



SPAFID CONNECT

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Vedi allegato.

ITALGAS: RESULTS AS OF 30 JUNE 2019 APPROVED

Milan, 30 July 2019 - Italgas' Board of Directors, chaired by Alberto Dell'Acqua, met yesterday and approved the consolidated results for the first half of 2019.

Key figures

Consolidated economic and financial highlights:

- Total revenues: € 609.4 million (+2.3%)
- EBITDA: € 433,9 million (+2.3%)
- EBIT: € 241.6 million (+8.3%)
- Net profit: € 166.2 million (+10.3%)
- Technical investments: € 317.7 million (+39.4%)
- Cash flow from operating activities: € 507.7 million
- Net financial debt¹: € 3,858.7 million

Operating highlights including affiliates:

- Municipalities in gas distribution concessions: 1,821
- Number of active meters: 7.6 million
- Gas distribution network: around 71,000 Km

The economic and financial results achieved by Italgas in the first half of 2019 further mark the continuous growth trend pursued by the Company and consolidate its role among the main and most dynamic industrial companies in the country, able to create value for communities and investors.

With € 317.7 million of organic investments made in the first half, Italgas has shown its commitment to invest in Italy for the renewal of networks and extension of service. In fact, over 55% of these investments were allocated to maintenance and extension of the network (379 km against 91 last year); at the same time, the installation of smart meters continued, replacing traditional meters. It is expected to be completed by 2020. With approximately 992,3 thousand meters installed during the first half of 2019, of which 840.5 thousand to replace traditional meters, the total number, also considering affiliates, is approximately 5.8

¹ Net financial debt as of 30 June 2019 does not include financial liabilities for operating leases pursuant to IFRS 16 of € 74.2 million (€ 49.9 million as of 31 December 2018).

thousand, meaning 68.5% of total meters². The installation of the smart meters is a part of the digitization project, for which during 2019 the digitization of more than 450 networks is planned, in addition to the 50 already completed in 2018.

During the half year, construction activities concerning distribution networks in Sardinia made substantial progress, where the Italgas Group further consolidated its leadership by acquiring among others the Cagliari, Nuoro and Oristano concessions. Works began in almost all the Areas under concession to the Group. As of 30 June, the installed network amounts to about 200 kilometres, creating around 600 new jobs in related industries.

The requirements related to net investments for the first six months of 2019 were fully covered by the positive cash flow from operating activities, equal to € 507.7 million, with Free Cash Flow - before M&A activities - equal to € 255.1 million.

As of 30 June 2019, the net financial position was € 3,858.7 million (€ 3,814.3 million as of 31 December 2018).

With regards to economic results, operating profits in the first half of 2019 amounted to € 241.6 million (+8.3% compared to 30 June 2018) and net profit reached € 166.2 million (+10.3% compared to the corresponding period of the previous year).

Paolo Gallo, CEO of Italgas, commented:

«The first half of 2019 also showed significant results. All the main economic indicators are up compared to last year, in line with the objectives of the Business Plan, confirming the commitment aimed at guaranteeing growing and sustainable returns for shareholders. The performance of Italgas shares on the Stock Exchange, which exceeded the 6-euro threshold and pushed the Company's capitalisation beyond 5 billion respect to 3.2 billion since its return to the stock market in November 2016, testifies the market's appreciation for the determination with which we continue to combine growth and efficiency. Ebit and Net Profit experienced increases of 8.3% and 10.3%. We have given a further boost to investments, which increased by around 40% to around € 318 million, mostly allocated to the development and management of the network, with significant focus on the construction of gas distribution networks in Sardinia, where we already have laid over 200 kilometres of new pipelines and created more than 600 jobs in related industries. The company's digital transformation continues at a rapid pace on all the fronts indicated in the strategic plan: more than 450 new gas distribution networks will be completed by 2019, the smart meters installation plan reached about 70% and in our Digital Factory, among other things, we are

²Excluding affiliates, in the first quarter of 2019, Italgas installed about 874 thousand new meters, bringing the current total number of new installed meters to about 5.1 million, equal to approximately 67.8% of total meters.

working on the introduction of a new IoT platform that will allow us to collect in a single “Data Lake” all the data transmitted by the digital devices that we are installing along our networks. We continue to strengthen our leadership in Italy and abroad also through the development of valuable partnerships, such as the one recently created with GRDF in France, which constitute a benchmark and at the same time an advantaged observatory on the sector’s performance worldwide».

Italgas group structure as of 30 June 2019

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



The scope of consolidation as of 30 June 2019 has changed compared to that in place as of 31 December 2018 as a result of: (i) the takeover, on 1 April 2019, 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. e Fontenergia 37 S.r.l in Medea S.p.A. e delle società Naturgas S.r.l., Grecanica Gas S.r.l., Progas Metano S.r.l., Baranogas Reti S.r.l., Favaragas Reti S.r.l., Sicilianagas Reti S.r.l. and Ischia Reti Gas S.r.l. by Italgas Reti, (ii) the acquisition from CPL CONCORDIA, on 17 April 2019, of the remaining 40% share capital of the company EGN Srl, (iii) the acquisition from CONSCOOP, on 30 April 2019, of 100% of the share capital of Mediterranea S.r.l. by Italgas Reti S.p.A., of the business units of Aquamet and Isgas Energit Multiutilities respectively by Italgas Reti S.p.A and Medea S.p.A and of 10% of the share capital of Isgastrentatrè S.p.A. by Medea S.p.A.; (iv) the establishment, on 7 May 2019, of the company, Medea NewCo S.r.l., for the sale of natural gas, LPG and propane air.

Economic and financial highlights

Reclassified Income Statement

Financial year	2018 (€ million)	First half of the year		Abs. change	Change %
		2018	2019		
	1,143.1	580.5	572.2	(8.3)	(1.4)
	1,007.3	502.2	520.0	17.8	3.5
	135.8	78.3	52.2	(26.1)	(33.3)
	33.1	15.1	37.2	22.1	146.4
	1,176.2	595.6	609.4	13.8	2.3
	(336.7)	(171.4)	(175.5)	(4.1)	2.4
	839.5	424.2	433.9	9.7	2.3
	(386.0)	(201.2)	(192.3)	8.9	(4.4)
	453.5	223.0	241.6	18.6	8.3
	(47.0)	(23.7)	(24.1)	(0.4)	1.7
	20.0	9.7	11.8	2.1	21.6
	426.5	209.0	229.3	20.3	9.7
	(112.8)	(58.3)	(63.1)	(4.8)	8.2
	313.7	150.7	166.2	15.5	10.3

(*) For a like-for-like comparison with the accounting position as of 30 June 2019, the penalties for losses, amounting to € 3.2 million as of 30 June 2018, shown net of incentives, were reclassified among operating costs.

(**) For a like-for-like comparison with the accounting position as of 30 June 2019, the margin relating to TEEs was shown.

(***) Net of the effects of IFRIC 12 "Service Concession Arrangements" (€ 262.5 and € 203.3 million, respectively in the first six months of 2019 and 2018) and other residual reclassification items (€ 7.5 and 7.4 million, respectively in the first six months of 2019 and 2018).

Total revenue in the first half of 2019 amounted to € 609.4 million, a € 13.8 million increase compared with the corresponding period last year, relating to natural gas distribution regulated revenue (€ 572.2 million) and other revenue (€ 37.2 million).

Gas distribution regulated revenue decrease by € 8.3 million compared to the previous six-month period due to the decrease in other natural gas distribution regulated revenue, in part offset by the increase in distribution revenue.

The decrease in **other distribution revenues** (€ 26.1 million) is due to the lower contribution pursuant to art. 57 of the ARERA Resolution no. 367/14, relating to the replacement of traditional meters with smart meters, as required by the plan for smart metering pursuant to ARERA resolutions no. 631/13 and no. 554/15, resulting from the fact that the company is nearing completion of the replacement plan for smart meters. That contribution for the first half of 2019 amounts to € 15.5 million (€ 47.0 million in the first half of 2018). Compared with 30 June 2018, the company also experienced an increase of € 2.2 million in ARERA incentives (of which € 1.2 million relating to the safety-related recoveries of the natural gas distribution service pursuant to Resolution no. 75/2019/R/gas of 5 March 2019) and of € 1.9 million for revenues related to services for customers.

The higher **distribution revenues** (+€ 17.8 million) were mainly attributable, on the basis of € 6.7 million, to the regulation components (of which € 6.0 million due to the revision of the WACC pursuant to Resolution No. 639/2018), on the basis of € 8.0 million to the change

in the consolidation area due to new corporate acquisitions and, on the basis of € 3.1 million, to the absence of negative adjustments recorded in 2018.

Other revenues for the first half of 2019 amounted to € 37.2 million (up € 22.1 million on the same period of 2018). The increase is mainly due to higher i) capital gains on the sale for € 10.6 million (of which € 7.7 million related to the sale of the property on Via XX Settembre in Turin and € 2.8 million linked to the sale of vehicles), ii) miscellaneous operational reimbursements of € 2.4 million and iii) sale of LPG and propane air due to the change in the scope of consolidation relating to assets acquired in Sardinia (€ 8.1 million).

Operating costs for the first half of 2019 amounted to € 175.5 million, up € 4.1 million on the same period of 2018. The increase is mainly due to higher i) provisions for Energy Efficiency Certificates (€ 9.4 million), ii) concession charges (€ 3.9 million); iii) costs related to the distribution of gas through “tank trucks” (€ 1.5 million). These higher costs were offset by lower external fixed costs relating to gas distribution (€ -8.0 million), lower net labour costs (€ -3.4 million), linked, in particular, to the increase in the portion allocated to investment activities and lower other gas distribution costs (€ -3.2 million). The decrease in external fixed costs relating to gas distribution was mainly due to lower net costs related to ICT (€ -2.9 million), lower traditional reading costs (€ -1.9 million) and lower penalties for losses (€ -3.0 million). Lastly, there was an increase in other external costs (€ 3.6 million) due to the change in the scope of consolidation.

The **EBITDA**³ achieved in the first half of 2019 amounted to € 433.9 million, up by € 9.7 million (+2.3%) compared to the corresponding period of 2018. It is linked to: (i) higher revenues by € 13.8 million (+2.3%), and (ii) higher operating costs by € 4.1 million (+2.4%).

Depreciation, amortization and impairments (€ 192.3 million) decreased by € 8.9 million, or 4.4%, compared to the first half of 2018. The decrease is due to lower amortisation and depreciation associated with the replacement of traditional meters with smart meters, equal to € 25.8 million, as the Group is in fact nearing completion of the replacement of all traditional meters, scheduled for 2020. This reduction is partly offset by the increase in amortisation and depreciation related to rights to use pursuant to IFRS 16, equal to € +3.1 million.

In addition, following rulings nos. 4104/2018 and 588/2019 of the Council of State, which established that the Municipality of Venice and Municipality of Cavallino Treporti had already acquired ownership of a portion of the network relating to the concession, through a free transfer, the Company has arranged to accelerate the relative amortisation and

³ 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 report must be considered complementary to and not replacing the reports prepared according to IAS/IFRS.

depreciation during the period, respectively equivalent to around € 3 million and € 0.4 million.

The **EBIT** in the first half of 2019 amounted to € 241.6 million, up by € 18.6 million, equal to 8.3%.

Net **financial charges** in the first half of 2019, equal to € 24.1 million, experienced an increase of € 0.4 million, compared to the same period of the 2018 financial year, mainly due to higher interest on bonds, due to the accrual of interest for the entire six-month period of the bond issued on 30 January 2018.

Net income from equity investments (€ 11.8 million) increased by € 2.1 million compared to the first half of 2018, mainly due to the valuation according to equity of the investment in Toscana Energia.

Income taxes (€ 63.1 million) increased by € 4.8 million compared to the corresponding period of 2018, due, in particular, to the increase in the Pre Tax Profit.

The **net profit** achieved in the first half of 2019 amounts to € 166.2 million, up € 15.5 million, or 10.3%, compared to the first half of 2018, as a result of the increase in operating income (€ 18.6 million; +8.3%).

Reclassified Statement of Financial Position

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

(€ million)	31/12/2018	30/06/2019	Abs. change
Fixed capital	5,284.1	5,456.4	172.3
Property, plant and equipment	259.2	282.5	23.3
Intangible assets	4,982.8	5,153.8	171.0
Equity investments	175.1	176.1	1.0
Financial receivables and securities instrumental to operations	0.1	0.2	0.1
Net payables for investments	(133.1)	(156.2)	(23.1)
Net working capital	5.7	(116.3)	(122.0)
Provisions for employee benefits	(107.9)	(106.5)	1.4
Assets held for sale and directly related liabilities	11.6	0.2	(11.4)
NET INVESTED CAPITAL	5,193.5	5,233.8	40.3
Shareholders' equity	1,329.3	1,300.9	(28.4)
Net financial debt	3,814.3	3,858.7	44.4
Financial payables for operating leases pursuant to IFRS 16 (*)	49.9	74.2	24.3
COVERAGE	5,193.5	5,233.8	40.3

(*) Effective 1 January 2018, Italgas has applied IFRS 16 - Leases, which, having eliminated the distinction between financial and operating leases, resulted in the recognition of payables for operating lease instalments in relation to commitments to leasing companies against the recognition of property, plant and equipment for the rights to use the related assets.

The **net invested capital** as at 30 June 2019 amounts to € 5,233.8 million and consists of the items discussed below.

Fixed capital (€ 5,456.4 million) increased by € 172.3 million compared with 31 December 2018, mainly due to an increase in intangible assets (€ +171.0 million), in net payables relating to investment activities (€ +23.1 million) and the increase in property, plant and equipment (€ +23.3 million).

Tangible and intangible assets amounted to € 5,436.3 million, up by € 194.3 million compared.

Intangible assets (€ 5,153.8 million), which mainly refer to the assets for services in concession, recorded pursuant to IFRIC 12, increased by € 171.0 million mainly following gross investments of € 279.3 million, amortisation and impairment of € 177.7 million and the acquisition of assets due to M&A transactions on the basis of € 73.2 million.

Tangible assets (€ 282.5 million), which mainly refer to property, plant and equipment, increased by € 23.3 million mainly due to the investments of € 38.3 million, of which € 31.4 million connected to the application of IFRS 16, net of depreciation of € 14.6 million, of which 6.4 linked to the right to use pursuant to IFRS 16.

The **Equity Investments** item (€ 176.1 million) includes the measurement of equity investments with the equity method relating to Toscana Energia (€ 173.4 million), Umbria Distribuzione Gas (€ 1.3 million), Metano Sant'Angelo Lodigiano (€ 1.0 million), the fair

value measurement of 10% of the company Isgastrentatrè (€ 300 thousand) and other minor investments.

Net working capital

(€ million)	31/12/2018	30/06/2019	Abs. change
Trade receivables	406.7	231.5	(175.2)
Inventories	26.2	35.1	8.9
Tax receivables	47.7	50.6	2.9
Accruals and deferrals from regulated activities	141.5	157.1	15.6
Other assets	115.0	100.9	(14.1)
Trade payables	(230.8)	(221.0)	9.8
Provisions for risks and charges	(187.6)	(182.4)	5.2
Deferred tax liabilities	(71.7)	(70.8)	.9
Tax payables	(13.5)	(83.5)	(70.0)
Other liabilities	(227.8)	(133.8)	94.0
	5.7	(116.3)	(122.0)

Compared to 31 December 2018, the change in working capital amounted to € -122.0 million and was mainly due to: i) drop in trade receivables (€ -175.2 million) connected in particular with effects of a seasonal nature regarding volumes distributed on behalf of sales companies; ii) higher inventories (€ +8.9 million), iii) increase in accruals and deferrals from regulated activities (€ +15.6 million) relating to the increase in the tariff payment estimated in line with the plan for the replacement of traditional meters with smart ones pursuant to art. 57 of the ARERA Resolution no. 367/14; iv) decrease in other assets (€ -14.1 million) mainly due to lower receivables from CSEA related to additional distribution components and to Energy Efficiency Certificates [TEE] due to the collection linked to the cancellation session; v) decrease in trade payables (€ 9.8 million) due to higher net payables to CSEA connected in particular with equalisation for the period (40.2), partly offset by the reduction in trade payables (€ 30.3 million); vi) lower provisions for risks and charges (€ +5.2 million) mainly due to the use of redundancies linked to the Provision for Legal Risks; vii) higher balance of tax items (- € 70.0 million) mainly related to the increase in taxes for the period, as well as IRES and IRAP payments due on 1 July 2019; viii) lower other liabilities for the period (€ +94.0 million) resulting mainly from the reduction in net payables to CSEA relating to additional distribution components (€ 35.1 million), upon the closure of the payables to EGN due to exercise of the option linked to the purchase of the remaining 40% (€ 20.9 million) and simultaneous settlement of the payable for EGN shareholders' loan⁴ (€ 21.0 million) occurring in April 2019 and lower advances related to the sale of the property on Via XX Settembre (€ 11.5 million) registered in 2018.

Note that the Company has finalised factoring agreements with financial counterparties on the basis of which the Company's receivables can be factored without recourse. In

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

particular, during the first half of the year, operations were completed for the transfer of receivables relating to: i) white certificates in the amount of € 62.7 million; ii) trade receivables relating to distribution totalling € 263.7 million, and (iii) tax credits of € 32.6 million.

Net financial debt

(€ million)	31/12/2018	30/06/2019	Abs. change
Financial and bond debt	3,822.4	3,874.2	51.8
Short-term financial debt (*)	156.1	206.3	50.2
Long-term financial debt	3,666.3	3,667.9	1.6
Financial receivables and cash and cash equivalents	(8.1)	(15.5)	(7.4)
Cash and cash equivalents	(8.0)	(10.4)	(2.4)
Long-term loans	0.0	(5.0)	(5.0)
Securities not instrumental to operations	(0.1)	(0.1)	0.0
Net financial debt (**)	3,814.3	3,858.7	44.4
Lease payables pursuant to IFRS 16	49.9	74.2	24.3
Payables due to EGN shareholders' loan	21.0	0.0	(21.0)
Net financial debt (IFRS 16 and EGN payables effects included)	3,885.2	3,932.9	47.7

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

(**) Net financial debt as of 30 June 2019 does not include financial liabilities for operating leases pursuant to IFRS 16 of € 74.2 million (€ 49.9 million as of 31 December 2018).

Net financial debt as of 30 June 2019 amounted to €3,858.7 million, up € 44.4 million compared to 31 December 2018. Including the effects deriving from the application of IFRS 16 amounting to € 74.2 million, net financial debt was € 3,932.9 million.

Financial and bond debt as of 30 June 2019, totalling € 3,874.2 million (€ 3,822.4 million as of 31 December 2018), were denominated in euros and referred mainly to bonds (€ 2,896.6 million), loan agreements concerning European Investment Bank/EIB funding (€ 783.6 million) and payables to banks (€ 194.0 million). The increase in financial and bond debt, amounting to € 51.8 million, is mainly attributable to greater use of bank lines.

As at 30 June 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	%	30/06/2019	%
Fixed rate	3,272.6	85.6	3,256.6	84.1
Floating rate	549.8	14.4	617.6	15.9
Gross financial debt	3,822.4	100.0	3,874.2	100.0

Fixed-rate financial liabilities amounted to € 3,256.6 million and relate to bonds (€ 2,896.6 million) and an EIB loan expiring in 2037 (€ 359.8 million), finalised on 19 December 2017 and converted to a fixed rate in January 2018 through an Interest Rate Swap derivative contract expiring in 2024.

Fixed-rate financial liabilities decreased by € 16.0 million compared to 31 December 2018 due to the payment of coupons and, therefore, to lower accruals.

Floating-rate liabilities amounted to € 617.6 million and increased by € 67.8 million essentially as a result of greater use of bank lines.

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

As of 30 June 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 of 30 June 2019.

Reclassified Statement of Cash Flows

2018 (€ million)	First half of the year	
	2018	2019
313.7 Net profit	150.7	166.2
<i>Adjusted:</i>		
359.0 - Amortisation, depreciation and other non-monetary components	188.6	166.2
1.3 - Net capital losses (capital gains) on asset sales and eliminations	(.7)	(7.6)
159.8 - Interest and income taxes	77.8	87.3
35.3 Change in operating capital relating to operations (*)	221.1	105.7
(150.4) Dividends, interest and income taxes collected (paid)	(5.2)	(10.1)
718.7 Cash flow from operating activities (**)	632.3	507.7
(474.7) Technical investments	(209.0)	(279.8)
(22.3) Other changes relating to investment activities	(29.9)	23.2
3.4 Disinvestments and other changes relating to investment activities	0.0	4.0
247.4 Free cash flow before M&A transactions	393.4	255.1
(149.3) Change in scope of consolidation	(72.3)	(85.2)
of which:		
(84.8) -price paid for equity	(37.4)	(29.0)
(64.6) -taking on the payables of acquired companies	(34.9)	(56.2)
(23.8) Acquisition of business units	(23.8)	(24.9)
(75.1) Free cash flow	297.3	145.0
99.2 Change in short- and long-term financial debt (**)	(42.4)	46.8
(168.3) Equity cash flow	(168.3)	(189.3)
(144.2) Net cash flow for the year	86.7	2.4

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

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

Change in net financial debt

2018 (€ million)	First half of the year	
	2018	2019
247.4 Free cash flow before M&A transactions	393.4	255.1
(173.1) Change due to acquisitions of equity investments and business units	(96.1)	(110.1)
(168.3) Equity cash flow	(168.3)	(189.3)
(94.0) Change in net financial debt excluding IFRS 16 and EGN shareholders' loan effects	129.0	(44.4)
(49.9) Change in financial payables pursuant to IFRS 16	(37.2)	(24.3)
(21.0) Change in payables due to EGN shareholders' loan	0.0	21.0
(164.9) Change in net financial debt	91.8	(47.7)

Cash flow from operating activities in the first half of 2019 amounted to € 507.7 million and made it possible to fully finance the net flow from investments of € 252.6 million, generating free cash flow before M&A transactions of € 255.1 million, and to distribute a dividend over to 2018 profit, approved on 4 April 2019, in the amount of € 189.3 million. As of 30 June 2019, the cash flow from M&A transactions amounted to € 110.1 million.

The increase in net financial debt amounted to € 44.4 million, before the effect from the adoption of IFRS 16 relating to payables from leases (€ 24.3 million) and the settlement of the CPL Concordia shareholders' loan with respect to EGN (€ 21.0 million).

Key operating figures

Investments

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

In the first half of 2019, technical investments were made amounting to € 317.7 million, of which € 31.4 million due to the application of IFRS 16, up € 89.8 million compared to corresponding period of 2018 (+39.4%).

Financial year	First half of the year				
	2018 (€ million)	2018	2019	Abs. change	Change %
278.5 Distribution		112.8	187.0	74.2	65.8
248.7 Network maintenance and development		103.8	147.2	43.4	41.8
29.8 New networks		9.0	39.8	30.8	342.2
178.8 Metering		94.5	83.5	(11.0)	(11.6)
65.4 Other investments		20.6	47.2	26.6	129.1
22.4 - of which, effect of IFRS 16		6.8	31.4	24.6	361.8
522.7		227.9	317.7	89.8	39.4

Distribution investments (€ 187.0 million, +65.8% compared to corresponding period of 2018) mainly concerned network development and the renewal of pipeline sections for € 147.2 million (including the replacement of cast iron pipes with hemp and lead joints for € 12.2 million for 12.8 km and the digitisation project⁵ for € 7.3 million) and new networks for € 39.8 million, mainly relating to investments in Sardinia amounting to € 29.5 million, as of 30 June 2019.

Investments in metering (€ 83.5 million, -11.6% compared to corresponding period of 2018) primarily concerned the plan to replace traditional meters with “smart” meters, as part of the smart metering project. The Company installed approximately 874.1 thousand new meters in the first half of 2019⁶, of which 738.7 thousand to replace traditional meters and 135.4 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.

⁵ Relating to smart metering for GRF on the basis of € 2.2 million euros and digitisation of processes on the basis of € 5.1 million.

⁶ The figure does not include the data of investee companies. Including investee companies, 992.3 thousand meters were installed, of which 840.5 in the place of traditional meters.

Other investments (€ 47.2 million, +€ 25 million compared to corresponding period of 2018) mainly concerned investments in IT, real estate and vehicles and include the effect of the application of IFRS 16 (€ 31.4 million).

Key operating figures

Financial Year 2018		First half of the year		Abs. Change	Change %
		2018	2019		
6.708	Active meters (million)	6.625	6.761	0.14	2.1
7.493	Installed meters (million)	7.392	7.572	0.18	2.4
1,700	Municipalities in gas distribution concessions (number)	1,601	1,714	113	7.1
61,361	Distribution network (kilometres) (a)	59,272	62,279	3,007	5.1
522.7	Technical investments	227.9	317.7	89.8	39.4

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

Meters

As at 30 June 2019, the number of active meters at delivery points (PdR) amounted to 6.761 million (6.708 million as of 31 December 2018). Also considering investee companies, the number of active meters amounted to 7.617 million (7.562 as of 31 December 2018).

Municipalities in concession and local area tenders

As of 30 June 2019, Italgas holds gas distribution service concession in 1,714 municipalities (1,700 as of 31 December 2018), of which 1,628 in operation (1,614 as of 31 December 2018). Also taking investee companies into account, the number of concessions amounted to 1,821 (1,808 as of 31 December 2018).

Distribution network

The gas distribution network as of 30 June 2019 covered 62,279 km (61,361 km as of 31 December 2018), an increase of 917.8 km compared with 31 December 2018. Also taking into account investee companies, the distribution network spans 70,713 kilometres (69,782 kilometres as of 31 December 2018).

Main events in the half year

Legal and Regulatory

- By way of **Ruling no. 588/2019 of 19 July 2018, published on 24 January 2019**, the Council of State rejected the appeal lodged by Italgas Reti for the annulment of the documents relating to the calculation of the reimbursement amount for networks and plants located in the **Municipality of Cavallino Treporti**. The matter relating to the Municipality of Cavallino Treporti is completely similar to the matter already existing with the Municipality of Venice. In fact, Italgas Reti manages the public natural gas distribution service in the area of the aforementioned Municipality based on the same concessions approved in due course by the Municipality of Venice. This is due to the fact that the Municipality of Cavallino-Treporti was established in 1999 through the parcelling off of a portion of the territory already falling under the Municipality of Venice. By means of the aforementioned ruling, the Council of State, as already occurred for the Municipality of Venice, sanctioned the acquisition, free of charge, by the Municipality of the assets included in “block A”, as well as the obligation on the part of the Company to pay a fee for the use of the portion of network subject to free transfer. The Company filed an appeal for revocation before the Council of State against the ruling of 24 January 2019. In particular, subsequently, by way of **Order no. 510/2019 of 27 February 2019, published on 11 March 2019**, pending the decision of the Council of State on the cancellation of the call for tenders, the Lombardy TAR [regional administrative court] suspended the proceedings brought by the Municipality of Venice (and in which Italgas Reti participated) for the annulment of Resolution no. 368/2016/R/gas by way of which the Authority put forward its observations on the tender documentation within the Scope of VENICE 1 - Laguna Veneta. By way of the subsequent **rulings nos. 2177 and 2178 dated 21 March 2019**, published on 2 April 2019, the Council of State rejected the appeals brought by Italgas Reti for the revocation of the previous decisions of the same appellate judge no. 4104/2018 with reference to the Municipality of Venice and no. 588/2019 with reference to the Municipality of Cavallino Treporti, for the quantification of the reimbursement due to the outgoing operator for the networks and plants relating to the gas distribution service located in the respective territories, named as “Block A”. By way of the **ruling no. 2202/2019 dated 4 October 2018, published on 3 April 2019**, the Council of State rejected the appeal brought by the Municipality of Venice against the ruling of the Veneto TAR no. 655/2017 which annulled the call for tenders within the Scope of VENICE 1 - Laguna Veneta. Lastly, **on 24 April 2019**, a writ of summons was served before the Court of Venice, following the rulings of the Council of State nos. 4104/2018 and 2177/2019, by way of which the Municipality of Venice demanded to receive from

the company, Italgas Reti, compensation for the use of the plants subject to free transfer (block A). The first hearing for the parties to appear was set for 12 September 2019. The Company will file an appearance in accordance with the law. The company believes that the claim for compensation filed by the Municipality of Venice, as presented, has no basis.

- By means of **Resolution no. 1/2019 – DMRT of 29 January 2019**, the Authority defined and transmitted to the Ministry of Economic Development and GSE (Energy Services Operator) the national quantitative obligations for the increase in the energy efficiency of final natural gas uses, to be achieved in 2019 by distributors with more than 50,000 end customers connected to their distribution network as of 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 dated 5 March 2019**, for the year 2015, the Authority determined the premiums and penalties related to the safety recoveries regarding the natural gas distribution service and made some changes to the regulation regarding the management of the data adjustment. In particular, for the subsidiary and investee companies of Italgas S.p.A., the total net amount (total bonuses and penalties) due for odourisation and leakage items was € 9,467,736.08.

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

In addition, the resolution:

- updated the trend levels, relating to the leakage component, for the plants affected by changes, interconnections and separations, for the purposes of determining the bonuses and penalties for the years 2015-2019;
- postponed the penalties relating to the leakage component for 2015 to the years 2016-2019;
- ordered the Fund for Energy and Environmental Services (CSEA) to pay the remaining bonuses, that is, net of that already paid to the companies that had given their approval pursuant to Resolution no. 421/2018/R/gas, within 30 days from the date of publication of the new order, applying to the Account for the quality of gas services;
- set a deadline of 30 days from the date of publication of the Resolution for the payment of penalties by the distribution companies, to the Account for the quality of gas services;

- postponed the determination of the bonuses and penalties for the year 2015 for the company, Toscana Energia, until a subsequent decision, following the resolution of critical issues arising with reference to the new arrangement of the Prato plant in the Local Gas Distribution Registry;
- made certain changes to the regulation on the quality of gas distribution and metering services, establishing that distribution companies, similarly to what they had already been allowed with reference to the year 2015, may adjust data already incorrectly transmitted due to a material error, once the forecast results of the bonuses and penalties of the respective year are known, after being obtained by the Authority and made known through the electronic system. The request must be made within the time period specified by the Authority and made known to the distribution companies concerned.
- By way of the order dated 12 March 2019, pursuant to art. 14 l. 287/90, **AGCM** initiated preliminary proceedings with pre-trial sub-proceedings against Italgas Reti, Ireti and 2i Rete Gas due to alleged abuse of a dominant position aimed at “not allowing or delaying the start of administrative procedures for the organisation of the procedure for awarding the gas distribution service in **ATEM Genoa 1**”. In particular, Italgas Reti was accused of not having provided the contracting authority with information on the year of laying the individual sections of the network laid before 2006 in the Municipalities where it is the concession holder (Campo Ligure, Campomorone, Ceranesi, Cicagna, Masone, Pieve Ligure and Rossignone). On 10 April 2019, the Company filed a defensive brief and also provided the contracting authority with information relating to the year of laying the sections of the network laid before 2006, reaffirming full compliance by its actions with the current regulatory framework and without acknowledging with accusations made by AGCM. The AGCM acknowledged the sending of information to the contracting authority and of its suitability to allow the call for tenders to be announced in ATEM Genoa 1 and therefore by way of the Order dated 9 May 2019 it ordered the ending of the pre-trial sub-proceedings started last 12 March.
- ARERA approved, by way of **Resolution no. 98/2019/R/gas**, the final tariffs of reference for distribution and metering services for the year 2018 and, by way of the following **Resolution no. 128/2019/R/gas**, the relevant provisional tariffs for distribution and metering services for the year 2019. In the same Resolution, ARERA announced that it will carry out in-depth investigations into tariff payment regarding the investments made in the locations with the year of first supply in 2017, following a petition filed by Italgas in which an inconsistency is highlighted between that already paid in 2018 and how much would result from the application of the current tariff methodology (remunerated capital calculated with reference to parametric standards for delivery points). Pending the outcome of the in-depth investigations by ARERA and

provisionally, the company adjusted the related revenues in the first half of the year. On 17 July 2019, the Company filed an extraordinary appeal to the President of the Republic by way of which it challenged the aforementioned Resolutions.

- With reference to the criminal proceedings resulting from an accident that occurred on 11 November 2015 at the Municipality of Cerro Maggiore, at the hearing of 19 March 2019, the Preliminary Hearing Judge issued a non-suit ruling with respect to two employees of Italgas Reti for not having committed the act. It should be remembered that the same Preliminary Hearing Judge had already confirmed the request for dismissal by the Public Prosecutor for the Italgas Reti employer. On the other hand, the judge ordered Italgas Reti and three other investigated employees to be indicted for other charges, with a hearing on 9 December 2019. All the offended parties - with the exception of the Municipality of Cerro Maggiore - waived bringing a civil action. The company and the employees have submitted the most appropriate defences to finding that they are not involved in the alleged events.
- The Municipality of Rome, where Italgas Reti provides the gas distribution service on the basis of a specific Service Contract, after a series of discussions aimed at reaching an agreement for rescheduling the implementation times of the Business Plan, which is an integral part of the aforementioned Contract, accused Italgas Reti of delays in implementing the Plan. Upon rejecting the claims of the Municipality of Rome, Italgas Reti provided timely observations about its lack of responsibility for the alleged delays and is evaluating all possible actions in order to better protect its interests.
- By way of the **appeal dated 4 April 2019**, the Company challenged the ARERA Resolution dated 5 March 2019 75/2019/R/gas as well as the ARERA Memorandum no. 2759 of 4 February 2019 containing the preliminary findings in the proceedings for composing the order on bonuses and penalties relating to the safety recoveries of the natural gas distribution service for the year 2015.
- By means of **Resolution no. 145/2019/R/gas dated 16 April 2019**, the Authority made observations regarding the reimbursement amount to be paid to the holders of the assignments and concessions for the distribution of gas services for the Municipalities of the Local Area of NAPLES 1 - City of Naples and Coastal Plant; in particular, for the purposes of tariff payments and in relation to the documentation sent by the Municipality of Naples, Area Contracting Authority, the Authority deemed the VIR amounts of the 6 Municipalities (Ercolano, Naples, Portici, San Giorgio a Cremano, Torre Annunziata and Torre del Greco) to be suitable.
- By way of the **appeal dated 19 April 2019**, the Company challenged the ARERA Memorandum no. 4011 of 19 February 2019 regarding the communication of the preliminary findings relating to the proceedings started by way of Resolution

323/2017/S/gas concerning the violation assessment on gas emergency response pursuant to Resolution 574/2013/R/gas dated 12 December 2013.

- Issued, on **3 May 2019**, by the Ministry of Economic Development, in concert with the Ministry of the Environment, the Decree approving the Operating Guide to ensure the identification, definition and presentation of projects within the White Certificates mechanism, originally established by Article 15, paragraph 1, of the implementing decree of 11 January 2017, amended by way of the Ministerial Decree of 10 May 2018.
- Issued, on **9 May 2019**, by the Ministry of Economic Development, the Decree approving the Operating Guide for the use of TEEs not resulting from the implementation of energy efficiency projects, so-called “Certificates on Credit”. On the basis of this guide, the obligor parties holding, as owners, an amount of “real” TEEs equal to at least 30% of the minimum requirement, may resort to “Certificates on Credit” for the volume necessary to meet their own minimum annual requirement.
- With reference to the monitoring initiated by the GSE on 55 packages of energy efficiency projects relating to the subsidiary company, Seaside, in the months of March and April notices of cancellation for 2 packages of projects were received as well as the requested supplementary documentation for the remaining projects. An appeal was filed with the Lazio Regional Administrative Court against the April notice for it to be annulled. The Company notes that any encumbrance arising from the outcome of GSE monitoring, as set forth in contract, will be fully charged back to the project counterparty.
- Published, on **09 May 2019**, by ARERA, the **Document for Consultation no. 170/2019/R/GAS** contains the “Courses of lines for the regulation of tariffs and quality of gas distribution and metering services in the fifth regulatory period”. In particular, with respect to the regulatory treatment of so-called “frozen” contributions, the Authority proposes that the residual value of the stock of existing contributions as of 31 December 2011 be considered as subject to deterioration, specifying a course allowing for full “unfreezing” by the end of the same fifth regulatory period. If confirmed, such treatment, concentrated over a short period of time, would entail a decrease in the RAB in “steps”, which would affect the operator’s revenue level.

Corporate Transactions

- **Execution**, on 1 April 2019, of the **merger through acquisition** (i) of the 13 **Fontenergia** companies operating in Sardinia in Medea and (ii) of the companies, **Naturgas, Grecanica Gas, Progas Metano, Baranogas Reti, Favaragas Reti, Sicilianagas Reti** and **Ischia Reti Gas**, taken over by Italgas Reti.

- **Exercise**, on 17 April 2019, of the **option** for the purchase, from CPL CONCORDIA, of the remaining 40% stake in **EGN**, for a price of € 20.9 million, net of € 21.0 million for the repayment of the shareholders' loan to CPL CONCORDIA Concordia.
- **Execution**, on 30 April 2019, of the acquisition from the CONSCOOP Group:
 - of the **business unit of Aquamet S.p.A.**, including, inter alia, 9 natural gas distribution concessions in some Municipalities in Lazio, Campania, Basilicata and Calabria, for a total of 23,800 users served;
 - of **100% of Mediterranea S.r.l.**, holder of 6 concessions for natural gas distribution in the Province of Salerno, with approximately 3,600 users served;
 - of the **business unit of Isgas Energit Multiutilities S.p.A.**, holder of propane air distribution concessions in the Sardinian Municipalities of Cagliari, Nuoro and Oristano, for a total of roughly 22,300 users currently served with LPG.

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

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

- **Incorporation**, on 07 May 2019, of the company, **Medea NewCo S.r.l.**, which shall operate in the natural gas, LPG and propane air sales sector.

Other events

- Approval, on 4 April 2019, by the Shareholders' Meeting, of the **2018 financial statements** and the **distribution** of a **dividend** of € 0.234, to be paid starting from 22 May 2019 (distribution date 20 May 2019, record date 21 May 2019).
- Signing on 11 April 2019 of a **partnership agreement with Picarro**, a US company operating in the supply of software for gas surveying, for the use in Europe by Picarro Surveyor. The system, named CRDS (Cavity Ring-Down Spectroscopy), consists of a technology that, compared to the traditional ones, provides important advantages in terms of speed of performance and range of areas subject to gas leakage monitoring. The agreement follows a trial conducted by Italgas in the last year on the Turin, Rome and Naples networks, which ended with significant results.

- **Officially awarding**, on 23 April 2019, to Italgas Reti, from the contracting authority of Metropolitan City of Turin, the contract for the management of the natural gas distribution service within the “**Turin 2 - Turin Plant**” area for the next 12 years . The area consists of 48 municipalities in the first and second belt of the Piedmontese capital for 190 thousand total end users. Due to this award, investments of around € 200 million have been planned. In this context, Italgas already held a 99.9% market share.
- Signing, on 28 April 2019, of a memorandum of understanding with the **State Grid Corporation of China**, the largest energy utility company in the world, to evaluate possible joint ventures in the natural gas distribution sector.
- Signing, on 23 May 2019, of a **consultancy agreement with the Greek natural gas distribution company Eda Thess** in order to further improve the services provided by the Greek operator and the safety of the gas distribution network.
- Signing on 28 June 2019 of a **Memorandum of Understanding with the French company, GRDF - Gaz Réseau Distribution France** - aimed at strengthening collaboration for engaging in joint activities and exchanging knowledge and experience in network management. The cooperation between the two companies will be based on an intense knowledge sharing of solutions and methods applied to the natural gas distribution sector.

Significant events occurring after the end of the quarter

Legal and Regulatory

- Publication, on 4 July 2019, of **Resolution no. 30/2018/R/gas dated 25 January 2018**, by way of which the Authority made observations on the call for tenders documentation sent, pursuant to the provisions of article 9, paragraph 2, of the Ministerial Decree no. 226/2011, by the Municipality of Turin, Contracting Authority for the Area of TORINO 1 - City of Turin.
- Publication of **Resolution DMRT/EFC/4/2019 dated 10 July 2019**, in application of the criteria referred to in article 7, paragraphs 1 and 2, of Annex A to Resolution no. 487/2018/R/efr, by way of which ARERA established the value of the unitary tariff contribution concerning Energy Efficiency Certificates for the 2018 requirement year, equal to € 248.89/TEE.
- Publication of **Resolution no. 305/2019/R/gas dated 16 July 2019**, by way of which the Authority ordered an advance on the total net amount of the bonuses relating to safety recoveries of the natural gas distribution service, for the year 2016, owed to the companies concerned (balance of bonuses and penalties), in the amount of 80%. The Authority ordered the aforementioned payment to all distribution companies providing, through an online system, by 4 October 2019, a positive response in relation to the

forecast of bonuses and penalties for the year 2016, subject to express waiver sent by Certified Email to CSEA by 15 October 2019.

Other events

- On 24 July 2019, Italgas successfully completed a new bond issue maturing in April 2030, at a fixed rate, for the amount of € 600 million with an annual coupon of 0.875%. Joint Bookrunners of the placement, restricted to institutional investors only, were BNP Paribas, JPMorgan, UniCredit, Banca IMI, Mediobanca, SocGen. The issue has completed the plafond of the **EMTN Programme** launched in 2016 and renewed by resolution of the Board of Directors on 5 November 2018.
- Completed, on 24 July 2019, an **interest rate swap transaction** with Mediobanca and Unicredit, expiring in November 2029, to swap from floating to fixed rate (-0,056%) an EIB loan, named “Smart Metering” for an amount of € 300 million.

Corporate Transactions

- In relation to the option-based offer of 2,897,778 shares pursuant to art. 2437-quater, paragraph 2, of the Civil Code, of the **Toscana Energia company** for which the Municipalities of Bientina, Buti, Calcinaia, Casciana, Terme Lari and Palaia exercised the right of withdrawal at the appropriate time, at the end of the offer period to non-withdrawing shareholders ending on 22 July 2019, only Italgas as shareholder exercised the option right and, at the same time, the pre-emption right on all non-exercised shares. Therefore, once the formal requirements set by the current regulations are fulfilled, Italgas shall increase its stake in Toscana Energia from 48.68% to 50.66%.
- Signing, on 29 July 2019, of the **merger deed by incorporation of EGN S.r.l., EGN Distribuzione S.r.l, Ischia Gas S.r.l. e Marigliano Gas S.r.l. in Italgas Reti S.p.A.** Merger legal effects will start from 1 August 2019 or, where subsequent, from the last registrations pursuant to art. 2504 of the civil code, while the accounting and tax effects will start from 1 January 2019.

Business Outlook

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

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

Consistent with the strategic priorities of the 2019-2025 plan, Italgas will participate in 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, following to 2018 acquisitions, the year 2019 can expect to see the completion of additional **initiatives for external growth**, which will enable the strengthening of the regional presence and growth of the perimeter of activities.

Lastly, activities will continue in 2019 aimed at **optimising the financial structure** of the Italgas Group, in line with the objectives set up in the 2019-2025 Strategic Plan.

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

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

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

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

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

Conference call

At 2:00 PM today, a conference call will be held to present to financial analysts and investors the results for the first half of 2019. The presentation may be viewed, through audio webcasting, on the Company's website (www.italgas.it). In conjunction with the conference call, the supporting material for the presentation will also be provided in the "Investor Relations/Presentations" section of the website.

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

Disclaimer

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

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Numero di Pagine: 27