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Informazione Regolamentata n. 0167-30-2019	Data/Ora Ricezione 14 Maggio 2019 08:26:43	MTA
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Societa' : ITALGAS

Identificativo : 118382

Informazione
Regolamentata

Nome utilizzatore : ITALGASN01 - Porro

Tipologia : 3.1

Data/Ora Ricezione : 14 Maggio 2019 08:26:43

Data/Ora Inizio : 14 Maggio 2019 08:26:44

Diffusione presunta

Oggetto : Italgas: results as at 31 March 2019
approved

Testo del comunicato

Vedi allegato.

ITALGAS: RESULTS AS AT 31 MARCH 2019 APPROVED

Milan, 14 May 2019 - Italgas' Board of Directors, chaired by Alberto Dell'Acqua, met yesterday and approved the consolidated (unaudited) results for 2019 first quarter.

Key figures

Consolidated economic and financial highlights:

- Total revenue: €310.8 million (+9.9%)
- EBITDA: €219.2 million (+10.5%)
- EBIT: €123.6 million (+10.0%)
- Net profit: €86.3 million (+15.5%)
- Technical investments: €152.4 million (+43.6%)
- Cash flow from operating activities¹: €242.2 million
- Net financial debt²: €3701.9 million

Operating highlights including investee companies:

- Municipalities in gas distribution concessions: 1,803
- Number of active meters: 7.57 million
- Gas distribution network: around 70,000 Km

The economic and financial results confirm the continuous growth process recorded by the Company since its return to the stock market in November 2016, inaugurating a new management cycle focused on further improvement in margins compared to the same period of 2018.

With €152.4 million in organic investments in the first quarter, Italgas significantly exceeds the targets defined in the Business Plan, an increase in line with that already announced to the market. In particular, over 50% of the investments were allocated for the maintenance and extension of the network (170 km against 40 last year), while the installation of the smart meters continued, in line with last year, replacing traditional meters, and this replacement will be completed by the first half of 2020. With approximately 410.0 thousand meters installed in the first three months of 2019, the total, also considering investee companies, was around 5.4 million, equal to 63.9% of total

¹Net of the effects deriving from IFRS 16 and IFRS 15.

²Net financial debt as at 31 March 2019 did not consider financial payables for operating leases pursuant to IFRS 16 of €65.7 million (€49.9 million as at 31 December 2018).

meters³. The installation of the smart meters is part of the digitalisation project of the network for which over 50 pilot projects have been already completed throughout the country, covering approximately 200 kilometres of distribution network and a total of 11,800 *smart meters*.

The financial requirements related to the net investments in 1Q 2019 were fully covered by the positive cash flow from operating activities, amounting to €242.2 million, with a Free Cash Flow - before the M&A transactions - of € 112.7 million.

Net financial position as at 31 March 2019 was equal to € 3,701.9 million (€3,814.3 million as at 31 December 2018).

With regards to the economic results, operating profits in the first quarter of 2019 reached €123.6 million (+10.0% compared to 31 March 2018) and net profit reached €86.3 million (+15.5% compared to the same period of the previous year).

Paolo Gallo, CEO of Italgas, commented:

“The results of the first quarter 2019 also confirm the virtuous path undertaken by Italgas since November 2016, with all the indicators showing double-digit increases. In particular, compared to the same period of 2018, EBIT and net profit showed increases of +10% and +15.5%, respectively, demonstrating the effectiveness of the acquisitions made and the important efficiency improvement actions undertaken in the last two years. Investments for the period recorded an increase of 43.6%, and investments on the network (maintenance and extension) in particular, which are the most valuable investments for the Italian economy, grew by over 70%. We are continuing the process of installing smart meters, which will be completed in the first half of 2020, and the larger project of digitalisation of the networks, which will contribute to strengthening Italgas’ leadership in Italy and in Europe. In acknowledging our role, two important partnership agreements were signed in recent weeks: with State Grid Corporation of China, the largest utility in the world, and with the US company Picarro, a leader in providing smart software for monitoring networks”.

³Excluding investee companies, in the first quarter of 2019, Italgas installed about 363.5 thousand new meters, bringing the total number of installed meters to about 4.8 million, equal to approximately 63.4% of the entire meter fleet.

Group structure as at 31 March 2019

The structure of the Italgas Group as at 31 March 2019, unchanged on the structure existing as at 31 December 2018, is shown below:



Economic and financial highlights

Reclassified Income Statement

(€ million)	First quarter		Abs. change	% Change
	2018	2019		
Gas distribution regulated revenue	276.1	288.1	12.0	4.3
<i>of which Through-transmission revenue</i>	249.9	260.8	10.9	4.4
<i>of which Other gas distribution regulated revenue (*)</i>	26.2	27.3	1.1	4.2
Other revenue	6.8	22.7	15.9	233.8
Total revenue (**)	282.8	310.8	28.0	9.9
Operating costs (**)	(84.4)	(91.6)	(7.2)	8.5
EBITDA	198.4	219.2	20.8	10.5
Amortisation, depreciation and impairment	(86.0)	(95.6)	(9.6)	11.2
EBIT	112.4	123.6	11.2	10.0
Net financial expense	(12.0)	(12.2)	(0.2)	1.7
Net income from equity investments	4.8	5.8	1.0	20.8
Pre-tax profit	105.2	117.2	12.0	11.4
Income taxes	(30.5)	(30.9)	(0.4)	1.4
Net profit	74.7	86.3	11.6	15.5

(*) To ensure a like-for-like comparison with the accounting statements represented as at 31 March 2019, the penalties for leaks, equal to €1.9 million as at 31 March 2018 and shown net of incentives, were reclassified under operating costs.

(**) Net of the effects of IFRIC 12 "Service Concession Arrangements" (€122.5 million and €96.5 million respectively in the first quarters of 2019 and 2018) and the reclassification of the other residual items (€3.8 million in the first quarter of 2019 and €5.5 million in the first quarter of 2018).

Total revenue in the first quarter of 2019 amounted to €310.8 million, a €28.0 million increase compared with the same period last year, and refers to natural gas distribution regulated revenue (€260.8 million) and other revenue (€27.3 million). The increase in gas distribution regulated revenue amounted to €12.0 million, broken down as follows: (i) higher revenue from through-transmission (€10.9 million; +4.4%) and (ii) higher other regulated revenue from gas distribution (€1.1 million; +4.2%). Higher revenue from through-transmission is mainly attributable to the following: €4.8 million to tariff components (of which €3 million due to the revision of the WACC pursuant to Resolution no. 639/2018), €3.7 million to the change in the scope of consolidation due to the new corporate acquisitions and €2.4 million due to negative adjustments recorded in 2018.

The other revenue from regulated gas distribution mentioned under (ii) above, includes the contribution pursuant to art. 57 of ARERA Resolution 367/14, regarding the replacement of traditional meters with electronic meters (smart meters), as provided by the remote reading plan pursuant to the ARERA Resolutions no. 631/13 and 554/15. This contribution totalled €8.7 million in the first quarter 2019 (€12.9 million in the first quarter of 2018) and referred to the percentage due for the tariff recognition for the plan for the replacement of traditional meters, determined assuming that the replacement of the traditional meter fleet will be completed in the initial months of 2020. Compared to 31

March 2018, the company also recorded an increase of €2.1 million in ARERA incentives (of which €1.2 million relating to natural gas distribution service safety improvement pursuant to Resolution no. 75/2019/R/gas of 5 March 2019), of which €1.6 million for revenue relating to services to customers and €1.8 million for interventions relating to suspensions due to default.

The **other revenue** in the first quarter of 2019 totalled €22.7 million (up by €15.9 million compared with the same period in 2018). The increase is mainly linked to i) capital gains from sale of €8.8 million (of which €7.7 million linked to the sale of the property in Via XX Settembre in Turin), ii) sundry management refunds, mainly attributable to refunds linked to the supply of gas through “cylinder trucks” (€1.2 million) and iii) the sale of LPG as a result of the change in the scope of consolidation relating to the assets acquired in Sardinia (€5.6 million).

The **operating costs** totalled €91.6 million in the first quarter of 2019, up by €7.2 million compared to the first quarter of 2018. The increase derives from higher i) provisions relating to Energy Efficiency Certificates (€8.9 million), ii) costs pertaining to the distribution of gas through “cylinder trucks” (€1.1 million), iii) other operating costs (€1.4 million) and iv) external costs for sundry activities (€3.3 million). The higher costs have been offset by lower external costs relating to regulated activities (-€5.2 million) and lower personnel cost (-€2.9 million). The change in the scope of consolidation compared to the same period of 2018 entails total higher external costs of around €4.9 million (of which €2.3 million attributable to the purchase of raw materials for the distribution and sale of LPG).

Gross operating profit (EBITDA⁴) totalled €219.2 million in the first quarter of 2019, up by €20.8 million (+10.5%) compared with the same period in 2018, and is related to: (i) higher revenue of €28.0 million (+9.9%) and (ii) higher operating costs of €7.2 million (+8.5%).

Higher **amortisation, depreciation and impairment** (€9.6 million; +11.2%) is due primarily to a reduction in the useful life of the traditional meters⁵ (€8.8 million; +137.5%), subject to replacement with electronic smart meters, as set forth in the ARERA Resolutions as part of the remote reading implementation plan.

⁴ This press release uses alternative performance indicators, including EBITDA (gross operating margin, determined by subtracting operating costs from revenue) and EBIT (the result of operational management, determined by subtracting operating costs, amortisation, depreciation and impairment from revenue). The NON-GAAP financial disclosure must be considered as supplementary, and does not replace the information drafted according to IAS-IFRS standards.

⁵ In line with the plan for replacing meters pursuant to Resolution no. 669/2018. As at 31 March 2018 the company's target was to replace 50% of the meter fleet.

The **operating profit (EBIT)** in the first quarter of 2019 totalled €123.6 million, up by €11.2 million, equal to +10.0%.

Financial expense, equal to €12.2 million, recorded a slight increase of €0.2 million in the first quarter of 2019, compared to the same period of 2018, mainly due to the discounting of the provisions for environmental risks.

Net income from equity investments (€5.8 million) increased by €1.0 million compared to the first quarter of 2018, mainly due to the measurement at equity of the equity investment in Toscana Energia.

Income taxes (€30.9 million) increased by €0.4 million compared to the same period of 2018, specifically due to the effects of the increase in gross profit.

Net profit for the first quarter of 2019, which amounted to €86.3 million, was up by €11.6 million on the same period last year, equal to +15.5%, as a result of the aforementioned increase in operating profits of €11.2 million.

Reclassified Statement of Financial Position

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

(€ million)	31.12.2018	31.03.2019	Abs. change
Fixed capital	5,284.1	5,345.1	61.0
Property, plant and equipment	259.2	274.6	15.4
Intangible assets	4,982.8	5,020.1	37.3
Equity investments	175.1	180.9	5.8
Financial receivables and securities instrumental to operations	0.1	0.2	0.1
Net payables for investments	(133.1)	(130.7)	2.4
Net working capital	5.7	(64.8)	(70.5)
Provisions for employee benefits	(107.9)	(106.6)	1.3
Assets held for sale and directly related liabilities	11.6	6.2	(5.4)
NET INVESTED CAPITAL	5,193.5	5,179.9	(13.6)
Shareholders' equity	1,329.3	1,412.3	83.0
Net financial debt (*)	3,814.3	3,701.9	(112.4)
Financial payables for operating leases pursuant to IFRS 16 (**)	49.9	65.7	15.8
HEDGE ACCOUNTING	5,193.5	5,179.9	(13.6)

(*) The value as at 31 March 2019 includes the payable for shareholder loans disbursed by CPL Concordia to EGN of €21.0 million, reclassified to other liabilities in the 2018 financial statements, only for management purposes.

(**) Italgas has, since 1 January 2018, applied the IFRS 16 - Leases international accounting standard which, having eliminated the difference between financial and operating leases, determined the recognition of debts for commitments to leasing companies with respect to the recognition of Property, plant and equipment for the Right of use of relative goods for payments of operating leases.

Fixed capital as at 31 March 2019 (€5,345.1 million) increased by €61.0 million compared to 31 December 2018, mainly on account of the increase in intangible assets (€37.3 million) and the increase in the property, plant and equipment (€15.4 million).

Property, plant and equipment and intangible assets amounted to €5,294.7 million, an increase of €52.7 million compared to 31 December 2018.

The **intangible assets** (€5,020.1 million), which mainly refer to the assets for services in concession recorded pursuant to IFRIC 12, have increased by €37.3 million following gross investments of €130.3 million, amortisation of €88.9 million, net of €4.1 million mainly deriving from net grants collected during the quarter.

Property, plant and equipment (€274.6 million) which mainly refer to buildings and industrial and commercial equipment, have increased by €15.4 million due to the investments of €3.8 million and increases of €18.3 million connected to the application of IFRS 16, net of depreciation of €6.7 million.

The **Equity investments** item (€180.9 million) includes the assessment of investments at equity of Toscana Energia, Umbria Distribuzione Gas and Metano Sant'Angelo Lodigiano.

Net working capital

(€ million)	31.12.2018	31.03.2019	Abs. change
Trade receivables	406.7	443.1	36.4
Inventories	26.2	29.2	3.0
Tax receivables	47.7	65.5	17.8
Accruals and deferrals from regulated activities	141.5	150.3	8.8
Other assets	115.0	129.7	14.7
Trade payables	(230.8)	(291.9)	(61.1)
Provisions for risks and charges	(187.6)	(188.9)	(1.3)
Deferred tax liabilities	(71.7)	(67.8)	3.9
Net tax payables	(13.5)	(43.1)	(29.6)
Other liabilities	(227.8)	(290.9)	(63.1)
	5.7	(64.8)	(70.5)

The negative €70.5 million change in working capital compared with 31 December 2018 was mainly due to: (i) the increase in trade payables (+€36.4 million) deriving in particular from higher payables to gas sales companies, connected to the seasonality of the period; (ii) a lower balance for tax items (-€7.9 million) on account of the increase in net tax payables (-€29.6 million, mainly on account of higher current tax payables for the period), partially offset by the increase in the tax credits (+€17.8 million, in particular for V.A.T credits) and liabilities for deferred taxes (+€3.9 million); (iii) increase in trade receivables (-€61.1 million) due to higher payables to CSEA connected with equalization for the

period (-€104.9 million), partially offset by the decrease in payables to suppliers (+€18.7 million) and lower payables for penalties to the CSEA (+€10.5 million); (iv) the increase in other operating assets (+€14.7 million) mainly deriving from the higher receivables from CSEA connected to the Energy Efficiency Certificates; (v) the increase in the accruals and deferrals pertaining to regulated activities (+€8.8 million), connected to the contribution pursuant to art. 57 of ARERA Resolution 367/14 in relation to the replacement plan for the traditional meters with smart meters; (vi) higher provisions for risks and charges (-€1.3 million) particularly in relation to the higher provision relating to Energy Efficiency Certificates; (vii) the increase in other liabilities (-€63.1 million) specifically linked to payables due to the CSEA for accessory components to through-transmission sales.

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, some transactions for the transfer of receivables related to through-transmission, connected with revenue of the first quarter were finalised, for a total amount of €177.3 million.

Net financial debt

(€ million)	31.12.2018	31.03.2019	Abs. change
Financial payables and bonds	3,822.4	3,713.5	(108.9)
Short-term financial payables (*)	156.1	46.4	(109.7)
Long-term financial payables	3,666.3	3,667.1	0.8
Financial receivables and cash and cash equivalents	(8.1)	(11.6)	(3.5)
Cash and cash equivalents	(8.0)	(11.5)	(3.5)
Securities not instrumental to operations	(0.1)	(0.1)	0.0
Net financial debt (**)	3,814.3	3,701.9	(112.4)
Lease payables pursuant to IFRS 16	49.9	65.7	15.8
Payable for EGN shareholders' loan	21.0	0.0	(21.0)
Net financial debt (including the effects of IFRS 16 and the EGN payable)	3,885.2	3,767.6	(117.6)

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

(**) Net financial debt as at 31 March 2019 did not consider financial payables for operating leases pursuant to IFRS 16 of €65.7 million (€49.9 million as at 31 December 2018). The item includes the payable for shareholder loans disbursed by CPL Concordia to EGN of €21.0 million, reclassified to other liabilities in the 2018 financial statements, only for management purposes. The recognition among financial payables as at 31 March 2019 takes account of the exercise of the call option on the residual 40%, which occurred in April 2019.

Net financial debt was €3,701.9 million as at 31 March 2019, lower by €112.4 million than as at 31 December 2018. Including the effects deriving from the application of IFRS 16 amounting to €65.7 million, net financial debt was €3,767.6 million.

Financial and bond payables as at 31 March 2019 totalled €3,713.5 million (€3,822.4 million as at 31 December 2018), was denominated entirely in euros and referred mainly to bonds (€2,887.0 million), loan agreements with the European Investment Bank/EIB

(€783.9 million), payables to Banks (€23.3 million) and the payable for the EGN shareholders' loan (€21.0 million).

The reduction of the financial payables and the bonds of €108.9 million is attributable to the reduction of short term financial debt (€109.7 million), mainly on account of lesser usage bank credit lines.

As at 31 March 2019, the breakdown of debt by type of interest rate, net of lease payables pursuant to IFRS 16, is as follows:

(€ million)	31.12.2018	%	31.03.2019	%
Fixed rate	3,272.6	85.6	3,246.9	87.4
Floating rate	549.8	14.4	466.6	12.6
	3,822.4	100	3,713.5	100.0

The fixed rate financial liabilities totalled €3,246.9 million and refer to bonds (€2,887.0 million) and an EIB loan maturing 2037 (€359.9 million), which was concluded on 19 December 2017 and converted to a fixed rate loan in January 2018, through an "interest rate swap" type of derivative contract expiring in 2024.

Fixed-rate financial liabilities decreased by €25.7 million compared to 31 December 2018 mainly due to the effect of the accruals for the period relating to bonds.

Floating-rate financial liabilities totalled €466.6 million, down by €83.2 million mainly as a result of the aforementioned lesser usage of bank credit lines.

Italgas had unused committed long-term credit lines amounting to €1.1 billion as at 31 March 2019, of which €600 million expiring in October 2019 and €500 million expiring in October 2021.

As at 31 March 2019, there were no loan agreements containing financial covenants and/or secured by collateral. Some of these contracts envisage, inter alia, compliance with (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu* and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out. These commitments were satisfied as at 31 March 2019.

Reclassified Statement of Cash Flows

(€ million)	31.12.2018	31.03.2019
Net profit	313.7	86.3
<i>Adjusted:</i>		
- Amortisation, depreciation and other non-monetary components	359.0	87.1
- Net capital losses (capital gains) on asset sales and eliminations	1.3	(8.4)
- Interest and income taxes	159.8	43.1
Change in working capital due to operating activities (*)	35.3	46.3
Dividends, interest and income taxes collected (paid)	(150.4)	(12.2)
Net cash flow from operating activities (**)	718.7	242.2
Technical investments	(474.7)	(129.8)
Other changes relating to investment activities	(22.3)	0.0
Payables/Receivables relating to investment activities	0.0	(2.4)
Disinvestments and other changes relating to investment activities	3.4	2.7
Free cash flow before M&A transactions	247.4	112.7
Change in scope of consolidation	(149.3)	(0.3)
Acquisition of business units	(23.8)	0.0
Free cash flow	74.3	112.4
Change in short- and long-term financial payables (***)	99.2	(108.9)
Equity cash flow	(168.3)	0.0
Net cash flow for the year	5.2	3.5

(*) The change in working capital relating to operating activities as at 31 March 2019 did not include the payable for EGN shareholders' loan, reclassified under financial payables for a total value of €21.0 million.

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

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

Change in net financial debt

	31.12.2018	31.03.2019
Free cash flow before M&A transactions	247.4	112.7
Change for acquisition of equity investments	(173.1)	(0.3)
Equity cash flow	(168.3)	0.0
Change in adjusted net financial debt	(94.0)	112.4
Change in financial payables pursuant to IFRS 16	(49.9)	(15.8)
Change in payable for EGN shareholders' loan	(21.0)	21.0
Change in net financial debt	(164.9)	117.6

Net cash flow from operating activities in the first quarter of 2019 amounted to €242.2 million, enabling the financing of the full flow of net investments of €129.8 million, generating a free cash flow before the Merger and Acquisition transaction of €112.7 million. The M&A transaction (€0.3 million) refers to a price adjustment for the acquisition of Grecanica and Progas, acquired in 2018.

The decrease in the net financial debt was €108.9 million, gross of the effect of the adoption of IFRS 16 for payables to lease companies (€15.8 million).

Key operating figures

Investments

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

In the first quarter of 2019, technical investments of €152.4 million were made, of which €18.3 million due to the application of IFRS 16, up by €46.3 million compared to the same period of 2018 (+43.6%).

(€ million)	First quarter		Abs. change	% Change
	2018	2019		
Distribution	48.3	83.6	35.3	73.0
Network maintenance and development	44.5	68.1	23.6	53.0
New networks	3.8	15.5	11.7	306.9
Metering	48.9	42.9	(6.0)	(12.2)
Other investments	8.9	25.9	17.0	190.9
- of which, effect of IFRS 16	0.8	18.3	17.5	2,191.3
	106.1	152.4	46.3	43.6

Investments in distribution (€83.6 million) mainly related to development projects and the renovation of old sections of pipe for €68.1 million (including the replacement of cast-iron pipes with hemp- and lead-sealed joints for €7.6 million and 6.4 km) and new networks for €15.5 million. Investments were also made in the network digitalisation project (€3.4 million), relating to GRF remote reading initiatives (€0.9 million) and processes' digitalisation (€2.5 million).

Investments in metering (€42.9 million) primarily concerned the plan to replace traditional meters with “smart” meters, as part of the remote-reading plan. The Company installed approximately 413.7 thousand new meters in the first quarter of 2019, of which approximately 363.5 thousand to replace traditional meters and roughly 50 thousand for the repair of digital meters with anomalies. The decrease in investments in metering is partly linked to the reduction in unit cost for the installation of meters.

Other investments (€25.9 million) mainly concerned investments in IT, property and vehicles and include the effect of the application of IFRS 16 (€18.3 million).

Key operating figures

	31.12.2018	31.03.2019	Abs. change	% Change
Active meters (million)	6.708	6.711	0.0	0.0
Municipalities in gas distribution concessions (number)	1,700	1,696	(4.0)	(0.2)
Distribution network (kilometres) (a)	61,361	61,373	11.5	0.0

(a) The data refers to kilometres of Italgas operating networks.

Meters

As at 31 March 2019, the number of active meters at delivery points amounted to 6.711 million (6.708 million as at 31 December 2018). Also considering investee companies, the total number of active meters is 7.566 million.

Municipalities in concession and local area tenders

As at 31 March 2019, Italgas was the gas distribution service concession holder in 1,696 municipalities (1,700 as at 31 December 2018), of which 1,610 operative (1,614 as at 31 December 2018). The decrease in the number of concessions is due to the grouping of the municipalities of Campolongo sul Brenta, Cismon del Grappa, San Nazario and Valstagna into the municipality of Valbrenta, effective on 30 January 2019, and the merger of the municipalities of Lusiana and Conco into the municipality of Lusiana Conco, effective on 20 February 2019. Considering also the investee companies, the number of operating concessions is 1,717.

Distribution network

The gas distribution network as at 31 March 2019 covered 61,373 km (61,361 km as at 31 December 2018). Also taking investee companies into account, the distribution network spans 69,803 kilometres.

Main events during the quarter

Legal and Regulatory

- By means of **Ruling no. 588/2019 of 19 July 2018, published on 24 January 2019**, the Council of State rejected the appeal submitted by Italgas Reti for the cancellation of the deeds relating to the calculation of the reimbursement value of the networks and plants located in the municipality of Cavallino Treponti, similar to the existing case with the municipality of Venice. In fact, Italgas manages the public natural gas distribution service in the area of the aforementioned municipality based on the same concessions approved in due course by the municipality of Venice. This is due to the

fact that the municipality of Cavallino-Treporti was established in 1999 through the parcelling off of a portion of the territory already falling under the municipality of Venice. By means of the aforementioned ruling, the Council of State sanctioned the acquisition, free of charge, by the municipality of Cavallino Treporti of the assets included in “Block A”, as well as the obligation on the part of the Company to pay a fee for the use of the portion of network subject to free transfer. The Company filed an appeal for revocation before the Council of State against the ruling of 24 January 2019.

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

As regards the Venice plant managed by Italgas Reti, on conclusion of the inspection conducted pursuant to Resolution no. 294/2016/E/gas, the Authority found a failure to comply with several provisions of the regulations on emergency intervention.

Moreover, the Resolution:

- updated the trend level of the leak component, for plants affected by changes, interconnections and separations, in order to determine the bonuses and penalties for the years 2015-2019;
- deferred to the years 2016-2019 the penalties relating to the leak component for 2015;
- granted a mandate to Cassa per i Servizi Energetici e Ambientali (CSEA) to pay the remaining bonuses, i.e. net of the amount already paid to the companies that had granted their approval pursuant to Resolution no. 421/2018/R/gas, within 30

days from the publication date of the new provision, charged to the Gas Services Quality Account;

- set the deadline for payment of the penalties by distribution companies to the Gas Services Quality Account at 30 days from the publication date of the Resolution;
 - postponed to a subsequent provision the determination of the bonuses and penalties for 2015 for Toscana Energia, following the resolution of the critical issues that arose with regard to the new configuration of the Prato plant in the Territorial Master File for Gas Distribution;
 - made several changes to the Regulation of Service Quality in the Distribution and Metering of Gas, allowing distribution companies to correct data already incorrectly transmitted due to a material error, just as they were permitted to do with regard to 2015, once the results of the forecast bonuses and penalties for the reference year are known, obtained from the Authority and announced through an electronic system. The request must be made in the period of time specifically defined by the Authority and announced to the distribution companies concerned.
- By means of **Order no. 510/2019 of 27 February 2019, published on 11 March 2019**, the Lombardy Regional Administrative Court suspended, pending the decision of the Council of State on the cancellation of the invitation to tender, the lawsuit promoted by the municipality of Venice (which Italgas Reti was involved in) for the cancellation of Resolution no. 368/2016/R/gas by which the Authority formulated its observations on the tender documentation in the Area VENICE 1 – Laguna Veneta. Specifically, the Authority decided:
 - to deem unsuitable, for the purposes of tariff recognitions, the RIV relating to the municipalities of Venice and Caorle, lacking suitable documentation that would rule out the existence of RIV-RAB deviations greater than 10%, with the resulting effects in relation to the invitation to tender published;
 - that the conditions did not exist to formulate additional observations on the tender documents, based on the elements available at the time and the failure of the municipality of Venice to send all the tender documentation adopted, with the related note explaining the changes made.
 - By order **dated 12 March 2019**, the AGCM initiated, pursuant to art. 14 of Italian Law 287/90, a preliminary proceeding with preventive sub-proceeding against Italgas Reti, Ireti and 2I Rete Gas for alleged abuse of a dominant position aimed at “not allowing or delaying the start of administrative procedures preparatory to the organization of

the procedure to award the gas distribution service in Genoa ATEM 1". In particular, Italgas Reti was accused of not having provided the contracting authority with information on the year of laying for individual sections of the network laid before 2006 in the municipalities where it is concession holder (Campo Ligure, Campomorone, Ceranesi, Cicagna, Masone, Pieve Ligure and Rossignone). On 10 April 2019, the Company filed a defence brief and also provided the contracting authority with the information on the year of laying for the sections of network laid before 2006, confirming the full compliance of its conduct with the current regulatory framework and without accepting the charges made by the AGCM. The AGCM has taken note of the submission of information to the contracting authority and of its suitability in allowing the tender to be announced in the Genoa ATEM 1 and therefore, with Provision dated 9 May 2019, it ordered the closure of the preventive sub-proceeding that was started on 12 March.

- By way of **Resolution no. 98/2019/R/gas**, ARERA approved the definitive reference tariffs for gas distribution and metering services for 2018, and, by means of **Resolution no. 128/2019/R/gas**, it approved the provisional reference tariffs for gas distribution and metering services for 2019. With the same Resolution ARERA announced that it will conduct further analyses regarding the tariff recognition of investments made in the locations whose first year of supply was 2017, following a petition submitted by Italgas which highlights an incongruity between that already recognised by the Authority in 2018 and the amount that would result from the application of the tariff methodology in force (remunerated capital calculated with regard to standard parameters for delivery points). Pending the results of the Authority's analyses, the company did not make any adjustments to the value of revenues.
- With regard to the criminal proceedings resulting from an incident that took place on 11 November 2015 in the municipality of Cerro Maggiore, at the hearing of 19 March 2019 the Judge for the Preliminary Hearing issued a ruling not to proceed against the two employees of Italgas Reti as they had not committed the wrongdoing. Note that the same Judge for the Preliminary Hearing already confirmed the public prosecutor's request for dismissal for the employer of Italgas Reti. Instead, the Judge ordered committal for trial of Italgas Reti and of three employees under investigation for other charges. All the plaintiffs - with the exception of the Municipality of Cerro Maggiore - have renounced suing for damages in a criminal court. The company and its employees have organised the most appropriate defence to have it ruled that it is not involved in the events claimed.

- The Municipality of Rome, after a series of discussions aimed at reaching an agreement for the reshaping of the business plan implementation times, has challenged Italgas Reti for alleged delays in the execution of the Plan. Italgas Reti, in rejecting the claims of the Municipality of Rome, has provided accurate observations about the non-attribution of the disputed delays and it is evaluating all possible actions in order to better protect its interests.

Significant events occurring after the end of the quarter

Legal and Regulatory

- By means of **Rulings no. 2177 and no. 2178 of 21 March 2019, published on 2 April 2019**, the Council of State rejected the appeals submitted by Italgas Reti for the revocation of the previous decisions by the same Appeals Judge, decisions no. 4104/2018 and no. 588/2019, relating to the dispute with the municipalities of Venice and Cavallino Treporti to quantify the refund due to the outgoing operator for the networks and plants relating to the gas distribution service located in the respective territories, named “Block A”.
- By way of **Ruling no. 2202/2019 of 4 October 2018, published on 3 April 2019**, the Council of State rejected the appeal proposed by the municipality of Venice against the Veneto Regional Administrative Court ruling no. 655/2017, which cancelled the invitation to tender in the Area VENICE 1 – Laguna Veneta.
- By way of **appeal dated 4 April 2019**, the Company challenged ARERA Resolution 75/2019/R/gas of 5 March 2019, as well as ARERA Note no. 2759 of 4 February 2019 setting out the findings of the preliminary investigation in the proceedings to form provisions regarding bonuses and penalties relating to natural gas distribution service safety recoveries for 2015.
- By way of **Resolution no. 145/2019/R/gas of 16 April 2019**, the Authority formulated its observations regarding the reimbursement amount to be paid to owners of assignments and concessions for the gas distribution service for the municipalities in the Territorial Area NAPLES 1 – City of Naples and Costiero Plan. In particular, for the purposes of tariff recognitions and in relation to the documentation sent by the Municipality of Naples, Contracting Authority of the Area, the Authority deemed the RIV values of the 6 municipalities (Ercolano, Naples, Portici, San Giorgio a Cremano, Torre Annunziata and Torre del Greco) to be suitable.
- By way of **appeal dated 19 April 2019**, the Company challenged ARERA Note no. 4011 of 19 February 2019 which announced the findings of the preliminary investigation relating to the proceedings launched by way of Resolution

323/2017/S/gas relating to the violation regarding gas emergency intervention pursuant to Resolution 574/2013/R/gas of 12 December 2013.

- **On 24 April 2019**, the writ of summons was notified before the Court of Venice, as a result of the Council of State rulings no. 4104/2018 and 2177/2019, with which the municipality of Venice asked to receive from Italgas Reti the consideration for the use of the plants freely transferred (Block A), plus the interest accrued. The first hearing was set for 26 July 2019.
- **On 3 May 2019**, the Ministry of Economic Development, in concert with the Ministry of the Environment issued the Decree approving the Operating Guide to promote the identification, definition and presentation of projects as part of the White Certificate scheme, originally set out in Article 15, paragraph 1 of the implementing decree of 11 January 2017, amended by Ministerial Decree dated 10 May 2018.
- With reference to the control started by the GSE on 55 packages of energy efficiency projects relating to the subsidiary Seaside, in the month of April notices of cancellation of 2 project packages were received as well as the required supplementary documentation for the remaining projects. The Company notes that any charge arising from the outcome of GSE controls, as provided for by contract, will be fully charged back to the project counterparty.
- **On 9 May 2019**, ARERA published **Consultation Document no. 170/2019/R/Gas** containing the "*Lines of intervention for the regulation of tariffs and quality of gas distribution and measurement services in the fifth regulatory period*".

Corporate operations

- As part of the process of simplifying the corporate structure of the Italgas Group, the following mergers by incorporation were executed:
 - i) of the companies **Fontenergia S.r.l., Fontenergia 4 S.r.l., Fontenergia 6 S.r.l., Fontenergia 7 S.r.l., Fontenergia 9 S.r.l., Fontenergia 10 S.r.l., Fontenergia 11 S.r.l., Fontenergia 15 S.r.l., Fontenergia 19 S.r.l., Fontenergia 26 S.r.l., Fontenergia 27 S.r.l., Fontenergia 35 S.r.l. and Fontenergia 37 S.r.l.** into **Medea**;
 - ii) of the companies **Naturgas S.r.l., Grecanica Gas S.r.l., Progas Metano S.r.l., Barano Gas S.r.l., Favara Gas S.r.l., Siculiana Gas S.r.l. and Ischia Reti Gas S.r.l.** into **Italgas Reti**.
- On 17 April 2019, the **call option** was **exercised** to purchase the residual interest of 40% of the **EGN Group**, for a total fee amounting €20,9 million, net of the payable for shareholder loans disbursed by CPL Concordia of €21.0 million.

- On 30 April 2019, based on the agreement signed with the CONSCOOP Group, **the purchase of the following was finalised:**
 - the **business unit of Aquamet S.p.A.**, including, inter alia, 9 natural gas distribution concessions in some municipalities in Lazio, Campania, Basilicata and Calabria, for a total of 23,800 users served;
 - **100% of Mediterranea S.r.l.**, holder of 6 concessions for natural gas distribution in the province of Salerno, with approximately 3,600 users served;
 - the **business unit of Isgas Energit Multiutilities S.p.A.**, holder of propane-air distribution concessions in the Sardinian municipalities of Cagliari, Nuoro and Oristano, for a total of roughly 22,300 users currently served with LPG.

The enterprise value of the acquisition of the business unit of Acquamet S.p.A, Mediterranea S.r.l. and the business unit of Isgas Energit Multiutilities S.p.A. was established at €68.6 million.

Moreover, as part of the same agreement, Italgas finalised the **purchase of 10% of the share capital of Isgastrentatrè S.p.A.**, holder of the propane-air distribution in Catchment Area 33 in Sardinia. The agreements for the purchase of Isgastrentatrè also establish the commitment to take on the remaining 90% of the capital if certain conditions are met, including the conversion to natural gas of the network currently fuelled by propane-air, specifying that, if these conditions are not met, Italgas shall have the right to resell and Conscoop will be required to buy back the 10% interest at the same price (€300,000).

Other events

- On 11 April 2019 a **partnership agreement was signed with Picarro**, a US company that provides software for detecting the presence of gas, for the use of Picarro Surveyor in Europe. The system, named CRDS (Cavity Ring-Down Spectroscopy), consists of technology which has significant advantages on traditional technologies, in terms of the speed of operation and the scope of the areas subject to detection of gas leaks. The agreement follows testing conducted by Italgas last year on the networks in Turin, Rome and Naples, which was concluded with significant results.
- On 23 April 2019, Italgas Reti was **officially awarded**, by the Contracting Authority the Metropolitan City of Turin, the tender for the natural gas distribution service in the territorial area "**Turin 2 - Turin Plant**" for the next 12 years. The area is composed of 48 municipalities in the first and second suburbs surrounding the capital city of the Piedmont Region, for 190 thousand total end users. As a result of this award,

investments of roughly €200 million are planned. In that area, Italgas already held a market share of 99.9%.

- On 28 April 2019, a **memorandum of understanding was signed with State Grid Corporation of China**, the largest energy utility in the world, to assess possible joint initiatives in the natural gas distribution sector.

Business Outlook

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

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

Consistent with the strategic priorities of the 2018-2024 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 acquisitions, in 2018, the year 2019 can expect to see the completion of additional **initiatives for external growth**, which will enable the strengthening of the regional and the growth of the perimeter of activities.

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 2018, 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, activities will continue in 2019 aimed at **optimising the financial structure** of the Italgas Group, in line with the objectives defined in the 2018-2024 Strategic Plan.

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

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

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

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

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

Conference call

At 4:00 pm today, a conference call will be held to present to financial analysts and investors the results for the first quarter of 2019. The presentation may be viewed, through audio webcasting, on the Company's website (www.italgas.it). In conjunction with the conference call, the supporting material for the presentation will also be provided in the "Investor Relations/Presentations" section of the website.

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

Disclaimer

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

Fine Comunicato n.0167-30

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