Italgas

2018 FINANCIAL REPORT

2018
FINANCIAL
REPORT

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.

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 [a]

Chairman
Lorenzo Bini Smaghi

Chief Executive Officer and General Manager
Paolo Gallo

Directors
Nicola Bedin
Federica Lolli [b]
Maurizio Dainelli
Cinzia Farisè
Yunpeng He
Paolo Mosa
Paola Annamaria Petrone

BOARD OF STATUTORY AUDITORS [a]

Chairman
Gian Piero Balducci

Standing auditors
Giandomenico Genta
Laura Zanetti

Alternate auditors
Barbara Cavalieri [c]
Walter Visco

CONTROL AND RISKS AND RELATED-PARTY TRANSACTIONS COMMITTEE [d]

Paola Annamaria Petrone (Chairman)
Nicola Bedin
Federica Lolli

FINANCE AND SERVICE GENERAL MANAGER [g]

Antonio Paccioretti

INDEPENDENT AUDITORS [i]

PricewaterhouseCoopers S.p.A.

APPOINTMENTS AND REMUNERATION COMMITTEE [e]

Cinzia Farisè (Chairman)
Maurizio Dainelli
Federica Lolli

SUSTAINABILITY COMMITTEE [f]

Nicola Bedin (Presidente)
Yunpeng He
Paolo Mosa

SUPERVISORY BODY [h]

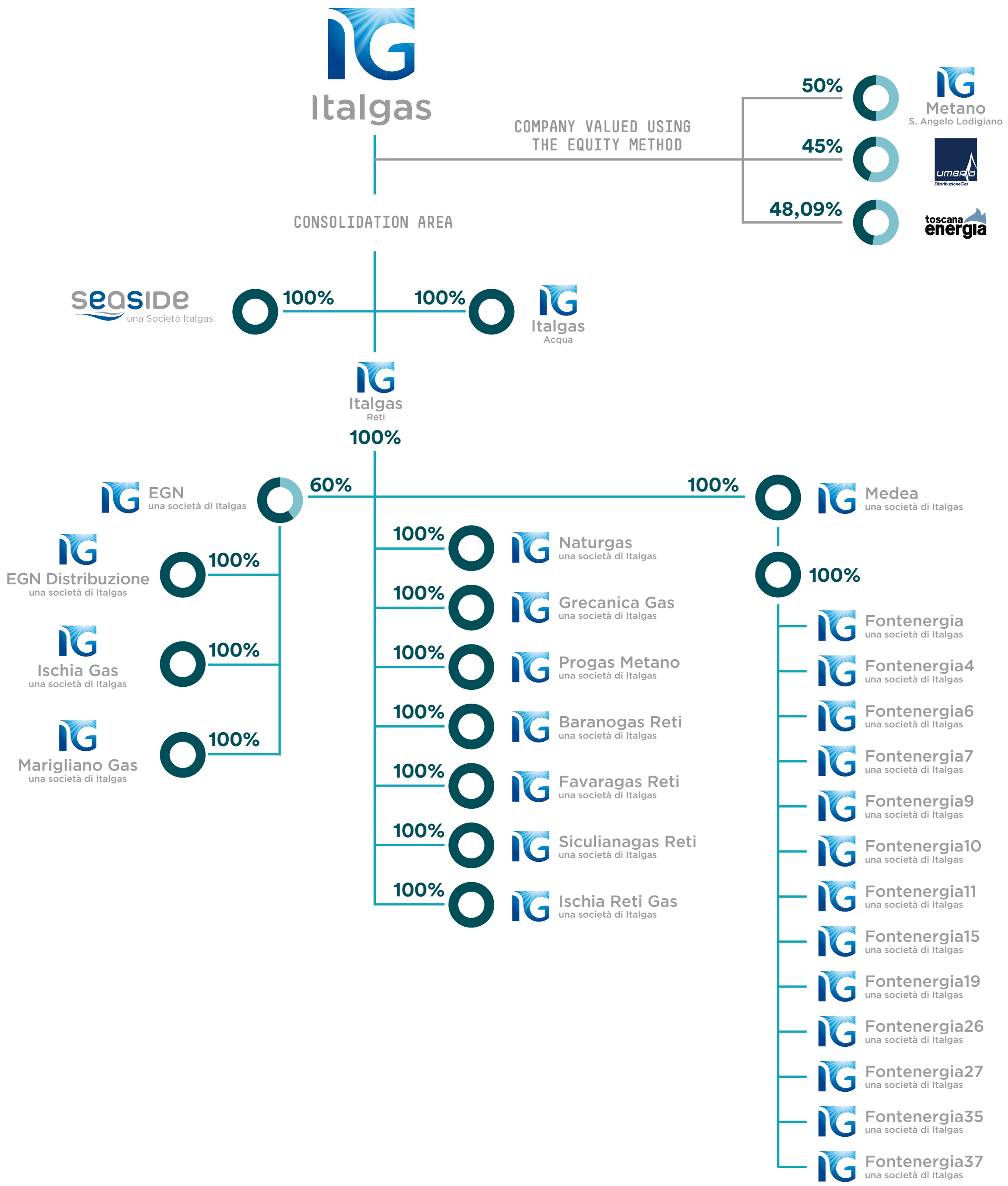
Carlo Piergallini (Chairman)
Eliana La Ferrara
Francesco Profumo

(a) Appointed by the Shareholders' Meeting of 4 August 2016. In office until the date of the Shareholders' Meeting called for the approval of the financial statements for the year ending 31 December 2018.
(b) Director co-opted by the Board of Directors on 27 July 2017 to replace Barbara Borra. Later appointed by the Ordinary Shareholders' Meeting of 19 April 2018.
(c) Appointed by the Shareholders' Meeting on 28 April 2017 to replace alternate auditor Marilena Cederna.
(d) Committee established by the Board of Directors on 4 August 2016. Members appointed by the Board of Directors on 23 October 2017.
(e) Committee established and members appointed by the Board of Directors on 23 October 2017.
(f) Committee established by the Board of Directors on 4 August 2016. Members appointed by the Board of Directors on 5 September 2016.
(g) Appointed by the Board of Directors on 26 September 2016 with effect from 7 November 2016.
(h) Appointed by the Board of Directors on 20 December 2016.
(i) Engagement assigned by the Shareholders' Meeting of 28 April 2017 for the period 2017-2025.


HOWARD LEIGHT
Reti

GROUP STRUCTURE AS AT 31 DECEMBER 2018

The structure of the Italgas Group as at 31 December 2018 is shown below:



The scope of consolidation has changed at the end of 2018 compared to 31 December 2017 due to: (i) the establishment of Italgas Acqua S.p.A. on 1 January 2018 following the partial and proportional demerger of Italgas Reti to a newco through assignment to the latter of the “former Napoletanagas business unit”; (ii) the acquisition on 28 February 2018 of 100% of Ichnusa Gas S.p.A. share capital, a holding company with control of 12 companies granted concessions for the construction and operation of distribution networks and LPG sales in Sardinia; (iii) the acquisition on 13 March 2018 of 100% of Seaside S.r.l. share capital, a company operating in the energy efficiency sector; (iv) the acquisition on 6 April 2018 of 100% of Medea S.p.A. share capital, an LPG distribution and sales company based in Sassari; (v) the acquisition on 31 May 2018 of 98%, then on 27 November 2018 of the remaining 2%, of the share capital of Favaragas Reti S.r.l., Siculianagas Reti S.r.l., Baranogas Reti S.r.l., Ischia Reti Gas S.r.l., Progas Metano S.r.l. and Grecanica Gas S.r.l., companies holding a total of 7 concessions for construction and management of the gas network in 16 municipalities in Southern Italy; (vi) the acquisition on 30 November 2018 of (a) a 60% controlling interest in EGN (European Gas Network) S.r.l., which controls 100% of the share capital of EGN Distribuzione S.r.l., Ischia Gas S.r.l. and Marigliano Gas S.r.l., holders of a total of 37 operating concessions for gas distribution in Sicily, Calabria and Campania; (b) 100% of Fontenergia S.r.l. share capital, concession holder of the LPG distribution and sales service in the Bacino 22 area of Sardinia, (c) 100% of the share capital of Naturgas S.r.l., concession holder of the gas distribution service in San Giuseppe Vesuviano (NA).

Acam Gas S.p.A., Enerco Distribuzione S.p.A. and S.G.S. S.r.l. were merged into Italgas Reti, effective for accounting and tax purposes from 1 January 2018.

On 12 December 2018, effective for accounting and tax purposes from 1 January 2018, the merger of Ichnusa Gas S.p.A. into Medea S.p.A. was finalised.

Also note that, in January 2018, the subsidiary Italgas Reti finalised the acquisition of the Amalfitana Gas and AEnergia Reti business units relating to natural gas distribution in three ATEM in Campania and Basilicata and to the distribution service in the municipality of Portopalo di Capo Passero (Syracuse), respectively.

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Disclaimer

The Annual Report contains forward-looking statements, specifically in the "Outlook" section, relating to: investment plans, future operating performance and project execution. The forward-looking statements, by their nature, involve risks and uncertainties as they depend on the occurrence of future events and developments. 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.


Italgas
Reti
Italgas
Reti

DIRECTORS' REPORT

LETTER TO SHAREHOLDERS AND STAKEHOLDERS

To our Shareholders and Stakeholders,
2018 was a busy year for Italgas in terms of events: we would like to share with you the "journey" undertaken by the Company from its listing in 2016 until now, the end of the first business management cycle.

Italgas has begun a major growth and consolidation process which, in the last two years, has led to an increased presence in various regions, particularly the South of Italy and Sardinia. Through M&A transactions completed in 2018, Italgas acquired new gas distribution networks for an enterprise value of around €215 million, expanding its portfolio by 110 thousand delivery points. It also acquired one of the most active Energy Service Companies, making its entry in the energy efficiency sector.

From its listing in 2016 to the end of 2018, the Company has completed investments and acquisitions for over €1.3 billion, strengthening its leadership position in Italy with a market share of more than 34%[1] (7.5 million delivery points) and the third largest operator in Europe. As a result of the investments, the RAB (Regulatory Asset Base) rose from €5.7 billion at the end of 2016 to almost €6.2 billion at the end of 2018.

1_Taking into account investees.

A significant portion of investments in the 2016-2018 three-year period (€500 million) was dedicated to innovation and digitisation of the network: today, almost 5 million1 smart meters have been installed (59.1% of our total area) and in 2018 alone we installed 1.8 million (including investees), with the aim of completing the replacement of all traditional meters in the first few months of 2020 (compared to 85% as at 31/12/2020 as the ARERA target). The digitised network - smart meters and sensor coverage - will mean that gas consumption can be measured and monitored more accurately, breakdowns and leaks prevented and maintenance works predictively managed, improving service efficiency and quality.

The digital transformation involves the entire Company, not just the network: in 2018 we launched and completed the Go2Cloud Project, migrating applications, all users and information services of the Group to the Cloud platform. Infrastructural flexibility, open innovation and cost optimisation are the main benefits from the decision to use the public Cloud, as well as enablers for a true digital transformation. November 2018 saw the launch of the Digital Factory, where people work in multifunctional teams to develop new "proprietary" IT solutions to simplify and digitise business processes.

THE ECONOMICS

In line with the 2018-2024 Plan, for the second consecutive year the Company made investments in 2018 of over €500 million, and despite the acquisitions (€215 million) and dividends paid (€168 million), the net financial position at the end of 2018 was around €3.8 billion, up slightly (approximately €90 million) compared to 2017. As a result of bond issues, the last of which was in January 2018, 85.6% of the total net financial debt is at fixed rate.

Careful operations management led to a cost saving of 3% compared to 2017 and 19% compared to 2016, despite the presence of a significant expansion in the scope of business, whilst net profit rose by 7.1% (compared to 2017) to €313.7 million.

The positive results achieved in the period, with earnings per share at 0.390[2], allow us - due to application of the new dividend policy announced last year - to propose the distribution of a dividend of 0.234 Eurocents per share, up 12.5% compared to the dividend distributed in 2018.

SUSTAINABLE DEVELOPMENT AND PROXIMITY TO THE COMMUNITY

Business success means not only achieving economic and financial results, but also acting responsibly towards a company's shareholders, stakeholders, context, environment and the communities in which it operates: Italgas has

2_Calculated on the *adjusted* net profit for 2018 of €315.5 million and considering the total number of shares equal to 809 million.

adopted its own Sustainability Plan, consistent with the Business Plan guidelines, that accepts the challenges of the Sustainable Development Goals (SDGs) promoted by the United Nations. Many actions of different kinds have been taken: environmental protection, commitment to the community, human capital development, lawfulness and transparency in everyday operations.

Again in 2018, Italgas was included in the FTSE4Good series of indices, in the DJSI World Enlarged index and was identified by the CDP (Carbon Disclosure Project) as among the best companies at international level for the strategies and actions adopted to combat climate change, achieving two further recognitions: entry for the first time in the ECPI Euro ESG Equity and ECPI World ESG Equity indices (EE assessment) and improved its rating (from A to AA) on the MSCI indices, without forgetting the UNI ISO 37001: 2016 "anticorruption" certification as the crowning achievement following a complex process.

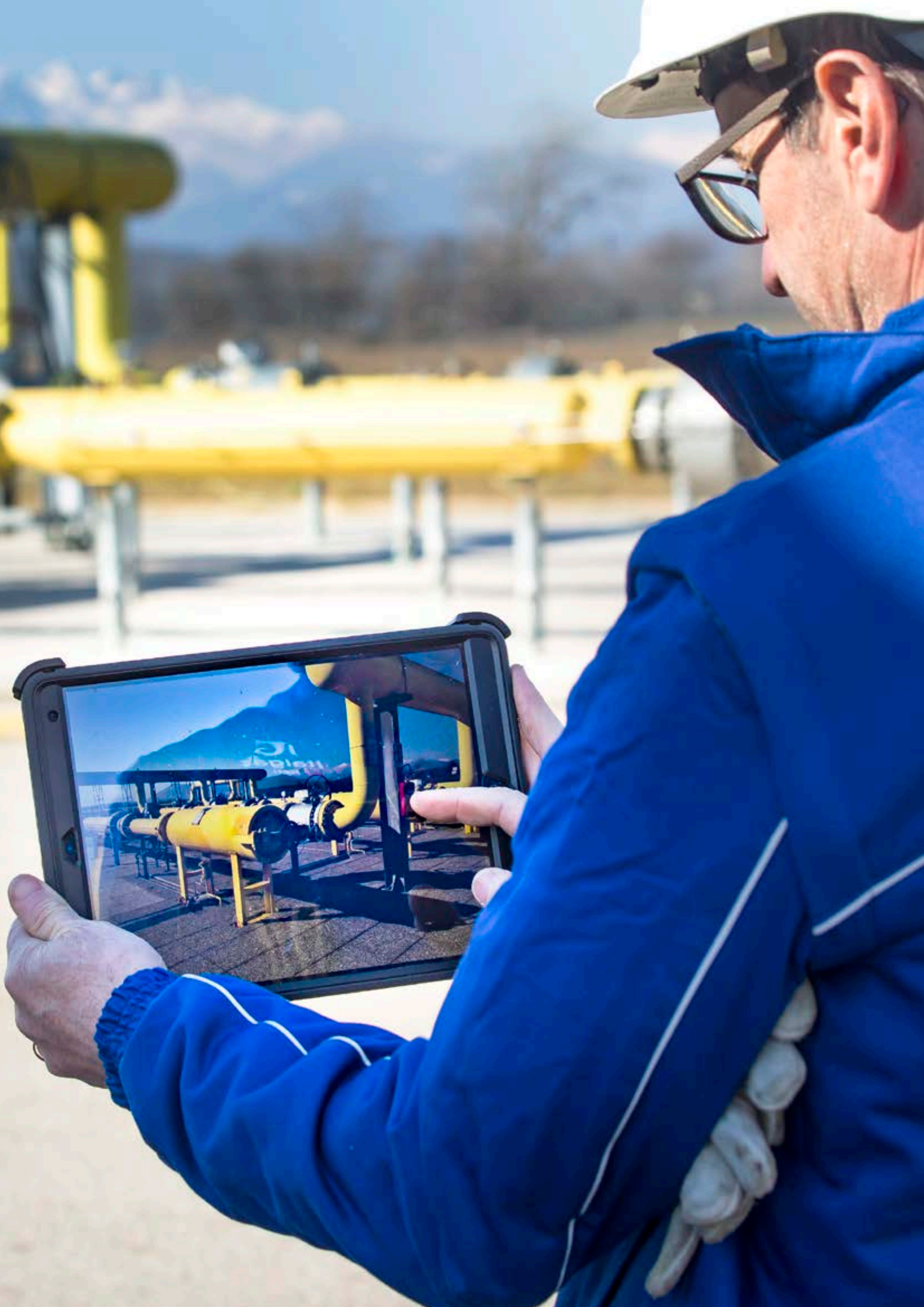
From its listing to date, Italgas has never stopped: the work and energy of all our people and the support of those who have believed in us and invested in the company, our Company has been consolidated, it has transformed and grown, and is now ready to face new challenges.

To you who have placed your trust in Italgas, to all our men and women striving daily for the Company's success, we offer our heartfelt thanks.

22 FEBRUARY 2018
FOR THE BOARD OF DIRECTORS

CHAIRMAN
Lorenzo Bini Smaghi

CHIEF EXECUTIVE OFFICER
Paolo Gallo



CONSOLIDATED HIGHLIGHTS

FINANCIAL HIGHLIGHTS[3]

- **EBITDA €839.5 million**, +8.2% compared to the 2017 result;
- **EBIT €453.5 million**, +8.5% compared to the 2017 result;
- **Net profit €313.7 million**, +7.1% compared to 2017;
- **Investments €522.7 million** (€521.9 million in 2017);
- **Cash flow from operating activities[4] €718.7 million**, +30.8% compared to 2017;
- **Proposed dividend** equal to **€0.234 per share** with a **12.5%** increase compared to the dividend paid in 2018.

3_Figures *reported*.
4_Net of effects deriving from IFRS 15 and 16.

OPERATING HIGHLIGHTS

- **1.8 million new smart meters** installed to replace traditional meters[5];
- **Distribution network** increased by 3,588 Km (of which 2,521 Km deriving from M&A transactions concluded in 2018);
- **Municipalities with gas distribution service concessions** rose to 1,700 (1,500 as at 31 December 2017), of which 1,614 operating (1,484 as at 31 December 2017) as a result of M&A transactions.

EBITDA +8,2%

839.5 €mn

EBIT+8.5%

453.5 €mn

NET PROFIT +7.1%

313.7 mn

INCREASE OF THE DISTRIBUTION NETWORK

+3,588 Km

MUNICIPALITIES IN CONCESSIONS +13.3%

1.700

5_Taking into account investees.

ITALGAS AND THE FINANCIAL MARKETS

After a first half that saw few changes, despite a context of volatility, with emerging trade tensions between the USA, EU and China offset by strong macroeconomic figures and the rise in oil prices, to their highest in around 4 years, the Eurozone stock markets recorded a significant decline in the second half of the year. This trend reflected the escalating trade wars and growing evidence of a global slowdown, with currency crises in the emerging markets and a distinct widening of the Italian sovereign spread, as well as a strong increase in US bond yields, to their highest in 7 years as a result of fears of accelerated normalisation of FED monetary policy. *Adjusted* for the dividend, the Euro Stoxx share index closed 2018 down by 12.1% compared to the end of 2017; amongst the main indices, with a decline of 18.3%, the Frankfurt DAX recorded the worst performance, due to exporting manufacturers' exposure to the trade wars and to the slowdown recorded by several emerging markets. Following on from this was the FTSE Mib (-13.7%), which after hitting its peak figures for around 10 years saw a strong decline from May onwards due to the widening sovereign spread.

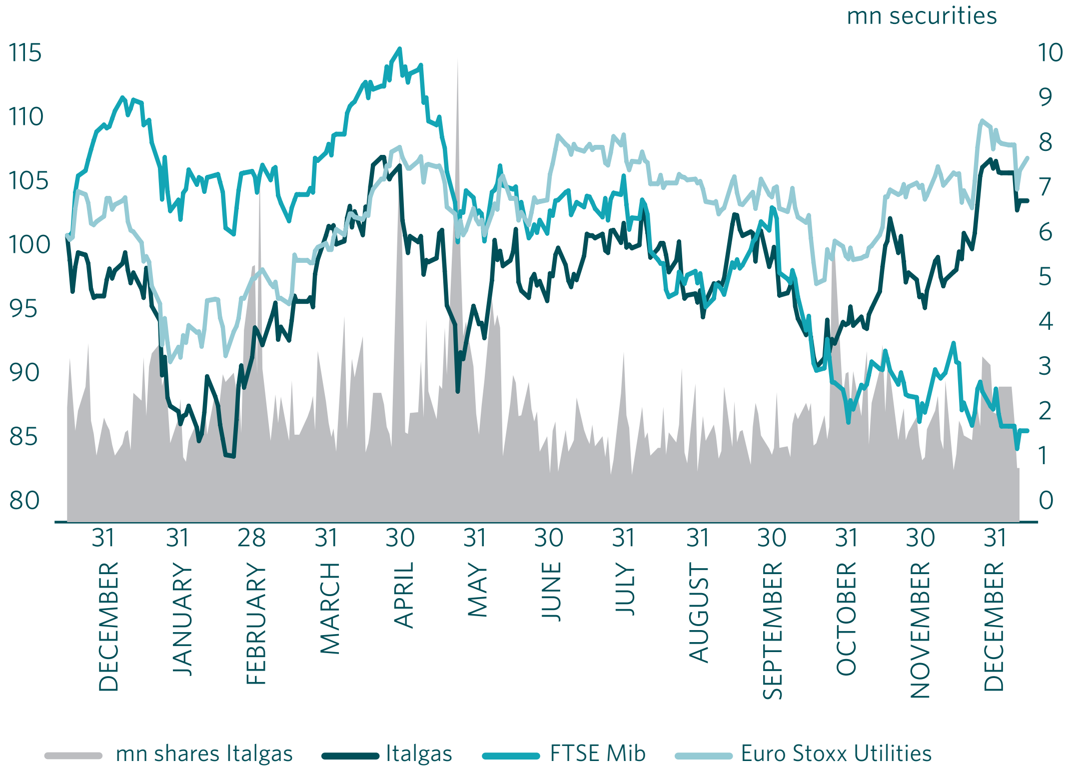
With a 5.4% increase, Euro Stoxx Utilities achieved the absolute best sector-specific performance, driven both by the defensive profile and forecasts of sector consolidation, with particular reference to Central European operators.

In this context, the Italgas share closed 2018 with a performance essentially in line with that of the sector and a TSR of 2.4%, taking into account the dividend of €0.208 per share paid on 21 May and a year-end price of €4.996, down 1.8% on the share price at the end of 2017 (€5.09).

During the year, the average daily trading volume of the Italgas stock on the electronic market of the Italian Stock Exchange was 2.3 million shares, with a greater concentration of trades in the first half of the year, particularly around the time of the announcement of the 2017 annual results, the first quarter results, the dividend payment and updating of the Strategic Plan.

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

(1 January 2018-31 December 2018, figures *adjusted* for dividends)



SHAREHOLDERS

The share capital of the Company as at 31 December 2018 consisted of 809,135,502 shares without par value, giving a share capital value of €1,001,231,518.44.

As at 31 December 2018, based on the shareholders' register, 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.

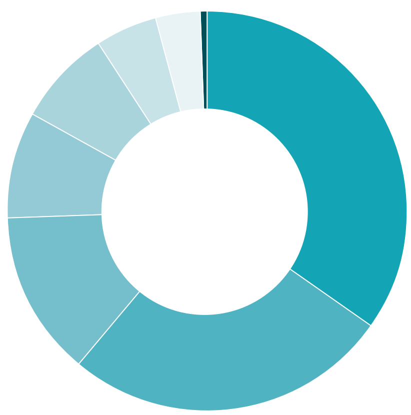
CONSOLIDATING COMPANY	REGISTRANTS	% OWNERSHIP
Italgas S.p.A.	CDP Reti S.p.A. (*) (**)	26.05
	Snam S.p.A.	13.50
	Lazard Asset Management Llc	8.71
	Romano Minozzi	4.99
	Blackrock Inc.	4.16
	Other Institutional Investors (***)	34.99
	Retail shareholders	7.6

(*) 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.

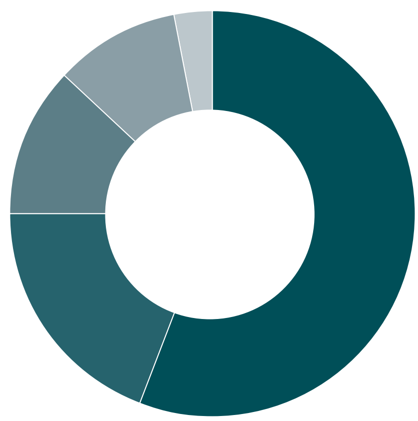
(***) Including the Bank of Italy with a holding of 0.46%.

ITALGAS SHAREHOLDERS BY TYPE OF INVESTOR



Other Institutional Investors	34.53%
CDP Reti S.p.A.	26.05%
Snam	13.50%
Lazard Asses Management Llc	8.71%
Retail Investors	7.6%
Minozzi	4.99%
Blackrock Inc.	4.16%
Bank of Italy	0.46%

SHAREHOLDERS BY GEOGRAPHICAL AREA



Italy	56.0%
USA and Canada	19.3%
Continental Europe	11.9%
Uk and Irlanda	10.0%
Rest of the World	2.7%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C0676

THE ITALGAS GROUP

OVERVIEW OF ITALGAS

Italgas is the leader in Italy in the industry of natural gas distribution and is the third largest operator in Europe. In particular, with over 4,000 staff, Italgas and its investees manage a network spanning a total of almost 70,000 kilometres and serving over 7.5 million users. The current market share is a little over 34%.

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.

Italgas is subject to regulation by the Italian Regulatory Authority for Energy, Networks and Environment (also referred to as the Authority or ARERA), which defines both how to conduct the service and the rates for distribution and metering.

Gas distribution is traditionally carried out under concession by awarding the service on a municipal basis. In 2011, four ministerial decrees were adopted to reform the regulations regulating the sector. Specifically, a special decree established 177 minimum geographical areas ("ATEM") based on which the new concessions should be awarded.

The gas distribution service is performed by transporting the gas on behalf of authorised sales companies for marketing to end customers.

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

180 YEARS OF ITALGAS HISTORY

Italgas
da 180 anni il calore che ci unisce

1837 - The founding

The history of Italgas is identified with that of the gas industry in Italy that began in Turin in 1837 with the establishment of the Società Anonima Compagnia di Illuminazione a Gaz della Città di Torino. In 1851, when the Turin Stock Exchange opened, the Company's stock was one of the 7 "Private funds" allowed to be listed. In 1863, immediately after the unification of Italy, the company changed its name and took the name of Società Italiana per il Gaz.

1900 - The expansion

1900 marked its entrance into the Milan Stock Exchange. The spread of electricity instead of gas for public lighting impelled the company to seek new business opportunities in homecare applications, beginning with cooking and then heating and hot water. In the 1920s, a large acquisition programme was launched for majority packets of gas companies operating in some Italian cities, including Venice (1924), Rome (1929) and Florence (1929), with the goal of creating a large industrial group.

1967 - Entrance into Eni

The stock packet that ensured the control of Italgas was acquired by Eni, even then one of the largest energy groups in the world. With the progressive confirmation of natural gas and the development, starting from the 1970s, of import pipeline networks, the company has focussed on delivering new city networks and the modernization of existing ones, taking a leading role in developing the country's natural gas supply. In 2003, as part of a reorganization process, Eni delisted the Italgas stock from the stock market.

2009 - Italgas is acquired by Snam

Snam collected Eni's entire stake in Italgas as part of an operation aimed at creating an integrated group to safeguard all the regulated activities of the natural gas sector, from transport to storage, from urban distribution to regasification.

2016 - Separation from Snam and return to the Stock Exchange

On 7 November 2016, with the completion of the operation of the Snam Group's industrial reorganisation, the Italgas stock went back to being listed on the FTSE MIB index of the Italian Stock Exchange.

2017 - 180 years of Italgas history celebrated

On 12 September 2017 Italgas celebrated 180 years of business: a milestone not only for the company, but for an entire industrial segment and for the whole country, for which the company has developed a fundamental service, i.e. gas distribution, changing Italians' habits forever. The 180 years of history are celebrated in a book written by the historian Valerio Castronovo, edited by Laterza for the "Grandi Opere" series, and with events held in four cities: Turin, Milan, Rome, Naples.

SUMMARY FIGURES AND INFORMATION

MAIN EVENTS

THE CONSOLIDATION PROCESS: EXTRAORDINARY AND M&A TRANSACTIONS

Italgas Acqua was established on 1 January 2018 after the successful proportional partial demerger of Italgas Reti to a newco through assignment to the latter of the "former Napoletanagas water business unit" became effective.

On 26 January 2018, **the acquisition of the Amalfitana Gas business unit was finalised** for natural gas distribution activities in three ATEMs in Campania and Basilicata. The total Amalfitana Gas assets acquired include 12 concessions in the municipalities of Somma Vesuviana, Viggiano, Baronissi, Calvanico, Pellezzano, Fisciano, Siano, Oliveto Citra, Contursi Terme, Montesano sulla Marcellana, Monte San Giacomo and Atena Lucana, with an operations network spanning around 330 kilometres and serving over 22,000 users. The value of the transaction was €20.8 million.

On 31 January 2018, **the acquisition of the AEnergia Reti business unit was finalised**, relating to the distribution network serving the municipality of Portopalo di Capopassero (Syracuse). The AEnergia Reti business unit acquisition involved a network, completed but not yet operative, that spans around 35 kilometres and serves a potential customer base of 1,400. The amount paid was €2.2 million.

Implementing the binding agreement signed on 8 November 2017, on 28 February 2018 **100% of the share capital of Ichnusa Gas was acquired**, a holding company with control of 12 companies granted concessions for the installation and operation of gas distribution networks in 74 municipalities in Sardinia, from CPL Concordia and Impresa Costruzioni Ing. Raffello Pellegrini S.r.l. The enterprise value of Ichnusa Gas was established at €26.2 million. As at the acquisition date, 2 of the 12 concessions were provisionally operating with the first customers served with LPG, whilst the remaining 10 refer to networks under construction and to be implemented for a total investment forecast at over €170 million, partially financed from regional public grants.

The **acquisition was finalised** on 13 March 2018 of **100% of Seaside**, one of Italy's largest Energy Service Companies (ESCos), leader in the provision of digital services as a result of its expertise in the fields of Big Data, Business Intelligence and Machine Learning. The enterprise value of Seaside assets was established at €8.5 million. **White 1**, 100% owned by Seaside, was merged into the latter with accounting and tax effects from 1 January 2018.

The **acquisition was finalised** on 6 April 2018 of **100% of Medea**, an LPG distribution and sales company in the Municipality of Sassari, currently serving around 13,000 customers in a potential catchment area of almost 30,000 users and, on average, distributing an LPG volume of over 5 million cubic metres. The total value of the transaction was €24.1 million.

The **merger was finalised** on 1 May 2018 of **Enerco Distribuzione** and **SGS** into Italgas Reti, effective for accounting and tax purposes from 1 January 2018.

On 31 May 2018, the **acquisition from CPL Concordia was finalised for a 98% controlling interest in the capital of each of the 6 companies operating in Southern Italy**, concession holders for the construction and management of gas networks in 16 municipalities, 4 of which already in operation. The companies involved are Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti. The total value of the assets involved in the transaction was established at €17 million. The total investment to create the networks amounts to around €95 million, partially financed by public grants. Works already carried out to date total €32.5 million, gross of grants receivable.

The **merger of Acam Gas** into Italgas Reti was **finalised** on 1 June 2018, effective for accounting and tax purposes from 1 January 2018.

The **acquisition was finalised** on 27 November 2018 **of the remaining 2%** of share capital of the companies Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti.

Purchase of the following from CPL Concordia **was finalised** on 30 November 2018:

- a **60%** controlling interest in **European Gas Network** (hereinafter also **EGN**), a company which through the subsidiaries EGN Distribuzione, Ischia Gas and Marigliano Gas indirectly managers around 60,000 users and 37 gas distribution concessions in Sicily, Calabria and Campania;
- **100% of Naturgas**, manager of the methane gas distribution service in San Giuseppe Vesuviano (NA), serving around 2,700 users;
- **100% of Fontenergia**, distribution service concession holder in Bacino 22, Sardinia region, with over 7,000 users temporarily served with LPG.

  The total value of the companies was established as €116 million. Therefore, in proportion to the percentage acquired and net of financial debt, the amount paid on CPL Concordia on closing was €43.5 million for 60% of EGN capital and €2.5 million for 100% of Fontenergia and Naturgas capital.

The EGN acquisition arrangements envisage a put & call option on the residual interest of 40% held by the seller, exercisable from the 6th month after the closing date of the transaction and at the same price per share defined at closing for the 60%, less the total dividends distributed by the company.

On 12 December 2018, effective for accounting and tax purposes from 1 January 2018, the **merger of Ichnusa Gas into Medea** was **finalised**.

Merger procedures were **launched** in December 2018 regarding (i) companies of the Ichnusa Group and Fontenergia into Medea and (ii) Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti, Siculianagas Reti and Naturgas into Italgas Reti. The transaction should be completed in the first few months of 2019, effective for accounting and tax purposes from 1 January 2019.

On 28 December 2018, **a binding agreement was signed with the CONSCOOP Group** for the purchase of equity investments and business units including 19 gas distribution concessions and over 50,000 delivery points concentrated in the South-Central areas of Italy and in Sardinia.

The agreement mainly refers to:

- the **business unit of Aquamet S.p.A.**, including amongst others 9 natural gas distribution concessions in a number of municipalities in Lazio, Campania, Basilicata and Calabria, serving a total of 23,800 users;
- **100% of Mediterranea S.r.l.**, holder of 6 natural gas distribution concessions in the province of Salerno, serving around 3,600 users;
- the **business unit of Isgas Energit Multiutilities S.p.A.**, holder of gas distribution concessions in the Sardinian municipalities of Cagliari, Nuoro and Oristano, for a total of around 22,300 users served at present with LPG.

The enterprise value was established at around €68.6 million.

In addition, Italgas will acquire 10% of the share capital of **Isgastrentatrè S.p.A.**, holder of the Bacino 33 gas distribution concession in Sardinia, with a commitment to take the remaining 90% if certain conditions are satisfied, including the conversion to natural gas of the network currently powered by LPG. If not, Italgas will have the right to resell and CONSCOOP the obligation to buy back the 10% interest at a price equal to the purchase price.

ANTICORRUPTION CERTIFICATION

On 24 December 2018, Italgas and Italgas Reti obtained UNI ISO 37001:2016 “anticorruption” certification issued by the independent body, DNV-GL. This voluntary certification procedure called for a long and accurate audit of the management system for preventing and fighting corruption and recognised the soundness of a business model inspired by principles of integrity, sustainability and transparency in relations with all stakeholders.

DIGITISATION OF THE CORPORATE NETWORKS AND PROCESSES

In the current growth context, 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 2018, Italgas migrated its Group applications, users and services to the Cloud platform (Microsoft Azure). The Go2Cloud Project, in fact, completed the migration to this platform of 3,600 users (internal and external), over 2,500 workstations and more than 2,500 mobile devices (tablets and smartphones), all the IT and telecommunications services and almost all the applications map, with the migration of more than 70 applications on around 1,000 virtual servers.

However, Italgas has not limited its actions just to this important and complex step. In November 2018, Italgas launched its Digital Factory which already sees dozens of our resources involved in multifunctional teams that will develop new IT solutions for the transformation of business processes. In 2019, the Digital Team will be expanded and the Digital Factory, a real innovation factory, will become the driver for business process digitisation, improving and innovating the services offered.

In 2018, Italgas strengthened its partnerships with the leading Italian universities (Turin Polytechnic, MIP Polytechnic in Milan, Università Commerciale Luigi Bocconi, Libera Università Internazionale degli Studi Sociali Guido Carli “Luiss”) to promote and develop specific business needs-related initiatives in the areas of management, digital transformation and continuous improvement.

For the digital transformation, €800 million have been allocated to investments (digitisation of the network and processes), a project that will generate major improvements in terms of infrastructure management, efficiency and quality of service, strengthening the sector leadership in Italy and Europe.

OPTIMISATION OF THE DEBT STRUCTURE AND EMTN PROGRAMME

On 30 January 2018 Italgas successfully arranged the reopening of €250 million of the previous bond issue of 18 September 2017 (€500 million, maturing 18 January 2029 and with a coupon of 1.625%). The secondary market performance of the original issue allowed an improvement of the reopening terms compared to that issue, with a 58 bps spread on the mid-swap rate compared to the original 72 bps.

January 2018 also saw the finalisation of an Interest Rate Swap transaction maturing in 2024, used to transform the entire EIB loan for the Gas Network Upgrade amounting to €360 million from floating rate to fixed rate.

On 5 November 2018, the Board of Directors of Italgas resolved to renew the EMTN Programme, launched in 2016 and later renewed in 2017, for a maximum nominal value of €3,500 million. The Board also authorised the issue, by 4 November 2019, of one or more bond loans to be placed with institutional investors, provided that the total bonds outstanding does not exceed the aforementioned maximum.

On 23 October 2018, following the downgrading announced by Moody's Investor Services of Italian government bonds to Baa3 with stable outlook from Baa2, a corresponding action was adopted by the agency also on the Company's long-term rating, lowered to Baa2 with stable outlook from the previous Baa1, in consideration of its attributed link to the sovereign credit rating.

Moody's Investor Services have emphasised that the strategic position of Italgas, its leadership in the gas distribution sector in Italy and its fully-regulated revenue, together with a sound liquidity position and limited exposure to financial market volatility, have led to positioning the Company's rating at a notch higher than that of sovereign debt.

KEY FIGURES

In order to allow for a better assessment of economic and financial performance, the Directors' Report includes the reclassified financial statements and certain alternative performance indicators, including 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

		2017	2018
Number of shares of share capital	(million)	809	**809**
Number of shares outstanding as at 31 December	(million)	809	**809**
Average number of shares outstanding during the year	(million)	809	**809**
Year-end official share price	(€)	5.11	**4.99**
Official average price per share for the year	(€)	4.51	**4.80**
Market capitalisation (a)	(million)	4,135	**4,036**

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

KEY FINANCIAL FIGURES

(€ MILLION)	2017	2018
Total revenue (*)	1,124.2	**1,176.2**
EBITDA (**)	**776.2**	**839.5**
Adjusted EBITDA (**)	781.2	**842.0**
EBIT (**)	**417.9**	**453.5**
Adjusted EBIT (**)	422.9	**456.0**
Net profit	**292.8**	**313.7**
Adjusted net profit (**)	296.4	**315.5**

(*) Revenue from the construction and upgrading of distribution infrastructure entered in accordance with IFRIC 12 and recognised in an amount equal to the costs incurred (€447 million and €479.7 million respectively in 2018 and 2017) is shown as a direct reduction of the respective cost items.

(**) The *reported* and *adjusted* versions of EBITDA and EBIT, and the *adjusted* net profit, are not measures allowed by IFRS. For their calculation, reference should be made to the chapter "Non-*GAAP Measures*" in this report.

(€ MILLION)	31.12.2017	31.12.2018
Net invested capital as at 31 December	4,905.9	**5,193.5**
Shareholders' equity	1,185.6	**1,329.3**
Net financial debt (***)	3,720.3	**3,814.3**
Finance lease payables - IFRS 16		**49,9**

(***) As at 31 December 2018, the net financial debt does not consider liabilities of €21.0 million payable to CPL Concordia, composed of shareholder loans disbursed by CPL Concordia to EGN, which will be repaid by Italgas on exercise of the put&call option, in that these are considered part of the purchase price settlement and financial debts pursuant to IFRS 16 for €49.9 million. In the consolidated financial statements notes, in compliance with Consob Communication no. DEM/6064293 of 28/7/2006, the net financial debt includes the effects pursuant to IFRS 16 and the payable to CPL Concordia.

OPERATING PERFORMANCE

The main operating figures of the Italgas Group in 2018 are shown below.

INVESTMENTS

In 2018 technical investments were made for €522.7 million (2017: €521.9 million; +0.1%), of which €22.4 million due to the adoption of IFRS 16.

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Distribution	**253.2**	**278.5**	**25.3**	**10.0**
Network maintenance and development	*216.4*	***248.7***	*32.3*	*14.9*
New networks	*36.8*	***29.8***	*(7.0)*	*(19.0)*
Metering	**229.5**	**178.8**	**(50.7)**	**(22.1)**
Other investments	**39.2**	**65.4**	**26.2**	**66.8**
- of which the effect of IFRS 16		*22.4*	*22.4*	
	521.9	**522.7**	**0.8**	**0.1**

Investments in distribution (€278.5 million) mainly related to development projects (network extensions for €63.8 million and new networks for €29.8 million) and the renovation of old sections of pipe (including the replacement of cast-iron pipes with hemp and lead joints totalling €38.9 million for 45.7 Km). Investments for the network digitisation project were also recorded (€6.3 million) relating to GRF remote-read works.

Investments in metering (€178.8 million) relate essentially to the plant to replace traditional meters with smart meters as part of the remote meter reading project. The Company installed around 1.65 million new meters in 2018, of which 1.5 million to replace traditional meters and approximately 150 thousand to repair faulty smart meters, bringing the total to around 4.4 million, equal to 58.6% of the total meters installed. The decrease in metering investments is partly associated with the decrease in unit costs for meter installation. Considering investees, 1.8 million were installed to bring the total to around 5 million, equal to 59.1% of all remote-read meters.

Other investments (€65.4 million) refer mainly to IT, property and vehicle investments (the effect of adoption of IFRS 16 is around €22.4 million), and to water service investments for €1.6 million.

KEY OPERATING FIGURES

	2017	2018	ABS. CHANGE	CHANGE %
Active meters (million)	6.586	**6.708**	0.12	1.9
Municipalities with gas distribution concessions (number)	1,500	**1,700**	200.0	13.3
Distribution network (kilometres) (a)	57,773	**61,361**	3,588	6.2

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

MUNICIPALITIES IN CONCESSION AND LOCAL AREA TENDERS[6]

As at 31 December 2018, Italgas was the gas distribution service concession holder in 1,700 municipalities (1,500 as at 31 December 2017), of which 1,614 operating (1,484 as at 31 December 2017).

In January 2018 Italgas finalised acquisitions of the gas distribution business units of two companies operating in Southern Italy: Amalfitana Gas and AEnergia Reti. With the acquisition of these business units, Italgas acquired the concessions of 13 municipalities in Campania, Basilicata and Sicily, of which 10 are in operation.

In addition, in 2018 Italgas acquired Ichnusa Gas[7], Medea[8], Grecanica Gas, Progas Metano, EGN, Naturgas and Fontenergia for a total of 118 municipalities in concession with operating networks.

2018 saw the start-up of the concessions for Colosimi (CS), Santo Stefano di Camastra (ME), Porto Palo di Campo Passero (SR), Condofuri (RC) and Palizzi (RC), whilst three concessions in the Veneto region and two concessions in the Calabria region have been grouped into two separate municipalities.

The following map shows the presence of the Italgas Group in Italy as at 31 December 2018.

6_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”.
7_LPG distribution and sales companies.
8_Propane-air mix distribution and sales company.

In 2018, Italgas, present in 114 ATEMs (Minimum Geographical Areas), continued its activities of preparing and transmitting to the Local Authorities and/or Contractors the information and documentation provided by law, preparatory to offering tenders (Articles 4 and 5 of Ministerial Decree No. 226/11). In this context, activities were continued to achieve the approval for the repayment amounts owed to Group companies.

As a result of the regulatory framework that provides for awarding gas distribution services by geographical area tenders (and not by individual municipality), as at the end of 2018 25 local tender notices had been published.

Of the 25 ATEM tenders:
- TORINO 3 – Sud Ovest, MASSA CARRARA, BIELLA and CREMONA 2 – Centro and CREMONA 3 – Sud, (the last two aggregated) have been suspended by the Contractors;
- VENEZIA 1 – Laguna Veneta and ALESSANDRIA 2 – Centro were cancelled by the Veneto and Piedmont Regional Administrative Courts, respectively;
- MONZA E BRIANZA 2 – Ovest and LUCCA have been revoked;
- MILANO 1 – Città e Impianto di Milano was officially awarded to UNARETI on 5 September 2018;
- TORINO 2 – Impianto di Torino is pending award as at 31 December 2018.

Of the 25 tenders published, nine were sent to the Authority, as envisaged in **Ministerial Decree no. 226/2011**, plus a further six sent to the Authority but not yet published (ROMA 1 – Città e Impianto di Roma, FORLI' – CESENA, GENOVA 1 – Città e Impianto di Genova, TORINO 1 – Città di Torino, Modena 1 – Modena 1 Nord and the aggregated Firenze 1 – Città Impianto di Firenze and Firenze 2 Provincia).

Lastly, in two Calabria ATEMs, the Regional Government has enabled the substitution powers envisaged by law, appointing an *ad acta* commissioner.

As regards the tender for the award of ATEM TORINO 2 (around 190 thousand delivery points in 48 municipalities in the area surrounding the Piedmont capital), the only bid submitted and accepted for consideration, as it matches the requirements envisaged in the tender, is that of Italgas. In December 2018, the Contractor informed Italgas of the successful completion of the fairness analysis of the bid by the Awarding Committee and the total score achieved, requesting a series of administrative documents preliminary to the final award.

In relation to award of the Belluno ATEM gas distribution services tender (roughly 45 thousand delivery points in 74 municipalities), Italgas submitted its bid on 1 September 2017. One of the other operators bidding in the tender filed an appeal, effectively blocking the tender. The appeal was rejected by the Veneto Regional Administrative Court, a decision later upheld by the State Council decision of 18 October 2018, published on 21 January 2019.

Furthermore, on 28 September 2018, Italgas submitted its bid in relation to the tender for award of the Valle D'Aosta ATEM, which includes the entire area of the Region (roughly 20 thousand delivery points in 74 municipalities), many of which not yet converted to natural gas.

One of the bidding operators has filed an appeal for cancellation of the tender. The appeal was rejected by the Valle D'Aosta Regional Administrative Court with decision dated 14 November 2018, published on 18 December 2018.

Decision no. 4104/2018 was filed on 4 July 2018, by which the State Council rejected the appeal brought by Italgas Reti against decision no. 654/2017 pronounced by the Veneto Regional Administrative Court, confirming the acquisition free of charge in favour of the Municipality of Venice of assets included in "block A", as well as the Company's obligation to pay a fee for use of the portion of network devolved free of charge. The Company has filed a claim for repeal of the decision of 4 July 2018 with the State Council and with the European Court of Human Rights (ECHR).

With Resolution no. 494/2018/E/gas of 9 October 2018 - "Closure of the investigation into investments of regulated companies pursuant to Authority resolutions 177/2016/E/gas and 220/2017/R/gas, in relation to data and information *reported* to the Authority by Italgas and Napoletana Gas", the Authority approved the closing report of the investigation involving resolutions 177/2016/E/gas and 220/2017/R/gas, relating to the verification of data and information on the investment costs *reported* by Italgas Reti and Napoletana Gas for recognition in the gas distribution tariffs. This investigation envisaged that specific studies should be conducted on:

- the capitalisation of public land occupancy costs (COSAP) for the Municipality of Rome, in relation to investments declared to the Authority from 2009 to 2013;
- the fairness of the economic and capital valuation of the gas distribution network, with specific regard to sections of the network *reported* by the Judicial Administrators of Italgas;
- the accuracy of information provided to the Authority for the purpose of incentive mechanisms envisaged in the Regulation of the Quality of Service for Gas Distribution, with particular reference to service obligations.

The Authority summarily announced that the following emerged from the investigation conducted:

- with reference to the years 2009 and 2010, the investigation confirmed the situation already outlined as part of the investigation closed with Resolution no. 520/2014/E/gas, against which the company filed an appeal, pending finalisation, before the Lombardy Regional Administrative Court;
- similar assessments of the inadequacy of support material provided by the Company were made in reference to COSAP only for the years 2011-2013;
- with regard to the areas *reported* by the Italgas technical consultant, where constructive critical issues were raised the Company carried out specific works to ensure compliance of the areas with primary technical regulations;
- lastly, in acknowledging the statements provided by Italgas on the safety of the networks in those areas, the Authority pointed out that the Company has implemented specific monitoring actions (intensification of the scheduled leak detection searches and odourising level measurements). The technical controls carried out by the Authority in certain local areas covered by the investigation have not found any non-compliant odourising levels.

Resolution no. 494/2018/E/gas of 9 October 2018 was challenged before the Regional Administrative Court with additional reasons to the main appeal filed against Resolution no. 520/2014/E/gas, limited to provisions concerning the non-recognition of extra remuneration of investments for the years 2009 and 2010, as part of the appeal.

AS AT 31 DECEMBER 2018, THE NUMBER OF ACTIVE METERS AT DELIVERY POINTS AMOUNTED TO €6.7 MILLION.

With decision no. 588/2019 of 24 January 2019, the State Council pronounced on a similar case relating to the devolution free of charge of a portion of a network relating to the existing concession with the Municipality of Cavallino-Treporti. In fact, Italgas manages the public natural gas distribution service in the aforementioned Municipality under the terms of concession agreements at the time accepted by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino-Treporti was established in 1999 as a spin-off portion of the geographic area already falling within the Municipality of Venice. With the aforementioned decision, the State Council sanctioned the free-of-charge acquisition in favour of the Municipality of Cavallino Treporti of assets included in Block A, as well as the Company's obligation to pay a fee for use of the portion of network devolved free of charge.

The Company has filed a claim for repeal of the decision of 24 January 2019 with the State Council and will also file a claim before the European Court of Human Rights (ECHR). Note that - in this case, too - that, also against a claim for fees from the Municipality of Cavallino Treporti equivalent to remuneration of the Block A assets, in the absence of specific reference regulations, to date it is not possible to reliably determine the extent of the liability.

GAS DISTRIBUTED

As at 31 December 2018 Italgas had distributed 7,873 million cubic metres of gas (7,767 million cubic metres in 2017) through 323 marketing companies (284 in 2017). Also taking into account the investees, the gas distributed in 2018 totalled 9,098 million cubic metres.

DISTRIBUTION NETWORK

The gas distribution network as at 31 December 2018, covered 61,361 km (57,773 km as at 31 December 2017), an increase of 3,588 km compared with 31 December 2017. Also taking investees into account, the distribution network spans 69,782 kilometres.

METERS

As at 31 December 2018, the number of active meters at delivery points amounted to 6.708 million (6.586 million as at 31 December 2017). Also considering investees, the total number of active meters is 7.562 million.

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).

With **Resolution no. 669/2018/R/gas of 18 December 2018**, new obligations were defined for the installation of G4-G6 smart meters (which account for 97.8% of the total meters). Resolution 669/2018 establishes in particular that a minimum level of 85% must be achieved by the end of 2020 by distributors with over 200 thousand customers, by the end of 2021 for those with between 100 and 200 thousand customers and by the end of 2023 for those with 50 to 100 thousand customers. The Regulator has instead postponed to a later measure the obligations for distributors with under 50 thousand customers and for distribution companies that acquire distribution networks from operators not subject to the obligations.

In order to comply with this obligation, the Italgas Group arranged the replacement of 1.5 million meters in 2018, bringing the total smart meters to 58.6% of the total meters installed. Also considering investees, 1.8 million were installed to bring the total remote-read meters to 59.1%.

ENERGY EFFICIENCY - WHITE CERTIFICATES

The energy efficiency improvement goal for end use in Italy was mainly implemented through the Energy Efficiency Certificates mechanism (TEEs or White Certificates). These certify the achievement of energy savings in the end uses of energy obtained through energy efficiency projects and actions, assessed and approved by the GSE (Energy Services Operator).

The Energy Efficiency Certificates mechanism was established by the Industry Ministry, in concert with the Ministry for the Environment and the Protection of Land, through Ministerial Decree dated 20 July 2004, later amended and integrated by the Ministerial Decrees of 21 December 2007, 28 December 2012, 11 January 2017 and, most recently, 10 May 2018, published in the Official Gazette of the Italian Republic on 10 July 2018.

This regulation was introduced to guarantee market stability, following the performance of Energy Efficiency Certificate trading recorded in 2017, which drove certificate prices to an all-time high of 480.00 €/TEE. Legislator action was therefore necessary to make it possible, or in any event encourage, the targeting of energy efficiency objectives by electricity and gas distribution companies and to limit the continuous increase in prices.

The Ministerial Decree of 10 May 2018 also redefined the operating and technical methods for obtaining Energy Efficiency Certificates and introduced important new aspects to the mechanism, in particular it:

a) set a cap on recognition of the final contribution of 250.00 €/TEE, valid from 1 June 2019 to 31 May 2020;
b) established that the final contribution would be equal to the weighted average of trade prices on the market organised by the GME (Energy Markets Operator) in the reference year (1 June year n to 31 May year n+1) and of prices in bilateral agreements, if lower than 250.00 €/TEE. However, as the latter are not always true and reliable, given that they are associated with collateralisation in the energy services sector (multiple services covered by the contract, indexing of the contract to various benchmarks, recourse to prepayment mechanisms, etc.), they could affect the average market value of certificates, causing a decrease in the contribution to below the limit of €250.00 to the detriment of obliged entities;
c) introduced the short selling of certificates by the GSE. In particular, from 15 May each year and until the end of the reference year, the GSE is authorised - at the request of obliged entities - to release Energy Efficiency Certificates not resulting from the implementation of energy efficiency projects, with a unit value equal to the difference between €260.00 and the final contribution amount for the relevant year. In any event, this amount cannot exceed €15.00. All or part of the potential loss can be recovered in the obligation years thereafter. Before accessing this mechanism, however, obliged entities have to purchase at least 30.0% of the mandatory volume of Energy Efficiency Certificates in the relevant year, regardless of the certificates' trading price. In fact, the purchase price of these certificates can be higher than the limit of 260.00 €/TEE, thereby causing significant economic loss to the distribution companies;
d) defined that if a distributor achieves a purchase rate of below 100%, but of at least 60%, it can offset the residual percentage over the next two years, rather than only in the following year, without incurring penalties;
e) introduced around 30 new planning measures.

To date, the new regulations introduced by the Ministerial Decree and the ARERA Resolution have not helped to solve the numerous critical issues which, in recent months, have characterised the EEC mechanism. The stock exchange even now lacks liquidity, so much so that in the period 1 June-31 December 2018 the volume traded was 1,502,268 Energy Efficiency Certificates (-56% compared to the same period of 2017), whilst the price trend was rising with a period average of 257.22 €/TEE. In addition, the restrictions placed on the inclusion of bilateral agreements in relation to calculation of the contribution, as well as the lack of transparency in terms of their financial regulation, it is presumed there will be a distortion effect in the reference contribution calculation, taking it to below the limit of €250/TEE.

For these reasons, Italgas filed an appeal against the Ministry for Economic

Development (MISE) and the Ministry for the Environment and the Protection of Land and Sea (MATTM) for the cancellation of:

- art. 1, paragraph 1, letter f) of the aforementioned Decree, which envisages that cost coverage is performed using methods defined by the ARERA to such an extent as to reflect the price trend for white certificates, also taking into consideration bilateral agreements;
- art. 1, paragraph 1, letter i), which envisages a blocking limit of 30% on the number of certificates held by distributors - in reference to the volume of certificates subject to the minimum obligation for the current year - for access to the short buying mechanism.

In addition, Italgas filed an appeal for cancellation of **ARERA Resolution no. 487/2018/R/EFR of 27 September 2018**, containing the definition of the contribution to cover costs incurred by electricity and natural gas distributors subject to obligations in relation to the energy efficiency certificates mechanism.
As at 31 December 2018 there were no updates on either appeal.

The Authority defined the national energy efficiency annual quantitative obligations of natural gas end users to be achieved in 2018 by distributors with more than 50,000 end users connected to its distribution network as at 31 December 2016 through **resolution 1/2018 - DMRT of 29 January 2018**.

Italgas's quantitative obligation for 2018 was 836,317 certificates.

In 2018 as a whole, the Italgas Group mandatorily purchased 718,847 Energy Efficiency Certificates for an outlay of €217.9 million. On 31 May 2018 it cancelled 533,430 certificates and collected €166.1 million, then collected a further €86.9 million in relation to the 2017 price adjustment. Italgas also collected a further €37.8 million in the interim cancellation session of 30 November 2018.

With **decision DSAI/13/2018/EFR of 7 February 2018**, the Authority also opened enforcement proceedings against Italgas Reti to ascertain violation of Art. 13, paragraph 3 of Italian Ministerial Decree of 28 December 2012 on the subject of Energy Efficiency Certificates for 2016.

The note of GSE dated 17 August 2017 that was sent to the Authority states that Italgas Reti sent 453,030 Energy Efficiency Certificates (out of a total of 1,083,345), equal to about 41.82% of its specific target for the year 2016, therefore being partially in default (by 18.18% of the 2016 target, equal to 196,977 EECs) compared to the minimum required quota of 60% for that year[9].

The purchase in 2018 of 100% of Seaside, one of the leading Italian ESCos (Energy Service Companies), with its own portfolio of Energy Efficiency Certificates and capable of accepting a pipeline of new projects to generate new certificates in future years, allowed the entry of Italgas into the energy efficiency sector. In particular, the ESCo joining the Italgas Group is a company able to plan and implement energy savings initiatives, self-financed or financed by third parties, accepting responsibility for the result in compliance with the service level agreed with customers.

9_Further information is provided in note 25, "Disputes and other measures" in the Notes to the consolidated financial statements.

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.

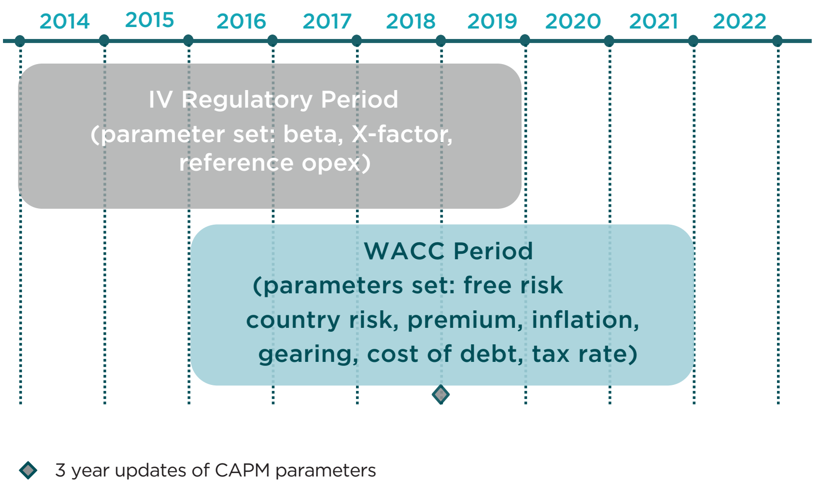
The rate system establishes in particular that the reference revenue for the formulation of rates is determined so as to cover the costs incurred by the operator and allow for a fair return on invested capital. Three cost categories are recognised:

- the cost of net invested capital for RAB (Regulatory Asset Base) purposes through the application of a rate of return;
- economic and technical depreciation, covering investment costs;
- operating 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 RAB of the companies included in the scope of consolidation, resulting from application of the criteria adopted by the Authority in the definition of the reference rates for 2018, is equal to almost €6.2 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 approach for the valuation of local invested capital is based on the revalued historical cost method, while for investments relating to electronic meters, the standard cost method applies;
- the benchmark approach is applied in the assessment of centralised invested capital relating to property and industrial buildings and other tangible and intangible assets;
- for centralised assets relating to remote management systems, there is a tariff recognition of remote metering/remote management costs and costs relating to concentrators incurred by companies for the first two years of the fourth regulatory period.

The revenue components correlated with the 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 "pricecap" 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 remote 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 costs for the distribution and metering services, the Authority has confirmed the productivity recovery targets as 1.7% and 0%, respectively;
- in relation to operating costs for the marketing service, the Authority has increased the unit cost recognised for 2017, set at €2.0 per delivery point, and has confirmed the X-factor as 0%;
- in relation to the component covering costs relating to meter checks (DCVER), pending further study the Authority has envisaged a provisional decrease for 2017 of the unit value for this component, set at €50 per delivery point;
- in relation to the component covering centralised costs for the remote metering/remote management system t(tel) and the component covering the costs of concentrators t(con), the Authority established, also for the year 2017, the recognition of actual costs (with a ceiling on the tariff recognitions for costs incurred equal to €5.74 per delivery point at which a smart meter is operating);
- in relation to the recognition of investments in metering units of a class equal to or lower than G6 relating to the year 2016, the Authority confirmed the current system, recognising the actual costs incurred by the companies within the limits of 150% of the standard cost;
- in relation to standard costs for investments in metering units of a class equal to or lower than G6 for the year 2017, the Authority set a level of €135/metering unit for calibre G4 metering units and €170/metering unit for G6 calibre 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 remote reading/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 2017 set 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;
- in relation to the definition criteria for standard costs of gas metering groups for 2018 and 2019, for classes G4 and G6 the standard cost values defined for 2017 are confirmed, whilst in reference to the sharing of higher/lower investment costs relating to smart meters, the weighted average of the standard cost and actual cost is adopted, with a 40% weighting for the standard cost and 60% for the actual cost;

- in relation to the recognition method for costs relating to metering checks, for 2017 the value of the Δ*CVER* component is confirmed as final at €50 per delivery point; for 2018 and 2019 a recognition of actual costs is envisaged, deferring any recognition of standard costs to a later stage, when accurate figures will be available of the costs incurred by companies for the checks that must be carried out in application of the provisions of Ministerial Decree no. 93/17;
- in relation to deadlines for the minimum schedule of installation obligations envisaged in the Directives on the service start-up of gas metering units, the Authority has postponed the setting of specific targets until 2020 as a result of the measure to be adopted by the end of February 2018;
- in relation to adjustment of the tariff recognition criteria that also takes into account the residual depreciation of traditional G4 and G6 metering units replaced with smart meters in accordance with the Directives on the service start-up of gas metering units, in the event of early disposal of meters that have not reached the end of their useful lives or which have changed as a result of successive regulatory amendments, the Authority intends to conduct further studies as necessary;
- as regards definition of the price list and the mechanism for recognising investments in natural gas distribution networks as standard costs, the Authority postponed application to start from investments in 2019, with impacts on tariffs starting in 2020 as a result of a measure to be adopted by the end of 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 several 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. 177/2018/R/gas determined the provisional reference tariffs for gas distribution and metering services for 2018 on the basis of the preliminary balance sheet figures for 2017, pursuant to Article 3, paragraph 2, letter a) of the Gas Distribution and Metering Service Tariff Regulation (RTDG).

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

With **Resolution no. 529/2018/R/gas** the Authority launched the "*formation procedure for tariff and quality measures, relating to the gas distribution and metering service, for the fifth regulatory period*", which will begin after 31 December 2019. This procedure, which is due for completion by 30 November 2019, also includes the procedure for adoption of the assessment methods for new investments at standard costs: therefore, the 2019 investments will be assessed in compliance with the criteria currently envisaged in the tariff regulation.

With **Resolution no. 639/2018/R/com**, based on the economic trend, the Authority has performed the infra-period update of WACC basic parameters common to all regulated infrastructural services in the electricity and gas sectors, as well as the gearing level, i.e. the ratio between debt capital (D) and the sum of equity and debt capital (D+E). For the distribution service, the WACC value for 2019 was set at 6.3% (up compared with 6.1% used in 2016-2018) in real terms before taxes, whereas for the metering service this value, for the same year, was set at 6.8% (up compared with 6.6% used in 2016-2018) in real terms before taxes.

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

Resolution no. 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.

COMMENT ON THE ECONOMIC AND FINANCIAL RESULTS

RECLASSIFIED INCOME STATEMENT

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Gas Distribution regulated revenue	1,096.8	**1,143.1**	46.3	4.2
Other revenue	27.4	**33.1**	5.7	20.8
Total revenue (*)	**1,124.2**	**1,176.2**	**52.0**	**4.6**
Operating costs (*)	(348.0)	**(336.7)**	11.3	(3.2)
of which special items	*5.0*	***2.5***	*(2.5)*	*(50.0)*
Adjusted operating costs (*)	(343.0)	**(334.2)**	8.8	(2.6)
EBITDA	**776.2**	**839.5**	**63.3**	**8.2**
***Adjusted* EBITDA**	**781.2**	**842.0**	**60.8**	**7.8**
Amortisation, depreciation and impairment	(358.3)	**(386.0)**	(27.7)	7.7
EBIT	**417.9**	**453.5**	**35.6**	**8.5**
***Adjusted* EBIT**	**422.9**	**456.0**	**33.1**	**7.8**
Net financial expense	(36.2)	**(47.0)**	(10.8)	29.8
***Adjusted* net financial expense**	**(36.2)**	**(47.0)**	**(10.8)**	**29.8**
Net income from equity investments	23.0	**20.0**	(3.0)	(13.1)
Pre-tax profit	**404.7**	**426.5**	**21.8**	**5.4**
***Adjusted* pre-tax profit**	**409.7**	**429.0**	**19.3**	**4.7**
Income taxes	(111.9)	**(112.8)**	(0.9)	0.8
of which special items	*(1.4)*	***(0.7)***	*0.7*	*(50.0)*
Adjusted income taxes	(113.3)	**(113.5)**	(0.2)	0.2
Net profit	**292.8**	**313.7**	**20.9**	**7.1**
***Adjusted* net profit (**)**	**296.4**	**315.5**	**19.1**	**6.5**

(*) Net of the effects of IFRIC 12 "Service concession arrangements" (€447.0 and €479.7 million in 2018 and 2017, respectively) and of other residual items (€18.1 and €17.1 million in 2018 and 2017, respectively).

(**) *Adjusted* net profit applies to Italgas.

The **EBIT** achieved in 2018 was €453.5 million. Compared to 2017 EBIT (€417.9 million), an increase of €35.6 million was recorded (+8.5%). The increase is mainly due to: (i) higher revenue (+€52.0 million; +4.6%), (ii) lower operating costs (-€11.3 million; 3.2%) and (iii) higher amortisation, depreciation and impairment (+€27.7 million; +7.7%). The higher revenue is mainly the result of the tariff recovery pursuant to art. 57 of ARERA Resolution no. 367/14, relating to the replacement of traditional meters with smart meters (+€23.6 million), the contribution of companies acquired through M&A transactions (+€21.5 million) and tariff changes (+€7.6 million). The decrease in operating expense mainly derives from lower costs for services following the substantial decline in services received from Snam after the demerger (-€19.4 million), and lower costs associated with the application of IFRS 16 (-€3.4 million), offset by the higher labour costs (+€3.3 million). The increase in amortisation, depreciation and impairment is mainly due to the reduced useful life of traditional meters[10] as a result of the plan to replace them (+€21 million).

The **net profit** for 2018, amounting to €313.7 million, recorded an increase of €20.9 million compared to the net profit of 2017, +7.1% as a result not only of the aforementioned increase in EBIT for €35.6 million, but also of: (i) higher net financial expense for €10.8 million mainly due to an increase in expense associated with the financial transactions carried out in January 2018 and the accrual for the entire year on bond transactions performed in 2017 and (ii) the lower net income from equity investments (for €3 million)[11].

10_In line with the scheduled meter replacement plan, starting in the second half of 2016 the useful life of the meters included in the replacement project pursuant to AEEGSI Resolutions 631/13 and 554/15 was *adjusted* in order to complete the depreciation process in 2018. As regards 2017, the useful life of the meters to be replaced during the year was conventionally considered as at the end of the first half.

11_Specifically, the change essentially concerns the restatement of deferred taxes relating to extraordinary transactions carried out in previous years (€2.7 million).

RECONCILIATION OF EBIT AND THE *REPORTED* NET PROFIT WITH *ADJUSTED* EBIT AND *ADJUSTED* NET PROFIT

Italgas' management assesses Group performance on the basis of alternative performance indicators[12] not envisaged by IFRS, obtained by excluding special items from EBIT and net profit.

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

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

The items excluded from the calculation of the *adjusted* results are described below.

The income components classified as special items in 2018 referred to non-recurring staff leaving incentives (€2.5 million; €1.8 million net of tax).

(€ MILLION)	2017	2018
Reported EBIT	**417.9**	**453.5**
Excluding special items	*5.0*	***2.5***
***Adjusted* EBIT**	**422.9**	**456.0**
Net financial expense	(36.2)	**(47.0)**
Net income from equity investments	23.0	**20.0**
Income taxes	(111.9)	**(112.8)**
- of which special items	*(1.4)*	***(0.7)***
***Reported* net profit (loss)**	**292.8**	**313.7**
Excluding special items		
- expense for staff leaving incentives (*)	3.6	**1.8**
***Adjusted* net profit**	**296.4**	**315.5**

(*) Net of the related tax effect.

12_For the definition of alternative performance indicators, reference should be made to the chapter "Non-GAAP Measures" in this report.

ANALYSIS OF THE RECLASSIFIED INCOME STATEMENT ITEMS

TOTAL REVENUE

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Distribution revenue	996.9	**1,007.3**	10.4	1.0
Other gas distribution regulated revenue	99.9	**135.8**	35.9	35.9
Total gas distribution regulated revenue	**1,096.8**	**1,143.1**	**46.3**	**4.2**
Other revenue	27.4	**33.1**	5.7	20.8
	1,124.2	**1,176.2**	**52.0**	**4.6**

Total revenue for 2018 stood at €1,176.2 million, an increase of €52.0 million compared with 2017. It refers to the gas distribution regulated revenue (€1,143.1 million) and other revenues (€33.1 million).

The increase in regulated gas distribution revenue (+€46.3 million) derives from: (i) higher distribution revenue (+€10.4 million; +1.0%) and (ii) higher other regulated gas distribution revenue (+€35.9 million; +35.9%).

The higher distribution revenue, equal to +€10.4 million, is mainly due to: (i) for +€10.9 million to the change in the scope of consolidation from new corporate acquisitions; (ii) for +€7.6 million from the tariff components, offset (iii) by -€7.7 million from tariff adjustments for previous years.

Other regulated gas distribution revenue (€135.8 million) includes accessory network services and other regulated revenue for €64.3 million (€52 million in 2017; +23.6%) and, for €71.5 million (€47.9 million in 2017; +49.3%) from the contribution pursuant to art. 57 of ARERA Resolution no. 367/14 associated with the replacement of traditional meters with smart meters. This contribution refers to the percentage for the year of the tariff recognition for the plan to replace traditional meters, determined by envisaging the complete replacement of all meters by the end of the first six months of 2020. In this respect, note that Italgas, achieving 59.1%[13], more than satisfied the replacement obligations established by the Authority (50% of total G4 and G6 meters) to be reached by the end of 2018.

Other revenues in 2018 totalled €33.1 million, up by €5.7 million (+20.8%), mainly due to the change in the scope of consolidation (€10.3 million) and in relation to energy efficiency services and LPG distribution/sales, partly offset by the lower revenue from leases (-€2.9 million).

13_The figures also include unconsolidated investees.

OPERATING COSTS

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Fixed gas distribution costs	**267.2**	**244.8**	**(22.4)**	**(8.4)**
of which:				
- personnel costs	*139.1*	***140.9***	*1.8*	*1.3*
- net external costs	*128.1*	***103.9***	*(24.2)*	*(18.9)*
Variable gas distribution costs	**3.4**	**4.8**	**1.4**	**41.2**
Other gas distribution costs	**13.9**	**10.2**	**(3.7)**	**(26.6)**
- of which special items	*5.0*	***2.5***	*(2.5)*	*(50.0)*
***Adjusted* other gas distribution costs**	**8.9**	**7.7**	**(1.2)**	**(13.5)**
EECs	0.1	**2.3**	2.2	2,200.0
Concession expenses	53.2	**54.7**	1.5	2.8
Total gas distribution costs	**337.8**	**316.8**	**(21.0)**	**(6.2)**
***Adjusted* total gas distribution costs**	**332.8**	**314.3**	**(18.5)**	**(5.6)**
Other business costs	10.2	**19.9**	9.7	95.1
Operating costs	**348.0**	**336.7**	**(11.3)**	**(3.2)**
***Adjusted* operating costs**	**343.0**	**334.2**	**(8.8)**	**(2.6)**

Fixed costs for gas distribution, consisting of the sum of personnel costs for €140.9 million (of which €127.4 million relating to labour costs and €13.5 million to accessory charges) and external costs for €103.9 million, totalled €244.8 million as at 31 December 2018, down €22.4 million compared with 2017 (€267.2 million; -8.4%). The decrease in operating expense mainly derives from lower costs following the decline in services received from Snam and the insourcing of ICT activities (-€17.3 million), the effects of the introduction of IFRS 16 (-€3.4 million) and lower maintenance costs (-€3.1 million), partly offset by the higher costs due to changes in the scope of consolidation (+€3.7 million).

Other gas distribution costs totalled €67.2 million, including €54.7 million relating to concession fees. The change compared with the previous year was due to higher net costs relating to Energy Efficiency Certificates (+€2.2 million) and higher concession fees (+€1.5 million), offset by lower capital losses (-€4.6 million).

In the *adjusted* figures, other costs in 2018 (€64.7 million) do not include non-recurring provisions for staff leaving incentives (€2.5 million).

The **other business costs** amounted to €19.9 million, of which €16.2 million relating to external costs and €3.7 million to net personnel costs. These costs increased by €6.1 million due to the change in the scope of consolidation.

AMORTISATION, DEPRECIATION AND IMPAIRMENT

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Total amortisation and depreciation	**352.0**	**386.0**	**34.0**	**9.7**
Intangible assets IFRIC12	295.2	**323.0**	27.8	9.4
- of which, metering	*118.2*	***140.2***	*22.0*	*18.6*
Intangible assets	40.5	**38.2**	(2.3)	(5.7)
Property, plant and equipment	16.3	**24.8**	8.5	52.1
Impairment	**6.3**		**(6.3)**	
	358.3	**386.0**	**27.7**	**7.7**

Amortisation, depreciation and impairment (€386 million) increased by €27.7 million, or 7.7%, compared with 2017.

The increase is mainly due to the accelerated depreciation (€82.6 million at the end of 2018, compared to €61.6 million for the same period of 2017) following the reduction in the useful life of traditional meters, subject to replacement with smart meters, envisaging full replacement of all meters by the end of the first six months of 2020.

As a result of the State Council decision no. 4104/2018, which established that the Municipality of Venice had already acquired ownership, i.e. devolved free of charge, of a section of the network relating to the concession, the Company also arranged acceleration of the related depreciation by a total of €6 million.

Lastly, compared to the same period of 2017, further amortisation and depreciation were recorded for €7.1 million following the adoption of IFRS 16.

NET FINANCIAL EXPENSE

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Expense (income) on financial debt	**28.8**	**41.4**	**12.6**	**43.7**
- Expense (income) on short-term and long-term financial debt	28.8	41.4	12.6	43.7
Other net financial expense (income)	**7.5**	**5.7**	**(1.8)**	**(24.4)**
- Upfront fees and other commissions	7.2	**4.2**	(3.0)	(41.5)
- Expense (income) related to the discounting of environmental provisions and provisions for employee benefits	1.8	**2.2**	0.4	24.0
- Other expense (income)	(1.4)	**(0.7)**	0.7	(50.1)
Financial expense capitalised	**(0.1)**	**(0.2)**	**(0.0)**	**10.8**
Net financial expense	**36.2**	**47.0**	**10.8**	**29.8**

The **net financial expense** (€47.0 million) increased by €10.8 million compared to 2017 (+29.8%) due to: (i) higher expense associated with debt (€12.6 million) following the increase in the average debt maturity as a result of bond transactions carried out at the end of 2017 and the start of 2018; (ii) lower upfront fees (€3.0 million) due mainly to the 2017 accrual of bank fees and commissions for the Bridge to Bond loan repaid in full in 2017; (iii) higher financial expense associated with the discounting of environmental provisions and employee benefits (€0.4 million).

Net income from equity investments, equal to €20 million in 2018 (€23 million in 2017; -13.1%), mainly regards the portions attributable to the group of the net income for the period of companies measured with the equity method and refers in particular to Toscana Energia[14] (€19.6 million).

INCOME TAXES

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Current taxes	**131.5**	**132.6**	**1.1**	**0.8**
Net deferred taxes	(19.6)	**(19.8)**	(0.2)	1.0
Income taxes	**111.9**	**112.8**	**0.9**	**0.8**
- Adjustments for special items	*1.4*	***0.7***	*(0.7)*	*(50.0)*
***Adjusted* income taxes**	**113.3**	**113.5**	**0.2**	**0.2**
Tax rate (%)	**27.7%**	**26.4%**	**(1.3)**	
***Adjusted* tax rate (%)**	**27.7%**	**26.5%**	**(1.2)**	

Income taxes for 2018 (€112.8 million) increased by €0.9 million compared to the figure for the previous year due to the increase in gross profit, partly offset by the benefits from higher amortisation and depreciation recognised for tax purposes.

The tax rate was 26.4% (27.7% in 2017). The reconciliation of the theoretical tax rate with the effective tax rate is described in the note "Income taxes" in the Notes to the consolidated financial statements.

14_Specifically, the change concerns the restatement in 2017 of deferred tax liabilities relating to extraordinary transactions carried out in previous years (€2.7 million).

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.

The Italgas Reclassified Statement of Financial Position as at 31 December 2018, compared with that as at 31 December 2017, is summarised below:

(€ MILLION)	2017	2018	ABS. CHANGE
Fixed capital	**4,950.9**	**5,284.1**	**333.2**
Property, plant and equipment	224.6	**259.2**	34.6
Intangible assets	4,676.6	**4,982.8**	306.2
Equity investments	184.9	**175.1**	(9.8)
Financial receivables and securities instrumental to operations	0.1	**0.1**	
Net payables for investments	(135.3)	**(133.1)**	2.2
Net working capital	**71.1**	**5.7**	**(65.4)**
Provisions for employee benefits	**(116.1)**	**(107.9)**	**8.2**
Assets held for sale and directly related liabilities		**11.6**	**11.6**
NET INVESTED CAPITAL	**4,905.9**	**5,193.5**	**287.6**
Shareholders' equity (including minority interests)			
- attributable to the Group	1,185.6	**1,329.3**	143.7
- attributable to minority interests			
	1,185.6	**1,329.3**	**143.7**
Net financial debt (*)	**3,720.3**	**3,814.3**	**94.0**
Financial liabilities for operating leases as per IFRS 16 (**)		**49.9**	**49.9**
COVERAGE	**4,905.9**	**5,193.5**	**287.6**

(*) As at 31 December 2018, the net financial debt does not consider liabilities of €21.0 million payable to CPL Concordia, composed of shareholder loans disbursed by CPL Concordia to EGN, which will be repaid by Italgas on exercise of the put&call option, in that these are considered part of the purchase price settlement and financial debts pursuant to IFRS 16 for €49.9 million. In the consolidated financial statements notes, in compliance with Consob Communication no. DEM/6064293 of 28/7/2006, the net financial debt includes the effects pursuant to IFRS 16 and the payable to CPL Concordia.

(**) From 1 January 2018, Italgas applies the international accounting standard "IFRS 16 - Leases" which, after eliminating the distinction between finance leases and operating leases, resulted in the recognition of operating lease payables for commitments to leasing companies against the recognition of right-of-use assets.

The **Net invested capital** as at 31 December 2018 amounts to €5,193.5 million and consists of the items discussed below.

Fixed capital (€5,284.1 million) rose by €332.2 million compared with 31 December 2017 essentially due to the increase in intangible assets (+€306.2 million), property, plant and equipment (+€34.6 million), net financial payables relating to investment activities (-€2.2 million) and the reduction in the value of equity investments (-€9.8 million).

Property, plant and equipment and **intangible assets** amount to €5,242 million. Intangible assets include service concessions accounted for pursuant to IFRIC 12 under the item intangible assets (€4,846.9 million). Property, plant and equipment regards primarily buildings (€189 million) and industrial and commercial equipment (€34 million).

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

(€ MILLION)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
Balance as at 31 December 2017	**224.6**	**4,568.9**	**107.7**	**4,901.2**
Right of use as at 1 January 2018	**32.9**			**32.9**
Investments	37.2	447.0	38.5	**522.7**
Amortisation, depreciation and impairment	(24.6)	(324.1)	(37.3)	**(386.0)**
- of which, metering		*(140.2)*		***(140.2)***
- of which amortisation as per IFRS 16	*(7.1)*			***(7.1)***
Change in the scope of consolidation (entities and business units)	1.7	180.6	28.2	**210.5**
Grants		(25.6)		**(25.6)**
Other changes	(12.6)	0.1	(1.2)	**(13.7)**
Balance as at 31 December 2018	**259.2**	**4,846.9**	**135.9**	**5,242.0**

Investments in 2018, equal to €522.7 million (€521.9 million in 2017), mainly refer to the replacement of meters and the placement/replacement of gas networks.
The other changes refer mainly to assets (buildings and vehicles) reclassified under available-for-sale assets for €13.7 million.

The item **Equity investments** (€175.1 million) includes the measurement of equity investments with the equity method and refers to Toscana Energia (€172.5 million), Umbria Distribuzione Gas (€1.4 million) and Metano Sant'Angelo Lodigiano (€1.2 million).

Consolidated **Net working capital** as at 31 December 2018 amounts to €5.7 million and is broken down as follows:

(€ MILLION)	2017	2018	ABS. CHANGE
Trade receivables	406.5	**406.7**	0.2
Inventories	22.4	**26.2**	3.8
Tax receivables	45.2	**47.7**	2.5
Accruals and deferrals from regulated activities	78.5	**141.5**	63.0
Other assets	197.3	**115.0**	(82.3)
Trade payables	(184.1)	**(230.8)**	(46.7)
Provisions for risks and charges	(208.3)	**(187.6)**	20.7
Deferred tax liabilities	(94.8)	**(71.7)**	23.1
Net tax payables	(15.9)	**(13.5)**	2.4
Other liabilities	(175.7)	**(227.8)**	(52.1)
	71.1	**5.7**	**(65.4)**

Compared to 31 December 2017, the change of -€65.4 million in working capital mainly derives from the algebraic sum of the following:

(i) higher inventories (+€3.8 million) associated with gas meters involved in the replacement plan;

(ii) the increase in accruals and deferrals from regulated activities (€63 million) associated with the tariff recognition estimated in accordance with current regulations in relation to the plan to replace traditional meters with smart meters;

(iii) the decrease in other current assets (€82.3 million), deriving mainly from the lower net receivables from CSEA in connection with Energy Efficiency Certificates (-€76.0 million) and additional components of gas distribution (+€4.1 million);

(iv) the increase in trade payables, mainly to suppliers (€46.7 million) and due to changes in the scope of consolidation;

(v) lower provisions for risks and charges (€20.7 million), linked mainly to the use of provisions for environmental costs (-€5.1 million), staff leaving incentives (-€7.7 million), contractual disputes - ICT Snam (-€7.7 million) and metering restoration (-€1.9 million), partly offset by higher net provisions for network restoration (€2.5 million);

(vi) lower net tax payables (€28 million) due in particular to the decrease in deferred tax liabilities;

(vii) the increase in other liabilities (€52.1 million) mainly for payables to CPL Concordia associated with finalising the purchase of the residual 40% of EGN[15].

15_In relation to the put&call options on EGN capital, exercisable by CPL Concordia and Italgas from the 6th month after the acquisition closing date, which would involve an outlay of €21.0 million to repay the shareholder loan to CPL Concordia and €20.9 million for purchase of the remaining 40%.

The provisions for risks and charges include €14 million of the provision allocated in 2017 for action to resolve anomalies in remote-read meters, partly used 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. Specifically, in the last quarter, a number of factoring transactions were completed related to tax receivables for €17.3 million still to be collected from the relevant counterparty.

STATEMENT OF COMPREHENSIVE INCOME

(€ MILLION)	2017	2018
Net profit	**292.8**	**313.7**
Other components of comprehensive income		
Components not reclassifiable to the income statement:		
Actuarial gains (losses) from remeasurement of defined benefit plans for employees	(1.5)	**(1.5)**
Tax effect	0.4	**0.4**
	(1.1)	**(1.1)**
Total other components of comprehensive income, net of tax effect		
Total comprehensive income for the year	**291.7**	**312.6**
Attributable to:		
- Italgas	291.7	**312.6**
- Minority interests		

SHAREHOLDERS' EQUITY

(€ MILLION)		
Shareholders' equity as at 31 December 2017		**1,185.6**
Increase for: - 2018 comprehensive income	313.7	
		1,499.3
Decrease for: - 2017 dividend distribution	(168.3)	
- Other changes	(1.7)	
Shareholders' equity as at 31 December 2018		**1,329.3**
attributable to: - Italgas		**1,329.3**

NET FINANCIAL DEBT[16]

(€ MILLION)	31.12.2017	31.12.2018	ABS. CHANGE
Financial and bond debt	**3,723.2**	**3,822.4**	**99.2**
Short-term financial debt (*) (**)	106.1	**156.1**	50.0
Long-term financial debt	3,617.1	**3,666.3**	49.2
Financial receivables and cash and cash equivalents	**(2.9)**	**(8.1)**	**(5.2)**
Cash and cash equivalents (**)	(2.8)	**(8.0)**	(5.2)
Securities not instrumental to operations	(0.1)	**(0.1)**	
Net financial debt	**3,720.3**	**3,814.3**	**94.0**
Financial liabilities for operating leases as per IFRS 16		**49.9**	49.9
EGN's Shareholder loan		**21.0**	21.0
Net financial debt in compliance with the consolidated financial statements notes	**3,720.3**	**3,885.2**	**164.9**

(*) Includes the short-term portion of long-term financial debt.
(**) The items are recognised net of €152.8 million in factoring transactions, the underlying receivables on which were collected on 31 December 2018 and the factor was repaid in the first few business days of January 2019, and include cash elasticity for €22.4 million among the payables.

Net financial debt was €3,814.3 million as at 31 December 2018, up €94.0 million (€3,720.3 million as at 31 December 2017). Including the effects deriving from application of IFRS 16, equal to €49.9 million and EGN's shareholder loan equal to €21.0 million, the net financial debt stood at €3,885.2 million.

Financial payables and bonds as at 31 December 2018, totalling €3,822.4 million (€3,723.2 million as at 31 December 2017) were denominated in euros and mainly referred to bonds (€2,912.9 million), loan agreements concerning European Investment Bank (EIB) funding (€783.7 million) and payables to banks (€125.8 million).

The change in long-term financial payables (+€49.2 million) is essentially attributable to the reopening, achieved on 30 January 2018, of the bond issue originally released on 18 September 2017 (€500 million, maturing 18 January 2029 with a coupon of 1.625%) for a nominal amount of €250 million and to the repayment earlier than the original October 2019 maturity of a term loan for €200 million.

16_Including liabilities for €21.0 million payable to CPL Concordia, composed of shareholder loans disbursed by CPL Concordia to EGN, which will be repaid by Italgas on exercise of the put&call option, in that these are considered part of the purchase price settlement and financial debts pursuant to IFRS 16 for €49.9 million. In the consolidated financial statements notes, in compliance with Consob Communication no. DEM/6064293 of 28/7/2006, the net financial debt includes the effects pursuant to IFRS 16 and the payable to CPL Concordia.

The breakdown of debt by type of interest rate as at 31 December 2018 is as follows:

(€ MILLION)	31.12.2017	%	31.12.2018	%
Fixed rate	2,651.9	71.2	**3,272.6**	85.6
Floating rate	1,071.3	28.8	**549.8**	14.4
	3,723.2	**100**	**3,822.4**	**100.0**

Fixed rate financial liabilities stood at €3,272.6 million and refer to bond loans (€2,912.9 million) and an EIB loan maturing in 2037 (€359.7 million), finalised on 19 December 2017 and converted to fixed rate in January 2018 through an Interest Rate Swap maturing in 2024.

The fixed rate financial liabilities increased by €620.7 million compared to 31 December 2017 mainly as a result of the Interest Rate Swap transaction and the reopening of the bond issue for a nominal €250 million, both of which mentioned above.

Floating rate liabilities totalled €549.8 million, falling by €521.5 million essentially as a result of the aforementioned transactions.

Italgas, as at 31 December 2018, had unused committed credit lines amounting to €1.1 billion, of which €600 million expiring in October 2019 and €500 million expiring in October 2021.

As at 31 December 2018, there were no loan agreements containing financial and/or collateralised covenants. 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. These commitments were satisfied as at 31 December 2018.

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[17], i.e. the cash surplus or deficit remaining after the financing of investments.

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ MILLION)	2017	2018
Net profit	**292.8**	**313.7**
Adjusted:		
- Amortisation, depreciation and other non-monetary components	335.3	**359.0**
- Net capital losses (capital gains) on asset sales and eliminations	4.1	**1.3**
- Interest and income taxes	141.5	**159.8**
Change in working capital due to operating activities	(105.7)	**35.3**
Dividends, interest and income taxes collected (paid)	(118.6)	**(150.4)**
Cash flow from operating activities (*)	**549.4**	**718.7**
Technical investments	(493.3)	**(474.7)**
Disinvestments	22.4	**3.0**
Other changes relating to investment activities	30.7	**0.4**
Free cash flow before M&A transactions	**109.2**	**247.4**
Change in scope of consolidation	(38.7)	**(149.3)**
of which:		
price paid for equity	*(35.9)*	***(84.8)***
takeover of payables of acquired companies	*(2.8)*	***(64.6)***
Business unit acquisitions		**(23.8)**
Free cash flow	***70.5***	***74.3***
Change in short- and long-term financial debt (**)	92.6	**99.2**
Equity cash flow	(161.8)	**(168.3)**
Net cash flow for the year	**1.3**	**5.2**

(*) Net of effects deriving from IFRS 15 and 16.
(**) Includes the net financial debt of the companies acquired.

17_The free cash flow alternatively represents:(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

(€ MILLION)	2017	2018
Free cash flow before M&A transactions	109.2	**247.4**
Change due to acquisitions of equity investments (**)	(50.3)	**(173.1)**
Equity cash flow	(161.8)	**(168.3)**
Change in net financial debt, net of lease debts as per IFRS 16 and of EGN's Shareholder loan	**(102.9)**	**(94.0)**
Change in financial liabilities for operating leases as per IFRS 16		**(49.9)**
Change in EGN's Shareholder loan		**(21.0)**
Change in net financial debt (***)	**(102.9)**	**(164.9)**

(**) Includes the net financial debt of the companies acquired.
(***) Including liabilities for €21.0 million payable to CPL Concordia, composed of shareholder loans disbursed by CPL Concordia to EGN, which will be repaid by Italgas on exercise of the put&call option, in that these are considered part of the purchase price settlement and financial debts pursuant to IFRS 16 for €49.9 million. In the consolidated financial statements notes, in compliance with Consob Communication no. DEM/6064293 of 28/7/2006, the net financial debt includes the effects pursuant to IFRS 16 and the payable to CPL Concordia.

The cash flow from operations in 2018 amounted to €718.7 million (+30.8% compared to 2017) which completely covered the funding of investments, net of grants and the change in related payables, equal to €471.3 million, generating a free cash flow before M&A transactions of €247.4 million. After the M&A transactions and the distribution of dividends on 2017 profit, the increase in net financial debt was €94 million, net of the incremental effect of the changes associated with the adoption of IFRS 16 on lease payables (€49.9 million) and of EGN's Shareholder loan (€21.0 million).


Italgas
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COMMENT ON THE ECONOMIC AND FINANCIAL RESULTS OF ITALGAS S.P.A.

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

RECLASSIFIED INCOME STATEMENT

In view of Italgas S.p.A.'s nature as an industrial investment holding, the following reclassified Income Statement has been prepared, which inverts the order of the income statement items under Leg. Decree 127/91, presenting first those which relate to the financial operations, as this is the most significant income component for those companies[18].

18_See Consob Communication 94001437 of 23 February 1994.

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Financial income and expense				
Income from equity investments	197.4	**216.2**	18.8	9.5
Interest income	21.8	**24.8**	3.0	13.8
Interest expense and other financial expense	(36.1)	**(45.6)**	(9.5)	26.3
Total financial income and expense	**183.1**	**195.4**	**12.3**	**6.7**
Revenue from services	64.5	**74.5**	10.0	15.5
Other income	0.4	**0.4**	0.0	0.0
Other operating income	**64.9**	**74.9**	**10.0**	**15.4**
Other operating expenses				
For personnel	(41.8)	**(46.2)**	(4.4)	10.5
For non - financial services and other costs	(36.3)	**(33.8)**	2.5	(6.9)
Total other operating expense	**(78.1)**	**(80.0)**	**(1.9)**	**2.4**
Pre-tax profit	**169.9**	**190.3**	**20.4**	**12.0**
Income taxes	4.3	**3.4**	(0.9)	(20.9)
Net profit	**174.2**	**193.7**	**19.5**	**11.2**

The **net profit** for 2018 amounted to €193.7 million, up by €19.5 million compared to the corresponding figure for 2017.

ANALYSIS OF THE RECLASSIFIED INCOME STATEMENT ITEMS

FINANCIAL INCOME AND EXPENSE

(€ MILLION)	2017	2018	ABS. CHANGE	CHANGE %
Income from equity investments	197.4	**216.2**	18.8	9.5
Interest income	21.8	**24.8**	3.0	13.8
Interest expense and other financial expense	(36.1)	**(45.6)**	(9.5)	26.3
	183.1	**195.4**	**12.3**	**6.7**

Income from equity investments (€216.2 million) consists of the dividends paid primarily by the subsidiary Italgas Reti.

Interest income (€24.8 million) essentially relates to interest income from the intragroup loans granted by Italgas to its subsidiaries.

Interest expense and other financial expense (€45.7 million) mainly refers to the costs relating to financial debt, and concerns bond loan expense[19] (€39.0 million) and loans from banks (€6.7 million).

Other operating income

Other operating income (€74.9 million) essentially refers to chargebacks to subsidiaries of costs incurred for the provision of services centrally managed by Italgas S.p.A. These services are governed by contracts stipulated between Italgas S.p.A. and its subsidiaries and concern the following areas: ICT, personnel and organisation, planning, administration, finance and control, procurement, general services, property and security services, legal and corporate affairs and compliance, health, safety and environment, institutional relations and regulation, external relations and communication, internal audit and Enterprise Risk Management (ERM).

OTHER OPERATING EXPENSES

(€ MILLION)	2017	2018	ABS. CHANGE
For personnel	(41.8)	**(48.0)**	(6.2)
For non-financial services and other costs	(36.3)	**(32.0)**	4.3
Total other operating expenses	**(78.1)**	**(80.0)**	**(1.9)**

Other operating expenses (€80.0 million) refer to personnel costs (€48 million) and costs for non-financial services and other costs (€33.8 million). The latter include costs for consultancy and professional services (€13.6 million), sundry intercompany services (€7.6 million), IT services (€7.9 million), other costs (€2.2 million) and amortisation and depreciation (€2.2 million).

19_The details of bond issues during the year and related terms are provided in the note "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities" in the Notes to the financial statements.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION[20]

(€ MILLION)	31.12.2017	31.12.2018	ABS. CHANGE
Fixed capital	**5,209.1**	**5,401.1**	**192.0**
Property, plant and equipment	1.9	**17.5**	15.6
Intangible assets		**12.1**	12.1
Equity investments	2,974.2	**2,983.5**	9.3
Financial receivables instrumental to operations	2,240.8	**2,392.1**	151.3
Net receivables (payables) relating to investment activities	(7.8)	**(4.1)**	3.7
Net working capital	**4.0**	**(11.7)**	**(15.7)**
Provisions for employee benefits	**(6.5)**	**(6.2)**	**0.3**
NET INVESTED CAPITAL	**5,206.6**	**5,383.2**	**176.6**
Shareholders' equity	**1,653.2**	**1,673.9**	**20.7**
Net financial debt	**3,553.4**	**3,693.8**	**140.4**
Net financial debt for leases as per IFRS 16		**15.5**	**15.5**
COVERAGE	**5,206.6**	**5,383.2**	**176.6**

The **Fixed capital** amounted to €5,401.1 million, up by €192.0 million compared to 31 December 2017 principally as a result of higher investments in property, plant, equipment and intangible assets (+€27.7 million), equity investments (+€9.3 million) and lower net debt relating to investing activities (€5 million).

The **Equity investments** for €2,983.5 million refer to the equity investment in Italgas Reti, Italgas Acqua, Toscana Energia, Metano Sant'Angelo Lodigiano, Umbria Distribuzione Gas and Seaside S.r.l. The €9.3 million increase compared to 31 December 2017 derives from the acquisition on 13 March 2018 of 100% of the share capital of Seaside S.r.l., a company operating in the energy efficiency sector.

20_Please see the "Non-GAAP Measures" section of this report for an illustration of methods adopted for the reclassified financial statements.

NET WORKING CAPITAL

(€ MILLION)	31.12.2017	31.12.2018	ABS. CHANGE
Tax receivables	6.1	**0.7**	(5.4)
Trade receivables	21.6	**28.2**	6.6
Other assets	5.2	**2.4**	(2.8)
Trade payables	(16.1)	**(29.8)**	(13.7)
Net tax payables	(4.5)	**(1.7)**	2.8
Deferred tax assets	2.3	**3.6**	1.3
Provisions for risks and charges	(2.2)	**(1.5)**	0.7
Other liabilities	(8.4)	**(13.7)**	(5.3)
	4.0	**(11.8)**	**(15.8)**

The **Net working capital** (-€11.8 million) reduced by €15.8 million compared to 31 December 2017 mainly as a result of: (i) the increase in trade receivables (€13.7 million); (ii) the increase in other liabilities (€5.3 million) associated with IRS hedging transactions; (iii) the decrease in tax receivables (€5.4 million) as a result of lower receivables due from subsidiaries for the National Tax Consolidation; (iv) the decrease in other assets (€2.8 million) due mainly to the lower charges for upfront fees. These effects were partly offset by the increase in trade receivables (€6.6 million) against the increase in services provided to the subsidiaries.

NET FINANCIAL DEBT

(€ MILLION)	31.12.2017	31.12.2018	ABS. CHANGE
Financial and bond debt	**3,711.8**	**3,899.8**	**188.0**
Short-term financial debt (*)	99.9	**235.8**	135.9
Long-term financial debt	3,611.9	**3,664.0**	52.1
Financial receivables non-instrumental to operations and cash and cash equivalents	**(158.3)**	**(206.0)**	**(47.7)**
Financial receivables non-instrumental to operations	(158.2)	**(75.6)**	82.6
Cash and cash equivalents	(0.1)	**(130.4)**	(130.3)
Net financial debt	**3,553.5**	**3,693.8**	**140.3**
Financial liabilities for operating leases as per IFRS 16		**15.5**	**15.5**
	3,553.5	**3,709.3**	**155.8**

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

Net financial debt was €3,693.8 million as at 31 December 2018, up €140.3 million compared to 31 December 2017 (€3,553.5 million). Including the effects deriving from application of IFRS 16, equal to €15.5 million, the net financial debt stood at €3,709.3 million.

Financial payables and bonds as at 31 December 2018, totalling €3,899.8 million (€3,711.8 million as at 31 December 2017) were denominated in euros and mainly referred to bonds (€2,912.9 million), loan agreements concerning European Investment Bank (EIB) funding (€783.7 million) and payables to banks (€100.5 million).

The increase in financial payables and bonds of €188.0 million is attributable to the increase in long-term financial payables (€52.1 million) and short-term financial payables (€135.9 million). The change in long-term financial payables is essentially attributable to the reopening, achieved on 30 January 2018, of the bond issue originally released on 18 September 2017 (€500 million, maturing 18 January 2029 with a coupon of 1.625%) for a nominal amount of €250 million and to the repayment earlier than the original October 2019 maturity of a term loan for €200 million.

The financial receivables non-instrumental to operations (€75.6 million) refer to financial receivables due from subsidiaries paid through the intercompany current account.

The breakdown of debt by type of interest rate as at 31 December 2018 is as follows:

(€ MILLION)	31.12.2017	%	31.12.2018	%
Fixed rate	2,651.9	71.4	**3,272.6**	83.9
Floating rate	1,059.9	28.6	**627.2**	16.1
	3,711.8	**100.00**	**3,899.8**	**100.00**

Fixed rate financial liabilities stood at €3,272.6 million and refer to the issue of bond loans (€2,912.9 million) and an EIB loan maturing in 2037 (€359.7 million), finalised on 19 December 2017 and converted to fixed rate in January 2018 through an Interest Rate Swap maturing in 2024.

The fixed rate financial liabilities increased by €620.7 million compared to 31 December 2017 mainly as a result of the Interest Rate Swap transaction and the reopening of the bond issue for a nominal €250 million, both of which mentioned above.

Italgas, as at 31 December 2018, had unused committed credit lines amounting to €1.1 billion, of which €600 million expiring in October 2019 and €500 million expiring in October 2021.

As at 31 December 2018, there were no loan agreements containing financial covenants and/or collateralised. 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. These commitments were satisfied as at 31 December 2018.

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ MILLION)	2017	2018
Net profit	**174.2**	**193.7**
Adjusted:		
- Amortisation, depreciation and other non-monetary components	1.1	**0.2**
- Dividends, interest and income taxes	(193.3)	**(201.1)**
Change in working capital due to operating activities	3.8	**6.9**
Dividends, interest and income taxes collected (paid)	199.2	**250.0**
Cash flow from operating activities (*)	**185.0**	**204.7**
Technical investments		**(12.6)**
Equity investments		**(9.3)**
Net financial investments instrument to operations	(1,526.6)	**(173.1)**
Other changes relating to investment activities	7.8	**(3.7)**
Free cash flow	**(1,333.8)**	**27.9**
Change in financial receivables non-instrumental to operations	1,403.0	**82.6**
Change in current and non-current financial payables	92.7	**188.0**
Equity cash flow	**(161.8)**	**(168.3)**
Other changes		**0.1**
Net cash flow for the year	**0.1**	130.3

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

CHANGE IN NET FINANCIAL DEBT

	2017	2018
Free cash flow	(1,333.8)	27.9
Equity cash flow	(161.8)	**(168.3)**
Change in net financial debt, net of lease debts as per IFRS 16	(1,495.6)	**(140.3)**
Change in financial liabilities for operating leases as per IFRS 16		**(15.5)**
Change in net financial debt	**(1,495.6)**	**(155.8)**

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 indicators adopted in this report are illustrated below.

MAIN ALTERNATIVE PERFORMANCE INDICATORS

ALTERNATIVE ECONOMIC 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 for the year, penalties payable to the Authority and other components of the statement of reconciliation of the reclassified income statement with the reported income statement from core business revenue and other revenue and income, illustrated in the next chapter "Reconciliation of the reclassified Income Statement, Statement of Financial Position and Statement of Cash Flows".
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 EBITDA.
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.
Earnings per share	Profit indicator for the company's shares, indicating the degree of success of management and the stock markets. The indicator is calculated as the ratio between *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, this item considers, among other current liabilities, financial payables of €21.0 million, composed of shareholder loans disbursed by CPL Concordia to EGN, which will be repaid on exercise of the put&call option, as these are considered part of the purchase price settlement.
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 investments.
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 CAPITAL PERFORMANCE INDICATORS	DESCRIPTION
Cash flow from operating activities	Represents the cash flow from operating activities in the legally required financial statements, excluding the effects of application of IFRS 15 and IFRS 16.
Free cash flow before M&A transactions	The free cash flow representing the difference between the cash flow from operating activities and the net cash flow from investment activities resulting from mergers and acquisitions.
Free cash flow	The free cash flow representing the difference between the cash flow from operating activities and the net cash flow from investment activities.
Net financial debt	Determined as the sum of short and long-term financial payables, net of cash and cash equivalents and finance lease payables per IFRS 16. As at 31 December 2018, this item does not consider financial payables of €21.0 million, composed of shareholder loans disbursed by CPL Concordia to EGN, which will be repaid on exercise of the put&call option, as these are considered part of the purchase price settlement.

RECONCILIATION OF THE RECLASSIFIED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION

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)	2017			2018		
	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
Revenue (from mandatory statements)	**1,621.0**			**1,641.3**		
- Revenue for construction and upgrading distribution infrastructures IFRIC 12		(479.7)			**(447.0)**	
- Release of connection contributions for the year					**(15.2)**	
- Net income from Energy Efficiency Certificates		(8.1)				
- Gas distribution service safety improvement penalties		(7.9)			**(1.9)**	
- Chargebacks relating to inventories		(1.1)				
- Chargeback of faulty meters under guarantee					**(1.0)**	
Total revenue (from reclassified statements)			**1,124.2**			**1,176.2**
Operating costs (from mandatory statements)	**(844.8)**			**(786.6)**		
- Revenue for construction and upgrading distribution infrastructures IFRIC 12		479.7			**447.0**	
- Net income from Energy Efficiency Certificates		8.1				
- Gas distribution service safety improvement penalties		7.9			**1.9**	
- Chargebacks relating to inventories		1.1				
- Chargeback of faulty meters under guarantee					**1.0**	

[MILIONI DI €]	2017			2018		
	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
Operating costs (from reclassified statements)			**(348.0)**			**(336.7)**
EBITDA			**776.2**			**839.5**
Amortisation, depreciation and impairment (from mandatory statements)	**(358.3)**			**(401.2)**		
- Release of connection contributions for the year					**15.2**	
Amortisation, depreciation and impairment (from reclassified statements)			**(358.3)**			**(386.0)**
EBIT	**417.9**		**417.9**	**453.5**		**453.5**
Net financial expense	(36.2)		(36.2)	**(47.0)**		**(47.0)**
Net income from equity investments	23.0		23.0	**20.0**		**20.0**
Pre-tax profit	**404.7**		**404.7**	**426.5**		**426.5**
Income taxes	(111.9)		(111.9)	**(112.8)**		**(112.8)**
Net profit (loss)	**292.8**		**292.8**	**313.7**		**313.7**

Reclassified Statement of Financial Position

(€ MILLION)	2017		2018	
Where not expressly indicated, the item is obtained directly from the legally-required statement)	**Partial figures from mandatory statements**	**Figures from reclassified statements**	**Partial figures from mandatory statements**	**Figures from reclassified statements**
Fixed capital				
Property, plant and equipment		224.6		**259.2**
Intangible assets		4,676.6		**4,982.8**
Equity investments, composed of:		184.9		**175.1**
- Investments valued using the equity method	184.8		**175.0**	
- Other investments	0.1		**0.1**	
Net payables relating to investment activities, composed of:		(135.3)		**(133.1)**
- Payables for investment activities	(140.6)		**(133.1)**	
- Receivables from investment/divestment activities	5.3			
Financial receivables and securities instrumental to operations, composed of:		0.1		**0.1**
- Other financial assets	0.1		**0.1**	
Total fixed capital (from reclassified statements)		**4,950.9**		**5,284.1**
Net working capital				
Trade receivables		406.5		**406.7**
Inventories		22.4		**26.2**
Tax receivables, composed of:		45.2		**47.7**
- Current income tax assets and other current tax assets	29.7		**47.7**	
- IRES receivables for National Tax Consolidation Scheme	15.5			
Accruals and deferrals from regulated activities		78.5		**141.5**
Other assets		197.2		**115.0**
- Other receivables	191.9		**115.0**	
- Other current and non-current assets	5.3			
Trade payables		(184.1)		**(230.8)**
Provisions for risks and charges		(208.3)		**(187.6)**
Deferred tax liabilities		(94.8)		**(71.7)**
Net tax payables, composed of:		(15.9)		**(13.5)**
- Current income tax liabilities and other current tax liabilities	(15.9)		**(13.5)**	
- IRES payables for National Tax Consolidation Scheme				

(€ MILLION)	2017		2018	
Where not expressly indicated, the item is obtained directly from the legally-required statement)	**Partial figures from mandatory statements**	**Figures from reclassified statements**	**Partial figures from mandatory statements**	**Figures from reclassified statements**
Other liabilities, composed of:		(175.7)		**(227.8)**
- Other payables	(173.5)		**(247.9)**	
- Financial payables on shareholder loans, to be settled through the EGN transaction			**20.1**	
- Other current and non-current liabilities	(2.2)			
Total net working capital (from reclassified statements)		**71.0**		**5.7**
Provisions for employee benefits		**(116.1)**		**(107.9)**
Assets held for sale and directly associated liabilities, composed of:		**0.0**		**11.6**
- Assets held for sale			**11.6**	
- Liabilities directly associated with assets held for sale				
NET INVESTED CAPITAL		**4,905.8**		**5,193.5**
Shareholders' equity including minority interests		**(1,185.6)**		**(1,329.3)**
Net financial debt				
Financial and bond debt, composed of:		(3,723.2)		**(3,822.4)**
- Long-term financial liabilities	(3,617.0)		**(3,666.3)**	
- Short-term portions of long-term financial debt			**(0.5)**	
- Short-term financial liabilities	(106.2)		**(306.9)**	
- Financial payables on shareholder loans, to be settled through the EGN transaction			**21.0**	
- Factoring transactions in transit			**130.3**	
Financial receivables and cash and cash equivalents, composed of:		2.9		**8.1**
- Financial receivables non-instrumental to operations				
- Cash and cash equivalents	2.8		**138.3**	
- Factoring transactions in transit			**(130.3)**	
- Other financial assets held for trading or available for sale	0.1		**0.1**	
Total net financial debt (from reclassified statements)		**(3,720.3)**		**(3,814.3)**
Operating lease payables - IFRS 16				**(49.9)**
COVERAGE		**(4,905.9)**		**(5,193.5)**

Reclassified Statement of Cash Flows

(€ MILLION)	2017		2018	
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		**292.8**		**313.7**
Adjusted:				
Amortisation, depreciation and other non-monetary components:		335.3		**359.0**
- Amortisation and depreciation	352.0		**399.5**	
of witch to deduce depreciation rights of use ex IFRS 16			***(7.2)***	
- Other changes			***0.1***	
- Net impairment of property, plant and equipment and intangible assets	6.3		**1.7**	
- Contributions for connection - uses			**(15.2)**	
- Effect of valuation using equity method	(23.0)		**(20.0)**	
Net capital losses (capital gains) on sales and asset radiation		4.1		**1.3**
Interest, income taxes and other changes:		141.5		**159.8**
- Interest income	(0.8)		**(0.9)**	
- Interest expense	30.4		**47.9**	
- Income taxes	111.9		**112.8**	
Change in working capital due to operating activities:		(100.8)		**35.3**
- Inventories	10.3		**(3.4)**	
- Trade receivables	12.4		**22.8**	
- Trade payables	8.4		**26.7**	
- Change to provision for risks and charges	(22.5)		**(23.4)**	
- Other assets and liabilities	(112.2)		**27.5**	
of witch to deduce contributions for connection - increases			***(24.5)***	
of witch to deduce contributions for connection - uses			***15.2***	
Other Changes			***(0.1)***	
- Assets held for sale and directly related liabilities				
- Takeover of payables of acquired companies	2.8			
Change in provisions for employee benefits		(4.9)	**(5.5)**	
Dividends, interest and income taxes collected (paid):		(118.6)		**(150.4)**
- Dividends collected	13.8		**29.9**	
- Interest income	0.8		**0.9**	
- Interest paid	(30.4)		**(47.9)**	
- Income taxes (paid) refunded	(102.8)		**(133.3)**	
Cash flow from operating activities		**549.4**		**718.7**

(MILIONI DI €)	2017		2018	
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:		(493.3)		**(474.7)**
- Property, plant and equipment	(10.9)		**(15.4)**	
- Intangible assets	(482.4)		**(483.8)**	
- Contributions for connection - increases			**24.5**	
Disinvestments:		22.4		**3.0**
- Property, plant and equipment			**0.4**	
- intangible assets	0.4		**2.6**	
- Equity investments	22.0		**0.0**	
Other changes relating to investment activities:		30.7		**0.4**
- Changes in payables and receivables relating to investment activities	30.7		**0.4**	
Free cash flow before M&A transactions		**109.2**		**247.4**
Change in scope of consolidation		(38.7)		**(149.3)**
of which:				
Price paid for equity	*(35.9)*		***(84.8)***	
Takeover of net payables of acquired companies	*(2.8)*		***(64.6)***	
Business unit acquisitions				**(23.8)**
Free cash flow		**70.5**		**74.3**
Change in financial payables:		92.6		**99.2**
- Assumptions of long-term financial payables	3,012.0		**251.8**	
- Repayments of long-term financial payables	(300.4)		**(202.6)**	
- Increase (decrease) in net short-term financial payables	(2,619.0)		**180.4**	
Factoring			**(152.8)**	
Cash needs			**22.4**	
Other Changes			**(0.1)**	
Equity cash flow		(161.8)		**(168.3)**
Net cash flow for the year		**1.3**		**5.2**

RECONCILIATION BETWEEN RECLASSIFIED FINANCIAL STATEMENTS OF ITALGAS S.P.A. AND THE LEGALLY REQUIRED FINANCIAL STATEMENTS

Reclassified Statement of Financial Position

(€ MILLION)	31.12.2017		31.12.2018	
(Where not expressly indicated, the item is obtained directly from the legally-required statement)	**Partial figures from mandatory statements**	**Figures from reclassified statements**	**Partial figures from mandatory statements**	**Figures from reclassified statements**
Fixed capital				
Property, plant and equipment		1.9		**17.5**
Intangible assets				**12.1**
Equity investments, composed of:		2,974.2		**2,983.6**
- Investments valued using the equity method	2,974.2		**2,983.6**	
Net payables relating to investment activities, composed of:		(7.8)		**(4.1)**
- Payables for investment activities	(7.8)		**(4.1)**	
Financial receivables and securities instrumental to operations		2,240.8		**2,392.1**
Total fixed capital (from reclassified statements)		**5,209.1**		**5,401.2**
Net working capital				
Trade receivables		21.6		**28.2**
Inventories				
Tax receivables, composed of:		6.1		**0.7**
- Current income tax assets and other current tax assets			**0.2**	
- IRES receivables for National Tax Consolidation Scheme	6.1		**0.5**	
Deferred tax assets		2.3		**3.6**
Other assets		5.2		**2.4**
- Other receivables	3.2			
- Other current and non-current assets	2.0		**2.4**	
Trade payables		(16.1)		**(29.8)**
Provisions for risks and charges		(2.2)		**(1.5)**
Deferred tax liabilities				

(€ MILLION)	31.12.2017		31.12.2018	
(Where not expressly indicated, the item is obtained directly from the legally-required statement)	**Partial figures from mandatory statements**	**Figures from reclassified statements**	**Partial figures from mandatory statements**	**Figures from reclassified statements**
Net tax payables, composed of:		(4.5)		**(1.7)**
- Current income tax liabilities and other current tax liabilities	(4.5)		**(1.4)**	
- IRES payables for National Tax Consolidation Scheme			**(0.3)**	
Other liabilities, composed of:		(8.4)		**(13.7)**
- Other payables	(8.4)		**(7.1)**	
- Other current and non-current liabilities			**(6.6)**	
Total net working capital (from reclassified statements)		**4.0**		**(11.8)**
Provisions for employee benefits		**(6.5)**		**(6.2)**
NET INVESTED CAPITAL		**5,206.6**		**5,383.2**
Shareholders' equity including minority interests		**(1,653.2)**		**(1,673.9)**
Net financial debt				
Financial and bond debt, composed of:		(3,711.6)		**(3,899.8)**
- Long-term financial liabilities, net of financial payables per IFRS 16	(3,611.9)		**(3,664.0)**	
- Short-term portion of long-term financial debt, net of financial payables per IFRS 16	(23.3)		**(32.6)**	
- Short-term financial liabilities	(76.4)		**(203.2)**	
- Short-term financial debt to subsidiaries				
Financial receivables and cash and cash equivalents, composed of:		158.2		**206.0**
- Financial receivables non-instrumental to operations	158.2		**75.6**	
- Cash and cash equivalents			**130.4**	
- Other financial assets held for trading or available for sale				
Total net financial debt (from reclassified statements)		**(3,553.4)**		**(3,693.8)**
Operating lease payables - IFRS 16				**(15.5)**
COVERAGE		**(5,206.6)**		**(5,383.2)**

Reclassified Statement of Cash Flows

(€ MILLION)	2017		2018	
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		**174.2**		**193.7**
Adjusted:				
Amortisation, depreciation and other non-monetary components:				**0.2**
- Amortisation and depreciation		0.1	**2.2**	
of witch to deduce depreciation rights of use ex IFRS 16			**(1.9)**	
Interest, income taxes and other changes:		(193.3)		**(201.1)**
- Dividends and other income from investments	(197.4)		**(216.2)**	
- Interest income	(21.5)		**(24.4)**	
- Interest expense	29.9		**42.8**	
- Income taxes	(4.3)		**3.4**	
Change in working capital due to operating activities:		3.8		**6.9**
- Inventories				
- Trade receivables	(12.9)		**(6.8)**	
- Trade payables	0.5		**13.7**	
- Change to provision for risks and charges	1.0		**(0.7)**	
- Other assets and liabilities	15.2		**1.1**	
Change in provisions for employee benefits		1.0	**(0.4)**	
Dividends, interest and income taxes collected (paid):		199.2		**205.0**
- Dividends and other income collected from investments	197.4		**216.2**	
- Interest income	21.5		**24.4**	
- Interest paid	(29.9)		**(42.8)**	
- Income taxes (paid) refunded	10.2		**7.2**	
Cash flow from operating activities		**185.0**		**204.7**
Technical investments:				**(173.1)**
Property, plant and equipment		(1.6)	**(0.5)**	
Intangible assets			**(12.1)**	
Equity investments		(7.5)	**(9.3)**	
Financial receivables instrumental to operations		(114.4)	**(151.3)**	
Change in receivables relating to disinvestment activities		7.7		**(3.7)**

(€ MILLION)	2017		2018	
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**
Free cash flow		**69.2**		**27.9**
Change in financial receivables non-instrumental to operations				**82.6**
Change in financial payables:		92.7		**188.0**
- Assumptions of long-term financial payables	3,011.8		**251.8**	
- Repayment of long-term financial payables	(300.0)		**(199.7)**	
Increase (decrease) in short-term financial payables	(2,619.1)		**136.0**	
Equity cash flow		(161.8)		**(168.3)**
Other changes				**0.1**
Net cash flow for the year		**0.1**		**130.3**

OTHER INFORMATION

TREASURY SHARES

The company did not own any treasury shares as at 31 December 2018.

RELATED PARTY TRANSACTIONS

Based on Italgas' current ownership structure, the parties related to Italgas include, in addition to the directors, statutory auditors, key managers and 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 31 December 2018, 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.

PERFORMANCE OF SUBSIDIARIES

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

BRANCH OFFICES

In compliance with Art. 2428, fourth paragraph of the Italian Civil Code, it is noted that the company does not have secondary offices.

RESEARCH AND DEVELOPMENT

Italgas' research and development activities are described by sector under "Sustainable Development Commitment".

SIGNIFICANT EVENTS AFTER YEAR END

The significant transactions carried out after 31 December 2018 are summarised below.

With regard to the regulatory framework, note that through **Resolution 1/2019-DMRT** of 29 January 2019, the Authority defined and submitted to the Ministry for Economic Development and GSE the national energy efficiency quantitative obligations of natural gas end users to be achieved in 2019 by distributors with more than 50,000 end users connected to its distribution network as at 31 December 2017.

For subsidiaries and investees 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; ii) 137,759 for Toscana Energia; iii) 7,121 for Umbria Distribuzione Gas; iv) 4,157 for EGN Distribuzione.

INFORMATION ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

INTRODUCTION

The complete picture of the Italgas Corporate Governance system is analytically described in the "2018 Report on Corporate Governance and the Ownership Structure" (hereinafter the "2018 Corporate Governance Report") prepared pursuant to Art. 123-bis of Legislative Decree No. 58/1998 (hereinafter the "Consolidated Finance Act" or "TUF"), subject to approval by the Board of Directors on 22 February 2019.

The "2018 Report on Corporate Governance and Ownership" is published on the website www.italgas.it along with the Annual Report.

CORPORATE GOVERNANCE SYSTEM

Italgas is an issuer with shares listed on the Electronic Stock Market managed by Borsa Italiana S.p.A., and therefore fulfils the legal and regulatory obligations for the listing.

The Italgas corporate governance system is the set of planning, management and control rules and methods necessary for the operation of the Company and has been outlined by the Board of Directors:

- in compliance with applicable law, also taking into account its qualification as a listed Issuer and its characteristic activity (such as the laws on so-called unbundling);
- in compliance with the Corporate Governance Code;
- having as reference the national and international best practices.

This system is founded on certain basic principles, such as fair and transparent management of business choice also ensured by identifying the information flows between corporate bodies and the efficient definition of the internal control and risk management system. A system of Enterprise Risk Management was implemented, composed of rules, procedures and organisational structures aimed at identifying, measuring, managing and monitoring the main risks that might affect the achievement of the strategic objectives.

The Bylaws define the Company's governance model and the main rules for the functioning of corporate bodies. Italgas adopted a traditional administration and control system, characterised by the presence of the following bodies:

- Shareholders' Meeting;
- Board of Directors;
- Board of Statutory Auditors.

SHAREHOLDERS' MEETING

The Shareholders' Meeting is a decision-making body of the shareholders and appoints the Board of Directors and the Board of Statutory Auditors.

The validity of the Meeting's quorum and its deliberations is established in accordance with the law.

According to the Bylaws, the Meeting deliberates on the matters covered by law. However, as permitted by law, the Bylaws assign the Board jurisdiction to decide on the following matters:

- merger in the cases set forth by Articles 2505 and 2505-bis of the Italian Civil Code, also referred to for a demerger;
- establishment, modification and elimination of secondary offices;
- share capital decrease when a shareholder withdraws;
- compliance of the Bylaws with regulatory provisions;
- transfer of the registered office within Italy.

In accordance with the provisions of the Code of Corporate Governance, the Shareholders' Meeting approved its own dedicated meeting regulations that regulate the order and functions of the General Meeting and guarantee that each shareholder is entitled to express his/her opinion about the issues being discussed.

The corporate Bylaws provide for a combined notice of meeting for both the Ordinary and Extraordinary Shareholders' Meetings. The right to attend Shareholders' Meetings is governed by law, the Bylaws and the provisions contained in the notice of meeting. Those with voting rights may be represented by written proxy within the legal limits and notice of this proxy must be delivered to the Company by certified email. Shareholders may ask questions about agenda items even prior to a meeting. Questions arriving before the Shareholders' Meeting will be answered during the Meeting, at the latest. The information is provided in observance of the rules for price sensitive information.

BOARD OF DIRECTORS

The Board of Directors has full ordinary and extraordinary administrative powers and can take all action deemed appropriate to achieve the corporate purpose, in line with the Corporate Governance Code and the applicable rules and regulations, with the exception of those actions which the law and the Bylaws reserve to the Shareholders' Meeting. The Board of Directors appoints the Chairman, if the Shareholders' Meeting has not already done so, delegates its powers to one or more of its members and may set up Committees. Specifically, the Board of Directors has created the following Committees, in compliance with the Code of Corporate Governance and the Bylaws: The Appointments and Remuneration Committee, Committee for Control, Risk and Related Party Transactions and the Sustainability Committee.

On 4 August 2016 the Meeting set nine as the number of members of the Board of Directors of Italgas S.p.A. and the term of Office as three years, expiring on the date of the General Meeting to be convened in 2019 to approve the financial statements as at 31 December 2018, and appointed as Directors: Lorenzo Bini Smaghi (Chairman), Paolo Gallo, Nicola Bedin, Barbara Borra, Maurizio Dainelli, Cinzia Farisè, Yunpeng He, Paolo Mosa and Paola Annamaria Petrone. The Italgas S.p.A. Board of Directors meeting of 27 July 2017 co-opted Federica Lolli to replace Barbara Borra, who had resigned, and later appointed by the Ordinary Shareholders' Meeting of 19 April 2018. The Board of directors of Italgas S.p.A. determined that for the 9 Directors, of which 4 are independent, there are no grounds for ineligibility or incompatibility, that each one meets the integrity requirements established by law and that Directors: Nicola Bedin, Cinzia Farisè, Federica Lolli and Paola Annamaria Petrone satisfy the requisites of independence established by law and the Corporate Governance Code. The feminine gender is represented on the Board of Directors with three of nine members, in compliance with current regulations regarding gender balance (one third of the members).

DIRECTOR	OFFICE AND POSITION
Lorenzo Bini Smaghi	Non-executive director and Chairman
Paolo Gallo	Chief Executive Officer and General Manager
Nicola Bedin	Non-executive director(1)
Federica Lolli	Non-executive director (1)
Maurizio Dainelli	Non-executive director
Yunpeng He	Non-executive director
Cinzia Farisè	Non-executive director(1)
Paolo Mosa	Non-executive director
Paola Annamaria Petrone	Non-executive director (1)

(1) Independent director pursuant to the Consolidated Finance Act (TUF) and the Corporate Governance Code.

The meeting of the Board of Directors of 4 August 2016 appointed Paolo Gallo as Chief Executive Officer, granting him all the powers and authority, excluding those otherwise provided for by law and the Bylaws and which are not reserved to the Board of Directors or the Chairman.

On 28 November 2016, the Board of Directors appointed Alessio Minutoli, the Head of Legal and Corporate Affairs and Compliance, as Secretary to the Board of Directors.

The Board, at the time of its appointment and periodically thereafter, evaluates the independence and integrity of the directors, as well as the lack of grounds for ineligibility or incompatibility.

With effect starting upon completion of the separation of Italgas Gas from the Snam Group, Paolo Gallo also assumed the position of General Manager of Italgas, while on the same date Antonio Paccioretti took over as General Director of Finance and Services.

Committees established by the Board of Directors

The Board of Directors of Italgas established three internal committees, appointing their members:

- Appointments and Remuneration Committee;
- Control and Risks and Related-Party Transactions Committee;
- Sustainability Committee.

The composition, duties, and operation of the committees are being governed by the Board with appropriate regulations. The Board appoints the members.

The Appointments and Remuneration Committee is composed of three non-executive directors, of which two independent; the Control and Risks and Related-Party Transactions Committee is composed of only non-executive directors, all meeting the independence requirements; lastly, the Sustainability Committee is composed of non-executive directors, of which one - acting as Chairman - meets the independence requirements. The term of Office of each member corresponds to the tenure of the Director's office. In the performance of their functions, the Committees may access information and company departments. They have sufficient financial resources and may use external consultants within the terms set from time to time by the Board of Directors. Committee meetings may be attended, upon invitation, also by parties that are not members.

The Control, Risk and Related-Party Transactions Committee is composed as follows:

MEMBER	POSITION
Paola Annamaria Petrone	Independent, non-executive(*) - Chairman
Nicola Bedin	Independent, non-executive(*)
Federica Lolli	Independent, non-executive(*)

(*) Independent pursuant to the independence requirements set out by the TUF and the Code of Corporate Governance.

The Board of Directors has determined that at least one Member of the Committee of Control, Risk and Related-Party Transactions has specific expertise in accounting, financial or risk management matters as required by the Corporate Governance Code.

The Appointments and Remuneration Committee is composed as follows:

MEMBER	POSITION
Cinzia Farisè	Independent, non-executive (*) - Chairman
Maurizio Dainelli	Non-executive
Federica Lolli	Independent, non-executive (*)

(*) Independent pursuant to the independence requirements set out by the TUF and the Code of Corporate Governance.

The Board of Directors has verified that at least one member has sufficient knowledge and experience of financial matters or remuneration policies required by the Corporate Governance Code.

The Sustainability Committee is composed as follows:

MEMBER	POSITION
Nicola Bedin	Independent, non-executive(*) - Chairman
Yunpeng He	Non-executive
Paolo Mosa	Non-executive

(*) Independent pursuant to the independence requirements set out by the TUF and the Code of Corporate Governance.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors supervises compliance with the law and the Articles of Association, respect for the principles of correct administration in carrying out corporate activities, the adequacy of the organisational structure for aspects of responsibility, of the system of internal control and accounting system as well as the reliability of the latter in correctly representing transactions, and how to implement the corporate governance rules provided under the Corporate Governance Code. Pursuant to Legislative Decree No. 39 of 27 January 2010, the Board of Statutory Auditors also performs supervisory functions in its capacity as “Committee for internal control and account auditing”.

Italgas’s Board of Statutory Auditors is made up of three standing auditors and two alternates appointed by the Shareholders’ Meeting for three financial years and can be re-elected for the term of office. Statutory auditors are chosen from among those who meet the professionalism and integrity requirements indicated in Decree No. 162 of the Ministry of Justice of 30 March 2000. For the purposes of the decree and as provided by the Bylaws, the matters strictly pertaining to the company activities are: business law, economics and corporate finance. Likewise, the sector pertaining strictly to the Company’s business is the engineering and geology sector.

Upon prior notice to the Chairman of the Board of Directors, the Board of Statutory Auditors may call Shareholders’ Meetings and Board of Directors’ meetings. The power to call Board of Directors’ meetings may be exercised individually by each member of the Board of Statutory Auditors; the power to call Shareholders’ Meetings must be exercised by at least two members of the Board. The Board of Statutory Auditors is asked to attend the meetings of the Committee of Control and Risk and Related Party Transactions.

Pursuant to the procedure "Transactions in which directors and statutory auditors have an interest and related-party transactions", members of the Board of Statutory Auditors must declare any interest on their own behalf or that of third parties in specific transactions submitted to the Board of Directors.

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 4 August 2016 for a term of three financial years and in any event until the date of the Shareholders' Meeting called in 2019 to approve the financial statements for 2018.

MEMBER	POSITION
Gian Piero Balducci	Standing auditor and Chairman
Giandomenico Genta	Standing auditor
Laura Zanetti	Standing auditor
Barbara Cavalieri (1)	Alternate auditor
Walter Visco	Alternate auditor

(1) Appointed by the Shareholders' Meeting on 28 April 2017 to replace Marilena Cederna, who had resigned.

The Board has reviewed and confirmed that its members have the requirements of professionalism and integrity set forth in Ministerial Decree 162 of 30 March 2000 as specified by Art. 20.1 of the Bylaws and the independence requirements set forth by law and the Corporate Governance Code, sending the Board the results of this analysis in accordance with Application Criterion 8.C.1. of the Corporate Governance Code approved by the Committee for Corporate Governance (July 2018 edition).

INDEPENDENT AUDITORS

As required by law, auditing activities are assigned to an independent auditing firm included in the relevant register and appointed by the Shareholders' Meeting based on a reasoned proposal from the Board of Statutory Auditors.

In compliance with applicable regulations, on 28 April 2017 the Ordinary Shareholders' Meeting, at the justified proposal of the Board of Statutory Auditors and subject to mutual termination of the audit assignment with EY S.p.A., assigned the statutory audit for the years 2017-2025 to PricewaterhouseCoopers S.p.A.

The majority shareholder, Cassa Depositi e Prestiti S.p.A., together with its consolidated companies, including Italgas S.p.A. and related subsidiaries, launched a public tender to identify a group auditor, to which audit is expected to be assigned from 2020.

INFORMATION ON OWNERSHIP STRUCTURE

SHARE CAPITAL AND KEY SHAREHOLDERS

The share capital of Italgas is composed of registered ordinary shares, which are indivisible and confer the right to one vote. As at 31 December 2018 (unchanged as at 22 February 2019) the share capital of Italgas amounts to €1,001,231,518.44 and is divided into 809,135,502 ordinary shares, with no par value indicated. The Extraordinary Shareholders' Meeting of 19 April 2018 resolved upon a share capital increase for a maximum nominal amount of €4,960,000, through allocation pursuant to art. 2349 of the Italian Civil Code of a corresponding amount drawn from retained earnings, with the issue of not more than 4,000,000 ordinary shares to be assigned free of charge to beneficiaries of the incentive plan approved by the Ordinary Shareholders' Meeting of 19 April 2018 and to be completed by the final deadline of 30 June 2023.

The Italgas stock is quoted in the FTSE MIB index of the Milan Stock Exchange.

Based on the information available and communications received pursuant to Article 120 of the Consolidated Finance Act and Consob Resolution No. 11971/1999 (Consob Issuer Regulations), as of 31 December 2018 shareholders holding shares worth more than 3% of the Italgas share capital are:

SIGNIFICANT SHAREHOLDINGS

Registrant	Direct Shareholder	% share of ordinary capital	% share of voting capital
CDP S.p.A.	CDP Reti S.p.A.(1)	26.05	26.05
Snam S.p.A.	Snam S.p.A.	13.50	13.50
Lazard Asset Management	Lazard Asset Management	8.71	8.71
Romano Minozzi	Granitifiandre S.p.A.	0.38	0.38
	Finanziaria Ceramica Castellarano S.p.A.	0.23	0.23
	Iris Ceramica Group S.p.A.	1.88	1.88
	Romano Minozzi	2.50	2.50
	Totale	**4.99**	**4.99**
Blackrock Inc.	Blackrock Inc.	4.16	4.16

(1) 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. Taking into consideration the 30.1% interest in Snam held by CDP, CDP indirectly holds a total CDP investment in Italgas of 30.1%.

Further information, as required pursuant to Article 123- bis, paragraph 1 of the TUF, can be found in the 2018 Corporate Governance Report.

SHAREHOLDER AGREEMENTS BETWEEN SHAREHOLDERS

The agreements between shareholders pursuant to Art. 122 of the TUF of which Italgas is aware are as follows.

On 20 October 2016 Snam S.p.A. ("Snam"), CDP Reti S.p.A. ("CDP Reti") and CDP Gas S.p.A. ("CDP") signed a shareholders' agreement (the "Italgas Shareholders Agreement") covering all the shares that the respective parties held in Italgas of consequence and with effect starting on the effective date of the partial and proportional demerger from Snam in favour of Italgas and the simultaneous listing of the Italgas shares, namely 7 November 2016. Amongst other things, the Italgas Shareholders' Agreement governs: (i) the exercise of voting rights attached to the syndicated shares; (ii) the establishment of a consultation committee; (iii) the obligations and procedures for submitting a joint list for the appointment of members of the company's Board of Directors; and (iv) certain restrictions on the sale and purchase of Italgas shares. The Italgas Shareholders' Agreement was filed in copy at the Milan Business Registry on 11 November 2016 and can be retrieved in extract from the company's website at: http://www.italgas.it/investitori/azionariato/patti-parasociali/.

On 1 May 2017, CDP Gas was merged into CDP, to which the Italgas shares held by CDP Gas were transferred. On 19 May 2017 these same shares were transferred to CDP Reti, already party to the Italgas Shareholders' Agreement.

On 27 November 2014, CDP S.p.A. ("CDP"), on the one hand, and State Grid Europe Limited ("SGEL") and State Grid International Development Limited ("SGID"), on the other, entered into a shareholders' agreement (the "SGEL Shareholders' Agreement'") in the context of the sales contract concluded between the same parties on 31 July 2014 in accordance with which on 27 November 2014 SGEL acquired from CDP a stake equal to 35% of the share capital of CDP Reti. In conjunction with the effectiveness of the partial and proportional demerger from Snam in favour of Italgas and the simultaneous listing of the Italgas shares on 7 November 2016, SGEL, SGID and CDP have amended and supplemented the SGEL Shareholders' Agreement, effective on the same date, extending its application to the stake held by CDP Reti in Italgas. The SGEL Shareholders' Agreement was filed in copy at the Milan Business Registry on 11 November 2016 and can be retrieved in extract from the company's website at: http://www.italgas.it/investitori/azionariato/patti-parasociali/.

ITALGAS REGULATORY SYSTEM

In accordance with the evolving process aimed at continually improving the effectiveness and efficiency of its internal control and risk management system, Italgas has adopted its own regulatory system comprising the following regulatory levels: (i) Italgas Enterprise System (regulatory level 1), (ii) Process Standards and Compliance Standards (regulatory level 2) and (iii) Operating Instructions (regulatory level 3). The regulatory system also includes as an integral part thereof, the documents belonging to the certified management systems for health, safety, environment, quality and, lastly, anticorruption in accordance with international ISO standard (Policies, Manuals, Procedures and Operating Instructions). Lastly, there are regulatory circulars to govern specific issues (sometimes with temporary validity). The Bylaws, the Ethics Code, the Corporate Governance Code, Model 231 and the Internal Control System on Corporate Information are placed in the general framework of the Regulatory System, as, although specific tools, the principles that inspire them are recognised as the founding principles of the conduct of the Italgas Group and, therefore, part of the general framework of the entire regulatory system.

These regulatory tools are part of the efficient handling of the Management and Coordination activities performed by Italgas concerning Subsidiaries, and they are subject to regular delivery to, and/or formal adoption by, the Boards of Directors of the Subsidiaries.

PRINCIPLES OF THE SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROL IN RELATION TO THE FINANCIAL REPORTING PROCESS

The control and risk management system and the corporate reporting process of the Italgas Group are elements of the same "System" (the Corporate Reporting Control System), which aims to ensure the reliability[21], accuracy[22], dependability and timeliness of corporate disclosure with regard to financial reporting and the ability of the relevant business processes to produce this information in keeping with generally accepted accounting standards. Reporting in question consists of all the data and information contained in the periodic accounting documents required by law – the separate and consolidated Annual Financial Report, Half-year Financial Report and Interim Report on Operations – as well as in any other accounting document or external communication – such as press releases and prospectuses prepared for specific transactions – covered by the statements provided for by Article 154-bis of the TUF. This reporting includes both financial and non-financial information, where the latter aims to describe significant aspects of the business, comment on the financial results for the year and/or describe future prospects.

The control and risk management model adopted by Italgas and its subsidiaries with regard to corporate reporting was defined in accordance with the provisions of the above-mentioned Article 154-bis of the TUF that Italgas is required to ensure compliance with, and is based in methodological terms on the " COSO Framework" ("Internal Control - Integrated Framework", issued by the Committee of Sponsoring Organisations of the Treadway Commission), the international reference model for the establishment,

21_Reporting reliability: reporting that is correct, complies with generally accepted accounting standards and fulfils the requirements of the applicable laws and regulations.

22_Disclosure accuracy: information free of errors.

updating, analysis and assessment of the control system.

The planning, institution and maintenance of the Corporate Reporting Control System are achieved through the activities of scoping, identifying and assessing the risks and controls (at the business level and process level through the activities of risk assessment and monitoring) and the related information flows (reporting).

The structure of the control system features company entity-level controls which operate transversely across the entity in question (group/individual company) and process level controls.

The controls, both at the entity level and process level, are subject to regular evaluation (monitoring) to verify the adequacy of the design and actual operability over time. For that purpose, there is provision for ongoing monitoring activities, assigned to the management responsible for the relevant procedures/ activities, as well as independent monitoring assigned to Internal Audit, which operates according to an annual plan agreed with the Director responsible for preparing the company's financial reports (DP), which aims to define the scope and objectives of its actions through concerted audit procedures.

On 7 May 2018, the Board of Directors appointed Giovanni Mercante as the Director responsible for preparing the company's financial reports, pursuant to art. 154-bis, Italian Legislative Decree 59/98.

MODEL 231 AND THE SUPERVISORY BODY

The Board of Directors of Italgas S.p.A. on 18 October 2016 approved its "Model 231", of which the Ethics Code is an integral part, indicating the principles of organisation, management and control to prevent crimes from being committed in the interest or to the advantage of the Company as per the regulations on the administrative liability of companies (Legislative Decree 231 dated 8 June 2001).

On 20 December 2016 Italgas S.p.A.'s Board of Directors appointed the Supervisory Body, composed of Prof. Carlo Piergallini as Chairman and Professors Eliana La Ferrara and Francesco Profumo.

The Supervisory Body is guarantor of the Ethics Code and is equipped with autonomous powers of initiative and control in accordance with the regulation of law. The Body may be submitted requests for clarifications and interpretations on the principles and contents of the Ethics Code, suggestions regarding its application and notices of code violations, also anonymously.

In 2017, the Company completed a project to prepare the "Special Section" of Model 231, which supplements the model with indication of the risks/offences affecting each Sensitive Activity and reference to the codes of conduct, control mechanisms and specific control standards. This document was approved by the Board of Directors on 14 December 2017.

On 24 January 2019, the Italgas Board of Directors approved an update to the Italgas Ethics Code and Model 231, taking into account the recent regulatory provisions introduced to Italian Legislative Decree 231/2001 (Italian Law 179/2017, the "Whistleblowing Act"), also including provisions on reporting to the Supervisory Body. In particular, the amendments to be adopted by all Italgas Group companies referred to:

- the reference strengthened by the Ethics Code;
- the simplification of reporting channels and flows to the Supervisory Body, in compliance with recent reporting regulations (Italian Law 179/2017, the "Whistleblowing Act");
- the addition of reasons for ineligibility and lapse of membership of the Supervisory Body;
- the implementation of reporting to the Supervisory Body;
- in line with the management system for preventing and fighting corruption, pursuant to UNI ISO 37001:2016 standard, the introduction of an addition flow from the Supervisory Body to the newly established Compliance Function for the Prevention and Fight of Corruption to report on corruption-related events.

ETHICS CODE

The Ethics Code defines a shared value system, expresses Italgas's business ethics culture and forms the basis for the Company's strategic thinking and the conduct of its corporate activities.

The Ethics Code is a compulsory general principle of the "Model 231", containing the fundamental principles that must guide Italgas, such as respect for the law, fair competition, honesty, integrity, fairness and good faith towards all parties with which it has relationships. It also contains the general principles of sustainability and corporate responsibility, in addition to recalling the principles that must be respected in matters of the workplace, relations with stakeholders and suppliers and for the protection of personal data.

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 31 December 2018 the financial debt at floating rate was 14.4% and at fixed rate was 85.6%.

As at the same date the Italgas Group used external financial resources in the following forms: Bonds subscribed by institutional investors, 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 variable 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 as regards the variable component of outstanding debt and future loans.

Fixed rate financial liabilities stood at €3,272.6 million and refer to bond loans (€2,912.9 million) and an EIB loan maturing in 2037 (€359.7 million), finalised on 19 December 2017 and converted to fixed rate in January 2018 through an Interest Rate Swap maturing in 2024.

Italgas, as at 31 December 2018, had unused committed credit lines amounting to €1.1 billion.

As at 31 December 2018, there were no loan agreements containing financial covenants and/or collateralised. 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.

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 31 December 2018 there were no significant credit risks. Note that on average 95% of trade receivables relating to gas distribution are settled by the due date and over 99% within the next 4 days, confirming the strong reliability of the customers. Other business receivables represent an immaterial percentage 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.

Italgas has signed finance agreements unused as at 31 December 2018. 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 €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, on 1 August 2018 Fitch confirmed the rating assigned to Italgas S.p.A. (BBB+ with stable outlook). On 23 October 2018, following the downgrading announced by Moody's of Italian government bonds to Baa3 with stable outlook from Baa2, a corresponding action was also adopted on the Italgas long-term rating, lowered to Baa2 with stable outlook from the previous Baa1, in consideration of its attributed link to the sovereign credit rating.

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 31 December 2018, there were no loan agreements containing financial covenants and/ or collateralised. 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. These commitments were satisfied as at 31 December 2018.

The bonds issued by Italgas as at 31 December 2018 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

The Italgas Group uses specific, certified management systems with the objective of overseeing the processes and business activities in accordance with the health and safety of workers, environmental protection and the 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 events could cause a decrease in revenue and also involve substantial damage to persons, property or the environment.

Although Italgas has taken out specific insurance policies in line with best practices to cover some of these risks, the related insurance coverage could be insufficient to meet all the losses incurred, the compensation obligations or cost increases.

RISKS ASSOCIATED WITH ENVIRONMENTAL PROTECTION, HEALTH AND SAFETY

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

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

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

To cover the liabilities estimated in relation to the formalities required by the law in effect, a special fund has been set up, amounting to €134 million as at 31 December 2018.

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. It cannot be excluded that the level of malfunctions in remote-read meters 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 31 December 2018, Italgas managed 1,700 municipalities with natural gas distribution concessions throughout Italy.

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

Under the tender processes launched, Italgas may not be awarded concessions in the planned areas, or may be awarded said concessions under conditions that are less favourable than the current conditions, with a possible negative impact on its operating results, financial position and cash flows. However, it must be noted that, in the event of failure to be awarded the concessions with regard to municipalities previously managed, for its owned networks 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, provides that the reimbursement amount paid to the outgoing service operators and owners of existing assignments and concessions is calculated in accordance with the provisions in the agreements or contracts, provided that they were concluded before the date of the regulation entering into force pursuant to Ministerial Decree No. 226 dated 12 November 2011 (i.e., before 11 February 2012) 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 in a document dated 7 April 2014 and approved by Ministerial Decree dated 22 May 2014[23].

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.

23_ 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.

RISK ASSOCIATED WITH IMPLEMENTATION OF THE CONCESSION-RELATED INVESTMENT PLAN

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.

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 anti-corruption rules, may also result in (possibly significant) penalties for the Company, based on the administrative liability of entities (Legislative Decree No. 231/01).

BUSINESS OUTLOOK

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

With specific reference to **technical investments** in property, plant and equipment and intangible assets, in 2019 Italgas expects to continue with its significant investment plan, mainly for implementation of the network digitisation and smart meter installation projects, the natural gas supply in Sardinia and the usual maintenance and development of the networks managed.

In accordance with the strategic priorities of the 2018-2024 Plan, Italgas will take part in **tenders of interest** for award of the natural gas distribution service, pursuing its business development goals and those to consolidate a sector that is still very fragmented.

In addition, in line with Strategic Plan objectives, after the acquisitions in 2018, 2019 envisages the finalisation of further **development initiatives for external lines**, which will enhance territorial presence, anticipating the effects of future tenders in terms of growth of the scope of business.

Italgas intends to continue increasing its **operational efficiency**, pursuing the implementation of a cost reduction programme and improving the quality of processes and services launched in 2017. This project also aims to revise the organisational structure of Italgas Reti, characterised by a new territorial model and the simplification of operating processes, introducing a cultural change for the sustainability of the new model over time.

During 2019, actions will continue aimed at **financial structure optimisation** of the Italgas Group in terms of average maturity of the debt and he fixed rate/floating rate ratio.


Italgas

LEGISLATIVE AND REGULATORY FRAMEWORK

ASSIGNMENT OF THE GAS DISTRIBUTION SERVICE AND RELATED LOCAL TENDER NOTICES

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

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

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

Then on 12 November 2011, the Ministerial Decree was adopted, outlining the criteria for the tender and evaluation of the bids for the award of natural gas distribution services. The measure was subsequently amended by Decree of the Minister of Economic Development No. 106, in consultation with the Minister for Regional Affairs and Autonomy, on 20 May 2015, published in the Official Gazette No. 161 on 14 July 2015.

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

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

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

MAIN PROVISIONS OF 2018 CONCERNING TENDERS

With **Resolution no. 130/2018/R/gas of 8 March 2018**, the Authority correct a material error in Annex A to Resolution no. 905/2017/R/gas (Consolidated provisions on calculation of the reimbursement value of gas distribution networks for tender purposes) in implementation of the simplifications envisaged by Italian Law 124/2017 on competition.

In particular, the resolution specifies that, if the prerequisites of Law 124/2017 are not met for verification of VIR/RAB deviations under the simplified ATEM system, local authorities can request access to the individual simplified system for Municipalities for which the difference is greater than 10% and that all conditions envisaged in Resolution no. 344/2017/R/gas are satisfied, i.e.:

- are different from the Municipality with the highest number of delivery points in the area;
- have a population of up to 100,000, as indicated in the latest census, and whose natural gas distribution networks serve up to 10,000 delivery points;
- can confirm that the reimbursement amount was calculated by applying solely the Guidelines of 7 April 2014.

Ordinary Supplement no. 1 to Official Gazette of the Sicilian Regional Government no. 21 of 11 May 2018 published **Law no. 8 of 8 May 2018, the "Regional stability law for 2018"**, which introduces new regulations for the award of gas distribution services in the region of Sicily. In particular, the regional regulations establish that in Sicily the tenders for award of the gas service are by individual municipality and not by ATEM, and according to non-standard criteria compared to regulations applied in the rest of Italy.

At the meeting of 6 July 2018, the Italian Cabinet resolved to challenge the aforementioned regional law, particularly the part that would result in a municipality-based acceleration of gas distribution tenders, in that it conflicts with art. 117, paragraph 2, letter e) of the Constitution, that is with the regulations on protection of competition envisaged by central government, and with art. 46-bis of Italian Law Decree 159/2007 (converted to Law 222/2007) which - in accordance with criteria of competition and quality of local public service - governed the methods for conducting tenders and the criteria for participation in tends for the award of gas distribution service management.

With **Resolutions 8/2018-DIEU and 9/2018-DIEU of 11 July 2018**, in implementation of the contents of Annex A to Resolution no. 905/2017/R/gas, the Authority updated the provisions on acquiring documentation to verify deviations between VIR and RAB under the individual system by municipality, ordinary and simplified, and for municipalities falling under the simplified ATEM system pursuant to Italian Law 124/17 on competition.

With **Resolution no. 15/2018-DIEU of 28 December 2018**, the Authority updated the 2017 and 2018 reference values for calculating the unit costs to be used in analysing indicators for the verification of VIR/RAB deviations. The update must apply the rate of change in the deflator of gross fixed investments, equal to 0.30% for 2017 and 0% for 2018, respectively.

The reference values are used by the Authority to calculate the average cost benchmark:

- construction carried out (pipe supply and laying, as well as excavations, replacement underground and restoration by large geographic area);
- low and medium pressure user derivation plants, as well as for every additional metre of underground connections and above-ground part, and for every additional delivery point;
- civil engineering works relating to user derivation plants.

ENERGY EFFICIENCY

In 2018, the main provisions on the issue of energy efficiency were as follows:

On **15 February 2018**, the Energy Markets Manager (GME) published the updated version of the Operating Rules for the Energy Efficiency Certificates Market.

The update follows a specific communication from the Ministry of Economic Development concerning the application to adopt urgent corrective measures in relation to the trading methods envisaged on the Energy Efficiency Certificates Market.

In particular, the Ministry of Economic Development, in concert with the Ministry for the Environment in order to protect the correct operation of the incentives mechanism and limit the effects of strong price volatility on the tariff contribution calculation, considered it appropriate at present to reduce the market session frequency to just one session per month.

The dates and times of the market trading sessions are published on the GME website. The first sessions were on 13 March, 17 April and 22 May 2018.

With **Resolution no. 139/2018/R/EFR of 8 March 2018**, the Authority approved an urgent amendment to the "Operating Rules for the Energy Efficiency Certificates Market", prepared by the GME to implement the MISE communication of 14 February 2018, with the aim of reducing the frequency of trading sessions held on the Energy Efficiency Certificates market to one session per month.

The Authority specified, however, that this urgent amendment alone did not in any way resolve the tensions seen on the Energy Efficiency Certificates market, nor could it constitute regulatory intervention to control the gap between demand and supply, the source of price anomalies recorded for more than a year, as already *reported* by the Regulator in the investigation approved by Resolution no. 292/2017/E/EFR.

In particular, the Authority deemed it appropriate to envisage the assessment by the GME, to the extent of its responsibility, of suitable implementing methods for the amendments introduced and, specifically, the calendarisation of market sessions, also in reference to proximity to the 31 May 2018 deadline, by which the electricity and gas distributors had to submit to the GSE the application for cancellation of Certificates, in order to absolve their obligation for 2017 and offset the remainder in relation to the targets for 2016 and 2015.

With **Decision DMRT/EFC/4/2018 of 22 June 2018**, in application of the criteria of Resolution no. 435/2017/R/EFR, the Authority established:

- the value of the final contribution for 2017, equal to 311.45 €/TEE, calculated by specifically taking into account the weighted average value of significant trading prices at each market session held in the period between June 2017 and May 2018;
- the value of the reference contribution for 2018, equal to 250.54 €/TEE, calculated by specifically taking into account the value of the definitive tariff contribution for 2016 and 2017 and the quantities of certificates exchanged on the market and through bilateral transactions in the period between June 2016 and May 2018.

With **Resolution no. 487/2018/R/EFR of 27 September 2018**, the Authority updated the criteria for calculating the contribution recognised to distributors complying with the energy saving obligations, in consideration of the amendments introduced by Ministerial Decree dated 10 May 2018.

In particular, the new measure applies from 2018 to 2020 and amends Resolution no. 435/2017/R/EFR, delimiting its scope of application only for years up to 2017.

Specifically, in reference to the definition of the contribution recognised, currently governed by Article 4 of Resolution no. 435/2017/R/EFR, the new measure:

- no longer envisages the prior definition of the reference contribution, in consideration of the introduction by the Ministerial Decree of 10 May 2018 of the tariff contribution cap of 250 €/TEE, and the option of recourse to Energy Efficiency Certificates not deriving from projects;
- also takes into account the prices of Energy Efficiency Certificate traded through bilateral agreements, and not only in terms of their volume as happened until now, at the same time envisaging regulatory mechanisms that help to sterilise trading prices that do not match the market value and could distort the recognition of costs incurred;
- for the purpose of defining the tariff contribution for each year, takes into account the weighted average prices of all Energy Efficiency Certificate trades on the market in the previous 12 months, overcoming the need to define the reference price each session;
- changes the structure of the formula for defining the contribution recognised, envisaging calculation using the weighted average, based on quantities traded, of the average prices of trades recorded on the market and the significant bilateral prices in the 12 months prior to the conclusion

of each relevant year, therefore including bilaterals in the contribution calculation formula (only in volume terms) which are outside the price range defined by the formula;
- envisages comparison of the resulting tariff coefficient with the cap of 250 €/ TEE, and disburse the latter if the value obtained by applying the formula is higher;
- suspends application of the accrual criterion (provided it is disbursed, valid for the part of the target achieved, the contribution for the corresponding year), in place of the cash criterion, envisaging within two years to reassess the opportunity, in view of the effects on price volatility of Energy Efficiency Certificate trading of legislative changes, including the increase ordered by Ministerial Decree of 10 May 2018 from one to two years in the time available to distributors to fulfil their energy saving obligations without incurring penalties.

SAFETY OF THE GAS DISTRIBUTION AND METERING SERVICE

With **Resolution no. 421/2018/R/gas of 2 August 2018**, the Authority ordered an 80% payment on account of the total amount for 2015, net of bonuses relating to the restoration of safety of the natural gas distribution service, due to the companies concerned (algebraic balance of bonuses and penalties).

The Authority envisages this recognition to all distribution companies which, via an online system, submitted a positive response by 13 August 2018 in relation to the forecast bonuses and penalties for 2015, except where specifically waived by the CSEA.

The Authority then conferred mandate on the CSEA to arrange payment on account to all distribution companies that had stated their acceptance by the prescribed deadline, by 30 September 2018, on the gas service quality account.

COMMERCIAL REGULATION OF THE GAS DISTRIBUTION AND METERING SERVICE

With **Resolution no. 712/2018/R/com of 27 December 2018**, the Authority adopted provisions regarding the accounting documents for the gas distribution service, required for essential coordination of current regulations with legislative innovations in terms of electronic invoicing as per the 2018 Budget Act and the Italian Revenue Agency measure of 30 April 2018, containing technical rules for sending and receiving electronic invoices via the "Interchange System" for the sale of goods and services among entities resident, permanently established or identified in Italy.

In particular, and more importantly, the measure envisages that:

- the contents of accounting documents for the gas distribution service must be consistent with the contents of the invoicing file referred to in the electronic invoicing regulations;
- the distributors are required to attach any itemised elements to the electronic invoice (where envisaged in regulations or contractually), as well as accounting documents for the gas distribution service so that they can be included in the same invoice file;
- only in cases where the size restrictions imposed by the Interchange System of the Italian Revenue Agency (5 MB) do not allow transmission by these methods, the distributors transfer the related regulatory documents preferably via special links entered directly in the invoice file or otherwise via an alternative IT channel.

Lastly, the resolution postpones any updates to the Authority's regulations on invoicing of the gas distribution service, taking into account the new rules on electronic invoicing, to later measures.


Italgas
Reti

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Italgas, for its nature and history, is a player of fundamental importance to development of the economic and social fabric of the country. Its local network presence and proximity to the community, in fact, allow the company to act as a supporter and promoter of sustainable development, a creator of social value as well as economic value, for the entire system. Expertise, safety, reliability and innovation give substance to the company's ability to act sustainably, making it a fundamental component of the business model that aids the definition of strategic and operating decisions to guarantee long-term sustainable growth, without neglecting the expectations of shareholders and all stakeholders. Italgas activities are founded on the principles of transparency, honesty, fairness, good faith and full compliance with the rules on protecting competition, described in the Ethics Code adopted by all the Group companies, as guidelines for orientating the conduct of personnel and for responsible management of relationships with the stakeholders.

Business activities and processes are monitored through specific certified management systems for the following areas: occupational health and safety, environmental protection, the quality of services offered and anticorruption.

Since its stock exchange listing in 2016, Italgas has established a Sustainability Committee and a CSR function dedicated to monitoring and managing sustainability and non-financial statement matters. In 2018, in continuity with the previous year, Italgas prepares the NFS (Non-Financial Statement) in accordance with Legislative Decree no. 254 of 30 December 2016, issued in implementation of Directive 2014/95/EU on the disclosure of non-financial information by companies and large groups, and also in compliance with GRI standards published by the Global Reporting Initiative.

Information related to personnel management, the environment, prevention of and the fight against bribery and corruption, and the main social impacts relating to the business activities conducted by Italgas is provided below.

For further information with respect to the topics represented, see the Consolidated Non-Financial Statement.

PEOPLE AND ORGANISATION

Human capital development is a fundamental factor for the growth of the company. The Italgas business strategy is supported by a growth and development path that accompanies the Group's people to gaining specific skills, as well as by a culture of internal sustainability which, with innovation, research and continuous improvement, are necessary for providing an increasingly efficient, high quality service.

EMPLOYMENT

With a total net increase of 83 compared to the previous year, Italgas had 3,667 personnel in service as at 31 December 2018. The changes in employment figures recorded during 2018 resulted in an increase of 46 men and 37 women among Group employees.

In particular, 120 employees were recruited from the market, of which:
- 80 aged under 30;
- 39 aged between 30 and 50;
- 1 aged over 50.

The breakdown by category of personnel is as follows:

BREAKDOWN OF PERSONNEL BY CATEGORY (NUMBER)	2017	2018	CHANGE
Executives	60	**57**	(3)
Managers	251	**276**	25
Office workers	1,938	**1,990**	52
Manual workers	1,335	**1,344**	9
	3,584	**3,667**	**83**

Almost all people at Italgas have an open-period employment contract; apprenticeships and access-to-work contracts represent around 4%.

The growth trend in the female component of the entire Group was confirmed once again in 2018, with representation reaching 12.4% of the total. The number of women breaks down by professional category as follows:

BREAKDOWN OF PERSONNEL BY CATEGORY (NUMBER)	2017	2018	CHANGE
Executives	11	**11**	-
Managers	32	**39**	7
Office workers	369	**400**	31
Manual workers	4	**3**	(1)
	416	**453**	**37**

163 individuals pertaining to protected categories work for Italgas and are included and integrated into the corporate processes.

ORGANISATION

The achievement of strategic plan objectives cannot disregard the capacity to actively respond to challenges in a continuously changing context and to constantly improve performance. The company has therefore launched and continued organisational projects that will have an impact on processes and work methods. These included the operations reorganisation, the "professional teams" and the "Migliora" continuous improvement programme.

The reorganisation of operations

In the last two years, the Group has set up a new holding and reconfigured the operating companies in order to improve interaction and simplify the most important processes. For this reason, Italgas S.p.A. today covers all the staff functions whilst operations are concentrated in Italgas Reti S.p.A.

In 2018 in particular, the Operations reorganisation of Italgas Reti carried out in 2017 was consolidated and the "professional teams" were identified to ensure the monitoring and development of technical know-how and the sharing of operating methods, best practices and working tools among all the Operations departments involved.

The "Migliora" Programme

The "Migliora" Continuous Improvement Programme continued in 2018, designed to increase efficiency and effectiveness of business activities and processes and to implement initiatives that can lead to tangible returns in terms of quality of service provided and economic benefits The approach is characterised by a structured problem-solving method, based on the measurability of results and the use of Lean Six Sigma methodologies and tools, and a performance-based interfunctional operating method.

The Professional Teams

Each professional team is headed by a Competence Leader, who supervises the know-how development, defines objectives and priorities, calls and manages meetings and interaction between members of the professional team. 45 such meetings were held in 2018.

The 13 professional teams, with a total of 300 members, represent 6 different business areas: asset construction, asset management and maintenance, service marketing management, phase management of tenders, staff and transversal activities.

Training

Italgas training is aimed primarily at ensuring the growth of specific skills, with a particular focus on innovation and digitisation, to guarantee that the business activities are conducted and the quality of service provided improves. Compared to 2017, the total volume of training activities increased with regard to managerial initiatives and those in support of organisational changes as a result of the new structure of the Italgas Group.

In 2018, a total of over 67,500 hours of training were provided and every employee on average received around 18 hours of training in at least 2 different training opportunities during the year.

HOURS OF TRAINING PROVIDED BY CATEGORY (NUMBER)	2017	2018	CHANGE
Executives	2,448	**1,201**	(1,247)
Managers	5,614	**7,385**	1,771
Office workers	38,050	**35,223**	(2,827)
Manual workers	19,888	**23,728**	3,840
	66,000	**67,537**	**1,537**

2018 saw the launch of training in support of the Company's digital transformation plans with:

- training initiatives focusing on new technology scenarios and the main applications of interest to gas distribution, dedicated to management, managers included in development paths and young graduates (around 670 hours and 200 attendees);
- specific training initiatives and change management for ICT department resources, also through innovative team building and networking approaches (4 dedicated initiatives, 181 attendees, 1,424 hours);
- training dedicated to resources involved in the more innovative digitisation projects relating to the new Italgas Digital Factory launched in November, with particular reference to the Agile roles and method (41 attendees, 962 hours);
- training on new technology platforms (Salesforce) dedicated to staff of the Italgas Contact Center (19 attendees, 152 hours);
- intercompany course in US Silicon Valley focusing on aspects of Innovation and Digital Transformation, dedicated to a group of managers and group experts (6 attendees, 240 hours);
- internal communications initiatives and training on ICT-related objectives, methods, equipment and services made available by the company to support the expansion and consolidation of Smart Working, as well as related health and safety aspects (411 attendees, 1,402 hours).

The courses and planning initiatives were carried out at the new Training Campus in Turin which, through the design of its structures (classrooms and outdoor spaces for field exercises), represents the ideal context not only for learning activities, but also for integration and networking between colleagues from different sites around the country.

In addition to the descriptions already provided, the main training programmes developed in 2018 also include: new recruit induction, the Young Graduates programme, the Managers under Development programme, female leadership, Lean Six Sigma - Yellow and Green Belt, the Driving Safety programme and training for the Integrated Supervision Centre and GIS4GAS. Training also continued on updating employees on workplace safety, as per the State-Region Agreement, through presentation of the updated version of the "Safety measures for operations of the gas distribution network", known by Italgas employees as the "Libro Azzurro" (Blue Book).

The refresher training involved 1,225 employees for a total of 7,350 hours of training provided.

In terms of personal and professional growth, human resources development is fundamental to Italgas and is based on:

- the system of managerial skills, reference for the professional conduct of every member of staff, based on Initiative, Forward thinking, Relationships and Leadership;
- performance management, as an occasion dedicated to appraisal and gathering feedback on individual duties;
- the potential of every resource.

The various activities to enhance and support the development of potential have provided elements useful in defining job rotation plans and career development for the human resources on career paths (36 staff involved in job rotation during the year).

Initiatives in favour of employees

To protect and encourage the well-being of its employees, Italgas makes services and initiatives available that are designed to find a work-life balance.

In 2018, Italgas launched its first Flexible Benefits Plan, deriving from conversion of the Performance Bonus into welfare services (welfare, family care, study support, mobility, free time, etc.). For every employee subscribing voluntarily, the company has offered a bonus equal to 18% of the portion of the bonus converted into Welfare Credit. The improvement initiatives allowed a 21% higher membership of the Welfare Plan than in 2017.

The Italgas welfare package was enhanced in 2018 with the setup of the first ItalGym corporate gym and snack bar at the Milan office, reserved for employees. This package will be replicated at the other company offices. The first edition of ItalgaSnow was also held in 2018, the skiing competition dedicated to Italgas employees.

Lastly, the Welfare portal was used to allow employees who are beneficiaries of the Zero Accidents Bonus (set up and governed by the HSEQ Unit) to use their bonus in the form of purchase coupons applying to a catalogue of selected national brands and covering the most common product categories.

HEALTH, SAFETY AND ENVIRONMENT

Through the Health Safety and Environment Policy, Italgas, in its prevention and protection principles, recognises the inalienable values and assumes a specific commitment for injury prevention, the protection of health and mitigation of the environmental impacts from its activities.

HEALTH AND SAFETY

In 2018, a total of 17 accidents were recorded, of which 8 related to accidents at work and 9 while commuting. The total number of accidents corresponds to 747 days of total absence (162 without considering those while commuting) with a frequency index of 2.89 and a severity index of 0.13.

WORKPLACE ACCIDENTS	2017	2018
Total non-commuting accidents	**13**	**8**
- of which fatal	0	**0**
Total commuting accidents	**11**	**9**
- of which fatal	0	**0**
Total accidents	**24**	**17**

EMPLOYEE ACCIDENT INDICES	2017	2018
Frequency index (non-commuting)	2.22	**1.35**
Severity index (non-commuting)	0.14	**0.03**
Frequency index	4.10	**2.87**
Severity index	0.21	**0.11**

The systematic recording of third-party operator accident figures continued in 2018, with operators recording 4 accidents during the year.

The company applies a regulatory system that governs compliance standards, procedures and regulations with the aim of ensuring the health and safety of individuals (employees, end customers, contractors, etc.) and accident prevention, in terms of overall quality.

The organisational structure in terms of health, safety and environmental quality (HSEQ) envisages distinguishing general duties, centralised in Italgas, and specific duties, coordination and support for the operating units assigned to individual companies, which are able to operate with an appropriate level of decision-making independence.

Italgas pays particular attention to raising staff awareness and training on the risks arising from operating activities and in implementing the safety requirements to be adopted to safeguard their own and others' safety. The growth of the "safety culture" is fuelled by many standard initiatives such as the "Italgas Safety Trophy" and the "Zero Accidents Award", which rewards groups of employees who have recorded zero accidents for 365 consecutive days.

ENVIRONMENTAL PROTECTION

All Italgas activities are conducted with maximum respect for and protection of the environment and natural resources, adopting a responsible and transparent approach that guarantees compatibility between its own infrastructures and the territory, efficiently managing natural and energy resources to limit the environmental impact from its activities. This approach is explained in the HSEQ Policy. For environmental and energy management, the management systems adopted are those certified as compliant with ISO 14001 and ISO 50001, respectively.

Based on this reference context, Italgas promotes actions and projects designed to reduce environmental impact attributable to its own business processes, to improve system safety conditions, and the environmental restoration of sites that are potentially contaminated as a result of past gas production activities before the 1970s. The environmental revitalisation activities therefore continued at 31 sites for which environmental procedures are in progress pursuant to Legislative Decree 152/06.

The main initiatives include the conversion to natural gas of the entire vehicle fleet, the purchase of electricity from renewable sources and the replacement of old cast iron pipes with hemp-lead joints with equivalent pipes in PE/steel.

With the aim of increasing energy efficiency of the Withdrawal, Reduction and Metering Systems (IPRM), 2018 saw the installation in 28 IPRMs of EMMa ECO devices, microcontrollers dedicated to optimising the systems' heat regulation. These systems allow considerable reductions in pre-heating consumption, even of more than 20%. In addition, in order to reduce electricity consumption by the IPRMs, analysis activity was launched during the year for the replacement of replacing street lighting bulbs with LED bulbs, the installation of which is planned for 2019.

EMISSIONS		2017	2018
Natural gas emissions	**10^6Sm^3**	**28**	**28.2**
Total GHG emissions	**10^3tonCO_2eq**	**657.3**	**739**
- of which Scope I	10^3tonCO_2eq	513.9	**515**
- of which Scope II	10^3tonCO_2eq	10.4	**9.08**
- of which Scope III (*)	10^3tonCO_2eq	133.03	**214.9**
Carbon intensity (**)	**tonCO_2eq */10Sm^3**	**66.02**	**67**
NOx emissions	**ton**	**32.2**	**30.01**

(*) Includes emissions associated with legal and business travel.
(**) Calculated as total GHG emissions/gas distributed.

ENERGY CONSUMPTION		2017	2018
Direct primary consumption of energy from renewable sources	**TJ**	**0**	**0**
Direct primary consumption of energy from non-renewable sources	**TJ**	**478.68**	**458.32**
- of which natural gas	TJ	381.4	**375**
- of which diesel	TJ	79.6	**64**
- of which petrol	TJ	17.7	**19.4**
Electricity purchased	TJ	112.73	**103.27**
Electricity self-generated from renewable sources	TJ	0.13	**0.14**
Electricity sold	TJ	0.07	**0.07**
Total energy consumption	**TJ**	**591.4**	**561.59**
Energy intensity (*)	**TJ/10^6Sm^3**	**0.076**	**0.072**

(*) Total energy consumption out of the total gas distributed.

TECHNOLOGICAL INNOVATION AND RESEARCH

The innovation and technological development activities carried out by Italgas aim to improve the quality and safety standards of the service, to reduce the environmental impact of distribution and to increase overall efficiency of the distribution system.
A number of technology innovation projects were launched in 2018, which form part of the Industry 4.0 national plan prepared by the Ministry for Economic Development.

In particular, a number of action areas were identified, such as:

- **Gas network digitisation**: a pilot project involving over 50 antenna-connected networks has been completed. Devices were installed to capture the physical and analog parameters that will allow algorithms to be applied to build forecasting and analysis models, in addition to direct feedback on the status of the parameters monitored;
- **Pressure monitoring**: the pressure monitoring pilot project continued, in accordance with UNI/TR 11631, on a number of Italgas low pressure networks, with the aim of testing the data collection and processing method for calculating the efficiency benchmark;
- **Location of underground pipes**, using RFID markers which are electronic labels comprising an integrated circuit and a short-wave data broadcasting antenna: after replacement underground, the markers can be read and located using a portable transceiver. They can provide structured information regarding underground pipes (type of material, laying depth, position, etc.). Data exchange using the transceiver is via electromagnetic induction. Therefore, the RFID markers are not powered by electrical energy sources that become spent (batteries);
- **Study on odour concealment in biomethane**: a study, coordinated by Engie as part of the GERG, was completed on the interaction between odoriferous compounds in biomethane and THT and TBM odorisers. Through this study it was possible to identify in greater detail the behaviour of limonene, pinene, MEK and DMS in the presence of THT or TBM, with the option of proposing caps on their concentrations, even if - for the last two interfering substances (MEK and DMS) - the results obtained call for further investigation due to their dispersion. The method used to assess olfactory interference could be incorporated into the new national regulatory developments;
- **Pilot project for an innovative laser search system for leaks using CRDS (Cavity Ring-Down Spectroscopy)**: with regard to the tools used in scheduled leak searches, a pilot project has been completed of an innovative system based on cavity ring-down spectroscopy, which constitutes and advancement compared to the laser systems currently used by Italgas, allowing the detection of leaks in pipes under roads and in user derivation/riser pipes with greater selectivity for other types of gas and offering faster vehicle-based inspection. Suitable operating procedures have been prepared and the system was introduced to corporate practices.

STAKEHOLDER RELATIONS

The Italgas Engagement system is present at all levels of the company.

Italgas maintains constant relationships with investors, institutions and companies with the intention of offering a consistent service for the national and local needs and growth plans and encourage the continuous improvement of the reliability of the plant and the quality of services offered.

INTERNAL COMMUNICATIONS AND CHANGE MANAGEMENT

Communication sent to Italgas staff strives to be a "change agent" acting on values, stimulating new views, contributing to the change of the corporate culture and inspiring new behaviours.

The Group's intranet portal was immediately created and updated, right away becoming the preferred channel to disperse a new means of communicating: the home page has become the space where there is an alternation between news "in the foreground", "highlighted" topics, the launch of corporate initiatives and pop-ups; innovations were introduced on the portal such as the gallery with videos and photos, as a tool to share, with the directness of pictures, experiences and company events.

Italgas has also decided to support the innovations in its organisation, systems and procedures with an articulated and consistent staff Training and Change Management Plan.

INDUSTRIAL RELATIONS

In 2018 the relations between Italgas and the trade unions saw complex discussions due to the involvement and participation of the national, local and corporate structures.

Concluding the complex negotiations, a new Protocol was signed in December for Italgas industrial relations, which sanctions a new season of trade union relations marked by transparency and dialogue, defining the prerogatives and boundaries of action by the Company, the national trade union and the local Trade Union Representatives. In this respect, the parties are committed to renewing the trade union agreements on the basis of the new organisational model by the end of the 1st half of 2019.

Significant agreements were reached on employment, particularly at national level, where agreements were signed that define and implement a number of important topics with a direct impact on workers' day-to-day operations, such as availability, shift work exit and working hours in the various business units.

Additional agreements signed during the year referred to:

- the Group "Performance Bonus" which, as in the previous year, takes into account and implements the options to make use of services envisaged in the Italgas Group Welfare Plan;
- the permanent confirmation of Smart Working and its extension to technical staff of Italgas Reti.

In 2018, 92 meetings were held with Trade Unions (21 national and 71 local). This figure confirms the increasingly extensive involvement of local representatives in consideration of the information and negotiations procedures triggered by implementation of the new Italgas Reti organisational model in 2017, as well as the provisions of the Group Protocol on Industrial Relations. At the end of 2018, 50% of employees were members of a trade union.

The legal disputes with employees and former employees of the Italgas Group, which has tended to remain steady over time, increased slightly during 2018, though in any event considered normal and mainly relating to the increase in disciplinary measures inflicted upon employees. Legal action brought against the Group companies mainly referred to the following situations: difference between professional category and related remuneration, economic claims of various types, challenge of disciplinary measures inflicted, including dismissals.

INVESTOR RELATIONS

Italgas, since its listing on the stock market, has placed transparency in its relationships with investors and the entire financial community among its top priorities. The Company's plans and objectives, and likewise the quarterly and annual results, are presented to shareholders and to the market to allow an assessment of the value creation levers. In 2018, the Strategic Plan of the Italgas Group for the period 2018-2024, which defines a major investment plan, was presented to analysts and investors.

The information of interest to shareholders and investors, including the quarterly/semiannual reports, both in Italian and in English, are available in the Investor Relations section of the corporate website www.italgas.it.

COMMUNITIES AND LOCAL AREAS

Italgas, consistent with its role as the provider of gas distribution services, with the principles of sustainable development and its growth plans, is constantly engaged in a continuous and effective dialogue with the communities in which it operates. In relations to the European, national and local authorities, Italgas operates on the principles of sincere cooperation and transparency by providing its skills and abilities, conscious of the social utility of its role. The commitment to openness has resulted in joining Registries for formal transparency as formally instituted by the European Parliament, the Register of Stakeholders of the Chamber of Deputies, the Ministry of Economic Development and the Region of Lombardy.

Italgas also attaches great importance to cooperation in the field associated with the other operators in the energy sector, on an equal and fair field of comparison. Finally, the construction of cooperative relationships with the associations representing consumers helps people understand and respond as best as possible to the needs and expectations of the users of its services.

In 2018, the company formalised a memorandum of understanding to make consumers increasingly aware and informed on the correct use of energy resources and the service they receive. The agreement signed with 18 consumer associations centres in particular on the programme for replacing traditional gas meters with smart meters, the latest generation of meters remote reading-ready and therefore able to constantly read consumption without needing to access the meter, with a view to continuous improvement of the quality of service provided.

CUSTOMERS AND THE REGULATORY AUTHORITY FOR ENERGY, NETWORKS AND ENVIRONMENT

Italgas pays special attention to the relationship with the sales company, constantly updating the tools and procedures that allow access to services.

The operating and commercial activities are carried out with increasingly sophisticated computer systems that allow for a rapid flow of information in contract management. These systems are constantly updated on the basis of regulations issued by the ARERA, which are constantly regulating the services of the Italgas Group.

Relations with the ARERA are of key importance for companies operating in the energy business. Since its establishment, Italgas has presented the Authority, continuously as in the past, a constructive and purposeful relationship, which translates for example into ensuring the Group's contribution to the consultation processes for preparing Resolutions and illustrating specific issues in the sector and supplying the information required by the regulator.

SUPPLIERS

Italgas adopts purchasing practices based on the principles of transparency, fairness and responsibility, respect for free competition and pursuing the achievement of economic objectives and performance also in the long run.

Italgas requires suppliers to adopt Model 231 and the principles of the Ethics Code in compliance with the law on safety at the workplace, health protection, environmental protection and respect for the international standards concerning the right to work.

In its procurement management, for a certain number of product categories, Italgas is required to apply the procedures envisaged in the Tenders Code (Italian Legislative Decree 50/2016). In order to retain their qualification and inclusion in the suppliers' register, Italgas suppliers are required to sign the Ethics and Integrity Agreement.

The companies bidding to provide goods, services and works for the Italgas Group participate in a strict selection and qualification process carried out on the basis of different types of requirements, always in compliance with the principle of equal opportunity. Requests for new qualification, updating or renewal are managed centrally through the Vendor Management and Supplier Performance Appraisal System (for 2018 acquisitions, the acquired Vendor Lists are verified using the same Italgas criteria), under the responsibility of the Procurement & Material Management Department, the organisational change for which was completed in June 2018. The suppliers that pass the qualification stage are therefore considered suitable for all Group companies.

The aspects subject to assessment refer to the technical and management capacities and the economic and financial reliability of suppliers, and to other aspects more closely related to sustainability issues. In particular, compliance with ethics principles, commitment to the fight against corruption, environmental protection, the promotion of health and safety in the workplace and the absence of forced labour and the exploitation of child labour are all assessed.

In 2018, active Italgas suppliers numbered over 1,300 and 892 contracts were signed during the year. 99% of the value generated derives from national geographic areas, particularly the regions of Lombardy, Lazio, Calabria, Veneto and Sicily and, in terms of product categories, most of the value deriving from works.

GLOSSARY

A glossary of financial, commercial and technical terms, as well as units of measurement, is available online at www.italgas.it.

ECONOMIC AND FINANCIAL TERMS

Non-current assets

Balance sheet item which shows long-lasting assets, net of 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

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 covenants are imposed by lenders to prevent borrower financial conditions from deteriorating and, where this does happen, to be able to request 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 net profit and shareholders' equity at period end, expressing the return on equity.

ROI (Return on investment)

Ratio of EBIT and net invested capital at period end, net of equity investments, capable of expressing operating profitability, indicating the company's capacity to remunerate invested capital from the results of its core business activities.

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 tradable securities that certify the energy savings achieved in the end uses of energy by taking action to increase energy efficiency. The White Certificates system is an incentive mechanism based on a system of mandatory primary energy savings for electricity and natural gas distributors. All entities admitted to the mechanism are included in the Digital Register of Energy Efficiency Certificates held by 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)

A joint stock company established by the GSE to which business management of the Electrical Energy Market was assigned according to criteria of transparency and objectiveness, with a view to promoting competition between producers and ensuring the availability of an adequate power reserve level. Previously known as the Gestore del Mercato Elettrico (electricity market operator), its name was changed on 19 November 2009. In particular, the GME manages the Energy Day-Ahead Market (MGP), the Intraday Market (MI), the Daily Energy Output Market (MPEG), the Dispatching Services Market (MSD), the Electricity Forward Market (MTE) and the platform for physical delivery of financial contracts concluded on the IDEX (CDE). The GME also manages the Environment Markets (energy efficiency certificates market and the origin guarantees market) and the spot and futures markets for natural gas, as part of the natural gas market (MGAS). In relation to regasification, organises and manages the PAR platform.

Gestore dei Servizi Energetici (Energy Services Operator - GSE)

A publicly-owned joint-stock company with the central role of promoting, incentivising and developing renewable sources in Italy. The sole shareholder of GSE is the Ministry of Economy and Finance, which exercises shareholder rights with the Ministry for Economic Development. The GSE controls three companies: the Acquirente Unico (AU; single buyer), Gestore dei Mercati Energetici (GME; energy market operator) and Ricerca sul Sistema Energetico (RSE; energy system research)

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)
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.


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CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(€ THOUSANDS)		31.12.2017		31.12.2018	
	Notes	**Total**	**of which, related parties**	**Total**	**of which, related parties**
ASSETS					
Current assets					
Cash and cash equivalents	(8)	2,831		138,476	
Other financial assets held for trading					
Other financial assets measured at fair value with effects on OCI	(9)	119		119	
Trade and other receivables	(10)	619,202	225,387	536,199	213,715
Inventories	(11)	22,410		26,181	
Current tax assets on income	(12)	8,571		7,533	
Other current tax assets	(12)	21,139		25,427	
Other current assets	(13)	5,944		13,677	
		680,216		**747,612**	
Non-current assets					
Property, plant and equipment	(14)	224,651		259,178	
- of which related to Right of Use (*)				*49,425*	
Intangible assets	(15)	4,676,561		5,431,923	
Investments valued using the equity method	(16)	184,829	184,829	174,955	174,955
Other investments	(16)	54	54	96	96
Other financial assets	(10)	156		156	
Deferred tax assets					
Other non-current assets	(13)	77,891	702	133,707	549
		5,164,142		**6,000,015**	
Non-current assets held for sale	(17)	**11**		**11,583**	
TOTAL ASSETS		**5,844,369**		**6,759,210**	

(€ THOUSANDS)		31.12.2017		31.12.2018	
	Notes	**Total**	**of which, related parties**	**Total**	**of which, related parties**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(18)	81,133		274,499	
Short-term portions of long-term financial liabilities	(18)	25,043		43,303	
- of which related to Right of Use (*)				*10,204*	
Trade and other payables	(19)	498,174	72,469	564,663	59,024
Current tax liabilities on income	(12)	4,489		3,479	
Other current tax liabilities	(12)	11,424		10,032	
Other current liabilities	(20)	182	175	2,890	177
		620,445		**898,866**	
Non-current liabilities					
Long-term financial liabilities	(18)	3,617,044		3,705,980	
- of which related to Right of Use (*)				*39,635*	
Provisions for risks and charges	(21)	208,246		187,567	
Provisions for employee benefits	(22)	116,149		107,878	
Deferred tax liabilities	(23)	94,790		71,772	
Other non-current liabilities	(20)	2,055	165	457,800	
		4,038,284		**4,530,997**	
Liabilities directly associated with non-current assets held for sale					
TOTAL LIABILITIES		**4,658,729**		**5,429,863**	
SHAREHOLDERS' EQUITY	(24)				
Italgas shareholders' equity					
Share capital		1,001,232		1,001,232	
Reserves		(108,358)		14,420	
Net profit (loss) for the period		292,766		313,695	
Treasury shares					
Total Italgas shareholders' equity		**1,185,640**		**1,329,347**	
Minority interests					
TOTAL SHAREHOLDERS' EQUITY		**1,185,640**		**1,329,347**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,844,369**		**6,759,210**	

(*) From 1 January 2018, Italgas applies the international accounting standard "IFRS 16 – Leases (for further information, please refer to the paragraph "Change in accounting criteria").

INCOME STATEMENT

(€ THOUSANDS)		2017		2018	
	Notes	**Total**	**of which, related parties**	**Total**	**of which, related parties**
REVENUE	(26)				
Core business revenue		1,570,929	749,397	1,583,752	772,763
Other revenue and income		50,112	24,999	57,544	19,491
		1,621,041		**1,641,296**	
OPERATING COSTS	(27)				
Purchases, services and other costs		(613,112)	(44,623)	(552,896)	(29,477)
Personnel cost		(231,685)	6,458	(233,672)	865
		(844,797)		**(786,568)**	
AMORTISATION, DEPRECIATION AND IMPAIRMENTS	(28)	**(358,342)**		**(401,256)**	
- of which amortisation of Right of Use				*7,195*	
EBIT (OPERATING PROFIT)		**417,902**		**453,472**	
FINANCIAL INCOME (EXPENSE)	(29)				
Financial expense		(37,334)	(466)	(47,913)	(714)
- of which financial expense Right of Use				*(286)*	
Financial income		1,085		948	
Derivative financial instruments					
		(36,249)		**(46,965)**	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS	(30)				
Effect of valuation using the equity method		22,958		19,999	
Other income (expense) from equity investments		15			
		22,973		**19,999**	
Pre-tax profit		**404,626**		**426,506**	
Income taxes	(31)	111,860		112,811	
Net profit (loss) for the period		**292,766**		**313,695**	
Attributable to Italgas		292,766		313,695	
Minority interests					
Net earnings (loss) per share attributable to Italgas (€ per share)	(32)				
- basic and diluted		0.36		0.39	

STATEMENT OF COMPREHENSIVE INCOME

(€ THOUSANDS)	2017	2018
NET PROFIT	**292,766**	**313,695**
Other comprehensive income		
Components reclassifiable to the income statement:		
Change in fair value of cash flow hedge derivatives (Effective portion)		(6,505)
Tax effect		*1,561*
		(4,944)
Components not reclassifiable to the income statement:		
Actuarial gains (losses) from remeasurement of defined benefit plans for employees	(1,457)	3,647
Tax effect	411	(1,026)
	(1,046)	**2,621**
Total other components of comprehensive income, net of tax effect	**(1,046)**	**(2,323)**
Total comprehensive income for the year	**291,720**	**311,372**
Attributable to:		
- Italgas	**291,720**	**311,372**
- Minority interests		
	291,720	**311,372**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(€ THOUSANDS)

	Shareholders' equity pertaining			
	Share capital	Consolidation reserve	Share premium reserve	Legal reserve
Balance as at 31 December 2016 (a) (Note 24)	**1,001,232**	**(316,385)**	**620,130**	**192,236**
2017 profit for the year				
Other components of comprehensive income:				
Components reclassifiable to the income statement:				
Components not reclassifiable to the income statement:				
- Actuarial gains on remeasurement of defined-benefit plans for employees				
Total comprehensive income 2017 (b)				
Transactions with shareholders:				
- Allocation of 2016 profit for the year				
- Allocation of Italgas SpA dividend for 2016 (€ 0.20 per share)				
- Allocation of residual Italgas SpA profit for 2016				8,010
- Effect of 100% acquisition of Napoletanagas				
- Roma Ostiense Earn-out effect		(7,522)		
- Reserve reclassification				
Total transactions with shareholders (c)		**(7,522)**		**8,010**
Other changes in shareholders' equity (d)				
Balance as at 31 December 2017 (e=a+b+c+d) (Note 24)	**1,001,232**	**(323,907)**	**620,130**	**200,246**

to owners of the parent

Reserve for defined benefit plans for employees, net of tax effect	Fair value reserve for cash flow hedge derivatives, net of tax effect	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
(11,744)		**(349,854)**				**(72,209)**	**1,063,406**	**888**	**1,064,294**
						292,766	**292,766**		**292,766**
(1,046)							**(1,046)**		**(1,046)**
(1,046)						**292,766**	**291,720**		**291,720**
					(72,209)	72,209			
				(161,827)			**(161,827)**		**(161,827)**
				(8,010)					
				(137)			**(137)**	**(888)**	**(1,025)**
							(7,522)		**(7,522)**
(561)				561					
(561)				**(169,413)**	**(72,209)**	**72,209**	**(169,486)**	**(888)**	**(170,374)**
(13,351)		**(349,854)**		**(169,413)**	**(72,209)**	**292,766**	**1,185,640**		**1,185,640**

It follows

(€ THOUSANDS)				
	Shareholders' equity pertaining			
	Share capital	Consolidation reserve	Share premium reserve	Legal reserve
Balance as at 31 December 2017 (a) (Note 24)	**1,001,232**	**(323,907)**	**620,130**	**200,246**
2018 profit for the year				
Other components of comprehensive income:				
Components reclassifiable to the income statement:				
- change in fair value of cash flow hedge derivatives				
Components not reclassifiable to the income statement:				
- Actuarial gains on remeasurement of defined-benefit plans for employees				
Total comprehensive income 2018 (b)				
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				
- 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) (Nota 24)	**1,001,232**	**(323,907)**	**620,130**	**200,246**

to owners of the parent

Reserve for defined benefit plans for employees, net of tax effect	Fair value reserve for cash flow hedge derivatives, net of tax effect	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
(13,351)		**(349,854)**		**(169,413)**	**(72,209)**	**292,766**	**1,185,640**		**1,185,640**
						313,695	**313,695**		**313,695**
	(4,943)						**(4,943)**		**(4,943)**
2,621							**2,621**		**2,621**
2,621	**(4,943)**					**313,695**	**311,373**		**311,373**
					292,766	(292,766)			
				(168,300)			**(168,300)**		**(168,300)**
				(5,852)	5,852				
			299				**299**		**299**
			299	**(174,152)**	**298,618**	**(292,766)**	**(168,001)**		**(168,001)**
					335		**335**		**335**
(10,730)	**(4,943)**	**(349,854)**	**299**	**(343,565)**	**226,744**	**313,695**	**1,329,347**		**1,329,347**

CASH FLOW STATEMENT

(€ THOUSANDS)	NOTES	2017	2018
Profit (loss) for the year		292,766	**313,695**
Adjustments to reclassify net profit to cash flow from operating activities:			
Amortisation and depreciation	(28)	352,001	**399,507**
- of which amortisation of Right of Use pursuant to IFRS16			***7,195***
Net impairment of assets	(28)	6,341	**1,749**
Effect of valuation using the equity method	(30)	(22,958)	**(19,999)**
Net capital losses (capital gains) on asset sales, cancellations and eliminations		4,124	**1,270**
Dividends		(15)	
Interest income	(29)	(836)	**(948)**
Interest expense	(29)	30,423	**47,913**
Income taxes	(31)	111,860	**112,811**
Changes in working capital:			
- inventories	(11)	10,306	**(3,352)**
- trade receivables	(10)	12,423	**22,772**
- trade payables	(19)	8,365	**26,735**
- provisions for risks and charges	(21)	(22,456)	**(23,440)**
- other assets and liabilities		(112,193)	**27,488**
of which contributions for connections, users			***(15,188)***
of which contributions for connections, increases			***24,500***
Cash flow from working capital		(103,555)	**50,203**
Change in provisions for employee benefits		(4,907)	**(5,459)**
Dividends collected		13,820	**29,872**
Interest income		836	**948**
Interest expense		(30,423)	**(47,913)**
Income taxes paid, net of tax credits reimbursed		(102,765)	**(133,289)**

(€ THOUSANDS)	NOTES	2017	2018
Net cash flow from operating activities		**546,712**	**750,360**
of which, related parties		*766,791*	***788,043***
Investments:			
- Property, plant and equipment	(14)	(10,867)	***(15,385)***
- intangible assets	(15)	(482,435)	**(483,818)**
- Change in scope of consolidation and business units		(35,941)	**(173,102)**
of which takeover of payables			***(64,558)***
of which business units			***(23,769)***
- Equity investments			**(42)**
- Change in payables and receivables for investments		30,754	**409**
Cash flow from investments		(498,489)	**(671,938)**
Disinvestments:			
- Property, plant and equipment			**424**
- intangible assets		419	**2,554**
- Disposals of operating assets		21,961	
- Change in receivables relating to disinvestment activities		(1)	
Cash flow from disinvestments		*22,379*	***2,978***
Net cash flow from investment activities		**(476,110)**	**(668,960)**
Assumptions of long-term financial payables	(18)	3,011,855	**251,794**
Repayments of long-term financial payables	(18)	(300,355)	**(202,572)**
Increase (decrease) in short-term financial payables	(18)	(2,618,988)	**180,442**
Dividends distributed		(161,827)	**(168,300)**
Outlays for rights of use			**(5,469)**
Net cash flow from financing activities		**(69,315)**	**55,895**
of which, related parties		*(64,003)*	***(66.563)***
Other changes			**(1,650)**
Net cash flow for the year		**1,287**	**135,645**
Opening cash and cash equivalents		**1,544**	**2,831**
Closing cash and cash equivalents		**2,831**	**138,476**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY INFORMATION

The Italgas Group, consisting of Italgas S.p.A., the consolidating company, and its subsidiaries (hereinafter referred to as "Italgas", the "Italgas Group" or the "Group"), is an integrated group at the forefront of the regulated natural gas sector and a major player in terms of its regulatory asset base (RAB24) in the sector.

Italgas S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices in Milan at 11 via Carlo Bo.

CDP S.p.A. has "de facto" control over Italgas S.p.A. pursuant to the accounting principle IFRS 10 "Consolidated Financial Statements".

As at 31 December 2018, CDP S.p.A., via CDP Reti S.p.A.[25], owns 26.05% of the share capital of Italgas S.p.A.

24_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 (ARERA) for determining base revenues for the regulated businesses.

25_CDP S.p.A. holds 59.10%.

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002 and pursuant to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) as well as the interpretive documents still in force issued by the IFRS Interpretation Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, before that, by the Standing Interpretations Committee (SIC). For sake of simplicity, all of the aforementioned standards and interpretations will hereafter be referred to as "IFRS" or "International Accounting Standards".

The consolidation principles and measurement criteria of the previous year are applied in the 2018 consolidated financial statements, except for the international accounting standards that came into force starting from 1 January 2018, which are described in the following section "Accounting principles and interpretations applicable from 2018" of said report. More specifically, the provisions of IFRS 16 "Leases" (hereinafter referred to as IFRS 16), IFRS 15 "Revenue coming from contracts with customers" and relevant clarifications provided in the document "Clarifications of IFRS 15 Revenue coming from contracts with customers" (hereinafter referred to as IFRS 15) and IFRS 9 "Financial instruments" (hereinafter referred to as IFRS 9), related in brief hereunder, apply to the 2018 financial statements.

On 13 January 2016, the IASB issued the IFRS 16 standard, which is based on a fundamental criterion, i.e. the right of use of an asset necessary for distinguishing between the lease agreements and the service contracts on the basis of probative elements such as: identification of the asset, the right to replace it, the right to basically get all the financial benefits arising from use of the asset and the right to govern use of the asset underlying the lease agreement. Conversely, payment of an amount along the contractual term of use of the asset entails that the entity is implicitly obtaining a loan. In short, IFRS 16 eliminates the distinction between finance leases and operating leases, and introduces, for lessees, a single accounting model for recognising leases. By applying this model the entity recognises: (i) assets and liabilities for all leases longer than 12 months; (ii) separately in the income statement, the amortisation of the asset recognised and the interest on the payable entered.

The provisions of IFRS 15 provide the criteria for recognising and measuring revenue coming from contracts with customers, and require that the recognition of revenue be based on the following 5 steps: (i) identification of the contract with the customer[26]; (ii) identification of the performance obligations represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the price of the transaction; (iv) allocation of the price of the transactions to the performance obligations identified based on the standalone selling price of each good or service; (v) recognition of the revenue when its performance obligation has been met, or when the promised good or service is transferred to the customer. The transfer is considered completed when the customer gains control of the good or service, which can occur over time or at a specific point in time.

The provisions of IFRS 9 concerning the classification and measurement of the financial assets establish the following categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value with the effects recognised in the other comprehensive income (hereinafter also referred to as OCI); (iii) financial assets measured at fair value with the effects recognised in the income statement.

The classification of a financial asset representing a debt instrument depends on the characteristics of the cash flows coming from the financial asset and from the business model adopted. In particular, the financial assets that generate contractual cash flows representing only payments of capital and interest are measured at amortised cost if held with the aim of collecting the contractual cash flows (so-called hold to collect business model); otherwise, they are measured at fair

26_ The provisions of IFRS 15 define the customer as the party that initiates a contract to acquire goods or services representing the output of the core activities of a supplier subject against payment of a consideration.

value with the effects recognised in the OCI (hereinafter also referred to as FVTOCI) if the business model includes the possibility to carry out transfers before the financial instrument matures (so-called hold to collect and sell business model).

A financial asset representing a debt instrument that is not measured at amortised cost or at FVTOCI is measured at fair value with the effects recognised in the income statement (hereinafter referred to as FVTPL);

The financial assets representing minority interests, since they are not held for trading, are measured at fair value with the effects recognised in shareholders' equity (FVTOCI) without considering their reversal to the income statement should they be realised; otherwise, the dividends generated by such investments are recognised in the income statement. Measurement at cost of a minority equity investment is allowed in those limited cases in which the cost represents an adequate estimation of the fair value.

The embedded derivatives incorporated in financial assets are no longer separated in accounting; in this case, the entire hybrid instrument is classified based on the general financial instrument classification criteria. The embedded derivatives incorporated in financial liabilities and/or non-financial assets are separated if: (i) the economic characteristics and risks of the embedded derivative are not closely tied to the economic characteristics and risks of the main contract; (ii) a distinct instrument with the same characteristics of the embedded derivative meet the definition of derivative; (iii) the hybrid instrument as a whole is not measured at FVTPL.

The provisions of IFRS 9 require application of the expected credit loss model for measuring recoverability of the financial assets on the basis of a predictive approach; in particular, with reference to the trade receivables and other receivables, the expected losses were generally determined based on the product between: (i) the exposure towards the counterparty net of the relevant mitigants (Exposure At Default, EAD); (ii) the probability that the counterparty does not meet its payment obligation (Probability of Default, PD); (iii) the estimate, in percentage terms, of the amount of credit that will be unable to be recovered in case of default (Loss Given Default, LGD), on the basis of prior experiences and possible attemptable recovery actions (e.g. out-of-court actions, legal disputes, etc.).

Furthermore, with reference to the definition of transactions such as hedging, the IFRS 9 provisions require: (i) the presence of an economic ratio between hedged object and hedging instrument such as to achieve the offsetting of the relevant changes in value; (ii) the circumstance that said offsetting ability is not invalidated by the counterparty's level of credit risk; (iii) the definition of a ratio between hedged object and hedging instrument (hedge ratio) consistent with the risk management objectives within the scope of the defined risk management strategy, taking the appropriate rebalancing actions if necessary. Changes to the risk management objectives, failure to meet conditions previously specified for qualifying transactions as hedging, or implementation of rebalancing transactions bring about the total or partial prospective discontinuation of the hedging.

The consolidated financial statements are prepared on a going-concern basis, using the historical cost method, taking into account value adjustments where appropriate, with the exception of the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.

The consolidated financial statements as at 31 December 2018, approved by the Board of Directors of Italgas S.p.A. at the meeting of 22 February 2019 were subjected to an audit by PricewaterhouseCoopers S.p.A., that - as the main auditor - is entirely responsible for the auditing of the Italgas Group consolidated financial statements.

The consolidated financial statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in thousands of Euro, unless otherwise specified.

ACCOUNTING PRINCIPLES AND INTERPRETATIONS APPLICABLE FROM 2018

The accounting principles and interpretations, issued by the IASB/IFRIC, endorsed by the European Commission and which came into force from 2018 are listed below.

On 31 October 2017 the IASB document **"Clarifications to IFRS 15 - Revenue from Contracts with Customers"** was endorsed. The changes to the principle introduce clarifications as well as new examples in order to facilitate the application of the principle and specifically with regard to: (i) the identification of individual contract obligations; (ii) the qualification of the entity as principal or agent; (iii) when to measure revenue from the concession to a customer of the use of or access to intellectual property. The changes also introduce additional practical devices which can make the transition to the new principle less onerous and specifically with regard to: (i) contracts concluded prior to the start of the first comparison period presented, also under the scope of the full retrospective approach; (ii) the aggregate representation of the contractual changes that took place before the start of the comparison period (full retrospective approach) or the first application period (modified retrospective approach).

On 3 November 2017 the IASB document **"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts-Amendments to IFRS 4"** was endorsed by the European Commission. It is aimed at solving the problems resulting from the application of IFRS 9 before the implementation of the standard which will replace IFRS 4, which is being developed by the IASB. The changes introduced involve the adoption of two alternatives: (i) the possibility of reclassifying costs and revenues from certain financial assets in the comprehensive income statement; (ii) the possibility of not temporarily applying IFRS 9 for entities where the main activity is to issue insurance contracts coming under the scope of the application of IFRS 4.

On 7 February 2018 the document **"Annual Improvements to IFRS Standards 2014-2016 Cycle"** was endorsed by the European Commission. It implements the amendments to several standards part of the annual process to improve them (including: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interest in Other Entities, IAS 28 Investments in Associates and Joint Venture). The amendments introduced to IFRS 1 and IAS 28 apply starting from the years beginning from 1 January 2018 or a later date, while the amendments introduced to IFRS 12 apply starting from the years beginning from 1 January 2017 or a later date.

On 26 February 2018 the document **"Classification and Measurement of Share based Payment Transaction - Amendments to IFRS 2"** of 20 June 2016 was endorsed by the European Commission. With this document the IASB: (i) clarifies the effects of the vesting and non-vesting conditions on the measurement of transactions with cash-settled share-based payment; (ii) specifies that the changes in transactions with cash-settled to equity-settled sharebased payment eliminate the original liability, recognition of the payment based on share-based payment with instruments representing capital at the fair value of the date of change to shareholders' equity to the extent for which, as at the same date, the services were provided and the immediate accounting of any difference to the income statement; (iii) with reference to the transactions with share-based payment with net settlement arising from withholding at the source made by the employer in compliance with tax laws or regulations, it introduces an exception so that these transactions are classified as equity-settled in full if they should be identified as such if there is not net settlement imposed by application of the tax legislation. These measures are effective for financial years starting on or after 1 January 2018.

On 14 March the European Commission endorsed the document **"Transfers of Investment property - Amendments to IAS 40"** of 8 December 2016, with which the IASB clarifies that an entity should reclassify a property to, or from, the category of property investments if and only if there is a change in use of the property; a change in management's intended use with regard to the property does not, in itself, constitute evidence of a change in use. These measures are effective from financial years starting on or after 1 January 2018.

On 28 March 2018 the European Commission endorsed the document **"IFRIC 22 Foreign Currency Transaction and Advance Consideration"**, issued by the IASB on 8 December 2016, with which it establishes that when there are foreign currency transactions whereby payment is made or received in advance, the exchange rate to apply for the initial recording of the asset, costs or revenue generated from the transaction for which advance payment/collection took place, corresponds to the exchange rate in force on the advance payment date. These measures are effective from financial years starting on or after 1 January 2018.

CHANGE IN ACCOUNTING CRITERIA

The consolidation principles and measurement criteria explained in the latest Annual Report, to which the reader is referred, are applied in the 2018 consolidated financial statements, except for the international accounting standards that came into force starting from 1 January 2018, which were previously explained in the section "Accounting principles and interpretations applicable from 2018" of the same Annual Report. In particular, the provisions of IFRS 15, IFRS 9 and IFRS 16, briefly explained in the continuation, were applied to the 2018 consolidated financial statements.

As regards the activities carried out by the Italgas Group, revenue is recognised when the service is provided. The economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations, governed by the regulatory framework established by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA). The application of IFRS 15 did not result in changes to the related recognition methods and, consequently, no impacts on the consolidated financial statements were identified except for the connection fees of a private nature. The need arose to represent the remuneration component of the first plant investment portion (connection contribution) as revenue to defer over time in line with the useful life of the asset to which it refers instead of considering the connection contribution like a capital contribution to recognise to reduce the asset. On 1 January 2018 this exposure led to a €437,046 thousand increase in assets and a corresponding increase in other liabilities for the portion of revenue from deferred contributions based on the depreciation useful life of the plants to which they refer, without any impact on shareholders' equity. As at 31 December 2018 the effect on the Income Statement was equal to €15,188 thousand of higher amortization, offset by the increase of the same amount of the item other revenues and income.

IFRS 9, endorsed with regulation no. 2016/2067, issued by the European Commission on 22 November 2016, was adopted starting from 1 January 2018.

As for the classification and measurement of the financial assets of the Italgas Group, no significant impacts arising from application of the new standard are *reported*. The business model adopted by the Group for managing financial assets, pursuant to IFRS 9, is that aimed to holding financial instruments in order to collect contractual flows (Hold to collect contractual cash flow), therefore financial assets, such as trade, financial and other receivables, and financial liabilities, such as trade, financial and other payables, continue to be valued at amortized cost. With reference to the impairment model based on expected credit loss as required by IFRS 9, the Group has developed a new credit management model that made it possible to analytically determine the different risk that can be associated with the collectability of trade receivables starting from their emergence and progressively depending on their growing duration. The Group used this information when determining the provision for impairment losses according to the impairment model based on expected credit loss.

It is necessary to note that Italgas works in a regulated sector in which it generates most of its revenues and that most of its receivables refer to highly reliable customers such as Eni and Enel. Therefore, the rules for user access to the gas distribution service are established by ARERA and are set forth in the Network Codes, i.e., documents which establish, for each type of service, the rules governing the rights and obligations of the parties involved in the provision of those services, and dictate contractual clauses reducing the risk of breach by customers; lastly, based on the so-called Network Code (or the set of conditions governing relationships between sales companies and distributors), to access the gas distribution service the gas sales companies are required to issue dedicated guarantees in the form of bank sureties or insurance or security deposits; considering that the majority of the receivables relate to regulated activities for which forms of guarantee are provided in favour of Italgas and/or the intervention of the Energy and Environmental Services Fund is provided in the cases set forth in the regulatory codes.

The application of the new impairment model did not show a significant change as at 1 January 2018 and no effects were recorded in equity.

Lastly, it is *reported* that on 15 January 2018 the company signed an IRS contract to hedge exposure to the fluctuation of future cash flows (cash flow hedge) arising from a floating rate loan granted by the EIB on 28 December 2017 for the amount of €360 million. The derivative has specular conditions for the underlying loan in terms of amount, interest rate and contractual flows' trade date and therefore on the basis of the effectiveness test the derivative meets the conditions set by the new accounting standard in order to be defined as hedging and has been valued to FVTOCI.

With reference to IFRS 16, the Italgas Group availed itself of the possibility to adopt the standard early, at the same time that IFRS 15 is applied. Furthermore, based on the transition provisions of IFRS 16, the effects connected with the cases in point existing on 1 January 2018 were recognised without restating the prior period presented as comparison ("modified retroactive approach") and recognising the right of use for an amount equal to the relevant financial liability.

The actualization rate used during the transition phase to the new accounting standard was the marginal borrowing rate of the group as at 1 January 2019. Furthermore in line with the accounting standard we have excluded short term leasing and other low value leasing.

For the group, the effect of the new standard mainly regarded the operating lease agreements concerning assets such as property, computer equipment and motor vehicles/lorries.

More specifically, adoption of IFRS 16 involved recognising greater fixed assets (right of use) and lease payables amounting to €32,989 thousand as at 1 January 2018.

The effects arising from first application of IFRS 9, IFRS 15 and IFRS 16 as at 1 January 2018 are provided below:

(€ THOUSANDS)	1.1.2018					
Balance sheet items	**Figures published 31.12.2017**	**Application IFRS 9**	**Application IFRS 15**	**Application IFRS 16**	**Total first application effects**	**Figures restated 1.1.2018**
Current assets	**680,216**					**680,216**
- of which trade and other receivables	619,202					**619,202**
Non-current assets	**5,164,153**		**437,046**	**32,989**	**470,035**	**5,634,188**
- of which intangible assets	4,676,561		437,046		437,046	**5,113,607**
- of which property, plant and equipment	224,651			32,989	32,989	**257,640**
Current liabilities	**620,445**			**4,832**	**4,832**	**625,277**
- of which short-term portions of long-term financial liabilities	25,043			4,832	4,832	**29,875**
Non-current liabilities	**4,038,284**		**437,046**	**28,157**	**465,203**	**4,503,487**
- of which other non-current liabilities	2,055		437,046		437,046	**439,101**
- of which long-term financial liabilities	923,005			28,157	28,157	**951,162**
Total Shareholders' Equity	**1,185,640**					**1,185,640**

2. CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of Italgas S.p.A. and of the companies over which the Company has the right to exercise direct or indirect control, as defined by IFRS 10 – "Consolidated Financial Statements". Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the investee entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the investee entity;
- is able to exercise power over the investee entity in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an investee entity depends.

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 31 December 2018", which is an integral part of these notes.

All financial statements of consolidated companies close at 31 December and are presented in Euro.

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Figures relating to subsidiaries are included in the consolidated financial statements from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.

The assets, liabilities, income and expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders' equity of each of the investee entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control.

The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders' equity, the income statement and the statement of comprehensive income.

Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders' equity pertaining to shareholders of the parent company and minority interests are *adjusted* to reflect the change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under equity pertaining to shareholders of the parent company.

Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders' equity transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

EQUITY INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an investee company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies, but does not have control or joint control[27]. It is assumed that the investor has significant influence (unless there is proof to the contrary) if it holds, directly or indirectly through subsidiaries, at least 20% of the exercisable voting rights.

A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.

Equity investments in associates and joint ventures are measured using the equity method, as described under "Investments valued using the equity method".

BUSINESS COMBINATIONS

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.

The shareholders' equity of these investee companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.

Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill (the "partial goodwill method"). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the "full goodwill method"). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (partial goodwill method or full goodwill method) is made based on each individual business combination transaction.

27_Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement.

When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are *adjusted*, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

Business combinations involving entities under joint control

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as "business combinations of entities under common control". Such transactions do not fall within the scope of application of IFRS 3, and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired predating the transaction or, where available, at the values from the consolidated financial statements of the common ultimate parent. With regard to business transfers under common control, the transferee entity should record the business transferred at its historical book value increasing its shareholders' equity by this amount; the transferring entity will record the investment in the transferee entity for the same amount as the increase in the shareholders' equity of the latter.

This accounting treatment is based on the Preliminary Guidelines on IFRS (OPI 1 Revised) - "Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements" issued by Assirevi in October 2016.

Intragroup transactions that are eliminated in the consolidation process

Unrealised gains from transactions between consolidated companies are derecognised, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they effectively represent impairment of the asset transferred.

3. MEASUREMENT CRITERIA

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use if the investment had not been made.

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/value of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses are posted to the income statement in the period when they are incurred.

Rights of use

The cost of the asset consisting of right of use comprises:

a) the amount of the initial measurement of the liability of the lease;
b) the payments due for the lease made on the date or before the starting date, net of lease incentives received;
c) the initial direct costs incurred;
d) and the costs for dismantling and restoring the site.

The liabilities of the leases include the following payments for the right of use of the underlying asset along the duration of the lease unpaid as at the starting date:

a) the fixed payments, net of any lease incentives receivable;
b) the variable payments due for the lease that depend on an index or rate;
c) the amounts payable by way of warranties of the residual value;
d) the price for exercising the right to purchase where there is the reasonable certainty of exercising the option; and
e) the payments of lease termination penalties where lease termination is provided for.

The discount rate used is the embedded interest rate of the lease for the remaining duration of the lease, if such rate is not easy to determine, the marginal loan interest rate of the Group as at the recalculation date is used.

In determining the lease term and the duration of the non-cancellable lease term, the Group has considered the contractual conditions and determined the period of time during which the contract is due.

To each date of assessment, the Group shall evaluate whether there is reasonable certainty of exercising the option for the extension of the lease or the purchase option of the underlying asset, or not to exercise the option of resolving the leasing agreement. In particular, all relevant facts and circumstances are considered which create an economic incentive to exercise or not exercise the option, including changes envisaged in the facts and circumstances from the effective date up to the option exercise date.

As the standard allows, the short-term leases and the leases for assets of a modest amount were excluded.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	ANNUAL DEPRECIATION RATE (%)
Land and building	
- Industrial buildings	2%
- Civil buildings	3%
Plant and equipment	
- Other plant and equipment	4%
Industrial and commercial equipment	
- Office furniture and machinery	12% - 33.3%
- Transportation vehicles	20% - 25%
Rights of use	duration of the lease agreement

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.

Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale and discontinued operations" section).

Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.

Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset, if lower.

INTANGIBLE ASSETS

Intangible assets are those assets without identifiable physical form which are controlled by the company and capable of producing future economic benefits, as well as goodwill, when purchased for consideration. The ability to identify these assets rests in the ability to distinguish intangible assets purchased from goodwill. Normally this requirement is satisfied when: (i) the intangible assets are related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. The company's control consists of the power to utilise future economic benefits deriving from the asset and the ability to limit access to it by others. Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.

Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits.

Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred.

Intangible assets are eliminated at the time they are decommissioned, or when no future economic benefit is expected from their use; the related profit or loss is posted in the income statement.

Service concession agreements

Intangible assets include service concession agreements between the public and private sectors for the development, financing, management and maintenance of infrastructures under concession in which: (i) the grantor controls or regulates the services provided by the operator through the infrastructure and the related price to be applied; and (ii) the grantor controls any significant remaining interest in the infrastructure at the end of the concession by owning or holding benefits, or in some other way. 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 Autorità di Regolazione per Energia Reti e Ambiente (ARERA), formerly Autorità per l'Energia Elettrica il Gas e il Sistema Idrico (AEEGSI), holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service.

Amortisation of intangible assets

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset.

The amount to be amortised is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual amortisation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	ANNUAL AMORTISATION RATE (%)
Patent rights and intellectual property rights	20% - 33.3%
Concession expenses	Depending on the duration of the agreement
Land and buildings (concession agreements)	
- Industrial buildings	2.5% - 5%
- Light constructions	9% - 10%
Plant and equipment (concession agreements)	
- Gas distribution network	2% - 5%
- Principal and secondary facilities	5% - 6%
- Gas derivation plants	2.5% - 5.4%
Industrial and commercial equipment (concession agreements)	
- Metering and control equipment	6.7% - 20%

Goodwill and other intangible assets with an indefinite useful life are not subject to amortisation.

GRANTS

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of the related assets. Similarly, capital grants received from private entities are recognised in accordance with the same regulatory provisions.

Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

IMPAIRMENT OF NON-FINANCIAL FIXED ASSETS

Impairment of property, plant and equipment and intangible assets with a finite useful life

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value *adjusted* for disposal costs (see "Measurement at fair value") or the value in use, whichever is greater.

Value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets ("cash-generating units" or CGUs).

As regards the value of the property, plant and equipment falling within the scope of the regulated activities, it is determined considering: (i) the amount quantified by the Authority based on the rules used to define the tariffs for provision of the services for which they are intended; and (ii) any value that the group expects to recover from their sale or at the end of the concession governing the service for which they are intended. As with the quantification of tariffs, the quantification of the recoverable value of property, plant and equipment classed under regulated assets is done on the basis of the regulatory provisions in force.

If the reasons for impairment losses no longer apply, the assets are revalued and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery impairment loss had not been recorded for the asset.of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

Impairment of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use

The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the level of the smallest aggregate, on the basis of which the Company's management directly or indirectly assesses the return on investment, including goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the CGU. Goodwill impairment losses cannot be reversed.

INVESTMENTS VALUED USING THE EQUITY METHOD

Equity investments in joint ventures and associates are valued using the equity method.

In applying the equity method, investments are initially recognised at cost and subsequently *adjusted* to take into account: (i) the participant's share of the results of operations of the investee after the date of acquisition, and (ii) the share of the other components of comprehensive income of the investee. Dividends paid out by the investee are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the "Consolidation principles" section).

In the case of assumption of an association (joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of revaluing the book value of the investments previously held at assumption of association is posted to the income statement, including any components recognised under other components of comprehensive income. When the transfer of equity investments entails loss of joint control or significant influence over the investee company, the following are recognised in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of the booked amount transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the investee company that will be taken to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria.

If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the book value with the related recoverable value determined using the criteria indicated in the section "Impairment of non-financial fixed assets".

When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under "Income (expense) from equity investments".

The parent company's share of any losses of the investee company, greater than the investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

INVENTORIES

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisation value, which is the amount that the company expects to receive from their sale in the normal course of business.

The cost of natural gas inventories is determined using the weighted average cost method.

Cash and cash equivalents

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.
They are recorded at their nominal value, which corresponds to the fair value.

FINANCIAL INSTRUMENTS

Financial assets - debt instruments

Depending on the characteristics of the instrument and of the business model adopted for its management, financial assets representing debt instruments are classified in the following three categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value with the effects recognised in the other comprehensive income components (hereinafter also referred to as OCI); (iii) financial assets measured at fair value with the effects recognised in the income statement.

Initial recognition is at fair value; for those trade receivables without a significant financial component, the initial recognition value is represented by the transaction price.

Following initial recognition, the financial assets that generate contractual cash flows representing only payments of capital and interest are measured at amortised cost if held with the aim of collecting their contractual cash flows (so-called hold to collect business model). Based on the amortised cost method, the initial book value is then *adjusted* to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording.

The receivables and other financial assets measured at amortised cost are presented in the balance sheet net of their provision for impairment losses.

The financial assets representing debt instruments whose business model includes both the possibility to collect contractual cash flows and the possibility to realise capital gains on transfers (so-called hold to collect and sell business model) are measured at fair value with the effects recorded on OCI (hereinafter also FVTOCI).

In this case the fair value changes in the instrument are recognised in shareholders' equity amongst the other comprehensive income components. The cumulative amount of the changes in fair value, recognised in the shareholders' equity provision that includes the other comprehensive income components, is reversed to the income statement when the instrument is derecognised. The interest income, calculated using the effective interest rate, exchange rate differences and impairments, is recognised on the income statement.

A financial asset representing a debt instrument that is not measured at amortised cost or at FVTOCI is measured at fair value with the effects recognised in the income statement (hereinafter referred to as FVTPL).

When the purchase or sale of financial assets is made according to a contract requiring that the transaction be regulated and that the asset be delivered within a certain number of days, established by the market control authorities or by market agreements (e.g. purchase of securities on regulated markets), the transaction is recognised on the settlement date.

Disposals of financial assets are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

Impairment di financial assets

Recoverability of the financial assets representing debt instruments not measured at fair value with effects on the income statement is measured on the basis of the so-called "expected credit loss model".
In particular, the expected losses are generally determined based on the product between: (i) the exposure tow the counterparty net of the relevant mitigants (Exposure At Default, EAD); (ii) the probability that the counterparty does not meet its payment obligation (Probability of Default, PD); (iii) the estimate, in percentage terms, of the amount of credit that will be unable to be recovered in case of default (Loss Given Default, LGD) defined on the basis of prior experiences and possible attemptable recovery actions (e.g. out-of-court actions, legal disputes, etc.).

To this regard, to determine the probability of default of the counterparties, the internal ratings already used for the assignment were adopted; the probability of default for the counterparties represented by government entities and in particular for the national oil companies, basically depicted by the probability of a late payment, is determined using the country risk premiums adopted to determine WACCs for the impairment of the non-financial assets as input.

For the retail customers not characterised by internal ratings, measurement of the expected losses is based on a matrix provision built by grouping, if advisable, the receivables in appropriate clusters to which impairment percentages defined on the basis of prior loss experience are applied. If necessary, those percentages are *adjusted* to take into account forward looking information on the credit risk of the counterparty or of clusters of counterparties.

Minority interests

The financial assets representing minority interests, since they are not held for trading, are measured at fair value with the effects recognised in the shareholders' equity provision that includes the other comprehensive income components, without considering their reversal to the income statement should they be realised.

The dividends coming from these interests are recognised in the income statement under the item "Income (expense) from equity investments". Measurement at cost of a minority equity investment is allowed in those limited cases in which the cost represents an adequate estimation of the fair value.

Financial liabilities

Financial liabilities other than derivative instruments, including financial debt, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as demonstrated in "Financial assets" above.

Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when there is the currently excercisable legal right to compensation and there is the intention of settling the transaction on a net basis (i.e. realizing the asset and at the same time extinguishing the liability).

Derivative financial instruments and hedge accounting

Derivative financial instruments, including embedded derivatives, are assets and liabilities recognised at fair value according to the criteria indicated under the following point "Measurement at fair value".

As part of the strategy and objectives defined for risk management, defining transactions as hedging requires: (i) checking the existence of an economic ratio between hedged object and hedging instrument such as to achieve the offsetting of the relevant changes in value and that this offsetting ability is not invalidated by the counterparty's level of credit risk; (ii) the definition of a ratio consistent with the risk management objectives within the scope of the defined risk management strategy, taking the appropriate rebalancing actions if necessary. The changes introduced to the risk management objectives, the conditions previously specified for defining transactions as hedging not met, or implementation of rebalancing transactions bring about the total or partial prospective discontinuation of the hedging.

When the hedge derivatives cover the risk of change in the fair value of the instruments to be hedged (fair value hedge; e.g. hedging the variability of the fair value of fixed rate asset/liability), the derivatives are recognised at fair value with the effects recorded in the income statement; consistently, the hedged instruments are *adjusted* to reflect the changes in fair value associated with the hedged risk in the income statement, regardless of the forecast of a different measurement criterion usually applicable to the type of instrument.

When the derivatives cover the risk of change in the cash flows of the hedged instruments (cash flow hedge; e.g. hedging the variability of the asset/liability cash flows due to fluctuations in interest rates or exchange rates), the changes in fair value of the derivatives considered effective are initially recognised in the shareholders' equity provision pertaining to the other comprehensive income components and afterwards recorded in the income statement in line with the economic effects generated by the hedged transaction. In the case of hedging future transactions involving the recognition of a non-financial asset or liability, the cumulative changes in the fair value of the hedge derivatives recognised in the shareholders' equity are recorded to adjust the book value of the asset/liability of the non-financial asset/liability hedged (basis adjustment).

The non-effective portion of the hedge is recognised in the income statement item "Financial (expense)/income".

The changes in the fair value of the derivatives that do not meet the conditions to be defined as hedging, including any ineffective components of the hedge derivatives, are recorded in the income statement. Specifically, the changes in fair value of the non-hedge derivatives on interest rates and currencies are recognised in the income statement item "Financial (expense)/income".

The embedded derivatives incorporated in financial assets are no longer separated in accounting; in this case, the entire hybrid instrument is classified based on the general financial asset classification criteria. The embedded derivatives incorporated in financial liabilities and/or non-financial assets are separated by the main contract and are recognised separately if the embedded instrument: (i) meets the definition of derivative; (ii) as a whole is not measured at fair value with the effects recognised in the income statement (FVTPL); (iii) if the characteristics and risks of the derivative are not closely tied to those of the main contract. The existence of embedded derivatives to separate and measure separately is checked when the company joins the contract and afterwards when there are amendments to the conditions of the contract that bring about significant changes in the cash flows it generates.

Fair value measurement

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by putting the asset to its maximum and best use or by selling it to another market participant capable of using it in such a way as to maximise its value. The maximum and best use of an asset is determined from the perspective of market operators, also hypothesising that the company intends to put it to a different use; the current use by the company of a non-financial asset is assumed to be the maximum and best use of this asset, unless the market or other factors suggest that a different use by market operators would maximise its value.

The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The fair value of the financial instruments is determined considering the credit risk of the counterparty of a financial asset ("Credit Valuation Adjustment" - CVA) and the risk of default by the same entity with reference to a financial liability ("Debit Valuation Adjustment" - DVA).

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: inputs represented by (unmodified) quoted prices on active markets for assets or liabilities identical to those that can be accessed as at the valuation date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs that cannot be observed for the asset or liability.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

Non-current assets held for sale and discontinued operations

Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition. In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of whether a non-controlling investment is maintained following the sale. Checking that the conditions required to qualify an item as held for sale requires that the Company's management made subjective assessments and formulate reasonable and realistic assumptions based on the information available.

Non-current assets held for sale, current and non-current assets related to disposal groups and directly associated liabilities are recognised in the Statement of Financial Position separately from the Company's other assets and liabilities.

The assets and liabilities falling within a disposal group are measured according to the accounting standards applicable to them right before being classified as held for sale. Afterwards, the non-current assets held for sale and non-current assets in disposal groups are not amortised or depreciated, and are measured at the lower between the book value and the related fair value, less any sales costs (please refer to the forgoing point "Measurements at fair value").

The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.

Any negative difference between the book value of the non-current assets and the fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.

Non-current assets and current and non-current assets (and any related liabilities) of disposal groups, classified as held for sale, constitute discontinued operations if, alternatively: (i) they represent a significant independent business unit or a significant geographical area of business; (ii) they are part of a programme to dispose of a significant independent business unit or a significant geographical area of business; or (iii) they pertain to a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations, as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects, including for the periods under comparison.

When events that no longer allow the non-current assets or disposal groups to be classified as held for sale occur, they are reclassified in the respective balance sheet items and are recognised at whichever is less: (i) the book value at the date of classification as held for sale; and (ii) the recoverable value as at the reclassification date.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year.

Provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at a value representing the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits deriving from the contract, and the cost to terminate the contract.

When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".

When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset, and posting to the income statement is accomplished through amortisation. The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.

Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously *reported* or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.

The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

PROVISIONS FOR EMPLOYEE BENEFITS

Post-employment benefits

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classified as "defined-benefit" or "defined-contribution" plans.

- *Defined-benefit plans*
  The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.

  Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

  Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in "Financial income (expense)".

- *Defined-contribution plans*
  In defined-contribution plans, the Company's obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.

  The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

Other long-term plans

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

DISTRIBUTION OF DIVIDENDS

The distribution of dividends to the Company's Shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company's Shareholders or, in the case of interim dividends, by the Board of Directors.

REVENUE

The recognition of revenue from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the price of the transaction; (iv) allocation of the price of the transactions to the performance obligations identified based on the standalone selling price of each good or service; (v) recognition of the revenue when its performance obligation has been met, or when the promised good or service is transferred to the customer; the transfer is considered completed when the customer gains control of the good or service, which can occur over time or at a specific point in time.

As regards the activities carried out by the Italgas Group, revenue is recognised when the service is provided. The largest share of core revenue relates to regulated revenue, which is governed by the regulatory framework established by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA). Therefore, the economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations. With regard to the natural gas distribution segment, the difference between the revenue recognised by the regulator (so-called revenue cap) and the effectively accrued revenue is recognised in the Statement of Financial Position item "Trade and other receivables", if positive, and in the item "Trade and other payables", if negative, inasmuch as it will be subject to cash settlement with the Cassa per i Servizi Energetici e Ambientali (CSEA)[28].

Allocations of revenue relating to services partially rendered are recognised by the fee accrued, as long as it is possible to reliably determine the stage of completion and there are no significant uncertainties over the amount and the existence of the revenue and the relative costs; otherwise they are recognised within the limits of the actual recoverable costs.

Items of property, plant and equipment not used in concession services, transferred from customers (or realised with the cash transferred from customers) and depending on their connection to a network for the provision of supply, are recognised at fair value as a contraentry to revenue in the income statement. When the agreement stipulates the provision of multiple services (e.g. connection and supply of goods), the service for which the asset was transferred from the customer is checked and, accordingly, the disclosure of the revenue is recognised on connection or for the shorter of the term of the supply and the useful life of the asset.

28_Law No. 208 of 28 December 2015 (2016 Stability Law) makes provision, in Article 1, paragraph 670, for the transformation of the Cassa Conguaglio per il Settore Elettrico (CCSE) into a state-controlled Cassa per i Servizi Energetici e Ambientali (CSEA) as of 1 January 2016. The transformation of the CCSE into a state-controlled company and the change of name do not, in any way, either cause discontinuity in the functional relations of the CSEA (formerly the CCSE) with regulated parties or with suppliers.

Revenue is recorded net of returns, discounts, allowances and bonuses, as well as directly related taxes.

Revenue is *reported* net of items involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Italgas are paid in full to the Energy and Environmental Services Fund. Gross and net presentation of revenue is described in more detail in the Notes to the consolidated financial statements (see "Revenue" note).
Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue and costs.

DIVIDENDS RECEIVED

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

COSTS

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

ENERGY EFFICIENCY CERTIFICATES

The Energy Efficiency Certificates purchased during the year are entered in the income statement at the cost borne. The relevant contribution that CSEA will pay at the time the certificates are cancelled is booked as a reduction of the cost borne and is calculated based on the repayment price scheduled at year-end. A special risk provision is allocated to cover the future expected charges to fulfil the year's objective calculated as the difference between the cost to be borne and its cancellation contribution.

INCOME TAXES

Current income taxes are calculated by estimating the taxable income. Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/recovered to/from the tax authorities under the prevailing tax regulations and rates or those essentially approved at the reporting date.

Regarding corporation tax (IRES), Italgas has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up. The projected payable is recognised under "Current income tax liabilities".

The regulations governing Italgas Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Italgas. The taxable income of the subsidiary, used to determine the tax, is *adjusted* to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;
- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate financial statements, receive from their shareholders – in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability – or from Italgas in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

Regional production tax (IRAP) is recognised under the item "Current income tax liabilities"/"Current income tax assets".

Deferred and prepaid income taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates or those essentially approved for future years. Prepaid tax assets are recognised when their recovery is considered probable; specifically, the recoverability of prepaid tax assets is considered probable when taxable income is expected to be available in the period in which the temporary difference is cancelled, allowing the activation of the tax deduction. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability.

Prepaid tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset. The balance of the offsetting, if it results in an asset, is recognised under the item "Prepaid tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

Income tax assets with elements of uncertainty are recognised when they are regarded as likely to be obtained.

OPERATING SECTORS

The Group mainly works in Gas Distribution and Metering, and residually works in the Distribution, Metering and Sale of gases other than natural gas (LPG) and in the Distribution and Sale of water; owing to the irrelevance of this residual line of business, a single operating sector was identified pursuant to IFRS, which is Gas Distribution and Metering.

4. FINANCIAL STATEMENTS

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of financial statements" (hereinafter "IAS 1"). In particular:

- the Statement of Financial Position items are broken down into assets and liabilities, and then further into current or non-current items[29]";
- the Income Statement classifies costs by type, since this is deemed to be the best way of representing the Group's operations and is in line with international best practice;
- the Statement of Comprehensive Income shows the profit or loss in addition to the income and expense recognised directly in shareholders' equity as expressly provided for by the IFRS;
- the Statement of Changes in Shareholders' Equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in Shareholders' equity;
- the Statement of Cash Flows is prepared using the "indirect" method, adjusting the profit for the year of non-monetary components.

It is believed that these statements adequately represent the Group's situation with regard to its Statement of Financial Position, Income Statement and Statement of Cash Flows.

Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement.

With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in the note – "Related-party transactions", are shown separately in the financial statements.

5. USE OF ESTIMATES

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

29_The assets and liabilities are classified as current if: (i) their realisation is expected in the normal corporate operating cycle or in the twelve months after the financial year-end; (ii) they are composed of cash or cash equivalents which do not have restrictions on their use over the twelve months following the year-end date; or (iii) they are mainly held for trading purposes.

Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on subsequent results.

Impairment of assets	Assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand. The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the value in use, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are updated using a rate that takes account of the risk inherent to the asset concerned. More information on the impairment test carried out by the Company's management on property, plant and equipment and on intangible assets can be found in the "Impairment of non-financial fixed assets" section.
Business combinations	The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the allocation of the difference is carried out by recognising the assets and liabilities at their fair value. The unallocated portion, if positive, is recognised as goodwill; if negative, it is allocated to the income statement. In the allocation process, the Italgas Group draws on the available information and, for the most significant business combinations, on external valuations.
Environmental liabilities	The Italgas Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of a large liability can be reliably estimated, provisions are made for the associated costs. The group currently does not believe there will be particularly negative impacts on the financial statements due to failure to comply with environmental regulations, also taking into account the measures already undertaken. However, it cannot be definitely ruled out that further costs or responsibilities may be incurred, including quite significant ones because, as far as we are currently aware, it is impossible to predict the effects of future developments also taking into account, among other things, the following aspects: (i) the possible emergence of contamination; (ii) the results of current and future refurbishment and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

Provisions for employee benefits	Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered. The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation ex-pectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees. Differences in the value of net liabilities (assets) in employee benefit plans, aris-ing due to changes in the actuarial assumptions used and the difference be-tween the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses re-lating to defined-benefit plans are recognised in the statement of comprehensive income. Actuarial assumptions are also used to determine obligations relating to other long-term benefits; to this end, the effects arising from changes to the ac-tuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.
Provisions for risks and charges	In addition to recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Italgas makes provisions relating mainly to legal and tax disputes, to the expenses related to reaching the Energy Efficiency Certificates targets indicated by the Authority (TEE) and to the estimated costs for the activity of replacing/restoring smart meter functions having operational problems. At the present state no ARERA resolution contains information on the replacement (e.g. due to malfunctioning) of smart meters under warranty and on their regulatory treatment. Furthermore, checks are being performed with suppliers to ascertain whether or not the problems, and therefore the replacement work, are covered by warranties. The estimate of the provisions for these pur-poses is the result of a complex process involving subjective judgements on the part of the Company's management.

6. RECENTLY ISSUED ACCOUNTING STANDARDS

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BY THE IASB AND APPROVED BY THE EUROPEAN COMMISSION, BUT NOT YET IN FORCE

On 22 March 2018 the European Commission endorsed the document "**Prepayment Features with Negative Compensation (Amendments to IFRS 9)**". The amendments are effective for financial years starting on or after 1 January 2019.

On 24 October 2018 the European Commission endorsed the document **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 are effective from financial years starting on or after 1 January 2019.

No impacts caused by implementation of the new standard are expected.

Other approved standards

The accounting principles and interpretations endorsed by the European Commission but that have not yet come into force are listed and described below.

With regulation no. 2018/498, issued by the European Commission on 22 March 2018, the regulatory provisions contained in the document "Prepayment features with negative compensation - Amendments to IFRS 9", issued by the IASB on 12 October 2017 were endorsed. The document allows a financial asset distinguished by an early payment option to be measured at amortised cost or at fair value through other comprehensive income (FVTOCI) by negative compensation. The document also clarified the accounting method of a change or an exchange of a financial liability at amortised cost that has not been derecognised. The difference between the original contractual cash flows and the modified cash flows, discounted at the effective interest rate, must be recognised in the income statement at the date of the change or exchange. These measures are effective from financial years starting on or after 1 January 2019.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPROVED BY THE EUROPEAN UNION AS AT THE DATE OF REFERENCE OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

Several accounting standards, interpretations and amendments have been issued by the IASB but not yet approved by the European Union as at the date this document is drawn up, including those described below.

On 18 May 2017 the IASB issued the **IFRS 17 "Insurance Contracts"** standard, which regards all insurance contracts and defines their "recognition, measurement, presentation and disclosure" principles. It replaces the previous IFRS 4. With the new standard an accounting model is introduced, the "Building Block Approach" (BBA), based on discounting the expected cash flows, on clarifying a risk adjustment and a contractual service margin (CSM) representing the expected profit of an insurance contract. The contractual margin is posted to the income statement along the period of insurance coverage. Two approaches alternative to the BBA were also introduced: the Variable Fee Approach (VFA) and the Premium Allocation Approach (PAA). The standard also sets out a new method for booking insurance revenues, insurance service expenses and insurance finance income or expenses to the income statement. The measures contained in IFRS 17 will take effect from financial years starting on or after 1 January 2021, notwithstanding any subsequent deferrals established upon adoption by the European Commission.

The 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.

On 12 December 2017 the IASB issued the document "**Annual Improvements to IFRS Standards 2015-2017 Cycle**" with which: i) with reference to IFRS 3 Business Combination and to IFRS 11 Joint Arrangements it clarifies that when a company gains control of a business through a joint transaction, it is necessary to recalculate the value of the previous shareholder units in the same business, ii) with reference to IAS 12 Income Taxes it clarifies that the requirements under paragraph 52B (to recognise the tax effects of the dividends when the transactions or the events that generate distributable profits are recognised) apply to all income taxes deriving from the dividends pursuant to paragraph 52A the discusses on the application of different tax rates for the distributed and non-distributed profits and iii) with reference to IAS 23 Borrowing Costs, with which it clarifies that if a loan remains outstanding, once the relevant asset is ready for its allocation or sale this debt becomes part of the funds. The amendments introduced are effective for 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 IASB published the document **Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**. The amendments to IASB 19 are aimed at clarifying how to determine the pension costs when a change is introduced to the defined-benefit plan. The amendments take effect 1 January 2019, barring any subsequent deferrals established upon approval by the European Commission.

On 29 March 2018 the IASB published a revision of **"Conceptual Framework for Financial Reporting"**, with which it provided a new version of the definitions of asset and liability together with a guide to their measurement, derecognition, presentation and description in the Notes to the financial statements. The new Conceptual Framework is not a substantial revision of the original Framework version, as it was conceived in 2004, but is instead a supplement of aspects not fully or partly discussed to date. These measures will take effect from financial years starting on or after 1 January 2020, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 22 October 2018 the IASB issued the document **Definition of a Business (Amendments to IFRS 3)**, aimed at clarifying which are the assumptions based on which it is established whether an entity has acquired a set of activities or a business. The amendments are effective for acquisitions of businesses or of a set of activities that have taken place on the date the first annual period of reference begins (from 1 January 2020) or afterwards, barring any differences established when endorsed by the European Commission.

On 31 October 2018 the IASB issued the document **Definition of Material (Amendments to IAS 1 and IAS 8)** for alignment with the Conceptual Framework and standards. As regards the definition of "material", the information is significant if it can be reasonably believed that its omission, incorrect presentation or concealment might affect the decisions taken by the users of the financial statements. The amendments are effective for the annual periods beginning from 1 January 2020 or afterwards, barring any subsequent deferrals established upon approval by the European Commission.

7. BUSINESS COMBINATION TRANSACTIONS

On 26 January 2018, the subsidiary Italgas Reti S.p.A. finalised the acquisition of the Amalfitana Gas business unit for natural gas distribution activities in three ATEMs in Campania and Basilicata. The total Amalfitana Gas assets acquired include 12 concessions in the municipalities of Somma Vesuviana, Viggiano, Baronissi, Calvanico, Pellezzano, Fisciano, Siano, Oliveto Citra, Contursi Terme, Montesano sulla Marcellana, Monte San Giacomo and Atena Lucana, with an operations network spanning around 330 kilometres and serving over 22,000 users. The value of the transaction was €20.8 million.

On 31 January 2018, the subsidiary Italgas Reti S.p.A. finalised acquisition of the AEnergia Reti business unit relating to the distribution network serving the municipality of Portopalo di Capopassero (Syracuse). The AEnergia Reti business unit acquisition involved a network, completed but not yet operative, that spans around 35 kilometres and serves a potential customer base of 1,400. The amount paid was €2.2 million.

On 28 February 2018 the subsidiary Italgas Reti S.p.A. finalised acquisition of Ichnusa Gas (afterwards merged into Medea). It is a holding company that controlled 12 companies granted concessions for the installation and operation of gas distribution networks in 74 municipalities in Sardinia. The enterprise value of Ichnusa Gas was established at €26.2 million. As at the acquisition date, 2 of the 12 concessions were provisionally operating with the first customers served with LPG, whilst the remaining 10 refer to networks under construction and to be implemented for a total investment forecast at over €170 million, partially financed from regional public grants.

On 13 March 2018 Italgas S.p.A. acquired 100% of Seaside, one of Italy's largest Energy Service Companies (ESCos), leader in the provision of digital services as a result of its expertise in the fields of Big Data, Business Intelligence and Machine Learning. The enterprise value of Seaside assets was established at €8.5 million. White 1, 100% owned by Seaside, was merged into the latter with accounting and tax effects from 1 January 2018.

On 6 April 2018 the subsidiary Italgas Reti S.p.A. finalised acquisition of 100% of Medea, an LPG distribution and sales company in the Municipality of Sassari, currently serving around 13,000 customers in a potential catchment area of almost 30,000 users and, on average, distributing an LPG volume of over 5 million cubic metres. The total value of the transaction was €24.1 million.

On 31 May 2018 the subsidiary Italgas Reti S.p.A. finalised the acquisition from CPL Concordia for a 98% controlling interest in the capital of each of the 6 companies operating in Southern Italy, concession holders for the construction and management of gas networks in 16 municipalities, 4 of which already in operation. The companies involved are Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti. The total value of the assets involved in the transaction was established at €17 million. The total investment to create the networks amounts to around €95 million, partially financed by public grants. Works already carried out to date total €32.5 million, gross of grants receivable. Also on 27 November 2018 it acquired the remaining 2% of share capital of the companies Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti.

On 30 November 2018 the subsidiary Italgas Reti S.p.A. finalised the purchase of the following from CPL Concordia:

- a 60% controlling interest in European Gas Network (hereinafter also EGN), a company which through the subsidiaries EGN Distribuzione, Ischia Gas and Marigliano Gas indirectly managers around 60,000 users and 37 gas distribution concessions in Sicily, Calabria and Campania;
- 100% of Naturgas, manager of the methane gas distribution service in San Giuseppe Vesuviano (NA), serving around 2,700 users;
- 100% of Fontenergia, distribution service concession holder in Bacino 22, Sardinia region, with over 7,000 users temporarily served with LPG.

The total value of the companies was established as €116 million. Therefore, in proportion to the percentage acquired and net of financial debt, the amount paid on CPL Concordia on closing was €43.5 million for 60% of EGN capital and €2.5 million for 100% of Fontenergia and Naturgas capital.

The EGN acquisition arrangements envisage a put & call option on the residual interest of 40% held by the seller, exercisable from the 6th month after the closing date of the transaction and at the same price per share defined at closing for the 60%, less the total dividends distributed by the company. This option was appraised at €20.9 million and was recorded under the item "Other current liabilities".

The summarised values of the assets and liabilities acquired as at the date of first consolidation are provided in the following table.

(€ THOUSANDS)	Seaside	Ichunsa Group	Medea	Cpl Sud	EGN Group	Naturgas	Fontenergia	Amalfitana Gas business unit	Aenergia Reti business unit
Cash and cash equivalents	7,473	71	92	995	2,753	641	3,105		
Trade and other receivables	5,548	668	3,183	438	4,617	89	1,929		
Inventories	10	41	139				230		
Tax assets	1,194	686	391	891	3,040	37	295		
Other current assets			26		10	1	17		
Current assets	**14,225**	**1,466**	**3,831**	**2,324**	**10,420**	**768**	**5,576**		
Property, plant and equipment	638	76	56	11	823	1	207		
Intangible assets	6,742	27,447	24,770	16,520	74,937	1,161	10,570	20,809	2,595
Equity investments	6				12				
Other financial assets		149		7					
Deferred tax assets	27		38	3	6,603	1,149	2,237		
Other non-current assets	6,825	18	13	22	1				
Non-current assets	**14,238**	**27,690**	**24,877**	**16,563**	**82,376**	**2,311**	**13,014**	**20,809**	**2,595**
TOTAL ASSETS	**28,463**	**29,156**	**28,708**	**18,887**	**92,796**	**3,079**	**18,590**	**20,809**	**2,595**
Short-term financial liabilities	146	23,676	3,472	12,389	40,087	1	13,570		
Trade and other payables	14,033	4,844	2,156	1,715	3,622	262	602		
Tax liabilities	434	41	462	23	1,398	9	738		
Other current liabilities	985		112		385	5	36		
Current liabilities	**15,598**	**28,561**	**6,202**	**14,127**	**45,492**	**277**	**14,946**		
Long-term financial liabilities	871		3,743		531		2,915		
Provisions for risks and charges	15	91	5	17	1,518				
Provisions for employee benefits	38	6	202	3	395	4	187		
Deferred tax liabilities	1,896	469	3,524		10	33			
Other non-current liabilities	2,027	24			2,710	197	104		
Non-current liabilities	**4,847**	**590**	**7,474**	**20**	**5,164**	**234**	**3,206**		
TOTAL LIABILITIES	**20,445**	**29,151**	**13,676**	**14,147**	**50,656**	**511**	**18,152**		
NET VALUE OF ACQUIRED ASSETS	**8,018**	**5**	**15,032**	**4,740**	**42,140**	**2,568**	**438**	**20,809**	**2,595**
PRICE PAID	**9,208**	**5**	**16,594**	**4,740**	**64,487**	**2,568**	**438**	**20,809**	**2,200**
GOODWILL	**1,190**		**1,562**		**22,347**				
BADWILL									**(395)**

With regard to the Ichnusa Group, EGN Group and Naturgas acquisition transactions, please note that the figures recognised following the aggregation are subject to the assessment period pursuant to paragraph 45 of IFRS 3, which allows temporary amounts to be recognised in the closing financial statements while waiting to acquire additional information that might come from potential adjustments pertaining to the acquired assets and liabilities.

It is also *reported* that the impact of these acquisitions for the year 2018 from the respective acquisition dates was approximately €23.2 million for total revenue and about €-0.2 million for the net profit.

The costs incurred for the transactions above were not significant.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, equal to €138,476 thousand (€2,831 thousand as at 31 December 2017), refer to current account deposits held at banks.

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

A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the Statement of Cash Flows.

9. OTHER FINANCIAL ASSETS HELD FOR TRADING OR AVAILABLE FOR SALE

The *other financial assets held for trading or available for sale*, amounting to €119 thousand, unchanged compared to 31 December 2017, pertain to the remaining portion of the shareholding of Italgas Reti S.p.A. in Acqua Campania S.p.A.

10. TRADE RECEIVABLES AND OTHER CURRENT AND NON-CURRENT RECEIVABLES

Trade receivables and other current and non-current receivables, amounting to €536,355 thousand (€619,358 thousand as at 31 December 2017) break down as follows:

(€ THOUSANDS)	31.12.2017			31.12.2018		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Trade receivables	406,479		**406,479**	406,712		**406,712**
Financial receivables		156	**156**		156	**156**
- held for operations		156	**156**		156	**156**
Receivables from investment/divestment activities	5,279		**5,279**	5,358		**5,358**
Other receivables	207,444		**207,444**	124,129		**124,129**
	619,202	**156**	**619,358**	**536,199**	**156**	**536,355**

Trade receivables (€406,712 thousand as at 31 December 2018 and €406,479 thousand as at 31 December 2017), which mainly relate to the gas distribution service and ancillary services, mainly involve receivables from sales companies, of which from Eni S.p.A. (€177,442 thousand) and the Cassa per i Servizi Energetici e Ambientali (CSEA) relating to the equalisation[30] (€17,173 thousand).

These are *reported* net of the provision for impairment losses (€19,758 thousand at 31 December 2018 and €20,702 thousand at 31 December 2017). Changes in the provision for impairment losses on receivables during the year are shown below:

(€ THOUSANDS)	Provision for impairment at 31.12.2017	IFRS 9 application effect	Change in scope of consolidation	Provision	Uses	Provision for impairment at 31.12.2018
Trade receivables	19,014		1,457	431	(2,023)	**18,879**
Other receivables	1,688				(809)	**879**
	20,702		**1,457**	**431**	**(2,832)**	**19,758**

Receivables for investment/disinvestment activities (€5,358 thousand as at 31 December 2018 and €5,279 thousand as at 31 December 2017) involve receivables for sales of property, plant and equipment and intangible assets.

Other receivables (€124,129 thousand as at 31 December 2018 and €207,444 thousand as at 31 December 2017) break down as follows:

(€ THOUSANDS)	31.12.2017	31.12.2018
IRES receivables for the national tax consolidation scheme	15,452	**14,205**
Other receivables:	191,992	**109,924**
- Cassa per i Servizi Energetici e Ambientali (CSEA)	137,901	**64,083**
- Public administration	28,874	**18,623**
- Advances to suppliers	15,715	**19,545**
- from staff	4,493	**2,759**
- Other	5,009	**4,914**
	207,444	**124,129**

IRES receivables for the national tax consolidation scheme (€14,205 thousand at 31 December 2018) concern receivables with the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2004 to 2007 (pursuant to Article 6 of Decree-Law 185 of 28 November 2008, converted into Law 2 of 28 January 2009) and tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

30_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 from the CSEA €64,083 thousand as at 31 December 2018) relate to the additional components of gas distribution tariffs for €41,481 thousand (UG2[31] and Gas Bonus[32]) and for €22,602 thousand to Energy Efficiency Certificates.

Receivables from public administrations (€18,623 thousand) relate to receivables from Municipalities.

The market value of trade and other receivables is analysed in the Note "Guarantees, commitments and risks - Other information about financial instruments". 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.

The seniority of trade and other receivables is shown below:

(€ THOUSANDS)	31.12.2017			31.12.2018		
	Trade receivables	**Other receivables (*)**	**Total**	**Trade receivables**	**Other receivables (*)**	**Total**
Non-overdue and non-impaired receivables	393,802	212,724	**606,526**	385,131	129,487	**514,618**
Overdue and non-impaired receivables:	12,677		**12,677**	21,581		**21,581**
- from 0 to 3 months	5,075		**5,075**	9,225		**9,225**
- from 3 to 6 months	3,885		**3,885**	1,406		**1,406**
- from 6 to 12 months	1,262		**1,262**	738		**738**
- beyond 12 months	2,455		**2,455**	10,212		**10,212**
	406,479	**212,724**	**619,203**	**406,712**	**129,487**	**536,199**

(*) They include the Receivables for investment/divestment activities and Other receivables.

The receivables past due and not impaired, totalling €21,581 thousand, mainly regard receivables from Public administrations.

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

Specific information on credit risk is provided in the note "Guarantees, commitments and risks - Financial risk management - Credit risk".

31_Additional component of the distribution tariff for the purpose of containing the cost of the gas service for low consumption end users.
32_Component relating to requests for subsidies for natural gas provision by economically disadvantaged customers.

11. INVENTORIES

Inventories, which amount to €26,181 thousand, are analysed in the table below:

(€ THOUSANDS)	31.12.2017			31.12.2018		
	Gross value	**Provision for impairment losses**	**Net value**	**Gross value**	**Provision for impairment losses**	**Net value**
Inventories						
- Raw materials, consumables and supplies	22,695	(285)	**22,410**	27,532	(1,351)	**26,181**
- Finished goods and goods for resale						
	22,695	**(285)**	**22,410**	**27,532**	**(1,351)**	**26,181**

Inventories of raw materials, consumables and supplies (€26,181 thousand at 31 December 2018) mainly consisted of gas meters in connection with the replacement plan. The provision for impairment is €1,351 thousand.

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

The €+3,771 thousand change in inventories includes the effect of the change in the scope of consolidation (€400 thousand).

12. 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)	31.12.2017	31.12.2018
Current tax assets on income	**8,571**	**7,533**
- IRES	8,229	**7,210**
- IRAP	342	**323**
Other current tax assets	**21,139**	**25,427**
- VAT	18,837	**24,121**
- Other taxes	2,302	**1,306**
Current tax liabilities on income	**4,489**	**3,479**
- IRES	3,150	**2,133**
- IRAP	1,339	**1,346**
Other current tax liabilities	**11,424**	**10,032**
- VAT	2,587	**1,343**
- IRPEF withholdings for employees	8,144	**7,915**
- Other taxes	693	**774**
	13,797	**19,449**

Current income tax assets of €7,533 thousand mainly relate to IRES receivables involving the Group tax consolidation scheme.

Other current income tax assets of €25,427 thousand mainly relate to VAT receivables (€24,121 thousand).

Other current tax liabilities of €10,032 thousand mainly refer to payables to the tax authorities for IRPEF withholdings for employees (€7,915 thousand).

Taxes pertaining to the year under review are shown in the note “Income taxes”.

13. OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets, amounting to €13,677 thousand, and *other non-current assets*, amounting to €133,707 thousand, break down as follows:

(€ THOUSANDS)	31.12.2017			31.12.2018		
	Current	**Non-current**	**Totale**	**Current**	**Non-current**	**Totale**
Other regulated assets	3,236	75,310	**78,546**	3,336	122,328	**125,664**
Other assets	2,708	2,581	**5,289**	10,341	11,379	**21,720**
- Prepayments	2,708	1,148	**3,856**	7,612	1,039	**8,651**
- Security deposits		1,433	**1,433**		1,334	**1,334**
- Other				2,729	9,006	**11,735**
	5,944	**77,891**	**83,835**	**13,677**	**133,707**	**147,384**

Other regulated assets (€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, equal to €21,720 thousand, mainly concerns the prepayments related to costs incurred when undersigning revolving credit lines and long-term security deposits.

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, which amounts to €259,178 thousand as at 31 December 2018 (€224,651 thousand at 31 December 2017), breaks down as follows:

(€ THOUSANDS)	31.12.2017						
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	Total
Cost at 31.12.2016	**11,197**	**350,995**	**11,736**	**184,864**		**2,950**	**561,742**
Investments		8		2,287	45	8,527	**10,867**
Divestments	(2)			(44,587)	(1)		**(44,590)**
Change in scope of consolidation					158		**158**
Other changes	40	1,645	66	7,653	704	(7,185)	**2,923**
Cost at 31.12.2017	**11,235**	**352,648**	**11,802**	**150,217**	**906**	**4,292**	**531,100**
Accumulated depreciation at 31.12.2016		**(173,134)**	**(4,959)**	**(151,974)**			**(330,067)**
Amortisation and depreciation		(5,776)	(302)	(10,112)	(71)		**(16,261)**
Divestments				44,153			**44,153**
Change in scope of consolidation					(104)		**(104)**
Other changes		479	(2)	(218)	(199)		**60**
Accumulated depreciation at 31.12.2017		**(178,431)**	**(5,263)**	**(118,151)**	**(374)**		**(302,219)**
Provision for impairment losses at 31.12.2016			**(4,199)**				**(4,199)**
(Write-down)/Recoveries of value						(31)	**(31)**
Provision for impairment losses at 31.12.2017			**(4,199)**			**(31)**	**(4,230)**
Net balance at 31.12.2016	**11,197**	**177,861**	**2,578**	**32,890**		**2,950**	**227,476**
Net balance at 31.12.2017	**11,235**	**174,217**	**2,340**	**32,066**	**532**	**4,261**	**224,651**

(€ THOUSANDS)				31.12.2018			
	Land	**Buildings**	**Plant and equipment**	**Industrial and commercial equipment**	**Other assets**	**Work in progress and payments on account**	**Total**
Cost at 31.12.2017	**11,235**	**352,648**	**11,802**	**150,217**	**906**	**4,292**	**531,100**
Right of use 1.1.2018		26,908		6,059			**32,967**
Investments		514	78	2,327	185	11,676	**14,780**
Investments in right of use		8,821		13,599			**22,420**
Divestments		(155)		(5,917)		(143)	**(6,215)**
Reclassifications	731	(4,118)	2,441	(33,799)	9	(14,578)	**(49,314)**
Change in scope of consolidation	142	197	174	365	459		**1,337**
Change in scope of consolidation - right of use		1,273					**1,273**
Cost at 31.12.2018	**12,108**	**386,088**	**14,495**	**132,851**	**1,559**	**1,247**	**548,348**
Accumulated depreciation at 31.12.2017		**(178,431)**	**(5,263)**	**(118,151)**	**(374)**		**(302,219)**
Amortisation and depreciation		(9,158)	(409)	(7,074)	(125)		**(16,766)**
Amortisation of right of use		(3,722)		(3,473)			**(7,195)**
Divestments		16		5,782			**5,798**
Change in scope of consolidation		(183)	(44)	(469)	(205)		**(901)**
Change in scope of consolidation amortisation of right of use		(40)					**(40)**
Reclassifications		8,375	(1)	28,666			**37,040**
Accumulated depreciation at 31.12.2018		**(183,143)**	**(5,717)**	**(94,719)**	**(704)**		**(284,283)**
Provision for impairment losses at 31.12.2017			**(4,199)**			**(31)**	**(4,230)**
(Write-down)/Recoveries of value				(657)			**(657)**
Provision for impairment losses at 31.12.2018			**(4,199)**	**(657)**		**(31)**	**(4,887)**
Net balance at 31.12.2017	**11,235**	**174,217**	**2,340**	**32,066**	**532**	**4,261**	**224,651**
Net balance at 31.12.2018	**12,108**	**202,945**	**4,579**	**37,475**	**855**	**1,216**	**259,178**
- of which right of use		*33,240*		*16,185*			***49,425***

The investments for the year (€37,200 thousand) include the increases relating to the rights of use for buildings and equipment (motor vehicles and computer equipment) pursuant to IFRS 16 (€22,420 thousand). Depreciation (€24,800 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, of which €7,195 thousand regard the rights of use pursuant to IFRS 16.

During the year, there were no changes in the estimated useful life of assets or in the depreciation rates applied and explained by category in the Note - "Measurement criteria - Property, plant and equipment".

The provision for impairment of €4,887 thousand mostly relates to the district heating plant and equipment of the municipality of Cologno Monzese (MB).

Property, plant and equipment of the Company are not collateralised and there are no restrictions on the ownership of property, plant and equipment.

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".

15. INTANGIBLE ASSETS

Intangible assets, which amount to 5,431,923 thousand as at 31 December 2018 (€4,676,561 at 31 December 2017) break down as follows:

(€ THOUSANDS)	31.12.2017					
	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 31.12.2016	**7,515,256**	**353,880**	**20,866**	**38,055**	**9,738**	**7,937,795**
Investments	451,048	178	27,943	3,267		**482,436**
Change in the scope of consolidation	76,705	628	3	20		**77,356**
Divestments	(119,434)	(79)				**(119,513)**
Other changes	445	37,735	(36,191)	(4,962)		**(2,973)**
Cost at 31.12.2017	**7,924,020**	**392,342**	**12,621**	**36,380**	**9,738**	**8,375,101**
Accumulated depreciation at 31.12.2016	**(3,149,964)**	**(273,066)**		**(27,122)**		**(3,450,152)**
Amortisation and depreciation	(295,185)	(31,662)		(8,893)		**(335,740)**
Change in the scope of consolidation	(16,720)	(626)		(19)		**(17,365)**
Divestments	111,723	6				**111,729**
Other changes	430	(8,066)		8,066		**430**
Accumulated depreciation at 31.12.2017	**(3,349,716)**	**(313,414)**		**(27,968)**		**(3,691,098)**
Provision for impairment losses at 31.12.2016	**(1,132)**					**(1,132)**
(Write-down)/Recoveries of value	(4,214)			(2,096)		**(6,310)**
Change in the scope of consolidation						
Provision for impairment losses at 31.12.2017	**(5,346)**			**(2,096)**		**(7,442)**
Net balance at 31.12.2016	**4,364,160**	**80,814**	**20,866**	**10,933**	**9,738**	**4,486,511**
Net balance at 31.12.2017	**4,568,958**	**78,928**	**12,621**	**6,316**	**9,738**	**4,676,561**

(€ THOUSANDS)	31.12.2018					
	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 31.12.2017	**7,924,020**	**392,342**	**12,621**	**36,380**	**9,738**	**8,375,101**
IFRS 15 1 January 2018 Effect	437,046					**437,046**
Investments	446,971	139	35,717	2,673		**485,500**
Change in the scope of consolidation	331,519	3,072		32	25,774	**360,397**
Divestments	(134,261)	(49,517)	(630)	(1)		**(184,409)**
Other changes	3,106	20,279	(19,761)	11		**3,635**
Cost at 31.12.2018	**9,008,401**	**366,315**	**27,947**	**39,095**	**35,512**	**9,477,270**
Accumulated depreciation at 31.12.2017	**(3,349,716)**	**(313,414)**		**(27,968)**		**(3,691,098)**
Amortisation and depreciation	(338,195)	(30,169)		(7,182)		**(375,546)**
Change in the scope of consolidation	(150,904)	(665)		(28)		**(151,597)**
Divestments	133,051	48,427				**181,478**
Accumulated depreciation at 31.12.2018	**(3,705,764)**	**(295,821)**		**(35,178)**		**(4,036,763)**
Provision for impairment losses at 31.12.2017	**(5,346)**			**(2,096)**		**(7,442)**
(Write-down)/Recoveries of value	(1,092)					**(1,092)**
Change in the scope of consolidation	(50)					**(50)**
Provision for impairment losses at 31.12.2018	**(6,488)**			**(2,096)**		**(8,584)**
Net balance at 31.12.2017	**4,568,958**	**78,928**	**12,621**	**6,316**	**9,738**	**4,676,561**
Net balance at 31.12.2018	**5,296,149**	**70,494**	**27,947**	**1,821**	**35,512**	**5,431,923**

Service concession agreements (€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 Authority, 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 (€70,494 thousand as at 31 December 2018) mainly concern information systems and applications in support of operating activities.

Intangible assets with an indefinite useful life (€35,512 thousand as at 31 December 2018) consist mainly of:

- the goodwill recognised in 2008 following the acquisition by Italgas of 100% of the shares of Siciliana Gas. Goodwill was subjected to an impairment test which did not reveal losses in value compared with the recoverable amount and the carrying amount;
- the goodwill that emerged during the year in connection with the process of allocating prices paid for the acquired companies (refer to the paragraph "Business combinations").

Although there are no impairment indicators, the Group decided to submit the entire value of the intangible assets to an impairment test in view of their significance. Based on their recoverable value, no impairment losses emerged.

Investments for the year, equal to €485,500 thousand, mainly relate to service agreements (€446,971 thousand) and fixed assets under construction (€35,717 thousand).

Amortisation refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company. The amount of €375,546 thousand includes greater amortisation as a result of the reduction in the useful life of traditional meters[33], subject to the plan to replace them with electronic meters, required by AEEGSI resolutions under the scope of the implementation of the remote metering reading plan (€82,571 thousand).

Research and development expenses of the period are not of a considerable amount.

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

33_ The useful life of the meters included in the project pursuant to ARERA resolutions 631/13, 554/15 and 669/18 was *adjusted*, in order to complete the amortisation process in line with the meter replacement plan, scheduled for completion by 2020.

16. INVESTMENTS VALUED USING THE EQUITY METHOD AND OTHER INVESTMENTS

The investments valued using the equity method, which amounts to €174,955 thousand (€184,829 thousand as at 31 December 2017) and the *other investments*, which total €96 thousand (€54 thousand as at 31 December 2017), breaks down as follows:

(€ THOUSANDS)	Equity investments in joint ventures	other	Total
Value as at 31.12.2017	**184,829**	**54**	**184,883**
Increases for investments		42	**42**
Income (charges) from measurement using the equity method	19,982		**19,982**
Decrease for dividends	(29,856)		**(29,856)**
Value as at 31.12.2018	**174,955**	**96**	**175,051**

Income from measurement using the equity method (€19,982 thousand) mostly refers to Toscana Energia S.p.A. (€19,938 thousand).

Equity investments are not collateralised.

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

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

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the Appendix "Subsidiaries, associates and equity investments of Italgas S.p.A. at 31 December 2018", which is an integral part of these notes.

OTHER INFORMATION ON EQUITY INVESTMENTS

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates are provided below.

EQUITY INVESTMENTS IN JOINT VENTURES

The IFRS-compliant economic and financial data for each significant joint venture[34] related to the investee companies' balance sheet values *reported* based on the IFRS standards, are *reported* below:

(€ THOUSANDS)	31.12.2018		
	Toscana Energia S.p.A.	**Umbria Distribuzione Gas S.p.A.**	**Sant'Angelo Lodigiano S.p.A.**
Current assets	70,086	3,533	735
Non-current assets	830,582	7,659	3,113
Total assets	**900,668**	**11,192**	**3,848**
Current liabilities	496,907	7,994	1,459
Non-current liabilities	20,204	133	169
Total liabilities	**517,111**	**8,127**	**1,628**
Shareholders' equity	**383,557**	**3,065**	**2,220**
Equity investment held by the group %	48.09%	45.00%	50.00%
Group interest	184,453	1,379	1,110
Other adjustments	(30,664)	(425)	(1,030)
Book value of the equity investment	**153,789**	**954**	**80**
Revenue	142,510	6,400	1,516
Operating costs	(42,201)	(5,701)	(909)
Amortisation, depreciation and impairment	(43,180)	(487)	(160)
EBIT	**57,129**	**212**	**447**
Financial income (expense)	(2,267)	(94)	(14)
Income (expense) from equity investments	950		
Income taxes	(15,659)	(33)	(121)
Net profit	**40,153**	**85**	**312**
Other comprehensive income			
Total comprehensive income	**40,153**	**85**	**312**

Information on Investments in joint ventures

Toscana Energia S.p.A.
Toscana Energia S.p.A. operates in the natural gas distribution segment in Tuscany.

34_Unless otherwise indicated, the financial statement figures for joint ventures, *reported* in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method.

The share capital of Toscana Energia S.p.A. is held by Italgas Reti S.p.A. (48.09%), by the Municipality of Florence (20.61%), by Publiservizi S.p.A. (10.38%)[35], by other Local Authorities[36] (20.25%) and by banks (0.67%).

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of the private (Italgas Reti S.p.A.) and public (municipalities) shareholders.

Toscana Energia S.p.A.'s consolidated financial statements include Toscana Energia S.p.A. and Toscana Energia Green S.p.A.

Umbria Distribuzione Gas S.p.A.
Umbria Distribuzione Gas S.p.A. operates in the natural gas distribution segment in Umbria.

The share capital of Umbria Distribuzione Gas S.p.A. is held by Italgas Reti S.p.A. (45%), by A.S.M. Terni S.p.A. (40%) and by Acea S.p.A. (15%).

Umbria Distribuzione Gas, as the holder of an 11-year mandate, manages the natural gas distribution service in the Terni municipality, making use of an integrated system of infrastructures, owned by Terni Reti S.r.l., a wholly-owned subsidiary of the Terni municipality, comprising stations for withdrawing gas from the transportation network, pressure reduction plants, the local transportation and distribution network, user derivation plants and redelivery points comprising technical equipment featuring meters at the end users.

Metano Sant'Angelo Lodigiano S.p.A.
Metano Sant'Angelo Lodigiano S.p.A. operates in the natural gas distribution sector in the municipalities of Sant'Angelo Lodigiano (LO), Villanova del Sillaro, Bargano (LO), Castiraga Vidardo (LO), Marudo (LO) and Villanterio (PV).

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of the private (Italgas Reti S.p.A.) and public (municipalities) shareholders.

17. ASSETS HELD FOR SALE AND DIRECTLY RELATED LIABILITIES

Assets held for sale and *associated liabilities*, of respectively €11,583 thousand (€11 thousand as at 31 December 2017) went up by €11,572 thousand following scheduled sales, previously contracted, of vehicles and buildings.

35_A fully public, pure holding company. The company's shareholders are 35 Tuscan municipalities in the provinces of Florence, Pisa, Pistoia and Siena.

36_Data taken from the financial statements of Toscana Energia S.p.A for the year ended 31 December 2017.

The table below summarises the breakdown of Assets and Liabilities classified as available for sale:

(€ THOUSANDS)	31.12.2017	31.12.2018
Non-current assets held for sale		
Land		**105**
Buildings	11	**3,661**
Industrial and commercial equipment		**7,804**
Other		**13**
	11	**11,583**

18. SHORT-TERM FINANCIAL LIABILITIES, LONG-TERM FINANCIAL LIABILITIES AND SHORT-TERM PORTIONS OF LONG-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, amounting to €274,499 thousand (€81,133 thousand as at 31 December 2017) and long-term financial liabilities, including short-term portions of long-term liabilities totalling €3,749,283 thousand (€3,642,087 thousand as at 31 December 2017), break down as follows:

(€ THOUSANDS)	31.12.2017				
		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	81,133	1,770	271,671	716,714	990,155
Bonds		23,273	743,080	1,885,579	2,651,932
Financial payables for leased assets (IFRS 16)					
Other lenders					
	81,133	**25,043**	**1,014,751**	**2,602,293**	**3,642,087**

(€ 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 payables for leased assets (IFRS 16)		10,204	25,117	14,518	49,839
Other lenders	173,994				
	274,499	**43,303**	**895,074**	**2,810,906**	**3,749,283**

SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, amounting to €274,499 thousand, mainly relate to utilisations of uncommitted bank credit lines, payables for factoring transactions (€152,843 thousand), the underlying receivables on which were collected by the counterparties on 31 December 2018 and the factor was repaid in the first few days of January 2019, and a shareholder loan granted by CPL Concordia to EGN (€20,980 thousand).

There are no short-term financial liabilities denominated in currencies other than the Euro.

The weighted average interest rate on short-term financial liabilities was 0.00%.

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

Long-term financial liabilities, including short-term portions of long-term liabilities, amounted to €3,749,283 thousand (€3,642,087 thousand as at 31 December 2017).

Net of financial payables for leased assets (€49,839 thousand), the increase compared to 31 December 2017, which amounted to €57,357 thousand, is essentially attributable to the reopening, achieved on 30 January 2018, of the bond issue originally released on 18 September 2017 (€500 million, maturing 18 January 2029 with a coupon of 1.625%) for a nominal amount of €250 million, partially offset by the repayment earlier than the original October 2019 maturity of a term loan for €200 million.

The breakdown of the bonds (€2,912,863 thousand at year-end 2018; €2,651,932 thousand as at 31 December 2017), with the issuing company, year of issue, currency, average interest rate and due date, is provided in the following table.

(€ THOUSANDS)

Issuing company	Issue (year)	Currency	Nominal Value	Adjustments (a)	Balance as at 31.12.2018	Rate (%)	Due date (year)
Euro Medium Term Notes							
ITALGAS S.p.A.	2017	€	750.000	(1.733)	748.267	0,5	2022
ITALGAS S.p.A.	2017	€	650.000	2.811	652.811	1,125	2024
ITALGAS S.p.A.	2017	€	750.000	4.468	754.468	1,625	2027
ITALGAS S.p.A.	2017	€	750.000	7.317	757.317	1,625	2029
			2.900.000	**12.863**	**2.912.863**		

(a) Includes issue premium/discount and accrual of interest.

Debts due to bank loans (€786,580 thousand as at 31 December 2018; €990,155 thousand at 31 December 2017) mainly refer to term loans undersigned with the European Investment Bank - EIB.

There are no other long-term bank loans denominated in currencies other than the euro.

There were no breaches of loan agreements as at the reporting date.

Italgas, as at 31 December 2018, had unused committed credit lines amounting to €1.1 billion, of which €600 million expiring in October 2019 and €500 million expiring in October 2021.

FINANCIAL COVENANTS AND CONTRACTUAL NEGATIVE PLEDGE CLAUSES

As at 31 December 2018, 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 31 December 2018, 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. 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.

As at 31 December 2018, the banking financial liabilities subject to these restrictive clauses amounted to approximately €0.78 billion.

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

As at 31 December 2018, there were no identified events resulting in failure to comply with the aforementioned commitments.

BREAKDOWN OF NET FINANCIAL DEBT

In order to comply with CONSOB communication no. DEM/6064293 of 28 July 2006, the breakdown of net financial debt, showing related-party transactions, is provided in the following table:

(€ THOUSANDS)	31.12.2017			31.12.2018		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	2,831		**2,831**	138,476		**138,476**
B. Securities held for sale and to be held to maturity	119		**119**	119		**119**
C. Liquidity (A+B)	**2,950**		**2,950**	**138,595**		**138,595**
D. Financial receivables not held for operations						
E. Short-term financial liabilities to banks (*)	82,903		**82,903**	254,207		**254,207**
F. Long-term financial liabilities to banks		988,385	**988,385**		785,892	**785,892**
G. Bonds	23,273	2,628,659	**2,651,932**	32,411	2,880,453	**2,912,864**
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**
M. Other long-term financial liabilities (**)				10,204	39,635	**49,839**
N. Gross financial debt (E+F+G+H+I+L+M)	**106,176**	**3,617,044**	**3,723,220**	**317,802**	**3,705,980**	**4,023,782**
O. Net financial debt (N-C-D)	**103,226**	**3,617,044**	**3,720,270**	**179,207**	**3,705,980**	**3,885,187**
Net financial debt (including IFRS 16 effects)	**103,226**	**3,617,044**	**3,720,270**	**179,207**	**3,705,980**	**3,885,187**
Reclassification from short-term financial debt to other debt				(20,980)		**(20,980)**
Finance lease payables - IFRS 16				(10,204)	(39,635)	**(49,839)**
Net financial debt reconciliation Directors' Report (***)	**103,226**	**3,617,044**	**3,720,270**	**148,023**	**3,666,345**	**3,814,368**

(*) This amount includes the short-term portion of long-term financial liabilities.
(**) The values as at 31 December 2018 relate to finance lease payables - IFRS 16.
(***) As at 31 December 2018, the debt was also calculated net of liabilities for €21.0 million payable to CPL Concordia, comprising shareholder loans disbursed by CPL Concordia to EGN, for which Italgas will arrange settlement at the time of exercise of the put&call option. These payables are considered part of the purchase price settlement.

RECONCILIATION OF NET FINANCIAL DEBT

In compliance with the provisions of IAS 7 "Cash flow statement", the following are a description of the monetary and non-monetary changes in the liabilities deriving from financing activities and the assets that make up the net financial debt.

(MIGLIAIA DI €)	31.12.2017	Changes in cash flows	IFRS 16 effect	Change in scope of consolidation	31.12.2018
Cash and cash equivalents	2.831	120.515		15.130	138.476
Securities held for sale and to be held to maturity	119				119
Liquidity and financial receivables	**2.950**	**120.515**		**15.130**	**138.595**
Short-term financial liabilities	106.176	108.081	10.204	93.341	317.802
Long-term financial liabilities	3.617.044	41.241	39.635	8.060	3.705.980
Gross financial debt	**3.723.220**	**149.322**	**49.839**	**101.401**	**4.023.782**
Net financial debt	**3.720.270**	**28.807**	**49.839**	**86.271**	**3.885.187**

19. TRADE AND OTHER PAYABLES

Trade payables and other payables, which amount to €564,663 (€498,174 thousand as at 31 December 2017) comprise the following:

(€ THOUSANDS)	31.12.2017	31.12.2018
Trade payables	184,050	**230,930**
Payments on account and prepayments	90	**11,996**
Payables for investment activities	140,618	**138,412**
Other payables	173,416	**183,325**
	498,174	**564,663**

Trade payables amounting to €230,930 thousand (€184,050 thousand as at 31 December 2017) relate mainly to payables to suppliers.

Payables for investment activities equal to €138,412 (€140,618 thousand as at 31 December 2017) relate to payables to suppliers for technical activities.

Other payables (€183,325 thousand; €173,416 thousand as at 31 December 2017) break down as follows:

(€ THOUSANDS)	31.12.2017	31.12.2018
Payables to the public administration	42,743	**39,567**
Payables to the Cassa per i Servizi Energetici e Ambientali (CSEA)	57,442	**51,480**
Payables to personnel	39,548	**38,773**
Payables to social security institutions	19,157	**17,607**
Payables to consultants and professionals	5,923	**4,305**
Other payables	8,603	**31,593**
	173,416	**183,325**

Payables to the public administration (€39,567 thousand) primarily involve payables to municipalities for concession fees for the distribution business.

Payables to the CSEA (€51,480 thousand) relate to several ancillary components of tariffs for the gas distribution service to be paid to this Fund (RE, RS, UG1 and GS)[37].

Payables to personnel (€38,773 thousand) involve payables mainly for holidays accrued and not taken, the fourteenth months' pay and performance-related pay.
Other payables (€31,593 thousand) mainly include the Put & Call option payable for acquisition of the remaining 40% of EGN.

Payables to related parties are described in the note "Related-party transactions".

The book value of trade payables and other payables, considering the limited time interval between the occurrence of the payable and its maturity, is an approximation of the fair value. The market value of trade and other payables is provided in the Note - "Guarantees, commitments and risks - Other information on financial instruments".

37_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.

20. OTHER CURRENT AND NON-CURRENT LIABILITIES

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

(€ THOUSANDS)	31.12.2017			31.12.2018		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Cash flow hedge derivative contracts				120	6,527	**6,647**
Other liabilities	182	2,055	**2,237**	2,770	451,273	**454,043**
- Accruals and deferrals connection contributions					449,229	**449,229**
- Liabilities for security deposits		1,849	**1,849**		919	**919**
- Other	182	206	**388**	2,770	1,125	**3,895**
	182	**2,055**	**2,237**	**2,890**	**457,800**	**460,690**

In January 2018 an interest rate swap maturing in 2024 was signed in connection with an EIB loan amounting to €359.7 million in order to convert this loan to fixed rate. The fair value of this derivative as at 31 December 2018 was negative, amounting to €6,647 thousand and was determined on the basis of valuation models disseminated in the financial sector and of the market parameters for the year.

Other liabilities, totalling €454,043 thousand, mainly regard connection contributions totalling €449,229 thousand.

21. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges, which amount to €187,567 thousand as at 31 December 2018 (€208,246 thousand as at 31 December 2017), comprise the following:

(€ THOUSANDS)	31.12.2017							
					Uses			
	Opening balance	Change in scope of consolidation	Provisions	Increase for the passing of time	against charges	due to surplus	Other changes	Closing balance
Provisions for environmental risks and charges	135,580		242	486	(6,130)			**130,178**
Risk provision for litigation	21,452	802	1,589		(5,788)	(3,067)	25	**15,013**
Provisions for other risks - energy efficiency certificates	13,202		8,190		(7,505)			**13,887**
Provision for plant upgrade risks	19,540				(126)	(19,414)		
Provision for retirement risks	16,951		5,345		(10,106)			**12,190**
Provision for op. restoration of metering			16,000					**16,000**
Risk provision for ICT Snam contract			8,419					**8,419**
Other personnel risk provisions	7,522		900		(895)	(2,909)	12	**4,630**
Risk provision for tax disputes	3,496		1,051		(1,674)	(1,107)		**1,766**
Other provisions	12,781	1,137	2,179		(1,243)	(8,666)	(25)	**6,163**
	230,524	**1,939**	**43,915**	**486**	**(33,467)**	**(35,163)**	**12**	**208,246**

(€ THOUSANDS)	31.12.2018							
					Uses			
	Opening balance	Change in scope of consolidation	Provisions	Increase for the passing of time	against charges	due to surplus	Other changes	Closing balance
Provisions for environmental risks and charges	130,178			182	(5,250)			**125,110**
Risk provision for litigation	15,013		4,594		(1,096)	(4,284)	(284)	**13,943**
Provisions for other risks - energy efficiency certificates	13,887	15	6,923		(3,075)	(4,633)	18	**13,135**
Provision for retirement risks	12,190		2,500		(10,314)	(11)		**4,365**
Provision for op. restoration of metering	16,000				(1,957)			**14,043**
Risk provision for ICT Snam contract	8,419				(5,919)	(1,737)		**763**
Other personnel risk provisions	4,630		650		(1,076)		(184)	**4,020**
Risk provision for tax disputes	1,766	97	776		(1,546)	(352)		**741**
Other provisions	6,163	1.538	6,625		(554)	(2.398)	73	**11,447**
	208,246	**1.650**	**22,068**	**182**	**(30.787)**	**(13.415)**	**(377)**	**187,567**

The provision for environmental risks and charges (€125,110 thousand as at 31 December 2018; €130,178 thousand as at 31 December 2017) 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 (€13,943 thousand) included costs which the Company has estimated it will incur for existing lawsuits.

The Energy Efficiency Certificates risk provision (€13,135 thousand) is connected with reaching the Energy Efficiency Certificates targets (TEE) set by the Authority.

The adjustments to facilities risk provision is totally released against completion of the adjustment interventions required by the inspections carried out by the judicial administration in 2014 that showed no need for further checks.

The provision for operational restoration of metering, totalling €14,043, comprises the costs estimated for replacing/restoring operations of the G4 and G6 smart meters having operational problems and not covered by warranty.

The risk provision for early retirement (€4,365 thousand) involves personnel incentive and mobility schemes.

In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.

The sensitivity[38] of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(€ THOUSANDS)	CHANGE IN DISCOUNT RATE	
Effect on net obligation at 31.12.2018	**Decrease by 10%**	**Increase by 10%**
Provisions for environmental risks and charges	762	(762)

22. PROVISIONS FOR EMPLOYEE BENEFITS

Provisions for employee benefits, which amount to €107,878 thousand as at 31 December 2018 (€116,149 thousand as at 31 December 2017) comprise the following:

(€ THOUSANDS)	31.12.2017	31.12.2018
Employment severance pay (TFR)	69,317	**66,314**
Supplementary healthcare provision for company executives of Eni (FISDE)	6,082	**6,610**
Gas Fund	33,292	**28,550**
Other provisions for employee benefits	7,458	**6,404**
	116,149	**107,878**

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. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods (€66,314 thousand as at 31 December 2018).

The supplementary healthcare provision (€6,610 thousand as at 31 December 2018) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current[39] and retired executives.

38_For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.
39_For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

FISDE provides financial supplementary healthcare benefits to Eni Group[40] 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.

The Gas Fund (€28,550 thousand as at 31 December 2018) 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[41]; 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 (€6,411 thousand as at 31 December 2018) relate to seniority bonuses and the deferred cash incentive plan (IMD).

Deferred cash incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is provisioned when Italgas' commitment to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term incentive plans, which replaced the preceding stock option allocations, involve the payment, three years after allocation, of a variable cash bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final performance parameters.

40_ The fund provides the same benefits for Italgas Group executives.

41_ 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".*

Seniority bonuses are benefits paid upon reaching a minimum service period at the Company and are paid in kind.

Deferred cash incentive plans, long-term cash incentive plans and seniority bonuses are classified as other long-term benefits pursuant to IAS 19.

The composition of and changes in employee benefit provisions, determined by applying actuarial methods, are as follows[42]:

(€ THOUSANDS)	31.12.2017					31.12.2018				
	Employee severance pay	**FISDE**	**Gas Fund (*)**	**Other provisions**	**Total**	**Employee severance pay**	**FISDE**	**Gas Fund (*)**	**Other provisions**	**Total**
Current value of the obligation at the beginning of the year	**72,438**	**6,021**	**35,039**	**7,150**	**120,648**	**69,317**	**6,082**	**33,292**	**7,458**	**116,149**
Change in scope of consolidation	244				**244**	835				**835**
Current cost		129		2,722	**2,851**		153		2,884	**3,037**
Cost for past ser-vices									132	**132**
Cost for interest	859	71	422	24	**1,376**	955	83	473	20	**1,531**
Revaluations / (Impairment):	(256)	97	794	268	**903**	(859)	546	(2,496)	(838)	**(3,647)**
- Actuarial (Gains) / Losses resulting from changes in the demographic assumptions						23				**23**
- Actuarial (Gains) / Losses resulting from changes in the financial assumptions	(149)	86	(369)	(23)	**(455)**	(598)	37	(152)		**(713)**
- Effect of past experience	(107)	11	1,163	291	**1,358**	(284)	509	(2,344)		**(2,119)**
- Other changes									(838)	**(838)**
Paid benefits	(3,967)	(236)	(3,143)	(2,783)	**(10,129)**	(3,658)	(255)	(2,903)	(3,495)	**(10,311)**
Effect of transfers	(1)		180	77	**256**	(276)	1	184	243	**152**
Current value of the obligation at the end of the year	**69,317**	**6,082**	**33,292**	**7,458**	**116,149**	**66,314**	**6,610**	**28,550**	**6,404**	**107,878**

(*) Concerns the measurement of the liabilities arising from: (i) the contribution in favour of those registered or in voluntary continuation of the contribution, equal to 1% for each year of registration in the Gas Fund multiplied by the social security tax base for 2014, (ii) the extraordinary contribution for expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020.

42_The table also provides a reconciliation of liabilities recorded for employee benefit provisions.

Costs for defined-benefit plans recognised under other components of comprehensive income are broken down in the following table:

(€ THOUSANDS)	31.12.2017					31.12.2018				
	Employee severance pay	**FISDE**	**Gas Fund**	**Other provisions**	**Total**	**Employee severance pay**	**FISDE**	**Gas Fund**	**Other provisions**	**Total**
Revaluations / (Impairment):										
- Actuarial (Gains) / Losses resulting from changes in the demographic assumptions						23				**23**
- Actuarial (Gains) / Losses resulting from changes in the financial assumptions	(149)	86	(369)	(23)	**(455)**	(598)	37	(152)		**(713)**
- Effect of past experience	(107)	11	1,163	291	**1,358**	(284)	509	(2,344)		**(2,119)**
- Other changes									(838)	**(838)**
	(256)	**97**	**794**	**268**	**903**	**(859)**	**546**	**(2,496)**	**(838)**	**(3,647)**

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

	2017				2018			
	Employee severance	**FISDE**	**Gas Fund**	**Other provisions**	**Employee severance**	**FISDE**	**Gas Fund**	**Other provisions**
Discount rate (%)	1.40	1.40	1.40	N/A	1.40	1.40	1.40	N/A
Inflation rate (%) (*)	1.50	1.50	N/A	N/A	1.50	1.50	N/A	N/A

(*) With reference to the other provisions, the rate refers only to the seniority bonuses.

The discount rate adopted was determined by considering the yields on corporate bonds issued by Eurozone companies with AA ratings.

The employee benefit plans recognised by Italgas are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible[43] change in the discount rate at the end of the year.

43_ With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(€ THOUSANDS)	DISCOUNT RATE	
Effect on net obligation at 31.12.2018	**Decrease by 0.5%**	**Increase by 0.5%**
Employment severance pay	3,387	**(3,185)**
FISDE	415	**(379)**
Gas Fund	871	**(833)**
Other provisions for employee benefits	220	**(213)**
	4,893	**(4,610)**

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(€ THOUSANDS)	31.12.2017					31.12.2018				
	Employee severance pay	**FISDE**	**Gas Fund (*)**	**Other provisions**	**Total**	**Employee severance pay**	**FISDE**	**Gas Fund (*)**	**Other provisions**	**Total**
Within the next year	1,361	255	2,798	3,110	**7,524**	1,434	284	2,737	2,628	**7,083**
Within five years	12,316	932	11,900	3,890	**29,038**	15,017	1,304	13,485	3,324	**33,130**
Beyond five and up to ten years	27,743	949	12,467	330	**41,489**	29,342	1,047	10,686	378	**41,453**
Beyond ten years	27,897	3,946	6,127	128	**38,098**	20,521	3,975	1,642	74	**26,212**
	69,317	**6,082**	**33,292**	**7,458**	**116,149**	**66,314**	**6,610**	**28,550**	**6,404**	**107,878**

(*) The amount includes the estimate of the 10% INPS solidarity contribution applied to the amounts to allocate to the supplementary pension.

The weighted average maturity of obligations for employee benefit plans is shown below:

	2018			
	Employee severance pay	**FISDE**	**Gas Fund**	**Other provisions**
Weighted average maturity (years)	10	15	5	2

0
5
10
15
20
25
30
35
40
bar
NUOVA
FIMR
MP 2
1/2
S.3000
HyFlex

23. DEFERRED TAX LIABILITIES

Deferred tax liabilities of €71,772 thousand are stated net of offsettable prepaid tax assets of €217,291 thousand.

(€ THOUSANDS)	31.12.2016	Change in scope of consolidation	Provisions	Uses	Other changes	31.12.2017
Deferred tax liabilities	327,069	8,198	**712**	(35,127)		**300,852**
Deferred tax assets	(220,793)		**(30,712)**	45,443		**(206,062)**
	106,276	**8,198**	**(30,000)**	**10,316**		**94,790**

(€ THOUSANDS)	31.12.2017	Change in scope of consolidation	Provisions	Uses	Other changes	31.12.2018
Deferred tax liabilities	300,852	(761)	**4,777**	(15,805)		**289,063**
Deferred tax assets	(206,062)	(2,907)	**(25,542)**	16,399	821	**(217,291)**
	94,790	**(3,668)**	**(20,765)**	**594**	**821**	**71,772**

There are no prepaid tax assets which cannot be offset.

Deferred tax liabilities and prepaid tax assets break down as follows, based on the most significant temporary differences:

(€ THOUSANDS)	31.12.2017								
	Opening balance	Changes in scope of consolidation	Provisions	Uses	Impacts recorded in shareholders' equity	Other changes	Closing balance	of which: IRES	of which: IRAP
Deferred tax liabilities	**327,069**	**8,198**	**712**	**(35,127)**			**300,852**	**256,216**	**44,636**
Amortisation and depreciation exclusively for tax purposes	150,273	8,198	115	(4,160)			154,426	131,427	22,999
Revaluations of property, plant and equipment	131,556			(7,232)			124,324	105,808	18,516
Capital gains subject to deferred taxation	755		597	(791)			561	561	
Employee benefits	2,926			(550)			2,376	2,022	354
Capitalisation of financial expense	3,198			(338)			2,860	2,434	426
Impairment losses on receivables in excess of tax deductibility and other temporary differences	38,361			(22,056)			16,305	13,964	2,341
Deferred tax assets	**(220,793)**		**(30,712)**	**45,443**			**(206,062)**	**(175,373)**	**(30,689)**
Provisions for risks and charges and other non-deductible provisions	(70,515)		(5,700)	27,204			(49,011)	(41,712)	(7,299)
Non-repayable and contractual grants	(77,068)			8,359			(68,709)	(58,476)	(10,233)
Non-deductible amortisation and depreciation	(52,978)		(18,113)	7,802			(63,289)	(53,851)	(9,438)
Employee Benefit	(15,772)		(6,101)	577			(21,296)	(18,124)	(3,172)
Other temporary differences	(4,460)		(798)	1,501			(3,757)	(3,210)	(547)
Net deferred tax liabilities	**106,276**	**8,198**	**(30,000)**	**10,316**			**94,790**	**80,843**	**13,947**

(€ THOUSANDS)	31.12.2018								
	Opening balance	**Changes in scope of consolidation**	**Provisions**	**Uses**	**Impacts recorded in shareholders' equity**	**Other changes**	**Closing balance**	**of which: IRES**	**of which: IRAP**
Deferred tax liabilities	**300,852**	**(761)**	**4,777**	**(15,805)**			**289,063**	**263,526**	**25,537**
Amortisation and depreciation exclusively for tax purposes	154,426	291	4,599	(7,757)			151,559	143,801	7,758
Revaluations of property, plant and equipment	124,324	67		(7,748)			116,643	99,270	17,373
Capital gains subject to deferred taxation	561	(38)	9	(151)			381	381	
Employee benefit	2,376						2,376	2,376	
Capitalisation of financial expense	2,860			(133)			2,727	2,321	406
Impairment losses on receivables in excess of tax deductibility and other temporary differences	16,305	(1,081)	169	(16)			15,377	15,377	
Deferred tax assets	**(206,062)**	**(2,907)**	**(25,542)**	**16,399**		**821**	**(217,291)**	**(197,439)**	**(19,852)**
Provisions for risks and charges and other non-deductible provisions	(49,011)	(586)	(6,432)	5,269		(5,748)	(56,508)	(49,269)	(7,239)
Non-repayable and contractual grants	(68,709)	(1,094)		1,598			(68,205)	(58,223)	(9,982)
Non-deductible amortisation and depreciation	(63,289)	(423)	(16,648)	8,744			(71,616)	(71,240)	(376)
Employee benefit	(21,296)		(315)	(515)		12,917	(8,179)	(6,683)	(1,496)
Other temporary differences	(3,757)	(804)	(2,147)	273		(6,348)	(12,783)	(12,024)	(759)
Net deferred tax liabilities	**94,790**	**(3,668)**	**(20,765)**	**594**		**821**	**71,772**	**66,087**	**5,685**

Prepaid tax assets and deferred tax liabilities are considered to be long term.

The note "Income taxes" provides information about taxes for the year.

24. SHAREHOLDERS' EQUITY

(€ THOUSANDS)	31.12.2017	31.12.2018
Shareholders' equity attributable to Italgas	1,185,640	**1,329,347**
Share capital	1,001,232	**1,001,232**
Legal reserve	200,246	**200,246**
Share premium reserve	620,130	**620,130**
Cash flow hedge on derivative contracts reserve		**(4,943)**
Consolidation reserve	(323,907)	**(323,907)**
Reserve for business combinations under common control	(349,854)	**(349,854)**
Stock grant reserve		**299**
Other reserves	(169,413)	**(343,565)**
Retained earnings	(72,209)	**226,744**
Reserve for recalculation of defined-benefit plans for employees	(13,351)	**(10,730)**
Net profit (loss)	292,766	**313,695**
to be deducted		
- Treasury shares		
Shareholders' equity attributable to minority interests		
	1,185,640	**1,329,347**

Shareholders' equity, which amounts to €1,329,347 thousand as at 31 December 2018 (€1,185,640 thousand as at 31 December 2017) breaks down as follows:

SHARE CAPITAL

The share capital as at 31 December 2018 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518.

LEGAL RESERVE

The legal reserve stood at €200,246 thousand as at 31 December 2018, unchanged compared to the previous year.

SHARE PREMIUM RESERVE

The share premium reserve stood at €620,130 thousand as at 31 December 2018 (unchanged compared to 31 December 2017).

CASH FLOW HEDGE ON DERIVATIVE CONTRACTS RESERVE

The reserve includes the negative fair value of the IRS derivative net of the related tax effect.

CONSOLIDATION RESERVE

The consolidation reserve stood at €-323,907 thousand, and is unchanged compared to the previous year.

STOCK GRANT RESERVE

The reserve includes the assessment pursuant to IFRS 2 of the co-investment plan approved on 19 April 2018 by the Italgas S.p.A. Shareholders' Meeting.

OTHER RESERVES

Other reserves mainly relate to the reserve for business combination under common control, amounting to €-349,838 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 31 December 2018, 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. The changes in the reserve during the course of the year are shown below:

(€ THOUSANDS)	GROSS RESERVE	TAX EFFECT	NET RESERVE
Reserve as at 31 December 2016	**(17,138)**	**4,833**	**(12,305)**
Changes of the year 2017	(1,457)	411	**(1,046)**
Reserve as at 31 December 2017	**(18,595)**	**5,244**	**(13,351)**
Changes of the year 2018	3,647	(1,026)	**2,621**
Reserve as at 31 December 2018	**(14,948)**	**4,218**	**(10,730)**

TREASURY SHARES

As at 31 December 2018 Italgas did not have any treasury shares in its portfolio.

DIVIDENDS

In its meeting of 22 February 2019, the Board of Directors proposed to the Shareholders' Meeting convened for 4 April 2019 the distribution of an ordinary dividend of €0.234 per share. The dividend will be paid out as of 22 May 2019, with an ex-coupon date of 20 May 2019 and a record date of 21 May 2019.

MINORITY INTERESTS

Minority interests are not in the net profit and shareholders' equity of either year.

25. GUARANTEES, COMMITMENTS AND RISKS

Guarantees, commitments and risks, amounting to €1,163,271 thousand as at 31 December 2018 comprise:

(€ THOUSANDS)	31.12.2017	31.12.2018
Guarantees given in the interest:	**105,455**	**183,964**
- of subsidiaries	105,455	**183,964**
Financial commitments and risks:	**717,851**	**979,307**
Commitments	**676,163**	**937,005**
Commitments for the purchase of goods and services	583,601	**868,405**
Other	92,562	**68,600**
Risks	**41,688**	**42,302**
- for compensation and litigation	41,688	**42,302**
	823,306	**1,163,271**

GUARANTEES

Guarantees of €183,964 thousand refer mainly to guarantees issued with regard to sureties and other guarantees issued in the favour of subsidiaries.

COMMITMENTS

At 31 December 2018, commitments with suppliers to purchase property, plant and equipment and provide services relating to investments in property, plant and equipment and intangible assets under construction totalled €868,405 thousand.

Other commitments refer to the binding agreement with the CONSCOOP Group for the purchase of equity investments and business units including 19 gas distribution concessions in the South-Central areas of Italy and in Sardinia. The enterprise value was established at around €68.6 million, from which the net financial position upon closing of the transaction will be deducted.

RISKS

Risks concerning compensation and litigation (€42,302 thousand) 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

Italgas has established the Enterprise Risk Management (ERM) unit, which reports directly to the General Manager of Finance and Services and oversees the integrated process of managing corporate risk for all Group companies. The main objectives of the ERM are to define a homogeneous and transversal risk assessment model, to identify priority risks and to guarantee the consolidation of mitigation actions and the development of a reporting system.

The ERM methodology adopted by the Italgas Group is in line with the reference models and existing international best practices (COSO Framework and ISO 31000).

The ERM unit operates as part of the wider Internal Control and Risk Management System of Italgas.

The main corporate financial risks identified, monitored and, where specified below, managed by Italgas are as follows:
- risk arising from exposure to fluctuations in interest rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

There follows a description of Italgas' policies and principles for the management and control of the risks arising from the financial instruments listed above. In accordance with IFRS 7 - "Financial instruments: Additional information", there are also descriptions of the nature and size of the risks resulting from such instruments.

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 31 December 2018 the financial debt at floating rate was 14.4% and at fixed rate was 85.6%.

As at 31 December 2018 the Italgas Group used external financial resources in the following forms: Bonds subscribed by institutional investors, 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 variable rate to minimise the risk of rising interest rates. To this regard, during 2018 the Company successfully arranged the reopening, achieved on 30 January 2018, of the bond issue originally carried out on 18 September 2017 (€500 million, maturing 18 January 2029 and with a coupon of 1.625%) for the amount of €250 million and a yield of 1.631%. The issue allowed full early repayment of the term loan for €200 million and continuation of the process to optimise the debt structure, increasing its average duration and the fixed rate percentage. January 2018 saw the finalisation of an Interest Rate Swap transaction maturing in 2024, used to transform the entire EIB loan for the Gas Network Upgrade amounting to €360 million from floating rate to fixed rate.

Therefore, an increase in interest rates, not implemented – in full or in part – in the regulatory WACC, could have negative effects on the assets and on the economic and financial situation of the Italgas Group as regards the variable component of outstanding debt and future loans.

CREDIT RISK

Credit risk is the Company's 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.

For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any possible disputes is handled by the business units and the centralised Italgas departments.

The rules for customer access to the gas distribution service are established by the Authority 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.

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.

Italgas has signed finance agreements unused as at 31 December 2018. 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 €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, on 1 August 2018 Fitch confirmed the rating assigned to Italgas S.p.A. (BBB+ with stable outlook). On 23 October 2018, following the downgrading announced by Moody's of Italian government bonds to Baa3 with stable outlook from Baa2, a corresponding action was also adopted on the Italgas long-term rating, lowered to Baa2 with stable outlook from the previous Baa1, in consideration of its attributed link to the sovereign credit rating.

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 31 December 2018, there were no loan agreements containing financial covenants and/or collateralised. 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. These commitments were satisfied as at 31 December 2018.

The bonds issued by Italgas as at 31 December 2018 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.

ENVIRONMENTAL REGULATIONS

With respect to environmental risk, while the Company believes that it operates in substantial compliance with the laws and regulations and considering the adjustments to environmental regulations and actions already taken, it cannot be ruled out that the Company may incur costs or liabilities, which could be significant.

It is difficult to foresee the repercussions of any environmental damage, partly due to new laws or regulations that may be introduced for environmental protection, the impact of any new technologies for environmental clean-ups, possible litigation and the difficulty in determining the possible consequences, also with respect to other parties' liability and any possible insurance compensation.

FUTURE PAYMENTS FOR FINANCIAL LIABILITIES, TRADE AND OTHER PAYABLES

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments not discounted:

(€ THOUSANDS)					SCADENZA				
	Balance as at 31.12.2017	**Balance as at 31.12.2018**	**Portion with due date within 12 months**	**Portion with due date beyond 12 months**	**2020**	**2021**	**2022**	**2023**	**Beyond**
Financial liabilities									
Bank loans	989,138	786,580	688	785,892	585	33,553	33,553	57,553	**660,648**
Bonds	2,650,000	2,900,000		2,900,000			750,000		**2,150,000**
Short-term liabilities	81,133	274,499	274,499						
Interest on loans			36,366	275,650	36,366	36,368	36,354	32,547	**134,015**
Liabilities for right of use		49,839	10,204	39,635	7,093	6,810	6,493	4,722	**14,518**
	3,720,271	**4,010,918**	**321,757**	**4,001,177**	**44,044**	**76,731**	**40,046**	**62,275**	**2,959,181**

With reference to the payment times with regard to trade and other payables, refer to the note "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the consolidated financial statements.

As for the sensitivity on the interest rate, any changes in interest rates do not lead to significant effects in consideration of the fact that 85.6% of the Group's financial debt is at fixed rate.

Please refer to note 10 "Trade and other receivables" for the breakdown of receivable by due date bracket.

OTHER INFORMATION ON FINANCIAL INSTRUMENTS

With reference to the categories established by IFRS 9 “Financial instruments”, the book value of financial instruments and their relative effects on results and on equity can be analysed as follows:

(€ THOUSANDS)						
		Book value		Income / expense recognised to income Statement		Income / expense recognised to shareholders' equity (a)
	Saldo al 31.12.2017	Saldo al 31.12.2018	Saldo al 31.12.2017	Saldo al 31.12.2018	Saldo al 31.12.2017	Saldo al 31.12.2018
Financial instruments measured at amortised cost						
- Trade and other receivables	619,202	536,199				
- Other assets	83,835	147,384				
- Trade and other payables	498,174	564,663				
- Financial payables (b)	3,723,220	4,023,782	(36,089)	(45,442)		
- Financial instruments measured at fair value						
- Financial assets (Liabilities) for hedge derivative contracts		(6,647)				(4,943)

(a) Net of tax effect.
(b) The effect in the income statement are recognised in the item “Financial income (expense)“.

The table below provides a comparison between the book value of financial assets and liabilities and their respective fair value.

(€ THOUSANDS)	BALANCE AS AT 31.12.2017		BALANCE AS AT 31.12.2018	
	Book value	Market value	Book value	Market value
Financial instruments measured at amortised cost				
- Long-term financial debt (non-current portion)	3,617,044	3,689,670	3,666,345	3,611,164

The book value of trade, other receivables and financial payables is close to the related fair value measurement, given the short period of time between when the receivable or the financial payable arises and its due date.

MARKET VALUE OF FINANCIAL INSTRUMENTS

Below is the classification of financial assets and liabilities measured at fair value in the Statement of Financial Position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

a) level 1: listed prices (unadjusted) on active markets for identical financial assets or liabilities;
b) level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
c) level 3: inputs not based on observable market data.

In connection with the above, classification of the assets and liabilities measured at fair value in the Statement of Financial Position according to fair value concerned an IRS derivative instrument classified level 2 and recorded under the note "Other current and non-current liabilities".

DISPUTES AND OTHER MEASURES

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

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

CRIMINAL CASES

Italgas Reti S.p.A. - 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 trial bundle has been assigned to the examining judge for the ruling. The examining judge asked the public prosecutor to carry out additional investigations at the hearing on 26 October 2018, and granted a six-month term.

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

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

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

A notice was served on 24 April 2017 advising of the conclusion of the preliminary investigations pursuant to Article 415-bis of the Code of Criminal Procedure of the persons under investigation and Italgas Reti, with regard to which it was alleged the occupational safety prevention measures had failed to be adopted.

On 30 April 2018 the trial documents still being served were acquired from the office of the clerk of the Court of Busto Arsizio: request for committal for trial, request for dismissal regarding several natural persons under investigation, list of witnesses for the public prosecutor's office. The content of the request for committal for trial is similar to that of the notification of completed preliminary investigations served in 2017, while the decree of dismissal also includes the employer of Italgas Reti. On 4 May 2018 notification of the preliminary hearing being set for 26 June 2018 was served together with the request for committal for trial. However, the hearing was not held due to the abstention of the criminal attorneys, and the proceedings were postponed to 23 October 2018.

There were no applications to join proceedings as a civil party at the 23 October 2018 hearing, and the judge acknowledged the negotiations in progress with the injured parties, so the hearing was postponed until 23 January 2019. On the occasion of this hearing, acknowledgement was given to indemnification of the heirs of the woman who died and of the other injured parties who therefore waived joining the proceedings as civil parties. The joining of proceedings as a civil party of the Municipality of Cerro Maggiore was admitted. Both the defence attorney of Italgas Reti and the defence attorneys of the accused employees of the Company requested a ruling of dismissal. The judge had some reservations on the requests of the defence attorneys.

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 with which the Company cooperated.

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 a repair job on the gas distribution network in the municipality of Rome.

The incident, which took place in via Saba 68 due to causes still being ascertained, injured a worker of a contractor company. The Rome Public Prosecutor's Office is carrying out preliminary investigations with which the Company collaborated.

Actions promoted by Italgas Reti following the Judicial Administration phase

- Following the appeal brought by Italgas Reti, on 25 July 2016 the Palermo Court of Appeal issued a Decree revoking the Judicial Control measure with regard to Italgas Reti, declaring the implementation of the consequent provisions terminated. The Public Prosecutor did not propose an appeal under the terms of the law at the Court of Cassation; therefore, the ruling became definitive.
- Italgas Reti, through an appeal filed on 24 October 2016, opposed the settlement order of the expert witnesses of the Court of Palermo, challenging its non-involvement and, alternatively, the excess compensation paid. With its ruling of 23 January 2018 the Court of Palermo acknowledged that Italgas Reti is not required to pay the costs of the Public Prosecutor's Office consultants as they are not connected with the prevention measures. The consultants filed an appeal with the Court of Cassation.
- 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.

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, the AEEGSI - today 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 leadsealed 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 - Council of State (Gen. Reg. 8060/2017) and Veneto Regional Administrative Court (Gen. Reg. 346/2018)

Italgas Reti appealed against the acts through which the Municipality of Venice had deducted from the residual industrial value due to Italgas Reti as the outgoing operator, the value of a portion of the distribution network (Block A), which as at 31 December 2014 had a residual industrial value of about €31 million. The Municipality of Venice claims to have acquired - through a free transfer - ownership of Block A at the end of the original concession deed (2010). However, according to Italgas Reti, the expiry of the concession and therefore the accrual of entitlement to the free transfer was postponed to 2025 on the basis of the subsequent additional amending deed to the original concession deed, signed by the parties in 1995.

With its Ruling no. 654/2017, the Veneto Regional Administrative Court rejected the Company's appeal on the grounds that entitlement to the free transfer of part of the distribution network was accrued when the concession relationship originally expired (2010). Italgas Reti appealed against the ruling before the Council of State. As a result of Ruling no. 654/2017, the Municipality of Venice asked Italgas Reti to pay a fee, whose amount is still to be determined, in connection with use of the plants freely transferred with its letter dated 2 February 2018. Italgas Reti challenged this request with appeal before the Veneto Regional Administrative Court.

Decision no. 4104/2018 was filed on 4 July 2018, by which the State Council rejected the appeal brought by Italgas Reti against decision no. 654/2017 pronounced by the Veneto Regional Administrative Court, confirming the acquisition free of charge in favour of the Municipality of Venice of assets included in Block A, as well as the Company's obligation to pay a fee for use of the portion of network devolved free of charge.

The Company has filed a claim for repeal of the decision of 4 July 2018 with the State Council and with the European Court of Human Rights (ECHR). Note that - in this case, too - that, also against a claim for fees from the Municipality of Venice equivalent to remuneration of the Block A assets, in the absence of specific reference regulations, to date it is not possible to reliably determine the extent of the liability. At the same time, following the mentioned ruling of the Council of State, the Company accelerated depreciation of the portion of network relating to Block A for a value of €6.0 million.

With decision no. 588/2019 of 24 January 2019, the State Council pronounced on a similar case relating to the devolution free of charge of a portion of a network relating to the existing concession with the Municipality of Cavallino-Treporti. In fact, Italgas manages the public natural gas distribution service in the aforementioned Municipality under the terms of concession agreements at the time accepted by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino-Treporti was established in 1999 as a spin-off portion of the geographic area already falling within the Municipality of Venice. With the aforementioned decision, the State Council sanctioned the free-of-charge acquisition in favour of the Municipality of Cavallino Treporti of assets included in Block A, as well as the Company's obligation to pay a fee for use of the portion of network devolved free of charge.

The Company has filed a claim for repeal of the decision of 24 January 2019 with the State Council and will also file a claim before the European Court of Human Rights (ECHR). Note that - in this case, too - that, also against a claim for fees from the Municipality of Cavallino Treporti equivalent to remuneration of the Block A assets, in the absence of specific reference regulations, to date it is not possible to reliably determine the extent of the liability.

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

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 projects.

In addition, on 27 September 2018 ARERA published Resolution no. 487/2018 that defines the contribution to cover costs incurred by electricity and natural gas distributors subject to obligations in relation to the energy efficiency certificates mechanism pursuant to the aforementioned Ministerial Decree of 10 May 2018.
On 9 October 2018 Italgas appealed against the Ministerial Decree of 10 May 2018 before the Regional Administrative Court of Lazio. Afterwards, on 23 November 2018, Italgas also appealed ARERA resolutions nos. 487/2018 and 501/2018 (as consequent act) before the Regional Administrative Court of Lombardy, reiterating the grievances previously raised against the aforesaid ministerial decree.

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

With appeal Gen. Reg. 1083/2015 Italgas Reti S.p.A. appealed ARERA resolution no. 98/2016 before the Regional Administrative Court of Lombardy due to failure to recognise the extra remuneration of incentive investments made in Rome in the years 2009-2010.

Afterwards, it also appealed against resolution no. 494/2018 with added grounds regarding the closing of the fact-finding investigation concerning the same matter, reiterating the objections raised in the above-mentioned appeal.

TAX CASES

Italgas Reti S.p.A. - Direct taxes

The 2009 general tax audit performed by the Revenue Agency, which ended on 7 December 2012 with the release of the official audit report, resulted in around €1 million of additional IRES, IRAP and VAT, plus penalties and interest.

The 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.

On 10 April 2018 the Regional Tax Commission of Piedmont rejected the appeal submitted by Italgas Reti, overturning the decision of first instance. As a result, the Company *adjusted* the risk fund for tax cases by allocating €728,000.00 for the potential disbursement (IRES, IRAP and interest) arising from the pronouncement of the appeal judges.

In July 2018, the Revenue Agency ordered payment of the above amounts, which Italgas Reti paid on 9 July 2018 (IRES and relevant interest for €696,796.76) and 20 July 2018 (IRAP and relevant interest for €107,051.38), respectively, drawing from the risk fund in question.

In December 2018, appeal was filed with the Court of Cassation against the aforesaid decision of the Regional Tax Commission of Piedmont.

An assessment notice was served by the Turin Guardia di Finanza on 3 May 2017, which, with regard to the 2014 tax period, challenged the wrongful deduction of €704,000 in VAT.

In light of the challenge, an amount equivalent to the VAT and related penalties to the risk provision calculated was allocated, in the event of a tax settlement plus interest due, at a total of €1,050,966.

The Revenue Agency has not yet issued its findings, but served an order to file an appearance and official debate began for facilitated settlement of the dispute.

In November 2018 the dispute was concluded with a facilitated settlement (pursuant to Article 2 of Legislative Decree no. 119/2018) by paying only VAT, which amounted to €704,000.

The risk fund was used for the payment and the surplus portion of the fund was reversed.

Italgas Reti S.p.A. - Local taxes

14 assessment notices, relating to waste disposal tax in the Municipality of Caserta, were served to the former Napoletanagas S.p.A. in 2013 to 2016, which are being 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 the month of November 2018 two appeals were presented in the Court of Cassation against negative decisions of the Regional Tax Commission of Naples (years 2010 and 2011).

PUBLIC FUNDS RECEIVED

With reference to the new rules introduced by Law no. 124 of 4 August 2017 "Annual competition law", under Article 1, paragraphs 125-129, please note that the following grants from public authorities relating to the construction of gas networks were collected.

	GRANTOR				
Beneficiary	**Name/Company name**	**Tax code**	**VAT reg. no.**	**Type of transaction**	**Amount €**
ITALGAS RETI S.P.A.	Sorbo San Basile	00347860793	00347860793	Plant account grants Law 784/80	52.133
ITALGAS RETI S.P.A.	Guardavalle	00400390795	00400390795	Plant account grants Law 784/80	241.050
ITALGAS RETI S.P.A.	Falciano Del Massico	83001830617	00423460617	Plant account grants Law 784/80	208.580
ITALGAS RETI S.P.A.	Morro D'oro	81000370676	00516370673	Plant account grants Law 784/80	14.421
ITALGAS RETI S.P.A.	Casalincontrada	00273020693	00273020693	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	29.851
ITALGAS RETI S.P.A.	Pettorano Sul Gizio	83002390660	00223990664	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	237.281
ITALGAS RETI S.P.A.	Prezza	00189230667	00189230667	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	74.959
ITALGAS RETI S.P.A.	San Valentino in Abruzzo Citeriore	81000410688	00288790686	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	19.197
ITALGAS RETI S.P.A.	Silvi	81000550673	00175740679	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	10.237
ITALGAS RETI S.P.A.	Bucchianico	00251860598	00251860598	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	28.793
ITALGAS RETI S.P.A.	Avezzano	81002910669	00159380666	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	9.839
ITALGAS RETI S.P.A.	Castiglione Messer Raimondo	80003890672	00195720677	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	9.720
ITALGAS RETI S.P.A.	Turrivalignani	00224700682	00224700682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	1.412

GRANTOR					
Beneficiary	**Name/Company name**	**Tax code**	**VAT reg. no.**	**Type of transaction**	**Amount €**
ITALGAS RETI S.P.A.	Castilenti	81000270678	00824050678	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	8.282
ITALGAS RETI S.P.A.	Introdacqua	00197560667	00197560667	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	5.950
ITALGAS RETI S.P.A.	Lettomanoppello	00254240682	00254240682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	50.390
ITALGAS RETI S.P.A.	Elice	00221990682	00221990682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	12.979
ITALGAS RETI S.P.A.	Catignano	80001570680	00221020688	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	21.835
ITALGAS RETI S.P.A.	Popoli	00123600686	00123600686	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	1.341
ITALGAS RETI S.P.A.	Pineto	00159200674	00159200674	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	2.160
ITALGAS RETI S.P.A.	Bugnara	00190300665	00190300665	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	10.522
ITALGAS RETI S.P.A.	Scafa	81000070680	00208610683	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	3.290
ITALGAS RETI S.P.A.	Lettomanoppello	00254240682	00254240682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	50.390
ITALGAS RETI S.P.A.	Manoppello	81000530683	00947010682	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	59.949
ITALGAS RETI S.P.A.	Castilenti	81000270678	00824050678	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	8.282
ITALGAS RETI S.P.A.	Bugnara	00190300665	00190300665	Plant account grants - Reg. Law no. 25 of 3 APRIL 1995 and - REGIONAL LAW NO. 84 of 27.12.2001	10.522

26. REVENUE

The breakdown of revenue for the period, which totalled €1,641,296 thousand, is shown in the following table:

(€ THOUSANDS)	2017	2018
Core business revenue	1,570,929	**1,583,752**
Other revenue and income	50,112	**57,544**
	1,621,041	**1,641,296**

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

CORE BUSINESS REVENUE

Core business revenue, which amounts to €1,583,752 thousand, is analysed in the table below:

(€ THOUSANDS)	2017	2018
Natural gas distribution	1,044,966	**1,079,911**
Revenues for infrastructure construction and improvements (IFRIC 12)	479,651	**446,971**
Technical assistance, engineering, IT and various services	39,779	**49,779**
Water distribution and sale	6,533	**7,091**
	1,570,929	**1,583,752**

Core business revenue refers primarily to the consideration for the natural gas transmission service (€1,079,911 thousand) and revenue deriving from the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to IFRIC 12 (€446,971 thousand).

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)	2017	2018
RE-RS-UG1 fees	98,921	**113,308**
UG3 fees	42,263	**36,152**
Gas Bonus and GS fees	(10,221)	**(12,594)**
UG2 fees	(56,777)	**(52,438)**
	74,186	**84,428**

The fees in addition to the distribution service (€84,428 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 (€1,079,911 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.

They include €71,490 thousand relating to the contribution pursuant to Article 57 of the Authority Resolution 367/14 which relates to the investment plan to replace traditional meters with electronic smart meters, as set out in the remote reading project pursuant to Authority resolutions 631/13 and 554/15.

Revenue from the sale of water (€7,091 thousand) relates to the water distributed by Italgas Acqua, established on 1 January 2018 after the successful proportional partial demerger of Italgas Reti to a newco through assignment to the latter of the “former Napoletanagas water business unit” became effective.

OTHER REVENUE AND INCOME

Other revenue and income, which amounted to €57,544 thousand, can be broken down as follows:

(€ THOUSANDS)	2017	2018
Income from gas distribution service safety recovery incentives	12,129	**14,185**
Net income from Energy Efficiency Certificates (*)	8,055	**2,831**
Income from property investments	4,291	**1,134**
Plant safety assessment pursuant to Law Decree 40/04	2,766	**2,785**
Capital gains from sale of assets	2,551	**292**
Management refunds and chargebacks	1,685	**1,867**
Contractual penalties receivable	728	**1,906**
Revenue from regulated activities	12,479	**14,325**
Use of contributions for connections		**15,188**
Other revenue	5,428	**3,031**
	50,112	**57,544**

(*) Net of costs incurred for purchase of certificates.

Income from safety recovery incentives, equal to €14,185 thousand, relates to refunds paid by the Authority connected to achieving quality and technical standards relating to the natural gas distribution service.

Other revenue mainly includes the reversal of prepayments for contributions for connections (€15,100 thousand).

27. OPERATING COSTS

The breakdown of operating costs for the period, which totalled €786,568 thousand, is shown in the following table:

(€ THOUSANDS)	2017	2018
Purchases, services and other costs	613,112	**552,896**
Personnel cost	231,685	**233,672**
	844,797	**786,568**

Operating costs relating to the construction and upgrading of natural gas distribution infrastructure connected with concession agreements pursuant to what is set forth in IFRIC 12, amount to €446,971 thousand and are broken down as follows:

(€ THOUSANDS)	2017	2018
Purchase costs for raw materials, consumables, supplies and goods	129,820	**102,968**
Service costs	239,289	**233,303**
Costs for the use of third-party assets	12,438	**18,352**
Personnel cost	97,116	**91,380**
Other expense	988	**968**
	479,651	**446,971**

PURCHASES, SERVICES AND OTHER COSTS

Purchases, services and other costs, which amounted to €552,896 thousand, can be broken down as follows:

(€ THOUSANDS)	2017	2018
Purchase costs for raw materials, consumables, supplies and goods	135,485	**128,640**
Service costs	354,237	**329,325**
Costs for the use of third-party assets	76,064	**81,197**
Changes in raw materials, consumables, supplies and goods	10,306	**(3,360)**
Net provisions for risks and charges	3,677	**2,982**
Net provisions for impairment	684	**402**
Other expense	33,317	**14,656**
	613,770	**553,842**
To be deducted:		
Increases for own work	(658)	**(946)**
- of which service costs	(658)	(946)
	613,112	**552,896**

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

(€ THOUSANDS)	2017	2018
Inventories	124,604	**120,179**
Purchase of water	2,079	**1,948**
Motive power	1,132	**1,153**
Purchase of fuel	3,836	**3,711**
Consumables	3,834	**1,649**
	135,485	**128,640**

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 (€102,968 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for services of €328,379 thousand relate to:

(€ THOUSANDS)	2017	2018
Project management and plant maintenance	206,547	**168,089**
Consultancy and professional services	46,632	**63,898**
Centralised service services	31,100	**20,712**
Costs for personnel services	13,842	**14,110**
IT and telecommunications services	16,324	**30,681**
Electricity, water and other (utility) services	4,775	**5,882**
Insurance	6,687	**5,615**
Cleaning, security service and guard services	3,871	**1,434**
Advertising and entertainment	2,447	**2,507**
Other services	27,614	**28,654**
Use of risk provision	(5,602)	**(12,257)**
	354,237	**329,325**
To be deducted:		
Increases for own work	(658)	**(946)**
	353,579	**328,379**

Costs for services include costs relating to the construction and upgrading of gas distribution infrastructure (€233,303 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Costs for project management and plant maintenance planning (€168,089 thousand) essentially relate to the extension and maintenance of gas distribution plants.

Costs for the use of third-party assets, amounting to €81,197 thousand, refer primarily to fees recognised to contracting parties for the running of natural gas distribution activities under concession.

Changes in raw materials, consumables, supplies and goods (€3,360 thousand) were due mainly to the gas meter replacement plan.

Net allocations to the provision for risks and charges, amounting to €2,982 thousand net of utilisations, refer mainly to the environmental risk provision and the EEC risk provision.

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

Other expenses, of €14,656 thousand, are analysed below:

(€ THOUSANDS)	2017	2018
Gas distribution service safety improvement penalties	7,920	**1,924**
Other penalties	3,415	**3,247**
Indirect taxes, local taxes	11,526	**7,906**
Capital losses from disposal/recovery of property, plant and equipment and intangible assets	6,675	**2,049**
Membership fees	1,310	**1,562**
Costs for transactions, compensation and penalties	320	**234**
Use of risk provision	(13,901)	**(4,690)**
Charges attributable to Energy Efficiency Certificates	7,431	**2,281**
Other expense	8,621	**143**
	33,317	**14,656**

Gas distribution service safety improvement penalties (€1,924 thousand) relate to repayments, paid to the Authority, related to awards for gas distribution safety improvements for 2018.

Charges attributable to Energy Efficiency Certificates (€2,281 thousand) are fully covered by use of the relevant risk provision.

PERSONNEL COST

Personnel cost, totalling €233,672 thousand, breaks down as follows:

(€ THOUSANDS)	2017	2018
Wages and salaries	168,482	**165,500**
Social charges	51,099	**50,908**
Employee benefits	14,336	**14,254**
Secondment	(6,440)	**(989)**
Other expense	7,328	**6,265**
	234,805	**235,938**
To be deducted:		
Increases for own work	(3,120)	**(2,266)**
	231,685	**233,672**

The item includes costs relating to the construction and upgrading of gas distribution infrastructure (€91,380 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Employee benefits (€14,254 million) mainly regard expenses connected to the elimination of the Gas Fund, pursuant to Law no. 125 of 6 August 2015[44].

More details are provided in the "Provisions for employee benefits" note.

The item other expenses (€6,265 thousand) mainly relates to provisions made in the period to the retirement benefits fund (€2,500 thousand).

AVERAGE NUMBER OF EMPLOYEES

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

STATUS	2017	2018
Executives	64	**60**
Managers	262	**267**
Office workers	2,046	**1,975**
Manual workers	1,411	**1,329**
	3,783	**3,631**

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

At 31 December 2018, there were 3,619 employees on average.

REMUNERATION DUE TO KEY MANAGEMENT PERSONNEL

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities ("key management personnel"), in office at 31 December 2018, amounted to €6,634 thousand and breaks down as follows:

(€ THOUSANDS)	2017	2018
Wages and salaries	4,121	**5,119**
Post-employment benefits	312	**412**
Other long-term benefits	1,514	**1,103**
	5,947	**6,634**

44_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).

REMUNERATION DUE TO DIRECTORS AND STATUTORY AUDITORS

Remuneration due to Directors, except for the Chairman and the Chief Executive Officer who form part of the key management personnel as explained in the foregoing paragraph, amounted to €1,203 thousand and remuneration due to Statutory Auditors amounted to €399 thousand (Article 2427, no. 16 of the Italian Civil Code). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor giving rise to a cost for the Company, even if not subject to personal income taxes.

28. AMORTISATION, DEPRECIATION AND IMPAIRMENTS

Amortisation, depreciation and impairment, totalling €401,256 thousand, breaks down as follows:

(€ THOUSANDS)	2017	2018
Total amortisation and depreciation	**352,001**	**399,507**
- property, plant and equipment	16,261	**16,766**
- Right of use pursuant to IFRS 16		**7,195**
- intangible assets	335,740	**375,546**
Impairment	**6,341**	**1,749**
- Impairment of property, plant and equipment	31	**657**
- Impairment of intangible assets	6,310	**1,092**
	358,342	**401,256**

The amount of €401,256 thousand, relating to the amortisation of the intangible assets, includes greater amortisation as a result of the reduction in the useful life of traditional meters[45], subject to the plan to replace them with electronic meters, required by ARERA resolutions under the scope of the implementation of the remote metering reading plan.

45_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 2018.

29. FINANCIAL INCOME (EXPENSE)

Net financial expense, amounting to €46,965 thousand, comprises:

(€ THOUSANDS)	2017	2018
Financial income (expense)	**(36,078)**	**(45,592)**
Financial expense	(36,089)	**(45,689)**
Financial income	11	**97**
Other financial income (expense)	**(171)**	**(1,373)**
Other financial expense	(1,245)	**(2,224)**
Other financial income	1,074	**851**
	(36,249)	**(46,965)**

(€ THOUSANDS)	2017	2018
Financial income (expense)	**(36,078)**	**(45,592)**
Borrowing costs:	**(36,089)**	**(45,689)**
- Interest expense on bonds	(26,039)	**(38,358)**
- Commission expense on bank loans and credit lines	(5,904)	**(2,351)**
- Interest expense on credit line and loan expense due to banks and other lenders	(4,146)	**(4,980)**
Financial expense capitalised		
Income on financial receivables:	**11**	**97**
- Interest income and other income on financial receivables non-held for operations	11	**97**
Other financial income (expense)	**(171)**	**(1,373)**
- Capitalised financial expense	139	**154**
- Financial income (expense) connected with the passing of time (accretion discount) (*)	(1,863)	**(2,193)**
- Uses of risk provisions and financial expense	1,314	**673**
- Expense for right of use pursuant to IFRS 16		**(286)**
- Other expenses	(594)	**(380)**
- Other income	833	**659**
	(36,249)	**(46,965)**

(*) 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".

30. INCOME (EXPENSE) FROM EQUITY INVESTMENTS

Income (expense) from equity investments, totalling €19,999 thousand, breaks down as follows:

(€ THOUSANDS)	2017	2018
Effect of valuation using the equity method	**22,958**	**19,982**
Capital gain from valuation using the equity method	22,958	**19,982**
Other income (expense) from equity investments	**15**	**17**
Other income from equity investments	15	**17**
	22,973	**19,999**

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".

31. INCOME TAXES

Income taxes for the year, amounting to €112,811 thousand (€+951 thousand as at 31 December 2017) comprise:

(€ THOUSANDS)		2017			2018	
	IRES	**IRAP**	**Total**	**IRES**	**IRAP**	**Total**
Current taxes	**111,219**	**20,233**	**131,452**	**109,774**	**22,811**	**132,585**
Current taxes for the year	108,627	20,246	128,873	111,322	22,427	133,749
Adjustments for current taxes pertaining to previous years	2,592	(13)	2,579	(1,548)	384	(1,164)
Deferred and prepaid taxes	**(16,986)**	**(2,606)**	**(19,592)**	**(18,828)**	**(946)**	**(19,774)**
Deferred taxes	(29,349)	(4,913)	(34,262)	(16,582)	(1,976)	(18,558)
Prepaid taxes	12,363	2,307	14,670	(2,246)	1,030	(1,216)
	94,233	**17,627**	**111,860**	**90,946**	**21,865**	**112,811**

Income taxes relate to current taxes amounting to €132,585 thousand (€131,452 thousand as at 31 December 2017) and net prepaid taxes totalling €19,774 thousand (€19,592 thousand as at 31 December 2017).

The rates applied and provided for by tax regulations for current taxes are 24% for IRES and 4.2% for IRAP.

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) rate in force in Italy) with the actual tax charge for the year can be broken down as follows:

(€ THOUSANDS)	2017		2018	
	Tax rate	**Balance**	**Tax rate**	**Balance**
IRES				
Pre-tax profit		404,626		426,506
IRES tax calculated based on the theoretical tax rate	**24.00%**	**97,110**	**24.00%**	**102,361**
Changes compared to the theoretical rate:				
- Income from equity investments	(0.7%)	(2,930)	(0.5%)	(2,065)
- Temporary tax adjustment	(0.7%)	(2,841)	(0.6%)	(2,710)
- Current taxes for previous years	0.6%	2,592	(0.4%)	(1,548)
- "Super Iper amortisation and depreciation" tax benefit			(1.7%)	(7,200)
- Other permanent differences	0.1%	302	0.5%	2,108
IRES taxes for the year through profit or loss	**23.3%**	**94,233**	**21.3%**	**90,946**

(€ THOUSANDS)	2017		2018	
	Tax rate	**Balance**	**Tax rate**	**Balance**
IRAP				
EBIT for IRAP		417,643		453,472
IRAP tax calculated based on the theoretical tax rate	**4.2%**	**17,541**	**4.2%**	**19,046**
Changes compared to the theoretical rate:				
- Taxes for previous years			0.1%	384
- Temporary tax adjustment	(0.6%)	(2,552)	(0.1%)	(414)
- Regional IRAP adjustments	0.5%	2,116	0.6%	2,650
- Other permanent differences	0.1%	522	0.1%	199
IRAP taxes for the year through profit or loss	**4.2%**	**17,627**	**4.9%**	**21,865**

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in the note "Deferred tax liabilities".

TAXES RELATED TO COMPONENTS OF COMPREHENSIVE INCOME

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

(€ THOUSANDS)		2017			2018	
	Pre-tax value	Tax impact	Net tax value	Pre-tax value	Tax impact	Net tax value
Remeasurement of defined-benefit plans for employees	18,595	(5,244)	**13,351**	14,948	(4,218)	**10,730**
Change in fair value of cash flow hedge derivative financial in-struments				6,505	(1,561)	**4,944**
Other components of comprehensive income	**18,595**	**(5,244)**	**13,351**	**21,453**	**(5,779)**	**15,674**
Deferred/prepaid taxes		**(5,244)**			**(5,779)**	

32. PROFIT (LOSS) PER SHARE

The earnings per basic share, equal to €0.39, was calculated by dividing the net profit attributable to Italgas (€313,695 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. The diluted earnings per share, calculated considering also the co-investment plan, is €0.39 per share.

33. 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 are shown for the 2018 financial year. The nature of the most significant transactions is also stated.

COMMERCIAL AND OTHER TRANSACTIONS

Commercial and other transactions are analysed below:

(€ THOUSANDS)	31.12.2017			2017				
					Costs (a)		Revenue (b)	
	Receivables	Payables	Guarantees and commitments	Assets	Services	Other	Services	Other
Companies under joint control and associates								
- Toscana Energia S.p.A.	2,518	155			187		3,410	
- Umbria Distribuzione Gas S.p.A.	355						536	
- Metano Sant'Angelo Lodigiano S.p.A.	203				(1)		303	(26)
	3,076	**155**			**186**		**4,249**	**(26)**
Companies owned or controlled by the State								
- Eni Group	186,077	43,598	725		2,089	45	630,374	21,167
- Snam Group	6,651	24,185	85,569		34,577	498	197	1,749
- Enel Group	30,196	3,885			8		114,566	2,147
- Anas Group	14	304			9	227	11	29
- Ferrovie dello Stato Group	51	400			24	212		71
- Finmeccanica Group	10							
- GSE Gestore Servizi Group	44	23						(138)
- Poste italiane Group		259			290			
	223,043	**72,654**	**86,294**		**36,997**	**982**	**745,148**	**25,025**
Total	**226,119**	**72,809**	**86,294**		**37,183**	**982**	**749,397**	**24,999**

(a) Include costs for goods and services for investment.
(b) Gross of the tariff components having contra entry in costs.

(€ THOUSANDS)	31.12.2018			2018				
					Costs (a)		Revenue (b)	
	Receivables	Payables	Guarantees and commitments	Assets	Services	Other	Services	Other
Impresa controllante								
- Cassa Depositi e Prestiti					7			
					7			
Companies under joint control and associates								
- Toscana Energia S.p.A.	4,671	171			(114)		4,607	191
- Umbria Distribuzione Gas S.p.A.	808				(46)		614	
- Metano Sant'Angelo Lodigiano S.p.A.	168				(43)		342	(1)
	5,647	**171**			**(203)**		**5,563**	**190**
Companies owned or controlled by the State								
- Eni Group	177,442	44,253	15		5.673		642,464	16,661
- Snam Group	631	6,615			20.435		(21)	(90)
- Enel Group	29,884	5,934			575		124,757	2,676
- Anas Group	3	582			575			
- Ferrovie dello Stato Group	60	154			530			46
- Finmeccanica Group	1							
- GSE Gestore Servizi Group	47	(37)			74			8
- Poste Italiane Group		127			6			
- Saipem Group		1,225			940			
	208,068	**58,853**	**15**		**28,808**		**767,200**	**19,301**
Total	**213,715**	**59,024**	**15**		**28,612**		**772,763**	**19,491**

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

The main payable commercial transactions refer to:

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

FINANCIAL TRANSACTIONS

Financial transactions can be broken down as follows:

(€ THOUSANDS)	31.12.2017		2017	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti				466
Total				**466**

(€ THOUSANDS)	31.12.2018		2018	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti				151
				151
Companies owned or controlled by the State				
- Snam Group				563
				563
Total				**714**

RELATIONS WITH THE PARENT COMPANY CDP

The main financial transactions carried out with CDP specifically concern commissions on subscribed loans.

Transactions with Directors, Statutory Auditors and key managers, with reference in particular to their remuneration, are described in the note "Operating costs", to which reference is made.

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)	31.12.2017			31.12.2018		
	Total	**Related entities**	**Incidence %**	**Total**	**Related entities**	**Incidence %**
Statement of financial position						
Trade and other current receivables	619,202	225,387	36.4%	536,199	213,715	39.9%
Other current assets	5,944	30	0.5%	13,677		
Investments valued using the equity method	184,829	184,829	100.0%	174,955	174,955	100.0%
Other investments	54	54	100.0%	96	96	100.0%
Other non-current assets	77,891	702	0.9%	133,707	549	0.4%
Short-term financial liabilities	81,133			274,499		
Short-term portions of short-term financial liabilities	25,043			43,303		
Trade and other payables	498,174	72,469	14.5%	564,663	59,024	10.5%
Other current liabilities	182	175	96.2%	2,890	177	6.1%
Long-term financial liabilities	3,617,044			3,705,980		
Other current liabilities	2,055	165	8.0%	457,800		

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

(€ THOUSANDS)	2017			2018		
	Total	**Related entities**	**Incidence %**	**Total**	**Related entities**	**Incidence %**
Income Statement						
Core business revenue	1,570,929	749,397	47.7%	1,583,752	772,763	48.8%
Other revenue and income	50,112	24,999	49.9%	57,544	19,491	33.9%
Purchases, services and other costs	613,112	44,623	7.3%	552,896	29,477	5.3%
Personnel cost	231,685	(6,458)	(2.8%)	233,672	(865)	(0.4%)
Financial expense	37,334	466	1.2%	47,913	714	1.5%
Financial income	1,085			948		

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)	2017	2018
Revenue and income	774,396	**792,254**
Costs and charges	(38,165)	**(28,612)**
Change in trade and other current receivables	30,469	**11,672**
Change in other assets	(12)	
Change in trade and other payables	569	**13,443**
Interest income (paid)	(466)	**(714)**
Net cash flow from operating activities	**766,791**	**788,043**
Cash flow from investments		
Net cash flow from investment activities		
Dividends distributed to third parties	(64,003)	**(66,563)**
Net cash flow from financing activities	**(64,003)**	**(66,563)**
Total cash flows to related entities	**702,788**	**721,480**

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

(€ THOUSANDS)	2017			2018		
	Total	**Related entities**	**Incidence %**	**Total**	**Related entities**	**Incidence %**
Cash flow from operating activities	546,712	766,791		750,360	788,043	
Cash flow from investment activities	(476,110)			(668,960)		
Cash flow from financing activities	(69,315)	(64,003)	92.3%	55,895	(66,563)	

34. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

35. POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

36. SIGNIFICANT EVENTS AFTER YEAR END

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

37. PUBLICATION OF THE FINANCIAL STATEMENTS

The financial statements were authorised for publication by the Board of Directors of Italgas at its meeting of 22 February 2019. The Board of Directors authorised the Chairman and the Chief Executive Officer to make any changes which might be necessary or appropriate for finalising the form of the document during the period between 22 March and the date of approval by the Shareholders' Meeting.

CERTIFICATION OF THE CONSOLIDATED 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 58 of 24 February 1998, the undersigned Paolo Gallo and Giovanni Mercante, as Chief Executive Officer and Chief Financial Officer 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 consolidated financial statements during the course of 2018.

2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2018 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 consolidated financial statements at 31 December 2018:

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 Directors' Report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

22 February 2019

Chief Executive Officer	Executive responsible for preparing the corporate accounting documents
Paolo Gallo	*Giovanni Mercante*

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Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Italgas SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Italgas Group (the Group), which comprise the balance sheet as of 31 December 2018, the income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Italgas SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Revenue recognition *Note 3 "Measurement criteria" and Note 26 "Revenues" to the consolidated financial statements as of 31 December 2018.* The recognition of revenues from distribution of natural gas is affected by regulatory schemes and is characterised by a distinction between the distributor's revenues allowed by the regulator (the "Revenue Cap") and amounts billed to customers. The Revenue Cap and the tariffs to be applied for customer billing are set, and published in specific regulations, by the Italian Regulatory Authority for Energy, Networks and the Environment (Autorità di Regolazione per Energia Reti e Ambiente, ARERA). The regulation also provides for equalisation mechanisms to be applied to a distributor's revenues, based on which the difference between the Revenue Cap and amounts billed to customers generates an account receivable (if positive) or payable (if negative) from/to Energy and Environmental Service Fund (CSEA) - a public sector entity that manages certain tariff components paid by power, gas and water operators - which is settled in the following financial year. In consideration of the significant volume of transactions and the complexity of the regulations applicable to the quantification of distribution revenues, we identified revenue recognition as a key audit matter with reference to the correct calculation of revenues.	In performing our auditing procedures we analysed, understood and evaluated the Group's system of internal control over the business process "Revenue and Receivables" which includes internal controls over revenue recognition. We identified and validated the operation and effectiveness of the relevant (manual and automated) controls over that process, also using the support of PwC network specialists in IT systems and business process analysis. We verified the reconciliation of sales values in the general ledger to the Total Revenue Limit identified by ARERA based on the provisional tariffs established by ARERA for FY 2018 with Regulation 177/2018. We verified the correct quantification of the accrual for equalisation with CSEA, based on the difference between the Total Revenue Limit and amounts billed to customers during the year. Finally, we carried out external confirmation procedures with third parties to obtain evidence supporting the trade receivables recognised. For the parties where we did not receive balance confirmations we performed alternative procedures on the balance as of 31 December 2018 to obtain relevant and reliable supporting evidence.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Capital expenditure relating to service concession agreements (IFRIC 12) and related impairment test *Note 3 "Measurement criteria" and Note 15 "Intangible assets" to the consolidated financial statements as of 31 December 2018.* "Service concession agreements" amounted to Euro 5,296 million as of 31 December 2018, accounting for 88% of total 'Non-current assets'. The gas distribution sector in which the Italgas Group operates is characterised by specific regulations issued by ARERA. In detail, the Group's distribution revenues are determined by ARERA based on a predefined return on capital expenditure (assets under concession), depreciation and certain operating costs. In consideration of the significant amounts of capital expenditure, we identified it as a key audit matter area with reference to the correct recognition of expenditure in accordance with IFRIC 12 – Service concession agreements. During the year the Italgas Group made capital expenditure on intangible assets for about Euro 486 million mainly relating to service concession agreements for maintaining and developing the remote metering networks (Euro 447 million). Amortization for the period, equal to Euro 376 million, of which Euro 338 million relating to service concession agreements, also includes additional amortization (Euro 83 million) as a result of the reduction in the useful life of traditional meters that are to be replaced with electronic meters in accordance with the replacement plan issued by ARERA, to be completed within 2020. At the end of the period management considered it appropriate to test for impairment the intangible assets falling into the scope of IFRIC 12, regardless of the existence of possible	In performing our audit procedures we analysed, understood and evaluated the Group's system of internal control over the business processes "Tangible and intangible assets" and "Capital expenditure" which include controls over the correct capitalisation of capital expenditure and the management of tangible and intangible assets. We identified and validated the operation and effectiveness of the relevant (manual and automated) controls over that process, also using the support of PwC network specialists in IT systems and business process analysis. We verified the reconciliation of the asset register to the general ledger values, recalculated amortization charges for the period, on a sample basis, and verified decreases in the period, on a sample basis. With reference to capital expenditure in the period we selected a sample of transactions and verified that they had been recognised in accordance with the capitalisation criteria established in the applicable financial reporting standards. With reference to the plan to replace traditional meters with smart meters, we verified the method applied by the Group to identify and determine replaced meters, and to recognise accelerated amortization in relation to the planned retirement and replacement of traditional meters. We also analysed the method of calculation used by the Group to recognise in accordance with the accrual basis of accounting the tariff contribution granted by ARERA in

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
impairment indicators, in light of the materiality of the amounts involved. The recoverability of intangible assets was verified through a comparison between the carrying amount and the recoverable amount, this being the higher of fair value and value in use. In detail, management estimated the recoverable amount of intangible assets included in the regulated business making reference to the net invested capital for regulatory purposes, calculated on the basis of the rules defined by ARERA for determining base revenues for regulated businesses (the Regulatory Asset Base, "RAB"), which market operators consider as the minimum measure of fair value for regulated businesses. Based on the recoverable amount thus estimated, no impairment losses were identified.	relation to the replaced meters. We analysed the age of projects recognised in assets under construction and discussed with management the key items of capital expenditure and their nature, with particular reference to the oldest projects in progress, in order to to identify any indicators of impairment. We examined the method adopted by management to identify and assess possible indicators of impairment of intangible assets and, if necessary, to carry out impairment testing. We obtained the impairment test from the Company and held meetings with management to understand the method applied. We obtained and verified the estimate of the Regulatory Asset Base as of 31 December 2018. We verified that the carrying amounts of tangible and intangible assets used for the impairment test matched the values in the financial statements. We re-performed the impairment test. Finally, we verified the accuracy and completeness of the disclosures presented in note 15 to the consolidated financial statements as of 31 December 2018.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Italgas SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 28 April 2017, the shareholders of Italgas SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Italgas SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Italgas Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Italgas Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Italgas SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of Italgas SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 11 March 2019

PricewaterhouseCoopers SpA

Signed by

Giulio Grandi
(Partner)

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