

ITALGAS: APPROVED RESULTS AS AT 31 MARCH 2018

Milan , 8 May 2018 - Italgas' Board of Directors, chaired by Lorenzo Bini Smaghi, met yesterday and approved the consolidated (unaudited) results for 2018 first quarter.

Key figures

Consolidated economic and financial highlights:

- Total revenue: €281.0 million (+1.0%)
- EBITDA: €198.4 million (+2.7%)
- EBIT: €112.4 million (+8.4%)
- Net profit: €74.7 million (+4.5%)
- Technical investments: €106.1 million
- Net cash flow from operating activities: €241.2 million
- Net financial debt¹ : €3,656.2 million

Operating highlights including affiliates data:

- Gas concessions: no. 1,695
- Number of active meters: 7.5 million
- Gas distribution network: more than 67 thousand Km

Italgas' economic and financial results in the first three months of 2018 confirm the positive performance achieved in 2017, with further improvement in terms of margin; the investment programs and the closing of further acquisitions are in line with the targets announced with the Business Plan for 2017-2023.

¹ Excluding the payables for operating leases pursuant to IFRS 16. On 13 January 2016, indeed, the IASB published "IFRS 16 Leases", which was adopted prospectively by the Italgas Group from 1 January 2018. The adoption of this standard required recognition of financial liabilities referring to leasing payables of €31.4 million.

Over 67 thousand kilometres of network managed, 7.5 million redelivery points served in 1,695 concessions, reaffirm the Italgas' leadership in Italy, with a market share that exceeds 34%² and the third position in Europe.

Italgas - with €106.1 million deployed in organic investments in the first quarter - confirms the timing set in the Business Plan, with investments exceeding € 3 billion by 2023 on the current managed network. A significant portion of investments concerned the installation of smart meters replacing the traditional ones.

Having the target of completing the entire replacement programme in the first months of 2020, in the first quarter of 2018, about 470,000 new meters have been installed, bringing the total meters installed to approximately 3.6 million, equal to 44% of the entire meter fleet³. The installation of the smart meters is part of the digitalisation project of the network for which over 40 pilot projects have been launched throughout the country, covering approximately 190 kilometers of distribution network and 20,000 smart meters.

The objective of consolidation of the sector, was efficiently pursued completing several corporate operations out of the six announced in 2017: acquisition of the business unit of Amalfitana Gas, of the distribution network of the municipality of Portopalo di Capopassero, of Ichunsa Gas, as well as of Enerco Distribuzione closed in December; at the beginning of April, the acquisition of Medea, the Sassari gas distribution company, was completed.

Furthermore, the completion of the acquisition of Seaside, one of the largest Italian Energy Service Companies, at the forefront in the offer of digital services, allows the Group to become a major player in the field of energy efficiency, a sector that offers multiple synergies with the activities of gas distribution.

The financial requirements related to the net investments in 1Q 2018 were fully covered by the positive cash flow from operating activities, amounting to €241.2 million, with a Free Cash Flow - before the M&A transactions -, of € 119.6 million.

Net financial position as of 31 March 2018 is equal to € 3,656.2 million, improving in comparison to 31 December 2017 (€3,720.3 million).

With regards to the economic results, operating profits in the first quarter of 2018 reached €112.4 million (+ 8.4% compared to 31 March 2017) and net profit reached €74.7 million (+ 4.5% compared to the corresponding period of the previous year).

² Including affiliates.

³ Excluding affiliates, in the first quarter of 2018, Italgas has installed about 401,000 new meters, bringing the total number of new installed meters to about 3.2 million, equal to approximately 44% of the entire meter fleet.

Paolo Gallo, CEO of Italgas, commented:

"The results for the first quarter of 2018 show a positive performance of all the main economic indicators compared to the same period of last year, continuing the trend of the results achieved in 2017. This is the proof of the Group's great level of vitality which, while waiting for tenders, continues to strengthen its own competitiveness and pursue growth objectives through mergers and acquisitions. The investments made, in line with the business plan, were, for almost half of the amount, aimed at the installation of smart meters, which reached 44% of the total managed meters and which represent the first step in the process of digitalization of the networks launched in the 2017. In this scenario, the adoption of Cloud Azure, the result of the partnership agreement with Microsoft, represents the key factor for the digitalization of business processes and places the Italgas Group at the forefront of the European landscape of gas distributors also creating a model of reference even in the field of innovation".

Italgas Group structure⁴

The Italgas Group consolidation area includes Italgas S.p.A., Italgas Reti S.p.A., Acam Gas S.p.A., Enerco Distribuzione S.p.A., SGS S.r.l, Ichnusa Gas S.p.A., Fontenergia 4 S.r.l., Fontenergia 6 S.r.l., Fontenergia 7 S.r.l., Fontenergia 9 S.r.l., Fontenergia 10 S.r.l., Fontenergia 11 S.r.l., Fontenergia 15 S.r.l., Fontenergia 19 S.r.l., Fontenergia 26 S.r.l., Fontenergia 27 S.r.l., Fontenergia 35 S.r.l. e Fontenergia 37 S.r.l, Italgas Acqua S.p.A., Seaside S.r.l. e White 1 S.r.l.

The consolidation scope at 31 March 2018 has changed compared to 31 December 2017, pursuant to: (i) the entry of Italgas Acqua S.p.A., which was established on 1 January 2018 following the partial proportional spin-off of Italgas Reti in favour of a newly established company through assignment to the latter of the so called “former Napoletanagas water unit”; (ii) 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 having the same number of concessions for constructing and operating LPG distribution networks in Sardinia and (iii) the acquisition on 13 March 2018 of 100% of the share capital of Seaside S.r.l., a company active in the energy efficiency area.

To be noted that on 31 January 2018 Italgas completed the acquisitions of the Amalfitana Gas and AEnergia Reti business units relating respectively to the distribution of natural gas in three ATEMs in Campania and Basilicata and to the distribution network at the service of the Municipality of Portopalo di Capo Passero (Siracusa).

⁴ The projects for the merger by incorporation of ACAM Gas, Enerco Distribuzione and SGS into Italgas Reti were approved, effective on 1 January 2018.

Economic and financial highlights

Reclassified income statement

| (€ million) | First quarter | | Abs. Change | Change % |
|--|---------------|---------------|-------------|-------------|
| | 2017 | 2018 | | |
| Gas distribution regulated revenue | 273.7 | 274.2 | 0.5 | 0.2 |
| <i>of which Revenues from gas carriage</i> | 249.0 | 249.9 | 0.9 | 0.4 |
| <i>of which other gas distribution regulated revenue</i> | 24.7 | 24.3 | (0.4) | (1.6) |
| Other revenues | 4.5 | 6.8 | 2.3 | 51.1 |
| Total revenues (*) | 278.2 | 281.0 | 2.8 | 1.0 |
| Operating costs (*) | (85.1) | (82.6) | 2.5 | (2.9) |
| EBITDA | 193.1 | 198.4 | 5.3 | 2.7 |
| Amortization, depreciation and write-downs | (89.4) | (86.0) | 3.4 | (3.8) |
| EBIT | 103.7 | 112.4 | 8.7 | 8.4 |
| Net financial charges | (10.5) | (12.0) | (1.5) | 14.3 |
| Net income from equity investments | 5.2 | 4.8 | (0.4) | (7.7) |
| Profit before tax | 98.4 | 105.2 | 6.8 | 6.9 |
| Income taxes | (26.9) | (30.5) | (3.6) | 13.4 |
| Net profit | 71.5 | 74.7 | 3.2 | 4.5 |

(*) Net of the effects of IFRIC 12 "Service Concession Arrangements" (€96.5 and €115 million respectively in the first quarter of 2018 and 2017) and the restatement of the other residual items (€5.5 million in the first quarter of 2018 and €4.0 million in the first quarter of 2017).

Total revenue in 2018 amounted to €281.0 million, a €2.8 million increase compared with the corresponding period last year, and refers to gas distribution regulated revenue (€274.2 million) and Other revenue (€6.8 million). The increase in gas distribution regulated revenue amounted to €0.5 million, broken down as follows: (i) higher revenue from distribution (+€0.9 million; +0.4%) and (ii) lower other regulated revenue from gas distribution (-€0.4 million; -1.6%).

The other revenue from regulated gas distribution mentioned under (ii) above, include the contribution pursuant to art. 57 of ARERA resolution 367/14, regarding the replacement of traditional meters with electronic meters (smart meters), as provided by the remote reading plan pursuant to the ARERA resolutions no. 631/13 and 554/15. This contribution totals €12.9 million in the first quarter 2018 (€13.6 million in the first quarter of 2017) and refers to the percentage due for the tariff recognition for the first plan for the replacement of traditional meters, calculated according to the applicable terms and conditions in the aforementioned mentioned ARERA resolution (50% of the meter fleet to be replaced by the end of this year, 2018).

Gross operating profit (EBITDA⁵) totalled €198.4 million in the first quarter of 2018, up €5.3 million (+2.7%) compared with the same period in 2017. The change in the operating costs is primarily due to lower costs for services (-€2.6 million), higher labour costs (+€3.4 million), lower net provisions for risks and future expenses (-€1.5 million) and lower net costs related to Energy Efficiency Credits (-€1.2 million).

The **operating profit (EBIT)** in the first quarter of 2018 totalled €112.4 million in the first quarter of 2018, up €8.7 million (+8.4%) compared with the same period in 2017. The increase is due to the €5.3 million increase of gross operating profits as commented above and the reduction by €3.4 million of the amortisation, depreciation and write-downs. The latter take into account the acceleration of the amortisation (€6.8 million in the first quarter of 2018, €17 million in the first quarter of 2017), following the reduction in the useful life of the traditional meters⁶, subject to the plan for the replacement of the electronic meters (smart meters), as required pursuant to the relative ARERA Resolutions (50% of the meter fleet to be replaced within the current year 2018).

Net profit for the first quarter of 2018, which amounted to €74.7 million, was up €3.2 million on the same period last year; this is a +4.5% increase pursuant to the aforementioned operating profits of €8.7 million, which was partially offset by: (i) higher financial expenses by €1.5 million (ii) lower net income on equity investments (-€0.4 million) and (iii) higher income taxes (€3.6 million), due mainly to the increase of the taxable base for the period.

⁵ Alternative performance indicators are used in this press release including EBITDA (gross operating profit, calculated by subtracting operating costs from revenues) and EBIT (operating profit, calculated by subtracting operating costs, depreciation/amortisation and write-downs from revenues). The NON - GAAP financial disclosure must be considered complementary and it does not replace the information reported in accordance with IAS - IFRS standards.

⁶ In line with the plan for replacing meters, starting from the second half of 2016, the useful life of the meters included in the replacement project was adjusted pursuant to AEEGSI Resolutions no. 631/13 and no. 554/15, in order to complete the depreciation process in 2018.

Reclassified financial statements

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

| (€ million) | 31.12.2017 | 31.03.2018 | Abs. Change |
|---|----------------|----------------|----------------|
| Fixed capital | 4,950.9 | 5,087.5 | 136.6 |
| Property, plant and equipment | 224.6 | 257.4 | 32.8 |
| Intangible fixed assets | 4,676.6 | 4,743.6 | 67.0 |
| Equity investments | 184.9 | 189.8 | 4.9 |
| Financial receivables and securities held for transactions | 0.1 | 0.1 | |
| Net payables for investments | (135.3) | (103.4) | 31.9 |
| Net working capital | 71.1 | (21.7) | (92.8) |
| Provisions for employee benefits | (116.1) | (116.1) | |
| NET INVESTED CAPITAL | 4,905.9 | 4,949.7 | 43.8 |
| Net equity (including third-party shareholder interests) | | | |
| - entirely attributable to the Group | 1,185.6 | 1,262.1 | 76.5 |
| Net financial expenses | 3,720.3 | 3,656.2 | (64.1) |
| Financial payables for operating leasing pursuant to IFRS 16 (*) | | 31.4 | 31.4 |
| COVERAGE | 4,905.9 | 4,949.7 | 43.8 |

(*) From 1 January 2018, Italgas has applied "IFRS 16 - Leases" which, having eliminated the distinction between, financial and operating leases, requires, for operating leases, recognition of commitments to leasing companies against recognition of the license to use the relative assets as tangible assets.

Fixed capital as at 31 March 2018 (€5,087.5 million) increased by €136.6 million compared to 31 December 2017, mainly on account of the increase in intangible assets (+€67 million), the increase in the property, plant and equipment (+€32.8 million) and the decrease in the net payables relative to investments (+€31.9 million, including the €7.5 million of the earn - out).

Tangible and intangible assets amounted to €5,001.0 million increased by €99.8 million compared to 31 December 2017. The **intangible assets** (€4,743.6 million), which mainly refer to the assets for services in concession, recorded pursuant to IFRIC 12, have increased by €67 million following the increases in gross investments of €102.5 million, amortisation of €80.5 million and other changes of €45.0 million, resulting in particular from the company acquisitions that took place upon closing. The **tangible assets** (€257.4 million) which mainly refer to buildings and industrial and commercial equipment, have increased by €32.8 million due to the investments of €3.6 million, changes of €32.9 million connected to the application of IFRS 16 and €1.9 million relative to the consolidation

perimeter, net of a €5.5 million increase in depreciation and write-downs. Overall, the investments in the first quarter of 2018, totalled €106.1 million and primarily concern the replacement of the meters and the placement/replacement of the gas networks.

The **Equity investments** item (€189.8 million) includes the assessment of investments at equity and relates to Toscana Energia (€187.4 million), Umbria Distribuzione Gas (€1.2 million) and Metano Sant'Angelo Lodigiano (€1.2 million).

Net working capital

| (€ million) | 31.12.2017 | 31.03.2018 | Abs. Change |
|--|-------------|---------------|---------------|
| Trade receivables | 406.5 | 457.8 | 51.3 |
| Inventories | 22.4 | 23.4 | 1.0 |
| Tax receivables | 45.2 | 53.2 | 8.0 |
| Accruals and deferrals from regulated activities | 78.5 | 88.6 | 10.1 |
| Other assets | 197.3 | 213.5 | 16.2 |
| Trade payables | (184.1) | (323.2) | (139.1) |
| Provisions for risks and charges | (208.3) | (202.5) | 5.8 |
| Deferred tax liabilities | (94.8) | (89.7) | 5.1 |
| Taxes payable | (15.9) | (45) | (29.1) |
| Other liabilities | (175.7) | (196) | (20.3) |
| Assets (liabilities) from derivative instruments | | (1.8) | (1.8) |
| | 71.1 | (21.7) | (92.8) |

The -€92.8 million change in working capital compared with 31 December 2017 was mainly due to: (i) the increase in trade payables (-€ 139.1 million) in particular to do to higher payables to CSEA (€117.3 million, connected to the equalization for the period); (ii) the increase in Other liabilities (- €20.3 million) connected to payables to CSEA for accessory components to the carriage sales; (iii) a lower balance for tax items (-€16 million) particularly on account of the increase in net tax payables (-€29.1 million, mainly on account of higher tax payables for the period), which were partially offset by the decrease in the tax credits (+€8 million, in particular for V.A.T credits) and liabilities for deferred taxes (+€5.1 million); (iv) higher trade receivables (+€51.3 million) connected in particular to the higher receivables from gas suppliers, due to the seasonality of the period under review; (v) the increase in other assets (+€16.2 million) mainly from the higher receivables from CSEA connected to the Energy Efficiency Certificates; (vi) the increase in the accruals and deferrals pertaining to regulated activities (+€10.1 million), connected to the contribution pursuant to art. 57 of ARERA Resolution 367/14 in relation to the replacement plan for the

traditional meters with electronic meters; (vii) lower provisions for risks and charges (+€5.8 million) particularly in relation to Energy Efficiency Certificates.

Net financial debt

| (€ million) | 31.12.2017 | 31.03.2018 | Abs. Change |
|--|----------------|----------------|---------------|
| Financial and bond debt | 3,723.2 | 3,673.6 | (49.6) |
| Short-term financial debt (*) | 106.1 | 7.6 | (98.5) |
| Long-term financial debt | 3,617.1 | 3,666.0 | 48.9 |
| Financial receivables and cash and cash equivalents | (2.9) | (17.4) | (14.5) |
| Cash and cash equivalents | (2.8) | (17.3) | (14.5) |
| Securities not held for transactions | (0.1) | (0.1) | - |
| Net financial debt | 3,720.3 | 3,656.2 | (64.1) |
| Financial payables for leasing pursuant to IFRS 16 | | 31.4 | 31.4 |
| Net financial debt (including the effects of IFRS 16) | 3,720.3 | 3,687.6 | (32.7) |

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

Net financial debt was €3,656.2 million as at 31 March 2018, lower by €64.1 million than as at 31 December 2017. Including the effects of applying IFRS 16, which totalled €31.4 million, the net financial debt is €3,687.6 million.

Financial and bond debt as at 31 March 2018 total €3,673.6 million (€3,723.2 million as at 31 December 2017), were denominated entirely in euros and referred mainly to bonds (€2,884.5 million), loan agreements with the European Investment bank for the EIB/Investments (€783.9 million), and payables to Banks (€5.2 million).

The reduction of the financial payables and the bonds of €49.6 million is attributable to the reduction of short term financial debt (€98.5 million), mainly on account of lesser usage of uncommitted credit lines (€76.1 million) which was partially offset by the increase in long-term financial debt (€48.9 million). That change into long-term financial debt is essentially due to the reopening on 30 January 2018 of the bond issue which had originally taken place on 18 September 2017 (€500 million, maturing 18 January 2029 with a coupon equal to 1.625%), for a nominal amount of €250 million, and repayment, as compared to the original maturity of October 2019, of a Term Loan type loan totalling €200 million.

The breakdown of debt by type of interest rate as at 31 March 2018 is as follows (net of leasing payables pursuant to IFRS 16):

| (€ million) | 31.12.2017 | % | 31.03.2018 | % |
|-----------------------------|----------------|-------|----------------|--------------|
| Fixed rate | 2,651.9 | 71.2 | 3,244.4 | 88.3 |
| Floating rate | 1,071.3 | 28.8 | 429.2 | 11.7 |
| Gross financial debt | 3,723.2 | 100.0 | 3,673.6 | 100.0 |

The fixed rate financial liabilities total €3,244.4 million and refer to bonds (€2,844.5 million) and an EIB loan maturing 2037 (€359.9 million), which was concluded on 19 December 2017 and converted to a fixed rate loan in January 2018, through an "interest rate swap" type of derivative contract expiring in 2024.

The fixed rate financial liabilities increased by €592.5 million compared to 31 December 2017, mainly on account of the Interest rate swap mentioned above and the aforementioned reopening of the bond against a nominal amount of € 250 million.

The variable rate liabilities total €429.2 million, are down by €642.1 million mainly as a result of the aforementioned transactions.

As at 31 March 2018, Italgas had unused committed long-term credit lines amounting to €1.1 billion.

As at 31 March 2018, there were no financial covenants and secured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. As at 31 March 2018, these commitments were met.

Reclassified statement of cash flows

| (€ million) | First quarter | |
|--|---------------|---------------|
| | 2017 | 2018 |
| Net profit | 71.5 | 74.7 |
| <i>Adjusted for:</i> | | |
| - Amortisation, depreciation and other non-monetary components | 85.1 | 84.3 |
| - Capital loss (gain) from valuation of equity investments | 1.6 | (4.8) |
| - Interest and income tax | 32.4 | 40.2 |
| Change in working capital due to operating activities | 84.1 | 57.6 |
| Dividends, interest and income taxes collected (paid) | (5.5) | (10.8) |
| Net cash flow from operating activities | 269.2 | 241.2 |
| Technical investments | (115.5) | (99.3) |
| Other changes relating to investment activities | (7.8) | (22.3) |
| Free cash flow before Merger and Acquisition transactions | 145.9 | 119.6 |
| Companies added to the consolidation area | | (31.7) |
| Acquisition of business units | | (23.8) |
| Free cash flow | 145.9 | 64.1 |
| Change in short- and long-term financial debt (*) | - | (49.6) |
| Equity cash flow | | |
| Net cash flow for the period | 145.9 | 14.5 |

(*) Net of the financial payables for leases pursuant to IFRS 16

Change in net financial debt

| Change in net financial debt | 2016 | 2017 |
|--|--------------|--------------|
| Free cash flow before Merger and Acquisition transactions | 145.9 | 119.6 |
| Changes due to the acquisition of equity investments and business units | | (55.5) |
| Equity cash flow | | |
| Changes to net financial debt, not including the payables pursuant to IFRS 16 | 145.9 | 64.1 |
| Changes to financial debt pursuant to IFRS 16 | | (31.4) |
| Change in net financial debt | | 32.7 |

Net cash flow from operating activities in the first quarter of 2018 amounted to €241.2 million, enabling the financing of the full flow of net investments of €121.6 million, generating a free cash flow before the Merger and Acquisition transaction of €119.6 million. The M&A transactions include payment to Eni of €7.5 million in the form of an earn - out, following the finalisation of the sale to Eni of the building complex located in Ostiense. The decrease in the net financial debt was €32.7 million, gross of the effect of the change in the consolidation area and the acquisition of the business units during the period (equal to €55.5 million), and the change connected to adopting IFRS 16 for payables to lease companies (€31.4 million).

Key operating figures

Investments

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

In the first quarter of 2018, technical investments of €106.1 million were made, representing a decrease of €17.3 million compared to the corresponding period in 2017 (-14%).

| (€ million) | First quarter | | Abs. Change | Change % |
|-------------------------------------|---------------|--------------|---------------|---------------|
| | 2017 | 2018 | | |
| Distribution | 52.6 | 48.3 | (4.3) | (8.2) |
| Network maintenance and development | 44.4 | 44.5 | 0.1 | 0.2 |
| New networks | 8.2 | 3.8 | (4.4) | (53.7) |
| Metering | 63.3 | 48.9 | (14.4) | (22.7) |
| Other investments | 7.5 | 8.9 | 1.4 | 18.7 |
| | 123.4 | 106.1 | (17.3) | (14.0) |

Investments in distribution (€48.3 million) mainly related to development projects (extensions and new networks) and the renovation of old sections of pipe, including the replacement of cast-iron pipes.

Metering investments (€48.9 million) mainly relate to the plan to replace traditional meters with electronic meters, as part of the remote-reading plan.

Other investments (€8.9 million) mainly concerned investments in real estate.

Key operating figures

| | 31.12.2017 | 31.03.2018 | Abs. Change | Change % |
|---|------------|---------------|-------------|----------|
| Active meters (million) | 6,586 | 6,612 | 0.03 | 0.4 |
| Concessions for gas distribution (number) | 1,500 | 1,587 | 87.0 | 5.8 |
| Distribution network (km) (a) | 57,773 | 58,637 | 864 | 1.5 |

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

Meters

As at 31 March 2018, the number of active meters at the redelivery points (PdR) was 6,612 million (6,586 as at 31 December 2017). Considering also the affiliates, the number of active meters was 7,465 million.

Municipality areas under concession and tenders per area

As at 31 March 2018, Italgas had the concession for gas distribution in 1,587 Municipalities (1,500 as at 31 December 2017), of which 1,508 in operation (1,484 as at 31 December 2017). The increase in the number of concessions is mainly due to the change in the scope of consolidation. Considering also the associated companies, the number of operating concessions is 1,616.

Distribution network

The gas distribution network as at 31 March 2018 was 58,637 kilometres long (57,773 Kilometres as at 31 December 2017), an increase of 864 kilometres compared with 31 December 2017. Considering also the associated companies, the distribution network is 67,034 kilometres long.

Main events during the quarter

- On 1 January 2018, the Company Italgas Acqua was established from the proportional partial spin-off of Italgas Reti in favour of the new company through an assignment to the latter of the so-called “former Napoletanagas water unit”.
- On 26 January 2018, the business unit Amalfitana Gas, concerning the distribution activities of natural gas in three ATEMs (minimum geographical areas) in Campania and Basilicata, was acquired.
- The acquisition of the business unit of AEnergia Reti related to the distribution network for the Municipality of Portopalo di Capopassero (Siracusa) was concluded on 31 January 2018.
- On 28 February 2018, 100% of the share capital of the company Ichnusa Gas was acquired. This is a holding of 12 companies, which in turn controls as many concessions for the construction and operations of gas distribution networks in 74 municipalities of Sardinia.
- On 13 March 2018, the acquisition of 100% of Seaside s.r.l., Energy Service Company (ESCo) was concluded. This company is active in the energy efficiency area.

Significant events occurring after the end of the quarter

On 6 April 2018, the acquisition of 100% of Medea S.p.A. was concluded. This company distributes and sells LNG in Sassari, currently serving approximately 13,000 customers within a potential pool of almost 30,000 users. On the average, it distributes gas exceeding 5 million cubic meters every year.

Business outlook

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

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

Consistent with the strategic priorities of the 2017-2023 plan, Italgas will participate in the **tenders** for the concession of natural gas distribution services, pursuing the development objectives of the business and consolidation of the sector, which is currently very fragmented.

During 2018, further growth will be pursued **through mergers and acquisitions**, which will allow us to strengthen our territorial presence in view of the upcoming tenders, thereby pre-empting the effects of the latter in terms of increasing our scope of operations.

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

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

Italian Legislative Decree no. 25, of 15 February 2016, effective as at 18 March 2016, which has transposed the European Directive 2013/50/EU of 22 October 2013 (so called Transparency Directive) has eliminated the publication obligation of the interim report on operations, previously set forth in article 154-ter paragraph 5 of the Consolidated Law on Finance (TUF).

In compliance with the development of the reference regulatory framework and taking into account the requirements of the stakeholders, Italgas has chosen to publish, on a voluntary

basis, additional financial information, on a regular basis, besides the annual and six month Financial Reports.

This choice reflects the corporate policy of regular and transparent information regarding the financial performance of the Group, aimed at the market and investors.

The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. In particular, from 1 January 2018, the international accounting standards "IFRS 9 - financial Instruments" and "IFRS 15 - Revenue from Contracts with Customers" entered into effect. Moreover, as already indicated, Italgas has adopted IFRS 16 - Leases early. This standard has eliminated the distinction between financial leases and operating leases, introducing a single accounting treatment to be used by lessees for recognition of leases. By applying this model, the entity recognises: (i) assets and liabilities for all leases exceeding twelve months; (ii) the depreciation of the recognised asset and the interest on the financial debt separately in profit and loss.

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

Conference call

At 3:00 PM today, a conference call will be held to present to financial analysts and investors the results for the first quarter of 2018. The presentation may be followed, through webcasting, on the web site of the Company www.italgas.it. In conjunction with the conference call, the presentation support material will also be provided in the "Investor Relations/Presentations" section of the website.

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

Disclaimer

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

IFRS financial statements

Balance sheet(*)

| (thousands of Euro) | 31.12.2017 | 31.03.2018 |
|---|------------------|------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 2,831 | 17,351 |
| Other financial negotiable or available for sale financial assets | 119 | 119 |
| Trade and other receivables | 619,202 | 678,968 |
| Inventories | 22,410 | 23,351 |
| Current income tax assets | 12,511 | 10,033 |
| Other current tax assets | 21,139 | 27,733 |
| Other current assets | 5,944 | 6,750 |
| | 684,156 | 764,305 |
| Non-current assets | | |
| Property, plant and equipment | 224,651 | 257,445 |
| Intangible fixed assets | 4,676,561 | 5,184,782 |
| Investments measured at equity | 184,829 | 154,793 |
| Other investments | 54 | 34,911 |
| Other financial assets | 156 | 156 |
| Other non-current assets | 77,891 | 97,964 |
| | 5,164,142 | 5,730,051 |
| Non-current assets held for sale | 11 | 11 |
| TOTAL ASSETS | 5,848,309 | 6,494,367 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Short-term financial liabilities | 81,133 | 686 |
| Short-term portion of long-term financial liabilities | 25,043 | 11,362 |
| Trade and other payables | 498,174 | 618,715 |
| Current income tax liabilities | 8,429 | 40,067 |
| Other current tax liabilities | 11,424 | 4,937 |
| Other current liabilities | 182 | 2,099 |
| | 624,385 | 677,866 |
| Non-current liabilities | | |
| Long-term financial liabilities | 3,617,044 | 3,693,002 |
| Provisions for risks and charges | 208,246 | 202,472 |
| Provisions for employee benefits | 116,149 | 116,067 |
| Deferred tax liabilities | 94,790 | 89,697 |
| Other non-current liabilities | 2,055 | 451,302 |
| | 4,038,284 | 4,552,540 |
| Liabilities directly associated with assets held for sale | | |
| TOTAL LIABILITIES | 4,662,669 | 5,230,406 |
| SHAREHOLDERS' EQUITY | | |
| Italgas shareholders' equity | | |
| Share capital | 1,001,232 | 1,001,232 |
| Reserves | (108,358) | 188,029 |
| Profit (loss) for the year | 292,766 | 74,700 |
| Treasury shares | | |
| Total Italgas shareholders' equity | 1,185,640 | 1,263,961 |
| Minority interests | | |
| TOTAL EQUITY | 1,185,640 | 1,263,961 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 5,848,309 | 6,494,367 |

(*) Following the adoption of IFRS 15 "Revenue from Contracts with Customers", from 1 January 2018 the connection fees received from private individuals are considered as revenues to be recognized over time, that is over the useful life of the asset they refer to. The company consequently reclassified the above-mentioned contributions in the item other assets (liabilities) in the balance sheet and in the income statement the related use in Other revenues and income. For the purposes of presenting the reclassified balance sheet, connection fees (€439.1 million in the first quarter of 2018) continue to be shown as a deduction against assets they refer to coherently with a representation adopted in the first quarter of 2017.

Income statement

| (thousands of Euro) | First quarter | |
|--|------------------|------------------|
| | 2017 | 2018 |
| REVENUE | | |
| Income from ordinary operations | 387,204 | 372,782 |
| Other proceeds and income | 8,691 | 11,310 |
| | 395,895 | 384,092 |
| OPERATING COSTS | | |
| Purchases, services and other costs | (151,634) | (125,922) |
| Personnel cost | (51,135) | (56,036) |
| | (202,769) | (181,958) |
| AMORTISATION, DEPRECIATION AND IMPAIRMENT | (89,433) | (89,747) |
| EBIT | 103,693 | 112,387 |
| FINANCIAL INCOME (EXPENSES) | | |
| Financial expenses | (10,499) | (12,076) |
| Financial income | 19 | 98 |
| | (10,480) | (11,978) |
| INCOME (EXPENSE) ON EQUITY INVESTMENTS | | |
| Equity method valuation effect | 5,173 | 4,803 |
| Other income (expense) from equity investments | | |
| | 5,173 | 4,803 |
| PRE-TAX PROFIT | 98,386 | 105,212 |
| Income taxes | (26,868) | (30,512) |
| Profit (loss) for the year | 71,518 | 74,700 |
| Applicable to: | | |
| - Italgas | 71,518 | 74,700 |
| - Minority interests | | |

Cash flow statement

| (thousands of Euro) | First quarter | |
|---|-----------------|-----------------|
| | 2017 | 2018 |
| Profit (loss) for the period | 71,518 | 74,700 |
| Adjustments for reconciling net profit with cash flows from operating activities: | | |
| Amortisation and depreciation | 89,433 | 89,747 |
| of which: | | |
| <i>depreciation Right of use ex IFRS 16</i> | | 1,605 |
| Equity method valuation effect | -5,173 | -4,803 |
| Net capital losses (capital gains) on asset sales, cancellations and eliminations | 1,622 | -94 |
| Interest income | -3 | -96 |
| Interest expense | 5,523 | 9,810 |
| Income taxes | 26,868 | 30,512 |
| Changes in working capital: | | |
| - Inventories | 10,124 | -871 |
| - Trade receivables | -30,278 | -50,805 |
| - Trade payables | 67,658 | 111,599 |
| - Provisions for risks and charges | -2,984 | -5,704 |
| - Other assets and liabilities | 39,612 | 5,970 |
| of which: | | |
| deferrals of private grants | | 6,276 |
| Cash flow from working capital | 84,132 | 60,189 |
| Change in provisions for employee benefits | 768 | -59 |
| Dividends collected | | |
| Interest income | 3 | 96 |
| Interest expense | -5,523 | -9,810 |
| Income taxes paid net of reimbursed tax credits | | -1,080 |
| Net cash flow from operating activities | 269,168 | 249,112 |
| Investments: | | |
| - Property, plant and equipment | -3,002 | -3,263 |
| - Intangible assets | -112,494 | -102,236 |
| - Change in scope of consolidation and business units | | -45,869 |
| - Change in payables and receivables for investments | -7,769 | -24,471 |
| - Change in payables and receivables for investments - earn out | | -7,500 |
| Net cash flow from investment activities | -123,265 | -183,439 |
| Net assumption of long-term financial payables | 2,133,888 | 48,902 |
| Increase (decrease) in short-term financial payables | -2,278,597 | -98,449 |
| Net cash flow from financing activities | -144,709 | -49,547 |
| Other changes | | -1,606 |
| of which: | | |
| <i>changes in payables ex IFRS 16</i> | | -1,581 |
| Net cash flow for the period | 1,194 | 14,520 |
| Cash and cash equivalents at the beginning of the period | 1,637 | 2,831 |
| Cash and cash equivalents at the end of the period | 2,831 | 17,351 |