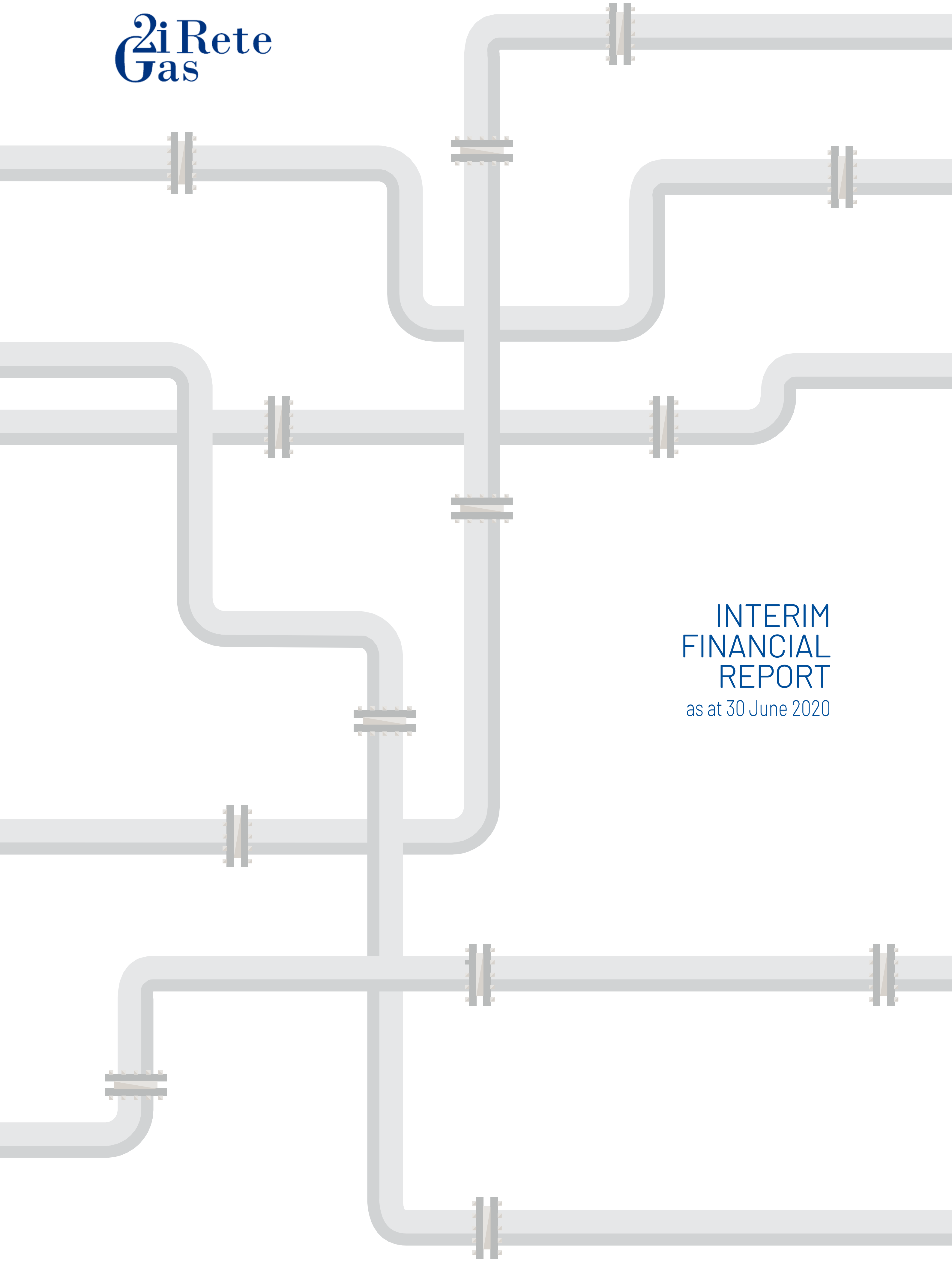


INTERIM FINANCIAL REPORT

as at 30 June 2020

Contents

I. Corporate Boards

Board of Directors

Chairman
Paola Muratorio

Deputy Chairman
Carlo Michelini

Chief Executive Officer
Michele Enrico De Censi

Directors
Matteo Ambroggio
Rita Ciccone
Rosaria Calabrese
Stefano Gatti
Rosario Mazza
Carlo Maddalena

Board of Statutory Auditors

Chairman
Marco Antonio
Modesto Dell'Acqua

Standing auditors
Nicola Gaiero
Marco Giuliani

Alternate auditors
Andrea Cioccarelli
Giuseppe Panagia

Independent Auditors

Pricewaterhouse
Coopers S.p.A.

II. Directors' Report

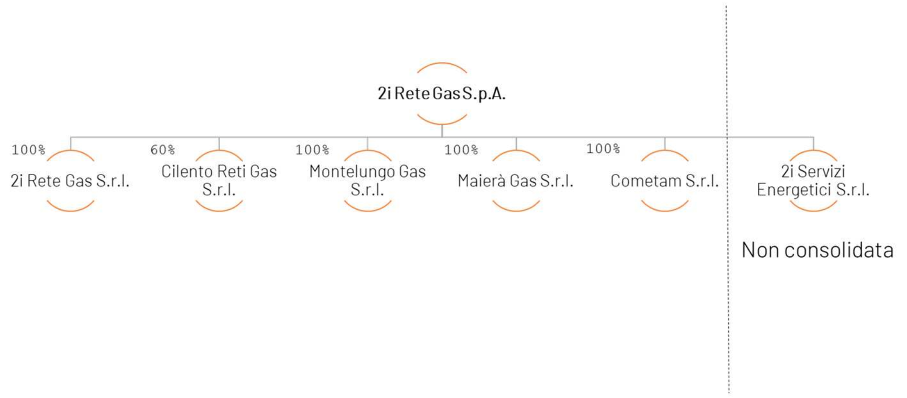
1 Foreword

In its July 2020 Economic Bulletin, the Bank of Italy estimates that GDP declined by 10% compared to the previous quarter, during which it had fallen by 5.3%. The impact of the COVID-19 pandemic and the ensuing lockdown of several business operations severely affected Gross Domestic Product; in the second quarter, with the epidemic essentially brought under control, the Bank of Italy anticipates a modest recovery; the central projection is that GDP will shrink by 9.5% this year and then start recovering in 2021, rising by 4.8% during that year and 2.2% in 2022. The companies comprising the survey pool said they expect investments to slow down significantly.

With respect to the 2i Rete Gas Group, thanks to the steps taken during the first half of the year to protect the health of its employees and ensure maintenance services—especially those that could not be postponed—continued as usual, the Group's financial performance was not negatively affected despite the slump in investing activities caused by the lockdown, showing the Group's ability to adapt and resilience.

2 Group structure and highlights

The following chart shows the situation of the Group as at 30 June 2020:



Despite being 60% owned, the company 2i Servizi Energetici S.r.l. is jointly controlled with other shareholders.

Regarding the Group's operating and financial highlights, the following table shows the key operating, economic and financial indicators of the Group as at 30 June 2020 compared to the entire previous year and to the first half of 2019:

	30.06.2020	31.12.2019	30.06.2019
Active concessions:	2,137	2,132	2,141
Active redelivery points:	4,340,670	4,342,719	4,333,708
Distributed Gas (Natural gas and LPG) in millions of cubic metres	3,276	5,975	3,628
EBITDA in millions of euro:	239.0	531.1	241.9
Net income in millions of euro:	79.4	206.5	108.9
Managed networks in kilometers:	66,259	66,052	65,859

	30.06.2020	31.12.2019	30.06.2019
Net financial position in millions of euro:	2,617.1	2,677.8	2,603.4
Net invested capital in millions of euro:	3,558.5	3,609.5	3,441.6

3 Significant events during the reporting period

On 30 April 2020, the Parent Company 2i Rete Gas S.p.A. acquired three gas distribution companies, Montelungo Gas S.r.l., Maierà Gas S.r.l., and Cometam S.r.l., which operate a combined 839 redelivery points and 127 km of network.

On 19 June 2020, the three acquired entities were merged into the Parent Company effective as of 1 October 2020 for legal purposes and 30 April 2020 for accounting and tax purposes, so as to streamline the Group's structure and optimise costs without any impacts on the scope of consolidation.
In July 2020, 2i Rete Gas S.p.A. entered into an agreement to acquire the distribution company Powergas S.r.l.. The deal closed on 15 September 2020.

4 The scope of consolidation

The scope of consolidation of the 2i Rete Gas Group thus underwent some changes during the first six months of the year: however, they were not material, considering the modest size of the entities acquired.
The acquirees started contributing to consolidated results from the date of the acquisition, i.e. 30 April 2020.

5 Results of the 2i Rete Gas Group

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

Millions of euro	30.06.2020	30.06.2019
Revenue	**468.7**	**491.9**
Transport and sale of methane gas and LPG	320.1	328.5
Connection fees and accessory rights	6.9	7.4
Other sales and services	9.5	11.8
Revenue from intangible assets / assets under construc	120.6	132.4
Other revenue	11.6	11.9
Operating costs	**(229.7)**	**(250.0)**
Labour costs	(58.4)	(63.7)
Raw materials and inventories	(29.1)	(34.4)
Services	(125.4)	(127.5)
Other costs	(8.4)	(15.1)
Allocations to provisions for risks and charges	(8.9)	(9.7)
Increase in fixed assets not subject to IFRIC 12	0.6	0.4
EBITDA	**239.0**	**241.9**
Amortisation, depreciation and write-downs	**(99.6)**	**(99.8)**
Amortisation, depreciation and impairment losses	(99.6)	(99.8)
EBIT	**139.4**	**142.1**
Net financial income (expenses) and income (expenses)	(27.3)	(31.3)
Pre-tax income	**112.2**	**110.7**
Income taxes for the year	(32.8)	(17.9)
Net income (expenses) from continuing operatio	**79.4**	**92.8**
Net income (expenses) from discontinued operat	**-**	**16.0**
Net income for the year	**79.4**	**108.9**

It has been obtained by reclassifying the income statement data in accordance with operational criteria that conform to international practice and maintain the accounting treatment required by IFRIC 12. The operating performance for the year is shown in the table above.

IFRIC 12, which represents the basis of presentation of the consolidated interim financial statements, does not affect profitability, and only requires recognising revenues and costs relating to the construction of distribution network infrastructure; for the sake of a better understanding of operating changes, here below is a summary table that shows consolidated revenues and costs excluding the impact of IFRIC 12.

Millions of euro	30.06.2020 without IFRIC 12	30.06.2019 without IFRIC 12
Revenue	**348.1**	**359.5**
Transport and sale of methane gas and LPG	320.1	328.5
Connection fees and accessory rights	6.9	7.4
Other sales and services	9.5	11.8
Revenue from intangible assets / assets under construc	(0.0)	(0.0)
Other revenue	11.6	11.9
Operating costs	**(110.6)**	**(119.0)**
Labour costs	(33.4)	(32.8)
Raw materials and inventories	(4.5)	(2.5)
Services	(56.4)	(59.7)
Other costs	(8.0)	(14.7)
Allocations to provisions for risks and charges	(8.9)	(9.7)
Increase in fixed assets not subject to IFRIC 12	0.6	0.4
EBITDA	**237.4**	**240.5**
Amortisation, depreciation and write-downs	**(98.0)**	**(98.4)**
Amortisation, depreciation and impairment losses	(98.0)	(98.4)
EBIT	**139.4**	**142.1**

The financial statements have been prepared on a going-concern basis by considering the results for the first half of the year as well as projections of future performance.
Specifically, with respect to the above tables, revenue totalled 468.7 million euro including the impact of IFRIC 12, down 23.2 million euro. This was largely because of the 8.4 million euro decline in transport revenue—driven exclusively by the new rules introduced under the fifth regulatory period—and of the impact that the slump in investments caused by the Group's reduced operations in the wake of the COVID-19 pandemic had on revenue from intangible assets (representing investments in gas distribution concessions for the period).
Connection and ancillary fees were only partially affected by the lockdown, declining by 0.5 million euro compared to the prior-year period.

Revenue from "Other sales and services", totalling 9.5 million euro, were down year-on-year largely because of the moratorium on gas service disconnections as a result of the regulations introduced during the lockdown.
Revenue other than the above amounted to 11.6 million euro, in line with the previous year.

Lastly, with reference to the table reporting amounts including the impact of IFRIC 12, increase in investments made during the first half of the year, mainly in smart meters and in relation to obsolete network replacement works, resulted in the recognition of 120.6 million euro in revenue (in accordance with IFRIC 12) under "Revenues from intangible assets / assets under construction", up by 11.8 million euro compared to the prior-year period due to reduced activities.

Operating costs, totalling 229.7 million euro in the version with IFRIC 12, decreased by 20.3 million euro; please note that the overall impact on the item from IFRIC 12 is 120.6 million euro for the current year. Net of this effect, therefore, there was an overall fall in operating costs of 8.3 million euro due largely to a fall in costs for labour, services (including maintenance costs) and other costs.

More specifically, gross labour costs, totalling 58.4 million euro including the impact from IFRIC 12, declined some 5.4 million euro compared to the prior-year period. Considering instead the cost of labour net of the impact of IFRIC 12, this marginally increased by 0.6 million euro also due to the lower investment activities carried out by the company's staff.

The cost of raw materials declined by 5.3 million euro; excluding the impact of IFRIC 12 and the relevant capitalisation, it would have increased by 2.0 million euro.

Overall, costs for services at the consolidated level slightly improved compared to the first half of the previous year, as both personnel-related expenses and the costs associated with emergency response services declined.
The analysis net of the effect due to IFRIC 12 instead shows lower costs for services for 3.3 million euro, thanks to the investments made.

Other costs improved by 6.6 million euro, with savings resulting from the lower net costs for Energy Efficiency Certificates as well as the lower capital losses on the disposal of assets, as the Group replaced fewer meters during the first six months of the year.

Allocations to the provision for risks totalled 8.9 million Euro in the first half of the year, down 0.8 million euro compared to 30 June 2019, and reflected the usual trend in provisions for the period.

EBITDA was 239.0 million euro, down by 2.9 million euro compared to the previous year (241.9 million euro) following the combined effect of the lower transport revenues for 8.4 million euro, the lower level of Other sales and services for a total of 2.3 million euro and lower operating costs which, net of the impact of IFRIC 12, fell by 8.3 million euro.

Amortisation, depreciation and write-downs totalled 99.6 million euro, in line with the first half of 2019. It should be noted that this value includes amortisation of the rights of use relating to leased assets in accordance with IFRS 16, for a total of 3.4 million euro in the half year.

Therefore, EBIT totalled 139.4 million euro, compared to 142.1 million euro in the first six months of the previous year. The same considerations for EBITDA apply also to EBIT.

The Group reported 27.3 million euro in Financial Expenses, down 4.1 million euro year-on-year as a tranche of the debenture loan was repaid at maturity in early 2020.

The Group reported 112.2 million euro in profit before tax, up 1.4 million euro on the previous year.

The negative impact from the income tax expense for the period on the Group's accounts totalled 32.8 million euro. In this regard, it is important to remember that taxes for the same period of the previous year were positively impacted (for 16.3 million euro) by the net effect of the realignment of goodwill generated in 2i Rete Gas Impianti S.p.A. following the merger in 2018 with the parent company 2i Rete Gas Impianti S.r.l.

Net income from continuing operations amounted to 79.4 million euro, down 13.5 million from the previous year because of the impact of the above tax transaction; meanwhile, in 2020 there was no impact from discontinued operations (16 million euro in the first half of 2019 arising from the sale of the equity interest in Murgia Reti Gas S.r.l.).

As a result, the Group posted 79.4 million euro in net income for the period.

The financial position for the year is shown in the table below. This was obtained by reclassifying the data from the statement of financial position in accordance with operational criteria.

Millions of euro	30.06.2020	31.12.2019	Change
	A	A	A-B
Net fixed assets	**3,564.8**	**3,560.8**	**4.0**
Property, plant and equipment	37.1	37.2	(0.1)
IFRS 16 Rights of use	27.0	28.8	(1.8)
Intangible assets	3,798.6	3,760.8	37.8
Equity investments	3.4	3.3	0.1
Other non-current assets	59.2	57.7	1.5
Other non-current liabilities	(327.4)	(323.1)	(4.3)
Fair value of derivatives	(33.1)	(4.0)	(29.1)
Net working capital:	**2.6**	**67.2**	**(64.6)**
Inventories	24.3	23.5	0.8
Trade receivables from third parties	119.4	250.7	(131.2)
Net receivables/(payables) for income taxes	4.8	(1.9)	6.7
Other current assets	254.8	201.4	53.4
Trade payables to third parties	(203.3)	(186.3)	(16.9)
Other current liabilities	(197.5)	(220.1)	22.6
Gross invested capital	**3,567.3**	**3,628.0**	**(60.6)**
Other provisions	**8.8**	**18.4**	**(9.6)**
Post-employment and other employee benefits	42.5	43.6	(1.0)
Provisions for risks and charges	100.1	100.8	(0.7)
Net deferred taxes	(133.8)	(125.9)	(7.9)
Net invested capital	**3,558.5**	**3,609.5**	**(51.0)**
Assets held for sale	**-**	**3.0**	**(3.0)**
Liabilities held for sale	**-**	**0.1**	**(0.1)**
Equity	**941.5**	**934.6**	**6.9**
Net Financial Position	**2,617.1**	**2,677.8**	**(60.7)**

Net fixed assets, which mainly consist of intangible assets related to gas distribution concessions, totalled 3,564.8 million euro, up 37.8 million euro overall compared to 31 December 2019.

The item "Property, plant and equipment" of 37.1 million euro includes investments made during the year (3.0 million euro), disposals (0.3 million euro) and depreciation (2.8 million euro).

The item "Rights of use" includes the rights of use of rented or hired assets which mirror the prerequisites established by IFRS 16. The balance of 27.0 million euro on the item consists of an initial value for existing contracts as at 31.12.2019 of 28.8 million euro, increases of 2.1 million euro and disposals of 0.5 million euro. The amortisation in the 6-month period was 3.4 million euro.

The item "Intangible assets", amounting to 3,798.6 million euro, was the result of new investments of 126.0 million euro, changes in the scope of consolidation of 13.9

million euro and decreases of 9.1 million euro. Amortisation in the period was 92.9 million euro.

Equity investments were substantially unchanged, while "other non-current assets" increased by 1.5 million euro because of the rise in medium/long-term receivables due from the Fund for Energy and Environmental Services (CSEA), while "other non-current liabilities" were down 4.3 million euro due to a decrease in medium/long-term deferred income for connection fees, property subdivision, plant transfer and network extension fees.

Bearing in mind that the comparison between the figure as at 31 December and that as at 30 June reflects the impact of seasonal factors on working capital, which is implicit in the gas distribution business, it can be seen that the negative net working capital of 2.6 million euro, fell by 64.6 million euro compared to 31 December 2019. The items experiencing the biggest changes were trade receivables, which were affected by the seasonal trend and particularly mild temperatures and fell by around 131.2 million euro, and other current assets and liabilities, which saw an increase respectively in receivables and payables due from/to the Fund for Energy and Environmental Services (CSEA); trade payables decreased due to the lower volume of business in the first half of the year.

Due to the combined effect of the changes in the net long-term fixed assets and the net working capital, the gross invested capital therefore decreases by 60.6 million euro from 3,628.0 million euro in the previous year to 3,567.3 million euro as at 30 June 2020.

Sundry provisions, totalling a positive 8.8 million euro, were down 9.6 million euro overall, mainly due to changes in the provision for deferred taxes, which was negative for 7.9 million euro in the period; finally, the provision for post-employment and other employee benefits decreased by 1 million euro due to higher uses in the period.

Therefore, net invested capital decreased by 51 million euro, from 3,609.5 million euro in the previous year to 3,558.5 million euro.

Equity rose by 6.9 million euro, from 934.6 million euro as at 31 December 2019 to 941.5 million euro as at 30 June 2020, due to the net impact of the following changes:

- 50.0 million euro decrease following the ordinary dividend payout;
- 22.6 million euro decrease in the reserves for the valuation of derivatives;
- 79.4 million euro increase following the recognition of the result as at 30 June 2020.

the recording of the non-controlling interest of 1.6 million euro.

The net financial position was up from 2,677.8 million euro in December 2019 to 2,617.1 million euro as at 30 June 2020 because of, among other things, the payment of the dividend for 2019 in light of the positive operating activities in the first half of the year.

The following table shows the reconciliation of the carrying amount of net financial debt and the net financial position, as well as the breakdown of the two:

Millions of euro		**30.06.2020**	**31.12.2019**	**Changes**
Medium-/long-term bank loans	27	(397.7)	(406.8)	9.1
Medium-/long-term debenture loans	27	(2,265.0)	(2,265.0)	0.0
Short-term debenture loans	33	0.0	(267.1)	267.1
Cash and cash equivalents with third parties	22	112.2	353.3	(241.2)
Short-term financial receivables	20	8.8	1.3	7.5
Other current financial assets	21	0.0	0.9	(0.9)
Short-term payables due to banks	33	0.0	(40.0)	40.0
Current portion of medium-/long-term loans	34	(18.2)	(18.2)	0.0
Current financial liabilities	38	(41.1)	(20.0)	(21.0)
Non-current IFRS 16 financial liabilities	31	(20.4)	(22.5)	2.1
Current IFRS 16 financial liabilities	39	(6.5)	(6.1)	(0.4)
ESMA net financial position		**(2,627.9)**	**(2,690.3)**	**62.4**
Non-current financial assets	16	0.2	0.7	(0.5)
Adjusted net financial position		**(2,627.7)**	**(2,689.6)**	**61.9**
Non-current financial assets - costs on loan	16	0.7	0.9	(0.1)
Adjustment of payables due to costs on ST loan (IAS 39)	38	0.0	0.0	(0.0)
Adjustment of payables due to costs on MLT loan (IAS 39)	27	9.9	10.9	(1.0)
Net Financial Position		**(2,617.1)**	**(2,677.8)**	**60.7**
Negative fair value of derivatives	38	(33.1)	(4.0)	(29.1)
Accounting net financial debt		**(2,650.2)**	**(2,681.8)**	**31.6**

6 Regulatory and tariff framework

6.1 Regulation

As for the activities concerning the Group, in the first half of 2020 the Autorità di Regolazione per Energia, Reti e Ambiente - ARERA (the Regulatory Authority for Energy, Networks and the Environment) largely focused on managing and mitigating the impact of the COVID-19 epidemiological emergency in the sectors within its competence.

With respect to the actions resulting from the COVID-19 epidemiological emergency, besides the specific measures (Resolution 75/2020/R/com) taken to implement art. 4 of Italian Law Decree 9/20, suspending bill payment terms and non-payment penalties for the Municipalities in the so-called "red zone" (Bertonico, Casalpusterlengo, Castelgerundo, Castiglione D'Adda, Codogno, Fombio, Maleo, San Fiorano, Somaglia, Terranova dei Passerini, Vò) across the various regulated utility services through 30 April 2020, ARERA took a series of general measures to temporarily suspend the application of contractual terms relating to the suspension/interruption of electric, natural gas and water services and the procedures to suspend/interrupt said services as a result of end customers/users defaulting on their payments (Resolutions 60/2020/R/com, 117/2020/R/com, 124/2020/R/com, and 148/2020/R/com).
In response to the emergency, ARERA also extended the deadline for meeting certain requirements (Resolution 59/2020/R/com; Decisions 5/2020 – DIEU and 3/2020 – DMRT, as well as Resolutions 76/2020/R/com and 140/2020/R/com concerning electric, gas, and water bonuses) and the terms of sanction procedures, guaranteeing operators' right of defence (Resolution 74/2020/S/com).
In addition, the Authority passed urgent measures (Resolutions 116/2020/R/gas, 149/2020/R/gas, and 192/2020/R/com) concerning the provision of electricity transport and natural gas distribution services, granting waivers from the rules established under network codes and introducing some flexibility for the payments due by service providers in the event of issues with collecting payments from end customers, following the moratorium on service disconnections for non-payment to protect end customers.
Finally, Resolution 248/2020/R/com of 30 June 2020 introduced measures allowing for a gradual "withdrawal" of said transitional provisions, establishing how the users of electricity transport and natural gas distribution services shall pay outstanding balances due to distributors as well as how distributors shall pay any outstanding general system charges to the Fund for Energy and Environmental Services (CSEA).

Tariffs for the gas distribution and metering service:

In April (Resolution 107/2020/R/gas, followed in July by resolution 289/2020/R/gas), the Authority approved the final reference tariffs for gas distribution and metering services for 2019, based on the final financial data for the year 2018, as well as determined (Resolution 127/2020/R/gas) the provisional reference tariffs for gas distribution and metering services for 2020 (first year of the new regulatory period established at the end of 2019 with Resolution 5870/2019/R/gas) based on the preliminary financial data for the year 2019.

In April (Resolution 106/2020/R/gas), in addition to redetermining the reference tariffs for gas distribution and metering services for the years 2009-2018 for certain localities and businesses that requested to adjust them, the Authority also redetermined the final reference tariffs for 2018 for those localities whose first year of service (APF, *Anno di Prima Fornitura*) was 2017 or later, applying the cap exclusively to the localities whose APF was after said year, as previously announced with Resolution 570/2019/R/gas (the localities concerned include two localities served by entities of the Group and the one served by Maierà Gas S.r.l., which 2i Rete Gas S.p.A. acquired effective as of 1 May 2020).

Incentives/penalties for the security levels of the service:

As for Energy Efficiency Certificates (EEC), in January, with Resolution 1/2020 DMRT, the data on the primary energy saving targets for 2020 assigned to electricity and natural gas distributors were defined and submitted to Italy's Ministry of Economic Development (MiSE) as well as Gestore dei Servizi Energetici (GSE) - a publicly-owned company promoting and supporting renewable energy sources in Italy (companies in the 2i Rete Gas Group were overall assigned, in proportion to the share of gas distributed in 2018, a target of 814,656 white certificates, 767,680 for 2i Rete Gas S.p.A. and 46,976 for 2i Rete Gas Impianti S.p.A.)

Between late February and late March, as part of the procedure launched at the end of 2019 following the Regional Administrative Court's ruling, the Authority held a consultation on the revision of the process for calculating the tariff-based contribution payable to distributors for meeting the energy saving targets assigned to them under the EEC mechanism. This revision became necessary after the Lombardy Regional Administrative Court issued ruling no. 2538/2019, which invalidated the cap on the contribution awarded by ARERA for the EECs introduced by the Ministerial Decree of 10 May 2018 as well as the measures passed by the Authority on the basis of said cap, establishing that the Authority (rather than the MiSE) has exclusive jurisdiction over this matter. The guidance issued by the Authority throughout the consultation essentially keeps the existing system in place, leaving the cap on the tariff-based contribution at 250 euro/EEC: as ARERA sees it, this is intended to prevent a potential increase in the existing cap on the tariff-based contribution (from €250/EEC to over €260/EEC) from causing market prices to rise above the level of €260/EEC, at around which they have settled in recent months, as a result of the floor for "virtual" certificates set by the MiSE at 10 euro/EEC (with an upper limit of 15 euro/EEC).

Incentives/penalties for the security levels of the service:

with Resolution 163/2020/R/gas of 2.05.2020, incentives and penalties were determined for natural gas distributors for 2016. 2i Rete Gas was recognised the highest overall incentive of those assigned, i.e. 11.64 million euro (4.59 million euro for the component linked to the measurement of the gas odorisation level and 7.05 million euro for the component linked to reducing leaks), in addition to another smaller amount for 2i Rete Gas S.r.l, therefore accounting overall for more than 31% of the total incentives paid (38.02 million euro, taking account of the fact that the determination of bonuses and penalties for 3 companies of the over 170 companies participating in the incentive mechanism was deferred to a subsequent order); in the light of the advance payments already made in 2019, 2i Rete Gas was recognised a balance of 3.15 million euro.

Gas settlement:

Resolution 9/2020/R/gas of 21 January 2020 introduced transitional provisions with respect to business relations within the gas supply chain where no valid balancing service user-redelivery point matching relation exists. Subsequently, Resolution 88/2020/R/gas of 24 March 2020 updated the rules governing business relations within the gas supply chain with respect to the activation of last resort services where no valid matching relation exists, while Resolution 28/2020/R/gas of 4 February 2020 supplemented gas settlement rules by introducing specific provisions concerning the treatment of gas leaked from the distribution network in case of emergency or damage to pipes/plants, which fall within the scope of the so-called in-out delta. Resolutions 181/2020/R/gas of 26 May 2020 and 222/2020/R/gas of 16 June 2020 introduced additional gas settlement measures: they concern, respectively, the first balancing session for January 2020 and the disclosure to distributors, distribution service users, and balancing service users of any anomalies found by the IIS during the tests conducted while aggregating metering data, so as to potentially address them.

Electric and gas bonus:

In January (Resolution 3/2020/R/idr), the Authority introduced some changes to the application of the water social bonus for the supply of water to domestic users in financial distress, in accordance with art. 57-bis of the "2020 Tax Decree" (Law Decree 124/2019, converted into law 157/2019); in the same month, it also launched (Resolution 14/2020/R/com) a process to implement the additional legal provisions concerning the automatic award of social bonuses. As part of this process, in June the Authority held a specific consultation, providing guidance as to how the system for the automatic award of social bonuses may work in practice.

Components of the distribution service billing system:

With Resolution 89/2020/R/gas, the Authority commenced a process to comply with ruling no. 38/2020 of the Lombardy Regional Administrative Court, which partially invalidated Resolution 32/2019/R/gas with respect to the scope of the sub-component of the UG2k distribution tariff. This had been introduced to raise the amount needed to compensate sales companies after the parameter for determining the protected economic conditions for the supply of natural gas for the two years from 1 October 2010 through 30 September 2012 was redetermined as a result of the Italian Council of State's ruling 4825/2016. Following the consultation held between late March and late April, at the end of June (Resolution 247/2020/R/gas) the Authority redefined the scope of the UG2k component and the method for determining it: specifically, the sub-component of the distribution tariff shall apply to all end customers connected to the distribution network at two different rates based on their annual consumption.

Biomethane:

With Resolution 64/2020/R/gas of 17 March 2020, the Authority updated the directives governing the connection of biomethane production plants to natural gas networks with respect to the references of the technical rules for identifying the specific qualities of biomethane to be fed into the networks.

Checks on operators:

With Resolution 27/2020/E/gas of 4 February 2020, the Authority approved a programme of 3 audits regarding service safety improvements to be carried out by 31 December 2020 and with reference to the data for 2018. The Authority will audit natural gas distribution companies selected from among those who have not been audited for the purposes of awarding incentives in the last 5 years, considering also their distribution across Italy. With Resolution 52/2020/E/gas of 03.03.2020, the usual annual campaign of phone checks and inspections regarding gas distribution companies on their compliance with the regulation on the gas emergency response service was launched for 2020 (as in previous years, the checks will cover 50 gas distribution companies and will be undertaken before 31.03.2020 with support from Guardia di Finanza personnel, to check initially the correct operation of emergency switchboards, with subsequent inspections if necessary on the basis of the outcomes of the phone checks made).
Among other measures protecting the end customers of the services regulated by the Authority, with Resolution 184/2020/R/com for the gas and electric sectors and Resolution 186/2020/R/idr for the water sector, the Authority updated the rules governing the so-called two-year statute of limitations pursuant to art.1 paragraph 295 of Law 160/2019 (2020 Budget Law), which repealed the provision ruling out the

possibility of exceptions to the statute of limitations in the event of failed or inaccurate consumption readings for which end customers/users have been found responsible.

With respect to the activities relating to ATEM tenders, during the first half of the year ARERA approved the methods for conducting spot checks as per art. 23, paragraph 23.1 and 27, paragraph 27.4 of Annex A to Resolution 905/2017/R/gas of the residual asset values (VIR, *valori industriali residui*) reported by Municipalities and/or contracting authorities with a VIR-RAB difference of over 10% (Decision 2/2020 – DIEU of 18 February 2020) and the observations on compensation amounts for the Municipalities of the Trieste Atem (Resolution 63/2020/R/gas of 17 March 2020). In addition, with Decision 4/2020 – DIEU of 05 March 2020, in March the Authority modified the existing methods for calculating the value of net fixed assets when these are remeasured because they are not in line with the industry average (revaluation of so-called "depressed" RABs), without prejudice to the investments in smart meters from 2012 through 2017 and all new investments in distribution and metering starting from the year 2018.

Concerning specifically 2i Rete Gas S.p.A., in March, after completing the follow-ups on the audit conducted in June 2011 under Resolution VIS 53/11, and pursuant to the Italian Council of State's ruling no. 3475/2019—which found in favour of the company—that invalidated the Authority's Resolutions 626/2016/R/gas and 541/2017/R/gas, in accordance with the representations made by 2i Rete Gas, the Authority redetermined (Resolution 83/2020/R/gas) the final reference tariffs for the years from 2009 through 2018 for the localities served by 2i Rete Gas (formerly Enel Rete Gas) with municipality-owned assets, which had been previously redetermined by reference to a standard tariff under the mentioned resolutions, for different years based on the locality.

With respect to primary legislation, with the conversion of the "Relaunch" Law Decree into law, art. 144-ter was approved as an amendment, establishing that the expansions and upgrades of existing networks and plants in municipalities that already have natural gas service, as well as newly built networks and plants in Municipalities to be provided with natural gas service in the F climate zone and classified as mountain areas, as well as the Municipalities that have successfully applied for grants relating to the completion of the programme to provide natural gas service in Southern Italy, are to be considered favourably for the purposes of the cost-benefit analysis: therefore, ARERA accepts the relevant investments as fully eligible for the purposes of calculating the tariff. In light of this new rule, which will affect the upcoming ATEM tenders, the Authority will likely have to reconsider its approach that previously led to introducing a cap on investments per redelivery point for all localities provided with natural gas service for the first time (Resolution 704/2016/R/gas).

Provisions and/or other events subsequent to 30 June 2020

After 30 June 2020 (and up to 6 August 2020), the Authority:
- after the consultation held between late February and late March, approved (Resolution 270/2020/R/efr of 14 July 2020) the revised rules for determining the tariff-based contribution covering the costs incurred by distributors that are subject to the obligations of the energy efficiency certificate (EEC) mechanism, in light of the Lombardy Regional Administrative Court's ruling no. 2538/2019: specifically, it confirmed the cap on the tariff-based contribution (€250/EEC) and added a δ coefficient to the formula for calculating the contribution in order to make the EEC market more efficient; to limit the economic losses incurred by distributors as a result of the low number of EECs available, ARERA introduced an additional consideration (up to €10/EEC) to cover part of the difference between the average price of EECs and the cap on the tariff-based contribution on the basis of the difference between the amount of overall EECs required to meet annual targets and the amount of EECs available; in addition, considering the financial challenges that distributors may face because of the extension of the deadline for the 2019 compliance period to 30.11.2020, ARERA has introduced the option to request a one-off advance payment from CSEA of €250/EEC, up to 18% of the specific target for 2019 (in the case of 2i Rete Gas, with an overall 2019 target of approximately 706 thousand EECs, such advance payment would correspond to about 127 thousand EECs, amounting to approximately €31.8mn); finally, the Authority will explore more in-depth whether to adopt mechanisms to recognise the costs incurred by distributors to obtain the so-called "virtual" EECs from GSE, should these costs be no longer redeemable by the deadline established by law due to the low number of EECs available;
- with Resolution 283/2020/R/gas of 21 July 2020, set the rules governing the procedures to identify the providers of last resort and the default distribution service for the period from 1 October 2020 through 30 September 2021, confirming the rules adopted for the previous thermal year;
- with Resolution 289/2020/R/gas of 28 July 2020, redetermined certain tariffs for the years 2017-19 and the year 2020, considering the requests received from 6 distributors (including 2i Rete Gas, for which the tariffs of one locality were redetermined), and thus redetermined also the bi-monthly equalisation payments on account for 2020 relating to said entities;
- in regard to the technical quality incentive bonuses for 2017, as it happened in 2018 and 2019 for the recognition of bonuses/penalties for 2015 and 2016 respectively, ordered (Resolution 309/2020/R/gas of 04.08.2019) an advance payment on the overall net value of the bonus due on the basis of the results of the preliminary stage as communicated by the Authority itself, for the companies which confirm these results, with payment of the advance by the Fund for Energy and Environmental Services (CSEA);

- issued a document (313/2020/R/com) on 5 August 2020 for the consultation on the adoption of potential extraordinary measures governing electricity and gas distribution services in response to the COVID-19 epidemiological emergency;
- issued a document (312/2020/R/gas) on 6 August 2020 for the consultation on the guidance for incentive pricing with respect to the business combinations of natural gas distribution companies.

6.2 Tariffs

The tariff regime as per Resolution 367/2014/R/gas as amended and supplemented for the fourth regulatory period (2014-2019) remained in effect through 31 December 2019. The long consultation launched with Resolution 529/2018/R/gas to define the measures concerning the tariffs and quality of gas distribution and metering services for the 2020-2025 regulatory period ended with the publication of the final decision, Resolution 570/2019/R/gas, on 27 December 2019.
As in the previous regulatory period, for the first tariff year of the fifth regulatory period distribution and metering tariffs will continue applying according to the basic principles for determining the components of revenues related to remuneration and depreciation based on the annual update to net invested capital (RAB), considering the (net) investments made in the year t-1.
The invested capital of the distribution companies (RAB) continues to be broken down into localised invested capital and centralised invested capital. The evaluation criterion for localised invested capital in distribution and metering is based essentially on the revised historical cost method, except for new investments in smart meters, whose cost continues to be determined as the weighted average between actual cost and the standard cost set by the Authority, with weights, for the 2020 tariffs, respectively of 60% and 40% while, for the following years, of 70% and 30% respectively.
The valuation criterion for centralised invested capital is based on a parametric method, except for assets regarding remote metering/remote management/concentrator systems, which are valued at effective cost. However, starting with the 2018 tariffs, the measurement of these assets shall account for a cap comprising the cost of capital, depreciation, and the recognition of operating costs: for the tariff year 2020, this amounted to 4.24 euro per redelivery point with an operational smart meter.
The weighted average cost of capital (WACC) of natural gas distribution and metering operations—the bases for determining and updating said indicator from 1 January 2016 through 31 December 2021 were established with Resolution 583/2015/R/com—has been set for both services at 6.3% for the years 2020 and 2021 under Resolution 570/2020/R/gas.
With this resolution, the initial levels of operating costs and x-factors for the new regulatory period were also set. More specifically, as regards operating costs, the initial level was established on the basis of the separate annual accounts of the

Unbundling Financial Statements of the operators, broken down by company size and customer density, remunerating operating costs as the weighted average, with equal weight, between the costs actually incurred and the costs recognised in the previous regulatory period. The x-factor, which shall be applied on a consistent basis throughout the regulatory period, was set at 3.53% for large companies. With respect to the costs for the metrological testing of G6 meters, these will continue being recognised based on the actual costs incurred.
Under the same Resolution, the Authority also completed the regulatory framework of the portion of public and private contributions as at 31 December 2011 started with Resolution No. 573/2013/R/gas, envisaging complete amortisation thereof based on a 40-year useful life. Finally, with respect to the start-up localities concerned by Resolution 704/2016/R/gas, the Authority confirmed the cap on the recognition of investments starting with the 2018 tariffs, but this will apply only to the localities whose first year of service was after 2017. The measure includes audits to be performed in several stages, up to the sixth year, to establish whether such cap is exceeded, without prejudice to the correct interpretation and application of the recent provisions on new methane supply networks.
From a decision-making viewpoint, during the first half of 2020 the Authority proceeded with resolution 107/2020/R/gas to determine the "final" reference tariffs for gas distribution and metering services for 2020 and with resolution 127/2020/R/gas to determine the “provisional” reference tariffs for gas distribution and metering services for 2020; these resolutions were supplemented by resolution 289/2020/R/gas. In addition, as for the cases where RABs are not in line with the industry average, with Decision no. 4/2020 the Authority has updated how to measure revalued net fixed assets for the purposes of both the comparison with the VIR and the disclosure of the estimated RABs in the calls for tenders and the subsequent tariff declaration.
In the same period, on the basis of the relevant resolutions, the tariff components destined to cover the system costs of the gas sector (RE, RS, GS, UG1, UG2, UG3) and the fees for arrears (CMOR) were updated.
The annual “final” recognition of investments for the purposes of determining the net invested capital (RAB) for distribution and metering for 2020 will take place in November by taking into account the changes in the net investments of the previous year.
As for activities directly concerning the Group, it is noted that the Authority with Resolution 541/2017/R/gas had retroactively redetermined, as from 2009 and up to 2013/2015, the reference tariffs for a list of locations which were subject to inspection in June 2011, where the local authorities are owners of parts of the methane gas distribution networks. Following the appeal presented to the Regional Administrative Court of Lombardy, with sentence no. 733 of 15 March 2018 the company’s arguments were held as valid. This sentence was challenged by the Authority which appealed to the Italian Council of State. Sentence no. 3475 of 28 May 2019 rejected the appeal filed by the Authority. On 30 December 2019, the sentence became final. With resolution no. 83/2020/R/gas of 24 March 2020, the

Authority once again approved the tariffs for the years from 2009 to 2018, in compliance with Council of State sentence no. 3475/2019 invalidating the Authority's resolutions no. 626/2016/R/gas and no. 541/2017/R/gas.

7 Concession development and operation

Despite the regulatory changes in 2017 aimed at simplifying the process and given the failure to intervene, albeit envisaged by law in art. 3 para. 1 of art. 226/11 as amended and supplemented, by both the Regions and, should the latter have not done so, by the Ministry for Economic Development (DL 69/2013 art. 4 para. 2), the delay which has already been noted in previous reports, continues to accumulate.
During the first half of 2020 no ATEM tenders were launched.

As at 30.06.2020, in relation to the 19 ATEM tenders on the ARERA dashboard, the instrument which sets out the information regarding the outcomes of the analysis of tender documentation sent by the Contracting Authorities as set out in article 9, para. 2 of Ministerial Decree no. 226 of 12 November 2011, the situation was as follows:

- three tenders completed with final assignment: Milan 1, Belluno (even though *sub iudice*) and Turin 2;
- one previously called tender, for which the deadline for submission of tenders had not yet expired: Naples 1;
- three previously called tenders, for which the evaluation by the tender commission of the offers presented was still ongoing: Valle d'Aosta, Turin 1 and Udine 2;
- seven tenders for which ARERA had temporarily deferred the analysis of the tender with a request for additional documentation: Florence 1-Florence 2, Genoa 1, Lucca, Massa and Carrara, Trieste, Verona 2 and Vicenza 3;
- five tenders for which ARERA has completed the analysis of the tender documentation sent by the contracting authorities and, thus, the related announcements could be published: Rome 1, Venice 1, Forlì and Cesena, Modena 1, Spezia.

7.1 Participation in non-ATEM tenders

Concerning "non-ATEM" tenders, in the first half of 2020 a tender was called for the concession to operate the natural gas distribution service in the municipality of San Giuliano di Puglia (province of Campobasso).

7.2 Activities on ATEM tenders

The 2i Rete Gas Group has bid for the following ATEM tenders:
- on 26 June 2020 for Naples 1;
- on 30 September 2019 for Udine 2;
- on 1 September 2017 for Belluno;
- on 16 January 2017 for the Milan 1 – City and Plant of Milan tender, through 2i Rete Gas S.r.l. (company subject to direction and coordination by 2i Rete Gas S.p.A.).

As for the Milan 1 tender, following the announcement on 3 September 2018 of the final award to another distributor (Unareti S.p.A., an A2A group company), on 3 October 2018 2i Rete Gas S.r.l. filed an appeal against the tender documents and the final award, as well as against the Contracting Authority's refusal to give full access to the tender documents.

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

With regard to the appeal against the tender documents and the final award to Unareti S.p.A., following the public hearing on the merits set for 21 November 2019, on 05 December 2019, with sentence no. 2598, partially accepting the appeals of both participants, the Regional Administrative Court of Milan invalidated the award of the tender to Unareti as well as the award decision where it places 2i Rete Gas S.r.l. in second place. Rete Gas S.r.l., the Municipality of Milan and Unareti S.p.A. filed an appeal with the Council of State against the aforesaid decision. Following the appeals, which were considered together, the Council of State overturned the decision of Milan's Regional Administrative Court, considering the tender held by the Municipality of Milan, and specifically the award of the natural gas distribution service to Unareti S.p.A., to be legitimate, ordering each party to bear their own legal costs.

As for the Udine 2 tender, in December 2019 the Contracting Authority began examining the technical offers of the two bids submitted (in addition to 2i Rete Gas S.p.A., AcegasApsAmga S.p.A. - Hera S.p.A. Group - has bid for the tender).

Also during the first half of 2020, the Group has been preparing and transmitting to the Municipal Administrations and/or the Contracting Authorities that requested it all the necessary documentation pursuant to Article 4 (Disclosure obligations for operators) and Article 5 (Compensation to the outgoing operator) of Italian Ministerial Decree 226/2011 in order to draft and subsequently issue the call for tenders.

7.3 Concessions awarded

2i Rete Gas S.p.A., following the definitive assignment on 24 November 2017 of the tender called by the Municipality of San Nicola in Baronia (AV), as the lead municipality also for the municipalities of Carife, Castel Baronia, San Sossio Baronia, Campitella, Trevico, Vallata and Vallesaccarda, on 23 April 2018 signed the related service contract.
On 12 March 2018, the outgoing operator SI.DI.GAS S.p.A. notified a writ of summons before the Court of Benevento to seek the condemnation of the Municipality or of 2iRG to pay the reimbursement value of the gas plants, which is not included in the tender call. Following the last hearing held on 19 November 2019, the Judge reserved the right to prescribe measures of inquiry, which has not yet been lifted.
On 22 March 2018, the same company appealed to the Council of State against the sentence of the Regional Administrative Court of Salerno no. 276 of 21 February 2018, which had rejected on grounds of jurisdiction the appeal the company had made against the acts of the tender called by the Municipality of San Nicola Baronia. With its sentence no. 3217 of 29 May 2018, the Council of State accepted the appeal recognising the administrative jurisdiction, which had been rejected by the Regional Administrative Court of Salerno, and referred back to the same Court the decision on the merits of the appeal.
The Regional Administrative Court of Salerno, with its sentence no. 603 of 15 April 2019, accepted the appeal of S.I.DI.GAS S.p.A., thus annulling the tender.
On 10 July 2019, the Municipality of San Nicola in Baronia, in its capacity as the lead municipality of the other local authorities, appealed to the Council of State against the decision of the Regional Administrative Court of Salerno as above, without requesting suspension of the effectiveness of the sentence itself.
On 16 June 2020, the Council of State issued ruling no. 3873, invalidating the award of the tender to 2i Rete Gas S.p.A.

7.4 Concessions lost

In February, following the final award of the Turin 2 Atem, 2i Rete Gas S.p.A. finished handing over the infrastructure relating to the concessions of the Municipalities of San Gillio and Givoletto to the new operator.

7.5 Acquisition of companies

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

On 30 April 2020 the acquisition from BN Investimenti S.p.A. of the entire share capital of the companies Montelungo Gas S.r.l., Maierà Gas S.r.l. and Cometam Gas S.r.l. was completed.

8 Support for gas transport activities

8.1 Main Regulatory Changes

The orders of ARERA for 2020 and previous years regarding the aspects linked to activities carried out by the "Network Commercial Services" were many: In particular, we would like to point out:

- Resolution 223/2018/R/gas of 5/04/2018, which establishes the determination of the divergence fees for 2013-2019 on gas settlement;
- Resolution 264/2018/R/com of 11/04/2018, which defines the provisions to manage existing relations between distribution companies and transport users in the case of non-payment due to a plea of limitation raised by the end user;
- Resolution 569/2018/R/com of 13/11/2018, which defines the provisions to strengthen the protection of end users in cases of invoicing amounts referring to consumption dating back over longer than two years;
- Resolution 676/2018/R/gas of 18/12/2018, which governs the means and time frames for adjustments relating to divergence fees determined following the settlement sessions;
- Resolution 683/2018/R/com of 18/12/2018, which integrates, with further urgent provisions, the regulation for invoicing amounts referring to consumption dating back over longer than two years in the natural gas and electricity sectors;
- Resolution 32/2019/R/gas of 29/01/2019, which regulates the means of relief for sellers following the redetermination of the k coefficient with Resolution 737/2017/R/gas, to determine the protected economic conditions for the supply of natural gas for the two years from 1 October 2010 through 30 September 2012, to comply with the sentence of the Council of State 4825/2016; offsetting this amount, a new additional competent is introduced to the tariff for the transport service, called UG2k, with effect as from 01/04/2019, to be applied to all customers who have a gas supply with consumption of up to 200 thousand Smc, including contracts for public services.
- Resolution 132/2019/R/gas of 11/04/2019, which introduces transitory provisions on calculating and making available the parameter relating to the annual levy for the application of the gas settlement regulation, for thermal year 2019 – 2020;

- Resolution 147/2019/R/gas of 16/04/2019, which reforms the process of conferral to the exit points of the transport network which feed the distribution networks (city-gate);
- Resolution 148/2019/R/gas of 16/04/2019, which approves the new "Integrated text of provisions for the regulation of the physical and economic items of the natural gas balancing service (TISG)", which replaces that approved with Resolution 72/2018/R/gas, transposing the new regulations on the provisional balance and the management of the chain of commercial dealings in the Integrated Information System;
- Resolution 155/2019/R/gas of 16/04/2019, which introduces provisions to allow the updating of the correspondence between the user of the balancing service and the redelivery point of the distribution network under the Integrated Information System;
- Resolution 165/2019/R/com of 07/05/2019, which changes the Integrated text on the means of applying the compensation regimes for expense incurred by indigent domestic customers for electricity and natural gas supplies to enable recipients of the Citizens' Income and Pension to access the electric and gas social bonus;
- Resolution 271/2019/R/gas of 25/06/2019, which introduces the provisions relating to the process to make available technical and other data of the redelivery points to the Integrated Information System and the metering data and change to the communication standards with reference to the gas sector
- Resolution 493/2019/R/gas of 26/11/2019, which updates how and when the measures concerning the sharing of the redelivery points' technical data and of the metering data relating to the gas industry with the Integrated Information System are to become effective;
- Resolution 14/2020/R/com of 28/01/2020, which launches the process to activate the provisions concerning the automatic award of social bonuses pursuant to Law Decree no. 124 of 26/10/2019, art 57-bis, paragraph 5;
- Resolution 54/2020/R/com of 03/03/2020, which implements Law Decree 123/201, converted into Law 156/2019, by extending the suspension of electricity, gas, and integrated water service bill payments for condemned properties in Central Italy to 31/12/2020;
- Resolution 59/2020/R/com of 12/03/2020, which extends the deadlines under the rules for environmental and energy services and issues the first measures concerning quality in light of the COVID-19 emergency;
- Resolution 75/2020/R/com of 17/03/2020, which issues Emergency measures with respect to electricity, gas, water, and integrated waste (including sorted, urban, and similar waste) management services for the Municipalities within the "red zone" located near Lodi (Bertonico, Casalpusterlengo, Castelgerundo, Castiglione D'Adda, Codogno, Fombio, Maleo, San Fiorano, Somaglia, Terranova dei Passerini) and the Municipality of Vo' Euganeo in Veneto;

- Resolution 76/2020/R/com of 17/03/2020, which, in the wake of the COVID-19 emergency, governs the distribution of the social bonus to eligible citizens in the event of failure to distribute the bonus from 01/03/2020 through 30/04/2020, ensuring its continued distribution;
- Resolution 60/2020/R/com of 24/03/2020, which governs the initial emergency measures as well as establishes an extraordinary revenue and expenditure account in response to the COVID-19 epidemiological emergency;
- Resolution 88/2020/R/com of 24/03/2020, which updates the rules governing business relations within the natural gas supply chain;
- Resolution 89/2020/R/com of 24/03/2020, which commences the process to comply with ruling no. 38 of 7/1/2020 of the Lombardy Regional Administrative Court, which partially invalidated Resolution 32/2019/R/gas;
- Resolution 116/2020/R/com of 02/04/2020, which issues emergency measures associated with the COVID-19 epidemiological emergency with respect to the provision of electricity transport and natural gas distribution services;
- Resolution 117/2020/R/com of 03/04/2020, which issues additional emergency measures in response to the COVID-19 epidemiological emergency to protect end customers and users: amendments and supplements to the Authority's Resolution no. 60/2020/R/com;
- Resolution 124/2020/R/com of 13/04/2020, which extends the emergency measures in response to the COVID-19 epidemiological emergency to protect end customers and users: amendments to the Authority's Resolution no. 60/2020/R/com;
- Resolution 140/2020/R/com of 28/04/2020, which extends to 3 May 2020 the provisions set out in Resolution 76/2020/R/com concerning the social bonus;
- Resolution 148/2020/R/com of 30/04/2020, which extends the deadlines under Resolution 60/2020/R/com and issues additional measures with respect to instalment payment plans;
- Resolution 181/2020/R/gas of 26/05/2020, which issues emergency measures concerning Gas Settlement;
- Resolution 184/2020/R/gas of 26/05/2020, which supplements the rules governing the so-called “two-year statute of limitations”;
- Resolution 185/2020/R/gas of 26/05/2020, which defers the effective date of the streamlining of information flows containing technical and metering data (deferral 271);
- Resolution 192/2020/R/com of 26/05/2020, which extends the emergency measures concerning gas distribution services in response to the COVID-19 emergency;
- the Consultation Document DCO 204/2020/R/com of 12/06/2020, concerning the guidance with respect to the automatic award of national social bonuses to eligible individuals (pursuant to Law Decree 124/19);

- Resolution 222/2020/R/gas of 16/06/2020, which issues emergency measures concerning gas settlement;
- Resolution 247/2020/R/gas of 30/06/2020, which redefines the scope of the UG2k component;
- Resolution 248/2020/R/com of 30/06/2020, which establishes how the provisions as per Resolution 192/2020/R/com are to be implemented.

The processes and related upgrading of the company's information systems pertaining to legislation coming into force in the first half of 2020 were successfully implemented.
Finally, the Group is upgrading its IT systems and processes in light of the regulatory changes that will become effective on or after 1 July 2020.

8.2 Relations with Traders and Customer Care

Major customers

In the first half of 2020, the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sale companies or traders).
The Group's main customers are Italian companies which are leaders on the gas market.
In particular, customers whose contribution to turnover was over 5% of the total during the half were:

Enel Energia S.p.A. with 36.6%
Engie Italia S.p.A. with 9.8%
E.ON Energia S.p.A. with 7.2%
Edison Energie S.p.A. with 9.0%

Commercial quality

The index of "non-standard" services, for the purposes of the service's quality parameters envisaged by ARERA with Resolution 569/2019/R/gas, achieved during the first half of 2020 by Group companies was 0.03% for specific quality levels, while for general quality levels the overall result was 0.48%.

8.3 Front Office

The Group handles complaints received from end customers in accordance with sector regulations and within the means and time frames defined in its internal procedures and instructions.

Requests for information and/or complaints from end customers concerned the verification of readings and the provision of consumption details, specifically with reference to the replacement of conventional meters with new smart ones pursuant to Resolution No. 631/2013/R/gas of 27 December 2013, as well as the necessary interventions for the replacement of malfunctioning smart meters.
In the first half of 2020, the 2i Rete Gas Group received and handled 3,484 written requests (2,655 in the prior-year period), including 2,199 classified as written complaints or written requests for information (2,061 in the first half of 2019) subject to compliance with the general commercial quality standard under Art. 50 of ARERA Resolution 569/2019/R/gas.
Said standard requires handling an annual minimum of 95% of cases per region.
The number of cases handled during the reporting period was all but unchanged from the prior year and the percentage was 99.46%, greater than the minimum set by ARERA and essentially in line with the first six months of 2019 (99.92%).
In the first half of the year, the Group handled 407 settlements (190 in the first half of 2019), including 383 as technical support (indirect settlements), and 24 as party to the settlement (direct settlements).
The increased number was attributable to the rising awareness of the settlement as a tool to resolve disputes between end customers and energy operators, as well as the fact that the short statute of limitations was reduced from 5 to 2 years starting from 2019.
The complaints filed with "ARERA - Consumer Point of Contact" now exclusively concern the social bonus, and 693 requests were filed during the reporting period.
Finally, the Group handled 1,226 requests for technical data that could be obtained by reading smart meters (so-called M01) - 1,611 in the first half of 2019, including 708 required to meet the specific level of quality of the service, and 903 required to meet the general level of quality of the service - and 5,553 requests for other technical data (so-called M02), totalling 4,717 in the first half of 2019, including 2,769 required to meet the specific level of quality of the service, and 1,948 required to meet the general level of quality of the service.
The increase in M02 cases compared to the first six months of 2019 was specifically attributable to the overall increase in services rendered during the period, as Sales Companies requested to apply the previously mentioned "short statute of limitations".

8.4 Commercial Call Centre

The Group makes available for free a call centre service on working days, through two toll-free numbers for the network end customers.
This service, which is an addition to what is envisaged by the law in force, is a plus for the network end customers and allows to request more information on:
commercial aspects, with a toll-free number dedicated to activation requests pursuant to Resolution 40/2014, commercial offers, reactivation of supply following

suspension due to potential danger, last resort services and the portal for end customers,
smart meters, with a toll-free number dedicated to information requests on the mass replacement plan and to set up a personal appointment for replacement of a traditional meter with a smart meter should it not have been possible to make the replacement during the planned mass replacement.
During the first half of 2020, 2i Rete Gas's commercial call centre received 124,908 calls (186,463 in the first half of 2019), of which 118,774 were actioned (166,740 in the first half of 2019).
The decline in the number of calls (approximately -33% compared to the first half of 2019) was largely attributable to the lockdown associated with the COVID-19 emergency.
The service agreement requires handling a monthly minimum of 90% of calls. The Group met said requirement in the first half of 2020, handling 94.82% of calls.
The goal is to further improve service level standards.

8.5 Requirements of the Integrated Information System

In the first half of 2020, regulatory developments continued to expand and update the information and data in the Official Central Register [RCU] made available to the Integrated Information System (IIS).
In particular, the Group focused on identifying and remedying any misalignments between its database and the RCU, with the aim of minimising the number of misalignments with continuous improvements, in accordance with the recent regulations issued on settlement and measurement.
The legislative aim being pursued was to provide the IIS with a complete and accurate database to ensure the appropriate management of all commercial processes, with special reference to network access by selling companies, metering, settlement and social bonus, based on the principle of shared responsibilities between the IIS and the distribution company.
With effect from 1 January 2020, the provisions of Resolution 148/2019/R/gas, which approves the new "Integrated text of provisions for the regulation of the physical and economic items of the natural gas balancing service (TISG)", replacing that approved with Resolution 72/2018/R/gas were implemented, transposing the new regulations on the provisional balance and the management of the chain of commercial dealings in the Integrated Information System;
Therefore, as of 1 January 2020 the new regulatory system is in force, which gives the Single Buyer, instead of the distribution company, responsibility for the execution of settlement processes.

8.6 Gas Invoicing and Balancing

Invoicing of Transport and Services

Ordinary transport, commercial services and compensation activities were invoiced on a monthly and regular basis and during the first half of 2020.
The activities and related IT developments connected with the invoicing of the new Cmor component introduced by Resolution 593/2017/R/com, in force since 1 January 2020, have been completed.
As part of the judicial actions undertaken pursuant to applicable laws concerning the discontinuation of the service to the Redelivery Points under default, 2i Rete Gas has continued charging back the legal costs it incurred.
The Group has upgraded its processes and the relevant IT tools to allow applying Resolution 54/2020/R/com, which implements Italian Law Decree 123 2019 on the reliefs for the communities struck by the seismic events of 24 August 2016 and their aftershocks: among other things, it extends the suspension of electricity, gas, and integrated water service bill payments for utility customers associated with properties condemned as a result of the earthquake as well as utility customers in SAEs (*Soluzioni Abitative di Emergenza*, emergency housing solutions), and MAPREs (*Moduli Abitativi Provvisori Rurali Emergenziali*, emergency rural temporary housing modules). During this period, the requests submitted by sales companies to disconnect service for non-payment cannot be enforced with respect to the customers eligible for payment suspension.
In addition, said customers are excluded from the application of the CMOR fee to the seller: this exemption, already introduced under Resolution 810/2016/R/com as amended and supplemented, is to be extended through 1 August 2021.
The Group is currently assessing the impact of applying Resolution 247/2020/R/gas, which redefines the scope of the UG2k component introduced under Resolution 32/2019/R/gas.
Specifically, the UG2k component shall apply to all end customers connected to the distribution network exclusively up to the first 200,000 Smc, and to redelivery points whose annual consumption exceeds 200,000 Smc starting from 1 January 2021.
Its application involves:

- defining two different rates, one for the redelivery points to which UG2k has been already applied starting from 1 April 2019 (0-200,000 Smc), and the other for the redelivery points to which it has not been applied so far (over 200,000 Smc). The precise level of the latter shall be determined near the effective date;
- confirming the UG2k rate currently applied to the redelivery points falling under the initial scope, considering whether to update it by the end of 2020;
- using the redelivery point CA parameter (made available by the IIS under art 22 of the TISG) to identify the two groups of redelivery points, updating it for each thermal year.

Gas Balances

On 28 February 2020, the production and delivery to national/regional transporters and interconnected distributors of the data relating to the so-called "Multi-year Adjustment Session" for 2015-2018 was completed.
Under the new regulatory framework, effective as of 1 January 2020 the Single Buyer, with the Integrated Information System, is responsible for calculating balancing sessions; as there was no parallel run during the handover between the distribution company and the Single Buyer, in order to assess the results of said sessions, report any inconsistencies, and prevent any complaints from the network's users, 2i Rete Gas nonetheless continued the calculation in accordance with regulatory deadlines.
This allowed to highlight the issues emerged during the various sessions conducted by the Single Buyer in the first half of 2020 and to have fruitful and constructive discussions, which involved also the Head of Balancing for Snam Rete Gas.
Specifically, certain technical and operational issues emerged when publishing the results of the balancing sessions held in January and April 2020, prompting ARERA to issue Emergency measures concerning gas settlement (Resolution 181/2020/R/gas and Resolution 222/2020/R/gas).
These measures specifically govern the process for examining any anomalies found, how to recover inconsistent data so as to properly aggregate metering data, and how and when to recalculate balances in extraordinary circumstances.
Following the adjustments, the IIS shall send the correct data to distribution companies, the Head of Balancing, distribution service users, and balancing service users.
Finally, during the year, monitoring and analysis activities continued and were honed, with special reference to cases of high deviations between the volume injected into and the volume withdrawn from the network, as a result of adjustment sessions.

8.7 Metering

As the roll-out of the new electronic meters continues, pursuant to Resolution 631/2013/R/gas, manual meter readings at the redelivery points that still feature traditional meters have significantly declined. As at 30 June 2020, over 75% of the redelivery points operated by the Group transmitted data by smart metering.
Following the entry into force of ARERA Resolution 271/2019/R/gas— subsequently deferred by Resolution 493/2019/R/gas to 1 June 2020—at the express request of industry players, a new regulation, Resolution 185/2020/R/gas, recently became effective, once again deferring the effective date of the streamlining of information flows containing the technical and metering data of the redelivery points.

This measure postpones the implementation of the new information flows as per Resolution 271/2019/R/gas with respect to the sharing of readings taken after performing technical services as well as periodic readings, concerning off-takes as from January 2021.
Conversely, the resolution confirms that the information flows already transmitted to users between 1 June 2019 and 31 May 2020 must be shared with the Integrated Information System by 31 May 2020.
Finally, in May ARERA issued Resolution 184/2020/com, which supplements the rules governing the two-year statute of limitations. The resolution brings applicable regulations in line with Art.1 paragraph 295 of Law 160/2019 ("2020 Budget Law"), which became effective on 1 January 2020 and repealed the provision under the previous 2018 Budget Law that ruled out the possibility of exceptions to the statute of limitations in the event of failed or inaccurate consumption readings for which customers have been found responsible.

8.8 Commercial development

2i Rete Gas S.p.A.'s commercial initiatives

In 2020, 2i Rete Gas S.p.A. continued pursuing commercial initiatives to promote the use of natural gas in the areas with the highest potential in terms of unserved users and of redelivery points created but never activated. These initiatives involved 726 Municipalities throughout the country, mostly concentrated in Southern Italy: South 72% (523 municipalities), Centre 20% (144 municipalities), North 8% (59 municipalities).
The company is offering the following incentives:

- "Activation Zero", launched in 38 Municipalities and dedicated to areas with higher potential in terms of redelivery points created but never activated; this initiative involves incentive campaigns on activation grants and document checks have been introduced by cancelling these fees for users of the distribution and consequently the end customers;
- "Subsidised connection", launched in 413 Municipalities and dedicated to areas with higher potential in terms of unserved users, with the introduction of subsidies on the connection deployment contribution, in relation to the consideration due under the municipal concession for the delivery of the natural gas distribution service;

Both of the above mentioned initiatives were launched in 262 Municipalities.
In addition, after building new natural gas networks, 2i Rete Gas S.p.A. launched 13 initiatives to subsidise connection fees, followed by a communication campaign consisting in the distribution of promotional material to the public.

The COVID-19 emergency allowed to hold only 2 events to promote natural gas: the first, held in Chieti in February, featured several sales companies operating in the Reference Areas in central Italy; the second, also held in February, was a joint press conference with the mayor of Lecce to present the project to provide natural gas service in the so-called "Marine di Lecce", in San Cataldo.

Cilento Project

Cilento Reti Gas S.r.l. is engaged in the realisation of the natural gas distribution network in 31 municipalities that adhere to the agreement signed in 2010 in the areas of Bussento, Lambro and Mingardo, Gelbison and Cervati, Alento and Monte Stella.
Construction work on the natural gas distribution network in the Municipalities of Torraca, Morigerati, Caselle in Pittari, Casaletto Spartano, Tortorella, and Ispani began as planned in the first half of 2020 and is expected to be completed by next winter; to promote the use of natural gas, in these municipalities the company has introduced subsidised connection fees and offered to build the meter housing as well as provide and install gas pressure regulators for free.

Commercial initiatives involving newly acquired entities

After acquiring 3 distribution companies on 30 April 2020, the Group launched a specific commercial initiative for CO.MET.AM Gas S.r.l., whose plants located in the province of Vibo Valentia, and specifically in the municipalities of Acquaro, Arena, Dasà, Gerocarne, Pizzoni, Sorianello, Soriano Calabro, and Vazzano, became operational on 22 June 2020.
The company launched a communication campaign in these municipalities to inform residents of the arrival of natural gas and its benefits in terms of savings compared to other energy sources; in addition, it introduced an "ACTIVATION ZERO" subsidy for those residents that are already connected to the network, waiving all activation and document review fees for the initial activation of the natural gas service.

9 Plant construction, environment and safety

9.1 Gas distribution plants

In the first half of the year, pipe-laying operations slowed down as the COVID-19 emergency brought construction work to a halt and created organisational challenges for principals, especially in the early stage of the emergency.

Overall, during the period the Group's companies laid approximately 150 km of pipes, of which 80% were Low-Pressure pipes and 20% High/Medium-Pressure pipes.

Only a minority of these installations featured coated steel pipes (about 3 km related to minor piping replacements within existing steel plants). In line with the company's technical guidelines, the remaining networks (approximately 98% of the pipes laid) were built with pipes made of HDPE (high-density polyethylene), a more recent technologically advanced material that is widely used also at the international level and the Group has been using for some time now: among other things, it has lower operating costs compared to traditional coated steel pipes.
These interventions refer to the need for upgrading to maintain service levels, for the acquisition of new customers in new expansion areas and for concession obligations assumed under the agreements with the competent entities, as well as for the interconnection of plants in order to rationalize their operation.
In particular, about 16 km relate to Cilento Reti Gas (whose methanisation activities were suspended due to the COVID-19 emergency in the months of March and April) and relate to methane conversion works carried out in the municipalities of Caselle, Ispani, Morigerati , Torraca, Tortorella and Vibonati.
The overall size of the network managed by the companies of the 2i Rete Gas Group as at 30 June 2020 was around 66,300 km.
In addition, over 1,230 primary substations are active which, upstream of the distribution networks that the Group manages, reduce, measure and odorise the gas from the national transport networks. On the network there are also over 16,000 secondary reduction groups with a capacity of at least 120 sm3/h used to reduce pressure between the medium- and low-pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.

9.2 Service continuity and safety

By May 2020 (instead of the usual deadline of March postponed by ARERA due to the COVID-19 emergency), the Group had published for all its companies the data on technical safety standards and service continuity for 2019. This work was done by extracting data from the corporate IT systems recorded by the local units during the year. The necessary accuracy and suitability controls were carried out before the data was sent to ARERA.
As in previous years, the Group's performance has exceeded the minimum requirements of the competent authority.
Overall, for the companies of the Group, in terms of constant attention to the safety of plants and end customers, campaigns were undertaken regarding the preventative search for leaks: relating to the planned inspection on the distribution network, equal to over 79% of the high and medium pressure (HP/MP) piping and over 65% of the low pressure (LP) piping.

The percentage of network subject to preventative leak detection remained in line with the Group's historical data.
As for gas odorisation tests carried out in the field in order to thoroughly monitor the actual level, the reported values were largely higher than the minimum requirements (around 16,200 chromatography tests) compared to the minimum value required by ARERA (around 3,600 tests).
In the first half of the year, in line with applicable regulations and corporate procedural guidelines, the Group started monitoring the data related to service Safety and Continuity processes pursuant to the new Resolution 569/2019/R/gas (which will govern service continuity and safety for the 2020 – 2025 period) for the year 2020, with no substantial changes compared to the previous Resolution 574/2013.
The main parameters concerning these activities relate to services showing the distributor's ability to promptly intervene in potentially dangerous situations (emergency interventions, intervention time), or to organise and carry out preventative checks to ensure correct monitoring of safety conditions (percentage of network subject to inspection, level of gas odorisation, percentage of network with cathodic protection).

9.3 Resolution 155/08 – (Smart meters)

As at 30 June 2020, there were approximately 3.6 million smart meters installed.
Progress is slightly behind schedule because the replacements of traditional meters were suspended due to the COVID-19 emergency, as their installation is not considered to be an essential activity.

Work continues on the pilot project for the integrated remote handling of non-payment with remote valve shut-off.
This project was also temporarily put on hold because of the health emergency.
Work continued to standardise the new meter models and the specific tests at the laboratory in Cremona.

9.4 Planning activities

Despite the continuation of the delay in calling ATEM tenders, work continued to prepare, check and update the detailed technical elements, relating above all to the plants that were previously managed by the Group, for the preparation of technical proposals to be put forward during the tender stage.
In addition, the usual design work was undertaken to support internal requests for the development and extension of existing networks, as well as a fluid dynamic check of plants.

10 Water Sector

As at 30 June 2020, the residual business in the water sector managed by 2i Rete Gas S.p.A. consists of just two concessions for drinking water distribution in the municipalities of Riva Ligure and Santo Stefano al Mare, in the province of Imperia, and the supply of drinking water in the municipalities of Ventimiglia di Sicilia, Baucina and Ciminna, all in the province of Palermo.
Preparations are underway for the handover of two concessions in the Province of Imperia to the new operator.

11 Quality, Safety and Environment

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

In June, the Group began the groundwork for the annual surveillance through a third-party audit carried out directly by the Accredited Certification Body.

Since access to the Group's Offices was limited, special efforts were made to allow completing the surveillance audit by the first half of July, so as to avoid burdening operational structures in the autumn, when a significant backlog is expected as a result of the lockdown period.

As at 30 June 2020, the auditors had already finished inspecting the South East Department and the Foggia Area, the Naples Area of the South West Department, and, with respect to the Quality, Safety, and Environment Structure, the Integrated Management System and the Prevention and Protection Service Units. The findings of this initial stage already confirm it is possible to complete the surveillance audit without objections that could cause the Group to lose its certifications.
The process will be completed on 7, 8, and 9 July 2020, when the auditors will inspect the North Department and the Biella Area as well as the Central Procurement & Services Office, Human Resources Management and Development, Operation, Engineering, and Network Commercial Services structures.

Therefore, 2i Rete Gas S.p.A. currently operates with a Certified Management System which conforms to:

- for Quality Management, to UNI EN ISO 9001:2015;
- for Environmental Management, to UNI EN ISO 14001:2015;
- for Health and Safety Management, to UNI ISO 45001:2018 and, until 11 March 2021, to BS OHSAS 18001:2017;

Following the merger of 2i Rete Gas Impianti into 2i Rete Gas S.p.A., the Group notified the certification body of its intention to renounce the three IMS/QSE

Certifications held by 2i Rete Gas Impianti: the Certificates were formally revoked in May as 2i Rete Gas Impianti was removed from the list of certified companies.

The management system is constantly updated in accordance with organisational and procedural changes. In this regard, on 30 April 2020, the Chief Executive Officer signed the new Integrated Quality, Workplace Health and Safety and Environmental Policy, which is aligned with the Group's Sustainability Policy issued in late March. In addition, the Group has started validating/reviewing the business processes within the certified scope (Management and Operation of the Natural Gas Distribution Service) to confirm their consistency, any potential risks, and the effectiveness of the steps taken to contain the relevant impacts.

For 2020, 64 checks (internal audits) were planned aimed at guaranteeing control over the alignment of the Quality, Safety and Environment management system to the reference laws and the system documents, as well as to the correct implementation of the actions envisaged for the control over relevant risks.
In the first half of the year, the Group was able to perform the first 2 audits scheduled before operations were suspended due to COVID-19; 2 additional audits concerning the department structures and Areas subject to Surveillance were conducted in June; with the easing of containment measures, the Group plans to perform 2 audits of local structures in July and the first 5 Audits of head office structures. By the end of the year, under a backlog elimination plan involving all qualified internal auditors of the DOP/QSE structure and the departments, the Group will audit the remaining 3 Departments, 21 Operational Areas, and 3 Head Office Structures (IT Systems, Relations with Local Authorities, Tariffs & Fees).

The visits carried out enabled the recording, through the sampling of all the processes managed, of the absence of any Serious Non-Compliance situations and the correct identification and implementation of the corrective actions needed to keep management aligned to the IMS.

Certification of 2i Rete Gas S.r.l.'s Quality System

The Certification Body was engaged also to provide for the periodic verification for the maintenance of the certification of the quality management system of 2i Rete Gas S.r.l., essential to support the participation in the Milan 1 ATEM tender.
The Certification Body performed a fully OFF-SITE surveillance audit in May in collaboration with the structures of the North Department and the Tradate Area, which, by working together with the QSE/IMS Unit, ensured the availability of the evidence required and necessary to show compliance with the relevant standards.
On 21 May 2020, based on the findings of the surveillance audit performed on 14 May 2020, the Body's Technical Committee decided that the Quality Management System remains complaint with the relevant Standard.

To date, 2i Rete Gas S.r.l. maintains its UNI EN ISO 9001:2015 certification, which is valid through 14 May 2021.

11.1 Prevention and Protection Service

In the wake of the COVID-19 emergency, the Group updated the Risk Assessment Document for all Business Units (updated on 17 and 18 March 2020) The update concerns the addition of a COVID-19 DOSSIER, which is constantly being updated, supporting document number 12 "Biological Agents". The dossier includes all organisational and prevention documents issued to protect the health and safety of employees.

Workplace injuries:

In the first half of 2020, workplace injuries decreased compared with the previous year.

In the first half of 2019 there were 7 injuries that could be classified as "non-serious" (i.e. with initial diagnosis of less than 30 days) for operating staff and 2 injuries for white-collar staff. In the first half of 2020 there were 3 "non-serious" injuries to operating staff and no "non-serious" injury to white-collar staff.
In the first half of 2020 there were 0 commuting accidents involving operating staff (1 in 2019) and 3 accidents involving white-collar staff (5 in 2019).
The total number of injuries recorded in the first half of 2020 was 6, compared to 15 in the first half of 2019. This significant decline was attributable to the suspension of operations during the lockdown in March and April.

In order to achieve "zero injuries", the QSE structure, in collaboration with the Head of the Prevention and Protection Service, continued performing workplace safety audits at the local structures as well as the worksites with in-progress inspections for contractors to the extent allowed by the suspension of operations and the reduction in works scheduled, as a result of the mobility restrictions associated with the COVID-19 emergency.

Health Surveillance Situation:

The Prevention and Protection Service, working closely together with the company responsible for the health surveillance of all 2i Rete Gas staff throughout the emergency period, has stepped up monitoring efforts to ensure the continuity of fit-for-work assessments as well as took steps specifically aimed at identifying workers potentially positive for the COVID-19 virus in order to minimise the potential for contagion.

In addition, through a telephone triage service that puts the worker in contact with their occupational physician, the health surveillance service has been expanded to include workers returning from a medical leave of less than 60 days. The Prevention and Protection Service also conducted a campaign to identify the individuals who, due to comorbidities, qualified as "Fragile" and particularly exposed during the emergency period: the Employer is required to activate workplace protections in order to reduce their exposure to potential situations of contagion, implementing Smart Working or allowing them to refrain from working in the field.

11.2 Environmental issues

The QSE structure constantly monitors material environmental aspects and ensures the Company is aligned with changes in environmental regulations.
In the context of environmental system indicators, the transition to the new regulatory model (UNI EN ISO 14001:2015) allowed revision of the goals set and which were divided between parameters to monitor regulatory compliance and objectives for continuous improvement.
For 2i Rete Gas, the prerequisites, i.e. the aspects considered to be essential to sound business operations, are:

- regulatory compliance
- ethics and anti-corruption
- listening to stakeholders
- creating sustainable economic value

The goals that the Management System sets for itself in the near future are defined through a strategy intended to ensure the monitoring of the prerequisites within its scope.
The primary indicators for measuring the effectiveness of our management system are:

- assessing compliance with regulatory requirements;
- assessing the effectiveness of the monitoring actions identified in order to mitigate risks;
- measuring the aspects found to be material to boosting the performance of the QSE System.

In addition to the above, with respect to Environmental Management:

- Maximising the recycling of special waste produced during plant operation and maintenance activities.
- Ensuring that special waste produced by companies during plant construction and maintenance activities is managed properly.
- Optimising production processes to curb the consumption of primary energy required for technological purposes (gas preheating and cathodic protection of steel pipes).

– Keeping the vehicle fleet efficient and optimising work trips to curb fuel consumption and the relevant CO2 emissions.

In addition, all indicators are aligned with meeting the principles set out in the IMS Policy and, as far as the scope of the Management System is concerned, the Group's Sustainability Policy.

The Group is registered in the SISTRI System for the purposes of managing its own hazardous special waste. The Company handles the non-hazardous and hazardous special waste it generates in compliance with the law, tracking it by keeping waste acceptance and deposit records as well as digitally using a dedicated application.

11.3 Technical and Commercial Quality, audit of technical and commercial quality data subject to communication to ARERA

The audit is intended to assess the quality and consistency of the documents certifying the safety and continuity of the service (management of the Emergency Response Service, management of leaks, management of checks on the level of odorisation of the gas distributed) and the compliance of the service's commercial quality performance records, carried out on samples selected with criteria similar to those used by ARERA for its controls.
To ensure the performance of the audits scheduled for 2020, the QSE/IMS unit has implemented a specific procedure for the OFF-SITE audit of performance and events based on the documents made available by the Areas Concerned.
As at 30 June 2020 five plants were audited for technical quality aspects and 2 Provinces were audited for commercial quality aspects; the audits will continue also in the second half of the year, until the planned plants and Provinces are covered.
The proposed corrective or preventative actions, once implemented by the structures concerned, allow to further improve the confidence on compliance of the audited data where necessary.

11.4 Control over worksite safety

During the first half of 2020 work continued to guarantee alignment to relevant laws in force and compliance with corporate provisions regarding the management of safety aspects for activities which fall under art. 26 and in Chapter IV of Leg. Decree 81/08, which involve company representatives, respectively in the role of Employer commissioning the work, Principal and Works Manager.
In March and April, construction work was affected by the deterioration of the COVID-19 pandemic across Italy. This emergency subsequently required several coordination efforts that generated various documents intended to ensure the

continuity of construction work in complete safety, chief among them the 2i Rete Gas Worksite Anti-Contagion Safety Protocol.
The above falls under the responsibility of Worksite Safety Coordination, which, among other things, defines standard behaviour in approaching safety issues at 2i Rete Gas worksites.
The company documents relating to the definition of roles and responsibilities of the aforementioned figures were updated regarding implementation of the above.
As for the management of safety coordination at worksites, the activities carried out by external and internal safety coordinators in the design stage (Italian acronym: CSP) and during execution (Italian acronym: CSE) are monitored throughout the company.
All the CSEs adopt the same format for reporting site visits, so that a uniform method is adopted by them in carrying out the controls, limiting as far as possible a subjective approach.
During the first half of 2020, the CSEs produced a total of 2,789 reports, highlighting 571 cases of non-compliance (NC), which were all managed by verifying the measures adopted by the companies at the instructions of the CSEs.

12 Human resources

12.1 Corporate organisation

In the first half of 2020, the Group designed and put in production the software for surveying and electronically managing the job titles defined during the Job Evaluation – Territory Project. Meanwhile, the Job Evaluation Project was also launched for Staff functions in order to obtain an analysis of the entire company population.

To make business operations more efficient, during the first six months of the year, the Group implemented two especially significant Operating Instructions.
The procedure that created 2i Rete Gas's Internal Register of Technicians: in order to promote and develop the skills of its employees, the company has strived to provide specialist training to certain professionals that perform specific technical activities, as well as allow them to remain registered with the relevant professional register.
The operating instruction concerning changes to the company's locations, intended to govern the several complex cross-functional processes involved in opening or closing a location for office or logistics use.

12.2 Industrial relations

In January, the Group finished handing over the infrastructure in the municipalities of San Gillio and Givoletto (province of Turin), falling under the Turin 2 area. This required transferring staff to the new operator, in accordance with the regulations concerning employment guarantees and protections (Social Clause Decree).

The first half of 2020 was mostly dedicated to managing the COVID-19 emergency. In accordance with the Government – Social Partners Protocols, as referred to in the Authority's orders, since the beginning of stage 1 the Group activated Local Committees at the level of the individual Departments as well as the head office. Said committees are comprised of representatives of workers (Workers' Safety Representative/Works Council) and the company (employer, Head of Prevention and Protection Service, human resources). By sharing information and holding regular discussions, the Company promoted actions intended to effectively implement all the measures designed to contain the spread of COVID-19.

As a result of the ban on non-essential activities, and in order to contain the impact of the lockdown associated with the compulsory suspension of work, in April and May the Group applied for *cassa integrazione ordinaria* (Italy's ordinary government -paid furlough scheme). Meanwhile, it also implemented simplified smart working for all office activities compatible with remote working as well as a plan to have employees use up annual leave.

The activation of the social safety net gave rise to certain issues with trade unions that were resolved at the end of the first half of the year. The parties have successfully finalised the recognition of the 2019 performance bonus, the agreement on financed training, and the schedule of the meetings on technical-operational topics.

The Company has joined the Trade Association IGas effective as of 1 January 2020.

12.3 Recruitment

In the first half of 2020, the Company completed 27 recruitment processes that led to hiring 20 resources by 30 June 2020.
There were various reasons for hiring from outside the organisation: specifically, there was the need to replace specialists that have left the company due to retirement or resources reallocated to vacant positions thanks to the internal job posting or job rotation process.

Most of the contracts signed were fixed-term (13), 6 are permanent contracts and 1 is a temporary contract.

The largest number of new hires was in the territorial organisation, and specifically the South East Department (4 resources), the South West Department (3 resources), and the North East Department (3 resources).

In the wake of the COVID-19 emergency, all interviews were conducted via video conferencing and the Company postponed the recruitment of certain professional figures requiring preliminary in-person training.

As for searches through internal job postings, 11 positions were set up, with a total of 10 applications received and 1 procedure completed as at 30 June, with a further 3 in the final stage.

12.4 Training and development

As for training, the commitment in the first half of 2020 focussed on the technical and safety issues as well as managerial, specialist ,IT and language issues.

It is important to stress that training was provided in person early in the year, and then, as a result of the COVID-19 global situation, the Group had to shift from in-class training to remote e-learning.

With respect to management, once again this year 2 additional employees participated in a project specifically dedicated to the new middle managers of the IT Systems structure, named "The Community of future IT Leaders".
The coaching programme dedicated to management and executive positions that started in the previous year came to its conclusion.

With respect to IT skills, early in the year the Group offered a course on Excel 2016 that was attended by approximately 100 employees.
As for specialist topics, thanks to the commitment and support of the internal lecturer, who heads the structure, the training initiative on the main topics associated with distribution tariffs and fees continued; this initiative was conducted both in-person and online.

In June, thanks to the training provided by Legal and Corporate Affairs, the Group offered online deep dives into "Land use fees", dedicated specifically to the employees of the South West Department.
Still with regard to specialist issues aimed at supporting employees in carrying out their duties, particular mention should be made of the organisation and provision of training sessions linked to a specific content course: the new IT Service Management portal.

Furthermore, specialist courses were held for numerous central functions.

From a linguistic point of view, the English language training initiative launched last year and dedicated to about 30 employees continued.

Finally, training and information on the New Privacy Regulation and on Decree 38 continued, with teaching provided by Legal and Corporate Affairs, as well as an e-learning course dedicated to the entire company staff on Legislative Decree 231.

The Group designed the content of training courses, to be offered in the second half of the year, aimed at supporting supervisors in managing teams remotely, considering the massive implementation of smart working required during the emergency.

With respect to technical-operational training, after March – when training was necessarily suspended – in order to ensure the continuity of refresher training and the transmission of new skills necessary for the business and safety-related issues, the Group dramatically changed its approach by adopting electronic processes and tools also for operating staff.

It prepared operations manuals and videos to provide detailed instructions to employees equipped with only company Tablets on how to attend online courses and access the Intranet (allowing also operating staff to read the company's news, job postings, operating instructions … etc.).

It also activated a virtual classroom training plan on Company Welfare for all employees concerning the new platform and the new goods and services offered. In addition, it published on the intranet a video recording of one of the virtual classes held.

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

- The skill development project that began in 2019 to advance general-purpose blue-collar staff to the roles of Maintenance Technician/Station Operator (39 resources involved) and Smart Meter Skilled Worker (56 additional resources involved) was completed as the area managers finished certifying the effectiveness of the training course and the acquisition of the skills that participants need to discharge their new duties; nearly all of the individuals involved were deemed fit for their new positions. The Group is currently conducting a new survey to extend this skill development project to include other internal resources.

- With respect to the 30-hour refresher course (Type I-III-IV) on the UNI 11632 and UNI/PDR standards, the Group identified the individuals that will receive the relevant training in the second half of the year so as to maintain the qualification: over 100 employees, most of them blue-collar workers, will be enrolled in the course in 2020. The Group is working on a multi-year training plan on this topic, seizing the opportunity to identify a pool of qualified internal lecturers, thus maintaining a specialist competence centre inside the organisation.

- As for the Training project for Area technicians and companies on Emergency Response Service, aided by a series of Business structures and a specific work group set up as part of the "network time" engagement project,
the Group prepared the teaching materials that, together with the "verbal" comments provided by in-house experts, will comprise the training product offered to the technical and operating staff of the company as well as third parties through the SSF platform.

- The first six months of the year saw a strong commitment, for defining and completing the teaching materials, of the internal Work Groups that aim to standardise the methods and practices of testers and Operational Control Staff; the relevant training will be provided in the second half of the year.

- The Group provided training on Asset Management Branch "F" - final to approximately 360 individuals, to support the evolution of processes and systems.

- The Company finished providing training on Technical and Tender Specifications and the Fee Schedule to approximately 480 employees, including department and area managers as well as technicians.

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

- Environmental Management: it defined the contents of the training project and the recipients, considering also the individuals on the internal register of engineers; the first sessions will be held remotely in September, for a total of nearly 1,400 hours of training.

- With respect to the Refresher Course for the staff responsible for planning, placing, and monitoring road signs in the presence of vehicle traffic – which, under a new ministerial decree, was expanded to include all operating staff and 100 Area Technicians (735 resources) – the Group held 7 in-class sessions (in Palermo, Catania, Frosinone, Nola, and Brindisi) and 17 remote theory sessions. The Group is currently planning and offering the approximately 90 practice sessions scheduled for the second half of the year.

- First Aid and Fire Prevention – The Group provided in-class Fire Prevention training in the first 2 months of 2020 and then offered theory sessions remotely. An additional 7 practice sessions are scheduled for the second half of 2020.

- The Group promptly organised training courses on COVID-19 guidelines for the technicians returning to the office as well operating staff. Specifically, said training focuses on how to access and use the company's offices and vehicle fleet as well as how to operate and maintain networks and perform services for end customers. To this end, the intranet now features a specific training/information section containing the reference materials and a specific video accessible to all employees.

- In addition, the general and specialist e-learning course on safety (Workers' Safety and Office Risks) continued to be delivered in e-learning mode, which in the first half of the year was completed by an additional 25 employees (mainly newly hired staff).

12.5 Staff administration

Consistently with its goals to improve administrative and organisational processes, in the first half of 2020, despite the operational challenges associated with the health emergency, the Group carried on with its projects as planned and managed the changes introduced under COVID-19 regulations.

Gas Fund Cancellation Compensation
Italian Law no. 125 of 6 August 2015 suppressed the Gas Fund for welfare purposes and required companies to compensate employees for the pension entitlements that were abolished. In addition, companies shall pay 10% interest on the compensation amounts held within the company as at 30 November 2020.
2i Rete Gas is reviewing and calculating the individual amounts to be paid.

Expense Reimbursements - Document Dematerialisation
In pursuit of its paperless goals, the Group has launched the project to dematerialise expense reimbursements for employees on business trips. By the end of 2020, 2i Rete Gas aims to archive expense reimbursements and each relevant supporting document electronically. In the last three years, the Group processed on average 8,783 expense reimbursements per year, including 7,400 with tax records to be reimbursed; it estimates that the average business trip requires recording and storing at least two tax records.
The Group is currently upgrading its organisational processes and systems to go paperless and ensure each document relevant for tax purposes meets the

requirements of the Italian Revenue Agency in terms of immutability, integrity, authenticity, and legibility.
While the feasibility analysis was completed in December 2019, the project resumed in June 2020 because of the COVID-19 emergency and is expected to be completed by the end of this year.

Travel Policy
The analysis of the document dematerialisation prompted the Group to revise the rules governing business trips, prepaid services, and the expense reimbursements claimed by employees. In addition, 2i Rete Gas saw it fit to revise the back-office activities intended to facilitate the work assigned to the "travel operator" in selecting the required services.
The guidelines known as "Travel Policy" are currently being finalised.

COVID-19 Emergency - Administration and IT - Government-Paid Furlough Scheme and Welfare Changes
As a result of the health emergency and the relevant emergency measures, in the first half of the year the Group made significant changes to its payroll software.
The several adjustments introduced allowed to promptly implement the changes introduced by Law Decree 17/03/2020 and Law Decree 19/05/2020, allowing employees to take advantage of the reliefs provided thereunder.
780 employees were enrolled on the ordinary government-paid furlough scheme on a rotating basis, for a total of 43,000 work hours. The changes to the time and attendance system concerned the government-paid furlough scheme, smart working, COVID-19 leave as per Law 104/92, and COVID-19 parental leave.

12.6 Corporate climate

The COVID-19 emergency has inevitably affected the corporate climate, including because certain activities – mainly technical-operational ones – were dramatically curtailed over a certain period of time, except for the work required to ensure the safety and continuity of the service.
At the same time, however, during this state of emergency all employees have showed their ability to react, innovate, adapt, and collaborate.
2i Rete Gas required a significant effort on the part of its organisational structure as a whole to rapidly convert operations, urgently making the necessary investments also in terms of hardware as well as upgrades and maintenance of its network, to enable as many employees as possible to embrace smart working. Where operations were curtailed and/or remote work was not possible, the company enrolled the employees concerned on the government-paid furlough scheme and required them to use up accumulated annual leave and personal leave, in accordance with the Government's orders.

Creating an emergency committee, holding constant meetings at the local level, and activating enhanced communication channels, including for all employees, helped to constantly exchange precious information and made it possible for all players to take an extremely responsible and collaborative approach to promptly managing the stage of emergency.
The need to access smart working allowed developing a new way to communicate and manage relations between colleagues as well as between supervisors and their employees. Introducing new remote communication tools allowed overcoming logistical challenges and closing distances inherent in the territorial organisation, thus introducing a new way to involve a larger number of individuals, including operating staff.

In a sense, what happened has accelerated certain initiatives envisaged in the action plan based on the findings of the work-related stress survey and intended to promote a positive and collaborative corporate climate, thus constantly improving engagement and the work environment.

In spite of the challenges, this year 2i Rete Gas once again activated the Welfare plan on a new platform offering even more goods and services after implementing a specific communication and remote training plan. The number of individuals joining the plan was slightly down compared to previous years; however, considering the challenges faced during the period and the necessarily lower propensity to use bonuses to purchase travel- and wellness-related services, the Group is satisfied with the results.

13 IT systems

With respect to IT systems, the first half of 2020 saw a significant effort to ensure field personnel, contractors, and head office staff remained operational in the face of the COVID-19 emergency, which required implementing *Smart Working* for most employees.
2I Rete Gas made adjustments to central and distributed infrastructure as well as workstations and strengthened safety measures to maximise Business Continuity and adequately support Collaboration.
Specifically as regards infrastructure, 2i Rete Gas bolstered the data network of the Data Centres to support secure data traffic across all remote workstations, upgraded and enhanced the firewall infrastructure to support the shift of the entire workforce to remote work, procured and distributed over 700 notebooks, activated a new company document area to facilitate sharing documents securely even with colleagues who have to use their personal devices, and bolstered Cyber Security monitoring and protection services, specifically with respect to email services

(anti-phishing, anti-cryptolocker) as well as the perimeter security of Data Centres and network infrastructure.
As for Business Continuity, the Group took steps primarily aimed at reducing the risk of disruptions to infrastructure and application services, avoiding operational inefficiencies of the technicians and staff working from home: it made the VPN network access infrastructure fully redundant, revised the plan for application and infrastructure operations with a new strategy aimed at concentrating upgrades to minimise the risk of disruption or unavailability of the service, enhanced the Quality Assurance process, prioritised essential services (regulation or Business Continuity) and postponed non-critical operations until the recovery phase, strengthened the IT call centre service to better handle the peaks in support requests regarding the use of computer tools while working from home, and made changes to on-site support at the head office to manage the servicing of workstations in accordance with anti-COVID prevention measures. As for the Support to Collaboration, 2i Rete Gas took steps to promote and facilitate remote collaboration between colleagues in day-to-day and planning operations while working from home by setting up and activating the Microsoft Teams platform and issuing guidelines to recommend effective and sustainable smart working practices.

In parallel to the efforts to support operations during the emergency, the Group took significant steps to upgrade the IT system in order to ensure regulatory compliance (resolutions concerning metering, balancing, and relations with sales companies) as well as finish implementing the leased asset management model in accordance with IFRS16.
It continued with the massive action plan aimed at ensuring the protection, monitoring, and efficiency of the processes related to residential and industrial smart meters: specifically, it optimised the exchange of information with integrated Industrial SMs, optimised the valve shut-off process for Point-to-Multipoint residential SMs, and fully implemented Advanced Analytics algorithms integrated with the maintenance systems to properly prioritise the inspections conducted by operating staff on the field.

As for Operational Efficiency Improvements, 2i Rete Gas gradually made the new system for managing network expansion contracts and the procurement of pipes acquired from a shared platform fully operational, as well as activated a complex programme to improve the reliability and quality of the IT systems that primarily support the performance of services and works and external interactions, so as to reduce anomalies and reimbursements as well as optimise the timeline of business operations

In recent months, 2i Rete Gas launched some initiatives aimed at incorporating the companies acquired as at 30 April 2020 into the Group, migrating personal and operational data to the IT system.

With respect to technological infrastructure upgrades, the Group finished upgrading the server farm and the network infrastructure of the Data Centres, activated the new Managed Printing Services by replacing the printers across all offices, and finished upgrading integration middleware.
Finally, in June 2i Rete Gas activated the new platform for IT Service Management processes, so as to structure the management of IT operational processes, standardise the relevant procedures, and bolster the Governance mechanisms associated with the measurement of performance indicators and the monitoring of service level agreements.

14 Research and development

During the first half of the year, research activities continued with the Energy Department of the Polytechnic of Milan for the analysis of possible prospects for the evolution of the gas distribution network with the development of a model for the simulation of the network given the injection of biomethane.
The research involves the analysis of the gas distribution network given injections of biomethane with the possibility of reverse-flow towards the national transport networks, developed through the construction of a model to simulate the functioning of the network aimed at analysing the evolution over time of the same (time and space variation in the pressure profiles / flow), given consumption with assigned profiles.
In addition, the Group is also exploring a potential Framework Agreement with the Polytechnic of Milan to develop research and in-depth studies on an ongoing basis with the goal of boosting the efficiency of the gas distribution system, analysing new technologies, or using new energy mixes to promote decarbonisation.

15 Risk management

This section concerning Enterprise Risk Management describes the main operational risks that characterise the sector in which the 2i Rete Gas Group operates. Regarding liquidity, credit and market risks, reference should be made to the relevant section in the notes to the consolidated financial report.

15.1 Operational risks

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

15.2 Regulatory risks

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

15.3 Risks deriving from future changes in natural gas consumption

Although the regulated income of the Group's operating companies does not directly depend on distribution volumes, and therefore the Group is not exposed to any risks concerning natural gas demand volumes, a prolonged economic crisis or

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

15.4 Environmental and safety risks

Operating and maintaining gas distribution networks is potentially dangerous and could cause damage to the public and/or Group employees. The Group is subject to Italian and European Union laws and regulations that govern health and safety to protect the public and employees.
As part of its operations, the Group uses potentially hazardous products and sub-products, and the work sites in which it operates are subject to laws and regulations (including zoning laws) regarding pollution, environmental protection, and the use and disposal of hazardous substances and waste.
These laws and regulations expose the Group to costs and liabilities associated with its operations and plants, including in relation to waste disposal.
The costs for any future environmental restoration obligations involve uncertainty as to the extent of the possible contamination, the appropriate corrective actions, and the Group's responsibility – which are often hard to estimate.
To mitigate this risk, the Group has adopted check and management systems that carefully monitor the processes and the related environmental issues, as well as taken out specific insurance policies covering both the cost of containing a potential contamination as well as of the relevant restoration and damage caused.

In light of the recent events that led to Italy's lockdown, the Group is assessing also the magnitude of the risk from external shocks such as the recent COVID-19 pandemic. Although the assessment is still underway, during the pandemic the Group showed it can mitigate the risk of a slowdown in its operations by being flexible in how and when it deploys its staff as well as thanks to the ability to adapt its network development and operation strategies in response to the changed situation and to the rapid scalability of its telecommunication resources.

16 Outlook

Throughout 2020, the company will first have to assess how the COVID-19 pandemic evolves and adapt its operations to the resulting scenario. If the conditions allow, it will continue investing in the network and metering systems, possibly making up for the delays incurred during the lockdown. The group will continue looking for potential entities to acquire as well as incorporating into the parent company the companies acquired in the meantime.
With respect to human resources management, 2i Rete Gas will strive to convert the smart working urgently introduced in accordance with emergency regulations into a tool allowing to handle any potential new critical stages of the pandemic and, in the medium term, new forms of remote work.
The profitability for 2020 is expected to be in line with the first half of the year.
The 2020 action plan includes the following objectives:

- continue reducing the number of workplace injuries by improving work quality and safety across its operations;
- continue the extraordinary maintenance programme for the gas network;
- concentrate resources on the highest value-added network operations through increasingly focused and specialised operational structures;
- continue monitoring ATEM tenders in order to promptly seize the best market opportunities;
- further improve the IT tools currently used in order to boost efficiency;
- leverage the functionalities made available by innovation to pursue and improve corporate processes and systems as well as open up new opportunities.
- continue implementing the sustainability plan by pursuing the objectives of the approved four-year plan.

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The Chief Executive Officer
Michele Enrico De Censi

IV. Consolidated Interim Report

V. Financial Statements

VI. Profit or Loss

Thousands of euro	Notes	30.06.2020	of which from related parties	30.06.2019	of which from related parties
Revenue					
Revenue from sales and services	5.a	336,512	-	347,622	-
Other revenue	5.b	11,561	4	11,857	7
Revenue from intangible assets / assets under construction	5.c	120,638	-	132,414	-
Sub-Total		**468,711**		**491,893**	
Costs					
Raw materials and consumables	6.a	29,125	-	34,434	-
Services	6.b	125,445	3,354	127,476	3,801
Personnel Costs	6.c	58,369	1,121	63,709	1,243
Amortisation, depreciation and impairment losses	6.d	99,562	-	99,789	-
Other operating costs	6.e	17,329	174	24,786	194
Capitalised costs for internal work	6.f	(561)	-	(386)	-
Sub-Total		**329,269**		**349,807**	
EBIT		**139,442**		**142,086**	
Income (expenses) from equity investments	7	82	82	80	76
Financial income	8	45	-	1,061	-
Financial expenses	8	(27,418)	-	(32,491)	-
Sub-Total		**(27,291)**		**(31,350)**	
Pre-tax income		**112,151**		**110,736**	
Taxes for the period	9	32,784	-	17,913	-
Net income (expenses) from continuing operations		**79,367**		**92,823**	
Net income (expenses) from discontinued operations	10	**-**		**16,049**	
NET INCOME FOR THE YEAR		**79,367**		**108,872**	
Net income for the year attributable to:					
- Owners of the Parent		79,280		108,852	
- Non controlling interests		86		20	

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VII. Statement of Comprehensive Income

Thousands of euro	30.06.2020	30.06.2019
Net income recognised through profit or loss	**79,367**	**108,872**
- Net income attributable to owners of the Parent	79,280	108,852
- Net income attributable to non-controlling interests	86	20
Other comprehensive income		
Items which will never be reclassified through profit/(loss):		
Revaluations of net liabilities / assets for defined benefits - owners of the Parent	116	(14)
Deferred tax assets and liabilities on items which will never be classified through profit/(loss) - owners of the Parent	43	(3)
	159	(17)
Items which may be reclassified subsequently through profit/(loss):		
Change in fair value of hedging derivatives - non-controlling interests	(29,124)	
Change in fair value of hedging derivatives reclassified in profit for the period - non-controlling interests	(616)	(612)
Change in fair value of hedging derivatives (tax effect) - non-controlling interests	6,990	
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interest	148	147
	(22,602)	(465)
Total other comprehensive income	**(22,443)**	**(482)**
Total comprehensive income	**56,923**	**108,390**
Total comprehensive income attributable to:		
- Owners of the Parent	56,837	108,370
- Non controlling interests	86	20

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VIII. Statement of Financial Position

Thousands of euro	Notes	30.06.2020	of which from related parties	31.12.2019	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	37,080	-	37,223	-
IFRS 16 Rights of use	12	26,970	-	28,817	-
Intangible assets	13	3,798,609	-	3,760,807	-
Net deferred tax assets	14	133,835	-	125,911	-
Equity investments	15	3,431	3,308	3,349	3,226
Non-current financial assets	16	935	-	1,547	-
Other non-current assets	17	59,218	-	57,697	-
	Total	**4,060,077**		**4,015,351**	
Current assets					
Inventories	18	24,304	-	23,509	-
Trade receivables	19	119,441	160	250,680	130
Short-term financial receivables	20	8,829	-	1,330	-
Other current financial assets	21	14	-	879	-
Cash and cash equivalents	22	112,158	-	353,308	-
Income tax receivables	23	6,212	-	6,272	-
Other current assets	24	254,799	-	201,361	-
	Total	**525,755**		**837,338**	
Non-current assets (or assets included in disposal groups) held for sale					
Non-current assets (or assets included in disposal groups) held for sale	25	-	-	2,991	-
	Total	**-**		**2,991**	
TOTAL ASSETS		**4,585,832**		**4,855,680**	

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Thousands of euro	Notes	30.06.2020	of which from related parties	31.12.2019	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent	26				
Share Capital		3,639	-	3,639	-
Treasury Shares		-	-	-	-
Other Reserves		503,565	-	526,009	-
Retained earnings/(accumulated losses)		353,381	-	197,028	-
Net income for the year		79,280	-	206,383	-
Total equity - Owners of the Parent		**939,865**		**933,058**	
Equity - non-controlling interests					
Non-controlling interests		1,533	-	1,398	-
Net income for the year - non-controlling interests		86	-	135	-
Total equity - non-controlling interests		**1,619**		**1,533**	
TOTAL EQUITY		**941,484**		**934,591**	
Non-current liabilities					
Long-term loans	27	2,652,819	-	2,660,921	-
Post-employment and other employee benefits	28	42,535	-	43,559	-
Provision for risks and charges	29	7,737	-	8,128	-
Deferred tax liabilities	14	-	-	-	-
Non-current financial liabilities	30	33,125	-	4,001	-
Non-current IFRS 16 financial liabilities	31	20,423	-	22,539	-
Other non-current liabilities	32	327,424	-	323,108	-
	Total	**3,084,063**		**3,062,256**	
Current liabilities					
Short-term loans	33	-	-	307,088	-
Current portion of long-term loans	34	18,182	-	18,182	-
Short-term portion of long-term and short-term provisions	35	92,347	-	92,639	-
Trade payables	36	203,270	4,425	186,344	4,860
Income tax payables	37	1,387	-	8,186	-
Current financial liabilities	38	41,082	-	20,025	-
Current IFRS 16 financial liabilities	39	6,488	-	6,110	-
Other current liabilities	40	197,529	-	220,120	-
	Total	**560,285**		**858,694**	
Non-current liabilities (or liabilities included in disposal groups) held for sale					
Non-current liabilities (or liabilities included in disposal groups) held for sale	25	-	-	139	-
	Total	**-**		**139**	
TOTAL LIABILITIES		**3,644,347**		**3,921,089**	
TOTAL EQUITY AND LIABILITIES		**4,585,832**		**4,855,680**	

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IX. Statement of Cash Flows

Thousands of euro		30.06.2020	30.06.2019
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	**22**	**353,308**	**686,353**
Cash flow from operating activities			
Pre-tax income		112,151	110,736
Taxes for the period	9	(32,784)	(17,913)
Net income from discontinued operations	10	-	16,049
1. Net income for the period		**79,367**	**108,872**
Adjustments for:			
Depreciation and amortisation	6.d	99,124	99,977
Impairment/(Reversals)/(Releases)	6.d	438	(188)
Capital (gains)/losses	5.b/6.e	3,483	6,311
Allocations to provisions for risks and charges and post-employment benefits		11,828	12,778
Financial (income)/expenses	7 and 8	27,291	31,350
Badwill from acquisition		(79)	
2. Total adjustments		**142,085**	**150,227**
Change in net working capital			
Inventories	18	(795)	(1,392)
Trade receivables	19	131,796	72,513
Trade payables	36	4,561	(4,287)
Other current assets	24	(53,118)	(117,204)
Other current liabilities	40	(22,629)	116,672
Net tax receivables/(payables)	23 and 37	(6,750)	5,530
Increase / (decrease) in provisions for risks and charges and post-employment benefits	28, 29 and 35	(13,879)	(12,341)
Increase / (decrease) in provisions for deferred tax assets and liabilities	14	(618)	(37,146)
Other non-current assets	17	(1,516)	(1,456)
Other non-current liabilities	32	4,176	15,761
Financial income/(expenses) other than for financing	8	(234)	(389)
3. Total change in net working capital		**40,994**	**36,262**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**262,446**	**295,360**
Cash flow (used in)/generated by investing activities			
Net fixed assets		(119,952)	(102,648)
Purchase of subsidiary and income from equity investments	7 and 15	(2,551)	76
Cash acquired through company acquisition		140	-
C) CASH FLOW (USED IN)/GENERATED BY INVESTING ACTIVITIES		**(122,363)**	**(102,572)**
D) FREE CASH FLOW (B+C)		**140,083**	**192,789**
Cash flow from financing activities			
Dividend payout		(50,030)	(93,000)
Change in amortised cost	16, 27 and 34	1,119	799
Financial income/(expenses) relating to the FV of the derivative instrument from Comprehensive Income	7 and 8	(616)	(612)
Financial income for financing activities	8	21	1,025
Financial (expenses) for financing activities	8	(27,161)	(32,066)
Debenture loan settlements	27 and 33	(267,100)	
Change in short-term and long-term financial debt	27 and 33	(49,091)	
Change in short-term financial debt	33		(108)
Change in other non-current financial assets	16	494	34
Change in other financial receivables	20 and 21	(6,634)	(11,972)
Change in financial leases IFRS 16	31, 39 and 11	(3,293)	(3,593)
Change in other financial payables	38	21,057	27,225
E) CASH FLOW FROM FINANCING ACTIVITIES		**(381,233)**	**(112,269)**
F) CASH FLOW FOR THE PERIOD (D+E)		**(241,150)**	**80,520**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**22**	**112,158**	**766,873**

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X. Statement of Changes in Equity

	Share capital and reserves									
Thousands of euro	Share Capital	Share premium reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net income for the year	**Total - Owners of the Parent**	**Total - Non-controlling interests**	**Total consolidated equity**
Total 31 December 2018	**3,639**	**286,546**	**728**	**9,349**	**208,765**	**159,812**	**155,457**	**824,296**	**1,403**	**825,699**
Allocation of income for 2018:										
Distribution of income	-	-	-	-	-	155,457	(155,457)	**-**	-	**-**
- Dividend payout	-	-	-	-	-	(93,000)	-	**(93,000)**	-	**(93,000)**
Total contribution from shareholders and payments to them as shareholders								***(93,000)***		***(93,000)***
- Other changes	-	-	-	-	25,246	(25,246)	-	**-**	-	**-**
- Other changes	-	-	-	-	-	5	-	**5**	(5)	**-**
- Change in IAS reserves	-	-	-	(3,964)	(661)	-	-	**(4,625)**	-	**(4,625)**
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	206,383	**206,383**	135	**206,517**
Total 31 December 2019	**3,639**	**286,546**	**728**	**5,385**	**233,350**	**197,028**	**206,383**	**933,058**	**1,533**	**934,591**
Allocation of income for 2019:										
Distribution of income	-	-	-	-	-	156,352.93	(156,353)	-	-	**-**
- Dividend payout	-	-	-	-	-	-	(50,030)	**(50,030)**	-	**(50,030)**
Total contribution from shareholders and payments to them as shareholders	-	-	-	-	-	-	-	***(50,030)***	-	***(50,030)***
- Other changes	-	-	-	-	-	(0)	- **-**	**0**	- **-**	**0**
- Change in IAS reserves	-	-	-	(22,602)	159	-	-	**(22,443)**	-	**(22,443)**
- Net income for the year recognised in profit or loss	-	-	-	-	-	-	79,280	**79,280**	86	**79,367**
Total 30 June 2020	**3,639**	**286,546**	**728**	**(17,217)**	**233,509**	**353,381**	**79,280**	**939,865**	**1,619**	**941,484**

2i Rete Gas S.p.A.

The Chief Executive Officer

Michele Enrico De Censi

XI. Notes

17 Format and contents of the Financial Statements

The 2i Rete Gas Group operates in the gas distribution sector. The Parent Company 2i Rete Gas S.p.A. is a public limited company and is located in Milan, Via Alberico Albricci, 10. Pursuant to article 3 of the Articles of Association, the duration of the Parent Company is until 2050.

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

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

On 21 September 2020, the Directors of 2i Rete Gas S.p.A. approved this condensed consolidated interim financial report prepared on a voluntary basis.
For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 21 September 2020.
These half-year condensed consolidated financial statements are subject, on a voluntary basis, to a limited audit by PricewaterhouseCoopers S.p.A.

18 Compliance with IFRS/IAS and basis of presentation

This condensed consolidated interim financial report as at 30 June 2020 has been prepared in compliance with: the International Accounting Standards (IAS) or the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at the end of the period; the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as the interpretations of the Standing Interpretations Committee (SIC) effective at the same date. In particular, this condensed consolidated interim financial report has been prepared in compliance with IAS 34 - Interim Financial Reporting. The above standards and interpretations are hereinafter referred to as "IFRS-EU".

Basis of presentation

The consolidated interim financial report consists of the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity, and the Notes.
The assets and liabilities reported in the Statement of Financial Position are classified on a "current/non-current" basis, separately disclosing the assets and liabilities held for sale.
Current assets, which include cash and cash equivalents, are those intended to be sold, consumed or realised as part of the normal operating cycle or within 12 months after the balance sheet date; current liabilities are those expected to be settled in the normal operating cycle or within 12 months after the balance sheet date.
Items in the Income Statement are classified based on the nature of expenses, while the Statement of Cash Flows is presented using the indirect method.
The consolidated interim financial report is presented in euro (the Group's functional currency) and the amounts reported in the notes are expressed in thousands of euro, unless otherwise stated.
The consolidated interim financial report has been prepared using the historical cost approach, except for those line items that, in accordance with IFRS-EU, are measured at fair value, as indicated in the measurement basis for the individual items.
This consolidated interim financial report has been prepared on an ongoing concern basis, as detailed in the Directors' Report.

19 Accounting standards, valuation criteria and use of estimates

In preparing the consolidated interim financial report, the Group has used the same accounting policies as those used in preparing the consolidated financial statements for the year ended 31 December 2019.

Accounting standards applicable as from 1 January 2020

On 28 May 2020, the IASB issued amendments to IFRS 16 "COVID-19-Related Rent Concessions" (hereinafter referred to as amendments to IFRS 16) to give the option, if certain requirements are met, to use temporary exemptions from applying lease

modification requirements for any rent concessions obtained by lessees as a result of COVID-19.
The amendments to IFRS 16 are effective as of 1 June 2020, and early adoption is permitted for all financial statements not yet finalised as at the effective date.

Accounting standards and interpretations issued by IASB/IFRIC during the first half and not yet endorsed by the European Commission

On 14 May 2020, the IASB issued:

- amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract" (hereinafter referred to as amendments to IAS 37) to provide clarification as to how to assess whether a contract is onerous. The amendments to IAS 37 are effective for annual reporting periods beginning on or after 1 January 2022.
- amendments to IAS 16 "Property, Plant and Equipment: Proceeds before Intended Use" (hereinafter referred to as amendments to IAS 16) to establish that proceeds from the sale of goods produced by an asset before it is ready for its intended use shall be recognised through profit or loss along with the relevant production costs. The amendments to IAS 16 are effective for annual reporting periods beginning on or after 1 January 2022.
- amendments to IFRS 3 "Reference to the Conceptual Framework" (hereinafter referred to as amendments to IFRS 3), to:
  (i) finish updating the references to the Conceptual Framework for Financial Reporting in the accounting standard;
  (ii) clarify the requirements for recognising provisions, contingent liabilities, and liabilities for levies assumed as part of a business combination as at the acquisition date;
  (iii) explicitly state that contingent assets shall not be recognised as part of a business combination.

  The amendments to IFRS 3 effective for annual reporting periods beginning on or after 1 January 2022.
- The document "Annual Improvements to IFRS Standards 2018- 2020 Cycle", containing amendments to international accounting standards related essentially to technical issues and the preparation of financial statements. The amendments to the accounting standards are effective for annual reporting periods beginning on or after 1 January 2022.

On 25 June 2020, the IASB issued Amendments to IFRS 17 and IFRS 4 relating to insurance operations. Among other things, it deferred the effective date of IFRS 17 to 1 January 2023.

Finally, on 15 July 2020, the IASB issued amendments to IAS 1 "Classification of Liabilities as Current or Non-current—Deferral of Effective Date" to defer the effective date of the amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" (hereinafter referred to as amendments to IAS 1), issued by the IASB on 23 January 2020, by one year. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023.

Use of estimates

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. As these are estimates, actual results may differ from those presented in these financial statements.
The critical judgements made in preparing this consolidated interim financial report, as well as the key sources of estimation uncertainty, are the same as those in the financial statements for the year ended 31 December 2019.

XII. Information on the Income Statement

Revenue

The transport of methane gas takes place exclusively within Italy.
The Group did not provide segment reporting pursuant to the requirements of IAS 34 and IFRS 8 (Operating Segments) due to the substantial uniqueness of its business.

5.a Revenue from sales and services

"Revenue from sales and services" amounted to 336,512 thousand euro in the period and mainly referred to gas transport operations and connection fees.

Here is the breakdown of “Revenue from sales and services”:

Thousands of euro	**30.06.2020**	**30.06.2019**	**2020 - 2019**
Sales and services			
Gas and LPG transport	320,104	328,477	(8,373)
Connection fees	4,492	4,339	153
Ancillary fees	2,410	3,021	(611)
Revenue from the sale of water	216	246	(30)
Ancillary services - water sector	246	134	113
Revenue from customer operations	33	30	3
Sundry revenue and other sales and services	9,010	11,376	(2,365)
Total revenue from sales and services	**336,512**	**347,622**	**(11,111)**

Revenue from gas transport totalled 320,104 thousand euro and mainly represent the portion for the first half of the year of the 2019 Tariff Revenue Cap for natural gas and LPG.
The decrease is entirely attributable to the new tariff regulation for the period, in force since 2020.

Connection fees, totalling 4,492 thousand euro, were stable at the previous year’s levels. It should be noted that the connection fee is a set amount defined through a specific quote according to the type of service requested, and consists of:

- the cost of the required material;
- labour costs;
- the percentage amount for the coverage of overheads.

Revenue from the sale of water, now absolutely marginal within the Group's operations, is stable compared to the same period last year. The decrease of 2,365 thousand euro in "Sundry revenue and other sales and services" is basically due to the block on gas supply suspension activities following the regulatory provisions relating to the lockdown period.

5.b Other revenue

“Other revenue” totalled 11,561 thousand euro (11,857 thousand euro in the prior-year period), slightly down by 296 thousand euro.

“Other revenue and income and services” decreased by 1,280 thousand euro compared to last year, while estimated revenue for the so-called “technical quality” (res. 574/13) increased by 1,885 thousand euro. Capital gains on the sale of assets decreased by 644 thousand euro, due to the absence of divestments in the first half of the year.

5.c Revenue from intangible assets / assets under construction

As from 1 January 2010, the Company has been recognising this revenue, equal to 120,638 thousand euro, pursuant to IFRIC 12 “Service Concession Arrangements”. Compared to the same prior-year period, they were down 11,776 thousand euro as a result of the slowdown in investments, due to the lockdown period in the first half of 2020.

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

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.

6.a Raw materials and consumables

"Raw materials and consumables", amounting to 29,125 thousand euro, essentially include the cost for the purchase of materials used to lay gas pipelines as well as vehicle fuel; the amount at 30 June 2020 decreased significantly (by 5,310 thousand euro) as a result of the lower supply of raw materials linked to the slowdown in investments, as a consequence of the lockdown period in the first half of the year.

6.b Services

"Costs for services", amounting to 125,445 thousand euro, are broken down as follows:

Thousands of euro

	30.06.2020	30.06.2019	2020 - 2019
Costs for services			
Third parties:			
Maintenance, repair and realisation of assets	66,332	65,323	1,010
Costs for electricity, power and water	1,507	1,778	(271)
Gas (for internal use)	2,330	2,303	27
Telephone and data transmission costs	1,064	1,263	(199)
Insurance premiums	2,128	2,143	(16)
Costs for services and other expenses relating to personnel	1,744	2,516	(772)
Fees	351	365	(14)
Legal and notary costs	629	1,441	(811)
Costs for company acquisitions and disposals	6	23	(16)
Advertising	50	43	8
IT services	4,377	4,375	1
Meter reading service	1,679	1,724	(45)
Audit fees	287	301	(14)
Repairs and emergency service	2,027	2,900	(873)
Plant certifications Resolution no. 40	175	202	(27)
Gas transport by third parties	404	1,089	(685)
Professional and other services	2,871	2,106	766
Other costs for services	4,289	4,190	99
Costs for the use of third-party assets			
Leases	488	722	(235)
Rentals	229	704	(475)
Other costs for the use of third-party assets	841	1,052	(211)
Fee for temporary occupation of public space (C.o.s.a.p.)	624	639	(15)
Municipal gas concession fees	31,013	30,275	738
Total	**125,445**	**127,476**	**(2,031)**
- of which capitalised for intangible assets	69,050	67,769	1,281

Costs for services were slightly down compared to the previous year.

As already mentioned, as from 2010, all costs relating to the operation of the concessions include network construction costs in accordance with IFRIC 12. Excluding this item, costs for services were down by 3,312 thousand euro overall.

The change in the costs for services, which is broken down in the table below, was mainly due to the effect of the higher costs for maintenance, repair and construction of assets for 1,010 thousand euro due to the work undertaken by the Group on the plants in the first half of the year, lower costs for both services and other personnel-related expenses (due to the lockdown period), and lower legal expenses that last year were affected by the extraordinary operations carried out during the period.
Also the cost of the on-call service decreased by 873 thousand euro, due to lower activity during the COVID-19 emergency.

The items relating to the cost for the use of third-party assets have been presented differently since 2019 because of IFRS 16, which, when certain conditions are met, requires recognising a "Right-of-use asset" that is depreciated over the lease term. Since 2019, the relevant costs thus appear in the financial statements in the form of depreciation and associated financial expenses.
The fees paid to the municipalities relating to business development were largely in line with the first half of 2019.

6.c Personnel costs

Personnel costs, totalling 58,369 thousand euro, include all charges incurred on an ongoing basis which, directly or indirectly, concern employees. They were significantly down (-5,340 thousand euro) year-on-year, also because of the accumulated annual leave used up during the period. Given the curtailment of operations during the period, the capitalised total declined by a similar amount.
The table below shows the changes for the first half of 2020 by category.

	Executives	Middle Managers	White collars	Blue collars	Total
Personnel as at 31 December 2019	**33**	**112**	**1,257**	**655**	**2,057**
Change in the scope of consolidation	-	-	1	1	**2**
Increase	-	-	19	1	**20**
Decrease	(1)	(3)	(30)	(25)	**(59)**
Change in category	-	-	3	(3)	**-**
Personnel as at 30 June 2020	**32**	**109**	**1,250**	**629**	**2,020**

6.d Amortisation, depreciation and impairment losses

The item, amounting to 99,562 thousand euro, was largely in line with the first half of the previous year.
Impairment of trade receivables relates to receivables no longer deemed recoverable that arose during the first half of the year.
This item is broken down as follows:

Thousands of euro

	30.06.2020	30.06.2019	2020 - 2019
Depreciation	2,774	4,279	(1,505)
Amortisation of IFRS 16 rights of use	3,402	3,148	254
Amortisation	92,947	92,550	397
Impairment losses:			
- Impairment of intangible assets	-	3	(3)
- Write-down of trade receivables	438	(191)	629
Total amortisation and impairment	**99,562**	**99,789**	**(227)**
- of which capitalised for intangible assets	1,554	1,367	188

6.e Other operating costs

"Other operating costs", amounting to 17,329 thousand euro as at 30 June 2020, were up 7,456 thousand euro thanks to the management of Energy Efficiency Certificates, which improved by 3,780 thousand euro during the period (positive 217 thousand euro after releasing 242 thousand euro, excluding which there would have been a negative 25 thousand euro impact in the reporting period) and the lower losses on the disposal of assets, which slowed down during the first six months of the year as operations were curtailed because of the lockdown.
Net provisions for risks and charges totalled 8,880 thousand euro, down compared to the first half of 2019. The breakdown of the relevant provisions is shown in the comments on liabilities.

6.f Capitalised costs for internal work

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work. For this reason, the item now includes only any residual costs that can be capitalised but do not concern concessions. As at 30 June, this item totalled 561 thousand euro.

7. Income / (Expenses) from equity investments

The item, amounting to 82 thousand euro in the reporting period, includes the income from investments in associates and other companies. Specifically, as at 30 June 2020, this item corresponds to the carrying amount of the equity-accounted investments in MEA S.p.A.

8. Financial income / (expenses)

This item is broken down as follows:

Thousands of euro

	30.06.2020	30.06.2019	2020 - 2019
Financial income			
- Interest income from loans to employees	0	0	(0)
- Interest income from current accounts and post office deposits	21	1,025	(1,003)
- Interest income from receivables from customers	2	16	(15)
- Other financial interest and income	22	19	2
Total income	**45**	**1,061**	**(1,016)**
Financial expenses			
- Interest expense on medium/long-term loans	1,824	1,924	(100)
- Other expense on medium/long-term loans from banks	514	386	128
- Financial expenses on debenture loans	24,039	28,603	(4,564)
- Financial expenses from amortised cost	1,119	1,536	(417)
- Interest expense on short-term bank loans	0	-	0
- Interest expense on current bank accounts	-	0 -	0
- Discounting of post-employment and other employee benefits	216	378	(162)
- Interests on taxes	12	1	11
- Change in fair value of hedging derivatives reclassified from comprehensive income	(616)	(612)	(3)
- Other financial and interest expense	30	46	(16)
- IFRS16 Financial Expenses	280	229	51
Total expenses	**27,418**	**32,491**	**(5,073)**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(27,373)**	**(31,430)**	**4,057**

The Group reported 27,373 thousand euro in financial expenses, largely arising from the recognition of the financial expenses on the debenture loan net of the current hedging, the costs related to the outstanding loan, and the amortised cost of both of them.

At the start of the year, the company repaid a tranche of the debenture loan at maturity, resulting in savings on these expenses during the reporting period.

9. Taxes for the period

This item is broken down as follows:

Thousands of euro	30.06.2020	30.06.2019	2020 - 2019
Current taxes			
Current income taxes: IRES	27,063	29,240	(2,177)
IRES substitute tax on realignment	-	17,727	(17,727)
Current income taxes: IRAP	6,125	6,704	(579)
Total current taxes	**33,188**	**53,672**	**(20,484)**
Income and expenses from tax consolidation			
(Income)/expenses from tax consolidation	-	-	-
Total income and expenses from tax consolidation	**-**	**-**	**-**
Adjustments for income taxes relating to previous years			
Negative adjustments for income taxes relating to previous years	1,345	(98)	1,443
Positive adjustments for income taxes relating to previous years	(441)	(4)	(437)
Total adjustments for income taxes relating to previous years	**904**	**(102)**	**1,006**
Deferred and prepaid taxes			
Deferred taxes (use)/allocation	(3,018)	(1,676)	(1,342)
Prepaid taxes (allocation)/use	1,711	(33,980)	35,690
Total current deferred and prepaid taxes	*(1,307)*	*(35,656)*	34,349
Total deferred and prepaid taxes	**(1,307)**	**(35,656)**	**34,349**
TOTAL TAXES	**32,784**	**17,913**	**14,871**

The income tax expense for the first half of 2020 totalled 32,784 thousand euro. The negative difference of 14,871 thousand euro was mainly due to the previous year's transaction relating to the realignment of the goodwill created in 2i Rete Gas Impianti S.p.A. after the merger in 2018 between the company and the direct parent company 2i Rete Gas Impianti S.r.l.
In fact, in the first half of 2019 it was arranged to pay the related substitute tax for 17,727 thousand euro and to allocate deferred tax assets for 26,591 thousand euro, equal to 24% of the amount redeemed.
The changes in deferred tax assets and liabilities reflected normal operations.

For further details on deferred tax assets and liabilities, please refer to the relevant sections in the notes to the Statement of Financial Position.

There is separate setting out of the tax impact relating to the disposal of discontinued operations, for the comment on which reference should be made to the following section.

10. Discontinued operations

During the half year, no activities were classified under discontinued operations.

XIII. Information on the Statement of Financial Position

Assets

11. Property, plant and equipment

Following the introduction of IFRIC 12, property, plant and equipment include only those fixed assets that are not related to gas distribution concessions. The breakdown of, and changes in, property, plant and equipment for the years 2018, 2019 and 2020 are reported below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Improvements to third-party assets	Fixed assets under construction and advances	Total
Historical cost	11,947	40,332	9,355	24,916	57,015	13,688	4	**157,257**
Accumulated depreciation	-	(30,090)	(2,313)	(23,330)	(50,309)	(11,902)	-	**(117,945)**
Balance as at 31.12.2018	**11,947**	**10,242**	**7,042**	**1,585**	**6,706**	**1,786**	**4**	**39,312**
Contribution from change in the scope of consolidation:	-	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	-	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Business unit Contribution	-	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	-	**-**
Acc. Amort	-	-	-	-	-	-	-	**-**
Increases (including Fixed assets classified as assets available for sale)	-	52	3,446	238	5,699	197	801	**10,434**
Commissioning	-	(2)	-	-	-	(2)	4	**-**
Gross value	-	(2)	-	-	-	(2)	4	**-**
Acc. Amort	-	-	-	-	-	-	-	**-**
Disposals	(2,728)	(582)	(869)	(23)	(464)	-	-	**(4,666)**
Gross value	(2,728)	(6,540)	(1,077)	(517)	(4,131)	-	-	**(14,993)**
Acc. Depr.	-	5,957	207	494	3,668	-	-	**10,326**
Reclassifications	-	(59)	550	-	(455)	-	-	**35**
Gross value	-	(70)	2,442	-	(2,337)	-	-	**35**
Acc. Depr.	-	11	(1,892)	-	1,881	-	-	**(0)**
Impairment losses	(531)	(27)	-	-	-	-	-	**(557)**
Gross value	(531)	-	-	-	-	-	-	**(531)**
Acc. Depr.	-	(27)	-	-	-	-	-	**(27)**
Fixed assets classified as assets available for sale	-	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	-	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Depreciation	-	(1,311)	(819)	(411)	(3,823)	(972)	-	**(7,335)**
Total changes	**(3,259)**	**(1,929)**	**2,308**	**(196)**	**957**	**(776)**	**805**	**(2,090)**
Historical cost	8,688	33,772	14,167	24,637	56,247	13,884	809	**152,204**
Accumulated depreciation	-	(25,459)	(4,817)	(23,247)	(48,583)	(12,874)	-	**(114,981)**
Balance as at 31.12.2019	**8,688**	**8,313**	**9,350**	**1,390**	**7,663**	**1,010**	**809**	**37,223**
Contribution from change in the scope of consolidation:	-	-	-	0	7	-	-	**7**
Gross value	-	-	-	1	11	-	-	**12**
Acc. Depr.	-	-	-	(1)	(4)	-	-	**(4)**
Business unit Contribution	-	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	-	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Increases (including Fixed assets classified as assets available for sale)	-	3	1,220	436	1,047	33	218	**2,957**
Commissioning	-	2	-	-	373	18	(393)	**-**
Gross value	-	2	-	-	373	18	(393)	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Disposals	(125)	(5)	(182)	-	-	-	-	**(311)**
Gross value	(125)	(81)	(220)	(60)	(26)	-	-	**(512)**
Acc. Depr.	-	76	39	60	26	-	-	**201**
Reclassifications	-	-	(22)	-	-	-	-	**(22)**
Gross value	-	-	(1,600)	-	-	-	-	**(1,600)**
Acc. Depr.	-	-	1,578	-	-	-	-	**1,578**
Impairment losses	-	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	-	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Fixed assets classified as assets available for sale	-	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	-	**-**
Acc. Depr.	-	-	-	-	-	-	-	**-**
Depreciation	-	(447)	(413)	(243)	(1,283)	(387)	-	**(2,774)**
Total changes	**(125)**	**(447)**	**603**	**193**	**144**	**(335)**	**(175)**	**(143)**
Historical cost	8,563	33,696	13,567	25,014	57,652	13,935	633	**153,060**
Accumulated depreciation	-	(25,830)	(3,614)	(23,431)	(49,845)	(13,261)	-	**(115,981)**
Balance as at 30.06.2020	**8,563**	**7,866**	**9,953**	**1,582**	**7,807**	**674**	**633**	**37,080**

As at 30 June 2020, the item decreased compared to 31 December 2019 by 143 thousand euro; this change was largely due to the net balance of investments for 2,964 thousand euro, disposals for 311 thousand euro, reclassifications for -22 thousand euro, and depreciation for 2,774 thousand euro. There were no events in the period worthy of note with respect to this item.

12. IFRS 16 Rights of use

Following the application of IFRS 16, hire, rent and lease contracts which up to 2018 had a single representation with the impact of the fees paid in the year on the income statement (under Fees for use of third-party assets in costs for services), are represented in this item as rights of use of a particular asset.

Here below is the table of changes in assets for 2019 and 2020.

Thousands of euro	IFRS 16 Property	IFRS 16 Vehicles	IFRS 16 ICT	Total
Historical cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Balance as at 31.12.2018	**-**	**-**	**-**	**-**
First application of IFRS 16 as at 1 January 2019	20,669	4,832	-	**25,501**
Gross value	20,669	4,832	-	**25,501**
Acc. Depr.	-	-	-	**-**
Increases (including Fixed assets classified as assets available for sale)	6,260	3,440	367	**10,067**
Commissioning	-	-	-	**-**
Gross value	-	-	-	**-**
Acc. Depr.	-	-	-	**-**
Disposals	-	(27)	-	**(27)**
Gross value	-	(27)	-	**(27)**
Acc. Depr.	-	-	-	**-**
Reclassifications	-	-	-	**-**
Gross value	-	-	-	**-**
Acc. Depr.	-	-	-	**-**
Impairment losses	-	-	-	**-**
Gross value	-	-	-	**-**
Acc. Depr.	-	-	-	**-**
Depreciation	(4,184)	(2,517)	(23)	**(6,724)**
Total changes	**22,746**	**5,727**	**344**	**28,817**
Historical cost	26,929	8,244	367	**35,540**
Accumulated depreciation	(4,184)	(2,517)	(23)	**(6,724)**
Balance as at 31.12.2019	**22,746**	**5,727**	**344**	**28,817**
Increases (including Fixed assets classified as assets available for sale)	2,131	692	-	**2,823**
Commissioning	-	-	-	**-**
Gross value	-	-	-	**-**
Acc. Depr.	-	-	-	**-**
Disposals	(1,221)	(46)	-	**(1,268)**
Gross value	(1,281)	(106)	-	**(1,388)**
Acc. Depr.	60	60	-	**120**
Reclassifications	-	-	-	**-**
Gross value	-	-	-	**-**
Acc. Depr.	-	-	-	**-**
Impairment losses	-	-	-	**-**
Gross value	-	-	-	**-**
Acc. Depr.	-	-	-	**-**
Fixed assets classified as assets available for sale	-	-	-	**-**
Gross value	-	-	-	**-**
Acc. Depr.	-	-	-	**-**
Depreciation	(2,172)	(1,185)	(46)	**(3,402)**
Total changes	**(1,261)**	**(540)**	**(46)**	**(1,847)**
Historical cost	27,779	8,829	367	**36,976**
Accumulated depreciation	(6,295)	(3,642)	(69)	**(10,006)**
Balance as at 30.06.2020	**21,484**	**5,187**	**298**	**26,970**

13. Intangible assets

Following the introduction of IFRIC 12, intangible assets include also those fixed assets related to gas distribution concessions. The breakdown of, and changes in, intangible assets for the years 2018, 2019 and 2020 are reported below:

Thousands of euro	Patent and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Fixed assets under construction and advances	Fixed assets under construction and advances	Other intangible assets	Goodwill	Total
Historical cost	95,275	6,692,509	23,807	4,022	136,446	268,709	**7,220,768**
Accumulated amortisation	(90,687)	(3,348,485)	-	-	(99,334)	-	**(3,538,506)**
Balance as at 31.12.2018	**4,588**	**3,344,023**	**23,807**	**4,022**	**37,113**	**268,709**	**3,682,262**
Contribution from change in the scope of consolidation:	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Increases (including Fixed assets classified as assets available for sale)	392	249,424	35,548	4,106	6,222	-	**295,692**
Commissioning	-	16,179	(16,179)	(3,057)	3,057	-	**-**
Gross value	-	16,179	(16,179)	(3,057)	3,057	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Decreases	-	(22,432)	(455)	(81)	-	-	**(22,969)**
Gross value	-	(74,631)	(455)	(81)	(1,623)	-	**(76,790)**
Acc. Amort.	-	52,199	-	-	1,623	-	**53,821**
Reclassifications	-	(1,045)	1,010	-	-	-	**(35)**
Gross value	-	(1,045)	1,010	-	-	-	**(35)**
Acc. Amort.	-	0	-	-	-	-	**0**
Impairment losses	-	(3,421)	(34)	(101)	-	(1,214)	**(4,769)**
Gross value	-	(3)	(34)	(101)	-	-	**(138)**
Acc. Amort.	-	(3,418)	-	-	-	(1,214)	**(4,632)**
Fixed assets classified as assets available for sale	-	(2,990)	(0)	-	-	-	**(2,991)**
Gross value	-	(3,738)	(0)	-	-	-	**(3,739)**
Acc. Amort.	-	748	-	-	-	-	**748**
Amortisation	(2,168)	(168,865)	-	-	(15,351)	-	**(186,383)**
Total changes	**(1,775)**	**66,850**	**19,890**	**867**	**(6,072)**	**(1,214)**	**78,545**
Historical cost	95,668	6,878,695	43,697	4,889	144,102	268,709	**7,435,759**
Accumulated amortisation	(92,855)	(3,467,821)	-	-	(113,062)	(1,214)	**(3,674,952)**
Balance as at 31.12.2019	**2,813**	**3,410,873**	**43,697**	**4,889**	**31,041**	**267,496**	**3,760,807**
Contribution from change in the scope of consolidation:	-	2,797	10,062	-	293	761	**13,913.75**
Gross value	-	3,065	10,062	-	294	761	**14,183**
Acc. Amort.	-	(268)	-	-	(1)	-	**(269)**
Increases (including Fixed assets classified as assets available for sale)	407	93,059	27,589	1,244	3,658	-	**125,957**
Commissioning	-	16,262	(16,262)	(3,791)	3,791	-	**0**
Gross value	-	16,262	(16,262)	(3,791)	3,791	-	**0**
Acc. Amort.	-	-	-	-	-	-	**-**
Decreases	-	(8,170)	(971)	-	-	-	**(9,141)**
Gross value	(5)	(24,424)	(971)	-	-	-	**(25,399)**
Acc. Amort.	5	16,254	-	-	-	-	**16,259**
Reclassifications	-	102	0	(80)	-	-	**22**
Gross value	-	1,680	0	(80)	-	-	**1,600**
Acc. Amort.	-	(1,578)	-	-	-	-	**(1,578)**
Impairment losses	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Fixed assets classified as assets available for sale	-	(2)	(1)	-	-	-	**(3)**
Gross value	-	(2)	(1)	-	-	-	**(3)**
Acc. Amort.	-	-	-	-	-	-	**-**
Amortisation	(1,021)	(85,926)	-	-	(6,000)	-	**(92,947)**
Total changes	**(614)**	**18,122**	**20,417**	**(2,627)**	**1,743**	**761**	**37,802**
Historical cost	96,070	6,968,335	64,114	2,261	151,846	269,470	**7,552,096**
Accumulated amortisation	(93,871)	(3,539,340)	-	-	(119,063)	(1,214)	**(3,753,487)**
Balance as at 30.06.2020	**2,198**	**3,428,996**	**64,114**	**2,261**	**32,783**	**268,257**	**3,798,609**

Intangible assets increased by 37,802 thousand euro compared to 31 December 2019; this was due to the net balance of 125,957 thousand euro in new investments, contribution from changes in the scope of consolidation of 13,914 thousand euro, decreases of 9,141 thousand euro and amortisation of 92,947 thousand euro.

The item "Concessions and similar rights", broken down into fixed assets and fixed assets under construction, showed a net increase of 38,540 thousand euro in the period, of which 20,417 thousand euro relating to fixed assets under construction. In general, the item refers to the recognition of the Group's rights over fixed assets as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions.

The amortisation of concession costs was calculated using a straight-line method and based on the estimated realisable value at the end of the concession, which was recently revised to align the realisable value with the revised useful lives of conventional meters.

The Group determined the terms of the concessions using the same criteria adopted in the previous year.

At the end of the period, "Fixed assets under construction and advances" totalled 2,261 thousand euro. Increases in the first half totalled 1,244 thousand euro, which add to 3,791 thousand euro in commissioning.

"Other intangible assets" of 32,783 thousand euro represent the software used, while the amortisation for the year was 6,000 thousand euro.

"Goodwill" totalled 268,257 thousand euro and related to the deficit arising from the consolidation or merger by incorporation of previously controlled companies.
During the six-month period, there was an increase due to the acquisition of the three companies from the Bonatti Group. This item was recognised in agreement with the Board of Statutory Auditors.

Goodwill was tested for impairment as at 31.12.2019.
No impairment indicators were found up to the reporting date, including with reference to the COVID-19 health emergency, as already mentioned in the Foreword as well as in the paragraphs on the "Results of the 2i Rete Gas Group" and the "Outlook".
Goodwill will be tested for impairment again at the closing of the financial statements as at 31.12.2020.

14. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are determined based on the tax rates in force at the reporting date.
Deferred tax assets totalled 247,361 thousand euro (242,889 thousand euro as at 31.12.2019), while deferred tax liabilities totalled 113,526 thousand euro (116,978 thousand euro as at 31.12.2019).

Deferred tax assets and liabilities as at 30 June 2020 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

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

Thousands of euro	Balance as at 31.12.2019	Adjustments to UNICO	Capital contributions from extraordinary operations during the year	Total	Increases recognised in		Decreases recognised in		Other changes		Reclassifications (if any) under the item Available for sale	Adjustments (if any) under the item Available for sale	Balance as at 30.06.2020
					Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity			
Deferred income tax assets:													
allocation to provisions for risks and charges, deferred deductibility	**24,236**	-	124	24,361	2,523	-	(2,409)	-	(3)	-	-	-	**24,472**
allocation to provisions for incentives to leave and stock options	**430**	-	-	430	-	-	(48)	-	(0)	-	-	-	**383**
allocation to provisions for disputes	**3,641**	-	-	3,641	112	-	(395)	-	(193)	-	-	-	**3,165**
allocation to provisions for inventory obsolescence	**3,272**	-	-	3,272	39	-	(26)	-	(1)	-	-	-	**3,284**
impairment losses with deferred deductibility (impairment of receivables)	**2,238**	-	-	2,238	29	-	(19)	-	-	-	-	-	**2,248**
impairment losses with deferred deductibility (impairment of plants)	**1,898**	-	-	1,898	-	-	-	-	(0)	-	-	-	**1,897**
depreciation and amortisation of tangible and intangible assets with deferred deductibility	**114,742**	(975)	-	113,767	5,239	-	(2,994)	-	(1)	-	-	-	**116,012**
separation of land-buildings and component analysis	**114**	-	-	114	-	-	-	-	(0)	-	-	-	**114**
start-up costs	**2,224**	-	-	2,224	-	-	-	-	(0)	-	-	-	**2,224**
post-employment and other employee benefits	**3,772**	-	-	3,772	592	-	(645)	-	(1)	-	-	-	**3,718**
cash deductible taxes and duties	**(0)**	-	-	(0)	-	-	-	-	-	-	-	-	**(0)**
proceeds subject to deferred taxation (connection fees)	**34,415**	-	-	34,415	-	-	(87)	-	(4)	-	-	-	**34,323**
deferred deductibility charges	**15,650**	-	-	15,650	11	-	(243)	-	(4)	-	-	-	**15,415**
goodwill	**32,829**	0	-	32,830	-	-	(3,178)	-	(6)	-	-	-	**29,646**
post-employment benefits - Italian Accounting Body (OCI)	**2,348**	43	-	2,392	-	-	-	-	-	-	-	-	**2,392**
derivative financial instruments (in case of a net negative change in the relevant equity reserve)	**956**	-	-	956	-	6,990	-	-	-	-	-	-	**7,945**
for losses recoverable in future years	**1**	-	-	1	-	-	-	-	(0)	-	-	-	**1**
other consolidation adjustments	**122**	-	-	122	2	-	(1)	-	-	-	-	-	**123**
Total	**242,889**	**(932)**	**124**	**242,082**	**8,546**	**6,990**	**(10,044)**	**-**	**(213)**	**-**	**-**	**-**	**247,361**
Deferred income tax liabilities:													
differences on tangible and intangible assets – additional depreciation and amortisation	**20,324**	(286)	-	20,039	135	-	(1,646)	-	(0)	-	-	-	**18,527**
differences on intangible assets – goodwill	**5,479**	-	-	5,479	-	-	-	-	(0)	-	-	-	**5,479**
separation of land-buildings and component analysis	**3,821**	-	-	3,821	-	-	-	-	(1)	-	-	-	**3,821**
allocation to assets of costs relating to company mergers	**35,735**	-	-	35,735	0	-	(1,083)	-	(7)	-	-	-	**34,645**
non-accounting deductions relating to impairment of equity investments, receivables and licenses	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**
post-employment benefits	**1,113**	-	-	1,113	-	-	-	-	-	(0)	-	-	**1,113**
proceeds subject to deferred taxation	**4,311**	-	-	4,311	590	-	(131)	-	(0)	-	-	-	**4,771**
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	**2,656**	-	-	2,656	-	-	-	(148)	-	-	-	-	**2,508**
other…	**1,306**	-	-	1,306	16	-	(102)	-	(0)	-	-	-	**1,219**
ASEM - Italian Accounting Body (OCI)	**90**	-	-	90	-	-	-	-	-	(0)	-	-	**90**
recognition of deferred taxes due to merger	**42,002**	-	-	42,002	398	-	(1,179)	-	(8)	-	-	-	**41,213**
other consolidation adjustments	**139**	-	-	139	-	-	-	-	-	-	-	-	**139**
5% dividends received allocated to future years on an accruals basis	**0**	-	-	0	-	-	-	-	-	-	-	-	**0**
Total	**116,978**	**(286)**	**-**	**116,692**	**1,139**	**-**	**(4,141)**	**(148)**	**(16)**	**(0)**	**-**	**-**	**113,526**
Net deferred tax assets	**125,911**	**(646)**	**124**	**125,390**	**7,407**	**6,990**	**(5,903)**	**148**	**(197)**	**0**	**-**	**-**	**133,835**

15. Equity investments

The following table shows the changes for each equity investment during the period, as well as the corresponding opening and closing amounts, and the list of equity investments in associates and other companies.

Thousands of euro	Carrying amount	% ownership	Contribution from change in the scope of consolidation	Increases for the period	Disposals	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
				Changes in 2020					**as at 30.06.2020**		
Associates											
Equity Method											
Melegnano Energia Ambiente SpA	3,220	**40.00%**		82				3,220	851	3,302	**40.00%**
2i Servizi Energetici Srl	6	**60.00%**		-				6		6	**60.00%**
Other companies											
Valuation at cost											
Interporto di Rovigo S.p.A.	42	**0.30%**						42		42	**0.30%**
Fingranda S.p.A. in Liquidazione	26	**0.58%**						26		26	**0.58%**
Agenzia di Pollenzo S.p.A.	33	**0.28%**						33		33	**0.27%**
Industria e Università S.r.l.	11	**0.10%**						11		11	**0.09%**
Terme di Offida SpA	1	**0.19%**						1		1	**0.19%**
Asogas S.p.A. in liquidazione	-	**9.00%**						-		-	**9.00%**
Banca Popolare Pugliese	11	**0.00%**								11	**0.00%**
TOTAL EQUITY INVESTMENTS	**3,349**		**-**	**82**	**-**	**-**	**-**	**3,338**	**851**	**3,431**	

The following tables show the list of equity investments in the Group's investees at 30 June 2020:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income/loss in previous year (euro)	End of the reporting period	% ownership	Consolidated carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	8,255,357	4,971,614	205,807	31.12.2019	40.00%	3,302,143
2i Servizi Energetici Srl	Milan	10,000	(143,758)	2,560	(153,758)	31.12.2019	60.00%	6,000

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenue (euro)	Income/loss in previous year (euro)	End of the reporting period	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,702,070	1,618,607	160,311	31.12.2019	0.30%	41,634
Fingranda S.p.A. in Liquidazione	Cuneo	2,662,507	1,266,452	287	(71,575)	31.12.2019	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	23,079,108	22,751,056	993,441	29,755	31.12.2019	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,120,543	-	(36,769)	31.12.2019	0.09%	10,989
Terme di Offida Spa	Offida (AP)	141,384	16,123	-	(8,501)	31.12.2019	0.19%	548
Asogas S.p.A. (liquidated)	Removed from the Business Register on 24/12/2019							
Banca Popolare Pugliese	Parabita (Le)	184,256,208	327,039,839	124,472,764.00	8,257,942	31.12.2019	0.01%	11,127

16. Non-current financial assets

The item, equal to 935 thousand euro, mainly includes the prepayment of transaction costs incurred to obtain credit lines that were granted but had still not been used as at 30 June 2020.

17. Other non-current assets

This item increased by 1,521 thousand euro compared to 31 December 2019.

Guarantee deposits totalled 3,561 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The 560 thousand euro receivable for grants to be received was attributable to the recognition of the medium/long-term portion of receivables for grants related to plants to be received: this item was unchanged during the period.

Tax receivable reimbursements applied for of 1,598 thousand euro relate to reimbursement requests pursuant to art. 6, Leg. Decree 185/2008 (Deduction from IRES of the IRAP portion for labour costs and interest expense).

Sundry non-current assets totalled 15,393 thousand euro (15,895 thousand euro as at 31.12.2019) and largely referred to fees paid in advance to contracting authorities in preparation of ATEM tenders (11,302 thousand euro).

The same line item included also 5,368 thousand euro in receivables due from Municipalities for plants sold at the end of the concession arrangement and that are the subject of ongoing disputes concerning the final calculation of the compensation, as well as the balance of long-term CSEA receivables concerning the recovery of the losses incurred in replacing conventional meters with electronic ones (32,808 thousand euro).

Current assets

18. Inventories

Closing inventories of raw materials in the reporting period stood at 24,304 thousand euro and rose by 795 thousand euro compared to 31 December 2019.
Specifically, closing inventories of raw and ancillary materials and consumables mainly consist of materials for the construction and maintenance of gas and water distribution plants.
The item included the 755 thousand euro obsolescence allowance set aside to take into account the inventories that are unlikely to be used in the future.
The Company uses the weighted average cost method.

19. Trade receivables

As compared to 31 December 2019, trade receivables were down by 131,239 thousand euro due to ordinary seasonal factors and a particularly mild temperature.
Receivables due from third-party customers consist of trade receivables and receivables from operations, and largely include receivables related to gas distribution operations and, to a lesser extent, the billing for water plant operations.

This item is broken down as follows:

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
Receivables due from customers	124,334	256,086	(131,753)
- Bad debt provision	(8,757)	(8,323)	(434)
Receivables for returns under warranty	4,510	3,562	948
- Bad debt provision for returns under warranty	(646)	(646)	-
Total	**119,441**	**250,680**	**(131,239)**

Here below is the breakdown of the changes in the provision for doubtful debts.

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
As at 31 December 2019	**8,323**	**9,288**	**(965)**
Allocations	515	663	(147)
Releases	(77)	(937)	859
Uses	(4)	(691)	687
As at 30 June 2020	**8,757**	**8,323**	**434**

The Group operated exclusively in Italy.

20. Short-term financial receivables

Short-term financial receivables, equal to 8,829 thousand euro, are almost entirely financial receivables due from the Gestore dei Mercati Elettrici (GME).
The receivables due from GME amounted to 7,544 thousand euro and referred to the liquidity deposited with GME in order to trade on the exchange for Energy Efficiency Certificates.

21. Other current financial assets

Other current financial assets, equal to 14 thousand euro, consisted of accrued income on interest-bearing bank deposits.

22. Cash and cash equivalents

Cash and cash equivalents of 112,158 thousand euro decreased by 241,150 thousand euro; operations in the first half of the year guaranteed positive cash flows, but the item was affected by the distribution of the dividend for 50,000 thousand euro and the repayment of a debenture loan instalment on 2 January 2020.
Bank deposits amounted to 111,593 thousand euro and postal and cash deposits amounted to 565 thousand euro.

Cash associated with operating activities is held in bank and post office deposits.

23. Income tax receivables

Income tax receivables for 6,212 thousand euro mainly refer to receivables for IRES corporation tax due from the tax authorities relating to the excess payments on account made relating to the additional Robin Hood Tax and further payments on account made and for IRES corporation tax requested for reimbursement directly by the Group, mainly due to the non-deduction of staff and similar costs (under former Leg. Decree 201/2011).
Compared to the previous year, they decreased by 60 thousand euro.

24. Other current assets

Other current assets rose 53,437 thousand euro compared to 31 December 2019; this increase, due to the seasonal nature of some items, is mainly the result of:

- a fall in receivables for VAT for a total of 7,354 thousand euro due to normal use;
- 54,142 thousand euro increase in receivables due from the Compensation Fund. This was largely attributable to the increase in receivables for the energy saving goals achieved with reference to the Energy Efficiency Certificates purchased. The item is correlated with the payables due to the Compensation Fund reported in note 40 "Other current liabilities";

- Prepayments for insurance premiums increased by 907 thousand euro and sundry prepayments by 4,643 thousand euro, due to the seasonal pattern of prepayments of concession fees paid to Municipalities.

The item is broken down as follows:

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
Other tax receivables:			
VAT receivables reimbursements applied for	9,337	9,341	(4)
Receivables due from tax authorities for VAT	7,469	14,823	(7,354)
Other tax receivables	1	7	(6)
Other receivables:			
from social security and insurance agencies	1,414	1,538	(123)
receivables for plant contributions	1,898	2,649	(751)
from CSEA	217,221	163,079	54,142
Receivables from third parties for tender / concession expiration	4,348	1,299	3,049
from municipalities	246	246	-
from suppliers	3,788	3,827	(39)
Other receivables	3,827	4,854	(1,027)
Provision for other doubtful debts	(2,913)	(2,913)	-
Accrued income	14	22	(8)
Deferred charges for other multi-year fees	20	21	(1)
Deferred charges for property lease fees	457	445	12
Deferred charges for promotional expenses	22	24	(2)
Deferred charges for insurance premiums	1,007	100	907
Other deferred charges	6,643	2,000	4,643
Total	**254,799**	**201,361**	**53,437**

25. Assets held for sale

In the reporting period there were no assets held for sale.

Liabilities

Equity

26. Equity

Equity amounted overall to 941,484 thousand euro, up by 6,894 thousand euro, due to:

- 50,030 thousand euro decline due to the ordinary dividend payout;
- 22,443 thousand euro decrease in IAS reserves;
- 79,367 thousand euro increase in the profit for the period.

Share Capital

The share capital as at 30 June 2020 amounted to 3,639 thousand euro and was entirely subscribed and paid up; the item was unchanged during the period.

Share premium reserves

The reserve was established at the time of the capital increase, and did not change during the period.

Legal reserve

The legal reserve amounted to 728 thousand euro and was unchanged during the period.

Reserve for the measurement of derivatives

The reserve for the measurement of derivatives includes the measurement of a hedging derivative with a notional amount of 500 million euro. In the period it increased by 22,602 thousand euro due to the measurement at fair value of the hedging derivative in place on the debenture loan issued.

Other reserves

Other reserves were up 159 thousand euro from the previous year, as the Group recognised a change in IAS reserves after reviewing the value of its defined benefit obligations in accordance with IAS 19.

Retained earnings (accumulated losses)

Retained earnings and accumulated losses rose 156,353 thousand euro from the previous year, as a result of the allocation of the previous year's result net of distributions.

Net income for the year

The Group reported 79,367 thousand euro in net income for the first half of 2020, down 29,505 thousand euro compared to the prior-year period, largely because of the one-off items concerning the realignment of goodwill in the previous year.

Non-current liabilities

27. Long-term loans (including portions due within the next 12 months)

The item refers to the four instalments of the long-term debenture loan the company issued as part of the overhaul of its financial structure, as well as outstanding bank loans for a total of 415,909 thousand euro.
The EIB loans have some covenants that the recipient company must meet every six months to continue using the credit lines. The covenants concern the following indicators: Total net financial debt, RAB (Regulatory Asset Base), EBITDA, and Net Financial Expenses.
As at 30 June 2020 the company met all covenants.
The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

Thousands of euro	Balance		Notional Value	Notional Value	Effective	Effective
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	in force	interest rate
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	155,000	155,000	155,000	1.40%	1.40%
Floating rate debt	172,727	181,818	172,727	181,818	Eur+0,59%	0.32%
Debenture loan expiring 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Debenture loan expiring 2025	500,000	500,000	500,000	500,000	2.20%	2.29%
Debenture loan expiring 2026	435,000	435,000	435,000	435,000	1.75%	1.91%
Debenture loan expiring 2027	730,000	730,000	730,000	730,000	1.61%	1.62%
Costs linked to loans (long term)	(9,909)	(10,897)				
TOTAL LONG TERM	**2,652,819**	**2,660,921**	**2,662,727**	**2,671,818**		
Floating rate debt	18,182	18,182	18,182	18,182	Eur+0,59%	0.32%
Fixed rate debt	-	40,000	-	40,000		
Debenture loan expiring 2020	-	267,100	-	267,100	1.13%	1.35%
Costs connected to loans (short term)	-	(12)				
TOTAL LONG TERM	**18,182**	**325,270**	**18,182**	**325,282**		

The contract maturity schedule for this loan and for the instalments of the debenture loan is set out below:

	Notional as at 30.06.2020	Notional as at 31.12.2019	1 year	2 - 5 years	beyond 5 years
Short and medium/long-term bank loans and debenture loans					
Financing - Medium/long-term Capex Line	397,727	406,818	-	72,727	325,000
Financing - Short-term Capex Line	18,182	58,182	18,182	-	-
Medium/long-term debenture loans	2,265,000	2,265,000	-	600,000	1,665,000
Debenture loans due within next year	-	267,100	-	-	-
Total	2,680,909	2,997,100	18,182	672,727	1,990,000

The debenture loan regulation, issued for a market of institutional investors, does not provide for covenants.
Alongside these loans, there are two bank credit lines for a total of € 445 million, which at the reporting date are not used.

28. Post-employment and other employee benefits

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

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

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

Here below are comments on the main items making up the aggregate, which as at 30 June 2020 totalled 42,535 thousand euro.

Post-employment benefits

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

Health benefits

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

Fondo Gas

Italian Law Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the elimination of the so-called "Fondo Gas" (gas fund) as from 1 December 2015. The decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the 2014 contribution to Fondo Gas, for each full year or any part thereof that the person has been a member of the fund. Said amount can be set aside with the employer or paid as a contribution to a supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid to Fondo Gas shall be paid in a lump sum at the time of the final wage bill.
The balance of the fund, which amounts to 9,730 thousand euro, is the best estimate at the time of the preparation of these financial statements of the liability arising from this law.

29. Provisions for risks and charges

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

Provisions for risks and charges (considering both the short-term and the medium-/long-term portion) increased by 683 thousand euro overall compared to 31 December 2019.
The table below shows the total provisions for risks and charges (both the short-term and the medium-/long-term portion). The short-term portion is disclosed separately.

Thousands of euro	31.12.2019	Of which current portion	Of which non-current portion	Contribution from change in the scope of consolidation	Allocations	Releases	Uses	Other changes	30.06.2020	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	6,530	-	6,530	-	393	(668)	(426)	-	5,829	-	5,829
Provision for taxes and duties	1,423	-	1,423	-	665	(352)	(2)	-	1,733	-	1,733
Provisions for disputes with personnel	100	-	100	-	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	-	75	-	75
Provision for disputes on concessions	25,876	25,876	-	104	3,329	(2)	(45)	-	29,263	29,263	-
Other provisions for risks and charges	65,077	65,077	-	341	5,516	(242)	(9,128)	-	61,565	61,565	-
Total	**99,080**	**90,953**	**8,128**	**446**	**9,903**	**(1,265)**	**(9,600)**	**-**	**98,565**	**90,828**	**7,737**
Provisions for charges pertaining to leave incentives	1,686	1,686	-	-	-	-	(167)	-	1,519	1,519	-
Total	**100,766**	**92,639**	**8,128**	**446**	**9,903**	**(1,265)**	**(9,767)**	**-**	**100,084**	**92,347**	**7,737**

The provisions for risks and charges amounted to 100,084 thousand euro (short-term portion: 92,347 thousand euro) and were broken down as follows:

- "Provision for litigation and disputes" addresses, for 5,829 thousand euro, the liabilities deriving mainly from some ongoing legal disputes for potentially damaging events; in the first half of the year it fell by 701 thousand euro owing to further allocations for legal disputes (393 thousand euro), counterbalanced by uses and releases for a total of 1,094 thousand euro;
- "Provision for taxes and duties", amounting to 1,733 thousand euro, referred mainly to ongoing litigation or disputes concerning local taxes;
- "Provision for disputes with personnel", amounting to 100 thousand euro, covers expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in these financial statements;
- "Provision for future charges", amounting to 75 thousand euro;
- "Provision for disputes on concessions", amounting to 29,263 thousand euro, was increased by 3,434 thousand euro following the requests made by Municipalities relating to the review of the agreed concession fees; 45 thousand euro were used in the first half of the year;
- "Other provisions for risks and charges", amounting to 61,565 thousand euro, cover the costs that could potentially arise from the need for maintenance or replacement of meters not fully compliant with corporate standards, as well as the risk of some tariff reviews related to concessions owned by third parties; during the period the Italian Council of State has finally made a decision in favour of the Parent Company in relation to the appeal against ARERA's decision to revise said tariffs for a number of concessions is still under discussion;
- "Provision for charges pertaining to incentives to leave", totalling 1,519 thousand euro, addresses possible liabilities that may arise from agreements already finalised or being negotiated concerning early retirement incentives. The Group used 167 thousand euro of this provision during the period.

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

30. Non-current financial liabilities

There were no changes in this item during the period.

31. Non-current IFRS 16 financial liabilities

This item consists of the long-term portion of the financial liability arising from the recognition of rental and lease costs in accordance with IFRS 16. To view the overall impact of the related payable, it is necessary to add to the value of the item also that of "Current IFRS 16 financial liabilities". The balance as at 30 June 2020 was 20,423 thousand euro.

Here below is the time breakdown of the future cash flows which make up the financial liabilities under IFRS 16, for both the long-term and short term-portion. There is also a breakdown of the non-discounted contractual flows with the same time division.

Thousands of euro

		Present value of IFRS 16 cash flows 30.06.2020	1 year	2 - 5 years	beyond 5 years
ST/LT IFRS 16 Financial liabilities					
Non-current IFRS 16 financial liabilities		**20,423**	**-**	**13,611**	**6,812**
	IFRS 16 Property			9,944	6,752
	IFRS 16 Vehicles			3,457	60
	IFRS 16 ICT			210	-
Current IFRS 16 financial liabilities		**6,488**	**6,488**	**-**	**-**
	IFRS 16 Property		4,694		
	IFRS 16 Vehicles		1,704		
	IFRS 16 ICT		90		
Total		**26,911**	**6,488**	**13,611**	**6,812**

32. Other non-current liabilities

This item increased by 4,316 thousand euro compared to the previous year. The breakdown is set out below:

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
payables to social security and insurance agencies	2,137	2,137	-
other payables	361	361	-
Deferred income for plant contributions	44,813	45,037	(224)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	280,113	275,573	4,540
Total deferred income	**327,424**	**323,108**	**4,316**

The deferred income for grants related to plants fell as a result of the portion accrued during the period, while the 4,540 thousand euro increase in deferred income for connection fees was mostly attributable to the fees received during the year.

Current liabilities

33. Short-term loans

There were no changes in this item during the period.

34. Current portion of medium/long-term bank loans

This item amounts to 18,182 thousand euro and includes the bank loan instalments due to expire within the next 12 months.

35. Current portion of long-term and short-term provisions

Comments and details on this item are provided in the section on the provisions for risks and charges (note 29).

36. Trade payables

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

This item increased by 16,926 thousand euro compared to 31 December 2019.

The balance mainly consists of outstanding payables due to companies to which the Group outsourced gas distribution plant construction and maintenance operations, and from the purchase of electricity and gas for internal use. The trend in payables due to suppliers reflected the slowdown in the procurement of materials as well as the acceleration in payments during the lockdown, which was intended to mitigate the impact of the latter on the Group's suppliers.

37. Income tax payables

Income tax payables refer largely to payables for IRES and IRAP.

38. Current financial liabilities

Current financial liabilities referred to accrued interest expenses on the Bond and the bank loan, which are due within 12 months. These rose as at 30 June 2020 due to the normal rolling effect caused by the expiries of the interest on the debenture loan.

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
Accrued liabilities for interest on short-term bank loans and bank expenses	40,377	19,351	21,027
Other current financial payables	705	675	30
Total	**41,082**	**20,025**	**21,057**

39. Current IFRS 16 financial liabilities

The item includes the short-term portion of the financial liabilities generated by the application of IFRS 16. The balance on the items of 6,488 thousand euro must be added to the medium and long-term portion, which has already been commented on in paragraph 31, in order to obtain a complete picture of the impact on financial debt of the new accounting standard.

40. Other current liabilities

Other current liabilities are set out below:

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
other tax payables	3,635	4,191	(555)
payables to social security and pension agencies	11,172	11,479	(307)
other payables	166,298	189,207	(22,909)
accrued liabilities	4,446	4,285	161
deferred income	11,978	10,958	1,020
Total	**197,529**	**220,120**	**(22,591)**

Other tax payables are set out below:

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
due to tax authorities for VAT	283	318	(35)
due to tax authorities for taxes withheld from employees	3,314	3,809	(495)
due to tax authorities for withholding taxes	38	64	(26)
other payables to to tax authorities	0	0	-
Total	**3,635**	**4,191**	**(555)**

Payables to welfare and social security agencies are set out below:

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
due to INPS	9,814	9,449	365
due to other agencies	1,358	2,030	(672)
Total	**11,172**	**11,479**	**(307)**

Other payables are set out below:

Thousands of euro

	30.06.2020	31.12.2019	2020 - 2019
Payables to employees	13,917	13,516	401
Payables to municipalities for rights and fees	399	405	(5)
Payables for connections and other payables to customers	2,242	2,524	(281)
Payables for security deposits and user advances	2,972	2,744	227
Payables to CSEA	135,187	163,329	(28,141)
Other payables	11,580	6,689	4,891
Total	**166,298**	**189,207**	**(22,909)**

The 135,187 thousand euro payable due to the Compensation Fund consists of payables for the items transferred through the invoicing mechanism to the trading companies, which are then paid into the Compensation Fund. The 28,141 thousand euro decrease compared to 31 December 2019 was related to the seasonal pattern of invoicing in 2020, given the already defined Tariff Revenue Cap.

Accruals and deferrals are set out below:

	30.06.2020	31.12.2019	2020 - 2019
Accrued liabilities			
Additional monthly accrual for employees	3,459	3,315	143
Other accrued liabilities	988	970	18
Total accrued liabilities	**4,446**	**4,285**	**161**
Deferred income			
Deferred income for plant contributions	2,160	2,169	(9)
Deferred income for connection fees, property subdivision, plant transfer and network extension contributions	8,828	8,776	52
Other deferred income	990	13	976
Total deferred income	**11,978**	**10,958**	**1,020**
Total accrued liabilities and deferred income	**16,424**	**15,243**	**1,181**

25. Liabilities held for sale

In the reporting period there were no liabilities held for sale.

Business combinations

Acquisition of Montelungo Gas S.r.l., Cometam Gas S.r.l. And Maierà Gas S.r.l..

On 30 April 2020, the parent company 2i Rete Gas S.p.A. acquired 100% of the capital of three companies held by BNI Investimenti S.r.l., of the Bonatti Group: Montelungo Gas S.r.l., Cometam Gas S.r.l. and Maierà Gas S.r.l..
The acquisition took place against payment of a total consideration, net of the subsequent price adjustment, of 2.6 million euro.

For the purposes of consolidation, the assets acquired and the liabilities assumed were included as from 1 May 2020.

The following table summarises the value of the assets acquired and liabilities assumed from the three companies:

Thousands of euro	Maierà Gas Srl	Montelungo Gas Srl	Cometam Gas Srl
ASSETS			
Property, plant and equipment	-	7	1
Intangible assets	1,226	1,584	10,343
Deferred tax assets	10	34	80
Other non-current assets	0	1	3
Trade receivables	19	34	942
Cash and cash equivalents	22	84	34
Income tax receivables	-	15	-
Other current assets	179	55	85
Total assets acquired	**1,456**	**1,815**	**11,488**
LIABILITIES			
post-employment and other employee benefits	-	11	3
Short-term portion of long-term and short-term provisions	35	123	287
Trade payables	1,167	1,563	9,634
Income tax payables	8	19	-
Other current liabilities	-	30	8
Total liabilities assumed	**1,210**	**1,748**	**9,932**
Total Fair Value of net identifiable assets	**246**	**67**	**1,555**
Total transferred amount	**167**	**147**	**2,236**
Goodwill/(Badwill) generated by the acquisition	**(79)**	**80**	**681**

With respect to Montelungo Gas S.r.l., the goodwill recognised after the acquisition amounted to 80 thousand euro, i.e. the difference between the 147 thousand euro consideration paid and the fair value of net identifiable assets as at the date of acquisition of control (30 April 2020).
With respect to Cometam Gas S.r.l., the goodwill recognised after the acquisition amounted to 681 thousand euro, i.e. the difference between the 2,236 thousand euro consideration paid and the fair value of net identifiable assets as at the date of acquisition of control (30 April 2020).
Finally, with respect to Maierà Gas S.r.l., a badwill of 79 thousand euro was recognised after the acquisition, i.e. the difference between the 167 thousand euro consideration paid and the fair value of net identifiable assets as at the date of acquisition of control (30 April 2020).
The goodwills arising from the acquisition, which are not currently exempted from taxes, mainly refer to the development forecasts and the synergies expected from integration of the acquired company into the Group.
On the other hand, the badwill can be defined as the result of the "good deal" concluded, and is affected by subjective trading conditions.
The determination of the fair value of the assets acquired and liabilities assumed, although provisional from a technical point of view in accordance with IFRS 3, as at the date of drafting these financial statements is deemed completed.

Related party disclosures

Related parties are identified in accordance with international accounting standards.
The definition of related parties includes key management personnel—including the close members of their family—of the Parent company as well as of the companies controlled directly and/or indirectly by it, jointly controlled entities, and those in which the Parent has significant influence. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the relevant Directors.

The dividends paid to related parties, totalling 50,000 thousand euro, refer to the distribution of the 2019 results to F2i - Terzo Fondo Italiano per le Infrastrutture (managed by F2i sgr S.p.A.), F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr S.p.A.), and Finavias S.à.r.l.

Pursuant to art. 2427-bis of the Italian Civil Code, financial and trade transactions between the Group and related parties are part of ordinary operations and have always been carried out at arm's length.

Trade, financial and other transactions involving the Group, its parent companies, subsidiaries, other Group companies, and the parent company’s other related parties are detailed below.

Trade and other transactions

30 June 2020

Thousands of euro	Trade Receivables	Trade Payables	Trade Costs	Trade Revenue
F2i SGR S.p.A	-	20	40	-
MEA SPA	4	-	-	4
APG Infrastructure Pool 2017 II	-	10	10	-
Bonatti Spa	-	3,148	3,354	-
2i Servizi Energetici Srl	156	3	-	-
TEKNE ESCO SRL	-	1,187	-	-
Key management personnel, including directors and statutory auditors	-	57	1,245	-
Total	**160**	**4,425**	**4,649**	**4**

31 December 2019

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

Financial transactions

30 June 2020

Thousands of euro	Financial Receivables	Financial Payables	Financial Costs	Financial Revenue	Dividends paid
F2i – Terzo Fondo Ialiano per le Infrastrutture (managed by F2i sgr Spa)					31,969
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					4,056
Finavias S. à r.l.					13,975
MEA SPA				82	
Total	**-**	**-**	**-**	**82**	**50,000**

Equity investments in related parties include MEA S.p.A. for 3,302 thousand euro and 2i Servizi Energetici S.r.l. for 6 thousand euro.

31 December 2019

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

41. Contractual commitments and guarantees

The Company provided 153,331 thousand euro in guarantees to third parties. These guarantees include 108,202 thousand euro in bank guarantees and 45,129 thousand euro in insurance and other guarantees.
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.
Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

Operating segment reporting

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

Contingent liabilities and assets

Contingent liabilities

There were no contingent liabilities as at 30 June 2020.

Contingent assets

There were no contingent assets as at 30 June 2020.

Market, credit, liquidity, and interest rate risk

Credit risk

The 2i Rete Gas Group provides its distribution services to around 260 sales companies, the most significant of which is Enel Energia S.p.A.
In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in the first half of 2020.

User access to the gas distribution service is governed by the Network Code, which, in compliance with the provisions of ARERA, establishes the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by sales companies.
As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.
Outstanding guarantees and security deposits on trade receivables totalled 210,528 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant bad debt provision.
As at 30 June 2020, the Group's maximum exposure to credit risk amounted to 542.9 million euro:

Millions of euro

	30.06.2020	31.12.2019	2020 - 2019
Non-current financial assets	0.9	1.5	(0.6)
Other non-current financial assets (gross of bad debt provision)	59.4	57.8	1.5
Trade receivables (gross of bad debt provision)	128.8	259.6	(130.8)
Other current financial assets	8.8	2.2	6.6
Cash and cash equivalents	112.2	353.3	(241.2)
Other receivables (gross of bad debt provision)	232.7	177.5	55.3
Total	**542.9**	**852.0**	**(309.2)**

Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, the 2i Rete Gas Group is able to autonomously meet the financial requirements of its ordinary operations and ensure business continuity.
Besides the debenture loans issued, there are two credit lines available for a total of 445 million euro, and two loans entered into with the European Investment Bank in 2015 and 2016 for a total of 397.7 million euro (fully used as at 30 June 2020).
In order to properly disclose liquidity risk as required by IFRS 7, here below are the characteristics of the company's debt.

The contractual maturities of the financial liabilities outstanding as at 30 June 2020 and, for comparative purposes, 31 December 2019, are set forth below:

Millions of euro	1 year	1 - 5 years	beyond 5 years
Financial liabilities as at 30 June 2020			
Long-term loans	-	72.7	325.0
Medium/long-term debenture loans	-	600.0	1,665.0
Short-term debenture loans	-		
Short-term loans	-		
Current portion of long-term loans	18.2		
Other long-term financial liabilities	33.1		
Other short-term financial liabilities	41.1		
Non-current IFRS 16 financial liabilities		13.6	6.8
Current IFRS 16 financial liabilities	6.5		
Total	**98.9**	**686.3**	**1,996.8**

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

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.
It should be noted that loans are subject to a periodical check on the compliance with some financial parameters at consolidated level.
As at 30 June 2020, the Company met all of the covenants.

The "Medium/long-term debenture loans" for a total of 2,265 million euro refer to the aforementioned four debenture loan instalments issued by 2i Rete Gas with 5, 6, 9 and 10-year expiries.
The Group's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance with the financial parameters established by the lending banks, currently the Group does not face any problems in obtaining said refinancing.
The Group constantly monitors opportunities to optimise its financial structure.
For an in-depth analysis of long-term loans, see note 27 in this consolidated interim financial report.

Market risk

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

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

The Group had no derivatives held for trading or for speculative purposes.

In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value. The company has no financial assets held to maturity, available for sale or held for trading.

		carrying amount						
Thousands of euro	**Notes**	**Measured at fair value**	**Derivatives**	**Receivables**	**Available for sale**	**Other financial liabilities and payables**	**Total**	**Fair value**
Financial assets measured at fair value								
Non-current financial assets	16						-	-
Financial assets not measured at fair value								
Non-current financial assets	16			935			935	935
Other non-current assets	17			59,141			59,141	59,141
Trade receivables	19-25			119,441			119,441	119,441
Short-term financial receivables	20			8,829			8,829	8,829
Other current financial assets	21			14			14	14
Cash and cash equivalents	22			112,158			112,158	112,158
Other current assets	24			246,650			246,650	246,650
TOTAL ASSETS			**-**	**547,167**	**-**	**-**	**547,167**	**547,167**
Financial liabilities measured at fair value								
IRS Derivatives	38		33,125				33,125	33,125
Financial liabilities not measured at fair value								
Long-term loan	27					397,727	397,727	397,727
Medium/long-term debenture loans	27					2,255,091	2,255,091	2,433,400
Short-term debenture loans	33					-	-	-
Non-current IFRS 16 financial liabilities	31	20,423					20,423	20,423
Other non-current liabilities	32					361	361	361
Short-term loans	33-34					18,182	18,182	18,182
Trade payables	36-25					203,270	203,270	203,270
Current financial liabilities	38					40,377	40,377	40,377
Current IFRS 16 financial liabilities	39	6,488					6,488	6,488
Other current liabilities	40					185,551	185,551	185,551
TOTAL LIABILITIES		**26,911**	**33,125**	**-**	**-**	**3,100,560**	**3,160,597**	**3,338,906**

In order to enable comparison, we propose the same table as the one used in 2019:

		carrying amount						
Thousands of euro	**Notes**	**Measured at fair value**	**Derivatives**	**Receivables**	**Available for sale**	**Other financial liabilities and payables**	**Total**	**Fair value**
Financial assets measured at fair value								
Non-current financial assets	16		-				-	-
Financial assets not measured at fair value								
Non-current financial assets	16			1,547			1,547	1,547
Other non-current assets	17			57,611			57,611	57,611
Trade receivables	19-25			250,680			250,680	250,680
Short-term financial receivables	20			1,330			1,330	1,330
Other current financial assets	21			879			879	879
Cash and cash equivalents	22			353,308			353,308	353,308
Other current assets	24			198,771			198,771	198,771
TOTAL ASSETS			**-**	**864,125**	**-**	**-**	**864,125**	**864,125**
Financial liabilities measured at fair value								
IRS Derivatives	38		4,001				4,001	4,001
Financial liabilities not measured at fair value								
Long-term loan	27					406,818	406,818	406,818
Medium/long-term debenture loans	27					2,254,103	2,254,103	2,443,705
Short-term debenture loans	33					267,088	267,088	267,097
Non-current IFRS 16 financial liabilities	31	22,539					22,539	22,539
Other non-current liabilities	32					361	361	361
Short-term loans	33-34					58,182	58,182	58,182
Trade payables	36-25					186,344	186,344	186,344
Current financial liabilities	38					19,351	19,351	19,351
Current IFRS 16 financial liabilities	39	6,110					6,110	6,110
Other current liabilities	40					209,162	209,162	209,162
TOTAL LIABILITIES		**28,649**	**4,001**	**-**	**-**	**3,401,408**	**3,434,059**	**3,623,670**

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

To determine the fair value of the bond, the Group has used the market valuations at the end of the reporting period.

Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts, and specifically interest rate swaps.
As at 30 June 2020, with respect to the debt structure 2,490 million euro out of a reported 2,681 million euro were not exposed to interest rate risk.

The Group had no derivatives held for trading or for speculative purposes.
During the year, the Company entered into 5 forward start interest rate swap derivative contracts (with start date set in 3 years and expiry date set at 10 years after the start date) with as many leading banks in order to hedge against the risk of an increase in interest rates on the future issue of the debenture loan planned to refinance part of the existing loan reaching maturity in the coming years.

Thousands of euro	Notional as at 30.06.2020	Notional as at 31.12.2019	Fair value as at 30.06.2020	Fair value as at 31.12.2019	Fair value asset as at 30.06.2020	Fair value asset as at 31.12.2019	Fair value liability as at 30.06.2020	Fair value liability as at 31.12.2019
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	500,000	(33,125)	(4,001)	-	-	(33,125)	(4,001)
Total Interest Rate Derivatives	500,000	500,000	(33,125)	(4,001)	-	-	(33,125)	(4,001)

The contract expiry dates are shown below:

Thousands of euro	Notional as at 30.06.2020	Notional as at 31.12.2019	1 year	2 - 5 years	beyond 5 years
Cash flow hedge derivatives					
Forward Start Interest Rate Swap	500,000	500,000	-	-	500,000
Total Interest Rate Derivatives	500,000	500,000	-	-	500,000

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

Thousands of euro	Notional as at 30.06.2020	Notional as at 31.12.2019	-0,10%	Fair Value as at 30.06.2020	+0,10%	-0,10%	Fair Value as at 31.12.2019	+0,10%
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	500,000	(36,438)	(33,125)	(29,813)	(4,401)	(4,001)	(3,601)
Total	500,000	500,000	(36,438)	(33,125)	(29,813)	(4,401)	(4,001)	(3,601)

Significant events after the reporting period

On 4 August 2020, in order to secure new lines of credit, 2i Rete Gas S.p.A. entered into a 100 million euro three-year fixed-rate loan agreement with Mediobanca S.p.A., ensuring that the Group has liquidity appropriate to its rating.

On 7 September 2020, Italy's Council of State ruled on the appeal filed by 2i Rete Gas S.p.A. and Unareti S.p.A. concerning the Milan 1 ATEM tender, upholding both appeals and overturning the previous ruling of the Regional Administrative Court, thus confirming the outcome of the tender as awarded by the contracting authority, i.e. the Municipality of Milan, in 2018.

On 15 September 2020 the Group, through its parent company, acquired 100% of Powergas Distribuzione S.p.A., a distribution company operating in Campania with a total of approximately 5,500 active redelivery points and a network spanning 180 km across 13 concessions. As at the date of drawing up these consolidated financial statements, the purchase price allocation process was not yet completed, since the Group is still acquiring the information needed to undertake the valuation process and the related disclosure required by IFRS 3.

Finally, in September 2020 the parent company confirmed it is in exclusive negotiations with Edison S.p.A. to potentially acquire Infrastrutture Distribuzione Gas S.p.A., a gas distribution network and plant operator.

Direction and coordination

The Group directs and coordinates the subsidiaries 2i Rete Gas S.r.l., Cilento Reti Gas S.r.l., Montelungo Gas S.r.l., Maierà Gas S.r.l. e Cometam Gas S.r.l., while no company directs or coordinates 2i Rete Gas S.p.A.

Corporate Governance

The guidelines of the Group's corporate governance are described in the 231/2001 "Organisation, Management and Control Model" as well as in the "Code of Ethics". Both documents are available at the company's website.

XIV. Report of the Independent Auditors

2I RETE GAS SPA

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

To the board of directors of
2i Rete Gas SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of 2i Rete Gas SpA and its subsidiaries (2i Rete Gas Group) as of and for the six-month period ended 30 June 2020, comprising the statement of financial position, the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in shareholders' equity and related notes. The directors of 2i Rete Gas SpA are responsible for the preparation of the condensed consolidated interim financial statements that give a true and fair view in accordance with international accounting standard applicable to interim financial reporting (IAS34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of 2i Rete Gas Group as of and for the six-month period ended 30 June 2020 are not prepared, in all material respects, in accordance with international accounting standard applicable to interim financial reporting (IAS34) as adopted by the European Union.

Milan, 29 September 2020

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report is an English translation of the original report, which was issued in Italian. This report has been prepared solely for the convenience of international readers.