



CONSOLIDATED
HALF-YEAR
REPORT AS AT
30 JUNE 2018



ITALGAS IS WARMTH

Behind simple gestures such as turning on the tap or the heater there are almost two centuries of history.

Italgas's contribute is a committed, reliable and innovative one which arrives into the houses of the Italians in order to bring natural gas warmth, for more then 180 years.

Flipping through these pages, you will find a visual translation of some of the daily moments alternating and being animated also thanks to our people's work.

Consolidated Half-Year Report as at 30 June 2018

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.

For Italgas, Italgas Group or Group refers 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

CONTROL AND RISKS AND RELATED-PARTY TRANSACTIONS COMMITTEE^(d)

Paola Annamaria Petrone (Chairman)

Nicola Bedin

Federica Lolli

Finance and Services General Manager^(g)

Antonio Paccioretti

BOARD OF STATUTORY AUDITORS^(a)

Chairman

Gian Piero Balducci

Standing auditors

Giandomenico Genta

Laura Zanetti

Alternate auditors

Barbara Cavalieri^(b)

Walter Visco

APPOINTMENTS AND REMUNERATION COMMITTEE^(e)

Cinzia Farisè (Chairman)

Maurizio Dainelli

Federica Lolli

SUSTAINABILITY COMMITTEE^(f)

Nicola Bedin (Chairman)

Yunpeng He

SUPERVISORY BODY^(h)

Carlo Piergallini (Chairman)

Eliana La Ferrara

Francesco Profumo

INDEPENDENT AUDITORS⁽ⁱ⁾

PricewaterhouseCoopers S.p.A.

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

(b) Director co-opted by the Board of Directors on 27 July 2017 to replace Barbara Borra and confirmed by the Shareholders' Meeting on 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 created to replace the Appointments Committee and Remuneration Committee, 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.

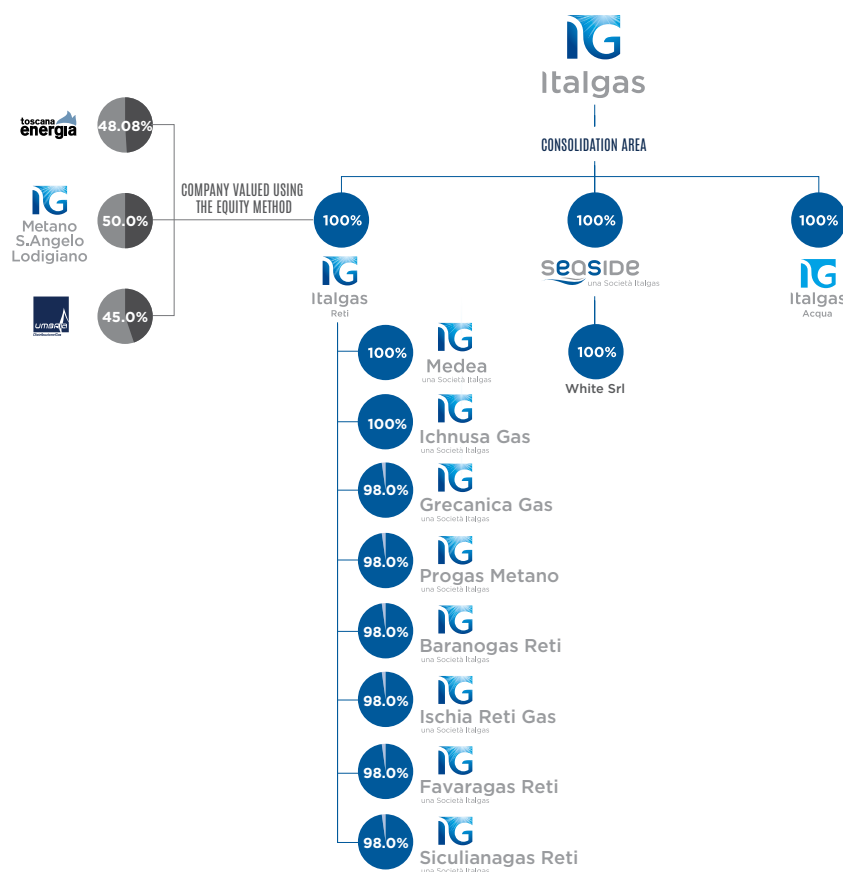
(g) Appointed by the Board of Directors on 26 September 2016 with effect from 7 November 2016.

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

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

Group structure as at 30 June 2018

The structure of the Italgas Group as at 30 June 2018 is shown below:



The scope of consolidation as at 30 June 2018 has changed with respect to that observed at 31 December 2017 as a result of: (i) the acquisition, on 28 February 2018, of 100% of the share capital of Ichnusa Gas S.p.A., a holding company that controls 12 companies granted concessions for the installation and operation of gas distribution networks in Sardinia and (ii) 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; (iii) of the acquisition on 6 April 2018 of 100% of the share capital of Medea S.p.A., a company of distribution and sale of LPG in Sassari and (iv) of the acquisition on 31 May 2018 of 98% of the share capital of Favaragas Reti S.r.l., Sicilianagas 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 granted concessions for the installation and operation of gas distribution networks in 16 municipalities of Southern Italy.

The companies Acam Gas S.p.A., Enerco Distribuzione S.p.A and S.G.S. S.r.l. were merged into Italgas Reti, effective from 1 January 2018 for accounting purposes; at the same date, the assets related to the water services were spun off from Italgas Reti and transferred to a new company named Italgas Acqua S.p.A.

In addition, during the month of January 2018, Italgas finalised the acquisition of the business units of Amalfitana Gas and A Energia Reti, related respectively to the distribution of the natural gas in three ATEMs in Campania and Basilicata and to the distribution network serving the Municipality of Portopalo di Capopassero (Siracusa).



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Disclaimer

The half-year financial statements contain 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.

INTERIM DIRECTORS' REPORT





Summary figures and information

MAIN EVENTS

M&A TRANSACTIONS

Established, on 1 January 2018, **the company Italgas Acqua S.p.A.**, following the effectiveness of the proportional partial demerger of Italgas Reti to a newco through assignment to the latter of the “former Napoletanagas water business unit”.

Completed, on 26 January 2018, **the acquisition of the Amalfitana Gas business unit**, for natural gas distribution activities in three ATEMs in Campania and Basilicata.

Completed, on 31 January 2018, **the acquisition of the AEnergia Reti business unit** relating to the distribution network serving the municipality of Portopalo di Capo Passero (Syracuse).

Acquired, on 28 February 2018, **100% of the share capital of Ichnusa Gas**, a holding company controlling 12 companies with granted concessions for the installation and operation of gas distribution networks in 74 municipalities in Sardinia.

Completed, on 13 March 2018, **the acquisition of a 100% equity holding in Seaside**, Energy Service Company (ESCo), a company providing energy efficiency services.

Completed, on 6 April 2018, **the acquisition of 100% of the share capital of Medea**, an LPG distribution and sale company based in Sassari, which currently serves approximately 13,000 customers within a potential catchment area of almost 30,000 users and distributes on average more than 5 million cubic metres of LPG a year.

Finalised, on 1 May 2018, **the merger by incorporation of Enerco Distribuzione S.p.A. and SGS S.r.l. into Italgas Reti S.p.A.**, effective from 1 January 2018 for accounting and tax purposes.

Completed, on 31 May 2018, **the acquisition from CPL Concordia of a controlling stake (98%) in the capital of 6 companies operating in Southern Italy**, which hold concessions to build and operate gas networks in 16 municipalities, 4 of which already running. The companies in question are Baranogas Reti, Ischia Reti Gas, Progas Metano, Grecanica Gas, Favaragas Reti and Siculianagas Reti. The total value of the assets acquired was set at €17 million. The total investment to create the networks is around €95 million and will be partly financed by public grants. As of now, works for €32.5 million have already been carried out, inclusive of the grants received.

Finalised, on 1 June 2018, **the merger by incorporation of Acam Gas S.p.A. into Italgas Reti S.p.A.**, effective from 1 January 2018 for accounting and tax purposes.

Signed on 22 June 2018, a binding agreement with CPL Concordia for the acquisition of:

- a controlling stake, equal to 60%, of **EGN** (“European Gas Network”), a company that manages directly and indirectly approximately 60,000 users with 37 gas distribution concessions in Sicily, Calabria and Campania;
- a 100% stake in the company **Naturgas**, operating in the distribution of methane gas service in San Giuseppe Vesuviano (NA), with approximately 2,700 users;
- a 100% stake in **Fontenergia**, holder of a concession for the distribution of methane gas in Area 22 of the Sardinia region, with more than 7,000 users temporarily served with LPG.

The overall valuation of the companies subject to the agreement was established at 116 million euro. The agreements for the acquisition of EGN include a put & call option on the residual 40% stake held by the seller, exercisable starting from the 6th month from the closing date of the transaction and at the same price per share defined at closing for the 60%, less the amount of dividends distributed by the company.

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.

As a first step towards digital transformation, Italgas chose the Public Cloud, adopting Infrastructure as a Service (IaaS) as the infrastructural solution for its application map.

This technological leap will not only allow Italgas to improve the management and reliability of its IT systems, but will also lay the foundations for the future digitisation of the Company.

The project of migration of the applications is currently ongoing and the go live is expected to take place by the end of 2018.

At the same time, Italgas has begun to simplify its application map. Most of the custom solutions inherited are to be replaced with strategic platforms in PaaS (Platform as a service) or SaaS (Software as a service) format.

This will give Italgas immediate access to all the new technologies offered by the world's major IT vendors, now and in the future, creating the technology base necessary for the digitisation of corporate processes.

OPTIMISATION OF THE DEBT STRUCTURE

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 saw also 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.

KEY FIGURES

For a better assessment of the economic and financial performance, the Interim Directors' Report includes the reclassified financial statements and some alternative performance indicators, such as EBITDA, EBIT and net financial debt, as well as the financial statements and conventional indicators laid out in IAS/IFRS. These figures are presented in the tables below, the related notes and the reclassified financial statements. For the definition of the terms used, when not directly specified, please refer to the chapter "Non-GAAP Measures".

KEY SHARE FIGURES

		30.06.2017	30.06.2018
Number of shares	(million)	809	809
Period-end listed share price	(€)	4.457	4.720
Average listed share price for the period ^(a)	(€)	3.969	4.820
Market capitalisation ^(b)	(million)	3,606	3,819

(a) Dividend - adjusted figures.

(b) Product of the number of shares outstanding (exact number) multiplied by the period-end listed share price.

KEY FINANCIAL FIGURES

(€ million) 31.12.2017		First half of the year 2017 2018	
1,124.2	Total revenues (*)	564.7	591.3
776.2	EBITDA (**)	390.2	424.2
417.9	EBIT (**)	204.1	223.0
292.8	Net profit	139.6	150.7

(*) Net of the effects of IFRIC 12 "Concession Service Arrangements" (€203.3 and €223.3 million respectively in the first half of 2018 and 2017).

(**) EBITDA and EBIT are not performance measures allowed by IFRS. For more information on these performance measures, please refer to the next chapter "Non - GAAP Measures".

(€ million)	31.12.2017	30.06.2018
Net invested capital at period end	4,905.9	4,793.8
Group shareholders' equity at period end	1,185.6	1,165.3
Net financial debt at period end (*)	3,720.3	3,591.3

(*) Net of lease debts as per IFRS 16. In this regard, please note that, on 13 January 2016, IASB has issued the standard "IFRS 16 Leases", for which the Italgas Group has chosen early adoption from 1 January 2018. The adoption of the standard has resulted in the recognition among financial liabilities of lease debts equal to €37.2 million as at 30 June 2018.

KEY OPERATING FIGURES

2017		First half of the year 2017 2018		Abs. change	Change %
6.586	Active meters (million)	6.538	6.625	0.087	1.3
1,500	Gas distribution concessions (number)	1,472	1,601	129,0	8.8
57,773	Distribution network (kilometres) ^(a)	57,150	59,272	2,122	3.7
521.9	Technical investments	242.6	227.9	(14.7)	(6.1)

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



Italgas and the financial markets

The Italgas share price at the end of the first half of 2018 was €4.7198, down 7.6% with respect to the value recorded at the end of 2017 (€5.1085), net of the dividend paid equal to €0.208; the FTSE Mib was instead up by 1.1% in the same period.

The share price however reached a new peak on 30 April 2018, at €5.3459.

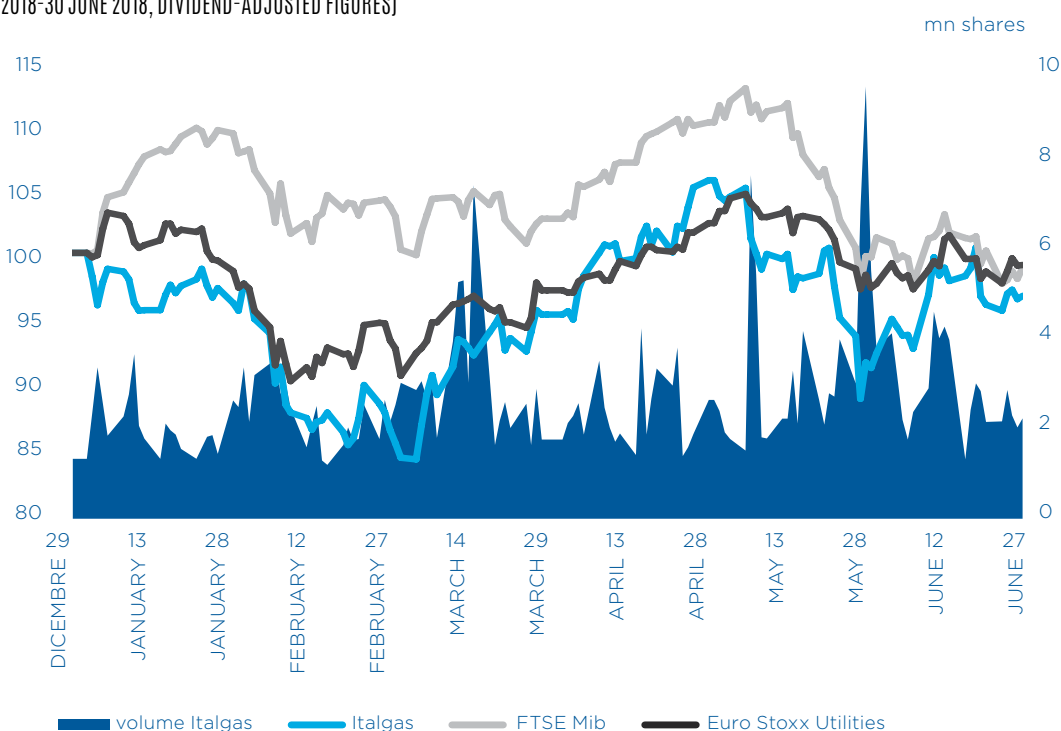
In the first half of 2018, the average daily trading volume of Italgas shares on the electronic market of the Italian Stock Exchange was 2.7 million. Trades mainly concentrated around the time of the announcement of the performance for 2017 and Q1 2018, respectively in mid-March and beginning May, as well as between the end of May and the end of June, reflecting the increased volatility of all Italian shares.

Despite some volatility, stock markets in the Eurozone closed the first half of 2018 overall unchanged.

The Euro Stoxx share index closed the first half of 2018 basically unchanged (+0.2%). The other indexes were basically in line, with the Paris CAC 40 and the London FTSE 100 up respectively 2.8% and 1.6%.

With a 2.4% increase, the Euro Stoxx Utilities Index closed the first half of the year marginally outperforming the Euro Stoxx. The shares of integrated companies overall outperformed the shares of regulated operators, while Italian regulated operators were more affected, in May and June, by increased pressure on the sovereign spread.

**COMPARISON OF ITALGAS SHARE PRICE, FTSE MIB AND EURO STOXX UTILITIES
(1 JANUARY 2018-30 JUNE 2018, DIVIDEND-ADJUSTED FIGURES)**



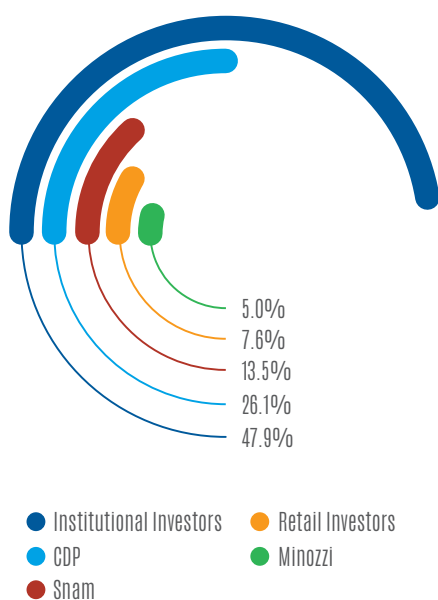
SHAREHOLDERS

The share capital of the Company as at 30 June 2018 consisted of 809,135,502 shares without par value, of a total value of €1,001,231,518.44.

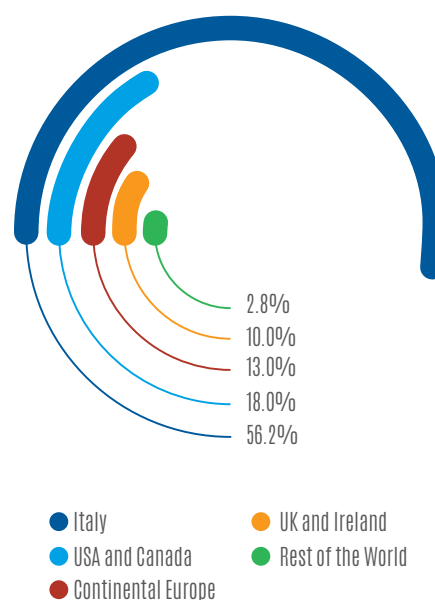
As at 30 June 2018, based on the shareholders' list, the information available and the notices received pursuant to Article 120 of the Consolidated Finance Act, the owners of significant shareholdings (shares exceeding 3%) are represented below.

Consolidating Company	Registrants	% ownership
Italgas S.p.A.	CDP Reti S.p.A. ¹	26.05
	Snam S.p.A.	13.50
	Lazard Asset Management Llc	7.57
	Romano Minozzi	4.99
	Other shareholders	47.89

Italgas Shareholders by type investor



Italgas Shareholders by geographical area



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





Operating performance

INFRASTRUCTURE

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

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

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

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

INVESTMENTS

In the first half of 2018, technical investments were made for an amount equal to €227.9 million (inclusive of fixed assets as per IFRS 16, up by €6.4 million in the period), down by €14.7 million with respect to the corresponding period of 2017 (6.1%).

(€ million) 2017		First half of the year 2017 2018		Abs. change	Change %
253.5	Distribution	111.1	112.8	1.7	1.5
216.3	Network maintenance and development	94.1	102.3	8.2	8.7
36.8	New networks	17.0	9.0	(8.0)	(47.1)
0.4	Digitisation		1.5	1.5	
229.2	Metering	115.7	94.5	(21.2)	(18.3)
39.2	Other investments	15.8	20.6	4.8	30.4
521.9		242.6	227.9	(14.7)	(6.1)

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

Investments in metering (€94.5 million) primarily concerned the meter replacement programme and the launch of the smart meter project. The company has installed approximately 850 thousand new meters in the period, of which 770 thousand are replacing traditional meters. The decrease in measurement investments is essentially linked to the reduction in unit cost for the installation of meters.

Other investments (€20.6 million) mainly represent IT and property investments.

REGULATION

Italgas is subject to regulation by the Italian Regulatory Authority for Energy, Networks and Water (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 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; verification of the metering group at the request of end customers, etc.).

MUNICIPALITIES IN CONCESSION AND LOCAL AREA TENDERS²

In January 2018 Italgas finalised acquisitions of the gas distribution Business units of two companies operating in Southern Italy: Amalfitana Gas and AEnergia Reti. From these acquisitions, Italgas Reti gained the concessions for 13 municipalities in Campania, Basilicata and Sicily.

² 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”.

In the first half of 2018, Italgas has also acquired the companies Ichnusa Gas³, Medea⁴, Grecanica Gas and Progas Metano for a total of 17 municipalities in concession.

As at 30 June 2018, Italgas was therefore the gas distribution service concession holder in 1,601 municipalities (1,500 as at 31 December 2017), of which 1,512 operative (1,484 as at 31 December 2017).

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



As a result of the regulatory framework, which provides for gas distribution services to be tendered by area (and not by individual municipality), as at 30 June 2018, 21 tender notices for 22 Areas had been published. Of these, four were suspended by the contracting parties, two annulled by TAR, one is past the deadline for bids but still in dispute, two other are past the deadline for bids and pending award, other seven extended beyond the initial deadlines and two revoked.

³ Company for the distribution and sale of LPG.

⁴ Company for the distribution and sale of propane-air mixes.

With regard to the tender for the allocation of the ATEM Torino 2 (approximately 190 thousand delivery points in 48 municipalities near Turin), Italgas has submitted the only bid accepted as in compliance with the tender requirements. As at 30 June 2018, we are waiting for the fairness opinion on the bid submitted.

In regard to the tender for the allocation of the Belluno ATEM (approximately 45 thousand delivery points in 74 municipalities), a bid was submitted by Italgas, as well as by 2i Rete Gas, Ascopiave and Erogasmet. Two appeals have been filed by Erogasmet and are still pending, one with TAR Veneto and the other with the Council of State; the public hearings for these are scheduled, respectively, for 18 July 2018 and 18 October 2018. Pending a decision on the merits of the appeals, the assessment of the bids has been suspended.

GAS DISTRIBUTED

As at 30 June 2018, Italgas had distributed 4,590 million cubic metres of gas (4,260 as at 30 June 2017) on behalf of 293 gas marketing companies.

DISTRIBUTION NETWORK

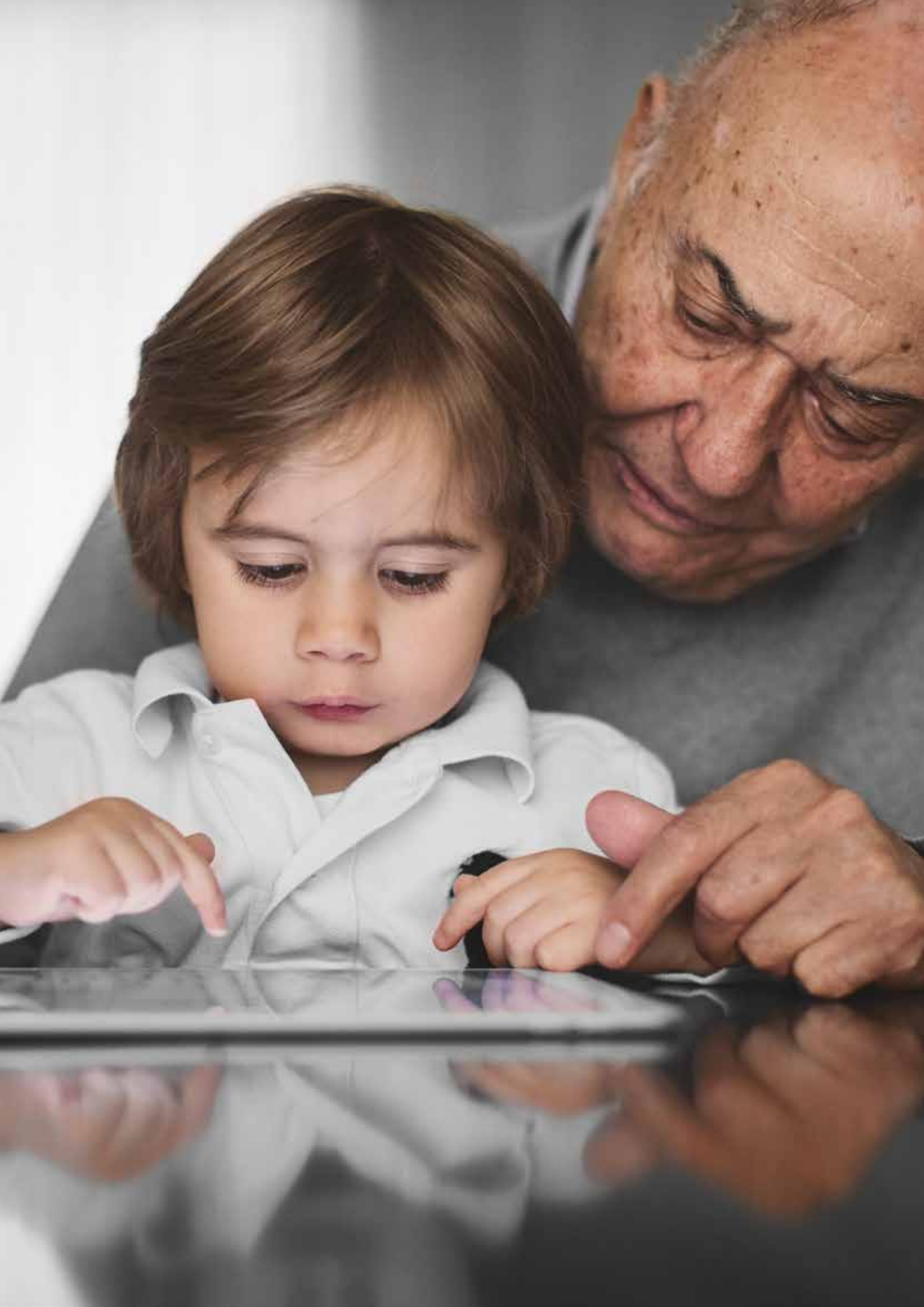
The gas distribution network as at 30 June 2018 covered 59,272 km (57,773 km as at 31 December 2017), with an increase of 1,499 km with respect to 31 December 2017. Also taking associates into account, the distribution network spans 67,682 kilometres.

METERS

As at 30 June 2018, the number of active meters at delivery points amounted to 6.625 million (6.586 as at 31 December 2017). Also considering associates, the total number of active meters is about 7.478 million.

The legislation on remote meter reading (Resolution No. 631/2013/R/gas as amended) defines the objectives, differentiated by calibre, of the adoption of electronic meters. These objectives were changed several times over the years: 50% of all meters of calibre G4 and G6 are to be replaced by the end of 2018. As at 30 June 2018, Italgas had basically reached the objectives indicated by the regulator for 2018 as a whole.





Comment on the economic and financial results

RECLASSIFIED INCOME STATEMENT

(€ million) 2017		First half of the year 2017 2018		Abs. change	Change %
1,096.8	Gas distribution regulated revenue	554.7	577.3	22.6	4.1
27.4	Other revenues	10.0	14.0	4.0	40.0
1,124.2	Total revenues (*)	564.7	591.3	26.6	4.7
(348.0)	Operating costs (**)	(174.5)	(167.1)	7.4	(4.2)
776.2	EBITDA	390.2	424.2	34	8.7
(358.3)	Amortisation, depreciation and impairment	(186.1)	(201.2)	(15.1)	8.1
417.9	EBIT	204.1	223.0	18.9	9.3
(36.2)	Net financial expense	(18.5)	(23.7)	(5.2)	28.1
23.0	Net income from equity investments	10.6	9.7	(0.9)	(8.5)
404.7	Pre-tax profit	196.2	209.0	12.8	6.5
(11.9)	Income taxes	(56.6)	(58.3)	(1.7)	3.0
392.8	Net profit (**)	139.6	150.7	11.1	8.0

(*) Net of the effects of IFRIC 12 "Concession Service Arrangements" (€203.3 and €223.3 million respectively in the first half of 2018 and 2017).

(**) Net profit applies to Italgas.

The **net profit** realised in the first half of 2018 was €150.7 million, up by €11.1 million, equal to 8%, with respect to the first half of 2017. The increase is mainly due to the increase of EBIT (€18.9 million; +9.3%), partly offset by higher net financial expenses (-€5.2 million; 28.1%) and higher taxes for the period (-€1.7 million), reflecting the increase in gross profit for the period.

ANALYSIS OF INCOME STATEMENT ITEMS

TOTAL REVENUE

<div>(€ million)</div> <div>2017</div>		<div>First half of the year</div> <div>2017 2018</div>		<div>Abs.</div> <div>change</div>	<div>Change</div> <div>%</div>
996.9	Distribution revenue	498.7	502.2	3.5	0.7
99.9	Other gas distribution regulated revenue	56.0	75.1	19.1	34.1
1,096.8	Total gas distribution regulated revenue	554.7	577.3	22.6	4.1
27.4	Other revenues	10.0	14.0	4.0	40.0
1,124.2	Total revenue	564.7	591.3	26.6	4.71

Total revenue in the first half of 2018 was €591.3 million, up by €26.6 million with respect to the corresponding period of the previous year, and refer to gas distribution regulated revenue (€577.3 million, €22.6 million over the period, +4.1%) and other revenues (€14.0 million, €4.0 million over the period, +40%). The gas distribution regulated revenue increased by €22.6 million and was the result of: (i) increased distribution revenue (€3.5 million over the period) and (ii) higher other gas distribution regulated revenue (€19.1 million over the period).

The higher distribution revenue, equal to €3.5 million, represents (i) for €5.2 million, the increase in revenue restrictions for the new investments and for the acceleration of the natural gas plan for Southern Italy implemented in the second half of 2017; (ii) a change in the scope of consolidation for €4.3 million, offset by previous years' negative tariff adjustments for - €6 million. The **other gas distribution regulated revenue** includes accessory network services and other regulated revenue for €28.1 million and, for €47 million, the grant as per art. 57 of ARERA Resolution n. 367/14, relating to the replacement of traditional meters with smart meters. This grant is related to the portion of the tariff recognised for the plan of replacement of the traditional meters set by envisaging the completion of the replacement of all meters by the first half of 2020. It should be noted that Italgas has already basically fulfilled in the first half of 2018 the replacement requirements set by the Authority (50% of all meters of calibre G4 and G6 by the end of the current year).

Other revenue in the first half of 2018 was €14.0 million, up by €4.0 million, mainly representing the change in the consolidation perimeter (€2.5 million).

OPERATING COSTS

(€ million) 2017 (€ million)		First half of the year 2017 2018		Abs. change	Change %
267.2	Fixed costs	130.8	126.7	(4.1)	(3.0)
139.1	- net labour cost	64.5	71.9	7.4	11.5
128.1	- net external costs	66.3	54.8	(11.5)	(17.3)
3.4	Variable costs	2.7	2.7		
13.9	Other costs	6.8	5.6	(1.2)	(17.6)
0.1	TEE	2.2	(2.7)	(4.9)	
53.2	Charges related to concessions	26.1	26.5	0.4	1.5
337.8	Total gas distribution regulated costs	168.6	158.8	(9.8)	(5.8)
10.2	Other costs	5.9	8.3	2.4	40.7
1.6	- net labour cost	1.1	1.4	0.3	27.3
8.6	- net external costs	4.8	6.9	2.1	43.8
348.0	Operating costs	174.5	167.1	(7.4)	(4.2)
5.0	- Special items				
343.0	Adjusted operating costs	174.5	167.1	(7.4)	(4.2)

As at 30 June 2018, **fixed costs**, consisting of the sum of personnel costs and recurring external costs, were equal to €126.7 million, down by €4.1 million with respect to the first half of 2017 (€130.8 million, -3.1%) as a result of the decrease in net external costs related to the service agreement with Snam, partly offset by the increase in labour cost for the insourcing of technical activities and staff and for the reduced portion allocated to investments.

The **TEE** item benefits of €1.1 million, deriving from the contribution made by the margins of the activities carried out by Seaside in the management of its securities portfolio.

Other costs were equal to €5.6 million, the contraction by €1.2 million with respect to the previous period mainly the result of lower net provisions for risks and future expenses (-€1 million).

Miscellaneous costs were up by €2.4 million, at €8.3 million, mainly as the result of the change in the scope of consolidation following the inclusion of the new companies acquired operating in areas other than natural gas distribution (Ichnusa Gas, Seaside and Medea).

AMORTISATION, DEPRECIATION AND IMPAIRMENT

(€ million) 2017		First half of the year 2017 2018		Abs. change	Change %
352.0	Total amortisation and depreciation	183.9	200.5	16.6	9.0
295.2	Intangible assets IFRIC 12	156.1	169.5	13.4	8.6
118.2	- of which metering	59.8	(77.9)	(18.1)	(30.3)
40.5	Other intangible assets	20.1	18.0	(2.1)	(10.4)
16.3	Property, plant and equipment	7.7	13.0	5.3	68.8
	- of which depreciation related to rights of use		3.4	3.4	
6.3	Impairment	2.2	0.7	(1.5)	(68.2)
358.3		186.1	201.2	15.1	8.1

Amortisation, depreciation and impairment (€201.2 million) increased by €15.1 million, equal to 8.1%, with respect to the first half of 2017. This increase was due primarily to greater depreciation deriving from (i) the reduced useful life of traditional meters (€10.1 million), subject to the plan to replace them with electronic meters (smart meters) under the scope of the implementation of the remote metering plan, and (ii) the application of IFRS 16 to Leased assets (€3.4 million). Moreover, after the ruling of the Council of State n. 4104/2018⁵ according to which the Municipality of Venice had already acquired, through a free transfer, the ownership of a portion of the distribution network under concession, the Company has opted for accelerated depreciation for a value, in the period, of €3 million.

The increase of the depreciation related to the meters implements the updates to the plan of installation of the meters read remotely, which envisage the replacement of the entire stock of traditional meters by the first months of 2020.

⁵ Further information about the Council of State n. 4104/2018 is provided in the chapter "Significant events after the end of the half - year".

NET FINANCIAL EXPENSE

(€ million) 2017		First half of the year 2017 2018		Abs. change	Change %
36.0	Expense (income) on short-term and long-term financial debt	17.2	22.4	5.2	30.2
0.3	Other net financial expense (income)	1.3	1.3	0.0	0.0
1.8	- Expenses (income) related to the discounting of environmental provisions and provisions for employee benefits	1.0	1.4	0.4	40.0
(1.5)	- Other net financial expense (income)	0.3	(0.1)	(0.4)	
(0.1)	Financial expense capitalised				
36.2	Net financial expense	18.5	23.7	5.2	28.1

Net financial expenses in the first half of 2018 (€23.7 million) were up by €5.2 million compared with the corresponding period in 2017.

Net income from equity investments, equal to €9.7 million, 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.

INCOME TAXES

(€ million) 2017		First half of the year 2017 2018		Abs. change	Change %
131.5	Current taxes	93.1	(69.8)	(23.3)	(25.0)
(34.3)	Deferred taxes	(22.9)	(2.9)	20.0	(87.3)
14.7	Prepaid taxes	(13.6)	(8.6)	5.0	(36.8)
(19.6)	(Prepaid) deferred taxes	(36.5)	(11.5)	25.0	(68.5)
111.9	Income taxes	56.6	(58.3)	1.7	3.0
1.4	- Adjustments for special items				
113.3	Adjusted income taxes	56.6	(58.3)	(1.7)	(3.0)
27.7	Tax rate (%)	28.8	27.9		
27.7	Adjusted tax rate (%)	28.8	27.9		

Income taxes in the first half of 2018 (€58.3 million) were up €1.7 million with respect to the first half of the previous year, mainly due to the increase in gross profits.

The **tax rate** was 27.9% (28.8% in the first half of 2017)

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

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

STATEMENT OF FINANCIAL POSITION

The Italgas Reclassified Statement of Financial Position as at 30 June 2018, compared with that as at 31 December 2017, is summarised below:

(€ million)	31.12.2017	30.06.2018	Abs. change
Fixed capital	4,950.9	5,119.3	168.4
Property, plant and equipment	224.6	256.9	32.3
Intangible assets	4,676.6	4,786.0	109.4
Equity investments	184.9	181.0	(3.9)
Financial receivables and securities instrumental to operations	0.1	0.1	
Net payables for investments	(135.3)	(104.7)	30.6
Net working capital	71.1	(210.0)	(281.1)
Provisions for employee benefits	(116.1)	(115.5)	0.6
NET INVESTED CAPITAL	4,905.9	4,793.8	(112.1)
Shareholders' equity (including minority interests)			
- attributable to Italgas shareholders	1,185.6	1,165.2	(20.4)
- attributable to minority interests		0.1	0.1
Net financial debt	3,720.3	3,591.3	(129.0)
Financial liabilities for operating leases as per IFRS 16		37.2	37.2
HEDGE ACCOUNTING	4,905.9	4,793.8	(112.1)

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

Fixed capital (€5,119.3 million) was up by €168.4 million compared to 31 December 2017 mainly due to the increase in intangible assets (€109.4 million), of the decrease in net liabilities relating to investment activities (€30.6 million) and of the increase of the property, plant and equipment (€32.3 million).

Investments in property, plant and equipment and intangible assets were €5,042.9 million. Intangible assets include service concessions accounted for pursuant to IFRIC 12 as intangible assets (€4,668.1 million). Property, plant and equipment regards primarily buildings (€173.4 million), industrial and commercial equipment (€29.6 million) and leased assets under IFRS 16 (€36.3 million, mainly leased buildings and vehicles).

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	4,569.0	107.6	4,901.2
Rights of use as at 1.1.2018 ex IFRS 16	32.8			32.8
Investments	(11.3)	(203.5)	(13.1)	227.9
Amortisation, depreciation and impairment	(13.0)	(170.2)	(18.0)	(201.2)
- of which metering		(77.9)		(77.9)
- of which depreciation as per IFRS 16	(3.4)			(3.4)
Change in the scope of consolidation	1.9	77.5	15.2	94.6
Grants		(12.5)		(12.5)
Other changes	(0.7)	0.8		0.1
Balance as at 30 June 2018	256.9	4,668.1	117.9	5,042.9

Investments in the first half of 2018, equal to €227.9 million, regard in particular the replacement of meters and the placement/replacement of gas networks and include the increases for the period relating to leased assets as per IFRS 16, for €6.4 million.

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

Consolidated **Net working capital** as at 30 June 2018 amounts to €210.0 million and is broken down as follows:

(€ million)	31.12.2017	30.06.2018	Abs. change
Trade receivables	406.5	190.0	(216.5)
Inventories	22.4	30.8	8.4
Tax receivables	45.2	50.6	5.4
Accruals and deferrals from regulated activities	78.5	125.7	47.2
Other assets	197.3	129.1	(68.2)
Trade payables	(184.1)	(216.8)	(32.7)
Provisions for risks and charges	(208.3)	(203.2)	5.1
Deferred tax liabilities	(94.8)	(82.9)	11.9
Net tax payables	(15.9)	(88.0)	(72.1)
Other liabilities	(175.7)	(141.0)	34.7
Assets (liabilities) for derivatives		(4.3)	(4.3)
	71.1	(210.0)	(281.1)

With respect to 31 December 2017, the €281.1 million decrease in working capital derives primarily from: (i) the reduction in trade receivables (-€216.5 million) connected in particular to the effects of seasonality in volumes transported on behalf of sales companies; (ii) the increase in trade payables (-€32.7 million) in particular to suppliers; (iii) the decrease in other current assets (-€68.2 million) deriving mainly from lower receivables from CSEA related to the Energy Efficiency Certificates; (iv) the increase of accruals and deferrals from regulated activities (+€47.2 million) associated with the tariff recognition estimated in accordance with current regulations regarding the plan to replace traditional meters with smart meters; (v) higher other current liabilities (+€34.7 million) resulting primarily from lower net payables to CSEA relating to additional distribution components; (vi) higher inventories (+€8.4 million); (vii) lower provisions for risks and charges (€5.1 million); (viii) reduced balance of tax items (-€54.8 million); (ix) higher liabilities for derivatives (-€4.3 million) concerning an Interest Rate Swap contract taken to hedge a floating rate EIB loan.

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

Net financial debt as at 30 June 2018 was equal to €3,591.3 million, down by €129.0 million with respect to 31 December 2017. Including the effects of the application of IFRS 16, equal to €37.2 million, net financial debt was equal to €3,628.5 million.

(€ million)	31.12.2017	30.06.2018	Abs. change
Financial payables and bonds	3,723.2	3,680.8	(42.4)
Short-term financial debt ^(*)	106.1	15.5	(90.6)
Long-term financial debt	3,617.1	3,665.3	48.2
Financial receivables and cash and cash equivalents	(2.9)	(89.5)	(86.6)
Cash and cash equivalents	(2.8)	(89.4)	(86.6)
Securities not instrumental to operations	(0.1)	(0.1)	
Net financial debt	3,720.3	3,591.3	(129.0)
Financial liabilities for leasing as per IFRS 16		37.2	37.2
Net financial debt (including effects as per IFRS 16)	3,720.3	3,628.5	(91.8)

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

Financial payables and bonds as at 30 June 2018, totalling €3,680.8 million (€3,723.2 million as at 31 December 2017) were denominated entirely in euros and referred mainly to bond loans (€2,893.5 million), payables to banks (€287.8 million) and loan agreements concerning European Investment Bank (EIB) funding (€783.7 million). The €42.4 million decrease in financial payables and bonds, is due to a decrease in short-term financial payables (€90.6 million), of which €76.1 million resulting from a reduced use of uncommitted credit lines, partly offset by an increase in long-term financial payables (€48.2 million). The increase in long-term financial payables is mainly due to the re-opening, on 30 January 2018, of the bond issue originally launched on 18 September 2017 (€500 million, 18 January 2029 maturity and 1.625% coupon) for a nominal amount of €250 million and to the refund, anticipated with respect to the original maturity of October 2019, of a Term Loan for an amount equal to €200 million.

As at 30 June 2018, the breakdown of debt by type of interest rate, net of lease debts as per IFRS 16, was as follows:

(€ million)	31.12.2017	%	30.06.2018	%
Fixed rate	2,651.9	71.2	3,253.5	88.4
Floating rate	1,071.3	28.8	427.3	11.6
Gross financial debt	3,723.2	100.0	3,680.8	100.0

Fixed-rate financial liabilities were €3,253.5 million and refer to bond loans (€2,893.5 million) and an EIB loan with 2037 maturity (€360 million), finalised on 19 December 2017 and converted to a fixed-rate liability in January 2018 through a hedging derivative contract of the type "Interest Rate Swap" with 2024 maturity.

Fixed-rate financial liabilities increased by €601.6 million with respect to 31 December 2017, mainly due to the afore-mentioned Interest Rate Swap and the re-opening of the bond issue for a nominal amount of €250 million.

Floating rate financial liabilities were €427.1 million, down by €644.0 million as a result of these transactions.

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

As at 30 June 2018, there were no loan agreements assisted by financial covenants and/or collateral. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. These commitments were satisfied as at 30 June 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 flow⁶, i.e. the cash surplus or deficit remaining after the financing of investments.

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million) 2017		First half of the year 2017 2018	
292.8	Net profit	139.6	150.7
	<i>Adjusted:</i>		
335.3	- Amortisation, depreciation and other non-monetary components	175.5	197.6
4.1	- Capital gains and capital losses from the valuation of equity investments	1.6	9.7
141.5	- Interest and income taxes	69.4	77.8
(105.7)	Change in working capital due to operating activities	(18.4)	221.1
(118.6)	Dividends, interest and income taxes collected (paid)	(39.5)	(5.2)
549.4	Net cash flow from operating activities	328.2	632.3
(493.3)	Technical investments	(228.8)	(209.0)
22.4	Disinvestments		
30.7	Other changes relating to investment activities	(1.4)	(29.9)
109.2	Free cash flow before M&A transactions	98.1	393.4
(38.7)	Change in scope of consolidation	(1.1)	(72.3)
	Acquisition of business units		(23.8)
70.5	Free cash flow	97.0	297.3
92.6	Change in short- and long-term financial payables	65.3	(42.4)
(161.8)	Equity cash flow	(161.8)	(168.3)
1.3	Net cash flow for the period	0.5	86.7

6 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		First half of the year 2017 2018	
109.2	Free cash flow before M&A transactions	98.1	393.4
(50.3)	Change for acquisition of equity holdings and business units	(1.1)	(96.1)
(161.8)	Equity cash flow	(161.8)	(168.3)
(102.9)	Change in net financial debt, net of lease debts as per IFRS 16	(64.8)	129.0
	Change in financial liabilities as per IFRS 16		(37.2)
(102.9)	Change in net financial debt	(64.8)	(91.8)

The net cash flow from operations in the first half of 2018 was equal to €632.3 million and has fully covered the funding of investments, net of grants and the change of the corresponding debt, equal to €238.9 million, generating a free cash flow before M&A transactions of €393.4 million. Besides the acquisitions of companies and business units of the period, M&A transactions include the payment to Eni of €7.5 million as earn-out following the finalisation of the sale to Eni of the Ostiense property development. The decrease in net financial debt was equal to €129 million, inclusive of the effect of the change relating to the adoption of IFRS 16 on lease debts (-€37.2 million).



Non-GAAP Measures

ALTERNATIVE PERFORMANCE INDICATORS

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

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

MAIN ALTERNATIVE PERFORMANCE INDICATORS

Alternative 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, 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.
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 EBIT	Operating performance indicator, calculated by subtracting income components classified as special items (as defined in the chapter "Comment on the economic and financial results" of this report) from EBIT.

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.
Fixed capital	A capital indicator that expresses the total fixed assets. Fixed capital is defined as the sum of the values relating to items of property, plant and equipment, intangible assets, equity investments and payables net of investment.
Net invested capital	A capital indicator that expresses net investments of an operating nature, represented by the sum of the values related to fixed assets, net working capital, provisions for employee benefits and assets held for sale and the directly associated liabilities.

Alternative financial performance indicators	Description
Free cash flow before <i>Merger and Acquisition transactions</i>	The free cash flow representing the difference between the net cash flow from operating activities and the net cash flow from investment activities resulting from mergers and acquisitions.
<i>Free cash flow</i>	The free cash flow representing the difference between the net cash flow from operating activities and the net cash flow from investment activities.
Net financial debt	Determined as the sum of the values relating to short and long-term financial payables, net of cash and cash equivalents.

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

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

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

RECLASSIFIED INCOME STATEMENT

(€ million)	first half of 2017				first half of 2018		
Reclassified Income Statement items	Reference to the notes to the consolidated financial statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements	Figures from mandatory statements	Partial figures from mandatory statements	Figures from reclassified statements
Total revenue		791.2		565.3	805.2		591.3
- Revenues for construction and upgrading distribution infrastructures IFRIC 12	(note 23)		(223.3)			(203.2)	
- ARERA penalties	(note 24)		(2.6)			(3.3)	
- Connection contributions	(note 23)					(7.4)	
Operating costs		(401.0)		(175.1)	(373.6)		(167.1)
- Costs for construction and upgrading distribution infrastructures IFRIC 12			223.3			203.2	
- ARERA penalties			2.6			3.3	
EBITDA		390.2		390.2	431.6		424.2
Amortisation, depreciation and impairment		(186.1)		(186.1)	(208.6)	7.4	(201.2)
EBIT		204.1		204.1	223.0		223.0
Net financial expense		(18.4)		(18.4)	(23.7)		(23.7)
Net income from equity investments		10.5		10.5	9.7		9.7
Pre-tax profit		196.2		196.2	209.0		209.0
Income taxes		(56.6)		(56.6)	(58.3)		(58.3)
Net Profit		139.6		139.6	150.7		150.7



RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(€ million)	31.12.2017		30.06.2018		
Reclassified Statement of Financial Position items					
(Where not expressly indicated, the item is obtained directly from the legally-required statement)	Reference to the notes to the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
Fixed capital					
Property, plant and equipment			224.7		256.9
<i>Intangible assets, composed of:</i>					4.786.0
- <i>intangible assets</i>	(note 12)		4,676.6	5.227.7	
- <i>contributions for connection</i>	(note 17)			(441.7)	
Investments valued using the equity method			184.8		181.0
Other investments			0.1		
<i>Net payables relating to investment activities, composed of:</i>			(135.3)		(104.7)
- payables for investment activities	(note 16)	(140.6)		(110.1)	
- receivables for investment/divestment activities	(note 7)	5.3		5.4	
Other financial assets			0.1		0.1
Total fixed capital			4,951.0		5,119.3
Net working capital					
<i>Trade receivables, composed of:</i>					190.0
- trade receivables	(note 7)			231.2	
- payables for equalization				(41.2)	
Inventories			22.4		30.8
<i>Tax receivables, composed of:</i>			45.2		50.6
- current income tax assets and other current tax assets	(note 9)	29.7		35.0	
- IRES receivables for National Tax Consolidation Scheme	(note 10)	15.5		15.6	
<i>Trade payables, composed of:</i>			(184.1)		(216.8)
- trade payables	(note 16)			(258.0)	
- payables for equalization				41.2	
<i>Debiti tributari, composti da:</i>			(15.9)		(88.0)
- Current income tax liabilities and other current tax liabilities	(note 9)	(15.9)		(88.0)	
- IRES payables for National Tax Consolidation Scheme					
- deferred tax liabilities	(note 20)		(94.8)		(82.9)
Provisions for risks and charges	(note 18)		(208.3)		(203.2)
Derivatives					(4.3)

(€ million)

31.12.2017

30.06.2018

**Reclassified Statement
of Financial Position items**

(Where not expressly indicated, the item is obtained directly from the legally-required statement)	Reference to the notes to the consolidated financial statements	Partial figures from mandatory statements	Figures from reclassified statements	Partial figures from mandatory statements	Figures from reclassified statements
<i>Other receivables, composed of:</i>			197.2		129.1
- Other receivables	(note 7)	191.9		116.8	
- Other current and non-current assets	(note 10)	5.3		12.2	
<i>Assets and liabilities from regulated activities, composed of:</i>			78.5		125.7
- Regulated activities	(note 10)	78.5		125.7	
<i>Other liabilities, composed of:</i>			(175.7)		(141.0)
- other payables	(note 16)	(173.5)		(136.5)	
- other current and non-current liabilities	(note 17)	(2.2)		(446.2)	
- contributions for connection	(note 17)			441.7	
Total net working capital			71.0		(210.0)
Provisions for employee benefits	(note 19)		(116.1)		(115.5)
NET INVESTED CAPITAL			4,905.9		4,793.8
Shareholders' equity including minority interests	(note 21)		(1,185.6)		(1,165.3)
Net financial debt					
<i>Financial liabilities, composed of:</i>	(note 15)		(3,723.2)		(3,718.0)
- Long-term financial liabilities		(3,617.1)		(3,698.4)	
- Current portions of long-term financial liabilities		(25.0)		(19.1)	
- Short-term financial debt		(81.1)		(0.5)	
<i>Financial receivables and cash and cash equivalents, composed of:</i>			2.9		89.5
- Cash and cash equivalents	(note 6)	2.8		89.4	
- Other financial assets held for trading or available for sale		0.1		0.1	
Total net financial debt			(3,720.3)		(3,628.5)
HEDGE ACCOUNTING			(4,905.9)		(4,793.8)

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	first half of 2017		first half of 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		139.6		150.7
<i>Adjusted:</i>				
Amortisation, depreciation and other non-monetary components:		186.6		197.6
- Amortisation and depreciation	183.9		207.9	
<i>of witch to deduce depreciation rights of use ex IFRS 16</i>			(3.3)	
- Net impairment of property, plant and equipment and intangible assets	2.2		0.7	
- contributions for connection - uses			(7.4)	
- Net capital losses (capital gains) on sales and asset radiation	1.6		0.4	
- Change in employee benefits fund	(1.0)		(0.7)	
Effect of valuation using equity method		(10.6)		(9.7)
Interest, income taxes and other changes:		69.4		77.8
- Interest income	(0.3)		(0.4)	
- Interest expense	13.1		19.8	
- Income taxes	56.6		58.3	
Change in working capital due to operating activities:		(17.3)		221.1
- Inventories	11.7		(8.2)	
- Trade receivables	193.8		179.0	
- Trade payables	(21.2)		61.4	
- Change to provision for risks and charges	(11.5)		(5.8)	
- Other assets and liabilities	(190.2)		(0.7)	
<i>of witch to deduce contributions for connection - uses</i>			7.4	
<i>of witch to deduce contributions for connection - increases</i>			(12.0)	
Dividends, interest and income taxes collected (paid):		(39.4)		(5.2)
- Dividends collected	13.8		13.7	
- Interest income	0.3		0.4	
- Interest paid	(13.1)		(18.3)	
- Income taxes (paid) refunded	(40.5)		(1.0)	

(€ million)

first half of 2017

first half of 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 cash flow from operating activities ^(*)		328.3		632.3
Technical investments:		(228.1)		(209.0)
- Property, plant and equipment	(5.4)		(4.9)	
- Intangible assets	(223.4)		(216.1)	
- Contributions for connection - increases			12.0	
Non-current financial receivables instrumental to operations				
Disinvestments:				
- Property, plant and equipment				
Other changes relating to investment activities:		(1.4)		(29.9)
- Changes in payables and receivables relating to investment activities	(1.4)		(37.4)	
- Change in receivables relating to disinvestment activities			7.5	
Free cash flow before M&A activities		98.1		393.4
Acquisition of business units				(23.8)
Change in scope of consolidation		(1.1)		(72.3)
of which:				
<i>purchase of company branches</i>			(23.8)	
<i>price paid for equity</i>	(1.1)		(29.9)	
<i>takeover of net payables of acquired companies</i>			(34.9)	
<i>Earn-out</i>			(7.5)	
Free cash flow		97.0		297.3
Change in financial receivables non-instrumental to operations				(42.4)
Change in financial payables:		65.3	48.2	
- Assumptions of long-term financial payables	2,139.5		(90.6)	
- Repayments of long-term financial payables	(2,074.2)			
Equity cash flow	(161.8)		(168.3)	
Net cash flow for the period		0.5		86.7

(*) The net cash flow from operating activities shown in the reclassified cash flow statement was determined excluding the effects deriving from the application of IFRS 15 and 16.



Other information

TREASURY SHARES

The Company did not own any treasury shares as at 30 June 2018.

RELATED-PARTY TRANSACTIONS

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

These transactions are part of ordinary business operations and are generally settled at arm's length, i.e. the conditions which would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Italgas Group. Pursuant to the provisions of the applicable legislation, the Company has adopted internal procedures to ensure that transactions carried out by the Company or its subsidiaries with related parties are transparent and correct in their substance and procedure.

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

Italgas is not managed or coordinated by any other entity, although CDP and CDP Reti consolidate it pursuant to IFRS 10. As at 30 June 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 condensed half-year financial statements.



Elements of risk and uncertainty

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

FINANCIAL RISKS

INTEREST RATE RISK

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

As at 30 June 2018, the financial debt at floating rate was 11.6% and at fixed rate was 88.4%. As at the same date the Italgas Group used external financial resources in the following forms: Bonds subscribed by institutional investors, bilateral and syndicated loans with banks and other financial institutions, in the form of medium/long-term loans and bank credit lines at interest rates indexed to market benchmark rates, in particular the Europe Interbank Offered Rate (Euribor).

At full performance, Italgas aims to maintain a debt ratio between fixed-rate and variable-rate debt to minimise the risk of rising interest rates. In this regard, in the first half of 2018, the Company completed successfully the re-opening, on 30 January 2018, of the bond issue originally launched on 18 September 2017 (500 million, 18 January 2029 maturity and 1.625% coupon) for an amount of €250 million and 1.631 yield%. The issue has allowed the Company to repay in full the €200 million term loan and to continue in the process of optimisation of the debt structure, increasing its average duration and the percentage that pays a fixed rate.

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.

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 for the variable component of outstanding debt and for future loans.

CREDIT RISK

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

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

As at 30 June 2018, there were no significant credit risks. However, please note that on average 94% of trade receivables are settled by the due date and over 99% within the next 4 days, confirming the strong reliability of the business customers. Receivables from other activities represent a non-significant portion for the Company.

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

LIQUIDITY RISK

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

In order to mitigate this risk and to maintain a level of liquidity consistent with maintaining the requirements of its rating, Italgas signed finance agreements unused as at 30 June 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 23 October 2017, 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 4 August and 12 October 2017, respectively, Fitch and Moody's confirmed the ratings assigned to Italgas S.p.A. (BBB+ with stable outlook and Baa1 with negative outlook). On 25 May 2018, Moody's Investor Services placed the sovereign rating of Italy "under review" for a potential downgrade and, therefore, on 30 May 2018 the same decision was taken on the long-term credit rating of Italgas.

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

DEBT COVENANT AND DEFAULT RISK

As at 30 June 2018, there were no loan agreements assisted by financial covenants and/or collateral. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. These commitments were satisfied as at 30 June 2018.

The bonds issued by Italgas as at 30 June 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 related events could cause a decrease in revenue and involve substantial damage to persons, property or the environment. Although Italgas has taken out specific insurance policies in line with best practices to cover 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 €128 million as at 30 June 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. There is therefore the risk that the level of malfunctions is higher than past performances recorded for traditional meters and that this generates higher maintenance costs for the Company.

RISKS RELATED TO ENERGY EFFICIENCY CERTIFICATES

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

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

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

RISKS ASSOCIATED WITH THE EXPIRATION AND RENEWAL OF GAS DISTRIBUTION CONCESSIONS

The gas distribution activity that the Group Italgas performs operates by virtue of concessions issued by individual municipalities. As at 30 June 2018, Italgas managed 1,601 natural gas distribution concessions throughout Italy.

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

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

It should also be noted that, in the context of procedures for the tenders initiated, Italgas may be awarded concessions in ATEMs 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). Further, and, to the extent not attributable to the will of the parties, as well as for aspects not governed by those agreements or contracts, based on the Guidelines on the criteria and procedures for assessing the reimbursement value, subsequently prepared by the Ministry of Economic Development with the document dated 7 April 2014 and approved by Ministerial Decree dated 22 May 2014⁷.

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

⁷ 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.

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 to 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 balance sheet, and on the economic and financial situation of Italgas.

RISK RELATED TO THE EXECUTION OF THE INVESTMENT PLAN REQUIRED UNDER CONCESSIONS

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

REGULATORY RISK

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

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

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

LEGAL AND NON-COMPLIANCE RISK

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

SIGNIFICANT EVENTS AFTER THE END OF THE HALF-YEAR

On 4 July 2018, the Council of State's ruling 4104/2018 was filed which rejected the appeal brought by Italgas Reti against the decision of the TAR Veneto n. 654/2017, confirming the free acquisition by the Municipality of Venice of the assets included in the "Block A", as well as the obligation for the Company to pay a fee for the use of the portion of network object of transfer without consideration.

The Company is assessing the legal remedies available against the ruling of the Council of State. Against a fee request by the Municipality of Venice equivalent to the fee of the assets of said Block A, in the absence of specific reference regulations, the Company, which in any case already pays an annual fee of about €0.5 million for the whole concession, is unable, so far, to calculate reliably the magnitude of the liability according to the terms of said ruling. The Company however has taken steps towards the accelerated depreciation of the portion of network relating to Block A, for a value equal to €3.0 million in the period.

The Decree dated 10 May 2018 was published in the Official Gazette n. 158 of 10 July 2018, adopted by the Ministry of Economic Development in conjunction with the Ministry of the Environment, which amends and updates the Ministerial Decree of 11 January 2017, which had set national quantitative objectives in terms of energy efficiency for the 2017-2020 period and approved the new Guidelines for the preparation, execution and evaluation of energy efficiency projects.

The adoption of the measure was necessary to make possible or in any case easier for the distributors of electricity and gas to fulfil their energy efficiency obligations, to provide stability to the market and to prevent the constant increases in the price of the Certificates.

The decree, regarding which the opinions of the competent Parliamentary Committees and the Authority and the agreement of the Joint Conference were acquired, has been in force since the day after publication, that is, 11 July 2018, and applies, with certain exceptions, to all projects submitted pursuant to the Ministerial Decree of 11 January 2017.

The Ministerial Decree adopts most of the comments made in the opinion issued by AR-ERA with measure n. 265/2018/I/EFR, mainly related to the procedures of exchange and valuation of the White Certificates and to the measures aimed at providing corporate information on market participants, and solves the many issues that have characterised the TEE mechanism in recent months.

Key events after the end of the half-year 2018, other than the above, are described in the specific chapters of this Report.



Business Outlook

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

With specific reference to **technical investments** in property, plant and equipment and intangible assets, in 2018 and on a like-for-like basis, Italgas envisions expenses largely in line with the previous year, mainly for maintenance and development of the networks managed, implementation of the major smart meter installation programme and the completion of new networks under construction.

In accordance with the strategic priorities of the 2018-2024 Plan, Italgas will take part in local **tenders** for the award of the natural gas distribution service, pursuing its objectives of business development and consolidation of the sector, still very fragmented.

In 2018 Italgas will pursue further **development initiatives for external lines**, which will enhance territorial presence and the competitiveness of Italgas in future tenders, anticipating the effects in terms of growth of the scope of business.

Italgas shall continue to increase 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 2018, Italgas shall also continue to work to **optimise the financial structure** of the Italgas Group.

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



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 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 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.

In regard to the measures of the first half of 2018, the Authority issued Resolution n. 130/2018/R/gas of 8 March 2018, which has amended Annex A to Resolution n. 905/2017/R/gas, carrying the integrated text of the provisions on the calculation of the reimbursement value of the gas distribution networks for the purposes of the local tenders, in implementation of the simplifications specified by the Competition Law n. 124/2017.

In particular, the Resolution specifies that, if the conditions set by Law n. 124/2017 for the verification of the divergences VIR/RAB in simplified area-specific arrangement are not met, the Local Authorities may request the simplified individual arrangement for Municipalities for which the divergence is in excess of 10% and that meet the conditions specified by Resolution n. 344/2017/R/gas, that is:

- are other than that the Municipality with the highest number of delivery points of the area;
- have a population of up to 100,000, as indicated by the latest census, and have natural gas distribution networks serving up to 10,000 delivery points;
- can certify that the reimbursement value was calculated by applying only the Guidelines of 7 April 2014.

TARIFF REGULATION

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

The tariff system establishes in particular that the reference revenue for the formulation of tariffs 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:

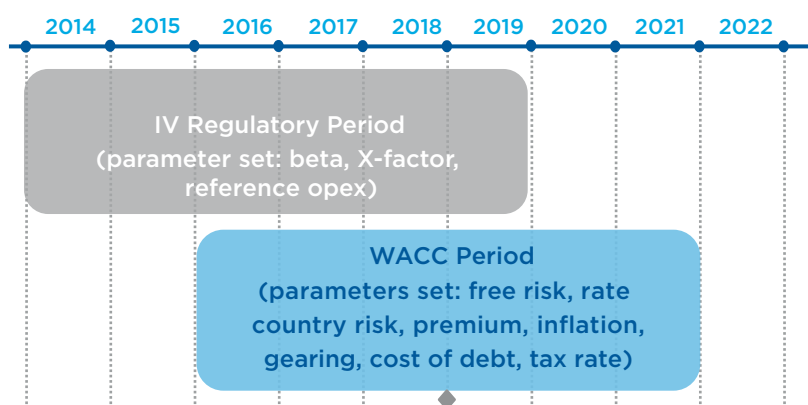
- the cost of net invested capital for RAB (Regulatory Asset Base) purposes through the application of a rate of return;
- economic and technical amortisation/depreciation, covering investment costs;
- operating costs, covering running costs.

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

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 Metering: 6.6% for years 2016-2018
Incentives on new investments	Return on investments t-1 to offset the regulatory time lag (from 2013)
Efficiency factor (x factor)	1.7% - on distribution operating costs 0.0% - on metering operating costs

(*) The estimated RAB for 2017 of the companies currently included in the scope of consolidation, calculated by applying the criteria adopted by the Authority in the definition of the reference rates, is equal to over €5.8 billion.



◆ updating of the rate at halfway through the regulatory period

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. 775/15 below):

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

The revenue components correlated with the return and amortisation are determined on

the basis of the annual update of net invested capital (RAB), with the inclusion of assets realised in year t-1.

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

With **Resolution no. 583/2015/R/com**, the Authority defined the methods for determining and updating the rate of return on invested capital (WACC) for regulated infrastructural services of the electricity and gas sectors, unifying all parameters with the exception of the specific parameters for the individual services, including the beta parameter which expresses the specific level of non-diversifiable risk of the individual service and the weight of equity and debt capital used for the weighting (D/E ratio).

The duration of the regulatory period of the rate of return on invested capital for infrastructural regulations in the electricity and gas sectors is established as six years (2016-2021) and there is a mechanism for updating the rate in mid-period on the basis of economic trends.

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

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

Resolution no. 704/2016/R/gas adopted provisions 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. 774/2016/R/gas approved the mandatory tariffs and the bimonthly equalisation prepayment amounts for the natural gas distribution and metering services for 2017.

Resolution no. 775/2016/R/gas defined criteria for the infra-period updating, applicable for 2017-2019, of the gas distribution and metering services tariff regulation. The update, applicable as of 1 January 2017, regarded the rates of annual reduction of unit costs recognised to cover the operating costs of distribution, metering and marketing services (X-factor), the component covering costs deriving from 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(with), respectively) and the standard costs to be applied to electronic metering units for capital cost recognition. In particular:

- with respect to the operating costs of the distribution and metering service, the Authority confirmed the productivity recovery targets, set at 1.7% and 0%, respectively;
- in relation to the operating costs of the marketing service, the Authority increased the unit cost recognised for the year 2017, setting it at €2.0/delivery point and confirmed the X-factor of 0%;
- in relation to the component covering costs relating to meter checks (DCVER), pending detailed investigations, the Authority established a provisional reduction for the year 2017 of the component's unit value, setting it at €50 per delivery point;
- in relation to the component covering centralised costs for the remote metering/remote management system t(tel) and the component covering the costs of concentrators t(with), the Authority established, also for the year 2017, the recognition of actual costs (with to ceiling on the tariff recognitions for costs incurred equal to €5.74 for 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 €142/metering unit for calibre G4 metering units and €178,8/metering unit for G6 calibre metering units.

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

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

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

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

Resolution no. 858/2017/R/gas recalculated 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 September 2017.

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 gradually closing over six years the existing gap with cost levels considered to be efficient, set at €2.74 per delivery point fitted with smart meters;
- as regards criteria for the definition of standard costs for gas metering units for 2018 and 2019, for classes G4 and G6 the standard cost values defined for 2017 are confirmed, whilst with reference to the sharing of higher/lower investment costs associated with smart meters, the weighted average standard cost and actual cost are adopted, with a 40% weighting for the standard cost and a 60% weighting for the actual cost;
- as regards the cost recognition methods for meter checks, for 2017 the value of €50 per delivery point for the CVERunit,t component was confirmed as final. For 2018 and 2019, the recognition of a balancing amount is envisaged, deferring any recognition of costs on a standard basis to a subsequent phase, when accurate figures will be available on the costs incurred by companies for the checks to be performed in application of the provisions of Ministerial Decree no. 93/17;
- as regards 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;
- as regards 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 confirmed application starting 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 recalculated 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 has deferred, for 2017, the terms for the equalisation of the revenue from the natural gas distribution service.

COMMERCIAL REGULATION OF THE GAS DISTRIBUTION AND METERING SERVICE

With **the Resolution n. 97/2018/R/com of 22 February 2018**, the Authority has specified urgent measures for the first implementation of Law n. 205/17 (State Budget 2018) as regards invoicing and metering for the electricity sector and has started proceedings for the full implementation of the corresponding provisions both for the electricity sector and for the natural gas sector. The State Budget 2018 introduced consumer protection measures as regards balancing invoices for the supply of electricity, gas and water services, setting rules on the limitation period of the right to the consideration, the right of the user to the suspension of the payment, the definition of measures for the measurement and the acquisition of actual consumption data and for the promotion of self-reading.

SAFETY OF THE GAS DISTRIBUTION AND METERING SERVICE

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

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

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

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

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

With **Resolution n. 190/2018/R/gas of 29 March 2018**, the Authority has integrated the provision for the details for the assessments of the requests of exemption, in full or in part, from the payment of the amount specified in the cases of power failure of the delivery points provided in the Default Distribution Service (SdD), specified with the Resolution n. 513/2017/R/gas.

ENERGY EFFICIENCY

With **resolution 1/2018 - DMRT of 29 January 2018**, the Authority defined the national annual energy efficiency 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.

For subsidiaries and associates of Italgas S.p.A., the quantitative obligation for 2018, rounded off to the nearest whole number on a commercial basis and expressed as a number of White Certificates, is €825,722 for Italgas Reti, €121,790 for Toscana Energia, €10,595 for ACAM Gas and €5,853 thousand for Umbria Distribuzione Gas.

On **15 February 2018**, the Energy Markets Manager (GME) published the updated version of the Operating Rules for the Energy Efficiency Certificates Market, which enters into force immediately on publication.

The update follows a specific communication from the Ministry of Economic Development received on 14 February 2018 concerning the application to adopt urgent corrective measures in relation to the trading methods envisaged on the TEE 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 the times of the trading sessions of the market are published on the website of the GME; the first sessions were carried out on 13 March, 17 April and 22 May 2018.

With **Resolution DMRT/EFC/4/2018 of 22 June 2018**, in application of the criteria specified by Resolution n. 435/2017/R/EFR, the Authority resolved:

- the value of the final contribution for 2017, equal to 311.45 €/TEE, calculated on the basis of the average weighted value of the relevant reference prices of the trades of the market sessions between June 2017 and May 2018;
- the value of the reference contribution for 2018, equal to 250.54 €/TEE, calculated on the basis of the value of the final contribution for 2016 and 2017 and of the quantities of certificates exchanged on the market and through bilateral agreements between June 2016 and May 2018.





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

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

CONTROLLABLE FIXED COSTS

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

COVENANT

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

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

CREDIT RATING

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

DIVIDEND PAYOUT

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

OUTLOOK

The outlook indicates the future rating prospects over a long period of time, usually two years. When it is "negative" it means that the rating is weak and that the rating agency 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.

R.O.E. (RETURN ON EQUITY)

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

R.O.I. (RETURN ON INVESTMENT) CHARACTERISTIC

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

CONSOLIDATED FINANCE ACT (TUF)

Legislative Decree 24 February 1998, n. 58, with subsequent integrations and amendments.

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), formerly the Electricity, Gas and Water System Authority (AEEGSI), 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.

END USER

The consumer who buys gas for their own use.

NETWORK CODE

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

GAS DISTRIBUTION CONCESSION

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

LOCAL TENDER

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

GAS DISTRIBUTED OR CIRCULATED

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

EQUALISATION

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

REGULATORY PERIOD

This is the time period for which criteria are defined for setting tariffs for gas distribution services. The third 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.





CONDENSED CONSOLIDATED HALF-YEAR 2018



BALANCE SHEET

(€ thousands)		31.12.2017		30.06.2018	
	Notes	Total	of which, related parties	Total	of which, related parties
ASSETS					
Current assets					
Cash and cash equivalents	(6)	2,831		89,392	
Other financial assets measured at fair value with effects on OCI		119		119	
Trade and other receivables	(7)	619,202	225,387	368,961	100,441
Inventories	(8)	22,410		30,841	
Current tax assets on income	(9)	8,571		10,354	
Other current tax assets	(9)	21,139		24,714	
Other current assets	(10)	5,944	30	12,738	
		680,216		537,119	
Non-current assets					
Property, plant and equipment	(11)	224,651		256,932	
- of which related to Right of Use (*)				36,245	
Intangible assets	(12)	4,676,561		5,227,669	
Investments valued using the equity method	(13)	184,829	184,829	180,857	180,857
Other investments	(13)	54	54	73	73
Other financial assets	(7)	156		156	
Other non-current assets	(10)	77,891	702	125,163	548
		5,164,142		5,790,850	
Non-current assets held for sale	(14)	11		11	
TOTAL ASSETS		5,844,369		6,327,980	

(€ thousands)

31.12.2017

30.06.2018

	Notes	Total	of which, related parties	Total	of which, related parties
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(15)	81,133		530	
Short-term portions of long-term financial liabilities	(15)	25,043		19,067	
- of which related to Right of Use (*)				4,049	
Trade and other payables	(16)	498,174	72,469	504,580	65,663
Current tax liabilities on income	(9)	4,489		73,416	
Other current tax liabilities	(9)	11,424		14,611	
Other current liabilities	(17)	182	175	965	175
		620,445		613,169	
Non-current liabilities					
Long-term financial liabilities	(15)	3,617,044		3,698,449	
- of which related to Right of Use (*)				33,140	
Provisions for risks and charges	(18)	208,246		203,185	
Provisions for employee benefits	(19)	116,149		115,516	
Deferred tax liabilities	(20)	94,790		82,857	
Other non-current liabilities	(17)	2,055	165	449,549	
		4,038,284		4,549,556	
TOTAL LIABILITIES		4,658,729		5,162,725	
SHAREHOLDERS' EQUITY					
	(21)				
Italgas shareholders' equity					
Share capital		1,001,232		1,001,232	
Reserves		(108,358)		13,264	
Profit (loss) for the year		292,766		150,649	
Total Italgas shareholders' equity		1,185,640		1,165,145	
Minority interests				110	
TOTAL SHAREHOLDERS' EQUITY		1,185,640		1,165,255	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,844,369		6,327,980	

(*) Since 1 January 2018, Italgas has been applying the international accounting standard "IFRS 16 - Leases" that, having eliminated the distinction between finance leases and operating leases, resulted in the recognition of liabilities for commitments to lease companies for the recognition of Property, plant and equipment for the Right to use the related assets for operating lease payments.

INCOME STATEMENT

(€ thousands)		First half of 2017		First half of 2018	
	Notes	Total	of which, related parties	Total	of which, related parties
REVENUE	(23)				
Core business revenue		774,060	416,254	779,922	442,614
Other revenue and income		17,099	12,065	25,295	9,955
		791,159		805,217	
OPERATING COSTS	(24)				
Purchases, services and other costs		(291,091)	(28,639)	(258,332)	(10,515)
Personnel cost		(109,896)	3,470	(115,254)	602
		(400,987)		(373,586)	
AMORTISATION, DEPRECIATION AND IMPAIRMENTS	(25)	(186,082)		(208,617)	
- of which amortisation of Right of Use				3,340	
EBIT (OPERATING PROFIT)		204,090		223,014	
FINANCIAL INCOME (EXPENSE)	(26)				
Financial expense		(18,931)	(133)	(23,872)	(303)
- of which financial expense Right of Use				(107)	
Financial income		492		375	4
Derivative financial instruments				(234)	
		(18,439)		(23,731)	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS	(27)				
Effect of valuation using the equity method		10,555	10,555	9,711	9,711
		10,555		9,711	
Pre-tax profit	(28)	196,206		208,994	
Income taxes		(56,608)		(58,343)	
Net profit (loss) for the period		139,598		150,651	
Attributable to Italgas		139,598		150,649	
Minority interests				2	
Net earnings (loss) per share attributable to Italgas (amount in € per share)	(29)				
- basic and diluted		0,173		0,186	

STATEMENT OF COMPREHENSIVE INCOME

(€ thousands)	First half of the year	
	2017	2018
Net profit for the period	139,598	150,651
Other comprehensive income		
Components reclassifiable to the income statement:		
Change in fair value of cash flow hedge derivatives (Effective portion)		(3,925)
Tax effect		942
Total other components of comprehensive income, net of tax effect		(2,983)
Total comprehensive income for the period	139,598	147,668
Attributable to:		
- Italgas	139,598	147,666
- Minority interests		2
	139,598	147,668

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(€ thousands)

	Share capital	Consolidation reserve	Share premium reserve	Legal reserve
Balance as at 31 December 2017 (a) (Note 21)	1,001,232	(316,385)	620,130	192,236
Net profit for the first half of 2017				
Other components of comprehensive income:				
Components reclassifiable to the income statement:				
Components not reclassifiable to the income statement:				
Total comprehensive income for the first half of 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
- Reserve reclassification				
Total transactions with shareholders (c)				8,010
Other changes in shareholders' equity (d)				
Balance as at 30 June 2017 (e=a+b+c+d) (Note 21)	1,001,232	(316,385)	620,130	200,246

Shareholders' equity pertaining 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
						139,598	139,598		139,598
						139,598	139,598		139,598
					(72,209)	72,209			
				(161,827)			(161,827)		(161,827)
				(8,010)					
(561)				561					
(561)				(169,276)	(72,209)	72,209	(161,827)		(161,827)
(12,305)		(349,854)		(169,276)	(72,209)	139,598	1,041,177	888	1,042,065

(€ thousands)

	Share capital	Consolidation reserve	Share premium reserve	Legal reserve
Net profit for the second half of 2017				
Other components of comprehensive income:				
Components reclassifiable to the income statement:				
Actuarial gains from remeasurement of defined benefit plans for employees				
Total comprehensive income of the second half of 2017 (b)				
Transactions with shareholders				
- Effect of 100% acquisition of Napoletanagas				
- Earn-out effect Roma Ostiense		(7,522)		
Total transactions with shareholders (c)		(7,522)		
Other changes in shareholders' equity (d)				
Balance as at 31 December 2017 (e=a+b+c+d) (Note 21)	1,001,232	(323,907)	620,130	200,246
Net profit for the first half of 2018				
Other components of comprehensive income:				
Components reclassifiable to the income statement:				
- change in fair value of cash flow hedge derivatives				
Components not reclassifiable to the income statement:				
Total comprehensive income for the first half of 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				
- Reserve reclassification				
Total transactions with shareholders (c)				
Other changes in shareholders' equity (d)				
Balance as at 30 June 2018 (e=a+b+c+d) (Note 21)	1,001,232	(323,907)	620,130	200,246

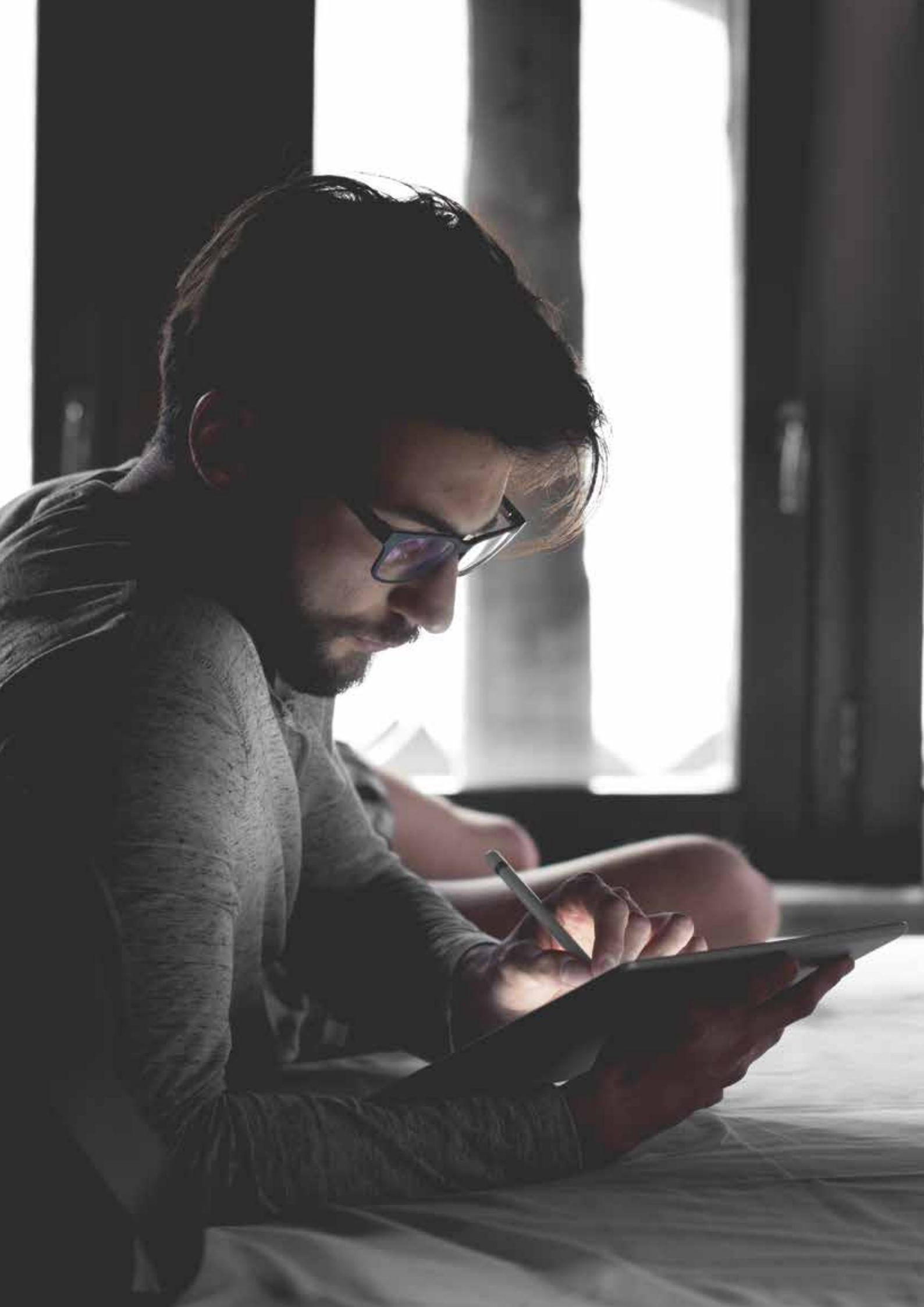
Shareholders' equity pertaining to owners of the parent

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
						153,168	153,168		153,168
(1,046)							(1,046)		(1,046)
(1,046)						153,168	152,122		152,122
				(137)			(137)	(888)	(1,025)
							(7,522)		(7,522)
				(137)			(7,659)	(888)	(8,547)
(13,351)		(349,854)		(169,413)	(72,209)	292,766	1,185,640		1,185,640
						150,649	150,649	2	150,651
	(2,983)						(2,983)		(2,983)
	(2,983)					150,649	147,666	2	147,668
					292,766	(292,766)			
				(168,300)			(168,300)		(168,300)
				(5,852)	5,852				
								108	108
				(174,152)	298,618	(292,766)	(168,300)	108	(168,408)
			20	119			139		139
(13,351)	(2,983)	(349,854)	20	(343,446)	226,409	150,649	1,165,145	110	1,165,255

CASH FLOW STATEMENT

(€ thousands)	Notes	First half of the year 2017 2018	
Profit (loss) for the year		139,598	150,651
Adjustments to reclassify net profit to cash flow from operating activities:			
Total amortisation and depreciation		183,861	207,884
- of which amortisation of Right of Use			3,340
Net impairment losses (reversals of impairment losses) of property, plant and equipment and intangible assets		2,221	733
Effect of valuation using the equity method	(27)	(10,556)	(9,711)
Net capital losses (capital gains) on sales of assets		1,597	386
(Interest income)		(281)	(369)
Interest expense		13,097	19,800
Income taxes	(28)	56,608	58,343
Other changes			20
Changes in working capital:			
- Inventories		11,708	(8,241)
- Trade receivables		193,748	178,977
- Trade payables		(21,194)	61,397
- Provisions for risks and charges		(11,445)	(5,782)
- Other assets and liabilities		(190,168)	(896)
- of which accruals and deferrals connection contributions			4,290
Cash flow from working capital		(17,351)	225,455
Change in provisions for employee benefits		(1,017)	(662)
Dividends collected		13,805	13,683
Interest income		281	369
Interest expense		(13,097)	(18,302)
Income taxes paid, net of tax credits reimbursed		(40,494)	(960)
Net cash flow from operating activities		328,272	647,320
- of which, related parties		549,169	560,465

(€ thousands)	Notes	First half of the year 2017 2018	
Investments:			
- Property, plant and equipment	(11)	(5,478)	(5,013)
- Intangible assets	(12)	(223,448)	(216,127)
Change in scope of consolidation and business units		(1,113)	(93,877)
- Change in payables and receivables relating to investment activities and amortisation allocated to the balance sheet		(1,383)	(37,383)
<i>Cash flow from investments</i>		<i>(231,422)</i>	<i>(352,400)</i>
Disinvestments:			
- Property, plant and equipment		228	2
<i>Cash flow from disinvestments</i>		<i>228</i>	<i>2</i>
Net cash flow from investment activities		(231,194)	(352,398)
- of which, related parties			
Assumptions of long-term financial payables		2,139,534	268,105
Repayments of long-term financial payables			(212,996)
Increase (decrease) in short-term financial payables		(2,074,227)	(97,472)
Dividends distributed to third parties		(161,827)	(168,300)
Net cash flow from financing activities		(96,520)	(210,663)
- of which, related parties			
Other changes			2,302
- of which changes for finance lease payables IFRS 16			(3,272)
Net cash flow for the year		558	86,561
Opening cash and cash equivalents	(9)	1,544	2,831
Closing cash and cash equivalents	(9)	2,102	89,392



Notes to the condensed consolidated half-year financial statements

COMPANY INFORMATION

The Italgas Group, consisting of Italgas S.p.A., the consolidating company, and its subsidiaries (hereinafter referred to as “Italgas”, the “Italgas Group” or the “Group”), is an integrated group at the forefront of the regulated natural gas sector and a major player in terms of its regulatory asset base (RAB⁸) in the sector.

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

CDP S.p.A. consolidates Italgas S.p.A. pursuant to IFRS 10 “Consolidated financial statements”.

As at 30 June 2018, CDP S.p.A., via CDP Reti S.p.A., owns 26.05% of the share capital of Italgas S.p.A.

1. BASIS OF PRESENTATION AND MEASUREMENT CRITERIA

The condensed consolidated half-year financial statements as at 30 June 2018, hereinafter “Half-year financial statements”, were prepared in compliance with the provisions of IAS 34 “Interim Financial Reporting”.

The half-year financial statements as at 30 June 2018 were prepared in accordance with the consolidation principles and measurement criteria illustrated at the time of preparation of the last Annual Financial Report, to which reference is made, with the exception of the international accounting standards that came into force on 1 January 2018, described in the section “Recently issued accounting standards” in this report. In particular, for the purposes of the half-year financial statements as at 30 June 2018, the provisions of IFRS 16 “Leases” (hereinafter IFRS 16), IFRS 15 “Revenue from Contracts with Customers” and the relative clarifications contained in the document “Clarifications on IFRS 15 Revenue from Contracts with Customers” (hereinafter IFRS 15) and IFRS 9 “Financial instruments” (hereinafter IFRS 9) are noted, summarised as follows.

On 13 January 2016, the IASB issued the “IFRS 16 Leases” standard. It is based on fundamental criteria, 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

⁸ 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 Authority for determining base revenues for the regulated businesses.

statement, the amortisation of the asset recognised and the interest on the financial payable entered.

The provisions of IFRS 15 provide the recognition and measurement criteria of revenue from contracts with customers, envisaging that the recognition of revenue is based on the following 5 steps: (i) identifying the contract with a customer⁹; (ii) identifying the performance obligations represented by contractual promises to transfer goods and/or services to a customer; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; (v) recognising revenue when its performance obligation is met, i.e. when the promised good or service is transferred to the customer. The transfer is considered completed when the customer obtains control of the good or service, which can take place continuously (over time) or at a specific time (at a point in time).

The provisions of IFRS 9 relating to the classification and measurement of financial assets envisage the following categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value with the recognition of the effects in 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 deriving from the financial asset and on the business model adopted. In particular, financial assets that generate contractual cash flows that exclusively represent payments of principal and interest are measured at amortised cost if they are held for the purpose of collecting the contractual cash flows (known as business model hold to collect); otherwise, they are measured at fair value with the effects recognised in OCI (hereinafter also referred to as FVTOCI) if the business model envisages the possibility of making sales before the maturity date of the financial instrument (known as business model hold to collect and sell).

A financial asset representing a debt instrument that is not measured at amortised cost or at FVTOCI is measured at fair value and its effects are recognised in the income statement (hereinafter FVTPL); this category includes financial assets held for trading purposes.

Financial assets representing minority shareholdings, in that they are not held for trading purposes, are measured at fair value with the effects recognised in shareholders' equity (FVTOCI) without envisaging their reversal to the income statement in the event of sale; otherwise, dividends from these equity investments are recognised in the income statement. Measurement at cost of a minority interest is allowed in limited cases where the cost represents an adequate estimate of the fair value.

⁹ The provisions of IFRS 15 define the customer as the party that enters into a contract for the acquisition, against payment, of goods or services that represent the output of the ordinary activities of a supplier.

Embedded derivatives, which are embedded in financial assets, are no longer subject to accounting separation; in such cases, the entire hybrid instrument is classified according to the general classification criteria for financial instruments. Derivatives embedded in financial liabilities and/or non-financial assets are separated if: (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the main contract; (ii) a separate instrument with the same characteristics as the embedded derivative meets the definition of a derivative; (iii) the hybrid instrument as a whole is not measured at FVTPL.

The provisions of IFRS 9 require the application of the expected credit loss model for the assessment of the recoverability of financial assets on the basis of a predictive approach; in particular, with reference to trade receivables and other receivables, the expected losses were generally determined on the basis of the product between: (i) exposure to the counterparty, net of the related mitigating elements (known as Exposure At Default, EAD); (ii) the probability that the counterparty will not fulfil its Probability of Default (PD) obligation; (iii) an estimate, in percentage terms, of the amount of credit that will not be recovered in the event of default (Loss Given Default, LGD), based on past experience and possible recovery actions (e.g. out-of-court actions, legal disputes, etc.).

In this regard, for determining the probability of default of the counterparties, the internal ratings already used for the purposes of the credit line were adopted; for the counterparties represented by State Entities and in particular for the National Oil Companies, the probability of default, essentially represented by the probability of late payment, is determined using as input

the country risk premiums adopted for the purpose of determining the WACC for the impairment of non-financial assets.

For retail customers, not characterised by internal ratings, the valuation of expected losses is based on a provision matrix, constructed by grouping the loans, where appropriate, in appropriate clusters to which write-down percentages are applied, defined on the basis of the experience of previous losses, adjusted, where necessary, to take account of forecast information on the credit risk of the counterparty or of clusters of counterparties.

Moreover, with reference to the qualification of transactions as hedges, the provisions of IFRS 9 require (i) the existence of an economic relationship between the hedged item and the hedging instrument such as to offset the related changes in value; (ii) that this ability to offset is not affected by the level of counterparty credit risk; (iii) the definition of a relationship between the hedged item and the hedging instrument (known as hedge ratio) consistent with the objectives of risk management, as part of the defined risk management strategy, carrying out, where necessary, the appropriate rebalancing actions. Changes in risk management objectives, the absence of the conditions indicated above for qualifying transactions as hedges or the launch of rebalancing operations determine the total or partial prospective discontinuation of the hedge.

The adoption of IFRS 9 also led to the updating of the financial statement formats mainly with reference to the items of the income statement, envisaging the opening of a specific item to include the impairment losses/reversals of impairment losses of trade receivables and other receivables (called "Net reversals of impairment losses (impairment losses) of trade and other

receivables”¹⁰) and the renaming of the item “Net reversals of impairment losses (impairment losses)” to “Net reversals of impairment losses (impairment losses) of tangible and intangible assets”.

In accordance with IAS 34, the notes to the financial statements are presented in summary form.

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

Consolidated companies, unconsolidated subsidiaries, joint ventures, associates and other significant equity investments, disclosure of which is required under Article 126 of Consob resolution no. 11971 of 14 May 1999 as amended, are indicated separately in the Appendix “Subsidiaries, associates and equity investments of Italgas S.p.A. as at 30 June 2018”, which is an integral part of these notes.

The condensed consolidated half-year financial statements as at 30 June 2018, approved by the Board of Directors of Italgas S.p.A. at its meeting on 30 July 2018, were subjected to a limited audit by PricewaterhouseCoopers S.p.A. The limited audit entails a significantly more limited scope of work than that of a complete audit conducted in accordance with the established auditing principles.

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

2. AMENDMENTS TO ACCOUNTING STANDARDS

The half-year financial statements as at 30 June 2018 were prepared in accordance with the consolidation principles and measurement criteria illustrated at the time of preparation of the last Annual Financial Report, to which reference is made, with the exception of the international accounting standards that came into force on 1 January 2018, already described in the section “Recently issued accounting standards” in this report. In particular, for the purposes of the half-year financial statements as at 30 June 2018, the provisions of IFRS 15, IFRS 9 and IFRS 16 are noted, summarised as follows.

With regard to the adoption of IFRS 15, the Italgas Group took advantage of the possibility provided by the transitional provisions of the accounting standard to recognise the effect of the retroactive restatement of the values in shareholders’ equity as at 1 January 2018,

¹⁰ Previously, these components were recognised under the item “Purchases, services and other costs”. Consequently, although not explicitly required by the transitional provisions of IFRS 9, Net reversals of impairment losses (impairment losses) of trade and other receivables for the period under comparison, carried out in accordance with the previous IAS 39, were reclassified to the new item.

with regard to the cases existing at that date, without making the restatement of the previous period under comparison. IFRS 15 led Italgas to adopt a different accounting treatment for private connection contributions. In fact, it became necessary to represent the remuneration component of the investment portion of the original equipment (the connection contribution) as revenue to be deferred over time in line with the useful life of the asset to which it refers, rather than considering the connection contribution as a capital contribution to be recognised as a reduction of assets. As at 1 January 2018, this exposure resulted in an increase in assets of €437,046 thousand and a corresponding increase in other liabilities for the portion of revenues from deferred grants due to the useful economic and technical life of the plant to which they refer, with no impact on shareholders' equity. During the first half of the year, there was no impact on EBIT, net result and shareholders' equity.

IFRS 9, approved with Regulation no. 2016/2067 issued by the European Commission on 22 November 2016, was adopted effective as from 1 January 2018. As allowed by the transitional provisions of the accounting standard, the effects of the first application of IFRS 9 on the classification and measurement, including impairment, of financial assets, were not recognised in shareholders' equity as at 1 January 2018, in that not significant without restating the previous period under comparison.

The classification and measurement of the financial assets of the Italgas Group did not have a significant impact on the Group as a whole as a result of the application of the new standard. With reference to the impairment model based on the expected credit loss prescribed by IFRS 9, the Group

developed a new credit management model, which has made it possible to determine analytically the different risks associated with the collectability of trade receivables from the outset and progressively according to their increasing seniority. This information was used by the Group in determining the provision for impairment losses in accordance with the impairment model based on the expected credit loss, which did not show a change as at 1 January 2018.

Lastly, on 15 January 2018, the Company entered into an IRS contract to hedge the exposure to variability in future cash flows (cash flow hedges) arising from a variable rate loan taken out with the EIB on 28 December 2017 for an amount of €360 million. The derivative is measured at FVTOCI in that it meets the conditions set out in the new accounting standard (substantially unchanged with respect to IAS 39) to qualify as a hedge.

With reference to IFRS 16, the Italgas Group availed itself of the possibility of adopting the standard in advance, at the same time as applying IFRS 15. Moreover, on the basis of the transitional provisions of IFRS 16, the effects of the situations existing as at 1 January 2018 were recorded, without restating the previous period under comparison (known as "modified retrospective approach") recognizing the right of use for an amount equal to the related financial liabilities.

The new standard concerns operating lease contracts relating to assets such as property, IT equipment and vehicles/trucks.

In particular, the adoption of IFRS 16 resulted in the recognition of greater Fixed assets (Right of use) and Lease debts of €32,845 thousand as at 1 January 2018.

The following table shows the effects of the first-time adoption of IFRS 9, IFRS 15 and IFRS 16 on 1 January 2018:

(€ thousands)		01.01.2018				
Balance sheet items	Figures published 31,12,2017	Application of IFRS 9	Application of IFRS 15	Application of IFRS 16	Total first-time effects	Restated figures 01,01,2018
Current assets	680,216					680,216
- of which Trade and other receivables	619,202					619,202
Non-current assets	5,164,153		437,046	32,845	469,891	5,634,044
- of which Intangible assets	4,676,561		437,046		437,046	5,113,607
- of which Property, plant and equipment	224,651			32,845	32,845	257,496
Current liabilities	620,445			4,688	4,688	625,133
- of which Short-term portions of long-term financial liabilities	25,043			4,688	4,688	29,731
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

3. USE OF ESTIMATES

With reference to the description of the use of accounting estimates, please make reference to the 2017 Annual Report.

4. RECENTLY ISSUED ACCOUNTING STANDARDS

On 29 March 2018, the IASB published a revision of the "Conceptual Framework for Financial Reporting" in which it provided a new version of the definitions of assets and liabilities, together with a guidance on their measurement, derecognition, presentation and description in the Notes. The new Conceptual Framework does not constitute a substantial revision of the original version of the Framework and of 2004, while the IASB focused on topics not yet analysed in the same version. 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 7 February 2018, the IASB published the document called **Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**. The amendments to IAS 19 are designed to clarify

how pension costs are determined when a change occurs in a defined benefit plan. The amendments will come into force on 1 January 2019, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 26 February 2018, the European Commission approved the document “**Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2**” of 20 June 2016, by which 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 share-based 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 from financial years starting on or after 1 January 2018.

On 14 March 2018, the European Commission approved the document called “**Transfers of Investment property - Amendments to IAS 40**” of 8 December 2016: 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 approved the document called “**IFRIC 22 Foreign Currency Transaction and Advance Consideration**”, issued by the IASB on 8 December 2016, which 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.

On 7 February 2018, the European Commission approved the document called “**Annual Improvements to IFRS Standards 2014-2016 Cycle**”, which includes changes to several principles under the scope of the annual improvement process (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 changes to IFRS 1 and to IAS 28 apply from financial years starting on or after 1 January 2018, while the changes to IFRS 12 apply from financial years starting on or after 1 January 2017.

On 22 March 2018, the European Commission approved the document called “**Prepayment Features with Negative Compensation (Amendments to IFRS 9)**”. The amendments are effective from financial years starting on or after 1 January 2019.

5. BUSINESS COMBINATIONS

MAIN EVENTS IN THE HALF-YEAR

- Completed, on 26 January 2018, the acquisition of the Amalfitana Gas business unit, for natural gas distribution activities in three ATEMs in Campania and Basilicata.
- Completed, on 31 January 2018, the acquisition of the AEnergia Reti business unit relating to the distribution network serving the municipality of Portopalo di Capo Passero (Syracuse).
- Acquired, on 28 February 2018, 100% of the share capital of Ichnusa Gas, a holding company controlling 12 companies with granted concessions for the installation and operation of gas distribution networks in 74 municipalities in Sardinia.
- Completed, on 13 March 2018, the acquisition of a 100% equity holding in Seaside, Energy Service Company (ESCo), a company providing energy efficiency services.
- Completed, on 6 April 2018, the acquisition of 100% of the share capital of Medea, an LPG distribution and sale company based in Sassari, which currently serves approximately 13,000 customers within a potential catchment area of almost 30,000 users and distributes on average more than 5 million cubic metres of LPG a year.

The analysis of the operations carried out in the half-year is shown below:

(€ thousands)

Business Units	Buyer	Shareholders' equity at the closing date	Price paid	Fair value	PPA
Amalfitana gas	Italgas Reti		20,809	20,809	-
Aenergia	Italgas Reti		2,200	2,595	(395)
Company (*)	Buyer	Shareholders' equity at the closing date	Price paid	Fair value	PPA
Seaside	Italgas S.p.A,	3,189	9,208	to be defined	6,019
Medea	Italgas Reti	6,456	15,875	to be defined	9,419
Grecanica Gas	Italgas Reti	2,115	2,027	to be defined	(88)
Progas Metano	Italgas Reti	278	280	to be defined	2
Baranogas Reti	Italgas Reti	587	575	to be defined	(12)
Sicilianagas Reti	Italgas Reti	490	490	to be defined	
Favaragas Reti	Italgas Reti	979	973	to be defined	(6)
Ischia Reti Gas	Italgas Reti	294	300	to be defined	6
Gruppo Ichnusa	Italgas Reti	-	1,253	to be defined	1,253

(*) As permitted by IFRS 3, the accounting is carried out on a provisional basis, pending the definition of price adjustments and / or the definitive valuation of the fair value of the acquired assets and liabilities,

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, amounting to €89,392 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 Cash flow statement.

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

Trade receivables and other current receivables of €368,961 thousand (€619,202 thousand as at 31 December 2017) and *other non-current receivables* of €156 thousand (the same amount as at 31 December 2017) break down as follows:

(€ thousands)	31.12.2017			30.06.2018		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	406,479		406,479	231,160		231,160
Financial receivables		156	156	1	156	157
- instrumental to operations		156	156	1	156	156
Receivables for investment/ divestment activities	5,279		5,279	5,378		5,378
Other receivables	207,444		207,444	132,422		132,422
	619,202	156	619,358	368,961	156	369,117

These are reported net of the provision for impairment losses of €21,045 thousand (€20,702 thousand as at 31 December 2017). The application of IFRS 9 did not result in any changes to the provision as at 1 January 2018¹¹.

¹¹ More information is available in the chapter "Changing the criteria".

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

(€ thousands)

	Provision for impairment losses as at 31.12.2017	IFRS 9 application effect	Change in scope of consolidated	Prov,	Uses	Provision for impairment losses as at 30.06.2018
Trade receivables	19,014		183	189	(58)	19,328
Other receivables	1,688		29			1,717
	20,702		212	189	(58)	21,045

Trade receivables amounting to €231,160 thousand (€406,479 thousand as at 31 December 2017), mainly relate to the gas distribution service and ancillary services, of which from Eni S.p.A. of €78,013 thousand (€170,239 thousand as at 31 December 2017) and the Cassa per i Servizi Energetici e Ambientali (CSEA) relating to the equalisation¹² (€46,456 thousand; €45,856 thousand as at 31 December 2017).

Receivables for investment/divestment activities (€5,378 thousand; €5,279 thousand as at 31 December 2017) involve receivables for sales of tangible and intangible assets.

Other receivables, amounting to €132,422 thousand (€207,444 thousand as at 31 December 2017) break down as follows:

(€ thousands)

	31.12.2017	30.06.2018
IRES receivables for National Tax Consolidation Scheme - petitions	15.452	15,572
Other receivables:	191.992	116,850
- Cassa per i Servizi Energetici e Ambientali (CSEA)	137,901	62,349
- Public administrations	28,874	18,386
- Advances to suppliers	15.715	25,301
- from staff	4.493	4.151
- Other	5.009	6.663
	207.444	132.422

IRES receivables for the national tax consolidation scheme (€15,572 thousand; €15,452 thousand as at 31 December 2017) concern mainly receivables with the former parent

¹² 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.

company, Eni, relating to the IRES refund request mainly resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

Receivables from the CSEA (€62,349 thousand; €137,901 thousand as at 31 December 2017) relate to the UG2¹³ and Gas Bonus¹⁴ additional components of gas distribution tariffs (€45,614 thousand; €39,279 thousand as at 31 December 2017) and for €16,735 thousand to Energy Efficiency Certificates (€98,622 thousand as at 31 December 2017).

All receivables are in Euros.

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

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

8. INVENTORIES

Inventories, amounting to €30,841 thousand (€22,410 thousand as at 31 December 2017) are analysed in the table below:

(€ thousands)	31.12.2017			30.06.2018		
	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	31,126	(285)	30,841
- Finished goods and goods for resale						
	22,695	(285)	22,410	31,126	(285)	30,841

Inventories of raw materials, consumables and supplies (€30,841 thousand as at 30 June 2018) mainly consisted of gas meters in connection with the replacement plan. The provision for impairment is €285 thousand (unchanged compared to 31 December 2017).

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

13 Additional component of the distribution tariff for the purpose of containing the cost of the gas service for low consumption end users.

14 Component relating to requests for subsidies for natural gas provision by economically disadvantaged customers.

9. CURRENT INCOME TAX ASSETS/LIABILITIES AND OTHER CURRENT TAX ASSETS/LIABILITIES

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

(€ thousands)	31.12.2017	30.06.2018
Current tax assets on income	8,571	10,354
- IRES	8,229	10,118
- IRAP	342	236
Other current tax assets	21,139	24,714
- VAT	18,837	20,770
- Other taxes	2,302	3,944
Current tax liabilities on income	4,489	73,416
- IRES	3,150	60,999
- IRAP	1,339	12,417
Other current tax liabilities	11,424	14,611
- VAT	2,587	7,734
- IRPEF withholdings for employees	8,144	6,314
- Other taxes	693	563
	13,797	(52,959)

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

10. OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets, amounting to €12,738 thousand (€5,944 thousand as at 31 December 2017), and *other non-current assets*, amounting to €125,163 thousand (€77,891 thousand as at 31 December 2017), break down as follows:

(€ thousands)	31.12.2017			30.06.2018		
	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	3,236	75,310	78,546	3,336	122,328	125,664
Other assets	2,708	2,581	5,289	9,402	2,835	12,237
- Prepayments	2,708	1,148	3,856	7,612	1,039	8,651
- Security deposits		1,433	1,433		1,334	1,334
- Other				1,790	462	2,252
	5,944	77,891	83,835	12,738	125,163	137,901

Other regulated assets (€125,664 thousand; €78,546 thousand as at 31 December 2017) essentially relate to the tariff recognition, by the Authority, following the plan to replace traditional meters with electronic meters.

The remaining item equal to €12,237 thousand (€5,289 thousand as at 31 December 2017) mainly includes prepayments relating to other costs for the period.



11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, amounting to €256,932 thousand (€224,651 thousand as at 31 December 2017), break down as follows:

(€ thousands)	30.06.2018						
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Work in progress and payments on account	Total
Cost as 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		5,937			32,845
Investments				7,161		4,163	11,324
Divestments		(15)		(2,372)			(2,387)
Change in scope of consolidation	1,033	188	388	416	312	15	2,352
Other changes	(172)	(6,650)	139	10,427	(626)	(3,847)	(729)
Cost as at 30.06.2018	12,096	373,079	12,329	171,786	592	4,623	574,505
Accumulated depreciation as at 31.12.2017		(178,431)	(5,263)	(118,151)	(374)		(302,219)
Depreciations		(4,153)	(152)	(5,283)	(34)		(9,622)
Depreciations of right of use		(1,996)		(1,344)			(3,340)
Divestments		15		2,332			2,347
Change in scope of consolidation		(34)		(363)	(53)		(450)
Other changes		12	3	(291)	217		(59)
Accumulated depreciation as at 30.06.2018		(184,587)	(5,412)	(123,100)	(244)		(313,343)
Provision for impairment losses as at 31.12.2017			(4,199)			(31)	(4,230)
Provision for impairment losses as at 30.06.2018			(4,199)			(31)	(4,230)
Net balance as at 31.12.2017	11,235	174,217	2,340	32,066	532	4,261	224,651
Net balance as at 30.06.2018	12,096	188,492	2,718	48,686	348	4,592	256,932
- of which right of use		25,500		10,745			36,245

In particular, the item “Right of Use” is broken down as follows:

(€ thousands)

	1.1.2018	Depreciations	Change in scope of consolidation	increases	30.06.2018
Buildings	26,908	(1,996)	366	222	25,500
- operating properties	25,968	(1,996)	366	222	24,560
- total housing properties	940				940
Industrial and commercial equipment	5,937	(1,344)	63	6,089	10,745
- ICT	5,304	(1,046)			4,258
- cars	633	(298)	63	6,089	6,487
	32,845	(3,340)	429	6,311	36,245
Interest expense (included in financial expense)					107

Investments (€11,324 thousand) mainly refer to fixed assets under construction (€10,461, thousand).

Depreciation (€12,962 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. The depreciation of the right of use amounts to €3,340 thousand.

The provision for impairment of €4,230 thousand relates to the district heating plant and equipment of the municipality of Cologno Monzese (MB).

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

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

Therefore, the considerations reported in the 2017 Annual Report, to which reference is made, are confirmed.

12. INTANGIBLE ASSETS

Intangible assets, amounting to €5,227,669 thousand (€4,676,561 thousand as at 31 December 2017) break down as follows:

(€ thousands)

30.06.2018

	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 as at 31.12.2017	7,924,020	392,342	12,621	36,380	9,738	8,375,101
IFRS 15 effective as from 1 January 2018	437,046					437,046
Investments	203,468		10,849	2,237		216,554
Change in the scope of consolidation	196,361	20			16,699	213,080
Divestments	(70,779)			(32)		(70,811)
Other changes	255	686	(941)			
Cost as at 30.06.2018	8,690,371	393,048	22,529	38,585	26,437	9,170,970
Accumulated amortisations at 31.12.2017	(3,349,716)	(313,414)		(27,968)		(3,691,098)
Amortisation	(176,972)	(15,253)		(2,697)		(194,922)
Change in the scope of consolidation	(120,674)	(15)				(120,689)
Divestments	71,633					71,633
Accumulated amortisation as at 30.06.2018	(3,575,729)	(328,682)		(30,665)		(3,935,076)
Provision for impairment losses as at 31.12.2017	(5,346)			(2,096)		(7,442)
(Write-down)/Value restorations	(783)					(783)
Provision for impairment losses as at 30.06.2018	(6,129)			(2,096)		(8,225)
Net balance as at 31.12.2017	4,568,958	78,928	12,621	6,316	9,738	4,676,561
Net balance as at 30.06.2018	5,108,513	64,366	22,529	5,824	26,437	5,227,669

Service concession agreements, amounting to €5,109,766 thousand (€4,568,958 thousand as at 31 December 2017) refer to agreements between the public and private sectors ("Service concession arrangements") referring to the development, financing, management and maintenance of infrastructure under concession by a contracting party. The provisions relating to the service concession agreements are applicable for Italgas in its role as a public service natural gas distributor, i.e. they are applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the Authority, holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service.

The application of IFRS 15 resulted in a change of €437,046 thousand as at 1 January 2018.

Industrial patent rights and intellectual property rights (€64,366 thousand; €78,928 thousand as at 31 December 2017) mainly concern information systems and applications in support of operating activities.

Other intangible fixed assets equal to €5,824 thousand (€6,316 thousand as at 31 December 2017), mainly involve technical inspections carried out on converters.

Intangible assets with an indefinite useful life (€26,437 thousand; €9,738 thousand as at 31 December 2017) consist mainly of the goodwill ,recorded mainly for the acquisition of the Seaside (€6,019 thousand), Medea (€9,419 thousand) and Ichnusa (€1,253 thousand)¹⁵ companies and in 2008 following the acquisition by Italgas of 100% of the shares of Siciliana Gas.

Investments for the year, equal to €216,544 thousand (€482,436 thousand as at 31 December 2017), mainly relate to service agreements awarded for the maintenance and development of the remote metering network and digitisation of networks.

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 €194,922 thousand includes greater amortisation as a result of the reduction in the useful life of traditional meters ¹⁶ (equal to €53,1 million), subject to the plan to replace them with electronic meters, required by ARERA resolutions under the scope of the implementation of the remote metering plan.

During the half year, no impairment indicators or significant changes were identified based on the assessment concerning the recoverability of the book value of Goodwill and Other Intangible Assets. Therefore, the considerations reported in the 2017 Annual Report, to which reference is made, are confirmed.

¹⁵ The values recorded following the combination are subject to the valuation period referred to in paragraph 45 of IFRS 3 which allows provisional amounts to be recorded in the closing situations, pending the acquisition of further information that may derive from any adjustments regarding the activities and liabilities acquired.

¹⁶ The useful life of the meters included in the project pursuant to AEEGSI resolutions 631/13 and 554/15 was adjusted, in order to complete the amortisation process in line with the meter replacement plan, scheduled for completion by 2010.

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

13. INVESTMENTS VALUED USING THE EQUITY METHOD

Investments valued using the equity method, amounting to €180,930 thousand (€184,883 thousand as at 31 December 2017) break down as follows:

(€ thousands)			
	Investments in joint ventures	other	Total
Value as at 31.12.2017	184,829	54	184,883
Increases for investments		19	19
Income (charges) from measurement using the equity method	9,711		9,711
Decrease for dividends	(13,683)		(13,683)
Value as at 30.06.2018	180,857	73	180,930

Capital gains from measurement using the equity method (€9,711 thousand) and the decrease for dividends (€13,683 thousand) essentially refer to Toscana Energia S.p.A.

Equity investments are not collateralised.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the Appendix "Significant shareholdings, associates and equity investments of Italgas S.p.A. as at 30 June 2018", which is an integral part of these Notes.

14. ASSETS HELD FOR SALE

Assets held for sale of €11 thousand (the same amount as at 31 December 2017), mainly involve the property in Via Ostiense in Rome for which the sale to Eni S.p.A. was approved.

The table below summarises the breakdown of Assets classified as available for sale:

(€ thousands)	31.12.2017	30.06.2018
Non-current assets held for sale		
Buildings	11	11
	11	11

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

Short-term financial liabilities, amounting to €530 thousand (€81,133 thousand as at 31 December 2017) and *long-term financial liabilities*, including short-term portions of long-term liabilities amounting to €3,717,516 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
	81.133	25.043	1.014.751	2.602.293	3.642.087

(€ thousands)

30.06.2018					
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	530	472	94,579	691,736	786,787
Bonds		14,546	643,912	2,235,082	2,893,540
Financial payables for leased assets (IFRS 16)		4,049	33,140		37,189
	530	19,067	771,631	2,926,818	3,717,516

SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, amounting to €530 thousand (€81,133 thousand as at 31 December 2017), decreased by €80,602 million mainly due to a lower utilisation of uncommitted credit lines of €76,1 million.

There are no short-term financial liabilities denominated in currencies other than the Euro.

The market value of short-term financial liabilities is equivalent to the book value.

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

Long-term financial liabilities, including short-term portions of long-term liabilities, totalled €3,717,516 thousand as at 31 December 2017).

The increase compared with 31 December 2017, equal to €75,429 thousand, is mainly attributable : (i) to the reopening carried out on 30 January 2017 of the bond issue originally released on 18 September 2017 (€500 million, maturing 18 January 2029 with a coupon of 1.625% for €250 million; (ii) to the recognition of financial payables following the adoption of IFRS 16 amounting to €37,189 thousand, partially offset by the repayment with respect to the original due date of October 2019 of a Term Loan amounting to €200 million.

The analysis of bond loans (€2,893,540 thousand; €2,651,932 thousand as at 31 December 2017), with an indication of the issuing company, the year of issue, the currency, the average interest rate and the maturity, has shown d in the table below.

(€ thousands)

Issuing company	Issue (year)	Currency	Nominal Value	Adjustments (*)	Balance as at 30.06.2018	Rate (%)	Maturity (year)
Euro Medium Term Notes							
ITALGAS S.p.A.	2017	€	750,000	(1,815)	748,185	1.625%	2027
ITALGAS S.p.A.	2017	€	650,000	(3,955)	646,045	0.500%	2022
ITALGAS S.p.A.	2017	€	750,000	(831)	749,169	1.125%	2024
ITALGAS S.p.A.(**)	2017	€	750,000	141	750,141	1.625%	2029
			2,900,000	(6.460)	2,893,540		

(*) includes issue premium/discount and accrual of interest.

(**) Bond reopened for an incremental amount of €250 million with an interest rate and maturity similar to the original placement.

Payables for bank loans (€786,787 thousand; €990,155 thousand as at 31 December 2017) refers to term loans, of which €783,683 thousand using European Investment Bank (EIB) funding.

The market value of long-term financial liabilities amounted to €3,622,153 thousand¹⁷.

There are no other long-term bank loans denominated in currencies other than the euro.

There were no breaches of loan agreements as at the reporting date.

Italgas had unused committed credit lines worth €1.1 billion.

FINANCIAL COVENANTS AND NEGATIVE PLEDGE COMMITMENTS

As at 30 June 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.

As at 30 June 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. Exclusively for the EIB loans, the lender has the option to request additional guarantees if Italgas' credit rating is downgraded to BBB- (Standard & Poor's/Fitch Ratings Limited) or Baa3 (Moody's) for at least two of the three rating agencies.

¹⁷ The value includes bonds whose value is estimated based on market prices as at 30 June 2018.

As at 30 June 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 30 June 2018, there were no identified events resulting in failure to comply with the aforementioned commitments.

BREAKDOWN OF NET FINANCIAL DEBT

The breakdown of net financial debt¹⁸, showing related-party transactions, is provided in the following table:

(€ thousands)	31.12.2017			30.06.2018		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	2,831		2,831	89,392		89,392
B. Securities held for sale and to be held to maturity	119		119	119		119
C. Liquidity (A+B)	2,950		2,950	89,511		89,511
D. Financial receivables non-instrumental to operations						
E. Short-term financial liabilities to banks	82,903		82,903	1,002		1,002
F. Long-term financial liabilities to banks		988,385	988,385		786,315	786,315
G. Bonds	23,273	2,628,659	2,651,932	14,546	2,878,994	2,893,540
H. Short-term financial liabilities to related entities						
I. Long-term financial liabilities to related entities						
L. Other short-term financial liabilities						
M. Other long-term financial liabilities						
N. Gross financial debt (E+F+G+H+I+L+M)	106,176	3,617,044	3,723,220	15,548	3,665,309	3,680,857
O. Net financial debt (N-C-D)	103,226	3,617,044	3,720,270	(73,963)	3,665,309	3,591,346

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

¹⁸ The values do not include financial payables for leased assets of €37,189 thousands.

16. TRADE AND OTHER PAYABLES

Trade payables and other payables, amounting to €504,580 thousand (€498,174 thousand as at 31 December 2017), break down as follows:

(€ thousands)	31.12.2017	30.06.2018
Trade payables	184,050	257,983
Advances	90	1,208
Payables for investment activities	140,618	110,113
Other payables	173,416	135,276
	498,174	504,580

Trade payables of €257,983 million (€184,050 million as at 31 December 2017) relate mainly to payables to suppliers.

Payables for investment activities equal to €110,113 thousand (€140,618 thousand as at 31 December 2017) essentially involve payables to suppliers for technical activities.

Other payables (€135,276 thousand; €173,416 thousand as at 31 December 2017) break down as follows:

(€ thousands)	31.12.2017	30.06.2018
Payables to the public administration	42,743	43,561
Payables to the Energy and Environmental Services Fund (CSEA)	57,442	26,726
Payables to personnel	39,548	31,043
Payables to social security institutions	19,157	19,094
Payables to consultants and professionals	5,923	4,392
Other payables	8,603	10,460
	173,416	135,276

Payables to the public administration (€43,561 thousand; €42,743 thousand as at 31 December 2017) primarily involve payables to municipalities for concession fees for the distribution business.

Payables to the CSEA (€26,726 thousand; €57,442 thousand as at 31 December 2017) relate to several ancillary components of tariffs for the gas distribution service to be paid to this Fund (RE, RS, UG1 and GS)¹⁹.

Payables to personnel (€31,043 thousand; €39,548 thousand as at 31 December 2017) involve payables mainly for holidays accrued and not taken and performance-related pay.

Other payables of €10,460 thousand (€8,693 thousand as at 31 December 2017), mainly relate to payables in the water sector relating to water purification fees.

Payables to related parties are described in the note "Related-party transactions".

The book value of trade payables and other payables, considering the limited time interval between the occurrence of the payable and its maturity, is an approximation of the fair value.

17. OTHER CURRENT AND NON-CURRENT LIABILITIES

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

(€ thousands)	31.12.2017			30.06.2018		
	Current	Non-current	Total	Current	Non-current	Total
<i>Cash flow hedge derivatives</i>				133	4,159	4,292
Other liabilities	182	2,055	2,237	832	445,390	446,222
- Accruals and deferrals connection contributions					441,750	441,750
- Liabilities for security deposits		1,849	1,849		705	705
- Other	182	206	388	832	2,935	3,767
	182	2,055	2,237	965	449,549	450,514

19 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.

Other liabilities of €450,514 thousand (€2,237 thousand as at 31 December 2017) increase by €448,277 thousand due to the adoption as from 1 January 2018 of IFRS 15.

The following table shows a breakdown of cash flow hedge derivatives:

(€ thousands)		30.06.2018
Cash flow hedge derivatives:		
- Fair value of interest rate hedging instruments		(4,159)
- Accrued expenses on derivative instruments		(133)
		(4,292)

18. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges, amounting to €203,185 thousand (€208,246 thousand as at 31 December 2017), are broken down in the following table:

	(€ thousands)							30.06.2018
	Opening balance	Change in scope of consolidation	Provisions	Increase for the passing of time	Uses against charges	Uses due to surplus	Other changes	Closing balance
Provisions for environmental risks and charges	130,178			599	(2,288)			128,489
Risk provision for legal disputes	15,013		2,309		(791)	(2,154)	(284)	14,093
Miscellaneous risk provision - energy efficiency certificates	13,887	15	3,345		(1,299)	(4,948)		11,000
Risk provision for redundancy incentives	12,190				(1,638)	(11)		10,541
Provision for op, restoration of metering	16,000							16,000
Risk provision for ICT SNAM contract	8,419		1,124					9,543
Other personnel risk provisions	4,630		174		(156)		(56)	4,592
Risk provision for tax disputes	1,766	97	732		(38)			2,557
Other provisions	6,163	13	81		(171)		284	6,370
	208,246	125	7,765	599	(6,381)	(7,113)	(56)	203,185

The provision for environmental risks and charges of €138,489 thousand (€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 of €14,093 thousand (€15,013 thousand as at 31 December 2017) included costs that the Company has estimated it will incur for existing lawsuits.

The energy efficiency certificates (TEE) miscellaneous risk provision of €11,000 thousand (€13,887 thousand as at 31 December 2017) is related to the achievement of the energy efficiency targets set by the Authority.

The provision for operational restoration of metering, totalling €16,000 thousand (unchanged compared to 31 December 2017), comprises the costs estimated for replacing/restoring operations of the G4 and G6 smart meters having operational problems.

The risk provision for early retirement of €10,541 thousand (€12,190 thousand as at 31 December 2017) involves personnel incentive and mobility schemes.

19. PROVISIONS FOR EMPLOYEE BENEFITS

Provisions for employee benefits, amounting to €115,516 thousand (€116,149 thousand as at 31 December 2017), can be broken down as follows:

(€ thousands)	31.12.2017	30.06.2018
Employment severance indemnity (TFR)	69,317	69,373
Supplementary provision "Fondo Integrativo Sanitario Dirigenti aziende dell'Eni (FISDE)	6,082	6,201
Gas Fund	33,292	32,216
Other provisions for employee benefits	7,458	7,726
	116,149	115,516

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

FISDE (the supplementary healthcare provision) of €6,201 thousand includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current and retired executives.²⁰

FISDE provides financial supplementary healthcare benefits to Eni Group²¹ 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 (€32,216 thousand) relates to the estimate, made on an actuarial basis, of the charges sustained by the employer due to the elimination, as of 1 December 2015, of the fund pursuant to Law 125 of 6 August 2015. In particular, Articles 9-decies and 9-undecies of the Law stipulate that the employer must cover: (i) an extraordinary contribution to cover expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020; (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.²²

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

The other employee benefit provisions (€7,726 thousand) relate to seniority bonuses and to the deferred cash incentive plan (IMD) and (IML).

20. DEFERRED TAX LIABILITIES

Deferred tax liabilities of €82,857 thousand (€94,790 thousand as at 31 December 2017) are stated net of offsettable prepaid tax assets of €209,856 thousand (€206,062 thousand as at 31 December 2017).

20 For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

21 The fund provides the same benefits for Italgas Group executives.

22 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".

There are no prepaid tax assets that cannot be offset.

(€ thousands)

	31.12.2017	Change in scope of consolidation	Provisions	Uses	Other changes	30.06.2018
Deferred tax liabilities	300.852			(8.139)		292.713
Deferred tax assets	(206.062)	861	(4.655)			(209.856)
	94.790	861	(4.655)	(8.139)		82.857

21. SHAREHOLDERS' EQUITY

Shareholders' equity, amounting to €1,165,255 thousand (€1,185,640 thousand as at 31 December 2017) breaks down as follows:

	31.12.2017	30.06.2018
Shareholders' equity attributable to Italgas	1,185,640	1,165,145
Share capital	1,001,232	1,001,232
Legal reserve	200,246	200,246
Share premium reserve	620,130	620,130
Fair value reserve for derivative contracts		(2,983)
Consolidation reserve	(323,907)	(323,907)
Reserve for business combinations under common control	(349,854)	(349,854)
Stock Grant reserve		20
Other reserves	(169,413)	(343,446)
Retained earnings	(72,209)	226,409
Reserve for remeasurement of defined-benefit plans for employees	(13,351)	(13,351)
Net profit (loss)	292,766	150,649
<i>to be deducted</i>		
- Treasury shares		
Shareholders' equity attributable to minority interests		110
	1,185,640	1,165,255

Below is a breakdown of the main shareholders' equity components of Italgas as at 30 June 2018.

SHARE CAPITAL

The share capital as at 30 June 2018 consisted of 809,135,502 shares with no indication of par value, with a total value of €1,001,231,518.44 (unchanged compared to 31 December 2017).

LEGAL RESERVE

The legal reserve stood at €200,246 thousand as at 30 June 2018 (unchanged compared to 31 December 2017).

SHARE PREMIUM RESERVE

The share premium reserve stood at €620,130 thousand, unchanged compared to 31 December 2017.

CONSOLIDATION RESERVE

The consolidation reserve stood at -€323,907 thousand, unchanged compared to 31 December 2017.

OTHER RESERVES

Other reserves mainly relate to the reserve for business combination under common control, amounting to -€349,938 thousand, recorded following the acquisition by Snam S.p.A. of 38.87% of the stake in Italgas Reti S.p.A.

RESERVE FOR REMEASUREMENT OF DEFINED-BENEFIT PLANS FOR EMPLOYEES

As at 30 June 2018, the reserve for remeasurement of employee benefit plans (-€13,351 thousand) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

TREASURY SHARES

As at 30 June 2018, Italgas did not have any treasury shares in its portfolio.

DIVIDENDS

On 19 April 2018, the Italgas S.p.A. Ordinary Shareholders' Meeting approved the distribution of the ordinary dividend for 2017 of €0.208 per share; the dividend (€168,300,184) was paid starting on 23 May 2018, with the coupon date set for 21 May 2018 and a record date of 22 May 2018.

MINORITY INTERESTS

Minority interests of €110 thousand are analysed below:

(€ thousands)	31.12.2017	30.06.2018
	Shareholders' equity attributable to minority interests	Shareholders' equity attributable to minority interests 30.06.2018
Ichnusa Gas	13	
Favara Gas	20	
Siculiana Gas	10	
Barano Gas	12	
Ischia Reti Gas	6	
Progas Metano	6	
Grecanica Gas	43	2
	110	2

22. GUARANTEES, COMMITMENTS AND RISKS

Guarantees, commitments and risks, amounting to €185,067 thousand (€823,306 thousand as at 31 December 2017) are analysed below:

(€ thousands)	31.12.2017	30.06.2018
Guarantees given in the interest:	105,455	143,379
- of subsidiaries	105,455	143,379
Risks	41,688	41,688
- for compensation and litigation	41,688	41,688
	147,143	185,067

GUARANTEES

Guarantees of €143,379 thousand (€105,455 thousand as at 31 December 2017) refer mainly to guarantees and sureties issued in the interest of the subsidiaries mainly performance bonds and to participate in tenders relating to natural gas distribution.

RISKS

Risks concerning compensation and litigation of €41,688 thousand of equal amount as at 31 December 2017) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

FINANCIAL RISK MANAGEMENT

INTRODUCTION

There follows a description of Italgas' policies and principles for the management and control of the risks arising from the financial instruments listed above.

Information on other risks affecting the business (operational risk and risks specific to the segment in which Italgas operates) can be found in the "Elements of risk management and uncertainty" section of the Directors' Report.

INTEREST RATE RISK

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

As at 30 June 2018 the financial debt at floating rate was 11.6% and at fixed rate was 88.4%.

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/long-term loans and bank credit lines at interest rates indexed to market benchmark 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. In this regard, during the first half of 2018, the Company successfully completed the reopening, on 30 January 2018, of the bond issue originally made on 18 September 2017 (€500 million, maturity 18 January 2029 and coupon of 1.625%) for an amount of €250 million and a yield of 1.631%. The issue made it possible to fully repay the term loan of €200 million and to continue the process of optimising the structure of the debt, increasing its average life and the fixed interest rate.

Moreover, in January 2018, an Interest Rate Swap transaction maturing in 2024 was finalised, 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.

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 ARERA

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

As at 30 June 2018, there were no significant credit risks. However, please note that on average 94% of trade receivables are settled by the due date and over 99% within the next 4 days, confirming the strong reliability of the business customers. Receivables from other activities represent a non-significant portion for the Company.

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

LIQUIDITY RISK

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

In order to mitigate this risk and to maintain a level of liquidity consistent with maintaining the requirements of its rating, Italgas signed finance agreements unused as at 30 June 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 23 October 2017, 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 4 August and 12 October 2017, respectively, Fitch and Moody's confirmed the ratings assigned to Italgas S.p.A. (BBB+ with stable outlook and Baa1 with negative outlook). On 25 May 2018, Moody's Investor Services placed Italy's sovereign rating "under review" for a possible downgrade and, consequently, on 30 May 2018 the same decision was taken with regard to long-term creditworthiness of Italgas.

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

DEBT COVENANT AND DEFAULT RISK

As at 30 June 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. As at 30 June 2018, these commitments have been met.

The bonds issued by Italgas as at 30 June 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.

FUTURE PAYMENTS AGAINST FINANCIAL LIABILITIES

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

(€ thousands)					Due data				
	Balance as at 31.12.2017	Balance as at 30.06.2018	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	786,787		786,787		33,260	33,260	57,260	663,007
Bonds	2,650,000	2,900,000		2,900,000			650,000		2,250,000
Short-term liabilities	81,133	530	530						
Interest on loans			36,496	276,116	36,832	36,368	36,354	32,547	134,015
	3,720,271	3,687,317	37,026	3,962,903	36,832	69,628	69,614	89,807	3,047,022

OTHER INFORMATION ON FINANCIAL INSTRUMENTS

With reference to the categories envisaged by IFRS 9 “Financial instruments”, Italgas, with the exception of the IRS hedging derivative, only holds financial assets and liabilities that fully fall within the category of financial instruments valued according to the amortized cost method.

DISPUTES AND OTHER MEASURES

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

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

CRIMINAL CASES

Italgas Reti S.p.A. - 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 was assigned to the examining judge for the ruling.

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

The public prosecutor at the Court of Busto Arsizio opened criminal proceedings against Italgas Reti executives, technicians and manual workers in relation to an incident that took place on 11 November 2015 during an emergency intervention. The incident was caused by a gas leak due to remote controlled horizontal drilling work for the placement of fibre-optic cables performed by a third party.

The explosion occurred while interception activities were in progress 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 pleadings, still in the process of being served, were acquired



at the registry of the Court of Busto Arsizio: request for committal for trial, request for dismissal of some natural persons under investigation, witness list of the Public Prosecutor's Office. The contents of the request for committal for trial are similar to those of the notice of conclusion of the preliminary investigations served last year, while the decree of dismissal also includes the employer of Italgas Reti. On 4 May 2018, notice was served fixing the preliminary hearing for 26 June 2018, together with the request for committal for trial. However, the hearing was not held due to the abstention of the criminal lawyers and the proceedings were postponed to 23 October 2018.

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

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

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

Italgas Reti S.p.A. - Rome/Via Saba event

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

The incident, which occurred in via Saba 68 for reasons that are still being investigated, caused injury to a worker of a contractor. The Public Prosecutor's office of Rome is currently conducting preliminary investigations, with which Italgas Reti is actively cooperating.

Actions promoted by Italgas Reti following the Judicial Administration phase

- Following the appeal brought by Italgas Reti, on 25 July 2016 the Palermo Court of Appeal issued a Decree revoking the Judicial Control measure with regard to Italgas Reti, declaring the implementation of the consequent provisions terminated. The Public Prosecutor did not propose an appeal under the terms of the law at the Court of Cassation; therefore, the ruling became definitive.
- Italgas Reti, through an appeal filed on 24 October 2016, opposed the settlement order of the expert witnesses of the Court of Palermo, challenging its non-involvement and, alternatively, the excess compensation paid. By order of 23 January 2018, the Court of Palermo acknowledged that Italgas Reti is not required to pay the costs of the consultants of the Public Prosecutor's office in that they are related to preventive measures. The consultants filed an appeal with 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 suspended judgement.

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, 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 lead-sealed joints in operation as at 31 December 2003, set out in the aforementioned Article 12, paragraph 7, letter b).

On 25 March 2016, ARERA announced the findings of the preliminary investigation. After the proceeding, with Resolution no. 195/2017/S/Gas of 30 March 2017, as adjusted by Resolution no. 232/2017/S/Gas of 6 April 2017, ARERA imposed an administrative fine of €204,000.00 on Italgas Reti for the violation of Article 12, paragraph 7, letter b) of the Gas Distribution and Metering Service Quality Regulation (“RQDG”). Irrespective of all considerations concerning the Company’s actual liability with regard to the alleged conduct, it seems that the extent of the penalty can be challenged on the grounds that it is disproportionate with respect to the actual conduct of Italgas Reti, also in light of a penalty, of a significantly lower amount, imposed in different proceedings regarding the same circumstances relating to the year 2008. The Company decided to challenge the above-mentioned rulings before the Lombardy Regional Administrative Court and the relative appeal was served on 29 May 2017. The date of the hearing is still to be set.

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

By means of Resolution 104/2015/S/gas of 12 March 2015, AEEGSI – today ARERA began enforcement proceedings for violations relating to the billing of the “COLci” component.

The Authority specifically alleges that the billing procedures for this component stipulated under current regulations have not been complied with.

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

On 23 April 2015, ARERA requested the transmission of billing data for the COLci tariff component for the years 2009-2013, which the company provided on 7 May 2015. On 5 April 2018, ARERA, following the outcome of the preliminary investigation, notified the Company of its findings and held it liable for the violations alleged in relation to 2013 only. On 27 April 2018, the Company sent a reply brief and on 22 May 2018 it took part in the final hearing in front of the ARERA Board.

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 challenged the deeds by which the Municipality of Venice deducted the value (for Italgas the Industrial Residual Value as at 31/12/2014 amounted to €31.6 million) of a portion of the distribution network (known as Block A) from the refund due to Italgas Reti as outgoing operator. The Municipality of Venice claims that it acquired - through a free transfer - the ownership of Block A at the expiry of the original concession deed (2010). However, according to Italgas Reti, the expiry of the concession and therefore the accrual of entitlement to the free transfer was postponed to 2025 on the basis of subsequent additions and amendments 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.

On 4 July 2018, ruling no. 4104/2018 was recorded, by which the Council of State rejected the appeal lodged by Italgas Reti against ruling no. 654/2017 of the Veneto Regional Administrative Court, confirming the free acquisition in favour of the City of Venice of the assets included in Block A, as well as the obligation for the Company to pay a fee for the use of the portion of the freely transferred network.

The Company is currently evaluating possible jurisdictional remedies against the decision of the Council of State whereas, also against a request for rent by the Municipality of Venice equivalent to the tariff remuneration of the assets of block A, in the absence of specific reference regulations, to date it is not able to reliably determine the amount of the liability.

At the same time, following the above-mentioned provision of the Council of State, the Company accelerated the depreciation of the portion of the network relating to the so-called Block A for a value of €3.0 million.

Italian Antitrust Authority (AGCM)

With its ruling of 5 December 2017, the Italian Antitrust Authority resolved to start proceedings IP 288 against Eni gas e luce S.p.A. due to failure to comply with the Italian Antitrust Authority measure of 11 May 2016 for assessment of unfair trade practices initiated at least from March 2014, consisted of inadequate management of end customer claims regarding the invoicing and delayed repayment of amounts due to the end customers for various reasons. As part of the measure IP 288, on 14 and 15 December 2017 the Italian Antitrust Authority inspected the premises of Italgas Reti to collect documents helpful in the preliminary investigations of Eni gas e luce S.p.A., taking into account that Italgas Reti is one of the major companies operating in the distribution of gas and carries on metering and self-reading validation activities. Italgas Reti is therefore unrelated to proceedings IP 288.

TAX CASES

Italgas Reti S.p.A. - Direct and indirect taxes

The 2009 general tax audit performed of 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. On 28 May 2015 the Company, for the assessment notice concerning IRES, appealed to the provincial tax commission of Turin, challenging only the findings relating to the undue deduction of foreign taxes and to unrelated charges; his appeal was upheld with a ruling of June 23, 2016. The Revenue Agency appealed against the sentence.

In relation to the other findings, not contested by the Company, in July 2017 it adhered to the facilitated definition of pending charges which allowed, through the payment of a total of €558,131.08, to extinguish the debt, without paying the penalties imposed. Against this payment, the provision for risks was used.

On 10/4/2018 the Regional Tax Commission of Piedmont, in reform of the first instance sentence, rejected the appeal of Italgas Reti. The Company consequently adjusted the provision for risks for tax disputes, through a provision of €728,000, for the potential outlay (IRES, IRAP and interest) deriving from the ruling of the appeal courts.

In July 2018 the Revenue Agency ordered the payment of the aforementioned amounts, which were paid by Italgas Reti on July 9, 2018 respectively (IRES and related interest for €696,796.76) and July 20, 2018 (IRAP and related interest of €107,051.38), drawing from the provision for risks in question.

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.

Against the dispute, an amount equal to the VAT and the related sanctions, calculated in relation to the hypothesis of assessment with adhesion, as well as to the consequent interests, for a total of 1,050,966.00 euros, was set aside for risks.

The Revenue Agency has not yet issued the assessment, but has notified Invitation to appear and the adversarial procedure has been established for a possible facilitated definition of the dispute.

Italgas Reti S.p.A. - Local duties

On 29 December 2016 Italgas Reti was notified by AMA, on behalf of the Municipality of Rome, of assessment notices relating to waste charges for the period from 1 January 2011 to 31 December 2013 and waste charges for the period from 1 January 2014 to 30 June 2016 in relation to the properties owned by the Company at 47/53 Via Giuseppe Guicciardi. Against this assessment has carried out an allocation to the risk provision, equal to €1,572,117.10, corresponding to the tariff/tax calculation, the reduced penalties (if a more favourable settlement is reached) and the interest. In the absence of a prompt confirmation by the enforcement body regarding the request for re-examination of the notices proposed by the Company, the appeal was appealed against the Provincial Tax Commission of Rome.

In September 2017, the Company filed an application for defining the tax dispute (pursuant to Legislative Decree No. 50/2017 and Resolution No. 45/2017 of the Municipality of Rome), paying the total sum of €791,117.36 with simultaneous use of the provision for risks and reversal of the surplus of €780,999.64.

In the years from 2013 to 2016 they were

notified to the former Napoletanagas S.p.A. incorporated n. 14 notices of assessment relating to the Waste Disposal Fee in the Municipality of Caserta which have been challenged by the Company in the relevant Tax Commissions. Following the resignation of some judgments that upheld the appeals, in 2017 transfers were made for €226,756.67 concerning the part of the fund revealed to be excess.

The provision also includes the balances of the corresponding risk fund of Ex Acam Gas SpA. incorporated in 2018, equal to €236,251.81, relating mainly to potential liabilities related to the taxation of assets. The provision was made during the sale and purchase phase of the company shares by Italgas Reti

23. REVENUE

The breakdown of revenue for the first half of 2018, amounting to €791,946 million (€791,159 thousand in the first half of 2017), is shown in the following table.

(€ thousands)	First half of the year	
	2017	2018
Core business revenue	774,060	779,922
Other revenue and income	17,099	25,295
	791,159	805,217

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

CORE BUSINESS REVENUE

Core business revenue, amounting to €779,922 thousand (€774,060 thousand in the first half of 2017), is analysed in the table below:

(€ thousands)	First half of the year	
	2017	2018
Natural gas distribution	498,735	502,172
Revenues for construction and upgrading infrastructures (IFRIC 12)	223,255	203,282
Revenue relating to the contribution pursuant to Article 57 of AEEGSI Resolution No. 367/14	28,859	47,018
Technical, engineering, IT assistance and various services	19,411	23,810
Distribution and sale of water	3,800	3,640
	774,060	779,922

Core business revenue (€779,922 thousand) refers primarily to the consideration for the natural gas transmission service (€502,172 thousand, revenue deriving from the construction and upgrading of natural gas distribution infrastructure connected with

concession agreements pursuant to IFRIC 12 (€203,282 thousand) and revenue relating to the contribution pursuant to Article 57 of the AEEGSI Resolution 367/14 (€47,018 thousand) relates to the investment plan to replace traditional meters with electronic smart meters, as set out in the remote reading project pursuant to AEEGSI resolutions 631/13 and 554/15.

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

(€ thousands)	First half of the year	
	2017	2018
RE-RS-UG1 fees	49,440	68,849
UG3 fees	23,823	26,345
UG2 fees	(13,989)	(8,311)
Gas Bonus and GS fees	(3,931)	(4,786)
	55,343	82,097

The additional fees for the distribution service (€82,097 thousand) regard primarily the following fees: (i) RE, to cover the expenses for calculating and implementing energy savings and the development of renewable energy sources in the gas sector; (ii) RS, as coverage for gas services quality; (iii) UG1, to cover any imbalances in and adjustments to the equalisation system; (iv) UG2, to cover the costs of retail sales marketing; (v) UG3int, to cover expenses connected to the interruption of services; (vi) UG3ui, to cover expenses connected to any imbalances in specific equalisation mechanism balances for the Default Distribution Service Provider (FDD) as well as the expenses for payment delays incurred by Suppliers of Last Instance (FUI), limited to end customers for which the supply cannot be suspended; (vii) UG3ft, to fund the expense account for the service of temporary providers on the transport network; (viii) GS, to cover the tariff compensation system for economically disadvantaged customers.

Gas distribution revenue (€502,172 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. 367/2014/R/gas and 173/2016/R/gas.

Revenue from water sales (€3,640 thousand) relates to water distribution by Italgas Acqua.

OTHER REVENUE AND INCOME

Other revenue and income, amounting to €25,295 thousand (€17,099 thousand in the first half of 2017), can be broken down as follows:

(€ thousands)	First half of the year	
	2017	2018
Net income from gas distribution service security recovery incentives	5,214	5,998
Income from connection contributions		7,495
Income from property investments	1,992	434
Contractual penalties receivable	222	1,058
Capital gains from sale of assets	176	477
Plant safety assessment pursuant to Law Decree 40/04	1,475	1,194
Revenue from regulated activities	6,829	6,849
Management refunds and chargebacks	124	244
Other revenue	1,067	1,546
	17,099	25,295

Income from safety recovery incentives, equal to €5,998 thousand, relates to refunds paid by the Authority connected to achieving quality and technical standards relating to the natural gas distribution service.

Revenue from connection contributions, amounting to €7,495 thousand, refers to the effect of the adoption of IFRS 15 as from 1 January 2018.

24. OPERATING COSTS

The breakdown of operating costs for the period, amounting to €373,586 thousand (€400,987 thousand), is shown in the following table:

(€ thousands)	First half of the year	
	2017	2018
Purchases, services and other costs	291,091	258,332
Personnel cost	109,896	115,254
	400,987	373,586

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 €203,989 thousand (€223,255 thousand in the first half of 2017) and are broken down as follows:

(€ thousands)	First half of the year	
	2017	2018
Purchase costs for raw materials, consumables, supplies and goods	64,733	52,106
Service costs	105,989	95,537
Costs for the use of third-party assets	2,714	11,218
Personnel cost	49,408	44,974
Other expense	411	154
	223,255	203,989

PURCHASES, SERVICES AND OTHER COSTS

Purchases, services and other costs, amounting to €258,332 thousand (€291,091 thousand in the first half of 2017), can be broken down as follows:

(€ thousands)	First half of the year	
	2017	2018
Purchase costs for raw materials, consumables, supplies and goods	64,269	70,500
Service costs	163,771	143,568
Costs for the use of third-party assets	33,907	43,137
Changes in raw materials, consumables, supplies and goods	11,708	(8,278)
Net provisions for risks and charges	6,630	(253)
Net provisions for impairment	(103)	189
Other expense	11,590	9,844
	291,772	258,707
To be deducted:		
Increases for own work	(681)	(375)
- of which service costs	(681)	(375)
	291,091	258,332

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

(€ thousands)	First half of the year	
	2017	2018
Inventories	59,452	64,335
Purchase of water	1,534	960
Motive power	568	652
Purchase of fuel	1,921	1,945
Consumables	794	2,608
	64,269	70,500

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 (€52,106 thousand).

Costs for services of €143,568 thousand (€163,771 thousand in the first half of 2017) relate to:

(€ thousands)	First half of the year	
	2017	2018
Project management and plant maintenance	93,085	83,813
Consultancy and professional services	20,711	18,102
Centralised service services	18,574	7,357
Costs for personnel services	6,518	6,929
IT and telecommunications services	6,031	10,828
Electricity, water and other (utility) services	4,170	2,856
Insurance	3,286	2,873
Cleaning, security service and guard services	1,065	573
Advertising and entertainment	2,039	1,338
Other services	11,343	11,169
Use of risk provision	(2,370)	(1,895)
	164,452	143,943
<i>To be deducted:</i>		
Increases for own work	(681)	(375)
	163,771	143,568

Costs for services include costs relating to the construction and upgrading of gas distribution infrastructure (€95,537 thousand).

Costs for project management and plant maintenance planning (€83,813 thousand) essentially relate to the extension and maintenance of gas distribution plants.

Costs for the use of third-party assets, of €43,137 thousand (€33,907 thousand related to the first half of 2017), are analysed below:

(€ thousands)	First half of the year	
	2017	2018
Patent, license and concession fees	32,135	43,273
Leases and rentals	1,780	
Use of risk provision	(8)	(136)
	33,907	43,137

Fees, patents and licences (€43,273 thousand) refer primarily to fees recognised to contracting parties for the running of natural gas distribution activities under concession.

Due to the application of IFRIC 16 as from 1 January 2018, leases and rentals decreased by €1,780 thousand..

Costs for use of third-party assets include costs relating to the construction and upgrading of gas distribution infrastructure (€11,218 thousand) recognised due to the entry into force of IFRIC 12 as of 1 January 2010.

Changes in raw materials, consumables, supplies and goods (-€8,241 thousand) were due mainly to the gas meter replacement plan.

Net allocations to the provision for risks and charges, amounting to -€253 thousand net of utilisations, refer mainly to the EEC risk provision and the risk provision for legal disputes.

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

Other expenses of €9,844 thousand are analysed below:

(€ thousands)	First half of the year	
	2017	2018
Gas distribution service safety improvement penalties	2,620	3,232
Other penalties	1,370	1,823
Indirect taxes, local taxes	5,883	3,095
Capital losses from disposal/recovery of tangible and intangible fixed assets	1,773	863
Membership fees	852	780
Costs for transactions, compensation and penalties	112	75
Use of risk provision	(11,931)	(1,595)
Charges attributable to Energy Efficiency Certificates	4,837	197
Other expense	6,074	1,374
	11,590	9,844

Gas distribution service safety recovery penalties (€3,232 thousand) refer to refunds recognised to the Authority connected to bonuses for gas distribution service safety recoveries.

PERSONNEL COST

Personnel cost, amounting to €115,254 thousand (€109,896 thousand in the first half of 2017), breaks down as follows:

(€ thousands)	First half of the year	
	2017	2018
Wages and salaries	82,445	83,174
Social charges	24,804	24,691
Employee benefits	9,161	7,052
Costs for seconded personnel	110	78
Income for seconded personnel	(3,476)	(919)
Other expense	(1,365)	2,032
	111,679	116,108
<i>To be deducted:</i>		
Increases for own work*	(1,783)	(854)
	109,896	115,254

(*) The value for the first half of 2017 includes the reclassification carried out to "Service costs" of 9,287 thousand euros.

The item includes costs relating to the construction and upgrading of gas distribution infrastructure (€44,974 thousand).

Employee benefits (€7,052 thousand) mainly regard expenses connected to the elimination of the Gas Fund, pursuant to Law no. 125 of 6 August 2015²³. More details are provided in the "Provisions for employee benefits" note.

Other expenses equal to €2,032 thousand refer, in particular, to charges for early retirement incentives.

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

AVERAGE NUMBER OF EMPLOYEES

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

Professional qualification	30.06.2017	31.12.2017	30.06.2018
Executives	61	64	61
Managers	256	257	259
Office workers	1,979	1,966	1,975
Manual workers	1,377	1,363	1,337
	3,673	3,650	3,632

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

At 30 June 2018, there were 3,625 employees.

25. AMORTISATION, DEPRECIATION AND IMPAIRMENT

Amortisation, depreciation and impairment, amounting to €208,617 thousand (€186,082 thousand in the first half of 2017), breaks down as follows:

(€ thousands)	First half of the year	
	2017	2018
Total amortisation and depreciation	183,861	207,884
- Property, plant and equipment	7,686	9,622
- Right of Use (IFRS 16)		3,340
- Intangible assets	176,175	194,922
Impairment	2,221	733
- Impairment of intangible assets	2,221	733
	186,082	208,617

The amount of €194,922 thousand relating to the amortisation of intangible assets, includes greater amortisation as a result of the reduction in the useful life of traditional meters (equal to €53,1 million)²⁴ subject to the plan to replace them with electronic meters, required by ARERA resolutions under the scope of the implementation of the remote metering plan.

26. FINANCIAL INCOME (EXPENSE)

Net financial expense, amounting to €23,731 thousand (€18,439 thousand in the first half of 2017) is analysed below:

(€ thousands)	First half of the year	
	2017	2018
Financial income (expense)	(17,197)	(22,215)
Financial expense	(17,200)	(22,324)
Financial income	3	109
Other financial income (expense)	(1,242)	(1,282)
Other financial expense	(1,731)	(1,445)
Other financial income	489	163
Charges attributable to derivatives		(234)
	(18,439)	(23,731)

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

(€ thousands)	First half of the year	
	2017	2018
- Financial income (expense)	(17,197)	(22,215)
Borrowing costs:	(17,200)	(22,324)
- Interest expense on bonds	(10,432)	(18,798)
- Commission expense on bank loans and credit lines	(4,465)	(1,252)
- Interest expense on credit line and loan expense due to banks and other lenders	(2,303)	(2,274)
Income on financial receivables:	3	109
- Interest income and other income on financial receivables non-instrumental to operations	3	109
Other financial income (expense)	(1,242)	(1,282)
Financial income (expense) connected with the passing of time (accretion discount) (*)	(995)	(1,361)
- Other expenses	(736)	(84)
- Other income	489	163
Charges attributable to derivatives		(234)
	(18,439)	(23,731)

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

27. INCOME (EXPENSE) FROM EQUITY INVESTMENTS

Income (expense) from equity investments of €9,711 thousand (€10,555 thousand in the first half of 2017) breaks down as follows:

(€ thousands)	First half of the year	
	2017	2018
Effect of valuation using the equity method		
Capital gain from valuation using equity method	10,555	9,711
	10,555	9,711

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

28. INCOME TAXES

Income taxes for the year of €58,343 thousand break down as follows:

(€ thousands)	First half of the year					
	2017			2018		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes	79,654	13,440	93,094	57,790	12,023	69,813
Current taxes for the year	67,803	11,626	79,429	59,400	11,177	70,577
Adjustments for current taxes pertaining to previous years	11,851	1,814	13,665	(1,610)	846	(764)
Deferred and prepaid taxes	(32,004)	(4,482)	(36,486)	(10,775)	(695)	(11,470)
Deferred taxes	(20,098)	(2,841)	(22,939)	(7,587)	(991)	(8,578)
Prepaid taxes	(11,906)	(1,641)	(13,547)	(3,188)	296	(2,892)
	47,650	8,958	56,608	47,015	11,328	58,343

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

29. PROFIT (LOSS) PER SHARE

The basic earnings per share, equal to €0.186, were calculated by dividing the net profit attributable to Italgas (€150,649 thousand) by the weighted average number of Italgas shares outstanding during the year (809,135,502 shares).

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

30. RELATED-PARTY TRANSACTIONS

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

responsibilities of the Italgas Group and their families, are also regarded as related parties.

As explained in detail below, related-party transactions involve the trading of goods and the provision of regulated services in the gas sector. Transactions between Italgas and related parties are part of ordinary business operations and are generally settled at arm's length, i.e. at the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the 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 above-mentioned related parties are shown below for the first half of 2017 and 2018. The nature of the most significant transactions is also specified.

Commercial and other transactions

Commercial and other transactions are analysed below:

(€ thousands)				30.06.2017			First half of 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.	938	87					1,084	6	
- Umbria Distribuzione Gas S.p.A.	411						271		
- Metano Sant'Angelo Lodigiano S.p.A.	101						122	28	
	1,450	87					1,477	34	
Companies owned or controlled by the State									
- Eni Group	89,492	40,397	1,135		2,148	383	351,716	10,529	
- Snam Group	3,975	22,249	90,202		19,493	200	142	591	
- Enel Group	12,219	2,845			73		62,821	911	
- Anas Group	73	264			185		29		
- Ferrovie dello Stato Group	49	306			84		69		
- Finmeccanica Group	9								
- GSE Gestore Servizi Group	43	25			62				
- Poste italiane Group		227			91				
- Saipem Group		2,377			2,450				
	105,860	68,690	91,337		24,586	583	414,777	12,031	
Overall total	107,310	68,777	91,337		24,586	583	416,254	12,065	

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

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

(€ thousands)

30.06.2018

First half of 2018

				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.	2,937	150		33	109		2,305	214
- Umbria Distribuzione Gas S.p.A.	304						270	
- Metano Sant'Angelo Lodigiano S.p.A.	206						170	4
	3,447	150		33	109		2,745	218
Companies owned or controlled by the State								
- Eni Group	78,013	40,621		887	457	615	368,343	8,682
- Snam Group	6,665	19,379		123	6,682	1	(2)	(342)
- Enel Group	12,202	4,886			21	379	71,528	1,445
- Anas Group	14	377			3	360		
- Ferrovie dello Stato Group	56	136			3	162		
- GSE Gestore Servizi Group	44	(11)				48		(48)
- Poste italiane Group		125			30			
	96,994	65,513		1,010	7,196	1,565	439,869	9,737
Overall total	100,441	65,663		1,043	7,305	1,565	442,614	9,955

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

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

Companies under joint control and associates

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

Companies owned or controlled by the State

The main receivable commercial transactions refer to:

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

The main payable commercial transactions refer to:

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

FINANCIAL TRANSACTIONS

As at 30 June 2018, the following financial transactions with related parties are shown.

(€ thousands)	30.06.2017		First half of 2017	
	Receivables	Payables	Income	Expense
Parent company				
- Cassa Depositi e Prestiti				133
Overall total				133

(€ thousands)	30.06.2017		First half of 2017	
	Receivables	Payables	Income	Expense
Parent company				
Cassa Depositi e Prestiti		56		150
Snam group				153
Enel group			4	
Overall total		56	4	303

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

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

(€ thousands)	31.12.2017			30.06.2018		
	Total	Related entities	% Incidence	Total	Related entities	% Incidence
Statement of financial position						
Trade and other current receivables	619,202	225,387	36.4	368,960	100,441	27.2
Other current assets	5,944	30	0.5	12,738		
Investments valued using the equity method	184,829	184,829	100.0	180,857	180,857	100.0
Other investments	54	54	100.0	73	73	100.0
Other non-current assets	77,891	702	0.9	125,163	548	0.4
Short-term financial liabilities	81,133			530		
Short-term financial liabilities	25,043			19,067		
Trade and other payables	498,174	72,469	14.5	504,580	65,663	13.0
Other current liabilities	182	175	96.2	965	175	18.1
Long-term financial liabilities	3,617,044			3,698,449		
Other current liabilities	2,055	165	8.0	449,549		

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

(€ thousands)	First half of 2017			First half of 2018		
	Total	Related entities	% Incidence	Total	Related entities	% Incidence
Income Statement						
Core business revenue	774,060	416,254	53.8	779,922	442,614	56.8
Other revenue and income	17,099	12,065	70.6	25,295	9,955	39.4
Purchases, services and other costs	291,091	28,639	9.8	258,332	10,515	4.1
Personnel cost	109,896	(3,470)	(3.2)	115,254	(602)	(0.5)
Financial expense	18,931	133	0.7	23,872	303	1.3
Financial income	492			375	4	1.1

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

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

(€ thousands)	First half of 2017	First half of 2018
Revenue and income	428,319	452,569
Costs and charges	(25,169)	(9,913)
Change in trade and other current receivables	148,546	124,976
Change in other current assets	(15)	154
Change in trade and other payables	(4,246)	(7,156)
Change in other current liabilities	1,734	(165)
Interest income (paid)		
Net cash flow from operating activities	549,169	560,465
Cash flow from investments		
Net cash flow from investment activities		
Net cash flow from financing activities		
Total cash flows to related entities	549,169	560,465

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

(€ thousands)	First half of 2017			First half of 2018		
	Total	Related entities	% Incidence	Total	Related entities	% Incidence
Cash flow from operating activities	328,272	549,169		647,320	560,465	86.6
Cash flow from investment activities	(231,194)			(352,398)		
Cash flow from financing activities	(96,520)			(210,663)		

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

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

Certification of the condensed half-year 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 Executive responsible for preparing the corporate accounting documents of Italgas S.p.A. respectively, certify:
 - the adequacy and actual application of the administrative and accounting procedures for the preparation of the condensed half-year financial statements as at 30 June 2018 during the course of the first half of 2018, based on the Company's particular characteristics.
2. The administrative and accounting procedures for the preparation of the condensed half-year financial statements as at 30 June 2018 were defined and their adequacy was assessed based on the rules and methods of the Internal Control- Integrated Framework model issued by the Treadway Commission's Committee of Sponsoring Organisations, which represents an internal control system benchmark that is generally accepted at international level.
3. It is also certified that:
 - 3.1 The condensed half-year financial statements as at 30 June 2018:
 - a) were prepared in accordance with the applicable international accounting standards recognised by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002;
 - b) are consistent with the accounting books and records;
 - c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and the consolidated companies.
 - 3.2 The interim directors' report includes a reliable analysis of the references to the important events that took place in the first six months of the year and their impact on the condensed half-year financial statements, along with a description of the main risks and uncertainties for the remaining six months of the year. The interim directors' report also includes a reliable analysis of the information on significant related-party transactions.

30 July 2018

Chief Executive Officer

Paolo Gallo

Executive responsible for preparing
the corporate accounting documents

Giovanni Mercante



REVIEW REPORT ON CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

To the shareholders of
Italgas SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Italgas SpA and its subsidiaries (the Italgas Group) as of 30 June 2018, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cashflow statement and related notes. The directors of Italgas SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of the Italgas Group as of 30 June

PricewaterhouseCoopers SpA

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2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 2 August 2018

PricewaterhouseCoopers SpA

Signed by

Giulio Grandi
(Partner)

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

ANNEXS





Annexes to the notes to the condensed consolidated half-year financial statements

SUBSIDIARIES, ASSOCIATES AND EQUITY INVESTMENTS OF ITALGAS S.P.A. AS AT 30 JUNE 2018

In compliance with the provisions of Consob Communication DEM/6064293 of 28 July 2006 and Arts. 38 and 39 of Legislative Decree 127/1991, lists of the subsidiaries, associates and significant equity investments of Italgas S.p.A. as at 30 June 2018 are provided below.

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

Consolidating company

Name	Registered office	Currency	Share capital	Shareholders	% ownership	consolidated % pertaining to Italgas	Method of Consolidation or measurement criteria (*)
Italgas S.p.A.	Milano	Euro	1,001,231,518	CDP Reti S.p.A.	26.05%	100.00%	F.C.
				Snam S.p.A.	13.50%		
				Third-party shareholders	60.45%		

(*) F.C. = Full consolidation.

Subsidiaries

Name	Registered office	Currency	Share capital	Shareholders	% ownership	consolidated % pertaining to Italgas	Method of Consolidation or measurement criteria (*)
Italgas Reti S.p.A.	Torino	Euro	252,263,314.00	Italgas S.p.A.	100.00%	100.00%	F.C.
Italgas Acqua S.p.A.	Milano	Euro	50,000.00	Italgas S.p.A.	100.00%	100.00%	F.C.
Seaside S.r.l.	Bologna	Euro	60,000.00	Italgas S.p.A.	100.00%	100.00%	F.C.
Medea S.p.A.	Sassari	Euro	4,500,000.00	Italgas Reti S.p.A.	100.00%	100.00%	F.C.
Ichnusa Gas S.p.A.	Sassari	Euro	3,800,000.00	Italgas Reti S.p.A.	100.00%	100.00%	F.C.

Name	Registered office	Currency	Share capital	Shareholders	% ownership	consolidated % pertaining to Italgas	Method of Consolidation or measurement criteria (*)
Fontenergia 4 S.r.l.	Sassari	Euro	1,250,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 6 S.r.l.	Sassari	Euro	1,950,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 7 S.r.l.	Sassari	Euro	800,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 9 S.r.l.	Sassari	Euro	450,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 10 S.r.l.	Sassari	Euro	1,500,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 11 S.r.l.	Sassari	Euro	500,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 15 S.r.l.	Sassari	Euro	350,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 19 S.r.l.	Sassari	Euro	10,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 26 S.r.l.	Sassari	Euro	850,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 27 S.r.l.	Sassari	Euro	1,900,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 35 S.r.l.	Sassari	Euro	650,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 37 S.r.l.	Sassari	Euro	500,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Favaragas Reti S.r.l.	Concordia sulla Secchia (MO)	Euro	1,000,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Sicilianagas Reti S.r.l.	Concordia sulla Secchia (MO)	Euro	500,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.

Name	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated ownership pertaining to Italgas	Method of Consolidation or measurement criteria (*)
Baranogas Reti S.r.l.	Concordia sulla Secchia (MO)	Euro	600,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Ischia Reti Gas S.r.l.	Concordia sulla Secchia (MO)	Euro	300,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Progas Metano S.r.l.	Concordia sulla Secchia (MO)	Euro	220,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Grecanica Gas S.r.l.	Concordia sulla Secchia (MO)	Euro	1,468,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.

(*) F.C. = Full consolidation.

Associates and companies under joint control

Name	Registered office	Currency	Share capital	Shareholders	% ownership	Method of Consolidation or measurement criteria (*)
Metano Sant'Angelo Lodigiano S.p.A. (a)	Sant'Angelo Lodigiano (LO)	Euro	200,000	Italgas Reti S.p.A. Third-party shareholders	50.00% 50.00%	E.M.
Toscana Energia S.p.A. (a)	Firenze	Euro	146,214,387	Italgas Reti S.p.A. Third-party shareholders	48.08% 51.92%	E.M.
Umbria Distribuzione Gas S.p.A. (a)	Terni	Euro	2,120,000	Italgas Reti S.p.A. Third-party shareholders	45.00% 55.00%	E.M.
Toscana Energia Green S.p.A.	Pistoia	Euro	6,330,804	Toscana Energia S.p.A.	100.00%	

(*) E.M.= Valued at equity.

(a) The Company is under joint control.

OTHER COMPANIES

Name	Registered office	Currency	Share capital	Shareholders	% ownership	Method of Consolidation or measurement criteria (*)
Agenzia Napoletana per l'Energia e per l'Ambiente	Napoli	Euro	418,330	Italgas Reti S.p.A. Third-party shareholders	12.96% 87.04%	C.o.
White 1 S.r.l.	Bologna	Euro	10,000.00	Seaside S.r.l.	100.00%	C.o.

(*) C.o.= Valued at cost.

CHANGE IN SCOPE OF CONSOLIDATION

Companies included

Name	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	Method of Consolidation or measurement criteria (*)
Italgas Acqua S.p.A.	Milano	Euro	50,000.00	Italgas S.p.A.	100.00%	100.00%	F.C.
Seaside S.r.l.	Bologna	Euro	60,000.00	Italgas S.p.A.	100.00%	100.00%	F.C.
Medea S.p.A.	Sassari	Euro	4,500,000.00	Italgas Reti S.p.A.	100.00%	100.00%	F.C.
Ichnusa Gas S.p.A.	Sassari	Euro	3,800,000.00	Italgas Reti S.p.A.	100.00%	100.00%	F.C.
Fontenergia 4 S.r.l.	Sassari	Euro	1,250,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 6 S.r.l.	Sassari	Euro	1,950,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 7 S.r.l.	Sassari	Euro	800,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 9 S.r.l.	Sassari	Euro	450,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 10 S.r.l.	Sassari	Euro	1,500,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.

Name	Registered office	Currency	Share capital	Shareholders	% consolidated ownership	% Consolidation pertaining to Italgas measurement criteria (*)	Method of Consolidation or
Fontenergia 11 S.r.l.	Sassari	Euro	500,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 15 S.r.l.	Sassari	Euro	350,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 19 S.r.l.	Sassari	Euro	10,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 26 S.r.l.	Sassari	Euro	850,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 27 S.r.l.	Sassari	Euro	1,900,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 35 S.r.l.	Sassari	Euro	650,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Fontenergia 37 S.r.l.	Sassari	Euro	500,000.00	Ichnusa Gas S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Favaragas Reti S.r.l.	Concordia sulla Secchia (MO)	Euro	1,000,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Sicilianagas Reti S.r.l.	Concordia sulla Secchia (MO)	Euro	500,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Baranogas Reti S.r.l.	Concordia sulla Secchia (MO)	Euro	600,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Ischia Reti Gas S.r.l.	Concordia sulla Secchia (MO)	Euro	300,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Progas Metano S.r.l.	Concordia sulla Secchia (MO)	Euro	220,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
Grecanica Gas S.r.l.	Concordia sulla Secchia (MO)	Euro	1,468,000.00	Italgas Reti S.p.A. Third-party shareholders	98.00% 2.00%	98.00%	F.C.
White 1 S.r.l.	Bologna	Euro	10,000.00	Seaside S.r.l.	100.00%		C.o.

(*) F.C. = Full consolidation; C.o = Valued at cost

Companies excluded following incorporation

Name	Registered office	Currency	Share capital	Shareholders	% ownership	% consolidated pertaining to Italgas	Method of Consolidation or measurement criteria (*)
ACAM Gas S.p.A.	La Spezia	Euro	68,090,000.00	Italgas Reti S.p.A.	100%	100%	F.C.
Enerco Distribuzione S.p.A.	Padova	Euro	24,204,000.00	Italgas Reti S.p.A.	100%	100%	F.C.
S.G.S. S.r.l.	Padova	Euro	10,000.00	Enerco Distribuzione S.p.A.	100%	100%	F.C.

(*) F.C. = Full consolidation.



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