

E.S.T.R.A. S.p.A.

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Economic and Administrative Index no. 0505831

**DIRECTORS' REPORT ON THE
CONSOLIDATED FINANCIAL STATEMENTS AT 31 December 2021**

OFFICERS

Board of Directors

Chairman and 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.

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1. HIGHLIGHTS OF THE YEAR

Despite the market context complicated by the continued COVID-19 epidemiological emergency and volatility in the energy market, the Estra Group achieved very positive management results during 2021, growing significantly on 2020, showing solidity, resilience and an ability to adapt to new scenarios.

Diversification in the Group's business portfolio, balanced between free market and regulated activities, was an essential aspect that made it possible to reduce the economic and financial impact of the market context, given that regulated activities were not impacted over the short term by market phenomena linked to the pandemic and the volatility in commodity pricing.

The 2021 financial year closed with a reported profit of € 32.9 million, compared to € 70.3 the previous year. The result was significantly influenced by the effects of extraordinary entries (specifically, the effects on income taxes deriving from the application of the regulations referring to revaluation and realignment as per Italian Law no. 126 of 13 October 2020 for € 48,989,000).

Excluding non-recurring effects, the 2021 financial year performed decidedly better, with adjusted net profit that went from € 24.6 million in 2020 to € 28.6 million in 2021.

In particular, the natural gas and electricity sales and the distribution of natural gas sectors confirmed their very positive performance, with notable increases in energy efficiency activities thanks to the recently introduced tax incentives for contractors.

While reference is made to the report below for more detailed information, it is noted that the Group recorded adjusted revenue in the 2021 financial year for € 297.8 million compared to 2020 (mainly due to the increase in commodity prices, the higher volumes of electricity sold to customers and higher gas volumes sold to the Italian Virtual Exchange [*Punto di Scambio Virtuale* - PSV] resulting from balancing activity).

2021 closed with an adjusted gross operating margin (adjusted EBITDA) of € 112.2 million, increasing by € 5.4 million (+5%) compared to 2020 (€ 106.7 million).

The adjusted operating profit (adjusted EBIT) of € 50.5 million was up by € 5.0 million compared to 2020 (€ 45.5 million), following stable depreciation/amortisation and provisions in respect of 2020.

Adjusted net profit at € 28.6 million was up by € 4.0 million compared to 2020, with improved adjusted financial management compared to 2020 for € 0.2 million and higher adjusted income taxes for € 1.3 million.

The Group's shareholders' equity at 31 December 2021 was € 413.0 million (€ 392.4 million at 31 December 2020), which included the effects of the first time consolidation of Edma Reti Gas S.r.l. as detailed below. The proportion of shareholders' equity to capital raised went from 57.4% in 2020 to 63.2% in 2021.

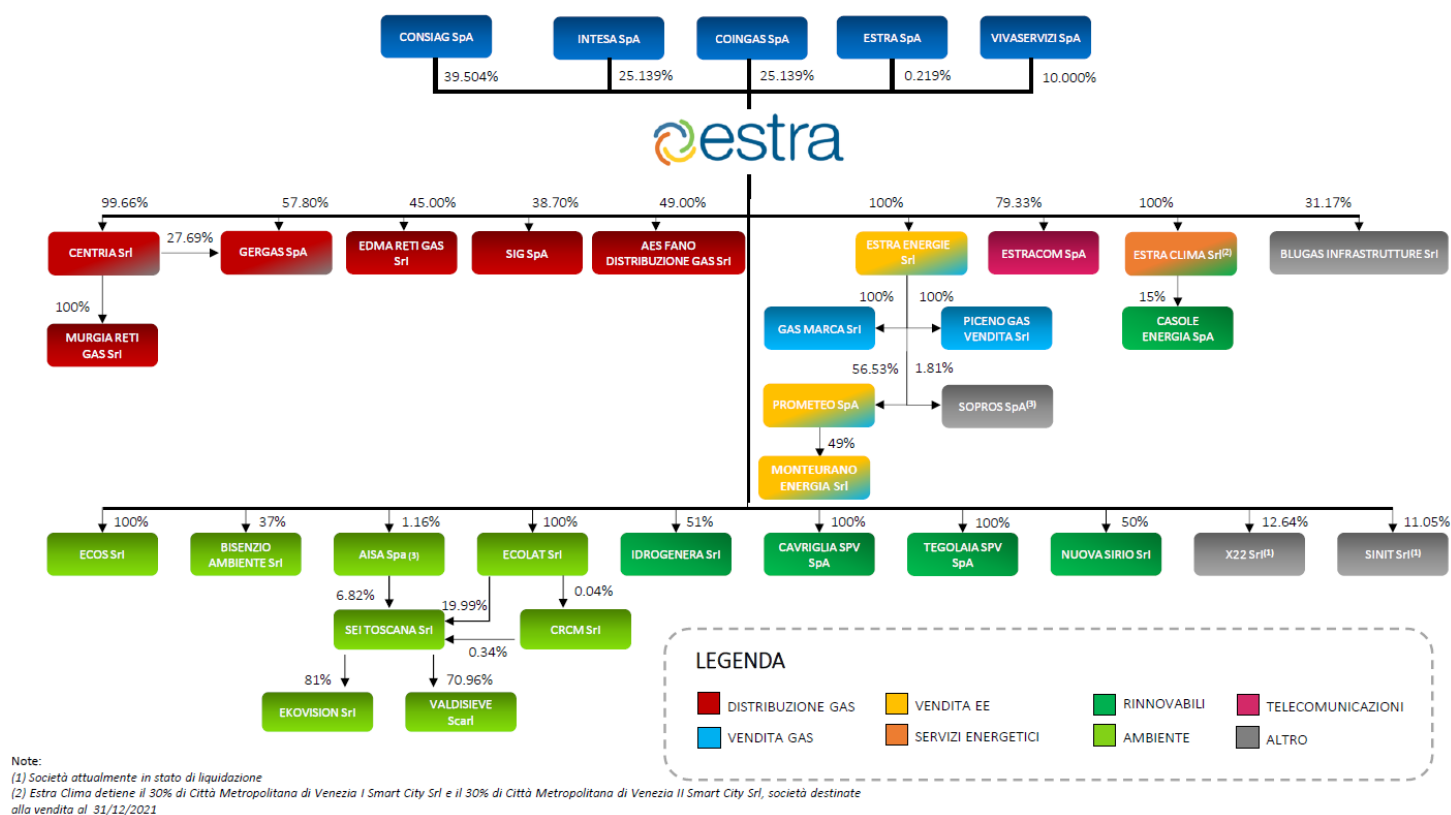
Net financial debt at year-end was € 240.1 million, improving on the result at 31 December 2020 (€ 291.4 million) mainly due to the higher cash flows generated and the changes in net working capital.

Continuing with the strategic approach adopted in recent years, the Group pursued its ongoing commitment in 2021 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 the current conflict between Russia and Ukraine, the Board of Directors of Estra constantly monitors developments in the general economic situation, where possible, identifying measures to mitigate risks.

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.



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:

- "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;
- "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, redevelopment and energy efficiency activities, waste selection, treatment 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 2021

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 SPIN-OFF OF SHAREHOLDER VIVA SERVIZI S.p.A. AND ESTRA S.p.A. ACQUIRING CONTROL OF EDMA RETI GAS S.r.l.

On 30 July 2021, the shareholders of Viva Servizi S.p.A., a shareholder of Estra S.p.A., approved the partial spin-off aimed at transferring the following shares into a newly formed company Viva Energia S.p.A.:

- (i) shares held by Viva Servizi in Estra S.p.A., corresponding to 10% of its share capital;
- (ii) shares held by Viva Servizi in Edma Reti Gas S.r.l., the company operating in the distribution of natural gas in 15 municipalities located in the province of Ancona (in the Marche), of which Estra S.p.A. holds 45% of the share capital. The investee company manages a natural gas distribution network of over 1,300 km, approximately 117 delivery points and a RAB of around € 69 million. The shares involved in the spin-off represent 55% of Edma Reti Gas S.r.l. share capital.

In this context, Estra S.p.A. and Viva Servizi S.p.A. agreed on certain amendments to the Edma Reti Gas by-laws, which were approved by the Shareholders' Meeting on 28 October 2021, drawing up a new shareholders' agreement that conferred de facto control of Edma Reti Gas S.r.l. to Estra S.p.A., duly assigning it the power to determine the investee's financial, management and strategic policies. Consequently, the company was fully consolidated in the 2021 financial statements.

Reference is made to the notes on Business combinations for the effects of the change in the consolidation method.

Furthermore, the spin-off of Viva Servizi S.p.A. became effective from 3 December 2021. Consequently, Viva Energia S.p.A. became a shareholder of Estra S.p.A., replacing Viva Servizi S.p.A.

3.2 ACQUISITION OF ECOS S.r.l.

In executing the investment agreement signed on 24 April 2020 and its subsequent amendments, at the start of 2021, 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 S.r.l. on 24 April 2020 for € 15,000, whilst at the same time providing the company with a loan for € 355,000;
- completed the company acquisition on 26 January 2021, taking up the remaining 85% of the shares for € 1,760,000, of which € 350,000 had already been paid at 31 December 2020.

The price of € 1,775,000 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, with this recognised in 2021 for € 2.6 million.

Reference is made to the notes on Business combinations for the effects of the company acquisitions on the 2021 consolidated financial statements.

3.3 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 39.5% of Estra S.p.A.) and Cipeco S.r.l. signed an investment agreement for a series of corporate transactions aimed at the progressive acquisition by Estra S.p.A. and Consiag S.p.A. of the entire share capital of Bisenzio Ambiente S.r.l. by Cipeco S.r.l., and the repayment of the € 7,804,000 loan originally granted by Cipeco S.r.l. to Bisenzio Ambiente S.r.l.

The initiative is part of the Group's strategy of investing in the environmental sector also with a view to diversifying its business.

As contemplated in the investment contract, on 22 April 2020, Estra S.p.A. acquired 5% of Bisenzio Ambiente through a share capital increase subscription for € 39,000, resolved by the shareholder Cipeco in favour of third parties. Estra S.p.A. also provided a guarantee to the Region of Tuscany for € 1,867,000 that was needed to carry out waste selection and disposal activities.

On 6 April 2021, Estra S.p.A. and Consiag S.p.A. signed a new agreement with Cipeco S.r.l. (subsequently amended on 28 February 2022), replacing the original investment agreement, and according to which the acquisition would be finalised over two steps:

- on 28 April 2021, Estra S.p.A. acquired a 31.8% stake in Bisenzio Ambiente for an amount of € 1,767,000 and Consiag S.p.A. acquired a 4.2% stake for € 233,000;
- subsequently on 31 March 2022, Estra S.p.A. and Consiag S.p.A. acquired the remaining 54% of the Bisenzio Ambiente share capital for a total of € 2.5 million, of which Estra S.p.A. acquired 38.2% and Consiag S.p.A. 15.8%. The consideration is subject to an adjustment mechanism, which could result in an increase of up to € 500,000 should certain applicable conditions eventuate.

Given that control was acquired after the year-end, the company is measured in these consolidated financial statements at 31 December 2021 using the equity method.

4. COVID-19 EPIDEMIOLOGICAL EMERGENCY

The macroeconomic scenario recorded a significant improvement during 2021 thanks to the success of the anti COVID-19 vaccination campaign, which allowed economies to gradually reopen and most production activities to resume, but certain production activities and consumer behaviour have still not returned to pre-pandemic normal levels, and at the same time, the risks of possible slowdowns persist due to new variants of the virus, which could impact on the economy's growth trajectory and recovery in energy demand.

In this context of economic recovery, the demand for natural gas has shown a significant increase on the levels recorded during the peak of the pandemic in the second quarter of 2020.

Diversification in the Group's business portfolio, characterised by a balance between free market and regulated activities, sector diversification in the industrial customer portfolio into sales of natural gas and electricity, the prompt response by Group companies on an operational and organisational level to the changed context and measures taken to contain costs so as to limit the economic-financial impact of the crisis, represent the main factors that already during 2020, had considerably limited the impact of the pandemic emergency.

In 2021, all the Group's business sectors that had been impacted by the pandemic emergency during 2020, benefited from the lifting of the lockdown and gradual resumption in production, and more specifically:

- sales of natural gas and electricity due to the recovery in consumption, especially by retail and industrial customers, which had been reduced in 2020 by the closure of businesses during the lockdown and downsized on their subsequent re-opening;

- the distribution of natural gas, due to the resumption of investment activities that had been postponed during the months of lockdown in 2020 because they were not directly linked to service security and continuity, and the reduction in connections and supplies to customers;
- energy efficiency, due to the reopening of sites that had been suspended during the lockdown in 2020.

Estra's Board of Directors continues to monitor 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.

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).

5. MARKET SCENARIO

Macroeconomic context

The macroeconomic context in 2021 saw global economies facing a second consecutive year still characterised by the COVID-19 pandemic.

The contraction in global economic activities followed by the measures to contain the pandemic, such as the lockdowns and restrictions to mobility, resulted in fluctuating trends determined by epidemiological developments and the vaccination campaigns undertaken, representing uncertainty in terms of the timing and degree of recovery ¹.

2021 saw a gradual recovery in international mobility almost to pre-pandemic levels; nonetheless the persistent restrictive measures adopted by countries to contain the spread of the epidemic continued to impact on access to recreational services and on the tourism sector². Trade recovered to levels prior to the health crisis, albeit experiencing difficulties in the procurement of raw materials, partly due to the fast pace of the recovery on a global scale³.

In this scenario, according to data published by OECD, 2021 global GDP was at 5.6%, increasing by nine percentage points on 2020⁴.

In so far as international trade is concerned, after the general contraction in 2020 due to the global pandemic, a recovery in trade figures was seen at the start of 2021, which continued at sustained rates for the whole first quarter. This trend was maintained into the second quarter of the year, whilst feeling the effects of the shortages in raw material procurements, such as semi-conductors, and in the management of logistics and transport ⁵. The ongoing critical issues resulted in a slowdown in global trade in the final part of 2021, which felt the pressure of demand for consumables ⁶.

Overall during 2021, trade recorded a positive 10.8 %, whereas there had been a contraction of 8.4 percentage points the previous year due to the spread of COVID-19.

Economic growth also rose in most advanced economies. In particular, we note that the United Kingdom grew its GDP by 6.9%; reflecting the recovery in the country after the serious effects of the pandemic (the United Kingdom recorded the most contracted GDP among advanced global economies the previous year at -9.7%)⁷.

In other advanced economies, GDP in Japan grew overall by 1.8 % in 2021, whereas the United States recorded a 5.6 % increase in GDP (provisional on OECD data).⁸

¹ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

² *Bollettino economico (Economic Bulletin)* – Bank of Italy 4/2021

³ *Bollettino economico (Economic Bulletin)* – Bank of Italy 4/2021

⁴ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

⁵ *Bollettino economico (Economic Bulletin)* – Bank of Italy 4/2021

⁶ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

⁷ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

⁸ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

The economies of emerging countries also recorded an upward trend.

Specifically, in China, where the outbreak of new hotspots towards the end of 2021 made it necessary to introduce new measures to contain the spread of the virus, with a consequent slowdown in global supply chains, GDP grew by 8.1% in 2021. An upward trend was also seen in India (GDP 9.4 % provisional on OECD data, the highest among emerging economies), Brazil (GDP 5.0 % provisional on OECD data) and Russia (GDP 4.3 % provisional on OECD data).

According to European Union forecasts, the Euro Area economy grew by 5.2% in 2021. The expansion continued in the first two quarters of the year, to then slow down in the final part of the year as a consequence of the resurgence in cases and reintroduction of restrictive measures, as well as the persistent bottlenecks in procurements involving the entire supply chain. Increased GDP was primarily supported by the increase in household consumption and to a lesser extent, by external demand⁹. The most significant development was seen in the increase in services; industry in the strictest sense and construction on the other hand, recorded a rather static performance.

An analysis of the increase in the main countries in the Area shows that the level of growth did not differ greatly between one country and another. In particular, during the II quarter of 2021, we note an increase in GDP of 1.3% in France, 2% in Germany, 2.7% in Italy and 1.2 % in Spain.

In this economic context, GDP in Italy in 2021 grew by 6.5 % compared to 2020 (preliminary Istat estimate), with an increase of 0.6 percentage points in the fourth quarter of the year compared to the previous third quarter, slowing down on the first nine months of the year¹⁰. This was primarily due to the significant resurgence in cases, which impacted on consumption that had been affected by the downturn in forecasts for economic recovery in the country.

The rise in national GDP was mainly supported by increased household consumption. The recovery in trade, transport and accommodation were of particular relevance, as a consequence of the easing of restrictions, in this way determining a marked acceleration in the services sector¹¹.

Household spending followed the trend in GDP during the year: expanding in the first and second quarters of the year and coming down over the last part of 2021. Consumption was sustained by the demand for goods and services, with significant emphasis on the first. During the year that has just ended, spending on goods returned to the levels before the health emergency. This trend in consumption can largely be attributed to the recovery in the employment market, with an increase in permanent employment positions and hours worked, and a gradual easing in recourse to the redundancy fund. The increase was supported mainly by the number of fixed-term contracts, approximately 365,000 out 597,000 recruitments¹². Another significant aspect regarding the 2021 labour market is the high level of mobility between workers and companies. Female employment continued to be penalised during the year: women account for only one third of the total of permanent contracts, compared to the increase for male employment in the same year¹³. During 2021, industrial production in Italy grew by 1 percentage point a quarter, decreasing in the last three months of the year due to the drop in the production of capital and intermediate goods as a direct consequence of the difficulties experienced at global level in procuring raw materials. The property market continued its upward expansion over the entire year (especially in the residential segment), with house prices accelerating during the third quarter of 2021¹⁴.

Overseas trade in the first quarter of 2021 saw the exports of goods and services increased by 0.5% compared to the previous period, driven mainly by the goods component¹⁵. The same upward trend was also recorded in the two subsequent quarters, with exports mainly supported in this case by the services segment, reflecting the recovery in tourist flows¹⁶. The slight decrease in the exports of goods during the last part of the year is attributable to the continuing bottlenecks in supply. Italian exports for the whole of 2021 were higher than those in its main European partners, namely France and Germany.

⁹ European Central Bank – Eurosystem, link:

https://www.ecb.europa.eu/pub/projections/html/ecb.projections202109_ecbstaff~1f59a501e2.it.html

¹⁰ Preliminary estimate of GDP – ISTAT - 31 January 2022

¹¹ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

¹² *Il mercato del lavoro: dati e analisi (The labour market: data and analysis)* – Bank of Italy EUROSISTEM – 22 January 2022

¹³ *Il mercato del lavoro: dati e analisi (The labour market: data and analysis)* – Bank of Italy EUROSISTEM – 22 January 2022

¹⁴ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

¹⁵ *Bollettino economico (Economic Bulletin)* – Bank of Italy 3/2021

¹⁶ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

Imports followed a similar trend during the year, reflecting the trend in domestic demand, and translating into the purchase of investment assets and inventories¹⁷.

In a European economic and social context so markedly affected by the COVID-19 pandemic, the measures undertaken by Europe to promote the economic recovery of member States and remedy the damage from the health crisis are evident in the "Next Generation EU" plan: this package for over € 750 billion focuses on providing incentives for individual economies in the Union.

The National Recovery and Resilience Plan falls within this context; this tool outlines the goals, reforms and investments that Italy intends implementing to be able to access the funds provided by the European Fund. Specifically, the Plan presented and approved by the European Commission, envisages investments of over € 200 billion, centred around three strategic points, agreed on at European level: Digitalisation and Innovation, Energy Transition, Social Inclusion. The Plan is subdivided into 16 Components, grouped around 6 Missions:

- Digitalisation, Innovation, Competitiveness, Culture: over € 49 billion allocated to promote the country's digital transformation, supporting innovation in the production system and investments in tourism and culture.
- Green revolution and the ecological transition: € 68.6 billion allocated, with the goal of improving the country's sustainability and ensuring a fair and inclusive environmental transition.
- Infrastructure for Sustainable Mobility: € 31.5 billion allocated to support modern and sustainable transport infrastructure, extending throughout the country.
- Education and Research: € 31.9 billion allocated with the aim of strengthening the education system, research and the transfer of technology.
- Inclusion and Cohesion: total allocation of € 22.6 billion to facilitate participation in the labour market and promote social inclusion.
- Health: € 18.5 billion allocated with the aim of strengthening prevention and health services in the country.

The global economic and social context has been rendered more uncertain with the escalation in tensions between Russia and Ukraine in 2022. During the first two months of the year, international diplomacy worked on opening dialogue and finding a diplomatic solution to avoid armed conflict, concerned about the significant consequences that this could have on gas supplies from Moscow to Europe, with repercussions on raw material prices and energy prices increasing; these events already materialising towards the end of 2021. Despite diplomatic initiatives, the armed invasion of Ukraine by Russia began on 24 February 2022. By the beginning of March, despite initial negotiations between the countries involved, the crisis remains open and the conflict is still ongoing. These circumstances raise concerns on future gas supplies by Russia to European Union member States, and uncertainty on global economic and social developments.

Monetary policy

Similarly to the previous year, 2021 was characterised by an expansionary monetary policy in all the main European countries and in the world¹⁸, which was considered essential to support a global recovery.

After the contraction in 2020, followed by the spread of the COVID-19 epidemic and relative containment measures adopted by various countries in the world, the global economy in 2021 showed strong signs of recovery, albeit at an intermittent rate over the year and at varying degrees in the different areas of the world.

In this improved global context, nonetheless conditioned by uncertainties around the development of the pandemic (spread of new variants, delays in vaccination campaigns), Authorities in the main advanced areas considered that maintaining favourable financial conditions and an expansionary monetary policy were essential to supporting the recovery.

In the United States, the Federal Reserve confirmed its expansionary monetary policy in the first three quarters of the year, which it had already undertaken the previous year, continuing with the purchase of securities and announcing that these rates would be maintained until substantial progress was achieved in reaching the goals of maximum employment and price stability. Monetary policies only began normalising in the last quarter of 2021. More specifically, from November, the Federal Reserve began slowing down the rate of its security purchases and then followed this by an acceleration in December and January (the initial

¹⁷ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

¹⁸ an expansionary monetary policy is a mechanism used by the Central Bank, and is characterised by reduced interest rates, so as to stimulate money supply by banks and businesses, and consequently, investments and the production of goods and services.

monthly target for security purchases at 120 billion, was reduced by 15 billion in November and December and then by 30 billion in January). If this rate were to remain unchanged, the purchasing programme should be completed in March 2022¹⁹.

For the whole of 2021, in the Euro Area the ECB considered keeping up favourable financial conditions as an essential requirement to ensure that the recovery continued. For this reason, the ECB Executive Board decided during the year to maintain the rate of its security purchases at high levels in the context of the Pandemic Emergency Purchase Programme - PEPP. Likewise, the purchase of public and private securities continued in the scope of the Asset Purchase Programme (APP). The accounting value for the two security portfolios was at 3,123 billion at the end of December (APP) and 1,536 billion at the end of November (PEPP) respectively²⁰.

As from December, the ECB decided to review its plan to manage future asset purchases, considering that the progress made with regard to the economic recovery and achieving medium-term inflation targets, made it possible to gradually reduce the rate of asset purchases.

Taking into account the high levels of uncertainty, the ECB has however confirmed that the management of monetary policy will be open to different options in relation to developments in the macroeconomic context, reiterating the need to maintain a flexible approach. In this regard, it confirmed that net purchases shall continue until necessary to strengthen the stimulus resulting from low reference rates, and shall end just before the stage when official rates will rise.

Trends in the energy market

2021 was a significant year for the price of oil after the sharpest drop that occurred in 2020, due to the pandemic and consequent halt to economic activity worldwide.

The recovery in economic activity, as well as the lifting of restrictions on mobility due to the easing in the health epidemic, resulted in increased demand for oil with direct repercussions on the relative prices, with forecasts expecting a return to pre-pandemic levels²¹.

In the first half of January 2021, ICE Brent prices went over 56 dollars/barrel, at levels that had not been seen since February 2020²². At the close on Friday 31 December 2021, the Brent had reached 77.8 dollars/barrel. Demand for oil globally was supported by the transport and information segments that focus on future developments associated with the electrification of travel and the consequent price volatility that may follow²³.

In this growth context, the trend in the pandemic and surge in COVID-19 cases in the third quarter of the year, due to the appearance of the new Omicron variant, resulted in a slowdown in the oil market's recovery resulting from the tightening of restrictive measures to contain the pandemic²⁴.

In November 2021, OPEC Plus²⁵ was called on to increase oil production, driven by strong pressure from leading consumer countries, with the United States at the forefront. OPEC+ nonetheless continued its prudent approach, following the strategy initially undertaken, with production at 400,000 barrels/day²⁶.

According to the International Energy Agency (IEA), crude consumption should reach 99.7 million barrels/day (200,000 more than 2019) in 2022, despite efforts to reduce the consumption of fossil fuels to mitigate climate change. Based on this estimate, global crude consumption should reach pre-pandemic levels²⁷.

Global demand for electricity increased in 2021 by more than 6%, the highest increase since the recovery from the 2010 financial crisis²⁸. This trend was once again supported by the recovery in economic activity worldwide, associated with colder winters and hotter summers. The comeback in overall energy demand resulted in wholesale electricity prices rising, which were affected by the increase in coal and natural gas

¹⁹ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022

²⁰ *Bollettino economico (Economic Bulletin)* – Bank of Italy 1/2022 Table 4

²¹ International Energy Agency | World Energy Outlook 2021

²² International Energy Agency – Oil Market Report 19 January 2021

²³ Resources for the future - Global Energy Outlook 2021: Pathways from Paris

²⁴ International Energy Agency – Oil Market Report 14 December 2021

²⁵ 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).

²⁶ AGI Agenzia Italia - The reasons why OPEC+ does not want to increase oil production, <https://www.agi.it/economia/news/2021-11-05/motivi-opecononvuole-aumentare-produzione-petrolio-14439908/>

²⁷ International Energy Agency – Oil Market Report January 2022

²⁸ International Energy Agency - Electricity Market Report – January 2022

prices, which still form the basis for electricity production, despite the increase in renewable energies. Electricity production from coal-fired plants grew at a rate of 9%, the highest since 2011. The 2% increase was also recorded for natural gas, offsetting the downward results in 2020. The results were also positive for renewable sources, which went up by 6 percentage points.

Regarding the electricity market, the price to purchase energy (PUN) in 2021²⁹ rose to historic highs at € 125.46/MWh, inverting the downward trend that began in 2019 and worsened in 2020 (year when it reached its historic low at € 38.92/MWh³⁰). The sharp increase compared to the previous year was common to the Italian and all the main European electricity listings, and is a consequence of the rapid and progressive escalation in gas and CO2 prices³¹. The resumption in volumes after lockdown in 2020 also supported prices. PUN rose throughout 2021, but was particularly significant in the last quarter of the year, when the price of electricity in Italy rose on average to € 242/MWh in line with the rapid progression over October-December with increases in the prices of gas, coal and CO2.

2021 also recorded a recovery in electricity volumes traded on the Day Ahead Market (DAM) at 290.4 TWh, which was 3.9 percentage points higher than the minimum lows reached in 2020³². Over the counter trading recorded on the Electricity Power Exchange (PCE) and nominated on the DAM fell further on the 2020 figures, at 69.1 TWh, coming down by 1.5%. Volumes traded on the exchange on the other hand at 221.3 TWh, increased by 5.7% on 2020.

An upward trend was also noted regarding natural gas listing on the Italian Virtual Exchange (Punto di Scambio Virtuale nazionale - PSV), which rose to record levels at € 47.0/Mwh, increasing by € 36/MWh on 2020³³. This trend was similar to the performance recorded on the main European hubs, where the TTF³⁴ which had reached a record high at € 46.5/Mwh in 2021, increasing by € 37/Mwh on the previous year. The PSV-TTF spread on the other hand touched on its lowest level, at € 0.5/MWh.

The start of 2022 saw an inversion in the trend referring to domestic and industrial gas consumption, which contracted after months of growing. Based on calculations by the Snam Rete Gas daily bulletin (*Staffetta Quotidiana*), during January, Italy had consumed 9,732.2 million m3, around 210 million less than in January 2021 (-2.2%). The explanation for this could be found in the international upward trend in energy sector costs, which reflect higher raw material costs that had already begun rising at the end of 2021. In this context, developments in the conflict between Russia and Ukraine add to concerns regarding the domestic and international scenarios.

Overview of the Italian markets

The natural gas market

NATURAL GAS (Million m ³)	Financial year 2021	Changes %
Imports	71,641	8.9
Domestic production	3,127	(18.5)
Delivery from storage	11,292	(2.1)
Total issued	86,060	6.1
Services and domestic use	33,373	8.4
Industrial use	14,058	6.7
Thermoelectric use	25,979	6.4
Exports, third-party networks and system consumption*	2,818	31.8
Total demand	76,228	8.1
Injections into storage	9,832	(7.2)
Total drawn down	86,060	6.1

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

In 2021, consumption of natural gas in Italy once again rose on the previous year, recording 76,228 million m3 (an increase of 8% compared to 2020), which is the highest level in the last ten years³⁵.

²⁹ "Prezzo Unico Nazionale" - Single National Price

³⁰ GME Newsletter January 2021

³¹ GME Newsletter January 2022

³² GME Newsletter January 2022

³³ GME Newsletter January 2022

³⁴ The TTF (Title Transfer Facility) is the natural gas trading hub of reference at European level.

³⁵ GME Newsletter January 2022

The recovery in demand also represented higher values across various sectors, recording 14,058 million m³ in the industrial segment (+6.7%), 25,979 million m³ in the thermo-electric (+6.4%), with the highest increase referring to domestic consumption: 33,373 million m³ (+8.4%). The figure referring to gas exports is particularly significant, increasing by 31.8% on 2020, for a total amount of 2,818 million m³.

Higher amounts were also recorded with regard to supply. Imports rose to 71,641 million m³ (+8.9%), the highest level since 2011. Imports via gas pipelines were up +16% compared to 2020, whereas flows via regassification facilities came down by -22% on the previous year. The highest drawdowns were recorded at Mazara (TP) and Melendugno (LE), where the new TAP gas pipeline became operational in November 2020. From the outset in 2020, TAP has transported over 8.1 standard cubic metres in Europe, of which around 6.8 reached Italy³⁶. Imports from Northern Europe to Passo Gries and from Libya to Gela came down.

Higher imports resulted in lower output from storage systems that went down by 2.1% compared to the previous year, recording 11,292 m³. Similarly, injections into storage systems declined at 9,832 million m³, coming down by 7.2% on 2020.

The downward trend also continued regarding domestic production, which touched on record lows at 3,127 m³, dropping by 18.5% on the previous year³⁷.

In 2021, total trades on the gas spot markets (MP-GAS) managed by the GME (Gestore Mercati Energetici - Energy Markets Operator) were at 130Twh, up by 15% compared to 2020, with a monthly peak at 26% in April³⁸. The increase in traded volumes was supported solely by the day-ahead markets, thus consolidating the multiple-year growth trend³⁹.

The gas distribution sector is still in a deadlock 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 2021 the situation was:

9 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, Milan 3, Potenza 2;

4 ATEM with call for tenders published with open procedure still active: Rimini, Genoa 2, Biella, Turin 5;

16 ATEMs with calls for tenders revoked, cancelled, suspended: Cremona 2 and 3, Alessandria 2, Turin 3, Udine 1, Perugia 2, Massa Carrara, Udine 3, Venice 1, Lucca, Monza and Brianza 2, Como 1, Bergamo 3, Brescia 1, Trieste, Bergamo 2, Milan 4;

8 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 (final awarding to "UnaReti Gruppo A2A" after the Council of State decision on the previous award cancellation), Turin 2 (awarded to Italgas), Aosta (awarded to Italgas, pending final awarding due to appeal presented to the Valle d'Aosta Regional Administrative Court [RAC] by Energie Des Alpes), Udine 2 (awarded to AcegasApsAmgas spa - Hera Group), Turin 1 (awarded to Italgas), Naples 1 (awarded to 2I Rete Gas), La Spezia;

1 ATEM with calls for tenders published with expired restricted procedures: Prato (deadline for submission of participation application expired on 29/01/21, pending subsequent stage).

With regard to gas tenders, an acceleration may be seen on the basis of the 2021 Competition Legislation, which introduced additional rules of transparency and returns on investments in the procedures assigning gas distribution services, to promote the conducting of tenders. More specifically, incentives were introduced in favour of the local entity to ensure tenders are carried out timeously, especially with regard to the economic assessment of distribution plants and networks.

On the issue of tariffs, the V Regulatory period (2020-2025) began with the publication of Resolution ARERA 570/2019/R/GAS in December 2019. More specifically, ARERA confirmed that the regulatory

³⁶ In 2021, Trans Atlantic Pipeline, "TAP: transported over 8 billion cubic metres in Europe, of which 6.8 in Italy", 13 January 2022 <https://www.tap-ag.it/notizie/nuove-storie/tap-trasportati-in-europa-nel-2021-oltre-8-miliardi-di-metri-cubi-di-cui-68-in-italia>

³⁷ GME Newsletter January 2022

³⁸ GME Newsletter January 2022

³⁹ 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 in 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.

period extended over six years, subdivided into two semi-periods of three years each. The Authority also set the β asset parameter for distribution services and the metering of natural gas at 0,439, and remuneration rate for invested capital (WACC) of 6.3% until 2021 (both with regarding to distribution and metering).

With reference to the remuneration rate for invested capital (WACC) on the distribution and metering of natural gas, where the calculation criteria and update for the period 2022-2027 were set in terms of Resolution 614/2021/R/com of 23 December 2021, for 2022, the value was set at 5.6% both for the gas distribution and metering service (down on the previous period when this was at 6.3%).

The market for electricity and renewable energy sources

In 2021, the demand for electricity in Italy grew by over 5%, recording 318 TWh (compared to 301 TWh in 2020).

Electricity Balance Sheet (TWh) ⁴⁰			
Electricity (TWh)	Financial year 2021	Financial year 2020	Changes %
Net production (of which):	278.109	271.648	2.4
- Thermoelectric	180.579	173.888	3.8
- Hydroelectric	46.317	48.952	(5.4)
- Photovoltaic	25.068	24.552	2.1
- Wind	20.619	18.609	10.8
- Geothermal	5.526	5.647	(2.1)
Net import/export balance	42.793	32.200	32.9
Pumping consumption	2.827	2.668	6.0
Total demand	318.075	301.180	5.6

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

Total net production intended for consumption⁴¹, recording an increase of 2.4%, with 275.3 TWh, met 86.55% of the domestic electricity requirement (slightly down on the figure for 2020).

An increase was recorded in the hydroelectric component, with 180.58 TWh in 2021, increasing by 3.8% compared to the previous year, in the photovoltaic component, with 25.07 TWh up by +2.1% compared to 2020, and finally the wind component at 20.62 TWh, increasing by 10.8% on the previous period.

The other components recorded a downward trend: hydroelectric production with 46.32 TWh, coming down by 5.4% on 2020, whereas the geothermal was at 5.53 TWh, a negative outcome of 2.1 percentage points compared to 2020.

The energy efficiency market

The Conference of the Parties in Paris in 2015 (COP21) marked the moment when the world began to become actively concerned about the risks arising from climate change and translating these into the tangible goals discussed by Climate conferences that followed in subsequent years.

The regulation of the carbon market and aligning the different interests of countries in the actions that were to be undertaken, were at the centre of the debate.

The most recent 26th Conference of the Parties was held in October 2021 in Scotland, with over 190 world leaders attending, in the context of an extraordinary and urgent COP⁴². The main goals of COP26 referred to the commitment of achieving more ambitious greenhouse gas emission targets by 2030, the measures for adapting to the consequent and inevitable changes in climate and increased funding to promote climate action, especially in developing countries⁴³. Debate at COP26 revolved around the measures that needed to be implemented to exit coal and stop subsidies for fossil sources, in order to define global action in response to sudden climate changes.

⁴⁰ Terna – Monthly Report on the Electrical System (December 2021)

⁴¹ Total net production intended for consumption = Total net production – Pumping consumption.

⁴² UN CLIMATE CHANGE CONFERENCE UK 2021 COP26 EXPLAINED

⁴³ Council of the European Union - Summit on climate change COP26

<https://www.consilium.europa.eu/it/policies/climate-change/paris-agreement/cop26/>

The outcomes of the negotiations resulted in the adoption of the “Glasgow Climate Pact”, a formula that restructures and slows down the use of coal, but does not phase it out completely, leaving space for additional efforts to keep the increase in temperatures to a maximum of 1.5 degrees Celsius.

At European level, focus concentrated on decarbonisation, and as envisaged in the long-term strategic vision (28/11/2018 - COM (2018) 773)⁴⁴, the European Union's target is to achieve carbon neutrality by 2050⁴⁵. In this regard, at the start of 2020, among its 6 priorities for the period 2019-2024, 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.

In the scope of the European Green Deal, the Commission launched a new strategy to drive the renovation of buildings in Europe called “A Revolution Wave for Europe”; this strategy aims to renovate buildings, while also reducing energy and operational costs, from the perspective of reducing emissions and the circular economy. The aim of the strategy is to double renovation rates over the next ten years⁴⁶.

With regard to this context, in the scope of the Recovery Fund (also known as the Next Generation EU), the European fund directed at financing the recovery of the old continent over the three-year period 2021-2023 after the COVID-19 pandemic, Italy submitted its Recovery Plan called the National Recovery and Resilience Plan (NRRP) to the European Commission in order to access the funds provided, on approval from the Commission. Specifically with regard to the energy efficiency market, Mission 2 of the NRRP “Green revolution and ecological transition” is directed at making the social and economic system more ecological, sustainable and competitive, and falls within the scope of the European Green Deal and objective of achieving climate neutrality by 2050. The Component “Renewable energy, hydrogen, grid and sustainable mobility” has allocated over € 23 billion to achieving the strategic goals of decarbonisation by increasing the percentage of electricity produced from renewable sources, strengthening grid infrastructure and promoting the production and use of hydrogen⁴⁷.

Furthermore significant allocations have also been made for Mission Component 3 “Energy efficiency and the renovation of buildings”, with about € 15 billion available to reduce the country's emissions. In addition to reducing consumption and consequently decreasing emissions, the measures included in this Component also refer to exposure to seismic risks in Italy and improving the living conditions of citizens.

The Italian Ministry of Ecological Transition has assigned 37% of the investment package envisaged by the NRRP to achieve these targets, a clear sign of the attention focused on the issue⁴⁸.

The NRRP also outlines the update to the targets of Italy's National Integrated Energy and Climate Plan (NIECP), namely the Plan submitted by Italy to the EU Commission in January 2020 to highlight its goals for the country by 2030, in the scope of energy efficiency, renewable sources and reducing CO₂ emissions. The NIECP focused strongly on the issues of energy security and a single energy market, offering practical solutions to be implemented so as to accelerate the decarbonisation process, investments in renewables, promoting energy efficiency in all sectors and the electrification of consumption. The NRRP therefore raises the threshold for the targets to be achieved in relation to the National Integrated Plan for Energy, stating that additional reductions need to be implemented regarding primary energy⁴⁹.

In the scope of construction and buildings, 2020 saw the introduction of the so-called “Superbonus”, a tax concession that provides a tax deduction of 110% for the expenses incurred from July 2020 until 31 December 2021 for improvements (regulated by Art. 119 of Italian Decree-Law 34/2020, namely the Relaunch Decree). Interventions covered by the concession include the installation of photovoltaic plants and infrastructure for the recharging of electric vehicles in buildings. The 2021 Budget Law extended the Superbonus, with its application extended until 30 June 2023 if certain conditions apply⁵⁰. Based on figures presented by Enea in its 110% Superbonus Report, there were 107,588 building interventions underway at 31 January 2022 in terms of the incentive, for approximately € 18.3 billion in investments that will result in over € 20 billion in deductions⁵¹. At the beginning of 2022, debate once again arose regarding the 110% Superbonus and the construction bonuses due to the restrictions introduced on the transfer of credit by the

⁴⁴ Communication to the Commission of the European Parliament, European Council, European economic and social Committee, Regions Committee and the European Investment Bank.

⁴⁵ Enea Annual Energy Efficiency Report 2020

⁴⁶ Enea Annual Energy Efficiency Report 2021.

⁴⁷ Italian Ministry of Ecological Transition - Component 2 (M2C2) - Renewable energy, hydrogen, grid and sustainable mobility.

⁴⁸ Italian Ministry of Ecological Transition – NRRP - How much progress have we made, latest update at 23 December 2021

⁴⁹ Chamber of Deputies – Parliamentary documentation - The NIECP and the Ecological Transition Plan – 16 December 2021 <https://temi.camera.it/leg18/post/la-proposta-italiana-di-piano-nazionale-per-l-energia-e-il-clima.html>

⁵⁰ Tax Agency Portal – Superbonus <https://www.agenziaentrate.gov.it/portale/superbonus>

⁵¹ Chamber of Deputies - The 110 percent construction Superbonus - update to the 2022 budget law – 11 February 2022

Support Decree Law [*Sostegni*], and due to irregularities and fraud in the application of the concessions that had emerged during checks conducted by the Authorities. The legislation is currently under review by the Senate Budget Commission and amendments are expected during 2022⁵².

With regard to the targets for 2011-2020, detailed in the 2017 Energy Efficiency Action Plan (EEAP), namely the document prepared at the request of the European Commission, setting out Italy's pathway towards cutting energy demand, 12.73 Mtep/year in energy savings was achieved in 2020, the equivalent of around 82% of the final targets at 2020.

53 Annual energy savings achieved by sector for the period 2011-2020 and expected at 2020 (final energy, MTEP/year) under the terms of the 2017 Energy Efficiency Action Plan (EEAP)⁵⁴									
Sector	White certificates	Tax deductions	Thermal Account	Business 4.0	Italian Legislative Decree 192/05 and 26/6/15	Other*	Energy savings		Target achieved (%)
							Achieved in 2020	Expected at 2020	
Residential	0.76	3.49	0.2	-	1.84	0.04	6.33	3.67	172.5
Tertiary	0.16	0.03	0.07	-	0.09	0.04	0.82	1.23	66.6
Industry	2.24	0.05	-	0.58	0.17	0.25	3.29	5.1	64.5
Transport	0.01	-	-	-	-	0.16	2.29	5.5	41.6
Total final energy	3.17	3.57	0.27	0.58	2.1	3.09	12.73	15.5	82.1

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

These energy savings derive for over one quarter 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. Firstly, Directorial Decree of 30 April 2019 changed the list of admissible energy efficiency projects. Again during 2019, guidelines were defined for the issue of White Certificates not linked to energy efficiency projects (so-called virtual EECs⁵⁵). The obligated subjects must have at least 30% of real EECs, with respect to the minimum obligation⁵⁶, to be able to obtain the issue of virtual EECs⁵⁷.

Italian 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 mechanism⁵⁸.

More recently, Italian Ministerial Decree of 21 May 2021 set the national energy savings targets, which must be pursued by electricity gas distribution companies for 2021-2024⁵⁹.

During 2021, the GSE recognised a total of 1,120,672 EECs: the trend of certificates recognised in 2021 fell by approximately 35% compared to 2020, a year in which approximately 1.7 million certificates were recognised⁶⁰. The average price recorded on the organised market in 2021 rose by 2%, bringing it to € 267.40/TOE; volumes traded on the EEC market confirmed the downward trend that had also characterised 2020, at 1,930,703 TOE (-17.7%).

⁵² Quotidiano Energia - Superbonus, interventions for € 18.3 billion Pressing for amendments to the Support Decree Law - 2 February 2022

⁵³ Enea Annual Energy Efficiency Report 2021.

⁵⁵ 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.

⁵⁶ The minimum obligation is 60% of the White Certificates that constitute the obligation of the year "n".

⁵⁷ GSE Annual White Certificates Report 2021

⁵⁸ GSE Annual White Certificates Report 2021

⁵⁹ GSE Annual White Certificates Report 2021

⁶⁰ GSE Annual White Certificates Report 2021

Energy efficiency certificates – cumulative data ⁶¹				
Year	Price (€/TOE)			Volumes traded
	Weighted average	Minimum	Maximum	(TOE)
2021	267.40	250.00	299.99	1,930,703

As regards the electric mobility sector, the number of electric cars registered increased in 2021, overcoming the concerns that there would be a possible slowdown in 2020 due to pandemic and support policy measures. Registrations of electric vehicles in fact grew by more than 333% in the first nine months of 2021 compared to the same period the previous year, breaking through the threshold of 100,000 registered electric vehicles⁶². The availability of incentives to purchase, the increase in the supply of electrified models and increasing availability of recharging infrastructure accessible to the public all supported this success⁶³. The strong growth in the electric car market in Italy falls within the scope of the post-pandemic scenario of an ecological transition and digitisation, aligning extremely well with the concept of sustainable mobility. The trends characterising 2021 and identified in the Smart Mobility Report include a more consolidated shared mobility service⁶⁴, promoting the use of electric vehicles: a synergy is therefore confirmed between the electrification and sharing trends, from the perspective of reducing emissions.

The telecommunications and digital services market

During 2021, the Telecommunications sector recorded positive results worldwide, with revenue increasing by 4.8% on 2020 (the year when revenue reached 1.10 billion). These results were largely supported by Chinese companies, followed by American companies; whereas Europe recorded a 0.5% drop compared to 2020⁶⁵.

With regard to the Italian market, the main operators were under pressure in 2021, continuing the negative trend of the year before. Overall, revenue dropped by 1.8% as a result of the 5.4% decrease from the mobile network, benefiting however from 1.2% increase in the landline network⁶⁶.

The 5G project continued to be at the centre of discussions in 2021. Ericsson, one of the leading suppliers of information and communication technologies to service providers, estimated that by the end of 2021, over two billion people will be living in an area covered by 5G, and that at the end of 2027, 5G will have reached a coverage ratio of 75% of the world's population, with this based on the ongoing construction of 5G networks⁶⁷.

Even though trials were completed in Italy in June 2020, the roll-out of 5G networks 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, coverage has involved more of Northern than Southern of Italy.⁶⁸

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 been a significant driver for the digitisation process. It has caused a forced acceleration in companies' digital transformation, which were compelled to adopt innovative IT tools to ensure continued operations and the provision of services⁶⁹.

According to Assintel (National Association of ICT and Digital Companies) data, the Italian digital segment saw ICT companies spend € 34.4 billion in investments during 2021, up by 4.15% on 2020.

Of fundamental significance were the mechanisms contained in Component 1 "Digitalisation, Innovation, Competitiveness, Culture" under Mission 2 in Italy's National Recovery and Resilience Plan (NRRP). This had allocated around € 49 million to the Italy's digital transformation, together with other goals. In this respect, Assintel found that 51% of the Italian companies analysed believed that the NRRP had a positive effect, and that the main obstacle to innovation was the lack of economic and financial resources⁷⁰. From

⁶¹ GSE Annual White Certificates Report 2021

⁶² Smart Mobility Report Energy & Strategy Group

⁶³ Smart Mobility Report Energy & Strategy Group

⁶⁴ The term shared mobility refers to mobility that shares vehicles for going from one place to another.

⁶⁵ Press release - Mediobanca Study Areas – Report Telco (ed. 2021).

⁶⁶ Mediobanca Study Areas Report – The major Telcos Worldwide 2016-2021 – 12 October 2021

⁶⁷ Ericsson Mobility Report | November 2021

⁶⁸ <https://www.speedtest.net/ookla-5g-map>

⁶⁹ EU Digital Agenda - Digitalisation and the pandemic, e-commerce and websites as leverage for relaunching businesses and professionals <https://www.agendadigitale.eu/mercati-digitali/ecommerce/digitalizzazione-e-pandemia-e-commerce-e-siti-web-come-leve-per-il-rilancio-di-imprese-e-professionisti/>

⁷⁰ Assintel Report: the ICT market continues to grow and exceeds 34 billion euro – Press release 26 October 2021

this perspective, the NRRP should push companies to adopt technologically innovative projects and invest in tools that can improve the connectivity and digitalisation of companies. The main measures envisaged in the aforementioned Mission, referring to digitalisation, include the spread of Ultra-Broad Band and faster connections throughout the country; incentives for the digital transition and adoption of innovative technologies by the private sector; digitalisation of the Public Administration and strengthening of digital skills⁷¹.

With regard to the landline network, in 2021, AGCOM has recorded an annual positive variation in accesses of 2.1 %, increasing by 400,000 lines, for a total of 19.89 million accesses. Breaking down this figure, we note that most accesses were via FTTC (Fibre with a mixed copper network), whereas 29.2% referred to accesses via copper, 8.5% via FWA (Fibre on fixed wireless access) and 12.3% on FTTH (fibre). Accesses via the copper network continued their downward trend, recording a negative 9.8 percentage points compared to September 2020. The trend was different regarding other sources (FTTC, FWA and FTTH), which in line with 2020 figures, lead the upward results recorded⁷².

Broadband accesses in 2021 exceeded 18.52 million units, increasing by 660 million units on an annual basis. ADSL lines continued their downward trend, losing 25.6%, with a drop of 1.52 million accesses, bringing down the number of lines to 4.43 million.

The single national network project launched in 2020 with Tim that had accepted an offer from the American fund Kkr Infrastructure, to enter the newco FiberCop was not pursued further in 2021, nor has it been shelved⁷³. Developments expected during 2022 will be fundamental in this sense.

With regard to mobile telephony, if all SIMs are considered, at 30 September 2021, there seems to be a certain analogy between the operators TIM and Vodafone in relation to the market share held: 28.8% Tim and 28.5% Vodafone, which are both ahead of Wind Tre at 24.8%. The French operator Iliad continued to grow, having entered the Italian market in 2018, and once again was the fourth operator in Italy with a 7.7% market share⁷⁴.

Total active SIMs in Italy have risen to 105.8 million. This growth was sustained by the increase of "M2M" SIMs⁷⁵, which reached 27.9 million, increasing by 5.9%. "Human" SIMs⁷⁶ remained the most prevalent at 78 million, reversing the downward trend with a slight increase of 0.2 % (negative value of 3.7% in 2020)⁷⁷.

Mobile virtual operators (MVO) at the same date, confirmed significant growth at 10.2% of the market share per number of total SIMs (10.79 million out of a total of 105.8 million) and 13.7% of the total Human SIMs (10.69 million out of a total of 78 million). Observing the trend of data traffic on an annual basis, the number of SIM cards with access to the Internet decreased on 2020 figures, at 56.3 million SIM, down by one percentage point compared to the 56.9 million the previous year. The trend of data traffic was different, recording a 28.1% increase on the same reference period in 2020⁷⁸.

The environment market

The integrated waste cycle 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.

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

The updated Ispra data on the waste situation in Italy reveal that 28.9 million tons of municipal waste was produced in 2020, coming down significantly on 2019 (-1.1 million tons, or 3.6%).

⁷¹ Italian Government – Presidency of the Council of Ministers - NRRP: digitalisation, innovation, competitiveness, culture and tourism

⁷² AGCOM, Communications Observatory no.4/2021

⁷³ CORCOM single Tlc network, the project has not been shelved but is no longer a priority

<https://www.corrierecomunicazioni.it/telco/rete-unica-tlc-il-progetto-non-e-archiviato-ma-non-e-piu-la-priorita/>

⁷⁴ AGCOM, Communications Observatory no.4/2021

⁷⁵ Machine to machine, referring to SIM cards dedicated exclusively to data traffic, with limited or no human interaction.

⁷⁶ Human SIMs are only able to provide "voice" or "voice and data" services.

⁷⁷ AGCOM, Communications Observatory no.4/2021

⁷⁸ AGCOM, Communications Observatory no.4/2021

This result was affected by the health emergency, with the restrictions adopted and closure of various businesses, which significantly impacted on national consumption.

The decrease was recorded across all macro-geographic areas: North (-3.4%), Centre (-5.4%) and South (-2.6%). More specifically, excluding the Valle d'Aosta that generated stable waste levels, all other regions in Italy recorded a significant drop in the waste generated.

The average pro capita was 488 kilograms. Emilia Romagna was the region with the highest numbers at national level (with 640 kilograms per inhabitant), while Basilicata was the region with the lowest (345 kilograms per inhabitant).

In 2020, there were 673 municipal waste management plants operating in Italy: 359 in the North, 120 in Central Italy and 194 in the South. Of these, 359 are dedicated to treatment of the organic fraction of separate collection, 132 for the mechanical or biological treatment of waste, 131 landfill sites, with the addition of 37 incineration and 14 industrial plants that incinerate municipal waste⁷⁹.

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 2035⁸⁰.

In 2020, around 51% 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 54.4% and referred to the following fractions: organic, paper and cardboard, glass, metal, plastic and wood.

20% of municipal waste was disposed of in landfills, the equivalent of 5.8 million tons, coming down by 7.4% compared to 2019. Significant decreases were recorded in the South (-9.1%) and Centre (-8.3%) due to improved separate waste collection in these areas. In general terms, recourse to landfills has decreased over the last ten years by 56%, going from 13.2 million tons to around 5.8 million.

18% of municipal waste produced is incinerated, with this figure decreasing by 3.6% compared to 2019. Of the 37 plants that are operational, 70.3% are located in the North, in particular in Lombardy and Emilia Romagna⁸¹.

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 achieved⁸².

Separate waste collection increased again in 2020: +1.8% compared to 2019, reaching 63% of domestic production. Despite the significant impact of the health emergency, the separate collection management system intercepted waste flows, especially in the regions that were most affected (where specific ordinances were issued to send waste for unseparated treatment).

At regional level, regions in the North were most virtuous at 70.8%, whereas those in Central and Southern Italy recorded 59.2% and 53.6% respectively. Generally, all macro-geographic areas showed increases in the percentage of separate waste compared to the previous year. There were 9 regions in 2020 that achieved or surpassed the 65% target (Veneto, Sardinia, Lombardy, Trentino Alto Adige, Emilia Romagna, Marches, Friuli Venezia Giulia, Umbria and Abruzzo), 3 were very close to the target (Piedmont, Valle d'Aosta and Tuscany), whereas Sicily was the only region not to have reached the 50% threshold (despite a 4% increase on 2019).⁸³

In absolute terms, separate waste collection was at 18.5 million tons, increasing by 152,000 tons compared to 2019⁸⁴.

Focusing on Tuscany, there are approximately 50 municipal waste treatment and disposal plants in Tuscany, with this remaining practically unchanged over the last few years.

Organic at 39.3% of the total, was confirmed as the most collected fraction in Italy. Paper and cardboard represented 19.2% of the total, followed by glass at 12.2% and plastic at 8.6%.

In 2020, 581,000 tonnes of urban waste was exported (2% of the total generated), with 237,000 tonnes imported.

⁷⁹ Press release Ispra Municipal Waste Report publication edition 2021

⁸⁰ Directive 2018/851/EU

⁸¹ Press release Ispra Municipal Waste Report publication edition 2021

⁸² "ISPRA Rapporto Rifiuti Urbani 2021" (2021 Municipal Waste Report)

⁸³ Press release Ispra Municipal Waste Report publication edition 2021

⁸⁴ ISPRA Special Waste Report 2021 edition

Over the last year, the average domestic pro capita cost to manage urban waste was € 185.6 /inhabitant (increasing on the € 176.7/inhabitant in 2019). The Central regions recorded the highest costs with an average of € 221.8/inhabitant, followed by the South with an average of € 195.7/inhabitant and then the North with € 165.6/inhabitant.

With regard to the Special Waste segment in Italy, the most recent data available in the 2021 edition ISPRA Municipal Waste Report refers to 2019. Figures show that production increased by 7.3% on the previous year (10.5 million tons), to reach 154 million tons⁸⁵. The increase is mainly attributable to non-hazardous waste, representing 93.4% of the total waste generated, increasing by almost 10.4 million tons (+7.8%), to reach approximately 143.8 million tons. Special hazardous waste on the other hand, increased by 110,000 tons (+1.1%), surpassing 10.1 million tonnes. Most of this production was recorded in the North, where the industrial fabric is more developed, with 88.6 million tons (57.6% of the total at national level). Production in Central Italy was at 27 million tons (17.5% of the total), and in the South at 38.4 million tons (approximately 25%).

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 70 million tons (45.5% of the total), followed by waste processing and reclamation activities (over 38 million tons produced accounting for 25.1 % of the total) and manufacturing activities producing 29.1 million tons at just over 20% of the total. Other economic activities account in total for 10.5% of the total of special waste produced (16.1 million tons)⁸⁶.

In respect of special waste management activities (data relating to 2019 update in ISPRA Special Waste Report 2021 edition), this reached 164.5 million tons, of which 154.7 is non-hazardous (94% of the total managed) and the remaining 9.8 million is hazardous (6% of the total managed). There was a 7.8% increase in the overall waste managed compared to the previous year; in particular, the quantities sent for recovery treatment increased by 9.6% and quantities sent for disposal by 1.3%.

The recovery of materials was predominant at 68.9% (113.3 million tons), followed by other disposal treatments, representing around 10.9% (30.7 million tons), and landfills at 7.3% (12 million tons). Residual quantities were sent to co-incineration (1.2%) and incineration (0.7%).

There are a total of 10,839 special waste management plants (data referring to 2019), of which 6,152 in the North, 1,980 in Central Italy and 2,707 in the South. There are 4,619 plants dedicated to the recovery of materials (42.6% of the total)⁸⁷.

With regard to Tuscany, in 2019, regional production of special waste was at around 10.1 million tons, 6.6% of the national total. 95.6% (9.6 million tonnes) referred to non-hazardous waste and the remaining 4.4% (445,000 tonnes) to hazardous waste. The main types of waste produced referred to construction and demolition operations (42.1% of total regional production)⁸⁸. There was an increase in the total number of plants (703 in 2018 to 755 in 2019), Tuscany remains the region with the highest concentration of plants compared to other regions in central Italy, (38% of the infrastructure assets in the macro-area)⁸⁹.

Finally, in the environmental reclamation segment, 42 Sites of National Interest (SNIs) are operational at national level⁹⁰. In Tuscany, there are 4,499 sites involved in reclamation procedures, of which 2,123 with procedures closed, 481 certified for completed reclamation, while 2,086 sites involved in reclamation procedures are active with a total area of 11,278 ha⁹¹. The contamination of the sites involved derives mainly from industrial activities, waste management and disposal and fuel distribution.

On a regulatory level, of note in 2021, Resolution 363/2021/R/rif, which defines the criteria for recognising the efficient operating and investment costs for the period 2022-2025, adopting the Waste Tariff Method (MTR-2). In short, this provision updated Resolution 443/2019/R/rif, introducing a tariff rule (asymmetric) for different treatment services, so as to further promote the rebalancing of infrastructure assets. The Resolution consolidated the incentives to develop activities adding value to recovered materials and/or energy, providing appropriate corrective mechanisms for the system recognising costs based on the application of the new legislation introduced by Italian Legislative Decree 116/2020⁹².

⁸⁵ ISPRA Special Waste Report 2021 edition

⁸⁶ ISPRA Special Waste Report 2021 edition - Summarised data

⁸⁷ ISPRA Special Waste Report 2021 edition - Summarised data

⁸⁸ ISPRA Special Waste Report 2021 edition

⁸⁹ ISPRA Special Waste Report 2021 edition

⁹⁰ ISPRA(<https://www.isprambiente.gov.it/it/attivita/suolo-e-territorio/siti-contaminati/siti-di-interesse-nazionale-sin>)

⁹¹ Annuario dei dati ambientali (Environmental Data Yearbook) ARPAT 2021

⁹² Resolution 363/2021/R/rif – Technical specifications

With regard to the NRRP, among the measures envisaged relating to the circular economy, we note the investments to build new waste management infrastructure and modernise existing plants, quantified at around € 1.5 billion, as well as the investments for “lighthouse” projects⁹³ for the circular economy, which have received an allocation of around € 600 million. Other crucial aspects of the NRRP for the sector in question, are the national strategy for the circular economy and national waste management programme, which should be adopted by June 2022⁹⁴.

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);
- (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 Revenue** is calculated adding together “Revenue from sales and services” and “Other operating revenue” indicated in the Group's consolidated income statement.
- **Total Adjusted Revenue** corresponds to Total Revenue, defined above, adjusted to exclude non-recurring revenue 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** correspond 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 Estras 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 revenue and costs as defined above. This parameter is not identified as an accounting

⁹³ These refer to highly innovative projects for the treatment and recycling of waste originating from strategic chains, such as electrical and electronic equipment, paper and cardboard industry, textiles, plastic.

⁹⁴ Chamber of Deputies, Waste and landfills

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 profit/(loss), coming from the Group's consolidated financial statements, adjusted to exclude significant non-recurring revenue 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 revenue 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 Revenue 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 Revenue.
- 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 2021 financial year shows significant growth compared to the corresponding period of the previous year.

The main income data for the financial years ended 31 December 2021 and 2020 are shown in the table below:

Reported Income Statement (amounts in thousands of euro)	Year ended 31 December				Change Dec 2021 - Dec 2020	
	2021		2020		Absolute	%
	Amount	Proportion	Amount	Proportion		
Total Revenue	1,060,284	100%	762,350	100%	297,934	39%
External consumption	(908,490)	(86%)	(619,557)	(81%)	(288,933)	47%
Personnel costs	(41,856)	(4%)	(39,230)	(5%)	(2,627)	7%
Income/(expenses) from commodity risk management	2,915	-	(1,205)	-	4,120	(342%)
Portion of income/(expenses) from measurement of non-financial investments using the equity method	6,251	1%	671	-	5,580	832%
Gross operating margin (EBITDA)	119,104	11%	103,029	14%	16,074	16%
Amortisation/depreciation and write-downs	(49,007)	(5%)	(48,024)	(6%)	(983)	2%
Provisions	(12,646)	(1%)	(13,224)	(2%)	578	(4%)
Operating profit/(loss)	57,451	5%	41,782	5%	15,669	38%
Financial income and charges	(8,031)	(1%)	(8,497)	(1%)	466	(5%)
Measurement of non-financial equity investments using the equity method	(2,263)	-	(1,166)	-	(1,097)	94%
Profit before taxes	47,157	4%	32,119	4%	15,038	47%
Income taxes for the year	(14,218)	(1%)	38,167	5%	(52,385)	(137%)
Net profit/(loss) from continuing operations	32,939	3%	70,286	9%	(37,347)	(53%)
Net profit/(loss) from discontinued operations / assets held for sale	-	-	-	-	-	-
Net profit	32,939	3%	70,286	9%	(37,347)	(53%)
Profit/(loss) of non-controlling interests	214	-	111	-	103	93%
Group profit/(loss)	32,725	3%	70,175	9%	(37,450)	(53%)

The table below illustrates the Adjusted Consolidated Revenue, the Adjusted EBITDA, the EBITDA and the Operating Profit/(Loss) (EBIT), for the financial years ended 31 December 2021 and 2020:

Adjusted Income Statement (amounts in thousands of euro)	ADJUSTED Year ended 31 December				Change Dec 2021 - Dec 2020	
	2021		2020		Absolute	%
	Amount	Proportion	Amount	Proportion		
Total Revenue	1,058,488	100%	760,683	100%	297,805	39%
External consumption	(908,338)	(86%)	(614,193)	(81%)	(294,145)	48%
Personnel costs	(41,856)	(4%)	(39,230)	(5%)	(2,627)	7%
Income/(expenses) from commodity risk management	2,915	-	(1,205)	-	4,120	(342%)
Portion of income/(expenses) from measurement of non-financial investments using the equity method	945	-	671	-	275	41%
Adjusted gross operating margin (Adjusted EBITDA)	112,154	11%	106,726	14%	5,428	5%
Amortisation/depreciation and write-downs	(49,007)	(5%)	(48,024)	(6%)	(983)	2%
Provisions	(12,646)	(1%)	(13,224)	(2%)	578	(4%)
Adjusted operating profit/(loss) (Adjusted EBIT)	50,501	5%	45,478	6%	5,023	11%
Financial income and charges	(8,032)	(1%)	(8,496)	(1%)	464	(5%)
Measurement of non-financial equity investments using the equity method	(163)	-	69	-	(232)	(335%)
Adjusted gross profit	42,307	4%	37,051	5%	5,255	14%
Adjusted income taxes for the year	(13,741)	(1%)	(12,451)	(2%)	(1,290)	10%
Net profit/(loss) from continuing operations	28,566	3%	24,600	3%	3,966	16%
Net profit/(loss) from discontinued operations / assets held for sale	-	-	-	-	-	-
Adjusted net profit/(loss)	28,566	3%	24,600	3%	3,966	16%
Profit/(loss) of non-controlling interests	214	-	111	-	103	93%
Adjusted Group profit/(loss)	28,352	3%	24,489	3%	3,863	16%

The Group's consolidated income statement 2021 and 2020 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 2021 and 2020 is presented below:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
IRMA gas distribution fees	(1,087)	
Recovery tariff components previous years		(1,160)
Changes in recognition of gas distribution security incentives		(507)
Compensation for damages on unlawful antitrust dispute	(709)	
Total non-recurring revenue	(1,796)	(1,667)
Redetermination concession fees previous years		(636)
Settlement agreement with the Municipality of Prato		6,000
Extraordinary fees on unlawful antitrust dispute	152	
Revaluation previous equity investment Edma Reti Gas	(5,305)	
Total non-recurring costs and revenue with impact on EBITDA	(6,949)	(3,697)
Total non-recurring costs and revenue with impact on Operating Profit/(Loss) (EBIT)	(6,949)	3,697
Write-downs of equity investment in Sei Toscana		1,235
Provision for liquidation expenses Sinergie Italiane S.r.l.	2,100	
Total non-recurring costs and revenue with impact on Profit before taxes	(4,849)	4,932
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 revenue	477	(769)
Total non-recurring costs and revenue with impact on Net Result	(4,372)	(45,686)

In the 2021 financial year, the following non-recurring elements are noted (with a total positive impact on the net result of € 4,372,000):

- Higher revenue for the IRMA (residual amount on foregone amortisations) fees paid to Group companies operating in the distribution of natural gas as a recovery on previous years' tariffs, pursuant to Resolution 559/2021/R/gas of 9 December 2021, for € 1,087,000;
- Higher revenue for the compensation for damages agreed by the subsidiary Estracom in 2009-2011, quantified in terms of the judgment handed down by the Court of Rome on 20 May 2021 for € 679,000 plus € 30,000 for the legal costs incurred, in the scope of the dispute brought by Estracom

against a leading Italian telecommunications company for conduct representing an abuse of its dominant market position, in breach of Art. 101 and 102 of the Treaty on the Functioning of the European Union (TFUE) and/or unlawful and anti-competitive conduct in breach of Art. 2598 and/or 2043 of the Italian Civil Code,

- Higher costs to pursue legal action in the case referred to in the point above for € 152,000;
- Higher income from the valuation of non-financial investments for the revaluation of the interest previously held in EDMA Retiga Gas, following the acquisition of control, for € 5,305,000. Reference is made to the paragraph in the Notes relating to company acquisitions during the period;
- Provision for the relevant portion of expenses estimated to complete the *in bonis* liquidation of the subsidiary Sinergie Italiane S.r.l., for € 2.1 million.

The adjustments have a fiscal effect of € 477,000 (lower income taxes).

The adjustments almost entirely affected the Group's profit.

In the 2020 financial year, the following non-recurring elements are noted (with a total positive impact on the net result of € 45,686,000):

- Higher revenue 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" (€ 507,000);
- Recovery of tariff components referring to previous years in the natural gas distribution sector (€ 1,160,000);
- Lower operating costs from the redetermination of concession fees for the distribution of natural gas in previous years with the granting Municipalities (€ 636,000). 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 (€ 6,000,000);
- Write-downs of equity investment in Sei Toscana S.r.l., as detailed in the Notes under the comment on equity investments (€ 1,235,000);
- 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 Italian Law no. 126 of 13 October 2020 containing the "Conversion into law with amendments of Italian Decree Law no. 104 of 14 August 2020", as detailed in the Significant events of the year (€ 48,989,000);
- 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 (€ 860,000).

The adjustments have a fiscal effect of € 769,000 (lower income taxes).

The adjustments almost entirely affected 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, treatment and storage (environment) and corporate services performed by the parent company.

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 revenue, including revenue from sales and services and other revenue of each business area of the Estra Group for the financial years ended 31 December 2021 and 2020, with an indication of the significance, in percentage terms, compared to the Group's total consolidated revenue.

Total Adjusted Revenue (amounts in thousands of euro)	Year ended 31 December				Change in the period	
	2021	% of Total Adjusted Revenue	2020	% of Total Adjusted Revenue	2021 vs 2020	%
Gas and Electricity Sales	935,580	88%	669,348	88%	266,232	40%
Regulated Market	108,535	10%	106,418	14%	2,117	2%
Corporate and other business areas	87,664	8%	55,930	7%	31,734	57%
Adjustments and eliminations	(73,291)	(7%)	(71,014)	(9%)	(2,278)	3%
Total Adjusted Revenue	1,058,488	100%	760,683	100%	297,805	39%

At 31 December 2021, the Group had achieved revenue of € 1,058.5 million, increasing by 39% compared to 31 December 2020. The Gas and Electricity Sales SBU recorded an increase in revenue for € 266.2 million mainly as a result of the following factors:

- i) increase in commodity prices,
- ii) higher volumes sold in the electricity segment,
- iii) increased sales of natural gas to the PSV.

Revenue from the Regulated Market SBU increased (€ +2.1 million) due to additional investments in networks, plants and metering installations, which was partially offset by the decreased revenue from the trading in energy efficiency certificates due to the lower numbers of securities acquired.

Significant growth was recorded in the revenue of the Corporate and Other SBU (€ +31.7 million), especially due to the development of the energy efficiency segment, as well as the introduction of tax incentives for project contractors. Revenue in the environment segment also increased with the acquisition and consequent consolidation of Ecos Srl as from 1 January 2021, and the digital segment (telecommunications).

External costs went from € 614.2 million to € 908.3 million (+48%), accounting for 86% of revenue (81% in 2021). The increase in external costs is related to the increased revenue across the Group's business units. The price effect in the Gas and Electricity Sales segment resulted in increased external costs at levels that were substantially similar to the increase in revenue, with a consequent increase in percentage terms of the external costs in relation to total revenue compared to 2020.

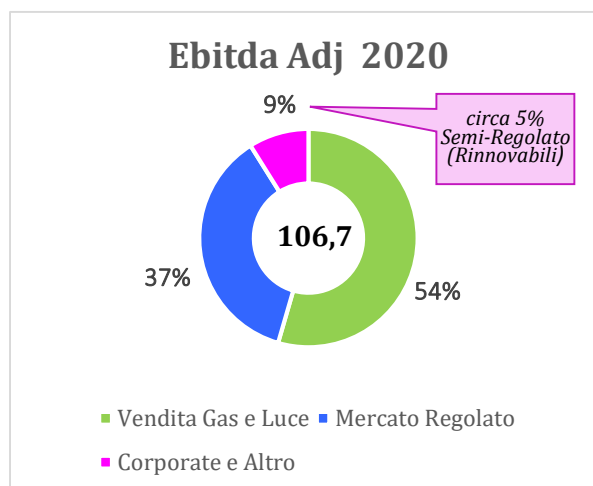
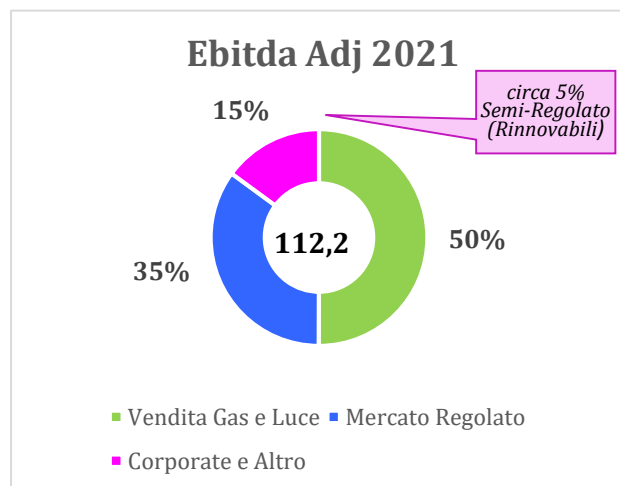
The cost of labour totalled € 41.8 million compared to € 39.2 in 2020, marking a change of 6.7%. The increase is attributable to the higher numbers of staff resulting from the acquisition of Ecos, and increased remuneration required by national Collective Labour Agreements (CCNL).

Commodity risk management recorded income for € 2.9 million compared to the expenses for € 1.2 million in 2020, reflecting the change in the fair value on derivative contracts used in the gas sales business.

Income from the measurement of non-financial nature equity investments, € 945,000 in 2021 (€ 671,000 in 2020) related to the year result for the company Edma Reti Gas Srl.

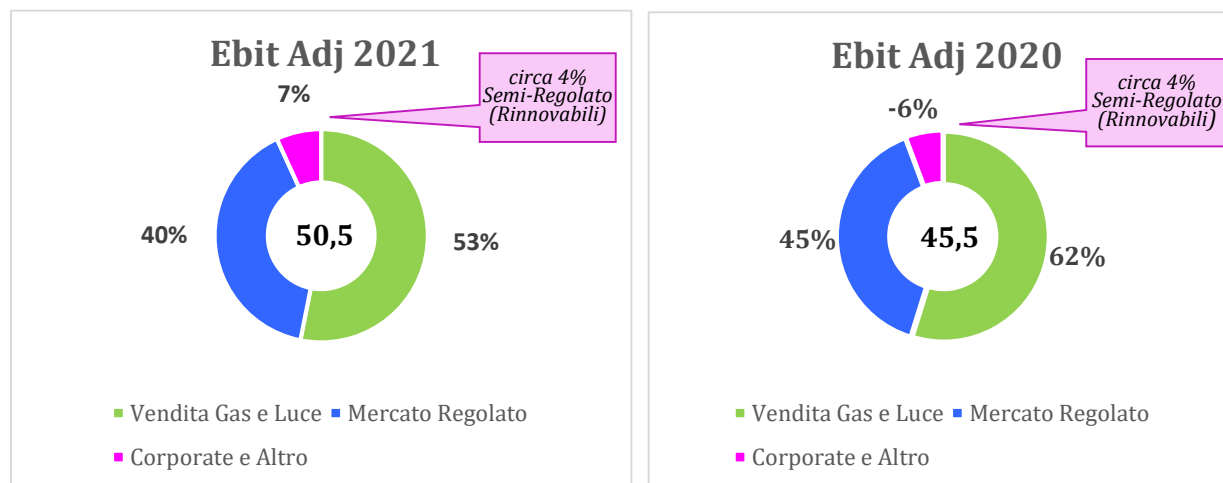
Adjusted EBITDA was € 112.2 million, with an increase of € 5.4 million (+5.1%) compared to the € 106.7 million in 2020. The proportion of revenue went from 14.0% in 2020 to 10.6% in 2021 due to the significant increase in revenue resulting from higher commodity prices.

Details are provided below on the breakdown of EBITDA among the various SBUs for years ended 31 December 2021 and 2020, which shows a lower percentage incidence on Adjusted EBITDA for the Gas and Electricity Sales SBU, which went from 54% to 50% and the Regulated Market SBU, which went from 37% to 35%. Corporate and Other SBU results grew by 15% of the Group EBITDA (9% in 2020) due to improved results in the energy efficiency segment.



Amortisation/depreciation and write-downs amounted to € 49.0 million (€ 48.0 million at 31 December 2020). Of note, higher amortisations for the Corporate and Other SBU from the consolidation of Ecos and new investment in the FTTH network in the digital services segment. Provisions decreased from € 13.2 to € 12.6 million and are mainly attributable to the Sales SBU.

As a result of the increased gross operating margin, the adjusted operating profit went up from € 45.5 million in 2020 to € 50.5 million in 2021 with a positive change of € 5.0 million (+11%).



Adjusted financial management presented a negative balance of € 8.2 million improving on the € 8.4 million in 2020, due to the reduced average debt recorded during the period ended 31 December 2020.

The adjusted profit before taxes was at € 42.3 million (€ 37.1 million in 2020).

Income taxes amounted to € 13.7 million with a tax rate of 32.5%, down compared to the 33.6% in 2020.

Adjusted net profit was € 28.6 million (€ 24.6 million in 2020).

8. BUSINESS PERFORMANCE - STATEMENT OF FINANCIAL POSITION

The main financial position data at 31 December 2021 and 2020 are provided below.

8.1 2021 FINANCIAL MEASURES COMPARED WITH 2020

Reclassified Balance Sheet (amounts in thousands of euro)	Year ended 31 December 2021		Year ended 31 December 2020		Change Dec 2021 - Dec 2020	
	Amount	Proportion	Amount	Proportion	Absolute	%
Intangible fixed assets	527,889	80.82%	480,512	70.28%	47,377	9.86%
Property, plant and equipment	108,524	16.62%	105,341	15.41%	3,183	3.02%
Equity investments and non-current financial assets	34,000	5.21%	39,777	5.82%	(5,777)	(14.52%)
Fixed assets	670,413	102.64%	625,630	91.50%	44,783	7.16%
Other non-current assets and liabilities	(12,451)	(1.91%)	(3,865)	(0.57%)	(8,586)	222.15%
Net working sales capital	39,398	6.03%	81,988	11.99%	(42,590)	(51.95%)
Other current assets and liabilities	(44,224)	(6.77%)	(19,997)	(2.92%)	(24,227)	121.15%
Assets and Liabilities held for sale	11	-	-	-	11	-
Net Invested Capital	653,147	100.00%	683,756	100.00%	(30,609)	(4.48%)
Shareholders' Equity	413,025	63.24%	392,376	57.39%	20,649	5.26%
Net current financial debt	62,720	9.60%	(37,481)	(5.48%)	100,201	(267.34%)
Non-current financial debt	177,402	27.16%	328,861	48.10%	(151,459)	(46.06%)
Total Financial Debt	240,122	36.76%	291,380	42.61%	(51,258)	(17.59%)
Total sources of financing	653,147	100.00%	683,756	100.00%	(30,609)	(4.48%)

With reference to the financial year ended 31 December 2021, fixed assets went from € 625.6 million at 31 December 2020 to € 670.4 million at 31 December 2021, due to the amortisations/depreciations in the period and investments in tangible fixed assets, intangible assets and equity investments for € 58.8 million, as detailed below:

Investments per operating sector	2021	2020	Changes	Changes %
Regulated Market	27,200	22,204	4,996	22%
Gas and Electricity Sales	7,283	12,294	(5,011)	(41%)
Corporate and Others	24,333	12,446	11,887	96%
Total investments	58,816	46,944	11,872	25%

There was an increase in investments in 2021 over 2020 (+25%) due to the resumption of production activities compared to 2020 when many activities were suspended as a result of the COVID-19 emergency. Investments in the Regulated Market mainly referred to extending the networks and replacing the traditional meters with electronic meters in the gas distribution operations.

Investments in the Gas and Electricity Sales segment mainly referred to the costs to acquire gas and electricity customers. Investment in the Corporate and Others sector referred to the costs for implementing the FTTH networks in the digital segment and the corporate transactions in the environmental segment relating to Ecos and Bisenzio Ambiente as described in the significant events of the period.

The increase in fixed assets is also due to the full consolidation of Edma Reti Gas following the acquisition of control over the subsidiary, with a net change in fixed assets of € 33.3 million.

Non-current liabilities rose due to the consolidation of Edma Reti, and the increase in long-term deferred income from the IRU rentals for the FTTH network in the digital sector (telecommunications).

There was a significant decrease in commercial working capital, which went from € 82.0 to € 39.4 million. This change is attributable to the increase in trade receivables (+ € 171 million compared to 31 December 2021) and the concurrent change in payables to suppliers (+ € 210 million compared to 31 December 2020), which were impacted by the notable increase in commodity prices during the last quarter of 2021.

Commercial working capital was positively affected by the different gas allocation methods recently introduced by the national distributor and improvements to collection times from domestic customers.

Net inventories were down (- € 4.3 million), especially due to the lower inventories of stored gas. There was an increase instead in other current liabilities, due to the higher payables for dividends in respect of shareholders and the increase in payables for excise duties, especially in the electricity segment, related to increased sales against the payment of excise duty advances paid on the basis of the previous year's turnover.

Net invested capital amounted to € 650.6 million, decreasing by 4.9% compared to 31 December 2020.

Shareholders' equity at 31 December 2021 amounted to € 410.4 million (€ 392.4 million at 31 December 2020). The changes that occurred in the year are attributable to the net profit for the period, the distribution of dividends and the consolidation of Edma Reti Gas. Shareholders' equity represented 63.1% of the financing sources, compared to the 57.4% for the year ended 31 December 2020.

The increase in the cash flows from operations resulted in a significant reduction in net financial debt that went from € 291.4 million in 2020 to € 240.1 million at 31 December 2021, with the percentage on capital raised coming down from 42.6% at 31 December 2020 to 36.9% at 31 December 2021.

8.2 FINANCIAL STRUCTURE 2021 COMPARED WITH 2020

On 4 March 2021, the European Securities and Markets Authority (ESMA) published the Guidelines on disclosure obligations pursuant to Regulation EU 2017/1129 (so-called "Prospectus Regulation").

In its "Warning Notice" no. 5/21" of 29 April 2021, CONSOB stated its intention to ensure its supervisory practices on net financial positions complied the aforementioned ESMA Guidelines. More specifically, CONSOB states that the prospectuses it had approved, as from 5 May 2021, needed to comply with the aforementioned ESMA Guidelines.

Therefore based on the new provisions, as from 5 May 2021, listed issuers needed to present a new prospectus in the Notes to annual and interim financial statements, regarding debt, which was to be drawn up according to the specifications in paragraphs 175 and following of the aforementioned ESMA Guidelines.

In this respect, the ESMA Guidelines include the following main amendments to the debt prospectus:

- reference is no longer made to the "Net financial position", but to "Total financial debt";
- in the scope of non-current financial debt, trade payables and other non-current debt must be included, i.e. non-remunerated debt, which presents a significant component of implicit or explicit financing;

c. in the scope of current financial debt, the current portion of non-current financial debt must be specified.

The application of the ESMA Guidelines and adoption of the new definition of "Total Financial Debt" have not affected the Group's net financial position at 31 December 2021 and 2020.

The composition of net financial debt at 31 December 2021 and 2020 is shown below. This derives from the consolidated financial statements for the years ended on the same dates:

Net financial debt (amounts in thousands of euro)		2021.12	2020.12
A.	Cash and cash equivalents	143,107	160,249
B.	Cash equivalents		
C.	Other current financial assets	36,257	13,546
	- <i>current derivative financial instruments</i>	26,827	13,449
	- <i>Receivables from banks</i>	9,430	97
D.	Cash and cash equivalents (A) + (B) + (C)	179,365	173,795
E.	Current financial payables (including debt instruments, but excluding the current portion of non-current financial debt)	235,939	130,455
	- <i>current financial debt</i>	34,891	32,509
	- <i>current derivative financial instruments</i>	33,876	10,021
	- <i>bank debts</i>	70,304	87,925
	- <i>bonds issued</i>	96,868	-
F.	Current portion of non-current financial debt	6,145	5,859
	- <i>payables to other lenders for financial leases</i>	363	352
	- <i>payables to other lenders for operating leases</i>	4,347	4,072
	- <i>payables to shareholders for loans</i>	1,435	1,435
G.	Current financial debt (E) + (F)	242,085	136,314
H.	Net current financial debt (G) - (D)	62,720	(37,481)
I.	Non-current financial debt (excluding the current portion and debt instruments)	21,236	21,891
	- <i>payables to other lenders for financial leases</i>	4,038	4,401
	- <i>payables to other lenders for operating leases</i>	11,829	10,685
	- <i>payables to shareholders for loans</i>	5,370	6,805
J.	Debt instruments	156,166	306,970
	Non-current bank debts	106,649	161,134
	Bonds issued	49,516	145,835
K.	Trade payables and other non-current debt	-	-
L.	Non-current financial debt (I) + (J) + (K)	177,402	328,861
O.	Total financial debt (H) + (L)	240,122	291,380

At 31 December 2021, net financial debt was € 240.1 million, improving on the € 51.3 million at 31 December 2020, mainly due to the higher cash flows generated and the changes in net working capital.

The main change refers to the decrease in non-current financial debt due to the repayment of loans in the period for € 77.2 million (net of new loans for € 12 million) and the reclassification of current financial debt for the outstanding bond loan for a nominal amount of € 97.2 million and an amortised cost value of € 96.8 million.

8.3 MAIN FINANCIAL MEASURES 2021 AND 2020

The main financial measures are presented below on the basis of the consolidated financial statements at 31 December 2021 and 2020:

Consolidated financial measures	Year ended 31 December	
	2021	2020
Solvency ratio (total non-current assets / total assets)	53.6%	59.4%
Elasticity ratio (total current assets / total assets)	46.4%	40.6%
Availability ratio (total non-current assets / total current assets)	115.4%	146.4%
Net Financial Debt /Equity Ratio - (Leverage)	0.6	0.7
Net Financial Debt /Adjusted EBITDA Ratio	2.1	2.7
Short-term Financial Debt Ratio/Net financial debt	0.3	(0.1)
Long-term Financial Debt Ratio/Net financial debt	0.7	1.1

The main economic measures are presented below on the basis of the adjusted results of the consolidated financial statements at 31 December 2021 and 2020:

Economic measures	Year ended 31 December	
	2021	2020
EBITDA margin (Adjusted EBITDA/Revenue)	10.6%	14.0%
ROE (Adjusted net profit/Shareholders' equity)	6.9%	6.3%
ROI (Adjusted EBIT/Net invested capital)	9.3%	6.7%

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

Below are the adjusted income statements for the strategic business units for the financial years ended 31 December 2021 and 2020:

2021 operating segments (amounts in thousands of euro)	Regulated Market	Gas and Electricity Sales	Corporate and Others	Adjustments and eliminations	Total
Total Revenue	108,535	935,580	87,664	(73,291)	1,058,488
External costs	(54,804)	(870,671)	(56,155)	71,117	(910,512)
Personnel costs	(15,406)	(11,692)	(14,758)	2,175	(39,681)
Income/(expenses) from commodity risk management	-	2,915	-	-	2,915
Portion of profit/(loss) from non-financial associates and joint ventures	945	-	-	-	945
Gross operating margin (EBITDA)	39,271	56,132	16,752	-	112,155
Amortisation/ depreciation	(18,951)	(17,252)	(12,805)	-	(49,007)
Provisions	(100)	(12,046)	(500)	-	(12,646)
Operating Income (EBIT)	20,220	26,834	3,447	-	50,502

2020 business segments (amounts in thousands of euro)	Regulated Market	Gas and Electricity Sales	Corporate and Others	Adjustments and eliminations	Total
Total Revenue	106,418	669,348	55,930	(71,014)	760,683
External costs	(53,317)	(598,759)	(33,130)	71,014	(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
Gross operating margin (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 Income (EBIT)	20,270	28,130	(2,921)	-	45,479

9.1 REGULATED MARKET

The table below presents the main economic data related to the Estra Group's activity of distribution of natural gas for the financial years ended 31 December 2021 and 2020.

Regulated Market	Year ended 31 December				Change in the period	
Income statement of the operating segment (amounts in thousands of euro)	2021	% of Total Revenue	2020	% of Total Revenue	2021 vs 2020	%
Total Revenue	108,535	100%	106,418	100%	2,117	2%
External costs	(54,804)	(50%)	(53,317)	(50%)	(1,487)	3%
Personnel costs	(15,406)	(14%)	(14,714)	(14%)	(692)	5%
income/(expenses) from equity investments of a non-financial nature	945	1%	671	1%	275	41%
Gross operating margin (EBITDA)	39,271	36%	39,058	37%	213	1%
Amortisation/depreciation and write-downs	(18,951)	(17%)	(18,508)	(17%)	(442)	2%
Provisions	(100)	-	(280)	-	180	(64%)
Operating Income (EBIT)	20,220	19%	20,270	17%	(50)	-

Performance in 2021 compared to 2020

At 31 December 2021, the Regulated Market SBU showed revenue from gas distribution tariffs (VRT) of € 66.2 million, which were essentially in line with the € 66.6 million in 2020. The investments realised in recent years and growth in managed PoD, made it possible to keep the restriction on gas distribution revenue stable.

Revenue from the distribution and sale of LPG went up from € 2.7 to 3.1 million.

Capitalised costs relating to work on networks, plants and meter installations grew from € 21.1 million to € 25.4 million, with related increases in external operating costs. Revenue for trading in energy efficiency certificates amounted to € 5.5 million compared to € 7.1 million in 2020 with a corresponding reduction in purchase costs. Other revenue and income came down slightly (from € 8.8 million to € 8.2 million): higher revenue from ancillary services to customers in 2021, due to activities resuming after the COVID-19 lockdown in 2020, were, more than offset by the negative changes on tariff adjustments between the period ended 31 December 2021 and the corresponding period in 2020.

EBITDA amounted to € 39.3 million, slightly up compared to € 39.1 in 2020.

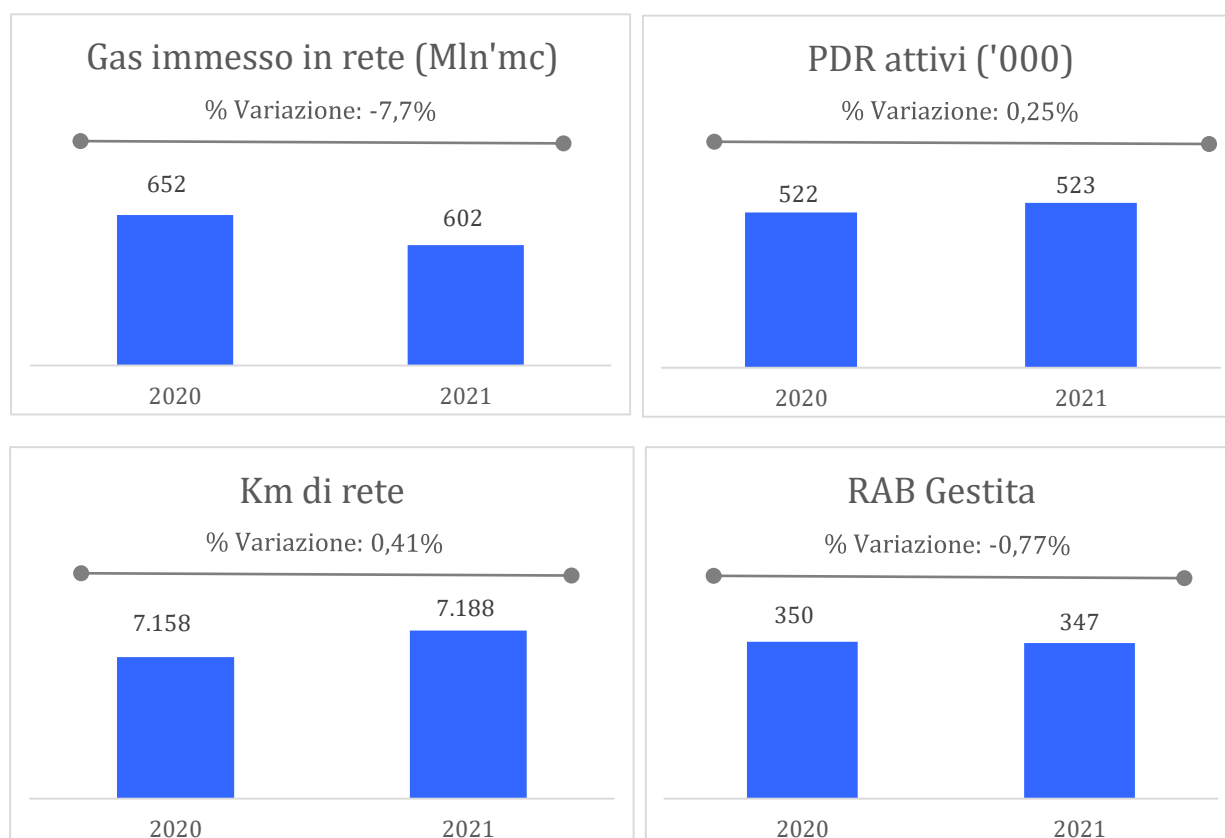
Amortisation/depreciation amounted to € 19.0 million (€ 18.6 in 2020). EBIT was € 20.2 million (€ 20.3 million in 2020).

The increase in the main operating indicators related to active PoDs and extended Gas Distribution service thanks to the new investments made.

Of note, there are 5,000 LPG customers serviced by around 140 kilometres of channel networks.

Investments realised on networks, plants in the meter segment relating to the replacement of traditional meters with electronic meters kept the Regulatory Asset Base (RAB) essentially stable. This indicator determines the net invested capital: for the purposes of Arera determining tariffs.

The RAB managed in 2021 by the fully consolidated companies (Centria, Murgia and Gergas), was € 347.4 million (€ 350.1 million in 2020).

**9.2 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 2021 and 2020.

Gas and Electricity Sales	Year ended 31 December				Change in the period	
Income statement of the operating segment (amounts in thousands of euro)	2021	% of Total Revenue	2020	% of Total Revenue	2021 vs 2020	%
Total Revenue	935,580	100%	669,348	100%	266,232	40%
External costs	(870,671)	(93%)	(598,759)	(89%)	(271,911)	45%
Personnel costs	(11,692)	(1%)	(11,228)	(2%)	(464)	4%
Income/(expenses) from commodity risk management	2,915	-	(1,205)	-	4,120	>100%
Gross operating margin (EBITDA)	56,132	6%	58,156	9%	(2,024)	(3%)
Amortisation/depreciation and write-downs	(17,252)	(2%)	(17,243)	(3%)	(9)	-
Provisions	(12,046)	(1%)	(12,783)	(2%)	737	(6%)
Operating Income (EBIT)	26,834	3%	28,130	4%	(1,296)	(5%)

The revenue from the Gas and Electricity Sales segment recorded an increase of € 266.2 million compared to 2020 mainly as a result of:

- the increase in natural gas revenue from the notable increase in tariffs, with volumes stable compared to 2020 (€+ 139.5 million);
- the increase in electricity revenue due to higher volumes sold to retail customers, and especially the increase in sales tariffs (€ 95.6 million);
- the increase in sales on the PSV and for balancing operations in the gas segment with revenue that went from € 6.4 million in 2020 to € 51.3 million in 2021;
- the decrease in pass-through components of gas distribution and electricity transport and dispatching for € 14.2 million;
- the slight increase in ancillary revenue in respect of customers for approximately € 0.5 million.

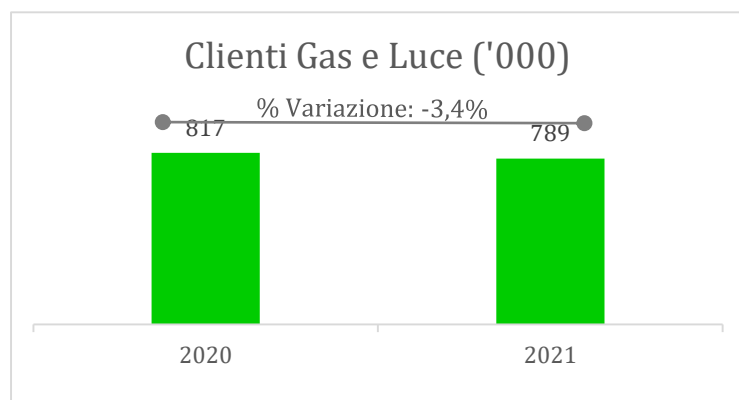
Gas segment revenue represents 76% of the SBU's revenues (78% in 2020).

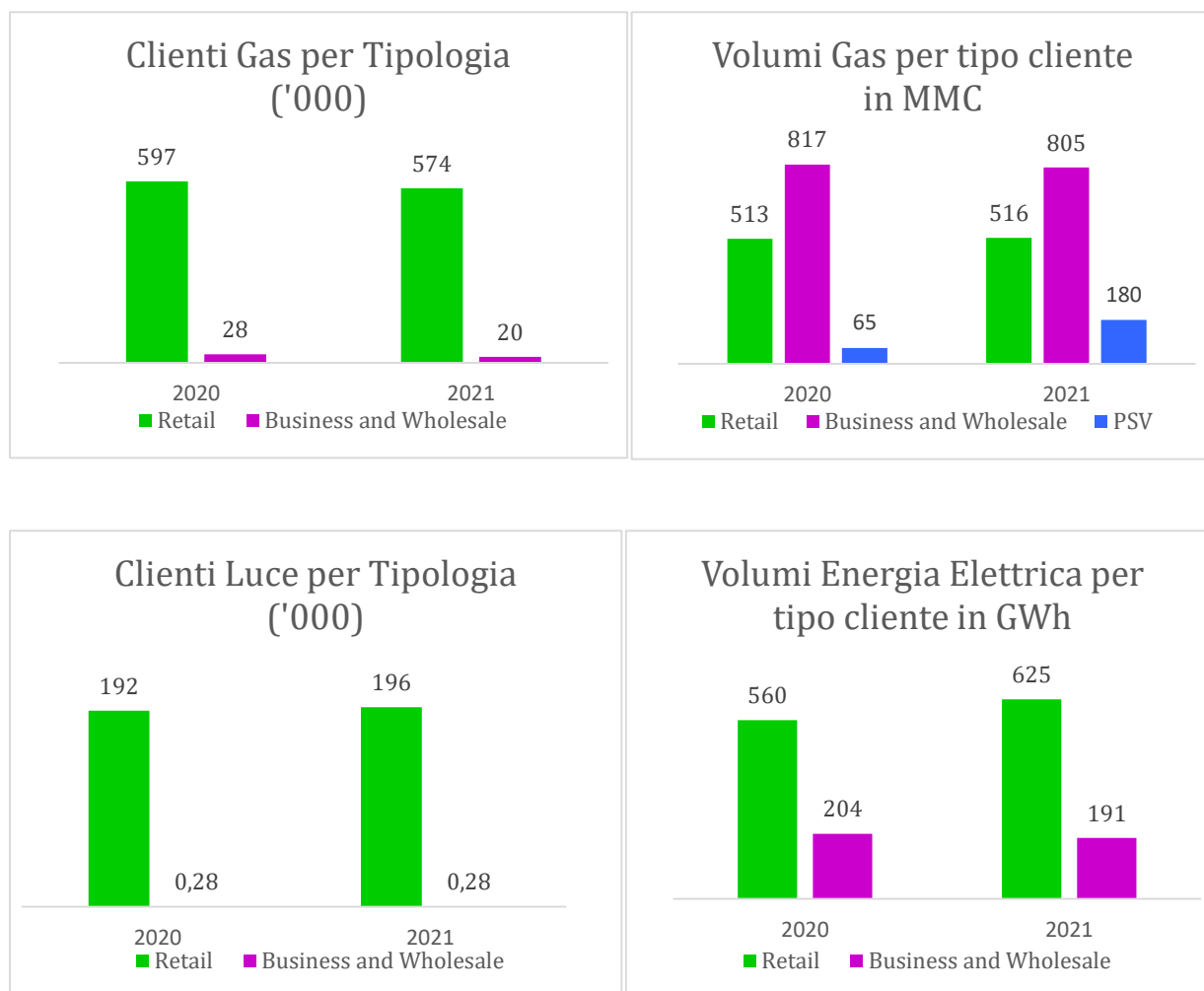
The EBITDA of the Gas and Electricity Sales SBU was € 56.1 million, down against the € 58.6 million in 2020 and represented 50% of consolidated EBITDA (54% in 2020). The decrease is attributable to the trends recorded in the last quarter in the gas market, where totally extraordinary price increases were recorded, which generated pressure along the entire supply chain, with consequences also for the counterparties with whom the Group operates. The reduction in gas margins was partially offset by the increase in the electricity margin.

Amortisation and write-downs amounted to € 17.3 million, and were stable on the previous year's figures.

Provisions came down slightly, going from € 12.8 million to € 12.0 million. Ebit was € 26.8 million (€ 28.1 in 2020).

At 31 December 2021, there were 789,000 less gas and electricity customers compared to the figure at 31 December 2020.





9.3 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 2021 and 2020.

Corporate and Others	Year ended 31 December				Change in the period	
Income statement of the operating segment (amounts in thousands of euro)	2021	% of Total Revenue	2020	% of Total Revenue	2021 vs 2020	%
Total Revenue	87,664	100%	55,930	100%	31,734	57%
External costs	(56,155)	(64%)	(33,130)	(59%)	(23,024)	69%
Personnel costs	(14,758)	(17%)	(13,288)	(24%)	(1,470)	11%
Gross operating margin (EBITDA)	16,752	19%	9,512	17%	7,240	76%
Amortisation/depreciation and write-downs	(12,805)	(15%)	(12,272)	(22%)	(532)	4%
Provisions	(500)	(1%)	(161)	-	(339)	>100%
Operating Income (EBIT)	3,447	4%	(2,921)	(5%)	6,369	>100%

The significant increase in revenue (+57% compared to 31 December 2020) is mainly attributable to the energy efficiency activities, which were strongly developed during 2021, also thanks to the tax benefits for contractors carrying out thermal insulation work on buildings (increase of € 23.9 million).

Revenue in the digital segment also increase by € 0.9 million.

The consolidation of Ecos resulted in a similar increase in the environmental segment (€ 5.8 million).

There was also increased Parent Company revenue from more activities carried out in respect of Group companies (€ +1.1 million).

At 31 December 2021, EBITDA for the Corporate and Others SBU was at € 16.8 million compared to € 9.5 million in 2020. The change referred mainly to higher margins in the energy efficiency segment, which was partially offset by the lower results in the environmental segment.
The EBITDA of the Corporate and other activities SBU accounted for 15% of the Group's EBITDA (9% at 31 December 2020).

Amortisations increased, going from € 12.3 million to € 12.8 million, mainly as a result of the extended activities in the environmental segment.

EBIT was € 3.4 million compared to the negative € 2.9 million in 2020.

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").

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.

(thousands of euro)	Financial year 2021	
	Group profit for the year	Total shareholders' equity
Shareholders' equity and profit for the year as shown in the holding company's financial statements	17,725	416,844
Income and elimination of book value of fully consolidated companies	42,480	86,938
Reversal of write-downs of equity investments	-	1,617
Elimination of effects on intercompany capital gains	4,171	(113,623)
Consolidation Accounts, Equity Method	436	2,772
Other	(9)	(154)
Depreciation/amortisation of consolidation differences	(6,211)	(30,943)
Elimination of effects of intercompany mergers	2,301	9,771
Elimination of intercompany dividends	(28,169)	(1,933)
Group profit for the year and shareholders' equity as shown in the consolidated financial statements	32,725	371,290
Profit and shareholders' equity attributable to minority interests	214	41,736
Profit for the year and shareholders' equity as shown in the consolidated financial statements	32,939	413,025

12. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

In addition to the completion of the acquisition of Bisenzio Ambiente S.r.l. as detailed in paragraph "3.3 Investment agreement for the acquisition of Bisenzio Ambiente S.r.l.", we note the following significant events after the reporting date.

12.1 BOND ISSUE

Despite the current complex energy and financial markets, aggravated by the conflict between Russia and Ukraine, on 14/04/2022, E.s.tr.a S.p.A. successfully issued an unsecured and non-convertible bond loan for

€ 80 million, represented by bonds listed on the regulated market managed by the Irish Stock Exchange, where the relative prospectus has been filed.

The loan is guaranteed by the subsidiary Centria S.r.l., entirely subscribed by institutional investors outside of the United States of America. Bonds, issued at a price of 98.509% of nominal value, are unrated, have a duration of 5 years and a fixed coupon of 3.050%. At the same time as the new issue, Estra S.p.A. partially bought back € 30 million of the bond loan of € 50 million outstanding at 31 December 2021, falling due in November 2023 at a price of 100.53% of the nominal value.

The issue aims to partially refinance existing debt, as well as support the Group's investment plan, in the scope of the diversification strategy and extending the funding sources already successfully undertaken by the Company with its own first international bond issue in 2015.

12.2 CONFLICT BETWEEN RUSSIA AND UKRAINE

In February 2022, relations between Russia and Ukraine deteriorated to the point of erupting in armed conflict. Following the launch of the Russian invasion into Ukraine on 24 February 2022, the United States, European Union and many other countries issued sanctions and controls on exports to Russia and Belarus.

In addition, at the beginning of March 2022, the United States introduced a ban on Russian imports of oil and other energy products from Russia, whereas the United Kingdom announced that it would gradually eliminate imports of Russian oil and oil products by the end of 2022.

These events have already had a significant impact on the European and global economies, including greater market volatility and significant increases in the prices of electricity, natural gas and raw materials. Nonetheless, the invasion of Ukraine could result in further negative consequences for the European and global economies, such as those resulting from additional sanctions, controls on exports and embargoes, increased regional instability, geo-politic shifts and other negative effects on macro-economic conditions, exchange rates, supply chains (including the supply of oil, natural gas and other raw materials from Russia and Ukraine) and on financial markets.

These consequences, which are currently unpredictable, render the possible medium and long-term effects on the Group's business plan difficult to calculate, as these are entirely dependant on the duration and development of the conflict.

The most significant effects felt up to now by the Group are the extended volatility and higher levels of natural gas and electricity prices that had already started climbing at the end of 2021 before the conflict began, impacting on the absorption of cash generated by net working capital from sales of natural gas and electricity, which are physiologically impacted by the misalignment in the time frame between collections from customers and payments to suppliers. In order to respond to the sudden and extraordinary price increases, which are presumed to continue until the end of 2022, the Group promptly intervened by obtaining increased bank loans, as detailed in the paragraph "Objectives and criteria for financial risk management".

It is noted that the Group does not have direct relations with Russian suppliers, and in particular, with no Russian producers of natural gas, so that any unavailability in terms of gas supplies coming from Russia either resulting from sanctions imposed by the European Union or restrictions on the part of Russia, would inevitably have indirect repercussions on the Group due to the broader systemic effect.

Directors are very carefully monitoring the situation, in consideration of the potential negative impact that this could have on the general economic context, and where possible, identifying risk mitigation measures.

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, as well as developments in the conflict between Russia and Ukraine.

14. INDUSTRY REGULATIONS

The following is a summary of the highlights of legislative changes in 2021 in relation to the various areas of Estra Group business.

Transversal issues

COVID-19 Emergency

A number of extraordinary measures were adopted to counter the COVID-19 emergency in 2021, aimed at preventing and limiting the extent and effects on the economic system. This refers to urgent measures aimed at supporting households, workers and businesses. The main measures adopted, relating to issues of interest to the Estra Group, are included in the various sections of the report; the main measures that these refer to are outlined below.

"DECRETO SOSTEGNI" (SUPPORT DECREE) (ITALIAN LAW No. 69 OF 21 MAY 2021 - ITALIAN DECREE LAW No. 41 OF 22 MARCH 2021)

Contains urgent measures in support of businesses and economic operators, referring to work, health and territorial services, related to the COVID-19 emergency. It introduces measures suspending tax requirements and payments, provisions on wage supplements, measures to support vulnerable workers; provides a non-repayable grant to economic operators, extending the scope of assistance measures to businesses, introducing measures to reduce electricity bill payments and special tariffs for RAI subscriptions.

"DECRETO RIAPERTURE" (REOPENING DECREE) (ITALIAN LAW No. 87 CONVERTING ITALIAN DECREE LAW No. 52 OF 22 APRIL 2021)

Urgent measures for the gradual resumption of economic and social activity whilst adhering to the requirements to contain the spread of the COVID-19 epidemic. Based on scientific data on the health context and progress in the vaccination campaign, the Decree Law stipulates that activities that are already subject to restrictions must be carried out in compliance with the protocols and guidelines adopted by the Authorities. The measure also introduces "Green COVID-19 Certificates" in Italy.

ITALIAN INTERMINISTERIAL DECREE MOBILITY MANAGER OF 22 MAY 2021

The Decree, approved by the Italian Ministry of Ecological Transition and the Italian Ministry of Infrastructure and Sustainable Mobility, requires that companies with single premises with more than 100 employees and should specific geographic criteria apply, adopt a home-work commuting plan for their employees by 31 December of each year, aimed at reducing private means of transport. Companies also need to nominate a Mobility Manager who is responsible for planning, scheduling and managing sustainable mobility solutions.

"DECRETO SOSTEGNI BIS" (SUPPORT DECREE) (ITALIAN LAW No. 106 OF 23 JULY 2021 - ITALIAN DECREE LAW No. 73 OF 25 MAY 2021)

Urgent measures related to the health emergency referring to businesses, work, youth, health and territorial services. Introduces new non-repayable grants to support economic operators affected by the emergency, extends the reduced electricity bill payments, contains measures to support business liquidity and refinance the Fund supporting larger companies etc.

"DECRETO SEMPLIFICAZIONI" (SIMPLIFICATION DECREE) (ITALIAN LAW No. 108/2021 - ITALIAN DECREE LAW No. 77 OF 31 MAY 2021)

The Decree provided considerable streamlining in the procedures and timing for implementing interventions, promoting the acceleration of bureaucratic formalities, support to technological innovation and the ecological and digital transition as well as releasing the Superbonus 110%.

DRAFT LAW FOR THE MARKET AND COMPETITION 2021 – (DRAFT DECREE LAW NO. 2469 OF 4 NOVEMBER 2021)

The draft law proposes promoting competition to facilitate access to markets by smaller sized companies, remove the barriers to accessing markets by simplifying regulatory and administrative practices and protecting consumers. The areas of interest involved in the draft law include waste management services, natural gas distribution concession services, Electric Mobility and Telecommunications.

For more details on the Draft Decree Law, reference is made to the section “Natural gas distribution”.

“EXTENSION OF THE NATIONAL STATE OF EMERGENCY AND ADDITIONAL MEASURES TO CONTAIN THE SPREAD OF THE COVID-19 EPIDEMIC” (ITALIAN DECREE LAW No. 221 OF 24 DECEMBER 2021)

The state of emergency was extended until 31 March 2022, in consideration of epidemiology developments; measures to counter possible contagions were also strengthened. Measures were also introduced extending the obligation to present a “Green Pass”, and implementation of a strategic vaccination plan.

“DECRETO TAGLIA BOLLETTE” (CUT TO BILLS DECREE) (ITALIAN LAW No. 171 OF 25 NOVEMBER 2021 – ITALIAN DECREE LAW No. 130 OF 27 SEPTEMBER 2021)

Introduces urgent measures to contain the effects of increased prices in the electricity and natural gas sector. The Decree Law proposes reducing the impact of increased energy costs recorded in the second part of 2021 on consumers' bills, with specific reference to the fourth quarter of 2021.

REGULATION NO. 2021/241/EU OF 12 FEBRUARY 2021

The Regulation establishes the Provision for Recovery and Resilience, the main tool for intervention relating to the Next Generation EU, the plan approved at European level to assist in repairing post-COVID-19 economic and social damage. The plan is subdivided into six pillars: green transition; digital transformation; economic cohesion, productivity and competitiveness; social and territorial cohesion; health, economic, social and institutional resilience; next generation policies. It requires that every Member States allocates at least 37% of its expenditure to the investments and reforms planned in the NRRPs so as to achieve the climate targets and at least 20% to the digital transition.

On **22 June 2021**, the European Commission published the Council's proposal regarding its execution decision, endorsing the Italian NRRP. The proposal was accompanied by a detailed analysis of the Plan.

On **13 July 2021**, the NRRP for Italy was definitively approved with an executive Council Decision, which incorporated the European Commission proposal.

(ITALIAN LAW No. 233 OF 29 DECEMBER 2021 – ITALIAN DECREE LAW No. 152 OF 6 NOVEMBER 2021)

“Urgent provisions for the implementation of Italy's National Recovery and Resilience Plan (NRRP) and the prevention of Mafia infiltrations”.

The Decree reiterates the need to simplify procedures and comply with the time frames in the Italian NRRP. In this regard, it orders the simplification of procedures on railway investments, improving the efficiency of management, auditing and expenditure review processes, support to tourist businesses, acceleration of the energy transition towards the establishment of a rotating fund, and simplification and strengthening of the digital transition goals.

ITALIAN LEGISLATIVE DECREE 199 OF 8/11/2021 – IMPLEMENTATION OF EUROPEAN DIRECTIVE ON PROMOTING THE USE OF ELECTRICITY FROM RENEWABLE SOURCES.

The Decree contains provisions regarding electricity from renewable sources, defining the tools, mechanisms and incentives, as well as the institutional, financial and legal framework needed to achieve the goals of using clean energy by 2030, in line with the European goals for the decarbonisation of the energy system by 2030. At the same time, besides promoting renewable energy sources, the Decree pursues coordination with the tools and measures envisaged in the Italian National Recovery and Resilience Plan.

The Decree's provisions are detailed in the regulatory section relating to “Energy and Energy Efficiency Services”, found below.

Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak - COM 2020/C 91 I/01

In the Commission Communication, Member States are authorised to provide aid to the economic fabric, in derogation of the ordinary rules on State aid. The Temporary Framework has been extended and supplemented on a number of occasions. The latest Communication on 18 November 2021 approved the sixth extension to the time frame until 30 June 2022, at the same time, defining a procedure for the gradual elimination of aid linked to the crisis in view of the recovery underway in the European economy.

EUROPEAN DELEGATION LAW 2019-2020 – ITALIAN LAW No. 53 of 22 April 2021

This refers to regulations intended to integrate national legislation or govern certain aspects of economic, social and health aspects in the life of Italian citizens: audiovisual media services, code for electronic communications, policies on the balance between professional activities and family life to reducing the use of plastic; it governs the promotion of clean low consumption vehicles to exercising copyrights and the excise duty regimen to value-added tax.

2022 BUDGET LAW (ITALIAN LAW NO. 234 of 30 DECEMBER 2021)

Tax and income support

- **Reform of IRPEF (personal income tax)**

The 2022 Budget Law intervenes on tax, reformulating the rates and brackets, reducing them from 5 to 4. It introduces new regulations on changes to deductions, introducing a discount of welfare contributions and suspending IRAP (Regional production tax) for individual companies. Tax rates for natural persons were specified as follows: 23% on incomes up to € 15,000; 25% for the bracket between € 15,000 and 28,000; 35% between € 28,000 and 50,000 and 43% on higher incomes. The € 100 bonus introduced by the Renzi Government remains for incomes up to € 15,000.

- **Superbonus**

The deadlines for work eligible for the 110% tax deduction have been reformulated. The Superbonus is extended until 31 December 2022 and in specific cases, the deadline is extended further. The measure applies to the installation of photovoltaic systems up to a total amount of € 48,000 in expenditure. For work carried out in municipalities affected by earthquakes occurring since 2009 where a state of emergency was declared, the deduction for tax incentives is extended at a rate of 110% until the 31 December 2025.

- **Energy efficiency and restoration of building assets**

Tax deductions are extended until 31 December 2024 for work on the energy redevelopment of buildings and building renovation, for the ordinary earthquake bonus and the 50% bonus on the purchase and installation of systems for winter heating. The 50% furniture bonus remains for the purchase of furniture and large domestic appliances in a category no lower than A+.

- **Containing increases in the price of electricity and gas**

A total of € 3.8 billion has been allocated to contain the effects of increases in electricity and natural gas prices for the first quarter of 2022. Of these, € 1.8 billion will be used to eliminate the system fees on electricity bills applied to households and micro-companies, and € 480 million to eliminate those in the gas sector. € 610 million is allocated to reduce VAT to 5% on natural gas for all users. € 912 million is allocated to assist domestic customers that are economically disadvantaged households or with health problems in the supply of electricity and gas.

Growth and support to businesses

- **4.0 transition plan**

To promote the ecological and environment transition of businesses, the 4.0 Transition Plan is extended for the period 2023-2025, with tax credits on capital goods purchased, and tax credits for innovation and design, whereas the tax credit for research and development is extended until 2031.

Support for public investments

- A fund is established for the sustainable mobility strategy with the aim of reducing emissions and achieving climate neutrality in the European Union by 2050; with an allocation of € 2 billion.
- € 3.7 billion has been allocated to the underground metro network.
- Funding for extraordinary maintenance work, rendering buildings secure, new constructions, increasing energy efficiency and internal cabling at schools - in metropolitan cities and provinces – for € 2.7 billion.
- Establishment of a Fund to implement the national programme controlling air pollution for € 2.3 billion.

Waste

The series of postponements continue for the introduction of Plastics Tax, tax on the consumption of single-use plastic and Sugar Tax, which will be applied to sweetened drinks.
The 2022 Budget Law postpones the entry into force of taxes to 2023.

Natural gas sales

RESOLUTION 14 January 2021 - 3/2021/R/GAS. Provisions on variance fees. The provision intervenes on the application methods governing penalties for variances due to drawdowns at distribution network points of delivery, which appear irregular.

RESOLUTION 02 March 2021 - 79/2021/R/GAS. Urgent provisions for the conferment of storage capacity for thermal year 2021/ 2022 and approval of the extension for the updating of the Stogit S.p.A. storage code.

In this provision, Arera approved a proposal to update the Storage Code submitted by the company Stogit aimed at incorporating certain changes related to managing the provision of storage based services. The provision also provides a mandate to the Director of the Wholesale Energy Markets and Environmental Sustainability to update the formulas for calculating the reserve prices and send them to storage companies.

RESOLUTION 30 MARCH 2021 - 133/2021/R/GAS. Determination of economic conditions for the natural gas protection service and the single variable CRVos fee, as from 1 October 2021 until 30 September 2022.

The resolution approves the amounts for the CCR components referred to under article 6bis of the TIVG and CRVos pursuant to article 36.1 of the RTTG for the next thermal year.

Electricity sales

RESOLUTION 21 January 2021- 14/2021/R/EEL. Deferral of the deadline for the publication of the tender regulation to award the incremental protection services to small enterprises in the electricity sector as per Law No. 124 of 4 August 2017 and amendments to Authority Resolution 491/2020/R/eel.

The strategic objective is the efficient functioning of retail markets and new forms of protecting smaller sized customers in the liberalised context.

RESOLUTION 26 January 2021- 28/2021/R/EEL. Adaptation of the regulation and awarding of the incremental protection services to small enterprises in the electricity sector as per Law No. 124 of 4 August 2017 and amendments to Authority Resolution 491/2020/R/eel.

The provision adapts the regulation for the awarding of the incremental protection service to Italian Ministerial Decree of 31 December 2020, referring to the application of a maximum area threshold, applicable to every tender applicant.

RESOLUTION 02 February 2021- 32/2021/R/EEL. Provisions relating to the mechanism for recognising the general system expenses not collected by end customers and already paid to distribution companies.

With the conclusion of the process complying with the administrative justice ruling, pursuant to the Resolution of 3 March, 109/2017/R.eel, the provision refers to the guidelines provided in consultation document 445/2020/R/eel. In establishing the "Mechanism for recognising the general system expenses not collected by end customers and already paid to distribution companies", the provision identifies applicable parties and outlines the conditions for accessing the Mechanism, the criteria for quantifying the general system expenses not collected, the criteria for recognising these, the operating procedures of the Mechanism, and the deadlines for submitting applications, and the settlement of the amounts by CSEA, distinguishing the first Mechanism session from subsequent sessions. Furthermore, the provision integrates the rules on guarantees in transport contracts, in relation to their size, with reference to general system expenses.

RESOLUTION 16 February 2021- 53/2021/R/EEL. Completion of the regulation of the incremental protection services to small enterprises in the electricity sector as per Law No. 124 of 4 August 2017 and amendments to Authority Resolution 491/2020/R/eel.

The provision completes the rules for the awarding of the incremental protection services, setting the amounts for the CSB, Ccom and CCM fees, and the methods for collecting the income covering the reintegration mechanism for defaulting customers that cannot be disconnected, and the amounts for the maximum ceiling and minimum limit within which the offers received under auction are accepted, including the percentage increase for the ceiling at the time of repair auctions.

RESOLUTION 29 March 2021– 124/2021/R/EEL. Urgent provisions on electricity tariffs, implementing Article 6 of Italian Decree Law No. 41 of 22 March 2021 and Cassa regulations for environmental energy services.

The provision implements the urgent Support Decree-Law provisions, with a temporary amendment to the tariff components covering the costs of electricity distribution and metering services and the components covering general system expenses applicable to users connected on low voltage, other than domestic users.

RESOLUTION 06 April 2021– 140/2021/R/EEL. Communication initiatives in accordance with the Decree of the Italian Minister of Economic Development of 31 December 2020 Free electricity market. Cognisant entry of end customers”.

Italian Ministry of Economic Development Italian Ministry of Ecological Transition communication project for the purposes of protection.

RESOLUTION 23 November 2021– 523/2021/R/EEL. Reform of the regulations on imbalances, implementing the European regulatory framework.

This provision implements the reform of the regulations on imbalances, implementing the European regulatory framework. The main changes refer to the extension, as from 1 April 2022, to the single pricing mechanism to calculate imbalances on all users, without distinction on the basis of their characteristics, and the introduction of additional fees for failure to respect dispatching orders for all qualified units.

RESOLUTION 09 December 2021– 570/2021/R/EEL. Reform of the regulations on imbalances, implementing the European regulatory framework.

The provision updates the procedures and time frames for: - calculating and updating the so-called allocation coefficients for drawdowns from points of delivery (hereinafter: CRPP) used to calculate the electricity contractually assigned to delivery points not handled on an hourly basis in the scope of the monthly settlement;- the contractual profiling, in the scope of monthly settlements, for drawdowns of electricity not handled on an hourly basis corresponding to public lighting systems.

Natural gas and electricity sales

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

RESOLUTION 2 March 2021 - 81/2021/R/COM. Extension of provisions relating to the urgent measures related to the COVID-19 epidemiological emergency on credit ratings and urgent amendments to the standard network code for the electricity transportation service on the subject of insurance sureties.

The provision integrates the rules on insurance guarantees in the Code for the standard network for the electricity transportation service, stipulating the issue of insurance sureties even if issued by insurance institutions, where the controlling company holds an appropriate rating; further, it extends the measures introduced with Resolution 248/2020/R/com aimed at managing rating guarantees in contracts for the transportation of electricity natural gas in cases where the downgrade is related to the COVID-19 emergency situation.

RESOLUTION 9 March 2021 - 97/2021/R/COM. Deferral of the entry into force of articles 13 and 14 of the Commercial Code of Conduct for the sale of electricity and natural gas to end customers approved in terms of Authority Resolution 426/2020/R/com.

In this resolution, Arera orders a three-month postponement until 1 October for the entry into force of the disclosure obligations to customers of the next deadline for temporary conditions and in commercial electricity and gas contracts and the relative penalties in the event of non-compliance, partly admitting the application received from the following associations Anigas, Elettricità Futura, Energia Libera and Utilitalia, who had requested a six-month extension.

RESOLUTION 27 May 2021 - 223/2021/R/COM. Methods for sending through to the Integrated Information System of the National Pension Fund managed by Acquirente unico S.p.A., the data needed for the process that automatically recognises social electric, gas and water bonuses due to economic hardship.

In this provision, the Authority governs the technical procedures whereby information based on Resolution 63/2021/R/com is made available by INPS to the IIS Manager, the relative safety measures required and the time frames based on which INPS sends IIS Managers the data relating to the certified DSU from 1 January to 30 April 2021. Furthermore, in this resolution, the Authority assumes the role of Controller of the personal data relating to the process of automatically recognising social bonuses for the reasons and within the limits set out in the motivation.

RESOLUTION 08 JUNE 2021 - 242/2021/R/COM. Resolution amending the rules on Bill 2.0: initial interventions.

This resolution approves the initial provisions for updating the 2.0 Bill following consultation 148/2021/R/com. The Authority clarifies that the interventions aim to render the summarised bill consistent with the other interventions already approved, so as to overcome price protection, and to update the regulation regarding the delivery of the summarised bill document.

RESOLUTION 22 June 2021 - 257/2021/R/COM. Amendments and integrations to Authority Resolution 63/2021/R/com referring to the procedures for the payments of any previous accruals of the 2021 social bonuses, management of the social bonuses for points of delivery on the non-interconnected distribution networks, notice to end customers and social bonuses for physical hardship.

The provision integrates Resolution 63/2021/R/com regarding the procedures for paying the 2021 bonus amounts that have already accrued, managing the electricity social bonus for POD on the non-interconnected distribution network, the disclosure obligations relating to operators and the social bonus for physical hardship.

RESOLUTION 26 October 2021 - 455/2021/R/COM. Start of procedure to comply with judgments no. 1441, 1444 and 1449 of 14 June 2021 of the Regional Administrative Court [TAR] of Lombardy regarding the invoicing of amounts referring the consumption dating back to more than two years.

The Resolution start the procedure to comply with judgments no. 1441, 1444 and 1449 of 14 June 2021 of the TAR of Lombardy, cancelling Authority Resolution 184/2020/R/com relating to strengthening protection for the end customer in the event of amounts being invoiced referring to consumption dating back more than two years.

RESOLUTION 16 November 2021 - 503/2021/R/COM. Further measures on the subject of electrical, gas and integrated water services in support of populations affected by the seismic events occurring in 2016 and 2017.

This Resolution extends the tariff concessions pursuant to Resolution 252/2017/R/com in favour of supplies and users subject to emergency solutions (Sae and Mapre) and orders compensation to sales operators for lost revenue following the concessions relating to the fixed quotas for the supply of electricity and gas to populations in central Italy affected by seismic events.

RESOLUTION 21 DECEMBER 2021 - 603/2021/R/COM. Additions and amendments to Authority Resolution 569/2018/R/com, on invoicing referring to consumption dating back more than two years.

The resolution implements the amendments to Resolution 569/2018R/com regarding the invoicing of amounts referring to consumption dating back more than two years following the outcome of the DCO to comply with judgments no. 1441, 1444 and 1449 of 14 June 2021 of the TAR of Lombardy.

RESOLUTION 21 DECEMBER 2021 - 604/2021/R/COM. Implementation of provisions under Law No. 205/2017 regarding the two-year prescription on settlement items for electricity and natural gas, and the integration of the disclosure obligations referring to distribution companies.

In this Resolution, Arera defines the procedures for offsetting the settlement items deriving from the exemptions of the two-year prescription raised by the end customer and seller, keeping the offsetting of the economic fee pertinent to the settlement items unrelated from the settlement processes;- with regard to energy and environmental services, (hereinafter: CSEA), the Cassa is assigned the role for both sectors as the offsetting party in respect of the seller;- with specific reference to the electricity sector, it promotes the quality of the distribution companies' metering service, based on appropriate responsibility measures aimed at reducing adjustments delayed by more than two years.

RESOLUTION 30 December 2021 - 635/2021/R/COM. Update, from 1 January 2022, of the tariff components destined to cover the general expenses and of further components of electrical sector and the gas sector, directives for Cassa regarding energy and environmental services. Measures referring to electricity and gas bonus.

This Resolution provides the quarterly update to the general fees and additional components for the electricity and gas sector and provisions regarding the 2022 social bonuses.

RESOLUTION 30 December 2021 - 636/2021/R/COM. Urgent provisions regarding instalment-based payments for domestic customers.

This resolution sets out the procedures for implementing the specific provisions of the amended 2022 Budget Law regarding bills for domestic end customs of electricity and natural gas and the consequent advance mechanism for sellers

Natural gas distribution

RESOLUTION 14 January 2021 - 3/2021/R/GAS. Provisions on variance fees. The provision intervenes on the application methods governing penalties for variances due to drawdowns at distribution network points of delivery, which appear irregular.

RESOLUTION 09 February 2021 - 41/2021/R/GAS. Update to the variable CRVi fee covering the expenses to contain gas consumption.

The measure approves the definitive tariffs of reference for the services of distribution and metering of gas for the year 2020, on the basis of the provisions of article 3, paragraph 2, of the RTDG, considering the requests for correction of data presented by 15 February 2021.

RESOLUTION 23 February 2021 - 63/2021/R/COM. Application procedures for the regimen of automatically recognising social electric, gas and water bonuses due to economic hardship.

Pursuant to Law No. 124 of 26 October 2019, the Authority defines the application procedures for the regimen of automatically recognising social electric, gas and water bonuses due to economic hardship, replacing the regulations for the previous "on demand" system.

RESOLUTION 16 March 2021 - 107/2021/R/GAS. Redetermination of definitive tariffs of reference for the services of distribution and metering of gas, for the years 2013-2019.

Resolution determining the definitive reference rates for gas distribution and measurement services for the year 2020.

RESOLUTION 23 March 2021 - 117/2021/R/GAS. Determination of the definitive tariffs of reference for the services of distribution and metering of gas, for the year 2020.

Resolution determining the definitive reference rates for gas distribution and measurement services for the year 2020.

RESOLUTION 29 MARCH 2021 - 122/2021/R/GAS Determination of the provisional tariffs of reference for the services of distribution and metering of gas, for the year 2021.

This Resolution determined the provisional reference tariffs for gas distribution and metering services for the year 2021 on the basis of the balance sheet data for the year 2020, pursuant to Article 3 (2) (a) of the RTDG.

RESOLUTION 06 APRIL 2021 - 141/2021/R/GAS. Start of procedure in compliance with Council of State ruling no. 341/2021 regarding tariffs for natural gas metering and distribution services.

In accordance with Council of State ruling no. 341/2021, Arera started the procedure to determine the rate of recovery of productivity on a constant or decreasing basis (X-factor), to be applied to tariff updates for the distribution of gas, effective until 2016.

RESOLUTION 04 MAY 2021- 176/2021/R/GAS. Approval of the programme for telephone checks and inspections with regard to gas distribution companies on the subject of emergency works for 2021.

The provision starts up the campaign of telephone checks and inspections on compliance with the regulations referring to emergency works for 2021.

RESOLUTION 18 May 2021 - 200/2021/R/GAS. Provisions for the Cassa referring to energy and environmental services (CSEA) for the signing of a new agreement with Poste Italiane S.p.A. for the material provision of the gas social bonus to indirect domestic customers.

The provision mandates CSEA to sign a new contract with Poste Italiane in order to ensure continuity in the provision of the service for transfers regarding the awarding of the gas social bonus to indirect customers (i.e. those benefiting from a condominium-based supply of natural gas for heating purposes), considering that the existing contract was extended until 30 June 2021.

RESOLUTION 27 May 2021 - 223/2021/R/COM. Methods for sending through to the Integrated Information System of the National Pension Fund managed by Acquirente unico S.p.A., the data needed for the process that automatically recognises social electric, gas and water bonuses due to economic hardship.

RESOLUTION 01 JUNE 2021 - 230/2021/R/GAS. Approval of recognised revenue and determination of the fees for the transportation and metering of natural gas for the year 2022.

The Resolution approves the proposed recognised revenue by transportation companies pursuant to RTTG (Annex A to Resolution 28 March 2019 - 114/2019/R/GAS/A) and determines the unit fees relating to natural gas transportation and metering services for 2022.

RESOLUTION 01 JUNE 2021 - 232/2021/R/GAS. Advance on bonuses related to recoveries of security of the natural gas distribution service for the year 2018.

Similarly to what occurred in 2018, 2019 and 2020 for the incentives related to recoveries of security of the relevant gas distribution service for the years 2015, 2016 and 2017, an advance was provided on the incentives referring to 2018 (up to 80% on the total net amount owing and payment made by CSEA on 29.07.2021).

RESOLUTION 06 JULY 2021 - 287/2021/R/GAS. Provisions referring to the disposal of traditional metering devices that have been replaced in implementing the directive for the operation of gas smart meters. Changes to RTDG.

Contains the provisions referring to the disposal of traditional metering devices that have been replaced in implementing the directive for the operation of gas smart meters, with specific reference to the methods for accounting for these disposals, and the procedures for recognising residual amortisations relating to the disposed meters prior to the end of their useful life.

RESOLUTION 03 AUGUST 2021 - 350/2021/R/GAS. Provisions on the tariffs of reference for the services of distribution and metering of gas, for the years 2018 to 2021.

This measure approves the definitive tariffs of reference for the services of distribution and metering of gas for the year 2018-2020, and the provisional tariffs of reference for 2021, considering the requests for tariff redetermination presented by 25 distributor companies.

RESOLUTION 05 OCTOBER 2021- 413/2021/R/GAS. Recognition of costs for the natural gas metering service, relating to the remote reading/management systems and concentrators, for the year 2019.

In this provision, Arera sets the amounts for the annual operating costs incurred by natural gas distribution companies that draw up financial statements corresponding with the calendar year 2019 and relating to the remote reading/management systems and concentrators, within the maximum limits stipulated by article 29, paragraph 2, of RTDG 2014-2019; it further mandates the Cassa for energy and environmental services, for the subsequent calculation of the limit to revenue eligible to cover centralised costs referring to the metering and regulation services by the 31 December 2021 and any adjustment amounts.

RESOLUTION 05 OCTOBER 2021- 414/2021/R/GAS. Recognition of costs for the natural gas metering service, relating to the remote reading/management systems and concentrators, for the years 2017 and 2018.

In this provision, Arera sets the amounts for the annual operating costs incurred in 2017 and 2018 by natural gas distribution companies that have reported unbundling problems pursuant to Table 3 to Resolution 568/2020/R/gas and relating to the remote reading/management systems and concentrators, within the maximum limits stipulated by article 29, paragraph 2, of RTDG 2014-2019; it further mandates the Cassa for energy and environmental services, for the subsequent calculation of the limit to revenue eligible to cover centralised costs referring to the metering and regulation services by the 31 December 2021 and any adjustment amounts.

2 NOVEMBER 2021 - DRAFT LAW FOR THE MARKET AND COMPETITION 2021.

With regard to Concessions and Gas Distribution Tenders, the Draft Law introduced additional rules of transparency and returns on investments in the procedures assigning gas distribution services, to promote the conducting of tenders. More specifically, incentives were introduced in favour of the local entity to ensure tenders are carried out timeously, especially with regard to the economic assessment of distribution plants and networks.

RESOLUTION 23 NOVEMBER 2021 - 512/2021/R/GAS. Restructuring of the gas metering activity in the entry and exit points of the transport network.

The provision approves the "Regulation for the service of metering on the natural gas transport network (RMTG), which defines the responsibilities and scope of metering and meter reading activities, the minimal and optimal requirements for installations, performance and maintenance, pre-defined service quality levels, an incentive system for complying with these service quality levels and a system for monitoring requirement and compliance with quality levels.

RESOLUTION 23 December 2021 - 617/2021/R/GAS. Start of the process for the formulation of measures on the subject of tariffs and quality, related to the natural gas transportation and metering service, for the sixth regulatory period (6PRT).

Start of the process for the formulation of measures on the subject of tariffs and quality, related to the natural gas transportation and metering service, for the sixth regulatory period (6PRT), starting in 2024.

RESOLUTION 23 DECEMBER 2021 - 614/2021/R/COM. Capital remuneration rate for invested capital for infrastructure services in the electricity and gas sectors for the period 2022-2027: criteria for determining and updating.

The document sets the criteria for determining the WACC for the second regulatory period.

RESOLUTION 28 DECEMBER 2021 - 620/2021/R/GAS. Update of the tariffs for the gas distribution and metering services, for the year 2022.

Based on Resolution 620/2021/R/gas, the Authority updated the tariffs for the gas distribution and metering services for the year 2022.

Supply, transportation and storage of natural gas

Gas Settlement

RESOLUTION 14 January 2021 - 3/2021/R/GAS. Provisions on variance fees.

On the subject of gas settlement, integration of the regulations for variance fees applied to Balancing Users (BU) for allocation of the final budget, determined on the basis of the drawdowns notified by distribution companies for each Distribution User (DU) linked to the respective BU.

RESOLUTION 01 JUNE 2021 - 227/2021/E/GAS. Approval of the programme of inspections on the settlement of physical and economic items of the natural gas balancing service.

The Resolution stipulates that two inspections are conducted referring to gas settlement.

RESOLUTION 21 December 2021 - 604/2021/R/COM. Implementation of provisions under Law No. 205/2017 regarding the two-year prescription on settlement items for electricity and natural gas, and the integration of the disclosure obligations referring to distribution companies.

Transport of natural gas

RESOLUTION 30 March 2021 - 134/2021/R/GAS. Additional provisions with the coming into force for the reform of the processes of conferment of capacity at the points of exit and delivery of the transport network.

In accepting the requests from various operators, Arera postponed the entry into force by a further year (to 01/10/2022) for the reform of processes for conferment of capacity at the points of exit and delivery of the transport networks that supply the distribution networks (city gates), also including a trial phase as from 01/10/2021, during which to test all information exchanges and procedures required for the success of the process allocating capacity and the related checks on the extent of users' guarantees.

RESOLUTION 30 September 2021 - 409/2021/R/GAS. Provisions related to the rules of the transport default service, in relation to regional transport networks.

The measure defines provisions related to the rules on the provision of the transport default service on regional transport networks, following the non-performance of the procedures for identifying transitional suppliers.

RESOLUTION 14 December 2021 - 586/2021/R/GAS. Provisions referring to the technical interruptibility of withdrawals from the natural gas transport and distribution network, for the 2021/2022 thermal year, in terms of Italian 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 2021/2022 thermal year, in terms of Italian Ministry of Economic Development Decree of 30 September 2020.

Natural gas storage

RESOLUTION 02 MARCH 2021- 79/2021/R/GAS. Urgent provisions for the conferment of storage capacity for thermal year 2021/ 2022 and approval of the extension for the updating of the Stogir Spa storage code.

In this provision, approval is given to the proposal to update the Storage Code submitted by the company Stogit aimed at incorporating certain changes related to managing the provision of storage based services. The provision also provides a mandate to the Director of the Wholesale Energy Markets and Environmental Sustainability to update the formulas for calculating the reserve prices and send them to storage companies.

RESOLUTION 03 AUGUST 2021 - 346/2021/R/GAS. Determining the business revenue for the storage service relating to 2022.

Approval of the proposals for the reference revenue for the storage service relating to 2022 submitted by Ital Gas Storage S.p.A. (IGS) and Stogit S.p.A. (Stogit) in terms of the RTSG

RESOLUTION 03 AUGUST 2021 - 347/2021/R/GAS. Start of procedure for an interim audit on the efficiency recovery levels of natural gas storage companies for the fifth regulatory period 2020-2025.

Start of the procedure to audit the criteria for determining the X-factor for the natural gas storage service relevant for the purposes of updating tariffs for the years 2023-2025.

Renewable energy systems

ITALIAN LEGISLATIVE DECREE 199 OF 8/11/2021 – IMPLEMENTATION OF EUROPEAN DIRECTIVE ON PROMOTING THE USE OF ELECTRICITY FROM RENEWABLE SOURCES.

The Decree contains provisions regarding electricity from renewable sources, defining the tools, mechanisms and incentives, as well as the institutional, financial and legal framework needed to achieve the goals of using clean energy by 2030, in line with the European goals for the decarbonisation of the energy system by 2030. At the same time, besides promoting renewable energy sources, the Decree pursues coordination with the tools and measures envisaged in the Italian National Recovery and Resilience Plan.

A summary of the main relevant aspects is provided below:

TITLE I: Purpose, Definitions and National Targets

A minimum target of 30 % set as the total percentage of energy from renewable sources in relation to gross final consumption.

TITLE II: Regime of support and promotion tools

Defines the general characteristics of the incentive mechanisms for the electricity sector, mechanisms for tenders and tariffs for smaller plants regulated downwards; incentives for sharing energy are also regulated.

Incentives provided for biogas and the production of biomethane.

Review of principles and methods to ensure the necessary coordination between the incentive tools provided and those in the NRRP.

TITLE III: Authorisation procedures, Codes and technical regulations

Governs the identification of land and areas that are suitable for the installation of renewable source plants;
Identifies simplified authorisation procedures to build and operate renewable source plants, the infrastructure required for biomethane production;
Stipulates increasing thermal renewable energy in the supply of electricity;

TITLE IV: Self-consumption, renewable energy communities and grid services

Defines the activities that an end customer may carry out in order to become a self-consumer of renewable energy and the relative operating conditions.
Defines the requirements to adhere to in order to build renewable energy communities with the aim of providing environmental, economic or social benefits at community level, rather than financial benefits;
Defines the interaction procedures with the energy system for individual self-consumers and those acting collectively and for renewable energy communities.
Promotes acceleration in developing the electricity grid;
Regulates the electricity metering system from renewable sources for the allocation of incentives.

TITLE V: Renewable energy in transport and the sustainability criteria for biofuels, bioliquids and biomass fuels.

Introduces the obligation for individual suppliers of petrol, diesel and methane, who by 2030, need to have a minimum percentage of 16% of renewable sources over the total fuels provided for consumption in a reference year and calculated on the basis of energy consumption;
Sets criteria for sustainability and the reduction of greenhouse gas emissions for biofuels, bioliquids and biomass fuels;
Simplifies the authorisations for recharging infrastructure.

TITLE VI: Information, Education and Guarantees of Origin

Regulates the issue of guarantees of origin and defines their purpose.

Energy and Energy Efficiency Services

RESOLUTION 29/03/2021 - 124/2021/R/EEL - Urgent provisions on electricity tariffs, implementing Article 6 of Italian Decree Law No. 41 of 22 March 2021 and Cassa regulations for environmental energy services.

The provision implements the urgent Support Decree Law provisions, with a temporary amendment to the tariff components covering the costs of electricity distribution and metering services and the components covering general system expenses applicable to users connected on low voltage, other than domestic users.

DECREE 10 AUGUST 2021 - Decree of the Ministry of Ecological Transition, together with the Italian Ministry of the Economy and Finance.

Determines the amount to be paid to implement the works programme to improve the energy performance of public administration buildings, and to integrate the funds in the "National Energy Efficiency Fund".

DECREE 25 AUGUST 2021 - Decree of the Italian Ministry of Ecological Transition.

Providing contributions for the infrastructure recharging electric vehicles carried out by natural persons conducting a business, practising an art or profession, as well as parties that are subject to company income taxes (IRES). The Decree governs the granting and provision of capital contributions aimed at the purchase and installation of recharging infrastructure carried out by companies and professionals.

ITALIAN LEGISLATIVE DECREE NO. 199 OF 8/11/2021 – INTEGRATION OF EUROPEAN DIRECTIVE (RED II).

Decree implementing Directive 2018/2001 of the European Parliament and Council of 11 December 2018, (RED II) on promoting the use of energy from renewable sources. Includes the measures related to achieving the decarbonisation targets by 2030 and 2050.

DIRECTIVE DMRT/EFC/16/2021 OF 10/11/2021 - Primary energy saving obligations referring to electricity and natural gas distributors for the obligation year 2021.

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 2021.

ITALIAN DECREE LAW NO. 157 OF 11 NOVEMBER 2021 (SO-CALLED ANTI-FRAUD DECREE) - Urgent measures to counter fraud in the scope of tax and economic concessions.

The Decree Law contains the measures to counter fraud relating to deductions for construction work and granting of loans. Extends the obligation of conformity approval and fairness in pricing; measures to counter fraud in providing loans. Strengthening of prevention measures.

RESOLUTION 30/11/2021 - 547/2021/R/EFr - Determining an exceptional tariff contribution to be paid to distributors in the scope of the energy efficiency certificates mechanisms for the obligation year 2020.

An exceptional tariff contribution is provided to be paid to distributors complying with their energy saving obligations in the scope of the EEC for the obligation year 2020.

2022 BUDGET LAW (ITALIAN LAW NO. 234 OF 30 DECEMBER 2021) - Extension of 110% Superbonus

The deadlines for work eligible for the 110% tax deduction have been reformulated. The Superbonus is extended until 31 December 2022 and in specific cases, the deadline is extended further. The measure applies to the installation of photovoltaic systems up to a total amount of € 48,000 in expenditure. For work carried out in municipalities affected by earthquakes occurring since 2009 where a state of emergency was declared, the deduction for tax incentives is extended at a rate of 110% until the 31 December 2025.

Telecommunications

RESOLUTION 10/21/CONS OF 5 FEBRUARY 2021.

New measures adopted relating to the activation of subscription content digital services from mobile networks. In particular, provides for default barring on SIMs, i.e. blocking the purchase of these services that can be removed on the basis of the customer's prior and specific intent, and a process to obtain the customer's consent for individual purchases with the entering of a temporary password (OTP).

RESOLUTION 616/20/CONS OF 1 March 2021.

Payment of AGCom contribution for 2021 (calculated on the basis of 2019 financial statement figures). The guidelines for calculating the contribution percentage are unchanged in respect of the guidelines for calculating the 2019 contribution.

RESOLUTION 18/21/CIR OF 29 MARCH 2021.

Obligation for mobile operators to participate in the USO contribution mechanism for the years 2001-2009, in line with the approach issued by the Authority during public consultations.

DELEGATION LAW EU 2019/2020 OF 21 APRIL 2021.

Art. 4 stipulates the Directive principles and criteria for the implementation of Directive (EU) 2018/1972 of the European Parliament and of the Council, of 11 December 2018, which establishes the European Electronic Communications Code.

DELEGATION REGULATION EU 2021/654 OF 22 APRIL 2021.

Sets the maximum voice termination rates (landline and mobile) at EU level, as required by the new Code. The European caps (maximum EU prices) on termination prices are applied to operators providing landline and mobile termination services (replacing the prices set by the National Regulatory Authorities) as from 1 July 2021.

ITALIAN LEGISLATIVE DECREE 77/2021 OF 28 JULY 2021, so-called SIMPLIFICATION DECREE LAW.

Introduces amendments to the Electronic Communication Code, specifically to articles 86, 87 and 88, aimed at simplifying the authorisation procedures for the installation of electronic communication infrastructure.

RESOLUTION 290/21/CONS OF 23 SEPTEMBER 2021.

Extends the platform of concession recipients regarding electronic communication services, with specific reference to persons with disabilities, and the range of concessionary offerings on the mobile network.

ITALIAN LEGISLATIVE DECREE 207/2021 OF 8 NOVEMBER 2021 implementing Directive (EU) 2018/1972, of the European Parliament and of the Council, of 11 December 2018.

Establishes the new Electronic Communication Code in Italy.

ITALIAN DRAFT DECREE LAW FOR THE MARKET AND COMPETITION 2021 OF 4 NOVEMBER 2021.

Introduces an obligation for those managing infrastructure or networks to coordinate their works, including with competitors, with the aim of promoting the development of optical fibre telecommunication networks. In addition, telephone companies must obtain prior consent from the customer before debiting the costs for services subscribed from third parties.

Environment

ITALIAN LEGISLATIVE DECREE No. 116/2020 IN FORCE FROM 1 JANUARY 2021.

Extends the definition of urban waste to unseparated waste and from the collection of separated waste produced by commercial, professional and craft activities (e.g. museums, schools, hotels, banks, hospitals, clothing stores...). Introduction of the option for non-domestic users (aforementioned activities) to dispose of their urban outside of the public service, after having provided certification by the party they have assigned confirming that they carry out the recovery of waste.

ITALIAN LEGISLATIVE DECREE 41/2021 of 22 MARCH 2021.

Products lacking the labelling requirements set by applicable UNI technical regulations and European legislation, and already put on the market or labelled at 1 January 2022, may be sold until stock is depleted.

DELEGATION LAW EU 2019/2020 OF 21 APRIL 2021.

Article 22 contains the principles and criteria for implementing Directive (EU) 2019/904, with the provisions for reducing the consumption and restrictions for selling specific single-use plastic items and which also sets certain requirements for the production and marking of these items, the extended responsibility of the manufacturer and targets for separate collection referring to bottles for drinks.

ITALIAN LEGISLATIVE DECREE 73/2021 of 25 May 2021.

The coming into force of the provisions establishing the plastics tax are deferred to 1 January 2022, with the deadline then postponed again to 1 January 2023 by section 12 of Art. 1 of the Budget Law 2022 (Italian Law 234/2021).

ITALIAN LEGISLATIVE DECREE 77/2021 of 31 May 2021.

Amendment of section 4 of Art. 188-bis of the Environment Code (Italian Legislative Decree 152/2006), which governs the content of the RENTRI implementation decrees, specifying that these decrees must govern the procedures for the checking and sending of the notification that waste recovery or disposal has begun, and not as required by the previous text, that the waste recovery or disposal had been carried out. Abrogation also of the rules relative to the simplified procedures for the recovery of contributions payable for the System controlling the traceability of waste (SISTR) contained in Art. 194-bis of the Environment Code (Italian Legislative Decree 152/2006). With regard to the end of waste qualification, in order to rationalise and simplify the authorisation procedure, envisages the issuing of an authorisation based on a mandatory and binding opinion from Ispra or the regional agency for environmental protection responsible for that region.

ITALIAN PRIME MINISTERIAL DECREE OF 27 JULY 2021.

Note on methodology relating to the update and revision of the standard requirements methodology for municipalities for 2021.

RESOLUTION 363/2021/rif OF 3 AUGUST 2021.

Defines the criteria for recognition of the efficient operating and investment costs for the period 2022-2025, adopting the Waste Tariff Method (MTR-2).

ITALIAN PRIME MINISTERIAL DECREE OF 27 August 2021.

Approval of the "guidelines for the drafting of an external emergency plan and the relative population information for storage facilities and waste treatment plants".

ITALIAN LEGISLATIVE DECREE 152/2021 OF 6 NOVEMBER 2021.

Primarily amends Art. 5 of Italian Decree-Law 111/2019 to strengthen the structure of the single Commissioner for the remediation of unlawful landfills, specifically extending the functions and activities of the single Commissioner, on the request of individual regions, regarding the remediation or rendering secure landfills and contaminated sites falling within the scope of regional responsibility, and on the request of the Ministry of Ecological Transition, for the remediation of contaminated sites of national interest. Amendments also to Article 24-*bis* of Italian Legislative Decree no. 49 of 2014 regarding manufacturers' obligations in managing the end of photovoltaic plants' useful life.

ITALIAN LEGISLATIVE DECREE 199/2021 OF 8 NOVEMBER 2021 implementing Directive (EU) 2019/883, of the European Parliament and of the Council, of 17 April 2019.

Regulations referring to portable collection facilities for the conferral of ship waste in order to improve their availability and use.

ITALIAN LAW 234/2021 (2022 BUDGET LAW) OF 30 DECEMBER 2021.

The coming into force of the Plastics Tax deferred to 1 January 2023. Expenditure of € 8.8 million authorised for 2022, to complete the works to render secure and manage the hazardous and radioactive waste at the storage areas of the former Cemerad, in the municipality of Statte, in the province of Taranto. Provision for the establishment of a fund aimed at promoting reuse centres, with an allocation of € 3 million for 2022 and for 2023. Contribution recognised within a maximum limit of € 1 million for 2023, in the form of a tax credit, equalling 70% of the amount that the taxpayer is liable for, regarding documented expenses incurred by 31 December 2022, relating to the installation and commissioning of composting facilities in the agri-food centres found in the regions of Campania, Molise, Puglia, Basilicata, Calabria and Sicily. Refinancing of € 2 million for 2022, of the fund to finance an extraordinary remediation plan for unlawful landfills involving disputes with the EU (paragraph 840) and extending the prohibition on locating final waste disposal sites in the territory of the "Flegrea" area and in protected areas and remediation sites of national interest and waste disposal and treatment sites.

ITALIAN LEGISLATIVE DECREE 228/2021 of 30 December 2021.

Manufacturers' packaging labelling obligations suspended pursuant to Art. 219, section 5, section one of the Environment Code (Italian Legislative Decree no. 152/2016) until 30 June 2022. The Decree specifies that products lacking the labelling requirements and already put on the market or labelled before 1 July 2022, may be sold until stock is depleted.

15. RISKS AND UNCERTAINTIES

Pursuant to Art. 2428 paragraph 2, section 6-bis) of the Italian Civil Code, as amended by Italian 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 revenue, 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) *Risks connected with the award, maintenance and loss of concessions and with expired concessions*
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) *Risks connected with the award, maintenance and loss of authorisations*
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.

Italian 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 not obtaining new concessions could have negative effects on the business and prospects of Estra 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 revenue 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 revenue.

- ***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 revenue is 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 renewable energies***

The Group's renewable energies business is exposed to the risk that the generation of electricity from renewable sources may be interrupted due to events beyond the Group's control, such as natural disasters, fires, breakdowns or malfunctioning of control equipment or systems, plant manufacturing defects, damage, theft and other exceptional events. Any interruption could result in reduced revenue for the Group and could involve incurring extraordinary costs to resume the production process.

The Group's failure to comply with legislation requiring authorisations and permits or the failure to respect deadlines and the conditions envisaged by the relative authorisations and permits could result in penalties or require the Group to repay incentives and/or not qualify for additional incentives.

Furthermore, due to the intrinsic nature of the sources used in this sector related to the climate conditions at the sites where the wind and photovoltaic facilities are located, the generation of electricity could be subjected to high levels of volatility. Even though the Group has positioned its facilities in different locations throughout Italy in order to take advantage of different climatic conditions, revenue from the generation of electricity could come down, even significantly.

- ***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. This risk was recently exacerbated by the significant increase in the price of natural gas on European markets, and the relative shortfall in supplies which occurred in September 2021. More specifically, increased prices and shortfalls in supply could result in the Group not receiving deliveries of natural gas from its suppliers that operate on the basis of supply agreements with predefined pricing, exposing the Group to the risk of having to purchase additional volumes of natural gas on the spot market at much higher prices.

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. Italian 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 occurrence of these events is more likely during times of economic recessions or if prices should increase significantly for the commodities sold by the Group (such as the increase in the price of natural gas recorded as from September 2021), which could impact on the ability of Group customers to pay timeously.

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 related to joint ventures and partnerships***

In recent years, the Group has established various partnerships and may initiate additional joint ventures or partnerships with the same or other parties in the future. The possible benefits or expected returns from these joint ventures and partnerships could be difficult to achieve or could be less positive than what the Group originally estimated. Furthermore, these investments are intrinsically risky, because the Group may not be able to exercise full authority in managing the joint venture or partnership and on the company decisions that are taken. In addition, joint ventures and partnerships run the risk of difficulties arising when integrating human resources, technologies and products.

- ***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 available 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 revenue 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 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.

Despite the macroeconomic scenario having recorded a significant improvement during 2021 thanks to the success of the anti COVID-19 vaccination campaign, which allowed economies to gradually reopen and most production activities to resume, certain production activities and consumer behaviour have still not returned to pre-pandemic normal levels, and at the same time, the risks of possible slowdowns persist due

to new variants of the virus, which could impact on the economy's growth trajectory and recovery in energy demand.

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.

- ***Risks related to climate change***

The Group is exposed to risks resulting from climate change, and in particular:

- The risk of increased frequency in extreme intensity natural events in the places where the Group operates, which could result in infrastructure becoming unavailable for extended time frames, with possible service interruptions and consequent negative repercussions for revenue and costs (for example, for recovery or insurance);
- The emerging risk that higher average temperatures in the areas serviced could have a negative impact on gas volumes distributed or sold and the number of operating delivery serviced or supply customers, with negative repercussions for revenue.

Furthermore, changes to the Italian and EU legislative and regulatory context regarding greenhouse gas with the aim of limiting emissions, changes in technology and uncertainty around the role of natural gas in the future energy mix, could have a negative impact on domestic and industrial demand for natural gas, impacting negatively on costs, revenue and investment levels.

The Group has put in place measures to mitigate these risks, which include:

- Operational counter measures such as ongoing upgrading and maintenance on the natural gas distribution network or trial projects in the scope of monitoring the above;
- Active participation in consultations initiated by Government or European sector associations on energy issues;
- Implementing energy efficiency projects, promoting sustainable mobility, extending its commercial offering for the supply of electricity to domestic customers and businesses from a green perspective and other actions to mitigate environmental impacts, which are detailed in the Non-Financial Declaration;
- Rebalancing the customer portfolio between sale of natural gas and electricity;
- Business diversification, ensuring the Group has a presence in the telecommunication and environmental sectors.

- ***Risks related to the conflict between Russia and Ukraine***

Reference is made to the paragraph outlining the significant events after the reporting period, which to the extent that they may negatively impact on the Group's activities, operating results and financial position, could increase 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

2021 is the fifth 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 revenue above the thresholds provided for in Art. 2 section 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 2021 consolidated non-financial declaration drawn up according to the GRI "core" reporting standard, approved by the Board of Directors on 15 April 2022, 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 SECTION 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 2021 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 HSE (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. ORGANISATION OF INFORMATION TECHNOLOGY SYSTEMS

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 TLQ 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 the personnel.

The electronic invoicing project was completed and brought into production and the perimeter of the software for electronic storage widened.

With the acquisition of Murgia Reti Gas the complete suite for the distribution of GAS on the NET@ platform was introduced, including the accounting and management part of the operating teams.

As from last year, a project was undertaken to replace the current ERP with NET@SUITE, the new platform that will manage all areas of the ESTR A Group. All the specialised software programmes present in ESTR A will be integrated with the new suite but not replaced except in particular cases. The project is still being completed, and is expected to go live during 2022.

20. PERSONNEL AND TRAINING

The average workforce in 2021, taking into account seconded personnel, was 776 employees. The table below shows the numbers by category and the comparison with 2020:

Position	31/12/2021	31-Dec-2020
Managers	23	22
Office workers and middle managers	584	576
Manual workers	170	157
Total	776	755

786 units were employed at 31 December 2021.

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

	2021	2020
Total number of training hours	29,333	17,854
Average number of training hours per worker	37	24

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 2021 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 2021 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 2021, internal audits were regularly carried out as were those planned for the recertification and/or maintaining of existing systems with a positive outcome.

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 27001:2013 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 UNI EN 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 an extension of 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 EN ISO 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;
- **Murgia Reti Gas** - adoption of a management system UNI EN ISO 9001:2015, 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;
- **Ecos** - adoption of the standards UNI EN ISO 14001:2015; EMAS Regulation; 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:

- damage caused to the environment where the company was found guilty in the final judgement;
- definitive sanctions or penalties imposed on the company for environmental offences or damage.

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

In 2021, the Estra Privacy Function, on instructions from the Controller Estra implemented and continued with the compliance process initiated in 2020, 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 drafting and updating to ensure compliance with the GDPR, as detailed below.

More specifically, updating activities were undertaken by:

- updating corporate mapping of 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 based on revisions, also from the perspective of new company structures applicable during 2021:
 - 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, checking and preparing the appointments as External Processors, pursuant to Art. 28 of GDPR for the Controller's suppliers and sub-suppliers;
- updating of the appointments and parties authorised for processing based on the changes resulting from the adoption of a new company structure or changes to the company structure;
- updating the appointments of System Administrators and consequent assignment to appointees;
- 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.

Action was also undertaken, resulting in:

- adapting the website to Regulation EU 2016/679; with updating of the Controller's Document “Guidelines of company websites - Guidelines for compliance and privacy and GDPR relating to planning, updating, changes to web portals”;
- adopting “Ispring” software for the managing training on privacy for employees and sales staff of the Controller and consequent training planning for 2022 also with the support of the DPO provided via basic, intermediate and advanced course packages for workers, administrative, marketing, IT and management personnel.

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 2021 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 2021 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, 15 April 2022

for the Board of Directors
The Chairperson of the Board of Directors
Alessandro Piazza

E.S.T.R.A. S.p.A.

Registered office in Via Ugo Panziera, 16- PO 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 2021

OFFICERS

Board of Directors

Chairman and 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.

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Consolidated financial statements schedules

Consolidated Income Statement

Consolidated Income Statement		Year ended 31 December			
		2021	of which referring to Related parties (note 15)	2020	of which referring to Related parties (note 15)
(amounts in thousands of euro)	Notes	Amount		Amount	
Revenue from sale of goods and services	8.1.1	1,046,433	1,058	748,414	4,969
Other operating revenue	8.1.2	13,851	348	13,936	959
Raw materials, ancillary materials and goods	8.2.1	(646,760)		(357,543)	(34)
Costs for services	8.2.2	(250,065)	(542)	(242,134)	(12,268)
Personnel costs	8.2.4	(41,856)	516	(39,230)	487
Depreciation, amortisation, provisions and write-downs	8.2.5	(61,653)		(61,248)	
Other operating costs	8.2.6	(11,665)	(8)	(19,880)	(9)
Income/(expenses) from commodity risk management	8.3	2,915		(1,205)	
Portion of income/(expenses) from measurement of non-financial investments using the equity method	8.4	6,251		671	
Operating profit/(loss)		57,451	1,372	41,782	(5,897)
Financial income	8.5	1,971	249	3,482	233
Financial expenses	8.6	(9,995)	(409)	(11,984)	(492)
Gains or losses on currency conversions		(7)		6	
Portion of income/(expenses) from valuation of financial investments using the equity method	8.7	(2,263)		(1,166)	
Profit before taxes		47,157	1,212	32,119	(6,156)
Income taxes for the year	8.8	(14,218)		38,167	
Net profit/(loss) from continuing operations		32,939	1,212	70,286	(6,156)
Net profit/(loss) from discontinued operations / assets held for sale	8.9	-		-	
Net profit		32,939	1,212	70,286	(6,156)
Profit/(loss) of non-controlling interests		214		111	
Group profit/(loss)		32,725		70,175	

Earnings per share (Note 11)	Year ended 31 December	
	2021	2020
Basic earnings per share ordinary shares	0.14	0.31
Diluted earnings per share ordinary shares	0.14	0.31

Earnings per share from continuing operations (Note 11)	Year ended 31 December	
	2021	2020
Basic earnings per share ordinary shares	0.14	0.31
Diluted earnings per share ordinary shares	0.14	0.31

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”.

Consolidated Statement of other Comprehensive Income

Consolidated Statement of other Comprehensive Income (amounts in thousands of euro)	Notes	Year ended 31 December	
		2021	2020
Net profit		32,939	70,286
of which:			
<i>Profit/(loss) of non-controlling interests</i>		214	111
<i>Group profit/(loss)</i>		32,725	70,175
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	(10,461)	6,846
- <i>Gains (losses) for the year from measurement</i>		(13,764)	9,008
- <i>Taxes</i>		3,303	(2,162)
Total other comprehensive income components that will subsequently be reclassified under profit/loss for the year (net of taxes)		(10,461)	6,846
Other comprehensive income components that will not subsequently be reclassified under profit/loss for the year (net of taxes)			
Actuarial gains/(losses)	9.2	(124)	(134)
- <i>Actuarial gains/(losses)</i>		(163)	(176)
- <i>Taxes</i>		39	42
Total other comprehensive income components that will not subsequently be reclassified under profit/loss for the year (net of taxes):		(124)	(134)
Total other comprehensive income components net of taxes	9	(10,585)	6,712
of which:			
<i>related to minority interests</i>		1	(10)
<i>related to the Group</i>		(10,586)	6,722
Result of comprehensive income statement		22,354	76,997
of which:			
<i>Net comprehensive result minority interests</i>		215	101
<i>Net comprehensive result Group</i>		22,139	76,896

Statement of consolidated financial position

Statement of consolidated financial position (amounts in thousands of euro)	Notes	Year ended 31 December			
		2021		2020	
		of which referring to Related parties Amount (note 14)		of which referring to Related parties Amount (note 14)	
Property, plant and equipment	10.1.1	108,524		105,341	
Goodwill	10.1.3	35,496		31,136	
Intangible assets	10.1.5	492,392		449,377	
Equity investments	10.1.6	20,082	20,082	26,107	26,107
Other non-current financial assets	10.1.7	13,919	7,561	13,670	4,873
Other non-current assets	10.1.8	2,369	524	5,448	524
Deferred tax assets	10.1.9	70,649		66,368	
NON-CURRENT ASSETS		743,431	28,167	697,447	31,504
Inventories	10.2.1	13,814		18,129	
Trade receivables	10.2.2	405,857	6,115	234,372	7,100
Tax receivables	10.2.3	9,732		21,813	
Other current assets	10.2.4	35,239		28,367	
Other current financial assets	10.2.5	36,257		13,546	
Cash and cash equivalents	10.2.6	143,107		160,249	
CURRENT ASSETS		644,007	6,115	476,476	7,100
Assets held for sale	10.2.7	42	42		
TOTAL ASSETS		1,387,480	34,324	1,173,923	38,604
Share capital		228,334		228,334	
Reserves		110,230		67,321	
Group profit (loss) for the year		32,725		70,175	
Total Group Shareholders' Equity		371,289		365,830	
Capital and reserves attributable to non-controlling interests		41,522		26,436	
Profit (loss) attributable to non-controlling interests		214		111	
Total Shareholders' Equity attributable to non-controlling interests		41,736		26,547	
TOTAL SHAREHOLDERS' EQUITY	10.3	413,025		392,377	
Provisions for risks and charges	10.4.1	10,645		9,173	
Employee severance indemnity	10.4.2	9,340		8,511	
Non-current portion of medium/long-term loans	10.4.3	177,402	10,043	328,861	13,153
Deferred tax liabilities	10.4.4	24,603		27,477	
Other non-current liabilities	10.4.5	15,709		8,449	
Contractual liabilities	10.4.6	25,172		22,071	
NON-CURRENT LIABILITIES		262,871	10,043	404,542	13,153
Current portion of medium/long-term loans	10.4.3	173,318	3,506	93,784	3,370
Short-term borrowings	10.5.1	34,891		32,509	
Trade payables	10.5.2	380,273	1,818	170,513	4,139
Contractual liabilities	10.4.6	900		750	
Tax liabilities	10.5.3	21,201		12,910	
Other current liabilities	10.5.4	67,093	17,500	56,517	7,000
Other current financial liabilities	10.2.5	33,876		10,021	
CURRENT LIABILITIES		711,552	22,824	377,004	14,509
Liabilities directly associated with assets held for sale	10.2.7	32	32		
TOTAL LIABILITIES and Shareholders' Equity		1,387,480	32,899	1,173,923	27,662

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 2020	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 - Dividends			485			9,902	(10,388) (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)	27,360	70,175	365,830	26,547	392,377
Allocation of 2020 profit - Consolidated profit for the previous year - Dividends			482			52,193	(52,675) (17,500)	(17,500)	(1,468)	(18,968)
Other changes						821		821	16,441	17,262
Result of income statement							32,725	32,725	214	32,939
Other comprehensive income				(10,461)	(125)			(10,586)	1	(10,585)
Balances at 31 December 2021	228,334	26,156	10,409	(6,519)	(189)	80,374	32,725	371,290	41,736	413,025

Consolidated cash flow statement

Consolidated cash flow statement (amounts in thousands of euro)	Notes	Year ended 31 December	
		2021	2020
Profit (loss) for the year		32,939	70,286
Income taxes	8.8	14,218	(38,167)
Interest expense (income)	8.5- 8.6	8,024	8,502
(Gains) Losses from the sale of assets	8.2.5 - 8.2.1	1,111	1,324
Profit for the year before taxes, interest, dividends and (gains)/losses		56,292	41,946
Depreciation/amortisation of tangible and intangible assets	8.2.4	49,007	48,024
Write-downs of tangible and intangible assets	8.2.4	-	-
Portion of contributions to financing for investments	8.1.2	(766)	(760)
Fair value changes recognised in operating profit/(loss)	8.3	3,084	(2,932)
Write-downs (revaluations) of investments	8.4 - 8.7	(6,088)	495
Write-down of other financial assets	8.9	2,100	-
Employee severance indemnity provision	8.2.3	476	469
Allocations/(reversals) to provisions for risks and other allocations	8.2.4 - 8.2.5	1,365	2,142
Cash flows before changes in net working capital and other assets and liabilities		105,470	89,384
Changes to trade receivables	10.2.2	(165,692)	47,062
Changes to inventories	10.2.1	4,811	6,639
Changes to trade payables	10.5.2	201,951	(44,786)
Changes in other current assets and liabilities	10.2.4 - 10.5.4	(5,721)	5,261
Changes in tax assets and liabilities	10.2.3 - 10.5.3	13,912	(19,249)
Change in employee severance indemnity (net of allocation)	10.4.2	(471)	(415)
Cash flows after changes in net working capital and other changes		154,260	83,897
Interest received		1,971	3,482
Interest paid		(9,037)	(10,862)
Taxes paid		(10,851)	(14,184)
Utilisation of provisions		(1,022)	(2,473)
A Cash flows from operating activities		135,321	59,860
of which with related parties		(127)	(5,052)
Investments in tangible assets	10.1.1	(10,043)	(7,758)
Investments in intangible assets	10.1.5	(38,432)	(36,634)
Divestment of tangible and intangible assets	10.1.1 - 10.1.5	1,511	390
(Investments)/divestments of equity investments	10.1.6	(6,811)	(54)
Dividends received from equity-accounted companies	10.1.6	415	702
Divestments of assets held for sale/ disposal		(11)	-
(Acquisition) or disposal of subsidiaries net of cash and cash equivalents	7.2	1,653	-
Other changes from investment activities		-	(6)
B Cash flows from investment activities		(51,718)	(43,360)
of which with related parties		-	-
Increases/(decreases) in non-current financial assets and liabilities	10.1.7 - 10.4.6	(2,349)	(2,130)
Increases/(decreases) in current financial assets and liabilities	10.2.5	(15,712)	6,228
Increases/(decreases) in other non-current assets and liabilities	10.1.8 - 10.4.5	11,512	4,914
Increase (decrease) in short-term bank loans	10.5.1	(1,601)	903
Opening of new bank loans	10.4.3	12,000	75,000
Repayment of bank loans	10.4.3	(89,204)	(115,202)
Buy back bond loans	10.4.3	-	-
Repayment of shareholder loans	10.4.3	(1,435)	(1,435)
Repayment of other lenders	10.4.3	(352)	(332)
Repayment of lease liabilities	10.4.3	(5,062)	(4,832)
Opening loan expenses	10.4.3	(35)	(304)
Other changes	10.3	(39)	193
Payment of dividends to Parent Company shareholders	10.3	(7,000)	(14,638)
Payment of dividends to third parties	10.3	(1,468)	(363)
C Cash flows from financing activities		(100,744)	(51,999)
of which with related parties		(12,663)	(16,154)
Increase (decrease) in liquidity (A+B+C)		(17,142)	(35,499)
E Cash and cash equivalents at 1 January		160,249	195,748
F Cash and cash equivalents at 31 December		143,107	160,249

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 2021 were submitted for the approval of the Company’s Board of Directors on 15/04/2022.

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 2021 and 2020.

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 infragroup 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 main accounting criteria

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-of-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 are 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 a to 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 not 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 category most significant for the Group. After 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 premium on acquisition and the fees and 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 2021. The Group has not adopted in advance any new standards, interpretations or amendments issued but not yet in force.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments include the temporary easing of requirements referring to effects on financial reporting at a time when the interest rate offered on the interbank market (IBOR) is replaced by an alternative rate that is essentially risk free (Risk Free Rate- RFR):

The amendments include the following practical expedients:

- A practical expedient that enables a company to consider and account for a change in a contract or a change in the contractual cash flows that are directly required by the reform, as a change to a variable interest rate, the equivalent of a change in the interest rate on the market;
- Allows for the changes required by the IBOR reform to be made on documentation for the designation of the cover relationship without the cover relationship needing to be discontinued;

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- Provides temporary relief to entities in need to comply with separate identification requirements when an RFR is designated as cover for a risk component.

These amendments will not impact on the Group's interim financial statements. The Group intends making use of these practical expedients in the periods when these will be applicable.

Amendment to IFRS 16 COVID-19 Related Rent Concessions beyond 30 June 2021

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 reductions in rentals 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 were supposed to be applicable until 30 June 2021, but because the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the application period for the practical expedient until 30 June 2022.

The amendments are applicable for financial periods beginning on or after 1 April 2021.

The Group has not received any concessions on rentals related to COVID-19, but expects to apply the practical expedient if the case should arise within the permitted period of application.

3. Discretionary assessments and significant accounting estimates

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 Discretionary assessments

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) Control of an entity in which the Group holds less than the majority of shares

As outlined in the paragraph referring to Business combinations, on 30 July 2021, the shareholders meeting of Viva Servizi S.p.A., a shareholder of Estra S.p.A., approved the partial spin-off aimed at transferring the following shares into a newly formed company Viva Energia S.p.A.:

- shares held by Viva Servizi in Estra S.p.A., corresponding to 10% of its share capital;
- shares held by Viva Servizi in Edma Reti Gas S.r.l., the company operating in the distribution of natural gas in 15 municipalities located in the province of Ancona (in the Marche), of which Estra S.p.A. holds 45%. The shares involved in the spin-off represent 55% of Edma Reti Gas share capital.

In this context, Estra S.p.A. and Viva Servizi S.p.A. agreed on certain amendments to the Edma Reti Gas by-laws, which were approved by the Shareholders' Meeting on 28 October 2021, drawing up a new shareholders' agreement that assigned Estra the majority of the Board of Directors of Edma Reti Gas and based on the set voting quorum, the option to exercise decision-making powers on the investee's financial, management and strategic policies, thus conferring de facto control of Edma Reti Gas to Estra S.p.A. Consequently, the company was fully consolidated in the 2021 consolidated financial statements from 31 December 2021.

Reference is made to the notes on Business combinations for the effects of the change in the consolidation method.

(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
- * Edma Reti Gas 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, determined by taking as a reference the volumes allocated by the national distributor and the internal customer consumption forecasts; 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 both on distributed and allocated volumes, subject to adjustments, as well as internal consumption forecasts, 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

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. Business segments

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, treatment 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 2021 and 2020 financial periods:

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)	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Total Revenue	109,622	108,085	935,580	669,348	88,373	55,930	(73,291)	(71,014)	1,060,284	762,350
External costs	(54,804)	(52,681)	(870,671)	(598,759)	(56,306)	(39,130)	73,291	71,014	(908,490)	(619,557)
Personnel costs	(15,406)	(14,714)	(11,692)	(11,228)	(14,758)	(13,288)			(41,856)	(39,230)
Income/(expenses) from commodity risk management			2,915	(1,205)					2,915	(1,205)
Portion of profit/(loss) from non-financial associates and joint ventures	6,251	671							6,251	671
Gross operating margin (EBITDA)	45,663	41,361	56,132	58,156	17,309	3,512	-	-	119,104	103,029
Amortisation/depreciation and write-downs	(18,950)	(18,508)	(17,252)	(17,243)	(12,805)	(12,272)			(49,007)	(48,024)
Provisions	(100)	(280)	(12,046)	(12,783)	(500)	(161)			(12,646)	(13,224)
Operating Income (EBIT)	26,613	22,573	26,834	28,130	4,004	(8,921)	-	-	57,451	41,781

Asset 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)	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Non-current assets	391,875	395,248	165,478	176,253	186,083	125,951	(5)	(5)	743,431	697,447
Current assets	54,093	58,191	428,253	277,853	200,951	186,086	(39,290)	(45,654)	644,007	476,476
Assets held for sale					42				42	
Total assets	445,968	453,439	593,731	454,106	387,076	312,037	(39,295)	(45,659)	1,387,480	1,173,923

Investments and business combinations per segment

Investments per operating sector (amounts in thousands of euro)	Regulated Market		Gas and electricity sales		Corporate and Others		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2021	2020	2021	2020	2021	2020	2021	2020
Investments in intangible assets	26,479	21,772	6,386	11,331	5,567	3,531	38,432	36,634
Investments in intangible assets deriving from business combinations	42,422				19		42,441	
Total investments (including business combinations) in intangible assets	68,901	21,772	6,386	11,331	5,586	3,531	80,873	36,634
Investments in tangible assets	720	432	897	963	10,066	8,862	11,683	10,257
Investments in tangible assets deriving from business combinations	980				4,291		5,271	
Total investments (including business combinations) in property, plant and equipment	1,700	432	897	963	14,357	8,862	16,954	10,257
Total	70,601	22,204	7,283	12,294	19,943	12,393	97,827	46,891

Reconciliation of result

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Result for sectors (net of adjustments and eliminations)	57,451	41,782
Financial income	1,971	3,482
Financial expenses	(9,995)	(11,984)
Gains or losses on currency conversions	(7)	6
Portion of income/(expenses) from valuation of financial investments using the equity method	(2,263)	(1,166)
FINANCIAL MANAGEMENT	(10,294)	(9,663)
PROFIT BEFORE TAXES	47,157	32,119
Income taxes for the year	(14,218)	38,167
NET PROFIT/(LOSS) FROM OPERATING ACTIVITIES	32,939	70,286
Net profit/(loss) from discontinued operations / assets held for sale	-	-
NET PROFIT/(LOSS) FOR THE YEAR	32,939	70,286

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	
	2021	2020
Cash and cash equivalents ⁽¹⁾	(143,107)	(160,249)
Current financial receivables ⁽²⁾	(36,257)	(13,546)
Current financial debt ⁽³⁾	242,085	136,314
Net current financial debt	62,720	(37,481)
Non-current financial debt ⁽⁴⁾	177,402	328,861
D Total financial debt	240,122	291,380
E Shareholders' equity	413,025	392,377
D/E Leverage	0.58	0.74

(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 2021, there were no violations of covenants associated with funding and loans during the current period.

Please see paragraph [Liquidity Risk](#) for additional information.

6. Information on the Group

Consolidation scope

The table below shows the consolidation scope at 31 December 2021 compared with the consolidation scope at 31 December 2020:

		31-Dec-2021					31-Dec-2020			
Company name	Registered office	Primary activity	Portion attributable to the Group	Share of direct control	Share of indirect control	Notes	Portion attributable to the Group	Share of direct control	Share of indirect control	Notes
Parent company										
E.S.T.R.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.T.R.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)	85.39%	57.80%	27.69%	(3)
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	63.72%		63.72%	(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)
Idrogena 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)
Ecos S.r.l.	Barberino Tavarnelle (FI)	Waste management	100.00%	100.00%			15.00%	15.0%		
EDMA Reti Gas S.r.l.	Ancona (AN)	Gas distribution	45.00%	45.00%			45.00%	45.00%		
Equity consolidated joint ventures										
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%		
Metropolitan city of Venice I Smart City S.r.l.	Pinerolo (TO)	Energy services	30.00%		30.00%	(4)				
Metropolitan city of Venice II Smart City S.r.l.	Pinerolo (TO)	Energy services	30.00%		30.00%	(4)				
Equity-consolidated associates										
Blugas Infrastrutture S.r.l.	Cremona (CR)	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)
Bisenzio Ambiente S.r.l.	Campi Bisenzio(FI)	Waste management	36.80%	36.80%			5.00%	5.00%		
Sei Toscana S.r.l.	Siena (SI)	Waste management	19.99%		19.99%	(5)	11.27%		11.27%	(5)
Notes										
(1) through Estra Energie Srl										
(2) through Prometeo S.r.l.										
(3) through Centria										
(4) through Estra Clima S.r.l.										
(5) through Ecolat S.r.l.										

The following changes occurred during the period in the consolidation scope:

Fully consolidated subsidiaries

- Entry into the perimeter of fully-consolidated companies of Ecos S.r.l. following the increase in the equity investment held by the Parent Company from 15% at 31/12/2020 to 100% at 31/12/2021 as described in the

paragraph “Business combinations and disposals of assets, and acquisition and disposal of non-controlling interests” below;

- Entry into the perimeter of fully-consolidated companies of Edma Reti Gas S.r.l., previously consolidated using the equity method, following the acquisition of de facto control on the basis of the by-laws and shareholder agreements, as described in the paragraph “Business combinations and disposals of assets, and acquisition and disposal of non-controlling interests” below;
- Increase in the Group’s percentage of control in Prometeo S.p.A. from 56.53% at 31 December 2020 to 63.72% at 31 December 2021, following the acquisition of an additional 7.19% stake during 2021 by Estra Energie.

Reference is made to the notes on “Business combinations and disposals of assets, and acquisition and disposal of non-controlling interests” to outline the effects of the company acquisitions on the 2021 consolidated financial statements.

Companies held for sale/disposal

- Classification as companies held for sale/disposal included Metropolitan City of Venice I and Metropolitan City of Venice II established on 30/03/2021, with a 30% stake held by Estra Clima, for the execution of works, supply of materials and equipment needed and provision of services for the management and maintenance of the public lighting system in 14 municipalities in the metropolitan city area of Venice.

In December 2021, shareholders were unable to reach agreement on the funding methods to adopt for the project and a stalemate resulted, following which Estra Clima, as envisaged by the shareholders' agreements in these circumstances, sold 29.9% of its shareholding in both companies at the beginning of 2022 at the subscription value, keeping only a residual stake of 0.1% (to be held until the final approval of the works executed, which are also intended for sale).

Equity-consolidated associates

- Increased percentage in the Group shareholding of Bisenzio Ambiente S.r.l. from 5% at 31 December 2020 to 36.80% at 31 December 2021, following the acquisition of an additional 31.8% shareholding during 2021 by Estra S.p.A.
- Increased percentage in the Group shareholding of Gruppo in Sei Toscana S.r.l. from 11.27% at 31 December 2020 to 19.99% at 31 December 2021, following the acquisition of an additional 8.72% shareholding during 2021 by Ecolat S.r.l.

Reference is made to the Note on equity investments.

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

7.1 Acquisition of control of Edma Reti Gas S.r.l.

On 30 July 2021, the shareholders meeting of Viva Servizi S.p.A., a shareholder of Estra S.p.A., approved the partial spin-off aimed at transferring the following shares into a newly formed company Viva Energia S.p.A.:

- (i) shares held by Viva Servizi in Estra S.p.A., corresponding to 10% of its share capital;
- (ii) shares held by Viva Servizi in Edma Reti Gas S.r.l., the company operating in the distribution of natural gas in 15 municipalities located in the province of Ancona (in the Marche), of which Estra S.p.A. holds 45%. The shares involved in the spin-off represent 55% of Edma Reti Gas S.r.l. share capital.

In this context, Estra S.p.A. and Viva Servizi S.p.A. agreed on certain amendments to the Edma Reti Gas by-laws, which were approved by the shareholders' meeting on 28 October 2021, drawing up a shareholders' agreement that conferred de facto control of Edma Reti Gas S.r.l. to Estra, duly assigning it the power to determine the investee's financial, management and strategic policies. Consequently, the company was fully consolidated in the 2021 financial statements.

For the purposes of consolidation, the available accounts at the closest time that control was acquired, namely 31/12/2021, and consequently the subsidiary's 2021 income statement was not included in these consolidated financial statements. The effects resulting from this simplification are deemed insignificant for the Group's 2021 results.

The subsidiary was measured at equity until 31/12/2021, determining a revaluation of € 946,000. 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.

The accounting of the business combination operation also generated an upward adjustment for € 5,305,000, referring to the restatement of the 45% shareholding at fair value, which was already held prior to the acquisition.

The fair value of identifiable assets and liabilities at the acquisition date was as follows:

Balance Sheet	Fair value
NON-CURRENT ASSETS	
Property, plant and equipment	980
Intangible assets IFRIC 12	42,088
Intangible assets	334
Deferred tax assets	1,364
	44,765
CURRENT ASSETS	
Inventories	496
Trade receivables	4,640
Tax receivables	1
Other current assets	2,178
Cash and cash equivalents	3,354
	10,669
TOTAL ASSETS	55,434
NON-CURRENT LIABILITIES	
Provisions for risks and charges	1,129
Non-current portion of medium/long-term loans	3,922
Employee severance indemnity	565
Contractual liabilities (connections contributions)	1,932
	7,548
CURRENT LIABILITIES	
Current portion of medium/long-term loans	775
Short-term borrowings	2,517
Trade payables	6,271
Tax liabilities	511
Other current liabilities	2,004
Contractual liabilities (connections contributions)	53
	12,131
TOTAL LIABILITIES	19,679
TOTAL NET IDENTIFIABLE ASSETS	35,756
Non-controlling interest measured at fair value	19,666
Group interest measured at fair value	16,090

The measurement process did not result in significant adjustments to the carrying amounts recorded in the financial statements of the acquired entities, which at the reporting date of the financial statements at 31/12/2020, based on the application of the regulation on revaluation and realignment pursuant to Italian Law no. 126 of 13 October 2020 containing the “Conversion into law with amendments of Italian Decree Law no. 104 of 14 August 2020”, proceeded with the revaluation of the carrying amount for the proprietary networks and connections for accounting and tax purposes, based on the estimate of the industrial value (VIR) of the same conducted by an independent expert. The fair value for the networks and connections is shown in the table above under the item “Intangible assets IFRIC 12”.

The accounting for the operation in these consolidated financial statements was determined provisionally, owing to the temporary nature of the values assignable to the assets and liabilities of the company acquired and will be made definitive and possibly adjusted within the term of twelve months from the acquisition date, as provided for in IFRS 3 B67.

Given that the subsidiary was fully consolidated as from 31/12/2021, the subsidiary contributed to the Group’s 2021 economic result only with regard to the 45% portion of the year results (revaluation of € 946,000), recognised in the income statement under “Portion of income/(expenses) from measurement of non-financial investments using the equity method”.

If the combination had been effective from the beginning of the year, the income statement in the consolidated financial statements at 31 December 2021 would have presented higher revenue for € 13,690,000, a higher operating profit for € 1,473,000, and a higher net income of € 725,000.

7.2 Acquisition of Ecos S.r.l.

In executing the investment agreement signed on 24 April 2020 and its subsequent amendments, at the start of 2021, 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 S.r.l. on 24 April 2020 for € 15,000, whilst at the same time providing the company with a loan for € 355,000;
- completed the company acquisition on 26 January 2021, taking up the remaining 85% of the shares for € 1,760,000, of which € 350,000 had already been paid at 31 December 2020.

The price of € 1,775,000 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, with this recognised in 2021 for € 2.6 million.

In these consolidated financial statements for consolidation purposes the available accounting situation closest to the acquisition date, 01/01/2021, was taken as a reference. The effects resulting from this simplification are deemed insignificant for the Group’s 2021 results.

The fair value of identifiable assets and liabilities at the acquisition date was as follows:

Balance Sheet	Fair value
NON-CURRENT ASSETS	
Property, plant and equipment	4,290
Intangible assets	20
Equity investments	1
Other non-current assets	4
Deferred tax assets	681
	4,996
CURRENT ASSETS	
Trade receivables	1,153
Current financial assets	1
Other current assets	144
Cash and cash equivalents	58
	1,356
TOTAL ASSETS	6,353
NON-CURRENT LIABILITIES	
Non-current portion of medium/long-term loans	4,867
Employee severance indemnity	96
	4,963
CURRENT LIABILITIES	
Short-term borrowings	1,466
Trade payables	1,538
Tax liabilities	737
Other current liabilities	106
Other current financial liabilities	8
	3,855
TOTAL LIABILITIES	8,817
TOTAL NET IDENTIFIABLE ASSETS	(2,465)
Goodwill	4,240
Price of the acquisition	1,775

From the allocation of the price paid (€ 1,775,000), goodwill was recognised for € 4,240,000, represented by the surplus on the consideration paid in relation to the net identifiable assets acquired and the liabilities undertaken by the Group. Goodwill refers to the higher business value given by the subsidiary's territorial positioning, its ability to acquire new customers and develop new business and the possibility of creating synergies, which not being separate, do not meet the requirements to be recorded as intangible assets in terms of IAS 38.

The accounting for the operation in these consolidated financial statements was determined provisionally, owing to the temporary nature of the values assignable to the assets and liabilities of the company acquired and will be made definitive and possibly adjusted within the term of twelve months from the acquisition date, as provided for in IFRS 3 B67.

The measurement of goodwill is based on discounting the provisional cash flows expected from the assets.

From the acquisition date, Ecos S.r.l. has contributed, net of intragroup eliminations, to the Group's 2021 revenue for € 5,206,000, negatively to the operating profit for € 1,071,000 and to the Group's income net of taxes negatively for € 955,000.

7.3 Acquisitions of additional interests in companies already controlled

During 2021, we note the increase in the Group's percentage of control in Prometeo S.p.A. from 56.53% at 31 December 2020 to 63.72% at 31 December 2021, following the acquisition of an additional 7.19% stake by Estra Energie.

The acquisition was made by the Municipality of Falconara for € 2.5 million.

The transaction to acquire an additional interest, determined a profit of € 1,102,000, calculated as the difference between the fair value of the consideration paid 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
Prometeo S.p.a.	7.19%	3,224	2,406	(818)

7.4 Subsidiaries with significant non-controlling interests

Details are provided below of the subsidiaries with significant non-controlling interests, besides the company Edma Reti Gas S.r.l., which was a subsidiary from the end of the period. Reference is made in this regard to paragraph 7.1 "Acquisition of control of Edma Reti Gas S.r.l".

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 2021	% of Non-Controlling Interests 2020
Prometeo S.p.A.	Osimo (AN)	Euro	Gas and electricity sales	36.28%	43.47%

Income statement (thousands of Euro)	Prometeo 2021	Prometeo 2020
Operating revenue		
Revenue from contracts with customers	142,223	108,275
Other operating revenue	762	814
	142,985	109,089
Operating costs		
Raw materials, ancillary materials and goods	(87,996)	(51,666)
Costs for services	(44,028)	(47,591)
Personnel costs	(2,240)	(1,992)
Depreciation, amortisation, provisions and write-downs	(6,780)	(6,501)
Other operating costs	4	(11)
	(141,040)	(107,761)
OPERATING PROFIT/(LOSS)	1,945	1,328
Financial income	180	199
Financial expenses	(127)	(169)
FINANCIAL MANAGEMENT	53	30
PROFIT BEFORE TAXES	1,998	1,358
Income taxes for the year	821	449
NET PROFIT/(LOSS) FOR THE YEAR	1,117	909

Balance Sheet (thousands of Euro)	Prometeo 2021	Prometeo 2020
NON-CURRENT ASSETS		
Property, plant and equipment	573	598
Goodwill	5,191	5,898
Intangible assets	3,394	3,904
Equity investments	1,071	1,071
Other non-current assets	47	41
Deferred tax assets	3,585	3,928
	13,861	15,440
CURRENT ASSETS		
Trade receivables	61,133	40,165
Tax receivables	1,379	4,422
Other current assets	1,130	1,356
Cash and cash equivalents	6,529	4,785
	70,171	50,728
TOTAL ASSETS	84,032	66,168
TOTAL SHAREHOLDERS' EQUITY	16,144	17,468
NON-CURRENT LIABILITIES		
Provisions for risks and charges	289	255
Employee severance indemnity	475	469
Non-current portion of medium/long-term loans	1,800	1,254
	2,564	1,978
CURRENT LIABILITIES		
Current portion of medium/long-term loans	965	182
Short-term borrowings	9	10,031
Trade payables	56,594	29,873
Tax liabilities	3,197	1,548
Other current liabilities	4,559	5,088
	65,324	46,722
TOTAL LIABILITIES and SE	84,032	66,168

8. Notes on the main income statement items

8.1 Revenue

In the financial periods ended 31 December 2021 and 31 December 2020, revenue amounted to € 1,060,284,000 and € 762,350,000 respectively. The table below shows the breakdown between revenue from contracts with customers and other operating revenue:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Revenue from sale of goods and services	1,046,433	748,414
Other operating revenue	13,851	13,936
Total revenue	1,060,284	762,350

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 2021 compared to the year ended 31 December 2020:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Revenue from methane gas distribution	41,401	39,162
Equalisation methane gas distribution	(10,428)	(7,511)
Revenue from sales and distribution of LPG	3,152	2,715
Revenue from sales of methane gas	696,313	517,493
Revenue from sales of electricity	227,408	144,048
Revenue from telecommunication services	5,642	5,188
Revenue from selection and conferment of waste	9,629	4,073
Revenue from buildings' energy efficiency	23,430	2,429
Revenue from other Group operations	17,918	15,622
Increases in non-current assets from in-house production	25,397	21,031
Current portion of contributions received	2,217	2,394
Revenue from post meter services and ancillary services	4,354	1,770
Revenue from sale of goods and services	1,046,433	748,414

The main changes refer to "Revenue from sales of methane gas", which recorded an increase of € 178,820,000, due to increased gas balancing activity and the increase in the price of raw materials.

"Revenue from sale of electricity" recorded an increase of € 83,360,000 primarily due to the higher electricity volumes sold to end customers and the increase in sales tariffs.

The item "Revenue from selection and conferment of waste" recorded an increase of € 5,556 mainly as a result of the acquisition of the company Ecos S.r.l.

The item "Revenue from buildings' energy efficiency" refers to revenue from the subsidiary Estra Clima S.r.l. for specific energy efficiency works, increasing significantly thanks to the tax incentives for contractors introduced by the Relaunch Decree of 19 May 2020.

The item "Revenue from other Group operations" mainly referred to:

- Parent Company revenue for existing service contracts with Shareholders, associates and companies subject to joint control (€ 2,882,000);
- Revenue from the subsidiary Estra Clima S.r.l. core activity of heat management and maintenance (€ 7,103,000);
- revenue for electricity production from the photovoltaic systems located in Cavriglia (AR) for € 5,507,000;

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 2021 and 2020 both includes the provision for the estimate on the electricity and gas supplies provided to final 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, determined by taking as a reference the volumes allocated by the national distributor and the internal customer consumption forecasts; the estimate is recorded in specific provisions for invoices to be issued.

A list is provided below of the Group's revenue from contracts with customers for the year ended 31 December 2021, according to operating sector:

Year ended 31 December 2021 (amounts in thousands of euro)	Business segments			
	Total	Regulated Market	Gas and electricity sales	Corporate and Others
Revenue from methane gas distribution	41,401	41,401		
Equalisation methane gas distribution	(10,428)	(10,428)		
Revenue from sales and distribution of LPG	3,152	3,152		
Revenue from sales of methane gas	696,313		696,313	
Revenue from sales of electricity	227,408		227,408	
Revenue from telecommunication services	5,642			5,642
Revenue from selection and conferment of waste	9,629			9,629
Revenue from buildings' energy efficiency	23,430			23,430
Revenue from other Group operations	17,918			17,918
Increases in non-current assets from in-house production	25,397	25,397		
Current portion of contributions received	2,217	730	17	1,470
Revenue from post meter services and ancillary services	4,354		4,354	
Revenue from sale of goods and services	1,046,433	60,252	928,092	58,089
Adjustments and eliminations	61,591	38,291	3,094	20,206
Total revenue gross of adjustments and eliminations between business segments	1,108,024	98,543	931,186	78,295

The Group operates only in Italy.

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 2021, compared with the year ended 31 December 2020:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Energy Efficiency Certificates	5,490	7,080
Release of risk provisions	181	131
Other revenue	8,101	6,718
Gains extra-feature management	79	7
Other operating revenue	13,851	13,936

The item “Energy Efficiency Certificates” contains the value of said certificates relative to the year 2021 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 provided by ARERA for the EECs acquired from 1 January to 31 December, net of those sold. With Resolution 358/2021/R/efr of 3 August 2021, ARERA published the value of the tariff contribution of € 250.00/EEC, and the extent of the additional fee of € 10.00/EEC, payable to distributors in the scope of the energy efficiency certificates for the obligation year 2020. With Resolution 547/2021/R/efr of 30 November 2021, ARERA subsequently published the value of the additional exceptional fee of € 7.26/EEC, payable to distributors in the scope of the energy efficiency certificates for the obligation year 2020. The contribution for certificates acquired from 1 January until 16 July 2021 (date when obligation year 2020 closed) was € 250/EEC (no. 16,727 EEC), with the addition of the additional exception fee of € 7.26/EEC and the additional fee of € 10.00/EEC, both on the 21,839 EEC acquired during the 2020 obligation year (from 1 December 2020 until 16 July 2021). The additional fee and the additional exceptional fee were fully recognised in 2021 (also regarding the EEC acquired previously) because these contributions had been uncertain before and their amount had not been known. An estimate of the contribution was made for the certificates acquired from 17 July 2021, keeping to the amount of € 250/EEC (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; the expectation is therefore for a contribution of the same maximum value. There was a significant decrease in EEC related revenue compared to 2020, due to the lower number of EECs purchased because ARERA had reformulated the objectives downwards (for the obligation year 2021, this went from 93,898 EEC to 37,607 EEC and the objective for the obligation year 2021 was 12,196 EEC, compared to an average of about 70,000 EEC in the obligation years prior to 2020).

It is noted that the “virtual” certificates, namely those purchased directly from the GME, do not lead to the recognition of costs and revenue, 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 2020.

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, revenue 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 € 1,983,000 in 2021 and € 2,029,000 in 2020, 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 2021 and 2020, 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, the following extraordinary items are noted:

The following was recognised in the 2020 financial statements:

- security incentives revenue was recognised for the work performed in financial year 2020 (€ 1,522,000) and already resolved by the Authority, and for the incentives due for the work performed in financial years 2018 and 2019 (€ 507,000);
- revenue from the recovery of tariff components referring to previous years in the natural gas distribution sector (€ 1,160,000).

The following was recognised in the 2021 financial statements:

- revenue of € 1,087,000 for the IRMA fees (residual amount on foregone amortisations) paid by ARERA pursuant to Resolution 559/2021/R/gas of 9 December 2021, to Group companies operating in the distribution of natural gas as a recovery on tariffs for the G4 and G6 traditional metering units that were replaced in application of the Smart Meter Directives. The resolution reformulated the reference tariffs for the tariff years from 2015 to 2020, in application of the new regulations relating to the new methods for declaring the disposal of the G4 and G6 traditional metering units that were replaced by smart meters;
- revenue for the compensation for damages agreed by the subsidiary Estracom in 2009-2011, quantified in terms of the judgment handed down by the Court of Rome on 20 May 2021 for € 679,000 plus € 30,000 for the legal costs incurred, in the scope of the dispute brought by Estracom against a leading Italian telecommunications company for conduct representing an abuse of its dominant market position, in breach of Art. 101 and 102 of the Treaty on the Functioning of the European Union (TFUE) and/or unlawful and anti-competitive conduct in breach of Art. 2598 and/or 2043 of the Italian Civil Code.

8.2 Operating costs

In the financial years ended 31 December 2021 and 31 December 2020, operating costs amounted to € 1,011,999 and € 720,035 respectively:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Raw materials, consumables and goods for resale	646,760	357,543
Costs for services	250,065	242,134
Personnel costs	41,856	39,230
Depreciation, amortisation, provisions, write-downs	61,653	61,248
Other operating costs	11,665	19,880
Operating costs	1,011,999	720,035

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 € 646,760,000 for the year ended 31 December 2021 and to € 357,543,000 for the year ended 31 December 2020.

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Purchase of raw and ancillary materials, consumables and goods	642,017	351,705
Changes in inventories	4,811	6,193
	646,828	357,898
<i>minus:</i>		
- increases from in-house production	(68)	(355)
Purchase of raw and ancillary materials, consumables and goods	646,760	357,543

The most significant component in this item refers to the gas purchase, transport and storage costs for € 492,197,000 (€ 297,503,000 in 2020) and the costs to purchase electricity for € 134,485,000 (€ 41,972,000 in 2020).

The changes in inventories related to the decrease of natural gas in storage at the end of financial year 2021 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 2021 increased compared to 2020, 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 2021, compared with the year ended 31 December 2020:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Professional fees	7,288	5,804
Cost for the renovation of third party plants and for tenders and maintenance	31,279	17,262
Costs for waste transport and disposal	5,796	1,484
Insurance	1,568	1,507
Technical, fiscal, administrative and notary fees and consulting services	8,388	7,383
Costs related to customer management and for the printing and delivery of bills	4,278	4,433
Telecommunications services	2,745	2,478
Costs for gas distribution to users	101,702	103,064
Costs for electricity transport and dispatching	65,612	77,505
Costs for advertising and sponsoring the Group's products	2,922	2,303
Expenses for gas concessions	9,174	8,768
Various rentals and leases	1,301	1,165
Other costs for services	11,685	12,082
minus:		
- increases from in-house production	(3,676)	(3,104)
Costs for services	250,065	242,134

The main change to the costs for services refers mainly to the item "renovation of third party plants and for tenders and maintenance" that recorded an increase of € 14,017,000, primarily a result of the increase in energy efficiency activities, benefiting from the tax incentives for contractors introduced by the Relaunch Decree of 19 May 2020, and due to activities resuming compared to the previous period that had been negatively impacted by the lockdown imposed by COVID-19.

The item "Costs for waste transport and disposal" recorded an increase of € 4,312 mainly as a result of the acquisition of the company Ecos S.r.l. correlating to revenue performance.

Costs for electricity transport and dispatching came down in 2021 compared to the previous period, due to the decrease in tariffs for the transport component.

The higher costs for professional fees, consulting and advertising and sponsorship expenses for advertising campaigns mainly related to the resumption in activities compared to the previous period that had been negatively impacted by the lockdown imposed by COVID-19.

Expenses for gas concessions refer to the fees paid by the Group to Municipalities that awarded the natural gas distribution and metering service. This item recorded an increase compared to 2021, mainly as a result of the recognition in the 2020 comparative balance of lower costs due to the redetermination of concession fees for the distribution of natural gas in previous years based on the agreement signed in 2020 with the Municipality of Seravezza.

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 2021, compared with the year ended 31 December 2020:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Wages and salaries	30,269	28,318
Social security contributions	10,017	9,388
Employee severance indemnity	1,890	1,778
Other costs	137	101
Seconded personnel from third parties	63	71
minus:		
- increases from in-house production	(520)	(426)
Personnel costs	41,856	39,230

The increase refers to the higher staff numbers due to the acquisition of Ecos S.r.l. with an average staff component of 17 units, the salary increases required by the National Collective Labour Agreement (CCNL) and benefits recognised in 2020 from less overtime and greater use being made of leave at the time of the lockdown.

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 2021, compared with the year ended 31 December 2020:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Amortisation of intangible assets	36,436	35,979
Depreciation of tangible assets	12,571	12,045
Write-down of intangible assets	-	-
Write-down of tangible assets	-	-
Write-down of trade receivables	12,549	13,027
Other provisions	97	197
Depreciation, amortisation, provisions and write-downs	61,653	61,248

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 2021, compared with the year ended 31 December 2020:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Other operating expenses	3,056	3,544
Settlement agreement with the Municipality of Prato	-	6,000
Various indirect taxes	1,431	1,295
Purchase of Energy Efficiency Certificates	5,490	7,019
Membership fees	577	698
Losses on disposals	1,111	1,324
Other operating costs	11,665	19,880

The item "Purchase of Energy Efficiency Certificates" refers to the costs incurred to obtain energy saving certificates to fulfil the obligation imposed for 2021. 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 € 282,000, 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 € 218,000, recorded under other revenue.

We note with regard to the entry under this item during the previous period, namely the extraordinary entry relating 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, with judgement no. 387/2020, the ordinary Court of Prato ordered Estra S.p.A. to pay the Municipality of Prato an amount of € 6 million.

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:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Margin of gas trading activity	838	398
Change in fair value of commodity swaps used in the marketing of electricity	(995)	106
Change in fair value of commodity swaps used in the marketing of gas	3,072	(1,709)
Total expenses from commodity risk management	2,915	(1,205)

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 2021 and 31 December 2020, income from the valuation of non-financial investments using the equity method amounted to € 6,251,000 and € 671,000 respectively.

The item refers to the valuation of Estra's equity investment in the joint venture EDMA Reti Gas S.r.l. 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.

In particular:

- The subsidiary was measured at equity until 31/12/2021, determining a revaluation of € 946,000;
- The control acquired, as detailed in the paragraph “Acquisition of control of Edma Reti Gas S.r.l.” determined an upward adjustment for € 5,305,000, referring to the restatement of the 45% shareholding at fair value, which was already held prior to the acquisition.

8.5 Financial income

In the financial periods ended 31 December 2021 and 31 December 2020, financial income amounted to € 1,971,000 and € 3,482,000 respectively. The breakdown is as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Income from associates	249	233
Various income from others	1,440	3,066
Revaluation IRS derivatives	282	183
Financial income	1,971	3,482

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 € 162,000 (€ 1,533,000 at 31 December 2020) and interest income from delayed payments charged to customers for € 906,000 (€ 1,154,000 at 31 December 2020).

8.6 Financial expenses

In the financial periods ended 31 December 2021 and 31 December 2020, financial expenses amounted to € 9,995,000 and € 11,984,000 respectively. The breakdown is as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Interest payable on current bank accounts	38	31
Interest payable on loans and financial transactions	3,700	5,497
Interest payable on bonds	5,426	5,420
Other interest payable	198	334
Interest on arrears	11	29
Interest on employee severance costs	45	60
Interest payable on Shareholder loans	236	284
Interest payable on leases IFRS 16	341	329
Financial expenses	9,995	11,984

The decrease in this item refers to the lower average debt in the 2021 financial year compared to 2020, 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 2021 and 31 December 2020, the measurement of financial equity investments using the equity method resulted in expenses of € 2,26,000 in 2021 and expenses of € 1,166,000 in 2020.

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 2021 and 31 December 2020, income taxes for the year amounted to € 14,218,000 (negative income component) and € 38,167,000 (positive income component) respectively:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Current taxes	16,006	18,647
Taxation of previous years	59	(444)
Current taxes	16,065	18,203
Deferred tax assets	(203)	(36,464)
Deferred taxes	(1,643)	(19,906)
Taxes for the year	14,218	(38,167)

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.

We note that taxes for the year ended 31 December 2020 were affected by a positive non-recurring component for € 48,989,000, recognised under deferred tax assets/liabilities. Reference in this regard is made to the comments in the corresponding Balance Sheet item.

8.9 Significant, non-recurring, atypical and/or unusual transactions

Both the Income Statements for 2021 and 2020 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 comparative year 2020 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 Italian Law no. 126 of 13 October 2020 containing the "Conversion into law with amendments of Italian 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 € 48,989,000, 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 2021 and 31 December 2020, the change in the cash flow hedge reserve was negative for € 10,461,000 and positive for € 6,846,000.

The item represents the component of comprehensive income incorporating the change to the "Cash flow hedge reserve" recorded for the effective portion of derivatives on the commodity and hedging IRS derivatives.

9.2 Actuarial gains/(losses)

In the year ended 31 December 2021, actuarial losses amounted to € 124,000, compared to the actuarial losses of € 134,000 recognised for the financial year ended 31 December 2020.

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 Property, plant and equipment

In the financial periods ended 31 December 2021 and 31 December 2020, property, plant and equipment amounted to € 108,524,000 and € 105,341,000 respectively.

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Land and buildings	23,101	21,462
<i>of which for rights of use</i>	13,109	11,300
Plants and machinery	74,371	71,253
<i>of which for rights of use</i>	179	141
Industrial and commercial equipment	1,279	1,310
<i>of which for rights of use</i>	163	584
Other assets	6,959	7,011
<i>of which for rights of use</i>	2,925	2,928
Payments on accounts and assets under construction	2,814	4,305
Property, plant and equipment	108,524	105,341

Property, plant and equipment is primarily represented by the following proprietary assets:

- a wood biomass co-generation plant and the related district heating network in the Municipality of Calenzano for € 3,120,000;
- plants and machinery relating to the implementation of telematic and telecommunications structures arising from activities undertaken by Estracom S.p.A. for € 25,818,000;
- a trigeneration plant located in Sesto Fiorentino owned by the subsidiary Estra Clima S.r.l. for € 639,000;
- photovoltaic systems for € 38,464,000;
- 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 for € 2,635,000;
- a municipal waste selection plant, with annexed premises, acquired during financial year 2019 with the consolidation of Ecolat S.r.l. for € 2,430,000.

With reference to photovoltaic systems, we 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 € 25,555,000. 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 2021 amounted to € 2,094,000. 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 2021:

	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other assets	Payments on accounts and assets under construction	Total
<i>thousands of Euro</i>						
Cost or valuation						
At 1 January 2021	30,044	118,206	4,304	24,570	4,305	181,429
Increases	1,056	5,244	391	2,150	2,844	11,683
<i>of which for rights of use</i>	<i>900</i>		<i>245</i>	<i>961</i>		<i>2,106</i>
Sales/eliminations	(170)	(724)	(974)	(1,479)		(3,347)
<i>of which for rights of use</i>	<i>(171)</i>		<i>(974)</i>	<i>(629)</i>		<i>(1,774)</i>
Reclassifications		4,150		185	(4,335)	-
Corporate acquisitions	4,886	1,860	972	826		8,545
At 31 December 2021	35,816	128,736	4,693	26,252	2,814	198,310
Amortisation/ depreciation						
At 1 January 2021	(8,582)	(46,953)	(2,994)	(17,559)	-	(76,088)
Amortisation for the year	(3,543)	(6,050)	(228)	(2,750)		(12,571)
<i>of which for rights of use</i>	<i>(3,216)</i>	<i>(76)</i>	<i>(82)</i>	<i>(1,264)</i>		<i>(4,637)</i>
Sales/eliminations	119	210	388	1,430		2,147
<i>of which for rights of use</i>	<i>119</i>		<i>388</i>	<i>581</i>		<i>1,088</i>
Reclassifications						-
Corporate acquisitions	(709)	(1,572)	(580)	(414)		(3,275)
At 31 December 2021	(12,715)	(54,365)	(3,414)	(19,293)	-	(89,787)
Carrying amount						
At 31 December 2020	21,462	71,253	1,310	7,011	4,305	105,341
At 31 December 2021	23,101	74,371	1,279	6,959	2,814	108,524

We specifically note the following for 2021:

- investments during the year for Euro 11,683,000 are mainly attributable (i) to the category “Land and buildings”, for a total of € 1,056,000 among which we note in particular the contract renewals for store rentals for € 398,000; (ii) to the category “Plants and machinery”, for a total of € 5,244,000 referring mainly to plants and machinery related to the creation of telematic and telecommunications structures (iii) the category “Other assets”, for a total of € 2,150,000 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 € 2,844,000 related mainly to the creation of infrastructural cabling of the industrial areas in FTTH and the revamping of the Ecolat S.r.l. municipal waste selection plant;
- net increases for corporate acquisitions for € 5,270, mainly related to the full consolidation of Ecos S.r.l. and Edma Reti Gas S.r.l., as described in the paragraph of the Notes on Business combinations.
- depreciation for the period for € 12,571,000;

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

	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other assets	Payments on accounts and assets under construction	Total
<i>thousands of Euro</i>						
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
<i>of which for rights of use</i>	<i>1,092</i>			<i>1,677</i>		<i>2,769</i>
Sales/eliminations	(686)		(104)	(899)		(1,689)
<i>of which for rights of use</i>	<i>(686)</i>			<i>(694)</i>		<i>(1,380)</i>
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)
<i>of which for rights of use</i>	<i>(2,921)</i>	<i>(51)</i>	<i>(195)</i>	<i>(1,188)</i>		<i>(4,355)</i>
Sales/eliminations	633		21	837		1,490
<i>of which for rights of use</i>	<i>633</i>			<i>644</i>		<i>1,277</i>
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 € 10,257,000 mainly attributable (i) to the category “Land and buildings”, for a total of € 1,800,000 among which we note in particular the purchase of a building adjacent to the head office of Ecolat for € 476,000 and contract renewals for store rentals for € 698,000; (ii) to the category “Plants and machinery”, for a total of € 2,671,000 referring mainly to plants and machinery related to the creation of telematic and telecommunications structures (iii) the category “Other assets”, for a total of € 2,576,000 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 € 3,065,000 related mainly to the creation of infrastructural cabling of the industrial areas in FTTH;
- depreciation for the period for € 12,045,000;

10.1.2 Impairment tests pursuant to IAS 36 on the value of property, plant and equipment

Financial years 2021 and 2020

Following the analysis of both internal and external conditions, the Directors have not revised the impairment indicators referring to property, plant and equipment, also taking into consideration the impact of the COVID-19 health emergency, as detailed in section 13.6 “Risk relating to the coronavirus pandemic”.

10.1.3 Goodwill

Goodwill recorded in the consolidated financial statements at 31 December 2021 refers to:

- the following business combination operations prior to the FTA date, and in which case, 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” (€ 1,369,000);

- 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 (€ 10,687,000).
- ii) the following business combination operations after the date of FTA which amounted to € 23,440,000 and can be broken down as follows:
 - goodwill resulting from the Purchase Price Allocation from the acquisition of Metania S.r.l. in 2018 (€ 10,836,000);
 - goodwill resulting from the Purchase Price Allocation from the acquisition of Gas Marca S.r.l. in 2018 (€ 6,544,000);
 - goodwill resulting from the Purchase Price Allocation from the acquisition of Ecolat S.r.l. in 2019 (€ 1,820,000);
 - goodwill resulting from the Purchase Price Allocation from the acquisition of Ecos S.r.l. in 2021 (€ 4,240,000);

The Group conducted impairment testing at 31 December 2021 and 31 December 2020, which as stated above, did not show any losses in value.

10.1.4 Impairment tests 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" and "Gergas regulated market" cash generating units. "Other - Ecolat waste management" and "Other - Ecolat waste":

Carrying value of goodwill allocated to each cash generating unit:

	Gas and electricity sales		Regulated Market		Other (Ecos)		Other (Ecolat)		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Goodwill	28,067	28,067	1,369	1,369	4,240		1,820	1,700	35,496	31,136

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 Group conducted its own impairment test at 31 December 2021 and 2020. The impairment test at 31 December 2021 was prepared on the basis of the 2021-2025 business plan approved by the Board of Directors on 13 January 2021, taking into consideration the expected performance for working capital resulting from the recent extraordinary increase in commodity prices.

The discount rate applied to the cash flow projections, net of tax is 5.37% in 2021 (5.7% in 2020). Cash flows were extrapolated using a growth rate of 1.5% in 2021 (1.5% in 2020), 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 € 28,067,000.

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 previous year's figures, 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 € 1,369,000.

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. Cash flows were extrapolated using a growth rate of 1.5%.

The discount rate applied to the cash flow projections, net of tax was 5.95% (5.3% in 2020).

On completion of these analyses, the Directors did not find any impairment that would need to be attributed to goodwill.

The calculation of the value in use is particularly sensitive to the following factors:

- volumes of waste treated and the relative margins;
- discount rates.

The Group conducted a sensitivity analysis of the aforementioned relevant assumptions used to determine the recoverable value (variances +/- 5% of WACC and future cash flows on the assumption of lower business volumes or reduced margins). Based on the results, Directors believe that with the reasonable variances in the key assumptions, there will not be a surplus carrying amount on the recoverable value.

Other - Ecos waste management

The goodwill refers to the acquisition of Ecos S.r.l., the company owning a waste storage site, operating on the domestic market in the management of special, hazardous and non-hazardous waste, on a residual basis in relation to the fair value of identifiable assets, the company's ability to produce future income from its business and relates mainly to expected growth and cost synergies.

The CGU recoverable value was determined on the basis of the value in use calculation, where cash flow projections from the last available business plan approved by Company Management were used, which envisage a progressive growth in volumes treated and consequent margins compared to the current year, which is the first year of management by the Group.

The discount rate applied to the cash flow projections, net of tax is 5.95 %.

On completion of these analyses, the Directors did not find any impairment that would need to be attributed to goodwill.

The calculation of the value in use is particularly sensitive to the following factors:

- growth rate in the volumes of waste treated and the relative margins;
- extension to the authorisation beyond the current expiry (2031);
- discount rates.

Consequently, the Group conducted a sensitivity analysis of the aforementioned relevant assumptions used to determine the recoverable value (variances +/- 5% of WACC and future cash flows on the assumption of lower business volumes or reduced margins, duration of authorisation). Based on the results, Directors believe that with the reasonable variances in the key assumptions, there will not be a surplus carrying amount on the recoverable value.

10.1.5 Intangible assets

In the financial periods ended 31 December 2021 and 31 December 2020, intangible assets amounted to € 492,392,000 and € 449,377,000 respectively.

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Industrial patent rights, licences and trademarks	3,639	3,485
Assets under concession	371,671	323,610
Customer listings	96,190	103,426
Other intangible assets	14,450	16,551
Intangible assets under construction	6,442	2,305
Intangible assets	492,392	449,377

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 fulfil 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 refer to determining the purchase price allocation (PPA) of the customer portfolios of the companies operating in the Gas and electricity sales CGU 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 2021 and 31 December 2020, 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. Amortisations for this item were also restated at least at the end of each period in relation to the Churn 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 2021 with regard to intangible assets with a defined useful life.

The following changes were recorded in this item for the year ended 31 December 2021:

<i>thousands of Euro</i>	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 2021	45,270	547,531	138,167	45,327	2,305	778,600
Increases	2,869	25,071		6,305	4,187	38,432
Sales/eliminations		(3,864)				(3,864)
Reclassifications	50				(50)	-
Corporate acquisitions	2,534	67,578		1,443		71,555
At 31 December 2021	50,723	636,316	138,167	53,075	6,442	884,723
Amortisation/depreciation and write-downs						
At 1 January 2021	(41,785)	(223,921)	(34,741)	(28,776)		(329,223)
Amortisation for the year	(2,886)	(17,675)	(7,236)	(8,639)		(36,436)
Sales/eliminations		2,441				2,441
Corporate acquisitions	(2,413)	(25,490)		(1,210)		(29,113)
At 31 December 2021	(47,084)	(264,645)	(41,977)	(38,625)		(392,331)
Carrying amount						
At 31 December 2020	3,485	323,610	103,426	16,551	2,305	449,377
At 31 December 2021	3,639	371,671	96,190	14,450	6,442	492,392

We specifically note the following for 2021:

- investments for the period of € 38,432,000, referring primarily to:
 - (i) the category "Assets under concession" for a total of € 25,071,000 for investments made regarding the gas distribution networks;
 - (ii) the category "Industrial patent rights, licences and trademarks" for a total of € 2,869,000 relating mainly to software costs;
 - (iii) the category "Other Intangible Assets" for a total of € 6,305,000, relating mainly to the costs to acquire customers incurred by the Group's gas and electricity sales companies;
 - (iv) the category "Fixed assets under construction" for a total of € 4,187,000, 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 be completed during 2022.
- net increases deriving from company acquisition for € 42,442,000 relating to the consolidation of Edma Reti Gas S.r.l., where the consolidation contributed intangible assets for a total of € 42,089,000 relative to the gas distribution networks included in the scope of application of IFRIC 12;
- sales/eliminations for € 1,423,000 mainly related to gas meters;
- amortisations for the period of € 36,436,000.

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

<i>thousands of Euro</i>	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/depreciation 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 € 36,634,000, referring primarily to:
 - the category “Assets under concession” for a total of € 21,178,000 for investments made regarding the gas distribution networks;
 - the category “Industrial patent rights, licences and trademarks” for a total of € 2,936,000 relating mainly to software costs;
 - the category “Other Intangible Assets” for a total of € 11,240,000, 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 € 1,280,000, 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 € 1,517,000 mainly related to gas meters;
- amortisations for the period of € 35,979,000.

10.1.6 Equity investments

In the financial periods ended 31 December 2021 and 31 December 2020, equity investments amounted to € 20,082,000 and € 26,107,000 respectively.

Equity investments (amounts in thousands of euro)	Balance at 31 December 2020	Increases/(Decreases)	Revaluation/(write-down)	Other changes	Balance at 31 December 2021
Edma Reti Gas S.r.l.	10,124		5,966	(16,090)	-
Nuova Sirio S.r.l.	54		35		89
Equity investments in companies subject to joint control	10,178	-	6,001	(16,090)	89
Blugas Infrastrutture S.r.l.	7,213		16		7,229
AES Fano	683		343		1,026
Monte Urano S.r.l.	830		(36)		794
SIG S.r.l.	3,191		(32)		3,159
Bisenzio Ambiente S.p.A.		1,767	(485)	39	1,321
Sei Toscana S.r.l.		2,638	(110)	3,773	6,301
Equity investments in associates	11,917	4,405	(304)	3,812	19,830
AISA S.p.A.	45				45
Sinergie Italiane S.r.l.	0				0
Sei Toscana S.r.l.	3,773			(3,773)	-
Casole Energia S.r.l.	114		(22)		92
Ecos S.r.l.	15	1,760		(1,775)	-
Bisenzio Ambiente S.p.A.	39			(39)	-
Other companies	26				26
Equity investments in other companies	4,012	1,760	(22)	(5,587)	163
Total equity investments	26,107	6,165	5,675	(17,865)	20,082

The changes in the year refer to:

- the increase in the equity investment for Bisenzio Ambiente S.r.l. for € 1,767,000 following the acquisition of a 31.8% stake in the share capital. The other changes refer to the reclassification from equity investments in other companies for the 5% held in associates at 31 December 2020.

The acquisition was based on an investment agreement, signed on 30 March 2020 (subsequently amended on 6 April 2021 and 28 February 2022) by Estra S.p.A., Consiag S.p.A. (shareholder with 39.5% of Estra S.p.A.) and Cipeco S.r.l., which involves a series of corporate transactions aimed at the progressive acquisition by Estra S.p.A. and Consiag S.p.A. of the entire share capital of Bisenzio Ambiente S.r.l. by Cipeco S.r.l., and the repayment of the € 7,804,000 loan originally granted by Cipeco S.r.l. to Bisenzio Ambiente S.r.l.

In executing the agreement:

- on 22 April 2020, Estra S.p.A. acquired 5% of Bisenzio Ambiente through a share capital increase subscription for € 39,000, resolved by the shareholder Cipeco in favour of third parties. Estra S.p.A. also provided a guarantee to the Region of Tuscany for € 1,867,000 that was needed to carry out waste selection and disposal activities.
- on 28 April 2021, Estra S.p.A. acquired a 31.8% stake in Bisenzio Ambiente for an amount of € 1,767,000 and Consiag S.p.A. acquired a 4.2% stake for € 233,000.
- on 31 March 2022, Estra S.p.A. and Consiag S.p.A. acquired the remaining 54% of the Bisenzio Ambiente share capital for a total of € 2.5 million, of which Estra S.p.A. acquired 38.2% and Consiag S.p.A. 15.8%. The consideration is subject to an adjustment mechanism, which could result in an increase of up to € 500,000 should certain applicable conditions eventuate.

Given that control was acquired after the year-end, the company was measured in these consolidated financial statements at 31 December 2021 using the net equity method;

- increased percentage in the Group shareholding in Sei Toscana S.r.l. from 11.27% at 31 December 2020 to 19.99% at 31 December 2021, following the acquisition of an additional 8.72% shareholding during 2021 by Ecolat S.r.l. as detailed in the paragraph "Resolution of the dispute of Ecolat on capital increase in Sei Toscana S.r.l.", to which reference is made. The other changes refer to the reclassification from equity investments in other companies for the 11.27% held in associates at 31 December 2020. The increase in the equity investment resulted in a transfer from the item equity investments in other companies, measured at cost, to the item equity investments in associates, measured using the net equity method;
- increased percentage in the Group shareholding in Gruppo Ecos S.r.l. from 15% at 31 December 2020 to 100% at 31 December 2021, following the acquisition of an additional 85% shareholding during 2021 for € 1,760,000, as detailed in the paragraph "Business combinations". The other changes refer to the elimination of the equity investment following the full consolidation;
- elimination of the 45% equity investment in Edma Reti Gas. S.r.l. following the acquisition of control in the company (€ 16,090,000), as detailed in the paragraph "Business combinations";
- revaluation/(write-down) resulting from the application of the net equity method for a total of € 5,388,000d.

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 2021 of € 2,111, 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 Italian Ministry for Economic Development with the Italian 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 relevant legal action, which after the initial unsuccessful outcome in the TAR Lombardy, resulted in the reasons for the objection being accepted by the Council of State in June 2021. In accordance with the Council of State judgment, ARERA issued Resolution 513/2021, reassessing the calculation methods for the curtailment of revenue factor applied, and reformulated the value, with an increase from 71.6% to 73.6%. This change results in an adjustment on 2015-20 revenue of € 320,000 in favour of the Company.

The co-holder Edison Stoccaggio has proposed a new appeal against Resolution 513/2021, because it believes that the latter does not adequately execute the Council of State decision. The new proceedings had not yet been initiated at the reporting date of these financial statements.

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 2021, prepared in compliance with art. 2490 of the Italian Civil Code, closed with negative equity of € 18.7 million after a loss for the period of € 18.9 million.

The company’s only fixed asset refers to the investment made in 2009 and 2011 in the transport capacity of the Austrian pipeline TAG, falling due in 2029. Over previous years, liquidators have ascertained a decreasing interest on the part of the main sector operators to buy or use the transport capacity based on a sub-letting contract, not subject to sub-letting to Gazprom. This disinterest, driven by strong liquidity in the natural gas market in Italy to the extent of making investments in transport capacity from Austria to Italy uneconomical, had convinced the liquidators to proceed with a full write-down of the residual carrying amount. After assessing the different alternatives so as to be released from the obligations referred to in the TAG contract, a tender was called during the year, in which the 19 main market operators were invited to bid. Binding bids were then received from certain shareholders/companies referring the groups of shareholders of Sinlt, including Estra Energie S.r.l. (hereinafter, “Bidding Companies”), Gazprom Italia S.p.A. and Repower Italia S.p.A., which envisaged the payment of a so-called “negative price”, i.e. the payment of money by Sinlt to the assignees in order to finalise the transfer of the transport capacity. This option is explicitly envisaged, in addition to governing the tender called by Sinlt, by the standard contract conditions for the sale of capacity drafted by the European Federation of Energy Traders, in view of the trends within the natural gas (and electricity) market, it is possible that the cost for transport capacity (similarly to the commodity sold) is higher than the market value at the time of the sale.

Following a careful assessment, Sinlt assigned the contract to the Bidding Companies given that their bid was deemed the most economical. At the beginning of August 2021, contracts were then signed to finalise the transfer of the TAG shares, which provided a fee of € 23,700 plus VAT. This transfer permitted the Company to terminate

the existing contract in advance with the gas pipeline operator, thus avoiding considerable expenses that SinIt would have been liable for as from 1 October 2021, in the absence of revenue, given the end of the resale of the gas purchased from Gazprom. As a result of these contracts, Estra Energie S.r.l. acquired a share of the transport capacity from Sinergie Italiane S.r.l. (of 11.63%), receiving a “negative price” of € 2,756,000, corresponding to the negative fair value of asset acquired on 10 August 2021 and recognised under other non-current liabilities in these financial statements at 31 December 2021 for an amount of € 2,210,000.

To carry out the necessary payments to the Bidding Companies and complete the liquidation *in bonis*, SinIt obtained a total of € 28,900,000 in funding from Shareholders in proportion to their respective shareholdings, of which the Estra S.p.A. portion amounted to € 3,360,000 subject to the payment of all the company's other debts and consequently the availability of funds once these payments had been made.

Based on the updated liquidation plan and envisaged availability of funds in SinIt at the end of the liquidation, a write-down for € 2,100,000 was made in these consolidated financial statements to adjust the funding of € 3,360,000 to its presumed recoverable value.

10.1.7 Other non-current financial assets

In the financial periods ended 31 December 2021 and 31 December 2020, other non-current financial assets amounted to € 13,919,000 and € 13,670,000 respectively.

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Loans to companies subject to joint control	230	230
Loans to associates	7,331	4,643
Receivables from others	6,358	8,797
Other non-current financial assets	13,919	13,670

The tables below show the composition of loans to subsidiaries and their changes at 31 December 2021 compared to the previous financial period:

(amounts in thousands of euro)	Balance at 31 December 2020	Increases	Decreases	Other changes	Balance at 31 December 2021
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 2020	Increases	Decreases	Other changes	Balance at 31 December 2021
Blugas Infrastrutture S.p.A.	4,153				4,153
A.E.S. Fano Distribuzione Gas S.r.l.	490				490
Sei Toscana S.r.l.		2,688			2,688
Loans to associates	4,643	2,688	-	-	7,331

The recoverability of the loans was verified on the basis of the subsidiaries' latest economic-financial plans.

The item receivables from others mainly refers:

- for € 5 million to the amount paid at the time of being awarded the gas distribution contract for the Municipality of Rieti, and which will be repaid once the concession ends, and all plants, networks and other distribution service installations are delivered to the replacement operator, also present at 31 December 2020;
- for € 3,360,000 to the loan provided on 3 August 2021 to the subsidiary Sinergie Italiane S.r.l. and subsequently written down for € 2.1 million, as commented under equity investments in other companies.

10.1.8 Other non-current assets

In the financial periods ended 31 December 2021 and 31 December 2020, other non-current financial assets amounted to € 2,369,000 and € 5,448,000 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 2021 and 31 December 2020, deferred tax assets amounted to € 70,649,000 and € 66,368,000 respectively.

The table below shows the composition of deferred tax assets and their changes at 31 December 2021 compared to the previous financial period:

(amounts in thousands of euro)	Balance at 31 December 2020	Corporate acquisitions	Reversals/Uses	Allocations	Other changes	Balance at 31 December 2021
Amortisation/ depreciation	8,217	778	(137)	1,654		10,512
Risk provisions	831	225	(292)	303		1,067
Provision for write-downs	11,665		(1,014)	2,448		13,099
Contributions received on connections	3,072	266	(105)			3,233
Write-down of fixed assets	991		(75)			916
Lease accounting	189	62	(13)	26		264
Reversal intangible assets	216	24	(16)	1		225
Fair value derivatives	228				2,003	2,231
Discounted employee severance indemnity	307	19	(45)	21	39	341
Other	3,508	672	(2,082)	1,175		3,273
Higher tax value goodwill	3,544		(30)	21		3,535
Higher tax value assets under concession	33,600		(1,647)			31,953
Total	66,368	2,046	(5,455)	5,649	2,041	70,649

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.

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 à in 2020

In the 2020 financial year, the Group chose to apply the regulations referring to revaluation and realignment as per Italian Law no. 126 of 13 October 2020 containing the “Conversion into law with amendments of Italian 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, section 2 of Italian Law 342/2000, referenced under section 7 of Article 110 of Italian 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 € 158,722,000 and to the goodwill recognised in the financial statements of companies operating in the natural gas sales sector following merger transactions for € 36,880,000.

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 € 3,544,000 on goodwill not subject to taxation in the sale of the natural gas segment;
- the recording of deferred tax assets for € 33.6 million 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 € 10,628,000 following the gains on assets under concession for gas distribution not subject to taxation;
- the reversal of liabilities for deferred taxes for € 7,085,000 following the customer listings in the sale of natural gas segment not subject to taxation;
- the recognition of costs for substitute tax payable for € 5,868,000.

The overall effect on the Income Statement item “Income taxes” was therefore positive for a total of € 48,989,000.

In December 2021, the 2022 Budget Law (Italian Law no. 234 of 30 December 2021) amended the deadlines referring to the realignment of tax amounts for intangible assets and for goodwill, providing a longer time frame for the tax recovery. An option was provided to undertake ordinary depreciation to one eighteenth, by paying a substitute tax to the extent required for company contributions (12% on the portion of higher values up to € 5 million, 14% on the higher values over € 5 million and up to € 10 million, 16% on the portion over € 10 million), less the 3% substitute tax already paid for the realignment. The payment is to be made in two instalments for equal amounts, the first within the deadline for the balance on the income taxes relative to the tax period after the reference period when the revaluation was done; the second within the deadline for the next tax period.

Companies that have already paid substitute taxes at the date when the Budget Law came into force, can revoke the choice. The amounts can be requested as a refund or offset using form F24.

Estra Group companies have assessed the economic-financial feasibility of the operation, and confirmed the option already exercised. Based on trends in the results achieved, the recoverability of these deferred tax assets is confirmed.

10.2 CURRENT ASSETS

10.2.1 Inventories

In the financial periods ended 31 December 2021 and 31 December 2020, inventories amounted to € 13,814,000 and € 18,129,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Materials inventories	5,278	4,526
Natural gas storage inventories	8,370	13,566
LPG inventories	450	286
Provision for stock devaluations	(284)	(249)
Inventories	13,814	18,129

Inventories primarily comprise:

- Spare parts for the maintenance and operation of gas distribution plants for € 4,169,000 at 31 December 2021 (€ 3,695,000 at 31 December 2020), 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 € 8,370,000 (€ 13,566,000 at 31 December 2020).

10.2.2 Trade receivables

In the financial periods ended 31 December 2021 and 31 December 2020, trade receivables amounted to € 405,857,000 and € 234,372,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Receivables from users and customers	399,741	227,272
Receivables from joint ventures	10	3,190
Receivables from associates	4,393	1,959
Receivable from holding companies	1,713	1,952
Trade receivables	405,857	234,372

The significant increase in the balance at the end of financial year 2021 compared to the end of 2020 is due mainly to the rise in raw material prices recorded in the last months of the period.

The adjustment of the nominal value of receivables to their estimated realizable 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 end customers. Changes in the provision are shown in the table below:

(amounts in thousands of euro)	Balance at 31 December 2020	Change in the scope of consolidation	Uses during the year	Allocations for the year	Balance at 31 December 2021
Provision for write-downs	52,934	52	(6,105)	12,549	59,430

(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

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 significant increase in the balance at the end of financial year 2021 compared to the end of 2020 is due mainly to the rise in raw material prices recorded in the last months of the period.

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 2021 and 31 December 2020, tax receivables amounted to € 9,732,000 and € 21,813,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
VAT credit	1,959	2,281
IRES/IRAP credit	2,425	5,234
UTIF	132	10,420
Other tax receivables	5,216	3,878
Tax receivables	9,732	21,813

The significant decrease in UTIF tax credits is mainly due to the difference between advances paid over the -year, determined on the basis of consumption in 2020, and the tax effectively debited to customers over the period, which is significantly higher compared to the end of the previous financial year.

The item "Other tax receivables" refers mainly to the credits resulting from tax receivables pursuant to Art. 14, sections 2-ter and 2-sexies of Italian Decree Law 63/2013, relating to energy efficiency measures and building renovations.

10.2.4 Other current assets

In the financial periods ended 31 December 2021 and 31 December 2020, other current assets amounted to € 35,239,000 and € 28,367,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Receivables from the Energy Authority and GSE	25,570	19,472
Advances	2,160	1,791
Other receivables	5,285	5,639
Prepaid expenses	2,224	1,465
Other current assets	35,239	28,367

The item "Receivables from the AEEG" mainly regards the amounts due in application of the equalisation mechanism relative to the restriction of total distribution revenue for subsidiaries operating in the sector, and for contributions relative to reaching the energy saving targets.

Receivables recognised under current assets 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 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 2021 and 31 December 2020, other current financial assets amounted to € 36,257,000 and € 13,546,000 respectively, while other current financial liabilities amounted to € 33,876,000 and € 10,021,000.

Current financial assets can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Interest income from banks	9,430	97
Derivative instruments	26,827	13,449
Other current financial assets	36,257	13,546

Derivative instruments included in other current financial assets are made up as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Forward commodity contracts	22,521	6,775
Cash Flow Hedge Commodity Swaps	2,478	5,534
Commodity Swaps with change in fair value through profit or loss	1,828	1,140
Derivative instruments	26,827	13,449

Current financial liabilities are broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Payable derivative financial instruments	33,876	10,021
Other current financial liabilities	33,876	10,021

Derivative instruments included in other current financial liabilities are made up as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Forward commodity contracts	21,816	7,078
Cash Flow Hedge Commodity Swaps	10,949	109
Commodity Swaps with change in fair value through profit or loss	995	2,385
Cash flow hedge Interest Rate Swaps	116	238
Interest Rate Swaps not designated as hedging instruments	-	211
Derivative instruments	33,876	10,021

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 2021 and 31 December 2020:

(amounts in thousands of euro)	Year ended 31 December 2021		Year ended 31 December 2020	
	Positive/(negative) Fair Value	Notional	Positive/(negative) Fair Value	Notional
IRS Fixed Rate/Variable Rate maturing 30/06/2021 (MPS)			(3)	254
IRS Fixed Rate/Variable Rate maturing 28/12/2021 (UniCredit)			(211)	7,000
IRS Fixed Rate/Variable Rate maturing 28/06/2024 (Intesa)	(115)	1,788	(235)	2,440
IRS Fixed Rate/Variable Rate maturing 03/06/2026 (Intesa)	(1)	600		
IRS	(116)	2,388	(449)	9,694

Please see the paragraph "Interest rate Risk" for additional information.

10.2.6 Cash and cash equivalents

In the financial periods ended 31 December 2021 and 31 December 2020, cash and cash equivalents amounted to € 143,107,000 and € 160,249,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Bank and postal deposits	143,092	160,233
Cash and cash equivalents	15	16
Cash and cash equivalents	143,107	160,249

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.

10.2.7 Liabilities directly associated with assets held for sale

The assets and Liabilities held for sale at 31 December 2021 refer to the equity investments and relevant debts for subscribed capital not yet paid in the companies Metropolitan City of Venice I and Metropolitan City of Venice II established on 30/03/2021, with a 30% stake held by Estra Clima, for the execution of works, supply of materials and equipment needed and provision of services for the management and maintenance of the public lighting system in 14 municipalities in the metropolitan city area of Venice.

In December 2021, shareholders were unable to reach agreement on the funding methods to adopt for the project and a stalemate resulted, following which Estra Clima, as envisaged by the shareholders' agreements in these circumstances, sold 29.9% of its shareholding in both companies at the beginning of 2022 at the subscription value, keeping only a residual stake of 0.1% (to be held until the final approval of the works executed, which are also intended for sale).

10.3 SHAREHOLDERS' EQUITY

In the financial periods ended 31 December 2021 and 31 December 2020, shareholders' equity amounted to € 413,025,000 and € 392,377,000 respectively.

The change in the Group's equity at 31 December 2021 compared to 31 December 2020 is mainly due to:

- distribution of dividends to Shareholders (profit for the year 2020) by the Parent Company (€ 17,500,000);
- Effects resulting from the acquisition of non-controlling interests in the already-controlled company Prometeo S.p.A. (+ € 819,000). 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 (€ 22,139,000).

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 million);
- Effects resulting from the acquisition of non-controlling interests in the already-controlled company Gergas S.p.A. (+ € 882,000). 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 (€ 76,897,000);

The change in shareholders' equity attributable to Non-Controlling Interests at 31 December 2021 compared to 31 December 2020 is mainly due to:

- Effects resulting from the acquisition of non-controlling interests in the already-controlled company Prometeo S.p.A. (+ € 3,224,000). Please see the related point in the paragraph "Business combinations and corporate sales and acquisitions and disposals of non-controlling interests";
- Effects deriving from the first consolidation of Edma Reti Gas S.r.l. (+ € 19,666,000). 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 party shareholders (- € 1,468,000).
- result of the Group's comprehensive income statement related to Non-Controlling Interests (€ 215,000).

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. (€ +882,000). 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 Idrogena losses (€ 191,000);
- distribution of dividends to third party shareholders (- € 363,000).
- result of the Group's comprehensive income statement related to Non-Controlling Interests (+ € 101,000).

10.4 NON-CURRENT LIABILITIES

10.4.1 Provisions for risks and charges

In the financial periods ended 31 December 2021 and 31 December 2020, the provisions for risks and charges amounted to € 10,645,000 and € 9,173,000 respectively.

The table below shows the composition of the item and the change that occurred in 2021:

(amounts in thousands of euro)	31-Dec-2020	Corporate acquisitions	Allocations	Uses	Reversal	31/12/2021
Agency indemnities	233		97	(5)	(69)	256
Disputes and legal defence expenses	2,323			(55)		2,268
Energy Efficiency Certificates	1,924	425	10	(492)		1,867
Other risks	4,167	704	658	(470)		5,059
Plant dismantling provision	526		669			1,195
Provisions for risks and charges	9,173	1,129	1,434	(1,022)	(69)	10,645

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 refers 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 refers 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 2021 referred mainly to:

- Increases due to corporate acquisitions for € 1,129,000 referring to the consolidation of Edma Reti Gas S.r.l.;
- Use of risk provisions for Energy Efficiency Certificates for € 492,000 to cover the losses on EECs made in 2021 for the obligation year 2020;
- Provisions for € 658,000 primarily referring to the estimate for the risk of sanctions and/or penalties pertinent to the gas distribution activity and indemnities for disputes referring to work executed and service contracts by third party contractors.
- Uses for € 470,000 of provisions for risks and sanctions set aside in previous years, mainly related to resolving a dispute by the company Gas Tronto S.r.l. with one of its natural gas suppliers. Gas Tronto S.r.l., which subsequently merged with Estra Energie S.r.l. during 2019.
- Increase in the plant dismantling provision relating to the concession relationship between the subsidiaries Cavriglia and Tegolaia and the granting Municipality, following a revision of the estimate made on the basis of the provisions pursuant to Art 40 of Italian Legislative Decree 92014 and Art. 1 of Italian Legislative Decree 118/2020 referring to the management and dismantling of incentive-based photovoltaic plants, to which Group companies subscribe.

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 € 85,538,000 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 € 9,613,000, 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 € 7,700,000 to the Municipality of Prato (of which, € 1.7 million 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 million 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 € 1,742,000 based on an alleged different composition of the network from what had been represented by the outgoing operator.

With judgment 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, million, 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 € 9,613,000, 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 Centria's withdrawal of the challenge to the judgment, limited to the part ordering the payment to the Municipality of Prato. The Parties agreed on instalment-based payments for a total amount of € 6,050,000, including interest, in three annual instalments falling due on 31 January 2021, 31 January 2022 and 31 January 2023.

With regard to the application by Estra and Centria for € 9,613,000 and the counter demand of € 1,742,000 by Toscana Energia, the Court of Prato waived its jurisdiction, stating that the matter should be heard by the Administrative Judge. Estra and Centria appealed the judgment on 26 February 2021 and Toscana Energia separately submitted an application to the Appeal Court of Prato against the same judgment. Nonetheless in a separate judgment, in November 2021, the Administrative Judge declared that the Civil Courts had jurisdiction and it is expected that the parties will resume proceedings before the Court of Prato.

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 € 1,742,000 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. Subsequently to the submission of the appeal, the Regional Tax Commission of Arezzo, with judgment no. 210/2021 of 26 April 2021, filed on 24/05/2021, accepted the appeal by Centria and cancelled the challenged settlement notice. On 15 December 2021, the Revenue Agency submitted an appeal to the Regional Tax Commission of Tuscany.

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 Serravezza 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 Serravezza 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 € 861,000 per year. The adjustment to the provision recognised in the financial statements for € 636,000, was recorded less the operating costs in these financial statements.

For the years 2018 to 2021, the fee has provisionally been calculated at € 150,000, 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 € 2.2 million, 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. The Board 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. The first hearing was held on 28 January 2021, with a postponement until 23 March 2023 for the closing arguments.

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 € 3,131,000, 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 € 984,000 as from 2011 and up until the European tenders pursuant to Art. 14 of Italian Legislative Decree 164/2000 are awarded.

The first hearing was held on 15 February 2022. On the request of the Municipality's defence, the Judge granted the standard deadline for the filing of statements pursuant to Art. 183, paragraph 6 of the Civil Procedure Code. The case was therefore postponed to a hearing on 15/06/2022 to review the preliminary submissions and for the proceedings to continue.

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.

On 5 February 2021, the Municipality served notice of the start of summary proceedings pursuant to Art. 702 *bis* of the Italian Code of Civil Procedure, aimed at obtaining judgment against Murgia S.r.l. to pay the fees past their due date for the period 2019-2020 for approximately € 326,000, plus approximately € 108,000 in penalties.

This refers to an expired concession contract arising from a tender conducted pursuant to Art. 14 of Italian Legislative Decree no. 164/2000, which contemplates a fee equalling 53% of the location revenue tariff (at the time, VRD).

In the absence of the Entity's availability to reformulate the fee, the Company paid amounts commensurate to the criteria applicable to new tenders, in accordance with tariff regulations, estimating a breakdown between the Municipality and Operator (remuneration of invested capital for the municipality owned portion).

The first hearing was held on 25/11/2021. At the hearing, the Court issued an Order whereby the documents were sent to the Judge President, on the basis that the case fell within the scope of responsibility of the Companies Section of the same Court.

The entire fee amount was recognised in these financial statements, but given the risk profile and arguments underlying its position, supported by independent external consultants, a provision was not made for the amount for penalties requested by the Municipality.

Resolution of the dispute of Ecolat on capital increase in Sei Toscana S.r.l.

On 28 July 2021, Ecolat S.r.l. and the other shareholders of SEI Toscana S.r.l. accepted the settlement of the dispute relating to a capital increase of € 30 million, which was subscribed in two tranches in 2015 and in 2018.

In particular, with reference to the first tranche of € 12 million, Ecolat S.r.l. 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 Toscana S.r.l. triggered a dispute which saw, on one hand, SEI Toscana S.r.l. proceeding to the sale pursuant to 2466 to the detriment of Ecolat S.r.l. transferring to the other shareholders a portion equivalent to 5.14% of the capital, on the other, Ecolat S.r.l. 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 S.r.l. of € 1,365,000.

The amount is representative of the double payment of € 1,016,000 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.

In terms of the settlement agreement:

-
- Ecolat S.r.l. acquired shares from the other shareholders for a fee of € 4.7 million, bringing its stake in SEI Toscana S.r.l. to 19.99% of the share capital;
 - Ecolat S.r.l. has acknowledged the transfer of its 5.14% stake in SEI Toscana S.r. to other shareholders;
 - the parties have settled their respective credits, including the Ecolat S.r.l. credit for € 1,365,000.

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 € 218,000 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 € 148,000, applied to goodwill for around € 6,690,000, 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, Prometeo submitted the relevant rebuttal arguments to the appeal application.

In the scope of the tax mentorship undertaken with the Regional Tax Department in the Marche region, the above finding was also re-proposed for tax years after 2014. Specifically, with regard to the 2015 tax year, the Marche DRE issued additional assessment notices, in which respect Prometeo S.p.A. submitted an appeal on 20 July 2021.

The 2015 references also had judgments that become definitive with the Provincial Tax Commission of Ancona, on 23 November 2021, the Commission handed down another judgment in favour of the company.

On 30 March 2022, the DRE Marche issued another assessment notice referring to the same case as above, for the year 2016. Pending the undertaking of legal action, the company is continuing with its defence in the first instance for the year 2016, and has submitted an appeal regarding the year 2015.

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 Italian 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 Italian Decree Law 511/88, in the applicable version, *ratione temporis*, subsequent to the amendments introduced by Art. 5, section 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 Italian 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.

The first hearings were held in the Civil Court during 2021, opposing the requests for refunds received from certain customers. Given that the position is wide open to interpretation, and in the absence of consolidated case-law, the Courts involved up to now in the individual matters, are adopting different approaches to the matter at hand. At the date of this document, pending the action relating to the claims for damages that have already become definitive in the first instance, at the beginning of 2022, the company undertook to repay 11 customers for a total of € 227,000. An application was then submitted to the respective Customs Agencies involved to refund these amounts.

To date, with regard to the above, given that the applications for refunds to the vendor companies involved in other specific cases, have been accepted by certain territorial Customs Agencies, the Group did not deem it necessary to make a specific allocation to the risk provisions.

Proceedings related to the appointment of Mr Macrì to the Board of Directors of Estra S.p.A.

On 27 May 2021, ANAC notified Estra S.p.A. and other parties that it had initiated proceedings with regard to the appointment of Mr Francesco Macrì as Chairman of the Company. The proceedings were initiated in order to ascertain whether the appointment of Mr Macrì to the Board of Directors was subject to the prescriptions pursuant to Italian Legislative Decree no. 39 of 8 April 2013 referring to appointments with the public administration and entities under public control ("Decree 39"), and if subject to these requirements, whether any non-compliance had occurred. More specifically, the investigation relates to Mr Macrì's potential ineligibility as a member of the Board of Directors of Estra S.p.A. at the time of his appointment, based on his recent appointment as municipal councillor for the Municipality of Arezzo.

On 22 November 2021, ANAC notified Estra S.p.A. of its decision to cancel the appointment of Mr Francesco Macrì as Chairman of Estra S.p.A. with immediate effect.

On 26 November 2021, the Board of Directors appointed as its Chairman Mr Alessandro Piazzzi, formerly Chief Executive Officer of Estra S.p.A., and passed a resolution to challenge the ANAC decision before the relevant courts. More specifically, the Directors believe that Decree no. 39 should not apply to Group companies. The Decree refers mainly to the appointment of directors and officials, on the assumption that is supported by legal advice received, that Estra S.p.A. does not qualify as a company under public control in terms of this legislation. The first hearing relating to Estra's challenge of the ANAC decision is set for 14 June 2022 before the Administrative Court of Lazio.

The proceedings have not had an effect on these consolidated financial statements.

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 2021 to the obligations for defined benefits and the fair value of the plan's assets:

Obligations for defined benefits 31.12.2020	Corporate acquisitions	Costs for services	Interests	Settled benefits	Expected obligations 31.12.2021	Actuarial losses (gains) from experience	Actuarial losses (gains) from changes to financial assumption	Obligations for defined benefits 31.12.2021
8,511	661	432	45	(470)	9,179	182	(21)	9,340

The main assumptions are summarised in the table below:

Summary of the Economic Technical Basis

	Year ended 31 December 2021	Year ended 31 December 2020
Annual discount rate	0.98%	0.34%
Annual inflation rate	1.75%	0.80%
Annual severance indemnity increase rate	2.81%	2.10%
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
1.17%	0.50%

A quantitative analysis follows below summarising sensitivity in respect of the significant assumptions at 31 December 2021 and 2020:

Assumptions	Changes	Year ended 31 December 2021	Year ended 31 December 2020
Turnover frequency	+1/4%	8,940	8,254
	- 1/4%	9,189	8,483
Inflation rate	+1/4%	9,235	8,520
	- 1/4%	8,883	8,206
Discount rate	+1/4%	8,800	8,127
	- 1/4%	9,324	8,606

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					
	2022	2023	2024	2025	2026
Total	407	386	223	624	571

The average duration of the defined benefit plan obligation at the close of the 2021 financial period is approximately 15.4 years (approx. 15.6 at 31 December 2020).

10.4.3 Medium/long terms loans

In the financial periods ended 31 December 2021 and 31 December 2020, medium/long-term loans amounted to € 350,720,000 and € 422,645,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December 2021		Year ended 31 December 2020	
	Amount Carrying	Amount Nominal	Amount Carrying	Amount Nominal
Bonds maturing within 12 months	96,869	97,200	-	-
Bonds maturing after 12 months	49,516	50,000	145,835	147,200
Total payables for bonds	146,385	147,200	145,835	147,200
Shareholders' loans maturing within 12 months	1,435	1,435	1,435	1,435
Shareholders' loans maturing after 12 months	5,370	5,370	6,805	6,805
Total Shareholders loans	6,805	6,805	8,240	8,240
Loans maturing within 12 months	70,304	70,304	87,925	87,925
Loans maturing after 12 months	106,649	107,098	161,135	161,957
Total payables for loans	176,953	177,402	249,060	249,882
Leasing within 12 months	4,710	4,710	4,424	4,424
Leasing after 12 months	15,867	15,867	15,086	15,086
Total payables for leasing	20,577	20,577	19,510	19,510
Total within 12 months	173,318	173,649	93,784	93,784
Total after 12 months	177,402	178,335	328,861	331,047
Total medium/long term loans	350,720	351,984	422,645	424,832

The changes during 2021 are shown below:

(amounts in thousands of euro)	Balance at 31 December 2020	Corporate acquisitions	Granted/Opened	Repayments	Application of amortised cost	Balance at 31 December 2021
Bonds	145,835				550	146,385
Loans	249,060	4,724	12,000	(89,204)	373	176,953
Leases	19,510	4,840	1,641	(5,414)		20,577
Shareholders' loans	8,240			(1,435)		6,805
Total medium/long term loans	422,645	9,564	13,641	(96,053)	923	350,720

The table below shows the carrying amount at 31 December 2021 and 31 December 2020 for each bond loan issued:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
BOND 2015-2022	96,869	96,550
BOND 2016-2023	49,516	49,285
Bonds	146,385	145,835

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 million, repayable in 24 instalments starting from 30 June 2015, with constant principal amounts at an annual rate of 3% and residual debt at 31 December 2021 of € 6,250,000;
- debt to the shareholder Coingas originally of € 1,850,000 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 2021 for € 555,000.

In addition to the bond issue for € 80 million finalised on 14 April 2022 and detailed in the significant events after the reporting period, the Group initiated various submissions for medium/long-term loans to meet repayments on the maturities of bank loans and bonds in 2022, in addition to utilising available liquidity. Of note in this regard,

at the reporting date of this document, the finalisation and provision subsequent to 31 December 2021 of 5-year bank loans for a total of € 60 million.

10.4.4 Deferred tax liabilities

In the financial periods ended 31 December 2021 and 31 December 2020, deferred tax liabilities amounted to € 24,603,000 and € 27,477,000 respectively.

The composition and changes in 2021 in the item are as follows:

(amounts in thousands of euro)	Balance at 31 December 2020	Allocations	Reversals/Uses	Other changes	Balance at 31 December 2021
Dividends not collected	24		8		32
Amortised cost bond loans	172		(85)		87
Capital gains on assets under concession	2,358		(60)		2,298
Gains on Customer listings	22,403	237	(1,660)		20,980
Capital gains on property, plant and equipment	999	72	(66)		1,005
Other	219		(18)		201
Derivatives on commodities fair value	1,302			(1,302)	-
Deferred tax liabilities	27,477	317	(1,889)	(1,302)	24,603

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		24
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 Italian Law no. 126 of 13 October 2020 containing the "Conversion into law with amendments of Italian Decree Law no. 104 of 14 August 2020".

10.4.5 Other non-current liabilities

In the financial periods ended 31 December 2021 and 31 December 2020, other current liabilities amounted to € 15,709,000 and € 8,449,000 respectively.

The balance at 31 December 2021 mainly refers to multiple-year deferred income for fibre optic rentals for the year relating to data transmission in the telecommunication sector (€ 12,583,000) and the negative fair value of the TAG transport capacity acquired by the subsidiary SinIt as commented under equity investments (€ 2,210,000).

10.4.6 Non-current and current contractual liabilities

At 31 December 2021 non-current and current contractual liabilities amounted to € 25,172,000 and € 900,000 respectively (€ 22,071,000 and € 750,000 at 31 December 2020) 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 2021 and 31 December 2020, short-term borrowings amounted to € 34,891,000 and € 32,509,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Bank advances and current account uses	32,896	30,521
Payables to bondholders for interest accrued	1,995	1,988
Short-term borrowings	34,891	32,509

Bank advances were used mainly by the Group together with available liquidity, to meet the possible financial requirements generated by net commercial working capital, in particular for companies operating in the sale of natural gas and electricity, which also due to their seasonal nature, generally record physiological growth in the first half of the year due to the misalignment in the time frame between collections from customers and payments to suppliers.

It is noted that in order to meet the recent and extraordinary increases in commodity prices, the Group promptly approached leading credit institution to increase its short-term credit facilities, as noted in the paragraph "Objectives and criteria of financial risk management".

10.5.2 Trade payables

In the financial periods ended 31 December 2021 and 31 December 2020, trade payables amounted to € 380,273,000 and € 170,513,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Payables to suppliers	378,456	166,375
Payables to subsidiaries	-	3,825
Payables to holding companies	917	303
Payables to associates	900	10
Trade payables	380,273	170,513

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 increase in the balance at the end of financial year 2021 compared to the end of 2020 is due mainly to the rise in raw material prices recorded in the last months of the period.

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 2021 and 31 December 2020, tax liabilities amounted to € 21,201,000 and € 12,910,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Irpef withholding agents	1,227	949
VAT payable	366	4,471
IRES/IRAP payables	3,573	1,134
Excise duty and additional taxes	11,804	470
Substitute tax	4,160	5,868
Other payables	71	18
Tax liabilities	21,201	12,910

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”.

With regard to liabilities for excise duty and additional taxes on gas and electricity consumption, reference is made to the item “UTIF tax credits”.

10.5.4 Other current liabilities

In the financial periods ended 31 December 2021 and 31 December 2020, other current liabilities amounted to € 67,093,000 and € 56,517,000 respectively.

The item can be broken down as follows:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Payables due to staff for salaries	5,655	5,000
Payables to social security institutions	2,083	1,901
Payables to Energy and Environmental Services Fund [CSEA]	7,082	8,929
Payables for dividends resolved	17,500	7,000
Accruals and deferrals	974	880
Guarantee deposits	20,585	20,439
Payable for settlement agreement with the Municipality of Prato	3,990	6,000
Other payables	6,438	6,368
Payables to purchase equity investments	2,786	-
Other current liabilities	67,093	56,517

The balance of the item mainly refers to guarantee deposits made by customers as guarantees on gas consumption in the scope of one-year contracts.

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, and are down compared to the previous year.

The payable to the Municipality of Prato for the settlement agreement refers to the portion payable in terms of the contract in 2022 and 2023 following the outcome of the dispute on determining the compensation to the Group as the outgoing operator of the natural gas distribution services for the Municipality of Prato, with judgment no. 387/2020, the ordinary Court of Prato ordered Estra S.p.A. to pay the Municipality of Prato an amount of € 6 million. 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".

The payables to purchase equity investment related to the balance of the purchase price of the equity investment, contractually due during 2022.

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 2021 and 31 December 2020.

FINANCIAL ASSETS	Year ended 31 December 2021		Year ended 31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value with changes recognised in income statement	24,349	24,349	7,915	7,915
Forward commodity contracts	22,521	22,521	6,775	6,775
Commodity Swaps	1,828	1,828	1,140	1,140
Financial assets at fair value with changes recognised in shareholders' equity	2,478	2,478	5,534	5,534
Commodity Swaps	2,478	2,478	5,534	5,534
Receivables and loans	425,218	425,218	244,790	244,790
Loans to companies subject to joint control	230	230	230	230
Loans to associates	7,331	7,331	4,643	4,643
Medium/long term guarantee deposits	2,370	2,370	5,448	5,448
Trade receivables	405,857	405,857	234,372	234,372
Receivables from banks	9,430	9,430	97	97
Cash and cash equivalents	143,107	143,107	160,249	160,249
Non-current assets held for sale	42	42	-	-
TOTAL ASSETS	595,194	595,194	418,488	418,488

FINANCIAL LIABILITIES	Year ended 31 December 2021		Year ended 31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value with changes recognised in income statement	22,811	22,811	9,674	9,674
Forward commodity contracts	21,816	21,816	7,078	7,078
Commodity Swaps	995	995	2,385	2,385
IRS derivatives not designated as hedging instruments	-	-	211	211
Financial liabilities at fair value with changes recognised in shareholders' equity	11,065	11,065	347	347
Cash flow hedge IRS derivatives	116	116	238	238
Commodity Swaps	10,949	10,949	109	109
Liabilities at amortised cost	785,138	785,138	645,129	645,129
Trade payables	380,276	380,276	170,513	170,513
Medium/long terms loans	350,719	350,719	422,645	422,645
Short-term borrowings from banks	34,891	34,891	32,509	32,509
Guarantee deposits	19,252	19,252	19,462	19,462
Liabilities directly associated with assets held for sale	32	32	-	-
TOTAL LIABILITIES	819,046	819,046	655,150	655,150

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 to 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	
	2021	2020
Net income pertinent to Parent Company shareholders (thousands of Euro)	32,725	70,175
- Operating activities	32,939	70,286
- Assets held for sale		
Average number ordinary shares in circulation in period	227,834,000	227,834,000
Result per basic and diluted ordinary shares (Euro)	0.14	0.31
Result from operating activities per basic and diluted ordinary shares (Euro)	0.14	0.31

The result per 2020 share, net of non-recurring operations, in terms of CONSOB Resolution number 15519 of 27 July 2006 (€ 48,989,000), 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 2021 and 2020:

Guarantees issued on behalf of associates	31/12/2021	31-Dec-2020
Surety issued to Banca Popolare Emilia and UniCredit in favour of Sinergie Italiane S.r.l.	4,049	8,691
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	2,357	1,867
Total	10,663	14,815
Guarantees granted in the interests of others	31/12/2021	31-Dec-2020
Sureties issued to the Tax/Customs Authorities for tax refunds	7,932	7,796
Sureties to other parties	501	431
Guarantees issued on behalf of local entities for work or concessions relating to the use of public land	9,090	11,512
Sureties issued to INPS	-	243
Total	17,523	19,982
Total guarantees	28,186	34,797

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 2021, after evaluating the effects of IRS, around 72% (65% in 2020) 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 2021 and 2020:

SENSITIVITY OF FINANCIAL FLOWS	31/12/2021				31-Dec-2020			
	FINANCIAL EXPENSES		CASH FLOW HEDGE RESERVE		FINANCIAL EXPENSES		CASH FLOW HEDGE RESERVE	
	INCREASE 50 BP	DECREASE 50 BP	INCREASE 50 BP	DECREASE 50 BP	INCREASE 50 BP	50 BP DECREASE	INCREASE 50 BP	DECREASE 50 BP
TOTAL DEBT FOR DERIVATIVES AND LEASES	(147)	148			(156)	156		
CHANGES TO FAIR VALUE			138	(80)	30	(30)	137	(46)
TOTAL	(147)	148	138	(80)	(126)	126	137	(46)

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, recourse to insurance cover and obtaining guarantees from customers.

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 2021 and 2020:

Trade receivables	Year ended 31 December			
(amounts in thousands of euro)	2021		2020	
Gross trade receivables	465,287	100%	287,306	100%
Provision for write-downs	(59,430)	(13%)	(52,934)	(18%)
Trade receivables	405,857	87%	234,372	82%

The table below provides details on gross trade receivables according to ageing at 31 December 2021 and 2020:

Trade receivables	Year ended 31 December			
(amounts in thousands of euro)	2021		2020	
Falling due	401,434	86%	228,157	79%
Due from 0-30 days	17,011	4%	7,053	2%
Due from 31-90 days	5,629	1%	5,417	2%
Due from 91-180 days	3,553	1%	3,663	1%
Due from 181-365 days	6,775	1%	7,906	3%
Due over 365 days	30,885	7%	35,110	12%
Gross trade receivables	465,287	100%	287,306	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 2021 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 2021.

(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	177,402	70,318	54,160	52,704	220
Leases	20,577	4,710	4,037	6,207	5,623
Medium/long terms loans to shareholders	6,805	1,435	1,435	3,935	
Total	351,984	173,664	109,632	62,846	5,843

In addition to the bond issue for € 80 million finalised on 14 April 2022 and detailed in the significant events after the reporting period, the Group initiated various submissions for medium/long-term loans to meet repayments on the maturities of bank loans and bonds in 2022, in addition to utilising available liquidity. Of note in this regard, at the reporting date of this document, the finalisation and provision subsequent to 31 December 2021 of 5-year bank loans for a total of € 60 million.

The Group mainly seeks recourse to short-term bank advances to meet the possible financial requirements generated by net commercial working capital, in particular for companies operating in the sale of natural gas and electricity, which also due to their seasonal nature, which generally record physiological growth in the first half of the year due to the misalignment in the time frame between collections from customers and payments to suppliers.

In order to meet the recent and extraordinary increases in commodity prices, the Group promptly approached leading credit institution to increase its short-term credit facilities. At today's date, the Group has short-term credit facilities granted by leading credit institutions (in the form of bank advances, advances on trade receivables or supplier maturities) for approximately € 300 million.

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 2021 and 2020 is shown below. This derives from the consolidated financial statements for the years ended on the same dates, in compliance with the Guidelines on disclosure obligations pursuant to Regulation EU 2017/1129 (so-called "Prospectus Regulation"), published on 4 March 2021 by the European Securities and Market Authority (ESMA):

Net financial debt (amounts in thousands of euro)		2021.12	2020.12
A.	Cash and cash equivalents	143,107	160,249
B.	Cash equivalents		
C.	Other current financial assets	36,257	13,546
	- current derivative financial instruments	26,827	13,449
	- Receivables from banks	9,430	97
D.	Cash and cash equivalents (A) + (B) + (C)	179,365	173,795
E.	Current financial payables (including debt instruments, but excluding the current portion of non-current financial debt)	235,939	130,455
	- current financial debt	34,891	32,509
	- current derivative financial instruments	33,876	10,021
	- bank debts	70,304	87,925
	- bonds issued	96,868	-
F.	Current portion of non-current financial debt	6,145	5,859
	- payables to other lenders for financial leases	363	352
	- payables to other lenders for operating leases	4,347	4,072
	- payables to shareholders for loans	1,435	1,435
G.	Current financial debt (E) + (F)	242,085	136,314
H.	Net current financial debt (G) - (D)	62,720	(37,481)
I.	Non-current financial debt (excluding the current portion and debt instruments)	21,236	21,891
	- payables to other lenders for financial leases	4,038	4,401
	- payables to other lenders for operating leases	11,829	10,685
	- payables to shareholders for loans	5,370	6,805
J.	Debt instruments	156,166	306,970
	Non-current bank debts	106,649	161,134
	Bonds issued	49,516	145,835
K.	Trade payables and other non-current debt	-	-
L.	Non-current financial debt (I) + (J) + (K)	177,402	328,861
O.	Total financial debt (H) + (L)	240,122	291,380

At 31 December 2021, net financial debt was € 240.1 million, improving on the € 51.3 million at 31 December 2020, mainly due to the higher cash flows generated and the changes in net working capital.

The main change refers to the decrease in non-current financial debt due to the repayment of loans in the period for € 77.2 million (net of new loans for € 12 million) and the reclassification of current financial debt for the outstanding bond loan for a nominal amount of € 97.2 million and an amortised cost value of € 96.8 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*:
 - a) non-performance of the obligations arising from convictions, on condition that predetermined relevance threshold are exceeded;
 - b) 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;
 - c) 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);

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.

Additionally, 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 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 2021 and 2020 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 revenue. 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 2021, the Group had the following commodity risk derivative instruments included among other current financial assets and liabilities:

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Forward commodity contracts	22,521	6,775
Cash Flow Hedge Commodity Swaps	2,478	5,534
Commodity Swaps with change in fair value through profit or loss	1,828	1,140
Derivative instruments	26,827	13,449

(amounts in thousands of euro)	Year ended 31 December	
	2021	2020
Forward commodity contracts	21,816	7,078
Cash Flow Hedge Commodity Swaps	10,949	109
Commodity Swaps with change in fair value through profit or loss	995	2,385
Derivative instruments	33,760	9,572

The net balance of the fair values of derivative instruments in being at 31 December 2021 was, therefore negative for € 6,933,000.

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 worsen by € 113,000, going from a negative balance of € 6,933,000 to a positive balance of € 7,046,000.

In particular:

- the effect referred to the change in the natural gas price would be an improvement of € 411,000 for derivatives that meet the IFRS 9 criteria for hedge accounting and a worsening of € 453,000 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 a worsening of € 70,000, referring entirely to derivatives that do not 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 macroeconomic scenario recorded a significant improvement during 2021 thanks to the success of the anti COVID-19 vaccination campaign, which allowed economies to gradually reopen and most production activities to resume, but certain production activities and consumer behaviour have still not returned to pre-pandemic normal levels, and at the same time, the risks of possible slowdowns persist due to new variants of the virus, which could impact on the economy's growth trajectory and recovery in energy demand.

In this context of economic recovery, the demand for natural gas has shown a significant increase on the levels recorded during the peak of the pandemic in the second quarter of 2020.

Diversification in the Group's business portfolio, characterised by a balance between free market and regulated activities, sector diversification in the industrial customer portfolio into sales of natural gas and electricity, the prompt response by Group companies on an operational and organisational level to the changed context and measures taken to contain costs so as to limit the economic-financial impact of the crisis, represent the main factors that already during 2020, had considerably limited the impact of the pandemic emergency.

In 2021, all the Group's business sectors that had been impacted by the pandemic emergency during 2020, benefited from the lifting of the lockdown and gradual resumption in production. Even though the duration and development of the emergency situation are still uncertain, the Board of Directors believes that the impacts for the Estra Group are not significant. Consequently, no revision was made of the estimates of the financial statement amounts due to the emergency, and no indicators for impairment were identified to the extent that they would require the recoverable value of assets recognised in the consolidated financial statements to be recalculated.

Estra's Board of Directors continues to monitor 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.

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).

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 2021, the Group received the following contributions from public Entities. (amounts in Euro).

Beneficiary	Granting entity		Type of operation	Amount
	Company name	Tax number		
CENTRIA S.R.L.	MUNICIPALITY OF MARCIANO DELLA CHIARA	00256440512	Plants account contribution (gas distribution networks)	12,870
CENTRIA S.R.L.	MUNICIPALITY OF MARCIANO DELLA CHIARA	00256440512	Plant account contribution (gas distribution connections)	800
CENTRIA S.R.L.	MUNICIPALITY OF MURLO	80003070523	Plants account contribution (gas distribution networks)	68,129
CENTRIA S.R.L.	ANAS SPA	80208450587	Plants account contribution (gas distribution networks)	90,000
CENTRIA S.R.L.	AISA IMPIANTI SPA	02134160510	Plants account contribution (gas distribution networks)	76,657
CENTRIA S.R.L.	AISA IMPIANTI SPA	02134160510	Plant account contribution (gas distribution connections)	1,843
CENTRIA S.R.L.	SIENA AMBIENTE SPA	00727560526	Plants account contribution (gas distribution networks)	70,200
TOTAL				320,499

15. 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 following table presents the total amount of transactions that have been entered into with related parties for the financial years ended 31 December 2021 and 2020. 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 2021**

Related parties/FS item	Year ended 31 December 2021						Financial expenses
	Revenue from sale of goods and services	Other operating revenue	Costs for services	Personnel costs	Other operating costs	Financial income	
Consiag S.p.A.	650	52		(154)	5		297
Intesa S.p.A.	25	55	2	(277)			54
Coingas S.p.A.	40	16	3				50
Viva Servizi S.p.A.	77		97	62	3		8
Shareholders	790	123	102	(370)	8		409
Nuova Sirio S.r.l.	7	2					
Companies subject to joint control	7	2					
Monte Urano S.r.l.	18	2					
Blugas Infrastrutture S.r.l.		14				209	
A.E.S. Fano Distribuzione Gas S.r.l.	69	98	120	(8)		25	
SIG S.r.l.	26	91		(23)			
Bisenzio Ambiente S.r.l.	6	10					
Sei Toscana S.r.l.	142	8	320	(115)		15	
Associates	261	223	440	(146)		249	
Total	1,058	348	542	(516)	8	249	409
<i>Percentage incidence on corresponding FS item</i>	<i>0.10%</i>	<i>2.51%</i>	<i>0.22%</i>	<i>(1.23%)</i>	<i>0.07%</i>	<i>12.61%</i>	<i>4.09%</i>

Financial year 2020

Related parties/FS item	Year ended 31 December 2020							Financial expenses
	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	
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
<i>Percentage incidence on corresponding FS item</i>	<i>0.66%</i>	<i>6.88%</i>	<i>0.01%</i>	<i>5.07%</i>	<i>(1.24%)</i>	<i>0.05%</i>	<i>6.69%</i>	<i>4.11%</i>

- Asset transactions**Financial year 2021**

Related parties/FS item	Year ended 31 December 2021						Other current liabilities
	Trade receivables	Other non-current financial assets	Other non-current assets	Trade payables	Current and non-current financial debt		
Consiag S.p.A.	1,251		262	26	9,298		6,928
Intesa S.p.A.	237		180	182	2,097		4,408
Coingas S.p.A.	111		80	9	1,759		4,408
Viva Servizi S.p.A.	114		2	701	395		1,756
Shareholders	1,713		524	918	13,549		17,500
Nuova Sirio S.r.l.	10	230					
Companies subject to joint control	10	230					
Monte Urano S.r.l.	94						
Blugas Infrastrutture S.r.l.	1,667	4,153					
A.E.S. Fano Distribuzione Gas S.r.l.	293	490			9		
SIG S.r.l.	103						
Bisenzio Ambiente S.r.l.	16						
Sei Toscana S.r.l.	2,219	2,688		891			
Associates	4,392	7,331		900			
Total	6,115	7,561	524	1,818	13,549		17,500
<i>Percentage incidence on corresponding FS item</i>	<i>1.51%</i>	<i>54.32%</i>	<i>22.12%</i>	<i>0.48%</i>	<i>3.86%</i>		<i>26.08%</i>

Financial year 2020

Related parties/FS item	Year ended 31 December 2020					
	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.	1,531		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
<i>Percentage incidence on corresponding FS item</i>	<i>3.03%</i>	<i>35.65%</i>	<i>9.62%</i>	<i>2.43%</i>	<i>3.55%</i>	<i>12.39%</i>

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

- Medium/long-term loan contracts aimed at supporting operating activities and investments to Nuova Sirio S.r.l.

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 and 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 2021 amount to € 698,000.

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 2021 amounted to € 2,094,000. 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 million, 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 2021 for € 6,250,000;
- Loan contract entered into with the shareholder Coingas S.p.A. originally for € 1,850,000, 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 2021 of € 555,000.

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 2021 for any reason and in any form by the Estra Group to Strategic Managers amounted to € 1,067 and included the General Manager Paolo Abati, who in addition to being a strategic manager is also a member of the Board of Directors.

16. Emoluments to directors, statutory auditors and independent auditors

The table below shows the emoluments to directors, statutory auditors and independent auditors for 2021 and 2020.

Beneficiaries	Year ended 31 December 2021			Year ended 31 December 2020		
	At the parent company	At other Group companies	Total	At the parent company	At other Group companies	Total
Directors	343	274	617	366	291	657
Board of Statutory Auditors	94	293	387	110	350	460
Independent Auditors	151	280	431	113	255	368

The table below shows the fees paid for 2021 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 2021 (€ thousand)
Independent audit of accounts	Parent Company independent auditor	Parent company	71
		Subsidiaries	163
Certification services ¹	Parent Company independent auditor	Parent company	80
		Subsidiaries	74
Other services	Parent Company independent auditor	Parent company	-
	Parent Company independent auditor network	Parent company	-
Total			388

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, the audit of the Parent Company's debit and credit entries with local entities, the issue of an opinion on the withdrawal of a shareholder pursuant to Art. 2437 provided to a subsidiary and the advance for the activities carried out for the issue of a comfort letter on the bond issue completed on 14 April 2022.

17. Significant events after the reporting date

In addition to the completion of the acquisition of Bisenzio Ambiente S.r.l. as detailed in paragraph "3.3 Investment agreement for the acquisition of Bisenzio Ambiente S.r.l.", we note the following significant events after the reporting date.

17.1 Bond issue

Despite the current complex energy and financial markets, aggravated by the conflict between Russia and Ukraine, on 14/04/2022, E.s.tr.a S.p.A. successfully issued an unsecured and non-convertible bond loan for € 80 million, represented by bonds listed on the regulated market managed by the Irish Stock Exchange, where the relative prospectus has been filed.

The loan is guaranteed by the subsidiary Centria S.r.l., entirely subscribed by institutional investors outside of the United States of America. Bonds, issued at a price of 98.509% of nominal value, are unrated, have a duration of 5 years and a fixed coupon of 3.050%. At the same time as the new issue, EstrA S.p.A. partially bought back € 30 million of the bond loan of € 50 million outstanding at 31 December 2021, falling due in November 2023 at a price of 100.53% of the nominal value.

The issue aims to partially refinance existing debt, as well as support the Group's investment plan, in the scope of the diversification strategy and extending the funding sources already successfully undertaken by the Company with its own first international bond issue in 2015.

17.2 Conflict between Russia and Ukraine

In February 2022, relations between Russia and Ukraine deteriorated to the point of erupting in armed conflict. Following the launch of the Russian invasion into Ukraine on 24 February 2022, the United States, European Union and many other countries issued sanctions and controls on exports to Russia and Belarus.

In addition, at the beginning of March 2022, the United States introduced a ban on Russian imports of oil and other energy products from Russia, whereas the United Kingdom announced that it would gradually eliminate imports of Russian oil and oil products by the end of 2022.

These events have already had a significant impact on the European and global economies, including greater market volatility and significant increases in the prices of electricity, natural gas and raw materials. Nonetheless, the invasion of Ukraine could result in further negative consequences for the European and global economies, such as those resulting from additional sanctions, controls on exports and embargoes, increased regional instability, geo-politic shifts and other negative effects on macro-economic conditions, exchange rates, supply chains (including the supply of oil, natural gas and other raw materials from Russia and Ukraine) and on financial markets.

These consequences, which are currently unpredictable, render the possible medium and long-term effects on the Group's business plan difficult to calculate, as these are entirely dependant on the duration and development of the conflict.

The most significant effects felt up to now by the Group are the extended volatility and higher levels of natural gas and electricity prices that had already started climbing at the end of 2021 before the conflict began, impacting on the absorption of cash generated by net working capital from sales of natural gas and electricity, which are physiologically impacted by the misalignment in the time frame between collections from customers and payments to suppliers. In order to respond to the sudden and extraordinary price increases, which are presumed

to continue until the end of 2022, the Group promptly intervened by obtaining increased bank loans, as detailed in the paragraph “Objectives and criteria for financial risk management”.

It is noted that the Group does not have direct relations with Russian suppliers, and in particular, with no Russian producers of natural gas, so that any unavailability in terms of gas supplies coming from Russia either resulting from sanctions imposed by the European Union or restrictions on the part of Russia, would inevitably have indirect repercussions on the Group due to the broader systemic effect.

Directors are very carefully monitoring the situation, in consideration of the potential negative impact that this could have on the general economic context, and where possible, identifying risk mitigation measures.

Prato, 15 April 2022

for the Board of Directors
The Chairperson of the Board of Directors
Alessandro Piazzì

E.S.TR.A. S.p.A.

Consolidated financial statements as at December 31, 2021

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

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.T.R.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.T.R.A. Group (the Group), which comprise the statement of consolidated financial position as at December 31, 2021, 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, 2021, 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.T.R.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:

Key Audit Matter	Audit Response
<p>Recognition of revenues for unbilled gas and electricity sales and accruals for invoices to be issued</p> <p>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, 2021, 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.</p> <p>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, measured on the basis of data communicated at the end of the year by the service distributors, subject to potential future adjustments as required by applicable laws and regulations, and on the basis of internal customers consumption forecasts. 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.</p> <p>The disclosures included in note "Significant accounting estimates" of the consolidated financial statements as at December 31, 2021</p>	<p>Our audit procedures responsive to this key audit matter included, among others:</p> <ul style="list-style-type: none"> • 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. <p>Lastly, we reviewed the adequacy of the disclosures included in the notes to the financial statements.</p>

describe the revenues recognition principles adopted by the Group for gas and electricity sales.

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.T.R.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.T.R.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.T.R.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 E.S.T.R.A. Group as at December 31, 2021, 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.T.R.A. Group as at December 31, 2021 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.T.R.A. Group as at December 31, 2021 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.T.R.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 consolidated 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, April 22, 2022

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.