

5. Comment on the economic and financial results and other information

5.1 Legislative and regulatory framework

Tariff regulation

The distribution and metering of natural gas is regulated by the Regulatory Authority for Energy, Networks and Environment (ARERA). Among its functions are the calculation and updating of the tariffs, and the provision of rules for access to infrastructure and for the delivery of the related services.

The rate system establishes in particular that the reference revenues for the formulation of rates is determined so as to cover the costs incurred by the operator and allow for a fair return on invested capital. Three cost categories are recognised:

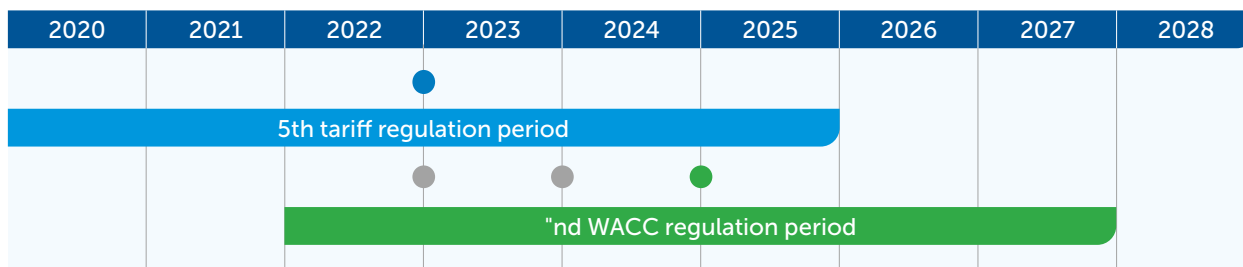
- the cost of net invested capital for RAB (Regulatory Asset Base) purposes through the application of a rate of return of the same;
- economic-technical amortisation/depreciation, hedging investment costs;
- operating costs, hedging operational costs.

The main rate elements are reported below on the basis of the regulatory framework (Resolution no. 570/2019/R/gas as amended):

Highlightsf fifth Regulation period (1.1.2020 to 31.12.2025)

End of regulation period (tariffs)	31 December 2025
Calculation of net invested capital recognised for regulatory purposes	Historical cost revalued Centralised Asset Parametric Method
Remuneration of equity for regulatory purposes (WACC_{pre-tax})	Distribution and metering: – 6.3%: 2020 and 2021 – 5.6%: 2022 and 2023
Incentives for new investments	Remuneration of t-1 investments to compensate for regulatory time lag since 2013
Efficiency factor	Distribution operating costs: – 3.5% for large enterprises – 4.79% for medium-sized enterprises – 6.59% for small enterprises Metering operating costs: 0% Marketing operating costs: 1.57%

(*) The RAB of the companies currently included in the scope of consolidation, calculated by applying the criteria adopted by the Authority, with reference to investments made up to 31 December 2022, in the definition of the reference tariffs, is equal to € 8.2 billion.



- Infra-period parameters review (x-factor, beta, gearing)
- WACC update if an increase in the main parameters results in a change of at least 50 bps of the WACC with respect to the current value
- Update of WACC parameters common to all services (RF^{nominal}, FP, FP, physical parameters, CRP, inflation, iBoxx indexes and cost of debt graduation)

With **Resolution 570/2019/R/gas**, the regulation of tariffs for gas distribution and metering services for the period 2020-2025 was approved.

In particular:

- the Authority confirmed the six-year duration of the tariff regulation period, as well as the division into two half-periods of three years each;
- with regard to the recognition of operating costs, the Authority provided that:
 - a. the initial level for 2020 of recognised operating costs be fixed by applying equal weight to the actual and recognised costs of the reference year 2018;
 - b. the rate of annual reduction of unit costs recognised to cover operating costs be set at:
 - for the distribution service:
 - 3.53%, for large companies (> 300,000 re-delivery points);
 - 4.79%, for medium-sized enterprises (> 50,000 re-delivery points);
 - 6.59%, for small businesses (< 50,000 re-delivery points);
 - 0% for the metering service;
 - 1.57% for the marketing service;
 - c. the level of the recognised standard cost for each switch reading be confirmed, for the first half of the regulation period, at € 5;
- with regard to the recognition of capital costs, the Authority provided that:
 - a. the adoption of a ceiling to tariff recognition for investments in distribution networks applied to locations with year of first supply after 2017 be confirmed for the fifth regulation period, to the extent set out in Resolution no. 704/2016/R/gas;
 - b. the weights to be applied for the recognition of smart meter investments made in the two-year period 2020-2021 be revised to 30% (from 40%) for the standard cost and to 70% (from 60%) for the actual cost;
 - c. a time horizon be adopted for the full recovery of “frozen” contributions aligned with the time horizon for the reimbursement of contributions subject to depreciation (about 34 years);
 - d. following the equalisation of the β asset parameter for distribution (0.439) and metering services (from 0.502 to 0.439), the rate of return on invested capital WACC be set at 6.3% until 2021, including for metering activities;
- with regard to the methanisation of Sardinia, the Authority has established a specific tariff framework providing, for a period of three years, for a transitional equalisation mechanism that allows the tariff of the Sardinian sector to be equalised with that of the southern Italy sector;
- with regard to the application of the tariff regulation to isolated LNG networks and isolated networks supplied by gas supply trucks, the Authority has introduced transitional rules, providing that these networks may be assimilated to interconnected

distribution networks for a period of five years, subject to submission of an application by the distribution company concerned.

With ruling no. 407/2023 published on 15 February 2023, the Regional Administrative Court of Lombardy partially upheld the petition submitted by Italgas Reti to have **Resolution no. 570/2019/R/gas** of 29 December 2019, setting out the tariff regulation of gas distribution and metering services (RTDG) for the fifth regulatory period (2020-2025), cancelled.

Of the various aspects concerned by the appeal, the Regional Administrative Court upheld the one relative to the recognition of the initial level of 2020 of operating costs for distribution and metering for large companies, confirming the incorrect determination of the starting value for 2018 and ordering ARERA to increase the value of the cost recognised for 2020 and reduce that of the x-factor. Another reason upheld is that relating to the reduction of the Beta coefficient for the metering service and its alignment with that relating to distribution, given that the solution adopted is allegedly flawed by major analysis shortcomings and contradicted by the assessments contained in the very studies commissioned by ARERA, which excluded the presence of grounds for an alignment of the Beta coefficient.

The Regional Administrative Court also upheld the Company's objection on the recognition of the residual depreciation value of traditional metering units of class G5 or below, replaced by electronic meters, acknowledging the payment of legal interest on the extension of recoveries. Finally, the Regional Administrative Court upheld the grounds relating to the failure to prepare the regulation impact analysis (AIR) and the lack of investigation and grounds of the resolutions challenged.

Resolution no. 287/2021/R/gas amended Article 57, subsection 1 of the RTDG, in order to standardise the criteria for decommissioning, for regulatory purposes, the traditional meters replaced in accordance with the Directives for gas metering unit commissioning set out by Resolution no. 631/2013/R/gas, as amended and supplemented. The Resolution establishes that, regardless of the class of the traditional meter replaced, the decommissioning carried out in accordance with the smart meter directives be conventionally deducted from the stratification of the historical gross values using the values of the gross fixed assets related to the assets installed earliest (so-called regulatory FIFO).

Resolution no. 559/2021/R/gas determined the amounts for the recovery of non-depreciation (so-called IRMA) for the G4 and G6 traditional metering units replaced with gas smart meters in accordance with the *smart meter* directives.

Resolution no. 614/2021/R/com approved the criteria for determining and updating the rate of return on invested capital for the infrastructural services of the electricity and gas sectors for the 2022-2027 period (TIWACC 2022-2027). The 2PWACC is split into two sub-periods, each lasting three years. Albeit maintaining a three-year update frequency of the parameters relating to the macroeconomic and fiscal context, the Au-

thority introduced an annual update mechanism (at least for the first three-year period) for the macroeconomic variables, if the cumulative effect of the update of the parameters leads to a change in the WACC above a threshold of 50 bps (basis point spread). For gas distribution and metering service, the value of the WACC as at 2022 is set at 5.6%, in pre-tax real terms.

Resolution no. 634/2021/R/gas postponed until 30 April of year t the publication of the provisional reference tariffs relating to year t and until 31 March of year t+1 the publication of the final reference tariffs relating to year t.

Resolution no. 154/2022/R/gas determined the final reference tariffs for gas distribution and metering services for 2021, calculated on the basis of the actual balance sheet figures for 2020.

Resolution no. 194/2022/R/gas determined the provisional reference tariffs for gas distribution and metering services for 2022, based on the preliminary balance sheet data for 2021 pursuant to Art. 3, subsection 2, of the RTDG.

Resolution no. 525/2022/R/gas governed the operating procedures for application of the cap on the tariff recognition of capital costs in locations in the start-up phase, confirming the application of the cap in all locations with year of first supply (YFS) after 2017 and defining the application methods of a three-stage mechanism set out by Article 33 of the RTDG:

- first stage, lasting three years, starting from the reference tariffs from tariff year YFS+1;
- second stage, lasting two years, applicable to the reference tariffs in tariff years YFS+4 and YFS+5;
- third stage, starting from the reference tariffs from tariff year YFS+6.

Resolution no. 654/2022/R/com confirmed the values of the WACC parameters common to all the infrastructure services of the electricity and gas sectors shown in Table 1 of the TIWACC 2022-2027. Following application of the so-called trigger mechanism, envisaged by Article 8 of the TIWACC 2022-2027 for the update to the WACC for the sub-period 2022-2024, the calculation of the WACC deriving from the update to the relevant financial parameters shows a variation in the WACC, for each service, below 50 bps compared to the current value.

Resolution no. 679/2022/R/gas re-determined the reference tariffs for natural gas distribution and metering services for the years 2009 to 2021, taking into account the requests for adjustment of physical and asset data submitted by operators during the periods 1-15 February and 1-15 September 2022. In particular, the Resolution:

- has updated the definitive reference tariffs for the 2020 tariff year for ATEM Turin 2, on the recommendation of Italgas, in order to take into account the changes made to Article 22 of the RTDG concerning the treatment of the stock of contributions existing in 2011, introduced by Resolution no. 154/2022/R/gas;

- partly updated the recovery of depreciation of traditional meters > G6 replaced in implementation of the Gas Smart Meters Directives, postponing the implementation of the requests with effects in favour of businesses to a later stage.

Resolution no. 736/2022/R/gas approved, for the year 2023, the mandatory tariffs for the natural gas distribution, metering and marketing services.

Resolution no. 737/2022/R/gas approved the infra-period update of the tariff regulation of gas distribution and metering services, for the second half-period 2023-2025 of the current regulatory period.

In particular, among its other provisions, the Resolution:

- in relation to efficiency gains (x-factor), has not changed the productivity recovery targets already set for the first 2020-2022 three-year period of the regulation period;
- in relation to the recognition of the capital costs envisaged for the installation of smart meters from 2023, has defined a decrease in the new levels of standard cost for the 2023-2025 three-year period with reference to meters up to class G25 and confirmed the pre-existing levels of standard cost, appropriately revalued, with reference to meters higher than class G25;
- with reference to the recognition of the residual value of the smart meters installed in the first stage of roll-out of the Directives for the commissioning of gas metering units, it has provided for the recognition of the residual value for smart meters decommissioned early up to 2018;
- in relation to the definition of the parameter component to cover the operating and capital costs of smart metering/remote management, it has provided for the activation of a single regulation component, set at € 1.59/smart re-delivery point for the tariff year 2023;
- with reference to the definition of the level of the standard cost recognised for switch readings to be applied in the three-year period 2023-2025, the Authority has established a value of € 0.50 to be applied to switch readings relating to re-delivery points equipped with a smart meter and it confirms the current value of € 5 for each switch reading in the case of re-delivery points equipped with a conventional meter.

Tariff regulation – Greece

The concessions held by the three distributors of the DEPA Infrastructure Group cover the entire Greek territory; in particular, EDA Thess operates in Thessaly and the Thessaloniki area, EDA Attikis in Attica (including the city of Athens) and DEDA in the remaining Greek territory.

The expiry and renewal of the gas distribution concession in Greece are governed by the Greek Energy Law,

partially amended (i.e. Articles 2, 80^Γ and 88) by Law no. 4812/2021, enacted on 30 June 2021. According to this amendment, the duration of the licence is set at a minimum of 20 years and may be extended to a further 30 years upon expiry of the original licence, following an application by the licence holder. In this case, the licence holder must apply for an extension one year before the expiry date (31 December 2043). The renewal takes place through an “act with declaratory effect” issued by the Regulatory Authority for Energy (RAE), the Greek Regulator, in accordance with Articles 5-9-13-16 of the Regulation of Natural Gas Permits (Decision of the Minister no. 178065/2018, published in Journal 3430/2018). Law no. 4951-2022 (Article 134) also introduced a possible repayment, for the outgoing operator, for the residual value of their assets, equal to the value of the RAB⁶⁸ at the end of the licence, plus a premium of at least 15%.

The activity of natural gas distribution and metering in Greece is regulated by the RAE: its responsibilities include the setting and updating of tariffs, as well as the establishment of rules for access to infrastructure and the provision of related services (e.g. Distribution Code-Decisione RAE 589/2016).

The duration of a tariff adjustment period is set at four years: the current adjustment period at the end of the financial year is the period from 2019 to 2022. In particular, the Greek regulation provides that, prior to the beginning of each regulatory period, the operator shall submit to the RAE, for approval, the Development Plan and the Business Plan for the following regulatory period on the basis of which the operator’s distribution tariffs and regulated revenues for the relevant period are determined.

In the event that there are differences between the assumptions made in the Development Plan and the Business Plan and the actual data for the reference period, a deviation of the actual revenues from the regulated revenues will be generated: this deviation (defined as a “recoverable difference”), whether positive or negative, is considered in the definition of the regulated revenues of the following regulatory period and will therefore be recovered or returned as part of the tariffs for the following four years. To satisfy the need not to assign (only) to end customers in disadvantaged areas with limited infrastructural developments the costs of the distribution and metering service, the RAE, with Decision no. 485/22 Article 20 envisaged the possibility of socialising any potential recoverable difference between all distribution companies of a single corporate group.

The rate system establishes in particular that the reference revenues for the formulation of rates is determined so as to cover the costs incurred by the operator and allow for a fair return on invested capital. In particular, the following tariff components are identified:

68. Net fixed asset value of assets net of contributions, capitalised interest, revenues from connection contributions and/or user fees

and all costs related to planning. To increase the RAB, a percentage of Working Capital calculated parametrically.

- the cost of net invested capital for regulatory purposes RAB (Regulatory Asset Base) through the application of a rate of return (WACC); the WACC is nominal pre-tax and is defined *ex ante* for the regulatory period;
- economic-technical amortisation/depreciation, hedging investment costs;
- the operating costs, which are defined for the following regulatory period, are not re-estimated at the end of the regulatory period; thus the operator can retain the efficiency achieved during the regulatory period;
- the additional revenues obtained from activities other than gas distribution are separated;
- the recoverable difference defined by the difference between the regulated revenues (calculated based on the final balance) and the revenues obtained from invoicing;
- connection fees may be borne by the distribution operator and, in that case, taken into account in determining the RAB if the operator's penetration rate is low (letter K point XIII Decision RAE 328/2016 - Approval of the pricing regulation).

Required Revenues =	RAB x Reg. WACC	+ Depreciation	+ Opex	- Additional Revenues	± Recoverable Difference
Evaluated for each year in the Tariff Calculation Period	Return on RAB calculated by multiplying the RAB of the Operator with the Weighted Average Cost of Capital (WACC)	Fixed Assets are depreciated based on the accounting method provided by law with no strict obligation to set a specific period of depreciation. Existing DSOs have chosen different approaches regarding duration of depreciation for each category of assets	The reasonable expenses of the DSO for the operation of the Key Activity of Natural Gas Distribution	The DSO may undertake other activities : Auxiliary services (e.g. installation and maintenance of smart meters) and Optional services (e.g. energy efficiency services). For these services, the DSO submits to RAE a tariff proposal for approval	The difference between the Required Revenues and the Actual Revenues (which includes the revenues from the application of the Distribution tariffs according to the billed quantities)

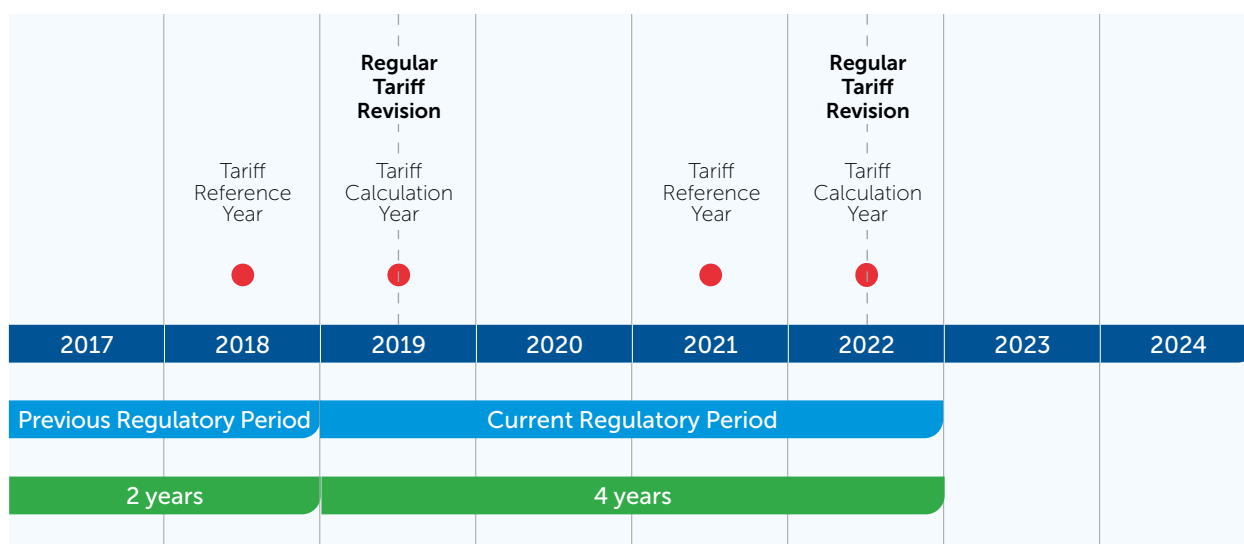
The main elements of tariff regulation are as follows:

Highlights 2019-2022 Regulation period

End of regulation period (tariffs)	31 December 2022
Calculation of net invested capital recognised for regulatory purposes (RAB)	Historical cost
Remuneration of net invested capital recognised for regulatory purposes (WACC)	Distribution and metering: 8.18% for 2019 - 7.45% for 2020 and 7.03% for 2021 and 2022
Incentives for new investments	Extra WACC of 1.5% for 4 years on new investments if in line with the KPIs defined by the Authority

(*) The RAB of the Greek distribution companies, calculated by applying the criteria adopted by the local regulatory Authority, with reference to investments made up to 31 December 2022, is equal to € 0.7 billion.

and the relevant reference timetable:



Natural gas balancing service – Settlement

On 8 November 2022, by way of **Resolution no. 555/2022/R/gas**, the Authority instituted, starting in 2024, a functional incentive mechanism for Settlement procedures, aimed at encouraging the utmost timeliness on the part of distribution companies to rectify the metering data that generated a withdrawal of the re-delivery point that was deemed anomalous, failing to positively pass the consistency check in the balancing or adjustment session, determining, as a consequence, the activation of the “sterilisation” mechanism for the inconsistent withdrawal with the attribution of a resulting penalty.

To this end, each distribution company must pay, with reference to each re-delivery point connected to the distribution network for which the above occurs, a unit fee (€ 35 for class of meter unit below or equal to G6, € 70 for class of meter unit between G10 and G25, € 140 for class of meter unit greater than or equal to G40) multiplied by the progressive number of sterilisations per re-delivery point, discounted by a session for which, albeit in the presence of sterilisation, no penalty is assigned.

Energy efficiency

On 28 June 2022, the Authority approved **Resolution no. 292/2022/R/efr**, which determines, pursuant to **Resolution no. 270/2020/R/efr**, the contribution to tariffs to be paid to distributors that meet their energy saving targets as part of the EEC mechanism for the 2021 mandatory year, which began on 17 July 2021 and ended on 31 May 2022.

Taking into account the relevant parameters of quantity and price the of EEC traded on the market and through bilateral transactions, and the amount of certificates available to operators in relation to the targets of obliged parties, the contribution to tariffs is set at € 253.44/EEC (equal to the sum of the cap of € 250/EEC and the additional unitary contribution of € 3.44/EEC).

On 31 May 2022, the Italgas Group cancelled a total of 239,199 EECs and additionally purchased 148,532 EECs from the GSE at a price of € 10.00/EEC.

In Resolution no. 7/2022 of 12 October 2022, the Authority defined the energy efficiency obligations for 2022 of distributors with more than 50 thousand end users connected to its distribution network as at 31 December 2020. For subsidiaries and investees of Italgas S.p.A., the quantitative obligation for 2022, expressed as a number of White Certificates, is: i) 247,838 for Italgas Reti; ii) 35,987 for Toscana Energia and iii) 1,979 for Umbria Distribuzione Gas.

In the November 2022 interim cancellation session, relating to the 2022 mandatory year (1 June 2022 – 31 May 2023), the Italgas Group cancelled a total of 406,875 EECs against an advance payment from the CSEA of € 200.00/EEC, for a total of € 81.4 million.

5.2 Comment on the economic and financial results⁶⁹

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5.2.1 Reclassified income statement

(€ million)	2021	2022	Abs. change	Change %
Gas Distribution regulated revenues	1,294.5	1,313.5	19.0	1.5
of which distribution revenues	1,200.1	1,225.8	25.7	2.1
of which Other distribution revenues	94.4	87.7	(6.7)	(7.1)
Other revenues	76.3	242.4	166.1	-
<i>of which special items</i>	-	18.6	18.6	-
Total revenues (*)	1,370.8	1,555.9	185.1	13.5
Adjusted total revenues	1,370.8	1,537.3	166.5	12.1
Operating costs	(361.9)	(454.6)	(92.7)	25.6
EBITDA	1,008.9	1,101.3	92.4	9.2
Adjusted EBITDA	1,008.9	1,082.7	73.8	7.3
Amortisation, depreciation and impairment	(425.7)	(459.9)	(34.2)	8.0
EBIT	583.2	641.4	58.2	10.0
Adjusted EBIT	583.2	622.8	39.6	6.8
Net financial expense	(60.4)	(56.3)	4.1	(6.8)
<i>of which special items</i>	(6.4)	-	6.4	-
<i>Adjusted net financial expense</i>	(54.0)	(56.3)	(2.3)	4.3
Net income from equity investments	2.5	3.4	0.9	36.0
<i>of which special items</i>	-	2.7	2.7	0.0
Gross profit	525.3	588.5	63.2	12.0
Adjusted gross profit	531.7	567.2	35.5	6.7
Income taxes	(141.9)	(152.4)	(10.5)	7.4
taxation related to special items	1.5	(1.5)	(3.0)	-
Adjusted income taxes	(143.4)	(150.9)	(7.5)	5.2
Net profit	383.4	436.1	52.7	13.7
Net profit attributable to the Group	362.8	407.3	44.5	12.3
Net profit attributable to minority shareholders	20.6	28.8	8.2	39.8
Adjusted net profit	388.3	416.3	28.0	7.2
Adjusted net profit attributable to the Group	367.7	395.7	28.0	7.6
Adjusted net profit attributable to minority interests	20.6	20.6	-	-

(*) Unlike the legal statement, the reclassified income statement requires the listing of Total revenues and Operating costs net of the impact of IFRIC 12 "Service concession agreements" (€ 772.0 and € 727.8 million respectively in 2021 and 2022), connection contributions (€ 19.6 and € 19.2 million respectively in 2021 and 2022), repayments from third parties and other residual components (€ 0.8 and € 9.6 million respectively in 2021 and 2022).

69. The paragraph "Comment on the economic and financial results" refers to the Italgas Group, which comprises: Italgas S.p.A., Italgas Reti S.p.A., Medea S.p.A., Janagas S.r.l., Italgas Acqua S.p.A., Toscana Energia S.p.A., Immogas S.r.l., Geoside S.p.A., Bludigit S.p.A.,

Italgas Newco S.p.A., DEPA Infrastructure S.A., Public Gas Distribution Networks S.A., Attiki Natural Gas Distribution Single Member Company S.A. and Thessaloniki – Thessalia Gas Distribution S.A.

Adjusted operating profit (adjusted EBIT), net of non-recurring items, achieved in financial year 2022, amounted to € 622.8 million, with an increase of € 39.6 million compared to 31 December 2021 (+6.8%) as a result of higher adjusted total revenues (€ 166.5 million; +12.1%), operating costs (€ 92.7 million; +25.6%) and amortisation, depreciation and impairment (€ 34.2 million; +8.0%). The DEPA Infrastructure Group, which is included in the scope of consolidation as at 1 September 2022, contributed € 21.4 million to the EBIT for the financial year.

Adjusted net profit for FY 2022 amounted to € 416.3 million, an increase of € 28.0 million compared to the financial year 2021, or +7.2%.

Adjusted net profit attributable to the Group came to € 395.7 million and has increased on FY 2021 (€ 28.0 million; +7.6%).

5.2.2 Reconciliation of reported EBIT and net profit with adjusted EBIT and net profit

Italgas' management assesses Group performance on the basis of alternative performance indicators⁷⁰ not envisaged by IFRS, obtained by excluding special items from EBIT and net profit.

The income components are classified as special items, if significant, when: (i) they result from non-recurring events or transactions or from transactions or events which do not occur frequently in the ordinary course of business; or (ii) they result from events or transactions which are not representative of the normal course of business.

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion. Adjusted EBIT and adjusted net profit are not provided for by either IFRS or other standard setters. These performance metrics allow for analysis of the business trends, making it easier to compare results. The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IFRS.

The income components classed among special items in 2022, amounting to € 21.3 million, referred to:

- the capital gain on the sale of the controlling interest in Gaxa to Edison (€ 2.7 million);
- the capital gain from the transfer of Medea's transmission assets to Energie Reti Gas (€ 5.1 million);
- the recognition at fair value (€ 13.5 million), in application of IFRS 3, of the Janagas' assets, a company acquired by Fiamma 2000.

The income components classified under special items for the year 2021 concern the higher costs (€ 6.4 million) resulting from the bond buyback transaction finalised in February 2021.

70. For the definition of alternative performance indicators, reference should be made to the chapter "Non-GAAP Measures" in this report.

(€ million)	2021	2022
Total revenues	1,370.8	1,555.9
<i>Excluding special items</i>	-	(18.6)
- capital gain from the transfer and sale of Medea's transport assets to ERG	-	(5.1)
- recognition of Janagas' assets at fair value	-	(13.5)
Adjusted total revenues	1,370.8	1,537.3
Total operating costs	(361.9)	(454.6)
EBITDA	1,008.9	1,101.3
<i>Excluding special items</i>	-	(18.6)
Adjusted EBITDA	1,008.9	1,082.7
EBIT	583.2	641.4
<i>Excluding special items</i>	-	(18.6)
Adjusted EBIT	583.2	622.8
Net financial expense	(60.4)	(56.3)
<i>Excluding special items</i>	6.4	-
- financial expense from bond buyback	6.4	-
Adjusted net financial expense	(54.0)	(56.3)
Net income from equity investments	2.5	3.4
<i>Excluding special items</i>	-	(2.7)
- capital gain from the sale of the controlling interest in Gaxa	-	(2.7)
Adjusted net income from equity investments	2.5	0.7
Gross profit	525.3	588.5
<i>Excluding special items</i>	6.4	(21.3)
Adjusted gross profit	531.7	567.2
Income taxes	(141.9)	(152.4)
<i>Excluding special items</i>	(1.5)	1.5
Net profit (loss)	383.4	436.1
Net profit (loss) attributable to minority interests	20.6	28.8
Net profit (loss) attributable to the Group	362.8	407.3
Adjusted net profit (loss)	388.3	416.3
Adjusted net profit (loss) attributable to minority interests	20.6	20.6
Adjusted net profit (loss) attributable to the Group	367.7	395.7

5.2.3 Analysis of the Reclassified Income Statement items

Total revenues

(€ million)	2021	2022	Abs. change	Change %
Distribution revenues	1,200.1	1,225.8	25.7	2.1
Other distribution revenues	94.4	87.7	(6.7)	(7.1)
Total gas distribution regulated revenues	1,294.5	1,313.5	19.0	1.5
Other revenues	76.3	242.4	166.1	217.7
<i>of which special items</i>	-	18.6	<i>18.6</i>	-
Adjusted total revenues	1,370.8	1,537.3	166.5	12.1
Total revenues	1,370.8	1,555.9	185.1	13.5

Adjusted total revenues of the first quarter of 2022 amount to € 1,537.3 million, up by € 166.5 million compared to 2021 (+12.1%), and refer to natural gas distribution regulated revenues (€ 1,313.5 million) and other adjusted revenues (€ 223.8 million). Total revenues from the inclusion of the DEPA Infrastructure Group in the scope of consolidation amounted to € 51.4 million.

Gas distribution regulated revenues increased by € 19.0 million compared to 2021 due to an increase in revenues from transmission (€ 25.7 million) partially offset by a reduction in other regulated gas distribution revenues (€ -6.7 million).

The increase in **distribution revenues** (€ 25.7 million) is mainly attributable to the effect of the consolidation of the DEPA Infrastructure Group (€ 50.3 million), the increase in the specific RAB (€ 27.8 million), the deflator (€ 5.9 million) and the contribution of the Sardinian networks (€ 6.7 million), partially offset by the reduction in the WACC envisaged by Resolution no. 614/2021/R/com (€ -54.4 million), the change in the X-factor (€ -8.4 million) pursuant to Resolution no. 570/2019/R/gas as well as the effect of the sale of the plants of ATEM Naples 1 to another operator (€ -4.2 million).

The reduction of **other distribution revenues** (€ 6.7 million) is mainly linked to the effect of the lesser contribution pursuant to Article 57 of ARERA Resolution no. 367/14, as subsequently amended and supplemented, relating to the replacement of traditional meters with electronic ones (€ 2.0 million as at 31 December 2022 and € 13.9 million as at 31 December 2021), and lower customer service revenues partly offset by greater incentives for leak detection (€ 4.1 million) and revenues from gas supply interruption activities due to arrears (€ 1.4 million).

Adjusted other revenues (€ 223.8 million) increased by € 147.5 million compared to 2021, mainly due to the increase in energy efficiency activities.

Operating costs

(€ million)	2021	2022	Abs. change	Change %
Fixed gas distribution costs	237.2	244.8	7.6	3.2
- net personnel cost	137.9	148.8	10.9	7.9
- net external costs	99.3	96.0	(3.3)	(3.3)
Other assets	53.5	143.6	90.1	168.4
- net personnel cost	5.3	6.9	1.6	30.2
- net external costs	48.2	136.7	88.5	183.6
Other costs and provisions	3.8	(1.0)	(4.8)	(126.3)
EEC	(2.2)	1.8	4.0	(181.8)
Concession-related expenses	69.6	65.4	(4.2)	(6.0)
Operating costs	361.9	454.6	92.7	25.6

Operating costs amounted to € 454.6 million, an increase of € 92.7 million over 2021 (of which € 20.8 million was due to the inclusion of the DEPA Infrastructure Group in the scope of consolidation), mainly as a result of higher net external costs of € 85.2 million (essentially driven by energy efficiency activities) and net labour costs of € 12.5 million, offset by lower allocations to provisions for risks, other charges and Energy Efficiency Certificates of € 0.8 million as well as lower concession charges of € 4.2 million.

Amortisation, depreciation and impairment

(€ million)	2021	2022	Abs. change	Change %
Amortisation and depreciation	424.8	459.0	34.2	8.1
Intangible assets IFRIC 12	344.8	375.1	30.3	8.8
Other Intangible Assets	40.9	41.9	1.0	2.4
Property, plant and equipment	39.1	42.0	2.9	7.4
- of which amortisation of Right of Use	22.9	24.6	1.7	7.4
Impairment	0.9	0.9	-	-
Amortisation, depreciation and impairment	425.7	459.9	34.2	8.0

Amortisation, depreciation and impairment (€ 459.9 million) increased by € 34.2 million (+8.0%) on 2021, mainly due to the investments made and the change in the scope of consolidation connected with the DEPA Infrastructure Group (€ 9.2 million) and the acceleration related to the replacement plan for medium- and large-calibre meters (€ 4.7 million).

Net Financial expense

(€ million)	2021	2022	Abs. change	Change %
Expense (income) on short-term and long-term financial debt	56.1	52.7	(3.4)	(6.1)
<i>of which special items</i>	6.4	-	(6.4)	-
Upfront fee	6.3	6.7	0.4	6.3
Other net financial expense (income)	(0.1)	(1.5)	(1.4)	-
- Expenses (income) related to the discounting of environmental provisions and provisions for employee benefits	1.1	0.6	(0.5)	(45.5)
- Other net financial expense (income)	(1.2)	(2.1)	(0.9)	75.0
Financial expense capitalised	(1.9)	(1.6)	0.3	(15.8)
Adjusted net financial expense	54.0	56.3	2.3	4.3
Net financial expense	60.4	56.3	(4.1)	(6.8)

Adjusted net financial expense amounted to € 56.3 million as at 31 December 2022, up by € 2.3 million compared to the same period last year. The increase is mainly attributable to the increase in average gross financial debt, partially offset by the slightly decreasing average cost of debt.

Other net financial expense (income) amounted to € 2.1 million and mainly related to interest on tax receivables (€ 1.2 million) and financial income from discounting "Super/ Ecobonus" receivables (€ 0.6 million).

The special items in 2021 included the accounting effects of the bond buyback (€ 6.4 million) finalised in February 2021.

Net Income from equity investments

Adjusted net income from equity investments as at 31 December 2022 amounted to € 0.7 million.

Income taxes

(€ million)	2021	2022	Abs. change	Change %
Current taxes	154.6	160.8	6.2	4.0
Net deferred taxes	(12.7)	(8.4)	4.3	(33.9)
Income taxes	141.9	152.4	10.5	7.4
<i>taxation related to special items</i>	1.5	(1.5)	(3.0)	-
Adjusted income taxes	143.4	150.9	7.5	5.2
Effective tax rate (%)	27.0%	25.9%		(4.1)
Adjusted effective tax rate (%)	27.0%	26.6%		(1.5)

Income taxes came to € 152.4 million, up € 10.5 million compared to the same value of the previous year, essentially as a consequence of the higher period result.

The **tax rate** was 25.9% (27.0% in 2021). The **adjusted tax rate** was 26.6%.

The reconciliation of the theoretical tax rate with the effective tax rate is described in the note "Income taxes" in the Notes to the consolidated financial statements.

5.2.4 Reclassified Statement of Financial Position

The Reclassified Statement of Financial Position combines the assets and liabilities of the mandatory format included in the consolidated financial statements based on the criterion of how the business operates, conventionally split into the three basic functions of investment, operations and financing.

The statement provided represents useful information for the investor because it makes it possible to identify the sources of financial resources (own and third-party funds) and uses of financial resources in fixed and working capital.

The Italgas' Reclassified Statement of Financial Position as at 31 December 2022, compared with that as at 31 December 2021, is summarised below:

(€ million)	31.12.2021	31.12.2022	Abs. change.
Fixed capital (*)	7,106.2	8,120.6	1,014.4
Property, plant and equipment	372.1	379.0	6.9
Intangible assets	6,938.1	7,975.5	1,037.4
Equity investments	35.1	66.2	31.1
Financial receivables and securities instrumental to operations	2.8	3.4	0.6
Net payables for investments	(241.9)	(303.5)	(61.6)
Net working capital	115.6	340.0	224.4
Provisions for employee benefits	(95.6)	(69.9)	25.7
Assets held for sale and directly related liabilities	2.2	-	(2.2)
NET INVESTED CAPITAL	7,128.4	8,390.7	1,262.3
Shareholders' equity	2,142.5	2,390.6	248.1
- attributable to the Italgas Group	1,891.4	2,108.3	216.9
- attributable to minority shareholders	251.1	282.3	31.2
Net financial debt (**)	4,985.9	6,000.1	1,014.2
HEDGING	7,128.4	8,390.7	1,262.3

(*) Net of the effects deriving from the application of IFRS 15.

(**) As at 31 December 2022, the item: i) includes the effects of applying IFRS 16 amounting to € 72.0 million; ii) does not include liabilities amounting to € 34.8 million consisting of the pro-rata share of the shareholder's loan, subordinated and convertible into shares, subscribed by the shareholder Phaeton Holding SA, and deemed not to be financial debt. Net financial debt including the effects of this shareholders' loan amounted to € 6,034.9 million. In accordance with Consob Communication no. DEM/6064293 of 28 July 2006, the Notes to the Consolidated Financial Statements show net financial debt including the effects of IFRS 16 and the debt to Phaeton Holding SA.

The **net invested capital** at 31 December 2022 amounted to € 8,390.7 million and consists of the items outlined below.

Fixed capital (€ 8,120.6 million) increased by € 1,014.4 million compared to 31 December 2021 and reflects the effect of the inclusion of the DEPA Infrastructure Group and Janagas in the scope of consolidation, net of the deconsolidation of Gaxa and the sale of the ATEM Naples 1 plants.

Below is an analysis of the change in **Property, plant and equipment** and **Intangible assets**:

(€ million)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
Balance at 31 December 2021	372.1	6,732.0	206.1	7,310.2
Investments	37.0	730.0	47.3	814.3
- of which IFRS 16	26.4	-	-	26.4
Amortisation, depreciation and impairment	(42.0)	(378.0)	(39.9)	(459.9)
- of which D&A pursuant to IFRS 16	(24.6)	-	-	(24.6)
Change in the scope of consolidation	17.1	883.3	116.6	1,017.0
Subsidies	-	(21.9)	-	(21.9)
Disposals and sales	(5.8)	(300.9)	(0.1)	(306.8)
Other changes	0.6	3.0	(2.0)	1.6
Balance at 31 December 2022	379.0	7,647.5	328.0	8,354.5

Intangible fixed assets (€ 7,975.5 million) mainly include assets for services in concession posted in the accounts pursuant to IFRIC 12 (€ 7,647.5 million). Net of the effect caused by the sale of fixed assets relating to the Municipalities of ATEM Naples 1, the increase of € 1,037.4 million is mainly attributable to the acquisition of the DEPA Infrastructure Group, which resulted in the recognition of assets pursuant to IFRIC 12 in the amount of € 824.9 million and goodwill in the amount of € 115.8 million.

Tangible fixed assets (€ 379.0 million), which mainly relate to plant, buildings and industrial and commercial equipment, increased by € 6.9 million primarily as a result of investments for the period of € 29.2 million (of which € 18.6 million related to the application of IFRS 16) and the first-time consolidation of the DEPA Infrastructure Group in the amount of € 11.5 million, net of amortisation and depreciation of € 42.0 million (of which € 24.6 million related to the right of use under IFRS 16).

Equity investments (€ 66.2 million) increased by € 31.1 million due mainly to the subscription of 49% of the share capital of Energie Rete Gas (€ 23.1 million) and the acquisition of a minority share in the capital of Picarro Inc. (€ 14.1 million), net of the company reorganisation relating to the affiliate Valdarno, valued at 31 December 2021 using the equity method (€ -5.5 million).

Consolidated **net working capital** at 31 December 2022 amounts to € 340.0 million and is broken down as follows:

(€ million)	31.12.2021	31.12.2022	Abs. change
Trade receivables	388.6	315.7	(72.9)
Inventories	105.3	120.5	15.2
Tax receivables	71.6	116.7	45.1
Accruals and deferrals from regulated activities	115.8	188.6	72.8
Other assets	185.7	815.1	629.4
Trade payables	(300.9)	(709.4)	(408.5)
Provisions for risks and charges	(159.5)	(144.3)	15.2
Deferred tax liabilities	(50.8)	(91.6)	(40.8)
Tax payables	(12.1)	(28.2)	(16.1)
Other liabilities	(228.1)	(243.1)	(15.0)
	115.6	340.0	224.4

Compared to 31 December 2021, net working capital increased by € 224.4 million due to: (i) lower trade receivables (€ -72.9 million) mainly due to the reduction in receivables from sales companies (€ -232.8 million), from customers (€ -31.9 million) and due to the deconsolidation of Gaxa (€ -16.1 million) partially offset by higher receivables relating to the "Super/Ecobonus" (€ 114.5 million), from the CSEA mainly relating to the equalisation balance (€ 61.5 million) and the first-time consolidation of the DEPA Infrastructure Group (€ 28.1 million); ii) increase in inventories (€ 15.2 million) mainly relating to digitisation and odourising equipment, as well as to the contribution of the DEPA Infrastructure Group (€ 11.4 million); iii) increase in net tax liabilities (€ -11.8 million) mainly due to the change in taxation for the period (€ -25.6 million) net of the effect of accrued tax credits for "Super/Ecobonus" (€ 37.5 million), as well as the contribution of the DEPA Infrastructure Group and Janagas (€ -31.2 million); iv) increase in other assets (€ 629.4 million) mainly relating to accessory billing components of distribution subject to reimbursement by the CSEA (including "Bonus gas" and UG2 in the amount of € 658.9 million) offset by lower receivables from the CSEA for incentives (€ 41.3 million); v) increase in trade payables (€ 408.5 million) due to the debt position with sales companies (€ 445.9 million) mainly for "Bonus gas" and UG2 offset by the reduction in payables to suppliers (€ 29.3 million) and the equalisation balance with the CSEA (€ 8.0 million); vi) reduction in provisions for risks and charges (€ 15.2 million); vii) increase in other liabilities for the period (€ 15.0 million).

The consolidation of the DEPA Infrastructure Group resulted in an overall increase in working capital of € 50.5 million.

During the last quarter, the Company finalised factoring agreements with financial counterparties, on the basis of which receivables owed to the Company and to its subsidiaries can be factored without recourse. In particular, the assignment of VAT receivables in the amount of € 30.0 million was finalised (2021: assignment of receivables totalling € 306.2 million).

(€ million)	31.12.2021	31.12.2022	Abs. change
Financial and bond debt	6,376.9	6,510.8	133.9
Short-term financial debt (*)	571.6	121.1	(450.5)
Long-term financial debt (**)	5,735.3	6,317.7	582.4
Finance lease payables - IFRS 16	70.0	72.0	2.0
Hedging derivative contracts Cash flow Hedge	5.9	(52.5)	(58.4)
Short-term contracts	0.3	(17.1)	(17.4)
Long-term contracts	5.6	(35.4)	(41.0)
Financial receivables and cash and cash equivalents	(1,396.9)	(458.2)	938.7
Cash and cash equivalents	(1,391.8)	(451.9)	939.9
Financial receivables	(5.0)	(5.6)	(0.6)
Securities not instrumental to operations	(0.1)	(0.7)	(0.6)
Net financial debt (**)	4,985.9	6,000.1	1,014.2
Finance lease payables - IFRS 16	70.0	72.0	2.0
Net financial debt (excluding the effects pursuant to IFRS 16) (**)	4,915.9	5,928.1	1,012.2

(*) These include the short-term portions of long-term financial debt.

(**) As at 31 December 2022, the net financial debt shown in the Directors' Report does not include liabilities for € 34.8 million consisting of the pro-rata share of the shareholders' loan to Italgas Newco, subordinated and convertible into shares, subscribed by the shareholder Phaeton Holding SA, deemed not to be financial debt. The Notes to the Consolidated Financial Statements, in compliance with Consob Communication no. DEM/6064293 of 28 July 2006, show the net financial debt including the debt to Phaeton Holding SA.

As at 31 December 2022, **net financial debt**, excluding the impacts of financial liabilities pursuant to IFRS 16 of € 72.0 million (€ 70.0 million in the corresponding period of 2021) and from the Italgas Newco shareholders' loan share, amounted to € 5,928.1 million, up by € 1,012.2 million from 31 December 2021 (€ 4,915.9 million). Including the effects resulting from application of IFRS 16 and the Italgas Newco shareholders' loan share, the net financial debt came to € 6,034.9 million (€ 4,985.9 million at the end of 2021). In compliance with Consob Communication no. DEM/6064293 of 28 July 2006, the Notes to the Consolidated Financial Statements report the composition of financial debt including the effects of IFRS 16 and the above shareholders' loan.

Financial and bond debt as at 31 December 2022 totalled € 6,510.8 million (€ 6,376.9 million as at 31 December 2021) and refer to: bonds (€ 4,483.7 million), loan agreements with the European Investment Bank (EIB) (€ 953.6 million), payables to banks (€ 1,001.5 million) and financial liabilities pursuant to IFRS 16 (€ 72.0 million).

Cash, amounting to € 451.9 million, decreased by € 939.9 million compared to 31 December 2021, due to use in M&A transactions during the period.

The breakdown of gross financial debt by type of interest rate as at 31 December 2022 is as follows:

(€ million)	31.12.2021	%	31.12.2022	%
Fixed rate	5,910.9	92.7	5,905.8	90.7%
Floating rate	466.0	7.3	605.0	9.3%
Gross financial debt	6,376.9	100.0	6,510.8	100.0%

Fixed-rate financial liabilities amounted to € 5,905.8 million and mainly refer to bonds (€ 4,483.7 million), four EIB loans (€ 846.1 million), bank loans (€ 504.0 million) and financial liabilities pursuant to IFRS 16 (€ 72.0 million).

Floating-rate financial liabilities amounted to € 605.0 million, up by € 139.0 million compared to 31 December 2021 as a result of the consolidation of bank loans subscribed by DEPA Infrastructure Group companies (€ 245.0 million), partially offset by a decrease in the use of bank lines by Italgas S.p.A.

With the exception of an EIB loan with a nominal value of € 90 million signed by Toscana Energia and certain loans taken out by DEPA Infrastructure's pre-acquisition subsidiaries, as at 31 December 2022 there were no loan agreements containing financial covenants and/or that were secured by collateral.

Some of these contracts provide, inter alia, for the following: (i) negative pledge undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) *pari passu* and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. As at 31 December 2022, these commitments were respected.

Statement of comprehensive income

(€ million)	2021	2022
Net profit	383.4	436.1
Other comprehensive income		
<i>Components reclassifiable to the income statement:</i>		
Change in fair value of cash flow hedge derivatives (Effective portion)	14.8	56.6
Tax effect	(3.6)	(13.6)
	11.2	43.0
<i>Components not reclassifiable to the income statement:</i>		
Actuarial gains (losses) from remeasurement of defined benefit plans for employees	1.9	11.7
Change in fair value of investments measured at fair value with effects on OCI	-	0.8
Tax effect	(0.5)	(3.5)
	1.4	9.0
Total other components of comprehensive income, net of tax effect	12.6	52.0
Total comprehensive income for the year	396	488.1
Attributable to:		
- Italgas	375.3	458.8
- Minority interests	20.7	29.3
	396.0	488.1

(€ million)	2022
Shareholders' equity as at 31 December 2021	2,142.5
of which:	
- Group shareholders' equity	1,891.4
- Shareholders' equity of minority shareholders	251.1
Increase for:	
- 2022 profit for the year	436.1
of which:	
Profit attributable to the Group	407.3
Profit attributable to minority shareholders	28.8
- <i>Stock grant reserve</i>	0.5
- IAS 19 valuation reserve	8.4
- <i>Cash Flow Hedge valuation reserve</i>	45.1
- Fair value valuation reserve for equity investments	0.5
- Payment of share capital by minority shareholders	-
Decrease for:	
- Italgas 2021 dividend distribution	(238.9)
- 2021 dividend distributed to minority shareholders*	(14.2)
- Change in scope of consolidation	(73.7)
- Other changes	
of which:	
- Attributable to the Group	67.1
- Attributable to minority shareholders	17.2
Group shareholders' equity	2,108.3
Shareholders' equity of minority shareholders	282.3
Shareholders' equity as at 31 December 2022	2,390.6

(*) This is the extraordinary dividend paid by Toscana Energia.

5.2.5 Reclassified Statement of Cash Flows

The reclassified statement of cash flows provided below is the summary of the legally required cash flow statement. The reclassified statement of cash flows makes it possible to reconcile the change in cash and cash equivalents at the start and end of the period with the change in net financial debt at the start and end of the period. The measure which allows for the reconciliation between the two statements is the free cash flow⁷¹, i.e. the cash surplus or deficit remaining after the financing of investments.

71. The free cash flow alternatively closed: (i) the change in cash for the period, after the addition/subtraction of cash flows relating to financial payables/receivables (usage/repayment of financial receivables/payables) and equity (payment of dividends/capital contributions); (ii) the change in net financial debt for the period, after the addition/subtraction of flows of debt relating to equity (payment of dividends/capital contributions).

(€ million)	2021	2022
Net profit	383.4	436.1
Correction:		
- Amortisation and depreciation and other non-monetary components	426.6	469.9
- Net capital losses (capital gains) on asset sales and eliminations	3.6	(30.8)
- Interest and income taxes	203.6	208.7
Change in working capital due to operating activities	76.5	(311.5)
Dividends, interest and income taxes collected (paid)	(261.8)	(200.7)
Cash flow from operations (*)	831.9	571.7
Technical investments	(809.3)	(766.1)
Other changes related to investment activities	14.6	47.8
Divestments and other changes	12.5	325.4
Free cash flow before M&A transactions	49.7	178.8
Companies included in the scope of consolidation	(22.1)	(958.7)
Acquisition of business units, plant and financial assets	(1.7)	(23.1)
Free cash flow	25.9	(803.0)
Change in short- and long-term financial debt and financial receivables	955.7	132.1
Reimbursements of financial liabilities for leased assets	(21.5)	(27.9)
Capital contribution from third parties	11.3	12.3
Equity cash flow	(243.1)	(253.3)
Net cash flow for the year	728.3	(939.8)

(*) Net of the effects deriving from the application of IFRS 15.

Change in net financial debt

(€ million)	2021	2022
Free cash flow before M&A transactions	49.7	178.8
Change due to acquisitions of equity investments, business units and assets	(42.2)	(981.9)
Increase in finance lease payables	(15.2)	(29.9)
Equity cash flow	(243.1)	(253.3)
Capital contribution from third parties	11.3	12.3
Other changes (Difference between interest accounted for, and paid fair value of derivatives)	(4.0)	59.8
Change in net financial debt	(243.5)	(1.014.2)

The cash flow from operations as at 31 December 2022, amounting € 571.7 million, was partially absorbed by the flow from net investments, totalling € 392.9 million, generating a free cash flow before M&A transactions of € 178.8 million. As at 31 December 2022, the cash outflow from M&A transactions amounted to € 981.8 million, bringing the free cash flow to € -803.0 million.

Taking into account payment of the dividend for € 253.3 million, net financial debt increased by € 1,014.2 million.

5.3 Comment on the economic and financial results of Italgas S.p.A.

Italgas S.p.A. was incorporated on 1 June 2016 and listed on the Milan Stock Exchange from 7 November 2016.

5.3.1 Reclassified income statement

In view of Italgas S.p.A.'s nature as an industrial investment holding, the following reclassified Income Statement has been prepared, which inverts the order of the income statement items under Leg. Decree 127/91, presenting first those which relate to the financial operations, as this is the most significant income component for those companies⁷².

(€ million)	2021	2022	Abs. change	Change %
Income from investments	264.1	270.1	6.0	2.3
<i>of which special items</i>	-	1.9	1.9	-
Interest income	38.4	52.9	14.5	37.8
<i>of which special items</i>	2.9	-	(2.9)	-
Interest expenses and other financial expenses	(61.5)	(57.2)	4.3	(7.0)
<i>of which special items</i>	(5.2)	-	5.2	-
Financial income and expenses	241.0	265.8	24.8	10.3
Adjusted financial income and expenses	249.1	263.9	14.8	5.9
Income from services	102.2	83.8	(18.4)	(18.0)
Other operating income	102.2	83.8	(18.4)	(18.0)
Other operating costs				
For staff	(48.8)	(48.7)	0.1	0.2
For performance of non-financial services and other costs	(52.2)	(37.7)	14.5	27.8
Amortisation and depreciation	(5.3)	(2.2)	3.1	58.5
Total of other operating costs	(106.3)	(88.6)	17.7	16.7
Gross profit	236.9	261.0	24.1	10.2
Adjusted gross profit	245.0	259.1	14.1	5.8
Income taxes	2.7	(1.2)	(3.9)	-
<i>taxation related to special items</i>	(1.9)	-	1.9	-
<i>Adjusted income taxes</i>	0.8	(1.2)	(2.0)	-
Net profit	239.6	259.8	20.2	8.4
Adjusted net profit	245.8	257.9	12.1	4.9

72. See Consob Communication 94001437 of 23 February 1994.

The **net profit** achieved in 2022 amounted to € 259.8 million, up by € 20.2 million from the corresponding value for 2021. **Adjusted net profit** amounted to € 257.9 million.

The income component classified in special items in 2022 relates to the capital gain on the sale of the controlling interest in Gaxa to Edison (€ 1.9 million), net of the related taxation.

The income components classified as special items in 2021 regard i) lesser income (€ 2.9 million) supported for the renegotiation of a loan in respect of the subsidiary Me-dea, with effect as at 1 July 2021, net of the related taxation (€ 0.7 million) and ii) greater expense (€ 5.2 million) deriving from the bond buyback completed in February 2021, net of the related taxation (€ 1.3 million).

5.3.2 Analysis of the Reclassified Income Statement items

Financial income and expenses

(€ million)	2021	2022	Abs. change	Change %
Income from investments	264.1	270.1	6.0	2.3
<i>of which special items</i>	-	1.9	1.9	-
Interest income	38.4	52.9	14.5	37.8
<i>of which special items</i>	2.9	-	(2.9)	-
Interest expenses and other financial expenses	(61.5)	(57.2)	4.3	(7.0)
<i>of which special items</i>	(5.2)	-	5.2	-
Adjusted financial income and expenses	249.1	263.9	14.8	5.9
Total financial income and expenses	241.0	265.8	26.7	33.0

Income from equity investments (€ 270.1 million) essentially includes the dividends distributed by Italgas Reti subsidiaries (€ 253.7 million) and Toscana Energia (€ 14.4 million).

Interest income (€ 52.9 million) essentially relates to income from the intragroup loans granted by Italgas to its subsidiaries.

Interest expense and other financial expense (€ 57.2 million) refers to the costs relating to financial debt, and essentially concerns bond loan expense⁷³ (€ 47.9 million) and loans from banks (€ 4.3 million).

Other operating income

(€ million)	2021	2022	Abs. change	Change %
Income from services	102.2	83.8	(18.4)	(18.0)
Other operating income	102.2	83.8	(18.4)	(18.0)

Other operating income (€ 83.8 million) refers mainly to chargebacks to subsidiaries of the costs incurred for the provision of services centrally managed by Italgas S.p.A. These services are regulated through agreements signed between Italgas S.p.A. and its subsidiaries and refer to the following areas: ICT, personnel and organisation, planning, administration, finance and control, procurement, general services, property and security services, legal and corporate affairs and compliance, health, safety and environment, institutional relations and regulation, external relations and communication, internal audit and Enterprise Risk Management (ERM).

73. The details of bond issues during the year and related terms are provided in the note "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities" in the Notes to the separate financial statements.

Other operating expenses

(€ million)	2021	2022	Abs. change	Change %
For staff	(48.8)	(48.7)	0.1	0.2
For performance of non-financial services and other costs	(52.2)	(37.7)	14.5	27.8
Amortisation and depreciation	(5.3)	(2.2)	3.1	58.5
Total of other operating costs	(106.3)	(88.6)	17.8	16.7

Other operating expenses (€ 88.6 million) refer to personnel costs (€ 48.7 million), and to costs for non-financial services and other costs (€ 37.7 million), depreciation and amortisation (€ 2.2 million). Costs for non-financial services and other costs include consulting and professional services (€ 16.8 million), costs for service contracts within the Group mainly related to ICT services provided by Bludigit and technical services provided by Italgas Reti (€ 11.7 million), costs for insurance and banking services (€ 1.7 million), and other costs for miscellaneous services (€ 7.5 million).

5.3.3 Reclassified Statement of Financial Position

(€ million)	31.12.2021	31.12.2022	Abs. change
Fixed capital	6.709.8	7.350.2	953.2
Property, plant and equipment	12.3	10.7	(1.6)
Intangible assets	0.4	1.2	0.8
Equity investments	3.010.4	3.107.8	97.4
Financial receivables and securities instrumental to operations	3.687.8	4.544.3	856.5
Net payables (receivables) relating to investment activities	(1.1)	(1.0)	0.1
Net working capital	(4.9)	(7.8)	(2.9)
Provisions for employee benefits	(12.3)	(9.0)	3.3
NET INVESTED CAPITAL	6.692.6	7.646.2	953.6
Shareholders' equity	1.737.7	1.806.6	68.9
Net financial debt	4.954.9	5.839.6	884.7
HEDGING	6.692.6	7.646.2	953.6

Net invested capital amounted to € 7,646.2 million and rose by € 959.5 million compared to 31 December 2021, mainly as a result of the greater financial receivables instrumental to operations (€ 856.5 million).

Equity investments amounting to € 3,107.8 million relate to the subsidiaries Italgas Reti, Italgas Acqua, Toscana Energia, Geoside, Italgas NewCo and Bludigit (€ 3,092.3 million), to the jointly controlled companies Umbria Distribuzione Gas and Metano S. Angelo Lodigiano (€ 1.0 million) and to associates and other companies (€ 14.5 million).

Net working capital

(€ million)	31.12.2021	31.12.2022	Abs. change
Trade receivables	37.2	42.9	5.7
Tax receivables	17.3	32.1	13.6
Deferred tax assets	4.7	-	(4.7)
Other assets	3.0	3.7	0.7
Trade payables	(17.1)	(18.6)	(1.5)
Provisions for risks and charges	(8.0)	(6.8)	1.2
Deferred tax liabilities	-	(9.7)	(9.7)
Tax payables	(31.2)	(34.9)	(3.7)
Other liabilities	(10.8)	(16.5)	(5.7)
	(4.9)	(7.8)	(2.9)

Net working capital (€ -7.8 million) increased by € 2.9 million compared to 31 December 2021 mainly due to the increase in (i) trade receivables (€ 5.7 million), (ii) trade payables (€ 1.5 million), (iii) other liabilities (€ 5.7 million) and (iv) other assets (€ 0.7 million), partially offset by (v) the decrease in net tax items (€ 4.5 million) and (vi) provisions for risks and charges (€ 1.2 million).

Net financial debt

(€ million)	31.12.2021	31.12.2022	Abs. change
Financial and bond debt	6,547.8	6,494.2	(53.6)
Short-term financial debt (*)	875.8	475.9	(399.9)
Long-term financial debt	5,662.5	6,010.1	347.6
Finance lease payables - IFRS 16	9.5	8.2	(1.3)
Hedging derivative contracts Cash flow Hedge	5.9	(50.9)	(56.8)
Short-term contracts	0.3	(17.1)	(17.4)
Long-term contracts	5.6	(33.8)	(39.4)
Financial receivables and cash and cash equivalents	(1,598.8)	(603.7)	995.1
Cash and cash equivalents	(1,384.6)	(355.8)	1,028.8
Financial receivables non-instrumental to operations	(214.2)	(247.9)	(33.7)
Net financial debt (**)	4,954.9	5,839.6	884.7
Finance lease payables - IFRS 16	9.5	8.2	(1.3)
Net financial debt (excluding the effects pursuant to IFRS 16)	4,945.4	5,831.4	886.0

(*) Includes the short-term portion of long-term financial debt and financial debt to subsidiaries.

As at 31 December 2022, **net financial debt**, excluding the impacts of financial liabilities pursuant to IFRS 16 of € 8.2 million (€ 9.5 million in the corresponding period of 2021), amounted to € 5,831.4 million, up by € 886.0 million from 31 December 2021 (€ 4,945.4 million). Including the effects deriving from the application of IFRS 16, the net financial debt came to € 5,839.6 million (€ 4,954.9 million as at 31 December 2021).

Financial and bond debt as at 31 December 2022 amounted to € 6,494.2 million (€ 6,547.8 million as at 31 December 2021) and primarily related to: bonds (€ 4,483.6 million), loan agreements on funding from the European Investment Bank/EIB (€ 867.2 million), bank loans (€ 751.4 million), liabilities to subsidiaries (€ 383.8 million) and financial payables under IFRS 16 (€ 8.2 million).

As at 31 December 2022, the breakdown of debt by type of interest rate, inclusive of liabilities for leases pursuant to IFRS 16 was as follows:

(€ million)	31.12.2021	%	31.12.2022	%
Fixed rate	6,082.1	92.9	6,135.4	94.5
Floating rate	465.7	7.1	358.8	5.5
Gross financial debt	6,547.8	100.0	6,494.2	100.0

Fixed-rate financial liabilities amounted to € 6,135.4 million and consisted of bonds (€ 4,483.6 million), three EIB loans (€ 759.7 million), bank loans (€ 500.1 million), liabilities to subsidiaries (€ 383.8 million) and financial liabilities pursuant to IFRS 16 (€ 8.2 million).

Fixed-rate financial liabilities increased by € 53.3 million compared to 31 December 2021, mainly due to the conclusion of a new EIB loan, partly offset by the reduction of bonds due to the repayment made in January 2022.

Floating-rate financial liabilities decreased by € 106.9 million due to the lower utilisation of bank credit lines (€ 350.0 million), partially offset by the stipulation of a new term loan (€ 250.0 million).

As at 31 December 2022, there are no loan contracts in place containing financial covenants and/or backed by real guarantees. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. As at 31 December 2022, these commitments were respected.

5.3.4 Reclassified Statement of Cash Flows

(€ million)	2021	2022
Net profit	239.6	259.8
Correction:		
- Amortisation and depreciation and other non-monetary components	4.1	8.8
- Interest and income taxes	(240.9)	(262.7)
Change in working capital due to operating activities	(9.5)	(20.2)
Dividends, interest and income taxes collected (paid)	244.1	274.8
Cash flow from operating activities	237.4	260.4
Technical investments	(8.7)	(1.0)
Equity investments	(0.7)	(105.2)
Net financial investments instrumental to operations	(506.8)	(856.6)
Other changes related to investments activities	(2.6)	-
Divestments and other changes	4.6	24.4
Free cash flow	(276.8)	(677.7)
Change in financial receivables not related to operations	48.3	(33.7)
Change in current and non-current financial debt	1,181.8	(76.7)
Reimbursements of financial liabilities for leased assets	(2.2)	(1.8)
Equity cash flow	(223.6)	(239.0)
Cash flow for the year	727.5	(1,028.8)

Change in net financial debt

(€ million)	2021	2022
Free cash flow	(276.8)	(677.7)
Equity cash flow	(223.6)	(239.0)
Other changes (Difference between interest accounted for, and paid fair value of derivatives)	(3.9)	32.5
Increase in finance lease payables	1.1	(0.5)
Change in net financial debt	(503.2)	(884.7)

5.4 Non-GAAP Measures

Alternative performance indicators

On 5 October 2015, the ESMA (European Security and Markets Authority) published its guidance (ESMA/2015/1415) on the presentation criteria for alternative performance indicators (API or APM), which replaces the CESR/05-178b recommendations from 3 July 2016. The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IAS – IFRS.

The alternative performance indicator adopted in this report are illustrated below.

Main alternative performance indicators

Alternative economic performance indicators	Description
Gas Distribution regulated revenues	Operating performance indicator representing revenues from regulated gas distribution activities, calculated by subtracting Other revenue from the Total revenue. Other revenue is revenue from unregulated activities, revenue for construction and enhancement of infrastructures recognised pursuant to IFRIC 12, the release of connection contributions relating to the financial year and any other components entered in the statement of reconciliation of the income statement of the subsequent chapter "Reconciliation of the reclassified income statement, statement of financial position and statement of cash flows".
Reclassified operating costs	Operating performance indicator representing the legally-required operating costs minus costs for construction and enhancement of the infrastructure recognised pursuant to IFRIC 12 and any other components entered in the statement of reconciliation of the income statement of the subsequent chapter "Reconciliation of the reclassified income statement, statement of financial position and statement of cash flows".
EBITDA	Operating performance indicator, calculated by subtracting from net profit the income taxes, net income from equity investments, net financial expense, amortisation, depreciation and impairment.
Adjusted EBITDA	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this Report) from EBITDA.
EBIT	Operating performance indicator, calculated by subtracting from net profit the income taxes, net income from equity investments and net financial expense.
Adjusted EBIT	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this Report) from EBIT.
Adjusted Earnings per Share	Indicator of the profitability of the company's shares, calculated as the ratio between the adjusted net profit attributable to the Group and the total number of shares.
Alternative capital performance indicators	Description
Net working capital	A capital indicator that expresses the capital employed in current and non-financial assets and liabilities. This is defined as the sum of the values relating to trade receivables and payables, inventories, tax receivables and payables, provisions for risks and charges, deferred tax assets, deferred tax liabilities and other assets and liabilities.
Fixed capital	A capital indicator that expresses the total fixed assets. It is defined as the sum of the values relating to items of Property, plant and equipment, Intangible assets net of Other liabilities relating to connection contributions, Equity investments and Net debt relating to investment activities.
Net invested capital	A capital indicator that expresses the investments made by the company in operations. This is defined as the sum of the values related to fixed capital, net working capital, provisions for employee benefits and assets held for sale and directly related liabilities.

Alternative financial performance indicators	Description
Cash flow from operating activities	It represents the net cash flow from the operating activity of the mandatory schemes, excluding the effects deriving from the application of the IFRS 15 accounting standard (Other liabilities relating to connection contributions).
Free cash flow before M&A transactions	It represents the cash surplus or deficit remaining after the financing of investments, excluding the flow deriving from Merger and Acquisition transactions.
Free cash flow	It represents the cash surplus or deficit remaining after financing of the investments.
Net financial debt	Determined as the sum of short and long-term financial debt, net of cash and cash equivalents and current financial assets, such as, for example, securities held for trading (note 18). As at 31 December 2022, the net financial debt reported in the Directors' Report does not include liabilities for € 34.8 million consisting of the pro-rata share of the shareholders' loan to Italgas Newco, subordinated and convertible into shares, subscribed by the shareholder Phaeton Holding SA, deemed not to be financial debt. The Notes to the Consolidated Financial Statements, in compliance with Consob Communication no. DEM/6064293 of 28 July 2006, show the net financial debt including the debt to Phaeton Holding SA.

5.4.1 Reconciliation of the reclassified Income Statement, Statement of Financial Position and Statement of Cash Flows

In line with ESM/2015/1415 guidance, the reconciliation of the Income Statements, Statements of Financial Position and Statements of Cash Flows of the Italgas Group and Italgas S.p.A., commented in the Directors' Report is provided below with the related legally required statements.

In compliance with the ESMA provisions for the taxonomy of ESEF (European Single Electronic Format) annual financial statements, a number of items in the balance sheet and income statement were reclassified, also readjusting the values as at 31 December 2022.

For more details, see the "Financial Statements" section of the notes to the consolidated financial statements and separate financial statements.

Reclassified Income Statement

(€ million)	Reference to the explanatory notes of the consolidated financial statements	2021			2022		
		Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
Revenues (from mandatory statements)		2,163.2			2,312.5		
- Revenues for construction and upgrading of distribution infrastructures IFRIC 12	(nota 27)		(772.0)			(727.8)	
- Release of connection contributions relating to the financial year	(nota 27)		(19.6)			(19.2)	
- Reimbursement of faulty meters	(nota 27)		(0.8)			(2.3)	
- Repayments from third parties	(nota 27)		-			(7.3)	
Total revenue (from reclassified statements)				1,370.8			1,555.9
Operating costs (from mandatory statements)		(1,134.7)			(1,192.0)		
- Revenues for construction and upgrading of distribution infrastructures IFRIC 12	(nota 27)		772.0			727.8	
- Reimbursement of faulty meters	(nota 27)		0.8			2.3	
- Repayments from third parties	(nota 27)					7.3	
Operating costs (from reclassified statements)				(361.9)			(454.6)
EBITDA				1,008.9			1,101.3
Amortisation, depreciation and impairment (from mandatory statements)		(445.3)			(479.1)		
- Release of connection contributions relating to the financial year	(nota 27)		19.6			19.2	
Amortisation, depreciation and impairment (from reclassified statements)				(425.7)			(456.9)
EBIT		583.2		583.2	641.4		641.4
Net financial expense		(60.4)		(60.4)	(56.3)		(56.3)
Net income from equity investments		2.5		2.5	3.4		3.4
Gross profit		525.3		525.3	588.5		588.5
Income taxes		(141.9)		(141.9)	(152.4)		(152.4)
Net profit (loss)		383.4		383.4	436.1		436.1

Reclassified statement of financial position

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(€ million)		31.12.2021		31.12.2022	
(Where not expressly indicated, the item is obtained directly from the legally-required statement)	Reference to the explanatory notes of the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Fixed capital					
Property, plant and equipment			372.1		379.0
Intangible assets, of which:			6,938.1		7,975.5
- Intangible assets	(nota 14)	7,469.8		8,509.3	
from which to deduct Connection contributions	(nota 21)	(531.7)		(510.7)	
From which to deduct Contributions collected in advance	(nota 21)	-		(23.1)	
Equity investments			35.1		66.2
Financial receivables and securities instrumental to operations			2.8		3.4
Net payables relating to investment activities, composed of:			(241.9)		(303.5)
- Payables for investment activities	(nota 19)	(241.6)		(308.8)	
- Payables due to Conscoop shareholders	(nota 18)	(5.6)		-	
- Receivables from investment/divestment activities	(nota 9)	5.3		5.3	
Total fixed capital (from reclassified statements)			7,106.2		8,120.6
Net working capital					
Trade receivables			388.6		315.7
Inventories			105.3		120.5
Tax assets, composed of:			71.6		116.7
- Current and non-current income tax assets	(nota 11)	44.6		63.6	
- Other current tax assets	(nota 12)	10.7		36.6	
- IRES receivables for National Tax Consolidation Scheme	(nota 9)	16.3		16.5	
Accruals and deferrals from regulated activities			115.8		188.6
Other assets, composed of:			186.4		815.1
- Other receivables	(nota 9)	177.9		805.4	
- Other assets	(nota 12)	7.9		9.7	
Trade payables			(300.9)		(709.4)
Provisions for risks and charges			(159.5)		(144.3)
Deferred tax liabilities			(50.8)		(91.6)
Tax payables, composed of:			(12.1)		(28.2)
- Current income tax liabilities	(nota 11)	(3.4)		(16.1)	
- Other tax liabilities	(nota 21)	(8.7)		(12.1)	
- Parent company's payables for liquidation of Group VAT		-		-	
Other liabilities, composed of:			(234.7)		(243.1)
- Other payables	(nota 19)	(220.9)		(248.6)	
- Third-party share of Italgas Newco shareholders' loan	(nota 18)	-		34.8	
- Other liabilities	(nota 21)	(7.2)		(6.2)	
- Contributions collected in advance	(nota 21)	-		(23.1)	
Total net working capital (from reclassified statements)			109.7		340.0
Provisions for employee benefits			(95.6)		(69.9)
Assets held for sale and directly related liabilities, composed of:			2.2		-
- Assets held for sale	(nota 17)	2.2		-	
NET INVESTED CAPITAL			7,122.5		8,390.7
Shareholders' equity including minority interests			(2,142.5)		(2,390.6)
Net financial debt					
Financial and bond debt, composed of:			(6,376.9)		(6,510.8)
- Long-term financial liabilities	(nota 18)	(5,735.3)		(6,352.5)	
- Third-party share of Italgas Newco shareholders' loan	(nota 18)	-		34.8	
Short-term financial liabilities, composed of:					
- Short-term portions of long-term financial debt	(nota 18)	(208.0)		(117.8)	
Short-term financial liabilities:					
- Short-term financial liabilities	(nota 18)	(363.6)		(3.3)	
- Financial liabilities pursuant to IFRS 16	(nota 18)	(70.0)		(72.0)	
Hedging derivative contracts Cash flow Hedge, consisting of:			(5.9)		52.5
Short-term contracts	(nota 20)	(0.3)		17.1	
Long-term contracts	(nota 20)	(5.6)		35.4	
Financial receivables and cash and cash equivalents, composed of:			1,396.9		458.2
Cash and cash equivalents			1,391.8		451.9
Current financial assets, composed of:			5.1		6.3
Financial receivables non-instrumental to operations	(nota 8)	5.0		5.6	
- Other financial assets held for trading or available for sale	(nota 8)	0.1		0.7	
Total net financial debt (from reclassified statements)			(4,980.0)		(6,000.1)
HEDGING			(7,122.5)		(8,390.7)

Reclassified statement of Cash Flows

(€ million)	2021		2022	
Reclassified Statement of Cash Flows items and intersection of legally required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Net profit				
Correction:				
Amortisation, depreciation and other non-monetary components:		426.6		469.9
- Amortisation and depreciation	444,4		478.1	
- Net impairment of property, plant and equipment and intangible assets	0,9		0.9	
- Contributions for connections - uses	(19,6)		(19.1)	
- Effect of valuation using equity method	(2,5)		(0.6)	
- Other income on equity investments	-		2.7	
- Non-monetary items (stock grants)	3,4		7.9	
Net capital losses (capital gains) on asset sales and eliminations		3.6		(30.8)
Interest, income taxes and other changes:		203.6		208.7
- Interest income	(3,6)		(5.1)	
- Interest expense	65,3		61.4	
- Income taxes	141,9		152.4	
Change in working capital due to operating activities:		76.5		(311.5)
- Inventories	(3,5)		(4.8)	
- Trade and other receivables	35,1		64.4	
- Trade and other payables	(50,4)		397.9	
- Change to provisions for risks and charges	(43,5)		(38.6)	
- Other assets and liabilities	148,4		(678.1)	
- Third-party share of Italgas Newco shareholders' loan			(34.8)	
<i>from which to deduct Deferrals for connection contributions - increases</i>	7,7		11.0	
<i>from which to deduct Deferrals for connection contributions - uses</i>	(19,6)		(19.1)	
<i>from which to deduct effects of transactions to municipalities</i>	-		-	
- Change in provisions for employee benefits	(9,6)		(17.6)	
Dividends, interest and income taxes collected (paid):		(261.8)		(200.7)
- Dividends collected	1,3		1.4	
- Interest income	3,6		4.0	
- Interest paid	(59,8)		(53.7)	
- Income taxes (paid) refunded	(206,9)		(152.4)	
Cash flow from operating activities		831.9		571.7
Technical investments:		(809.3)		(766.1)
- Property, plant and equipment	(30,8)		(10.7)	
- Intangible assets	(786,2)		(766.5)	
- Contributions for connections - increases	7,7		11.0	
Other changes relating to investment activities:		14.6		47.8
Disinvestments:		12.5		325.4
- Assets available for sale	-		5.1	
- Property, plant and equipment	1,3		2.5	
- Intangible assets	-		293.2	
- Companies outside the consolidation area	-		19.6	
- Change in receivables relating to investment activities	11,2		-	
- Disposal of minority shares	-		5.0	
Free cash flow before M&A transactions		49.7		178.8
Newly consolidated companies		(22.1)		(958.7)
- <i>Price paid for equity</i>	(22,1)		(851.5)	
- Cash and cash equivalents from companies entered into the consolidation area	-		(107.2)	
Business units and assets		(1.7)		(23.1)
Free cash flow		25.9		(803.0)
Change in financial debt:		955.0		132.1
- Change in short- and long-term financial debt	955,0		(8.8)	
- Third-party share of Italgas Newco shareholders' loan	-		34.8	
- Cash and cash equivalents from companies entered into the consolidation area	-		107.2	
- Medium- to long-term financial receivables	-		(1.1)	
Reimbursements of financial liabilities for leased assets		(21.5)		(27.9)
Capital contribution from third parties		11.3		12.3
Equity cash flow		(243.1)		(253.3)
Net cash flow for the year		728.2		(939.8)

Reclassified income statement

(€ million)	Reference to the explanatory notes of the financial statements	2021			2022		
		Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
Revenues (from mandatory statements)		104.5			86.8		
- Income for seconded personnel	(nota 25)		(2.3)			(3.0)	
Total revenue (from reclassified statements)				102.2			83.8
Operating costs (from mandatory statements)		(103.4)			(89.4)		
- Income for seconded personnel	(nota 25)		2.3			3.0	
Operating costs (from reclassified statements)				(101.1)			(86.4)
EBITDA				1.1			(2.6)
Amortisation, depreciation and impairment		(5.3)		(5.3)	(2.2)		(2.2)
EBIT		(4.2)		(4.2)	(4.8)		(4.8)
Net financial expense		(23.1)		(23.1)	(4.2)		(4.2)
Net income from equity investments		264.1		264.1	270.1		270.1
Gross profit		236.9		236.9	261.0		261.0
Income taxes		2.7		2.7	(1.2)		(1.2)
Net profit (loss)		239.6		239.6	259.8		259.8

Reclassified statement of financial position

(€ million)	31.12.2021			31.12.2022	
(Where not expressly indicated, the item is obtained directly from the legally-required statement)	Reference to the explanatory notes of the financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Fixed capital					
Property, plant and equipment			12.3		10.7
Intangible assets			0.4		1.2
Equity investments			3,010.4		3,107.8
Net payables for investments			(1.1)		(1.0)
Financial receivables and securities instrumental to operations			3,687.8		4,544.3
Total fixed capital (from reclassified statements)			6,709.8		7,663.0
Net working capital					
Trade receivables			37.2		42.9
Tax assets, composed of:			17.3		32.1
- Income tax assets	(nota 11)	12.6		5.8	
- Other current tax assets	(nota 12)	4.7		20.5	
- Group VAT receivables	(nota 9)	0.0		5.8	
Deferred tax assets			4.7		-
Other assets			4.4		3.7
- Other current and non-current assets	(nota 12 e 20)	4.4		3.7	
Trade payables			(17.1)		(18.6)
Provisions for risks and charges			(8.0)		(6.8)
Deferred tax liabilities			-		(9.7)
Tax payables, composed of:			(31.2)		(34.9)
- Income tax liabilities	(nota 11)	(11.5)		(4.7)	
- Other current tax liabilities	(nota 21)	(1.4)		(1.9)	
- Group VAT payables	(nota 19)	(18.3)		(32.9)	
Other liabilities			(10.8)		(16.5)
Total net working capital (from reclassified statements)			(10.8)		(7.8)
Provisions for employee benefits			(12.3)		(9.0)
NET INVESTED CAPITAL			6,686.7		7,646.2
Shareholders' equity including minority interests			(1,737.7)		(1,806.6)
Net financial debt					
Financial and bond debt, composed of:			(6,547.8)		(6,494.2)
- Long-term financial liabilities	(nota 18)	(5,662.5)		(6,010.1)	
- Short-term portions of long-term financial debt	(nota 18)	(179.4)		(383.7)	
- Short-term financial liabilities	(nota 18)	(696.4)		(92.2)	
- Financial liabilities pursuant to IFRS 16	(nota 18)	(9.5)		(8.2)	
Hedging derivative contracts Cash flow Hedge, consisting of:			(5.9)		50.9
Short-term contracts			(0.3)		16.0
Long-term contracts			(5.6)		34.9
Financial receivables and cash and cash equivalents, composed of:			1,598.8		603.7
- Financial receivables non-instrumental to operations	(nota 9)	214.2		247.9	
- Cash and cash equivalents	(nota 7)	1,384.6		355.8	
Total net financial debt (from reclassified statements)			(4,954.9)		(5,839.6)
HEDGING			(6,686.7)		(7,646.2)

Reclassified statement of cash flows

(€ million)	2021		2022	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Net profit		239.6		259.8
Correction:				
Amortisation, depreciation and other non-monetary components:		4.8		8.8
- Amortisation and depreciation	5.3		2.2	
- Impairment of equity investments	(2.0)		-	
- Non-monetary items (stock grants)	1.5		6.6	
Interest, income taxes and other changes:		(240.9)		(262.7)
- Dividends and other income from equity investments	(261.4)		(268.2)	
- Interest income	(38.4)		(52.9)	
- Interest expense	61.5		57.2	
- Income taxes	(2.6)		1.2	
Change in working capital due to operating activities:		(10.2)		(20.2)
- Inventories	-		-	
- Trade and other receivables	36.5		(10.7)	
- Trade and other payables	(34.3)		4.3	
- Change to provisions for risks and charges	(0.4)		(1.3)	
- Other assets and liabilities	(10.6)		(11.1)	
Change in provisions for employee benefits	(1.4)		(1.4)	
Dividends, interest and income taxes collected (paid):		244.1		274.8
- Dividends and other income collected from equity investments	261.4		268.2	
- Interest income	38.4		51.9	
- Interest paid	(57.3)		(49.7)	
- Income taxes (paid) refunded	1.6		4.4	
Cash flow from operating activities		237.4		260.4
Technical investments:		(516.2)		(1.0)
Property, plant and equipment	(1.3)		(1.0)	
Intangible assets	(7.4)		-	
Equity investments		(0.7)		(105.2)
Financial receivables instrumental to operations		(506.8)		(856.6)
Change in receivables relating to disinvestment activities		(2.6)		-
Disinvestments:		4.6		24.4
- Equity investments and operating activities sold	4.6		24.4	
Free cash flow		(276.8)		(677.7)
- Change in financial receivables not related to operations		48.3		(76.6)
- Change in short- and long-term financial debt		1,181.8		(33.7)
Change in financial liabilities for leased assets		(2.2)		(1.8)
Equity cash flow		(223.6)		(239.0)
Other changes relating to non-monetary components		-		-
Cash flow for the year		727.5		(1,028.8)

5.5 Business Outlook

In line with that set out in the 2022-2028 Strategic Plan, Italgas will continue to pursue its objectives, mainly aimed at (i) continuing the digital transformation programme, repurposing and extending the network to equip the country with cutting edge infrastructure capable of receiving and distributing renewable gas such as biomethane and green hydrogen; (ii) consolidating actions in the energy efficiency sector, with the goal of positioning itself among the leading sector operators; and (iii) capturing new external growth opportunities through ATEM tenders, M&A in the gas distribution, water and energy efficiency sectors, as well as, following the finalisation of the purchase of the DEPA Infrastructure Group and developing the Greek market.

Russia - Ukraine conflict

As we know, in February 2022 the Russian-Ukrainian military conflict exploded following the invasion by the Russian army into Ukraine sovereign territory. The state of political and military tension generated and the consequent economic sanctions adopted by the international community against Russia have had significant effects and created turbulence on the global markets, on both the financial front and in terms of prices and the export of raw materials, considering the significant role that Russia and Ukraine play in the international economic chessboard.

Italgas confirms that it does not have production activities or personnel deployed in Russia, Ukraine or countries geo-politically aligned with Russia, nor does it have commercial and/or financial relationships with such countries. Italgas has continued to see no materially significant restrictions to the execution of financial transactions through the bank system, even after the exclusion of Russia from the SWIFT international payment system. Nevertheless, in a market already characterised by restrictions and slowdowns in the procurement chain, especially in relation to components, we cannot rule out that the political and economic tension induced by the conflict might exacerbate such difficulties and have implications, in a way that cannot yet be estimated or predicted, on the effectiveness and timeliness of the Group's procurement capacity.

In particular, following a survey of a significant portion of our suppliers, conducted in the months following the start of the conflict, it was found that none of the suppliers surveyed reported any impact with the Russian market, while only one supplier reported sub-supplies of Ukrainian origin for which it took steps to seek alternatives.

All the suppliers surveyed confirmed that they have implemented measures to prevent the effects of any cyber attacks. Monitoring in the following months did not show any critical issues arising as a result of the conflict.

It is also noted that most of the processes managed by the suppliers surveyed can be classified as energy-intensive.

The survey confirmed, as previously highlighted, the growing problems in the procurement of electronics and components linked to steel, both in terms of price, delivery time and availability. The subsequent increase in utilities costs is creating tensions on prices. Currently there are no significant critical issues in production on the energy materials/commodities markets.

With reference to the tensions on the financial markets, Italgas continues to be only marginally exposed to foreign exchange risk and in any case only against the US dollar.

With regard to the availability of sources of financing and the related costs, it is reported that i) more than 90% of Italgas' financial debt is fixed rate, ii) the upcoming repayment of a bond envisaged for 2024 has no refinancing requirements in the short term, iii) the Group in any case holds liquidity at leading credit institutions for an amount, as at 31 December 2022, of € 451.9 million, which, including in light of the existing investment plans and the operations planned in the short term, would make it possible to manage any restrictions on access to credit with no significantly material effects.

With reference to the indirect risks associated with the sales companies that use the Italgas Group's networks, if they are found to be suffering, in a deteriorated international scenario, from adverse commodity procurement conditions such as, for example, huge increases in the prices of the commodity that cannot be passed on to end customers resulting in a worsening of their financial conditions and related difficulty in

regularly complying with their contractual obligations towards the Italgas Group, it is recalled that the rules for user access to the gas distribution service in Italy are established by ARERA and regulated in the Network Code, which also defines the system for existing financial guarantees to protect the distributor.

With reference to the risk of lower volumes of gas injected into the national infrastructure, as we know, the current tariff regulation does not lead to exposure of the distributors to changes in volumes of gas distributed. In any case, the risk of a prolonged interruption to injection of natural gas into the distribution infrastructure, which could impact in a significantly negative way upon the Group's operating continuity, would nevertheless be mitigated by the actions already in place and/or being studied at national and European level, such as the optimisation of storage, the diversification of procurement sources and the increase in domestic output.

Lastly, examining the natural gas distribution service in Greece, and in light of the scenarios illustrated above, the Group has not noted and does not anticipate any significant adverse repercussions on receipts expected from gas sales companies such as to jeopardise the financial balance of the Group, or on the regularity of payments by counterparties.

5.6 Other information

Treasury shares

The company did not own any treasury shares as at 31 December 2022.

Related party transactions

Based on Italgas' current ownership structure, Italgas related parties include, in addition to directors, statutory auditors, executives with strategic responsibilities, companies associated with the Group or under its joint control, also the subsidiaries directly or indirectly controlled by CDP, therefore including the shareholder Snam, and the Ministry of Economy and Finance (MEF). Transactions with these entities relate to the exchange of assets, the provision of services and, in the case of CDP, the provision of financial resources.

These transactions are part of ordinary business operations and are generally settled at arm's length, i.e. the conditions which would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Italgas Group.

Pursuant to the provisions of the applicable legislation, the Company has adopted internal procedures to ensure that transactions carried out by the Company or its subsidiaries with related parties are transparent and correct in their substance and procedure.

The Directors and Statutory Auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; in any case, they promptly inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turn informs the other directors and the Board of Statutory Auditors, of the individual transactions that the Company intends to carry out and in which they have an interest.

CDP and CDP Reti consolidate Italgas pursuant to IFRS 10. In addition, through the Board of Directors' decision of 1 August 2019, CDP reclassified its investment in Italgas S.p.A. as a controlling interest pursuant to Article 2359, paragraph 1.2) of the Italian Civil Code and Article 93 of the CLF. Italgas is not subject to management and coordination activities by CDP.

As at 31 December 2022, Italgas manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in the paragraph "Related-party transactions" of the Notes to the consolidated and annual financial statements.

Relations with Key Managers are shown in the paragraph "Operating costs" of the Notes to the consolidated financial statements.

Operating performance of subsidiaries

For information on the outlook of areas where Italgas operates in whole or in part through subsidiaries, please refer to "Operating performance" and "Comment on the economic and financial results" of this Report.

Branch offices

In compliance with Art. 2428, fourth paragraph of the Italian Civil Code, note that the Italgas does not have secondary offices.

Research and development

Research and development activities carried out by Italgas are not of a considerable amount. For more details, see the notes to the Consolidated Financial Statements.

Significant events after year end

The significant transactions carried out after 31 December 2022 are summarised below. The Integrated Annual Report has been submitted to the examination of the Company's Board of Directors and its publication was authorised on 24 March 2023. Therefore, this document does not note any events that occurred subsequent to that date.

Capital transactions

On 9 March 2023, in execution of the 2018-2020 Co-Investment Plan approved by the Ordinary and Extraordinary Shareholders' Meeting of 19 April 2018, the Board of Directors resolved on the free allocation of a total of 499,502 new ordinary shares of the Company to the beneficiaries of said Plan (third cycle of the Plan) and executed the third tranche of the share capital increase resolved on by the aforesaid Shareholders' Meeting, for a nominal amount of € 619,382.48 taken from retained earnings reserves.

Legal and Regulatory Framework

- In February 2023, Italgas Reti challenged **Resolution no. 654/2022/R/com**, by which the Authority confirmed the values of the WACC parameters common to all the infrastructure services of the electricity and gas sectors reported in Table 1 of the TIWACC 2022-2027. Following the application of the so-called trigger mechanism, provided for in Article 8 of the TIWACC 2022-2027 for the updating of the WACC for the sub-period 2022-2024, the calculation of the WACC resulting from the updating of the relevant financial parameters results in a change of the WACC, for each service, of less than 50 bps (basis point spread) compared to the value in force. The setting of a date for the hearing is currently pending.
- In February 2023, Italgas Reti challenged **Resolution no. 679/2022/R/gas**, by which the Authority redetermined the reference tariffs for natural gas distribution and metering services for the years 2009 to 2021. The setting of a date for the hearing is currently pending.

Other events

- On 19 January 2023, Italgas presented its 2022-2028 Sustainable Value Creation Plan, "Builders of the Future", to its stakeholders, which was approved by the Company's Board of Directors on 14 December 2022. This Plan sets out specific actions and ambitious targets for the creation of value for the Group's stakeholders and for the territories in which it is present and operates; the document is part of the trajectory already outlined in the 2022-2028 Strategic Plan, which provides for € 8.6 billion in investments.
- On 7 February 2023, Italgas was included for the fourth consecutive year in the S&P Global Sustainability Yearbook, S&P Global's annual publication that collects best practices, experiences and success stories of the world's leading companies on sustainability issues. Italgas has also confirmed its leadership position with inclusion in the "Top 1% S&P Global ESG Score" category, reflecting its excellent performance. This was achieved following the Corporate Sustainability Assessment (CSA) conducted in 2022: 708 companies, out of the 7,800 assessed, were included in the 2023 Sustainability Yearbook based on their ESG scores.