10%	2.63%
Annual salary increase rate	1.00%	1.00%

The discount rate used to determine the current extent of the obligation was taken from the Iboxx Corporate AA Index over 10+ years recorded at the assessment date, in accordance with paragraph 83 of IAS 19. In this respect, the yield was chosen with a term that was comparable to the duration of the workers collective agreement under valuation.

Summary of the Demographic Technical Basis

Death	RG48 Mortality table published by the State General Accounting Office
Disability	National Pension Fund [INPS] table according to age and gender
Pension	100% on reaching mandatory general insurance [AGO] requirements

Annual frequency of Turnover and early retirement

Early retirement frequency	Turnover frequency
1.20%	0.50%

A quantitative analysis follows below summarising sensitivity in respect of the significant assumptions at 31 December 2020 and 2019:

Assumptions	Changes	Year ended 31 December 2020	Year ended 31 December 2019
Turnover frequency	+1/4%	8,254	7,882
	- 1/4%	8,483	8,060
Inflation rate	+1/4%	8,520	8,109
	- 1/4%	8,206	7,825
Discount rate	+1/4%	8,127	7,749
	- 1/4%	8,606	8,190

The sensitivity analyses above were done on the basis of extrapolating the impact on the net obligation for the defined benefits plan from reasonable changes in the key assumptions that arise at the reporting date. The sensitivity analysis is based on the variation in one of the significant assumptions, whilst keeping the other assumptions constant. The sensitivity analysis may not represent the effective changes in the defined benefits obligation because it is improbable that isolated changes could occur on single assumptions.

The following payments are the envisaged contributions that will be made in future years against the defined benefit plan obligations:

	Payments envisaged				
	2021	2022	2023	2024	2025
Total	952	145	167	178	413

The average duration of the defined benefit plan obligation at the close of the 2020 financial period is approximately 15.6 years (approx. 15.7 at 31 December 2019).

10.4.3 Medium/long terms loans

In the financial periods ended 31 December 2020 and 31 December 2019, medium/long-term loans amounted to € 422,645 thousand and € 466,134 thousand respectively.

The item can be broken down as follows:

	Year ended 31 December 2020		Year ended 31 December 2019	
(amounts in thousands of euro)	**Amount Carrying**	**Amount Nominal**	**Amount Carrying**	**Amount Nominal**
Bonds maturing within 12 months	-	-	-	-
Bonds maturing after 12 months	145,835	147,200	145,292	147,200
Total payables for bonds	**145,835**	**147,200**	**145,292**	**147,200**
Shareholders' loans maturing within 12 months	1,435	1,435	1,435	1,435
Shareholders' loans maturing after 12 months	6,805	6,805	8,240	8,240
Total Shareholders loans	**8,240**	**8,240**	**9,675**	**9,675**
Loans maturing within 12 months	87,925	87,925	82,182	82,182
Loans maturing after 12 months	161,135	161,957	206,810	208,161
Total payables for loans	**249,060**	**249,882**	**288,992**	**290,343**
Leasing within 12 months	4,424	4,424	4,654	4,654
Leasing after 12 months	15,086	15,086	17,521	17,521
Total payables for leasing	**19,510**	**19,510**	**22,175**	**22,175**
Total within 12 months	93,784	93,784	88,271	88,271
Total after 12 months	328,861	331,047	377,863	381,122
Total medium/long term loans	**422,645**	**424,832**	**466,134**	**469,393**

The changes during 2020 are shown below:

(amounts in thousands of euro)	**Balance at 31 December 2019**	**Amount granted**	**Amount repaid**	**Application of amortised cost**	**Balance at 31 December 2020**
Bonds	145,292			543	145,835
Loans	288,992	75,000	(115,202)	270	249,060
Leases	22,175	2,499	(5,164)		19,510
Shareholders' loans	9,675		(1,435)		8,240
Total medium/long term loans	**466,134**	**77,499**	**(121,801)**	**813**	**422,645**

The table below shows the carrying amount at 31 December 2020 and 31 December 2019 for each bond loan issued:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
BOND 2015-2022	96,550	96,234
BOND 2016-2023	49,285	49,058
Bonds	**145,835**	**145,292**

Shareholders' loans includes amounts due to shareholders for medium/long term loans, subordinate to bank and bond debt agreed by the shareholders Consiag and Intesa and, in particular:

- debt to the shareholder Consiag originally for € 15,000 thousand, repayable in 24 instalments starting from 30 June 2015, with constant principal amounts at an annual rate of 3% and the residual debt at 31 December 2020 of € 7,500 thousand;
- debt to the shareholder Coingas originally of € 1,850 thousand repayable in 20 bi-annual instalments starting from 30 June 2015, with constant principal amounts at an annual rate of 3% and residual debt at 31 December 2020 for € 740 thousand.

10.4.4 Deferred tax liabilities

In the financial periods ended 31 December 2020 and 31 December 2019, deferred tax liabilities amounted to € 27,477 thousand and € 46,081 thousand respectively.

The composition and changes in 2020 in the item are as follows:

(amounts in thousands of euro)	Balance at 31 December 2019	Adjustment pursuant to Law 126/2020	Allocations	Reversals/Uses	Other changes	Balance at 31 December 2020
Dividends not collected	16		8			25
Amortised cost bond loans	254			(83)		172
Capital gains on assets under concession	13,407	(10,628)		(421)		2,358
Gains on Customer listings	31,116	(7,085)	237	(1,864)		22,403
Capital gains on property, plant and equipment	1,010		41	(52)		999
Other	278			(59)		219
Derivatives on commodities fair value					1,302	1,302
Deferred tax liabilities	**46,081**	**(17,713)**	**286**	**(2,479)**	**1,302**	**27,477**

Reference is made to the section on tax assets "Financial statement and tax revaluation/realignment of assets" due to the effect on liabilities from the deferred taxes recognised on gains on assets under concession and the Customer listings arising from the option exercised by the Group to apply the regulations on revaluation and realignment, pursuant to Law no. 126 of 13 October 2020 containing the "Conversion into law with amendments of Decree-Law no. 104 of 14 August 2020".

The composition and changes in 2019 in the item are as follows:

(amounts in thousands of euro)	Balance at 31 December 2018	Corporate acquisitions	Allocations	Utilisation/Reversal	Balance at 31 December 2019
Dividends not collected	26		9	(19)	16
Amortised cost bond loans	365			(111)	254
Deferrals on capital gains	2,048			(2,048)	-
Capital gains on assets under concession	6,485	7,150		(228)	13,407
Gains on Customer listings	32,743		237	(1,864)	31,116
Capital gains on property, plant and equipment	55	952	55	(52)	1,010
Other	111		168	(2)	278
Deferred tax liabilities	**41,834**	**8,102**	**470**	**(4,325)**	**46,081**

10.4.5 Other non-current liabilities

In the financial periods ended 31 December 2020 and 31 December 2019, other non-current liabilities amounted to € 8,449 thousand and € 4,320 thousand respectively and mainly refer to multiple year deferred income for fibre optic rentals for the year relating to data transmission in the telecommunication sector.

10.4.6 Non-current and current contractual liabilities

At 31 December 2020 non-current and current contractual liabilities amounted to € 22,071 thousand and € 750 thousand respectively (€ 21,123 thousand and € 656 thousand at 31 December 2019) and are mainly connected with contributions received by users for gas connections, booked to the income statement pro-rata temporis along the period of amortisation of the related investments.

10.5 CURRENT LIABILITIES

10.5.1 Short-term borrowings

In the financial periods ended 31 December 2020 and 31 December 2019, short-term borrowings amounted to € 32,509 thousand and € 31,601 thousand respectively.

The item can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Bank advances and current account uses	30,521	29,619
Payables to bondholders for interest accrued	1,988	1,982
Short-term borrowings	**32,509**	**31,601**

10.5.2 Trade payables

In the financial periods ended 31 December 2020 and 31 December 2019, trade payables amounted to € 170,513 thousand and € 215,299 thousand respectively.

The item can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Payables to suppliers	166,375	210,073
Payables to subsidiaries	3,825	4,455
Payables to holding companies	303	755
Payables to associates	10	16
Trade payables	**170,513**	**215,299**

Amounts due to suppliers refer to payables on invoices received and still to be received mainly from gas and electricity suppliers. These are posted net of commercial discounts; cash discounts, however, are registered at the time of payment. The nominal value of these payables has been adjusted if returns or rebates exist (invoicing adjustments), according to the amount agreed upon with the counterparty.

All debts are due within 12 months and in respect of persons operating in Italy, with the exception of non-significant amounts towards EEC and Non-EEC customers for gas purchases.

The significant reduction in the balance at the end of financial year 2020 compared to the end of financial year 2019 is due mainly to the drop in raw material prices recorded during the course of the year.

For information on the payables to Shareholders, companies subject to joint control and associates and for the terms and conditions related to payables to related parties, please see the note “Transactions with Related parties”.

10.5.3 Tax liabilities

In the financial periods ended 31 December 2020 and 31 December 2019, tax liabilities amounted to € 12,910 thousand and € 18,726 thousand respectively.

The item can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Irpef withholding agents	949	1,059
VAT payable	4,471	1,550
IRES/IRAP payables	1,134	5,137
Excise duty and additional taxes	470	10,970
Substitute tax	5,868	-
Other payables	18	10
Tax liabilities	**12,910**	**18,726**

The item "Substitute tax" refers to the payable emerging due to the revaluation of company assets for statutory accounting and tax purposes and tax realignment of company assets for the tax recognition of the step-up values recorded in the financial statements at 31 December 2020. Substitute tax must be paid over a maximum of three instalments for equal amounts, within the deadline for the balance on income taxes relating to the tax period when the revaluation was carried out (the first), and within the deadline set for the balance of income taxes referring to subsequent tax periods (the other two). Reference is made to the section "Financial statement and tax revaluation/realignment of assets".

10.5.4 Other current liabilities

In the financial periods ended 31 December 2020 and 31 December 2019, other current liabilities amounted to € 56,517 thousand and € 64,800 thousand respectively.

The item can be broken down as follows:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Payables due to staff for salaries	5,000	4,735
Payables to social security institutions	1,901	1,844
Payables to Energy and Environmental Services Fund [CSEA]	8,929	12,661
Payables for the purchase of equity investment in Ecolat	-	1,000
Payables for dividends resolved	7,000	14,638
Accruals and deferrals	880	584
Guarantee deposits	20,439	20,920
Payable for settlement agreement with the Municipality of Prato	6,000	-
Other payables	6,368	8,418
Other current liabilities	**56,517**	**64,800**

The balance of the item mainly refers to guarantee deposits made by customers as guarantees on gas consumption.
The payables to CSEA are payables recognized in relation to the Energy and Environmental Services Fund mainly referred to pass-through tariff components of natural gas transmission, up compared to the previous year.

For the payable to the Municipality of Prato for the settlement agreement, reference is made to the paragraph "Dispute referring to the determination of the compensation due to the outgoing operator for the natural gas distribution service Municipality of Prato Toscana Energie".

10.5.5 Financial instruments and measurement at fair value

In terms of IFRS 13, the table below shows the carrying amount for existing financial instruments, per category, compared with the corresponding fair values at 31 December 2020 and 31 December 2019.

FINANCIAL ASSETS	Year ended 31 December 2020		Year ended 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value with changes recognised in income statement	**7,915**	**7,915**	**32,597**	**32,597**
Forward commodity contracts	6,775	6,775	30,502	30,502
Commodity Swaps	1,140	1,140	2,095	2,095
Financial assets at fair value with changes recognised in shareholders' equity	**5,534**	**5,534**	**1,533**	**1,533**
Commodity Swaps	5,534	5,534	1,533	1,533
Receivables and loans	**244,790**	**244,790**	**292,259**	**292,259**
Loans to companies subject to joint control	230	230	230	230
Loans to associates	4,643	4,643	4,643	4,643
Medium/long term guarantee deposits	5,448	5,448	5,285	5,285
Trade receivables	234,372	234,372	281,434	281,434
Receivables from banks	97	97	667	667
Cash and cash equivalents	**160,249**	**160,249**	**195,748**	**195,748**
Non-current assets held for sale	**-**	**-**	**-**	**-**
TOTAL ASSETS	**418,488**	**418,488**	**522,137**	**522,137**

FINANCIAL LIABILITIES	Year ended 31 December 2020		Year ended 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value with changes recognised in income statement	**9,674**	**9,674**	**31,606**	**31,606**
Forward commodity contracts	7,078	7,078	29,476	29,476
Commodity Swaps	2,385	2,385	1,736	1,736
IRS derivatives not designated as hedging instruments	211	211	394	394
Financial liabilities at fair value with changes recognised in shareholders' equity	**347**	**347**	**5,377**	**5,377**
Cash flow hedge IRS derivatives	238	238	374	374
Commodity Swaps	109	109	5,003	5,003
Liabilities at amortised cost	**645,106**	**645,130**	**733,076**	**733,076**
Trade payables	170,513	170,513	215,299	215,299
Medium/long terms loans	422,645	422,645	466,134	466,134
Short-term borrowings from banks	32,509	32,509	31,601	31,601
Guarantee deposits	19,462	19,462	20,042	20,042
Liabilities directly associated with assets held for sale	**-**	**-**	**-**	**-**
TOTAL LIABILITIES	**655,151**	**655,151**	**770,059**	**770,059**

Given their nature, in the case of most items, the carrying amount was considered to be a reasonable approximation of the fair value.

In all other cases, fair value was determined according to Level 2 methodologies in the hierarchy of the levels of significance of the data used in determining fair value as defined under IFRS 13 (input data different from the listed prices at Level 1 that are observable for assets or liabilities, both directly (as in the case of prices), and indirectly (i.e. deriving from prices).

The Group used internal assessment models. which are generally used in financial practice, based on the prices provided by market operators or by listings recorded on active markets by primary info providers.

To determine the fair value of derivatives on commodity rates or prices, a pricing model is used based on the market forward curve at the reporting date, when the underlying of the derivative is traded on markets that present official and liquid forward price listings. In the case that the market does not present forward listings, provisional price curves are used, based on internal evaluation techniques.
In so far as non-performance risk is concerned, i.e. the risk that one of the parties may not honour their contractual obligations due to a possible default before the derivative's due date, both in respect of counterparty risk (Credit Value Adjustment: CVA), and own non-performance risk (Debt Risk Adjustment: DVA) any adjustments are not deemed significant, in consideration of the type of derivative instruments in the portfolio (represented exclusively by buy or sell short-term forward commodity contracts and financial derivatives with primary credit institutions) and the ratings of both the counterparties with whom the contracts were entered into and the Group.

The Group is not offsetting financial instruments as per IAS 32 and has no significant offsetting agreements. There were no changes in the valuation methods used compared to previous years, nor transfers from one level to another in the hierarchy of assets or liabilities measured at fair value.

11. Earnings per share (basic and diluted)

As required by IAS 33, information is provided on the data used to calculate the net result and result from operating activities per share and diluted. The basic result per share is calculated by dividing the economic result for the period, profit or loss, attributable the Parent Company shareholders by the average weighted number of shares in circulation during the reference period. There were no diluted effects of the result per share in two years.

The values used to calculate the result per basic share are shown below.

	Year ended 31 December	
	2020	**2019**
Net income pertinent to Parent Company shareholders (thousands of Euro)	70,175	17,387
- Operating activities	70,286	17,667
- Assets held for sale		-208
Average number ordinary shares in circulation in period	227,834,000	227,834,000
Result per basic and diluted ordinary shares (Euro)	**0.31**	**0.08**
Result from operating activities per basic and diluted ordinary shares (Euro)	**0.31**	**0.08**

The result per share, net of non-recurring operations, in terms of Consob Resolution number 15519 of 27 July 2006 (€ 48,989 thousand), is 0.09.

In this regard we can note that the 500,000 treasury shares held by the Parent Company were excluded from the calculation.

12. Guarantees and undertakings

The Group had provided the following guarantees at 31 December 2020 and 2019:

Guarantees issued on behalf of associates	**31 December 2020**	**31 December 2019**
Surety issued to Banca Popolare Emilia and UniCredit in favour of Sinergie Italiane S.r.l.	8,691	9,169
Guarantee issued to Unicredit in favour of Blugas Infrastrutture S.r.l. for funding	4,257	4,257
Guarantee issued to the Tuscany Region in favour of Bisenzio Ambiente S.r.l. in terms of DGRT no. 743 of 6 August 2012	1,867	
Total	**14,815**	**13,426**
Guarantees granted in the interests of others	**31 December 2020**	**31 December 2019**
Sureties issued to the Tax/Customs Authorities for tax refunds	7,796	8,293
Sureties to other parties	431	431
Guarantees issued on behalf of local entities for work or concessions relating to the use of public land	11,512	10,832
Sureties issued to INPS	243	1,084
Total	**19,982**	**20,640**
Total guarantees	**34,797**	**34,066**

Bank or other guarantees, such as parent company commitments were also given in the interests of fully consolidated companies for conducting normal Group activities, for which the related amount payable is generally already recognised in the consolidated financial statements.

13. Objectives and criteria for financial risk management

The Group's main financial liabilities, other than derivatives, include bank loans and funding, bond loans, trade payables, various payables and financial guarantees. The main objective of these liabilities is to fund the Group's operating activities. The Group has trade receivables and other commercial and non-commercial receivables, cash and cash equivalents and short-term deposits, originating directly from operating activities. The Group also holds equity investments held for sale and subscribes to derivative contracts.
The Group is exposed to market risk, credit risk and liquidity risk. The Group's Management is assigned the management of these risks. The Group has also initiated the process to define an integrated risk management model, based on internationally recognised standards in the context of Enterprise Risk Management (ERM), developed according to the reference model generally accepted at international level in the area of internal audit, issued by the Committee of Sponsoring Organizations of the Treadway Commission (known as the CoSO Report).

This ERM Model also aims to support Management so that activities involving financial risk are governed by appropriate company policies and adequate procedures, and that financial risks are identified, measured and managed in accordance with the Group's policies and procedures.

13.1 Interest rate risk

Interest rate risk is the risk that fair value or future cash flows for a financial instrument will alter due to changes in the market interest rates. The Group's exposure to changes in market interest rates is related firstly to long-term debt with variable interest rates.
The Group manages its interest rate risk based on a balanced portfolio of loans and funding at fixed and variable interest rates by subscribing to interest rate swaps (IRS), where at defined intervals, the Group agrees to swap the difference on the amount between the fixed and variable rate, calculated with reference to an agreed notional capital amount. These swaps are designated to hedge the underlying debt.

At 31 December 2020, after evaluating the effects of IRS, around 65% (62% in 2019) of the Group's loans were at a fixed rate.

The table below shows the sensitivity to a reasonably possible change in interest rates carried out to the following procedures:

- an upward or downward change of 50 basis points in the Euribor interest rates recorded during the period was applied to the medium/ long term financial debt;
- in the case of a hedging relationship, the shock on rates was jointly applied to the debt position and the relevant hedging derivative instrument, with a very limited effect on the income statement;
- with regard to the hedging derivative contracts existing at the reporting date, an upward and downward shift of 100 basis points was applied to the forward curves of the interest rates used to determine fair value on the contracts.

The table below shows the outcome of the sensitivity analysis conducted with reference to 31 December 2020 and 2019:

SENSITIVITY OF FINANCIAL FLOWS	31 December 2020				31 December 2019			
	FINANCIAL EXPENSES		CASH FLOW HEDGE RESERVE		FINANCIAL EXPENSES		CASH FLOW HEDGE RESERVE	
	50 BP INCREASE	50 BP DECREASE	50 BP INCREASE	50 BP DECREASE	50 BP INCREASE	50 BP DECREASE	50 BP INCREASE	50 BP DECREASE
TOTAL DEBT FOR DERIVATIVES AND LEASES	(156)	156			(192)	70		
CHANGES TO FAIR VALUE	30	(30)	137	(46)	66	(67)	44	(41)
TOTAL	**(126)**	**126**	**137**	**(46)**	**(126)**	**3**	**44**	**(41)**

13.2 Credit Risk

Credit risk is the risk that a counterparty will not fulfil its obligations associated with a financial instrument or commercial contract, thereby resulting in a financial loss. The Group is exposed to credit risk deriving from its operating activities (particularly, trade receivables deriving from the sale of gas and electricity) and its financial assets, including deposits held at banks and financial institutions.

Trade receivables

The risk for trade receivables is managed on the basis of policies set by the Group and according to the procedures and controls for credit risk management.
Over time the Group has improved its control over credit risk by strengthening its monitoring and reporting procedures, in order to implement countermeasures to be adopted for causes identified as soon as possible. To control credit risk, with regard to the portfolio existing at the reporting date, which is deemed to be the maximum exposure for the Group, methodologies have been defined to monitor and manage receivables as well as defining strategies to limit credit exposure, such as customer credit checks at the time of acquisition through credit rating analysis to limit insolvency risk, the assignment of receivables of terminated customers to external credit collection services and the management of legal action on receivables associated with services provided.

An analysis is done at each reporting date, as to whether write-downs are required in respect of the more significant customers. Furthermore, for most of the minor credits, grouped into similar categories, an evaluation is also done as to whether to reduce the total value. The calculation is based on historic data. The maximum exposure to credit risk at the reporting date is the carrying amount for each financial asset class shown in the note Trade receivables.
The table below provides details on gross trade receivables and relevant provision for write-downs at 31 December 2020 and 2019:

Trade receivables	**Year ended 31 December**			
(amounts in thousands of euro)	**2020**		**2019**	
Gross trade receivables	287,306	100%	340,359	100%
Provisions for write-downs	(52,934)	(18%)	(58,925)	(17%)
Trade receivables	**234,372**	**82%**	**281,434**	**83%**

The table below provides details on gross trade receivables according to ageing at 31 December 2020 and 2019:

Trade receivables	**Year ended 31 December**			
(amounts in thousands of euro)	**2020**		**2019**	
Falling due	228,157	79%	244,257	72%
Due from 0-30 days	7,053	2%	19,005	6%
Due from 31-90 days	5,417	2%	5,942	2%
Due from 91-180 days	3,663	1%	7,513	2%
Due from 181-365 days	7,907	3%	13,528	4%
Due over 365 days	35,110	12%	50,113	15%
Gross trade receivables	**287,306**	**100%**	**340,359**	**100%**

Financial instruments and bank deposits

Credit risk related to accounts with banks and financial institutions is managed by the Group's Treasury in accordance with Group policies. The investment of available funds is only undertaken with approved counterparties and within defined limits so as to minimise the concentration of risk, and consequently mitigate any financial loss generated by the counterparty's potential bankruptcy. The Group's maximum exposure to credit risk in respect of the items in the balance sheet at 31 December 2020 are the carrying amounts shown in the Note Financial instruments and measurement at fair value, with the exception of financial guarantees.

13.3 Liquidity Risk

The Group monitors the risk of a shortfall in liquidity by using a cash planning tool.

The Group's objective is to maintain a balance between continuity in the availability of funds and flexibility in use, by adopting financial instruments such as bank overdrafts, bank loans, bonds, financial leases and rental and purchasing contracts.

The Group Finance Department is centralised in order to optimise the identification and use of financial resources. In particular, the centralised cash flow management in the Group, whether through a cash pooling system or a system of centralisation in the Group current accounts for the prevalence of receipts and payments, allows for the allocation of available funds at Group level according to the needs that arise from time to time within single Companies.

The current and forecast financial situation is constantly monitored, as is the availability of adequate credit. The accounts held by the Group with the main Italian and International Banks make it possible to identify the most suitable types of loans and the best market conditions.

The table below shows an analysis of due dates based on the non-discounted refund obligations in terms of contracts as they relate to bond loans, medium/long-term bank loans, leases and medium/long-term loans to shareholders as at 31 December 2020.

(amounts in thousands of euro)	Total cash flow	CF < 1 Y	1 Y < CF < 2 Y	2 Y < CF < 5 Y	CF > 5 Y
Bond loans	147,200		97,200	50,000	
Bank loans	249,882	87,806	66,864	95,079	133
Leases	19,510	4,424	4,201	7,541	3,344
Medium/long terms loans to shareholders	8,240	1,435	1,435	4,305	1,065
Total	424,832	93,666	169,699	156,925	4,542

13.4 Default risk and covenants

The Group has bank loans and bond loans in place, where according to the type of instrument in line with the market, contract conditions entitle counterparties (whether banks or bondholders) to request the immediate repayment of the amounts loaned from the debtor, should specific events arise.

These contract conditions usually envisage in favour of bondholders/credit institutions, that control may not be changed and financial parameters need to be complied with, such as the net financial debt/EBITDA ratio, net financial debt/RAB ratio and net financial debt/shareholders' equity ratio.

The composition of net financial debt at 31 December 2020 and 2019 is shown below. This derives from the consolidated financial statements for the years ended on the same dates, in compliance with the ESMA update of the CESR recommendations. *The consistent implementation of Commission Regulation (EC) No 809/2004 implementing the "Prospectus Directive*" dated 20 March 2013 (formerly CESR Recommendation 05-054b of 10 February 2005).

	Net financial debt (amounts in thousands of euro)	Year ended 31 December 2020	2019
A.	Cash	16	17
B.	Cash equivalents	160,233	195,731
C.	Securities held for trading		
D.	**Cash and cash equivalents (A) + (B) + (C)**	**160,249**	**195,748**
E.	Current financial receivables	**13,546**	**34,797**
	- current derivative financial instruments	*13,449*	*34,130*
	- Interest income due from banks	*97*	*667*
F.	Current bank debt	32,509	31,601
G.	Current portion of non-current debt	93,784	88,271
	- bank debts	*87,925*	*82,182*
	- bonds issued	-	-
	- payables to other lenders for financial leases	*352*	*341*
	- payables to other lenders for operating leases	*4,072*	*4,313*
	- payables to shareholders for loans	*1,435*	*1,435*
H.	Other current financial debt	10,021	36,983
	- current derivative financial instruments	10,021	36,983
I.	**Current financial debt (F) + (G) + (H)**	**136,314**	**156,855**
J.	**Net current financial debt (I) - (E) - (D)**	**(37,481)**	**(73,690)**
K.	Non-current bank debts	161,135	206,810
L.	Bonds issued	145,835	145,292
M.	Other non-current debt	21,891	25,761
	- payables to other lenders for financial leases	*4,401*	*4,753*
	- payables to other lenders for operating leases	*10,685*	*12,768*
	- payables to shareholders for loans	*6,805*	*8,240*
No.	**Non-current financial debt (K) + (L) + (M)**	**328,861**	**377,863**
O.	**Net financial debt (J) + (N)**	**291,380**	**304,173**

At 31 December 2020, net financial debt was € 291,380 thousand, improving on the € 12,793 thousand at 31 December 2019.

The main changes refer to:

- the decrease in cash and cash equivalents (from € 195,748 thousand to € 160,249 thousand);
- the decrease in payables for derivative financial Instruments (€ 26,962 thousand), with this change partially offset by the reduction in receivables for current derivative instruments (€ 20,681 thousand);
- the reduction in non-current financial debt that went from € 377,863 thousand to € 328,861 thousand resulting from the decrease in non-current bank debts relating to the payments of instalments on medium and long-term loans.

There was sufficient access to funding sources and debts falling due within 12 months may be extended with the current lenders.

At 31 December 2020, the Group holds extensive unused lines of credit, mainly concentrated with the Parent Company, for € 143 million.

It should be noted that the Group has bank loans and bond loans in place, where according to the type of instrument in line with the market, contract conditions entitle counterparties (whether banks or bondholders) to request the immediate repayment of the amounts loaned from the debtor, should specific events arise.

In particular, the settlement of bond loans requires:

- undertakings by the Group, including in particular, a negative pledge, whereby the Group undertakes not to create, or allow the creation, whether partial or total, of any constraints on its present or future assets or revenue;
- non-performance in line with market practice for similar types of transactions. With specific reference to the latter, it should be noted, by way of example, inter alia:

non-performance of the obligations arising from convictions, on condition that predetermined relevance threshold are exceeded;

a) disposal and/or company restructuring operations (including, cases of winding-down and liquidation and the termination, be it total or a substantial portion of its business) not falling within the scope of those defined as permitted, as well as the winding down or liquidation of the Group or its subsidiaries defined as being relevant; and
b) change in the control structure, in respect of which, following the notice for bondholders to exercise the put option, the Group must fully (and not partly) reimburse whatever forms the

subject of the put option at the bonds' nominal value, plus the interest accrued from the previous interest payment date.

The bond loan regulations also require the Group to comply with specific asset-financial indices for the entire duration of the loan, with compliance checked on an annual basis (or with reference to the reporting date of each period based on the results of the relative consolidated financial statements). Failure to comply with these parameters could result in the execution of the acceleration clause and an earlier repayment obligation arising for the debtor.

The financial parameters relating to these rules are summarised below:
- the ratio between net financial debt and EBITDA (higher than 4.5x);
- the ratio between net financial debt and RAB (higher than 1.30 x);
- the ratio between net financial debt and shareholders' equity (lower than 1.2x);
- the ratio between EBITDA and interest payable (higher than 3.3x)

With regard to the net financial debt and RAB ratio, the parameter originally set at 0.85 was:
- At the bondholders' meeting of 18 December 2018, eliminated from the original bond loan of € 100,000,000 issued on 13 July 2015, listed on the Irish Global Exchange Market ("GEM") multilateral trading facility.
- At the bondholders' meeting of 7 March 2019, raised to 1.30 in the Bond Loan of an original € 80,000,000 issued on 28 November 2016 and listed on the regulated market of the Dublin Stock Exchange, with the earlier partial repayment option remaining in favour of Bondholders, on the ratio going higher than 1.

Furthermore, these bond loans contain cross default clauses for the Group or companies it control in the event of defaults for amounts higher than the thresholds set respectively for each regulation.

Finally, in line with market practises for similar transactions, bond loans require the Group to observe a series of negative covenants, i.e. limits on the option of carrying out certain transactions, such as, by way of example, termination of a significant part of its business;

Furthermore, the existing bank loans impose, inter alia, specific obligations (in certain cases, also referring to companies in the Group), in terms of which the Group undertakes:
- not to use the amounts received on the basis of the loan contracts for other purposes than those agreed on;
- not to substantially change the core business;
- not to carry out extraordinary transactions or the disposal of assets other than those expressly permitted (without prejudice, where applicable, with the prior written consent of the relevant lender bank);
- not create, or allow for the creation of constraints or encumbrances on its assets, other than the constraints and encumbrances expressly permitted (negative guarantee); and
- to keep in place all authorisations, permits and administrative licences required or appropriate to allow the Group to conduct its core business;
- not to give rise to changes in the control structure.

In addition, certain loan contracts entered into by the Group also specify that for the entire duration of the loan, the Group must respect predetermined asset-financial indices (similar to those for the Bond Loan Regulations above), with compliance checked on an annual basis (or with reference to the reporting date of each period based on the results of the relative consolidated financial statements or financial statements of the Group contracting company). Failure to comply with these parameters could result in the execution of the acceleration clause and an earlier repayment obligation arising for the debtor.

The existing loan contracts also specify a series of default events (in certain cases, also referring to companies that are part of the Group), including:
- bankruptcy status or being subject to bankruptcy procedures (or similar procedures);
- cross-default clauses (and in some cases, cross-acceleration) for amounts higher than predetermined materiality thresholds;
- the implementation of extraordinary transactions on its share capital (other than listing) without prior written consent from the related lender bank;

- the occurrence of events that determine a serious stability crisis and/or liquidity in financial markets that make the funding excessively onerous for the relative lender bank; and
- non-compliance with any of the Group's obligations (including, the infringement of any one of the financial parameters set in the relevant loan contract), unless this non-compliance can be remedied, and this is not done within the deadline granted.

In 2020 and 2019 there were no infringements of covenants associated with loans and bond loans.

13.5 Risks associated with commodity prices

The Group is exposed to commodity price risk, so it has to manage risks associated with the misalignment between the indexing formulae related to the purchase of raw materials (natural gas and electricity) and the indexing formulae related to the sale of the same commodities.
The risk relates to both trading activity in a strict sense (spot transactions aimed at achieving additional short-term profits) and "industrial" activity of delivering gas and electricity to final customers.
With reference to trading, the activity is opportunely segregated but is performed within rigorous risk policies that provide for, among other things, observance of limits in terms of Risk Margin and VAR, set by the company's Board of Directors and monitored constantly.
With reference to "industrial" activity, Group policy is designed to minimise the risk associated with fluctuating prices by aligning the indexing of commodity purchases with commodity sales, the vertical exploitation of the various business chains and recourse to financial markets for hedging purposes. In particular, the Group has structured a series of commodity derivatives aimed at pre-setting the effects on sales margins irrespective of the changes in market conditions. All transactions in derivatives are concluded for the purpose of hedging, even if they do not formally come within the criteria defined by the standard IFRS 9 for hedge accounting.
The Group has adopted a specific policy aimed at defining the guidelines of the Estra Group related to governance, the management strategy and the control of risks associated with activities in commodities performed by the Group Companies and, more particularly, the subject of the policy is price risk.
The objective is to stabilise the cash flows generated by the Group's portfolio of assets and contracts, protecting the Group's gross operating margin from fluctuations due to price risk on the commodities traded and to qualify the Group's financial performance with a view to mitigating the risk, through the definition and continuous monitoring of the risk limits.
The Group's policy is oriented to minimising recourse to the financial markets for hedging through making good use of the netting logics included in the Portfolio of reference. To this end, the Group plans as a priority the physical balancing of volumes of its sales of energy commodities on the markets for the various time deadlines, through the portfolio of existing contracts, both medium-term (with reference to the thermal year of the following period) and spot. Secondly, the Group pursues a strategy of making sources and physical uses uniform, so that the formulae and indexing with which the costs deriving from energy commodity purchases are associated reflect as far as possible the formulae and indexing of the Group's revenue, making use to this end also of derivative instruments.
For the purposes of managing and controlling Price Risks, the Estra Group makes use of the consolidated parameters in the international best practice. In particular, the Contribution Margin of the industrial portfolio is subject to monitoring; this includes both Profit & Loss (*realised P&L*) accrued at the date and the future Mark to Market (MtM). The realised P&L corresponds to the portion of P&L already accrued in the accounting year of reference, calculated on the basis of the final value of all the market prices that have determined costs and revenues. The Mark to Market (or *unrealised P&L*) corresponds to the portion of future P&L not yet accrued in the accounting year of reference, measured at fair value on the basis of the forward curve for quoted prices and on forecast curves for non-quoted prices.
Exposure to price risk of the contract portfolio is measured, for each index, as a change in Mark to Market, that is of the Contribution Margin, determined by a unit change in the price of the commodity in question and is permitted within the pre-set limits established by the company's Board of Directors.

As of 31 December 2020, the Group had the following commodity risk derivative instruments included among other current financial assets and liabilities:

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Forward commodity contracts	6,775	30,502
Cash Flow Hedge Commodity Swaps	5,534	1,533
Commodity Swaps with change in fair value through profit or loss	1,140	2,095
Derivative instruments	**13,449**	**34,130**

	Year ended 31 December	
(amounts in thousands of euro)	**2020**	**2019**
Forward commodity contracts	7,078	29,476
Cash Flow Hedge Commodity Swaps	109	5,003
Commodity Swaps with change in fair value through profit or loss	2,385	1,736
Derivative instruments	**9,572**	**36,215**

The net balance of the fair values of existing derivative instruments at 31 December 2020 was, therefore, positive for € 3,877 thousand.

Assuming an instantaneous increase of 5% of the entire forward curve of natural gas and electricity prices, the cumulative fair value of the financial instruments on commodities would improve by € 1,194 thousand, going from a positive balance of € 3,877 thousand to a positive balance of € 5,072 thousand.
In particular:

- the effect referred to the change in the natural gas price would be an improvement of € 1,352 thousand for derivatives that meet the IFRS 9 criteria for hedge accounting and a worsening of € 177 thousand for derivatives with change in fair value in the income statement, not meeting the IFRS 9 criteria for hedge accounting;

- the effect referred to the change in the electricity price would be an improvement of € 20 thousand, referring entirely to derivatives that meet the criteria of IFRS 9 for hedge accounting.

Vice versa, with an instantaneous reduction of the entire *forward curve* of the commodity prices of 5%, the effects would be of the same amount with the opposite sign.

13.6 Risk relating to the Coronavirus pandemic

The outbreak of the health crisis from the spread of COVID-19, also known as the Coronavirus, classified as a pandemic by the World Health Organisation (WHO) on 11 March 2020, could continue for an undetermined amount of time with significant health, social and economic consequences throughout the world, including in Italy where the Group operates. Besides a worsening of the global macroeconomic scenario and risk of deterioration in the credit profile of a significant number of countries (including Italy), the pandemic has already resulted in many business activities slowing down significantly.
The COVID-19 pandemic and government responses have had and continue to have a serious impact on global economic conditions, including: (i) significant fluctuations and volatility on financial markets; (ii) the temporary closure of many businesses, with the consequent loss in income and increase in unemployment; and (iii) the introduction of social distancing.
The consequences of the Coronavirus pandemic could impact on the business environment, legal, tax and regulatory frameworks. If the pandemic should persist, the negative impact on the global economic could worsen. Should this be the case, it is difficult to foresee the impact that this situation could have on the Group's activities, operations, financial conditions and results.
To the extent that the COVID-19 pandemic could negatively impact on the Group's activities, operating results and financial conditions, it could also result in increasing some of the other financial risks referred to above.
Currently, diversification in the Group's business portfolio, balanced between free market and regulated activities, was the first aspect to reduce the economic impact, given that regulated activities were not impacted over the short term by market phenomena linked to the pandemic.
Sector diversification in the industrial customer portfolio into sales of natural gas and electricity contributed further to containing the economic impact, combined with the prompt response by Group companies on an operational and organisational level to the changed context and the containment of costs so as to limit the economic-financial impact of the crisis, showing great resilience by the Group.

Reference is made to the Non-Financial Declaration for further information on the impact of the COVID-19 pandemic on non-financial issues, the mitigation measures adopted and the social and staff related aspects (with specific focus on the aspects of health, safety in the workplace and remote working, as well as the policies in this regard in respect of employees and collaborators.
The Board of Directors continues to closely monitor developments in the health emergency, and even though the duration of the health emergency and the extent of the economic-social effects of COVID-19 Coronavirus are still uncertain, based on what has been outlined above, the Board believes that the impacts on the Group's financial and asset position will be reasonably limited in the 2021 financial year.

14. Public funding received

With reference to the new aspects introduced by Law no. 124 of 4 August 2017 "Annual competition law", under Art. 1 para. 125-129, excluding the amounts received as payment for supplies and services rendered, during 2020, the Group received the following contributions from public Entities. (amounts in Euro).

Beneficiary	Granting entity		Type of operation	Amount
	Company name	Tax number		
CENTRIA SRL	MUNICIPALITY OF TERRANUOVA BRACCIOLINI	00231100512	Plants account contribution (gas distribution networks)	54,218
CENTRIA SRL	MUNICIPALITY OF MURLO	80003070523	Plants account contribution (gas distribution networks)	68,129
CENTRIA SRL	INVITALIA S.P.A	05678721001	Grant for COVID pandemic	90,932
ESTRA S.P.A.	SVILUPPO TOSCANA SPA	00566850459	Grant for energy efficiency plants	55,847
ESTRA S.P.A.	INVITALIA S.P.A	05678721001	Grant for COVID pandemic	51,000
TOTAL				**320,126**

15. Related parties

The following table presents the total amount of transactions that have been entered into with related parties for the financial years ended 31 December 2020 and 2019. The related parties identified are shareholders, subsidiaries, companies subject to joint control and associates, directly or indirectly by Estra S.p.A.:

- Economic transactions

Financial year 2020

	Year ended 31 December 2020							
Related parties/ FS item	Revenue from sale of goods and services	Other operating revenue	Raw materials, ancillary materials and goods	Costs for services	Personnel costs	Other operating costs	Financial income	Financial expenses
Consiag S.p.A.	660	199			(206)	4		357
Intesa S.p.A.	105	27			(277)	2		68
Coingas S.p.A.	71	15	33	5				67
Viva Servizi S.p.A.	14	0		210	68	2		
Shareholders	**850**	**241**	**33**	**215**	**(415)**	**8**		**492**
Edma Reti Gas S.r.l.	3,985	422	1	11,965	(27)	1		
Nuova Sirio S.r.l.	14	2						
Companies subject to joint control	**3,999**	**424**	**1**	**11,965**	**(27)**	**1**		
Blugas Infrastrutture S.r.l.		20					210	
Monte Urano S.r.l.	16	14		1				
A.E.S. Fano Distribuzione Gas S.r.l.	75	130		87	(13)		23	
SIG S.r.l.	29	130			(32)			
Associates	**120**	**294**		**88**	**(45)**		**233**	
Total	**4,969**	**959**	**34**	**12,268**	**(487)**	**9**	**233**	**492**
Percentage incidence on corresponding FS item	***0.66%***	***6.88%***	***0.01%***	***5.07%***	***(1.24%)***	***0.05%***	***6.69%***	***4.11%***

Financial year 2019

Related parties/ FS item	Revenue from sale of goods and services	Other operating revenue	Raw materials, ancillary materials and goods	Costs for services	Personnel costs	Other operating costs	Financial income	Financial expenses
	Year ended 31 December 2019							
Consiag S.p.A.	796	315			(253)	8		412
Intesa S.p.A.	406	115		48	(287)			83
Coingas S.p.A.	82	15	49	4				78
Viva Servizi S.p.A.	33	6		437	65	1		
Shareholders	**1,317**	**451**	**49**	**489**	**(475)**	**9**		**573**
Edma Reti Gas S.r.l.	2,260	320	4	13,476	(19)	20		
Nuova Sirio S.r.l.	15	2						
Companies subject to joint control	**2,275**	**322**	**4**	**13,476**	**(19)**	**20**		
Blugas Infrastrutture S.r.l.		6					145	
Monte Urano S.r.l.	14	4						
A.E.S. Fano Distribuzione Gas S.r.l.	71	55		51	(3)		40	
SIG S.r.l.	4	50			(29)			
Associates	**89**	**115**		**51**	**(32)**		**185**	
Total	**3,681**	**889**	**53**	**14,015**	**(526)**	**29**	**185**	**573**
Percentage incidence on corresponding FS item	***0.38%***	***3.07%***	***0.01%***	***5.48%***	***(1.34%)***	***0.17%***	***6.77%***	***4.33%***

- **Asset transactions**

Financial year 2020

Related parties/ FS item	Trade receivables	Other non-current financial assets	Other non-current assets	Trade payables	Current and non-current financial debt	Other current liabilities
	Year ended 31 December 2020					
Consiag S.p.A.	1,531		262		11,518	2,772
Intesa S.p.A.	231		180		2,765	1,763
Coingas S.p.A.	101		80	12	2,240	1,763
Viva Servizi S.p.A.	89		2	291		702
Shareholders	**1,952**		**524**	**303**	**16,523**	**7,000**
Edma Reti Gas S.r.l.	3,177			3,825		
Nuova Sirio S.r.l.	13	230				
Companies subject to joint control	**3,190**	**230**		**3,825**		
Monte Urano S.r.l.	96					
Blugas Infrastrutture S.r.l.	1450	4,153				
A.E.S. Fano Distribuzione Gas S.r.l.	247	490		11		
SIG S.r.l.	165					
Associates	**1,958**	**4,643**		**11**		
Total	**7,100**	**4,873**	**524**	**4,139**	**16,523**	**7,000**
Percentage incidence on corresponding FS item	***3.03%***	***35.65%***	***9.62%***	***2.43%***	***3.55%***	***12.39%***

Financial year 2019

	Year ended 31 December 2019					
Related parties/ FS item	**Trade receivables**	**Other non-current financial assets**	**Other non-current assets**	**Trade payables**	**Current and non-current financial debt**	**Other current liabilities**
Consiag S.p.A.	1,815		262		13,716	5,795
Intesa S.p.A.	522		180	254	3,417	3,688
Coingas S.p.A.	114			63	3,931	3,688
Viva Servizi S.p.A.	145		1	439		1,467
Shareholders	**2,596**		**443**	**756**	**21,064**	**14,638**
Edma Reti Gas S.r.l.	5,193			4,455		
Nuova Sirio S.r.l.	77	230				
Companies subject to joint control	**5,270**	**230**		**4,455**		
Monte Urano S.r.l.	57					
Blugas Infrastrutture S.r.l.	1143	4,153				
A.E.S. Fano Distribuzione Gas S.r.l.	162	490		16		
SIG S.r.l.	65					
Associates	**1,427**	**4,643**		**16**		
Total	**9,293**	**4,873**	**443**	**5,227**	**21,064**	**14,638**
Percentage incidence on corresponding FS item	***3.30%***	***42.23%***	***8.38%***	***2.43%***	***3.94%***	***22.59%***

Description of main transactions with related parties

The main transactions put in place with related parties were done on the same basis and referred to transactions with Shareholders', companies subject to joint control and associates and are summarised below:
Main transactions with Shareholders'

- Existing service contracts with the shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A. (the **"Service contracts"**);
- Charge back of costs for staff seconded by companies in the Estra Group to shareholders Consiag S.p.A. and Intesa S.p.A.;
- Rental contracts to lease company offices in Prato, Arezzo and Siena for the ESTRA Group, respectively from shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A. (the **"Rental contracts"**);
- Existing loan contracts with the shareholders Consiag S.p.A. and Coingas S.p.A. (the **"Loan contracts"**);
- Electricity sales contract with shareholder Intesa S.p.A. for the consumption of public lighting plants, where Intesa S.p.A is the operator awarded the contract by the Municipalities.

Main transactions with companies subject to joint control

- Service contract from Estra Group companies to EDMA Reti Gas;
- Gas distribution services costs from EDMA Gas networks to Estra Group companies Energie and Promoteo.

Main transactions with associates

- Medium/long-term loan contracts aimed at supporting operating activities and investments to associates. For additional information, reference is made to the note on Non-current financial assets.

In particular, the "**Service contracts**" govern the provision by ESTRA of certain services on an ongoing basis, generally referring to administrative and technical services for Shareholders and some of the shareholders' subsidiaries. Specifically, certain of the services provided relate to Administration and Budget, Finance, Legal and Corporate Affairs, information systems and secretarial, protocol an archive functions.
These are year long contracts and are subject to tacit renewal for an equal term; fees are determined according to market pricing in accordance with the Regulatory Accounting standards governed by AEEGSI.
In providing its services, ESTRA is obliged to perform the services based on the contract in accordance with the standards and rules set by company procedures and practices, the methods and procedures set by law and with the levels of competency, diligence, prudence and precaution required of an expert with the relevant competencies undertaking similar services under similar circumstances and conditions. The contracts stipulate

an obligation of mutual cooperation for the parties, in accordance with the principles of correctness and good faith, so as to work in conjunction in order to guarantee service quality, efficiency and economic viability. The fees paid by shareholders in 2020 amount to € 714 thousand.

The "**Rental contracts"** govern the leases payable for company offices in Prato, Arezzo and Siena for the ESTRA Group, respectively from shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A. The contracts with the Shareholders Intesa and Consiag have a term of three years starting from 01 January 2019, tacitly renewable for a further three. The contract with the Shareholder Coingas has a term of 6 years starting from 01 January 2020. The fees paid to shareholders in 2020 amounted to € 2,094 thousand. The fees are subject to annual review based on 75% of the change in the Italian National Institute of Statistics [ISTAT] cost of living index for the previous year.

The "**Loan contracts**" refer to two existing loans between ESTRA and the shareholders Consiag S.p.A. and Coingas S.p.A., with the following features:
- Existing loan contract with the shareholder Consiag S.p.A. originally for € 15,000 thousand, repayable in 24 instalments starting from 30 June 2015, with constant principal amounts at an annual rate of 3% and the residual debt at 31 December 2020 for € 7,500 thousand;
- Loan contract entered into with the shareholder Coingas S.p.A. originally for € 1,850 thousand repayable in 20 bi-annual instalments starting from 30 June 2015, with constant principal amounts at an annual rate of 3% and residual debt at 31 December 2020 of € 740 thousand.

Estra is free to totally or partially extinguish its debt at any time with additional payments to the six monthly instalments, without incurring any kind of penalty.
A delayed payment is one made between the fourth and one hundred and eightieth day from the instalment's due date. After the one hundred and eightieth day, the "failed payment" applies, and as such even if a single instalment exceeds this delay, it entitles the creditor to demand the immediate repayment of the entire debt.
In the case of delays in instalment payments, default interest will apply at a rate of 4%, in addition to the 3% rate agreed for the repayment, or at the commercial default rate if this is lower.

Managers with strategic responsibilities
The total amount for emoluments paid at 31 December 2020 for any reason and in any form by the Estra Group to Strategic Managers amounted to € 778 thousand, and included the General Manager Paolo Abati, who in additional to being a strategic manager is also a member of the Board of Directors.

16. Compensation for directors, statutory auditors and independent auditors

The table below shows the emoluments to directors, statutory auditors and independent auditors for 2020 and 2019.

	Year ended 31 December 2020			Year ended 31 December 2019		
Beneficiaries	At the parent company	At other Group companies	Total	At the parent company	At other Group companies	Total
Directors	366	291	657	341	311	652
Board of Statutory Auditors	110	350	460	131	304	435
Independent Auditors	113	255	368	114	229	343

The table below shows the fees paid for 2020 to the independent auditors and entities falling within its network, including the "other services" provided to Estra S.p.A and the subsidiaries of the audit firm EY S.p.A. and entities falling within its network. No appointments were made in respect of EY S.p.A. that are not permitted in terms of application legislation.

Type of service	**Service provider**	**Recipient**	**Fees 2020 (€ thousand)**
Independent audit of accounts	Parent Company independent auditor	Parent company	71
		Subsidiaries	163
Certification services [1]	Parent Company independent auditor	Parent company	42
		Subsidiaries	23
Other services	Parent Company independent auditor	Parent company	-
	Parent Company independent auditor network	Parent company	-
Total			**299**

The certification services refer to the audit of the schedules prepared for the purposes of Resolution no. 137 of 24 March 2016, by the Regulatory Authority for Energy, Networks and the Environment (former AEEGSI) for the Parent Company and its subsidiaries, and the limited audit of the non-Financial Declaration for the Parent Company, the audit of the expenses incurred by the Parent Company for research and development activities and the audit of the Parent Company's debit and credit entries with the Municipality of Ancona.

17. Subsequent events

There were no significant events after the reporting date to note, with the exception of the acquisition of Ecos S.r.l. that is pending completion, as detailed in the section of the Notes relating to equity investments.

Prato, 18 March 2021

On behalf of the Board of Directors
The Chairperson of the Board of Directors
Francesco Macrì

E.S.TR.A. S.p.A.

Consolidated financial statements as at December 31, 2020

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Piazza della Libertà, 9
50129 Firenze

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
E.S.TR.A. S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the E.S.TR.A. Group (the Group), which comprise the statement of consolidated financial position as at December 31, 2020, and the consolidated income statement, the consolidated statement of comprehensive income, statement of changes to consolidated shareholders' equity and consolidated cash flows statement for the year then ended, and 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 the Group as at December 31, 2020, and of its financial performance and its 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 for implementing art. 9 of Legislative Decree n. 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 the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the E.S.TR.A. S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. 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.

We identified the following key audit matters:

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Key Audit Matter	Audit Response
Recognition of revenues for unbilled gas and electricity sales and accruals for invoices to be issued Revenues from sales and services include the estimated revenues accrued for the sale of gas and electricity already delivered to the customers but unbilled as at December 31, 2020, in addition to revenues already invoiced to the customers, measured on the basis of pre-established meter reading schedules, effective or estimated, during the year. The estimated revenues accrued but unbilled are recorded within trade receivables, as accruals for invoices to be issued, that include also accruals related to previous years. Revenue recognition for sales accrued but unbilled involves estimates based on processes and evaluation methodologies developed on complex assumptions. The methodologies used by the Group to estimate gas and electricity consumptions between the date of the last meter reading of each customer and the 31st of December, and therefore to estimate revenues to be accrued, are based on assumptions and complex calculation algorithms, which involve a combination of data extracted from the information systems and non-accounting data. In particular, the estimate of revenues accrued but unbilled is determined as the difference between the consumptions already invoiced to the customers at the end of the year and the quantity of gas and electricity allocated in the distribution network, net of estimated network losses, considering the data communicated at end of the year by the service distributors, subject to potential future adjustments, as required by applicable laws and regulations. Such difference is then prized, based on the customer's cluster, on the basis of gas and electricity volumes already invoiced and the related average fee used during the year. Considering the complexity of the estimate of revenues accrued but unbilled, we have determined that this area constitutes a key audit matter. The disclosures included in note "Significant accounting estimates" of the consolidated financial statements as at December 31, 2020 describe the revenues recognition principles adopted by the Group for gas and electricity sales.	Our audit procedures responsive to this key audit matter included, among others: • assessment of the process and key controls, including controls related to information technology, implemented by the main entities of the Group for the recognition process of gas and electricity sales, and test of key controls, including controls related to estimated and actual volumes billed to the customers; • testing, on a sample basis, of the data used by management to determine revenue accruals for sales unbilled, including information communicated by service distributors on the volumes allocated in the distribution network, data extracted from the information systems, and testing of the arithmetic accuracy; • analysis of the assumptions used by the Management, also compared to the previous year; • look-back analyses of the prior years estimate against the data subsequently reported, and analysis of the variances in order to support the accuracy of the current estimation process. Lastly, we reviewed the adequacy of the disclosures included in the notes to the financial statements.

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

The Directors are responsible for the preparation of the 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 for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company E.S.TR.A. S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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 have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming 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 have evaluated 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 have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated 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 have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all 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 have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of E.S.TR.A. S.p.A., in the general meeting held on January 12, 2017, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2016 to December 31, 2024.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of E.S.TR.A. S.p.A. are responsible for the preparation of the report on operations and the specific section on corporate governance as provided for by article 123-bis, paragraph 2, subparagraph d) of Legislative Decree n. 58 of Group E.S.TR.A. as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the report on operations and of specific section on corporate governance as provided for by article 123-bis, paragraph 2, subparagraph d), of

Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of E.S.TR.A. Group as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific section on corporate governance are consistent with the consolidated financial statements of E.S.TR.A. Group as at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of E.S.TR.A. S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Florence, 25 March 2021

EY S.p.A.
Signed by: Andrea Eronidi, Auditor

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