



2017 Consolidated Half-Year  
Report





# Consolidated Half-Year Report as at 30 June 2017



# Corporate mission and values

Expertise, efficiency, innovation, reliability, security, proximity to the people.

Every day, for 180 years, the work of the men and women at Italgas has drawn inspiration from these values.

Italgas always accompanies the economic and social development of the country promoting sustainable growth. It is currently the leading natural gas distributor in Italy and number three in Europe.

On these strong foundations, the Group is now looking forward and striving to strengthen its market presence.

Investments, developments, continuous improvement and quality of service are the main channels of the strategy implemented to achieve these goals and to continue to generate value.

Italgas, 180 years of history and a successful future yet to be written.

Italgas, the Italgas Group or the Group means Italgas S.p.A. and the companies within its scope of the consolidation.



# Table of Contents

## Interim Directors' Report

---

13	Introduction
14	Group structure as at 30 June 2017
15	Highlights in the first half of 2017
16	Summary data and information
18	Italgas and the financial markets
21	Operating performance
25	Regulation
29	Financial review
43	Other information
44	Elements of risk and uncertainty
50	Business Outlook
51	Legislative and regulatory framework
59	Glossary

## Condensed Interim Consolidated Financial Statements 2017

---

68	Financial statements
75	Notes to the condensed interim consolidated financial statements
115	Management certifications
116	Independent auditors' report

## Annexes

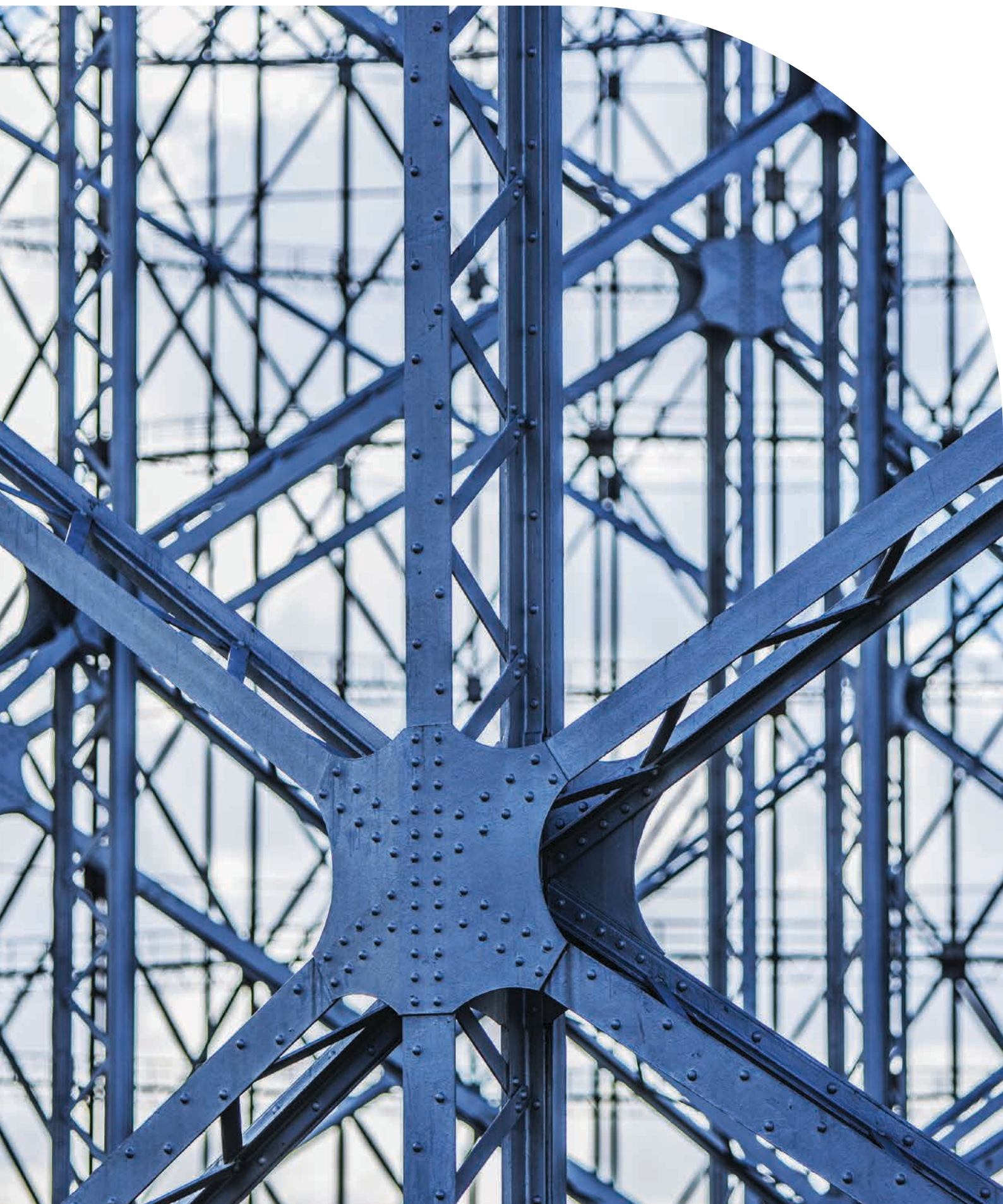
---

120	Shareholdings, associates and equity investments of Italgas S.p.A. as at 30 June 2017
-----	--

### Disclaimer

The consolidated half-year report contains forward-looking statements, especially in the "Outlook" section, relating to: investment plans, future operating performance and 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.





# Corporate bodies

## BOARD OF DIRECTORS<sup>(a)</sup>

### Chairman

Lorenzo Bini Smaghi

### CEO and General Manager

Paolo Gallo

### Directors

Nicola Bedin

Barbara Borra<sup>(g)</sup>

Maurizio Dainelli

Cinzia Farisè

Yunpeng He

Paolo Mosa

Paola Annamaria Petrone

## CONTROL AND RISKS AND RELATED-PARTY TRANSACTIONS COMMITTEE<sup>(c)</sup>

Barbara Borra<sup>(g)</sup>

Paola Annamaria Petrone (Chairman)

Cinzia Farisè

## APPOINTMENTS COMMITTEE<sup>(c)</sup>

Cinzia Farisè (Chairman)

Nicola Bedin

Maurizio Dainelli

## GENERAL FINANCE AND SERVICES DIRECTOR<sup>(d)</sup>

Antonio Paccioretti

## BOARD OF STATUTORY AUDITORS<sup>(a)</sup>

### Chairman

Gian Piero Balducci

### Standing auditors

Giandomenico Genta

Laura Zanetti

### Alternate auditors

Barbara Cavalieri<sup>(b)</sup>

Walter Visco

## REMUNERATION COMMITTEE<sup>(c)</sup>

Barbara Borra (Chairman)<sup>(g)</sup>

Maurizio Dainelli

Paola Annamaria Petrone

## SUSTAINABILITY COMMITTEE<sup>(c)</sup>

Nicola Bedin (Chairman)

Yunpeng He

Paolo Mosa

## SUPERVISORY BODY<sup>(e)</sup>

Carlo Piergallini (Chairman)

Eliana La Ferrara

Francesco Profumo

## INDEPENDENT AUDITORS<sup>(f)</sup>

PricewaterhouseCoopers S.p.A.

(a) Appointed by the Shareholders' Meeting of 4 August 2016. In office until the date of the Shareholders' Meeting called for the approval of the financial statements for the year ending 31 December 2018.

(b) Appointed by the Shareholders' Meeting on 28 April 2017 to replace alternate auditor Marilena Cederna.

(c) Committees established by the Board of Directors on 4 August 2016. Members appointed by the Board of Directors on 5 September 2016.

(d) Appointed by the Board of Directors on 26 September 2016 effective as of 7 November 2016.

(e) Appointed by the Board of Directors on 20 December 2016.

(f) Engagement assigned by the Shareholders' Meeting of 28 April 2017 for the period 2017-2025.

(g) On 29 July 2017, the Director Barbara Borra resigned from the Board of Directors and from the committees of which she was a member.



A photograph of a man in a white hard hat and a blue jacket, looking upwards and to the left. The hard hat has the 'IG italgas' logo. The image is framed by a large, semi-transparent circular graphic that overlaps the top and right sides. The background is a clear blue sky with some clouds.

# Interim Directors' Report



# Introduction

On 7 November 2016, 100% of the Italgas Reti equity investment was separated and transferred from Snam to Italgas, a company established on 1 June 2016.

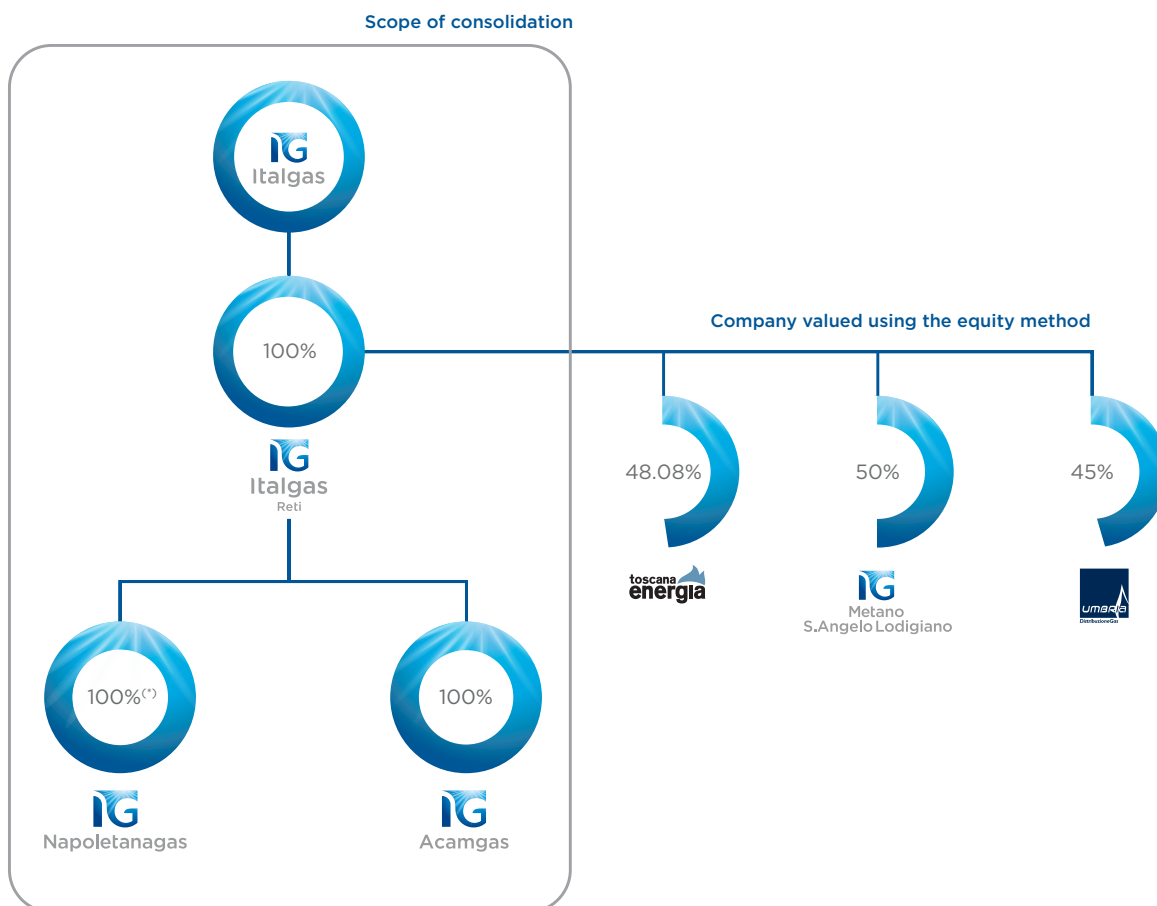
As of that date, Italgas therefore obtained direct control over Italgas Reti and indirect control over Napoletanagas and ACAM Gas.

This report presents the “Consolidation” values and figures as at 30 June 2017, composed of Italgas S.p.A. and the consolidated companies Italgas Reti S.p.A., Napoletanagas S.p.A. and Acam Gas S.p.A. through the full consolidation method and Toscana Energia S.p.A., Metano S. Angelo Lodigiano S.p.A. and Umbria Distribuzione Gas S.p.A. through the equity method.

Solely to allow for a comparison with the figures from the first half of 2016, the consolidated values and figures as at 30 June 2016 are also presented for the same scope of consolidation, with the specification that Italgas S.p.A., a company established on 1 June 2016, recorded insignificant economic values in its first month of operations<sup>1</sup>.

<sup>1</sup> In the first half of 2016, Italgas S.p.A. recorded a net loss of - € 4,603 deriving essentially from costs for compensation to the Board of Statutory Auditors and other costs relating to expenses for establishing the Company.

## Group structure as at 30 June 2017



(\*) On 20 April 2017, the Napoletanagas share consolidation approved by the company's shareholders' meeting on 13 March 2017, became effective. The consolidation of the company shares took place with a ratio of one new share with a nominal value of €100,000 for every 100,000 shares with a nominal value of €1. Following the transaction, Italgas Reti S.p.A. therefore holds 100% of the share capital of Napoletanagas S.p.A., compared with the previous 99.69%.

The Italgas Group's scope of consolidation as at 30 June 2017 is the same as at 31 December 2016.

# Highlights in the first half of 2017

- Three tranches of bonds issued under of the **Euro Medium Term Notes Programme** for a total of €2,150 million, which allowed for the early repayment of the bridge to bond bank loan.
- **Cost reduction and process and service quality improvement programme** launched in the first months of 2017 to boost Group operational efficiency. The project entails an overhaul of Italgas Reti's organisational structure in order to implement a new territorial model and simplify the process and the operating model;
- The **merger by incorporation** of Napoletanagas S.p.A. into Italgas Reti S.p.A. was approved on 16 May 2017 by the respective Shareholders' Meetings. The industrial aim of the transaction is to merge the gas distribution business of Napoletanagas into Italgas Reti. As at 30 June 2017, the periods for creditor objections, pursuant to Art. 2503 of the Italian Civil Code, were in progress. The merger deed is expected to be signed in September 2017, with an effective date of 1 October 2017.
- **"Consolidated" net profit** for the first half of 2017 totalled **€140 million** (+23.1% compared with the first half of 2016);
- **Investments made amounted to €243 million** (+59.6% compared with 30 June 2016);
- **Official closing price of the Italgas share** on the Milan Stock Exchange at the end of June 2017 amounted to **€4.446** (€3.731 as at 31 December 2016);
- **Tariff regulation:** in 2017, the Authority approved Resolution 145/2017/R/gas "Calculating definitive reference tariffs for gas distribution and metering services for 2016" through which it established the definitive tariffs for 2016. The Authority also approved Resolution 146/2017/ R/gas "Recalculating reference tariffs for gas distribution and metering services for the years 2009-2015", through which it recalculated the definitive reference tariffs for 457 Italgas Reti sites for 2015 and one site for 2014. The Authority calculated the provisional reference tariffs for distribution and metering services for 2017 through Resolution 200/2017/R/gas on the basis of the preliminary balance sheet data for 2016.
- On 28 June, **the tender for the gas distribution services in Atem Torino 2** (around 190,000 redelivery points in 48 municipalities in the area surrounding the Piedmontese capital) **was submitted**. No tenders were submitted by other operators. Italgas' tender was accepted as it met the requirements stipulated in the notice of invitation to tender.

# Summary data and information

## KEY FIGURES

To improve the economic and financial review, the Interim Directors' Report includes the reclassified financial statements and certain alternative performance indicators, including EBITDA, EBIT and net financial debt, in addition to conventional IAS/IFRS indicators and financial statements.

The tables below, their explanatory notes and the reclassified financial statements describe how these amounts were determined.

Unless otherwise specified, definitions of the terms used can be found in the glossary.

Key share figures		30.06.2017
Number of shares of share capital	(million)	809
Period-end official share price	(€)	4.446
Official average price per share in the period (1/1/17 - 30/6/17)	(€)	3.969
Market capitalisation (a)	(million)	3,606

(a) The product of the number of shares outstanding (exact number) multiplied by the period-end official share price.

## Key financial figures

(€ million)		First half	
Financial year 2016 <sup>2</sup>		2016	2017
1.079	Total revenues (*)	516	565
685	EBITDA	320	390
359	EBIT	178	204
221	Net profit	114	140

(\*) Revenue relating to building and upgrading distribution infrastructure recorded pursuant IFRIC 12 and recognised in equal measure alongside the relevant cost incurred (€137 million and €223 million respectively in the first half of 2016 and in 2017) is shown as a direct reduction of the respective cost items.

<sup>2</sup> For the sake of comprehensiveness and in accordance with the financial information provided in the annual financial report as at 31 December 2016, the economic values as at 31 December 2016 are presented in the adjusted pro-forma version, which shows the economic and financial figures of the aggregate consisting of Italgas S.p.A. from the date of its establishment (1 June 2016) and the companies Italgas Reti S.p.A., Napoletanagas S.p.A. and Acam Gas S.p.A. from the date of 1 January 2016, excluding the components classified as special items in 2016.

### Key balance sheet figures

(€ million)	31.12.2016	30.06.2017
Net invested capital at period-end	4,682	4,720
Group shareholders' equity at period-end	1,063	1,038
Net financial debt at period-end	3,618	3,682

### Key operating figures

31 December 2016		30 June 2016	30 June 2017	Change	Change %
6,536	Active meters (millions)	6,525	6,538	0.013	0.2
1,472	Gas distribution concessions (number)	1,472	1,472		
56,798	Distribution network (kilometres) (a)	56,759	57,150	391	0.7
378	Technical investments	152	243	91	59.6

(a) The data refers to kilometres of Italgas operating networks.

## Italgas and the financial markets

The Italgas shares closed the first half of 2017 with an official price of €4.446, up 19.2% with respect to the official price recorded at the end of 2016 (€3.731), reaching the maximum for the period of €4.848 on 2 June. Taking into account the dividend of €0.2 per share paid out on 22 May, the Total Shareholder Return (TSR) of the stock was 24.5% in the period 1 January - 30 June 2017.

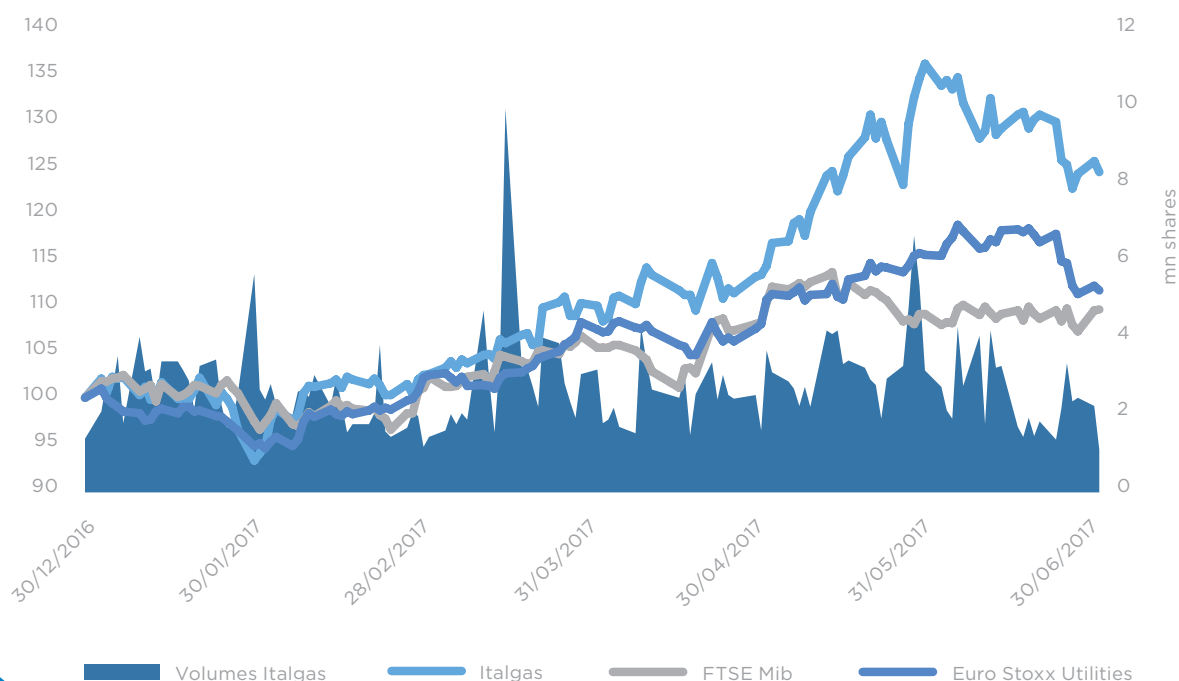
In the first six months of 2017, the average daily trading volume of the Italgas stock on the electronic market of the Italian Stock Exchange was 2.7 million shares, with a greater concentration of trades around the time of the announcement of the Strategic Plan in late May.

The Eurozone stock markets recorded widespread increases in the first half of 2017, supported by the general improvement in macroeconomic data as well as the reduction in political risk resulting from the expectations and outcome of the political elections in France and the Netherlands. Adjusted for the dividend, the Euro Stoxx share index closed the first half of 2017 up by 9.0% compared with the end of 2016; amongst the main indices, the FTSE Mib had the best performance (+9.3%), essentially driven by the improvement in the banking sector, which benefited from expectations of better profitability due to the improvement in the macroeconomic scenario and growing bond yields. This is followed by the Paris CAC 40 and the Frankfurt DAX (+7.9% and +7.4%, respectively). The London FTSE 100 index, which rose by 4.7%, suffered in June from the uncertainty deriving from the election results in the United Kingdom.

With a rise of 14.5%, the Euro Stoxx Utilities achieved one of the best performances at sector level during the half year, with the support of the decline in inflationary expectations which at the end of 2016 had generated a sell-off in the segment (due to the defensive profile and predictability of the business, as well as its greater usage of financial leverage, utilities can be considered similar to bonds), as well as expected sector consolidation, particularly with reference to central European operators.

Within a context characterised by considerable volatility triggered by fluctuations in oil prices and the evolution in the political scenario mentioned above, Eurozone sovereign bond yields showed a general rise during the first half of the year, primarily at the end of June due to increased expectations of a gradual withdrawal of monetary stimulus measures by the ECB. The yield of German 10-year government bonds (Bund) rose by 26 bps to 0.47%, while the spread between the Italian 10-year government bond [BTP] and the Bund rose by 8 bps to 169 bps, essentially reflecting the risks of anticipated political elections. The Euro/Dollar exchange rate reflected the trend in sovereign yields and growing expectations of a gradual withdrawal of monetary stimulus measures by the ECB, appreciating by roughly 9% in the first half.

### Comparison of the quotes Italgas, FTSE MIB and EURO STOXX Utilities (1 January 2017 - 30 June 2017, figures adjusted for dividends)



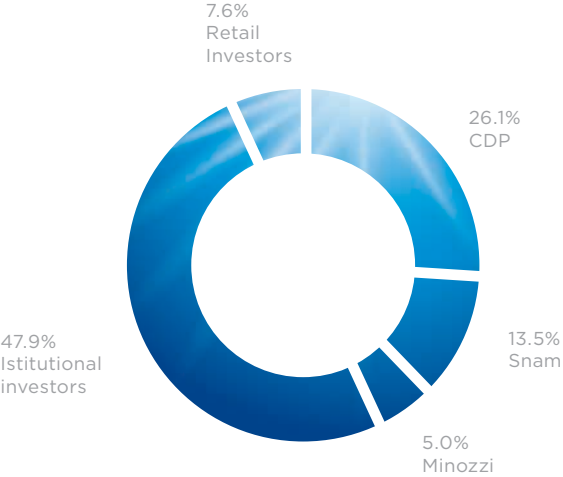
### Shareholders

The share capital of the Company as at 30 June 2017 consisted of 809,135,502 shares with no indication of nominal value, compared to a total value of €1,001,231,518.44. As at 30 June 2017, based on the shareholders' list, the information available and the notices received pursuant to Article 120 of the Consolidated Finance Act, the owners of significant shareholdings (shares exceeding 3%) are represented below.

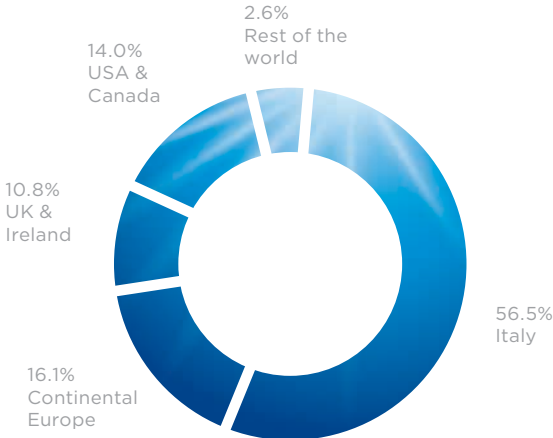
CONSOLIDATING COMPANY	REGISTRANTS	% OWNERSHIP
Italgas S.p.A.	CDP Reti S.p.A. <sup>3</sup>	26.05
	Snam S.p.A.	13.50
	Lazard Asset Management Llc	7.33
	Romano Minozzi	4.99
	Other shareholders	48.13

<sup>3</sup> On 20 October 2016, a shareholders' agreement was concluded between Snam, CDP Reti and CDP Gas, with effect from the effective date of the demerger, in relation to Italgas S.p.A. Effective as of 1 May 2017, CDP Gas was merged by incorporation into CDP. Subsequently, on 19 May 2017, CDP gave to CDP Reti, inter alia, the equity investment held in Italgas S.p.A., equal to 0.969% of the share capital of Italgas S.p.A.

Italgas ownership structure by type of investor



Italgas ownership structure by region



# Operating performance

## INFRASTRUCTURE

Italgas is the leader in Italy in the industry of natural gas distribution and is the third largest operator in Europe.

The distribution service consists of transporting gas through local pipeline networks, from points of delivery at the reduction and measurement stations interconnected with the transport networks (“city-gates”) up to the final delivery points to customers (households, enterprises, etc.). Furthermore, Italgas is engaged in metering activities, which consist of determining, gathering, making available and archiving metering data on natural gas withdrawn over the distribution networks.

Withdrawal stations are the systems that connect local networks to the national pipeline network. These are complex systems that serve multiple functions, including measuring the quantity of gas withdrawn and an initial pressure reduction to allow routing to the city network. Currently Italgas has withdrawal stations with advanced remote control and remote reading systems. The remote control permits maximum timeliness for an intervention in the event of a fault; remote metering allows the continuous detection of a number of parameters related to the management of gas flows as well as detecting the amount of incoming gas in the networks.

Pressure reduction plants are devices placed along the distribution network designed to bring the gas pressure to the right level in relation to the type of use.

## REGULATION

Italgas is subject to regulation by the Authority for Electricity, Gas and Water Systems (also referred to as the Authority or AEEGSI) which defines both how to conduct the service and the distribution and metering rates.

Gas distribution is traditionally carried out under concession by awarding the service on a municipal basis. In 2011, four ministerial decrees were adopted for reforming the legislation governing the sector. Specifically, a special decree established 177 minimum geographical areas (“ATEM”) based on which the new concessions should be assigned. The gas distribution service is performed by transporting the gas on behalf of authorised sales companies for marketing to end customers.

The relationship between the distribution companies and sales companies is governed by a special document prepared by the AEEGSI called the “Network Code,” which specifies services performed by the distributor. These are broken down into main services (gas distribution service and distribution plant technical management) and ancillary services (start-up of new plants; activation, deactivation, suspension and reactivation of supply to end customers; group verification of metering at the request of end customers, etc.).

## KEY OPERATING FIGURES

The main investment and operating figures of the Italgas Group in the first half of 2017 are shown below. In order to allow for a comparison with the figures from the first half of 2016, the consolidated operating figures of the companies Italgas Reti, Napoletanagas and ACAM Gas are presented as well.

### Investments

In the first half of 2017, technical investments were made, for €243 million, with an increase of 59.6% compared with the corresponding period in 2016 (€152 million).

(€ million)		First half of the year		Change	Change %
Financial year 2016		2016	2017		
<b>210</b>	<b>Distribution</b>	<b>87</b>	<b>109</b>	<b>22</b>	<b>25.6</b>
172	Network maintenance and development	73	90	17	23.7
38	Replacement of cast-iron pipes	14	19	5	35.7
<b>112</b>	<b>Metering</b>	<b>51</b>	<b>116</b>	<b>65</b>	
<b>56</b>	<b>Other investments</b>	<b>14</b>	<b>18</b>	<b>4</b>	<b>25.7</b>
378		152	243	91	59.6

**Investments in distribution** (€109 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.

**Investments in metering** (€116 million) relate essentially to the remote metering plan which provided for the replacement of traditional meters with electronic ones, resulting in the installation of roughly 801 thousand new meters during the half year.

**Other investments** (€18 million) mainly concern IT, property and vehicle investments.

### Municipalities in concession and local area tenders<sup>4</sup>

At 30 June 2017 Italgas was the gas distribution service concessionaire in 1,472 Municipalities (similar to 31 December 2016), of which 1,423 are operative (1,422 as at 31 December 2016).

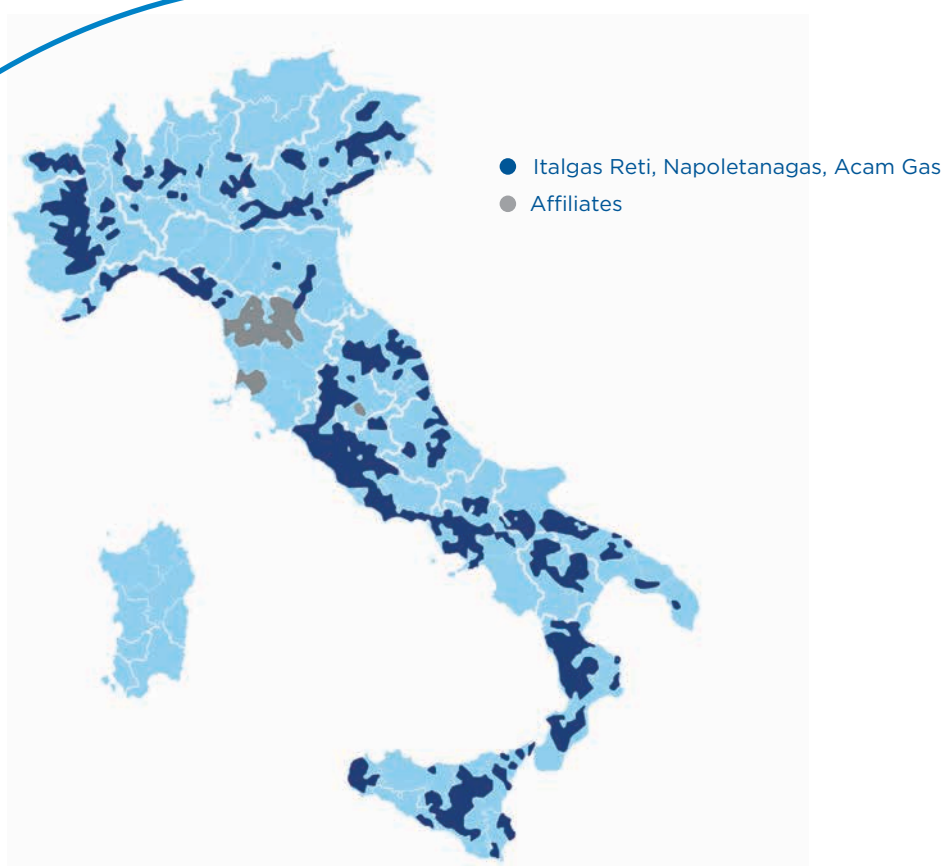
The map shows the presence of the Italgas Group in Italy.

During 2017, Italgas, currently present in 113 ATEM, continued its activities of preparing and transmitting to the Local Authorities and/or Contractors the information and documentation provided by law, preparatory to offering tenders (Articles 4 and 5 of Ministerial Decree No. 226/11). In this context, activities were continued to achieve the approval for the repayment amounts owed to Group companies.

Within the regulatory framework that provides for assigning gas distribution service by tenders for territory (and not individual municipality) as at 30 June 2017, 19 local tender notices were published (of which 5 were suspended by the contracting Stations, 9 extended over the initial deadlines and one revoked for the incomplete annexed documentation).

On 28 June, the tender for the gas distribution services in Atem Torino 2 (around 190,000 redelivery points in 48 municipalities in the area surrounding the Piedmontese capital) was submitted. No tenders were submitted by other operators. Italgas' tender was accepted as it met the requirements stipulated in the notice of invitation to tender.

<sup>4</sup> For more information on the regulation concerning the assignments of gas distribution service and the related call for tenders, please see the specific paragraph in the chapter "Legislative and regulatory framework".



### Gas distributed

As at 30 June 2017, Italgas had distributed 4,260 million cubic metres of gas (4,268 as at 30 June 2016) on behalf of 288 marketing companies.

### Distribution network

The gas distribution network as at 30 June 2017 covered 57,150 km (56,798 km as at 31 December 2016), an increase of 352 km compared with 31 December 2016.

### Meters

As at 30 June 2017, the number of active meters at drop-off points (PdR) amounted to 6.538 million (6.536 as at 31 December 2016).

The legislation on remote meter reading (Resolution No. 631/2013/R/gas as amended) defines the objectives, differentiated by calibre, of electronic meters put into service. These objectives were changed multiple times during the period (from Resolution ARG/gas 155/08 to Resolution 554/2015/R/gas). To comply with this requirement, the Italgas Group foresees replacement of approximately 3.7 million meters by 2018, of which 1.9 million are already replaced.



# Regulation

The natural gas distribution business is regulated by the Electricity, Gas and Water System Authority. 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 relative services. The tariff system establishes in particular that the reference revenue for the formulation of amortisation and depreciation, covering capital expenditure; 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:

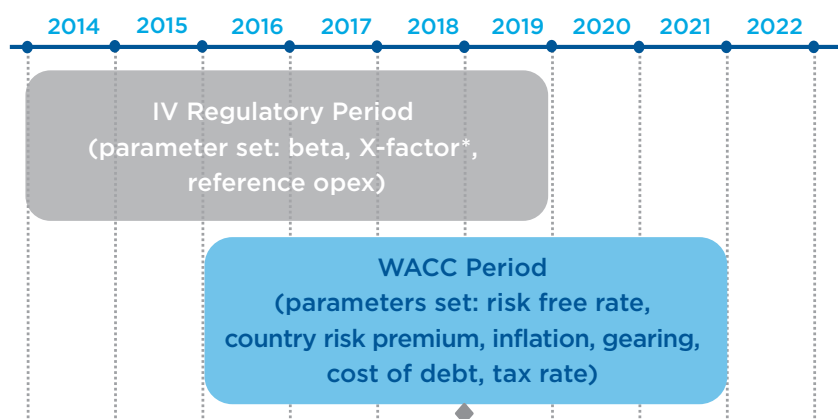
- the cost of net invested capital for regulatory purposes (regulatory asset base, RAB) through the application of a rate of return on it;
- operating costs.

The main tariff elements are reported below on the basis of the regulatory framework (Resolution no. 573/2013/R/gas as amended)

## Highlights of the fourth regulatory period (from 01/01/2014 to 31/12/2019)

End of regulatory period (TARIFFS)	31 December 2019
Calculated net invested capital acknowledged for regulatory purposes (RAB) (*)	Revalued historical cost Centralised fixed assets parametric method
Remuneration of net invested capital acknowledged for regulatory purposes (pre-tax WACC)	Distribution: 6.1% years 2016-2018 Calculation: 6.6% years 2016-2018
Incentives on new investments	Remuneration of t-1 investment to offset regulatory time-lag (since 2013)
Efficiency factor (x factor)	1.7% - on distribution operational costs 0.0% - on calculated operating costs

(\*) The RAB of the companies included in the scope of consolidation, resulting from the application of the criteria adopted by AEEGSI in the definition of reference TARIFFS for the year 2016, is equal to roughly €5.7 billion.



With **Resolution no. 573/2013/R/gas** the Authority defined the tariff criteria for the distribution service and the metering service for the fourth regulatory period, from 1 January 2014 to 31 December 2019.

The invested capital of the distribution companies (RAB) is broken down into two categories: local invested capital and centralised invested capital. For the first three years of the regulatory period 2014-2016 (for the second three-year period, 2017-2019, please see Resolution no. 775/15 below):

- the approach for the valuation of local invested capital is based on the revalued historical cost method, while for investments relating to electronic meters, the standard cost method applies;
- for the valuation of centralised invested capital relating to the real estate and industrial buildings and other tangible and intangible assets, the parametric method applies;
- for centralised assets relating to remote management systems, there is a tariff recognition of remote metering/remote management costs and costs relating to concentrators incurred by companies for the first two years of the fourth regulatory period.

The revenue components correlated with the remuneration and depreciation are determined on the basis of the annual update of net invested capital (RAB), with the inclusion of assets realised in year t-1.

The methodology for updating “price-cap” tariffs is applied only to the revenue component relating to operating costs, which are updated for inflation and reduced by a coefficient for the recovery of annual productivity which is established at 1.7% for operating costs relating to the distribution service and 0% for operating costs relating to the metering and marketing service.

With **Resolution no. 583/2015/R/com** the Authority defined the methods for determining and updating the rate of return on invested capital (WACC) for regulated infrastructural services of the electricity and gas sectors, unifying all parameters with the exception of the specific parameters for the individual services, including the beta parameter which expresses the specific level of non-diversifiable risk of the individual service and the weight of equity and debt capital used for the weighting (D/E ratio). The duration of the regulatory period of the rate of return on invested capital for infrastructural regulations in the electricity and gas sectors is established as six years (2016-2021) and there is a mechanism for updating the rate in mid-period on the basis of economic trends.

For the distribution service, the WACC value for the 2016-18 three-year period was set by the Authority at 6.1% (down compared with 6.9% used in 2014-2015) in real terms before taxes, whereas for the metering service this value, for the same period of 2016-18, was set by the Authority at 6.6% (down compared with 7.2% used in 2014-2015) in real terms before taxes.

**Resolution no. 645/2015/R/gas** approved the mandatory tariffs and the bimonthly equalisation prepayment amounts for the natural gas distribution and metering services for the year 2016.

**Resolution no. 704/2016/R/gas** adopted provisions for the recognition of costs relating to investments in natural gas distribution networks. In particular, the Authority confirmed the introduction of standard costs in the mechanism for the recognition of costs relating to investments in natural gas distribution networks starting with investments in 2018, with impacts on 2019 tariffs.

**Resolution no. 774/2016/R/gas** approved the mandatory tariffs and the bimonthly equalisation prepayment amounts for the natural gas distribution and metering services for the year 2017.

**Resolution no. 775/2016/R/gas** defined criteria for the infra-period updating, applicable for 2017-2019, of the gas distribution and metering services tariff regulation. The update, applicable as of 1 January 2017, regarded the rates of annual reduction of unit costs recognised to cover the operating costs of distribution, metering and marketing services (X-factor), the component covering costs deriving from the obligation to carry out periodical metrological checks of the converters (DCVER), the components covering centralised costs for the smart metering/remote management system and the costs of concentrators (t(tel) and t(con), respectively) and the standard costs applied to electronic metering units for capital cost recognition. In particular:

- with respect to the operating costs of the distribution and metering service, the Authority confirmed the productivity recovery targets, set at 1.7% and 0%, respectively;
- in relation to the operating costs of the marketing service, the Authority increased the unit cost recognised for the year 2017, setting it at €2.0/delivery point and confirmed the X-factor of 0%;
- in relation to the component covering the costs related to the metrological verification component (DCVER), pending detailed investigations, the Authority established a provisional reduction for the year 2017 of the component's unit value, setting it at €50 per delivery point;
- in relation to the component covering centralised costs for the smart metering/smart management system t(tel) and the component covering the costs of concentrators t(con), the Authority established, also for the year 2017, the recognition of actual costs (with a cap the tariff recognitions for costs incurred equal to €5.74 per delivery point at which a **smart meter** has been installed);
- in relation to the recognition of investments in G6-calibre or lower metering equipment for 2016, the Authority confirmed the current system, recognising the actual costs incurred by the companies within the limits of 150% of the standard cost;
- in relation to standard costs for investments in G6-calibre or higher metering equipment for the year 2017, the Authority set a level of 135 €/meter for G4-calibre meters and 170 €/meter for G6-calibre meters.

**Resolution no. 145/2017/R/gas** determined the final reference tariffs for gas distribution and metering services for 2016, calculated on the basis of the actual balance sheet figures for 2015.

**Resolution no. 146/2017/R/gas** redetermined the reference tariffs for gas distribution and metering services for 2009-2015, on the basis of several requests for adjustment submitted by the distribution companies and received by 15 February 2017.

**Resolution no. 220/2017/R/gas** determined the provisional reference tariffs for gas distribution and metering services for 2017 on the basis of the preliminary balance sheet figures for 2016, pursuant to Article 3, paragraph 2, letter a) of the Gas Distribution and Metering Service Tariff Regulation (RTDG).

**Resolution no. 389/2017/R/gas** recognised operating costs for the natural gas metering service, relating to smart metering/remote management systems and concentrators for the years 2011-2013, incurred by distribution companies that opted for the provision of services by third parties (buy type solution), in the case of installing their own systems and concentrators (make type solution).

Please see the Energy Efficiency section of this Report with regard to the regulations pertaining to energy efficiency certificates.

# Financial review

On 7 November 2016, 100% of the Italgas Reti equity investment was separated and transferred from Snam to Italgas, a company established on 1 June 2016.

As of that date, Italgas therefore obtained direct control over Italgas Reti and indirect control over Napoletanagas and ACAM Gas.

On the basis of IFRS 10, paragraph 20, from the above-mentioned 7 November 2016, those companies operating in gas distribution sector were subject to consolidation by the parent company Italgas.

In order to allow for a comparison with the data of the previous half, the half-year income statements of the companies within the current scope of consolidation are presented below. Please note that the income results (cost and revenue) of Italgas S.p.A. in the first month of the company's operations (June 2016) are not significant.

(€ million)		First half of the year		Change	Change %
Financial year 2016		2016	2017		
1,052	Gas Distribution regulated revenue	505	555	50	9.9
27	Other revenues	11	10	(1)	(6.5)
<b>1,079</b>	<b>Total revenues (*)</b>	<b>516</b>	<b>565</b>	<b>49</b>	<b>9.5</b>
(394)	Operating costs (*)	(196)	(175)	21	(10.7)
<b>685</b>	<b>EBITDA</b>	<b>320</b>	<b>390</b>	<b>70</b>	<b>21.9</b>
(326)	Amortisation, depreciation and impairment	(142)	(186)	(44)	31.0
<b>359</b>	<b>EBIT</b>	<b>178</b>	<b>204</b>	<b>26</b>	<b>14.6</b>
(48)	Net financial expenses	(29)	(18)	11	(37.9)
20	Net income from equity investments	10	11	1	10.0
<b>331</b>	<b>Pre-tax profit</b>	<b>159</b>	<b>197</b>	<b>38</b>	<b>23.9</b>
(110)	Income tax	(45)	(57)	(12)	26.7
<b>221</b>	<b>Net profit (**)</b>	<b>114</b>	<b>140</b>	<b>26</b>	<b>23.1</b>

(\*) Net of the effects of IFRIC 12 "Concession Service Arrangements"  
(€223 and €137 million respectively in the first half of 2017 and 2016).

(\*\*) Net profit is attributable to Italgas.

## NET PROFIT

The **net profit** in the first half of 2017 totalled €140 million, an increase of €26 million, or 23.1%, compared with the corresponding period in 2016. The increase was primarily due to the growth in operating profit (€26 million; +14.6%) and lower net financial expenses (€11 million; -37.9%) mainly as a result of lower expenses correlated with financial indebtedness and lower financial expenses connected to the discounting of environmental provisions. These factors were in part offset by higher income taxes (+€12 million; equal to 26.7%), due primarily to the increase in the tax base.

*Analysis of income statement items***TOTAL REVENUE**

(€ million)

Financial year 2016		First half of the year		Change	Change %
		2016	2017		
1,004	Distribution revenue	485	<b>499</b>	14	2.8
48	Other gas distribution regulated revenue	20	<b>56</b>	36	
<b>1,052</b>	<b>Total gas distribution regulated revenue</b>	<b>505</b>	<b>555</b>	<b>50</b>	<b>9.9</b>
28	Other revenues	11	<b>10</b>	(1)	(6.5)
<b>1,080</b>	<b>Total revenue</b>	<b>516</b>	<b>565</b>	<b>49</b>	<b>9.5</b>

**Total revenue** for the first half of 2017 stood at €565 million, an increase of €49 million compared with the first half of 2016. It refers to the gas distribution regulated revenue (€555 million) and other revenue (€10 million).

The increase in gas distribution regulated revenue amounts to €50 million and results from: (i) increased distribution revenue (+€14 million) due to the tariff recognition of the investment component (+€4 million), tariff adjustments relating to previous years (+€3 million), as well as other elements including the effect recorded in the first quarter of 2016 of the Authority's non-recognition of incentives for investments in the replacement of cast iron pipes for previous years (+€6 million); (ii) higher gas distribution regulated revenue (+€36 million), mainly due to the increase in the contribution pursuant to Article 57 of AEEGSI Resolution 367/14 (+€29 million), in relation to the investment plan to replace traditional meters with electronic smart meters, as set out in the remote metering project pursuant to AEEGSI resolutions 631/13 and 554/15, as well as higher revenue for accessory network services and regulated refunds (+€7 million).

The other revenue refers essentially to water sales and third-party services and reduced by €1 million compared with the first half of 2016 due to lower revenues from real estate activities.

## OPERATING COSTS

(€ million)

Financial year 2016		First half of the year		Change	Change %
		2016	2017		
245	Fixed costs	133	131	(2)	(2)
8	Variable costs	4	3	(1)	(25.0)
140	Other costs	47	35	(12)	(25.5)
23	- of which special items				
370	<b>Total gas distribution regulated costs</b>	184	169	(15)	(8.2)
24	Other costs	12	6	(6)	(50.0)
394	<b>Operating costs</b>	196	175	(21)	(10.7)

**Fixed costs**, consisting of the sum of personnel costs and recurring external costs, amounted to €131 million as at 30 June 2017, down €2 million compared with the first half of 2016 (€133 million) as a result of a reduction in costs for services (-€15 million, in part linked to the in-sourcing of technical activities and staff), offset in part by higher costs for maintenance (€12 million) and the meter reading process (€2 million).

**Other costs** totalled €35 million, including €26 million relating to concession fees, down by €12 million compared with the previous period due to: (i) lower net provisions for risks and future expenses (€2 million); (ii) lower net costs relating to Energy Efficiency Certificates (€3 million); (iii) lower write off from properties (€7 million).

**Other costs** (€6 millions) decreased by €6 million, mainly due to lower provisions for environmental liabilities.

## AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(€ million)

Financial year 2016		First half of the year		Change	Change %
		2016	2017		
326	<b>Total amortisation and depreciation</b>	142	184		
283	Intangible assets IFRIC 12	117	155	38	32.5
29	Other intangible assets	16	21	5	31.3
14	Property, plant and equipment	9	8	(1)	(11.1)
	<b>Impairment losses</b>		2	2	
326		142	186	44	31

**Amortisation, depreciation and impairment losses** (€186 million) increased by €44 million, or 31%, compared with the first half of 2016. This growth was due primarily to greater depreciation as a result of the reduction in the service life of traditional meters<sup>5</sup>, subject to the smart meter replacement plan required by AEEGSI resolutions under the smart meter installation plan.

## NET FINANCIAL EXPENSES

(€ million)

Financial year 2016		First half of the year		Change	Change %
		2016	2017		
161	<b>Expense (income) on financial debt</b>	22	17	(5)	(22.7)
161	- Interest and other expense on short- and long-term financial debt	22	17	(5)	(22.7)
119	- of which special items				
42	<b>Expenses (income) on adjusted financial debt</b>	22	17	(5)	(22.7)
7	<b>Other net financial expense (income)</b>	7	1	(6)	(85.7)
7	Expenses (income) related to the discounting of environmental provisions and provisions for employee benefits	7	1	(6)	(85.7)
(1)	<b>Financial expense capitalised</b>				
48		29	18	(11)	(37.9)

<sup>5</sup> In line with the plan for replacing meters, expected to be completed by 2018, as of the second half of 2016 the service life of the meters included in the replacement project pursuant to AEEGSI resolutions 631/13 and 554/15 was adjusted in order to complete the depreciation process. As regards 2017, the useful life of the meters to be replaced during the year was conventionally considered in the first half-year.

The **net financial expenses in the first half of 2017** (€18 million) reduced by €11 million compared with the corresponding period in 2016 due to: (i) a decrease in expenses correlated with financial debt of €8 million, partially offset by upfront fees paid in 2016 totalling €3 million recognised at cost following the repayment of the bridge to bond loan in the first half of 2017; (ii) lower financial expenses connected to the discounting of environmental provisions and employee benefits (€6 million), resulting from the change in interest rates and the timing of expected future expense.

**Net income from equity investments**, equal to €11 million, regards the share of net profit for the period of companies valued using the equity method and refers in particular to Toscana Energia.

## INCOME TAXES

(€ million)

(€ million)		First half of the year			
Financial year 2016		2016	2017	Change	Change %
Current taxes					
119	Current taxes	66	93	27	40.9
(40)	- of which special items				
159		66	93	27	40.9
(Deferred prepaid) taxes					
(33)	Deferred taxes	(19)	(23)	(4)	21.1
(16)	Prepaid taxes	(2)	(13)	(11)	
(49)		(21)	(36)	(15)	71.4
33.3%	Tax rate (%)	28.3%	28.8%		
110	Income taxes	45	57	12	26.7

The **Income taxes in the first half of 2017** (€57 million) rose by €12 million compared with the first half of the previous year essentially as a result of the following factors: (i) +€12 million due to the increase in gross income; (ii) -€6 million in relation to the reduction in the IRES rate from 27.5% to 24% and (iii) +€7 million due to the lower ACE - Economic Growth Aid benefit (Law Decree no. 201 of 6 December 2011 converted by Law no. 214 of 22 December 2011 as amended).

The **tax rate** stood at 28.8% (28.3% in the first half of 2016).

## RECLASSIFIED FINANCIAL STATEMENTS

The reclassified financial statements combines the asset and liability of the mandatory format included in the Half-Year Report based on the criterion of how the business operates, conventionally split into the three basic functions of investment, operations and financing.

The format provided presents useful information for the investor as it allows the identification of the sources of financing (equity and third-party funds) and the investment of financial resources in fixed and working capital.

## STATEMENT OF FINANCIAL POSITION

The Italgas reclassified statement of financial position as at 30 June 2017, compared with that as at 31 December 2016, is summarised below:

(€ million)	31.12.2016	30.06.2017	Change
<b>Fixed capital</b>	<b>4,793</b>	<b>4,832</b>	<b>39</b>
Property, plant and equipment	227	224	(3)
Intangible assets	4,487	4,531	44
Equity investments	176	173	(3)
Net payables for investments	(97)	(96)	1
<b>Net working capital</b>	<b>(9)</b>	<b>(11)</b>	<b>(2)</b>
<b>Provisions for employee benefits</b>	<b>(121)</b>	<b>(120)</b>	<b>1</b>
<b>Assets held for sale and directly related liabilities</b>	<b>19</b>	<b>19</b>	
<b>NET INVESTED CAPITAL</b>	<b>4,682</b>	<b>4,720</b>	<b>38</b>
<b>Net equity (including minority interests)</b>			
- attributable to the Group	1,063	1,038	(25)
- attributable to minority interests	1		(1)
	<b>1,064</b>	<b>1,038</b>	<b>(26)</b>
<b>Net financial debt (cash)</b>	<b>3,618</b>	<b>3,682</b>	<b>64</b>
<b>COVERAGE</b>	<b>4,682</b>	<b>4,720</b>	<b>38</b>

The **Net invested capital** as at 30 June 2017 amounts to €4,720 million and consists of the items commented below.

**Fixed capital** (€4,832 million) rose by €39 million compared with 31 December 2016 essentially due to the increase in intangible assets (+€44 million) and the reduction in net financial debt relating to investment activities (+€1 million), in part offset by the reduction in property, plant and equipment (-€3 million).

**Property, plant and equipment and intangible assets** amount to €4,755 million.

Intangible assets include service concessions accounted for pursuant to IFRIC 12 under the item intangible assets (€4,412 million). Property, plant and equipment regards primarily buildings (€187 million) and industrial and commercial equipment (€30 million).

An analysis of the change in **Property, plant and equipment** and **Intangible assets** is provided below:

(€ million)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
<b>Balance as at 31 December 2016</b>	<b>227</b>	<b>4,360</b>	<b>128</b>	<b>4,715</b>
Investments	5	224	14	<b>243</b>
Amortisation, depreciation and impairment losses	(8)	(155)	(23)	<b>(186)</b>
Transfers, eliminations and divestments		(2)		<b>(2)</b>
Grants		(15)		<b>(15)</b>
Other changes				
<b>Balance as at 30 June 2017</b>	<b>224</b>	<b>4,412</b>	<b>119</b>	<b>4,755</b>

Investments in the first half of 2017, equal to €243 million, regard in particular the replacement of meters and the installation/replacement of gas networks.

The item **Equity investments** (€173 million) includes the valuation of equity investments using the equity method and refers to Toscana Energia (€171 million), Umbria Distribuzione Gas (€1 million) and Metano Sant'Angelo Lodigiano (€1 million). Consolidated **net working capital** as at 30/06/2017 amounts to -€11 million and is broken down as follows:

(€ million)	31.12.2016	30.06.2017	Change
Trade receivables	418	<b>223</b>	(195)
Inventories	33	<b>21</b>	(12)
Tax receivables	54	<b>26</b>	(28)
Accruals and deferrals from regulated activities	35	<b>62</b>	27
Other assets	146	<b>276</b>	130
Trade payables	(174)	<b>(152)</b>	22
Provisions for risks and charges	(230)	<b>(219)</b>	11
Deferred tax liabilities	(106)	<b>(73)</b>	33
Net tax payables	(14)	<b>(39)</b>	(25)
Other liabilities	(171)	<b>(136)</b>	35
	<b>(9)</b>	<b>(11)</b>	<b>(2)</b>

With respect to 31 December 2016, the change of -€2 million in working capital derives primarily from: (i) the reduction in trade receivables (-€195 million) connected in particular to the effects of seasonality in volumes transported on behalf of sales companies; (ii) the lower balance of tax items (-€20 million); (iii) lower inventories (-€12 million) in relation to higher withdrawals connected to the gas meter replacement plan; (iv) the increase in other current assets (€130 million) deriving mainly from higher receivables from the CSEA (Energy and Environmental Services Fund) connected to Energy Efficiency Certificates (+€111 million) and the increase in receivables from CSEA relating to additional UG2 and Gas Bonus transmission components (+€15 million); (v) the increase in the accruals and deferrals from regulated activities (+€27 million) relating to the estimated tariff recognition in line with the regulation in force regarding the plan for the replacement of traditional meters with electronic smart meters; (vi) the increase in trade payables (+€22 million), in particular to suppliers; (vii) lower other current liabilities (€35 million) resulting primarily from lower net payables to CSEA relating to additional RE, RS and UG1 transmission components (€30 million); (viii) lower provisions for risks and charges (€11 million).

**Assets held for sale and the directly associated liabilities** regard a property complex owned by Italgas (€19 million, net of environmental provisions relating to costs for restoration activities) for which sales negotiations are currently being finalised<sup>6</sup>.

**Net financial debt** was €3,682 million as at 30 June 2017 (€3,618 million as at 31 December 2016).

(€ million)	31.12.2016	30.06.2017	Change
<b>Financial and bond debt</b>	<b>3,619</b>	<b>3,684</b>	<b>65</b>
Short-term financial debt (*)	2,696	631	(2,065)
Long-term financial debt	923	3,053	2,130
<b>Financial receivables and cash and cash equivalents</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>
Cash and cash equivalents	(1)	(2)	(1)
	<b>3,618</b>	<b>3,682</b>	<b>64</b>

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

Financial and bond debt as at 30 June 2017, totalling €3,684 million (€3,619 million as at 31 December 2016) were denominated entirely in euros and referred mainly to bonds (€2,139 million), payables to banks (€821 million) and loan agreements concerning European Investment Bank (EIB) funding (€724 million).

<sup>6</sup> It is worth pointing out that, as part of the Snam demerger, the rights and obligations in relation to the Property Complex located in Roma Ostiense were transferred to Italgas Reti S.p.A. as a result of specific contractual agreements made during the sale by Eni to Snam of 100% of the former's share capital in Italgas Reti, which occurred in 2009. However, the rights and obligations concerning the price adjustment were transferred by Snam S.p.A. to Italgas S.p.A.

The reduction in short-term financial debt compared with 31 December 2016, equal to €2,065 million, is mainly attributable to the repayment of a bridge to bond syndicate loan for an original amount of €2,300 million; this repayment was made possible thanks to the issuing of bond loans with the following characteristics: (i) a nominal €1,500 million, issued on 19 January 2017 and divided into two tranches, the first with a term of 5 years and the second 10 years, both at a fixed rate, amounting to €750 million each and an annual coupon of 0.50% and 1.625% respectively; (ii) a nominal €650 million issued on 14 March 2017, maturing on 14 March 2024 with a fixed rate annual coupon of 1.125%. The residual amount of the bridge to bond bank loan, equal to €150 million, was repaid on 13 April 2017.

The breakdown of debt by type of interest rate as at 30 June 2017 is as follows:

(€ million)	31.12.2016	%	30.06.2017	%
Fixed rate			2,139	58.1
Floating rate	3,619	100.0	1,545	41.9
	3,619	100.0	3,684	100.0

Fixed rate financial liabilities stood at €2,139 million and refer to the issuing of bond loans. Floating rate financial liabilities totalled €1,545 million and fell by €2,074 compared with 31 December 2016 mainly as a result of the issuing of the above-mentioned bond loans which replaced short-term bank loans.

Italgas, as at 30 June 2017, had unused committed long-term credit lines amounting to €1.1 billion.

As at 30 June 2017, there were no financial covenants and unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. 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.

## RECLASSIFIED STATEMENT OF CASH FLOWS

The reclassified statement of cash flows provided below is the summary of the legally required cash flow statement. It shows the connection between opening and closing cash and cash equivalents and the change in net financial debt during the period. The two statements are reconciled through the free cash flow. The two statements are reconciled through the free cash flow<sup>7</sup>, i.e. the cash surplus or deficit left over after servicing capital expenditure, i.e. the cash surplus or deficit left over after servicing capital expenditure.

(€ million)

Financial year 2016		First half of the year	
		2016	2017
119	<b>Net profit</b>	114	140
	<i>Adjusted for:</i>		
305	- amortisation, depreciation and other non-monetary components	132	174
11	- Net capital losses (capital gains) on asset sales and eliminations	9	2
228	- Interest and income tax	67	70
(5)	Change in working capital due to operating activities	69	(16)
(287)	Dividends, interest and income taxes collected (paid)	(99)	(41)
<b>371</b>	<b>Net cash flow from operating activities</b>	<b>292</b>	<b>329</b>
<b>499</b>	<b>Adjusted net cash flow from operating activities</b>		
(350)	Technical investments	(140)	(230)
	Equity investments		(1)
(1,503)	Change in scope of consolidation and business units		
(13)	Other changes relating to investment activities	(45)	
<b>(1,495)</b>	<b>Free cash flow</b>	<b>107</b>	<b>98</b>
	Change in financial receivables not held for operating activities		
1,770	Change in short- and long-term financial debt	(107)	65
(275)	Equity cash flow		(162)
	<b>Net cash flow for the period</b>		<b>1</b>

<sup>7</sup> The *free cash flow* closes alternatively: (i) on 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) on 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)

		First half of the year	
		2016	2017
<b>Financial year 2016</b>			
<b>Change in net financial debt</b>			
(1,495)	Free cash flow	107	<b>98</b>
(1,848)	Change in the scope of consolidation and business units (non-monetary)		
(275)	Equity cash flow		<b>(162)</b>
<b>(3,618)</b>	<b>Change in net financial debt</b>	<b>107</b>	<b>(64)</b>

The net cash flow from operating activities in the first half of 2017 amounted to €329 million which completely covered the funding of the net investments, equal to €231 million, generating a free cash flow of €98 million, which partly covered the cash flow of equity of -€162 million (dividend paid), resulting in an increase of €64 million in net financial indebtedness.

## RECONCILIATION BETWEEN RECLASSIFIED AND LEGALLY REQUIRED FINANCIAL STATEMENTS

### Reclassified Income Statement

(€ million)

Reclassified Income Statement Items	Reference to the notes to the consolidated financial statements	first half of 2016		first half of 2017	
		Figures from mandatory statements	Partial figures from mandatory statements	Figures from mandatory statements	Partial figures from mandatory statements
<b>Total revenues</b>		<b>653</b>		<b>516</b>	<b>791</b>
- Revenues for construction and upgrading distribution infrastructures IFRIC 12	(note 21)		137		223
- AEEGSI penalties	(note 21)				3
<b>Operating costs</b>		<b>(333)</b>		<b>(196)</b>	<b>(401)</b>
- Costs for construction and upgrading distribution infrastructures IFRIC 12			(137)		(223)
- AEEGSI penalties			-		(3)
<b>Total operating costs</b>		<b>(333)</b>		<b>(196)</b>	<b>(401)</b>
<b>EBITDA</b>		<b>320</b>		<b>320</b>	<b>390</b>
<b>Amortisation, depreciation and impairment losses</b>		<b>(142)</b>		<b>(142)</b>	<b>(186)</b>
<b>EBIT</b>		<b>178</b>		<b>178</b>	<b>204</b>
Net financial expense		(29)		(29)	(18)
Net income on equity investments		10		10	11
<b>Pre-tax profit</b>		<b>159</b>		<b>159</b>	<b>197</b>
Income taxes		(45)		(45)	57
<b>Net profit</b>		<b>114</b>		<b>114</b>	<b>140</b>

## Reclassified financial statements

(€ million)

Reclassified financial statement items	31.12.2016		30.06.2017		
	Reference to the notes to the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
(Where not expressly indicated, the item is obtained directly from the legally-required financial statements)					
Capital equipment					
Property, plant and equipment			227		224
Intangible assets			4,487		4,531
Investments valued using the equity method			176		173
Net payables relating to investment activities, composed of:			(97)		(96)
- Payables for investment activities	(note 14)	(103)		(101)	
- Receivables for investment/divestment activities	(note 5)	6		5	
Total capital equipment			4,793		4,832
Net working capital					
Trade receivables	(nota 5)		418		223
Inventories			33		21
Tax receivables, composed of:			54		25
- Current income tax assets and other current tax assets	(note 7)	38		10	
- IRES receivables for National Tax Consolidation Scheme	(note 5)	16		15	
Trade payables	(note 14)		(174)		(152)
Tax payables, composed of:			(14)		(39)
- Liabilities for current taxes on income and liabilities for other current taxes	(note 7)	(14)		(39)	
Deferred tax liabilities			(106)		(73)
Provisions for risks and charges			(230)		(219)
Other assets, composed of:			146		278
- Other receivables	(note 5)	139		271	
- Other current and non-current assets	(note 8)	7		7	
Assets and liabilities from regulated activities, composed of:			35		62
- Regulated activities	(note 8)	35		62	
- Liabilities from regulated activities	(note 15)				
Other liabilities, composed of:			(171)		(137)
- Other payables	(note 14)	(166)		(134)	
- Other current and non-current liabilities	(note 15)	(5)		(3)	
Total net working capital			(9)		(11)
Employee benefit funds			(121)		(120)
Assets held for sale and directly associated liabilities, composed of:		19			19
- Assets held for sale		25		25	
- Liabilities directly associated with assets held for sale		(6)		(6)	
NET INVESTED CAPITAL			4,682		4,720
Shareholders' equity including minority interests			1,064		1,038
Net financial debt					
Financial liabilities, composed of:			3,619		3,684
- Long-term financial liabilities		923		3,053	
- Current portions of long-term financial liabilities				10	
- Short-term financial liabilities		2,696		621	
Financial receivables and cash and cash equivalents, composed of:			(1)		(2)
- Cash and cash equivalents	(note 4)	(1)		(2)	
Total net financial debt			3,618		3,682
HEDGE ACCOUNTING			4,682		4,720

## Reclassified statement of cash flows

(€ million)

Items from the reclassified statement of cash flows and reconciliation with the legally required format	first half of 2016		first half of 2017	
	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
<b>Net profit</b>		<b>114</b>		<b>140</b>
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		132		174
- Amortisation and depreciation	142		184	
- Net impairments of tangible and intangible assets			2	
- Effect of valuation using equity method	(10)		(11)	
- Change in employee benefits fund			(1)	
Net capital losses (capital gains) on sales and asset radiation		9		2
Interest, income taxes and other changes:		67		70
- Interest expense	22		13	
- Income taxes	44		57	
Change in operating capital relating to operations:		69		(16)
- Inventories	(5)		12	
- Trade receivables	183		195	
- Trade payables	8		(22)	
- Change to provision for risks and charges	13		(11)	
- Other assets and liabilities	(130)		(190)	
Dividends, interest and income taxes collected (paid):		(99)		(41)
- Dividends collected			14	
- Interest paid	(77)		(13)	
- Income taxes (paid) refunded	(22)		(42)	
<b>Net cash flow from operations</b>		<b>292</b>		<b>329</b>
Technical investments:		(140)		(230)
- Property, plant and equipment	(3)		(5)	
- Intangible assets	(137)		(224)	
- Equity investments			(1)	
Investments in companies that joined the scope of consolidation and business units				
Other changes relating to investment activities:		(45)		(1)
- Changes in payables and receivables relating to investment activities			(1)	
<b>Free cash flow</b>		<b>107</b>		<b>98</b>
Change in financial receivables non-instrumental to operations				
Change in financial payables:		(107)		65
- Assumptions of long-term financial payables			2,139	
- Repayments of long-term financial payables	(7)			
- Increase (decrease) in net short-term financial payables	(101)		(2,074)	
Dividends distributed to Italgas shareholders				(162)
<b>Net cash flow for the period</b>				<b>1</b>

# Other information

## TREASURY SHARES

The company did not own any treasury shares as at 30 June 2017.

## RELATED-PARTY TRANSACTIONS

Based on Italgas' current ownership structure, the parties related to Italgas include, in addition to companies associated with the Group or under its joint control, 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.

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; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

Italgas is not managed or coordinated by any other entity, although CDP and CDP Reti consolidate it pursuant to IFRS 10. As at 31 December 2016, 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 "Relationships with related parties" of the Notes to the consolidated financial statements.

Relations with managers with strategic responsibilities ("Key Managers") are shown in the paragraph "Operating costs" of the Notes to the consolidated financial statements.

## SIGNIFICANT EVENTS AFTER THE END OF THE HALF-YEAR

Key events after the end of the half-year 2017 are illustrated in the specific chapters of this Report.

Note that on 20 July 2017 the director Barbara Borra resigned from the Board of Directors and from the committees on which she was a member.

# Elements of risk and uncertainty

Below are the main risks analysed and monitored by the Italgas Group.

## FINANCIAL RISKS

### Interest rate risk

Fluctuations in interest rates affect the market value of Italgas' financial assets and liabilities and its net financial expense. The Italgas Group has adopted a centralised organisational model. In accordance with this model, Italgas' various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within the defined limits.

As at 30 June 2017 the financial debt at floating rate was 41.9% and at fixed rate was 58.1%. As at the same date the Italgas Group used external financial resources in the following forms: bonds subscribed by institutional investors, bilateral and syndicated loans with banks and other financial institutions, in the form of medium-to-long-term loans and bank credit lines at interest rates indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor).

Therefore, an increase in interest rates, not implemented - in full or in part - in the regulatory WACC, could have negative effects on the assets and on the economic and financial situation of the Italgas Group.

At full performance, Italgas aims to maintain a debt ratio between a fixed rate and variable rate to minimise the risk of rising interest rates, with a goal being a fixed-rate and variable-rate debt composition of approximately 2/3 for fixed-rate and 1/3 for variable-rate. We note in this regard that in early 2017, the Company issued a total of € 2,150 million in bonds with the following characteristics: (i) € 1,500 million, issued on 19 January 2017 and divided into two tranches, the first with a term of 5 years and the second of 10 years, both at a fixed rate, amounting to € 750 million each and an annual coupon of 0.50% and 1.625% respectively ; (ii) € 650 million issued on 14 March 2017, maturing on 14 March 2024 with a fixed rate annual coupon of 1.125%.

### Credit risk

Credit risk is the exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of amounts owed may have a negative impact on the financial results and financial situation of Italgas.

The rules for customer access to the gas distribution service are established by AEEGSI and set out in the Network Codes, namely, in documents that establish, for each type of service, the rules regulating the rights and obligations of the parties involved in the process of providing said services and contain contractual conditions that reduce the risk of non-compliance by customers, such as the provision of bank or insurance guarantees on first request.

As at 30 June 2017 there were no significant credit risks. It should be noted, however, that approximately 94% of trade receivables relate to extremely reliable clients, including Eni, which represents 33% of the total trade receivables.

It cannot be ruled out, however, that Italgas could incur liabilities and/or losses due to its customers' failure to fulfil their payment obligations.

### Liquidity risk

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.

In order to mitigate this risk and to maintain a level of liquidity consistent with maintaining the requirements of its rating, Italgas signed finance agreements in excess of its financial needs as at 30 June 2017. That surplus (€ 1.1 billion) will be used to address possible liquidity needs, where necessary, if the actual borrowing requirement is higher than estimated. Also note that at the same date, in addition to the funding from the banking system, the Euro Medium Term Notes (EMTN) programme, approved by the Italgas Board of Directors on 18 October 2016, has allowed for the issuance, of the remaining bonds worth €650 million, to be placed with institutional investors. Italgas aims, in financial terms, at establishing a financial structure that, in line with its business objectives, ensures a level of liquidity adequate for the group in terms of the duration and composition of the debt. The achievement of this financial structure will take place through the monitoring of certain key parameters, such as the ratio between debt and the RAB, the ratio between short-term and medium-/long-term debt, the ratio between fixed rate and floating rate debt and the ratio between bank credit granted and bank credit used.

### Rating risk

With reference to the long-term debt of Italgas, respectively on 7 and 8 November 2016, Fitch and Moody's assigned Italgas S.p.A. the final rating of BBB+ (stable outlook) and Baa1 (stable outlook, later changed to negative outlook on 12 December 2016, following the previous change from stable to negative outlook of the long-term rating of the Italian Republic).

Based on the methodologies adopted by the rating agencies, a downgrade of one notch in the Italian Republic's current rating could trigger a downward adjustment in Italgas' current rating.

### Debt covenant and default risk

As at 30 June 2017, there were no financial covenants and unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. 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.

The bonds issued by Italgas as at 30 June 2017 as part of the Euro Medium Term Notes programme provide for compliance with covenants that reflect international market practices regarding, *inter alia*, negative pledge and *pari passu* clauses.

Failure to comply with the commitments established for these loans - in some cases only when this non-compliance is not remedied within a set time period - and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Italgas' failure to comply and could trigger the early repayment of the relative loan.

## OPERATING RISKS

The Italgas Group uses specific, certified management systems with the objective of overseeing the processes and business activities in accordance with the health and safety of workers, environmental protection and the energy effectiveness of services offered.

### **Risks associated with failures and unforeseen interruption of distribution service**

Managing regulated gas activities involves a number of risks of malfunctioning and unforeseeable distribution service disruptions from unintended events, such as accidents, breakdowns or malfunctioning of equipment or control systems, the under performance of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events beyond Italgas' control. These related events could cause a decrease in revenue and involve substantial damage to persons, property or the environment. Although Italgas has taken out specific insurance policies in line with best practices to cover some of these risks, the related insurance coverage could be insufficient to meet all the losses incurred, the compensation obligations or cost increases.

### **Risks associated with environmental protection, health and safety**

The activity of Italgas is subject to the Italian and European Union law on environmental protection.

Italgas conducts its business in compliance with the laws and regulations concerning the environment and safety. Given this, the possibility of the Group incurring significant costs or liability cannot be entirely ruled out. It is, in fact, difficult to foresee the economic and financial repercussions of any previous environmental damage, also in view of the possible effect of new laws or regulations that may be introduced for environmental protection, the impact of any new technologies for environmental clean-ups, possible litigation that arises and the difficulty in determining the possible consequences, also with respect to other parties' liability.

Italgas is engaged in the remediation of sites contaminated essentially due to manufactured gas production performed in the past, removal and disposal of waste (mainly for demolition of obsolete plant facilities) and disposal of materials containing asbestos.

To cover the liabilities estimated in relation to the formalities required by the law in effect, a special fund has been set up, amounting to €133 million.

### **Risks related to Energy Efficiency Certificates**

Legislative Decree No. 164/00 concerning the liberalisation of the gas market, provides under Article 16.4 that distributors of natural gas for civil use are to pursue energy savings for the end users and the development of renewable energy; to this end, distributors are assigned the so-called Energy Efficiency Certificates, the annulment of which triggers a refund from the Energy and Environmental Services Fund on the basis of funds constituted through the RE (Energy Saving) components in the distribution fees.

To set the national savings amount per year to be pursued through the mechanism of the “white certificates”, the Authority determines its specific energy saving targets for electricity and natural gas distributors.

There is a potential risk of economic loss due to any negative difference between the mean purchase value of the certificates and the recognised tariff-based fee and the failure to achieve the targets set.

### **Risks associated with the expiration and renewal of gas distribution concessions**

The gas distribution activity that the Group Italgas performs operates by virtue of concessions issued by individual municipalities. As at 30 June 2017, Italgas managed 1,472 natural gas distribution concessions throughout Italy.

Inter ministerial Decree No. 226/11 ruled that the gas distribution service can only be performed on the basis of tendering procedures exclusively by ATEM, mainly provincial in dimension.

Under the tender processes launched, Italgas may not be awarded concessions in the planned areas, or may be awarded said concessions under conditions that are less favourable than the current conditions, with a possible negative impact on its operating results, financial position and cash flows. However, it must be noted that, in the event of failure to be awarded the concessions with regard to municipalities previously managed, Italgas would be entitled to the reimbursement amount provided to the outgoing operator (see next section).

With reference to the EIB, the relative contracts contain a clause whereby, in the event of a significant reduction in EBITDA resulting from the loss of concessions, there is a disclosure obligation to the EIB and a subsequent consultation period, after which the early repayment of the loan may be required.

It should also be noted that, in the context of procedures for the tenders initiated, Italgas may be awarded concessions in ATEM previously managed entirely or partially by other operators; therefore, it cannot be ruled out that such awards could lead, at least initially, to higher operating expenses for the Group than their standard operations.

Given the complexity of the regulations governing the expiration of the concessions held by Italgas, this could give rise to judicial and/or arbitral disputes between concession holders, with possible negative effects on the assets and on the balance sheet, the economic and financial situation of the Italgas Group.

### **Risks associated with the reimbursement amount paid by the new operator**

With reference to the gas distribution concessions for which Italgas also owns the networks and facilities, Legislative Decree No. 164/00, as subsequently supplemented and amended, provides that the reimbursement amount paid to the outgoing service

operators and owners of existing assignments and concessions is calculated in accordance with the provisions in the agreements or contracts, provided that they were concluded before the date of the regulation entering into force pursuant to Ministerial Decree No. 226 dated 12 November 2011 (i.e., before 11 February 2012). Further, and, to the extent not attributable to the will of the parties, as well as for aspects not governed by those agreements or contracts, based on the Guidelines on the criteria and procedures for assessing the reimbursement value, subsequently prepared by the Ministry of Economic Development with the document dated 7 April 2014 and approved by Ministerial Decree dated 22 May 2014<sup>8</sup>.

Where there is a disagreement between the local authority and the outgoing operator with regard to the reimbursement amount, the public notice contains a reference amount to be used for the purpose of the tender. This reference amount is the estimate of the contracting local authority or the RAB, whichever is greater.

Ministerial Decree No. 226/11 on the tender process criteria and bid evaluation, states that the incoming operator acquires ownership of the plant with the payment of the reimbursement to the outgoing operator, with the exception of any portions of the plant that are municipally owned.

Eventually, i.e., in subsequent periods, the reimbursement to the outgoing operator shall be the value of local net fixed assets, net of government grants for capital expenditure and private contributions relating to local assets, calculated on the basis of criteria used by the Authority to determine distribution tariffs (RAB).

In light of the new legal framework introduced, it cannot be ruled out that the reimbursement value of the concessions, which are assigned a third-party beneficiary upon conclusion of the tenders, would be less than the value of the RAB. This could lead to negative effects on the assets and the balance sheet, and the economic and financial situation of Italgas.

<sup>8</sup> In other words, the specific methods provided for in the individual concession agreements entered into and effective prior to 11 February 2012 take precedence over the guidelines, albeit subject to the limitations set forth in the guidelines and in the tender criteria regulation mentioned in Ministerial Decree No. 226/11.

**Regulatory risk**

Italgas carries out its activities in a gas sector subject to regulation. The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the AEEGSI and, more generally, changes to the regulatory framework, may have a significant impact on the operating activities, the economic results and the financial equilibrium of the Group.

Considering the specific nature of its business and the context in which Italgas operates, developments in the regulatory context with regard to criteria for determining the reference tariffs are particularly significant.

Future changes to European Union policies or at the national level, which may have unforeseeable effects on the relevant legislative framework and, therefore, on Italgas' operating activities and results, cannot be ruled out.

**Legal and non-compliance risk**

Legal and non-compliance risk concerns the failure to comply, in full or in part, with rules and regulations at the European, national, regional and local levels with which Italgas must comply in relation to the activities it performs. The violation of such rules and regulations may result in criminal, civil and/or administrative penalties, as well as damage to the balance sheet, financial position and/or reputation. As regards specific cases, among other things, the infringement of regulations regarding the protection of workers' health and safety and of the environment, and the infringement of anti-corruption rules, may also result in (possibly significant) penalties for the Company, based on the administrative liability of entities (Legislative Decree No. 231/01).

# Business Outlook

Italgas will continue to pursue its strategic objectives focusing on the realisation of investments, the streamlining of processes and operating costs and the optimisation of the financial structure, whilst paying constant attention to development opportunities.

With specific reference to the **technical investments** in tangible and intangible assets, in 2017, Italgas forecasts a significant increase in expenditure over the previous year, attributable to the maintenance and development of networks and meter-reading activity, aimed at implementing the relevant electronic meter (smart meter) installation programme, in implementation of the resolutions of the Authority, as well as completing the construction of new networks.

Italgas intends to increase its **operational efficiency** by implementing a cost reduction programme and improving the quality of processes and services launched in the first months of 2017. This project also aims to revise the organisational structure of Italgas Reti designed to implement a new territorial model, simplify the process and the operating model and introduce a cultural change for the sustainability of the new model over a period of time.

During 2017, Italgas will also pursue its actions aimed at **optimising its group financial structure**, by extending the average maturity of its debts, in line with its target financial structure.

Lastly, in accordance with the Plan guidelines, Italgas will take part in **local tenders** of strategic interest for the contracting of the natural gas distribution service, in order to pursue its business development goals and consolidate a sector that is currently very fragmented.

# Legislative and regulatory framework

## ASSIGNMENT OF GAS DISTRIBUTION SERVICE AND THE RELATED LOCAL TENDER NOTICES

Italgas operates in a regulatory environment characterised by subsequent legislative acts aimed at implementing the provisions of Article 46-bis of Decree-Law No. 159/07. With this Decree, the legislature entrusted the Minister for Economic Development the task of defining the new criteria to define the criteria for calls for tenders referring to the distribution service, no longer for individual municipalities, but for minimum territorial areas, according to the identification of optimal user pools, based on the criteria of efficiency and cost savings.

In 2011, the Ministry of Economic Development adopted four reorganisation measures regarding the matter, described below.

The Areas Decree of 19 January 2011 established multi-municipality minimum geographical areas (ATEM) for which new gas distribution concessions must be assigned. The subsequent Decree of 18 October 2011 identified the municipalities that are part of the 177 ATEM.

Then on 12 November 2011, the Ministerial Decree was adopted, outlining the criteria for the tender and evaluation of the bids for the award of natural gas distribution services.

The measure was subsequently amended by Decree of the Minister of Economic Development No. 106, in consultation with the Minister for Regional Affairs and Autonomy, on 20 May 2015, published in the Official Gazette No. 161 on 14 July 2015.

The measure contains instructions on preliminary aspects of the tender (including the participation requirements, the criteria for assessing bids, the value of the compensation to be paid to the outgoing operator, etc.), as well as the “standard” calls for tenders and the tender regulations. The reimbursement value for holders of expired contracts and concessions upon expiry is calculated in accordance with the provisions in the agreements or contracts, provided that they were concluded before the date the regulation became effective under Ministerial Decree No. 226 12 November 2011 (i.e., before 11 February 2012). and, for aspects which are not inferable from the specific intentions of the parties, as well as for aspects not governed by those conventions or contracts, the reimbursement value will be based on the Guidelines on criteria and procedures, subsequently stipulated by the Ministry of Economic Development and approved by Ministerial Decree dated 22 May 2014. In any case, private contributions relating to local assets, as valued according to the current tariff regulation methodology, shall be subtracted from the amount to be reimbursed. Where there is a disagreement between the local authority and the outgoing operator with regard to the reimbursement amount, the public notice contains a reference amount to be used for the purpose of the tender. This reference amount is the estimate of the contracting local authority or the RAB, whichever is greater. Once the dispute has been resolved, any difference will be settled between the incoming operator and the outgoing operator. Eventually, i.e., in subsequent periods, the reimbursement to the outgoing operator shall be the value of local net fixed assets, net of government grants for capital expenditure and private contributions relating to local assets, calculated on the basis of criteria used by the Authority to determine distribution tariffs (RAB).

The tenders will be awarded on the basis of the most economically advantageous bid, in accordance with criteria of safety, quality of service and development plans for the systems.

On 5 February 2013, the Ministerial Decree was finally adopted, approving the format for the service type contract to perform distribution activities.

### **Main provisions of 2017 concerning tenders**

The Ministry of Economic Development published the Circular of the Director General for securing supplies and energy infrastructures of 23 March 2017 on its website, which provides clarification surrounding the scope of application of the Code for contracts pursuant to Legislative Decree 50 of 18 April 2016 to the tender process for gas distribution services.

Specifically, Article 92 of the corrective decree for the new contracts Code, approved preliminarily by the Council of Ministers on 23 February 2017 and later adopted in its final version on 13 April 2017, makes an exception for the regulatory framework in force for local tenders, specifically the geographical areas as previously outlined, the calls to tender and the governing of the service type and agreement, adopted at the time by the Ministry.

The Ministry therefore believes that the standard pursuant to Article 92, and in the expectation of it becoming law shortly, confirms the activity conducted hitherto by contracting entities in the preparation of the tender documentation to finally launch the procedures and move to the new area concessions”.

Lastly, the final paragraph of Article 92 does not involve innovations concerning the maximum duration of 12 years for concessions awarded through tenders since, even before the new contracts Code came into force, Article 14 of Legislative Decree 164/2000 made provision that “Natural gas distribution activity is a public service. This service is awarded exclusively through a tender process for periods of no more than twelve years”.

## **ENERGY EFFICIENCY**

The system of Energy Efficiency Certificates (TEE), also known as White Certificates, was introduced into Italian law with Ministerial Decree dated 20 July 2004 as amended. It provides that distributors of electricity and natural gas with a client base exceeding 50,000 individuals annually reach certain quantitative targets for primary energy savings, expressed in Tonnes of Oil Equivalent saved.

The obligated businesses are paid a tariff-based fee for the TEEs obtained, as defined by the Authority. More precisely, starting from 2013, the Authority determines a preliminary tariff-based fee scale and a final tariff-based fee calculated, respectively, at the beginning and end of the same year of obligation, where:

- the preliminary fee is defined on the basis of the final fee for the previous year and the percentage of change in average energy prices to residential customers;
- the final fee is determined on the basis of the preliminary fee set for the same year and the average value of the stock's trading prices occurring on the organised market.

In the first half of 2017, the main provisions on the issue of energy efficiency were as follows:

The **Decree of 11 January 2017** adopted by the Ministry of Economic Development in conjunction with the Ministry of the Environment was published in Official Gazette No. 78 of 3 April 2017. It determines the national quantitative energy saving targets for 2017 to 2020 and approves the new Guidelines for the preparation, execution and evaluation of energy efficiency project and for the definition of the criteria and methods for issuing White Certificates.

The main innovations compared with the previous ministerial decree of 28 December 2012 and the Guidelines attached to the resolution 9/11 of the EEN Authority include the new provision:

- relating to the verification of the achievement of the objectives, without prejudice to the expiry of the year of obligation, established as 31 May of the subsequent year, introduces the possibility that obligated parties send the GSE the White Certificates they hold, for the purpose of fulfilling their obligations, twice a year, by 31 May and 30 November each year, rather than only once, as stipulated in the existing legislation;
- requires that, if the obligated party does not reach 100% of the obligated quota, but rather at least 60%, it can make up for the residual quota in the following year, rather than in the next two-year period, as previously, without incurring penalties;
- requires that there are 4 types of White Certificates confirming that energy savings have been achieved rather than 5 as there were previously;

The other provisions of the decree include annual national quantitative energy saving targets to be reached in the period 2017-2020 through the White Certificates mechanism, of:

- 7.14 million toe of primary energy in 2017;
- 8.32 million toe of primary energy in 2018;
- 9.71 million toe of primary energy in 2019;
- 11.19 million toe of primary energy in 2020.

The measures and interventions that allow gas distribution companies with more than 50,000 end users to comply with the annual national energy saving quantitative obligations for natural gas end users in the period 2017-2020, should produce a reduction in primary energy consumption, expressed in the number of White Certificates, in accordance with the following annual quantities and frequencies:

- 2.95 million White Certificates, to be obtained in 2017;
- 3.08 million White Certificates, to be obtained in 2018;
- 3.43 million White Certificates, to be obtained in 2019;
- 3.92 million White Certificates, to be obtained in 2020.

The share of obligations to be fulfilled by each individual gas distribution company is determined by the ratio between the self-certified quantity of natural gas distributed by said business to the end users connected to its network and the quantity of gas distributed nationally by all obligated parties, calculated annually by the Authority, counted in the year prior to the previous one. Said Authority notifies the Ministry of Economic Development and the GSE of these figures by 31 January of each year.

Any White Certificates issued in relation to projects carried out under the scope of Ministerial Decree 106 of 20 May 2015, based on tender criteria for gas distribution annulled by the GSE in the reference year, reduce the overall savings obligations for the next year in equal measure.

Except for the portion covered by other resources, the portion of the obligations compliance costs incurred by distributors is covered through electricity and natural gas transportation and distribution tariff elements.

Costs are covered, for each of the two transmission sessions for the Certificates held, in accordance with the criteria and methods defined by the Authority, to an extent that reflects the performance of the price of the White Certificates on the market, taking into account prices observed pursuant to free negotiations between the parties and with the definition of a maximum recognition value.

The decree, regarding which the opinions of the competent Parliamentary Committees and the Authority and the agreement of the Joint Conference were acquired, has been in force, with the relevant annexes that constitute an integral part thereof, since the day after publication in the Official Gazette and applies, with certain exceptions, to all projects submitted from that date.

The Authority defined the national energy efficiency annual quantitative obligations of natural gas end users to be achieved in 2017 by distributors with more than 50,000 end users connected to its distribution network as at 31 December 2015 through

**Resolution 6/2017 - DMRT of 12 April 2017.**

For subsidiaries and associates of Italgas S.p.A., the quantitative obligation for 2017, rounded off to the nearest whole number on a commercial basis and expressed as a number of White Certificates, is: 753,109 for Italgas Reti; 110,067 for Toscana Energia; 62,198 for Napoletanagas; 6,816 for ACAM Gas and 5,763 for Umbria Distribuzione Gas.

Through **Resolution 435/2017/R/efr of 15 June 2017**, in response to consultation paper 312/2017/R/efr of 5 May 2017, the Authority approved the revision of the rules for calculating the tariff contribution paid to electricity and gas distributors subject to the obligations under the scope of the Energy Efficiency Certificates (TEE) mechanism for the period 2017-2020.

The provision takes into account the amendments made to the mechanism by the Ministerial Decree of 11 January 2017 and the results of the preliminary investigation launched by the Authority through resolution 710/2016/E/efr and approved through resolution 292/2017/E/efr, with reference to the performance of the prices of TEE transactions on the market organised by the GME, from November 2016 onwards.

Specifically, the adjustments made to the rules for calculating the contribution already provided for by resolution 13/2014/R/efr pursuant to the obligation years 2013-2016, include:

- for the establishment of the value of the contribution to be paid, the introduction of a “relevant session reference price”, calculated from the average price, with reference to a toe, weighted by the relative quantities, only for transactions conducted during a market session and concluded at a price that is in a range of  $\pm 12\%$  compared with the previous market session relevant reference price. In order not to introduce retroactive amendments, the percentage parameter identified will be applied to market sessions after the date the resolution came into force;
- the definition of a reference contribution (replacing the currently planned preliminary fee) for each obligation year from 2017, establishing:
  - the calculation of the average definitive contributions for the two previous obligation years, through the weighting of the quantity of trades which took place on the market and the bilateral agreements in the previous two years, in order to also take into account these latest transactions;
  - not to take into account, on the other hand, the trade prices via bilateral agreements;
  - the confirmation of the elimination from the reference contribution formula of energy prices for domestic customers, no longer representative of the cost of the mechanism and the energy saving measures taken;
- the temporary definition of a reference tariff contribution for 2017, through weighted coefficients which allow a better evaluation of the definitive contribution for the obligation year 2016, compared with 2015, because it is deemed more representative of the expected market liquidity for future years;
- the amendment of the parameters that make up the dimensionless coefficient  $k$  (to be applied, in the formula for calculating the definitive contribution, to the difference between the reference contribution and the average market trading prices), establishing, specifically, that:
  - the value  $\gamma$  is amended progressively and, specifically, it remains unchanged at €2/TEE for the next obligation year 2017, in order to guarantee greater continuity with current provisions, and is defined at €4/TEE for subsequent years;
  - the parameter  $\beta$  is immediately raised from 0.85 to 0.9 in order to achieve a more gradual approach to reaching the value  $\gamma$  above or to ensure that the application of said  $\gamma$  has a lesser impact;
- the introduction of an accruals basis in the definition of the tariff contribution made (i.e. its differentiation depending on whether certificates corresponding to the obligation year in progress are involved or recoveries from previous years, in which case the definitive contribution will be made for those obligation years), in place of the current cash criterion, starting from obligation year 2017 and excluding the recovery of residual targets, both for 2015 and for 2016;
- at the conclusion of the checks conducted by the GSE, the payment of a tariff fee on account with regard to distributors that send certificates for compliance with

their obligations by 30 November each year, bringing forward the deadline of each obligation year pursuant to Article 14 of the Ministerial Decree of 11 January 2017, establishing, specifically:

- the payment on account of the definitive unit tariff fee for the previous obligation year depending on the quantity of certificates handed over by each distributor, in order to enable an initial restoration to the financial exposure of the distributors and limit the uncertainty due to market performances;
- a limit to the maximum quantity of certificates that can be handed over by distributors, set at 40% of the specific target for that obligation year and 100% (for gas distributors only, taking into consideration the increase pertaining to them for national targets and the difficulties related to the efficiency measures planned under the scope of the Ministerial Decree on gas tenders of 20 May 2015) for any residual portions of targets for previous obligation years that the distributor is responsible for.

In addition, with regard to the definitive unit tariff fee to be paid for the obligation year with reference to the quantity of certificates handed over by each company, by the end of 31 May set out in Article 14 of the Ministerial Decree of 11 January 2017, it is expected that from the obligation year 2017 the following will be paid:

- the definitive contribution for the current obligation year, in accordance with the certificates handed over for this year, until the respective obligations are met;
- the definitive contribution for the current obligation year (or the year in which the certificates are submitted), in compliance with any recoveries for each of the obligation years 2015 and 2016, until completed;
- the definitive contribution for the corresponding obligation year, in compliance with the certificates submitted for any recoveries for the obligation years after 2016, each until completed, also ensuring that the sums paid on the occasion of the checks conducted during the payment on account for each obligation years are deducted from these sums for each distributor.

Lastly, the Authority confirms two guidelines already expressed during the consultation, relating to:

- the absence of limits on the holding of TEEs, on accounts owned by voluntary parties, with no planned “expiry date” for TEEs issued by the GSE;
- the indication of no maximum reference value for the fee to be paid in an absolute sense, which would have constituted a “price signal” on the market.

Through **Resolution DMRT/EFC/10/2017 of 14 July**, the Authority established the following:

- the value of the definitive tariff contribution, equal to 191.40 €/TEE, calculated by applying the criteria pursuant to resolution 13/2014/R/efr, and, specifically, the weighted average value of exchanges of certificates recorded on the organised market in the period between June 2016 and May 2017;

- the value of the reference contribution for 2017, equal to 170.29 €/TEE, calculated by applying the criteria pursuant to Resolution 435/2017/R/efr, and specifically the value of the definitive tariff contribution for 2015 and 2016 and the quantities of certificates exchanged on the market in the period between June 2015 and May 2017.

With reference to the energy saving obligations pertaining to Italgas, the minimum target for 2016, based on the quantities set by the rules and the calculations made by the regulator, is equal to 828,564 TEE; in the same year, Italgas acquired 662,413 TEE in its portfolio. Further decisions by the competent institutions are awaited.

## SAFETY OF THE GAS DISTRIBUTION AND METERING SERVICE

Through **Resolution 195/2017/S/gas of 30 March 2017, published on 4 April 2017**, the Authority imposed a fine of €204,000 on Italgas for violation of Article 12, paragraph 7, letter b) of the Consolidated Act on the regulation of the quality and tariffs for natural gas storage services for the 2009-2012 regulatory period (Annex A of Resolution ARG/gas 120/08 of 7 August 2008).

This provision stated that by 31 December 2010 distributors shall replace or recondition who at least 50% of the lengths of any networks with cast-iron pipes with hemp- and lead-sealed joints, commissioned up to 31 December 2003. The replacement or reconditioning obligation refers to each distribution system.

The items acquired from the Authority Offices show that as at 31 December 2010, Italgas has had reconditioned approximately 21,308 metres out of a total of 53,533 metres of cast iron pipes with and hemp- and lead-sealed joints in commission as at 31 December 2003 on the Venice system, or approximately 39.79% of the total pipes to be reconditioned.

In the opinion of the Authority, the company was therefore in default with regard to the obligation set out in Article 12, paragraph 7, letter b) of the regulation.

On 29 May 2017, Italgas Reti filed an appeal before the Lombardy Regional Administrative Court of Milan, in order to annual Resolutions 195/2017/R/gas and 232/2017/R/gas, as well as all orders pertaining thereto and resulting therefrom.

## COMMERCIAL REGULATION OF THE GAS DISTRIBUTION AND METERING SERVICE

Through **Resolution 434/2017/R/gas** of 15 June 2017, in response to consultation paper 230/2017/R/gas of 6 April 2017, the Authority approved the provisions with regard to the launch of the trials concerning making the metering data with reference to the gas sector available to the Integrated Information System.

Law 129 of 13 August 2010, later supplemented by Law 27 of 24 March 2012, organised the establishment, at the Single Buyer, of an Integrated Information System (SII) for the management of information flows relating to the electricity and natural gas markets, based on a database of withdrawal points and identification data of end users, establishing that this System is also aimed at the management of information relating to electricity and gas consumption. It is therefore expected that in addition to information on withdrawal points and identification data for end users, the SII data base, the Official Central Register, will also collect data on electricity and gas consumption and that the SII will be responsible for managing them.

Through **Resolution 465/2017/R/gas** of 22 June 2017, the Authority launched a procedure aimed at the revision of the framework governing the gas distribution service network Code.

The Authority believes it is necessary to renew the framework governing service access and supply conditions in order to create a regulatory framework that responds better to the changes that have taken place in the economic climate and in the sector. Over the course of time, especially after the economic crisis, needs and problems have emerged (relating specifically to the management of the risk of default), which are not reflected in the clauses of the Code not impacted by later provisions by the Authority, such as invoicing for the service and user warranties.

The need to reform and update the Code has also been pointed out by various sector operators, including Italgas Reti; these reports highlight, among other things, two main areas of attention, which are distinct, but closely related:

- on the one side, the need to strengthen the instruments for containing credit risk, connected to violation of contractual terms and conditions by distribution users;
- on the other side, the need to clarify, and, in some cases, complete, the regulation in order to prevent the proliferation of conduct by several distribution companies to safeguard their receivables, with inappropriate consequences on sellers.

# Glossary

A glossary of financial, commercial and technical terms, as well as units of measurement, is available online at [www.Italgas.it](http://www.Italgas.it).

## ALTERNATIVE PERFORMANCE INDICATORS

### Net working capital

Capital which is invested in short-term assets and is an indicator of a company's short-term financial position. This is defined as the sum of the values relating to trade Receivables and Payables, Inventories, tax Receivables and Payables, Provisions for risks and expenses, Deferred tax liabilities and Other assets and liabilities.

### Fixed capital

Fixed capital is defined as the sum of the values relating to items of property, plant and equipment, intangible assets, equity investments and payables net of investment.

### Net invested capital

Net investments of an operating nature, represented by the sum of the values related to Non-current assets, Net working capital, Funds for employee benefits and Assets held for sale and the directly associated liabilities.

### Cash flow

Net cash flow from operating activities (cash flow) is represented by the cash generated by a company over a certain period of time. Specifically, the difference between current inflows (mainly cash revenue) and current cash outflows (costs in the period that generated cash outflows).

### Controllable fixed costs

Fixed operating costs of regulated activities, represented by the sum of "Total recurring personnel expense" and "Recurring external operating costs".

### EBIT (Operating profit)

Result of the operating performance, calculated as the sum of the values related to Net income, Income taxes, and Net finance costs excluding Net income from financial investments.

### Adjusted EBIT (adjusted operating profit)

EBIT from which components of the total income classified as special items will be subtracted (as defined in the chapter "Comment on the economic and financial results" of this report).

### EBITDA (Gross operating profit)

Gross operating profit, calculated as the sum of the values of the Operating profit and Depreciation, Amortisation and impairment.

**Free cash flow**

The free cash flow represents the free cash flow of the company and is the difference between the cash flow from operating activities and the cash flow for investments in fixed assets.

**Net financial debt**

Indicator of capacity to cope with financial obligations, determined as the sum of the values relating to short and long-term loans, net of cash and cash equivalents.

**R.O.E. (Return on equity)**

Relationship between net income and shareholders' equity at the end of the period, able to express the profitability of equity.

**R.O.I. (Return on investment) characteristic**

Ratio between operating income and net invested capital at the end of the period, net of investments, able to express operating profitability, expressing the enterprise's ability to remunerate the capital invested with the result of its core business.

**OTHER ECONOMIC AND FINANCIAL TERMS****Non-current assets**

Balance sheet item which shows long-lasting assets, net of amortisation, depreciation and impairment losses. These are divided into the following categories: "Property, plant and equipment", "Compulsory inventories", "Intangible assets", "Equity investments", "Financial assets" and "Other non-current assets".

**Covenant**

A covenant is an undertaking within a loan agreement whereby certain activities can or cannot be carried out by the borrower. Specifically, a covenant is defined as "financial" when it imposes a limit relating to the possibility of taking out a further loan, while in covenants relating to property, the clauses are aimed, *inter alia*, at limiting the use of financial leverage by the company, involving the obligation of maintaining a given ratio between balance sheet debt and capitalisation.

These obligations are imposed by lenders to prevent the financial conditions of the borrower from deteriorating and, where this does happen, to be able to request the early repayment of the loan.

**Credit rating**

Represents the opinion of the rating agency with respect to a debtor's general credit or the debtor's creditworthiness with specific reference to a particular debt instrument or another form of financial obligation, based on the relevant risk factors; the classification of various risk levels is made using letters of the alphabet and with essentially the same procedures by the various agencies.

**Dividend payout**

Ratio between the dividend and net profit for the period, and equal to the percentage of profits paid out to shareholders in the form of dividends.

**Outlook**

The outlook indicates the future rating prospects over a long period of time, usually two years. When it is “negative” it means that the rating is weak and that the rating agency detected some critical elements. If the weakness factors persist or worsen, the rating may be downgraded.

**Notch**

Risk level assigned by the rating agency, as part of the process of assigning the credit rating, which corresponds to the default probability, i.e., of the issuer’s default.

**Consolidated Finance Act (TUF)**

Legislative Decree No. 58 of 24 February 1998, as amended.

**Comprehensive income**

Includes both net income for the period and changes in equity, which are recognised in equity in accordance with international accounting standards (Other components of comprehensive income).

**COMMERCIAL AND TECHNICAL TERMS****Thermal year**

Time period into which the regulatory period is divided. Starting from the third regulatory period, the thermal year coincides with the calendar year.

**ATEM**

Minimum Geographical Areas for conducting tenders and assigning the gas distribution service, calculated as 177 pursuant to the definition of Article 1 of the Ministerial Decree of 19 January 2011. The Municipalities belonging to each area are listed in the Ministerial Decree of 18 October 2011.

**Energy and Environmental Services Fund - CSEA**

Public economic institution that operates in the fields of electricity, gas and water. Its primary mission is the collection of certain tariff components by operators; these components are collected in dedicated management accounts and subsequently disbursed to businesses according to the rules issued by the Authority. The CSEA is supervised by the Authority and the Ministry of Economy and Finance. The CSEA also, in relation to the entities administered, performs inspection activities aimed at administrative, technical, accounting and management assessments, consisting in hearing and comparing the entities involved, with recognition of locations and systems, research, testing and comparison of documents.

**End user**

The consumer who buys gas for their own use.

**Network code**

The document governing the rights and obligations of the parties involved in providing the gas distribution service.

**Gas distribution concession**

The deed by which a local authority entrusts to a company the management of a natural gas distribution service which falls within the remit of said authority, and for which said company assumes the operational risk.

**Local Tender**

The local tender is the sole tender process for the provision of gas distribution services held in each of the 177 minimum geographical areas (ATEM) identified pursuant to Articles 1 and 2 of the Decree of the Ministry of Economic Development of 19 January 2011.

**Gas distributed or circulated**

Amount of gas delivered to users of the distribution network at the redelivery points.

**Equalisation**

Difference between revenues for the period (annual TRL) and those invoiced to retail companies. The net position with the CSEA is established at the end of the thermal year and settled over the course of the year on the basis of advance payments.

**Regulatory period**

This is the time period for which criteria are defined for setting tariffs for gas distribution services. The third regulation period ended on 31 December 2013. We are currently in the fourth regulatory period, which runs from 1 January 2014 to 31 December 2019.

**Redelivery point**

This is the point of demarcation between the gas distribution plant and the plant owned or managed by the end user at which the distribution company redelivers gas transported for supply to the end user, and at which metering occurs.

**Gas distribution service**

Service of transporting natural gas through networks of local methane pipelines from one or more delivery points to redelivery points, generally at low pressure and in urban areas, for delivery to end users.

**Retail Company or RelCo (Retail Company)**

Company which, by way of a contract giving it access to the networks managed by a distributor, sells the gas.

**Regulatory Asset Base (RAB)**

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Electricity, Gas and Water Authority (AEEGSI) for determining the reference tariff.

**Centralised RAB**

The Centralised Regulatory Asset Base is made up of tangible fixed assets other than those included under local tangible fixed assets and intangible fixed assets (in other words non-industrial buildings and property, other tangible fixed assets and intangible fixed assets, such as, for example, remote management and remote-control systems, equipment, vehicles, IT systems, furniture and furnishings, software licenses).

**Local RAB**

The Local Regulatory Asset Base for the distribution service consists of the following types of tangible fixed assets: land on which sit industrial buildings, manufacturing buildings, major and minor plants, road and pipeline installations (connections). Local Regulatory Asset Base relating to the metering service is made up of the following types of tangible fixed assets: traditional metering equipment and electronic metering equipment.

**Reimbursement Value**

The Reimbursement Value is the amount owed to outgoing operators on the termination of the service pursuant to Article 5 of the Decree of the Ministry of Economic Development No. 226 of 12 November 2011 in the absence of specific different calculation method forecasts contained in the documents of the individual concessions stipulated before 11 February 2012 (the date when Ministerial Decree No. 226/2011 came into force).

**RIV or Residual Industrial Value**

The residual industrial value of the part of the plant owned by the outgoing operator. It is equal to the cost that should be incurred for its reconstruction as new, reduced by the value of the physical degradation and also including non-current assets under construction as indicated from the accounting records (Article 5(5) of Ministerial Decree No. 226/2011).

**TRL (Total Revenue Limit)**

Total revenue allowed for distribution companies by the regulatory body to cover costs for providing distribution and metering services.

**WACC**

Weighted Average Cost of Capital. Rate of return on net invested capital.





# Condensed Interim Consolidated Financial Statements 2017



# Condensed Interim Consolidated Financial Statements 2017

## Balance sheet

(€ million)

(€ million)	Notes	31.12.2016		30.06.2017	
		Total	of which with related parties	Total	of which with related parties
ASSETS					
Current assets					
Cash and cash equivalents	(4)	1		2	
Trade and other receivables	(5)	579	256	514	107
Inventories	(6)	33		21	
Current income tax assets	(7)	35		7	
Other current tax assets	(7)	3		3	
Other current assets	(8)	4		6	
		655		553	
Non-current assets					
Property, plant and equipment	(9)	227		224	
Intangible assets	(10)	4,487		4,531	
Investments valued using the equity method	(11)	176	176	173	173
Other non-current assets	(8)	38		63	
		4,928		4,991	
Non-current assets held for sale	(12)	25		25	
TOTAL ASSETS		5,608		5,569	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(13)	2,696		621	
Short-term portion of long-term financial liabilities	(13)			10	
Trade and other payables	(14)	443	73	387	69
Current income tax liabilities	(7)	1		26	
Other current tax liabilities	(7)	13		13	
Other current liabilities	(15)				
		3,153		1,057	
Non-current liabilities					
Long-term financial liabilities	(13)	923		3,053	
Provisions for risks and charges	(16)	230		219	
Provisions for employee benefits	(17)	121		120	
Deferred tax liabilities	(18)	106		73	
Other non-current liabilities	(15)	5		3	
		1,385		3,468	

Liabilities directly associated with assets held for sale	(12)	6	6
<b>TOTAL LIABILITIES</b>		<b>4,544</b>	<b>4,531</b>
<b>SHAREHOLDERS' EQUITY</b>	(19)		
<i>Italgas shareholders' equity</i>			
Share capital		1,001	<b>1,001</b>
Reserves		134	<b>(103)</b>
Profit (loss) for the period		(72)	<b>140</b>
<b>Total Italgas shareholders' equity</b>		<b>1,063</b>	<b>1,038</b>
<b>Minority interests</b>		<b>1</b>	
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,064</b>	<b>1,038</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>5,608</b>	<b>5,569</b>

## INCOME STATEMENT

(€ million)

first half of 2017

	Notes	Total	of which with related parties
<b>REVENUE</b>	(21)		
Core business revenue		774	416
Other revenue and income		17	12
		791	
<b>OPERATING COSTS</b>	(22)		
Purchases, services and other costs		(300)	(30)
Personnel cost		(101)	4
		(401)	
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES</b>	(23)	(186)	
<b>EBIT</b>		204	
<b>FINANCIAL INCOME (EXPENSES)</b>	(24)		
Financial income		1	
Financial expenses		(19)	
		(18)	
<b>INCOME (EXPENSE) ON EQUITY INVESTMENTS</b>	(25)		
Equity method valuation effect		11	11
		11	
<b>PRE-TAX PROFIT</b>		197	
Income taxes	(26)	(57)	
<b>Profit (loss) for the period</b>		140	
<b>Applicable to:</b>			
- Italgas		140	
- Minority interests			
<b>Net profit (loss) per share (€ per share)</b>	(27)		
basic and diluted		0.17	

## STATEMENT OF COMPREHENSIVE INCOME

(€ million)	Notes	first half of 2017
<b>Net profit</b>		<b>140</b>
<b>Other components of comprehensive income</b>		
<b>Total comprehensive income for the period</b>	(19)	<b>140</b>
<b>Applicable to:</b>		
- Italgas		<b>140</b>
- Minority interests		
		<b>140</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Equity pertaining to shareholders of the parent company											
		Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined-benefit plans for employees net of tax effect	Reserve for business combination under control	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
(€ million)													
Balance at 31 December 2016 (a)	(note 19)	1,001	(316)	620	192	(12)	(350)			(72)	1,063	1	1,064
Profit for the first half of 2017										140	140		140
Other components of comprehensive income:													
<i>Components that can be reclassified to the income statement:</i>													
- Portion of equity investments valued using the equity method pertaining to investments valued using the equity method													
<i>Components that cannot be reclassified to the income statement:</i>													
Actuarial gains on remeasurement of defined-benefit plans for employees													
Total comprehensive income in the first half of 2017 (b)										140	140		140
Transactions with shareholders:													
- Reclassification to legal reserve					8			(8)					
- Allocation of dividend for 2016 (€0.20 per share)								(162)		(162)		(162)	
- Reclassification of income from 2016									(72)	72			
- Effect of acquisition of third party capital Napoletana Gas												(1)	(1)
Total transactions with shareholders (c)					8			(170)	(72)	72	(162)	(1)	(163)
Other changes in shareholders' equity (d)								(3)			(3)		(3)
Balance at 30 June 2017 (e=a+b+c+d)	(note 19)	1,001	(316)	620	200	(12)	(350)	(173)	(72)	140	1,038		1,038

## CASH FLOW STATEMENT

(€ million)	Notes	first half of 2017
Net profit		140
Adjustments for reconciling net profit with cash flows from operating activities:		
Total amortisation and depreciation		184
Net impairments of tangible and intangible assets		2
Equity method valuation effect	(25)	(11)
Net capital losses (capital gains) on asset sales, cancellations and eliminations		2
Interest income		
Interest expenses		13
Income tax	(26)	57
Other changes		
Changes in working capital:		
- Inventories		12
- Trade receivables		195
- Trade payables		(22)
- Provisions for risks and charges		(11)
- Other assets and liabilities		(190)
<i>Working capital cash flow</i>		<i>(16)</i>
Change in provisions for employee benefits		(1)
Dividends collected		14
Interest collected		
Interest paid		(13)
Income taxes paid net of reimbursed tax credits		(42)
<b>Net cash flow from operating activities</b>		<b>329</b>
- of which with related parties	(28)	
Investments:		
- Property, plant and equipment	(9)	(5)
- Intangible assets	(10)	(224)
- Equity investments		(1)
- Change in payables and receivables relating to investments		(1)
<i>Cash flow from investments</i>		<i>(231)</i>
Divestments:		

<b>Net cash flow from investment activities</b>		<b>(231)</b>
- of which with related parties	(28)	
Assumption of long-term financial debt		<b>2,139</b>
Increase (decrease) in short-term financial debt		<b>(2,074)</b>
Dividends paid to Italgas shareholders		<b>(162)</b>
<b>Net cash flow from financing activities</b>		<b>(97)</b>
- of which with related parties	(28)	
<b>Net cash flow for the period</b>		<b>1</b>
<b>Cash and cash equivalents at the beginning of the period</b>	(4)	<b>1</b>
<b>Cash and cash equivalents at the end of the period</b>	(4)	<b>2</b>

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### Company information

The Italgas Group, consisting of Italgas S.p.A., the consolidating company, and its subsidiaries (hereinafter referred to as “Italgas”, the “Italgas Group” or the “Group”), is an integrated group at the forefront of the regulated natural gas sector and a major player in terms of its regulatory asset base (RAB<sup>9</sup>) in the sector.

Italgas S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices in Milan at 11 via Carlo Bo. CDP S.p.A. consolidates Italgas S.p.A. pursuant to IFRS 10 “Consolidated financial statements”.

As at 30 June 2017, CDP S.p.A., via CDP Reti S.p.A.<sup>10</sup>, owns 26.05% of the share capital of Italgas S.p.A.

### 1) Basis of presentation and measurement criteria

The condensed interim consolidated financial statements at 30 June 2017 were prepared on a going concern basis and in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (defined below as IFRS), as well as legislative and regulatory provisions in force in Italy.

The condensed interim consolidated financial statements at 30 June 2017 were prepared in compliance with the provisions of IAS 34 “Interim Financial Reporting”. As permitted by this standard, the condensed consolidated half-year financial statements do not include all information required in annual consolidated financial statements and, therefore, they should be read in conjunction with the Italgas Group’s consolidated financial statements for the year as at 31 December 2016.

The Income Statement, Statement of Comprehensive Income and Financial Statements have no comparative data as the Company entered into operation as of its separation from Snam S.p.A. on 07 November 2016.

The financial statements are the same as those adopted in the Annual Report. The consolidation principles and the measurement criteria applied in the condensed interim consolidated financial statements are the same as those described in the Annual Report, to which reference is made, with the exception of the international accounting standards that came into force as of 1 January 2017, described in the 2016 Annual Report in note no. 6 “Recently issued accounting standards”. The amendments made had no impacts on the condensed interim consolidated financial statements.

<sup>9</sup> The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Italian Electricity, Gas and Water Authority (AEEGSI) for determining base revenues for the regulated businesses.

<sup>10</sup> On 20 October 2016, a shareholders’ agreement was signed between Snam, CDP Reti and CDP Gas, effective as of the date of effect of the spin-off from Italgas S.p.A. With effect as of 01 May 2017, CDP Gas was merged for incorporation into CDP. Subsequently, on 19 May 2017, CDP sold, inter alia, its stake in Italgas S.p.A. to CDP Reti, amounting to 0.969% of the share capital of Italgas S.p.A.

The notes to the financial statements are presented in summary form. Current income taxes are calculated based on taxable income existing at the end of the period. Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/ recovered to/ from the tax authorities under the prevailing tax regulations or those essentially approved at the reporting date and the rates estimated on an annual basis.

Consolidated companies, unconsolidated subsidiaries, joint ventures, associates and other significant equity investments, disclosure of which is required under Article 126 of Consob resolution no. 11971 of 14 May 1999 as amended, are indicated separately in the Appendix “Subsidiaries, associates and equity investments of Italgas S.p.A. as at 30 June 2017”, which is an integral part of these notes.

The condensed consolidated half-year financial statements as at 30 June 2017, approved by the Board of Directors of Italgas S.p.A. at its meeting on 27 July 2017, were subjected to a limited audit by PricewaterhouseCoopers S.p.A. The limited audit entails a significantly more limited scope of work than that of a complete audit conducted in accordance with the established auditing principles.

The condensed half-year financial statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in millions of Euros.

## 2) Use of estimates

With reference to the description of the use of accounting estimates, please make reference to the 2016 Annual Report.

## 3) Recently issued accounting standards

### *Effects of the application of recently issued standards*

With respect to the accounting standards issued by the IASB and endorsed by the European Commission, IFRS 9 “Financial instruments” and IFRS 15 “Revenue from Contracts with Customers”, which will enter into force as of 1 January 2018, in addition to what is already described in the 2016 Annual Report, to which reference is made, the Italgas Group is completing its analyses of the impacts of the application of the new accounting standards on the consolidated financial statements and on the separate financial statements of the subsidiaries.

### **IFRS 9 Financial instruments**

The provisions set forth in IFRS 9 Financial instruments were adopted with regulation no. 2016/2067, issued by the European Commission on 22 November 2016.

The provisions in IFRS 9, replacing those contained in IAS 39, are effective from the financial years after 1 January 2018.

In relation to IFRS 9, an assessment is currently being completed on the impacts on recurring transactions of the main areas concerned by the new elements of the standard, described below: (i) new “forward looking” receivables impairment model: in evaluating the risk of future losses to which these assets could be subject, it is first necessary to note that Italgas works in a regulated sector in which it generates more than 97% of its revenues and that roughly 60% of its receivables refer to highly reliable customers such as Eni (47%) and Enel; in general, the rules for user access to the gas distribution service are established by AEEGSI and are set forth in the Network Codes,

i.e., documents which establish, for each type of service, the rules governing the rights and obligations of the parties involved in the provision of those services, and dictate contractual clauses reducing the risk of breach by customers; lastly, based on the so-called Network Code (or the set of conditions governing relationships between sales companies and distributors), to access the gas distribution service the gas sales companies are required to issue dedicated guarantees in the form of bank sureties or insurance or security deposits; considering that the majority of the receivables relate to regulated activities for which forms of guarantee are provided in favour of Italgas and/or the intervention of the Energy and Environmental Services Fund is provided in the cases set forth in the regulatory codes, from the analyses conducted, it is not believed that the change in the model will be capable of generating significant effects; (ii) hedge accounting: the Italgas group does not currently carry out hedging transactions; (iii) classification of financial instruments: as Italgas holds primarily financial assets and liabilities measured with the amortised cost method, the classification of financial instruments pursuant to IFRS 9 on the basis of the business model and the characteristics of the instrument will not produce significant modifications in the measurement of existing instruments.

#### **IFRS 15 Revenue from contracts with customers**

With respect to the accounting standards issued by the IASB and endorsed by the European Commission, IFRS 9 “Financial instruments” and IFRS 15 “Revenue from Contracts with Customers”, which will enter into force as of 1 January 2018, in addition to what is already described in the 2016 Annual Report, to which reference is made, the Italgas Group is completing its analyses of the impacts of the application of the new accounting standards on the consolidated financial statements and on the separate financial statements of the subsidiaries.

Italgas launched an analysis in 2016 of the impacts of IFRS 15, continuing with these activities in the first half of 2017.

In this regard, it should be noted that:

- Italgas operates in the regulated gas distribution sector.
- The document underlying relationships between gas distribution network users (gas sales companies) and the distributors is the Network Code.
- The Network Code describes the services that users are able to request from the distribution companies.
- The overall regulatory framework governs all contractual aspects connected to the provision of services (timing, execution and invoicing methods, penalties, bonuses, etc.)
- In summary, almost all Group revenues (around 97%) are subject to regulation and include those connected to the gas distribution service, ancillary services included in the network code and refunds paid by the regulator following the attainment of technical and commercial standards, while the remainder substantially regards real estate income and third-party services.

On the basis of this preliminary analysis, it is deemed that the essential points laid out by the standard (identification of the contract, identification of the individual performance obligations, determination of the price, allocation of the transaction price to each performance obligation, recognition of revenue allocated based on control by customers) will not generate significant impacts compared with the current presentation.

#### 4) Cash and cash equivalents

Cash and cash equivalents equal to €2 million refer to current account deposits held at banks.

Cash and cash equivalents are not subject to any usage restrictions.

A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the cash flow statement.

#### 5) Trade receivables and other current and non-current receivables

Trade receivables and other current and non-current receivables, amounting to €514 million, break down as follows:

(€ million)	31.12.2016			30.06.2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Trade receivables	418		418	223		223
Receivables from investment/divestment activities	6		6	5		5
Other receivables	155		155	286		286
	<b>579</b>		<b>579</b>	<b>514</b>		<b>514</b>

These are reported net of the provision for impairment losses of €21 million (€21 million as at 31 December 2016).

The provision for impairment did not change significantly during the half year.

Trade receivables (€223 million; €418 million as at 31 December 2016) mainly relate to the gas distribution service and ancillary services and mainly involve receivables from Eni S.p.A. (€76 million; €196 million as at 31 December 2016), third-parties (€100 million; €174 million as at 31 December 2016) and the *Cassa per i Servizi Energetici e Ambientali* (CSEA) relating to the equalisation<sup>11</sup> (€47 million; €48 million as at 31 December 2016).

Receivables for investment/divestment activities (€5 million; €6 million as at 31 December 2016) involve receivables for sales of tangible and intangible assets.

<sup>11</sup> The mechanism based on which the differences between what is invoiced to sales companies and the revenue restrictions defined by the Authority are recorded as debits/credits from the CSEA.

Other receivables (€286 million; €155 million as at 31 December 2016) break down as follows:

(€ million)	31.12.2016	30.06.2017
IRES receivables for the national tax consolidation scheme	16	15
Other receivables:	139	271
- Energy and Environmental Services Fund (CSEA)	82	206
- Public administration	36	44
- Advances to suppliers	4	7
- to staff	4	7
- Other	13	7
	155	286

IRES receivables for the national tax consolidation scheme (€15 million; €16 million as at 31 December 2016) concern mainly receivables with the former parent company, Eni, relating to the IRES refund request mainly resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011). Receivables from the CSEA (€206 million; €82 million as at 31 December 2016) relate to the UG2<sup>12</sup> and Gas Bonus<sup>13</sup> additional components of gas distribution tariffs (€50 million; €38 million as at 31 December 2016) and for €156 million to Energy Efficiency Certificates (€44 million as at 31 December 2016).

Receivables from public administrations (€44 million; €36 million as at 31 December 2016) relate to receivables from Municipalities. The change of €8 million was due primarily to the increase in receivables for COSAP from the municipality of Rome (+€6 million).

The item “Other” (€7 million; €13 million as at 31 December 2016) mainly relates to receivables from Snam S.p.A. following the transfer of personnel to Italgas S.p.A. and Italgas Reti S.p.A.

All receivables are in Euros.

The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and contractual conditions.

Receivables from related parties are described in the note “Related-party transactions”.

<sup>12</sup> Additional component of the distribution tariff for the purpose of containing the cost of the gas service for low consumption end users.

<sup>13</sup> Component relating to requests for subsidies for natural gas provision by economically disadvantaged customers

## 6) Inventories

*Inventories*, which amount to €21 million (€33 million as at 31 December 2016) are analysed in the table below:

(€ million)	31.12.2016			30.06.2017		
	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
<b>Inventories</b>						
- Raw materials, consumables and supplies	33		33	21		21
	<b>33</b>		<b>33</b>	<b>21</b>		<b>21</b>

Inventories of raw materials, consumables and supplies (€21 million as at 30 June 2017) are mainly composed of gas meters in relation to the replacement plan. The provision for impairment is €0.3 million.

Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

## 7) Current income tax assets/liabilities and other current tax assets/liabilities

*Current income tax assets/liabilities and other current tax assets/liabilities* break down as follows:

(€ million)	31.12.2016	30.06.2017
<b>Current income tax assets</b>	<b>35</b>	<b>7</b>
IRES	32	3
IRAP	1	2
- Other assets	2	2
<b>Other current tax assets</b>	<b>3</b>	<b>3</b>
- VAT	1	1
- Other taxes	2	2
<b>Current income tax liabilities</b>	<b>1</b>	<b>26</b>
IRES	1	23
IRAP		3
<b>Other current tax liabilities</b>	<b>13</b>	<b>13</b>
- VAT	5	5
- IRPEF withholdings for employees	7	7
- Other taxes	1	1
	<b>24</b>	<b>(29)</b>

Taxes pertaining to the period under review are shown in the note - "Income taxes".

**8) Other current and non-current assets**

*Other current assets*, which amount to €6 million (€4 million as at 31 December 2016) and *other non-current assets* of €63 million (€38 million as at 31 December 2016) break down as follows:

(€ million)	31.12.2016			30.06.2017		
	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	3	32	35	2	60	62
Other assets	1	6	7	4	3	7
- Prepayments	1	5	6	4	1	5
- Security deposits		1	1		2	2
	4	38	42	6	63	69

Other regulated assets (€62 million; €35 million as at 31 December 2016) essentially relate to the tariff recognition, by the Authority, following the plan to replace traditional meters with electronic meters.

The remaining item equal to €7 million (the same amount as at 31 December 2016) mainly includes prepayments relating to other costs for the period.

### 9) Property, plant and equipment

Property, plant and equipment, which amounts to €224 million (€227 million as at 31 December 2016) breaks down as follows:

	30.06.2017					
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets Non-current assets under construction and payments on account	Total
<b>Cost at 31.12.2016</b>	11	351	11	185	3	561
Investments					5	5
Disposals				(7)		(7)
Change in scope of consolidation						
Other changes						
<b>Cost at 30.06.2017</b>	11	351	11	178	8	559
<b>Provisions for amortisation and depreciation at 31.12.2016</b>		(173)	(5)	(152)		(330)
Total amortisation and depreciation		(3)		(5)		(8)
Disposals				7		7
Change in scope of consolidation						
Other changes						
<b>Provisions for amortisation and depreciation at 30.06.2017</b>		(176)	(5)	(150)		(331)
<b>Provision for impairment losses at 31.12.2016</b>			(4)			(4)
Change in scope of consolidation						
Other changes						
<b>Provision for impairment losses at 30.06.2017</b>			(4)			(4)
<b>Net balance at 31.12.2016</b>	11	178	2	33	3	227
<b>Net balance at 30.06.2017</b>	11	175	2	28	8	224

Investments (€5 million) mainly refer to fixed assets under construction.

Depreciation (€8 million) refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company.

The provision for impairment of €4 million relates to the district heating plant and equipment of the municipality of Cologno Monzese (MB).

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in the Note “Guarantees, commitments and risks”.

During the half year, no impairment indicators or significant changes were identified based on the assessment concerning the recoverability of the book value of Property, plant and equipment.

Therefore, the considerations reported in the 2016 Annual Report, to which reference is made, are confirmed.

## 10) Intangible assets

Intangible assets, which amount to €4,531 million

(€4,487 million as at 31 December 2016) break down as follows:

(€ million)	30.06.2017					Total
	Finite useful life				Indefinite useful life	
	Service concession agreements	Industrial patent rights and intellectual property rights	Non-current assets under construction and payments on account	Other intangible assets	Goodwill	
<b>Cost at 31.12.2016</b>	<b>7,514</b>	<b>354</b>	<b>21</b>	<b>39</b>	<b>10</b>	<b>7,938</b>
Investments	230	7				237
Change in scope of consolidation						
Disposals	(55)					(55)
Other changes	(18)					(18)
<b>Cost at 30.06.2017</b>	<b>7,671</b>	<b>361</b>	<b>21</b>	<b>39</b>	<b>10</b>	<b>8,102</b>
<b>Provisions for amortisation and depreciation at 31.12.2016</b>	<b>(3,150)</b>	<b>(274)</b>		<b>(26)</b>		<b>(3,450)</b>
Total amortisation and depreciation	(156)	(20)				(176)
Change in scope of consolidation						
Disposals	53					53
Other changes	5					5
<b>Provisions for amortisation and depreciation at 30.06.2017</b>	<b>(3,248)</b>	<b>(294)</b>		<b>(26)</b>		<b>(3,568)</b>
<b>Provision for impairment losses at 31.12.2016</b>	<b>(1)</b>					<b>(1)</b>
Allocation to provision for impairment losses			(2)			(2)
Change in scope of consolidation						
<b>Provision for impairment losses at 30.06.2017</b>	<b>(1)</b>		<b>(2)</b>			<b>(3)</b>
<b>Net balance at 31.12.2016</b>	<b>4,363</b>	<b>80</b>	<b>21</b>	<b>13</b>	<b>10</b>	<b>4,487</b>
<b>Net balance at 30.06.2017</b>	<b>4,422</b>	<b>67</b>	<b>19</b>	<b>13</b>	<b>10</b>	<b>4,531</b>

Service concession agreements, amounting to €4,422 million (€4,363 million as at 31 December 2016) refer to agreements between the public and private sectors (“Service concession arrangements”) referring to the development, financing, management and maintenance of infrastructure under concession by a contracting party. The provisions relating to the service concession agreements are applicable for Italgas in its role as a public service natural gas distributor, i.e. they are applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the AEEGSI, holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service.

Industrial patent rights and intellectual property rights (€67 million; €80 million as at 31 December 2016) mainly concern information systems and applications in support of operating activities.

Other intangible assets equal to €13 million, unchanged compared with 31 December 2016, mainly involve technical inspections carried out on converters.

Intangible assets with an indefinite useful life (€10 million; €10 million as at 31 December 2016) consist mainly of the goodwill recognised in 2008 following the acquisition by Italgas of 100% of the shares of Siciliana Gas. Goodwill was subjected to an impairment test which did not reveal losses in value compared with the recoverable amount and the carrying amount.

Investments for the year, equal to €237 million (€75 million as at 31 December 2016), mainly relate to service agreements awarded for the maintenance and development of the remote metering network (€230 million).

Amortisation refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company. The amount of €176 million (€75 million as at 31 December 2016) includes greater amortisation as a result of the reduction in the useful life of traditional meters<sup>14</sup> (equal to approximately €39 million), subject to the plan to replace them with electronic meters, required by AEEGSI resolutions under the scope of the implementation of the remote metering plan.

During the half year, no impairment indicators or significant changes were identified based on the assessment concerning the recoverability of the book value of Goodwill and Other Intangible Assets. Therefore, the considerations reported in the 2016 Annual Report, to which reference is made, are confirmed.

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in the Note - “Guarantees, commitments and risks”.

<sup>14</sup> The useful life of the meters included in the project pursuant to AEEGSI resolutions 631/13 and 554/15 was adjusted to complete the amortisation process in line with the meter replacement plan, scheduled for completion within 2018.

**11) Investments valued using the equity method**

*Investments valued using the equity method*, amounting to €173 million (€176 million as at 31 December 2016) break down as follows:

(€ million)	Investments in joint ventures
<b>Initial value as at 31.12.2016</b>	<b>176</b>
Change in scope of consolidation	
Acquisitions and subscriptions	
Capital gains (losses) from measurement using the equity method	11
Decrease owing to dividends	(14)
Other changes	
<b>Final value at 30.06.2017</b>	<b>173</b>

Capital gains from measurement using the equity method (€11 million) essentially refer to Toscana Energia S.p.A.

Equity investments are not collateralised.

With regard to the recoverable value of equity investments, for companies operating exclusively in regulated businesses, recoverable value is calculated using the adjusted RAB value of the net financial position.

In the light of the positive performance of those companies, the value estimated in this way is higher for all equity investments than the value recorded in the financial statements and therefore there are no losses in value.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the Appendix “Significant shareholdings, associates and equity investments of Italgas S.p.A. as at 30 June 2017”, which is an integral part of these Notes.

**12) Assets held for sale and directly related liabilities**

*Assets held for sale* and *liabilities directly associated with them*, of respectively €25 and €6 million (€25 and €6 million as at 31 December 2016), mainly involve the property in Via Ostiense in Rome for which the sale to Eni S.p.A. was approved. The table below summarises the breakdown of Assets and Liabilities classified as available for sale:

(€ million)	31.12.2016	30.06.2017
<b>Non-current assets held for sale</b>	<b>25</b>	<b>25</b>
Buildings	25	25
<b>Directly associated liabilities</b>	<b>6</b>	<b>6</b>
Provision for environmental risks and charges	6	6
	<b>19</b>	<b>19</b>

### 13) Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities

*Short-term financial liabilities*, amounting to €621 million (€2,696 million as at 31 December 2016) and *long-term financial liabilities*, including short-term portions of long-term financial liabilities totalling €3,063 million (€923 million as at 31 December 2016), break down as follows:

(€ million)	31.12.2016						30.06.2017					
	Long-term financial liabilities						Long-term financial liabilities					
	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Total financial liabilities	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Total financial liabilities
Bonds								10	730	1,400	2,140	2,140
Bank loans	2,696		293	630	923	3,619	621		200	723	923	1,544
Other lenders												
	2,696		293	630	923	3,619	621	10	930	2,123	3,063	3,684

#### *Short-term financial liabilities*

Short-term financial liabilities, amounting to €621 million (€2,696 million as at 31 December 2016), decreased by €2,075 million due to the reduction in a syndicate bridge to bond bank loan for an original total amount of €2,300 million, an effect offset by higher net utilisations of uncommitted lines of bank credit of €225 million. There are no short-term financial liabilities denominated in currencies other than the Euro. The market value of short-term financial liabilities is equivalent to the book value.

#### *Long-term financial liabilities and short-term portions of long-term financial liabilities*

Long-term financial liabilities, including short-term portions of long-term liabilities, amounted to €3,063 million (€923 million as at 31 December 2016), net of amortised cost accruals and adjustments of €11 million (€1 million as at 31 December 2016). The increase compared with 31 December 2016, equal to €2,140 million, is mainly attributable to the issuing of bond loans with the following characteristics: (i) a nominal €1,500 million, issued on 19 January 2017 and divided into two tranches, the first with a term of 5 years and the second 10 years, both at a fixed rate, amounting to €750 million each and an annual coupon of 0.50% and 1.625% respectively; (ii) a nominal €650 million issued on 14 March 2017, maturing on 14 March 2024 with a fixed rate annual coupon of 1.125%.

There are no other long-term bank loans denominated in currencies other than the euro. The analysis of bond loans (€2,140 million), with an indication of the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the table below.

(€ million)

Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 30.06.2017	Rate (%)	Maturity (year)
<b>Euro Medium Term Notes</b>							
ITALGAS S.p.A.	2017	€	750	(5)	745	0.5	2022
ITALGAS S.p.A.	2017	€	650	(2)	648	1.125	2024
ITALGAS S.p.A.	2017	€	750	(3)	747	1.625	2027
			<b>2,150</b>	<b>(10)</b>	<b>2,140</b>		

(a) Includes issue premium/discount and accrued interest.

Payables for bank loans (€923 million) refers to term loans, of which €723 million using European Investment Bank (EIB) funding. The market value of long-term financial liabilities amounts to €2,169 million<sup>15</sup>.

There are no other long-term bank loans denominated in currencies other than the euro. There were no breaches of loan agreements as at the reporting date. Italgas had unused committed credit lines worth €1.1 billion.

### Financial covenants and negative pledge commitments

As at 30 June 2017, there were no financial covenants and unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. 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 2017, Italgas also had medium/long-term loans taken out with the European Investment Bank (EIB), the contractual clauses of which are broadly in line with those described above. Exclusively for the EIB loans, the lender has the option to request additional guarantees if Italgas' credit rating is downgraded to BBB- (Standard & Poor's/Fitch Ratings Limited) or Baa3 (Moody's) for at least two of the three ratings agencies.

<sup>15</sup> The value includes bonds whose value is estimated based on market prices as at 30 June 2017.

As at 30 June 2017, the banking financial liabilities subject to these restrictive clauses amounted to approximately €2 billion.

Failure to comply with the commitments established for these loans - in some cases only when this non-compliance is not remedied within a set time period - and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Italgas' failure to comply and could trigger the early repayment of the relative loan.

As at 30 June 2017, there were no identified events resulting in failure to comply with the aforementioned commitments.

#### *Breakdown of net financial debt*

The breakdown of net financial debt, showing related-party transactions, is provided in the following table:

(€ million)	31.12.2016			30.06.2017		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1		1	2		2
B. Securities available for sale and held to maturity						
<b>C. Cash (A+B)</b>	1		1	2		2
<b>D. Financial receivables not held for operating activities</b>						
E. Short-term financial liabilities to banks	2,696		2,696	621		621
F. Long-term financial liabilities to banks		923	923		923	923
G. Bonds				10	2,130	2,140
H. Short-term financial liabilities to related parties						
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities						
M. Other long-term financial liabilities						
<b>N. Gross financial debt (E+F+G+H+I+L+M)</b>	2,696	923	3,619	631	3,053	3,684
<b>O. Net financial debt (N-C-D)</b>	2,695	923	3,618	629	3,053	3,682

#### **14) Trade and other payables**

Trade payables and other payables, which amount to €387 million (€433 million as at 31 December 2016) comprise the following:

(€ million)	31.12.2016	30.06.2017
Trade payables	174	152
Payables for investment activities	103	101
Other payables	166	134
	<b>443</b>	<b>387</b>

Trade payables of €152 million (€174 million as at 31 December 2016)

relate mainly to payables to suppliers.

Payables for investment activities equal to €101 million (€103 million as at 31 December 2016) essentially involve payables to suppliers for technical activities.

Other payables (€134 million; €166 million as at 31 December 2016) break down as follows:

(€ million)	31.12.2016	30.06.2017
Payables to the government	49	52
Payables to the Energy and Environmental Services Fund (CSEA)	48	21
Payables to employees	39	30
Payables to pension and social security institutions	19	19
Payables to advisers and experts	4	5
Other payables	7	7
	<b>166</b>	<b>134</b>

Payables to the government (€52 million; €49 million as at 31 December 2016) primarily involve payables to municipalities for concession fees for the distribution business.

Payables to the CSEA (€21 million; €48 million as at 31 December 2016) relate to several ancillary components of tariffs for the gas distribution service to be paid to this Fund (RE, RS, UG1 and GS)<sup>16</sup>.

Payables to personnel (€30 million; €39 million as at 31 December 2016) involve payables mainly for holidays accrued and not taken and performance-related pay. Other payables of €7 million, unchanged since 31 December 2017, mainly relate to payables in the water sector relating to water purification fees.

Payables to related parties are described in the note “Related-party transactions”. The book value of trade payables and other payables, considering the limited time interval between the occurrence of the payable and its maturity, is an approximation of the fair value. The market value of trade and other payables is provided in the Note - “Guarantees, commitments and risks - Other information on financial instruments”.

<sup>16</sup> These components refer to: (i) RE - Variable portion to cover the expenses for calculating and implementing energy savings and the development of renewable energy sources in the natural gas sector; (ii) RS - Variable portion as coverage for expenses for gas services quality; (iii) UG1 - Variable portion to cover any imbalances in the equalisation system and to cover any adjustments; and (iv) GS - Variable portion to cover the tariff compensation system for economically disadvantaged customers.

### 15) Other current and non-current liabilities

*Other current liabilities and other non-current liabilities* are broken down below:

(€ million)	31.12.2016			30.06.2017		
	Current	Non-current	Total	Current	Non-current	Total
Other liabilities from regulated activities						
Other liabilities		5	5		3	3
- Liabilities for deposits		5	5		3	3
- Other						
		5	5		3	3

Other liabilities of €3 million (€5 million as at 31 December 2016) essentially include guarantee deposits paid.

### 16) Provisions for risks and charges

*Provisions for risks and charges*, which amount to €219 million, are analysed in the table below:

(€ million)	30.06.2017						
	Opening balance	Changes in consolidation scope	Provisions	Increases due to passing of time	Utilisations		Other changes
					against charges	for excess	
Provision for environmental risks and charges	136			1	(3)		134
Provision for litigation	21		1		(4)	(1)	17
Provision for various risks - TEE	13		5		(7)		11
Provision for plant upgrade risks	20						20
Provisions for retirement risks	20				(3)		(1)
Other provisions	20		4			(4)	1
	230		10	1	(17)	(5)	219

The provision for environmental risks and charges of €134 million (€136 million as at 31 December 2016) mainly included costs for environmental soil reclamation, pursuant to Law 471/1999, as subsequently amended, primarily for the disposal of solid waste, in relation to the distribution business.

The provision for litigation of €17 million (€21 million as at 31 December 2016) included costs which the Company has estimated it will incur for existing lawsuits.

The energy efficiency certificates (TEE) miscellaneous risk provision of €11 million (€13 million as at 31 December 2016) is connected with reaching the energy efficiency targets set by the Authority.

The adjustments to facilities risk provision of €20 million, in an equal amount as at 31 December 2016, includes the estimated costs of gas distribution plant upgrades in response to the results of the network inspections requested by the judicial authorities.

The risk provision for early retirement of €16 million (€20 million as at 31 December 2016) involves personnel incentive and mobility schemes.

### 17) Provisions for employee benefits

*Provisions for employee benefits*, amounting to €120 million (€121 million as at 31 December 2016), can be broken down as follows:

(€ million)	31.12.2016	30.06.2017
Employee severance pay (TFR)	73	73
Supplemental healthcare provision for company executives of Eni (FISDE)	6	6
Gas Fund	35	35
Other employee benefit provisions	7	6
	121	120

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS.

The supplementary healthcare provision (€6 million as at 31 December 2016) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current<sup>17</sup> and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group<sup>18</sup> executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

<sup>17</sup> For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

<sup>18</sup> The fund provides the same benefits for Italgas Group executives.

The Gas Fund (€35 million) relates to the estimate, made on an actuarial basis, of the charges sustained by the employer due to the elimination, as of 1 December 2015, of the fund pursuant to Law 125 of 6 August 2015. In particular, Articles 9-*decies* and 9-*undecies* of the Law set forth that the employer must cover: (i) an extraordinary contribution to cover expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020<sup>19</sup>; and (ii) a contribution in favour of those registered or in voluntary continuation of the contribution, that as at 30 November 2015 were not entitled to supplementary pension benefits from the eliminated Gas Fund, of 1% for each year of registration in the supplementary fund, multiplied by the social security tax base relating to the same supplementary fund for 2014, to be allocated through the employer or the supplementary pension scheme.

At present, the criteria, procedures and time periods for payment of the extraordinary contribution have not yet been announced. Employee selection of where the amounts would be allocated (supplementary pension scheme or to the employer) were concluded, pursuant to the law, on 14 February 2016.

The other employee benefit provisions (€7 million as at 31 December 2016) relate to seniority bonuses and the deferred cash incentive plan (IMD) and (IML).

### 18) Deferred tax liabilities

Deferred tax liabilities of €73 million (€106 million as at 31 December 2016) are stated net of offsettable prepaid tax assets of €231 million (€221 million as at 31 December 2016).

There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2016	Changes in consolidation scope	Provisions	Utilisations	Other changes	30.06.2017
Deferred tax liabilities	327			(23)		304
Prepaid tax assets	(221)		(13)		3	(231)
	106		(13)	(23)	3	73

<sup>19</sup> Article 9-quinquiesdecies also stipulates that "... If monitoring shows that the extraordinary contribution pursuant to Article 9-decies is insufficient to cover the relative expenses, a decree issued by the Ministry of Labour and Social Policy, in concert with the Ministry of Economic Development and the Ministry of Economy and Finance, provides for the redetermination of the extraordinary contribution, the criteria for redistribution of the contribution between employers and the time periods and procedures for payment of the extraordinary INPS contribution".

## 19) Shareholders' equity

Shareholders' equity, which amounts to €1,038 million (€1,064 million as at 31 December 2016) breaks down as follows:

(€ million)	31.12.2016	30.06.2017
<b>Net equity attributable to Italgas</b>	<b>1,063</b>	<b>1,038</b>
Share capital	1,001	1,001
Legal reserve	192	200
Share premium reserve	620	620
Consolidation reserve	(316)	(316)
Reserve for business combinations under common control	(350)	(350)
Other reserves		(173)
Retained earnings (losses)		(72)
Reserve for remeasurement of defined benefit plans for employees	(12)	(12)
Net profit (loss)	(72)	140
Less:		
- Treasury shares		
<b>Shareholders' equity attributable to third parties</b>	<b>1</b>	
Napoletanagas	1	
	<b>1,064</b>	<b>1,038</b>

Below is a breakdown of the main shareholders' equity components of Italgas as at 30 June 2017.

### Share capital

The share capital as at 30 June 2017 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518.44 (unchanged compared with 31 December 2016).

### Legal reserve

The legal reserve stood at €200 million as at 30 June 2017. The increase of €8 million compared with 31 December 2016 was due to the attribution of part of Italgas S.p.A.'s profit for 2016.

### Share premium reserve

The share premium reserve stood at €620 million, unchanged compared with 31 December 2016.

### Consolidation reserve

The consolidation reserve (negative by €316 million) was determined during the initial consolidation as a result of the difference between (i) the purchase cost of the Italgas Reti S.p.A. equity investment (€2,967 million) and (ii) the shareholders' equity attributable to the group on the transaction completion date (€2,637 million) and the

reconstitution in the consolidated statements of the Negative reserve from the recalculation of defined benefit plans for employees, equal to -€14 million at the date of the transaction.

#### *Reserve for business combinations under common control*

The reserve for business combinations under common control, equal to -€350 million as at 30 June 2017 (unchanged since 31 December 2016) includes the reserve recorded for the business combination under common control recorded following the acquisition from Snam S.p.A of 38.87% of the equity investment in Italgas Reti S.p.A., equal to the difference between the purchase price (€1,503 million) and the book value of the equity investment (€1,153 million).

#### *Reserve for recalculation of defined-benefit plans for employees*

As at 30 June 2017, the reserve for recalculation of employee benefit plans (-€12 million) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

#### *Treasury shares*

As at 30 June 2017 Italgas did not have any treasury shares in its portfolio.

#### *Dividends*

On 28 April 2017, the Italgas S.p.A. Ordinary Shareholders' Meeting approved the distribution of the ordinary dividend for 2016 of €0.20 per share; the dividend (€162 million) was paid starting on 24 May 2017, with the coupon date set for 22 May 2017 and a record date of 23 May 2017.

## **20) Guarantees, commitments and risks**

*Guarantees, commitments and risks*, amounting to €726 million (€642 million as at 31 December 2016), comprise:

(€ million)	31.12.2016	30.06.2017
<b>Guarantees given in the interest of:</b>	<b>96</b>	<b>104</b>
- subsidiaries	96	104
<b>Financial commitments and risks:</b>	<b>546</b>	<b>622</b>
<b>Commitments</b>	<b>504</b>	<b>580</b>
Commitments for the purchase of goods and services	495	571
Other	9	9
<b>Risks</b>	<b>42</b>	<b>42</b>
- for compensation and litigation	42	42
	<b>642</b>	<b>726</b>

*Guarantees*

Guarantees of €104 million (€96 million as at 31 December 2016) refer mainly to guarantees issued, holding harmless Snam S.p.A. against sureties and other guarantees issued in the interest of the subsidiaries (€90 million).

*Commitments*

As at 30 June 2017, commitments with suppliers to purchase property, plant and equipment and provide services relating to investments in property, plant and equipment and intangible assets under construction totalled €571 million (€495 million as at 31 December 2016).

Other commitments (€9 million, unchanged compared with 31 December 2016) refer to minimum future payments relating to non-cancellable operating lease transactions (including €2 million expiring in the following year and €5 million between one and five years).

*Risks*

Risks concerning compensation and litigation (€42 million, unchanged with respect to 31 December 2016) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

**FINANCIAL RISK MANAGEMENT***Introduction*

There follows a description of Italgas' policies and principles for the management and control of the risks arising from the financial instruments listed above. Information on other risks affecting the business (operational risk and risks specific to the segment in which Italgas operates) can be found in the "Elements of risk management and uncertainty" section of the Directors' Report.

*Interest rate risk*

Fluctuations in interest rates affect the market value of Snam's financial assets and liabilities and its net financial expense. The Italgas Group has adopted a centralised organisational model. In accordance with this model, Italgas' various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within the defined limits.

As at 30 June 2017, the financial debt is 41.9% at floating rate and 58.1% at fixed rate. At the same date, the Italgas Group used external financial resources in the following forms: bond issues subscribed by institutional investors, bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and, lastly, bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor).

Therefore, an increase in interest rates not incorporated - all or in part - in the regulatory WACC could have negative effects on the assets and on the economic and financial situation of the Italgas Group.

The objective of Italgas is to maintain a debt ratio between fixed rate and floating rate that minimises risk if interest rates rise, with the goal of achieving debt where the ratio between the fixed rate and floating rate of approximately 2/3 at fixed rate and 1/3 at floating rate. In this regard, in early 2017, the Company issued a total of €2,150 million in bonds with the following characteristics: (i) € 1,500 million, issued on 19 January 2017 and divided into two tranches, the first with a term of 5 years and the second 10 years, both at a fixed rate, amounting to € 750 million each and an annual coupon of 0.50% and 1.625% respectively ; (ii) € 650 million issued on 14 March 2017, maturing on 14 March 2024 with a fixed rate annual coupon of 1.125%.

#### *Credit risk*

Credit risk is exposure to potential losses resulting from the failure to comply with the obligations assumed by the counterparties. Non-payment or delayed payment of amounts due could negatively affect the financial results and Italgas' financial situation. The rules for user access to the gas distribution service are established by the AEEGSI and are provided for in the Network Codes, or in documents establishing, for each type of service, the regulations governing the rights and obligations of parties involved in the process of providing such services and setting out contractual clauses that reduce the risks caused by customer breaches, such as the issuance of first-demand bank or insurance guarantees.

As at 30 June 2017, there were no significant credit risks. 94% of trade receivables related to customers with high creditworthiness, including Eni, which accounted for approximately 33% of all trade receivables.

#### *Liquidity risk*

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.

In order to mitigate this risk and to maintain a level of liquidity consistent with maintaining the requirements of its rating, Italgas signed finance agreements in excess of its financial needs as at 30 June 2017. This excess amount (€1.1 billion) could be used to deal with any temporary liquidity requirements if funding requirements were higher than estimated. At the same date, in addition and supplemental to recourse to the banking system, the Euro Medium Term Notes (EMTN) programme approved by the Italgas Board of Directors on 18 October 2016 allows for the issue of the remaining nominal amount of €650 million to be placed with institutional investors.

The objective of Italgas is to put in place a financial structure (in terms of debt to Regulatory Asset Base ratio, between short- and medium-to-long-term debt, fixed-rate and variable-rate debt, and bank credit granted and bank credit used) which, in line with the business objectives, would guarantee an adequate level of liquidity for the Group in terms of the duration and composition of the debt.

*Rating risk*

With reference to the long-term debt of Italgas, respectively on 7 and 8 November 2016, Fitch and Moody's assigned Italgas S.p.A. the final rating of BBB+ (stable outlook) and Baa1 (stable outlook, later changed to negative outlook on 12 December 2016, following the previous change from stable to negative outlook of the long-term rating of the Italian Republic).

Based on the methodologies adopted by the rating agencies, a downgrade of one notch in Italy's current rating could trigger a downward adjustment in Italgas's current rating.

*Risk of default and debt covenant*

As at 30 June 2017, there were no financial covenants and unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. 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.

Failure to comply with the commitments established for these loans - in some cases only when this non-compliance is not remedied within a set time period - and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Italgas' failure to comply and could trigger the early repayment of the relative loan.

*Future payments against financial liabilities*

The table below shows the contractually envisaged expense plan relating to financial liabilities, including interest payments:

(€ million)	Total at 30.06.2017	Within 12 months	More than 12 months overdue	30.06.2019	30.06.2020	30.06.2021	30.06.2022	Beyond
<b>Financial liabilities</b>								
Bonds	2,150		2,150				750	1,400
Bank loans	1,500	576	924		220	20	54	630
Interest on loans	331	14	317	28	40	40	41	168
	<b>3,981</b>	<b>590</b>	<b>3,391</b>	<b>28</b>	<b>260</b>	<b>60</b>	<b>845</b>	<b>2,198</b>

*Other information on financial instruments*

With reference to the categories provided for by IAS 39 “Financial Instruments: Recording and Assessment”, it should be noted that Italgas does not have financial assets held to expiry, nor held for sale or trading. Consequently, financial assets and liabilities fall entirely into the financial instruments category, assessed using the amortised cost method.

**Disputes and other measures**

Italgas is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Italgas believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements.

The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

***Criminal cases*****Italgas Reti S.p.A. - Barletta event**

On 25 April 2015, an explosion occurred due to a gas leak. The event, which happened during an operation following the report of damage to the gas network by a third-party company killed one Italgas Reti worker and injured others. The competent public prosecutor has launched an investigation, with which the company is actively cooperating.

**Italgas Reti S.p.A. - Rome/Via Parlatore event**

The public prosecutor at the Court of Rome opened an investigation in relation to the incident that took place on 7 September 2015 during an ordinary intervention in the gas distribution network in the municipality of Rome.

The incident, which took place due to causes that are still being investigated, caused a fire that involved three people. Two of them, workers for an Italgas Reti contractor, suffered mild injuries. The third person – an Italgas Reti employee – died after a few weeks despite medical treatment. Charges of workplace safety violations are possible. The investigation, which involves several Italgas Reti managers, is ongoing. The Company is actively cooperating with the relevant authorities.

**Italgas Reti S.p.A. - Cerro Maggiore/Via Risorgimento event**

The public prosecutor at the Court of Busto Arsizio opened criminal proceedings against Italgas Reti executives, technicians and manual workers in relation to an incident that took place on 11 November 2015 during an emergency intervention.

The incident was caused by a gas leak due to remote controlled horizontal drilling work for the placement of fibre-optic cables performed by a third party.

The explosion occurred while interception activities were being completed on the section involved in the damage, causing the collapse of a house at No. 39 and the death of the woman who lived there, a serious injury to an Italgas Reti employee and to two other people who suffered mild injuries. The area was closed off. On 15 November 2015, the Busto Arsizio public prosecutor served a one-time notice of technical investigation, and the public prosecutor appointed its own technical consultants, who filed their report on 22 April 2016.

Italgas Reti also appointed its own technical consultants.

A notice was served on 24 April 2017 advising of the conclusion of the preliminary investigations pursuant to Article 415-*bis* of the Code of Criminal Procedure of the persons under investigation and Italgas Reti, with regard to which it was alleged the occupational safety prevention measures had failed to be adopted. The company will organise the most appropriate defence to ensure it is extricated from this situation.

#### **Italgas Reti S.p.A. - Rome/Via Magnaghi event**

On 25 October 2016, while a meter was being replaced by employees of an Italgas Reti contractor, there was a fire which involved two workers as well as the owner of the property. The three people suffered injuries of varying degrees.

The Public Prosecutor launched investigations with regard to unknown persons and the Company is actively cooperating.

#### **Actions promoted by Italgas Reti following the Judicial Administration phase**

Following the appeal brought by Italgas Reti, on 25 July 2016 the Palermo Court of Appeal issued a Decree revoking the Judicial Control measure with regard to Italgas Reti, declaring the implementation of the consequent provisions terminated. The Public Prosecutor did not propose an appeal under the terms of the law at the Court of Cassation; therefore, the ruling became definitive.

Italgas Reti, through an appeal filed on 24 October 2016, opposed the settlement order of the expert witnesses of the Court of Palermo, challenging its non-involvement and, alternatively, the excess compensation paid.

On 16 January 2017 Italgas Reti filed at the Court of Palermo:

- a note challenging the statement submitted by the Judicial Administrators, highlighting the irregularities and incompleteness of the documentation;
- a motion requesting the repayment of all costs incurred for payments and refunds with regard to the Judicial Administrators and their assistants and consultants.

#### **Electricity, Gas and Water Authority (AEEGSI)**

##### **Italgas Reti S.p.A. - Gas distribution service quality violations**

Through resolution 33/2012/S/gas of 9 February 2012, the AEEGSI arranged the *"launch of four disciplinary proceedings for the issuance of monetary fines with regard to gas distribution service quality"* to establish the violation of Articles 2, paragraphs 1 and 12, paragraph 7, letter b) of the ARG/gas 120/08 resolution by four natural gas distribution companies including Italgas Reti.

In particular, the Authority claims that, with regard to its Venice plant, the company failed to comply with the obligation to recondition or replace, by 31 December 2010, at least 50% of the cast-iron pipes with hemp- and lead-sealed joints in operation as at 31 December 2003, set out in the aforementioned Article 12, paragraph 7, letter b).

On 25 March 2016, the AEEGSI announced the findings of the preliminary investigation. After the proceeding, with Resolution no. 195/2017/S/Gas of 30 March 2017, as adjusted by Resolution no. 232/2017/S/Gas of 6 April 2017, AEEGSI imposed an administrative fine of €204,000.00 on Italgas Reti for the violation of Article 12, paragraph 7, letter b) of the Gas Distribution and Metering Service Quality Regulation ("RQDG"). Irrespective of all considerations concerning the Company's actual liability with regard

to the alleged conduct, it seems that the extent of the penalty can be challenged on the grounds that it is disproportionate with respect to the actual conduct of Italgas Reti, also in light of a penalty, of a significantly lower amount, imposed in different proceedings regarding the same circumstances relating to the year 2008. The Company decided to challenge the above-mentioned rulings before the Lombardy Regional Administrative Court and the relative appeal was served on 29 May 2017.

**Italgas Reti S.p.A. - Gas distribution service violations relating to the billing of the “municipal fees” tariff component**

By means of Resolution 104/2015/S/gas of 12 March 2015, the Authority began enforcement proceedings for violations relating to the billing of the “COLci” component. The Authority specifically alleges that the billing procedures for this component stipulated under current regulations have not been complied with.

The duration of the investigation has been set at 180 days, while the deadline for the adoption of the provision is 90 days from the closing date of the investigation.

On 23 April 2015, the AEEGSI requested the transmission of billing data for the COLci tariff component for the years 2009-2013, which the company provided on 7 May 2015. To date, the preliminary investigation has not been concluded.

***Administrative dispute***

**Italgas Reti S.p.A. - Municipality of Venice - Veneto Regional Administrative Court Gen. Reg. 1735/2015**

Italgas Reti appealed against the acts through which the Municipality of Venice had deducted from the refund due to Italgas Reti as the outgoing operator, the value (for Italgas amounting to €31,000,000) of a portion of the distribution network (Block A), over which the Municipality of Venice claims that it acquired - through a free transfer - ownership at the end of the original concession deed (2010). However, according to Italgas Reti, the expiry of the concession and therefore the accrual of entitlement to the free transfer was postponed to 2025 on the basis of subsequent amendments to the original concession deed, signed by the parties in 1995.

The Veneto Regional Administrative Court rejected the Company’s appeal on the grounds that entitlement to the free transfer of part of the distribution network was accrued when the concession relationship originally expired (2010). The Company, deeming the decision of the Regional Administrative Court inconsistent with the applicable regulations, will appeal the ruling before the Council of State.

On the other hand, by Ruling 655/2017 of 07 July, the Veneto Regional Administrative Court accepted the appeal filed by the Company and annulled the tender for assigning the gas distribution service within VENICE 1 – Laguna Veneta and related appendices.

## **Tax cases**

### **Italgas Reti S.p.A. – Direct and indirect taxes**

The 2009 general tax audit performed by officials of the Revenue Agency (Piedmont branch, Audit and Collection Sector, Large Taxpayer Office), which ended on 7 December 2012 with the release of the official audit report, resulted in around €1 million of additional IRES, IRAP and VAT, plus penalties and interest. The proceedings closed with a negative result, and on 28 May 2015 the Company, in consortium with Eni S.p.A. for the assessment notice concerning IRES, appealed to the provincial tax commission of Turin, challenging only the findings relating to the undue deduction of taxes on foreign regularisations and other unrelated taxes. According to the payments made, the Company used a total of €777,204.78 from the risk provision fund. On 23 June 2016, the Turin Provincial Commission accepted Italgas' appeal made in May 2015. It was not deemed appropriate to make changes to the risk provision because the ruling is not yet definitive.

On 12 December 2016, a notice of investigation was served relating to greater IRES and IRAP, plus penalties and interest, totalling €240,600.00 as a result of the findings of the Audit Report of 17 November 2014 ending the general tax inspection that the Revenue Agency had conducted into the incorporated company AES Torino S.p.A., for the 2011 tax period. With regard to the risks associated with the proceedings in question, an allocation of €90,251.32 has been set aside.

On 10 May 2017, the settlement of the notice of investigation was concluded, with the signing of the report and, on 25 May 2017, the payment of the sums in question was made, using €43,967.82 from the risk provision and a transfer of part of the excess resulting provision equal to €46,283.49, as a result of the payment by Iren S.p.A.

of the share pertaining to the stake held by it in AES Torino in the 2011 tax period.

An assessment notice was served by the Turin Guardia di Finanza on 3 May 2017, which, with regard to the 2014 tax period, challenged the wrongful deduction of €704,000 in VAT. The Revenue Agency has not yet issued its findings. However, it was deemed advisable to allocate an amount equivalent to the VAT and related penalties to the risk provision calculated, in the event of a tax settlement plus interest due, at a total of €1,050,966.00.

### **Italgas Reti S.p.A. - Local duties**

On 29 December 2016 Italgas Reti was notified by AMA, on behalf of the Municipality of Rome, of assessment notices relating to waste charges for the period from 1 January 2011 to 31 December 2013 and waste charges for the period from 1 January 2014 to 30 June 2016 in relation to the properties owned by the Company at 47/53 Via Giuseppe Guicciardi. Since, at the moment, there is no certainty of being able to prove beyond any doubts and at this later time that there is no basis for the notices so as to rule out the liabilities, it was deemed necessary to make an allocation to the risk provision, equal to €1,572,117.10, corresponding to the Tariff/Tax calculation, the reduced penalties (if a more favourable settlement is reached) and the interest as indicated in the notices. If there is no response soon from the tax authorities surrounding the request submitted by the Company to re-examine the notices, an appeal will be submitted to the Rome Provincial Tax Commission.

**Napoletanagas S.p.A. - Local duties**

The allocation to the tax risk provision involves assessment notices, relating to waste disposal tax (TARSU), being challenged by the Company. Specifically, the increase for 2016 includes:

- €25,185.00 (tax, penalties and interest) confirmed by Publiservizi S.r.l., on behalf of the Municipality of Caserta, with regard to uncovered areas of the Viale dei Bersaglieri premises for 2012. The notice was challenged before the Caserta Provincial Tax Commission;  
Following the hearing which took place on 17 February 2017, the Caserta Provincial Tax Commission accepted the appeal, but it was decided not to alter the risk provision because the ruling is not definitive yet;
- the amount of €72,404.53 (tax, penalties and interest), referring to the assessment notice received on 18 October 2016, from Equitalia Servizi di Riscossione S.p.A. for the Municipality of Naples, in relation to an alleged recovery of waste disposal tax, for the years 2010, 2011 and 2012 for the premises at 66/f via Galileo Ferraris. The notices were challenged before the Naples Provincial Tax Commission.

The amount of €185,464.00 relates to two notices concerning TARSU received, from Equitalia Servizi di Riscossione S.p.A. on behalf of the Municipality of Naples was defined, through the payment and corresponding use in full of the provision. A total of €207,430.67 for the excess part was also used, following the definitive favourable rulings obtained with regard to the two disputes relating to the TARSU for Caserta.

**21) Revenue**

The breakdown of revenue for the first half of 2017, which totalled €791 million, is shown in the following table.

(€ million)	first half of 2017
Core business revenue	774
Other revenue and income	17
	791

Group revenue is earned exclusively in Italy. The details are provided below.

**Core business revenue**

Core business revenue, which amounts to €774 million, is analysed in the table below:

(€ million)	first half of 2017
Natural gas distribution	449
Revenue for infrastructure construction and improvements (IFRIC 12)	29
Revenue contribution pursuant to art. 57 of AEEGSE Resolution no. 367/14	223
Technical assistance, engineering, IT and other services	19
Water distribution and sale	4
	774

Core business revenue (€774 million) refers primarily to the consideration for the natural gas transmission service (€499 million) and revenue deriving from the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to IFRIC 12 (€223 million).

Revenue relating to the contribution pursuant to Article 57 of the AEEGSI Resolution 367/14 (€29 million) relates to the investment plan to replace traditional meters with electronic smart meters, as set out in the remote reading project pursuant to AEEGSI resolutions 631/13 and 554/15.

Core business revenue is reported net of the following items, involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Italgas are paid in full to the Energy and Environmental Services Fund (CSEA).

(€ million)	first half of 2017
RE-RS-UG1 fees	49
UG3 fees	24
UG2 fees	(14)
Gas Bonus and GS fees	(4)
	55

The additional fees for the distribution service (€55 million) regard primarily the following fees: (i) RE, to cover the expenses for calculating and implementing energy savings and the development of renewable energy sources in the gas sector; (ii) RS, as coverage for gas services quality; (iii) UG1, to cover any imbalances in and adjustments to the equalisation system; (iv) UG2, to cover the costs of retail sales marketing ; (v) UG3int, to cover expenses connected to the interruption of services; (vi) UG3ui, to cover expenses connected to any imbalances in specific equalisation mechanism balances for the Default Distribution Service Provider (FDD) as well as the expenses for payment delays incurred by Suppliers of Last Instance (FUI), limited to end customers for which the supply cannot be suspended; (vii) UG3ft, to fund the expense account for the service of temporary providers on the transport network; (viii) GS, to cover the tariff compensation system for economically disadvantaged customers.

Gas distribution revenue (€499 million) refers to natural gas transport on behalf of all commercial operators requesting access to the networks of the distribution companies based on the Network Code; the most significant annual transport volumes were those relating to activities carried out for Eni S.p.A. This revenue was calculated based on Authority resolutions no. 367/2014/R/gas and 173/2016/R/gas.

Revenue from water sales (€4 million) relates to water distribution by Napoletanagas.

#### *Other revenue and income*

Other revenue and income, which amounted to €17 million, can be broken down as follows:

(€ million)	first half of 2017
Net income from gas distribution service safety recovery incentives	5
Total arrears revenue (pursuant to art. 12-bis, annex A Consolidated Gas Arrears Act)	6
Income from property investments	2
Other revenue and income	4
	17

Income from safety recovery incentives, equal to €5 million, relates to refunds paid by the Authority connected to achieving quality and technical standards relating to the natural gas distribution service.

## **22) Operating costs**

The breakdown of operating costs for the period, which totalled €401 million, is shown in the following table:

(€ million)	first half of 2017
Purchases, services and other costs	300
Personnel cost	101
	401

Operating costs relating to the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to what is set forth in IFRIC 12, amount to €223 million and are broken down as follows:

(€ million)	first half of 2017
Purchase costs for raw materials, consumables, supplies and goods	65
Costs for services	106
Costs for the use of third-party assets	3
Personnel cost	49
	223

#### *Purchases, services and other costs*

Purchases, services and other costs, which amounted to €300 million, can be broken down as follows:

(€ million)	first half of 2017
Purchase costs for raw materials, consumables, supplies and goods	64
Costs for services	174
Costs for the use of third-party assets	34
Changes in raw materials, consumables, supplies and goods	11
Net accrual to provisions for risks and charges	6
Other expenses	12
	301
Less:	
<b>Increase on internal work</b>	<b>(1)</b>
- of which costs for services	(1)
	300

Purchase costs for raw materials, consumables, supplies and goods are analysed below:

(milioni di €)	first half of 2017
Inventory materials	64
	64

Inventories refer in particular to the acquisition of meters and gas pipes.  
Purchase costs for raw materials, consumables, supplies and goods include costs relating to the construction and upgrading of gas distribution infrastructure (€65 million) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.  
Costs for services of €174 million relate to:

(€ million)	first half of 2017
Project management and plant maintenance planning	93
Advisory and professional services	21
Centralised services	18
Staff-related service costs	7
Telecommunications services	6
Electricity, water and other services (utilities)	3
Insurance	3
Cleaning, security and guard services	2
Advertising, promotion and representation	2
Costs for IT services	1
Other services	22
Utilisation of provisions for risks	(3)
	175
Less:	
Increase on internal work	(1)
	174

Costs for services include costs relating to the construction and upgrading of gas distribution infrastructure (€106 million) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for project management and plant maintenance planning (€93 million) essentially relate to the extension and maintenance of gas distribution plants.

Costs for the use of third-party assets, of €34 million, are analysed below:

(milioni di €)	first half of 2017
Fees for patents, licences and concessions	32
Leases and rentals	2
	34

Fees, patents and licences (€32 million) refer primarily to fees recognised to contracting parties for the running of natural gas distribution activities under concession.

Leases and rentals (€2 million) mainly relate to rent payments for office properties. Costs for the use of third-party assets include costs relating to the construction and upgrading of gas distribution infrastructure (€3 million) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Changes in raw materials, consumables, supplies and goods (-€11 million) were due essentially to the gas meter replacement plan.

Net allocations to the provision for risks and charges, amounting to €6 million net of utilisations, refer essentially to the environmental risk provision and the EEC risk provision.

For more details on the changes in provisions for risks and charges, please refer to the note “Provisions for risks and charges”.

Other expenses, of €12 million, are analysed below:

(€ million)	first half of 2017
Gas distribution service safety recovery penalties	3
Direct and indirect taxes and local levies	6
Total arrears costs (pursuant to art. 12-bis, annex A Consolidated Gas Arrears Act)	5
Expenses for settlements, compensation and sanctions	1
Utilisation of provisions for risks	(12)
Other expenses	9
	12

Gas distribution service safety recovery penalties (€3 million) refer to refunds recognised to the Authority connected to bonuses for gas distribution service safety recoveries.

Costs relating to total arrears regard supply interruptions at delivery points relating to Art. 12-bis, annex A, of the Consolidated Gas Arrears Act (TIMG).

#### *Personnel cost*

Personnel cost, totalling €101 million, breaks down as follows:

(€ million)	first half of 2017
Wages and salaries	83
Social security contributions	25
Employee benefits	9
Income for personnel on secondment	(3)
Other expenses	(2)
	112
Less:	
Increase on internal work	(11)
	101

The item includes costs relating to the construction and upgrading of gas distribution infrastructure (€49 million) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Employee benefits (€9 million) mainly regard expenses connected to the elimination of the Gas Fund, pursuant to Law no. 125 of 6 August 2015<sup>20</sup>. More details are provided in the “Provisions for employee benefits” note.

Other expenses equal to -€2 million are for uses for the costs of the provision for risks and charges relating to personnel.

### Average number of employees

The average number of payroll employees of the consolidated entities, broken down by status, is as follows:

Professional status	30.06.2017
Executives	61
Managers	256
Office workers	1,979
Manual workers	1,377
	<b>3,673</b>

The average number of employees is calculated on the basis of the monthly number of employees for each category.

As at 30 June 2017, there were 3,564 employees.

## 23) Amortisation, depreciation and impairment

Amortisation, depreciation and impairment, totalling €186 million, breaks down as follows:

(€ million)	first half of 2017
<b>Total amortisation and depreciation</b>	
- Property, plant and equipment	8
- Intangible assets	176
<b>Impairment</b>	
- Impairment losses on intangible assets	2
	<b>186</b>

<sup>20</sup> As of 1 December 2015, Law no. 125 of 6 August 2015 eliminated the General compulsory disability, old age and survivors' insurance supplementary fund for employees of private gas companies (the “Gas Fund”) in which roughly 3,500 people in the Group participated, particularly in the distribution sector. The Law set a series of additional contributions that the employer must cover. These expenses, estimated on the basis of actuarial assumptions, were to date assessed at €40 million (€28 million net of the tax effect).

The amount of €176 million relating to the amortisation of intangible assets, includes greater amortisation as a result of the reduction in the useful life of traditional meters<sup>21</sup>, subject to the plan to replace them with electronic meters, required by AEEGSI resolutions under the scope of the implementation of the remote metering plan.

## 24) Income (expense) from equity investments

The item net financial expense of €18 million breaks down as follows:

(€ million)	first half of 2017
<b>Net financial expenses</b>	<b>17</b>
Financial expenses	17
Financial income	
<b>Other</b>	<b>1</b>
Other financial expense	2
Other financial income	(1)
	<b>18</b>

(€ million)	first half of 2017
<b>Net financial expenses</b>	<b>17</b>
<b>Expense on financial debt:</b>	<b>17</b>
- Fees on loans and bank credit lines	3
- Interest expense on credit lines and loans due to banks and other lenders	14
<b>Other</b>	<b>1</b>
	<b>18</b>

## 25) Income (expense) from equity investments

Income (expense) from equity investments of €11 million breaks down as follows:

(€ million)	first half of 2017
<b>Equity method valuation effect</b>	
Capital gains from valuation using the equity method	11
	<b>11</b>

<sup>21</sup> The useful life of the meters included in the project pursuant to AEEGSI resolutions 631/13 and 554/15 was adjusted, in order to complete the amortisation process in line with the meter replacement plan, scheduled for completion by 2018.

The analysis of capital gains and losses from valuation of equity investments using the equity method is provided in the note “Investments valued using the equity method” and refers essentially to the valuation of the shareholders’ equity of Toscana Energia.

## 26) Income taxes

Income taxes for the year of €57 million break down as follows:

(€ million)	first half of 2017		
	IRES	IRAP	Total
<b>Current taxes</b>	<b>80</b>	<b>13</b>	<b>93</b>
Current taxes for the year	69	10	79
Adjustments for current taxes relating to previous years	11	3	14
<b>Deferred and prepaid taxes</b>	<b>(31)</b>	<b>(5)</b>	<b>(36)</b>
Deferred taxes	(20)	(3)	(23)
Prepaid taxes	(11)	(2)	(13)
	<b>49</b>	<b>8</b>	<b>57</b>

The impact of taxes for the period on the pre-tax profit (tax rate) was 28.8%, compared with a theoretical rate of 27.9% which results from the application of the rates laid out in Italian tax legislation of 24% (IRES) to pre-tax profit and 3.9% (IRAP) to the net value of production.

## 27) Profit (loss) per share

The basic earnings per share, equal to €0.17, was calculated by dividing the net profit attributable to Italgas (€140 million) by the weighted average number of Italgas shares outstanding during the year (809,135,502 shares).

The diluted earnings per share was calculated by dividing the net profit by the weighted average number of shares outstanding during the period, excluding any treasury shares, increased by the number of shares that could potentially be added to those outstanding as a result of the assignment or disposal of treasury shares in the portfolio for stock option plans. As there are no treasury shares, the basic and diluted earnings per share are the same.

## 28) Related-party transactions

Taking into account CDP S.p.A.’s investment in Italgas S.p.A. under the terms of IFRS 10 – Consolidated Financial Statements, based on the Group’s current ownership structure, Italgas’s related parties are Italgas’s associates and joint ventures as well as the parent company CDP S.p.A. and its subsidiaries and associates and the direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance (MEF). Members of the Board of Directors, Statutory Auditors and managers with strategic responsibilities of the Italgas Group and their families, are also regarded as related parties.

As explained in detail below, related-party transactions involve the trading of goods and the provision of regulated services in the gas sector. Transactions between Italgas and related parties are part of ordinary business operations and are generally settled at arm's length, i.e. at the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the Italgas Group companies. Pursuant to the provisions of the applicable legislation, the Company has adopted internal procedures to ensure that transactions of 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. Italgas is not subject to management and coordination activities. Italgas exerts management and coordination activities over its subsidiaries pursuant to Articles 2497 et seq. of the Civil Code.

The amounts involved in commercial, financial and other transactions with the above-mentioned related parties are shown below for the first half of 2017. The nature of the most significant transactions is also specified.

#### *Commercial and other transactions*

Commercial and other transactions are analysed below:

(€ million)	30.06.2017			first half of 2017				
	Receivables	Payables	Guarantees and commitments	Costs (a)		Revenue (b)		
				Goods	Services	Other	Services	Other
Companies under joint control and associates								
- Toscana Energia S.p.A.	1						1	
	1						1	
Companies owned or controlled by the State								
- Snam Group	4	22	10		22			
- Enel group	12	3					63	1
- Eni group	89	41	1		2		352	11
- Saipem Group		2			2			
- other	1	1						
	106	69	11		26		415	12
Total	107	69	11		26		416	12

(a) Includes costs for goods and services to be used in investment activities.

(b) Before tariff components which are offset in costs.

#### **Companies under joint control and associates**

The main receivable commercial transactions regard IT services provided to Toscana Energia S.p.A.

### Companies owned or controlled by the State

The main receivable commercial transactions refer to:

- the distribution of natural gas and personnel loans to Eni S.p.A.;
- real estate management services, IT services and personnel loans to Eni S.p.A.;
- distribution of natural gas to Enel Energia S.p.A.

The main payable commercial transactions refer to:

- services provided by Snam S.p.A.;
- the supply of electricity and methane gas for internal consumption by Eni S.p.A.;
- services regarding the management and maintenance of real estate, personnel services, canteen management and other general services by Eni Servizi S.p.A.

### Financial transactions

As at 30 June 2017, there were no substantial financial transactions with related parties.

### Impact of related-party transactions or positions on the balance sheet, income statement and statement of cash flows

The impact of related-party transactions or positions on the balance sheet is summarised in the following table:

(€ million)	31.12.2016			30.06.2017		
	Total	Related parties	Share %	Total	Related parties	Share %
<b>Statement of financial position</b>						
Trade receivables and other current receivables	579	256	44.2%	514	107	20.8%
Trade and other payables	443	73	16.5%	387	69	17.8%

The impact of related-party transactions on the income statement is summarised in the following table:

(€ million)	first half of 2017		
	Total	Related parties	Share %
<b>Income statement</b>			
Core business revenue	774	416	53.7%
Other revenue and income	17	12	70.6%
Purchases, services and other costs	(291)	(30)	10.3%
Personnel cost	(110)	4	(3.6%)
Financial expenses			
Financial income			

Related-party transactions are generally carried out at arm's length, i.e. at the conditions that would be applied between two independent parties.

The principal cash flows with related parties are shown in the following table:

(€ million)	first half of 2017
Revenue and income	428
Cost and expense	(26)
Change in trade receivables and other current receivables	149
Change in other current assets	
Change in trade and other payables	(4)
Change in other current liabilities	
Interest received (paid)	
<b>Net cash flow from operating activities</b>	<b>547</b>
Investments:	
- Property, plant and equipment and intangible assets	
- Equity investments	
- Financial receivables held for operations	
- Change in payables and receivables relating to investments	
<b>Cash flow from investments</b>	
<b>Net cash flow from investment activities</b>	
Repayment of long-term financial debt	
Increase (decrease) in short-term financial debt	
Financial receivables not held for operations	
<b>Net cash flow from financing activities</b>	
<b>Total cash flows with related parties</b>	<b>547</b>

The effect of cash flows with related parties is shown in the following table:

(€ million)	first half of 2017		
	Total	Related parties	Share %
Cash flow from operating activities	329	547	166.3%
Cash flow from investment activities	(231)		
Cash flow from financing activities	(97)		

## 29) Post-balance sheet events

Post-balance sheet events are described in the section “Other information” contained in the Directors’ Report.

# Certification of the condensed half-year financial statements pursuant to Article 154-*bis*, paragraph 5 of Legislative Decree 58/98 (Consolidated Finance Act)

1. Pursuant to article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, the undersigned Paolo Gallo and Claudio Ottaviano, as Chief Executive Officer and Chief Financial Officer of Italgas S.p.A. respectively, certify:
  - the adequacy and actual application of the administrative and accounting procedures for the preparation of the condensed half-year financial statements as at 30 June 2017 during the course of the first half of 2017, based on the Company's particular characteristics.
2. The administrative and accounting procedures for the preparation of the condensed half-year financial statements as at 30 June 2017 were defined and their adequacy was assessed based on the rules and methods of the Internal Control- Integrated Framework model issued by the Treadway Commission's Committee of Sponsoring Organisations, which represents an internal control system benchmark that is generally accepted at international level.
3. It is also certified that:
  - 3.1 The condensed half-year financial statements as at 30 June 2017:
    - a) were prepared in accordance with the applicable international accounting standards recognised by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002;
    - b) are consistent with the accounting books and records;
    - c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and the consolidated companies.
  - 3.2 The interim directors' report includes a reliable analysis of the references to the important events that took place in the first six months of the year and their impact on the condensed half-year financial statements, along with a description of the main risks and uncertainties for the remaining six months of the year. The interim directors' report also includes a reliable analysis of the information on significant related-party transactions.

27 July 2017

Chief Executive Officer  
Paolo Gallo



Chief Financial Officer  
Claudio Ottaviano



# Independent auditors' report



## REVIEW REPORT ON CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

To the shareholders of  
Italgas SpA

### Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Italgas SpA and its subsidiaries (the Italgas Group) as of 30 June 2017, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cashflow statement and related notes. The directors of Italgas SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

### Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of the Italgas Group as of 30 June 2017 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

### PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

[www.pwc.com/it](http://www.pwc.com/it)



#### **Other aspects**

The consolidated financial statements as of and for the year ended 31 December 2016 was audited by other auditors, who on 3 April 2017 expressed an unqualified opinion on the consolidated financial statements.

Milan, 2 August 2017

PricewaterhouseCoopers SpA

*Signed by*

Giulio Grandi  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*



# Annexes



# Appendices to the notes to the condensed interim consolidated financial statements

## SHAREHOLDINGS, ASSOCIATES AND EQUITY INVESTMENTS OF ITALGAS S.P.A. AS AT 30 JUNE 2017

In compliance with the provisions of Consob Communication DEM/6064293 of 28 July 2006 and Arts. 38 and 39 of Legislative Decree 127/1991, lists of the subsidiaries, associates and significant equity investments of Italgas S.p.A. as at 30 June 2017 are provided below.

The companies are broken down by business area and listed in alphabetical order. The name, registered office, share capital, shareholders and respective shareholdings are listed for each company; for consolidated companies, the consolidated percentage pertaining to Italgas is also indicated; for non-consolidated investees of consolidated companies, the measurement method is specified.

As at 30 June 2017, the companies of Italgas S.p.A. are broken down as follows:

### CONSOLIDATING COMPANY

Name	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	consolidation or valuation method <sup>(*)</sup>
Italgas S.p.A.	Milan	Euro	1,001,231,518	C.D.P. Reti S.p.A.	26.05%	100%	Line-by-line
				Snam S.p.A.	13.50%		
				Non-controlling shareholders	60.45%		

(\*) Line-by-line = Consolidated line by line.

### SUBSIDIARIES

Name	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	consolidation or valuation method <sup>(*)</sup>
Italgas Reti S.p.A.	Turin	Euro	252,263,314	Italgas S.p.A.	100%	100%	Line-by-line
Napoletana Gas S.p.A.	Naples	Euro	15,400,000	Italgas Reti S.p.A.	100%	100%	Line-by-line
ACAM Gas S.p.A.	La Spezia	Euro	68,090,000	Italgas Reti S.p.A.	100%	100%	Line-by-line

(\*) Line-by-line = Consolidated line by line.

## ASSOCIATES AND COMPANIES UNDER JOINT CONTROL

Name	Registered office	Currency	Share capital	Shareholders	% ownership	consolidation or valuation method <sup>(*)</sup>
Toscana Energia S.p.A. <sup>(**)</sup>	Florence	Euro	146,214,387	Italgas Reti S.p.A.	48.08%	Equity
				Non-controlling shareholders	51.92%	
Umbria Distribuzione Gas S.p.A. <sup>(**)</sup>	Terni	Euro	2,120,000	Italgas Reti S.p.A.	45.00%	Equity
				Non-controlling shareholders	55.00%	
Metano Sant'Angelo Lodigiano S.p.A. <sup>(**)</sup>	Sant'Angelo Lodigiano (LO)	Euro	200,000	Italgas Reti S.p.A.	50.00%	Equity
				Non-controlling shareholders	50.00%	
Toscana Energia Green S.p.A.	Pistoia	Euro	6,330,804	Toscana Energia S.p.A.	100%	

(\*) Equity = measured using the equity method

(\*\*) The company is under joint control

## OTHER COMPANIES

Name	Registered office	Currency	Share capital	Shareholders	% ownership	consolidation or valuation method <sup>(*)</sup>
Agenzia Napoletana per l'Energia e per l'Ambiente	Naples	Euro	418,330	Napoletanagas S.p.A.	12.96%	Cost
				Soci terzi	87.04%	

(\*) Cost = Valued at cost.

