

## ITALGAS APPROVED FIRST QUARTER RESULTS AS AT 31 MARCH 2017

Milan, 5 May 2017 - Italgas' Board of Directors met yesterday under the Chairmanship of Lorenzo Bini Smaghi and approved the consolidated results for the first quarter of 2017 (unaudited).

### Financial highlights

- Total revenue: €281 million (+9.8%)
- EBITDA: €193 million (+19.9%)
- Net profit: €72 million (+16.1%)
- Net cash flow from operating activities: €269 million (+32.5%)
- Technical investments: €123 million (+75.7%)
- Net financial debt: €3,472 million

Paolo Gallo, CEO of Italgas, commented:

*"The first quarter of the year registered positive results across all the main economic indicators with significant EBITDA and net profit growth to €193 million and €72 million respectively, up 20% and 16% compared with the same period for the previous year. Operating cash flow of €269 million (+76% compared with the same period in 2016) enabled us to fully fund the important investments we committed to for the period and to reduce our net financial debt to less than €3.5 billion. Growth in investments and a greater focus on operating and financial efficiencies have allowed us to maintain a solid capital structure, guaranteeing continued value creation for all our shareholders".*

## **Introduction**

The separation of Italgas Reti from Snam took place on 7 November 2016.

The “Consolidation” of the first quarter of 2017 comprises Italgas S.p.A. and the consolidated companies Italgas Reti S.p.A., Napoletanagas S.p.A. and Acam Gas S.p.A. through the full consolidation method, and Toscana Energia S.p.A., Metano S. Angelo Lodigiano S.p.A., Umbria Distribuzione Gas S.p.A. through the equity method. For the sole purpose of comparing the economic data for the first quarter of 2016, the “Consolidated Gas Distribution” as at 31 March 2016 is given, which, compared with the “Consolidation” defined above, does not include Italgas S.p.A. (established on 1 June 2016).

## Financial highlights

| (€ million)  | First quarter                              |                         | Change    | Change %      |
|--|--|-------------------------|-----------|---------------|
|  | 2016<br>"Consolidated<br>Gas Distribution" | 2017<br>"Consolidation" |           |               |
| Gas Distribution regulated revenue                       | 249  | <b>276</b>              | 27        | 10.8          |
| <i>of which transmission revenue</i>                     | 239  | <b>248</b>              | 9         | 3.8           |
| <i>of which other gas distribution regulated revenue</i> | 10   | <b>28</b>               | 18        |               |
| Other revenues   | 7  | <b>5</b>                | (2)       | (28.6)        |
| <b>Total revenues (*)</b>                                | <b>256</b>                                 | <b>281</b>              | <b>25</b> | <b>9.8</b>    |
| Operating costs (*)                                      | (95)                                       | <b>(88)</b>             | 7         | (7.4)         |
| <b>EBITDA</b>  | <b>161</b>                                 | <b>193</b>              | <b>32</b> | <b>19.9</b>   |
| Amortisation, depreciation and impairment                | (63)                                       | <b>(89)</b>             | (26)      | 41.3          |
| <b>EBIT</b>  | <b>98</b>                                  | <b>104</b>              | <b>6</b>  | <b>6.1</b>    |
| Net financial expenses                                   | (16)                                       | <b>(10)</b>             | 6         | <b>(37.5)</b> |
| Net income from equity investments                       | 4  | <b>5</b>                | 1         | 25.0          |
| <b>Pre-tax profit</b>                                    | <b>86</b>                                  | <b>99</b>               | <b>13</b> | <b>15.1</b>   |
| Income tax   | (24)                                       | <b>(27)</b>             | (3)       | 12.5          |
| <b>Net profit</b>  | <b>62</b>                                  | <b>72</b>               | <b>10</b> | <b>16.1</b>   |

(\*) Net of the effects of IFRIC 12 "Service Concession Agreements" (€115 and €61 million in the first quarter of 2017 and the first quarter of 2016, respectively).

**Total revenue** for the first quarter of 2017 totalled €281 million, an increase of €25 million compared with the first quarter of 2016. It refers to the gas distribution regulated revenue (€276 million) and other revenue (€5 million).

The change in gas distribution regulated revenue (€27 million) results from: (i) increased transmission revenue (+€9 million) mainly due to the tariff contribution from the investment component (+€2 million), price adjustments relating to previous years (+€1 million) and other factors, including the effect recorded in the first quarter of 2016 from the failure of the Authority to pay the incentive for investments in the replacement of cast iron pipes for previous years; (ii) higher gas distribution regulated revenue (+€18 million), mainly due to the increase in the contribution pursuant to Article 57 of the AEEGSI Resolution 367/14 (+€14 million), in relation to the investment plan to replace traditional meters with electronic smart meters, as set out in the remote reading project pursuant to AEEGSI resolutions 631/13 and 554/15, as well as the greater revenues for TEE recognition (+€2 million).

The other revenue refers to water sales and third-party services.

**Gross operating profit (EBITDA<sup>1</sup>)** in the first quarter of 2017 totalled €193 million, an increase of €32 million (+19.9%) compared with the corresponding period in 2016. The increase is mainly due to the above-mentioned higher revenue (€25 million) and lower operating costs (€7 million). The increased costs resulting from the demerger from Snam were more than absorbed by the efficiencies; specifically, the €3 million increase in the net cost of labour which was more than offset by the lower costs for outsourced services (-€3 million), lower variable costs (-€3 million) and lower provisions for risk (-€4 million).

**Operating profit (EBIT)** in the first quarter of 2017 totalled €104 million, an increase of €6 million compared with the corresponding period in 2016 (+6.1%). The increase is thanks to the €32 million increase in EBITDA, commented on above, which was partly offset by the higher amortisation and depreciation (€26 million) mainly resulting from the reduction in the useful life of traditional meters (€17 million), under the plan for replacement with electronic smart meters, as set out in AEEGSI resolutions 631/13 and 554/15.

**Net profit** for the first quarter of 2017 amounted to €72 million, an increase of €10 million compared with the corresponding period in 2016 (+16.1%), as a result of the above-mentioned €6 million increase in EBIT and also: (i) the lower net financial expense of €6 million resulting from the lower debt related costs of €4 million partly offset by the upfront fee paid in 2016 for €3 million recognised at cost following the reimbursement of the Bridge to Bond loan made in the first quarter of 2017, as well as lower expenses of €5 million compared with the same period of the previous year for the discount of environmental funds and employee benefits; (ii) higher net income on equity investments (+€1 million). These effects were partly offset by the higher income tax for the period (+€3 million), which, however, benefited from the reduction in the IRES rate which went from 27.5% to 24%.

### Net financial debt

| (€ million)  | 31.12.2016   | 31.03.2017   | Change       |
|--|--------------|--------------|--------------|
| <b>Financial and bond debt</b>                             | <b>3,619</b> | <b>3,474</b> | <b>(145)</b> |
| Short-term financial debt (*)                              | 2,696        | 421          | (2,275)      |
| Long-term financial debt                                   | 923          | 3,053        | 2,130        |
| <b>Financial receivables and cash and cash equivalents</b> | <b>(1)</b>   | <b>(2)</b>   | <b>(1)</b>   |
| Cash and cash equivalents                                  | (1)          | (2)          | (1)          |
|  | <b>3,618</b> | <b>3,472</b> | <b>(146)</b> |

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

<sup>1</sup> This press release uses alternative performance indicators including EBITDA (calculated as the sum of the value relating to EBIT and amortisation, depreciation and impairments) and EBIT (calculated as the sum of the values relating to net profit, income tax and net financial expense, net of net income from equity investments).

**Net financial debt** was €3,472 million as at 31 March 2017, compared with €3,618 million as at 31 December 2016.

Positive net cash flow from operating activities (€269 million) was used to cover all financial requirements linked with investments significantly up compared with the same period of 2016 (€123 million; €70 million in the first quarter of 2016) and to reduce net financial debt by €146 million compared with 31 December 2016.

Financial and bond liabilities as at 31 March 2017 totalled €3,474 million (€3,619 million as at 31 December 2016) and were denominated entirely in euros and referred mainly to bonds (€2,134 million), bank loans (€616 million) and debts with European Investment Bank (EIB) (€724 million).

The reduction in short-term financial debt compared with 31 December 2016, equal to €2,275 million, is mainly attributable to the reduction of a polled (Bridge to Bond) bank financing totalling €2,150 million; this reduction was made possible thanks to the issuing of bond issues with the following characteristics: (i) nominal value of €1,500 million, issued on 19 January 2017 and divided into two tranches, the first with a term of 5 years and the second 10 years, both at a fixed rate, amounting to €750 million each and an annual coupon of 0.50% and 1.625% respectively; (ii) nominal value of €650 million issued on 14 March 2017, maturing on 14 March 2024 with a fixed rate annual coupon of 1.125%.

The breakdown of debt by type of interest rate as at 31 March 2017 is as follows:

| (€ million)   | 31.12.2016   | %          | 31.03.2017   | %          | Change       |
|---------------|--------------|------------|--------------|------------|--------------|
| Fixed rate    |              |            | <b>2,134</b> | 61.4       | 2,134        |
| Floating rate | 3,619        | 100        | <b>1,340</b> | 38.6       | (2,279)      |
|               | <b>3,619</b> | <b>100</b> | <b>3,474</b> | <b>100</b> | <b>(145)</b> |

Fixed rate financial liabilities stood at €2,134 million and refer to the issuing of bond issues.

Floating rate financial liabilities totalled €1,340 million and fell by €2,279 compared with 31 December 2016 mainly as a result of the issuing of the above-mentioned bond issues which replaced short-term bank loans (-€2,134 million).

Italgas, as at 31 March 2017, had unused committed long-term credit lines amounting to €1.1 billion.

As at 31 March 2017, there were no financial covenants and unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these contracts provide, *inter alia*, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations 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.

## Reclassified statement of cash flows

| (€ million)  | First quarter                              |                         |
|--|--|-------------------------|
|  | 2016<br>"Consolidated Gas<br>Distribution" | 2017<br>"Consolidation" |
| <b>Net profit</b>  | <b>62</b>                                  | <b>72</b>               |
| <i>Adjusted for:</i>   |  |                         |
| - amortisation, depreciation and other non-monetary components       | 58   | 84                      |
| - Net capital losses (capital gains) on asset sales and eliminations | 2  | 2                       |
| - Interest and income tax  | 35   | 32                      |
| Change in working capital due to operating activities                | 57   | 85                      |
| Dividends, interest and income taxes collected (paid)                | (11)                                       | (6)                     |
| <b>Net cash flow from operating activities</b>                       | <b>203</b>                                 | <b>269</b>              |
| Technical investments  | (62)                                       | (115)                   |
| Change in scope of consolidation and business units                  |  |                         |
| Other changes relating to investment activities                      | (27)                                       | (8)                     |
| <b>Free cash flow</b>  | <b>114</b>                                 | <b>146</b>              |
| Change in short- and long-term financial debt                        | (113)                                      | (145)                   |
| Other changes  | (1)  |                         |
| <b>Net cash flow for the period</b>                                  | <b>0</b>                                   | <b>1</b>                |

## Operating highlights (including affiliates)

- Gas concessions: 1,582
- Number of active meters: 7.4 million
- Gas distribution network: more than 65,000 km

## Investments

Italgas is committed to maintaining a constant level of efficiency across its networks through the renewal of the most obsolete parts of the system and the development of existing networks.

To this end, in the first quarter of 2017, technical investments were made, amounting to €123 million, an increase of 75.7% compared with the corresponding period in 2016 (€53 million).

| (€ million)                         | First quarter                              |                         |           |             |
|-------------------------------------|--|-------------------------|-----------|-------------|
|                                     | 2016<br>"Consolidated Gas<br>Distribution" | 2017<br>"Consolidation" | Change    | Change %    |
| <b>Distribution</b>                 | <b>40</b>                                  | <b>52</b>               | <b>12</b> | <b>30.0</b> |
| Network maintenance and development | 34   | 42                      | 8         | 23.5        |
| Replacement of cast-iron pipes      | 6  | 10                      | 4         | 66.7        |
| <b>Metering</b>                     | <b>22</b>                                  | <b>63</b>               | <b>41</b> |             |
| <b>Other investments</b>            | <b>8</b>                                   | <b>8</b>                |           |             |
|                                     | <b>70</b>                                  | <b>123</b>              | <b>53</b> | <b>75.7</b> |

**Investments in distribution** (€52 million) mainly related to development projects (extensions and new networks) and the renovation of old stretches of pipelines, including the replacement of cast-iron pipes.

**Investments in metering** (€63 million) relate essentially to the replacement plan for traditional meters with electronic ones as part of the project of remote metering.

**Other investments** (€8 million) mainly refer to IT, property and vehicle investments.

## **Main events of the quarter**

### **Bond issues**

Under the EMTN Programme, Italgas issued bonds in three tranches totalling €2,150 million with the characteristics already described in the comments on the net financial debt.

### **Tariff regulation**

In 2017, the Authority approved Resolution 145/2017/R/gas “Calculating definitive reference tariffs for gas distribution and metering services for 2016” through which it established the definitive tariffs for 2016.

The Authority also approved Resolution 146/2017/R/gas “Recalculating reference tariffs for gas distribution and metering services for the years 2009-2015”, through which it recalculated the definitive reference tariffs for 457 Italgas Reti sites for 2015 and one site for 2014.

The Authority calculated the provisional reference tariffs for distribution and metering services for 2017 through Resolution 200/2017/R/gas on the basis of the preliminary balance sheet data for 2016.

### **Share consolidation**

The Napoletanagas S.p.A. consolidation of the company's shares was approved by the company's shareholders' meeting on 13 March 2017; it took place with a ratio of one new share with a nominal value of €100,000 for every 100,000 shares with a nominal value of €1. It became effective on 20 April 2017, the date from when Italgas Reti S.p.A. has held 100% of the share capital of Napoletanagas S.p.A., compared with the previous figure of 99.6%.

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

With reference to the investigations launched by the Public Prosecutor at the Court of Busto Arsizio regarding an incident which took place on 11 November 2015 during an emergency repair at the Municipality of Cerro Maggiore, a notice was recently published on the conclusion of the preliminary investigations of those under investigation and Italgas Reti, which was accused of allegedly having failed to adopt safety prevention measures. The company will work on the most appropriate defence to ensure it is extricated from this situation.

The remaining amount of €150 million on the Bridge to Bond loan was repaid on 13 April 2017.

## Business Outlook

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

Italgas envisages an increase in expenditure in 2017 compared to previous years, particularly for **technical investments** in tangible and intangible assets. The increase will mainly be invested in maintenance, network development, and meter-reading activity. The latter aims to implement the relevant electronic meter (smart meter) installation programme, in compliance with the Authority's resolution, as well as to complete the construction of new networks.

Italgas plans to increase its **operational efficiency** by implementing a cost reduction programme launched in the first months of 2017 which also aims to improve the quality of processes and services. This project seeks to revise the organisational structure of Italgas Reti by designing a new territorial model, simplifying the process and operating model, and introducing a cultural change to make the new model sustainable.

In 2017 Italgas will also pursue actions to **optimise the group's financial structure** by extending the average maturity of its debts, in line with its target financial structure.

Lastly, in line with the Plan's guidelines, Italgas will take part in strategically important **tenders** for natural gas distribution concessions. This will allow Italgas to pursue the development objectives of the business and consolidate a sector which is currently very fragmented.

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Legislative Decree no. 25 of 15 February 2016, which entered into force on 18 March 2016, implementing European Directive 2013/50/EU of 22 October 2013 (the "new Transparency Directive"), removed the obligation to publish the interim directors' report previously required by Article 154-*ter*, paragraph 5 of the Consolidated Finance Act (TUF).

In line with the development of the reference regulatory framework and taking into account the requirements of stakeholders, Italgas has decided to publish additional periodic financial information on a voluntary basis as well as the Annual and Half-Year Financial Report, as disclosed to the market in the press releases of 20 December 2016 (Financial Calendar) and 26 January 2017.

This decision reflects the regular and transparent corporate information policy on the financial performance of the Group aimed at the market and investors.

Information on operating results and cash flows is provided for the first quarter of 2017. Information on Italgas' financial position is provided for 31 December 2016. The form of the financial statements corresponds to the form of the statements presented in the



Interim Directors' Report of the Consolidated Half-Year Report and the Directors' Report accompanying the Annual Financial Report.

The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The consolidation scope as at 31 March 2017 was the same as at 31 December 2016.

Given their size and importance, amounts are expressed in millions of euros.

### **Conference call**

A conference call will take place at 14:00 today, 5 May 2017, to present the consolidated results for the first quarter of 2017 to investors and financial analysts. The presentation can be viewed via audio webcasting on the Company's website ([www.italgas.it](http://www.italgas.it)). Supporting materials 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, Claudio Ottaviano, declares, pursuant to paragraph 2, Article 154-*bis* of the Consolidated Law on Financial Intermediation, that the accounting information contained in this report corresponds to the documented results, books and accounting records.

### **Disclaimer**

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

## Italgas S.p.A.

### Reclassified income statement

| (€ million)                                  | First quarter of<br>2017 |
|--|--------------------------|
| <b>Financial income and (expense)</b>        |                          |
| Income from equity investments               |                          |
| Interest income                              | 6                        |
| Interest expense and other financial expense | (10)                     |
| <b>Total financial income and (expense)</b>  | <b>(4)</b>               |
| Income from services rendered                | 15                       |
| <b>Other operating income</b>                | <b>15</b>                |
| <b>Other operating expenses</b>              |                          |
| For personnel                                | (8)                      |
| For non-financial services and other costs   | (8)                      |
| <b>Total other operating expenses</b>        | <b>(16)</b>              |
| <b>Pre-tax profit</b>                        | <b>(5)</b>               |
| Income tax                                   | 1                        |
| <b>Net loss</b>                              | <b>(4)</b>               |

### Reclassified financial statements

| (€ million)  | 31.12.2016   | 31.03.2017   |
|--|--------------|--------------|
| <b>Non-current fixed assets</b>                            | <b>3,690</b> | <b>4,852</b> |
| Property, plant and equipment                              |              | 2            |
| Equity investments   | 2,967        | 2,967        |
| Financial receivables from operating activities            | 723          | 1,884        |
| Receivables and payables relating to investment activities |              | (1)          |
| <b>Net working capital</b>                                 | <b>13</b>    | <b>15</b>    |
| <b>Provision of employee benefits</b>                      | <b>(5)</b>   | <b>(5)</b>   |
| <b>NET INVESTED CAPITAL</b>                                | <b>3,698</b> | <b>4,862</b> |
| <b>Net equity</b>  | <b>1,640</b> | <b>1,637</b> |
| <b>Net financial debt</b>                                  | <b>2,058</b> | <b>3,225</b> |
| <b>COVERAGE</b>  | <b>3,698</b> | <b>4,862</b> |

### Reclassified statement of cash flows

| (€ million)   | First quarter<br>of 2017 |
|---|--------------------------|
| <b>Net loss</b>   | <b>(4)</b>               |
| <i>Adjusted for:</i>  |                          |
| - amortisation, depreciation and other non-monetary components    |                          |
| - Dividends, interest and income taxes                            | (1)                      |
| Change in working capital due to operating activities             | (1)                      |
| Dividends, interest and income taxes collected (paid)             |                          |
| <b>Net cash flow from operating activities</b>                    | <b>(6)</b>               |
| Technical investments   | (1)                      |
| Equity investments  |                          |
| Other changes relating to investment activities                   | 1                        |
| Net financial investments relating to operations                  | (1,161)                  |
| <b>Free cash flow</b>   | <b>(1,167)</b>           |
| Change in financial receivables not held for operating activities |                          |
| Change in current and non-current financial debt                  | 1,167                    |
| <b>Net cash flow for the period</b>                               | <b>0</b>                 |

## Consolidated Italgas

### Reclassified income statement

| (€ million)                               | First quarter of 2017<br>"Consolidation" |
|---|--|
| <b>Total revenues (*)</b>                 | <b>281</b>                               |
| Operating costs (*)                       | (88)                                     |
| <b>EBITDA</b>                             | <b>193</b>                               |
| Amortisation, depreciation and impairment | (89)                                     |
| <b>EBIT</b>                               | <b>104</b>                               |
| Net financial expenses                    | (10)                                     |
| Net income from equity investments        | 5  |
| <b>Pre-tax profit</b>                     | <b>99</b>                                |
| Income tax                                | (27)                                     |
| <b>Net profit</b>                         | <b>72</b>                                |

(\*) Net of the effects of IFRIC 12 "Service Concession Agreements" (€115 and €61 million, respectively, in the first quarter of 2017 and 2016).

### Reclassified financial statements

| (€ million)   | "Consolidated"<br>31.12.2016 | "Consolidated"<br>" 31.03.2017 | Change       |
|---|------------------------------|--------------------------------|--------------|
| <b>Fixed capital</b>  | <b>4,793</b>                 | <b>4,830</b>                   | <b>37</b>    |
| Property, plant and equipment                                   | 227                          | 226                            | (1)          |
| Intangible assets   | 4,487                        | 4,512                          | 25           |
| Equity investments  | 176                          | 181                            | 5            |
| Net payables for investments                                    | (97)                         | (89)                           | 8            |
| <b>Net working capital</b>                                      | <b>(9)</b>                   | <b>(121)</b>                   | <b>(112)</b> |
| <b>Provisions for employee benefits</b>                         | <b>(121)</b>                 | <b>(121)</b>                   |              |
| <b>Assets held for sale and directly related liabilities</b>    | <b>19</b>                    | <b>19</b>                      |              |
| <b>NET INVESTED CAPITAL</b>                                     | <b>4,682</b>                 | <b>4,607</b>                   | <b>(75)</b>  |
| <b>Net equity (including third-party shareholder interests)</b> |                              |                                |              |
| - attributable to the Group                                     | 1,063                        | 1,134                          | 71           |
| - pertaining to third-party shareholders                        | 1                            | 1                              |              |
|   | 1,064                        | 1,135                          | 71           |
| <b>Net financial debt (cash)</b>                                | <b>3,618</b>                 | <b>3,472</b>                   | <b>(146)</b> |
| <b>COVERAGE</b>   | <b>4,682</b>                 | <b>4,607</b>                   | <b>(75)</b>  |

## Reclassified statement of cash flows

| (€ million)  | First quarter of 2017<br>"Consolidation" |
|--|--|
| <b>Net profit</b>  | <b>72</b>                                |
| <i>Adjusted for:</i>   |  |
| - amortisation, depreciation and other non-monetary components       | <b>84</b>                                |
| - Net capital losses (capital gains) on asset sales and eliminations | <b>2</b>                                 |
| - Interest and income tax  | <b>32</b>                                |
| Change in working capital due to operating activities                | <b>85</b>                                |
| Dividends, interest and income taxes collected (paid)                | <b>(6)</b>                               |
| <b>Net cash flow from operating activities</b>                       | <b>269</b>                               |
| Technical investments  | <b>(115)</b>                             |
| Other changes relating to investment activities                      | <b>(8)</b>                               |
| <b>Free cash flow</b>  | <b>146</b>                               |
| Change in short- and long-term financial debt                        | <b>(145)</b>                             |
| <b>Net cash flow for the period</b>                                  | <b>1</b>                                 |