



**CONSOLIDATED  
HALF-YEAR  
FINANCIAL  
REPORT AS AT  
30 JUNE 2019**

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HALF-YEAR  
FINANCIAL  
REPORT AS AT  
30 JUNE 2019





# VALUES AND MISSION

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

Every day, for more than 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, quality of service and digitisation are the main channels of the strategy implemented to achieve these ambitious goals and to continue to generate value.

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

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**The names Italgas, Italgas Group or Group refer to Italgas S.p.A. and the companies included in the scope of consolidation.**

# CORPORATE BODIES

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

### Chairman

Alberto Dell'Acqua

### Chief Executive Officer and General Manager

Paolo Gallo

### Directors

Yunpeng He

Paola Annamaria Petrone

Maurizio Dainelli

Giandomenico Magliano

Veronica Vecchi

Andrea Mascetti

Silvia Stefini

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

Paola Annamaria Petrone (Chairwoman)

Giandomenico Magliano

Silvia Stefini

## Finance and Service General Manager <sup>(e)</sup>

Antonio Paccioretti

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

PricewaterhouseCoopers S.p.A.

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

### Chairman

Pierluigi Pace

### Standing auditors

Maurizio Di Marcotullio

Marilena Cederna

### Alternate auditors

Stefano Fiorini

Giuseppina Manzo

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

Andrea Mascetti (Chairman)

Maurizio Dainelli

Silvia Stefini

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

Giandomenico Magliano (Chairman)

Yunpeng He

Veronica Vecchi

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

Carlo Piergallini (Chairman)

Eliana La Ferrara

Francesco Profumo

(a) Appointed by the Shareholders' Meeting of 4 April 2019. In office until the date of the Shareholders' Meeting called for the approval of the financial statements for the year ending 31 December 2021.

(b) Committee established by the Board of Directors on 4 August 2016. Members appointed by the Board of Directors on 13 May 2019.

(c) Committee established by the Board of Directors on 23 October 2017. Members appointed by the Board of Directors on 13 May 2019.

(d) Committee established by the Board of Directors on 4 August 2016. Members appointed by the Board of Directors on 13 May 2019.

(e) Appointed by the Board of Directors on 26 September 2016 with effect from 7 November 2016.

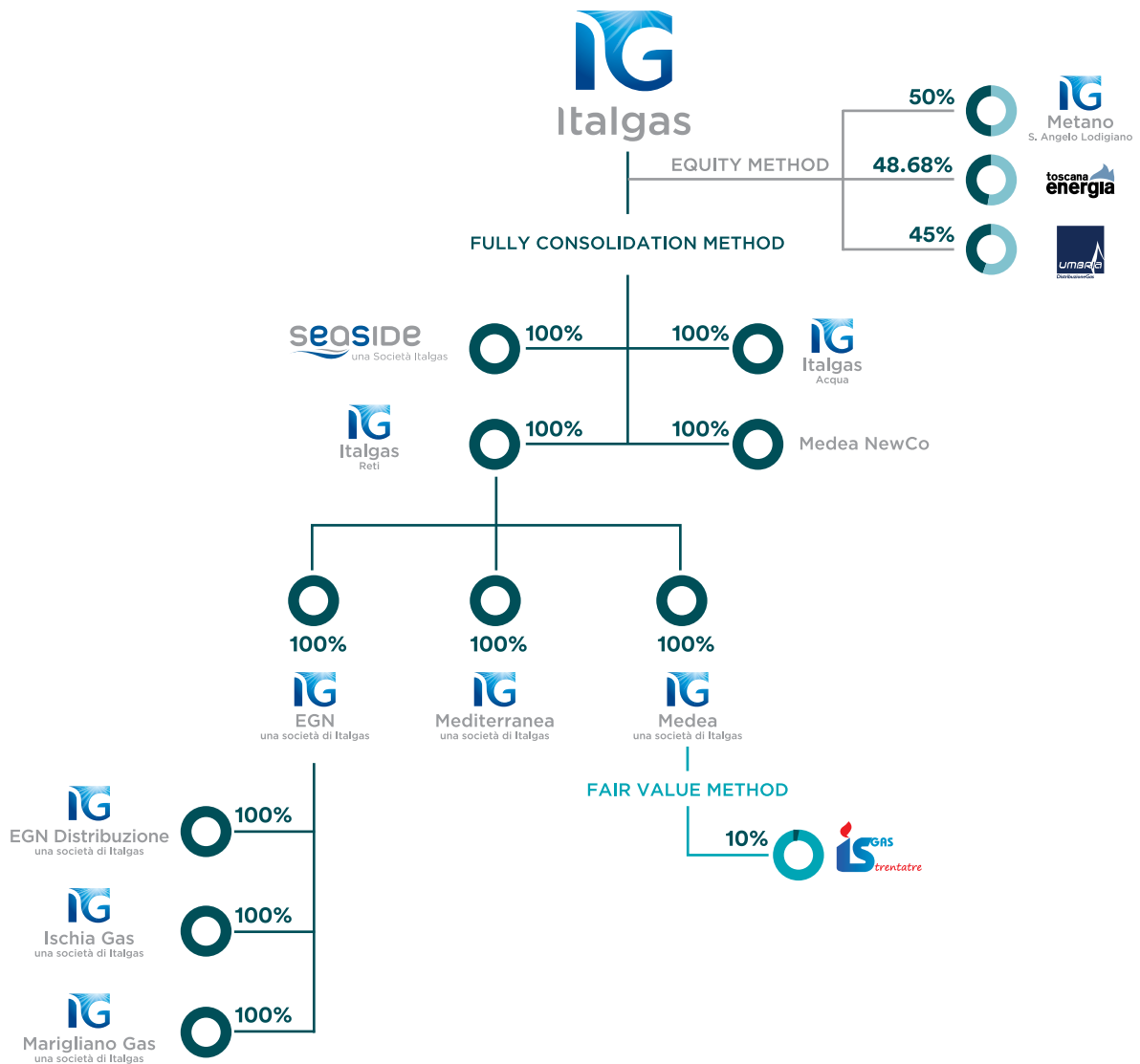
(f) The Supervisory Body was appointed by the Board of Directors on 20 December 2016, the mandate expired with the Annual Shareholders' Meeting of 4 April 2019 and, in accordance with the provisions of Model 231 of Italgas S.p.A., it is carrying out its functions ad interim pending the appointment of the new members of the Supervisory Body.

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



# GROUP STRUCTURE AS AT 30 JUNE 2019

The structure of the Italgas Group as at 30 June 2019 is shown below:





The consolidation scope as at 30 June 2019 changed compared to that as at 31 December 2018 in consequence of: (i) the incorporation, on 1 April 2019, of Fontenergia S.r.l, Fontenergia 4 S.r.l., Fontenergia 6 S.r.l., Fontenergia 7 S.r.l., Fontenergia 9 S.r.l., Fontenergia 10 S.r.l., Fontenergia 11 S.r.l., Fontenergia 15 S.r.l., Fontenergia 19 S.r.l., Fontenergia 26 S.r.l., Fontenergia 27 S.r.l., Fontenergia 35 S.r.l. and Fontenergia 37 S.r.l in Medea S.p.A. and of Naturgas S.r.l., Grecanica Gas S.r.l., Progas Metano S.r.l., Baranogas Reti S.r.l., Favaragas Reti S.r.l., Siculianagas Reti S.r.l. and Ischia Reti Gas S.r.l.

in Italgas Reti, (ii) of the acquisition by CPL CONCORDIA, on 17 April 2019, of the residual 40% of the share capital of EGN S.r.l, (iii) the acquisition by CONSCOOP, on 30 April 2019, of 100% of the share capital of Mediterranea S.r.l by Italgas Reti S.p.A, of the Aquamet and Isgas Energit Multiutilities business units respectively held by Italgas Reti S.p.A. and Medea S.p.A. and of 10% of the share capital of Isgastrentatrè S.p.A. held by Medea S.p.A.; (iv) the incorporation, on 7 May 2019, of Medea Newco S.r.l, operating in the sale of natural gas, LPG and propane air.

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*Disclaimer*

*The Condensed consolidated half-year report contains forward-looking statements, specifically in the "Business 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. The actual results could therefore differ from those announced 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.*



**INTERIM**  
**DIRECTORS'**  
**REPORT**

# SUMMARY FIGURES AND INFORMATION

## MAIN EVENTS

### M&A TRANSACTIONS

On 1 April 2019, the merger through incorporation was completed (i) of the 13 Fontenergia companies operating in Sardinia into Medea and (ii) of Naturgas, Grecanica Gas, Progas Metano, Baranogas Reti, Favaragas Reti, Sicilianagas Reti e Ischia Reti Gas into Italgas Reti.

On 17 April 2019 the option for the purchase of the residual 40% interest in EGN was exercised, for a consideration of €20.9 million, net of €21.0 million for the repayment of the shareholder loan.

On 30 April 2019, the acquisition by the CONSCOOP Group was completed:

- of the Aquamet S.p.A. business unit, including, among others, 9 concessions for the distribution of natural gas in some municipalities in Lazio, Campania, Basilicata and Calabria, for a total of 23,800 users served;
- of 100% of Mediterranea S.r.l., holder of 6 concessions for the distribution of natural gas in the province of Salerno, with approximately 3,600 users served;

- of the Isgas Energit Multiutilities S.p.A. business unit, holder of the concessions for the distribution of propane air in the Sardinian municipalities of Cagliari, Nuoro and Oristano, for a total of approximately 22,300 users currently served with LPG.

The total enterprise value for these acquisitions was established at €68.6 million.

Furthermore, in the context of the same agreement with the CONSCOOP Italgas Group through the subsidiary Medea, it has completed the acquisition of 10% of the share capital of Isgastrentatrè S.p.A., holder of the concession for the distribution of propane gas in Basin 33 in Sardinia. The agreement for the acquisition of Isgastrentatrè requires the commitment to acquire the remaining 90% of the share capital on the occurrence of some conditions, including the conversion to natural gas of the network currently fed with propane air with the specification that, should the conditions not be fulfilled, Italgas has the right to resell and Conscoop the duty to repurchase the 10% interest at a price equal to the purchase price.

On 7 May 2019, the company Medea Newco S.r.l. was established, which will operate in the sector for the sale of methane, LPG and propane air.

## INNOVATION, DIGITISATION OF THE CORPORATE NETWORKS AND PROCESSES

In the current growth context for the Italgas Group, digital technology plays a key role in enabling corporate strategies, providing tools to optimise processes and improve the service to customers and end users.

In November 2018 Italgas started its Digital Factory, a veritable factory for innovation and the driving force for the digitisation of corporate processes. The first few solutions were released in the first few months of 2019, including:

- the introduction of a dynamic scheduling model for field activities and notifications to the end consumer, which at the same time brings improvements of customer service and internal efficiency;
- the realisation of a Supervisory Integrated Centre, where a more efficient management of Prompt Interventions will be accompanied by the proactive monitoring of the digitised network;
- the experimentation of Machine Learning instruments for the monitoring of worksite activities and the improvement of safety for technicians;
- the experimentation of glasses mounted cameras to offer remote support to workers during particularly complex technical activities and to accelerate the training of new staff.

Italgas is implementing the modernisation of the Applicative Map, which requires the adoption of cloud-native solutions to replace previous legacy systems, to build the necessary ICT ecosystem to support the digitisation of networks and processes, in parallel with the Digital Factory.

The introduction of a new IoT platform is also envisaged during 2019, which allows to gather in a single Data Lake all the data transmitted by digital devices installed on our network.

Cooperation also continue with the main Italian universities (Polytechnic in Turin, MIP Polytechnic in Milan, Università Commerciale Luigi Bocconi, Libera Università Internazionale degli Studi Sociali Guido Carli “Luiss”) for the promotion and development of specific initiatives in the area of management, digital transformation and continuous improvement with projects aimed at meeting business needs.

In the context of the program of digitisation of Italgas, on 11 April 2019 an agreement was signed with Picarro, the US company active in the supply of software for the detection of gas, for the use in Europe of Picarro Surveyor. The system, called CRDS (Cavity Ring-Down Spectroscopy), consists of a technology that offers significant advantages in terms of speed of performance and range of the areas subject to control for gas leaks compared to traditional technologies. The agreement was followed by an experimentation carried out by Italgas last year on the networks of Turin, Rome and Naples, which was concluded with remarkable results.

## COOPERATION AND CONSULTANCY AGREEMENTS

On 28 April 2019 a memorandum of understanding was signed with State Grid Corporation of China, the largest energy utility company in the world, to assess possible joint initiatives in the natural gas distribution sector.

On 23 May 2019 a consultancy agreement was signed with the Greek distribution company Eda Thess, 51% owned by Depa S.A. and 49% owned by Eni Gas e Luce S.p.A. and holder of concessions for the distribution of natural gas in the area of Thessaloniki, in order to allow the Greek operator to further improve the services offered to users and the safety of the gas distribution network.

Lastly, on 28 June 2019 a Memorandum of Understanding was signed with the French company GRDF - *Gaz Réseau Distribution France* - aimed at strengthening cooperation for the development of joint activities and the exchange of knowledge and experience in the management of networks. The cooperation between the two companies will be based on an intense knowledge sharing activity of solutions and methods applied to the natural gas distribution sector.

## KEY FIGURES

In order to allow for a better assessment of economic and financial performance, the Directors' Interim Report includes the reclassified financial statements and certain alternative performance indicators, including in particular EBITDA, EBIT and net financial debt, in addition to the financial statements and conventional indicators laid out in IAS/IFRS. These figures are presented in the tables below, the relative notes and the reclassified financial statements. For the definition of the terms used, when not directly specified, please refer to the chapter "Financial results, NON-GAAP Measures".

### KEY SHARE FIGURES

		30.06.2018	30.06.2019
Number of shares of share capital	(million)	809	809
Closing price at the end of period	(€)	4,722	5,908
Average closing price in the period (a)	(€)	4,820	5,492
Market capitalisation (b)	(million)	3,899	4,443
Exact market capitalisation (c)	(million)	3,820	4,780

(a) Non-adjusted for dividends paid.

(b) The product of the number of shares outstanding (exact number) multiplied by the average closing price in the period.

(c) The product of the number of shares outstanding (exact number) multiplied by the closing price at the end of the period.

### KEY FINANCIAL FIGURES

FINANCIAL YEAR 2018		FIRST HALF OF THE YEAR	
[€ MILLION]		2018	2019
1,176.2	Total revenues (*) (**)	595.6	609.4
839.5	EBITDA (***)	424.2	433.9
453.5	EBIT (***)	223.0	241.6
313.7	Net profit	150.7	166.2

(\*) To provide a like-for-like basis for comparison with the accounting statement as at 30 June 2019, penalties for leaks of €3.2 million as at 30 June 2018 and listed net of incentives were reclassified under operating expenses. Furthermore, again to provide a like-for-like basis for comparison with the accounting statement as at 30 June 2019, the net margin relative to Energy Efficiency Certificates has been displayed.

(\*\*) Net of the effects of IFRIC 12 "Service concession agreements" (€262.5 and €203.3 million in the first half year respectively for 2019 and 2018) and of the reclassification of residual components (€7.5 and €7.4 million in the first half year respectively for 2019 and 2018).

(\*\*\*) EBITDA and EBIT are not measures allowed by IFRS. For further details with regard to these performance measures, please see the next chapter "Financial results, Non-GAAP Measures".



(€ MILLION)	31.12.2018	30.06.2019
Net invested capital at the end of the end of period	5,193.5	5,233.8
Italgas shareholders' equity at end of period	1,329.3	1,300.9
Net financial debt at end of period (*)	3,814.3	3,858.7
Financial liabilities for leasing pursuant to IFRS 16	49.9	74.2

(\*) The data excludes accounts payable per leasing pursuant to IFRS 16 for €74.2 million as at 30 June 2019.

## PRINCIPALI DATI OPERATIVI

FINANCIAL YEAR 2018 (€ MILLION)		FIRST HALF OF THE YEAR		ABS. CHANGE	CHANGE %
		2018	2019		
6,708	Active meters (million)	6,625	6,761	0.14	2.1
7,493	Active meters (million)	7,392	7,572	0.18	2.4
1,700	Municipalities in gas distribution concessions (number)	1,601	1,714	113	7.1
61,361	Distribution network (kilometres) (a)	59,272	62,279	3,007	5.1
522.7	Technical investments	227.9	317.7	89.8	39.4

(a) The data refers to kilometres managed by Italgas without taking into account subsidiaries.



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Reti



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Reti

Pietro  
Pierantoni

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# ITALGAS AND THE FINANCIAL MARKETS

The Italgas share closed the first half of 2019 with an official price of €5,908, up 18.3% with respect to the official price recorded at the end of 2018 (€4,496). Taking also into consideration the dividend paid of €0.234, the total shareholder return from the start of the year was of 23.2%. The FTSE MIB rose by 19.9% in the same period.

On 18 June 2019, the share achieved its maximum level, with a price of €6,122.

In the first half of 2019, the average daily trading volume of the Italgas stock on the electronic market of the Italian Stock Exchange was 1.9 million shares.

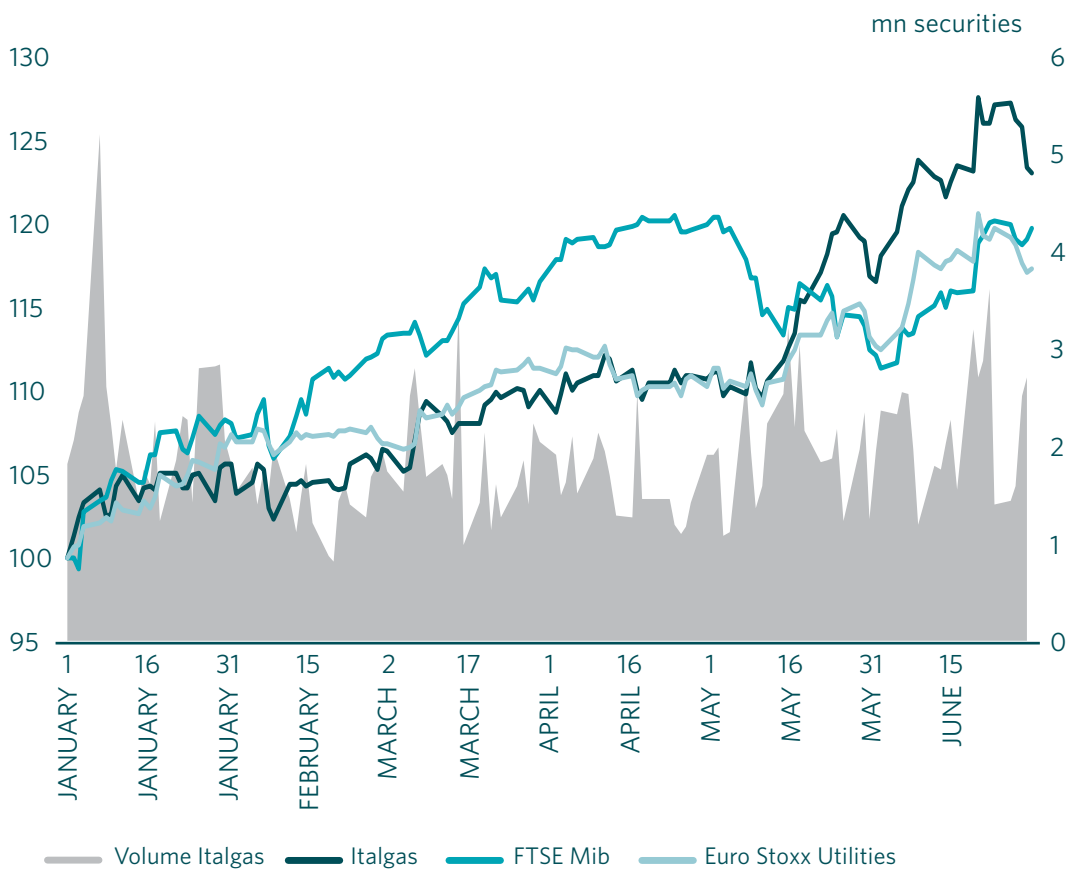
Also supported by expectations of accommodative interventions by the central banks in order to offset the economic slowdown in course, as well as strengthened prospects of a solution with regard to the US-China confrontation, the Eurozone share markets experienced significant rises in the first half of 2019, fully recovering the losses made at the end of 2018.

The Euro Stoxx share price index closed the period up 17.7%, with significantly consistent performances among the main national indices; +17.4% for the Frankfurt DAX compared with +20.4% for the Paris CAC 40.

With a rise of 17.4%, the Euro Stoxx Utilities closed the first half year in line with the Euro Stoxx, without significant differences in the performance of integrated and regulated operators, which benefited respectively from the improved business outlook and of the new historical lows of sovereign core yields.

### Comparison of the quotes Italgas, FTSE MIB and EURO STOXX Utilities

[1 January 2019-30 June 2019, figures adjusted for dividends]



## SHAREHOLDERS

The share capital as at 30 June 2019 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518.44.

As at 30 June 2019, 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.

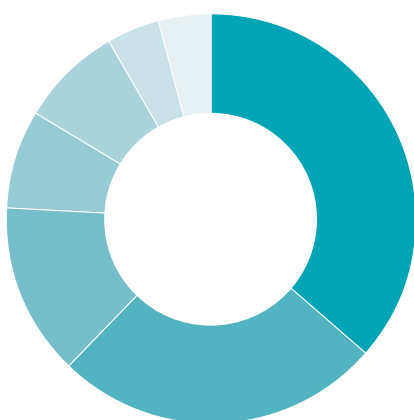
CONSOLIDATING COMPANY	REGISTRANTS	% OWNERSHIP
Italgas S.p.A.	CDP Reti S.p.A. (*) (**)	26.05
	Snam S.p.A.	13.50
	Lazard Asset Management Llc	7.9
	Romano Minozzi	4.29
	Blackrock Inc.	3.90
	Other institutional shareholders (***)	36.4
	Direct Shareholder	7.96

(\*) On 20 October 2016, a shareholders' agreement was concluded between Snam, CDP Reti and CDP Gas, with effect from the 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 sold 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.

(\*\*) CDP Reti is owned 59.1% by CDP, 35% by State Grid Europe Limited - SGEL, a subsidiary of State Grid Corporation of China, and 5.9% by some Italian institutional investors.

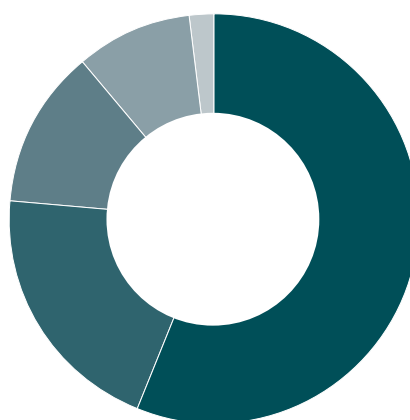
(\*\*\*) Including Bank of Italy with a 0.46% holding.

ITALGAS SHAREHOLDERS  
BY TYPE OF INVESTOR



Other institutional shareholders	36.40%
CDP Reti S.p.A.	26.05%
Snam	13.50%
Lazard Asses Management Llc	7.90%
Direct Shareholder	7.96%
Minozzi	4.29%
Blackrock Inc.	3.90%

ITALGAS SHAREHOLDERS  
BY GEOGRAPHICAL AREA



Italy	56.20%
USA and Canada	20.20%
Continental Europe	12.50%
UK and Ireland	9.40%
Rest of the World	1.70%



# 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.

Collection cabins are equipment that link local distribution networks to the national gas pipeline network. They are complex systems that must perform different functions, including the measurement of the gas collected and a first reduction of the pressure to allow routing through the urban network. Currently Italgas has collection cabins equipped with advanced remote control and smart metering systems. Remote control allows the fastest possible intervention in case of anomalies; remote meter allows the continuous detection of a series of parameters relative to the management of gas flows as well as the detection of the quantity of gas entering the networks.

The systems for the reduction of pressure are devices placed along the distribution network and have the task to bring the pressure of the gas at the right level in relation to the type of use.

## INVESTMENTS

In the first half of technical investments were made for €317.7 million (first half of 2018: €227.9 million, +39.4%), of which €31.4 million due to the adoption of IFRS 16.

FINANCIAL YEAR 2018 [€ MILLION]	FIRST HALF OF THE YEAR		ABS. CHANGE	CHANGE %
	2018	2019		
278.5 Distribution	112.8	187.0	74.2	65.8
248.7 Network maintenance and development	103.8	147.2	43.4	41.8
29.8 New networks	9.0	39.8	30.8	342.2
178.8 Metering	94.5	83.5	(11.0)	(11.6)
65.4 Other investments	20.6	47.2	26.6	129.1
22.4 - of which due to the effect of IFRS 16	6.8	31.4	24.6	361.8
522.7	227.9	317.7	89.8	39.4

Distribution investments (€ 187.0 million, +65.8% compared to corresponding period of 2018) mainly concerned network development and the renewal of pipeline sections for € 147.2 million (including the replacement of cast iron pipes with hemp and lead joints for € 12.2 million for 12.8 km and the digitisation project<sup>1</sup> for € 7.3 million) and new networks for € 39.8 million, mainly relating to investments in Sardinia amounting to € 29.5 million, as of 30 June 2019.

Investments in metering (€ 83.5 million, -11.6% compared to corresponding period of 2018) primarily concerned the plan to replace traditional meters with “smart” meters, as part of the smart metering project. The Company installed approximately 874.1 thousand new meters in the first half of 2019<sup>2</sup>, of which 738.7 thousand to replace traditional meters and 135.4 thousand for the repair of digital meters with anomalies. The decrease in investments in metering is partly linked to the reduction in unit cost for the installation of meters.

Other investments (€47.2 million, +€25 million compared to the first half of 2018) mainly concern IT, real estate and vehicle investments and include the effect of the application of IFRS 16 (€31.4 million).

<sup>1</sup> Relating to smart metering for GRF on the basis of € 2.2 million euros and digitisation of processes on the basis of € 5.1 million.

<sup>2</sup> The figure does not include the data of investee companies. Including investee companies, 992.3 thousand meters were installed, of which 840.5 in the place of traditional meters.



## MUNICIPALITIES IN CONCESSION AND LOCAL TENDER AREAS<sup>3</sup>

As at 30 June 2019, Italgas holds gas distribution service concession in 1,714 municipalities (1,700 as at 31 December 2018), of which 1,628 were operative (1,614 as at 31 December 2018). Also taking associates into account subsidiaries, the number of concessions totals 1,821 (1,808 as at 31 December 2018).

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



Within the regulatory framework that provides for assigning gas distribution service by tenders for territory (and not individual municipality) as at 30 June 2019, 27 local tender notices were published.

Of the 27 tenders: :

- TURIN 3 - South West, MASSA CARRARA, BIELLA and CREMONA 2 - Centre and CREMONA 3 - South (the latter two were aggregated) were suspended by the Contracting Stations;
- VENICE 1 - Laguna Veneta and ALESSANDRIA 2 - Centre were cancelled by the State Council and by the Piedmont Regional Administrative Court (TAR) respectively;
- BELLUNO and VALLE D'AOSTA, offers were presented but the contracts have not yet been awarded.
- MILAN 1 - City and Milan Plant and TURIN 2 - Turin Plant, were awarded respectively to UN-ARETI on 5 September 2018 and Italgas Reti on 23 April 2019;
- MONZA E BRIANZA 2 - West and LUCCA, were withdrawn.

<sup>3</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".

Of the 27 tenders published so far, only 11 were sent to the Authority, as requested by Ministerial Decree no. 226/2011; six others were sent to the Authority but have yet to be published (ROME 1 - City and Rome Plant, FORLI' - CESENA, GENOA 1 - City and Genoa Plant, MODENA 1 - North, FLORENCE 1 - City and Florence Plant and FLORENCE 2 - Province aggregates, and NAPLES 1 - Naples City and Coastal Plant). Lastly, in two areas of Calabria the Region activated the replacement power indicated by the law, with the nomination of an acting commissioner.

On 1 September 2017, Italgas also submitted a bid for the Belluno ATEM gas distribution services tender (roughly 45 thousand delivery points in 74 municipalities). One of the other operators taking part in the tender has lodged an appeal so blocking the tender procedure. The appeal was rejected by the Veneto Regional Administrative Court, a decision which was reconfirmed by the State Council on 18 October 2018, published on 22 January 2019.

On 2 May 2019 a notice was published in the Official Gazette of the European Union indicating that the Turin Metropolitan City Contracting Station had definitely awarded to Italgas Reti the tender for the management of the gas distribution service for the area TURIN 2 - Turin Plan, for the next 12 years. The Area includes 49 Municipalities in the first and second belt of the Piedmont capital for a total 190,000 end customers and a RAB of €150 million.

## LEGISLATIVE AND REGULATORY FRAMEWORK

With Judgement no. 588/2019 of 19 July 2018, published on 24 January 2019, the State Council rejected the appeal lodged by Italgas Reti for the cancellation of the acts relating to the calculation of the reimbursement value of the networks and plant located in the Municipality of Cavallino Treporti. The situation relative to the Municipality of Cavallino Treporti is very similar to that already in place with the Municipality of Venice. In fact, Italgas Reti manages the public natural gas distribution service in the area of the above-mentioned Municipality as a result of the same concession acts agreed at the time by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino Treporti was constituted in 1999 through the division of a portion of territory previously part of the Municipality of Venice. With the above-mentioned judgement, the State Council, as it previously happened with the Municipality of Venice, granted the free acquisition in favour of the Municipality of assets included in "Block A", as well as the obligation for the Company to pay rental for the use of the portion of network subject to the free acquisition. In the appeal against the judgement of 24 January 2019, the Company filed an appeal for a revision by the State Council.

In particular, then, with Order no. 510/2019 of 27 February 2019, published on 11 March 2019, the Lombardy Regional Administrative Court suspended, pending the decision of the State Council with regard the cancellation of the tender, the judgement promoted by the Municipality of Venice (and in which Italgas Reti intervened) for the cancellation of Resolution no. 368/2016/R/gas with which the Authority had formulated its observations with regard to the tender documentation for the VENEZIA 1 - Laguna Veneta Area.

With subsequent Judgements no. 2177 and no. 2178 of 21 March 2019, published on 2 April 2019, the State Council rejected the appeals filed by Italgas Reti for the revision of the previous decisions of the same appeal judge no. 4104/2018 with reference to the Municipality of Venice and no. 588/2019 with reference to the Municipality of Cavallino Treporti, for the quantification of the reimbursement due to the outgoing operator for the networks and plant relative to the service of gas distribution in the respective areas and called "Block A".

With Judgement no. 2202/2019 of 4 October 2018, published on 3 April 2019, the State Council rejected the appeal filed by the Municipality of Venice against the judgement of the Veneto Regional Administrative Court no. 655/2017 which cancelled the tender for the VENICE 1 - Laguna Veneta Area.

Lastly, a summons was received on 24 April 2019 to the Venice Court, in consequence of the judgements of the State Council no. 4104/2018 and 2177/2019, with which the Municipality of Venice asked to receive from Italgas Reti the payment for the use of plant subject of the compulsory return free of charge (block A). The first hearing is set for 12 September 2019. The Company will appear in accordance with the law. The company believes that the request for payment formulated by the Municipality of Venice, in the terms presented, does not have any foundation.

With Provision of 12 March 2019, AGCM (*Autorità Garante della Concorrenza e del Mercato - Italian Antitrust Authority*) started a preliminary investigation pursuant to art. 14-bis of Law 287/90 with sub-interlocutory proceedings with respect to Italgas Reti, Ireti and 2i Rete Gas in relation to an alleged abuse of dominant position aimed at "not allowing or delay the start of preparatory administrative procedures for the organisation of the procedure of assignment of the gas distribution service at the Genoa 1 ATEM. In particular, Italgas Reti is accused of not having supplied the contracting station with the information relative to the year of installation of individual sections of the network installed before 2006 in the Municipalities in which it has concessions (Campo Ligure, Campomorone, Ceranesi, Cicagna, Masone, Pieve Ligure and Rossignone). On 11 April 2019, the Company filed its defence brief and also supplied the contracting station with the information relating to the year of installation of sections of the network installed before 2006, restating its full compliance with the existing regulatory framework and without acquiescence with regard to the charges formulated by the AGCM. The AGCM acknowledge the transmission of information to the contracting station and their suitability to allow the invitation to tender in the Genoa 1 ATEM and therefore closed the sub-interlocutory proceedings initiated on 12 March of this year with Provision of 9 May 2019.

With Resolution no. 145/2019/R/gas of 16 April 2019, the Authority formulated its observations relating to the reimbursement value to be recognised to the holders of concessions for the gas distribution service for the Municipalities in the NAPLES 1 - City of Naples and Impianto Costiero Area; in particular, the Authority recognised as suitable, for the purposes of tariff recognition and in relation to documentation transmitted to the Municipality of Naples, the contracting station for the area, the VIR values of the 6 Municipalities (Ercolano, Naples, Portici, San Giorgio a Cremano, Torre Annunziata and Torre del Greco).

With judgement no. 139/2019 of 30 April 2019, published on 17 May 2019, the Emilia Romagna Regional Administrative Court, Parma Section, rejected the appeal filed by Italgas Reti against the Municipality of Fidenza for the cancellation of the award to GP Infrastructure of the tender for transfer to its industrial partner of the equity investment in Rete Gas Fidenza, a company fully owned by the Municipality.

The Municipality of Rome, where Italgas Reti carries out the service of gas distribution on the basis of a specific Service Contract, after a series of discussions aiming at reaching an agreement for the adjustment of timetable for the implementation of the Business plan, which is an integral part of the above-mentioned Contract, charged Italgas Reti with alleged delays in the execution of the Plan itself. Italgas Reti, in rejecting the demands of the Municipality of Rome, supplied precise observation relating to the non-attributability of the contested delays and is assessing all possible courses of actions in order to best protect its own interests.

## GAS DISTRIBUTED

As at 30 June 2019 Italgas had distributed 4,409.6 million cubic metres of gas (4,590 as at 30 June 2018) through 314 marketing companies.

## DISTRIBUTION NETWORK

The gas distribution network as at 30 June 2019 covered 62,279 km (61,361 km as at 31 December 2018), an increase of 917.8 km compared with 31 December 2018. Also taking into account associates, the distribution network spans 70,713 kilometres (69,782 kilometres as at 31 December 2018).

## METERS

As at 30 June 2019, the number of active meters at delivery points amounted to 6.761 million (6.708 as at 31 December 2018). Also considering associates, the total number of active meters is 7.616 million (7.562 as at 31 December 2018).

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).

The new obligations for the installation of G4-G6 smart gas meters (which include 97.8% of all meters) were defined by Resolution no. 669/2018/R/gas of 18 December 2018. Resolution 669/2018 in particular establishes that a minimum level of 85% must be reached by the end of 2020 by distributors with over 200 thousand customers, 2021 for those with 100 to 200 thousand and 2023 for those with 50 to 100 thousand customers. The Regulator on the other hand makes reference to a subsequent provision relating to the obligations of distributors with less than 50 thousand customers and in case of distribution companies that acquire distribution network from operators not subject to obligations.

During the first half of 2019, 874.1 thousand meters were installed, of which 738.7 thousand to replaced traditional meters, bring the total of installed meters as at 30 June 2019 to a total of 7,572.1 thousand, of which 5,134.9 were smart meters, a percentage of 67.8%. Including associate companies, Italgas installed 992.3 thousand meters, of which 840.5 thousand to replace traditional meters, bring the total of installed meters as at 30 June 2019 to a total of 8,510.1 thousand, of which 5,827.7 were smart meters, a percentage of 68.5%.



Italgas  
Reti



# COMMENT ON THE ECONOMIC AND FINANCIAL RESULTS

## RECLASSIFIED INCOME STATEMENT

FINANCIAL YEAR 2018 [€ MILLION]		FIRST HALF OF THE YEAR		ABS.	CHANGE
		2018	2019	CHANGE	%
1,143.1	Gas Distribution regulated revenue	580.5	572.2	(8.3)	(1.4)
1,007.3	<i>of which distribution revenue</i>	502.2	520.0	17.8	3.5
135.8	<i>of which other distribution revenue (*)</i>	78.3	52.2	(26.1)	(33.3)
33.1	Other revenues (**)	15.1	37.2	22.1	146.4
1,176.2	Total revenues (***)	595.6	609.4	13.8	2.3
(336.7)	Operating costs (**)(***)	(171.4)	(175.5)	(4.1)	2.4
839.5	EBITDA	424.2	433.9	9.7	2.3
(386.0)	Amortisation, depreciation and impairment	(201.2)	(192.3)	8.9	(4.4)
453.5	EBIT	223.0	241.6	18.6	8.3
(47.0)	Net financial expense	(23.7)	(24.1)	(0.4)	1.7
20.0	Net income from equity investments	9.7	11.8	2.1	21.6
426.5	Pre-tax profit	209.0	229.3	20.3	9.7
(112.8)	Income taxes	(58.3)	(63.1)	(4.8)	8.2
313.7	Net profit	150.7	166.2	15.5	10.3

(\*) To provide a like-for-like basis for comparison with the accounting statement as at 30 June 2019, penalties for leaks of €3.2 million as at 30 June 2018 and listed net of incentives were reclassified under operating expenses.

(\*\*) In order to provide a like-for-like basis for comparison with the accounting statement as at 30 June 2019, the net margin relative to Energy Efficiency Certificates has been displayed.

(\*\*\*) Net of the effects of IFRIC 12 "Service concession agreements" (€262.5 and €203.3 million in the first half year respectively for 2019 and 2018) and of the reclassification of residual components (€7.5 and €7.4 million in the first half year respectively for 2019 and 2018).

The EBIT achieved in the first half of 2019 was €166.2 million, up €15.5 million (+10.3%) compared to the first half of 2018, as a consequence of the increase in the operating profit (€18.6 million, +8.3%).

## ANALYSIS OF INCOME STATEMENT ITEMS

## TOTAL REVENUE

FINANCIAL YEAR 2018 (€ MILLION)		FIRST HALF OF THE YEAR		ABS.	CHANGE
		2018	2019	CHANGE	%
1,007.3	Distribution revenue	502.2	520.0	17.8	3.5
135.8	Other gas distribution regulated revenue	78.3	52.2	(26.1)	(33.3)
1,143.1	Total gas distribution regulated revenue	580.5	572.2	(8.3)	(1.4)
33.1	Other revenues	15.1	37.2	22.1	146.2
1,176.2	Total revenue	595.6	609.4	13.8	2.3

Total revenue for 2019 stood at €609.4 million, an increase of €13.8 million compared with the correspondent period of last year, and refers to the natural gas distribution regulated revenue (€572.2 million) and other revenues (€37.2 million).

Gas distribution regulated revenue decrease by €8.3 million compared to the previous half-year period due to the decrease in other regulated gas distribution revenue, partly offset by the increase in distribution revenue.

The decrease in other distribution revenues (€ 26.1 million) is due to the lower contribution pursuant to art. 57 of the ARERA Resolution no. 367/14, relating to the replacement of traditional meters with smart meters, as required by the plan for smart metering pursuant to ARERA resolutions no. 631/13 and no. 554/15, resulting from the fact that the company is nearing completion of the replacement plan for smart meters. That contribution for the first half of 2019 amounts to € 15.5 million (€ 47.0 million in the first half of 2018). Compared with 30 June 2018, the company also experienced an increase of € 2.2 million in ARERA incentives (of which € 1.2 million relating to the safety-related recoveries of the natural gas distribution service pursuant to Resolution no. 75/2019/R/gas of 5 March 2019) and of € 1.9 million for revenues related to services for customers.

The higher distribution revenues (+€ 17.8 million) were mainly attributable, on the basis of € 6.7 million, to the regulation components (of which € 6.0 million due to the revision of the WACC pursuant to Resolution No. 639/2018), on the basis of € 8.0 million to the change in the consolidation area due to new corporate acquisitions and, on the basis of € 3.1 million, to the absence of negative adjustments recorded in 2018.

Other revenue in the first half of 2019 was €37.2 million (up €22.1 million compared to the correspondent period in 2018). The increase is mainly linked to greater i) capital gains from divestiture for €10.6 million (of which €7.7 million linked to the sale of the property in Via XX Settembre in Turin and €2.8 million linked to the sale of vehicles), ii) sundry repayments for €2.4 million and iii) LPG and propane air sale due to the effect of the change in the scope of consolidation relative to assets acquired in Sardinia (€8.1 million).



## OPERATING COSTS

FINANCIAL YEAR 2018 (€ MILLION)		FIRST HALF OF THE YEAR		ABS.	CHANGE
		2018	2019	CHANGE	%
244.8	Fixed gas distribution costs	129.9	117.2	(12.7)	(9.8)
140.9	- net personnel cost	71.9	67.2	(4.7)	(6.5)
103.9	- net external costs	58.0	50.0	(8.0)	(13.8)
4.8	Variable gas distribution costs	2.7	4.5	1.8	66.7
10.2	Other gas distribution costs	5.6	2.4	(3.2)	(57.1)
2.3	Energy Efficiency Certificates	(1.6)	7.8	9.4	
54.7	Charges related to concessions	26.5	30.4	3.9	14.7
316.8	Total gas distribution regulated charges	163.1	162.3	(0.8)	(0.5)
19.9	Other charges	8.3	13.2	4.9	59.0
3.7	- net personnel cost	1.4	2.7	1.3	92.9
16.2	- net external costs	6.9	10.5	3.6	52.2
336.7	Operating costs	171.4	175.5	4.1	2.4
2.5	- Special items	0.0	0.0		
334.2	Adjusted operating costs	171.4	175.5	4.1	2.4

Operating costs for the first half of 2019 was €175.5 million, up €4.1 million compared to the first half of 2018. The increase derives mainly from greater i) provisions relative to Energy Efficiency Certificates (€9.4 million), ii) concession charges (€3.9 million); iii) charges inherent the distribution of gas through "bottled gas trucks" (€1.5 million). These greater charges were offset by lower fixed external costs relative to the distribution of gas (- €8.0 million), lower net personnel costs (- €3.4 million), linked in particular to the increase of the portion destined to investment activities, lower other gas distribution costs (- €3.2 million). The decrease in external fixed costs relating to the distribution of gas was mainly due from lower net costs linked to ICT (- €2.9 million), lower traditional meter reading costs (- €1.9 million) and lower fines for leaks (- €3.0 million). Lastly, an increase was recorded for sundry external costs (€3.6 million) linked to the change in the scope of consolidation.

## AMORTISATION, DEPRECIATION AND IMPAIRMENT

FINANCIAL YEAR 2018 [€ MILLION]		FIRST HALF OF THE YEAR		ABS.	CHANGE
		2018	2019	CHANGE	%
386.0	Total amortisation and depreciation	200.5	190.9	(9.6)	(4.8)
323.0	Intangible assets IFRIC 12	169.1	131.1	(38.0)	(22.5)
38.2	Other Intangible Assets	18.4	45.2	26.8	145.7
24.8	Property, plant and equipment	13.0	14.6	1.6	12.3
7.2	- of which amortisation of Right of Use	3.3	6.4	3.1	93.9
	Impairment	0.7	1.4	0.7	100.0
386.0		201.2	192.3	(8.9)	(4.4)

Amortisation, depreciation and impairment (€192.3 million) were down by €8.9 million, equal to 4.4%, compared to the first half of 2018. The reduction is justified by the lower depreciation linked to the replacement of traditional meters with smart meters, of €25.8 million, as the Group is in fact close to the completion of the replacement of the entire stock of traditional meters, anticipated for 2020. This reduction is partially offset by the increase in amortisation linked right of use pursuant to IFRS 16 of +€3.1 million.

Furthermore, following the State Council judgements no. 4104/2018 and no. 588/2019, which established that the Municipality of Venice and the Municipality of Cavallino Treporti have already acquired free of charge the ownership of a portion of the network relating to the concession, the Company has arranged to accelerate the relative amortisation for a value in the period, of approximately €3 million and 0.4 million respectively.

## NET FINANCIAL EXPENSE

FINANCIAL YEAR 2018 [€ MILLION]		FIRST HALF OF THE YEAR		ABS.	CHANGE
		2018	2019	CHANGE	%
45.6	Expense (income) on short-term and long-term financial debt	22.4	22.8	0.4	1.8
1.5	Other net financial expense (income)	1.3	1.3	0.0	0.0
2.2	- Expenses (income) related to the discounting of environmental provisions and provisions for employee benefits	1.4	1.4	0.0	0.0
(0.7)	- Other net financial expense (income)	(0.1)	(0.1)	0.0	0.0
(0.2)	Financial expense capitalised	0.0	0.0		
47.0	Net financial expense	23.7	24.1	0.4	1.7

Net financial expenses in the first half of 2019, of €24.1 million, recorded an increase of €0.4 million, compared to the same period in the 2018 financial year, mainly due to higher interest on bond issues, due to the effect of the accrual of interests for the entire half period for the bond issued on 30 January 2018.

Net income from equity investments (€11.8 million) increased by €2.1 million compared to the first half of 2018, mainly as a result of the valuation of the net equity of the shareholding in Toscana Energia.

## INCOME TAXES

FINANCIAL YEAR 2018 [€ MILLION]	FIRST HALF OF THE YEAR		ABS. CHANGE	CHANGE %	
	2018	2019			
132.6	Current taxes	69.8	71.7	1.9	2.7
(19.8)	Net deferred taxes	(11.5)	(8.6)	2.9	(25.2)
112.8	Income taxes	58.3	63.1	4.8	8.2
0.7	- Adjustments for special items	0.0	0.0		
113.5	Adjusted income taxes	58.3	63.1	4.8	8.2
26.4	Tax rate (%)	27.9%	27.5%		
26.5	Adjusted tax rate (%)	0.0%	0.0%		

Income taxes for the first half of 2019 (€63.1 million) increased by €4.8 million compared to the first half of the previous year due to the effect of the increase in the Pre - tax profit. The tax rate was 27.5% (27.9% in the first half of 2018).

## RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

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

### STATEMENT OF FINANCIAL POSITION

The Italgas Reclassified Statement of Financial Position as at 30 June 2019, compared with that as at 31 December 2018, is summarised below:

(€ MILLION)	31.12.2018	30.06.2019	ABS. CHANGE
Fixed capital	5,284.1	5,456.4	172.3
Property, plant and equipment	259.2	282.5	23.3
Intangible assets	4,982.8	5,153.8	171.0
Equity investments	175.1	176.1	1.0
Financial receivables and securities instrumental to operations	0.1	0.2	0.1
Net payables for investments	(133.1)	(156.2)	(23.1)
Net working capital	5.7	(116.3)	(122.0)
Provisions for employee benefits	(107.9)	(106.5)	1.4
Assets held for sale and directly related liabilities	11.6	0.2	(11.4)
<b>NET INVESTED CAPITAL</b>	<b>5,193.5</b>	<b>5,233.8</b>	<b>40.3</b>
Shareholders' equity	1,329.3	1,300.9	(28.4)
Net financial debt	3,814.3	3,858.7	44.4
Financial liabilities for leasing pursuant to IFRS 16 (*)	49.9	74.2	24.3
<b>COVERAGE</b>	<b>5,193.5</b>	<b>5,233.8</b>	<b>40.3</b>

(\*) From 1 January 2018, Italgas has applied the international accounting standard "IFRS 16 - Leases" which, having eliminated the differentiation between financial and operating leases, determines the recognition of liabilities for commitments to leasing companies against the recognition of tangible assets for the right of use of the relative assets for operational leases.

The net invested capital as at 30 June 2019 amounts to €5,233.8 million and consists of the items discussed below.

Fixed capital (€5,456.4 million) rose by €172.3 million compared with 31 December 2018 essentially due to the increase in intangible assets (+€171.0 million), in net financial payables relating to investment activities (+€23.1 million) and the increase in property, plant and equipment (+€23.3 million).

Tangible and intangible assets amounted to € 5,436.4 million, up by € 194.3 million compared.

Intangible assets (€5,153.8 million), which primarily include assets for the concession services accounted for in pursuant to IFRIC 12, recorded an increase of €171.0 million mainly due to gross investments for €279.3 million, amortisation and write-downs for €177.7 million and asset acquisitions resulting from M&A transactions for €73.2 million.

Tangible assets (€ 282.5 million), which mainly refer to property, plant and equipment, increased by € 23.3 million mainly due to the investments of € 38.3 million, of which € 31.4 million connected to the application of IFRS 16, net of depreciation of € 14.6 million, of which 6.4 linked to the right to use pursuant to IFRS 16.

The equity investments item (€176.1 million) includes the measurement of equity investments with the equity method and refers to Toscana Energia (€173.4 million), Umbria Distribuzione Gas (€1.3 million) and Metano Sant'Angelo Lodigiano (€1.0 million), and the fair value measurement of the 10% equity of Isgastrentatrè (€300 thousand) and other minor investments.

Consolidated net working capital as at 30 June 2019 amounts to - €116.3 million and is broken down as follows:

(€ MILLION)	31.12.2018	30.06.2019	ABS. CHANGE
Trade receivables	406.7	231.5	(175.2)
Inventories	26.2	35.1	8.9
Tax receivables	47.7	50.6	2.9
Accruals and deferrals from regulated activities	141.5	157.1	15.6
Other assets	115.0	100.9	(14.1)
Trade payables	(230.8)	(221.0)	9.8
Provisions for risks and charges	(187.6)	(182.4)	5.2
Deferred tax liabilities	(71.7)	(70.8)	0.9
Net tax payables	(13.5)	(83.5)	(70.0)
Other liabilities	(227.8)	(133.8)	94.0
	5.7	(116.3)	(122.0)

Compared to 31 December 2018, the change in working capital amounted to € -122.0 million and was mainly due to: i) drop in trade receivables (€ -175.2 million) connected in particular with effects of a seasonal nature regarding volumes distributed on behalf of sales companies; ii) higher inventories (€ +8.9 million), iii) increase in accruals and deferrals from regulated activities (€ +15.6 million) relating to the increase in the tariff payment estimated in line with the plan for the replacement of traditional meters with smart ones pursuant to art. 57 of the ARERA Resolution no. 367/14; iv) decrease in other assets (€ -14.1 million) mainly due to lower receivables from CSEA related to additional distribution components and to Energy Efficiency Certificates [TEE] due to the collection linked to the cancellation session; v) decrease in trade payables (€ 9.8 million) due to higher net payables to CSEA connected in particular with equalisation for the period (40.2), partly offset by

the reduction in trade payables (€ 30.3 million); vi) lower provisions for risks and charges (€ +5.2 million) mainly due to the use of redundancies linked to the Provision for Legal Risks; vii) higher balance of tax items (- € 70.0 million) mainly related to the increase in taxes for the period, as well as IRES and IRAP payments due on 1 July 2019; viii) lower other liabilities for the period (€ +94.0 million) resulting mainly from the reduction in net payables to CSEA relating to additional distribution components (€ 35.1 million), upon the closure of the payables to EGN due to exercise of the option linked to the purchase of the remaining 40% (€ 20.9 million) and simultaneous settlement of the payable for EGN shareholders' loan<sup>4</sup> (€ 21.0 million) occurring in April 2019 and lower advances related to the sale of the property on Via XX Settembre (€ 11.5 million) registered in 2018.

Note that the Company has finalised factoring agreements with financial counterparties on the basis of which the Company's receivables can be factored without recourse. In particular, during the first half of the year, operations were completed for the transfer of receivables linked to: i) white certificates for an amount of €62.7 million; ii) trade receivables relative to distribution for a total of €263.7 million, and (iii) tax receivables for €32.6 million.

Net financial debt was €3,858.7 million as at 30 June 2019, up €44.4 million compared to 31 December 2018. Including the effects of the application of IFRS 16, of €74.2 million, net financial debt is €3,932.9 million.

(€ MILLION)	31.12.2018	30.06.2019	ABS. CHANGE
Financial and bond debt	3,822.4	3,874.2	51.8
Short-term financial debt (*)	156.1	206.3	50.2
Long-term financial debt	3,666.3	3,667.9	1.6
Financial receivables and cash and cash equivalents	(8.1)	(15.5)	(7.4)
Cash and cash equivalents	(8.0)	(10.4)	(2.4)
Long-term financial debt	0.0	(5.0)	(5.0)
Securities not instrumental to operations	(0.1)	(0.1)	0.0
Net financial debt (**)	3,814.3	3,858.7	44.4
Lease payables pursuant to IFRS 16	49.9	74.2	24.3
Payable for EGN shareholder's loan	21.0	0.0	(21.0)
Net financial debt (including the effects pursuant to IFRS 16 and the EGN debt)	3,885.2	3,932.9	47.7

(\*) Includes the short-term term portion of long-term loan agreements.

(\*\*) Net financial debt as at 30 June 2019 does not take into account financial debts for operating leases pursuant to IFRS 16 for €74.2 million (€49.9 million as at 31 December 2018).

<sup>4</sup>In the 2018 financial statement, only for management purpose, the payable for EGN shareholders' loan of € 21.0 million disbursed by CPL Concordia was been reclassified to the other liabilities item.

Financial and bonds debt as at 30 June 2019, totalling €3,874.2 million (€3,822.4 million as at 31 December 2018) were denominated in euros and mainly referred to bonds (€2,896.6 million) and to loan agreements concerning European Investment Bank (EIB) funding (€783.6 million) and to payables to banks (€194.0 million). The increase in financial and bonds debt of €51.8 million is mainly attributable to a greater use of bank lines.

As at 30 June 2019, the breakdown of debt by type of interest rate, net of lease payables pursuant to IFRS 16, is as follows:

[€ MILLION]	31.12.2018	%	30.06.2019	%
Fixed rate	3,272.6	85.6	3,256.6	84.1
Floating rate	549.8	14.4	617.6	15.9
Gross financial debt	3,822.4	100.0	3,874.2	100.0

Fixed-rate financial liabilities amounted to €3,256.6 million and referred to bonds (€2,896.6 million) and to an EIB loan maturing in 2037 (€359.9 million), finalised on 19 December 2017 and converted to fixed rate in January 2018 through a derivative hedging contract of the "Interest Rate Swaps" type maturing in 2024.

Fixed-rate financial liabilities decreased by €16.0 million compared to 31 December 2018 due to the effect of the payment of coupons and, therefore, to lower accruals.

Floating-rate financial liabilities amounted to €617.6 million and increased by €67.8 million, essentially as a consequence of a greater use of bank lines.

Italgas had undrawn committed long-term credit lines amounting to €1.1 billion as of 30 June 2019, of which €600 million expiring in October 2019 and €500 million expiring in October 2021.

As at 30 June 2019, 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. As at 30 June 2019 these commitments appear to have been respected.

## RECLASSIFIED STATEMENT OF CASH FLOWS

The reclassified statement of cash flows provided below is the summary of the legally required cash flow statement. The reclassified statement of cash flows makes it possible to reconcile the change in cash and cash equivalents at the start and end of the period with the change in net financial debt at the start and end of the period. The measure which allows for the reconciliation between the two statements is the free cash flow<sup>5</sup>, i.e. the cash surplus or deficit remaining after the financing of investments.

### RECLASSIFIED STATEMENT OF CASH FLOWS

2018 [€ MILLION]	FIRST HALF OF THE YEAR	
	2018	2019
313.7 Net profit	150.7	166.2
<i>Adjusted:</i>		
359.0 - Amortisation, depreciation and other non-monetary components	188.6	166.2
1.3 - Net capital losses (capital gains) on asset sales and eliminations	(0.7)	(7.6)
159.8 - Interest and income taxes	77.8	87.3
35.3 Change in working capital due to operating activities (*)	221.1	105.7
(150.4) Dividends, interest and income taxes collected (paid)	(5.2)	(10.1)
718.7 Cash flow from operating activities (**)	632.3	507.7
(474.7) Technical investments	(209.0)	(279.8)
(22.3) Other changes relating to investment activities	(29.9)	23.2
3.4 Disinvestments and other changes relating to investment activities	0.0	4.0
247.4 Free cash flow before M&A transactions	393.4	255.1
(149.3) Change in scope of consolidation	(72.3)	(85.2)
of which:		
(84.8) - price paid for equity	(37.4)	(29.0)
(64.6) - takeover of payables of acquired companies	(34.9)	(56.2)
(23.8) Acquisition of business units	(23.8)	(24.9)
(75.1) Free cash flow	297.3	145.0
99.2 Change in short- and long-term financial debt	(42.4)	46.8
(168.3) Equity cash flow	(168.3)	(189.3)
(144.2) Net cash flow for the year	86.7	2.4

(\*) Net of the effects deriving from the application of IFRS 15 and IFRS 16.

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

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



## CHANGE IN NET FINANCIAL DEBT

2018 [€ MILLION]		FIRST HALF OF THE YEAR	
		2018	2019
247.4	Free cash flow before M&A transactions	393.4	255.1
(173.1)	Change due to acquisitions of equity investments and business units	(96.1)	(110.1)
(168.3)	Equity cash flow	(168.3)	(189.3)
(94.0)	Change in net financial debt excluding the effects of IFRS 16 and for the EGN shareholder loan	129.0	(44.4)
(49.9)	Change in financial liabilities pursuant to IFRS 16	(37.2)	(24.3)
(21.0)	Change in debt for EGN shareholder loan	0.0	21.0
(164.9)	Change in net financial debt	91.8	(47.7)

Cash flow from operating activities in the first half of 2019 amounted to € 507.7 million and made it possible to fully finance the net flow from investments of € 252.6 million, generating free cash flow before M&A transactions of € 255.1 million, and to distribute a dividend over to 2018 profit, approved on 4 April 2019, in the amount of € 189.3 million. As of 30 June 2019, the cash flow from M&A transactions amounted to € 110.1 million.

The increase in net financial debt was of €44.4 million, gross of the effect deriving from the adoption of IFRS 16 in relation to leasing liabilities (€24.3 million) and the repayment of the CPL Concordia shareholder loan to EGN (€21.0 million).



# NON-GAAP MEASURES

## ALTERNATIVE PERFORMANCE INDICATORS

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

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

## MAIN ALTERNATIVE PERFORMANCE INDICATORS

ALTERNATIVE CAPITAL PERFORMANCE INDICATORS	DESCRIPTION
Gas Distribution regulated revenue	Operating performance indicator representing revenue from regulated gas distribution activities, calculated by subtracting the revenue for construction and enhancement of infrastructures recognised pursuant to IFRIC 12, the release of connection contributions relating to the financial year and other components of the statement of reconciliation of the reclassified income statement of the subsequent chapter "Reconciliation of the reclassified income statement, statement of financial position and statement of cash flows" from core business revenue and other revenue and income.
EBITDA	Operating performance indicator, calculated by subtracting operating costs from revenue.
Adjusted EBITDA	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this report) from EBIT.
EBIT	Operating performance indicator, calculated by subtracting operating costs, amortisation, depreciation and impairment from revenue.
Adjusted EBITDA	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this report) from EBIT.
Earning per Share	Profit indicator of the company's share which indicates the degree of success of the business activities and in the equity markets. The indicator is calculated as a ratio between the adjusted net profit and the total number of shares.

ALTERNATIVE CAPITAL PERFORMANCE INDICATORS	DESCRIPTION
Net working capital	A capital indicator that expresses the capital employed in non-financial current assets and liabilities and indicates the company's short-term balance. This is defined as the sum of the values relating to trade receivables and payables, inventories, tax receivables and payables, provisions for risks and charges, deferred tax assets, deferred tax liabilities and other current assets and liabilities. As at 31 December 2018 the item considers, among other liabilities, financial debt for €21 million, constituted by shareholders' loans issued by CPL Concordia to EGN, which will be repaid at the same time of the exercise of the put & call option, as it is considered to be part of the adjustment of the purchase price.
Fixed capital	A capital indicator that expresses the total fixed assets. 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	A capital indicator that expresses net investments of an operating nature, represented by the sum of the values related to fixed assets, net working capital, provisions for employee benefits and assets held for sale and the directly associated liabilities.

ALTERNATIVE FINANCIAL PERFORMANCE INDICATORS	DESCRIPTION
Cash flow from operating activities	It represents the cash flow from the operating activity of the mandatory schemes excluding the effects deriving from the application of the IFRS 15 and IFRS 16 accounting standards.
Free cash flow before M&A transactions	It is the cash representing the difference between the cash flow from operating activities and the net cash flow from investment activities excluding the flow resulting from mergers and acquisitions.
<i>Free cash flow</i>	The free cash flow representing the difference between the net cash flow from operating activities and the net cash flow from investment activities.
Net financial debt	Determined as the sum of the values relating to short and long-term financial payables, net of cash and cash equivalents and financial liabilities for leases pursuant to IFRS 16. As at 31 December 2018 the item does not consider financial liabilities for €21 million, constituted by shareholders' loans issued by CPL Concordia to EGN, which will be repaid at the same time of the exercise of the put & call option, as they are considered to be part of the adjustment of the purchase price.

## RECONCILIATION OF THE RECLASSIFIED INCOME STATEMENT, STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

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

### RECONCILIATION BETWEEN RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS AND THE LEGALLY REQUIRED FINANCIAL STATEMENTS

#### Reclassified Income Statement

[€ MILLION]	FIRST HALF OF 2018			FIRST HALF OF 2019			
	Reference to the explanatory notes of the consolidated financial statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
Revenues (from mandatory statements)		805.2			878.1		
- Revenues for construction and upgrading of distribution infrastructures IFRIC 12	(note 23)		(203.2)			(262.5)	
- Connection contributions	(note 23)		(7.4)			(7.5)	
- Net income from Energy Efficiency Certificates						1.3	
Total revenue (from reclassified statements)				594.6			609.4
Operating expenses (from mandatory statements)		(373.6)			(436.7)		
- Revenues for construction and upgrading of distribution infrastructures IFRIC 12			203.2			262.5	
- Net income from Energy Efficiency Certificates						(1.3)	
Operating expenses (from reclassified statements)				(170.4)			(175.5)
EBITDA				424.2			433.9
Amortisation, depreciations and write-downs (from mandatory statements)		(208.6)			(199.8)		
- Release of connection contributions relating to the financial year			7.4			7.5	
Amortisation, depreciations and write-downs (from reclassified statements)				(201.2)			(192.3)
EBIT		223.0		223.0	241.6		241.6
Net financial expense		(23.7)		(23.7)	(24.1)		(24.1)
Net income from equity investments		9.7		9.7	11.8		11.8
Pre-tax profit		209.0		209.0	229.3		229.3
Income taxes		(58.3)		(58.3)	(63.1)		(63.1)
Net profit (loss)		150.7		150.7	166.2		166.2

## Reclassified Statement of Financial Position

[€ MILLION]		31.12.2018	30.06.2019
(Where not expressly indicated, the item is obtained directly from the legally-required statement)	Reference to the explanatory notes of the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements
		Partial figures from mandatory statements	Figures from reclassified statements
Fixed capital			
Property, plant and equipment		259.2	282.5
Intangible assets	(note 12)	4,982.8	5,153.8
Participating interests, composed of:		175.1	176.1
- Investments valued using the equity method		175.0	172.7
- Other investments		0.1	3.4
Net payables relating to investment activities, composed of:		(133.1)	(156.2)
- Payables for investment activities	(note 16)	(133.1)	(161.6)
- Receivables from investment/divestment activities	(note 7)	0.0	5.4
Financial receivables and securities instrumental to operations, composed of:		0.1	0.2
- Other financial assets		0.1	0.2
Total capital assets (from reclassified statements)		5,284.1	5,456.4
Net working capital			
Trade receivables	(note 7)	406.7	231.5
Inventories		26.2	35.1
Tax receivables, composed of:		47.7	50.6
- Current income tax assets and other current tax assets	(note 9)	47.7	34.9
- IRES receivables for National Tax Consolidation Scheme	(note 7)		14.2
- Parent company's receivables for liquidation of Group VAT	(note 7)		1.4
Accruals and deferrals from regulated activities		141.5	157.1
Other assets		115.0	100.9
- Other receivables		115.0	100.9
Trade payables	(note 16)	(230.8)	(221.0)
Provisions for risks and charges	(note 18)	(187.6)	(182.4)
Deferred tax liabilities	(note 20)	(71.7)	(70.8)
Net tax payables, composed of:		(13.5)	(83.5)
- Current income tax liabilities and other current tax liabilities	(note 9)	(13.5)	(83.5)
- IRES payables for National Tax Consolidation Scheme		0.0	0.0

[€ MILLION]		31.12.2018	30.06.2019
(Where not expressly indicated, the item is obtained directly from the legally-required statement)	Reference to the explanatory notes of the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements
	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements
	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Other liabilities, composed of:	(note 17)	(227.8)	(133.8)
- Other payables		(247.9)	(133.6)
- Financial liabilities from shareholders loans to be repaid deriving from EGN transaction		20.1	0.0
- Other current and non-current liabilities		0.0	(0.2)
Total net working capital (from reclassified statements)		5.7	(116.3)
Provisions for employee benefits	(note 19)	(107.9)	(106.5)
Assets held for sale and directly associated liabilities, composed of:		11.6	0.2
- Assets held for sale	(note 14)	11.6	0.2
NET INVESTED CAPITAL		5,193.5	5,233.8
Shareholders' equity including minority interests	(note 21)	(1,329.3)	(1,300.9)
Net financial debt			
Financial and bond debt, composed of:	(note 15)	(3,822.4)	(3,874.2)
- Long-term financial liabilities		(3,666.3)	(3,667.9)
- Short-term portions of long-term Financial liabilities		(0.5)	(14.9)
- Short-term financial liabilities		(306.9)	(191.3)
- Financial liabilities from shareholders loans to be repaid deriving from EGN transaction		21.0	0.0
- Factoring transactions in transit		130.3	0.0
Financial receivables and cash and cash equivalents, composed of:	(note 6)	8.1	15.5
- Financial receivables non-instrumental to operations		0.0	5.0
- Cash and cash equivalents		138.3	10.4
- Factoring transactions in transit		(130.3)	0.0
- Other financial assets held for trading or available for sale		0.1	0.1
Total net financial indebtedness (from reclassified statements)		(3,814.3)	(3,858.7)
Financial liabilities per operating leases pursuant to IFRS 16		(49.9)	(74.2)
COVERAGE		(5,193.5)	(5,233.8)

## Reclassified Statement of Cash Flows

[€ MILLION]	FIRST HALF OF 2018		FIRST HALF OF 2019	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Net profit		150.7		166.2
<i>Adjusted:</i>				
Amortisation, depreciation and other non-monetary components:		188.6		166.2
- Amortisation and depreciation	208.6		198.3	
<i>from which to deduct amortisation for rights of use pursuant to IFRS 16</i>	(3.3)		<b>(6.4)</b>	
- Net impairment of property, plant and equipment and intangible assets	0.7		1.4	
- Net capital losses (capital gains) on asset sales and eliminations		(0.7)		(7.6)
- Change in provisions for employee benefits and risk fund	(0.3)		(7.7)	
- Connection contributions - uses	(7.4)		(7.5)	
- Effect of valuation using equity method	(9.7)		(11.9)	
Interest, income taxes and other changes:		77.8		87.3
- Dividends	0.0		0.0	
- Interest income	(0.4)		(0.3)	
- Interest expense	19.8		24.5	
- Income taxes	58.3		63.1	
Change in working capital due to operating activities:		221.1		105.7
- Inventories	(8.2)		(8.6)	
- Trade receivables	179.0		180.8	
- Trade payables	61.4		(18.5)	
- Change to provision for risks and charges	(5.8)		0.0	
- Other assets and liabilities	(0.7)		(49.1)	
<i>- from which to deduct Deferrals for connection contributions - uses</i>	7.4		<b>7.5</b>	
<i>- from which to deduct Deferrals for connection contributions - increases</i>	(12.0)		<b>(6.5)</b>	
Dividends, interest and income taxes collected (paid):		(5.2)		(10.1)
- Dividends collected	13.7		14.1	
- Interest income	0.4		0.3	
- Interest paid	(18.3)		(24.5)	
- Income taxes (paid) refunded	(1.0)		0.0	
Cash flow from operating activities		632.3		507.7



[€ MILLION]	FIRST HALF OF 2018		FIRST HALF OF 2019	
Reclassified Statement of Cash Flows items and intersection of legally-required statement items	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Technical investments:		(209.0)		(279.8)
- Property, plant and equipment	(4.9)		(6.9)	
- Intangible assets	(216.1)		(279.4)	
- Connection contributions - increases	12.0		6.5	
Other changes relating to investment activities:		(29.9)		23.2
- Changes in payables and receivables relating to investment activities	(37.4)		23.2	
<i>from which to deduct Payables Change for adjustment in equity investment earn-outs</i>	7.5			
Disinvestments and other changes relating to invest- ment activities				4.0
<i>Free cash flow before M&amp;A transactions</i>		393.4		255.1
Purchase of business units		(23.8)		(24.9)
Companies entered into the scope of consolidation of which:		(72.3)		(64.1)
- <i>price paid for equity</i>	(29.9)		(28.9)	
- <i>takeover of net payables of acquired companies</i>	(34.9)		(35.2)	
- <i>adjustment of equity investments earn-out</i>	(7.5)		<b>0.0</b>	
- <i>assumption of financial payables for EGN shareholder loan</i>				(21.0)
Free cash flow		297.3		145.0
Change in financial payables and receivables		(42.3)		46.7
- Assumptions of long-term financial payables	48.2		152.7	
- Repayments of long-term financial payables	(90.6)		(104.8)	
- Expense relative to rights of use	0.0		(6.2)	
- Middle/long-term financial receivables			5.0	
Cash flow from own capital	(168.3)		(189.3)	
Net cash flow for the year		86.7		2.4



# OTHER INFORMATION

## TREASURY SHARES

The company did not own any treasury shares as at 30 June 2019.

## 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, also the subsidiaries directly or indirectly controlled by CDP, therefore including the shareholder Snam, and the Ministry of Economy and Finance (MEF). Transactions with these entities relate to the exchange of assets, the provision of services and, in the case of CDP, the provision of financial resources.

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

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

Directors and statutory auditors declare potential interests that they have in relation to the Company and the Group periodically,

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 30 June 2019, Italgas manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

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

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



# 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 2019 the financial debt at floating rate was 15.9% and at fixed rate was 84.1%.

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).

At full performance, Italgas aims to maintain a debt ratio between a fixed rate and floating rate to minimise the risk of rising interest rates.

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 for the variable component of the debt in place and for future loans.

## 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 the ARERA 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 2019 there were no significant credit risks. However, note that on average 95% of trade receivables relative to the distribution of gas are settled by the due date and over 99% within the next 4 days, confirming the strong reliability of the business customers. Receivables from other activities represent a non-significant portion for the Company.

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 undrawn as at 30 June 2019. These credit lines (€1.1 billion) may 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 5 November 2018, has allowed issue of the remaining bonds worth a nominal €600 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 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 1 August and 23 October 2018, Fitch and Moody's assigned Italgas S.p.A. a rating of BBB+ with stable outlook and Baa2 with stable outlook.

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 COVENANTS AND DEFAULT RISK

As at 30 June 2019, 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. As at 30 June 2019 these commitments appear to have been respected.

The bonds issued by Italgas as at 30 June 2019 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.

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.

## OPERATING RISKS

Italgas 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 quality 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 underperformance 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, the prevention and the fight against active and passive corruption.

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 €123 million as at 30 June 2019.

### RISK ASSOCIATED WITH SMART METER INSTALLATION

At the end of 2010, Italgas initiated a plan to replace traditional meters with smart meters, until mid-2014 affecting classes higher than G6 and later also the mass market class.



In the first replacement phase, the new remote-read meters represent a technology that is still under development. For producers, the construction characteristics established by the Authority led to the need to plan and build a product, according to timing consistent with the obligations set by ARERA, targeting the Italian market only. Also note the complete availability only from 2015 of the reference technical regulations prepared by the CIG (Italian Gas Committee, regulator affiliated with the UNI).

Italgas began the installation of these devices in compliance with the calendar defined by ARERA. There is therefore the risk that the level of malfunctions is higher than past performances recorded for traditional meters and that this generates higher maintenance costs for the company.

## 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 2019, Italgas managed the natural gas distribution service throughout the national territory in 1,714 Municipalities in concession.

Interministerial 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.

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 economic and financial position 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, establishes that 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 of the regulation entering into force pursuant to Ministerial Decree No. 226 dated 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 of 7 April 2014 and approved by Ministerial Decree dated 22 May 2014<sup>6</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>6</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.

## RISKS RELATED TO THE REGULATORY TREATMENT OF “FROZEN” CONTRIBUTIONS

With the introduction of Resolution no. 573/2013/R/gas it was directed that the contributions received from the start of 2012 should be subject to a process of depreciation. On the other hand, for stock of contributions before 31 December 2011, the Authority envisages the option of accounting treatment on a straight line, therefore without depreciation, or in a manner similar to that envisaged for contributions received from 2012. In this latter case it is also envisaged that the portion part of the stock of contributions should be subject to immediate release in the course of the fourth year of the regulatory period, postponing the definition of the treatment of the residual portion of contribution to subsequent regulatory periods (“frozen contributions”).

With regard to this, for the fifth regulatory period, in DCO no. 170/2019/R/gas the Authority proposes that, by the end of the period, the residual value of the stock of contributions as at 31 December 2011 is considered to be subject to depreciation, defining a course that allows full “unfreezing” by the end of the same fifth regulatory period.

If confirmed, a similar accounting treatment, concentrated on a reduced time period, would involve a decrease of the RAB to a “step”, which would have an effect on the level of revenue of the operator.

## RISK LINKED TO THE EXECUTION OF THE INVESTMENT PLAN OF CONCESSIONS

The concessions envisage commitments for the concession holder, including investments. It cannot be excluded that, also due to delays in obtaining the authorisations and permits, these investments are made beyond the specified deadlines, with the risk that the company incurs charges.

## 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 ARERA 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.

With Resolution no. 98/2019, ARERA approved the definitive reference tariffs for distribution and metering services for 2018, establishing that tariff recognition of the investments made in areas with first service supply in 2017 must take place through parametric calculation, that is to say through the recognition of a standard delivery point amount compared to that already recognised in 2018.

Italgas submitted an application against this Resolution at the time of this was being examined by ARERA, as specified pursuant to Resolution no. 128/2019/R/gas. Any confirmation by ARERA of the procedures of calculation highlighted could have a negative impact on revenues.

Pending the outcome of the review by ARERA the company has provisionally adjusted the relative revenue in this half-year. On 17 July 2019 the Company made an extraordinary appeal to the President of the Republic with which it contested the above-mentioned Resolutions.

### 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).

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

### Legislative and regulatory framework

With Resolution no. 30/2018/R/gas of 25 January 2018, published on 4 July 2019, the Authority formulated its observations regarding the tender documentations sent, pursuant to the dispositions of article 9, paragraph 2, of Ministerial Decree no. 226/2011, by the Municipality of Turin, contracting station for TURIN 1 - City of Turin Area.

With Determination DMRT/EFC/4/2019 of 10 July 2019, in application of the criteria pursuant to article 7, paragraphs 1 and 2, of Annex A of Resolution no. 487/2018/R/efr, ARERA established the value of the tariff-based unit contribution in relation to Energy Efficiency Certificates (TEE) for the obligation year 2018 of 248.89 €/TEE.

With Resolution no. 305/2019/R/gas of 16 July 2019, the Authority established a recognition in account on the net overall amount of premiums relative to safety recoveries of the natural gas distribution service for the year 2016 due to interested parties (algebraic balance of premiums and penalties), equal to 80%. The Authority will grant the above recognition to all distribution companies that will supply confirmation in relation to the forecast of premiums and fines for the year 2016 by 4 October 2019, through an online system, except express waiver communicated via PEC to the CSEA by 15 October 2019.

The Authority has then instructed CSEA to pay the account to all distribution companies that have given their consent by the deadline of 30 October 2019 to the Account with regard to the quality of the gas services.

### Other events

Taking advantage of the opportunity given by favourable market rates and credit spreads at minimum levels in the last few years, on 24 July 2019 Italgas successfully completed the launch of a new bond issue with maturity in April 2030, at a fixed rate and for an amount of €600 million, with an annual coupon of 0.875%.

The placement, aimed at institutional investors, was organised and directed by Joint Book-runners BNP Paribas, JPMorgan, UniCredit, Banca IMI, Mediobanca and SocGen.

The issue completed the plafond of the EMTN Program initiated in 2016 and renewed with resolution of the board of directors of 5 November 2018.

Furthermore, an Interest Rate Swap operation was finalised on 24 July 2019 with Mediobanca and Unicredit (with expiry in November 2029) which will provide a fixed rate of -0.056% for the "Smart Metering" BEI funding of €300 million.

## Corporate transactions

In relation to the offer under option of 2,897,778 shares pursuant to art. 2437-quater, paragraph 2, of the Civil Code of company Toscana Energia for which the Municipalities of Bientina, Buti, Calcinaia, Casiana, Terme Lari and Palaia exercised their right of withdrawal, Italgas was the only shareholder to exercise the option rights at the end of the period of offer to non-withdrawing shareholders ended on 22 July 2019 and, at the same time, the right of first refusal on all the shares with unexercised rights.

Therefore, once the formal requirements set by current regulations are met, Italgas will increase its equity investment in Toscana Energia from 48.68% to 50.66%.

Signing, on 29 July 2019, of the merger deed by incorporation of EGN S.r.l., EGN Distribuzione S.r.l, Ischia Gas S.r.l. e Marigliano Gas S.r.l. in Italgas Reti S.p.A.. Merger legal effects will start from 1 August 2019 or, where subsequent, from the last registrations pursuant to art. 2504 of the civil code, while the accounting and tax effects will start from 1 January 2019.







# BUSINESS OUTLOOK

Italgas will continue to pursue its strategic objectives, focusing on the digitization of the network and company processes, on making investments, on the quality of the service provided, on rationalising operating costs and optimising the financial structure, whilst paying constant attention to development opportunities.

With specific regard to technical investments in tangible and intangible fixed assets, in 2019, Italgas expects to continue its significant plan of investments targeted primarily at the implementation of network digitization projects and the installation of “smart” meters and natural gas distribution of Sardinia, plus the normal maintenance and development of the networks managed.

Consistent with the strategic priorities of the 2019-2025 plan, Italgas will participate in the tenders for the concession of natural gas distribution services, pursuing the development objectives of the business and consolidation of the sector, which is currently very fragmented.

In addition, in line with the objectives of the Strategic Plan, following to 2018 acquisitions, the year 2019 can expect to see the completion of additional initiatives for external growth, which will enable the strengthening of the regional presence and growth of the perimeter of activities.

Lastly, activities will continue in 2019 aimed at optimising the financial structure of the Italgas Group, in line with the objectives set up in the 2019-2025 Strategic Plan.



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# LEGISLATIVE AND REGULATORY FRAMEWORK

## TARIFF REGULATION

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

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

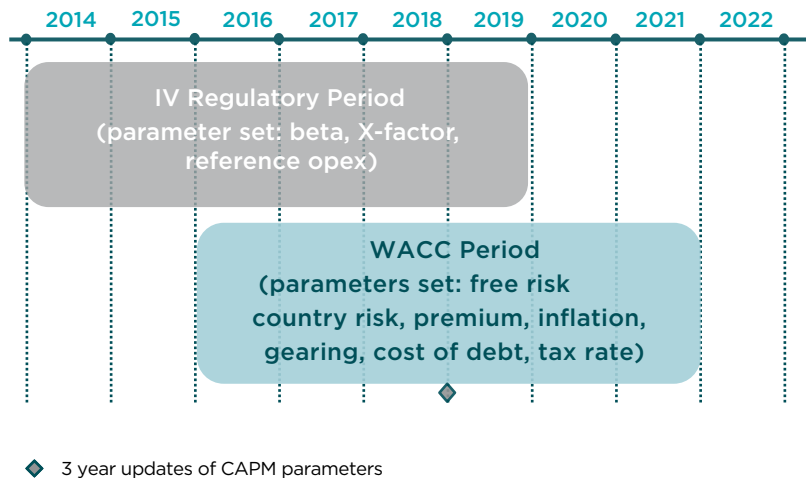
- the cost of net invested capital for RAB (Regulatory Asset Base) purposes through the application of a rate of return of the same;
- economic-technical amortisation/depreciation, hedging investment costs;
- operating costs, hedging operational costs.

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

### HIGHLIGHTS FROM THE FOURTH REGULATION PERIOD (FROM 01/01/2014 TO 31/12/2019)

End of regulatory period (TARIFFS)	31 December 2019
Calculation of net invested capital recognised for regulatory purposes (RAB) (*)	Revalued historical cost Parametric method for centralised assets
Return on net invested capital recognised for regulatory purposes (pre-tax WACC)	Distribution: 6.1% for years 2016-2018 6.3% for year 2019  Metering: 6.6% for years 2016-2018 6.8% for year 2019
Incentives on new investments	Return on investments t-1 to offset the regulatory time lag (from 2013)
Efficiency factor (x factor)	1.7%- on distribution operating costs 0.0%- on metering operating costs

(\*) The estimated RAB of the companies currently included in the scope of consolidation, calculated by applying the criteria adopted by the Authority in the definition of the reference tariffs for 2019, is equal to almost €6.4 billion.



With Resolution no. 573/2013/R/gas the Authority defined the rate 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. 775/16 below):

- the criterion 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 smart 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 return and amortisation 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 2016-2018 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 2016-2018, was set by the Authority at 6.6% (down compared with 7.2% used in 2014-2015) in real terms before taxes.

Resolution no. 704/2016/R/gas adopted provisions on 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 tariffs starting in 2019.

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 mandatory periodic checking of 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 to be applied to electronic metering units for capital cost recognition. In particular:

- in relation to operating expenses of the distribution and metering service, the Au-

thority has confirmed the recovery of productivity targets respectively fixed at 1.7% and 0%;

- in relation to operating expenses of the marketing service, the Authority has increased the unit cost recognised for the year 2017, fixing it at €2.00 per redelivery point and has confirmed the X-factor at 0%;
- in relation to the component covering the costs relating to meter checks (DCVER), the Authority has envisaged a provisional reduction of the unit value of the component for the year 2017, pending further investigations, fixing it at €50 per redelivery point;
- in relation to the component covering the centralised costs for the remote meter reading/remote managing system and of the component covering the costs of t(con) concentrators, the Authority has envisaged, also for 2017, the recognition of the final costs (with a cap for tariff recognition for costs incurred of €5.74 per redelivery point where a smart meter is operating);
- in relation to the recognition of G6 or lower class metering units' investments relative to 2016, the Authority has confirmed the current regime, recognising the actual costs incurred by companies in the limit of 150% of standard costs;
- in relation to standard costs for G6 or lower class metering units' investments for 2017, the Authority has fixed a level of €135/gdm for G4 metering groups and of €170/gdm for G6 metering units.

Resolution no. 859/2017/R/gas approved the mandatory tariffs and the bimonthly equalisation prepayment amounts for the natural gas distribution and metering services, as well as the values of components to cover operating expense for the distribution service, metering service, marketing of distribution and metering services and the component to cover centralised capital costs for the year 2018.

Resolution no. 904/2017/R/gas adopted provisions for the recognition of costs relating to metering activities on natural gas distribution networks and for the effective date for the application of investment measurement criteria based on standard costs. In particular:

- in relation to the recognition methods for costs relating to smart metering/management systems and concentrator costs, the adoption of benchmark logics is deferred to the fifth regulatory period, envisaging that the recognition of costs for 2018 and 2019 essentially continues to apply the criteria currently envisaged, based on final figures that are capped. The cap for this ceiling, set for 2017 at €5.74 per delivery point fitted with smart meters, is reduced to €5.24 per delivery point fitted with smart meters for 2018 and to €4.74 for 2019, with the aim of gradual closure over six years of the existing gap with cost levels considered to be efficient, established at €2.74 per delivery point fitted with smart meters;
- as regards criteria for the definition of standard costs for gas metering units for 2018 and 2019, for classes G4 and G6 the standard cost values defined for 2017 are confirmed, whilst with reference to the sharing of higher/lower investment costs associated with smart meters, the weighted average standard cost and actual cost are adopted, with a 40% weighting for the standard cost and a 60% weighting for the actual cost;
- in relation to the cost recognition methods for meter checks, for 2017 the value of €50 per delivery point for the  $\Delta$ CVER component is confirmed as final; for 2018 and 2019 a final recognition is envisaged, postponing any recognition of costs on a standard basis to a later stage, when precise data will be available on the costs incurred by companies for the checks that must be carried out in application of the provisions of Italian Ministerial Decree no. 93/17;
- in relation to the deadlines of the minimum time period program for the installation obligations set by the *Directives for the commissioning of gas metering units*, the Authority has postponed the setting of specific objectives to 2020, after a provision to be adopted by February 2018;
- in relation to the adjustment of the criterion of a tariff recognition which takes into account also the residual depreciation of traditional G4 and G6 traditional metering units replaced with smart meters in application of the *Directives for the commissioning of gas metering units*, in case of early decommissioning of meters that have not reached the end of their useful life or whose useful life has changed following regulatory amendments, the Authority intends to carry out the necessary investigations;
- in relation to the definition of the price list and the method of recognition of the investments in natural gas distribution network at standard costs, the Authority has postponed its application to investments starting in 2019 with reflection in the tariffs from 2020, after a provision to be adopted by November 2018.

Resolution no. 148/2018/R/gas redetermined the reference tariffs for gas distribution and metering services for 2009-2016, on the basis of some requests for adjustment submitted by the distribution companies and received by 15 February 2018.

Resolution no. 149/2018/R/gas determined the final reference tariffs for gas distribution and metering services for 2017, calculated on the basis of the actual balance sheet figures for 2016.

Resolution no. 389/2018/R/gas deferred the terms relating to the equalisation of revenue relative to the natural gas distribution service for 2017.

With Resolution no. 529/2018/R/gas, the Authority has started the "process for the formulation of provisions relating to tariffs and quality, relative to the gas distribution and metering service, for the fifth regulatory period" which will start after 31 December 2019. This process, which must conclude by 30 November 2019, will also be combined with the procedure finalised at the adoption of methods for the valuation of new investments at standard cost: therefore, investments in 2019 will be valued in accordance with the criteria currently set by the tariff regulations.

With Resolution no. 639/2018/R/com, the Authority has carried out the intra-period updating of basic WACC parameters common to all regulated infrastructure services in the electricity and gas sector as well as a gearing level, that is to say in terms of the ration between debt capital (D) and the sum of own capital and debt capital (D+E), on the basis of the economic trend. For the distribution service, the WACC value for 2019 has therefore been set by the Authority at 6.3% (up compared with 6.1% used in the 2016-2018 three-year period) in real terms before taxes, whereas for the metering service this value, for the same year, has been set at 6.8% (up compared with 6.6% used in the 2016-2018 three-year period) in real terms before taxes.

Resolution no. n. 645/2018/R/gas redetermined the reference tariffs for gas distribution and metering services for 2009-2017, on the basis of some requests for adjustment submitted by the distribution companies and received by 15 September 2018.

Resolution no. n. 667/2018/R/gas approved the mandatory tariffs and the bimonthly equalisation prepayment amounts for the natural gas distribution and metering services, as well as the values of components to cover operating expense for the distribution service, metering service, marketing of distribution and metering services and the component to cover centralised capital costs for the year 2019.

With Resolution n. 98/2019/R/gas, ARERA approved the definitive reference tariffs for the distribution and metering services for 2018 and, with the subsequent Resolution no. 128/2019/R/gas, the provisional reference tariffs for the distribution and metering services for 2019. In the same resolution ARERA announced that it will carry out further investigations in relation to the tariff recognition of local investments made with 2017 as first year of supply, following an application made by Italgas which highlights an inconsistency between what has already been recognised in 2018 and what would result from the application of the current tariff methodology (remunerated capital calculated with reference to a delivery point parametric standard).

Published on 9 May 2019 by ARERA, the Document for Consultation no. 170/2019/R/gas includes the “Intervention lines for the regulation of tariffs and quality of the distribution and metering services in the fifth regulatory period”. One of the issues addressed by the Document for Consultation is linked to the accounting treatment of “frozen” contributions, that is to say the stock of contributions as at 31 December 2011. Resolution no. 573/2013/R/gas had envisaged two options: not to proceed with the gradual depreciation of contributions or proceed in line with the treatment required for contributions after 2011. In this latter case it is also envisaged that the portion part of the stock of contributions should be subject to immediate release in the course of the fourth year of the regulatory period (2014-2019), with the remaining portion subject to a delayed release (frozen contributions”). The subsequent Resolution no. 367/2014/R/gas envisaged that, following the assignment of the new concessions for the performance of the service by area, the option of depreciation contributions should in any case be applied, both in the case the incoming manager was the same as the outgoing manager and in the case the incoming manager was different. Document for Consultation no. 170/2019/R/gas indicated that it is necessary to confirm the approach applied for contributions from 2012 for the fifth regulatory period (2020-2025). With regard to “frozen contributions”, the Authority deems it necessary to envisage that the residual value of stock of contributions as at 31 December 2011 is considered as subject to depreciation, defining a course that allows full “unfreezing” by the end of the same fifth regulatory period.



## SAFETY OF THE GAS DISTRIBUTION AND METERING SERVICE

With Resolution no. 75/2019/R/gas the Authority determined the premiums and penalties relative to the safety recoveries of the natural gas distribution service for 2015 and brought some changes to the regulations relating to the management of the data adjustments. In particular, for subsidiaries and associates companies of Italgas S.p.A., the overall net amount (total premiums and penalties) due for the odorisation and dispersion components is of €9,467,736.08.

With regard to the plant in Venice managed by Italgas Reti, further to the inspection checked carried out pursuant to Resolution no. 294/2016/E/gas, the Authority has recognised the lack of respect to some of the provisions of the regulations in relation to prompt interventions.

Furthermore, the resolution:

- updated the trend levels for the systems affected by modifications, interconnections and separations in relation to the dispersion component, for the purposes of the determination of premiums and penalties for the years 2015-2019;
- deferred the penalties relative to the dispersion element for 2015 to the years 2016-2019;
- conferred a mandate to the Cassa per i Servizi Energetici e Ambientali (CSEA) to make the payments for the remaining premiums, i.e. net of what has already been

paid to those companies that had given their consent pursuant to Resolution no. 421/2018/R/gas to the Account for the quality of the gas services within 30 days from the date of publication of the new provision;

- fixed the deadline for the payment of penalties by distribution companies to the Account for the quality of the gas services at 30 days from the date of publication of the Resolution;
- postponed the determination of premiums and penalties for 2015 for the company Toscana Energia to after the resolution of the critical issues identified with reference to the new configuration of the Prato plant in the gas distribution territorial register;
- brought some changes to the regulation of the quality of the distribution and gas metering services, anticipating that the distribution companies, in line with what they are already allowed in reference to 2015, may rectify the data already incorrectly transmitted due to a material mistake, once the results are known for the premiums and penalties for the reference year, obtained by the Authority and notified through a remote system. The request must be made in the time period specifically defined by the Authority and notified to the interested distribution companies.

## ENERGY EFFICIENCY

The Authority defined and transmitted to the Ministry for Economic Development and to the GSE the national energy efficiency annual quantitative obligations of natural gas end uses to be achieved in 2019 by distributors with more than 50,000 end users connected to its distribution network as at 31 December 2017 through Resolution 1/2019 - DMRT. For subsidiaries and associates of Italgas S.p.A., the quantitative obligation for 2019, rounded off to the nearest whole number on a commercial basis and expressed as a number of White Certificates, is: i) 948,473 for Italgas Reti; 137,759 for Toscana Energia; 7,121 for Umbria Distribuzione Gas; 4,157 for EGN Distribuzione.

Overall, in the first half of 2019, the Italgas Group companies purchased, with commitment to buy, 238,464 TEEs from the market for a value of €61.8 million and €338,398 short certificates from GSE pursuant to Ministerial Decree of 10 May 2018. During the cancellation session of 31 May 2019 202,321 Energy Efficiency Certificates were cancelled, cashing a total of €62.7 million, of which €50.4 million attributable to the cancellation of certificates, €16.0 million relative to an adjustment of the intermediate cancellation session of 30 November 2018 and €3.7 million for a reversal through an adjustment of the payment of the tariff contribution relative to the purchase of short certificates.

On 3 May 2019 the Ministry for Economic Development, together with the Ministry for the Environment, issued the Decree for the approval of the Operating Guide for the promotion of the identification, definition and presentation of projects within the White Certificates mechanism, originally provided by article 15, paragraph 1, of the implementing decree of 11 January 2017, amended with Ministerial Decree of 10 May 2018.

The Ministry for Economic Development also approved the Operating Guide with Decree of 9 May 2019, which disciplines the procedures for the use of TEEs not deriving from the realisation of energy efficiency projects, the so-called "Short certificates". On the basis of this guide, the obliged entities who hold in their account an amount of "real" Energy Efficiency Certificates equivalent to at least 30% of the minimum obligation, may make recourse to "Short certificates" for the volume necessary to reach their minimum annual obligation.

In accordance with the provisions of article 14-bis of Ministerial Decree of 11 January 2017, introduced by the Ministerial Decree of 8 May 2018:

- the issue unit value of TEEs not deriving from the realisation of efficiency projects, which in any case cannot exceed €15, is equal to the difference between €260 and the value of the definitive tariff contribution relative to the obligation year, determined and published by the Authority;
- the GSE accounts separately for TEEs not deriving from the realisation of energy efficiency projects, giving evidence to the CSEA, which provides to the regulations of the sums due by the obliged entities through an adjustment on the payment of the tariff contribution relative to the obligation year;
- TEEs not deriving from the realisation of energy efficiency projects issued in favour of obliged entities are not entitled to the definitive tariff contribution pursuant to article 11 of Ministerial Decree of 11 January 2017.

The Authority, with Resolution no. 209/2019/R/efr of 28 May 2019, approved the operational procedures for the economic regulation of resources deriving from the issuing activity and the potential surrender by obliged entities of Energy Efficiency Certificates not corresponding to projects (“shorts”) provided by the GSE in implementation of the provisions of Ministerial Decree of 10 May 2018. An amendment of the determination regulations of the tariff contribution to be paid to distributors compliant with the obligations of energy saving, pursuant to Resolution no. 487/2018/R/efr, in relation to the treatment of exchanges of TEEs through bilateral arrangements was approved with the provision.

The Authority approved provisions to update the Regulations for bilateral transactions of Energy Efficiency Certificates, arranged by the Italian Power Exchange (GME), with Resolution no. 273/2019/R/efr of 25 June 2019. In particular, the Authority has amended the formula for the determination of the tariff contribution unit to be recognised to the distributors compliant with the obligations of energy savings, providing that, starting from the 2019 obligation year, the weighting of the average of prices of monthly exchanges of TEEs through bilateral transactions takes place by using only the quantity of Certificates exchanged at a price lower than €250/ TEE, instead of all the TEEs subject to bilateral transactions, as previously indicated.

With reference to the check initiated by the GSE on 55 packets of energy efficiency projects relative to the subsidiary Seaside, during March and April cancellation notices were received for two packets of project as well as the requested supplementary documentation for the remaining projects. An appeal before the Lazio Regional Administrative Court was filed against the April notification for the annulment of the same. The Company observes that any burden deriving from the outcome of checks by the GSE, as contractually agreed, will be fully reimbursed by the project counterparty.

# 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).

## ECONOMIC AND FINANCIAL TERMS

### Non-current assets

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

### Cash flow

Net cash flow from operating activities 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 costs" and "Recurring external operating costs".

### Covenants

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 commitments are imposed by financial subjects 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 pay-out

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 has 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 a probability of default, i.e. of the issuer.

**ROE (Return on equity)**

Ratio between the net profit and the shareholders' equity at the end of the period, able to express the return on own capital.

**ROI (Return on investment)**

Ratio between the operating profit and the net invested capital at the end of the period net of equity investments, able to express the operational profitability, indicating the ability of the company to provide a return on the capital invested with the result of its operating activity.

**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.

**ARERA**

The Italian Regulatory Authority for Energy, Networks and Environment (ARERA) is an independent body set up by Law no. 481 of 14 November 1995 to protect the interests of consumers and promote competition, efficiency and dissemination of services with adequate levels of quality, through regulation and control activities. The Authority's action, initially limited to the electricity and natural gas sectors, was later extended through a number of regulatory measures, in particular through Law Decree 201/11, converted to Law 214/11, to assign responsibility also for water services.

**ATEM**

Minimum Geographical Areas (ATEMs) 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.

### **White certificates**

White Certificates, or Energy Efficiency Certificates (TEE), are negotiable titles that certify energetic savings achieved in the final use of energy, realising interventions for the increase of energy efficiency. The White Certificate system is an incentive mechanism based on a mandatory primary energy saving regime for electric power and natural gas distributors. All entities admitted to the mechanism are entered in the Electronic Register of Energy Efficiency Certificates with the GME.

### **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 Tenders**

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 delivery points.

### **Gestore dei Mercati Energetici (Energy Markets Operator - GME)**

Public company limited by shares constituted by the GSE, responsible for the economic management of the electric power market accor-

ding to transparency and objectivity criteria, in order to promote competition among producers ensuring the availability of an adequate level of power Reserve. Previously known as the Italian Electric Power Exchange, it changed its name on 19 November 2009. In particular, the GME manages the day-ahead energy market (MGP), the intraday market (MI), the daily product market (MPEG), the dispatching services market (MSD), the electric forward market (MTE) and the Platform for the physical delivery of financial contracts concluded on the Index (CDE). The GME also manages the Markets for the Environment (Market for Energy Efficiency Certificates and Market for Guarantees of Origin) and the natural gas forward and spot markets, in the context of the natural gas market (MGAS). In the context of regasification, it organises and manages the PAR platform.

### **Gestore dei Servizi Energetici (Energy Services Operator - GSE)**

Public company limited by shares with wholly public capital, with a central role in the promotion, incentive and development of renewable sources in Italy. The sole shareholder of the GSE is the Ministry of Economy and Finance, which exercises the rights of shareholder with the Ministry of Economic Development. The GSE controls three companies: the Single Buyer (AU), the Italian Power Exchange (GME) and Research on the Energy System (RSE).

### **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 regulatory period ended on 31 December 2013. The fourth regulatory period is now in progress, beginning on 1 January 2014 and ending on 31 December 2019.

**Delivery 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)

**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 Regulatory Authority for Energy, Networks and Environment (ARERA), 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 industrial buildings, manufacturing buildings, major and minor plants, road and pipeline installations (connections) are located. 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.





2019 CONDENSED  
CONSOLIDATED  
HALF-YEAR  
FINANCIAL  
STATEMENTS

## BALANCE SHEET

	Notes	31.12.2018		30.06.2019	
		Total	of which, related parties	Total	of which, related parties
ASSETS					
Current assets					
Cash and cash equivalents	(6)	138,476		10,453	
Other financial assets held for trading					
Other financial assets measured at fair value with effects on OCI		119		119	
Trade and other receivables	(7)	536,199	213,715	342,792	110,269
Inventories	(8)	26,181		35,105	
Current tax assets on income	(9)	7,533		9,650	
Other current tax assets	(9)	25,427		25,296	
Other current assets	(10)	13,677		18,907	
		747,612		442,322	
Non-current assets					
Property, plant and equipment	(11)	259,178		282,534	
- of which related to Right of Use (*)		49,425		72,992	
Intangible assets	(12)	5,431,923		5,604,747	
Investments valued using the equity method	(13)	174,955	174,955	175,746	175,746
Other investments	(13)	96	96	342	342
Other financial assets	(7)	156		5,155	
Deferred tax assets					
Other non-current assets	(10)	133,707	549	148,983	546
		6,000,015		6,217,507	
Non-current assets held for sale	(14)	11,583		169	
<b>TOTAL ASSETS</b>		<b>6,759,210</b>		<b>6,659,998</b>	

[€ THOUSANDS]	31.12.2018		30.06.2019		
	Notes	Total	of which, related parties	Total	of which, related parties
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities					
Short-term financial liabilities	(15)	274,499		191,341	
Short-term portions of long-term financial liabilities	(15)	43,303		32,366	
- of which related to Right of Use (*)		10,204		17,493	
Trade and other payables	(16)	564,663	59,024	495,445	61,550
Current tax liabilities on income	(9)	3,479		74,893	
Other current tax liabilities	(9)	10,032		8,594	
Other current liabilities	(17)	2,890	177	1,426	177
		898,866		804,065	
Non-current liabilities					
Long-term financial liabilities	(15)	3,705,980		3,724,613	
- of which related to Right of Use (*)		39,635		56,737	
Provisions for risks and charges	(18)	187,567		182,394	
Provisions for employee benefits	(19)	107,878		106,500	
Deferred tax liabilities	(20)	71,772		70,790	
Other non-current liabilities	(17)	457,800		470,742	
		4,530,997		4,555,039	
Liabilities directly associated with non-current assets held for sale					
TOTAL LIABILITIES		5,429,863		5,359,104	
SHAREHOLDERS' EQUITY (21)					
<i>Italgas shareholders' equity</i>					
Share capital		1,001,232		1,001,232	
Reserves		14,420		133,502	
Profit (loss) for the year		313,695		166,160	
Treasury shares					
Total Italgas shareholders' equity		1,329,347		1,300,894	
Minority interests					
TOTAL SHAREHOLDERS' EQUITY		1,329,347		1,300,894	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		6,759,210		6,659,998	

(\*) From 1 January 2018, Italgas has applied the international accounting standard "IFRS 16 - Leases" which, having eliminated the differentiation between financial and operating leases, determines the recognition of liabilities for commitments to leasing companies against the recognition of tangible assets for the right of use of the relative assets for operational leases.

## INCOME STATEMENT

[€ THOUSANDS]	FIRST HALF OF 2018		FIRST HALF OF 2019		
	Notes	Total	of which, related parties	Total	of which, related parties
REVENUE	(23)				
Core business revenue		779,922	442,614	835,972	452,676
Other revenue and income		25,295	9,955	42,085	9,315
		805,217		878,057	
OPERATING COSTS	(24)				
Purchases, services and other costs		(258,332)	(10,515)	(322,185)	1,000
Personnel cost		(115,254)	602	(114,546)	216
		(373,586)		(436,731)	
AMORTISATION, DEPRECIATION AND IMPAIRMENT	(25)	(208,617)		(199,758)	
- of which amortisation of Right of Use		3,340		6,418	
EBIT (OPERATING PROFIT)		223,014		241,568	
FINANCIAL INCOME (EXPENSE)	(26)				
Financial expense		(23,872)	(303)	(24,477)	(147)
Financial income		375	4	345	128
Derivative financial instruments		(234)			
		(23,731)		(24,132)	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS	(27)				
Equity method valuation effect		9,711	9,711	11,821	11,821
		9,711		11,821	
Pre-tax profit		208,994		229,257	
Income taxes	(28)	(58,343)		(63,097)	
Net profit (loss) for the period		150,651		166,160	
Attributable to Italgas		150,649		166,160	
Minority interests		2			
Net earnings (loss) per share attributable to Italgas (amount in € per share)	(29)				
- basic and diluted		0.186		0.205	

## STATEMENT OF COMPREHENSIVE INCOME

[€ THOUSANDS]	FIRST HALF OF THE YEAR 2018	FIRST HALF OF THE YEAR 2019
NET PROFIT FOR THE PERIOD	150,651	166,160
Other comprehensive income		
<i>Components reclassifiable to the income statement</i>		
Change in fair value of cash flow hedge derivatives (Effective portion)	(3,925)	(9,382)
Tax effect	942	2,252
<i>Components not reclassifiable to the income statement</i>		
Total other components of comprehensive income, net of tax effect	(2,983)	(7,130)
Total comprehensive income for the period	147,668	159,030
Attributable to:		
- Italgas	147,666	159,030
- Minority interests	2	
	147,668	159,030

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

[€ THOUSANDS]

	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined benefit plans for employees, net of tax effect	Fair value reserve for cash flow hedge derivatives, net of tax effect
Balance as at 31 December 2017 (Nota 21)	1,001,232	(323,907)	620,130	200,246	(13,351)	
Net profit for the first half of 2018						
Other components of comprehensive income:						
Components reclassifiable to the income statement:						
- change in fair value of cash flow hedge derivatives						(2,983)
Total comprehensive income for the first half of 2018 (b)						(2,983)
Transactions with shareholders:						
- Allocation of 2017 profit for the year						
- Allocation of Italgas SpA dividend for 2017 (€0.208 per share)						
- Allocation of residual Italgas SpA profit for 2017						
- Change in scope of consolidation						
Total transactions with shareholders (c)						
Other changes in shareholders' equity (d)						
Balance as at 30 June 2018 (e=a+b+c+d) (Note 21)	1,001,232	(323,907)	620,130	200,246	(13,351)	(2,983)

## SHAREHOLDERS' EQUITY PERTAINING TO OWNERS OF THE PARENT

Reserve for business combinations under common control	Stock grant reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
(349,854)		(169,413)	(72,209)	292,766	1,185,640		1,185,640
				150,649	150,649	2	150,651
					(2,983)		(2,983)
				150,649	147,666	2	147,668
			292,766	(292,766)			
		(168,300)			(168,300)		(168,300)
		(5,852)	5,852				
						108	108
		(174,152)	298,618	(292,766)	(168,300)	108	(168,192)
	20	119			139		139
(349,854)	20	(343,446)	226,409	150,649	1,165,145	110	1,165,255

[€ THOUSANDS]

	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined benefit plans for employees, net of tax effect	Fair value reserve for cash flow hedge derivatives, net of tax effect
Net profit for the second half of 2018						
Other components of comprehensive income:						
Components reclassifiable to the income statement:						
- change in fair value of cash flow hedge derivatives						(1,960)
Components not reclassifiable to the income statement:						
- Actuarial gains on remeasurement of defined-benefit plans for employees					2,621	
Total comprehensive income of the second half of 2018 (b)					2,621	(1,960)
Transactions with shareholders						
- Stock grant reserve						
Total transactions with shareholders (c)						
Other changes in shareholders' equity (d)						
Balance as at 31 December 2018 (e=a+b+c+d) (Note 21)	1,001,232	(323,907)	620,130	200,246	(10,730)	(4,943)



## SHAREHOLDERS' EQUITY PERTAINING TO OWNERS OF THE PARENT

Reserve for business combinations under common control	Stock grant reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
				163,046	163,046		163,046
					(1,960)		(1,960)
					2,621		2,621
				163,046	163,707		163,707
	279				279		279
	279				279		279
		(119)	335		216	(110)	106
(349,854)	299	(343,565)	226,744	313,695	1,329,347		1,329,347

[€ THOUSANDS]

	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for defined benefit plans for employees, net of tax effect	Fair value reserve for cash flow hedge derivatives, net of tax effect
Net profit for the first half of 2019						
Other components of comprehensive income:						
Components reclassifiable to the income statement:						
- change in fair value of cash flow hedge derivatives						(7,152)
Components not reclassifiable to the income statement:						
- Actuarial gains on remeasurement of defined-benefit plans for employees						
Total comprehensive income for the first half of 2019 (b)						(7,152)
Transactions with shareholders:						
- Allocation of 2018 profit for the year						
- Allocation of Italgas SpA dividend for 2018 (€0.234 per share)						
- Allocation of residual Italgas SpA profit for 2018						
- Stock grant reserve						
- Change in scope of consolidation						
Total transactions with shareholders (c)						
Other changes in shareholders' equity (d)						
Balance as at 30 June 2019 (e=a+b+c+d) (Note 21)	1,001,232	(323,907)	620,130	200,246	(10,730)	(12,095)

## SHAREHOLDERS' EQUITY PERTAINING TO OWNERS OF THE PARENT

Reserve for business combinations under common control	Stock grant reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
				166,160	166,160		166,160
					(7,152)		(7,152)
				166,160	159,008		159,008
			313,695	(313,695)			
		(189,338)			(189,338)		(189,338)
		(4,407)	4,407				
	267				267		267
	267	(193,745)	318,102	(313,695)	(189,071)		(189,071)
15		(15)	1,610		1,610		1,610
(349,839)	566	(537,325)	546,456	166,160	1,300,894		1,300,894

## CASH FLOW STATEMENT

[€ THOUSANDS]	FIRST HALF OF 2018	FIRST HALF OF 2019
Profit (loss) for the year	150,651	166,160
Adjustments to reclassify net profit to cash flow from operating activities:		
Amortisation and depreciation	207,884	198,315
<i>of which amortisation of Right of Use pursuant to IFRS16</i>	3,340	6,418
Net impairment of assets	733	1,443
Effect of valuation using the equity method	(9,711)	(11,821)
Net capital losses (capital gains) on asset sales, cancellations and eliminations	386	(7,571)
Dividends		
Interest income	(369)	(345)
Interest expense	19,800	24,132
Income taxes	58,343	63,097
Other changes	20	
Changes in working capital:		
- Inventories	(8,241)	(8,615)
- Trade receivables	178,977	180,787
- Trade payables	61,397	(18,531)
- Provisions for risks and charges	(5,782)	(5,283)
- Other assets and liabilities	(896)	(49,107)
<i>of which Connection contributions uses</i>	4,290	(7,492)
<i>of which Connection contributions increases</i>		6,461
Cash flow from working capital	225,455	99,251
Change in provisions for employee benefits	(662)	(2,571)
Dividends collected	13,683	14,135
Interest income	369	345
Interest expense	(18,302)	(24,132)
Income taxes paid, net of tax credits reimbursed	(960)	

[€ THOUSANDS]	FIRST HALF OF 2018	FIRST HALF OF 2019
Net cash flow from operating activities	647,320	520,438
<i>of which, related parties</i>	560,465	566,907
Investments:		
- Property, plant and equipment	(5,013)	(6,863)
- Intangible assets	(216,127)	(279,385)
Change in scope of consolidation and business units	(93,877)	(60,087)
<i>of which assumption of debts</i>		(35,212)
<i>of which business units</i>	(93,877)	(24,875)
- Equity investments		(28,993)
- Change in payables and receivables for investments	(37,383)	23,182
<i>Cash flow from investments</i>	(352,400)	(352,146)
Disinvestments:		
- Property, plant and equipment	2	3,980
- Intangible assets		
- Disposals of operating assets		
- Change in receivables relating to disinvestment activities		80
<i>Cash flow from disinvestments</i>	2	4,060
Net cash flow from investment activities	(352,398)	(348,086)
Assumptions of long-term financial payables	268,105	1,424
Repayments of long-term financial payables	(212,996)	
Increase (decrease) in short-term financial payables	(97,472)	(106,249)
Dividends collected	(168,300)	(189,338)
Expense relative to Rights of use		(6,212)
Net cash flow from financing activities	(210,663)	(300,375)
<i>of which, related parties</i>	(66,563)	(74,883)
Other changes	2,302	
<i>of which changes for finance lease payables IFRS 16</i>	(3,272)	
Net cash flow for the year	86,561	(128,023)
Opening cash and cash equivalents	2,831	138,476
Closing cash and cash equivalents	89,392	10,453



# NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR 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 invested capital in its regulatory asset base (RAB<sup>7</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.

<sup>7</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.

CDP S.p.A. consolidated Italgas S.p.A. pursuant to the accounting principle IFRS 10 “Consolidated Financial Statements”.

As at 30 June 2019, CDP S.p.A. owns, via CDP Reti S.p.A., 26.05% of the share capital of Italgas S.p.A.

## 1. PREPARATION AND MEASUREMENT CRITERIA

The Condensed Consolidated Half-Year Financial Statements as at 30 June 2019, hereinafter the “Interim Financial Statement”, was prepared in accordance with the provisions of IAS 34 “Interim financial reporting”.

The Interim Financial Statement as at 30 June 2019 applies the principles of consolidation and the measurement criteria illustrated in the preparation of the last Annual Financial Statements, to which reference is made, with the exception of the international accounting

standards that came into force on 1 January 2019, illustrated in the section “Recently issued accounting standards” of that report.

The Condensed Consolidated Half-Year Financial Statements as at 30 June 2019, approved by the Board of Directors of Italgas S.p.A. at the meeting of 29 July 2019, were subject to a limited audit by PricewaterhouseCoopers S.p.A. The limited audit involves an amount of work significantly reduced compared to the full audit required by generally accepted auditing standards.

The Condensed Consolidated Half-Year Financial Statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in thousands of Euro.

## 2. AMENDMENT OF ACCOUNTING POLICIES

The interim financial statement as at 30 June 2019 applies the principles of consolidation and the measurement criteria illustrated in the preparation of the last Annual Financial Statements to which reference is made, with the exception of the international accounting standards that came into force on 1 January 2019, illustrated in the section “Recently issued accounting standards” of the same Annual Financial Statements.

With reference to the description of the use of accounting estimates, please refer to the 2018 Annual Financial Statements.

## 3. USE OF ESTIMATES

With reference to the description of the use of accounting estimates, please refer to the 2018 Annual Financial Statements.

## 4. RECENTLY ISSUED ACCOUNTING STANDARDS

On 22 March 2018 the European Commission approved the “Prepayment Features with Negative Compensation (Amendment to IFRS 9)”. The amendments are effective for financial years from or after 1 January 2019.

On 24 October 2018, the European Commission approved IFRIC 23 “Uncertainty over Income Tax Treatments”, published by the IASB on 7 June 2017, which provides information on how to calculate current and deferred taxes if there are uncertainties on tax treatments concerning income taxes that the entity has adopted. In calculating the income taxes to record in the financial statements, the entity must consider the probability that the tax authority accepts the tax treatment it has adopted. If this acceptance is deemed improbable, the entity must reflect the uncertainties in the calculation of the current and deferred taxes by using one of the following methods: the most likely amount and the expected value; otherwise, the income taxes recorded in the financial statements will be consistent with the tax treatment adopted in the income tax return. The entity must review the estimates of the uncertainties if new information becomes available or if there are changes in the circumstances. These measures will take effect from financial years starting on or after 1 January 2019.

The International Accounting Standards Board (IASB) published “Long-term interests in associates and joint ventures (Amendments to IAS 28)” on 12 October 2017, in order to clarify that an entity applies IFRS 9 Financial Instruments to the long-term interests falling under the net investment in associates or joint ventures to which measurement by the equity method is not applied. These measures will take effect from financial years starting on or after 1 January 2019.



On 12 December 2017 the International Accounting Standards Board (IASB) issued "Annual Improvements to IFRS Standards 2015-2017 Cycle", with which: i) with reference to IFRS 3 Business Combination, it clarifies that, when a company gains control of a business through a joint operation, it is necessary to recalculate the value of the previous share of equity investment in the same business, ii) with reference to IFRS 11 Joint Arrangements, it clarifies that, when a company gains control of a business through a joint operation, it is not necessary to recalculate the value of the previous share of equity investment in the same business, iii) with reference to IAS 12 Income Taxes, it clarifies that the requirements of paragraph 52B (to measure the tax consequences of dividends at the time operations or events that have generated distributable profit are measured) are applied to all income taxes deriving from dividends pursuant to paragraph 52A, which deals only with the application of different tax rates for distributed and undistributed profits, and iv) with reference to IAS 23 Borrowing Costs, it clarifies that, if a loan remains outstanding, once the relative asset is ready for its destination or sale, this borrowings becomes part of provisions. These measures will take effect from financial years starting on or after 1 January 2019.

The changes are effective for the years that begin on 1 January 2019 or at a later date, with the possibility of early application starting from actual application of IFRS 9 in its current formulation (1 January 2018).

On 7 February 2018, the International Accounting Standards Board (IASB) published the Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments to IAS 19 are aimed at clarifying how to determine pension expenses when the defined benefits plan is amended. These measures will take effect from 1 January 2019, notwithstanding any subsequent deferrals established upon approval by the European Commission.

## 5. BUSINESS COMBINATIONS TRANSACTIONS

### Events of the half-year

- On 1 April 2019, the merger through incorporation was completed (i) of the 13 Fontenergia companies operating in Sardinia into Medea S.p.A. and (ii) of Naturgas, Grecanica Gas, Progas Metano, Baranogas Reti, Favaragas Reti, Siculianagas Reti e Ischia Reti Gas into Italgas Reti S.p.A.
- On 17 April 2019 the option for the purchase of the residual 40% interest in EGN was exercised, for a consideration of €20.9 million, net of €21 million for the repayment of the shareholder loan previously issued by CPL Concordia.
- On 30 April 2019 the acquisition by the CONSCOOP Group was completed (i) of the del business unit Aquamet S.p.A. which includes 9 concessions for the distribution of natural gas in some municipalities in Lazio, Campania, Basilicata and Calabria; (ii) of 100% of Mediterranea S.r.l., holder of 6 concessions for the distribution of natural gas in the province of Salerno; (iii) of the business unit of Isgas Energit Multiutilities S.p.A., holder of concessions for the distribution of propane air in the Sardinian municipalities of Cagliari, Nuoro and Oristano; the total enterprise value for these acquisitions was established at €68.6 million.

- On 30 April 2019, in the context of the same agreement with the CONSCOOP Italgas Group through the subsidiary Medea, it has completed the acquisition of 10% of the share capital of Isgastrentatrè S.p.A., holder of the concession for the distribution of propane air in Basin 33 in Sardinia. The agreement for the acquisition of Isgastrentatrè requires the commitment to acquire the remaining 90% of the share capital on the occurrence of some conditions, including the conversion to natural gas of the network currently fed with propane air with the specification that, should the conditions not be fulfilled, Italgas has the right to resell and Conscoop the duty to repurchase the 10% interest at the same price.
- On 7 May 2019, the company Medea Newco S.r.l. was incorporated, which will operate in the sector for the sale of methane, LPG and propane air.

The analysis of the transactions carried out in the first half of the year is given below:

[€ THOUSANDS]					
Business units	Purchaser	Shareholders' equity as at closing	Price paid	Fair value	PPA
Aquamet (*)	Italgas Reti		22,606	22,606	
Isgas (*)	Medea		7,269	7,269	
Purchasing Company	Purchaser	Shareholders' equity as at closing	Price paid	Fair value	PPA
Mediterranea Srl (*)	Italgas Reti	515	2,293		1,778
Isgastrentatrè	Medea	1,257	300	300	

(\*) As allowed by IFRS 3, the accounting treatment was provisionally applied, pending the definition of the price adjustments and/or of the definitive measurement of the fair value of the acquired assets and liabilities.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, equal to €10,453 thousand (€138,476 thousand as at 31 December 2018), refer to current account deposits held at banks.

The change of €128,023 thousand relates mainly to factoring transactions, whose underlying value was cashed on 31 December 2018 and repaid to the factor in the first few working days of 2019.

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 Statement of Cash Flows.

## 7. TRADE RECEIVABLES AND OTHER CURRENT AND NON-CURRENT RECEIVABLES

Trade receivables and other current receivables, amounting to €342,429 thousand (€536,199 thousand as at 31 December 2018) and other non-current receivables, amounting to €363 thousand (€156 thousand as at 31 December 2018) break down as follows:

[€ THOUSANDS]	31.12.2018			30.06.2019		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	406,712		406,712	231,479		231,479
Financial receivables		156	156		363	363
- Instrumental and non-instrumental assets of operating activities		156	156		363	363
Receivables from investment/divestment activities	5,358		5,358	5,364		5,364
Other receivables	124,129		124,129	105,586		105,586
	536,199	156	536,355	342,429	363	342,792

The receivables are reported net of the provision for impairment losses of €19,857 thousand (€19,758 thousand as at 31 December 2018).

Changes in the provision for impairment losses on receivables during the half-year period are shown below:

[€ THOUSANDS]	Provision for write-down at 31.12.2018	Change in scope of consolidation	Allocation [to provision]	Uses	Provision for write-down at 30.06.2019
Trade receivables	18,879	29	61		18,969
Other receivables	879		9		888
	19,758	29	70		19,857

Trade receivables of €231,479 thousand (€406,712 thousand as at 31 December 2018) mainly relate to the gas distribution service and ancillary services, of which from Eni S.p.A. of €71,367 thousand (€177,442 thousand as at 31 December 2018) and the Cassa per i Servizi Energetici e Ambientali (CSEA) relating to the equalisation<sup>8</sup> (€315 thousand; €17,173 thousand as at 31 December 2018).

The decrease in trade receivables is mainly linked to the effects of seasonal variance in the volumes distributed on behalf of the sales companies and to the receivables factoring transactions relative to the distribution for a total of €263,7 million.

<sup>8</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.

Receivables for investment/disinvestment activities (€5,364 thousand; €5,358 thousand as at 31 December 2018) involve receivables for sales of property, plant and equipment and intangible assets.

Other receivables, amounting to €105,586 (€124,129 thousand as at 31 December 2018) comprise:

[€ THOUSANDS]	31.12.2018	30.06.2019
IRES receivables for the national tax consolidation scheme	14,205	14,205
- VAT receivables for liquidation of Group VAT		1,406
Other receivables:	109,924	89,975
- Cassa per i Servizi Energetici e Ambientali (CSEA)	64,083	39,759
- Public administration	18,623	18,044
- Advances to suppliers	19,545	21,575
- from staff	2,759	2,278
- Other	4,914	8,319
	124,129	105,586

IRES receivables for the national tax consolidation scheme (€14,205 thousand; the figure is the same as at 31 December 2018) concern receivables from the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

Receivables from the CSEA (€39,759 thousand; €64,083 thousand as at 31 December 2018) relate to the additional components of UG2 and<sup>9</sup> Bonus Gas<sup>10</sup> distribution tariffs for (€20,659 thousand; €41,481 thousand as at 31 December 2018) and for €19,100 thousand to Energy Efficiency Certificates (€22,602 thousand as at 31 December 2018).

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>9</sup> Additional component of the distribution tariff for the purpose of containing the cost of the gas service for low consumption end users.

<sup>10</sup> Component relating to requests for subsidies for natural gas provision by economically disadvantaged customers.

## 8. INVENTORIES

Inventories, which amount to €35,105 thousand (€26,181 thousand as at 31 December 2018), are analysed in the table below:

[€ THOUSANDS]	31.12.2018			30.06.2019		
	Gross value	Provision for impairment losses	Net value	Gross value	Provision for impairment losses	Net value
Inventories						
- Raw materials, consumables and supplies	27,532	(1,351)	26,181	36,356	(1,251)	35,105
- Finished goods and goods for resale						
	27,532	(1,351)	26,181	36,356	(1,251)	35,105

Inventories of raw materials, consumables and supplies (€35,105 thousand at 30 June 2019) mainly consisted of gas meters in connection with the replacement plan. The provision for impairment is €1,251 thousand.

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

## 9. 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:

[€ THOUSANDS]	31.12.2018	30.06.2019
Current tax assets on income	7,533	9,650
- IRES	7,210	9,096
- IRAP	323	554
Other current tax assets	25,427	25,296
- VAT	24,121	22,144
- Other taxes	1,306	3,152
Current tax liabilities on income	3,479	74,893
- IRES	2,133	61,472
- IRAP	1,346	13,421
Other current tax liabilities	10,032	8,794
- VAT	1,343	1,955
- IRPEF withholdings for employees	7,915	6,218
- Other taxes	774	621
	19,449	(48,741)

Taxes pertaining to the year under review are shown in the note "Income taxes", to which reference is made.

## 10. OTHER CURRENT AND NON-CURRENT ASSETS

*Other current assets*, amounting to €18,907 thousand (€13,677 thousand as at 31 December 2018), and other non-current assets, amounting to €148,983 thousand (€133,707 thousand as at 31 December 2018), break down as follows:

[€ THOUSANDS]	31.12.2018			30.06.2019		
	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	3,336	122,328	125,664	10,505	146,551	157,056
Other assets	10,341	11,379	21,720	8,402	2,432	10,834
- Prepayments	7,612	1,039	8,651	8,392	501	8,893
- Security deposits		1,334	1,334		1,528	1,528
- Other	2,729	9,006	11,735	10	403	413
	13,677	133,707	147,384	18,907	148,983	167,890

Other regulated assets (€157,056 thousand; €125,664 thousand as at 31 December 2018) essentially relate to the tariff recognition, by the Authority, following the plan to replace traditional meters with electronic meters.

The remaining item, amounting to €10,834 (€21,720 thousand as at 31 December 2018) main include prepaid expenses relative to sundry costs for the period.

## 11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, which amount to €282,534 thousand (€259,178 thousand as at 31 December 2018), break down and changed as follows:

[€ THOUSANDS]	30.06.2019						
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	Total
Cost at 31.12.2018	12,108	386,088	14,495	132,851	1,559	1,247	548,348
Right of Use as at 1.1.2019		37,002		19,658			56,660
Investments		4,692	690	1,317	364	553	7,616
Right of Use investments		1,559		17,095	11,782		30,436
Divestments	(78)	(420)		(1,800)			(2,298)
Disposals of Right of Use		(211)		(792)			(1,003)
Reclassification				798		(798)	
Change in scope of consolidation	161	371	53	83	14		682
Change in scope of consolidation of rights of use		72					72
Other changes	(65)	(561)		1,369	(131)		612
Cost at 30.06.2019	12,126	391,590	15,238	150,921	13,588	1,002	584,465
Accumulated depreciation at 31.12.2018		(183,143)	(5,717)	(94,719)	(704)		(284,283)
Amortisation of Right of Use as at 1.1.2019		(3,762)		(3,473)			(7,235)
Amortisation and depreciation		(4,679)	(252)	(3,237)	(5)		(8,173)
Amortisation of Right of Use		(2,156)		(3,546)	(716)		(6,418)
Divestments		353		1,404			1,757
Disposals of Right of Use		83		397			480
Change in scope of consolidation			(17)	(26)	(3)		(46)



[€ THOUSANDS]	30.06.2019						
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	Total
Other changes		64		(554)	129		(361)
Accumulated depreciation at 30.06.2019		(189,478)	(5,986)	(100,281)	(1,299)		(297,044)
Provision for impairment losses at 31.12.2018			(4,199)	(657)		(31)	(4,887)
Provision for impairment losses at 30.06.2019			(4,199)	(657)		(31)	(4,887)
Net balance at 31.12.2018	12,108	202,945	4,579	37,475	855	1,216	259,178
Net balance at 30.06.2019	12,126	202,112	5,053	49,983	12,289	971	282,534
- of which Right of Use		32,587		29,339	11,066		72,992

Investments (€38,052 thousand) mainly refer to equipment and other assets relative to right of use respectively of €17,095 and 11,782 thousand.

Depreciation (€14,591 thousand) 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. Amortisation relative to the right of use is €6,418 thousand.

The provision for impairment of €4,887 thousand (unchanged compared to 31 December 2018) mostly 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 period no impairment indicators were observed, nor any significant variations relative to the measurement of the recoverability of the value recognised in the financial statements for Property, plant and equipment.

The considerations reported in the 2018 Annual Financial Statements, to which reference is made, have therefore been confirmed.

## 12. INTANGIBLE ASSETS

Intangible assets, which amount to €5,604,747 thousand (€5,431,923 thousand as at 31 December 2018), break down and changed as follows:

[€ THOUSANDS]		30.06.2019				
	Definite useful life				Indefinite useful life	
	Service concession agreements	Industrial patent rights and intellectual property rights	Work in progress and payments on account	Other Intangible Assets	Goodwill	Total
Cost at 31.12.2018	9,008,401	366,315	27,947	39,095	35,512	9,477,270
Investments	263,390	4,337	23,657	2,585		293,969
Change in the scope of consolidation	15,348	44		87		15,479
Purchase of business units	56,456					56,456
Divestments	(65,489)					(65,489)
Other changes	22,504				(22,504)	
Cost at 30.06.2019	9,300,610	370,696	51,604	41,767	13,008	9,777,685
Accumulated depreciation at 31.12.2018	(3,705,764)	(295,821)		(35,178)		(4,036,763)
Amortisation and depreciation	(165,212)	(15,859)		(2,655)		(183,726)
Change in the scope of consolidation	(2,218)	(43)		(87)		(2,348)
Divestments	70,000					70,000
Accumulated depreciation at 30.06.2019	(3,803,194)	(311,723)		(37,920)		(4,152,837)
Provision for impairment losses at 31.12.2018	(6,488)			(2,096)		(8,584)
(Write-down)/Value restorations	(1,443)					(1,443)
Other changes	(10,074)					(10,074)
Provision for impairment losses at 30.06.2019	(18,005)			(2,096)		(20,101)
Net balance at 31.12.2018	5,296,149	70,494	27,947	1,821	35,512	5,431,923
Net balance at 30.06.2019	5,479,411	58,973	51,604	1,751	13,008	5,604,747

Service concession agreements, amounting to €5,479,411 thousand (€5,296,149 thousand as at 31 December 2018), refer to agreements between the public and private sectors on 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 ARERA, 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 (€58,973 thousand; €70,494 thousand as at 31 December 2018) mainly concern information systems and applications in support of operating activities.

Other intangible fixed assets, amounting to €1,751 thousand (€1,821 thousand as at 31 December 2018), mainly relate to technical checks made on convertors.

Intangible assets with an undefined useful life of €13,008 thousand mainly refer to goodwill arising in relation to the process of allocation of prices paid for the acquired companies.

Investments for the year, equal to €293,969 thousand, mainly relate to concession agreements for the maintenance and development of the smart metering network and the digitisation of networks.

Amortisation refers to economic and technical amortisation determined on the basis of the useful life of the intangible assets with defined useful life, that is to say the residual possible use by the company.

During the half year period no impairment indicators were observed, nor significant variations relative to the measurement of the recoverability of the value recognised in the financial statements for Goodwill and Other Intangible Assets. The considerations reported in the 2018 Annual Financial Statements, to which reference is made, have therefore been 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".

## 13. INVESTMENTS VALUED USING THE EQUITY METHOD

The *investments valued using the equity method*, which amount to €176,088 thousand (€175,051 thousand as at 31 December 2018), break down and changed as follows:

[€ THOUSANDS]			
	Investments in joint ventures	Other	Total
Value as at 31.12.2018	174,955	96	175,051
Increases for investments	3,105	300	3,405
Decrease for disinvestments		(54)	(54)
Income (charges) from measurement of shareholders' equity	11,821		11,821
Decrease for dividends	(14,135)		(14,135)
Value as at 30.06.2019	175,746	342	176,088

The adjustment from measurement using the net equity method (€11,821 thousand) and the decrease for dividends (€14,135 thousand) mainly refer to the Toscana Energia S.p.A.

The change of €300 thousand in other equity investments relates to the acquisition of 10% of Isgas-trentatrè, while the decrease of €54 thousand relates to the disposal of the investment in Agenzia Napoletana per l'Energia e per l'Ambiente for the exercised option to withdraw.

Equity investments are not collateralised.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the Appendix "Subsidiaries, associates and equity investments of Italgas S.p.A. at 30 June 2019", which is an integral part of these notes.

## 14. ASSETS HELD FOR SALE

*Assets held for sale*, which amount to €169 thousand (€11,583 thousand as at 31 December 2018), relate to:

[€ THOUSANDS]	31.12.2018	30.06.2019
Land	105	
Buildings	3,661	11
Industrial and commercial equipment	7,804	146
Other	13	12
	11,583	169

The decrease is mainly attributable to the sale of the property in Via XX Settembre in Turin.

## 15. SHORT-TERM FINANCIAL LIABILITIES, LONG-TERM FINANCIAL LIABILITIES AND SHORT-TERM PORTIONS OF LONG-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, amounting to €191,341 thousand (€274,499 thousand as at 31 December 2018) and long-term financial liabilities, including short-term portions of long-term liabilities totalling €3,756,979 thousand (€3,749,283 thousand as at 31 December 2018), break down as follows:

[€ THOUSANDS]		31.12.2018			
		Long-term liabilities			
	Short-term liabilities	Short-term portion	Long-term portion due within 5 years	Long-term portion due beyond 5 years	Total long-term liabilities
Bank loans	100,505	688	125,244	660,648	786,580
Bonds		32,411	744,713	2,135,740	2,912,864
Financial liabilities for leased assets (IFRS 16)		10,204	25,117	14,518	49,839
Other shareholders	173,994				
	274,499	43,303	895,074	2,810,906	3,749,283

[€ THOUSANDS]		30.06.2019			
		Long-term liabilities			
	Short-term liabilities	Short-term portion	Long-term portion due within 5 years	Long-term portion due beyond 5 years	Total long-term liabilities
Bank loans	189,426	199	125,515	660,402	786,116
Bonds		14,674	1,392,758	1,489,201	2,896,633
Financial liabilities for leased assets (IFRS 16)		17,493	35,955	20,782	74,230
Other shareholders	1,915				
	191,341	32,366	1,554,228	2,170,385	3,756,979

### SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, amounting to €191,341 thousand (€274,499 thousand as at 31 December 2018), were reduced by €83,158 thousand mainly due to a greater use of uncommitted bank credit lines (€88.9 millions) offset by a lower exposure to other lenders (factoring companies).

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 their accounting value.

## LONG-TERM FINANCIAL LIABILITIES AND SHORT-TERM PORTIONS OF LONG-TERM FINANCIAL LIABILITIES

Long-term financial liabilities, including the short-term portions of long-term liabilities, amounted to €3,756,979 thousand (€3,749,283 thousand as at 31 December 2018).

The increase compared to 31 December 2018, of €7,696 thousand, is mainly attributable to the increase in financial liabilities following the adoption of IFRS 16 for €24,391 thousand, an effect partially offset by the reduction of the valuation of debenture loans for -€16,231 thousand.

The analysis of debenture loans equal to €2,896,633 thousand, with the indication of the issuing company, the year of issue, the currency, the average interest rate and the maturity date, is reported in the following table.

[€ THOUSANDS]							
Issuing company	Emission (year)	Currency	Nominal Value	Adjustments (*)	Balance as at 30.06.2019	Rate (%)	Due date (year)
Euro Medium Term Notes							
ITALGAS S.p.A.	2017	€	750,000	(2,785)	747,215	0.500%	2022
ITALGAS S.p.A.	2017	€	650,000	(635)	649,365	1.125%	2024
ITALGAS S.p.A.	2017	€	750,000	(1,350)	748,650	1.625%	2027
ITALGAS S.p.A.	2017	€	750,000	1,402	751,402	1.625%	2029
			2,900,000	(3,367)	2,896,633		

(\*) includes issue discount/premium and interest rate.

Debts due to bank loans (€786,116 thousand; €786,580 thousand as at 31 December 2018) mainly refer to the term loans, of which €783,683 thousand provided by the European Investment Bank - EIB.

The market value of long-term financial liabilities amounts to €3,830,949 thousand<sup>11</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.

Undrawn committed credit facilities for a value of €1.1 billion are available to Italgas.

<sup>11</sup>The value includes debenture loans whose value is estimated on the basis of market prices as at 30 June 2019.

## FINANCIAL COVENANTS AND NEGATIVE PLEDGE CONTRACTUAL CLAUSES

As at 30 June 2019, there were no loan agreements including financial covenants and/or secured by collateral. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out.

As at 30 June 2019, 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. The option for the lender 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 is envisaged only for EIB funds.

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 2019, 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:

[€ THOUSANDS]	31.12.2018			30.06.2019		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	138,476		138,476	10,453		10,453
B. Securities held for sale and to be held to maturity	119		119		119	119
C. Liquidity (A+B)	138,595		138,595	10,453	119	10,572
D. Financial receivables not held for operations				1	5,000	5,001
E. Short-term financial liabilities to banks (*)	254,207		254,207	189,625		189,625
F. Long-term financial liabilities to banks		785,892	785,892		785,917	785,917
G. Bonds	32,411	2,880,453	2,912,864	14,674	2,881,959	2,896,633
H. Short-term financial liabilities to related entities						
I. Long-term financial liabilities to related entities						
L. Other short-term financial liabilities	20,980		20,980	1,915		1,915
M. Other long-term financial liabilities (**)	10,204	39,635	49,839	17,493	56,737	74,230
N. Gross financial debt (E+F+G+H+I+L+M)	317,802	3,705,980	4,023,782	223,707	3,724,613	3,948,320
O. Net financial debt (N-C-D)	179,207	3,705,980	3,885,187	213,253	3,719,494	3,932,747
Net financial debt (including the effects pursuant to IFRS 16)	179,207	3,705,980	3,885,187	213,253	3,719,494	3,932,747
Reclassification from financial liabilities to other liabilities	(20,980)		(20,980)			
Financial liabilities for leasing pursuant to IFRS 16	(10,204)	(39,635)	(49,839)	(17,493)	(56,737)	(74,230)
Net financial debt reclassified in the Directors' Report on Operations (***)	148,023	3,666,345	3,814,368	195,760	3,662,757	3,858,517

(\*) This amount includes the short-term portion of long-term financial liabilities.

(\*\*) The value relative to financial liabilities for leasing pursuant to IFRS 16.

(\*\*\*) As at 31 December 2018, financial indebtedness in the report on operations does not take into consideration the liabilities for €21 million to CPL Concordia, representing the shareholders' Loans issued by CPL Concordia to EGN, repaid in 2019 by Italgas at the same time of the as the put and call option, as for operational purposes they are considered to be part of the adjustment of the purchase price.



## 16. TRADE AND OTHER PAYABLES

Trade payables and other payables, which amount to €495,445 thousand (€564,663 thousand as at 31 December 2018), comprise the following:

[€ THOUSANDS]	31.12.2018	30.06.2019
Trade payables	230,930	221,036
Payments on account and prepayments	11,996	604
Payables for investment activities	138,412	161,594
Other payables	183,325	112,211
	564,663	495,445

Trade payables of €221,036 (€230,930 thousand as at 31 December 2018) relate mainly to payables to suppliers.

Payables for investment activities equal to €161,594 thousand (€138,412 thousand as at 31 December 2018) mainly relate to payables to suppliers for technical activities.

Other payables (€112,211 thousand; €183,325 thousand as at 31 December 2018) break down as follows:

[€ THOUSANDS]	31.12.2018	30.06.2019
Payables to the public administration	39,567	35,655
Payables to the Cassa per i Servizi Energetici e Ambientali (CSEA)	51,480	18,347
Payables to personnel	38,773	23,548
Payables to social security institutions	17,607	18,032
Payables to consultants and professionals	4,305	4,227
Other payables	31,593	12,402
	183,325	112,211

Payables to the public administration (€35,655 thousand; €39,567 thousand as at 31 December 2018) primarily involve payables to municipalities for concession fees for the distribution business.

Payables to the CSEA (€18,347 thousand; €51,480 thousand as at 31 December 2018) relate to several ancillary components of tariffs for the gas distribution service to be paid to this Fund (RE, RS, UG1 and GS)<sup>12</sup>.

<sup>12</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.

Payables to personnel (€23,548 thousand; €38,773 thousand as at 31 December 2018) involve payables mainly for holidays accrued and not taken, the fourteenth months' pay and participation bonus.

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.

## 17. OTHER CURRENT AND NON-CURRENT LIABILITIES

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

[€ THOUSANDS]	31.12.2018			30.06.2019		
	Current	Non-current	Total	Current	Non-current	Total
Hedging derivative contracts Cash flow hedge	120	6,527	6,647	114	15,915	16,029
Other liabilities	2,770	451,273	454,043	1,312	454,827	456,139
- Accruals and deferrals connection contributions		449,229	449,229		450,960	450,960
- Liabilities for security deposits		919	919		3,056	3,056
- Other	2,770	1,125	3,895	1,312	811	2,123
	2,890	457,800	460,690	1,426	470,742	472,168

In January 2018 a hedging derivative contract of the Interest Rate Swap type was signed, with maturity date in 2024, in relation to an EIB loan of €359.7 million, in order to convert this loan to a fixed rate. The fair value of this derivative as at 30 June 2019 was negative for €16,029 thousand and was determined on the basis of the measurement models common in the financial sector and the market parameters at the half-year closing date.

Other liabilities amounting €472,168 thousand (€460,690 thousand as at 31 December 2018) increased by €11,478 thousand and mainly relate to accruals and deferrals for connection contributions (€450,960 thousand).

## 18. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges, which amount to €182,394 thousand (€187,567 thousand as at 31 December 2018) are analysed in the following table:

	30.06.2019							
	[€ THOUSANDS]							
	Opening	Change in scope of consolidation	Provisions	Increase for the passing of time	Uses		Other changes	Closing balance
					against charges	due to surplus		
Provisions for environmental risks and charges	125,110			606	(2,476)		(1)	123,239
Risk provision for litigation	13,943		1,517		(304)	(4,291)	(93)	10,772
Provisions for other risks - energy efficiency certificates	13,135		7,308		(2,346)		(25)	18,072
Provision for retirement risks	4,365				(2,361)		114	2,118
Provision for op. restoration of metering	14,043				(1,572)			12,471
Risk provision for ICT Snam contract	763				(562)			201
Other personnel risk provisions	4,020		241		(166)		1	4,096
Risk provision for tax disputes	741		140				(12)	869
Other provisions	11,447	110	20		(1,011)	(52)	42	10,556
	187,567	110	9,226	606	(10,798)	(4,343)	26	182,394

The provision for environmental risks and charges of €123,239 thousand (€125,110 thousand as at 31 December 2018) 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 €10,772 thousand (€13,943 thousand as at 31 December 2018) included costs which the Company has estimated it will incur for existing lawsuits.

The Energy Efficiency Certificates risk provision of €18,072 thousand (€13,135 thousand as at 31 December 2018) is connected with reaching the Energy Efficiency Certificates targets (TEE) set by the Authority.

The provision for operational restoration of metering, totalling €12,471 thousand (€14,043 thousand as at 31 December 2018) comprises the costs estimated for replacing/restoring operations of the G4 and G6 smart meters having operational problems.

The risk provision for early retirement of €2,118 thousand (€4,365 thousand as 31 December 2018) involves personnel incentive and mobility schemes.

## 19. PROVISIONS FOR EMPLOYEE BENEFITS

Net *employee benefit provisions*, amounting to €106,500 thousand (€107,878 thousand as at 31 December 2018) break down as follows:

[€ THOUSANDS]	31.12.2018	30.06.2019
Employment severance pay (TFR)	66,314	65,322
Supplementary healthcare provision for company executives of Eni (FISDE)	6,610	6,744
Gas Fund	28,550	27,350
Other provisions for employee benefits	6,404	7,084
	107,878	106,500

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.

FISDE, amounting to €6,744 thousand, includes the estimate of costs determined on an actuarial basis related to contributions benefiting current<sup>13</sup> and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group<sup>14</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>13</sup> For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service already provided.

<sup>14</sup> The fund provides the same benefits for Italgas Group executives.

The Gas Fund (€27,350 thousand) 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 stipulate 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>15</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 (€7,084 thousand) relate to seniority bonuses and the deferred cash incentive plan (IMD) and (IML).

## 20. DEFERRED TAX LIABILITIES

*Deferred tax liabilities* of €70,790 thousand (€71,772 thousand as at 31 December 2018) are stated net of offsettable prepaid tax assets of €220,575 thousand (€217,291 thousand as at 31 December 2018).

There are no prepaid tax assets which cannot be offset.

[€ THOUSANDS]						
	31.12.2018	Change in scope of consolidation	Provisions	Uses	Other changes	30.06.2019
Deferred tax liabilities	289,063		10,666	(8,364)		291,365
Deferred tax assets	(217,291)	(291)	(13,995)	11,002		(220,575)
	71,772	(291)	(3,329)	2,638		70,790

<sup>15</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".

## 21. SHAREHOLDERS' EQUITY

Shareholders' equity, which amounts to €1,300,894 thousand (€1,329,347 thousand as at 31 December 2018) breaks down as follows:

[€ THOUSANDS]	31.12.2018	30.06.2019
Shareholders' equity attributable to Italgas	1,329,347	1,300,894
Share capital	1,001,232	1,001,232
Legal reserve	200,246	200,246
Share premium reserve	620,130	620,130
Reserve Cash Flow Hedge on derivative contracts	(4,943)	(12,095)
Consolidation reserve	(323,907)	(323,907)
<i>Reserve for business combinations under common control</i>	(349,854)	(349,839)
<i>Stock grant reserve</i>	299	566
Reserve for recalculation of defined-benefit plans for employees	(10,730)	(10,730)
Other reserves	(343,565)	(537,325)
Retained earnings	226,744	546,456
Net profit (loss)	313,695	166,160
<i>to be deducted</i>		
- Treasury shares		
Shareholders' equity attributable to minority interests		
	1,329,347	1,300,894

The main components of Italgas shareholders' equity as at 30 June 2019 are analysed below.

### SHARE CAPITAL

The share capital as at 30 June 2019 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518.44 (the same as at 31 December 2018).

### LEGAL RESERVE

The legal reserve as at 30 June 2019 stood at €200,246 thousand (the same as at 31 December 2018).

### SHARE PREMIUM RESERVE

The share premium reserve, of the same amount as at 31 December 2018, stood at €620,130 thousand.

### CONSOLIDATION RESERVE

The consolidation reserve (-€323,907 thousand) was the same as at 31 December 2018.

## OTHER RESERVES

Other reserves mainly relate to the reserve for business combination under common control, amounting to -€349,839 thousand, recorded following the acquisition by Snam S.p.A. of 38.87% of the stake in Italgas Reti S.p.A.

## RESERVE FOR RECALCULATION OF DEFINED-BENEFIT PLANS FOR EMPLOYEES

As at 30 June 2019, the reserve for recalculation of employee benefit plans (-€10,730 thousand) 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 2019 Italgas did not have any treasury shares in its portfolio.

## DIVIDENDS

The ordinary shareholders' meeting of Italgas S.p.A. resolved on 4 April 2019 to distribute the 2018 ordinary dividend of €0.234 per share; the dividend (€189,337,707.47) was paid out as at 22 May 2019, with an ex-coupon date of 20 May 2019 and a record date of 21 May 2019.

## 22. GUARANTEES, COMMITMENTS AND RISKS

*Guarantees, commitments and risks*, amounting to 282,308 thousand (€226,266 thousand as at 31 December 2018), comprise:

[€ THOUSANDS]	31.12.2018	30.06.2019
Guarantees given in the interest:	183,964	183,782
- of subsidiaries	183,964	183,782
Risks	42,302	98,526
- for compensation and litigation	42,302	98,526
	226,266	282,308

### GUARANTEES

Guarantees of €183,782 thousand (€183,964 thousand as at 31 December 2018) mainly refer to guarantees and securities issued in the interest of subsidiaries to guarantee the good execution of works with respect to participating in calls for relating to the distribution of natural gas.

### RISKS

Risks concerning compensation and litigation of €98,526 thousand (€42,302 thousand as at 31 December 2018) 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 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 2019 the financial debt at floating rate was 15.9% and at fixed rate was 84.1%.

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).

At full performance, Italgas aims to maintain a debt ratio between a fixed rate and floating rate to minimise the risk of rising interest rates.

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 for the variable component of the debt in place and for future loans.

### 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 the ARE-RA 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 2019 there were no significant credit risks. However, note that on average 95% of trade receivables relative to the distribution of gas are settled by the due date and over 99% within the next 4 days, confirming the strong reliability of the business customers. Receivables from other activities represent a non-significant portion for the Company.

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 undrawn as at 30 June 2019. These credit lines (1.1 billion) may 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 5 November 2018, has allowed issue of the remaining bonds worth a nominal €600 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 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 1 August and 23 October 2018, Fitch and Moody's assigned Italgas S.p.A. the rating BBB+ with stable outlook stabile and Baa2 with stable outlook.

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 2019, 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. As at 30 June 2019 these commitments appear to have been respected.

The bonds issued by Italgas as at 30 June 2019 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.

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.

## FUTURE PAYMENTS FOR FINANCIAL LIABILITIES

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments:

	[€ THOUSANDS]		DUE DATE						
	Balance as at 31.12.2018	Balance as at 30.06.2019	Portion with due date within 12 months	Portion with due date beyond 12 months	2020	2021	2022	2023	Beyond
Financial liabilities									
Bank loans	786,580	786,116	199	786,116	33,267	33,267	57,553	662,029	
Bonds	2,900,000	2,900,000		2,900,000			750,000	2,150,000	
Short-term liabilities	274,499	191,341	191,341						
Interest on loans			516	275,581	36,470	36,129	36,401	32,588	133,993
Liabilities Right of Use	49,839	74,230	17,493	56,737	10,153	9,748	9,295	6,759	20,782
	4,010,918	3,951,687	209,549	4,018,434	46,623	79,144	828,963	96,900	2,966,804

## OTHER INFORMATION ON FINANCIAL INSTRUMENTS

With reference to the categories provided for by IAS 9 “Financial Instruments”, note that, with the exclusion of the IRS hedging derivative, the financial assets and liabilities of Italgas 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.

### **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. The Public Prosecutor's office of Rome requested that all persons under investigation be dismissed. The file was assigned to the examining judge for the ruling. At the hearing of 26 October 2018 the GIP asked the Prosecutor to carry out further investigations, granting six months for doing so.

### **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 a gas leak due to remotely guided boring works for the laying of a fibre optic cable carried out 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. 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.

On 30 April 2018 procedural documents still in course of notification were purchased from the Registry of the Busto Arsizio Court: the request for remand, the request for application seeking relating to some physical persons object of investigation, the list of documents of the Prosecutor. The content of the request for remand is in line with those of the notification of conclusion of the preliminary investigations with regard to the involvement of Italgas Reti, while the request for application seeking, subsequently received by the Judge in the preliminary

hearing, also included Italgas Reti's principal. On 4 May 2018, notification was received for the scheduling of the preliminary hearing for 26 June 2018, together with the request for remand. The hearing, however, was not then postponed to 23 October 2018.

At the hearing of 23 October, no civil action was brought and the judge took notice of the negotiations under way between the injured parties, postponing the hearing to 23 January. During that hearing the payment was acknowledged for the indemnification of the descendants of the dead person and the other injured parties, who then waived the option to initiate civil proceedings. The Municipality of Cerro Maggiore was allowed to initiate civil proceedings. Both the Italgas Reti defence and that of the Company's employees asked for the indictment to be dismissed. The judge reserved their decision on request of the defending counsels. At the subsequent hearing of 19 March 2019, the Judge for the Preliminary Hearing pronounced the acquittal of the two employees of Italgas Reti for not having committed the act. A conviction was issued against those requesting the abbreviated trial procedure, employees of the subcontracting company for the laying of the optic fibre cable, rejecting the request for damages of the civil party, the Municipality of Cerro Maggiore. On the hearing of 9 December 2019 the Judge called for the indictment of the Company Italgas Reti and its three employees, in addition to the defendants of company contracting the laying of the fibre optic cable.

#### **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.

#### **Italgas Reti S.p.A. - Rome via Saba Event**

The public prosecutor at the Court of Rome opened an investigation in relation to the incident that took place on 2 May 2018 during an ordinary intervention in the gas distribution network in the municipality of Rome.

The accident, which occurred in Via Saba 68 for reasons still to be ascertained, involved injury for one worker of the contracting company. The Rome Public Prosecutor is carrying out preliminary investigations with which Italgas Reti is cooperating.

#### **Italgas Reti S.p.A. - Rocca di Papa Event**

The Public Prosecutor at the Velletri Tribunal opened an investigation relating to the accident on 10 June 2019 in the municipality of Rocca di Papa, caused by the rupture of a Italgas Reti tube by a company carrying out works for the same Municipality.

The resulting gas leak caused an explosion in which some people were injured, two of which died in the following days.

The Velletri Public Prosecutor is carrying out preliminary investigations which are focusing on people outside of the company. Italgas Reti, which is an injured party in the offence having suffered damage to its conduct, is cooperating with the investigations. The Prosecutor has also arranged expert investigations on the accident area and Italgas Reti has appointed its own defendant's expert as injured party.

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

- 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. With ruling of 23 January 2018, the Palermo Court recognised that Italgas Reti is not held to payment of expenses of the Prosecutor's consultants as the same were linked to prevention measures. The consultants have filed an appeal to the Court of Cassation. Italgas Reti has not submitted a counterclaim for prudential reasons, in order to confirm the non-involvement of the company to the proceedings for lack of interest. The date of the Court of Cassation discussion hearing has not yet been scheduled.
- 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.

In the proceedings concerning the contesting of the report of the Judicial Administrators, following the hearing for discussion on 28 September 2017, the Court set aside the ruling.

In the subsequent judgement, the Palermo Court filed a Ruling on 25 March 2019 with which it approved the statement and rejected the application to refund the costs sustained by Italgas Reti for the Judicial Administration. Italgas Reti has filed an appeal with the Court of Cassation on 5 April 2019, requested the annulment of the above Ruling alleging infringement of the law and incorrect interpretation of Legislative Decree 159/2011 ("Anti-mafia Code") and for the omitting to include in the statement of the Judicial Administrator the reports of the services rendered and suitable supporting documents proving the expenses reported in the statement.

## CUSTOMERS AND THE REGULATORY AUTHORITY FOR ENERGY, NETWORKS AND ENVIRONMENT (ARERA)

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

Through resolution 33/2012/S/gas of 9 February 2012, ARERA 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, ARERA 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, ARERA 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, ARERA 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. The date of the hearing is still to be set.

## ADMINISTRATIVE DISPUTE

### **Italgas Reti S.p.A. - Municipality of Venice - State Council (R.G. 8060/2017) and Veneto Regional Administrative Court (R.G. 346/2018)**

Italgas Reti appealed against the acts through which the Municipality of Venice had reduced from the residual value due to Italgas Reti as the outgoing operator the value of a portion of the distribution network (Block A), which had a residual value of around €31 million as at 31 December 2014.

The Veneto Regional Administrative Court, with judgement no. 654/2017, rejected the appeal filed by the Company confirming the free acquisition by the Municipality of Venice of assets included in "Block A", as well as the obligation for the Company to pay rental for the use of the portion of network subject to the free acquisition. The judgement of the Regional Administrative Court was confirmed by the State Council.

### **Italgas Reti S.p.A. - Municipality of Cavallino Treporti - State Council (R.G. 588/2019) and Veneto Regional Administrative Court (R.G. 989/2017)**

With judgement no. 588/2019 of 24 January 2019, The State Council ruled on a similar event relating to the free devolution of a portion of the network relating to the concession in place with the Municipality of Cavallino-Treporti, which on expiry of the concession had a value of €4 million for Italgas Reti. In fact, Italgas Reti manages the public natural gas distribution service in the area of the above-mentioned Municipality as a result of the same concession acts agreed at the time by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino Treporti was constituted in 1999 through the division of a portion of territory previously part of the Municipality of Venice.

**Decree of 10 May 2018 and ARERA Resolution 487/208 - Lazio Regional Administrative Court**

The Decree of 10 May 2018, adopted by the Ministry of Economic Development in conjunction with the Ministry of the Environment, was published in Official Gazette No. 158 of 10 July 2018. It amends and updates the Ministerial Decree of 11 January 2017, which determined the national quantitative energy saving targets for 2017 to 2020 and approved the new Guidelines for the preparation, execution and evaluation of energy efficiency project.

On 27 September 2018 ARERA published its Resolution 487/2018, which defines the tariff contribution to cover the costs sustained by distributors of electric power and natural gas, subject to the obligations in the context of the mechanism of energy efficiency titles pursuant to above-mentioned Ministerial Decree of 10 May 2018.

On 9 October 2018, Italgas challenged the Ministerial Decree of 10 May 2018 before the Lazio Regional Administrative Court. Subsequently, on 23 November 2018, Italgas also challenged the ARERA resolutions no. 487/2018 and no. 501/2018 (as subsequent act) before the Lombardy Regional Administrative Court, restating the complaints already raised against the above-mentioned Ministerial Decree.

**Italgas Reti S.p.A. / ARERA - Lombardy Regional Administrative Court - ARERA Resolution 494/2018**

With General Registry appeal 1083/2015, Italgas Reti S.p.A. challenged ARERA resolution no. 98/2016 before the Lombardy Regional Administrative Court, for the failed recognition of the extra remuneration of the incentivised investments made in Rome in the years 2009-2010.

Subsequently, with additional reasons, resolution no. 494/2018 was also challenged in relation to the closure of the cognitive investigation relating to the same issues, repeating the objections made for the above appeal.

**Seaside S.r.l / GSE - Lazio Regional Administrative Court**

With provision of 28 June 2018, the GSE started a control procedure pursuant to art. 12 of Ministerial Decree of 11 July 2017 on 55 packets of energy efficiency projects presented by Seaside and to standard projects pertaining to 5T (replacement of single glass with double glass) and 6T (building insulation) forms. Subsequently, with provisions of 29 March 2019 and 5 April 2019, the disqualification of the right to TEEs in relation to 2 packets was declared, due to errors attributable to the Company's contractual counterparty, while the GSE requested the provision of additional documentation in relation to the other packets. An appeal before the Lazio Regional Administrative Court was filed against the notification of 5 April 2019 for the annulment of the same. The date of the hearing is still to be set.

## ADMINISTRATIVE DISPUTE

### Municipality of Venice / Italgas Reti S.p.A.

In consequence of the pronouncements of the State Council on the free devolution of Block A, on 24 April 2019 the Municipality of Venice notified Italgas Reti of a summons before the Venice Court with which it asked for payment for the use of the plants of Block A, in addition to accrued interest. The first hearing at which the parties have been called is set for 12 September 2019. The Company will appear in accordance with the law.

## AUTORITÀ GARANTE DELLA CONCORRENZA E DEL MERCATO (AGCM)

### Preliminary investigation A527 of 12 March 2019

With Provision of 12 March 2019, AGCM started a preliminary investigation pursuant to art. 14-bis of Law 287/90 with sub-interlocutory proceedings A527 with respect to Italgas Reti, Ireti and 2I Rete Gas in relation to an alleged abuse of dominant position aimed at “not allowing or delay the start of preparatory administrative procedures for the organisation of the procedure of assignment of the gas distribution service at the Genoa 1 ATEM”. In particular, Italgas Reti is accused of not having supplied the contracting station with the information relative to the year of installation of individual sections of the network installed before 2006 in the Municipalities in which it has concessions (Campo Ligure, Campomorone, Ceranesi, Cicagna, Masone, Pieve Ligure and Rossignone).

With the same regulation, AGCM started sub-interlocutory proceedings pursuant to art. 14-bis of Law 287/90 aimed at checking the existence of preconditions for the possible application of a supervision measure with respect to Italgas Reti, Ireti and 2I Rete Gas. On 10 April 2019, the Company filed its defence brief with respect to the above-mentioned sub-interlocutory proceedings restating its full compliance with the existing regulatory framework. However, in order to negate the preconditions for the adoption of the proposed supervision measure and without acquiescence with regard to the charges formulated by the AGCM, on the same date the Company also supplied the contracting station with the information relating to the year of installation of sections of the network installed before 2006 in the municipalities of Campo Ligure, Campomorone, Ceranesi, Cicagna, Mason, Pieve Ligure and Rossignone. The AGCM acknowledge the transmission of information to the contracting station and their suitability to allow the invitation to tender in the Genoa 1 ATEM. Therefore, with regulation of 9 May 2019, the Authority closed the sub-interlocutory proceedings without adopting any measures.



## TAX CASES

### Italgas Reti S.p.A. - Direct taxes

With reference to the general tax audit performed by the Revenue Agency in relation to the 2009 tax period, which ended on 7 December 2012 with the release of the tax assessment, comments were made which resulted in additional IRES, IRAP and VAT taxes for a total of €1 million, plus penalties and interest.

The Company, as regards the assessment notice concerning IRES, on 28 May 2015 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; this appeal was accepted with the ruling of 23 June 2016. The Revenue Agency appealed against the ruling.

As for the other findings, not challenged by the Company, in July 2017 it agreed to the facilitated settlement of the pending charges that allowed it to settle the debt by paying a total of €558,131.08 without paying the inflicted penalties. The risk fund was used to make this payment.

As at 10 April 2018 the Piedmont Regional Tax Commission, overturning the judgement of the court of first instance, rejected the appeal by Italgas Reti. The Company has consequently adjusted its provision for tax dispute risks with an allocation of €728,000.00, for a potential disbursement (IRES, IRAP and interests) deriving from the judgment of appeal judges.

In July 2018 the Italian Inland Revenue demanded a payment of the above-mentioned sums, which were paid by Italgas Reti respectively on 9 July 2018 (IRES and relative interests for €696,796.76) and 20 July 2018 (IRAP and relative interests for €107,051.38), by drawing from the relative risk provision.

In December 2018 an appeal was filed with the Cassation Court against the above-mentioned judgement of the Piedmont Regional Tax Commission.

In the years from 2013 to 2016, 14 assessment notices were served to the now incorporated former Napoletanagas S.p.A., relating to waste disposal tax in the Municipality of Caserta, which were challenged by the Company at the competent tax commissions. Following the favourable rulings accepting repeals, in 2017 reversals for €226,756.67 regarding the portion of the surplus provision were made.

In November 2018 two appeals were filed in Cassation against negative rulings by the Naples Regional Tax Commission (years 2010 and 2011).

The provisions also include the balances of the correspondent risk fund of the former Acam Gas S.p.A., incorporated in 2018, of €236,251.81.

## 23. REVENUE

The breakdown of revenue for the first half of 2019, which totalled €878,057 thousand (€805,217 thousand for the first half of 2018) is shown in the following table.

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Core business revenue	779,922	835,972
Other revenue and income	25,295	42,085
	805,217	878,057

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

### CORE BUSINESS REVENUE

Core business revenue, which amounted to €835,972 thousand (€779,922 thousand for the first half of 2018), is analysed in the table below:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Natural gas distribution	502,172	539,729
Revenues for infrastructure construction and improvements (IFRIC 12)	203,282	262,548
Contribution revenue pursuant to art. 57 of the AEEGSI Resolution no. 367/14	47,018	15,469
Technical assistance, engineering, IT and various services	23,810	15,009
Water distribution and sale	3,640	3,217
	779,922	835,972

Core business revenue (€835,972 thousand) refers primarily to the consideration for the natural gas distribution service (€539,729 thousand), revenue deriving from the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to IFRIC 12 (€262,548 thousand) and revenue contributed pursuant to art. 57 of AEEGSI Resolution no. 367/14 (€15,469 thousand), relative to an investment plan for the replacement of traditional meters with electronic ones (smart meters), as provided by the project for remote meter reading pursuant to AEEGSI resolutions no. 631/13 and no. 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 Cassa per i Servizi Energetici e Ambientali (CSEA).

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
RE-RS-UG1 fees	68,849	87,333
UG3 fees	26,345	13,488
UG2 fees	(8,311)	2,894
Gas Bonus and GS fees	(4,786)	(6,830)
	82,097	96,885

The fees in addition to the distribution service (€96,885 thousand) mainly relate to 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 (€539,729 thousand) 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. 220/2017/R/gas and 367/2014/R/gas.

Revenue from the sale of water (€3,217 thousand) relates to the water distributed by Italgas Acqua.

## OTHER REVENUE AND INCOME

Other revenue and income, which amounted to €42,085 thousand (€25,295 thousand in the first half of 2018), can be broken down as follows:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Net income from gas distribution service safety recovery incentives	5,998	8,175
Income from connection contributions	7,495	7,492
Income from property investments	434	915
Contractual penalties receivable	1,058	362
Capital gains from sale of assets	477	11,139
Plant safety assessment pursuant to Law Decree 40/04	1,194	1,143
Revenue from regulated activities	6,849	8,340
Sundry management refunds and chargebacks	244	764
other revenue	1,546	3,755
	25,295	42,085

Income from safety recovery incentives, equal to €8,175 thousand, relates to refunds paid by the Authority connected to achieving quality and technical standards relating to the natural gas distribution service.

The capital gains on sale of assets mainly refer to the sale of the property at Via XX Settembre in Turin (€7.7 million).

Revenue from connection contributions of €7,492 thousand relate to the effect of the adoption of standard IFRS 15 as from 1 January 2018.

## 24. OPERATING COSTS

The breakdown of operating costs for the period, which totalled €436,731 thousand (€373,586 thousand as at 30 June 2018), is shown in the following table:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Purchases, services and other costs	258,332	322,185
Personnel cost	115,254	114,546
	373,586	436,731

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, amounted to €262,548 thousand (€203,989 thousand for the first half of 2018) and are broken down as follows:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Purchase costs for raw materials, consumables, supplies and goods	52,106	45,456
Service costs	95,537	163,752
Costs for the use of third-party assets	11,218	4,922
Personnel cost	44,974	48,021
Other expense	154	397
	203,989	262,548

## PURCHASES, SERVICES AND OTHER COSTS

Purchases, services and other costs, which amounted to €322,185 thousand (€258,332 thousand for the first half of 2018), can be broken down as follows:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Purchase costs for raw materials, consumables, supplies and goods	70,500	68,766
Service costs	143,568	208,683
Costs for the use of third-party assets	43,137	40,127
Changes in raw materials, consumables, supplies and goods	(8,278)	(8,642)
Net provisions for risks and charges	(253)	4,534
Net provisions for impairment	189	(231)
Other expense	9,844	9,502
	258,707	322,739
<i>To be deducted:</i>		
Increases for own work	(375)	(554)
- of which service costs	(375)	(554)
	258,332	322,185

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

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Inventories	64,335	65,798
Purchase of water	960	963
Motive power	652	434
Purchase of fuel	1,945	1,571
Consumables	2,608	
	70,500	68,766

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 (€45,456 thousand).

Costs for services of €208,180 thousand (€143,568 thousand for the first half of 2018) relate to:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Project management and plant maintenance	83,813	144,264
Consultancy and professional services	18,102	26,426
Centralised service services	7,357	
Costs for personnel services	6,929	8,115
IT and telecommunications services	10,828	7,366
Electricity, water and other (utility) services	2,856	3,256
Insurance	2,873	2,741
Cleaning, security service and guard services	573	880
Advertising and entertainment	1,338	962
Other services	11,169	18,508
Use of risk provision	(1,895)	(3,784)
	143,943	208,734
<i>To be deducted:</i>		
Increases for own work	(375)	(554)
	143,568	208,180

Costs for services include costs relating to the construction and upgrading of gas distribution infrastructure (€163,752 thousand).

Costs for project management and plant maintenance planning (€144,264 thousand) essentially relate to the extension and maintenance of gas distribution plants.

Costs for the use of third-party assets, of €40,127 thousand (€43,137 thousand for the first half of 2018), are analysed below:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Patent, license and concession fees	43,273	40,108
Leases and rentals		20
Use of risk provision	(136)	(1)
	43,137	40,127

Fees, patents and licences (€40,108 thousand) refer primarily to fees recognised to contracting parties for the running of natural gas distribution activities under concession.

Costs for use of third-party assets include costs relating to the construction and upgrading of gas distribution infrastructure (€4,922 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Changes in raw materials, consumables, supplies and goods (-€8,642 thousand) were due mainly to the gas meter replacement plan.

Net allocations to the provision for risks and charges, amounting to €4,534 thousand net of utilisations, refer mainly to the TEE risk provision (€7,308 thousand) and to the legal disputes risk provision (-€2,774 thousand).

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 €9,502 thousand, are analysed below:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Gas distribution service safety improvement penalties	3,232	170
Other penalties	1,823	1,319
Indirect taxes, local taxes	3,095	3,065
Capital losses from disposal/recovery of property, plant and equipment and intangible assets	863	3,568
Membership fees	780	945
Costs for transactions, compensation and penalties	75	112
Use of risk provision	(1,595)	(3,151)
Charges attributable to Energy Efficiency Certificates	197	1,484
Other expense	1,374	1,990
	9,844	9,502

## PERSONNEL COST

Personnel cost, totalling €114,546 thousand (€115,254 thousand in the first half of 2018), breaks down as follows:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Wages and salaries	83,174	82,183
Social charges	24,691	26,269
Employee benefits	7,052	6,531
Charges per seconded personnel	78	18
Income per seconded personnel	(919)	(293)
Other expense	2,032	1,280
	116,108	115,988
<i>To be deducted:</i>		
Increases for own work	(854)	(1,442)
	115,254	114,546

The item includes costs relating to the construction and upgrading of gas distribution infrastructure (€48,021 thousand).

Costs for employee benefits (€6,531 thousand) mainly regard expenses connected to the elimination of the Gas Fund, pursuant to Law no. 125 of 6 August 2015<sup>16</sup>. More details are provided in the "Provisions for employee benefits" note.

Other changes of €1,280 thousand in particular refer to charges for redundancy schemes incentives.

<sup>16</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).



## AVERAGE NUMBER OF EMPLOYEES

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

PROFESSIONAL QUALIFICATION	30.06.2018	31.12.2018	30.06.2019
Executives	61	60	57
Managers	259	267	279
Office workers	1,975	1,975	1,992
Manual workers	1,337	1,329	1,306
	3,632	3,631	3,634

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

At 30 June 2019, there were 3,641 employees.

## 25] AMORTISATION, DEPRECIATION AND IMPAIRMENT

Amortisation, depreciation and impairment, totalling €199,758 thousand (€208,617 thousand in the first half of 2018), breaks down as follows:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Total amortisation and depreciation		
- Property, plant and equipment	9,622	8,173
- Right of use (IFRS 16)	3,340	6,418
- Intangible assets	194,922	183,724
	207,884	198,315
Impairment		
- Impairment of intangible assets	733	1,443
	733	1,443
	208,617	199,758

The change compared to the first half of 2018, of -€8,859 thousand, was mainly due to lower depreciation linked to the replacement of traditional meters with smart meters<sup>17</sup>, of €21.8 mil-

<sup>17</sup>The useful life of the meters included in the project pursuant to ARERA 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 2020.

lion, as the Group is close to the completion of the replacement of the entire stock of traditional meters, anticipated for 2020.

This reduction was offset by greater amortisation relative to rights of use (+€3,078 thousand).

## 26. FINANCIAL INCOME (EXPENSES)

Net financial expense, amounting to €24,132 thousand (€23,731 thousand in the first half of 2018) comprises:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Financial income (expense)	(22,215)	(22,900)
Financial expense	(22,324)	(23,016)
Financial income	109	116
Other financial income (expense)	(1,282)	(1,232)
Other financial expense	(1,445)	(1,461)
Other financial income	163	229
Derivatives charges	(234)	
	(23,731)	(24,132)

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
FINANCIAL INCOME (EXPENSE)	(22,215)	(22,900)
Borrowing costs:	(22,324)	(23,016)
- Interest expense on bonds	(18,798)	(19,179)
- Commission expense on bank loans and credit lines	(1,252)	(1,493)
- Interest expense on credit line and loan expense due to banks and other lenders	(2,274)	(2,344)
Income on financial receivables:	109	116
- Interest income and other income on financial receivables non-held for operations	109	116
Other financial income (expense)	(1,282)	(1,232)
- Financial income (expense) connected with the passing of time (accretion discount) (*)	(1,361)	(1,374)
- Other expenses	(84)	(87)
- Other income	163	229
Derivatives charges	(234)	
	(23,731)	(24,132)

(\*) The item relates to the increase in the provisions for risks and charges and employee benefit funds that are specified, at a discounted value, in the notes "Provisions for risks and charges" and "Employee benefit funds".

## 27. INCOME (EXPENSE) FROM EQUITY INVESTMENTS

Financial income and expenses on equity investments, amounting to €11,821 thousand (€9,711 thousand in the first half of 2018) comprise:

[€ THOUSANDS]	FIRST HALF OF THE YEAR	
	2018	2019
Effect of valuation using the equity method		
Capital gains from valuation using the equity method	9,711	11,821
	9,711	11,821

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in the note "Investments accounted using the equity method" and mainly refer to the valuation of shareholders' equity of Toscana Energia.

## 28. INCOME TAXES

Income taxes for the year, amounting to €63,097 thousand comprise:

[€ THOUSANDS]	FIRST HALF OF THE YEAR					
	2018			2019		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes	57,790	12,023	69,813	59,897	11,811	71,708
Current taxes for the year	59,400	11,177	70,577	59,897	11,811	71,708
Adjustments for current taxes pertaining to previous years	(1,610)	846	(764)			
Deferred and prepaid taxes	(10,775)	(695)	(11,470)	(3,403)	(5,208)	(8,611)
Deferred taxes	(7,587)	(991)	(8,578)	(2,577)	(5,574)	(8,151)
Prepaid taxes	(3,188)	296	(2,892)	(826)	366	(460)
	47,015	11,328	58,343	56,494	6,603	63,097

The incidence of taxes for the period of the result before tax (tax rate) was 27.5%, compared to a theoretical rate of 28.2%, which results from applying the rates applied by the Italian tax regulations of 24% (IRES) to the profit before income taxes and of 4.2% (IRAP) of the net value of production.

## 29. PROFIT [LOSS] PER SHARE

The earnings per basic share, equal to €0.205, was calculated by dividing the net profit attributable to Italgas (€166,160 thousand) 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 basic share are the same.

## 30. RELATED PARTY TRANSACTIONS

Considering the “de facto” control of CDP S.p.A. over Italgas S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, the related parties of Italgas, based on the current Group ownership structure, are represented by Italgas’ associates and joint ventures, as well as by the parent company, CDP S.p.A., and by its subsidiaries and associates and 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 companies of the Italgas Group.

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

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

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 abovementioned related parties for the first half of 2018 and 2019 are shown below. The nature of the most significant transactions is also stated.

## COMMERCIAL AND OTHER TRANSACTIONS

Commercial and other transactions are analysed in the following tables:

[€ THOUSANDS]	30.06.2018			FIRST HALF OF 2018				
	Receivables	Payables	Guarantees and commitments	Assets	Costs (a)		Revenue (b)	
					Services	Other	Services	Other
Companies under joint control and associates								
- Toscana Energia S.p.A.	2,937	150		33	109		2,305	214
- Umbria Distribuzione Gas S.p.A.	304						270	
- Metano Sant'Angelo Lodigiano S.p.A.	206						170	4
	3,447	150		33	109		2,745	218
Companies owned or controlled by the State								
- Eni Group	78,013	40,621		887	457	615	368,343	8,682
- Snam Group	6,665	19,379		123	6,682	1	(2)	(342)
- Enel Group	12,202	4,886			21	379	71,528	1,445
- Anas Group	14	377			3	360		
- Ferrovie dello Stato Group	56	136			3	162		
- GSE Gestore Servizi Group	44	(11)				48		(48)
- Poste italiane Group		125			30			
	96,994	65,513		1,010	7,196	1,565	439,869	9,737
Total	100,441	65,663		1,043	7,305	1,565	442,614	9,955

(a) Include costs for goods and services for investment.

(b) Gross of the tariff components having contra entry in costs.

[€ THOUSANDS]	30.06.2019			FIRST HALF OF 2019			
	Receivables	Payables	Guarantees and commitments	Assets	Costs (a)	Revenue (b)	
					Services	Other	Services
							Other
Companies under joint control and associates							
- Toscana Energia S.p.A.	2,624	103			62	(202)	2,054
- Umbria Distribuzione Gas S.p.A.	642					(18)	313
- Metano Sant'Angelo Lodigiano S.p.A.	122					(24)	90
	3,388	103			62	(244)	2,457
Companies owned or controlled by the State							
- Eni Group	85,604	48,391		(267)	126	340	372,535
- Snam Group	4,807	3,819			234	30	639
- Enel Group	14,527	7,047			18	89	77,034
- Anas Group	12	409				133	
- Ferrovie dello Stato Group	271	102			25	94	299
- GSE Gestore Servizi Group	2,199	27			2	(2,504)	3
- Poste italiane Group	7	571			385		11
- Saipem Group		1,258			261		
	107,427	61,624		(267)	1,051	(1,818)	450,219
Total	110,815	61,727		(267)	1,113	(2,062)	452,676

(a) Include costs for goods and services for investment.

(b) Gross of the tariff components having contra entry in costs.

## COMPANIES UNDER JOINT CONTROL AND ASSOCIATES

The main receivable commercial transactions mainly 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.;
- the distribution of natural gas to Enel Energia S.p.A.

The main payable commercial transactions refer to:

- the supply of electricity and methane gas for internal consumption by Eni S.p.A.;

## FINANCIAL TRANSACTIONS

Financial transactions with related parties are analysed in the following tables:

[€ THOUSANDS]	30.06.2018		FIRST HALF OF 2018	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti		56		150
Companies owned or controlled by the State				
- Snam Group				153
- Enel Group			4	
Total		56	4	303

[€ THOUSANDS]	30.06.2019		FIRST HALF OF 2019	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti				147
Companies owned or controlled by the State				
- Eni Group			128	
Total			128	147

## IMPACT OF RELATED-PARTY TRANSACTIONS OR POSITIONS ON THE STATEMENT OF FINANCIAL POSITION, INCOME STATEMENT AND STATEMENT OF CASH FLOWS

The impact of related-party transactions or positions on the Statement of Financial Position is summarised in the following table:

[€ THOUSANDS]	31.12.2018			30.06.2019		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Statement of financial position						
Trade and other current receivables	536,199	213,715	39.9%	342,792	110,269	32.2%
Other current assets	13,677			18,907		
Investments valued using the equity method	174,955	174,955	100.0%	175,766	175,766	100.0%
Other investments	96	96	100.0%	322	322	100.0%
Other non-current assets	133,707	549	0.4%	148,983	546	0.4%
Short-term financial liabilities	274,499			191,341		
Short-term portions of short-term financial liabilities	43,303			32,366		
Trade and other payables	564,663	59,024	10.5%	495,445	61,550	12.4%
Other current liabilities	2,890	177	6.1%	1,426	177	12.4%
Long-term financial liabilities	3,705,980			3,724,613		
Other non-current liabilities	457,800			470,742		

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

[€ THOUSANDS]	FIRST HALF OF 2018			FIRST HALF OF 2019		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Income Statement						
Core business revenue	779,922	442,614	56.8%	835,972	452,676	54.1%
Other revenue and income	25,295	9,955	39.4%	42,085	9,315	22.1%
Purchases, services and other costs	258,332	10,515	4.1%	322,185	1,275	0.4%
Personnel cost	115,254	(602)	(0.5%)	114,546	(216)	(0.2%)
Financial expense	23,872	303	1.3%	24,477	147	0.6%
Financial income	375	4	1.1%	345	128	37.1%



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:

[€ THOUSANDS]	FIRST HALF OF 2018	FIRST HALF OF 2019
Revenue and income	452,569	461,991
Costs and charges	(9,913)	(1,059)
Change in trade and other current receivables	124,976	103,446
Change in other assets	154	3
Change in trade and other payables	(7,156)	2,526
Change in other current liabilities	(165)	
Net cash flow from operating activities	560,465	566,907
Net cash flow from investment activities		
Distributed dividends	(66,563)	(74,883)
Net cash flow from financing activities	(66,563)	(74,883)
Total cash flows to related entities	493,902	492,024

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

[€ THOUSANDS]	FIRST HALF OF 2018			FIRST HALF OF 2019		
	Total	Related entities	Incidence %	Total	Related entities	Incidence %
Cash flow from operating activities	647,320	560,465	86.6%	520,438	566,907	
Cash flow from investment activities	(352,398)			(348,086)		
Cash flow from financing activities	(210,663)	(66,563)	31.6%	(300,375)	(74,883)	24.9%

## 31. SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE HALF-YEAR

Post-balance sheet events are described in the section "Other information" contained in the Directors' Report.

CERTIFICATION OF THE CONDENSED FINANCIAL STATEMENTS  
PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5  
OF LEGISLATIVE DECREE 58/1998  
(CONSOLIDATED FINANCE ACT)

1. Pursuant to article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, the undersigned Paolo Gallo and Giovanni Mercante, as Chief Executive Officer and Director in charge of preparing company accounting documents of Italgas S.p.A. respectively, certify:
  - the adequacy, considering the Company's characteristics, and
  - the effective implementation of the administrative and accounting procedures for the preparation of the condensed half-year financial statement as at 30 June 2019 in the first half of 2019.
  
2. The administrative and accounting procedures for the preparation of the condensed half-year financial statement at 30 June 2019 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.
  
3. It is also certified that:
  - 3.1 The condensed half-year financial statements as at 30 June 2019;
    - a) were prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the 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 important events which occurred in the first six months of the year and their incidence on the Condensed Consolidated Half-Year Financial Statement, together with a description of the main risks and uncertainties for the remaining six months of the financial year. The Interim Directors' Report also includes a reliable analysis of the information on relevant transactions with related parties.

29 July 2019

Chief Executive Officer

*Paolo Gallo*

Director in charge of preparing  
company accounting documents

*Giovanni Mercante*



## 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 June 30, 2019, 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 June 30, 2019 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.

Turin, 1 August 2019

PricewaterhouseCoopers SpA  
*Signed by*

Mattia Molari  
(Partner)

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

### PricewaterhouseCoopers SpA

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# ANNEX

# ANNEXES TO THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## COMPANIES AND EQUITY INVESTMENTS OF ITALGAS S.P.A. AS AT 30 JUNE 2019

In compliance with the provisions of Consob communication DEM/6064293 of 28 July 2006 and of articles 38 and 39 of Italian Legislative Decree 127/1991, the list of subsidiary and related companies of Italgas S.p.A as at 30 June 2019, as well as other relevant shareholdings, are reported below.

The companies are broken down by area of activity and are listed in alphabetical order. The name, registered office, share capital, shareholders and respective percentages of ownership are reported for each company. For consolidated companies the consolidated percentage pertaining to Italgas is indicated. The valuation criteria are indicated for non-consolidated subsidiaries of consolidated companies.

### CONSOLIDATING COMPANY

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	Consolidation method or measurement criterion (*)
Italgas S.p.A.	Milan	EUR	1,001,231,518	CDP Reti S.p.A.	26.05%	100.00%	C.I.
				Snam S.p.A.	13.50%		
				Minority shareholders	60.45%		

(\*) C.I. = Full consolidation

## SUBSIDIARY COMPANIES

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	Consolidation method or measurement criterion (*)
Italgas Reti S.p.A.	Turin	EUR	252,263,314.00	Italgas S.p.A.	100.00%	100.00%	C.I.
Italgas Acqua S.p.A.	Milan	EUR	50,000.00	Italgas S.p.A.	100.00%	100.00%	C.I.
Seaside S.r.l.	Bologna	EUR	60,000.00	Italgas S.p.A.	100.00%	100.00%	C.I.
Medea Newco S.r.l.	Turin	EUR	10,000.00	Italgas S.p.A.	100.00%	100.00%	C.I.
Medea S.p.A.	Sassari	EUR	4,500,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
EGN S.r.l.	Turin	EUR	10,000,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
EGN Distribuzione S.r.l.	Turin	EUR	10,000,000.00	EGN S.r.l.	100.00%	100.00%	C.I.
Ischia Gas S.r.l.	Turin	EUR	100,000.00	EGN S.r.l.	100.00%	100.00%	C.I.
Marigliano Gas S.r.l.	Turin	EUR	1,200,000.00	EGN S.r.l.	100.00%	100.00%	C.I.
Mediterranea S.r.l.	Forlì	EUR	100,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.

(\*) C.I. = Full consolidation

## ASSOCIATED AND JOINT CONTROL COMPANIES

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	Consolidation method or measurement criterion (*)
Metano Sant'Angelo Lodigiano S.p.A. (a)	Sant'Angelo Lodigiano (LO)	EUR	200,000	Italgas S.p.A.	50.00%	P.N.
				Minority shareholders	50.00%	
Toscana Energia S.p.A. (a)	Florence	EUR	146,214,387	Italgas S.p.A.	48.68%	P.N.
				Minority shareholders	51.32%	
Umbria Distribuzione Gas S.p.A. (a)	Terni	EUR	2,120,000	Italgas S.p.A.	45.00%	P.N.
				Minority shareholders	55.00%	
Isgastrentatrè S.p.A.	Cagliari	EUR	3,000,000	Medea S.p.A.	10.00%	F.V.
Toscana Energia Green S.p.A.	Pistoia	EUR	6,330,804	Toscana Energia S.p.A.	100.00%	

(\*) P.N. = Shareholders' equity measurement

(\*\*) F.V. = Fair Value Measurement

(a) The Company is subject to joint control.

## CHANGE IN SCOPE OF CONSOLIDATION

## Companies Included

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	Consolidation method or measurement criterion (*)
Medea Newco S.r.l.	Turin	EUR	10,000	Italgas S.p.A.	100.00%	100.00%	C.I.
Mediterranea S.r.l.	Forlì	EUR	100,000	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
Isgastrentatrè S.p.A.	Cagliari	EUR	3,000,000	Medea S.p.A.	10.00%	10.00%	F.V.
EGN S.r.l. (a)	Turin	EUR	10,000,000	Italgas Reti S.p.A.	100.00%	100.00%	C.I.

(\*) C.I. = Full consolidation; F.V. - fair value measurement

(a) The Company's percentage of ownership moves from 60% to 100%, with respect to 31 December 2018.



## Companies Excluded following incorporation

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	Consolidation method or measurement criterion (*)
Fontenergia S.r.l.	Lanusei	EUR	7,000,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 4 S.r.l.	Sassari	EUR	1,250,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 6 S.r.l.	Sassari	EUR	1,950,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 7 S.r.l.	Sassari	EUR	800,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 9 S.r.l.	Sassari	EUR	450,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 10 S.r.l.	Sassari	EUR	1,500,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 11 S.r.l.	Sassari	EUR	500,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 15 S.r.l.	Sassari	EUR	350,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 19 S.r.l.	Sassari	EUR	10,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 26 S.r.l.	Sassari	EUR	850,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 27 S.r.l.	Sassari	EUR	1,900,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 35 S.r.l.	Sassari	EUR	650,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Fontenergia 37 S.r.l.	Sassari	EUR	500,000.00	Medea S.p.A.	100.00%	100.00%	C.I.
Favaragas Reti S.r.l.	Turin	EUR	1,000,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
Siculianagas Reti S.r.l.	Turin	EUR	500,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
Baranogas Reti S.r.l.	Turin	EUR	600,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
Ischia Reti Gas S.r.l.	Turin	EUR	300,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
Progas Metano S.r.l.	Turin	EUR	220,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
Grecanica Gas S.r.l.	Turin	EUR	1,468,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.
Naturgas S.r.l.	Sassari	EUR	5,010,000.00	Italgas Reti S.p.A.	100.00%	100.00%	C.I.

(\*) C.I. = Full consolidation.

## Companies Excluded following withdrawal

Designation	Registered office	Currency	Share capital	Shareholders	% ownership	Consolidation method or measurement criterion (*)
Agenzia Napoletana per l'Energia e per l'Ambiente	Naples	EUR	418,330	Italgas Reti S.p.A. Minority shareholders	12.96% 87.04%	C.o

(\*) C.o.= Measurement at cost.

By

Italgas

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Chiara Cesana

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Campania, Piemonte - Aosta,

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