



# SPAFID CONNECT

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*Testo del comunicato*

Vedi allegato.

**ITALGAS: APPROVED RESULTS AS AT 31 December 2017**

*Milan, 12 March 2018* - Italgas Board of Directors, which met today under the Chairmanship of Lorenzo Bini Smaghi, approved the results as at 31 December 2017 and resolved to propose to the Shareholders' Meeting the distribution of a dividend of € 0.208 per share.

The double-digit growth of all margins, the amount of investments made which exceeded Euro 500 million, and the number of acquisitions made throughout 2017 are testimony to the success of the Industrial Plan, which was approved last May.

With more than 66 thousand kilometres of network managed, 7.5 million delivery points served in 1,609 concessions, Italgas confirms its leadership position in the sector in Italy, with a 34% market share, and the third largest in Europe.

The organic investments of 2017, amounting to 521.9 million euro (+38.1% compared to 2016) confirm Italgas' plan, which envisages putting investments of over 3 billion euro at the service of the Country by 2023 on the current operating perimeter. A significant part of the 2017 investments concerned the installation of smart meters to replace traditional meters: 1.66 million were installed, bringing the total number of new installed meters to about 2.8 million, equal to 35% of the total number of meters, in line with the objective of completing the plan at the beginning of 2020.

The smart meters installation plan is the first step in Italgas' network digitalisation programme, which began in 2017 and puts Italgas at the forefront of the European gas distributors' scenario. In addition to the digitization of the Italgas network, Italgas has launched an ambitious plan to review and digitise corporate processes, with the adoption of the Public Cloud, an infrastructural solution for information systems as the first enabling factor. With these objectives Italgas intends to maintain not only its current market leadership, but also to become a reference model in Italy and Europe in terms of customer service, efficiency and competitiveness.

The strategy of consolidation of the sector and growth outlined in the 2017-2023 Business Plan has been effectively pursued also through a series of corporate

operations that have strengthened the presence in areas of interest to the Group, and created the conditions to extend the networks in areas of the Country still lacking service. In this regard, the acquisitions made in the North East, Campania, Basilicata, Calabria and Sicily have to be considered , as well as those operations that allowed the Group to gain in Sardinia the leadership role in the island's methanisation project.

The financial requirements related to the net investments of 2017 were fully covered by the positive cash flow from operating activities, amounting to €549.4 million with a Free Cash Flow, before the M&A transactions, of € 109.2 million and a net financial position of €3.7 billions, at 31 December 2017.

With regards to the economic results, the adjusted operating profit of 2017 amounted to €422.9 million (+17.9% compared to 2016), and the adjusted net profit amounted to €296.4 million (+34% compared with 2016).

Paolo Gallo, CEO of Italgas, commented:

*“The start of the digitalisation process, the investments and the corporate acquisitions made, the reorganization completed and the economic-financial results show the great effort made by all Italgas people in carrying out ordinary and extraordinary activities. The main indicators, such as the EBITDA and the Net Profit showed a double digit growth, respectively of +14% and +34% and reflect the strong commitment to reducing costs so that it reached, a year earlier, the operational efficiency target set out for 2018. With more than €520 million in investments, a 38% growth compared to the previous year, Italgas has become one of the key players in the Country creating value for its shareholders and for the serviced regions. Today we are firmly committed to a great challenge: to complete an in-depth process for the digitalisation of the network and corporate processes. With the completion of the plan for the installation of the smart meters and the application of sensors throughout our network, we will be able to manage the entire infrastructure according to innovative methods, criteria and algorithms that will place Italgas in a unique position within the landscape of gas distributors at the European level”.*

The Chairman of Italgas, Lorenzo Bini Smaghi, highlighting the strong results, commented:

*“The positive results of the period allow the Company to propose to the next Shareholders' Meeting the distribution of a dividend of € 20,8 cents per share, a 4% increase from the dividend distributed in 2016 and in line with our dividend policy announced to the market last year, thus confirming our commitment to an attractive and sustainable remuneration policy”.*

## **Key figures**

Consolidated economic and financial highlights:

- Total revenue: €1,124.2 million (+4.3%)
- Adjusted gross operating margin (adjusted EBITDA): €781.2 million (+14.1%)
- Adjusted EBIT: €422.9 million (+17.9%)
- Adjusted net profit: €296.4 million (+34%)
- Technical investments: €521.9 million (+38.1%)
- Net cash flow from operating activities: €549.4 million
- Net financial debt: €3,720.3 million

Operating highlights including affiliates' data:

- Gas concessions: no. 1,609
- Number of active meters: 7.5 million
- Gas distribution network: more than 66,000 Km.

## **Economic and financial highlights**

### **Introduction**

On 7 November 2016, the transaction to hive off 100% of the equity investment in Italgas Reti, which was transferred from Snam S.p.A. to Italgas S.p.A., a company incorporated on 1 June 2016, was completed.

Since this date, Italgas has therefore had direct control of Italgas Reti and indirect control of Napoletanagas (merged into Italgas Reti as at 1 October 2017) and ACAM Gas.

This press release shows the figures and data for the Consolidation as at 31 December 2017, comprising Italgas S.p.A. and the consolidated companies according to the line-by-line method, i.e. Italgas Reti, ACAM Gas S.p.A., Enerco Distribuzione S.p.A., SGS S.r.l. (the latter two companies acquired on 6 December 2017), and Toscana Energia S.p.A., Metano Sant'Angelo Lodigiano S.p.A. and Umbria Distribuzione Gas S.p.A., consolidated according to the equity method.

In order to enable a homogeneous comparison between the Italgas Group data for 2017 and the corresponding figures of 2016, the data and figures of the previous period are shown and commented on below, with reference to the aggregate composed of Italgas S.p.A., from the date of its establishment (1 June 2016), and the companies Italgas Reti S.p.A., Napoletanagas S.p.A. and ACAM Gas S.p.A. from 1 January 2016.

### Reclassified income statement

(€ million)	2016	2017	Change	Change %
Gas Distribution Regulated Revenues	1,051.3	1,096.8	45.5	4.3
Other revenues	26.6	27.4	0.8	3.1
<b>Total revenues (*)</b>	<b>1,077.9</b>	<b>1,124.2</b>	<b>46.3</b>	<b>4.3</b>
Adjusted operating costs (*)	(393.5)	(343.0)	50.5	(12.8)
<b>Adjusted gross operating margin (adjusted EBITDA)</b>	<b>684.4</b>	<b>781.2</b>	96.8	14.1
Amortisation, depreciation and impairment losses	(325.6)	(358.3)	(32.7)	10.0
<b>Adjusted EBIT</b>	<b>358.8</b>	<b>422.9</b>	<b>64.1</b>	<b>17.9</b>
<b>Adjusted net financial expenses</b>	<b>(48.4)</b>	<b>(36.2)</b>	<b>12.2</b>	<b>(25.2)</b>
Net income from equity investments	20.2	23.0	2.8	13.9
<b>Adjusted profit before tax</b>	<b>330.6</b>	<b>409.7</b>	<b>79.1</b>	<b>23.9</b>
Adjusted income tax	(109.5)	(113.3)	(3.8)	3.5
<b>Adjusted net profit (**)</b>	<b>221.1</b>	<b>296.4</b>	<b>75.3</b>	<b>34.0</b>

(\*) Net of the effects of IFRIC 12 "Service Concession Arrangements" (€479.6 and €315.5million, respectively in 2017 and in 2016) and other residual items (€17.1 and €15.9 million, respectively in 2017 and 2016).

**Total revenue** in 2017 amounted to €1,124.2, a €46.3 million increase compared with 2016, and refers to gas distribution regulated revenue (€1,096.8 million) and Other revenue (€27.4 million). The increase in gas distribution regulated revenue amounted to €45.5 million, broken down as follows: (i) higher distribution revenue (+€22.1 million; +2.26%) due to tariff components (+€10.6 million) and tariff adjustments concerning previous periods (+€11.5 million); (ii) higher other gas distribution regulated revenue (€+23.5 million; +30.7%), essentially related to the contribution ex art. 57 of the Resolution ARERA no. 367/14 (+€18.9 million), as regards the plan of investments for

the replacement of the traditional meters with electronic smart ones, as set forth in the project for remote reading, pursuant to ex resolutions ARERA no. 631/13 and no. 554/15, as well as higher revenue from ancillary network services and other regulated revenue (+€4.6 million; +9.7% compared with 2016).

Other revenue for €27.4 million, referring essentially to water activities, services to third parties and rental income, recorded a €0.9 million increase compared with the same figure of 2016.

The **Adjusted EBIT** in 2017 amounted to €422.9 million, an increase of €64.1 million, equal to 17.9%, compared with 2016. The increase is primarily due to: (i) higher revenue (+€46.3 million; +4.3%) , (ii) lower adjusted operating costs (-€50.5 million, equal to 12.8%) and (iii) higher amortisation, depreciation and impairments (+€32.7 million, equal to 10%). The adjusted cost change is primarily due to lower costs for services following a substantial reduction in services received from Snam (-€18 million), higher labour costs (+€8.8 million); lower net provisions for risks and future expenses (-€18.3 million) and lower net costs related to Energy Efficiency Certificates (-€14.7 million). Higher amortisation, depreciations and impairments were recorded following primarily a reduction in the useful life of the traditional meters<sup>1</sup> , subject to the plan for replacement with electronic smart meters, as set out in the ARERA resolutions, as part of the plan for implementing remote meter reading. The **adjusted net profit** of 2017, €296.4 million, shows a €75.3 million (+34%) increase compared with 2016 because of the effect, in addition to afore-mentioned increase of the adjusted operating profit of €64.1 million (i), of adjusted lower net financial expenses for €12.2 million, following primarily lower expenses related to the financial indebtedness and lower financial expenses related to the actualisation of environmental provisions (ii) of the higher net income from shareholdings (+€2.8 million)<sup>2</sup>. These factors were partially offset by higher income tax expense (+€3.8 million) due primarily to an increase of the taxable basis for the period, partially offset by the reduction on the IRES rate from 27.5% to 24%.

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<sup>1</sup>In line with the plan for replacing meters as of the second half of 2016 the service life of the meters included in the replacement project pursuant to ARERA resolutions 631/13 and 554/15 was adjusted in order to complete the depreciation process. As far as 2017 is concerned, the useful life of the meters to be replaced during the year was conventionally considered at the end of the first half-year.

<sup>2</sup>In particular, the change concerns essentially the restatement related to deferred taxes for extraordinary transactions carried out in the previous years (€2.7 million).

## **Reconciliation of EBIT and reported net profit with adjusted EBIT and adjusted net profit**

The Italgas management deems the performance of the Group, based on the results metrics not set out in the IFRS (“Alternative measures of performance”), obtained by excluding all special items from the operating profit and the net profit.

The income components are classified under special items, if significant, when: (i) they result from non-recurring events or transactions or from transactions or events which do not occur frequently in the ordinary course of business; or (ii) they result from events or transactions which are not representative of the normal course of business.

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion. Adjusted EBIT and adjusted net profit are not provided for by either IFRS or other standard setters. Management considers that these performance metrics allow for analysis of the business trends, making it easier to compare results. The financial reporting NON - GAAP must be considered as complementary and does not replace the information drafted according to the IFRS standards.

Following is a description of the components that are excluded from the calculations of the adjusted results.

The income items classified under special items in 2017 concern the non-recurrent provisions for redundancy incentives (€5.0 million; €3.6 million net of the tax effect).

With reference to 2016, the classified income items under special items, were: (i) non-recurring provisions for redundancy incentives (€14.8 million; €10.1 million net of tax effect); (ii) non-recurrent costs related to the demerger and listing operation (€8.0 million; €5.5 million net of the tax effect); (iii) financial expenses for the early closure, at market values (mark-to market) of financial contracts with Snam (€119.0 million, €86.2 million net of the tax effect).

## Reclassified financial statements

Italgas' reclassified statement of financial position as at 31 December 2017, compared with that of 31 December 2016, is summarised as follows:

(€ million)	31.12.2016	31.12.2017	Change
<b>Fixed capital</b>	<b>4,792.8</b>	<b>4,950.9</b>	<b>158.1</b>
Property, plant and equipment	227.5	224.6	(2.9)
Intangible assets	4,486.5	4,676.6	190.1
Equity investments	175.8	184.9	9.1
Financial receivables and securities held for transactions	0.1	0.1	
Net payables for investments	(97.1)	(135.3)	(38.2)
<b>Net working capital</b>	<b>(9.5)</b>	<b>71.1</b>	<b>80.6</b>
<b>Provisions for employee benefits</b>	<b>(120.6)</b>	<b>(116.1)</b>	<b>4.5</b>
<b>Assets held for sale and directly related liabilities</b>	<b>19.0</b>		<b>(19.0)</b>
<b>NET INVESTED CAPITAL</b>	<b>4,681.7</b>	<b>4,905.9</b>	<b>224.2</b>
<b>Net equity (including third-party shareholder interests)</b>			
- attributable to the Group	1,063.4	1,185.6	122.2
- pertaining to third-party shareholders	0.9		(0.9)
	<b>1,064.3</b>	<b>1,185.6</b>	<b>121.3</b>
<b>Net financial debt (cash)</b>	<b>3,617.4</b>	<b>3,720.3</b>	<b>102.9</b>
<b>COVERAGE</b>	<b>4,681.7</b>	<b>4,905.9</b>	<b>224.2</b>

**Fixed capital** (€4,950.9 million) increased by €158.1 million compared with 31 December 2016, mainly due to an increase in intangible assets (+€190.1 million) partially offset by an increase in net financial payables related to investment activities (-€38.2 million), and a decrease in property, plant and equipment (-€2.9 million).

**Tangible and intangible assets** amounted to €4,901.2 million. Intangible assets include the assets for services in concession, recorded pursuant to IFRIC 12, under the intangible asset item (€4,563.6 million). Tangible fixed assets refer primarily to buildings (€173.6 million), industrial and commercial equipment (€32 million). The investments in 2017, amounting to €521.9 million concern primarily the replacement of the meters and the placement/replacement of the gas networks.

The **Equity investments** item (€184.9 million) includes the valuation of equity investments using the equity method and refers to Toscana Energia (€182.4 million), Umbria Distribuzione Gas (€1.4 million) and Metano Sant'Angelo Lodigiano (€1.1 million).



## Net working capital

(€ million)	31.12.2016	31.12.2017	Change
Trade receivables	417.6	<b>406.5</b>	(11.1)
Inventories	32.6	<b>22.4</b>	(10.2)
Tax receivables	53.5	<b>49.1</b>	(4.4)
Accruals and deferrals from regulated activities	33.3	<b>78.5</b>	45.2
Other assets	149.1	<b>197.3</b>	48.2
Trade payables	(174.5)	<b>(184.1)</b>	(9.6)
Provisions for risks and charges	(230.5)	<b>(208.2)</b>	22.3
Deferred tax liabilities	(106.3)	<b>(94.8)</b>	11.5
Net tax payables	(13.5)	<b>(19.9)</b>	(6.4)
Other liabilities	(170.8)	<b>(175.7)</b>	(4.9)
	<b>(9.5)</b>	<b>71.1</b>	<b>80.6</b>

The change in working capital, compared with 31 December 2016, was +€80.6 million and derives primarily from the algebraical sum of the following items: (i) increase in accruals and deferrals from regulated activities (+€45.2 million) related to the tariff recognition estimated in compliance with applicable regulations as regards the plan for the replacement of the traditional meters with electronic smart ones; (ii) the increase in other assets (+€48.2 millions) deriving primarily from the higher receivables from CSEA related to Energy Efficiency Credits (EEC) (€53.8 million) and the decrease in accruals and deferrals (-€4.1 million); (iii) increase in trade payables (+9.6 million) in particular for payables due to suppliers and to CSEA; (iv) decrease in trade receivables (-€11.1 million) related in particular to fewer receivables from gas suppliers (-€23.1 million), partially offset by higher receivables from CSEA (+€9.5 million); (v) lower inventory (-€10.2 million) due to higher withdrawals related to the replacement of gas meters; (vi) lower balance of tax items (-€0.8 million) due primarily to a reduction in deferred tax liabilities; (vii) lower provisions for risks and charges (-€22.3 million).

It should be noted that the Company has finalised with financial counterparties factoring agreements based on which the receivables of the Company may be transferred without recourse. More specifically, during the period, some transactions for the transfer of receivables related to revenue pertaining to 2017 were finalised: (i) trade receivables for an amount of €116 million and (ii) receivables related to the Energy Efficiency Credits in the amount of €138.6 million.

Tax credits were transferred without recourse in the amount of €24.5 million.

**Assets held for sale and directly related liabilities** decreased due to the transfer of a property for €19 million (amount net of environmental provisions concerning costs for property restoration activities)<sup>3</sup>.

### Net financial debt

(€ million)	31.12.2016	31.12.2017	Change
<b>Financial and bond debt</b>	<b>3,619.0</b>	<b>3,723.2</b>	<b>104.2</b>
Short-term financial debt (*)	2,696.0	106.1	(2,589.9)
Long-term financial debt	923.0	3,617.1	2,694.1
<b>Financial receivables and cash and cash equivalents</b>	<b>(1.6)</b>	<b>(2.9)</b>	<b>(1.3)</b>
Cash and cash equivalents	(1.5)	(2.8)	(1.3)
Securities not held for transactions	(0.1)	(0.1)	
	<b>3,617.4</b>	<b>3,720.3</b>	<b>102.9</b>

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

**Net financial debt** at 31 December 2017 amounted to €3,720.3 million, an increase of €102.9 million (€3,617.4 million at 31 December 2016).

Financial and bond debt as at 31 December 2017, totalling €3,723.2 million (€3,619.0 million as at 31 December 2016), were denominated entirely in euros and referred mainly to bonds (€2,651.9 million), payables to banks (€287.8 million) and loan agreements concerning European Investment Bank (EIB) funding (€783.5 million).

The increase in financial and bond debts, amounting to €104.2 million, derives from the increase in long-term financial payables (€2,694.1 million) following: (i) the issuing of bond loans for a nominal value of €2,650 million with the following characteristics: nominal €1,500 million, issued on 19 January 2017, divided into two tranches, the first in 5 years and the second in 10 years, both at a fixed rate, in the amount of €750 million each and with an annual coupon of 0.50% and 1.625% respectively; (ii) nominal €650 million issued on 14 March 2017, maturing on 14 March 2024 and with a fixed rate annual coupon of 1.125%; nominal €500 million dated 18 September 2017, maturing on 18 January 2029 and with a fixed annual rate coupon of 1,625%; (ii) new loan with EIB, dated 28 December 2017, for €360 million, concurrent with the early extinction of a EIB loan of €300 million; (iii) the addition into the consolidation area of Enerco Distribuzione, starting from 6 December 2017, which has involved a €12.0 million increase in the gross financial debt. This increase was partially offset by the decrease in short-term financial debt (-€2,589.9 million) attributable primarily to the

<sup>3</sup> Concurrently with the Snam spin-off transaction, Italgas Reti maintained the rights and obligations related to the Roma Ostiense property arising from specific contractual agreements within the transfer context, from Eni to Snam, of the entire shareholding of Italgas Reti that occurred in 2009. On the other hand, rights and obligations concerning the price adjustment were transferred from Snam to Italgas.

extinction of a bridge to bond bank loan totalling originally €2,300 million, related to the issuing of the afore-mentioned bond loans and the lower usage of bank credit facilities (-€321.2 million).

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

(€ million)	31.12.2016	%	31.12.2017	%
Fixed rate			2,651.9	71.2
Floating rate	3,619.0	100.0	1,071.3	28.8
	<b>3,619.0</b>	100.0	<b>3,723.2</b>	<b>100.0</b>

Fixed rate financial liabilities stood at €2,651.9 million and relate to the issuing of bond loans.

Floating rate financial liabilities totalled €1,071.3 million, down by €2,547.7million compared with 31 December 2016, mainly as a result of the issuing of the above-mentioned bond loans which replaced short-term bank loans.

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

As at 31 December 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 that the Company and its subsidiaries may carry out. As at 31 December 2017, these commitments were met.

## Reclassified statement of cash flows

(€ million)	2016	2017
<b>Net profit</b>	<b>119.2</b>	<b>292.8</b>
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	305.4	<b>335.3</b>
- Net capital losses (capital gains) on asset sales and eliminations	10.9	<b>4.1</b>
- Interest and income tax	228.4	<b>141.5</b>
Change in working capital due to operating activities	(5.2)	<b>(105.7)</b>
Dividends, interest and income taxes collected (paid)	(287.3)	<b>(118.6)</b>
<b>Net cash flow from operating activities</b>	<b>371.4</b>	<b>549.4</b>
Technical investments	(349.5)	<b>(493.3)</b>
Divestments		<b>22.4</b>
Other changes relating to investment activities	(13.5)	<b>30.7</b>
<b>Free cash flow before Merger and Acquisition transactions</b>	<b>8.4</b>	<b>109.2</b>
Companies added to the consolidation area	(1,503.0)	<b>(38.7)</b>
of which:		
<i>price paid for equity</i>		<b>(35.9)</b>
<i>taking on the payables of acquired companies</i>		<b>(2.8)</b>
<b>Free cash flow</b>	<b>(1,494.6)</b>	<b>70.5</b>
Change in short- and long-term financial debt (*)	1,770.0	<b>92.6</b>
Equity cash flow	(275.0)	<b>(161.8)</b>
<b>Net cash flow for the period</b>	<b>0.4</b>	<b>1.3</b>

(\*) Includes the net financial indebtedness of the acquired companies.

## Change in net financial debt

	2016	2017
<b>Free cash flow before Merger and Acquisition transactions</b>	<b>8.4</b>	<b>109.2</b>
Change for acquisition of equity investments (*)	(1,847.8)	(50.3)
Equity cash flow	(275.0)	(161.8)
<b>Change in net financial debt</b>	<b>(2,114.4)</b>	<b>(102.9)</b>

(\*) Includes the net financial indebtedness of the acquired companies.

Net cash flow from operating activities in 2017 amounted to €549.4 million and enabled the full flow of net investments to be financed, equal to €440.1 million, generating a free cash flow before the Merger and Acquisition transaction of €109.2 million, which

partially covered the cash flow from equity of -€161.8 million, due to the paid out dividends. The increase in net financial debt amounted to €102.9 million, inclusive of the effect (of €50.3 million) deriving from a change in the consolidation area, following the addition, on 6 December 2017, of the subsidiary Enerco Distribuzione S.p.A.

## Key operating figures

### Investments

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

In 2017, technical investments amounted to €521.9 million, an increase of €143,9 million compared to the 2016 period (+€38.1%).

(€ million)	2016	2017	Change	Change %
<b>Distribution</b>	<b>210.00</b>	<b>253.2</b>	<b>43.2</b>	<b>20.6</b>
Network maintenance and development	172.0	201.0	29.0	16.9
Replacement of cast-iron pipes	38.0	52.2	14.2	37.4
<b>Metering</b>	<b>112.0</b>	<b>229.5</b>	<b>117.5</b>	
<b>Other investments</b>	<b>56.0</b>	<b>39.2</b>	<b>(16.8)</b>	<b>(30.0)</b>
	<b>378.0</b>	<b>521.9</b>	<b>143.9</b>	<b>38.1</b>

**Investments in distribution** (€253.2 million) mainly related to development projects (extensions and new networks) and the renovation of old sections of pipe, including the replacement of cast-iron pipes.

**Metering investments** (€229.5 million) mainly relate to the plan to replace traditional meters with electronic smart meters as part of the remote metering project which involved, in 2017, the installation of approximately 1.66 million of new meters.

**Other investments** (€39.2 million) mainly concerned investments in IT, property and vehicles.

## Operating highlights

### Key operating figures

Key operating figures	2016	2017	Change	Change %
Active meters (million)	6,536	6,586	0.1	0.8
Concessions for gas distribution (number)	1,472	1,500	28.0	1.9
Distribution network (km) (a)	56,798	57,773	975	1.7

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

### **Municipality areas under concession and tenders per area**

At 31 December 2017, Italgas had the concession for gas distribution in 1,500 Municipalities (1,472 at 31 December 2016), of which 1,484 in operation (1,422 as at 31 December 2016). The increase in the number of concessions is essentially due to the acquisition, on 6 December 2017, of Enerco Distribuzione. Considering also the associated companies, the number of operating concessions is 1,609.

### **Distributed gas**

At 31 December 2017, Italgas distributed 7,767 million cubic meters of gas (7,470 million in 2016) through 284 trading companies (282 in 2016). Considering also the associated companies, the gas distributed in 2017 amounted to 8,979 million of cubic meters.

### **Distribution network**

The gas distribution network at 31 December 2017, extended for 57,773 Kilometres (56,798 Kilometres at 31 December 2016), an increase of 975 Kilometres compared with 31 December 2016. Considering also the associated companies, the distribution network extends for 66,154 Kilometres.

### **Meters**

At 31 December 2017, the number of active meters at the redelivery points was 6,586 million (6,536 at 31 December 2016). Considering also the associated companies, the number of active meters was 7,438 million.

### **Main events**

- On 28 June, the tender for the gas distribution services in Atem Torino 2 (around 190,000 redelivery points in 48 municipalities in the area surrounding the Piedmontese capital) was submitted. No tenders were submitted by other operators.

- On 1 September, the tender offer for the gas distribution services in Atem Belluno (around 45,000 redelivery points in 74 municipalities) was submitted.
- The new Operation structure, through the establishment of 14 territorial units, was completed;
- The merger by incorporation of Napoletanagas into Italgas Reti was completed, effective 1 October 2017.
- On 6 December 2017, 100% of the share capital of **Enerco Distribuzione** was acquired. The final amount of the investment was €35.9 million, corresponding to an enterprise value of €50.3 million. Enerco Distribuzione, holder of 27 concessions in the provinces of Padua and Vicenza, manages a network of an additional 800 Kilometres of pipelines and serves about 30 thousand users.
- A binding agreement with CPL Concordia for the acquisition of a **portfolio of 7 gas concessions in Campania, Calabria and Sicily**, for a total amount of 16 municipalities, was executed on 30 November 2017. The overall valuation of the portfolio under the agreement, was set at €13 million. The finalisation was set within the month of March 2018 and is subject to fully meeting some pre-closing requirements. The total investment for the completion of the networks is expected to amount to approximately €95 million, partially financed by public contributions. Once completed, the infrastructures will cover a total of more than 400 kilometres and will serve a potential area of approximately 32,000 new customers.
- A binding agreement for the transfer to Italgas of 100% of **Medea**, a company holding the concession for the distribution and sale of gas in the town of Sassari, was executed on 21 December 2017 with Hera. The overall valuation of Medea was set at €24.1 million. The Company serves about 13,000 customers, all residing in the city of Sassari, to whom it distributes an annual LPG volume exceeding 5 million cubic meters. The potential coverage of the company is approximately 30,000 customers. The network, functional to the future conversion into natural gas, extends for an additional 190 Kilometres and is currently fed with LPG through a storage and production plant located in the suburbs of the city.
- The Italgas security was included in the series of FTSE4Good indexes demonstrating the commitment of the company to a sustainable development based on its leadership in the interaction with the reference social context,

and aimed at creating opportunities centred on the principles of the shared values. In addition, in 2017, Italgas was identified by the CDP (Carbon Disclosure Project) as one of the companies recognised as leaders at an international level for the strategies and activities carried out to address climate change, obtaining its inclusion in the “Climate Change A- List”.

- The first steps were taken for the digital transformation of the network, drawing on the advantages offered by PublicCloud and adopting the “Infrastructure as a Service (IaaS)” as an infrastructural solution for its application map. This technological enhancement will enable Italgas to not only improve the management and reliability of its own IT system, but also to lay down the foundation on which the future digitalisation of the Company will be based. The project is currently under way and its launch is expected for summer 2018. At the same time, Italgas has undertaken to streamline the application map. This will also enable Italgas to access, all the new technologies that the top IT Vendors in the world have already developed and will develop in the future, and to create the technological basis necessary for the digitalisation of the corporate processes through the use of innovative technologies.

### **Post-Balance Sheet events**

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



networks in 81 municipalities of Sardinia. The total enterprise value of Ichnusa Gas was set at €26.2 million.

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

## **Business Outlook**

Italgas will continue to pursue its strategic objectives, focusing on making investments, streamlining processes and 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 2018, Italgas is estimating, considering the same area, an expenditure substantially in line with the figure of the previous year, aimed primarily at maintaining and developing the managed networks, to implementing the ambitious plan for the installation of electronic smart meters, within the scope of the meter-reading activity as well as the completion of the new networks being built.

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

In addition, in line with the objectives of the Strategic Plan, after the acquisition, in December 2017, of 100% of Enerco Distribuzione S.p.A., it is expected that in 2018 additional **initiatives for the development of external lines**, which will enable the strengthening of the territorial presence and the competitiveness of Italgas in view of the calls for tender, will be carried out, anticipating its effects in terms of the growth of its activities area.

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

Finally, in 2018, the activities aimed at **optimising the financial structure** of the Italgas Group, extending the average maturity of payables and increasing the fixed rate portion in line with the objectives of its financial structure.

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

In compliance with the development of the reference regulatory framework and taking into account the requirements of the stakeholders, Italgas has chosen to publish, on a voluntary basis, additional financial information, on a regular basis, besides the annual and six month Financial Reports.

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

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

The consolidation scope at 31 December 2017 was different from the one at 31 December 2016 due to the addition of Enerco Distribuzione and of the subsidiary S.G.S., following acquisition, effective 6 December 2017, of 100% of the share capital of Enerco Distribuzione.

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

### **Conference call**

At 4:30 pm of 12 March 2018, a conference call will be held to present to financial analysts and investors the 2017 results. The presentation may be followed, through webcasting, on the web site of the Company ([www.italgas.it](http://www.italgas.it)). In conjunction with the conference call, the presentation support material will also be provided in the "Investor Relations/Presentations" section of the website.

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

## IFRS financial statements

### Balance sheet

(thousands of Euro)	31.12.2016		31.12.2017	
	Total	of which toward related parties	Total	of which toward related parties
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	1,544		2,831	
Other financial negotiable or available for sale financial assets	119		119	
Trade and other receivables	579,090	255,856	619,202	225,387
Inventories	32,581		22,410	
Current income tax assets	34,607		12,511	
Other current tax assets	3,318		21,139	
Other current assets	4,410	18	5,944	30
	<b>655,669</b>		<b>684,156</b>	
<b>Non-current assets</b>				
Property, plant and equipment	227,476		224,651	
Intangible assets	4,486,511		4,676,561	
Investments valued using the equity method	175,707	175,707	184,829	184,829
Other investments	54	54	54	54
Other financial assets	156		156	
Other non-current assets	37,874	706	77,891	702
	<b>4,927,778</b>		<b>5,164,142</b>	
<b>Non-current assets held for sale</b>	<b>24,949</b>		<b>11</b>	
<b>TOTAL ASSETS</b>	<b>5,608,396</b>		<b>5,848,309</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Short-term financial liabilities	2,695,603		81,133	
Short-term portion of long-term financial liabilities	435		25,043	
Trade and other payables	443,112	73,023	498,174	72,469
Current income tax liabilities	945		8,429	
Other current tax liabilities	12,515		11,424	
Other current liabilities	193	190	182	175
	<b>3,152,803</b>		<b>624,385</b>	
<b>Non-current liabilities</b>				
Long-term financial liabilities	923,005		3,617,044	
Provisions for risks and charges	230,524		208,246	
Provisions for employee benefits	120,648		116,149	
Deferred tax liabilities	106,276		94,790	
Other non-current liabilities	4,876	165	2,055	165
	<b>1,385,329</b>		<b>4,038,284</b>	
<b>Liabilities directly associated with assets held for sale</b>	<b>5,970</b>			
<b>TOTAL LIABILITIES</b>	<b>4,544,102</b>		<b>4,662,669</b>	
<b>SHAREHOLDERS' EQUITY</b>				
<b>Italgas shareholders' equity</b>				
Share capital	1,001,232		1,001,232	
Reserves	134,383		(108,358)	
Profit (loss) for the period	(72,209)		292,766	
<b>Total Italgas shareholders' equity</b>	<b>1,063,406</b>		<b>1,185,640</b>	
<b>Minority interests</b>	<b>888</b>			
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,064,294</b>		<b>1,185,640</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,608,396</b>		<b>5,848,309</b>	

This press release is available at the following address [www.italgas.it](http://www.italgas.it)

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+39 02 8187 2012  
[investor.relations@italgas.it](mailto:investor.relations@italgas.it)

## Income Statement

(thousands of Euro)	June-Dec 2016	2017
<b>REVENUE</b>		
Core business revenue	247,672	1,570,929
Other revenue and income	26,050	50,112
	<b>273,722</b>	<b>1,621,041</b>
<b>OPERATING COSTS</b>		
Purchases, services and other costs	(110,497)	(613,112)
Personnel cost	(57,269)	(231,685)
	<b>(167,766)</b>	<b>(844,797)</b>
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT</b>		
	<b>(76,802)</b>	<b>(358,342)</b>
<b>EBIT</b>	<b>29,154</b>	<b>417,902</b>
<b>FINANCIAL INCOME (EXPENSES)</b>		
Financial expenses	(122,800)	(37,334)
Financial income		1,085
	<b>(122,800)</b>	<b>(36,249)</b>
<b>INCOME (EXPENSE) ON EQUITY INVESTMENTS</b>		
Equity method valuation effect	3,105	22,973
Other income (expense) from equity investments		
	<b>3,105</b>	<b>22,973</b>
<b>PRE-TAX PROFIT</b>	<b>(90,541)</b>	<b>404,626</b>
Income tax	18,332	111,860
<b>Profit (loss) for the period</b>	<b>(72,209)</b>	<b>292,766</b>
<b>Applicable to:</b>		
- Italgas	(72,209)	292,766
- Minority interests		
<b>Net profit (loss) per share (€ per share)</b>		
- basic	(0.09)	0.36
- diluted	(0.09)	0.36

## Statement of comprehensive income

(thousands of Euro)	June- Dec 2016	2017
<b>Net profit</b>	<b>(72,209)</b>	<b>292,766</b>
<b>Other items of the comprehensive income</b>		
<b><i>Reclassifiable items of the Income Statement:</i></b>		
Portion pertaining to "other items of the comprehensive income" of the investments carried at equity		
Tax effect		
<b><i>Non-reclassifiable items of the Income Statement:</i></b>		
Actuarial profit (loss) from remeasuring defined benefit plans for employees	2,654	(1,183)
Tax effect	<b>(841)</b>	334
	<b>1,813</b>	<b>(849)</b>
<b>Total other items of the comprehensive income net of the tax effect</b>	<b>2,654</b>	<b>(1,183)</b>
<b>Total comprehensive income for the period</b>	<b>(69,555)</b>	<b>291,583</b>
<b>Applicable to:</b>		
- Italgas	<b>(69,555)</b>	291,583
- Minority interests		
	<b>(69,555)</b>	<b>291,583</b>

## Statement of changes in shareholders' equity

(thousands of Euro)		
<b>Shareholders' equity at 31 December 2016</b>		<b>1,064,294</b>
<i>Increase for:</i>		
- 2017 Comprehensive income	291,583	
		<b>291,583</b>
<i>Decrease for:</i>		
- 2016 Dividend distribution	(161,827)	
- Other changes	(8,410)	
		<b>(170,237)</b>
<b>Shareholders' equity at 31 December 2017</b>		<b>1,185,640</b>

## Cash flow statement

(thousands of Euro)	June-Dec 2016	2017
Profit (loss) for the period	<b>(72,209)</b>	<b>292,766</b>
Adjustments for reconciling net profit with cash flows from operating activities:		
Total amortisation and depreciation	76,802	352,001
Net impairment of tangible and intangible assets		6,341
Equity method valuation effect	(3,106)	(22,958)
Net capital losses (capital gains) on asset sales, cancellations and eliminations	667	4,124
Dividends		(15)
Interest income	(355)	(836)
Interest expenses	121,908	30,423
Income tax	(18,332)	111,860
Changes in working capital:		
- Inventories	(7,651)	10,306
- Trade receivables	(33,550)	12,423
- Trade payables	51,942	8,365
- Provisions for risks and charges	20,857	(22,456)
- Other assets and liabilities	8,000	(112,193)
<i>Working capital cash flow</i>	<b>39,598</b>	<b>(103,555)</b>
Change in provisions for employee benefits	(4,547)	(4,907)
Dividends collected		13,820
Interest collected	355	836
Interest paid	(121,908)	(30,423)
Income taxes paid net of reimbursed tax credits	(64,428)	(102,765)
<b>Net cash flow from operating activities</b>	<b>(45,555)</b>	<b>546,712</b>
- of which with related parties		
Investments:		
- Property, plant and equipment	(5,674)	(10,867)
- Intangible assets	(73,782)	(482,435)
- Change in scope of consolidation and business units	(1,502,950)	(35,941)
- Change in payables and receivables relating to investments	14,844	30,754
<i>Cash flow from investments</i>	<b>(1,567,562)</b>	<b>(498,489)</b>
Divestments:		
- Property, plant and equipment	73	
- Intangible assets		419
- Equity investments		21,961
- Change in receivables relating to divestment activities	(1)	(1)
<i>Cash flow from divestments</i>	<b>72</b>	<b>22,379</b>
<b>Net cash flow from investment activities</b>	<b>(1,567,490)</b>	<b>(476,110)</b>
- of which with related parties		
Assumption of long-term financial debt	927,528	2,711,855
Repayment of long-term financial debt	(1,441,400)	(355)
Increase (decrease) in short-term financial debt	2,128,461	(2,618,988)
Financial receivables not held for transactions		
	<b>1,614,589</b>	<b>92,512</b>
Transfer of own shares		
Dividends paid to Italgas shareholders		(161,827)
<b>Net cash flow from financing activities</b>	<b>1,614,589</b>	<b>(69,315)</b>
- of which with related parties		
Changes in scope of consolidation and other changes		
<b>Net cash flow for the period</b>	<b>1,544</b>	<b>1,287</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1,544</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>1,544</b>	<b>2,831</b>

# Italgas S.p.A. IFRS Financial Statements

## Balance sheet

(in €)	31.12.2016	31.12.2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,500	87,945
Trade and other receivables	1,577,674,727	189,102,864
Current income tax assets	28,269,047	3,940,816
Other current tax assets		
Other current assets	547,341	1,054,999
	<b>1,606,492,615</b>	<b>194,186,624</b>
<b>Non-current assets</b>		
Property, plant and equipment	362,841	1,940,240
Intangible assets		
Investment in subsidiary companies, associated companies and companies under joint control	2,966,709,388	2,974,230,948
Other financial assets	723,334,746	2,240,757,345
Assets for prepaid taxes	63,075	2,336,691
Other non-current assets	5,060,330	966,682
	<b>3,695,530,380</b>	<b>5,220,231,906</b>
<b>TOTAL ASSETS</b>	<b>5,302,022,995</b>	<b>5,414,418,530</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term financial liabilities	2,695,602,678	76,480,195
Short-term portion of long-term financial liabilities	435,334	23,388,866
Trade and other payables	35,443,858	32,325,869
Current income tax liabilities		5,806,248
Other current tax liabilities	740,751	2,579,182
Other current liabilities		
	<b>2,732,222,621</b>	<b>140,580,360</b>
<b>Non-current liabilities</b>		
Long-term financial liabilities	923,005,203	3,611,906,672
Provisions for risks and charges	1,195,616	2,249,530
Provisions for employee benefits	4,903,911	6,522,358
Other non-current liabilities		
	<b>929,104,730</b>	<b>3,620,678,560</b>
<b>TOTAL LIABILITIES</b>	<b>3,661,327,351</b>	<b>3,761,258,920</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	1,001,231,518	1,001,231,518
Legal reserve	192,236,304	200,246,304
Share premium reserve	620,130,651	620,130,651
Reserve from IAS 19 remeasurement	(194,035)	(55,320)
Other reserves	(349,839,085)	(349,839,085)
Profit (losses) carried forward		7,293,191
Net profit	177,130,291	174,152,351
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,640,695,644</b>	<b>1,653,159,610</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,302,022,995</b>	<b>5,414,418,530</b>



## Income statement

(in €)	June-Dec 2016	2017
<b>REVENUE</b>		
Core business revenue	7,703,015	64,469,214
Other revenue and income	7,235	409,190
	<b>7,710,250</b>	<b>64,878,404</b>
<b>OPERATING COSTS</b>		
Purchases, services and other costs	(12,574,415)	(36,321,697)
Personnel cost	(6,157,638)	(41,806,583)
	<b>(18,732,053)</b>	<b>(78,128,280)</b>
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT</b>		
	<b>(3,134)</b>	<b>(60,817)</b>
<b>OPERATING PROFIT</b>	<b>(11,024,937)</b>	<b>(13,310,693)</b>
<b>FINANCIAL INCOME (EXPENSES)</b>		
Financial income	2,083,585	21,805,924
Income from derivative instruments		
Financial expenses	(4,548,200)	(36,085,114)
Expense from derivative instruments		
	<b>(2,464,615)</b>	<b>(14,279,190)</b>
<b>INCOME (EXPENSE) ON EQUITY INVESTMENTS</b>	<b>190,000,000</b>	<b>197,416,267</b>
<b>PRE-TAX PROFIT</b>	<b>176,510,448</b>	<b>169,826,384</b>
Income tax	619,843	4,325,967
<b>NET PROFIT</b>	<b>177,130,291</b>	<b>174,152,351</b>

## Cash flow statement

(thousands of Euro)	June-Dec 2016	2017
Net profit	177,130	174,152
Adjustments for reconciling net profit with cash flows from operating activities:		
Total amortisation and depreciation	3	61
Dividends and other interest income	(190,000)	(197,416)
Interest income	(2,026)	(21,520)
Interest expenses	2,766	29,871
Income tax	(620)	(4,325)
Changes in working capital:		
- Trade receivables	(8,683)	(12,903)
- Trade payables	15,587	555
- Provisions for risks and charges	653	930
- Other assets and liabilities	(4,013)	15,237
<i>Working capital cash flow</i>	<i>3,544</i>	<i>3,819</i>
Change in provisions for employee benefits	834	1,088
Dividends and other collected interest income	190,000	197,416
Interest collected	2,026	34,098
Interest paid	(2,766)	(29,871)
Income taxes paid net of reimbursed tax credits	(11,840)	10,217
<b>Net cash flow from operating activities</b>	<b>169,051</b>	<b>197,590</b>
Investments:		
- Property, plant and equipment	(366)	(1,638)
- Intangible assets		
- Equity investments	(1,503,211)	(7,522)
- Financial receivables held for transactions	(723,335)	(1,530,000)
- Change in payables and receivables relating to investments		7,765
<i>Cash flow from investments</i>	<i>(2,226,912)</i>	<i>(1,531,395)</i>
Divestments:		
- Equity investments		
- Financial receivables held for transactions		
<i>Cash flow from divestments</i>		<i>0</i>
<b>Net cash flow from investment activities</b>	<b>(2,226,912)</b>	<b>(1,531,395)</b>
Assumption of long-term financial debt	923,440	2,711,855
Repayment of long-term financial debt		
Increase (decrease) in short-term financial debt	2,695,603	(2,619,123)
Increase (Decrease) in financial receivables not held for operating activities	(1,561,231)	1,402,987
	2,057,812	<b>1,495,719</b>
Net contributions to share capital	50	
Dividends distributed to shareholders		(161,827)
<b>Net cash flow from financing activities</b>	<b>2,057,862</b>	<b>1,333,892</b>
<b>Other changes</b>		
<b>Net cash flow for the period</b>	<b>1</b>	<b>87</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>1</b>	<b>88</b>

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