

**ITALGAS: APPROVED RESULTS AS AT 30 JUNE 2018**

Milan, 31 July 2018 - Italgas's Board of Directors met yesterday under the chairmanship of Lorenzo Bini Smaghi and approved the Consolidated Half-Year Report as at 30 June 2018<sup>1</sup>.

**Key figures**

Consolidated economic and financial highlights:

- Total revenue: €591.3 million (+4.7%)
- EBITDA: €424.2 million (+8.7%)
- EBIT: €223 million (+9.3%)
- Net profit: €150.7 million (+8%)
- Technical investments: €227.9 million
- Net cash flow from operating activities before M&A transactions: €393.4 million
- Net financial debt<sup>2</sup>: €3,591.3 million

Operating highlights including unconsolidated investee companies:

- Gas concessions: no. 1,709
- Number of active meters: 7.5 million
- Gas distribution network: 67.7 thousand Km

Italgas's economic and financial results for the first half-year of 2018 confirm the positive performance achieved in 2017, with further improvement in terms of margins; investment programs and the closing of further acquisitions are in line with the target set in the 2018-2024 Business Plan.

A significant portion of investments concerned the plan to installation of smart meters replacing the traditional ones. In the first half of 2018, also considering the non-consolidated affiliates, just under 1 million were installed, 915 thousand of which replaced traditional

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<sup>1</sup> Subject to a limited audit.

<sup>2</sup> Excluding the debts for operating leases in accordance with IFRS 16. In fact, on 13 January 2016 IASB issued IFRS 16 - Leases accounting standard, already adopted by Italgas Group on 1 January 2018. The adoption of the principle determined the writing into financial liabilities of Debts for leases of €37.2 million.

meters, bringing the total to approximately 3.98 million, equal to 49.1% of the entire meter fleet<sup>3</sup>. The target is to complete the substitution plan by early 2020. The installation of smart meters is part of the overall project to digitize the network, for which more than 40 pilot projects have been launched throughout the country.

In the first six months of the year the objective of the consolidation of Italgas in gas distribution was pursued by completing several corporate transactions, some of which had already been announced during 2017. In particular, the following acquisitions were finalised: *i)* the entire social capital of the Ichnusa Gas S.p.A., *ii)* the entire social capital of the company Medea S.r.l., *iii)* a company branch of Amalfitana Gas, *iv)* 98% of the share capital of a series of companies holding 16 natural gas distribution concessions in Campania, Calabria and Sicily<sup>4</sup>, *v)* the distribution network of the Municipality of Portopalo di Capopassero from AEnergia Reti S.r.l.

Furthermore, during the first half of the year has been completed the acquisition of Seaside, one of Italy's leading Energy Service Companies, at the forefront of energy efficiency services and enables the Group to be present in a sector that offers multiple synergies with the activities of gas distribution.

With over 67 thousand kilometres of managed network and 7.5 million redelivery points served in 1,709 concessions, Italgas confirms its position as leader in the sector in Italy, with a market share of over 34%<sup>5</sup>, and third largest operator in Europe in terms of number of managed RDPs.

The requirements related to the net investments of the first half of 2018 were fully covered by the positive net cash flow from operating activities, equal to €632.3 million, with a Free Cash Flow - before M&A activities - equal to €393.4 million.

The net financial position as at 30 June 2018 was 3,591.3 million euro, an improvement compared to 31 December 2017 (€ 3,720.3 million).

As regards to the economic results, operating profit for the first half of 2018 amounted to 223 million euro (+9.3% compared to 30 June 2017) and net profit was 150.7 million euro (+8% compared to the same period of the previous year).

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<sup>3</sup>Excluding non-consolidated investee companies, in the first half of 2018 Italgas installed approximately 850 thousand new meters, 770 thousand of which replaced traditional meters, bringing the current total of meters installed to approximately 3.55 million, equal to approximately 48.9% of all meters.

<sup>4</sup> Baranogas Reti S.r.l., Ischia Reti Gas S.r.l., Progas Metano S.r.l., Grecanica Gas S.r.l., Favaragas Reti S.r.l. e Sicilianagas Reti S.r.l.

<sup>5</sup> Operating data also including non-consolidated subsidiaries.

Paolo Gallo, CEO of Italgas, commented:

*"The performance for the first six months of the year confirms Italgas' strong commitment to investments in the network, digitization processes and acquisitions, in line with the targets set in the 2018-2024 Strategic Plan.*

*At June 30, we reached six months in advance the target set by the Authority for the replacement of traditional meters with the latest generation ones: 50% of the meters managed by Italgas and its subsidiaries are intelligent meters. This represents the enabling factor for the wider project of digitizing the network.*

*The economic and financial results achieved in the first half of 2018 show a significant improvement compared to the already robust 2017 results; among others an 8% increase in net profit, thanks also to the efficiency measures and the improvement in service quality that are still in progress".*

## Economic and financial highlights

### Reclassified income statement

Second quarter		First half		Change	
2017	2018	2017	2018	Change	%
	(€ million)				
281.0	<b>303.1</b>	<b>554.7</b>	<b>577.3</b>	<b>22.6</b>	<b>4.1</b>
249.7	252.3	498.7	502.2	3.5	0.7
31.3	50.8	56.0	75.1	19.1	34.1
5.5	7.2	10.0	14.0	4.0	40.0
<b>286.5</b>	<b>310.3</b>	<b>564.7</b>	<b>591.3</b>	<b>26.6</b>	<b>4.7</b>
(89.4)	(84.5)	(174.5)	(167.1)	7.4	-4.2
<b>197.1</b>	<b>225.8</b>	<b>390.2</b>	<b>424.2</b>	<b>34.0</b>	<b>8.7</b>
(96.7)	(115.2)	(186.1)	(201.2)	-15.1	8.1
<b>100.4</b>	<b>110.6</b>	<b>204.1</b>	<b>223.0</b>	<b>18.9</b>	<b>9.3</b>
<b>(8.0)</b>	(11.7)	(18.5)	(23.7)	(5.2)	28.1
5.4	4.9	10.6	9.7	(0.9)	-8.5
<b>97.8</b>	103.8	<b>196.2</b>	<b>209.0</b>	<b>12.8</b>	<b>6.5</b>
(29.7)	(27.8)	(56.6)	(58.3)	-1.7	3.0
<b>68.1</b>	<b>76.0</b>	<b>139.6</b>	<b>150.7</b>	<b>11.1</b>	<b>8.0</b>

(\*) Net of the effects of IFRIC 12 "Service Concession Agreements" (€203.8 million and €223.3 million respectively for the first halves of 2018 and 2017).

**Total revenue** in the first half of 2018 amounted to €591.3, a €26.6 million increase compared with the corresponding period in the previous year, and refers to gas distribution regulated revenue of €577.3 million (+ €22.6 million for the half-year period, +4.1%; + €2.1 million in the second quarter, +7.9%) and Other revenue (€14 million, + €4 million for the half-year period, +40%; + €1.7 million in the second quarter, +30.9%). The increase in gas distribution regulated revenue amounted to €22.6 million, broken down as follows: (i) greater Distribution revenue (+€ 3.5 million in the half-year period, +0.7%; + €2.6 million in the quarter, +1%) and (ii) greater Other gas distribution regulated revenue (+ €19.1 million in the half-year period, + 34.1%; +€ 19.5 million in the quarter; +62.3%).

The greater distribution revenues, of €3.5 million, derive (i) for €5.2 million from the increase in the bond for revenues, especially for new investments, and for the acceleration of the methane network in Southern Italy implemented in the second half of 2017, (ii) + €4.3 million of the change in the scope of consolidation offset by negative adjustments relating to previous years of - €6.0 million.

Other gas distribution regulated revenues include ancillary network services and other regulated revenues for €28.1 million as well as €47 million for the contribution in accordance with art. 57 of the ARERA resolution no. 367/14, relating to the replacement of traditional meters with electronic ones (smart meters). This contribution relates to the pro-rate recognition rate for the set traditional meters replacement plan in the expectation of

the completion of the replacement of all meters by early 2020. With regard to this, it is noted that Italgas has almost fulfilled in the first half of 2018 the replacement obligations set by the Authority (50% of all G4 and G6 meters to be reached by the end of the current year).

The different revenues for the first half of 2018 amounted to €14 million, up €4 million, relate essentially to the change in the scope of consolidation (+€2.5 million).

**Gross operating profit (EBITDA<sup>6</sup>)** totalled €424.2 million in the first half of 2018, up €34 million (+8.7%) compared with the same period in 2017 (+€28.7 million in the quarter; +14.6%). The change in operating costs is primarily due to i) lower costs for external services linked to a service contract with Snam (- €5.3 million), ii) net provisions for risks and future expenses (- €1 million), and iii) net costs related to Energy Efficiency Credit - TEE (- €4.9 million) partially offset by higher labour costs (+ €7.6 million).

**Operating profit (EBIT)** totalled €223.0 million in the first half of 2018, up €18.9 million or 9.3% compared with the same period in 2017 (+ €10.2 million in the second quarter; +10.2%). The rise is due to the increase of €34 million for the gross operating profit indicated above net of the increase of €15.1 million for amortisations, depreciations and impairments (+€10.5 million in the second quarter; 19.1%). The latter take into account the acceleration of amortisation and depreciation (+ €53.1 million in the first half of 2018; + €40.2 million in the second quarter) following the reduction in the useful life of the traditional meters, to be replaced with electronic smart meters.

The depreciation has been determined in the expectation of the completion of the replacement of all meters by early 2020. With regard to this, it is noted that Italgas has almost fulfilled in the first half of 2018 the replacement obligations set by the Authority (50% of all G4 and G6 meters to be reached by the end of the current year). As at 30 June 2017 depreciation was calculated on the basis of respecting the ARERA obligations to replace 50% of all traditional meters by the end of 2018.

Furthermore, depreciation of + €3.4 million was recorded compared to the same period in 2017, following the early adoption of IFRS 16.

Furthermore, following ruling no. 4104/2018 of the Council of State which established that the Municipality of Venice had already acquired, as part of the free of charge devolution,

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<sup>6</sup> This press release uses alternative performance indicators including EBITDA (gross operating margin, determined by subtracting operating costs from revenues) and EBIT (the sum of the values relating to operational management, calculated by subtracting operating costs, amortisations, depreciations and impairments from operating costs). The financial reporting NON - GAAP must be considered as complementary and does not replace the information drafted according to IAS - IFRS standards.

ownership of a portion of the network relative to the concession, the Company has arranged to accelerate the relative depreciation for a value, in the period, of € 3 million.

**Net profit** for the first half of 2018, of €150.7 million, was up €11.1 million on the same period in 2017, equal to 8.0% (+ €7.9 million in the second quarter; +11.6%) due to the effect of the above mentioned increase in the operating profit of €18.9, partially offset by: (i) greater net financial charges (€5.2 million), (ii) lower net revenue from equity investments (-€0.9 million) and (ii) greater income tax (€1.7 million), mainly due to the increase in the taxable minimum for the period.

## Reclassified financial statements

Italgas' reclassified statement of financial position as at 30 June 2018, compared with that of 31 December 2017, is summarised as follows:

31.03.2018 (€ million)	31.12.2017	30.06.2018	Change
<b>5,087.5</b>	<b>4,950.9</b>	<b>5,119.3</b>	<b>168.4</b>
257.4	224.6	<b>256.9</b>	32.3
4,743.6	4,676.6	<b>4,786.0</b>	109.4
189.8	184.9	<b>181.0</b>	-3.9
0.1	0.1	<b>0.1</b>	0.0
(103.4)	(135.3)	<b>(104.7)</b>	30.6
<b>(21.7)</b>	<b>71.1</b>	<b>-210.0</b>	<b>(281.1)</b>
<b>(116.1)</b>	<b>(116.1)</b>	<b>-115.5</b>	<b>0.6</b>
<b>4,949.7</b>	<b>4,905.9</b>	<b>4,793.8</b>	<b>-112.1</b>
<b>Net equity (including third-party shareholder interests)</b>			
1,262.1	1,185.6	<b>1,165.2</b>	-20.4
		<b>0.1</b>	0.1
<b>3,656.2</b>	<b>3,720.3</b>	<b>3,591.3</b>	-129.0
<b>31.4</b>		<b>37.2</b>	<b>37.2</b>
<b>4,949.7</b>	<b>4,905.9</b>	<b>4,793.8</b>	<b>-112.1</b>

(\*) Italgas has, since 1 January 2018, applied the IFRS 16 - Leases international accounting standard which, having eliminated the difference between financial and operating leases, determined the writing of debts for commitments to leasing companies with respect to the writing of Tangible assets for the Right of use of relative goods for payments of operating leases.

**Net invested capital** as at 30 June 2018 amounts to €4,793.8 million and it consists of the items listed below.

**Fixed capital** (€5,119.8 million) increased by €168.4 million compared with 31 December 2017, mainly due to an increase in intangible assets (+€109.4 million), a reduction in net financial payables relating to investment activities (+€30.6 million) and the increase in property, plant and equipment (+€32.3 million).

**Tangible and intangible assets** amounted to €5,042.9 million. Intangible assets include services in concession, recorded pursuant to IFRIC 12, under the intangible asset item (€4,668.1 million). Tangible fixed assets refer primarily to buildings (€173.4 million), fixtures and fittings, tools and other equipment (€29.6 million) and assets recorded in accordance with IFRS 16 (€ 36.3 million, mainly leased buildings and motor vehicles).

The analysis of the change in property, plant and equipment and in intangible assets is reported below:

(€ million)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
<b>Balance as at 31 December 2017</b>	<b>224.6</b>	<b>4,569.0</b>	<b>107.6</b>	<b>4,901.2</b>
<b>Right to use as at 1.1.2018</b>	<b>32.8</b>			<b>32.8</b>
Investments	11.3	203.5	13.1	<b>227.9</b>
Amortisation, depreciation and impairment	(13.0)	(170.2)	(18.0)	<b>(201.2)</b>
- of which measuring instruments				
- of which amortisation in accordance with IFRS 16	-3.4			<b>-3.4</b>
Change in the scope of consolidation	1.9	77.5	15.2	<b>94.6</b>
Contributions		-12.5		<b>-12.5</b>
Other changes	-0.7	0.8		<b>0.1</b>
<b>Balance as at 30 June 2018</b>	<b>256.9</b>	<b>4,668.1</b>	<b>117.9</b>	<b>5,042.9</b>

The investments in the first half of 2018, amounting to €227.9 million concern primarily the replacement of the meters and the placement/replacement of the gas networks and include the increases for the period relating to leases in accordance with IFRS 16, of €6.4 million.

The Equity investments item (€181 million) includes the assessment of shareholdings assessed with the net equity method and relates to Toscana Energia (€178.7 million), Umbria Distribuzione Gas (€1.3 million) and Metano Sant'Angelo Lodigiano (€1 million).

### Net working capital

31.03.2018	(€ million)	31.12.2017	30.06.2018	Change
457.8	Trade receivables	406.5	<b>190.0</b>	(216.5)
23.4	Inventories	22.4	<b>30.8</b>	8.4
53.2	Tax receivables	45.2	<b>50.6</b>	5.4
	Accruals and deferrals from regulated activities	78.5	<b>125.7</b>	47.2
302.1	Other assets	197.3	<b>129.1</b>	-68.2
(307.4)	Trade payables	(184.1)	<b>(216.8)</b>	(32.7)
(202.4)	Provisions for risks and charges	(208.3)	<b>(203.2)</b>	5.1
(89.9)	Deferred tax liabilities	(94.8)	<b>(82.9)</b>	11.9
(45.3)	Net tax payables	(15.9)	<b>(88.0)</b>	(72.1)
(209.8)	Other liabilities	(175.7)	<b>(141.0)</b>	34.7
(1.8)	Assets (liabilities) for derivative instruments		<b>(4.3)</b>	(4.3)
<b>(20.1)</b>		<b>71.1</b>	<b>-210.0</b>	<b>-281.1</b>

Compared to 31 December 2017, the change of - €281.1 million in the working capital mainly derives from: (i) a decrease in trade receivables (- €216.5 million), reflecting in particular the effects of the seasonality of volumes transported on behalf of the sales companies; (ii) the increase of trade payables (- €32.7 million), in particular to suppliers; (iii) a reduction in operating activities (- €68.2 million) mainly reflecting the lower receivables from CSEA linked to Energy Efficiency Credits; (iv) an increase in accruals and deferrals from regulated activities (+ €47.2 million) due to estimated tariff recognition in line with applicable rules relating to the plan to replace traditional meters with electronic smart



meters; (v) lower other operating liabilities (+ €+34.7 million), mainly due to lower net payables to the CSEA relating to distribution components; (vii) greater inventories (+€8.4 million), lower provisions for risks and charges (€5.1 million), (viii) lower balance of tax accounts (- €54.8 million); (ix) greater liabilities for derivative instruments (- €4.3 million) relating to an Interest Rate Swap contract for the coverage of a variable rate EIB loan.

Note that the Company has finalised factoring agreements with financial counterparties on the basis of which the Company's receivables can be factored without recourse. Specifically, a number of transactions for the assignment of receivables were completed in connection with: (i) White Certificates for €253.1 million; (ii) trade receivables related to the distribution, maturing 2 July 2018, for a total of €75.9 million and (iii) tax credits for €20.0 million.

### Net financial debt

31.03.2018	(€ million)	31.12.2017	30.06.2018	Change
<b>3,673.6</b>	<b>Financial and bond debt</b>	<b>3,723.2</b>	<b>3,680.8</b>	<b>-42.4</b>
7.6	Short-term financial debt (*)	106.1	15.5	-90.6
3,666.0	Long-term financial debt	3,617.1	3,665.3	48.2
<b>-17.4</b>	<b>Financial receivables and cash and cash equivalents</b>	<b>-2.9</b>	<b>-89.5</b>	<b>-86.6</b>
-17.3	Cash and cash equivalents	-2.8	-89.4	-86.6
-0.1	Securities not held for transactions	-0.1	-0.1	0
<b>3,656.2</b>	<b>Net financial debt</b>	<b>3,720.3</b>	<b>3,591.3</b>	<b>-129</b>
31.4	Financial payables for leases in accordance with IFRS 16		37.2	37.2
<b>3,687.6</b>	<b>Net financial debt (including effects deriving from IFRS 16)</b>	<b>3,720.3</b>	<b>3,628.5</b>	<b>-91.8</b>

(\*) Includes the short-term portion of long-term financial debt.

**Net financial debt** was €3,591.3 million as at 30 June 2018 (by €128.9 million lower than as at 31 December 2017). Including the effects deriving from the application of IFRS 16, of €37.2 million, net financial debt is of €3,628.5 million.

Financial and bond liabilities as at 30 December 2018, totalling €3,680.8 million (€3,723.2 million as at 31 December 2017), were denominated in euros and referred mainly to bonds (€2,893.5 million) and loan agreements concerning European Investment Bank (EIB) funding (€783.7 million).

The decrease in financial liabilities and bonds, amounting to €42.4 million, derives from the reduction in short-term financial payables (€90.6 million, of which €76.1 million for reduced use of uncommitted credit lines), offset in part by the increase in long-term financial payables (€48.2 million). The change in long-term financial liabilities is mainly due to the reopening, on 30 January 2018, of the bond issue originally issued on 18 September 2017 (€500 million, with expiry on 18 January 2029, with a coupon equivalent to 1.625%) for a

nominal value of 250 million and to early repayment compared to the original expiry date of October 2019 of a term loan of €200 million.

As at 30 June 2018, The breakdown of debt by type of interest rate, net of the liabilities for leases in accordance with IFRS 16, is as follows:

<b>31.03.2018</b>	(€ million)	<b>31.12.2017</b>	%	<b>30.06.2018</b>	%
3,244.4	Fixed rate	2,651.9	71.2	<b>3,253.5</b>	88.4
429.2	Floating rate	1,071.3	28.8	<b>427.3</b>	11.6
<b>3,673.6</b>	<b>Net financial debt</b>	<b>3,723.2</b>	<b>100.0</b>	<b>3,680.8</b>	<b>100.0</b>

Fixed-rate financial liabilities amount to €3,253.5 million and relate to bonds (€2,893.5 million) and an EIB loan expiring in 2037 (€360 million), finalised on 19 December 2017 and converted to a fixed rate in January 2018 through an Interest Rate Swap derivative contract expiring in 2024.

Fixed-rate financial liabilities have increased by €601.6 million compared to 31 December 2017 mainly due to the effect of the above-mentioned Interest Rate Swap operations and the above-mentioned reopening of the bond issue for nominal value of €250 million.

Floating rate financial liabilities totalled €427.3 million, down by €644.0 million mainly as a result of the above-mentioned operations.

As at 30 June 2018, Italgas had unused committed long-term credit lines amounting to €1.1 billion.

As at 30 June 2018, there were no loan agreements containing financial covenants and/or secured by collateral. 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 concerning the pledging of 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 30 June 2018, these commitments were met.

## Reclassified statement of cash flows

Second quarter			First half	
2017	2018	(€ million)	2017	2018
68.1	76.0	<b>Net profit</b>	139.6	150.7
		<i>Adjusted for:</i>		
94.8	108.1	- Amortisation, depreciation and other non-monetary components	186.6	197.6
(5.4)	(4.9)	- Losses (gains) from equity investments	(10.6)	(9.7)
37	37.5	- Interest and income tax	69.4	77.8
(101.4)	160.9	Change in working capital due to operating activities	(17.3)	221.1
(33.9)	5.6	Dividends, interest and income taxes collected (paid)	-39.4	(5.2)
<b>59.1</b>	<b>383.2</b>	<b>Net cash flow from operating activities</b>	<b>328.3</b>	<b>632.3</b>
(115.8)	(109.7)	Technical investments	(228.8)	(209.0)
7.8	(7.6)	Other changes relating to investment activities	(1.4)	(29.9)
<b>(48.9)</b>	<b>273.8</b>	<b>Free cash flow before Merger and Acquisition transactions</b>	<b>98.1</b>	<b>393.4</b>
0	(40.6)	Companies added to the consolidation area	(1.1)	(72.3)
0	0	Acquisition of company divisions		(23.8)
<b>(48.9)</b>	<b>233.2</b>	<b>Free cash flow</b>	<b>97.0</b>	<b>297.3</b>
210	7.3	Change in short- and long-term financial debt (*)	65.3	(42.4)
(161.8)	(168.3)	Equity cash flow	(161.8)	(168.3)
<b>(0.7)</b>	<b>72.2</b>	<b>Net cash flow for the period</b>	<b>0.5</b>	<b>86.7</b>

(\*) Net of financial liabilities deriving from IFRS 16

## Change in net financial debt

Second quarter			First half	
2017	2018	(€ million)	2017	2018
<b>(48.9)</b>	<b>273.8</b>	<b>Free cash flow before Merger and Acquisition transactions</b>	<b>98.1</b>	<b>393.4</b>
	(40.6)	Change for acquisition of equity investments and divisions	(1.1)	(96.1)
(161.8)	(168.3)	Equity cash flow	(161.8)	(168.3)
<b>(210.7)</b>	<b>64.9</b>	<b>Change in net financial debt excluding liabilities deriving from IFRS 16</b>	<b>(64.8)</b>	<b>129.0</b>
	(5.8)	Change in financial liabilities deriving from IFRS 16		(37.2)
<b>(210.7)</b>	<b>59.1</b>	<b>Change in net financial debt</b>	<b>(64.8)</b>	<b>91.8</b>

Net cash flow from operating activities in the first half of 2018 amounted to €632.3 million and enabled the full flow deriving from investments, net of contributions and the change of relative payables, equal to €238.9 million, generating a free cash flow before the Merger and Acquisition transaction of €393.4 million. Merger and Acquisition transactions, in addition to company and division acquisitions for the period include the payment to Eni of €7.5 million as earn-out following the completion of the transfer to Eni of the Ostiense building complex. The decrease in net financial liabilities is of €129 million, including the effect deriving from the change due to the adoption of IFRS 16 relating to leases liabilities (-€37.2 million).

## Key operating figures

### Investments

Italgas is committed to maintaining a sustained level of the efficiency of its networks through the renewal and the development of existing networks.

In the first half of 2018, technical investments were made amounting to €227.9 million (gross of investments deriving from increased fixed assets in accordance with IFRS 16 for the period of €6.4 million), a reduction of €14.7 million compared to the previous period in 2017 (-6.1%).

Second quarter			First half			
2017	2018	(€ million)	2017	2018	Change	Change %
<b>58.7</b>	<b>63.6</b>	<b>Distribution</b>	<b>111.1</b>	<b>112.8</b>	<b>1.7</b>	<b>1.5</b>
49.1	57.3	Network maintenance and development	94.1	102.3	8.2	8.7
9.5	5.2	New networks	17	9.0	(8)	(47.1)
	1.1	Digitalisation		1.5	1.5	
52.4	<b>45.6</b>	<b>Metering</b>	<b>115.7</b>	<b>94.5</b>	<b>(21.2)</b>	<b>(18.3)</b>
<b>8.9</b>	<b>12.5</b>	<b>Other investments</b>	<b>15.8</b>	<b>20.6</b>	<b>4.8</b>	<b>30.4</b>
<b>120.0</b>	<b>121.7</b>		<b>242.6</b>	<b>227.9</b>	<b>(14.7)</b>	<b>(6.1)</b>

**Investments in distribution** (€112.8 million) mainly related to development projects (extensions and new networks) and the renovation of old sections of pipe, including the replacement of cast-iron pipes.

**Metering investments** (€94.5 million) mainly relate to the plan to replace traditional meters with electronic meters, as part of the remote-reading plan. The company has installed approximately 850 thousand new meters in the period, of which 770 thousand are replacing traditional meters. The decrease in measurement investments is essentially linked to the reduction in unit cost for the installation of meters.

**Other investments** (€20.6 million) mainly concerned investments in property and IT.

## Key operating figures

Financial year		First half		Change	Change %
		2017	2018		
6,540	Active meters (million)	6,538	<b>6,625</b>	0.087	1.3
1,472	Concessions for gas distribution (number)	1,472	<b>1,601</b>	129	8.8
57,773	Distribution network (km) (a)	57,150	<b>59,272</b>	2,122	3.7

(a) This data refers to the network kilometres managed by Italgas.

### Meters

As at 30 June 2018, the number of active meters at the redelivery points was €6.625 million (€6.586 as at 31 December 2017). Considering also the associated companies, the number of active meters was €7.478 million.

### Municipality areas under concession and tenders per area

As at 30 June 2018, Italgas had the concession for gas distribution in 1,601 Municipalities (1,500 as at 31 December 2017), of which 1,512 in operation (1,484 as at 31 December 2017). The increase in the number of concessions is essentially due to the scope of consolidation. Considering also the associated companies, the number of operating concessions is 1,620.

### Distribution network

The gas distribution network as at 30 June 2018 extended for 59,272 Kilometres (57,773 Kilometres as at 31 December 2017), an increase of 1,499 Kilometres compared with 31 December 2017. Considering also the associated companies, the distribution network extends for 67,682 Kilometres.

### Main events in the half-year

- Established, on 1 January 2018, the company Italgas Acqua S.p.A. ,following the effectiveness of the proportional partial demerger of Italgas Reti to a newco through assignment to the latter of the “former Napoletanagas water business unit”.
- On 26 January 2018, the business unit Amalfitana Gas, concerning the distribution activities of natural gas in three ATEMs (minimum geographical areas) in Campania and Basilicata, was acquired.
- On 30 January 2018 Italgas successfully finalised the reopening of the €250 million bond issue previously implemented on 18 September 2017 (€500 million, with expiry on 18 January 2029 and coupon of 1.625%). The performance on the secondary market of the original issue allowed to improve the terms of the

reopening with respect to the this issue, with a spread of 58 bps on the mid-swap rate compared to the original 72 bps. Furthermore, in January 2018 an Interest Rate Swap derivative operation with expiry in 2024 through which the variable rate for the entire amount of the EIB Gas Network Upgrade funding of €360 million has been transformed into a fixed rate loan.

- The acquisition of the business unit of AEnnergia Reti related to the distribution network for the Municipality of Portopalo di Capopassero (Siracusa) was concluded on 31 January 2018.
- On 28 February 2018, 100% of the share capital of the company Ichnusa Gas was acquired. This is a holding of 12 companies, which in turn controls as many concessions for the construction and operation of gas distribution networks in 74 municipalities of Sardinia.
- The acquisition of 100% of Seaside, Energy Service Company (ESCO) active in the area of energy efficiency enhancement services, was finalised on 13 March 2018.
- The acquisition of 100% of Medea was finalised on 6 April 2018. This is an LPG distribution and sale company based in Sassari, which currently serves 13,000 customers in a potential catchment area of almost 30,000 users and which on average distributes a volume of over 5 million cubic metres of LPG every year.
- On 1 May 2018 was finalised the merger by incorporation of Enerco Distribuzione S.p.A. and SGS S.r.l. into Italgas Reti S.p.A., effective from 1 January 2018 for accounting and tax purposes.
- On 31 May 2018 the acquisition by CPL Concordia was finalised of a control share of 98% of the share capital of 6 companies operating in the south of Italy, together holders of 7 concessions for the construction and management of the gas network in 16 Municipalities. The companies in question are Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Sicilianagas Reti.
- On 1 June 2018 was finalised the merger by incorporation of Acam Gas S.p.A. into Italgas Reti S.p.A., effective from 1 January 2018 for accounting and tax purposes.
- A binding agreement with CPL Concordia was signed on 22 June 2018 for the purchase of: (i) a control share of 60% of EGN (European Gas Network), a company that directly and indirectly manages around 60,000 users and 37 gas distribution concessions in Sicily, Calabria and Campania, (ii) 100% of the

company Naturagas, manager of the methane gas distribution service in San Giuseppe Vesuviano (Naples), with around 2,700 customers, and (iii) 100% of Fontenergia, holder of the distribution service concession in the Basin 22 in Sardinia, with over 7,000 customers temporarily served with LPG.

### **Events occurred after the end of the half-year period**

On 4 July 2018 ruling no. 4104/2018 issued by the Council of State to reject the appeal lodged by Italgas Reti against the verdict of the TAR Veneto no. 654/2017, confirming the acquisition free of charge by the Municipality of Venice of the assets included in “block A”, as well as the obligation on the part of the Company to pay a fee for the use of the portion of network subject to free of charge devolution. The Company is evaluating the possible legal remedies against the ruling by the Council of State.

Against a fee request by the Municipality of Venice equivalent to the tariff remuneration of the assets of said Block A, in the absence of specific reference regulations, the Company, which in any case already pays an annual fee of €0.5 million for the entire concession, is unable, so far, to calculate reliably the magnitude of the liability according to the terms of said ruling. The Company however has arranged to accelerate the depreciation of the portion of network relating to Block A, for a value equal to €3.0 million in the period.

The Decree of 10 May 2018, adopted by the Minister for Economic Development and by the Minister for the Environment, which modifies and updates the Ministerial Decree of 11 January 2017, which determined the national quantitative objectives for energy savings for the years 2017 to 2020 and the approved new Guidelines for the preparation, execution and assessment of energy efficiency projects was published in the Official Gazette no. 158 of 10 July 2018. The adoption of the provision was made necessary to make it possible or in any case favour the fulfilment of energy efficiency obligations on the part of gas and electricity distribution companies, give stability to the market and interrupt the continuous increases in the price of the Energy Efficiency Certificates.

The decree, on which opinions by the relevant parliamentary Committees and the Authority, agreement by the Joint Conference and registration in the Court of Auditors have been obtained, is in force from the day after publication, that is to say from 11 July 2018, and applies, with some exceptions, to all the projects submitted in pursuant to the Ministerial Decree of 11 January 2017.



The Ministerial Decree includes many of the observations made in the opinion issued by ARERA with act no. 265/2018/I/EFR relating mainly to the modalities for exchange and enhancement of White Certificates and the measures designed to provide corporate information on the subject participating to the market, and put solutions in place for the numerous critical issues that have characterised the TEE mechanism in the last few months.



## Business Outlook

Italgas will continue to pursue its strategic objectives, focusing on making investments, streamlining processes and operating costs as well as optimising the financial structure, whilst paying constant attention to development opportunities.

With specific regard to **technical investments** in tangible and intangible fixed assets, in 2018, Italgas is estimating, considering the same area, an expenditure substantially in line with the figure of the previous year, aimed primarily at maintaining and developing the managed networks, to implementing the ambitious plan for the installation of electronic smart meters, within the scope of the meter-reading activity as well as the completion of the new networks being built.

Consistent with the strategic priorities of the 2018-2024 plan, Italgas will participate in the **tenders** for the concession of natural gas distribution services, pursuing the development objectives of the business and consolidation of the sector, which is currently very fragmented.

In 2018 additional **initiatives for the development of external lines**, which will enable the strengthening of the territorial presence and the competitiveness of Italgas in view of the calls for tender, will be carried out, anticipating its effects in terms of the growth of its activities area.

Italgas intends to continue to increase its **operating efficiency** through the implementation of the program for cost reduction and the improvement of the processes and services started in 2017, with a review of the organisational structure of Italgas Reti, characterised by a new territorial model and the streamlining of operating processes, thus introducing a cultural change for the sustainability of the model over time.

Finally, in 2018, the activities aimed at **optimising the financial structure** of the Italgas Group will continue.

Lastly, with regard to the digital technology, we expect the go live, by the end of 2018, of the project of migration of the applications to the Public Cloud. A Digital Factory will be set up, a protected environment within which multifunctional teams will develop new IT solutions in Agile mode, aimed at transforming corporate processes through innovative technologies.

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This press release, which was prepared on a voluntary basis in line with market best practices, sets out the consolidated results for the first half (subject to limited audit) and second quarter of 2018 (unaudited). The results for the half-year, together with the main business trends, represent a summary of the Half-Year Report prepared pursuant to Art. 154-ter of the Consolidated Finance Act (TUF), approved by the Board of Directors of Italgas on 30 July 2018, which will be published within the legal deadlines.

Economic information and information on cash flows is provided with regard to the first half and the second quarter of 2018 and the first half and second quarter of 2017. Information on the financial position is provided with regard to 31 December 2017 and 30 June 2018. The form of the financial statements corresponds to that of the statements presented in the Interim Directors' Report of the Consolidated Half-Year Report and the Directors' Report accompanying the Annual Financial Report.

The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The recognition and measurement criteria used to prepare the Half-Year Report as at 30 June 2018 are the same as those used to prepare the 2017 Annual Financial Report, with the exception of the standards adopted from 1 January 2018. In particular, on 1 January 2018, the “IFRS 9 - Financial instruments” and “IFRS 15 - Revenues from contracts with customers” accounting standards came into force. Furthermore, as highlighted above, Italgas has anticipately adopted the IFRS 16 - Leases international accounting standard, which removes the differentiation between financial and operating leases, introducing a single accounting model for lease recognition by the lessee. By applying this model the entity recognises: (i) assets and liabilities for all leases of a duration of over 12 months; (ii) the amortisation of the recognised asset and the interests on the recorded financial debt separately in the income statement.

The consolidation scope at 30 June 2018 was the same as at 31 December 2017 in consequence of: (i) the entry of the company Italgas Acqua S.p.A., established on 1 January 2018 following the proportional partial spin-off of Italgas Reti in favour of the new company through an assignment to the latter of the “former Napoletanagas water unit”. (ii) the acquisition, on 28 February 2018, of 100% of the share capital of the company Ichnusa. This is a holding of 12 companies, which in turn controls as many concessions for the construction and operation of LPG gas distribution networks in Sardinia, and (iii) the

acquisition, on 13 March 2018, of 100% of the share capital of Seaside S.r.l., a company operating in the energy efficiency sector; (iv) the acquisition on 6 April 2018 of 100% of the social capital of Medea S.p.A., an LPG distribution and sale company based in Sassari, and (v) the acquisition on 31 May 2018 of 98% of the share capital of Favargas Reti S.r.l., Siculiangas Reti S.r.l., Baranogas Reti S.r.l., Ischia Reti Gas Sr.l., Progas Metano S.r.l. and Grecanica Gas S.r.l., companies holding 7 concessions for the construction and management of the gas network in 16 Municipalities in Southern Italy.

It should also be noted that the companies Acam Gas S.p.A., Enerco Distribuzione S.p.A. and S.G.S. S.r.l. were merged into Italgas Reti with effect on 1 January 2018.

Given their size and importance, the amounts are expressed in millions of euros with one decimal.

### **Conference call**

A conference call will take place at 16:30 today to present the consolidated results for the first half of 2018 to investors and financial analysts. The presentation may be followed, through webcasting, on the web site of the Company ([www.italgas.it](http://www.italgas.it)). In conjunction with the conference call, the presentation support material will also be provided in the "Investor Relations/Presentations" section of the website.

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The manager responsible for preparing the accounting and corporate documents, Giovanni Mercante, declares, pursuant to paragraph 2, Article 154-bis of the Consolidated Law on Financial Intermediation, that the accounting information contained in this report corresponds to the documented results, books and accounting records.



**Disclaimer**

*This communication contains forward-looking statements, in particular in the section “Business outlook” concerning: investment plans, future operating performance, project execution. The forward-looking statements, by their nature, involve risks and uncertainties as they depend on the occurrence of future events and developments. Actual results may differ from those stated in relation to various factors, including actual operating performance, general macro-economic conditions, geopolitical factors such as international tensions, the impact of energy and environmental regulations, the successful development and application of new technologies, changes in stakeholder expectations and other changes in business conditions.*

## IFRS financial statements

### Balance sheet<sup>(\*)</sup>

(thousands of Euro)	31.12.2017	30.06.2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,831	89,392
Other financial assets valued at fair value with effects on OCI	119	119
Trade and other receivables	619,202	368,961
Inventories	22,410	30,841
Current income tax assets	8,571	10,354
Other current tax assets	21,139	24,714
Other current assets	5,944	12,738
	<b>680,216</b>	<b>537,119</b>
<b>Non-current assets</b>		
Property, plant and equipment	224,651	256,932
- of which relate to Right of use(**)		35,817
Intangible assets	4,676,561	5,227,669
Investments valued using the equity method	184,829	180,857
Other investments	54	73
Other financial assets	156	156
Other non-current assets	77,891	125,163
	<b>5,164,142</b>	<b>5,790,850</b>
<b>Non-current assets held for sale</b>	<b>11</b>	<b>11</b>
<b>TOTAL ASSETS</b>	<b>5,844,369</b>	<b>6,327,980</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term financial liabilities	81,133	530
Short-term portion of long-term liabilities	25,043	19,067
- of which relate to Right of use(**)		4,049
Trade and other payables	498,174	504,580
Current income tax liabilities	4,489	73,416
Other current tax liabilities	11,424	14,611
Other current liabilities	182	965
	<b>620,445</b>	<b>613,169</b>
<b>Non-current liabilities</b>		
Long-term financial liabilities	3,617,044	3,698,449
- of which relate to Right of use(**)		33,140
Provisions for risks and charges	208,246	203,185
Provisions for employee benefits	116,149	115,516
Deferred tax liabilities	94,790	82,857
Other non-current liabilities	2,055	449,549
	<b>4,038,284</b>	<b>4,549,556</b>
<b>Liabilities directly associated with non-current assets held for sale</b>		
<b>TOTAL LIABILITIES</b>	<b>4,658,729</b>	<b>5,162,725</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Italgas shareholders' equity</b>		
Share capital	1,001,232	1,001,232
Reserves	(108,358)	13,264
Profit (loss) for the period	292,766	150,649
<b>Total Italgas shareholders' equity</b>	<b>1,185,640</b>	<b>1,165,145</b>
<b>Minority interests</b>		<b>110</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,185,640</b>	<b>1,165,255</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,844,369</b>	<b>6,327,980</b>

(\*) Following the adoption of "IFRS 15 - Revenue from Contracts with Customers", from 1 January 2018 the connection contributions from private customers represent revenues to be recorded over time, or to be identified on the basis of the useful life of the asset to which they refer. The company has subsequently reclassified in the statement of financial position the above contributions under the item other assets (liabilities) and the relative use under Other revenue and income in the income statement. For the purposes of the representation of the reclassified assets/liabilities situation, the connection contributions (€ 441.6 million in the first half of 2018) continue to be deducted from the assets to which they refer in accordance with the representation adopted in the first half of 2017.

(\*\*) Italgas has, since 1 January 2018, applied the IFRS 16 - Leases international accounting standard which, having eliminated the difference between financial and operating leases, determined the writing of debts for commitments to leasing companies with respect to the writing of Tangible assets for the Right of use of relative goods for payments of operating leases.

## Income statement

(thousands of Euro)	First half	
	2017	2018
<b>REVENUE</b>		
Core business revenue	774,060	779,922
Other revenue and income	17,099	25,295
	<b>791,159</b>	<b>805,217</b>
<b>OPERATING COSTS</b>		
Purchases, services and other costs	(300,378)	(258,429)
Trade and other receivables net value reversals (impairments)		
Personnel cost	(100,609)	(115,157)
	<b>(400,987)</b>	<b>(373,586)</b>
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT</b>	<b>(186,082)</b>	<b>(208,617)</b>
- of which total amortisation of Right of use		3,340
<b>EBIT</b>	<b>204,090</b>	<b>223,014</b>
<b>FINANCIAL INCOME (EXPENSES)</b>		
Financial expenses	(18,931)	(23,872)
- of which financial expenses for Right of use		(107)
Financial income	492	375
Financial derivative instruments		(234)
	<b>(18,439)</b>	<b>(23,731)</b>
<b>INCOME (EXPENSE) ON EQUITY INVESTMENTS</b>		
Equity method valuation effect	10,555	9,711
	<b>10,555</b>	<b>9,711</b>
<b>Pre-tax profit</b>	<b>196,206</b>	<b>208,994</b>
Income tax	(56,608)	(58,343)
<b>Net profit (loss) for the period</b>	<b>139,598</b>	<b>150,651</b>
<b>Applicable to Italgas:</b>		<b>150,649</b>
<b>Minority interests</b>		<b>2</b>
<b>Net profit (loss) per share pertaining to Italgas</b>		
(amounts in € per share)		
- basis		
- diluted		

## Cash flow statement

(thousands of Euro)	first half	
	2017	2018
Profit (loss) for the period	139,598	150,651
Adjustments for reconciling net profit with cash flows from operating activities:		
Total amortisation and depreciation	183,861	207,884
- of which total amortisation of Right of use		3,340
Net impairment (value reversal) of tangible and intangible assets	2,221	733
Equity method valuation effect	(10,556)	(9,711)
Net capital losses (capital gains) on asset sales (Dividends)	1,597	386
(Interest income)	(281)	(369)
Interest expenses	13,097	19,800
Income tax	56,608	58,343
Other changes		20
Changes in working capital:		
- Inventories	11,708	(8,241)
- Trade receivables	193,748	178,977
- Trade payables	(21,194)	61,397
- Provisions for risks and charges	(11,445)	(5,782)
- Other assets and liabilities	(190,168)	(896)
of which accruals and deferrals connection contributions - uses		(7,400)
of which accruals and deferrals connection contributions - increases		11,600
<b>Working capital cash flow</b>	<b>(17,351)</b>	<b>225,455</b>
Change in provisions for employee benefits	(1,017)	(662)
Dividends collected	13,805	13,683
Interest collected	281	369
Interest paid	(13,097)	(18,302)
Income taxes paid net of reimbursed tax credits	(40,494)	(960)
<b>Net cash flow from operating activities</b>	<b>328,272</b>	<b>646,169</b>
Investments:		
- Property, plant and equipment	(5,478)	(11,324)
- Intangible assets	(223,448)	(216,127)
- Change in scope of consolidation and business units		(23,769)
- Equity investments	(1,113)	(35,078)
- Change in payables and receivables relating to investments and allocation of amortisation and depreciation to assets	(1,383)	(37,383)
<b>Cash flow from investments</b>	<b>(231,422)</b>	<b>(323,681)</b>
Divestments:		
- Property, plant and equipment	228	2
<b>Cash flow from divestments</b>	<b>228</b>	<b>2</b>
<b>Net cash flow from investment activities</b>	<b>(231,194)</b>	<b>323,679</b>
Assumption of long-term financial debt	2,139,534	250,686
Repayment of long-term financial debt		212,996
Increase (decrease) in short-term financial debt	(2,074,227)	123,757
Net acquisition of own shares		
Dividends distributed to third parties	(161,827)	(168,300)
<b>Net cash flow from financing activities</b>	<b>(96,520)</b>	<b>(254,367)</b>
Changes in scope of consolidation and other changes		18,043
<b>Net cash flow for the period</b>	<b>558</b>	<b>86,166</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,544</b>	<b>2,102</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2,102</b>	<b>88,268</b>