

ITALGAS: CONSOLIDATED RESULTS OF THE FIRST NINE MONTHS AND OF THE THIRD QUARTER 2019 APPROVED

Milan, 7 November 2019 - The Board of Directors of Italgas has met today under the chairmanship of Alberto Dell'Acqua and approved the consolidated results for the first nine months and the third quarter of 2019.

Key figures

Consolidated economic and financial highlights:

- Total revenues: € 916.9 million (+3.7%)
- EBITDA: € 660.7 million (+5.0%)
- EBIT: € 376.9 million (+12.9%)
- Net profit: € 262.6 million (+16.0%)
- Technical investments: € 495.3 million (+41.9%)
- Cash flow from operating activities: € 528.8 million
- Net financial debt¹: € 3,978.2 million

Operating highlights including affiliates:

- Municipalities in gas distribution concessions: 1,822
- Number of active meters: 7.617 million
- Gas distribution network: around 71,000 Km

For the 11th consecutive quarter, Italgas has improved all the main indicators, with double-digit growth for EBIT and Net Profit, showing its ability for continuous improvement.

With organic investments of € 495.3 million made in the period (+41.9%), Italgas continues to develop and modernise its networks and to implement their digital transformation. Around half of this sum was devoted to maintain and extend the network (258 km of new pipelines against 136 km in the corresponding period of 2018).

¹ Net financial debt as at 30 September 2019 does not include financial liabilities for operating leases pursuant to IFRS 16 of € 68.6 million (€ 49.9 million as at 31 December 2018).

With 1.5 million smart meters installed, the replacement of all traditional meters continues, bringing the number of operational smart meters as at 30 September 2019 to around 6.2 million (corresponding to 73.1% of total meters, also considering affiliates²).

The installation of the smart meters, which will be concluded in 2020, is part of a wider transformation project, whose objective is to digitalise the entire network. With regard to said project, in 2019, the technological upgrade of around 400 networks will be completed, in addition to the 50 upgraded in 2018.

In Sardinia, the construction of distribution networks continues well on track, and has generated around 600 new jobs. As at 30 September, with worksites operational in all of the Areas under concession to the Group, over 300 kilometres of network has been laid, and more than 18,000 applications for new connections have already been requested.

The requirements related to net investments for the first nine months of 2019 were fully covered by the net positive cash flow from operating activities, equal to € 528.8 million, with a Free Cash Flow - before M&A activities - of € 135.8 million.

The net financial position as at 30 September 2019 was € 3,978.2 million (€ 3,814.3 million as at 31 December 2018) net of financial payables pursuant to IFRS 16 of € 68.6 million (€ 49.9 million as at 31 December 2018).

The operating profit (EBIT) for the first nine months of 2019 amounted to € 376.9 million (+12.9% compared to 30 September 2018) and net profit was € 262.6 million (+16.0% compared to the same period of the previous year).

The development and growth confirmed by the economic and financial results are also due to the commitment and the increasing awareness of the issues of sustainability. The company's stock was reconfirmed in the *FTSE4Good Index Series* and, for the first time in its history, the company was included in the *Dow Jones Sustainability Index World*, which evaluates the ability of enterprises to tackle the most important issues of sustainability on a global level. Italgas is the only Italian utility company in the gas distribution industry included in the *DJSI World*, the third in the world with the Spanish Naturgy and the Japanese Osaka Gas.

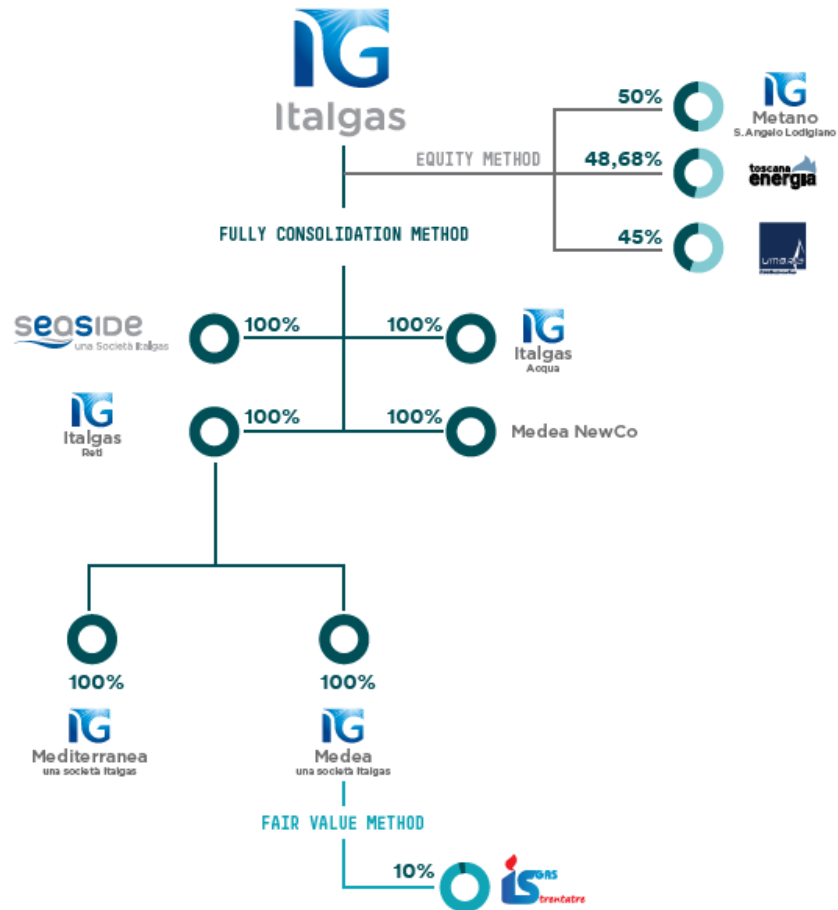
²Excluding affiliates, as at 30 September 2019, Italgas has installed around 1.3 million new meters, of which 1.1 million to replace traditional ones, bringing the current total of smart meters to around 5.5 million, corresponding to around 72.8% of the entire stock.

Paolo Gallo, CEO of Italgas, commented:

«11 consecutive quarters of growth, double-digit increases for EBIT, +12.9% and Net Profit, +16% in the first nine months of 2019 demonstrate Italgas' ability to combine the solidity of a company with over 180 years of experience with a start-up approach to promote innovation, while keeping costs under control. A company model based on environmental, social and economic sustainability criteria, which enabled us to be included, for the first time in our history, in the Dow Jones Sustainability Index World. Investments continue to rise, +40% against last year, an increase that will see us exceeding € 700 million at year end: maintenance, development and digitization of the network are our 3 pillars. The Sardinia project obtained institutional recognition as the Marguerite Fund, a high profile European investor, is close to enter in the shareholder capital of the Sardinian company. We have already laid over 300 kilometres of "native digital" pipeline on the island, the most modern in the country, receiving considerable interest from residents and businesses, a sign of the great expectations of the local community: in the next few months we will start to supply natural gas to the first customers. The acquisition of a majority shareholding in Toscana Energia will enable us to provide even more support to our affiliate in facing the challenges of tenders and digital transformation. Digital transformation continues to be our primary objective: just 1 year from its start-up, the Digital Factory has already produced a wide number of digital solutions that are changing the way we manage our network, with a significant improvement in service quality».

Italgas group structure as at 30 September 2019

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



The scope of consolidation as at 30 September 2019 has changed from 31 December 2018 following: (i) the merger by incorporation, on 1 April 2019, of Fontenergia S.r.l., Fontenergia 4 S.r.l., Fontenergia 6 S.r.l., Fontenergia 7 S.r.l., Fontenergia 9 S.r.l., Fontenergia 10 S.r.l., Fontenergia 11 S.r.l., Fontenergia 15 S.r.l., Fontenergia 19 S.r.l., Fontenergia 26 S.r.l., Fontenergia 27 S.r.l., Fontenergia 35 S.r.l. and Fontenergia 37 S.r.l. into Medea S.p.A. and of Natargas S.r.l., Grecanica Gas S.r.l., Progas Metano S.r.l., Baranogas Reti S.r.l., Favaragas Reti S.r.l., Sicilianagas Reti S.r.l. and Ischia Reti Gas S.r.l. into Italgas Reti, (ii) the acquisition from CPL Concordia Soc. Coop., on 17 April 2019, of the remaining 40% of the share capital of EGN S.r.l, (iii) the acquisition from Conscoop Soc. Coop., on 30 April 2019, of 100% of the share capital of Mediterranea S.r.l. by Italgas Reti S.p.A., of the business units of Aquamet and Isgas Energit Multiutilities respectively by Italgas Reti S.p.A. and Medea S.p.A. and of 10% of the share capital of Isgastrentatré S.p.A. by Medea S.p.A.;

(iv) the establishment, on 7 May 2019, of Medea NewCo S.r.l., for the sale of natural gas, LPG and propane air, (v) the merger by incorporation, on 1 August 2019, of EGN and its subsidiaries by Italgas Reti S.p.A., and (vi) the acquisition, on 25 September, of the business unit relating to the distribution of natural gas of Sienergas Distribuzione S.r.l by Italgas Reti S.p.A..

Economic and financial highlights

Reclassified Income Statement

Third quarter			First nine months			
2018	2019	(€ million)	2018	2019	Abs. change	% change
282.0	297.2	Gas Distribution regulated revenues	862.5	869.4	6.9	0.8
251.6	274.4	of which distribution revenues	753.8	794.4	40.6	5.4
30.4	22.8	of which other gas distribution regulated revenues (*)	108.7	75.0	(33.7)	(31.0)
7.0	10.3	Other revenues	22.1	47.5	25.4	114.9
289.0	307.5	Total revenues (**)	884.6	916.9	32.3	3.7
(84.0)	(80.7)	Operating costs (**)	(255.4)	(256.2)	(0.8)	0.3
205.0	226.8	EBITDA	629.2	660.7	31.5	5.0
(94.1)	(91.5)	Amortisation, depreciation and impairment	(295.3)	(283.8)	11.5	(3.9)
110.9	135.3	EBIT	333.9	376.9	43.0	12.9
(11.9)	(13.1)	Net financial expense	(35.6)	(37.2)	(1.6)	4.5
5.6	5.4	Net income from equity investments	15.3	17.2	1.9	12.4
104.6	127.6	Pre-tax profit	313.6	356.9	43.3	13.8
(28.9)	(31.2)	Income taxes	(87.2)	(94.3)	(7.1)	8.1
75.7	96.4	Net profit	226.4	262.6	36.2	16.0

(*) To provide a like-for-like basis for comparison with the accounting statement as at 30 September 2019, penalties for dispersion, which as at 30 September 2018 amounted to € 3.9 million, and were listed net of incentives, have been reclassified under operating costs.

(**) The management income statement compared to the legal statement, recognises "Service concession agreements" net of the impact of IFRIC 12 (€ 418.7 and € 299.6 million in the first nine months of 2019 and 2018 respectively), the reclassification of connection contributions (€ 11.2 and € 11.4 million in the first nine months of 2019 and 2018 respectively) as well as recognising the net margin of Energy Efficiency Certificates [TEE].

Total revenues for the first nine months of 2019 amount to € 916.9 million, an increase of € 32.3 million compared with the corresponding period of last year, and refer to the natural gas distribution regulated revenues (€ 869.4 million) and other revenues (€ 47.5 million).

Gas distribution regulated revenues rose by € 6.9 million against the corresponding period due to an increase in distribution revenues (€ +40.6 million) partially offset by a fall in other gas distribution regulated revenues (€ 33.7 million).

The higher **distribution revenues** (€ +40.6 million) are mainly due to the following: € 9.8 million to tariff components (of which € 9.0 million due to the review of the WACC pursuant to Resolution no. 639/2018), € 18.2 million to positive adjustments linked to the reimbursement of the costs relating to remote reading for 2011-2016, offset by negative tariff adjustments of € 1.4 million and lower penalties for defaults of € 1.1 million. The impact of the change in the scope of consolidation following the new company acquisitions amounted to € 13.0 million as at 30 September 2019.

The decrease in **other gas distribution regulated revenues** (€ 33.7 million) is mostly due to the lower contribution pursuant to art. 57 of the ARERA Resolution no. 367/14, relating to the replacement of traditional meters with smart meters, as required by the plan for smart metering pursuant to ARERA resolutions no. 631/13 and no. 554/15, as the company is nearing completion of the replacement plan for smart meters. In the first nine months of 2019, this contribution amounted to € 19.8 million (€ 61.5 million as at 30 September 2018). Compared to 30 September 2018, the company also recorded an increase of € 2.6 million in revenues due to ARERA incentives relating to safety recoveries regarding the natural gas distribution service, € 4.0 million for services to final customers and € 1.3 million for default recovery activities.

Other revenues in the first nine months of 2019 amount to € 47.5 million (up € 25.4 million compared to the corresponding period in 2018). The increase is mainly due to greater i) capital gains from sale of € 10.2 million (of which € 7.7 million related to the sale of the property in Via XX Settembre in Turin, € 2.9 million related to the sale of vehicles), ii) reimbursement for €4.4 million mainly for gas supply truck and iii) LPG and propane air sale due to the effect of the change in the scope of consolidation and related to assets acquired in Sardinia (€ 10.1 million).

Operating costs in the first nine months of 2019 were € 256.2 million, up € 0.8 million compared to the corresponding period in 2018. The increase is driven mainly by greater i) provisions relative to Energy Efficiency Certificates [TEE] (€ 5.4 million), ii) concession fee (€ 5.0 million, mainly relating to the Rome concession); iii) other gas distribution costs (€ 2.3 million); iv) variable costs related to the distribution of gas through “gas supply truck” (€ 1.3 million). These effects were offset by a reduction in external fixed costs (€ -12.5 million) and in net personnel costs (€ -7.1 million) relating to gas distribution. More specifically: i) the net personnel costs relating to gas distribution decreased due to the rise of the capitalised portion, ii) the reduction of external fixed costs related to gas distribution is mainly due to the lower net costs of ICT services (€ -6.4 million), lower traditional meter reading costs (€ -2.5 million), lower penalties for leaks (€ -3.5 million), lower charges for default gas interruptions (€ -1.6 million), higher costs for third-party services, partly related to the change in the scope of consolidation (€ +2.1 million) and higher charges resulting from the Cerro Maggiore accident (€ +1.1 million). Lastly, an increase in external costs was recorded related to other activities of € 6.4 million (of which € 1.6 million related to net personnel costs and € 3.9 million to LPG procurement activities). The change in the scope of consolidation following the acquisition of EGN S.r.l. (incorporated into Italgas Reti S.p.A.) and Mediterranea S.r.l., the business units Aquamet and Isgas Energit Multiutilities as well as the consolidation for the entire reference period of Seaside S.r.l. and Medea S.p.A.,

acquired in 2018, led to an increase in operating costs of € 12.9 million, of which € 3.0 million related to net personnel costs and € 9.9 million to external costs.

The **EBITDA**³ recorded as at 30 September 2019 amounted to € 660.7 million, up € 31.5 million (+5.0%) compared to the corresponding period of 2018, and is due to: (i) higher revenues of € 32.3 million (+3.7%) and (ii) higher operating costs of € 0.8 million (+0.3%).

Amortisation, depreciation and impairment (€ 283.8 million) decreased by € 11.5 million, or 3.9%, compared to the first nine months of 2018. The decrease is related to lower amortisation and depreciation associated with the replacement of traditional meters with smart meters, equal to € 35.6 million (€ 71.7 million in the corresponding period of 2018), as the Group is in fact nearing completion of the replacement of all traditional meters, scheduled for 2020. This reduction is partially offset by the increase in amortisation linked to rights of use pursuant to IFRS 16 (€ +5.5 million) and due to investments made in the period.

In addition, following rulings nos. 4104/2018 and 588/2019 of the Council of State, which established that the Municipality of Venice and the Municipality of Cavallino Treporti had already acquired ownership of a portion of the network relating to the concession, through a free transfer, the Company accelerated the relative amortisation and depreciation during the period, respectively, for each Municipality, equivalent to around € 2 million and € 0.6 million.

The **operating profit (EBIT)** in the first nine months of 2019 amounts to € 376.9 million, up by € 43.0 million, equal to +12.9%.

Net financial expense as at 30 September 2019, equal to € 37.2 million, recorded an increase of € 1.6 million compared to the same period of 2018, mainly due to the interest that accrued on the bond issued on 24 July 2019 and the accrual of interest, for the entire nine-month period, of the bond issued on 30 January 2018.

Net income from equity investments (€ 17.2 million) increased by € 1.9 million compared to the first nine months of 2018, mainly as a result of the valuation of the net equity of the shareholding in Toscana Energia.

Income taxes (€ 94.3 million) increased by € 7.1 million compared to the corresponding period of 2018, due, in particular, to the increase in the Pre Tax Profit.

³ This press release uses alternative performance indicators, including EBITDA (gross operating margin, determined by subtracting operating costs from revenues) and EBIT (the result of operational management, determined by subtracting operating costs, amortisation, depreciation and impairment from revenues). The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IAS/IFRS.

The **net profit** as at 30 September 2019 amounts to € 262.6 million, up € 36.2 million, or 16.0%, compared to the corresponding period of 2018, as a result of the increase in operating profit (€ 43.0 million; +12.9%).

Reclassified Statement of Financial Position

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

30.06.2019 (€ million)	31.12.2018	30.09.2019	Abs. change
5,456.4 Fixed capital	5,284.1	5,514.0	229.9
282.5 Property, plant and equipment	259.2	287.3	28.1
5,153.8 Intangible assets	4,982.8	5,230.9	248.1
176.1 Equity investments	175.1	181.4	6.3
0.2 Financial receivables and securities instrumental to operations	0.1	0.2	0.1
(156.2) Net payables for investments	(133.1)	(185.8)	(52.7)
(116.3) Net working capital	5.7	26.7	21.0
(106.5) Provisions for employee benefits	(107.9)	(102.8)	5.1
0.2 Assets held for sale and directly related liabilities	11.6	0.4	(11.2)
5,233.8 NET INVESTED CAPITAL	5,193.5	5,438.3	244.8
1,300.9 Shareholders' equity	1,329.3	1,391.5	62.2
3,858.7 Net financial debt	3,814.3	3,978.2	163.9
74.2 Financial liabilities for operating leases pursuant to IFRS 16 (*)	49.9	68.6	18.7
5,233.8 COVERAGE	5,193.5	5,438.3	244.8

The **net invested capital** as at 30 September 2019 amounts to € 5,438.3 million and consists of the items discussed below.

Fixed capital (€ 5,514.0 million) increase by € 229.9 million compared with 31 December 2018, mainly due to an increase in intangible assets (€ +248.1 million), in net payables for investments (€ +52.7 million) and the increase in property, plant and equipment (€ +28.1 million).

Tangible and intangible assets amount to € 5,518.2 million, up by € 276.2 million.

Intangible assets (€ 5,230.9 million), which primarily include assets for the concession services accounted for in pursuant to IFRIC 12, show an increase of € 248.1 million mainly due to gross investments of € 444.3 million, net of amortisation and impairments of € 263.1 million, as well as an increase linked to the asset acquisitions resulting from M&A transactions of € 73.4 million, partly offset by decreases of € 2.1 million.

Tangible assets (€ 287.3 million), which mainly refer to property, plant and equipment, increase by € 28.1 million mainly due to the investments of € 51.0 million, of which € 31.7 million connected to the application of IFRS 16, net of depreciation of € 20.7 million, of which 11.0 linked to the right to use pursuant to IFRS 16 and decreases corresponding to € 1.9 million.

Equity investments (€ 181.4 million) includes the valuation 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 (€ 1.1 million), and the fair value valuation of the 10% equity of Isgastrentatrè (€ 0.3 million) and other minor investments.

Net working capital

(€ million)	31.12.2018	30.09.2019	Abs. change
Trade receivables	406.7	267.5	(139.2)
Inventories	26.2	39.7	13.5
Tax receivables	47.7	73.8	26.1
Accruals and deferrals from regulated activities	141.5	161.4	19.9
Other assets	115.0	178.8	63.8
Trade payables	(230.8)	(242.3)	(11.5)
Provisions for risks and charges	(187.6)	(172.9)	14.7
Deferred tax liabilities	(71.7)	(69.5)	2.2
Tax payables	(13.5)	(53.9)	(40.4)
Other liabilities	(227.8)	(155.9)	71.9
	5.7	26.7	21.0

Compared to 31 December 2018, the change in **working capital** amounted to € 21.0 million and was mainly due to: i) a decrease in trade receivables (€ 139.2 million) due in particular to the seasonal nature of volumes distributed on behalf of sales companies (€ -170.6 million), offset by the increase of the positive equalisation balance (€ +34.4 million); ii) higher inventories (€ +13.5 million), mostly relating to gas meters; iii) lower net taxes (€ 12.1 million); iv) increase in accruals and deferrals from regulated activities (€ +19.9 million) relating to the increase in the tariff payment estimated in line with the plan for the replacement of traditional meters with smart ones pursuant to art. 57 of the ARERA Resolution no. 367/14; v) increase in other assets (€ +63.8 million) mainly due to higher receivables from Energy Efficiency Certificates [TEE] (€ +41.9 million) and higher receivables from CSEA related in particular to additional supply components (€ 13.3 million); vi) higher trade payables (€ 11.5 million); vii) lower provisions for risks and charges (€ +14.7 million) mainly due to uses against higher charges; viii) lower other liabilities for the period (€ +71.9 million) resulting mainly from the repayment of the debt towards EGN due to exercise of the option linked to the purchase of the remaining 40% (€ 20.9 million) and simultaneous settlement of the payable for EGN shareholders' loan⁴ (€ 21.0 million) occurring in April 2019, lower advances related to the sale of the property on Via XX Settembre (€ 11.5 million) registered in 2018, reduction of the payables due to CSEA relating to additional supply components (€ 7.2 million) and lower payables to social security entities (€ 5.9 million).

⁴ In the 2018 financial statements, only for management purpose, the payable for EGN shareholders' loan of € 21.0 million disbursed by CPL Concordia was been reclassified to Other liabilities.

The Company has finalised factoring agreements with financial counterparties on the basis of which the Company's receivables can be factored without recourse. More specifically, in the third quarter, transactions were finalised for the sale of receivables relating to: i) trade receivables relating to distribution due on 30 September and amounting to a total of € 48.1 million and (ii) receivables from CSEA of € 60.6 million.

Net financial debt

30.06.2019	(€ million)	31.12.2018	30.09.2019	Abs. change
3,874.2	Financial and bond debt	3,822.4	4,594.0	771.6
206.3	Short-term financial debt (*) (**)	156.1	333.4	177.3
3,667.9	Long-term financial debt	3,666.3	4,260.6	594.3
(15.5)	Financial receivables and cash and cash equivalents	(8.1)	(615.8)	(607.7)
(10.4)	Cash and cash equivalents (**)	(8.0)	(610.7)	(602.7)
(5.0)	Long-term financial receivables	0.0	(5.0)	(5.0)
(0.1)	Securities not instrumental to operations	(0.1)	(0.1)	0.0
3,858.7	Net financial debt (***)	3,814.3	3,978.2	163.9
74.2	Lease payable pursuant to IFRS 16	49.9	68.6	18.7
0.0	Payables due to EGN shareholders' loan	21.0	0.0	(21.0)
3,932.9	Net financial debt (IFRS 16 and EGN payables effects included)	3,885.2	4,046.8	161.6

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

(**) The items are shown net of € 30.2 million relating to factoring transactions, the underlying component of which was collected on 30 September 2019 and reimbursed to the factor in the first few working days of October 2019.

(***) Net financial debt as at 30 June 2019 does not include financial liabilities for operating leases pursuant to IFRS 16 of € 68.6 million (€ 49.9 million as at 31 December 2018). Compared to the situation shows as at 31 December 2018, the payable for the shareholders' loan to CPL Concordia, of € 21.0 million, was repaid, at the same time as the exercise of the option to purchase the remaining 40% in April 2019.

Net financial debt was € 3,978.2 million as at 30 September 2019, € 163.9 million higher than 31 December 2018. Including the effects of the application of IFRS 16, of € 68.6 million, net financial debt is € 4,046.8 million.

Financial and bond debt as at 30 September 2019, totalling € 4,594.0 million (€ 3,822.4 million as at 31 December 2018), were denominated in euros and referred mainly to bonds (€ 3,499.2 million), loan agreements concerning European Investment Bank (EIB) funding (€ 783.6 million), and bank payables (€ 311.2 million). The increase of financial and bond debt of € 771.6 million is mainly related to the issue of a new bond, in July 2019, for € 600 million, as well as the greater use of bank lines of credit.

As at 30 September 2019, the breakdown of debt by type of interest rate, net of liabilities for leases pursuant to IFRS 16, is as follows:

(€ million)	31.12.2018	%	30.09.2019	%
Fixed rate	3,272.6	85.6	4,159.2	90.5
Floating rate	549.8	14.4	434.8	9.5
Gross financial debt	3,822.4	100.0	4,594.0	100.0

Fixed-rate financial liabilities amount to € 4,159.2 million and relate to bonds (€ 3,499.2 million) and two EIB loans: the first expiring in 2037 (€ 360 million), finalised on 19 December 2017 and converted to a fixed rate in January 2018 through an Interest Rate Swap derivative contract expiring in 2024; the second expiring in 2032 (€ 300 million), finalised on 12 December 2016 and converted to a fixed rate in July 2019 through an Interest Rate Swap derivative contract expiring in 2029.

Fixed-rate financial liabilities rose by € 886.6 million against 31 December 2018 due to the issue on 24 July 2019 of a bond and of the second hedging derivative.

Floating-rate liabilities amounted to € 434.8 million and fell by € 115 million, essentially due to the conversion to a fixed rate of the second EIB loan mentioned above, partly offset by a greater use of bank credit lines.

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

As at 30 September 2019, there were no loan agreements containing financial covenants and/or secured by collateral. Some of these contracts envisage, *inter alia*, compliance with (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. These commitments were satisfied as at 30 September 2019.

Reclassified Statement of Cash Flows

Third quarter			First nine months	
2018	2019	(€ million)	2018	2019
75.7	96.4	Net profit	226.4	262.6
		<i>Adjusted:</i>		
78.8	89.3	- Amortisation, depreciation and other non-monetary components	267.4	255.5
5.1	14.4	- Net capital losses (capital gains) on asset sales and eliminations	4.4	6.8
39.2	44.2	- Interest and income taxes	117.0	131.5
(172.3)	(150.0)	Change in working capital due to operating activities (*)	48.8	(44.3)
(68.8)	(73.2)	Dividends, interest and income taxes collected (paid)	(74.0)	(83.3)
(42.3)	21.1	Cash flow from operating activities (**)	590.0	528.8
(106.8)	(175.4)	Technical investments	(315.8)	(455.2)
5.9	31.8	Other changes relating to investment activities	(24.0)	55.0
0.2	3.2	Disinvestments and other changes relating to investment activities	0.2	7.2
(143.0)	(119.3)	Free cash flow before M&A transactions	250.4	135.8
0.0	(0.0)	Change in scope of consolidation	(72.3)	(85.2)
		of which:		
0.0	0.0	- price paid for equity	(38.1)	(29.0)
0.0	0.0	- takeover of payables of acquired companies	(34.2)	(56.2)
0.0	(0.2)	Acquisition of business units	(23.8)	(25.1)
(143.0)	(119.5)	Free cash flow	154.3	25.5
56.7	719.8	Change in short- and long-term financial debt and in financial receivables	14.3	766.6
0.1	(0.0)	Equity cash flow	(168.2)	(189.3)
(86.3)	600.2	Net cash flow for the year	0.4	602.7

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

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

Change in net financial debt

Third quarter			First nine months	
2018	2019	(€ million)	2018	2019
(143.0)	(119.3)	Free cash flow before M&A transactions	250.4	135.8
0.0	(0.2)	Change due to acquisitions of equity investments and business units	(96.1)	(110.3)
0.1	(0.0)	Equity cash flow	(168.2)	(189.3)
(142.9)	(119.6)	Change in net financial debt excluding the effects of IFRS 16 and for the EGN shareholders' loan	(13.9)	(163.9)
(5.9)	5.6	Change in financial liabilities pursuant to IFRS 16	(43.1)	(18.7)
0.0	0.0	Change in payable for EGN shareholders' loan	0.0	21.0
(148.8)	(114.0)	Change in net financial debt	(57.0)	(161.6)

Cash flow from operating activities in the first nine months of 2019 amounted to € 528.8 million and made it possible to fully finance the flow from net investments of € 393.0 million, generating free cash flow before M&A transactions of € 135.8 million, and to distribute a

dividend over to 2018 profit in the amount of € 189.3 million. As at 30 September 2019, the cash flow from M&A transactions amounted to € 110.3 million.

The increase in net financial debt was of € 163.9 million, gross of the effect deriving from the adoption of IFRS 16 in relation to liabilities for leases (€ 18.7 million) and the repayment of the CPL Concordia shareholders' loan to EGN (€ 21.0 million).

Key operating figures

Investments

In the first nine months of 2019, technical investments were made amounting to € 495.3 million, of which € 31.7 million due to the application of IFRS 16, up € 146.2 million compared to corresponding period of 2018 (+41.9%).

Third quarter			First nine months			
2018	2019	(€ million)	2018	2019	Abs. change	% change
66.4	118.6	Distribution	178.0	305.6	127.6	71.7
60.6	83.3	Network maintenance and development	163.2	230.5	67.3	41.2
5.8	35.3	New networks	14.8	75.1	60.3	407.3
34.1	42.1	Metering	128.6	125.6	(3.0)	(2.4)
20.7	16.9	Other investments	42.5	64.1	21.6	50.8
8.2	0.3	- of which due to the effect of IFRS 16	15.0	31.7	16.7	111.3
121.2	177.6		349.1	495.3	146.2	41.9

Distribution investments (€ 305.6 million, +71.7% compared to corresponding period of 2018) mainly concerned network development and the renewal of pipeline sections (including the replacement of cast iron pipes with hemp and lead joints for € 16.5 million for 15.8 km) and the digitisation⁵ project (€ 16.6 million) for a total of € 230.5 million, new networks for € 75.1 million, mainly relating to investments in Sardinia amounting to € 59.0 million, as at 30 September 2019.

Investments in metering (€ 125.6 million, -2.4% compared to corresponding period of 2018) primarily concerned the plan to replace traditional meters with “smart” meters, as part of the smart metering project. The Company installed 1.3 million new meters in the first nine months of 2019⁶, of which 1.1 million to replace traditional meters and 0.2 million for the repair of digital meters with anomalies. The decrease in investments in metering is mainly linked to the reduction in unit cost for the installation of meters.

Other investments (€ 64.1 million, +€ 21.6 million compared to the corresponding period of 2018) mainly concern IT, real estate⁷ and vehicle investments and include the effect of the application of IFRS 16 (€ 31.7 million).

⁵ Relating to smart metering for GRF on the basis of € 8.2 million and digitisation of processes on the basis of € 8.4 million.

⁶ The figure does not include the data of affiliates. Including investee companies, 1.5 million meters were installed, of which 1.3 million to replace traditional meters.

⁷ Real estate investments include the renovation of the head office of Italgas in Largo Regio Parco, in Turin, worth, as at 30 September 2019, € 7.7 million.

Key operating figures

2018 Financial Year		First nine months		Abs. Change	% change
		2018	2019		
6.708	Active meters (million)	6.624	6.762	0.14	2.1
7.493	Installed meters (million)	7.398	7.586	0.19	2.5
1,700	Municipalities in gas distribution concessions (number)	1,601	1,715	114	7.1
61,361	Distribution network (kilometres) (a)	59,488	62,418	2,930	4.9
522.7	Technical investments	349.1	495.3	146.2	41.9

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

Meters

As at 30 September 2019, the number of active meters at delivery points amounted to 6.762 million (6.708 as at 31 December 2018). Also considering affiliates, the total number of active meters is 7.617 million (7.562 as at 31 December 2018).

Municipalities in concession and local area tenders

As at 30 September 2019, Italgas was the gas distribution service concession holder in 1,715 municipalities⁸ (1,700 as at 31 December 2018), of which 1,629 operative (1,614 as at 31 December 2018). Also taking affiliates into account, the number of concessions totals 1,736 (1,722 as at 31 December 2018).

Distribution network

The gas distribution network as at 30 September 2019 covered 62,418 kilometres⁹ (61,361 kilometres as at 31 December 2018), an increase of 1,057 km compared with 31 December 2018. Also taking into account investee companies, the distribution network spans 70,863 kilometres (69,782 kilometres as at 31 December 2018).

⁸ Of which 33 due to the change in the scope of consolidation.

⁹ Of which 885 due to the change in the scope of consolidation.

Main events of the first nine months of 2019

Legislative and Regulatory Framework

- By way of **Ruling no. 588/2019 of 19 July 2018, published on 24 January 2019**, the Council of State, as had already occurred for the Municipality of Venice, sanctioned the acquisition, free of charge, by the Municipality of the assets included in “Block A”, as well as the obligation on the part of the Company to pay a fee for the use of the portion of network subject to free transfer. The matter relating to the Municipality of Cavallino Treporti is completely similar to the matter already existing with the Municipality of Venice. In fact, Italgas Reti manages the public natural gas distribution service in the area of the aforementioned Municipality based on the same concessions approved in due course by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino Treporti was established in 1999 through the parcelling off of a portion of the territory already falling under the Municipality of Venice. By way of the subsequent **rulings nos. 2177 and 2178 dated 21 March 2019**, published on 2 April 2019 the Council of State confirmed its previous decisions on the free transfer of “Block A”, in favour, respectively of the Municipality of Venice and the Municipality of Cavallino Treporti, rejecting the appeals for revocation filed by Italgas Reti. Lastly, **on 24 April 2019**, the Municipality of Venice served a writ of summons against Italgas Reti before the Venice Court, for the assessment and consequent payment of the fee for the use of the portion of the network that was included under the free transfer. Italgas Reti appeared before the court and challenged the quantification of the fee, requesting the repayment of the amount unduly paid to the Municipality following the free transfer of Block A. At the first hearing held on 12 September 2019, after listening to the counsel for the defence of both parties, the Judge postponed the proceedings to 1 April 2020 for the admission of the measures of inquiry.
- By way of **Order no. 510/2019 of 27 February 2019, published on 11 March 2019**, the Lombardy TAR [regional administrative court] suspended the proceedings brought by the Municipality of Venice (and in which Italgas Reti participated) for the annulment of Resolution no. 368/2016/R/gas of ARERA on the tender documentation within the VENICE 1 - Laguna Veneta Area. The suspension was decided whilst waiting for the final judgement of the Municipality of Venice against the ruling of the Veneto TAR [regional administrative court] no. 655/2017 which had cancelled the call for tenders in the VENICE 1 – Laguna Veneta Area. By way of **ruling no. 2202/2019 dated 4 October 2018, published on 3 April 2019**, the Council of State rejected the appeal brought by the Municipality of Venice against the aforementioned ruling of the Veneto TAR.

- By means of **Resolution no. 1/2019 – DMRT of 29 January 2019**, ARERA defined and transmitted to the Ministry of Economic Development and GSE (Energy Services Operator) the national quantitative obligations for the increase in the energy efficiency of final natural gas uses, to be achieved in 2019 by distributors with more than 50,000 end customers connected to their distribution network as at 31 December 2017. For subsidiaries and investee companies of Italgas S.p.A., the quantitative obligation for the year 2019, expressed in terms of number of White Certificates, is equal to: i) 948,473 for Italgas Reti; ii) 137,759 for Toscana Energia; iii) 7,121 for Umbria Distribuzione Gas; and iv) 4,157 for EGN Distribuzione.
- By means of **Resolution no. 75/2019/R/gas dated 5 March 2019**, for the year 2015, ARERA determined the premiums and penalties related to the safety recoveries regarding the natural gas distribution service and made some changes to the regulation regarding the management of the data adjustment. In particular, for the subsidiaries and investee companies of Italgas S.p.A., the total net amount (total bonuses and penalties) due for odourisation and leakage items was € 9,467,736.08.

With regard to the Venice plant operated by Italgas Reti, following the inspection audit carried out pursuant to Resolution no. 294/2016/E/gas, the Authority found the failure to comply with certain provisions of the regulation on emergency response.

In addition, the resolution:

- updated the trend levels, relating to the leakage component, for the plants affected by changes, interconnections and separations, for the purposes of determining the bonuses and penalties for the years 2015-2019;
 - postponed the penalties relating to the leakage component for 2015 to the years 2016-2019;
 - ordered the CSEA to organise the payment of the remaining premiums;
 - set a deadline of 30 days from the date of publication of the Resolution for the payment of penalties by the distribution companies, to the Account for the quality of gas services;
 - postponed the determination of the bonuses and penalties for the year 2015 for the company Toscana Energia;
 - made certain changes to the regulation on the quality of gas distribution and metering services, establishing that distribution companies, similarly to what they had already been allowed with reference to the year 2015, may adjust data already incorrectly transmitted due to a material error, once the forecast results of the bonuses and penalties of the respective year are known, after being obtained by the Authority and made known through the electronic system.
- By **order dated 12 March 2019, the AGCM** initiated, pursuant to art. 14 of Italian Law 287/90, a preliminary proceeding with preventive sub-proceeding against Italgas Reti,

Ireti and 2i Rete Gas for alleged abuse of a dominant position aimed at “not allowing or delaying the start of administrative procedures preparatory to the organisation of the procedure to award the gas distribution service in **Genoa 1 ATEM**". In particular, Italgas Reti was accused of not having provided the contracting authority with information on the year of laying the individual sections of the network prior to 2006 in the Municipalities where it is the concession holder (Campo Ligure, Campomorone, Ceranesi, Cicagna, Masone, Pieve Ligure and Rossignone). On 10 April 2019, the Company filed a defensive brief and also provided the contracting authority with information relating to the year of laying the sections of the network laid before 2006, reaffirming full compliance by its actions with the current regulatory framework and without acknowledging with accusations made by AGCM. The AGCM acknowledged the sending of information to the contracting authority and of its suitability to allow the call for tenders to be announced in Genoa 1 ATEM and therefore by way of the Order dated 9 May 2019 it ordered the ending of the pre-trial sub-proceedings started last 12 March. By way of **order no. 27879 published in Gazette no. 35 of 2 September 2019**, the Antitrust Authority resolved on the publication of the commitments submitted respectively by IReti, 2i Rete Gas and Italgas Reti. The commitments made by the latter, in particular envisage:

- providing the set of documents including the mapping, in electronic format, as well as information regarding the description of the networks and plants, indicating the year of construction and their construction, functional and conservational characteristics, in XML format;
 - identifying, within the existing procedure and in compliance with the terms set by current legislation, a team dedicated to providing information on the years of laying down the sections of network prior to 2006.
- With **Resolution no. 98/2019/R/gas**, ARERA approved the definitive reference tariffs for the distribution and metering services for 2018 and, with the subsequent **Resolution no. 128/2019/R/gas**, the provisional reference tariffs for the distribution and metering services for 2019. In the same Resolution, ARERA announced that it will carry out in-depth investigations into tariff payment regarding the investments made in the locations with the year of first supply in 2017, following a petition filed by Italgas. Pending the outcome of the in-depth investigations by ARERA and provisionally, the company adjusted the related revenues in the first half of the year. On 17 July 2019, the Company filed an extraordinary appeal to the President of the Republic by way of which it challenged the aforementioned Resolutions. By way of the following **Resolution no. 369/2019/C/gas**, published on 11 September 2019, ARERA resolved to request the transposition, so that the same would be decided by a court.

- With reference to the criminal proceedings resulting from an accident that occurred on 11 November 2015 at the **Municipality of Cerro Maggiore**, at the hearing of 19 March 2019, the Preliminary Hearing Judge issued a non-suit ruling with respect to two employees of Italgas Reti for not having committed the act. It should be remembered that the same Preliminary Hearing Judge had already confirmed the request for dismissal by the Public Prosecutor for the Italgas Reti employer. On the other hand, the judge ordered Italgas Reti and three other investigated employees to be indicted for other charges, with a hearing set for 9 December 2019. All the offended parties - with the exception of the Municipality of Cerro Maggiore - waived bringing a civil action. The company and the employees have submitted the most appropriate defences to finding that they are not involved in the alleged events.
- The **Municipality of Rome**, where Italgas Reti provides the gas distribution service on the basis of a specific Service Contract, after a series of discussions aimed at reaching an agreement for rescheduling the implementation timing of the Business Plan, which is an integral part of the aforementioned Contract, accused Italgas Reti of delays in implementing the Plan. In rejecting the requests of the Municipality of Rome, Italgas Reti filed an appeal on 11 January 2019 for the annulment of the communication with which the Municipality of Rome had launched the procedure to apply penalties for non-fulfilment. In a subsequent appeal dated 30 August 2019, Italgas Reti, with regard to the above case, filed an appeal for additional reasons against further communications of the Municipality of Rome regarding the procedure to apply the penalties.
- By way of the **appeal dated 4 April 2019**, the Company challenged the ARERA Resolution no. 75/2019/R/gas dated 5 March 2019 as well as the ARERA Memorandum no. 2759 of 4 February 2019 containing the preliminary findings in the proceedings for composing the order on bonuses and penalties relating to the safety recoveries of the natural gas distribution service for the year 2015.
- By means of **Resolution no. 145/2019/R/gas dated 16 April 2019**, ARERA made remarks regarding the reimbursement amount to be paid to the holders of the assignments and concessions for the distribution of gas services for the Municipalities of the NAPLES 1 - City of Naples and Coastal Plant Local Area; in particular, for the purposes of tariff payments and in relation to the documentation sent by the Municipality of Naples, Area Contracting Authority, the Authority deemed the VIR amounts of the 6 Municipalities (Ercolano, Naples, Portici, San Giorgio a Cremano, Torre Annunziata and Torre del Greco) to be suitable. On 21 August 2019, the notice of the open tender procedure for the award of the gas distribution service in the NAPLES 1 - City of Naples and Coastal Plant Local Area was published, setting 21 October 2019 as the deadline for the submission of applications to participate or to receive bids. By way of **Resolution no. 231/2019/R/gas of 11 June 2019, published**

on **23 August 2019**, the Authority made its remarks regarding the tender document sent by the Municipality of Naples, Contracting Authority of the NAPLES 1 - City of Naples and Coastal Plant Area. By way of an **Executive resolution dated 30 September 2019**, the Municipality of Naples extended the deadline for the submission of bids for the NAPLES 1 - City of Naples and Coastal Plant Area to 27 November 2019. By way of **Executive resolution of 15 October 2019**, the above-mentioned deadline was extended to 10 February 2020 and new tender regulations were approved, in accordance with the findings of the Italian Antitrust Authority (AGCM) made as regards the terms of the tender and the valuation criteria of the economic offer, in an opinion dated 25 September 2019, published on 14 October 2019.

- By way of the **appeal dated 19 April 2019**, the Company challenged the ARERA Memorandum no. 4011 of 19 February 2019 regarding the communication of the preliminary findings relating to the proceedings started by way of Resolution 323/2017/S/gas concerning the violation assessment on gas emergency response pursuant to Resolution 574/2013/R/gas dated 12 December 2013.
- Issued, on **3 May 2019**, by the Ministry of Economic Development, in agreement with the Ministry of the Environment, the Decree approving the Operating Guide to ensure the identification, definition and presentation of projects within the White Certificates mechanism, originally established by Article 15, paragraph 1, of the implementing decree of 11 January 2017, amended by way of the Ministerial Decree of 10 May 2018.
- Issued, on **9 May 2019**, by the Ministry of Economic Development, the Decree approving the Operating Guide for the use of TEEs not resulting from the implementation of energy efficiency projects, so-called "Certificates on Credit". On the basis of this guide, the obligor parties holding, as owners, an amount of "real" TEEs equal to at least 30% of the minimum requirement, may resort to "Certificates on Credit" for the volume necessary to meet their own minimum annual requirement.
- With reference to the **monitoring initiated by the GSE** on 55 packages of energy efficiency projects relating to the subsidiary company Seaside, in the months of March and April notices of cancellation for 2 packages of projects were received as well as the requested supplementary documentation for the remaining projects. An appeal before the Lazio TAR was filed against the April notification for the annulment of the same and additional reasons against the further measures related to the April notification. Any encumbrance arising from the outcome of GSE monitoring, as set forth in contract, will be fully charged back to the project counterparty.
- Published, on **9 May 2019**, by ARERA, the **Document for Consultation no. 170/2019/R/GAS** contains the "Courses of lines for the regulation of tariffs and quality of gas distribution and metering services in the fifth regulatory period". In particular, with respect to the regulatory treatment of so-called "frozen" contributions, the Authority

proposes that the residual value of the stock of existing contributions as at 31 December 2011 be considered as subject to deterioration, specifying a course allowing for full “unfreezing” by the end of the same fifth regulatory period. If confirmed, such treatment, concentrated over a short period of time, would entail a decrease in the RAB in “steps”, which would affect the operator’s revenue level.

- The Authority, by way of **Resolution no. 209/2019/R/efr of 28 May 2019**, approved the operational procedures for the economic regulation of resources deriving from the issuing activity and the potential surrender by obliged entities of Energy Efficiency Certificates not corresponding to projects (“shorts”) provided by the GSE. An amendment of the determination regulations of the tariff contribution to be paid to distributors compliant with the obligations of energy saving, pursuant to resolution no. 487/2018/R/efr, in relation to the treatment of exchanges of TEEs through bilateral arrangements was approved with the provision. In particular, it is envisaged that, starting from the tariff contribution for the 2019 obligation year, the average of the average weighted prices of exchanges of TEEs made on the market and of the relevant prices of the TEEs traded through bilateral transactions, is weighted, using, for bilateral exchanges, only the quantity of TEEs exchanged at a price lower than €250/TEE (instead of all the TEEs subject to bilateral transactions, regardless of the exchange price, as currently envisaged). The Authority approved provisions to update the Regulations for bilateral transactions of Energy Efficiency Certificates, arranged by the Italian Power Exchange (GME), by way of a subsequent **Resolution no. 273/2019/R/efr of 25 June 2019**.
- Publication, on 4 July 2019, of **Resolution no. 30/2018/R/gas dated 25 January 2018**, by way of which the Authority made observations on the call for tenders documentation sent, pursuant to the provisions of article 9, paragraph 2, of the Ministerial Decree no. 226/2011, by the Municipality of Turin, Contracting Authority for the TURIN 1 - City of Turin Area.
- Publication of **Resolution DMRT/EFC/4/2019 dated 10 July 2019**, by way of which ARERA established the value of the unitary tariff contribution concerning Energy Efficiency Certificates for the 2018 requirement year, equal to € 248.89/TEE.
- Publication of **Resolution no. 305/2019/R/gas dated 16 July 2019**, by way of which the Authority ordered an advance on the total net amount of the bonuses relating to safety recoveries of the natural gas distribution service, for the year 2016, owed to the companies concerned (balance of bonuses and penalties), in the amount of 80%. The Authority ordered the aforementioned payment to all distribution companies providing, through an online system, by 4 October 2019, a positive response in relation to the forecast of bonuses and penalties for the year 2016, subject to express waiver sent by Certified Email to CSEA by 15 October 2019.

- On 25 July 2019, Italgas was served a subpoena by Publiservizi S.p.A. which contains an alleged violation of an agreement entered into by Italgas S.p.A., Publiservizi S.p.A. and other Municipalities that are shareholders of Toscana Energia. The first hearing will be held on 14 January 2020 before the Court of Florence. Italgas S.p.A. believes that the claims of the counterparty are groundless and will appear before the court in accordance with the law.
- By means of **Resolution no. 328/2019/S/gas of 30 July 2019**, the Authority imposed a fine of € 469,000 on Italgas Reti, as it had determined the violation of Article 14, paragraph 1, letter c), point iii) of the Regulation of the Quality of Gas Distribution and metering services, with a view to guaranteeing the safety of the distribution service by imposing obligations on operators relating to the emergency response service for the period of 2015 to 2017.
- By means of **Consultation Document no. 338/2019/R/gas of 30 July 2019**, the Authority illustrated the guidelines for the duration of the fifth regulatory period and the criteria for the regulation of the quality of gas distribution and metering services, which will be applied from 2020. Said guidelines take into account the contributions provided following the publication of Document no. 170/2019/R/gas and are based on an analysis of the main results of the regulation obtained between 2014 and 2019.
- With ruling no. **1862/2019 of 5 August 2019, published on 7 August 2019**, the Ordinary court of Trani, civil section, rejected the petition through which the Municipality of Andria has requested verification of its right to obtain from Italgas the payment of the amount of € 1,521,402.00, plus legal interest and monetary revaluation, for the increase of the concession rental charge for the gas distribution service in the local municipality, from 1 January 2006 to 31 December 2011.
- By way of **Resolution no. 34/2019/gas - DSAI of 8 August 2019**, ARERA began enforcement and prescriptive proceedings against Italgas Reti regarding the safety of the natural gas distribution service following an inspection made between 26-28 February 2019 and concerning the data relating to the distribution plant called "Albano Laziale". In the opinion of the Authority, it was found that:
 - the company has not complied with the obligation of having operating procedures for technical regulations in force;
 - to date, the company does not appear to have terminated the challenged conduct, to the possible consequent detriment of the safety, reliability and quality of the emergency response service, and, therefore, of the safety of the users served by the plant managed by the company.

Corporate Transactions

- **Execution**, on 1 April 2019, of the **merger by incorporation** (i) of the 13 **Fontenergia** companies operating in Sardinia in Medea and (ii) of the companies, **Naturgas, Grecanica Gas, Progas Metano, Baranogas Reti, Favaragas Reti, Siculianagas Reti** and **Ischia Reti Gas**, taken over by Italgas Reti.
- **Exercise**, on 17 April 2019, of the **option** for the purchase, from CPL Concordia, of the remaining 40% stake in **EGN**, for a price of € 20.9 million, net of € 21.0 million for the repayment of the shareholders' loan to CPL Concordia.
- **Execution**, on 30 April 2019, of the acquisition from the CONSCOOP Group:
 - of the **business unit of Aquamet S.p.A.**, including, inter alia, 9 natural gas distribution concessions in some Municipalities in Lazio, Campania, Basilicata and Calabria, for a total of 23,800 users served;
 - of **100% of Mediterranea S.r.l.**, holder of 6 concessions for natural gas distribution in the Province of Salerno, with approximately 3,600 users served;
 - of the **business unit of Isgas Energit Multiutilities S.p.A.**, holder of propane air distribution concessions in the Sardinian Municipalities of Cagliari, Nuoro and Oristano, for a total of roughly 22,300 users currently served with LPG.

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

Moreover, under the same agreement, through the subsidiary Medea, Italgas completed the **acquisition of 10% of the share capital of Isgastrentatrè S.p.A.**, the holder of a concession for the distribution of propane air in Area 33 of Sardinia. The agreements for the acquisition of Isgastrentatrè set forth the commitment to take over the remaining 90% of the capital upon the satisfaction of certain conditions, such as the conversion to natural gas of the network currently supplied with air propane with the clarification that, if the conditions are not met, Italgas shall have the right to resell and Conscoop shall have the obligation to buy back the 10% share at the same price.

- **Established**, on 7 May 2019, of the company, **Medea NewCo S.r.l.**, which shall operate in the natural gas, LPG and propane air sales sector.
- **Finalisation of the merger by incorporation of EGN S.r.l., EGN Distribuzione S.r.l., Ischia Gas S.r.l. and Marigliano Gas S.r.l. into Italgas Reti S.p.A.** with legal effect from 1 August 2019 and with accounting and tax effect from 1 January 2019.
- **Signing**, on 1 August 2019, of an **agreement with the Fund Marguerite II**, on the basis of which it is envisaged that the Fund purchase 48.15% of the share capital of Medea and Medea Newco, through an investment of around € 25 million and subsequent share capital increases totalling around € 44 million, for the pro-rata

funding of the investments envisaged for Sardinia by the 2019-2025 Italgas Business Plan. The transaction is expected to be finalised by the end of 2019.

- On 25 September 2019, the purchase from **Sienergas Distribuzione S.r.l.** of the business unit relating to the distribution of natural gas in the municipality of Cannara (Perugia), a facility that covers 35 kilometres and services around 1,500 users **was finalised**.

Other events

- **Approval**, on 4 April 2019, by the Shareholders' Meeting, of the **2018 financial statements and the distribution** of a **dividend** of € 0.234, to be paid starting from 22 May 2019 (distribution date 20 May 2019, record date 21 May 2019).
- **Signing** on 11 April 2019 of a **framework cooperation agreement with Picarro**, a US company operating in the supply of software for gas surveying, for the use in Europe by Picarro Surveyor. The system, named CRDS (Cavity Ring-Down Spectroscopy), consists of a technology that, compared to the traditional ones, provides important advantages in terms of speed of performance and range of areas subject to gas leakage monitoring. The agreement follows a trial conducted by Italgas in the last year on the Turin, Rome and Naples networks, which ended with significant results and with the adoption of Picarro technology by the group in all of its networks.
- **Officially awarding**, on 23 April 2019, to Italgas Reti, from the contracting authority of Metropolitan City of Turin, of the contract for the management of the natural gas distribution service within the "**Turin 2 - Turin Plant**" local area for the next 12 years. The area consists of 48 municipalities in the first and second belt of the Piedmontese capital for 190 thousand total end users. Due to this award, investments of around € 200 million have been planned. In this area, Italgas already held a 99.9% market share.
- **Signing**, on 28 April 2019, of a **memorandum of understanding with the State Grid Corporation of China**, the largest energy utility company in the world, to evaluate possible joint ventures in the natural gas distribution sector.
- **Signing**, on 23 May 2019, of a **contract for consulting services with the Greek natural gas distribution company Eda Thess**, active in the city of Thessaloniki and in the regions of Thessaly and Thessalonica in order to further improve the services provided by the Greek operator and the safety of the gas distribution network.
- **Publishing**, on 27 May 2019, of the **call for tenders of the Turin 1 Area**, with submission of the offers by 12 September 2019. By way of an Executive resolution dated 7 August 2019 the deadline for the submission of the bids were extended to 12 November 2019. Italgas Reti is the only operator in the Area, which is comprised by 6 Municipalities (including the municipality of Turin). As at 31 December 2018, there were 558,972 active end users. By way of **Executive resolution of 31 October 2019**, the

terms of the tender for the gas distribution service in **Turin 1 ATEM** were **extended to 11 December 2019** and some adjustments to the tender regulations, regarding to the tariff discount applied to end customers with respect to the rates approved by the Authority, were carried out.

- **Signing** on 28 June 2019 of a **Memorandum of Understanding with the French company, GRDF - Gaz Réseau Distribution France** - aimed at strengthening collaboration for engaging in joint activities and exchanging knowledge and experience in network management. The cooperation between the two companies will be based on an intense knowledge sharing of solutions and methods applied to the natural gas distribution sector.
- Successful **conclusion**, on 24 July 2019, of the **launch** of the **new bond issue** maturing in April 2030, at a fixed rate, for the amount of **€ 600 million** with an annual coupon of 0.875%. Joint Bookrunners of the placement, restricted to institutional investors only, were BNP Paribas, JPMorgan, UniCredit, Banca IMI, Mediobanca, SocGen. The issue has completed the plafond of the EMTN Programme launched in 2016 and renewed by resolution of the Board of Directors on 5 November 2018.
- **Completion**, on 24 July 2019, of an **Interest Rate Swap transaction** with Mediobanca and Unicredit (expiring in November 2029), to swap from floating to fixed rate (-0.056%) an EIB loan, named “Smart Metering” for an amount of € 300 million.
- The board of directors of 1 August 2019 of **CDP S.p.A.** which, through the subsidiary CDP Reti S.p.A. holds a 26.05% stake in Italgas, **reclassified the shareholding** in the same as **de facto control** pursuant to art. 2359, paragraph 1, no. 2) of the Italian civil code and art. 93 of the Consolidated Finance Act (TUF).
- The **renewal of the 2019 EMTN Programme**, launched in 2016 and already renewed in 2017 and 2018, was **resolved** on 23 September 2019 and signed on 16 October 2019, at the same time increasing the maximum amount of the current nominal figure of € 3.5 billion to a nominal amount of **€ 5 billion**.

Significant events after the end of the first nine months

Legislative and Regulatory Framework

- **Publishing**, on 17 October 2019, of **DCO no. 410/2019/R/gas** relating to the criteria for the gas distribution and metering services tariff regulation in the fifth regulation period.
- By way of **Resolution no. 415/2019/S/efr of 23 October 2019**, the Authority imposed a fine on Italgas Reti, as it had determined the violation of the provisions on Energy Efficiency Certificates [TEE] for the 2016 obligation year. In a brief dated 27 March 2018, Italgas sustained that the requirements for imposing a fine had not been fulfilled,

in so far as the failure to promptly achieve the energy efficiency objective for the 2016 obligation year would not be enforceable. In reality, the company claimed to not have been able to fulfil the objective due to the significant increase of the stock price of Energy Efficiency Certificates [TEE] recorded from October 2016 onwards (partly also exacerbated by the lack of certificates on the market as an effect of Italian Ministerial Decree dated 11 January 2017) with respect to the amount of the tariff contribution paid to the Authority. Therefore, the company had decided not to purchase energy efficiency certificates at excessively disadvantageous conditions by 31 May 2017.

Other events

- On 1st October 2019, Italgas **officially won the tender for the award under concession** of the natural gas distribution service in the **municipality of Castel San Giorgio** (Salerno). The current gas network of Castel San Giorgio covers around 40 kilometres and services around 1,300 users. On 21 October 2019, Aquamet S.p.A., as the other party, filed an appeal against Italgas Reti for additional reasons, with which it challenged the municipality's decision to award the tender, in addition to the call for tenders already challenged in the main appeal on 4 June 2019.

Corporate Transactions

- In relation to the **option-based offer of 2,897,778 shares** pursuant to art. 2437-quater, paragraph 2, of the Civil Code, **of the Toscana Energia company** for which the Municipalities of Bientina, Buti, Calcinaia, Casciana, Terme Lari and Palaia exercised the right of withdrawal at the appropriate time, at the end of the offer period to non-withdrawing shareholders ending on 22 July 2019, only Italgas as shareholder exercised the option right and, at the same time, the pre-emption right on all non-exercised shares. The acquisition was notified to the AGCM which, retaining that the current competitive structures have not been changed, by way of Order no. 27887 of 23 September 2019, approved the transaction to acquire the share package, therefore allowing Italgas to increase its stake in Toscana Energia from 48.68% to 50.66%. Therefore, **on 1 October 2019, the transfer of 2,897,778 shares to Italgas S.p.A.** was finalised, corresponding to 1.98% of the share capital of Toscana Energia. After Italgas had gained control of Toscana Energia, new articles of association came into effect, resulting from the agreement between Italgas and its public shareholders and already approved by the Shareholders' Meeting held on 28 June 2018. Italgas will fully consolidate the investment in Toscana Energia and in its subsidiary company Toscana Energia Green.

- On 7 October 2019, **Italgas and A2A signed an agreement for the reciprocal sale of several non-core industrial assets**, with a view to strengthening their respective core businesses. More specifically, Italgas Reti has undertaken to sell to A2A Calore & Servizi the district heating business it currently manages in the municipality of Cologno Monzese; at the same time, Unareti (A2A Group) will sell Italgas its natural gas distribution business managed in seven municipalities belonging to the Alessandria 4 ATEM. The agreements are expected to be finalised by the end of December 2019 and are subject to the fulfilment of several conditions precedent.
- On 1 November 2019, the **merger by incorporation of Mediterranea S.r.l. into Italgas Reti S.p.A. was finalised**, becoming effective in terms of taxes and accounting from 1 January 2019.

Business Outlook

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

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

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

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

Lastly, 2019 will see the continuation of efforts to **optimise the financial structure** of the Italgas Group, in line with the objectives set up in the 2019-2025 Strategic Plan.

Italian Legislative Decree no. 25 of 15 February 2016, effective from 18 March 2016, which implemented European Directive 2013/50/EU of 22 October 2013 (new Transparency Directive), eliminated the obligation to publish the interim directors' report, previously provided for by Art. 154-ter, paragraph 5 of the Consolidated Finance Act.

In accordance with the development of the reference regulatory framework and taking into account the needs of stakeholders, Italgas has chosen to voluntarily publish periodic financial information in addition to the Annual and Half-Year Financial Report.

This decision reflects the business policy of regular and transparent disclosure of the Group's financial performance to the market and investors.

The economic and financial information was drafted in compliance with the valuation and measurement criteria established by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure pursuant to Art. 6 of (EC) Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002.

Given their size, amounts of the relevant items are expressed in millions of euros to the first decimal place.

Conference call

At 5:30 PM today, a conference call will be held to present to financial analysts and investors the results of the first nine months of 2019. The presentation may be viewed, through audio webcasting, on the Company's website (www.italgas.it). In conjunction with the conference call, the supporting material for the presentation 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 Finance Act, that the accounting information contained in this report corresponds to the documented results, books and accounting records.

Disclaimer

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