

## ITALGAS: CONSOLIDATED RESULTS AS AT 30 JUNE 2020 APPROVED

*Milan, 27 July 2020* - Italgas' Board of Directors, chaired by Alberto Dell'Acqua, met today and approved the consolidated results for the first half of 2020.

### Key figures

Consolidated economic and financial highlights<sup>1</sup>:

- Total revenues: 646.8 million euros (+6.1%)
- Gross operating margin (EBITDA): 462.7 million euros (+6.6%)
- Net profit<sup>2</sup>: 153.4 million euros (-7.7%)
- Technical investments: 369.5 million euros (+16.3%)
- Cash flow from operating activities: 388.8 million euros
- Net financial debt<sup>3</sup>: 4,625.8 million euros

Operating highlights including affiliates:

- Municipalities in gas distribution concessions: 1,886
- Number of active meters: 7.7 million
- Gas distribution network: around 73,000 Km

The performance achieved by Italgas in the first half of 2020 demonstrates the company's ability to continue generating solid economic-financial results thanks to digital efficiency and to the innovation projects deployed over the recent years, which made possible to mitigate the impacts of Resolution 570/2019/R/gas, relating to the tariff regulation of gas distribution and metering services for the period 2020-2025, to cushion the negative effects of the pandemic and to ensure the safety and continuity of the service during the lockdown period.

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<sup>1</sup> This press release uses alternative performance indicators, including EBITDA (gross operating margin, calculated by subtracting operating costs from earnings), EBIT (operating income before taxes, calculated by subtracting operating costs, depreciation and amortisation and write-downs from earnings) and Net financial debt (calculated as the sum of short- and long-term financial debt, net of cash and cash equivalents and financial liabilities for leases pursuant to IFRS 16). The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IAS/IFRS.

<sup>2</sup> Net Profit means net profit attributable to the Italgas Group net of the portion pertaining to third parties.

<sup>3</sup> The net financial debt as of 30 June 2020 does not consider financial liabilities for leases pursuant to IFRS 16 for 75.5 million euros (74.7 million euros as at 31 December 2019).

The 369.5 million euros invested over the period (up 16.3% compared to the first half of 2019) were devoted to the development and modernisation of the networks and digital transformation.

In the first half of 2020, around 486 km of new pipelines were laid, compared to around 379 km in the corresponding period of 2019. Construction of the distribution networks continued in Sardinia, with the laying of around 216 km of new networks, for a total of more than 680 km over a total of about 1.100 km to build.

Despite the difficulties arising from the health emergency, the traditional meter replacement plan continued, with the installation of 0.6 million smart meters, also taking affiliates into account, bringing the total number of smart meters installed as at the end of the first half of 2020 to approximately 7.1 million<sup>4</sup>. The plan, which is expected to be concluded in 2020, is part of the wider project for the digital transformation of the entire network operated. To date, this project has already upgraded the technology of over 400 distribution networks.

The financing requirements related to net investments for the first half of 2020 were fully covered by the positive cash flow from operating activities, equal to 388.8 million euros.

The net financial position as at 30 June 2020 was 4,625.8 million euros (4,410.6 million euros at 31 December 2019), net of financial liabilities pursuant to IFRS 16 of 75.5 million euros (74.7 million euros at 31 December 2019).

The EBITDA of the first half of 2020 amounted to 462.7 million euros (up 6.6% compared to 30 June 2019) and net profit was 153.4 million euros.

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<sup>4</sup> Excluding affiliates, as at 30 June 2020, Italgas has installed 0.5 million new meters, of which 0.4 million to replace traditional ones, bringing the current total of smart meters to 7.1 million, corresponding to 84% of the entire stock.

Paolo Gallo, CEO of Italgas, commented:

*The performance in the first half of 2020 shows the capability of Italgas to react to exceptional situations – like the one we are currently experiencing due to Covid-19 - by continuing to produce solid results. Despite the adverse effects of the new tariff regulation in force from 1 January, we achieved an EBITDA of 462.7 million euros, up almost 7% compared to last year, and a Group net profit of 153.4 million, which was slightly down compared to the same period of 2019, due to the heavy economic effects of the new regulation mitigated by all the actions implemented by the Company.*

*Our investments grew, amounting to around 370 million euros, most of which focused on digital transformation and continuous development and modernisation of the networks. Thanks to the digital transformation carried out over the last three years and to the great efforts of our people, we ensured safety and continuity of services throughout lockdown and we were able to get our worksites up and running again in early May. This restart was made possible by the proprietary technologies, developed and created in-house in our Digital Factory, such as “WorkOn Site”, an application that has made the process of verifying the compliance of worksites and works extremely efficient thanks to artificial intelligence and remote operation.*

*After completing 65% of the 1,100 kilometres of networks of the methanisation plan in Sardinia, we are getting ready to make some of these networks operational, with immediate benefits for the economy and local population; overtime sustainable benefits, which however required a clear regulation of the entire gas supply chain and the implementation of the tariff equalization in line with the rest of Italy.*

*Regarding ATEM tenders, we hope for an important acceleration, to release new investments in our sector for over than 3 billion euro per year, essential for the restart of our Country. In the meantime, we are reaping the fruits of our work with the the further award of the Belluno Atem to Italgas and we we are getting ready to start in the coming months all the investments planned – on this Atem and the other Atems assigned to us.*

*Technological innovation, digitisation, efficiency, investments and a close relation with the community will characterize even more Italgas in the next months.*

## Economic and financial highlights

### Reclassified Income Statement

Financial year	2019 (€ million)	First half		Abs. change	Change %	
		2019	2020			
	1,206.9	Gas distribution regulated revenue	576.4	<b>626.0</b>	49.6	8.6
	1,109.1	<i>of which distribution revenue</i>	524.2	<b>590.1</b>	65.9	12.6
	97.8	<i>of which other gas distribution regulated revenues</i>	52.2	<b>35.9</b>	(16.3)	(31.3)
	51.0	Other revenues (*)	33.0	<b>20.8</b>	(12.2)	(36.9)
	<b>1,257.9</b>	<b>Total revenues (**)</b>	<b>609.4</b>	<b>646.8</b>	37.4	6.1
	(350.4)	Operating costs (**)	(175.5)	<b>(184.1)</b>	(8.6)	4.9
	<b>907.5</b>	<b>EBITDA</b>	<b>433.9</b>	<b>462.7</b>	28.8	6.6
	(391.5)	Amortisation, depreciation and impairment	(192.3)	<b>(209.9)</b>	(17.6)	9.2
	<b>516.0</b>	<b>EBIT</b>	<b>241.6</b>	<b>252.8</b>	11.2	4.6
	(69.3)	Net financial expense	(24.1)	<b>(26.4)</b>	(2.3)	9.6
	100.8	Net income from equity investments	11.8	<b>1.0</b>	(10.8)	(91.5)
	<b>547.5</b>	<b>Gross profit</b>	<b>229.3</b>	<b>227.4</b>	(1.9)	(0.8)
	(123.9)	Income taxes	(63.1)	<b>(64.6)</b>	(1.5)	2.4
	<b>423.6</b>	<b>Net profit</b>	<b>166.2</b>	<b>162.8</b>	(3.4)	(2.0)
	6.4	Net profit attributable to minority shareholders	0.0	<b>9.4</b>	9.4	
	<b>417.2</b>	<b>Net profit attributable to the Group</b>	<b>166.2</b>	<b>153.4</b>	<b>(12.8)</b>	<b>(7.7)</b>

(\*) For the purposes of like-to-like comparison, as at 30 June 2019, the revenue item of the Medea company in relation to LPG distribution was restated from Other revenues to Revenues from distribution (4.2 million euros). Medea's 2019 revenues in relation to the sales item, which was later transferred to Gaxa through a demerger of the branch, are stated as Other revenues. The representation as at 31 December 2019 was accordingly standardized.

(\*\*) Unlike the legal statement, the reclassified income statement requires the listing of Total revenues and Operating costs net of the impact of IFRIC 12 "Service concession agreements" (322.6 and 262.5 million euros respectively in the first halves of 2020 and 2019), connection contributions and some residual components (9.8 and 7.5 million euros respectively in the first halves of 2020 and 2019) and net margin relating to Energy Efficiency Certificates [EECs].

The **total revenues** of the first half of 2020 amounted to 646.8 million euros (of which 68.0 relating to Toscana Energia due to the full consolidation from October 2019), up by 37.4 million euros compared to the corresponding period of the previous year, and refer to natural gas distribution regulated revenue (626.0 million euros) and other revenues (20.8 million euros).

**Gas distribution regulated revenue** increased by 49.6 million euros compared to the previous half year, due to an increase in distribution revenue, partially offset by a reduction in other gas distribution regulated revenue.

The increase in **distribution revenue** (65.9 million euros) is mainly attributable to the change in the scope of consolidation as a result of the acquisitions in Sardinia and central and Southern Italy from Conscoop (5.1 million euros), effective as of 1 May 2019, and to the above-mentioned full consolidation of Toscana Energia (64.2 million euros), greater tariff adjustments compared to the previous years (2.1 million euros), the effect of the increased RAB and of the number of re-delivery points (12.2 million euros), as well as of the application of the deflator

(2.2 million euros). These effects were offset by lower tariff components (20.3 million euros), as a result of the changes made by Resolution 570/2019/R/gas<sup>5</sup>.

The reduction in **other regulated revenues** (16.3 million euros) is attributable to: (i) the lower contribution pursuant to article 57 of ARERA Resolution no. 367/14, relating to the replacement of traditional meters with electronic ones (smart meters), equal to 5.2 million euros as at 30 June 2020 (15.5 million euros in the corresponding period of 2019; down by 10.3 million euros); (ii) lower revenues from services for work activities on the network (5.5 million euros) and lower reimbursements for arrears (2.9 million euros) as a result of the blocking of operational activities in relation to the COVID-19 emergency, pursuant to Government Decree (DPCM) of 22 March 2020, as amended. These effects are partly offset by the increase in incentives linked to the safety of plants (2.3 million euros).

As at 30 June 2020, **other revenues** amounted to 20.8 million euros (down by 12.2 million euros compared to the same period in 2019). The decrease is mainly linked to lower capital gains from the sale of assets (10.9 million euros) and other operating income, mainly for reimbursements for tanker and gas supply trucks (3.2 million euros), partly offset by higher sales of LPG and propane air to active clients in Sardinia (2.4 million euros).

The **EBITDA** achieved as at 30 June 2020 amounted to 462.7 million euros, up by 28.8 million euros (+6.6%) compared to the same period in 2019, due to the increase in revenues, despite this being offset by higher operating costs (8.6 million euros). The increase in operating costs is mainly caused by a rise in net staff costs of 5.2 million euros, as well as concession charges for a total of 4.1 million euros, offset by lower net costs relating to energy efficiency certificates for 2.9 million euros and lower net external costs for 0.8 million euros. The change in the scope of consolidation brought an increase in operating costs of 21.3 million euros compared to the first half of 2019.

The **EBIT** as at 30 June 2020 amounted to 252.8 million euros, up by 11.2 million (+4.6%) compared to the corresponding period of 2019, as a result of the above-mentioned increase in the EBITDA, partially offset by the increased amortisation and depreciation (+17.6 million euros compared to the same period in 2019). The higher amortisation and depreciation was affected by the contribution of Toscana Energia (21.9 million euros), as well as by the higher investments pursuant to IFRS 16 (2.7 million euros). It was partly offset by the lower depreciation on meters associated with the replacement plan of traditional meters with smart

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<sup>5</sup> The Group did not see any impacts, in the first half of the year, of the change in method for recognising the residual costs of traditional meters over the previous years, as proposed by Resolution no. 570/2019/R/Gas, pending a decision by the Director of the Directorate of Energy Infrastructures and Unbundling identifying coherent operating solutions to manage the reconciliation between regulatory divestments and accounting divestments.

meters, which is nearing completion, equal to 10.6 million euros (27.5 million euros in the first half of 2019).

The **net profit** achieved as at 30 June 2020 amounted to 162.8 million euros, down by 3.4 million euros (-2.0%) compared to the same period of 2019. In addition to the increase in operating costs and amortisation and depreciation, the decrease is linked to greater net financial expense for 2.3 million euros (up 9.6% compared to the corresponding period of 2019), following the new bond issues launched in July 2019 and December 2019, partly offset by the transaction completed in December 2019 to buy back bonds, and to the lower net income from equity investments for 10.8 million euros, as a result of the full consolidation of Toscana Energia from October 2019.

The **net profit attributable to the Group**, net of minority interests of 9.4 million euros, was equal to 153.4 million euros as at 30 June 2020.

## Reclassified Statement of Financial Position

The Italgas Reclassified Statement of Financial Position as at 30 June 2020, compared with that as at 31 December 2019, is summarised below:

(€ million)	31.12.2019	30.06.2020	Abs. change
<b>Fixed capital</b>	<b>6,335.0</b>	<b>6,526.5</b>	<b>191.5</b>
Property, plant and equipment	350.0	357.2	7.2
Intangible assets	6,176.1	6,326.1	150.0
Equity investments	33.7	33.9	0.2
Financial receivables and securities instrumental to operations	0.2	0.2	0.0
Net payables related to investments	(225.0)	(190.9)	34.1
<b>Net working capital</b>	<b>56.3</b>	<b>16.9</b>	<b>(39.4)</b>
<b>Provisions for employee benefits</b>	<b>(113.2)</b>	<b>(110.6)</b>	<b>2.6</b>
<b>Assets held for sale and directly related liabilities</b>	<b>2.1</b>	<b>0.1</b>	<b>(2.0)</b>
<b>NET INVESTED CAPITAL</b>	<b>6,280.2</b>	<b>6,432.9</b>	<b>152.7</b>
<b>Shareholders' equity</b>	<b>1,794.9</b>	<b>1,731.6</b>	<b>(63.3)</b>
- attributable to the Italgas Group	1,560.4	1,511.6	
- attributable to third party shareholders	234.6	219.9	
<b>Net financial debt</b>	<b>4,410.6</b>	<b>4,625.8</b>	<b>215.2</b>
<b>Financial liabilities for operating leases pursuant to IFRS 16</b>	<b>74.7</b>	<b>75.5</b>	<b>0.8</b>
<b>COVERAGE</b>	<b>6,280.2</b>	<b>6,432.9</b>	<b>152.7</b>

The **net invested capital** as at 30 June 2020 amounted to 6,432.9 million euros and was made up of the items commented below.

The **fixed capital** (6,526.5 million euros) increased by 191.5 million euros compared to 31 December 2019, primarily due to the increase in tangible and intangible assets (+157.2 million euros) and the reduction in net payables related to investments (-34.1 million euros).

Below is an analysis of the change in **Property, plant and equipment** and **Intangible assets**:

(€ million)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
<b>Balance as at 31 December 2019</b>	<b>350.0</b>	<b>5,984.2</b>	<b>191.9</b>	<b>6,526.1</b>
Investments	27.1	322.7	19.7	<b>369.5</b>
- of which IFRS 16	10.5			<b>10.5</b>
Amortisation, depreciation and impairment	(17.7)	(169.9)	(22.3)	<b>(209.9)</b>
- of which metering instruments (ordinary depreciation)		2.0		<b>2.0</b>
- of which, acceleration of metering instruments*		8.6		<b>8.6</b>
- of which, amortisation as per IFRS 16	(9.8)			<b>(9.8)</b>
Acquisition of business units		8.0		<b>8.0</b>
Contributions		(5.5)		<b>(5.5)</b>
Other changes	(2.2)	(0.8)	(1.9)	<b>(4.9)</b>
<b>Balance as at 30 June 2020</b>	<b>357.2</b>	<b>6,138.7</b>	<b>187.4</b>	<b>6,683.3</b>

\* Accelerated depreciation and amortisation at 30.06.2020 and 30.06.2019 amounted to 10.6 and 27.5 million euros respectively

The **equity investments** item (33.9 million euros) refers mainly to the Gesam Reti, Valdarno, Umbria Distribuzione Gas, Metano S. Angelo Lodigiano, Enerpaper and Reti Distribuzione equity investments, consolidated using the equity method.

### Net working capital

(€ million)	31.12.2019	30.06.2020	Abs. change
Trade receivables	474.0	<b>276.0</b>	(198.0)
Inventories	52.3	<b>73.7</b>	21.4
Tax assets	87.7	<b>68.0</b>	(19.7)
Accruals and deferrals from regulated activities	127.0	<b>136.4</b>	9.4
Other assets	100.9	<b>154.2</b>	53.3
Trade payables	(299.1)	<b>(207.0)</b>	92.1
Provisions for risks and charges	(169.6)	<b>(167.0)</b>	2.6
Deferred tax liabilities	(92.5)	<b>(76.5)</b>	16.0
Tax payables	(11.1)	<b>(17.7)</b>	(6.6)
Other liabilities	(213.3)	<b>(223.2)</b>	(9.9)
	<b>56.3</b>	<b>16.9</b>	<b>(39.4)</b>

Compared to 31 December 2019, net **working capital** dropped by 39.4 million euros, mainly as a result of: i) a reduction in trade receivables (198.0 million euros), connected with the billing seasonality; ii) an increase in inventories (21.4 million euros) predominantly in relation to gas meters; iii) a decrease in net tax items (10.3 million euros) mainly due to lower tax assets; iv) an increase in accruals and deferrals from regulated activities (9.4 million euros) due to receivables relating to the contribution paid for meters pursuant to article 57; v) an increase in other assets (53.3 million euros), mainly due to residual receivables from the CSEA for white

certificates (30.3 million euros), receivables from the CSEA for additional distribution components (9.9 million euros), and greater accrued expenses linked mainly to local taxes (6.5 million euros); vi) a decrease in trade payables (92.1 million euros); vii) a decrease in provisions for risks and charges (2.6 million euros); viii) an increase in other liabilities (9.9 million euros), mainly as a result of payables due to the CSEA, associated with the additional distribution components (6.0 million euros).

### Net financial debt

Net financial debt as at 30 June 2020 amounted to 4,625.8 million euros, up by 215.2 million euros compared to 31 December 2019. Including the effects deriving from the application of IFRS 16, amounting to 75.5 million euros, the net financial debt came to 4,701.3 million euros.

(€ million)	31.12.2019	30.06.2020	Abs. change
<b>Financial and bond debt</b>	<b>4,671.5</b>	<b>4,966.9</b>	<b>295.4</b>
Short-term financial debt (*) (**)	471.4	290.1	(181.3)
Long-term financial debt	4,200.1	4,676.8	476.7
<b>Financial receivables and cash and cash equivalents</b>	<b>(260.9)</b>	<b>(341.1)</b>	<b>(80.2)</b>
Cash and cash equivalents (**)	(255.8)	(336.0)	(80.2)
Financial receivables	(5.0)	(5.0)	(0.0)
Securities not instrumental to operations	(0.1)	(0.1)	0.0
<b>Net financial debt (***)</b>	<b>4,410.6</b>	<b>4,625.8</b>	<b>215.2</b>
Lease liabilities pursuant to IFRS 16	74.7	75.5	0.8
<b>Net financial debt (including effects pursuant to IFRS 16)</b>	<b>4,485.3</b>	<b>4,701.3</b>	<b>216.0</b>

(\*) These include the short-term portions of long-term financial debt, equal to 37.6 million euros.

(\*\*) The items are stated net of the effects of factoring transactions, the underlying assets of which were collected on 30 June 2020 and repaid to the factor in the first working days of July 2020.

(\*\*\*) The net financial debt as of 30 June 2020 does not consider financial liabilities for operating leases pursuant to IFRS 16 for 75.5 million euros (74.7 million euros as at 31 December 2019).

**Financial and bond debt** as at 30 June 2020 totalled 4,966.9 million euros (4,671.5 million euros as at 31 December 2019), was denominated in euros and refers to: (i) bonds (3,836.1 million euros), (ii) loan agreements with the European Investment Bank (EIB) (873.6 million euros) and (iii) bank loans (257.2 million euros).

As at 30 June 2020, the breakdown of gross financial debt, without considering liabilities for leases pursuant to IFRS 16, is as follows:

(€ million)	31.12.2019	%	30.06.2020	%
Fixed rate	4,103.7	87.8	<b>4,585.7</b>	92.3
Variable rate	567.8	12.2	<b>381.2</b>	7.7
<b>Gross financial debt</b>	<b>4,671.5</b>	<b>100.0</b>	<b>4,966.9</b>	<b>100.0</b>



Fixed-rate financial liabilities amounted to 4,585.7 million euros and refer to bonds (3,836.1 million euros) and three EIB loans (749.6 million euros).

Fixed-rate financial liabilities increased by 482 million euros compared to 31 December 2019, due to the bond issue completed in June for a nominal value of 500 million euros.

Floating-rate liabilities stood at 381.2 million euros and were down by 186.6 million euros due to the decreased use of bank credit lines.

As at 30 June 2020, Italgas had bank deposits for a value of 336.0 million euros and undrawn committed long-term credit lines of 500 million, maturing in October 2021.

As at 30 June 2020, there were no loan agreements including financial covenants and/or secured by collateral, with the exception of an EIB loan for 90 million euros taken out by Toscana Energia, which requires compliance with certain financial covenants.

Some of these contracts require, 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 fulfilled as of 30 June 2020.

## Reclassified Statement of Cash Flows

2019 (€ million)	First half	
	2019	2020
<b>423.6 Net profit</b>	166.2	162.8
<i>Adjusted:</i>		
275.6 - Amortisation, depreciation and other non-monetary components	173.9	202.6
(4.4) - Net capital losses (capital gains) on asset sales and eliminations	(7.6)	2.3
193.2 - Interest and income taxes	87.3	91.0
18.9 Change in working capital due to operating activities	98.0	5.1
(209.7) Dividends, interest and income taxes collected (paid)	(10.1)	(75.0)
<b>697.2 Cash flow from operations (*)</b>	<b>507.7</b>	<b>388.8</b>
(688.6) Technical investments	(279.8)	(353.5)
89.9 Other net changes related to investment activities	23.2	(34.1)
8.0 Divestments	4.0	0.3
<b>106.5 Free cash flow before M&amp;A transactions</b>	<b>255.1</b>	<b>1.5</b>
<b>(96.4) Companies that have entered the consolidation area</b>	<b>(85.2)</b>	<b>(4.4)</b>
of which:		
(40.2) -price paid for equity	(29.0)	(4.4)
(56.2) -takeover of payables of acquired companies	(56.2)	-
(25.1) Acquisition of business units	(24.9)	(6.3)
<b>(14.9) Free cash flow</b>	<b>145.0</b>	<b>(9.2)</b>
434.7 Change in short- and long-term financial debt and financial receivables	46.8	295.4
24.8 Transfer of minority interests (**)	-	-
(196.8) Equity cash flow	(189.3)	(206.0)
<b>247.8 Net cash flow for the year</b>	<b>2.4</b>	<b>80.2</b>

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

(\*\*) The transfer of interests means the minority transfer of the equity investments in Medea and Gaxa to the Marguerite II Fund.

## Change in net financial debt

31.12.2019 (€ million)	30.06.2019	30.06.2020
<b>106.5 Free cash flow before M&amp;A transactions</b>	<b>255.1</b>	<b>1.5</b>
(121.4) Change due to acquisitions of equity investments and business units	(110.1)	(10.7)
24.8 Transfer of minority investments	0.0	0.0
(196.8) Equity cash flow	(189.3)	(206.0)
<b>(186.9) Change in net financial debt excluding the effects of IFRS 16, the EGN shareholders' loan and the financial liabilities deriving from M&amp;A transactions - Toscana Energia</b>	<b>(44.4)</b>	<b>(215.2)</b>
(19.7) Change in financial debts pursuant to IFRS 16	(24.3)	(0.8)
21.0 Change in payables for EGN shareholder loan	21.0	0.0
(414.5) Change in scope of consolidation of financial liabilities deriving from M&A transactions (*)	0.0	0.0
<b>(600.1) Change in net financial debt</b>	<b>(47.7)</b>	<b>(216.0)</b>

\*The figure refers to the net financial debt of Toscana Energia and Toscana Energia Green as at 1 October 2019.

The cash flow from operations in the first half of 2020 amounted to 388.8 million euros and made it possible to fully finance the flow from net investments, totalling 387.3 million euros, generating a free cash flow before M&A transactions of 1.5 million euros. As at 30 June 2020, cash flow, taking M&A transactions of 10.7 million euros into account, was negative by 9.2 million euros.

Following payment of the dividend, for 206.0 million euros, net financial debt increased by 215.2 million euros, excluding the effect arising from the adoption of IFRS 16 for liabilities for

leases, of 0.8 million euros. The change in net financial debt amounted to 216.0 million euros when taking that impact into account.

## Key operating figures

### Investments

During the first half of 2020, technical investments were made for an amount of 369.5 million euros (first half 2019: 317.7 million euros, +16.3%), of which 10.5 million euros by virtue of the adoption of IFRS 16.

Financial Year 2019	(€ million)	First half		Abs. change	Change %
		2019	2020		
<b>463.0</b>	<b>Distribution</b>	<b>187.0</b>	<b>279.8</b>	<b>92.8</b>	<b>49.6</b>
360.6	Network development and maintenance	147.2	209.4	62.2	42.3
39.7	- of which digitisation	7.3	35.6	28.3	
<b>102.4</b>	<b>New networks</b>	<b>39.8</b>	<b>70.4</b>	<b>30.6</b>	<b>77.0</b>
82.8	- of which Sardinia	29.5	64.3	34.8	
<b>179.5</b>	<b>Metering</b>	<b>83.5</b>	<b>53.9</b>	<b>(29.6)</b>	<b>(35.4)</b>
<b>97.5</b>	<b>Other investments</b>	<b>47.2</b>	<b>35.7</b>	<b>(11.5)</b>	<b>(24.4)</b>
32.4	- of which Real Estate	6.6	13.3	6.7	
25.8	- of which ICT	10.9	12.6	1.7	15.6
39.4	- of which IFRS 16 effect	31.4	10.5	(20.9)	(66.6)
<b>740.0</b>		<b>317.7</b>	<b>369.5</b>	<b>51.8</b>	<b>16.3</b>

**Investments in metering** (53.9 million euros, down 35.4% compared to the first half of 2019) primarily refer to the final phase of the replacement of traditional meters with smart meters, which is expected to be completed in 2020, and were down compared to the same period of 2019, also as a result of the restrictions arising from the COVID-19 health emergency. The Company installed 0.54 million new meters in the first half of 2020, of which 0.40 million to replace traditional meters and 0.14 million for the repair of digital meters with anomalies.

### Key operating figures – Italgas Group

31.12.2019		30.06.2019	31.06.2020	Abs. change	Change %
7,573	Active meters (millions)	6,761	<b>7,587</b>	0.83	12.2
8,464	Installed meters (millions)	7,572	<b>8,488</b>	0.92	12.1
1,816	Municipalities with gas distribution concessions (no.)	1,714	<b>1,825</b>	111.0	6.5
1,730	Municipalities with gas distribution concessions in operation (no.)	1,628	<b>1,739</b>	111.0	6.8
70,502	Distribution network (kilometres)	62,279	<b>70,796</b>	8,517.0	13.7

## Key operating figures – Italgas Group and affiliates

31.12.2019		30.06.2019	31.06.2020	Abs. change	Change %
7,694	Active meters (millions)	7,616	<b>7,740</b>	0.12	1.6
8,597	Installed meters (millions)	8,510	<b>8,656</b>	0.15	1.7
1,830	Municipalities with gas distribution concessions (no.)	1,821	<b>1,886</b>	65.0	3.6
1,744	Municipalities with gas distribution concessions in operation (no.)	1,735	<b>1,800</b>	65.0	3.7
71,761	Distribution network (kilometres)	70,713	<b>72,667</b>	1,954.0	2.8

## Main events of the first half of 2020

### *Legal and Regulatory*

- **Appeal filed** before the Regional Administrative Court on 24th February 2020 against the **Arera resolution nr. 570/R/gas/2019**, arguing about some issues of legitimacy, inter alia, the reduction in operating costs granted to distributors, reduction in metering return on invested capital, the cap on capital expenditure in the case of start up investment areas, the provision of a single tariff standard area for Sardinia with equalization limited to the first three years and the provision of a fixed *x-factor* for the whole regulatory period. The setting of a date for the hearing is currently pending.
- With reference to the dispute with the **Municipality of Rome** regarding the implementation of the **Business Plan**, with Order no. 3834/2020, published on 19 June, 2020, the Council of State upheld the precautionary appeal filed by Italgas Reti and suspended the effectiveness of the provision by which the Municipality of Rome requested Italgas Reti to pay penalties, until the decision on the matter. An appeal is pending before the Court of Cassation in order to ascertain the jurisdiction of the Regional Administrative Court of Lazio. The setting of a date for the hearing before the Court of Cassation is currently pending.
- With **Order no. 28249 of 27 May 2020**, published on 8 June 2020, the Antitrust Authority decided to launch a preliminary investigation to verify whether Italgas Reti, the current gas distribution operator in various municipalities in the Province of Venice, had abused its dominant position as sole concession holder of the service in order to significantly hinder or delay the planned competitive tender for assignment of the service within the minimum territorial area encompassing those municipalities (ATEM VENEZIA 1). The company undertakes to provide the Antitrust Authority with the required clarifications as well as any additional information that may become necessary.

### *Corporate Transactions*

- **Finalisation**, on 31 January 2020, of **the agreement for the sale of several non-core industrial assets between Italgas and A2A**, signed on 7 October 2019. More specifically,

Italgas Reti sold to A2A Calore & Servizi the heating business managed in the municipality of Cologno Monzese; at the same time, Unareti (A2A Group) sold to Italgas its natural gas distribution business managed in seven municipalities belonging to the Alessandria 4 ATEM.

- Pursuant to the “Invitation to Submit Expression of Interest”, published on 9 December 2019, as part of the privatisation process launched by the Greek government, the **expression of interest for the purchase of 100% of the capital of DEPA Infrastructure** was **presented** on 20 February 2020. The assets transferred include more than 420 thousand re-delivery points in Greece and around 5000 km of low-pressure networks. On 3 June 2020 it was confirmed that Italgas had been included on the shortlist of the tender procedure for the acquisition of Depa Infrastructure.
- The **acquisition** by AEG Soc. Coop. of **15% of the Reti Distribuzione company** was **finalised** on 26 May 2020 through the subsidiary Italgas Reti. **Reti Distribuzione** operates the natural gas distribution service across an area encompassing 49 municipalities located in the Canavese, Valle Orco and Soana areas, and in the Municipality of Saluggia, for a total of 32,000 re-delivery points. The consideration for the transaction was 4.6 million euros.

#### Other events

- On 2 January 2020, Italgas was **officially awarded the tender for the concession** of the natural gas distribution service in the territorial area of “**Valle d'Aosta**”.
- **Signing**, on 31 January 2020, with the contracting authority Città Metropolitana di Torino (Metropolitan City of Turin) and with the outgoing operating entity, the contractual agreement **for the delivery of the** plants of ATEM TORINO 2 to Italgas Reti, which then officially commenced the first operations of the gas distribution service for a Territorial Area in Italy.
- The **launch of a new fixed-rate bond issue** for a total of **500 million euros** was **completed** on 24 June 2020, **maturing in June 2025**, with an annual coupon of 0.250%.

#### **Significant events occurring after the end of the quarter**

##### Legal and Regulatory

- An **appeal** on additional grounds was **filed** before the Regional Administrative Court of Lombardy on 2 July 2020, **against Resolutions no. 106/2020/R/gas and 107/2020/R/gas, by which the Company appealed** those measures in the part where - purportedly in application of the tariff regulation introduced by **Resolution 570/2019/R/Gas**, approving the final tariffs for 2018 and 2019, for start-up locations first supplied in 2018 - they implemented the cap introduced by the aforesaid Resolution during recognition of CAPEX.

As part of the same appeal on additional grounds, the technical report published by ARERA on 6 May 2020 was also contested, as a precaution, in case it were to be regarded as a preparatory and investigative document on the basis of which ARERA adopted Resolution 570/2019 and the RTDG, rather than a later, purely confirmatory document.

- On 5 July 2020, an **appeal** was filed before the Regional Administrative Court of Lazio, by which Italgas Reti requested that the **Municipality of Rome** be ordered to pay compensation for its failure to comply with the public gas distribution service **concession contract** entered into on 20 November 2012. The setting of a date for the hearing by the Regional Administrative Court of Lazio is currently pending.
- **Resolution no. 270/2020/R/efr**, containing the tariff contribution regulation for energy efficiency certificates acquired by obliged entities starting from the 2019 obligation year, was **published** on 17 July 2020.

Through this Resolution, the Authority has introduced an additional component that may increase the tariff contribution beyond the cap - still established at an amount of €250/EEC – to a maximum of €10/EEC taking into account the following:

(i) the availability of EECs on the market (measured by the difference between the total EEC target for obliged entities and the EECs available to those parties at the end of the obligation year);

(ii) the average market price (measured as the difference (increase) in average market price from the cap value of €250/EEC).

Lastly, the Authority has planned an increase in the tariff contribution on account, from €175/EEC currently, to €200/EEC.

## **Coronavirus Emergency and foreseeable business outlook**

The so-called “**Coronavirus Emergency**” unfolded in Italy in February in relation to the spread of infection across the whole of Italy and the necessary emergency measures taken by the Health and Government Authorities to contain the spread.

The Company set up a Crisis Committee in the hours immediately following the onset of the first cases. In the light of the measures and indications of the competent authorities, this committee monitored, and continues to constantly monitor, the developments of the crisis and takes appropriate measures while ensuring the continuity and efficiency of essential and necessary services, focusing in particular on emergency intervention services.

To protect the health and safety of its people, the Company has adopted a series of initiatives aimed at limiting the mobility of personnel and contractors to the company’s premises, heavily adopting smart working and suspending business travel of personnel around the country.

All the procedures were shared with the trade unions, through the setting up of a specific Committee (as provided for by the Protocol entered into on 14 March 2020 between the government, trade unions and employer associations) and the signing of various corporate reports and protocols, in line with the evolving emergency and applicable regulatory updates.

In compliance with the emergency measures issued by the Authorities, only work considered to be essential was guaranteed, and all worksite activities were suspended. Technical staff assigned the task of carrying out work off the company premises, where provided for under current provisions, have been equipped with the necessary personal protection equipment required in order to ensure their safety. Worksite activities, as well as maintenance and services on user premises, including the replacement of traditional meters with smart meters, started up again gradually from 4 May 2020, in accordance with the time frames provided for and permitted by Government Decree (DPCM) of 26 April 2020, as amended.

Italgas has also launched a project, on an entirely voluntary basis, to ensure free serological screening for its people, also providing a swab, in line with current regional regulations and supervision by the Medical Officer, if the test is positive. The initiative, shared with the trade union representatives, initially involved the employees based in Lombardy and Piedmont and is gradually being extended to all employees based in other regions.

At present, the company does not anticipate any major adverse impacts on the development and investment initiatives as a result of the slowing down, suspension of activities and the deteriorating macroeconomic situation caused by the global spread of the pandemic. Since the reopening of business under the above-mentioned Government Decree, as amended, measures have been implemented, by leveraging process digitisation, to solve delays to original work execution plans caused by the suspension of worksite activities and work on user premises.

With reference to the customer/sales companies base and their solvency, the rules for access of users to the gas distribution service are established by ARERA and regulated in the Network Code. For each service type, this Code defines the rules for the rights and obligations of the parties involved in the process of providing the services, as well as the tools to mitigate the risk of default by customers.

In April 2020, the company received a communication from some sales companies indicating the possibility of making use of the faculties granted by Resolution no. 116/2020/R/com, as amended, for payments due in April and, based on subsequent extensions, for payments due on or before 30 June 2020, if the conditions are met. Considering the number of operators that have made recourse to the faculties granted by the above-mentioned resolution, the company has not seen any significant adverse effects on receipts expected from gas sales companies that would jeopardise the financial balance of the Group, or on the regularity of payments by

counterparties. For invoices due in April, May and June 2020, the average collection was equal to around 90%.

Moreover, with **Resolution no. 248/2020/R/com of 30 June 2020**, the Authority requires sales companies to pay the balance of the total amounts invoiced by distributors and not paid during the derogation period, as a lump sum or in instalments from September and in any case by the end of 2020. In the event of non-compliance by the sales companies, Italgas may use the guarantees provided by the counterparties, as set out in the Network Code.

With regard to access to credit, Italgas does not foresee any significant negative impacts for 2020, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of 336.0 million euros as at 30 June 2020 and a completely undrawn committed long-term credit line of 500 million euros taken out with a pool of Italian and international banks, (ii) there are limited requirements to refinance debt (the first bond repayment is due in 2022), (iii) the bonds issued by Italgas as at 30 June 2020, as part of the Euro Medium Term Notes programme, do not require the observance of covenants relating to the data in the financial statements, (iv) any downgrading of the rating of Italgas or of any guarantors in excess of pre-established thresholds, could lead to the issuance of guarantees for certain lenders or a rise in the spreads applied.

The successful bond issue of 500 million euros, completed on 24 June 2020, implementing the EMTN Programme 2019 – 2020, as well as confirmation on 30 April 2020 of the rating by Fitch as BBB+ with a stable outlook, confirm the financial soundness of the company.

The company has also introduced initiatives supporting the fight against the Coronavirus Emergency. In particular, in addition to facilitating voluntary fundraising by its employees, it has donated to hospitals, healthcare facilities and to the Civil Protection, and has also made its skills and know-how available to the community.

With reference to the impacts, including potential ones, on revenues, costs, investments and cash flows expected as a result of the limitations imposed by the Coronavirus Emergency, the Company has not found any evidence to date to suggest significant negative effects on the 2020 results.

However, the company is currently unable to estimate the potential material negative effects on the economic, financial and equity outlook of the years to follow, should the health emergency situation return to a critical state and last significantly longer.

In this context, Italgas will therefore continue to pursue its strategic objectives, focusing on digital transformation with the goal of improving service quality, streamlining processes and operating costs, whilst paying constant attention to development opportunities. With specific



regard to investments, in 2020, Italgas expects to continue its plan targeted primarily at the implementation of network digitisation projects and the installation of “smart” meters and the methanisation of Sardinia, plus the normal maintenance and development of the networks managed.

In line with the strategic priorities of the 2019-2025 Plan and depending on the potential effect that the current emergency may have on the schedules, Italgas will take part in area tenders of interest for the concession of the natural gas distribution service, pursuing its goals to develop the business and consolidate the sector, which is currently very fragmented. Moreover, in line with the objectives of the Strategic Plan, following the 2019 acquisitions, additional initiatives for external growth could be completed in 2020, which will strengthen territorial presence and enable the scope of activities to grow.

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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 p.m. today, a conference call will be held to present the results of the first half of 2020 to financial analysts and investors. The presentation may be viewed, through audio webcasting, on the Company's website ([www.italgas.it](http://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.

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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 consolidated half-year financial report contains forward-looking statements, specifically in the "Business outlook" section, relating to: investment plans, evolution of the financial structure, 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 and socio-political instability, the effects of the pandemic, 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, action by competitors.*