



SPAFID CONNECT

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Testo del comunicato

Vedi allegato.

ITALGAS: CONSOLIDATED RESULTS AS AT 31 DECEMBER 2019 APPROVED
THE BOARD OF DIRECTORS, AT A FORTHCOMING MEETING, WILL CALL THE SHAREHOLDERS'
MEETING FOR 20 APRIL 2020

Milan, 11 March 2020 - The Board of Directors of Italgas, which met today under the Chairmanship of Alberto Dell'Acqua, approved the results as at 31 December 2019 and resolved to propose to the Shareholders' Meeting the distribution of a dividend of € 0.256 per share (+9.4% compared to 2018).

Key figures

Consolidated economic and financial highlights:

- Total revenues: € 1,257.9 million (+6.8%)
- Adjusted EBITDA: € 907.5 million (+7.8%)
- Adjusted EBIT: € 516.0 million (+13.2%)
- Adjusted net profit¹: € 345.2 million (+9.4%)
- Technical investments: € 740.0 million (+41.6%)
- Cash flow from operating activities: € 697.2 million
- Net financial debt²: € 4,410.6 million
- Dividend per share: € 0.256 (+9.4% compared to the previous year)

Operating highlights including affiliates:

- Municipalities in gas distribution concessions: 1,830
- Number of active meters: 7.694 million
- Gas distribution network: around 72,000 Km

For the third consecutive year from the return to the Stock Market, Italgas presents growing results which confirm the goodness of the choices made during the year in line with the Industrial Plan and focused on digitization, growth and operational efficiency.

The € 740 million capital expenditures implemented along the year (+41,6% vis a vis 2018, doubling 2016 capital expenditures) were devoted to the development, renewal and the digital transformation of the network. Such an effort is confirmed by the related physical data: 933 km of new pipelines laid versus 308 km in 2018. In particular, in Sardinia, network construction

¹ Adjusted net Profit means adjusted net profit attributable to the Italgas Group net of the portion pertaining to third parties.

² Net financial debt as at 31 December 2019 does not include financial liabilities for leases pursuant to IFRS 16. The accounting method according to IFRS 16 – Leases, adopted early effective from 1 January 2018, involved, in 2019, financial payables of € 74.7 million, technical investments of € 39.4 million, amortisation/depreciation of € 15.2 million and financial expenses of € 0.3 million.

activities are on schedule: along 2019 there are almost 440 km of pipelines laid with a total length of 590 km laid to date, totalling more than 18.000 request for new connections.

With 2.06 million smart meters installed, the replacement of traditional meters continued, bringing the number of installed smart meters as at 31 December 2019³ to around 6.76 million, also considering affiliates).

The installation plan of the smart meters, which will be concluded in 2020, as planned, is part of a wider digital transformation project, whose objective is to digitise the entire network managed; a project that, in 2019, already led to the technological upgrade of around 400 distribution networks.

The requirements related to net investments for 2019 were fully covered by the net positive cash flow from operating activities, equal to € 697.2 million, with a Free Cash Flow - before M&A activities - of € 106.5 million.

The net financial position as at 31 December 2019 was € 4,410.6 million and reflects the first-time consolidation of Toscana Energia for € 436.6 million (€ 3,974.0 million net of Toscana Energia contribution compared to € 3,814.3 million as at 31 December 2018), net of financial payables pursuant to IFRS 16 of € 74.7 million (€ 49.9 million as at 31 December 2018).

The adjusted EBIT in 2019 amounted to € 516.0 million (+13.2% compared to 31 December 2018) and adjusted net profit was € 345.2 million (+9.4% compared to the same period of the previous year). The Board of Directors of Italgas approved the results as at 31 December 2019 and resolved to propose to the Shareholders' Meeting the distribution of a dividend of € 0.256 per share (+9.4% compared to 2018) calculated as 60% of the adjusted net income. The dividend for 2019 is expected to be paid starting from 20 May 2020 (record date 19 May 2020), distribution date 18 May 2020.

The development and growth confirmed by the economic and financial results are also due to the commitment and the awareness of the sustainability issues. The company's stock was reconfirmed in the FTSE4Good Index Series and, for the first time in its history, the company was included in the Dow Jones Sustainability Index World, which evaluates the ability of enterprises to tackle the most important issues of sustainability on a global level.

Again in 2019, and for the third year running, Italgas was included by the CDP (*Carbon Disclosure Project*) among the leading global companies for strategies and initiatives implemented to tackle climate change, retaining its position in the "*Climate change B List*".

³ Excluding affiliates, as at 31 December 2019, Italgas has installed 2.05 million new meters, of which 1.78 million to replace traditional ones, bringing the current total of smart meters to 6.74 million, corresponding to around 80% of the entire stock. The company Toscana Energia contributed, in 2019, with the installation of 0.3 million meters, of which 0.2 million to place traditional meters and 0.08 million for the repair of digital meters with anomalies.

Paolo Gallo, CEO of Italgas, commented:

“2019 was the third consecutive year of growth: adjusted EBIT and adjusted net profit recorded increases of 13.2% and 9.4% respectively, improving all the guidelines communicated during the year and the investments made, up by more than 40% compared to the previous year, more than doubling the net income of the fiscal year.

Our network, which was extended by more than 9,000 kilometres, as a result of the investments and the acquisitions completed in 2019, including the consolidation of Toscana Energia, which brought more than 8,000 kilometres of network, 109 concessions and 858 thousand customers to the Group.

We won three area tenders (Torino2, Valle d’Aosta and Belluno) concluded in 2019, beating highly skilled competitors thanks to offers based on innovation, physical and technological development of the networks with growth in the local areas.

In Sardinia, the network extension proceeds according to the established time-table and we have completed half the total of the new “native digital” networks planned. Shortly it will start the methane gas distribution in some Municipalities, with all the benefits which that brings for the productive activities and local residents, in terms of service continuity, cost-effectiveness of resources and sustainability.

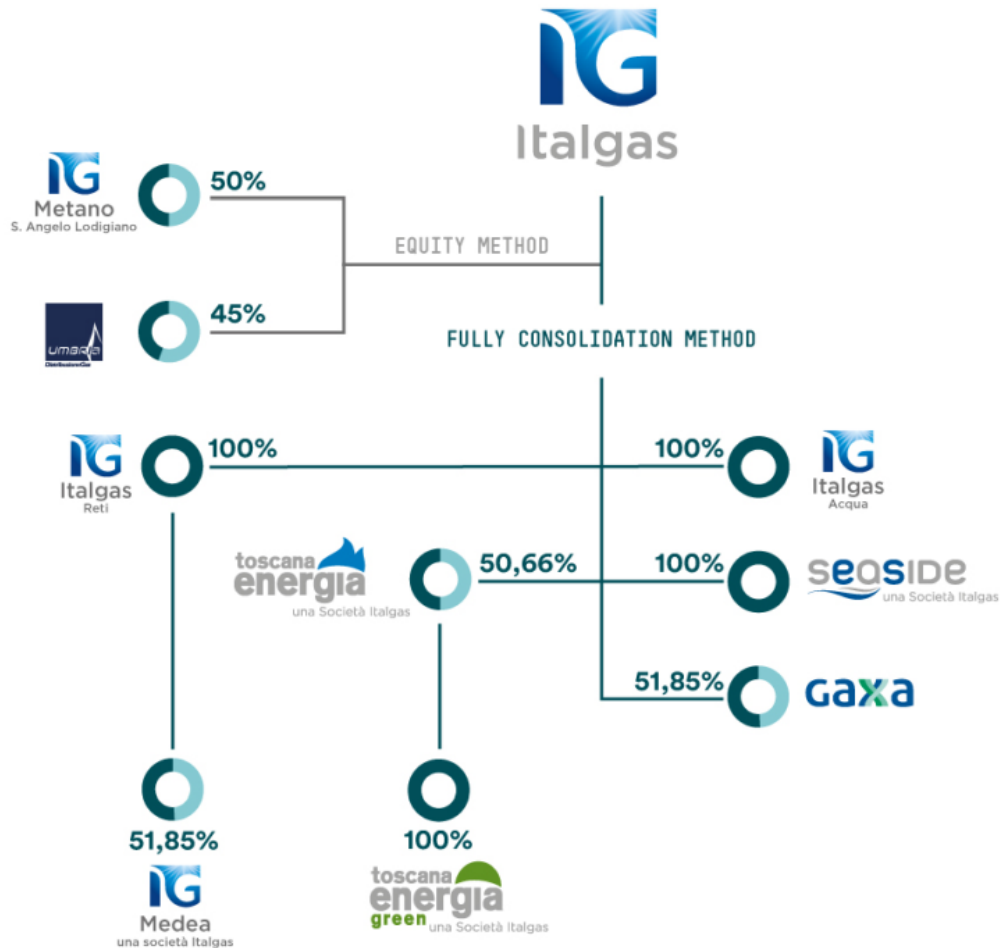
The digital transformation, also thanks to the exceptional incubator which is the Digital Factory, has become a distinctive feature of our company, that allows us to radical change the methods of network and process management, improving both service quality and operating efficiency improve, as well as the sustainability of our business, supporting on the energy transition.

Our business model has received a significant recognition, with the inclusion in the Dow Jones Sustainability Index World, which recognizes the compatibility of our growth with respect for the environment, personal development and positive interaction with the local areas and communities.

Digitisation, growth and sustainability will continue to drive us in our actions and challenges we will have to face”.

Italgas group structure as at 31 December 2019

The structure of the Italgas Group as at 31 December 2019 is shown below:



The scope of consolidation at the end of 2019 changed, with respect to that as of 31 December 2018, primarily as a result of: (i) the acquisition of control of Toscana Energia, completed on 1 October 2019; (ii) the acquisitions by Conscoop Soc. Coop completed on 30 April 2019 and (iii) the transfer to the Marguerite II Fund (more precisely, to the companies Marguerite Gas III S.à.r.l. and Marguerite Gas IV S.à.r.l.) of a minority stake of 48.15% of the share capital of Medea S.p.A and Gaxa S.r.l. respectively, completed on 18 December 2019⁴.

⁴ For more details, please refer to the section "Corporate transactions" in page 25.

Economic and financial highlights

Reclassified Income Statement

(€ million)	2018	2019	Abs. change	% change
Gas Distribution regulated revenues	1,145.0	1,198.0	53.0	4.6
<i>of which distribution revenues</i>	1,007.3	1,100.2	92.9	9.2
<i>of which other gas distribution regulated revenues (*)</i>	137.7	97.8	(39.9)	(29.0)
Other revenues	33.1	59.9	26.8	81.0
Total revenues (**)	1,178.1	1,257.9	79.8	6.8
Operating costs (**)	(338.6)	(350.4)	(11.8)	3.5
<i>of which special items</i>	2.5	0.0	(2.5)	
EBITDA	839.5	907.5	68.0	8.1
Adjusted EBITDA	842.0	907.5	65.5	7.8
Amortisation, depreciation and impairment	(386.0)	(391.5)	(5.5)	1.4
EBIT	453.5	516.0	62.5	13.8
Adjusted EBIT	456.0	516.0	60.0	13.2
Net financial expense	(47.0)	(69.3)	(22.3)	47.4
<i>of which special items</i>	0.0	18.3	18.3	
Adjusted net financial expense	(47.0)	(51.0)	(4.0)	
Net income from equity investments	20.0	100.8	80.8	
<i>of which special items</i>	0.0	(85.9)	(85.9)	
Adjusted net income from equity investments	20.0	14.9	(5.1)	
Gross profit	426.5	547.5	121.0	28.4
Adjusted gross profit	429.0	479.9	50.9	11.9
Income taxes	(112.8)	(123.9)	(11.1)	9.8
<i>of which special items</i>	(0.7)	(4.4)	(3.7)	
Adjusted income taxes	(113.5)	(128.3)	(14.8)	13.0
Net profit	313.7	423.6	109.9	35.0
<i>Net profit attributable to third parties</i>	0.0	6.4	6.4	
Net profit attributable to the Group	313.7	417.2	103.5	33.0
Adjusted net profit	315.5	351.6	36.1	11.4
Adjusted net profit attributable to the Group	315.5	345.2	29.7	9.4

(*) To provide a like-for-like basis for comparison with the accounting statement as at 31 December 2019, penalties for dispersion, which as at 31 December 2018 amounted to € 1.9 million, and were listed net of incentives, have been reclassified under operating costs.

(**) The management income statement compared to the legal statement, recognises "Service concession agreements" net of the impact of IFRIC 12 (€ 621.1 and € 447.0 million in 2019 and 2018 respectively), the reclassification of connection contributions and residual components (€ 16.6 and € 15.2 million in 2019 and 2018 respectively) as well as recognising the net margin of Energy Efficiency Certificates [TEE].

Total revenue in 2019 amounted to € 1,257.9, a € 79.8 million increase (of which € 34.8 million due to the first-time consolidation of Toscana Energia from 1 October 2019) compared with 2018 (+6.8%), and refers to gas distribution regulated revenue (€ 1,198.0 million) and Other revenue (€ 59.9 million).

Gas distribution regulated revenues rose by € 53.0 million against the corresponding period due to an increase in distribution revenues (€ +92.9 million) partially offset by a fall in other gas distribution regulated revenues (€ -39.9 million).

The higher **distribution revenues** (€ +92.9 million) are mainly due to the following: € +18.9 million to regulation components (of which € 12.0 million due to the review of the WACC

pursuant to Resolution no. 639/2018), € +25.1 million to tariff adjustments linked to the reimbursement of the costs relating to smart metering for 2011-2016 (€ +18.3 million) and relating to previous years (€ +6.8 million). The impact of the change in the scope of consolidation following the new company acquisitions amounted to € 47.5 million as at 31 December 2019 (of which € 31.1 million relating to Toscana Energia).

The decrease in **other gas distribution regulated revenues** (€ 39.9 million) is mostly 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, as the company is nearing completion of the replacement plan for smart meters. As at 31 December 2019, this contribution amounted to € 22.9 million, of which € 0.3 million relating to Toscana Energia (€ 71.5 million as at 31 December 2018). Compared to 31 December 2018, the company also recorded an increase of € 1.9 million in revenues due to ARERA incentives relating to safety recoveries regarding the natural gas distribution service and € 6.9 million for services to final customers.

With reference to Resolution no. **570/2019/R/Gas** on the new provisions governing the recognition of the residual costs of traditional meters of class G6 or lower replaced with smart meters, the company did not reflect in the financial statements the impacts of the change of methodology with respect to previous years as it believes that the requirements are not fully met for the recognition, while waiting for the Director of the Infrastructures, Energy and Unbundling Department, through its own determination, to identify consistent operating solutions for managing the reconciliation between regulatory disposals and accounting disposals, as set forth in art. 11 of Resolution no. 570/2019/R/gas.

Other revenues at the end of 2019 amounted to € 59.9 million (up € 26.8 million compared to the corresponding period in 2018). The increase is mainly due to greater i) capital gains from sale of € 10.3 million and ii) LPG and propane air sale due to the effect of the change in the scope of consolidation and related to assets acquired in Sardinia (€ 14.0 million).

Operating costs at the end of 2019 were € 350.4 million, up by € 11.8 million (of which € 4.7 million due to the first-time consolidation of Toscana Energia) compared to the corresponding period in 2018. **Gas distribution fixed costs**, composed of the sum of the net personnel costs of € 141.2 million and net external costs of € 99.3 million as at 31 December 2019 came to € 240.5 million, down by € 6.2 million compared to the corresponding value in FY2018 (€ 246.7 million; -2.5%). The decrease derives primarily from lower net costs related to ICT services (€ -6.3 million), lower traditional meter reading costs (€ -3.1 million), less penalties for gas leakage (€ -1.0 million), lower costs for consultancy and services (€ -0.6 million), partially offset by and higher costs related to the change in the scope of consolidation (€ +4.5 million).

The other costs relating to gas distribution activities are composed of: i) € 62.7 million in **expenses related to concessions** (€ +8.0 million compared to the corresponding period of 2018, of which € 5.4 million for the concession fee of Roma Capitale based on the update of the revenues constraint); ii) € 5.5 million in **other gas distribution costs** (€ -4.7 million compared to 31 December 2018); iii) € 7.8 million in costs linked to **TEEs (Energy Efficiency Certificates)** (€ +5.5 million compared to 31 December 2018) and iv) € 6.2 million in **variable gas distribution costs** (€ +1.4 million compared to 31 December 2018).

Lastly, an increase of € 7.8 million was recorded in **other costs**, related primarily to LPG procurement activities (€ +5.6 million).

The **EBITDA**s recorded as at 31 December 2019 amounted to € 907.5 million, up € 68.0 million (+8.1%) compared to the corresponding period of 2018, and is due to: (i) higher revenues of € 79.8 million (+6.8%), and (ii) higher operating costs of € 11.8 million (+3.5%).

Amortisation, depreciation and impairment (€ 391.5 million) increased by € 5.5 million, or 1.4%, compared to FY2018. The increase of € 43.5 million is related to investments in the period (of which € 12.4 million due to the first-time consolidation of Toscana Energia and € 8.1 million deriving from new IFRS 16 contracts), offset by lower amortisation and depreciation associated with the replacement of traditional meters with smart meters, as at 31 December 2019, equal to € 44.6 million (€ 82.6 million in the corresponding period of 2018), as the Group will complete the replacement of all traditional meters in 2020.

The **EBIT** at the end of 2019 amounted to € 516.0 million, up by € 62.5 million, equal to +13.8%.

The **net financial expense** (€ 69.3 million) rose by € 22.3 million compared to FY2018, due primarily: (i) to the bond buyback transaction concluded on 11 December 2019, which involved total non-recurring expenses of € 18.3 million, (ii) to the interest accrued on the bond loans issued on 24 July 2019 and on 11 December 2019, plus the interest accrued for the whole year on the bond issued in January 2018, for a total value of € 2.7 million, (iii) higher expenses linked to the bank credit lines and the EIB loan due to the consolidation of Toscana Energia (€ 0.6 million) and (iv) higher expenses deriving from the "Interest Rate Swap" derivatives transaction through which the EIB "*Smart Metering*" loan was swapped to a fixed rate for a total of € 300 million (€ 0.3 million).

Net income from equity investments, amounting to € 100.8 million in FY2019 (€ 20.0 million in 2018; € +80.8 million), rose primarily due to the re-statement of the value of the equity

†This press release uses alternative performance indicators, including EBITDA (gross operating margin, determined by subtracting operating costs from revenues) and EBIT (the result of operational management, determined by subtracting operating costs, amortisation, depreciation and impairment from revenues). The NON-GAAP financial report must be considered complementary to and not replacing the reports prepared according to IAS/IFRS.

investment in Toscana Energia following the acquisition of control according to the “Step Acquisition” method pursuant to IFRS 3, which generated a capital gain of € 85.9 million.

Income taxes in FY2019 (€ 123.9 million) increased by € 11.1 million compared to the corresponding period of the previous year, due to the increase in the gross result, partly offset by the benefits from higher amortisation/depreciation recognised for tax purposes.

The tax rate decreased to 22.6% (26.4% in 2018), mainly due to the no tax impact of the capital gain resulting from the recalculation of the value of the equity investment in Toscana Energia following the acquisition of control according to the “Step Acquisition” method pursuant to IFRS 3. The adjusted tax rate is set at 26.7% (26.5% in 2018).

The net profit attributable to the Group in FY2019, amounting to € 417.2 million, shows a € 103.5 million (+33.0%) increase, because of the effect, not only of the aforementioned increase in the operating profit of € 62.5 million, but higher net income from equity investments (€ +80.8 million) deriving primarily from the said re-statement of the value of the equity investment held in Toscana Energia as a result of the acquisition of control according to the so-called “Step Acquisition” method pursuant to IFRS 3 – “Business Combinations”, partly offset by the higher net financial expense of € 22.3 million, mainly connected with the buyback transaction completed on 11 December 2019.

The adjusted net profit attributable to the Group is equal to € 345.2 million (+9.4% compared to the corresponding period in 2018).

Reconciliation of EBIT and the net profit with adjusted EBIT and adjusted net profit

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

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

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

The income components classified under special items in FY2019 concern:

- the capital gain from the re-statement of the value of the equity investment in Toscana Energia following the acquisition of control pursuant to the “*Step Acquisition*” method pursuant to IFRS 3 – “Business Combinations” amounting to € 85.9 million;
- the costs incurred for the buyback transaction, completed on 11 December 2019, for a value of € 18.3 million (€ 13.9 million net of the associated tax effect);

Reclassified Statement of Financial Position

Italgas' reclassified statement of financial position as at 31 December 2019, compared with that of 31 December 2018, is summarised as follows:

(€ million)	31.12.2018	31.12.2019	Abs. change
Fixed capital	5,284.1	6,335.0	1,050.9
Property, plant and equipment	259.2	350.0	90.8
Intangible assets	4,982.8	6,176.1	1,193.3
Equity investments	175.1	33.7	(141.4)
Financial receivables and securities instrumental to operations	0.1	0.2	0.1
Net payables for investments	(133.1)	(225.0)	(91.9)
Net working capital	5.7	56.3	50.6
Provisions for employee benefits	(107.9)	(113.2)	(5.3)
Assets held for sale and directly related liabilities	11.6	2.1	(9.5)
NET INVESTED CAPITAL	5,193.5	6,280.2	1,086.7
Shareholders' equity	1,329.3	1,794.9	465.6
- attributable to the Group	1,329.3	1,560.4	231.1
- attributable to minority interests		234.6	234.6
Net financial debt	3,814.3	4,410.6	596.3
Financial liabilities for operating leases pursuant to IFRS 16	49.9	74.7	24.8
COVERAGE	5,193.5	6,280.2	1,086.7

The **net invested capital** as at 31 December 2019 amounted to € 6,280.2 million and consists of the items discussed below.

Fixed capital (€ 6,335.0 million) increased by € 1,050.9 million compared with 31 December 2018, mainly due to an increase in intangible assets (€ +1,193.3 million), the increase in property, plant and equipment (€ +90.8 million), offset by the increase in net payables relating to investment activities (€ -91.9 million) and the impairment of equity investments (€ -141.4 million) due to the consolidation of Toscana Energia.

Intangible assets (€ 6,176.1 million), which primarily include assets for the concession services accounted for in pursuant to IFRIC 12, show an increase of € 1,193.3 million mainly due to gross investments of € 664.0 million, net of amortisation, depreciation and impairment of € 362.5 million, as well as an increase linked to the asset acquisitions resulting from M&A

transactions of € 901.4 million (of which € 782.0 due to the consolidation of Toscana Energia), offset by decreases and other changes of € 2.4 million.

Tangible assets (€ 350.0 million), which mainly refer to buildings, commercial and industrial equipment, increased by € 90.8 million mainly due to the investments of € 76.0 million, of which € 39.4 million connected to the application of IFRS 16, net of depreciation of € 29.0 million, of which € 15.2 million linked to the right of use pursuant to IFRS 16 as well as an increase linked to the asset acquisitions resulting from M&A transactions of € 49.5 million (of which € 44.5 million due to the consolidation of Toscana Energia), offset by decreases of € 5.7 million.

An analysis of the changes in **property, plant and equipment** and **intangible assets** is provided below:

(€ million)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
Balance as at 31 December 2018	259.2	4,846.9	135.9	5,242.0
Investments	76.0	622.7	41.3	740.0
Amortisation, depreciation and impairment	(29.0)	(319.2)	(43.3)	(391.5)
- of which, metering		(116.3)		(116.3)
- of which, amortisation as per IFRS 16	(15.2)			(15.2)
Change in the scope of consolidation (entities and business units)	49.5	831.0	70.4	950.9
Grants		(12.0)		(12.0)
Other changes	(5.7)	14.8	(12.4)	(3.3)
Balance as at 31 December 2019	350.0	5,984.2	191.9	6,526.1

Equity investments (€ 33.7 million) include the valuation of equity investments, with the equity method and is attributable for € 30.5 million to equity investments in Toscana Energia.

Net working capital

(€ million)	31.12.2018	31.12.2019	Abs. change
Trade receivables	406.7	474.0	67.3
Inventories	26.2	52.3	26.1
Tax receivables	47.7	87.7	40.0
Accruals and deferrals from regulated activities	141.5	127.0	(14.5)
Other assets	115.0	100.9	(14.1)
Trade payables	(230.8)	(299.1)	(68.3)
Provisions for risks and charges	(187.6)	(169.6)	18.0
Deferred tax liabilities	(71.7)	(92.5)	(20.8)
Tax payables	(13.5)	(11.1)	2.4
Other liabilities	(227.8)	(213.3)	14.5
	5.7	56.3	50.6

Compared to 31 December 2018, the change in **working capital** amounted to € 50.6 million and was mainly due to: i) an increase in trade receivables (€ 67.3 million); ii) higher inventories (€ 26.1 million), mostly relating to gas meters; iii) higher net taxes (€ 21.6 million) due primarily to the higher VAT credit, partly offset by an increase in deferred taxes; iv) reduction in accruals and

deferrals from regulated activities (€ 14.5 million) primarily due to the transfer of receivables relating to the grant recognised on meters pursuant to art. 57 (€ 24.7 million); v) the reduction in other assets (€ 14.1 million) mainly due to lower receivables due from CSEA related to the additional distribution components (€ 20.2 million), partly offset by greater advances to suppliers (€ 1.6 million) and more activities due primarily to the derivative stipulated in July 2019 (€ 2.4 million); vi) higher trade payables (€ 68.3 million); vii) lower provisions for risks and charges (€ +18.0 million) mainly due to uses against expenses; viii) lower other liabilities for the period (€ 14.5 million) resulting mainly from the repayment of the debt towards 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 the EGN loan⁶ (€ 21.0 million) occurring in April 2019, lower advances related to the sale of the property on Via XX Settembre (€ 11.5 million) registered in 2018, lower payables due to the Municipalities (€ 3.9 million), partly offset by the increase in payables due to the CSEA connected with the additional distribution components (€ 42.6 million).

It should be noted that the Company has finalised factoring agreements with financial counterparties on the basis of which the Company's receivables can be factored without recourse. More specifically, in the fourth quarter, transactions were finalised for the transfer of receivables connected with: i) trade receivables relating to distribution due on 31 December 2019 and amounting to a total of € 71.4 million, (ii) receivables from CSEA of € 77.6 million, (iii) receivables related to Energy Efficiency Certificates of € 100.4 million and (iii) other receivables totalling € 30.2 million.

Net financial debt

(€ million)	31.12.2018	31.12.2019	Abs. change
Financial and bond debt	3,822.4	4,671.5	849.1
Short-term financial payables (*)(**)	156.1	471.4	315.3
Long-term financial debt	3,666.3	4,200.1	533.8
Financial receivables and cash and cash equivalents	(8.1)	(260.9)	(252.8)
Cash and cash equivalents (**)	(8.0)	(255.8)	(247.8)
Long-term financial receivables	0.0	(5.0)	(5.0)
Securities not instrumental to operations	(0.1)	(0.1)	0.0
Net financial debt (***)	3,814.3	4,410.6	596.3
Lease payable pursuant to IFRS 16	49.9	74.7	24.8
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	4,485.3	600.1

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

(**) The items are stated net of € 6.5 million relating to factoring transactions, whose underlying was collected on 31 December 2019 and repaid to the factor in the first working days of January 2020.

(***) Net financial debt as at 31 December 2019 does not include financial liabilities for operating leases pursuant to IFRS 16 of € 74.7 million (€ 49.9 million as at 31 December 2018). Compared to the situation shows as at 31 December 2018, the payable for the shareholders' loan to CPL Concordia, of € 21.0 million, was repaid, at the same time as the exercise of the option to purchase the remaining 40% in April 2019.

⁶In the 2018 financial statements, only for management purpose, the payable for EGN shareholders' loan of € 21.0 million disbursed by CPL Concordia was been reclassified to Other liabilities.

Net financial debt as at 31 December 2019 amounted to € 4,410.6 million, an increase of € 596.3 million (€ 3,814.3 million as at 31 December 2018), of which € 436.6 million deriving from the consolidation of Toscana Energia. Including the effects of the application of IFRS 16, of € 74.7 million, net financial debt comes to € 4,485.3 million.

Financial and bond debt as at 31 December 2019, totalling € 4,671.5 million (€ 3,822.4 million as at 31 December 2018), was denominated in Euros and referred mainly to bonds (€ 3,354.3 million), loan agreements concerning European Investment Bank (EIB) funding (€ 873.2 million), and bank payables (€ 444.0 million). The increase of financial and bond debt of € 849.1 million is mainly related (i) to the issue of two new bonds, for a nominal € 600 million in July 2019 and a nominal € 500 million in December 2019 respectively, partly offset by a reduction linked to the bond buyback transaction involving the two previous bonds for a nominal total of € 650 million, (ii) to the increase in EIB loans due to the consolidation of Toscana Energia for a value of € 89.8 million (iii) and to the increase in bank payables of € 318.4 million.

Cash and cash equivalents as at 31 December 2019 amounted to € 255.8 million, an increase of € 247.8 million (€ 8.0 million as at 31 December 2018) and refer, for € 98.3 million, to the temporary balances deriving from year-end available funds, as part of the refinancing of Toscana Energia, used in January 2020 to complete the repayment of the payables due to third parties, and for the remainder, from available funds obtained thanks to funding raised in 2019 by Italgas.

As at 31 December 2019, the breakdown of debt by type of interest rate, net of liabilities for leases pursuant to IFRS 16, is as follows:

(€ million)	31.12.2018	%	31.12.2019	%
Fixed rate	3,272.6	85.6	4,103.6	87.8
Floating rate	549.8	14.4	567.9	12.2
Gross financial debt	3,822.4	100.0	4,671.5	100.0

Fixed-rate financial liabilities amounted to € 4,103.6 million and relate to bonds (€ 3,354.3 million) and three EIB loans: the first expiring in 2037 (€ 359.8 million), converted to a fixed rate in January 2018 through an Interest Rate Swap derivative contract expiring in 2024; the second expiring in 2032 (€ 299.8 million), converted to a fixed rate in July 2019 through an Interest Rate Swap derivative contract expiring in 2029, and the third (€ 89.8 million) relating to the EIB loan of Toscana Energia.

Fixed-rate financial liabilities rose by € 831.0 million against 31 December 2018 due to the issuing of the aforementioned bonds, the new hedging derivative subscribed in July 2019 and the EIB loan of Toscana Energia.

Floating-rate financial liabilities totalled € 567.9 million, up by € 18.1 million due to greater use of bank lines of credit, partially offset by the EIB loan converted to floating rate through the Interest Rate Swap transaction completed in July 2019.

As at 31 December 2019, on expiry of the revolving credit facility of € 600 million opened in 2016, Italgas had unused committed credit lines amounting to € 500 million, expiring in October 2021.

As at 31 December 2019, there were no loan agreements containing financial covenants and/or secured by collateral, with the exception of the EIB loan taken out by Toscana Energia, which requires the observance of given financial covenants. 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. As at 31 December 2019, these commitments were met.

Reclassified Statement of Cash Flows

(€ million)	2018	2019
Net profit	313.7	423.6
<i>Adjusted:</i>		
- Amortisation, depreciation and other non-monetary components	359.0	275.6
- Net capital losses (capital gains) on asset sales and eliminations	1.3	4.4
- Interest and income taxes	159.8	193.2
Change in working capital due to operating activities	35.3	10.1
Dividends, interest and income taxes collected (paid)	(150.4)	(209.7)
Cash flow from operating activities (*)	718.7	697.2
Technical investments	(474.7)	(688.6)
Other changes relating to investment activities	0.4	89.9
Disinvestments	3.0	8.0
Free cash flow before M&A transactions	247.4	106.5
Change in scope of consolidation	(149.3)	(96.4)
of which:		
- price paid for equity	(84.8)	(40.2)
- takeover of payables of acquired companies	(64.6)	(56.2)
Acquisition of business units	(23.8)	(25.1)
Free cash flow	74.3	14.9
Change in short- and long-term financial debt and in financial receivables		434.7
Transfer of minority interests (**)	99.2	24.8
Equity cash flow (***)	(168.3)	(196.8)
Net cash flow for the year	5.2	247.8

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

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

(***) Inclusive of the dividend paid by Italgas of € 189.3 million to its shareholders, the extraordinary dividend paid by Toscana Energia of € 18.5 million to third party shareholders and the increase in share capital of Medea by the Marguerite II Fund for a value of € 11.0 million.

Change in net financial debt

(€ million)	2018	2019
Free cash flow before M&A transactions	247.4	106.5
Change due to acquisitions of equity investments and business units	(173.1)	(121.4)
Transfer of minority investments	0.0	24.8
Equity cash flow	(168.3)	(196.8)
Change in net financial debt excluding the effects of IFRS 16, the EGN shareholders' loan and the financial liabilities deriving from M&A transactions - Toscana Energia	(94.0)	(186.9)
Change in financial liabilities pursuant to IFRS 16	(49.9)	(19.7)
Change in payable for EGN shareholders' loan	(21.0)	21.0
Change in scope of consolidation of financial liabilities deriving from M&A transactions (*)		(414.5)
Change in net financial debt	(164.9)	(600.1)

(*) The figure refers to the net financial payables of Toscana Energia and Toscana Energia Green as at 1 October 2019.

Cash flow from operating activities in 2019, net of the payment of taxes of € 154.6 million, amounted to € 697.2 million, making it possible to fully finance the flow of net investments of € 590.7 million, generating a free cash flow before Merger and Acquisition transactions of € 106.5 million. As at 31 December 2019, the cash outflow from M&A transactions amounted to € 96.6 million.

The increase in net financial debt came to € 186.9 million, gross of the effect deriving from the adoption of IFRS 16 in relation to liabilities for leases (€ 19.7 million), the repayment of the CPL Concordia shareholders' loan to EGN (€ 21.0 million) and the variation resulting from the scope of consolidation due to the acquisition of Toscana Energia (€ 414.5 million). The change in net financial debt including the above-mentioned effects totalled € 600.1 million.

Key operating figures

Investments

In 2019, technical investments amounted to € 740.0 million (2018: € 522.7 million, +41.6%, of which € 39.4 million due to the adoption of IFRS 16.

(€ million)	2018	2019	Abs. change	% change
Distribution	278.5	463.0	184.5	66.2
Network maintenance and development	248.7	360.6	111.9	45.0
New networks	29.8	102.4	72.6	243.6
Metering	178.8	179.5	0.7	0.4
Other investments	65.4	97.5	32.1	49.1
- of which due to the effect of IFRS 16	22.4	39.4	17.0	75.9
	522.7	740.0	217.3	41.6

Distribution investments (€ 463.0 million, +66.2% compared to the corresponding period of 2018) mainly concerned: i) the development and the upgrading of pipeline sections and the digitisation project⁷ for a total of € 360.6 million, ii) the development of new networks for € 102.4 million, mainly relating to investments in Sardinia amounting to € 82.8 million. Distribution investments made by Toscana Energia in 2019 came to € 26.9 million, of which € 13.2 million in the fourth quarter of 2019.

Investments in metering (€ 179.5 million, +0.7% compared to corresponding period of 2018) primarily concerned the plan to replace traditional meters with “smart” meters, as part of the smart metering project. In 2019, the Company installed 2,057.4 thousand new meters⁸, of which 1,780.1 thousand to replace traditional meters and 277.3 thousand for the repair of digital meters with anomalies. Metering investments made by Toscana Energia in 2019 came to € 19.5 million, of which € 5.9 million in the fourth quarter of 2019.

Other investments (€ 97.5 million, € +49.1 million compared to the corresponding period of 2018) mainly concern IT, real estate⁹ and vehicle investments and include the effect of the application of IFRS 16 (€ 39.4 million). Other investments made by Toscana Energia in 2019 came to € 11.6 million, of which € 3.1 million in the fourth quarter of 2019.

⁷Relating to investments for GRF on the basis of € 26.1 million and digitisation of processes on the basis of € 13.2 million.

⁸The figure includes the data of participated companies. Italgas installed 2,053.2 thousand new meters, of which 1,776.3 thousand to replace traditional meters. The company Toscana Energia, in 2019, contributed with the installation of 265.4 thousand meters, of which 183.9 thousand to replace traditional meters and 81.5 thousand for the repair of digital meters with anomalies.

⁹ Real estate investments include the renovation of the head office of Italgas in Largo Regio Parco, in Turin, worth € 16.9 million.

Key operating figures – Italgas Group

	2018	2019	Abs. Change	% change
Active meters (million)	6.708	7.573	0.87	12.9
Installed meters (million)	7.493	8.464	0.97	13.0
Municipalities in gas distribution concessions (number)	1,700	1,816	116	6.8
Distribution network (kilometres)	61,361	70,502	9,140	14.9
Technical investments	522.7	740.0	217.3	41.6

Key operating figures – Italgas Group and participated companies

	2018	2019	Abs. Change	% change
Active meters (milioni)	7,562	7,694	0.13	1.7
Installed meters (milioni)	8,429	8,597	0.17	2.0
Municipalities in gas distribution concessions (number)	1,808	1,830	22	1.2
Distribution network (kilometres)	69,782	71,761	1,979	2.8

Meters

As at 31 December 2019, the number of active meters at the redelivery points, also considering participated companies, was 7.694 million (7.562 as at 31 December 2018), of which 796.6 thousand relating to Toscana Energia. Excluding participated companies, the total number of active meters is 7.573 million (6.708 as at 31 December 2018).

Municipalities in concession and local area tenders

As at 31 December 2019, also considering participated companies, Italgas had the concession for gas distribution in 1,830 Municipalities (1,808 as at 31 December 2018), of which 1,744 in operation (1,722 as at 31 December 2018). Excluding participated companies, the number of municipalities with concessions in operation of Italgas comes to 1,730 (1,614 as at 31 December 2018), out of a total of 1,816 municipal concessions (1,700 as at 31 December 2018).

Distribution network

The gas distribution network as at 31 December 2019, also considering participated companies, stretched 71,761 kilometres (69,782 kilometres as at 31 December 2018), of which 7,925 kilometres relating to Toscana Energia. Excluding participated companies, the distribution network stretches 70,502 kilometres (61,361 kilometres as at 31 December 2018).

Main events in 2019

Legislative and Regulatory Framework

- After the decisions of 2 April 2019 of the Council of State on the confirmation of the free transfer of "Block A", respectively in favor of the Municipality of Venice and the Municipality of Cavallino Treporti, on **24 April 2019**, the Municipality of Venice served a writ of summons against Italgas Reti before the Venice Court, for the assessment and consequent payment of the fee for the use of the portion of the network that was included under the free transfer. Italgas Reti appeared before the court and challenged the quantification of the fee, requesting the repayment of the amount unduly paid to the Municipality following the free transfer of Block A. The next Court hearing is scheduled to 1 April 2020 for the admission of the measures of inquiry.
- By means of **Resolution no. 1/2019 – DMRT of 29 January 2019**, ARERA 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 at 31 December 2017. For subsidiaries and participated companies of Italgas S.p.A., the quantitative obligation for the year 2019, 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, ARERA 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.
- By **order dated 12 March 2019**, the **AGCM** initiated, pursuant to art. 14 of Italian Law 287/90, a preliminary 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 prior to the organisation of the procedure to award the gas distribution service in **Genoa 1 ATEM**". 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 prior to 2006 in the Municipalities where it is the concession holder (Campo Ligure, Campomorone, Ceranesi, Cicagna, Masone, Pieve Ligure and Rossignone). By way of **order of 2 September 2019**, the Antitrust Authority resolved on the publication of the commitments submitted respectively by IReti, 2i Rete Gas and Italgas Reti. Following a decision taken on 21st January 2020, the AGCM concluded the proceeding and resolved to make compulsory the engagements proposed by the operators, without deining any infringement of the existing rules and therefore no sanctions were applied.

- By means of **Resolution no. 98/2019/R/gas**, ARERA approved the definitive reference tariffs for the distribution and metering services for 2018 and, with the subsequent **Resolution no. 128/2019/R/gas**, the provisional reference tariffs for the distribution and metering services for 2019, on the basis of the preliminary balance sheet data for 2018, pursuant to art. 3, paragraph 2, letter a) of the RTDG.
- 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 set for 8 June 2020 for the start of witness examination. 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 timing of the Business Plan, which is an integral part of the aforementioned Contract, accused Italgas Reti, in an arbitrary manner, of delays in implementing the Plan. On 19 December, the Municipality of Rome served notice of an Executive resolution of 6 September 2019 which i) quantified the alleged amount due from Italgas Reti in the form of penalties for the supposed delay in implementing the industrial plan forming the object of the gas concession contract, ii) reserved the right to enforce the bank guarantee issued to guarantee the correct execution of the aforementioned service contract, in the event in which the penalties are not paid within a term of 90 days from notification of the resolution.

By means of **Order no. 01124/2020** published on 21 February 2020, the Regional Administrative Court of Lazio, while waiting to issue a ruling on the objection raised by the Municipality of Rome in relation to the jurisdiction of the administrative court, suspended the provision in which the Municipality of Rome ordered Italgas Reti to pay penalties, until 18 March 2020, the date on which the next Chambers will convene.

On 18 November 2019 the **Regional Administrative Court of Lombardy, by means of ruling no. 2430/2019**, upheld, with a favourable judgment, the various appeals filed by Italgas Reti against: i) Resolution 98/2016 for the part relating to the redetermination of the reference tariffs of the company for the years 2009-2014, ii) Resolution no. 99/2016 relating to the 2015 tariffs and iii) Resolution no. 494/2018 for the non-recognition of the

extra remuneration of the investments made by the company in the Municipality of Rome, with reference to the years 2009 and 2010. With reference to the latter proceedings, ARERA proposed an appeal, notified on 11 February 2020 and filed on 13 February 2020. The company will promptly file an appearance in court in accordance with the legal terms, for the scrupulous defence from the effects of the ruling of the Lombardy Regional Administrative Court.

- By way of the **appeal dated 4 April 2019**, the Company challenged the ARERA Resolution no. 75/2019/R/gas dated 5 March 2019 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.
- Issued, on **3 May 2019**, by the Ministry of Economic Development, in agreement 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.

The Decree was challenged by way of appeal for additional reasons as part of the proceedings brought by the company against the decree issued by the Ministry of Economic Development, in concert with the Ministry of Environment and Land and Sea Protection on 10 May 2018 containing the amendment and update of Decree of 11 January 2017, concerning, inter alia, the determination of the national quantitative energy savings objectives which must be pursued by electricity and gas distribution companies for the years 2017 to 2020 (RG no. 12610/2018). The hearing for discussing the matter will be held on 15 April 2020 before the Rome Regional Administrative Court.

- 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 before the Lazio TAR was filed against the April notification for the annulment of the same and additional reasons against the further measures related to the April notification. Any

encumbrance arising from the outcome of GSE monitoring, as set forth in contract, will be fully charged back to the project counterparty.

- The Authority, by way of **Resolution no. 209/2019/R/efr of 28 May 2019**, approved the operational procedures for the economic regulation of resources deriving from the issuing activity and the potential surrender by obliged entities of Energy Efficiency Certificates not corresponding to projects (“shorts”) provided by the GSE. An amendment of the determination regulations of the tariff contribution to be paid to distributors compliant with the obligations of energy saving, pursuant to resolution no. 487/2018/R/efr, in relation to the treatment of exchanges of TEEs through bilateral arrangements was approved with the provision. In particular, it is envisaged that, starting from the tariff contribution for the 2019 obligation year, the average of the average weighted prices of exchanges of TEEs made on the market and of the relevant prices of the TEEs traded through bilateral transactions, is weighted, using, for bilateral exchanges, only the quantity of TEEs exchanged at a price lower than €250/TEE (instead of all the TEEs subject to bilateral transactions, regardless of the exchange price, as currently envisaged). The Authority approved provisions to update the Regulations for bilateral transactions of Energy Efficiency Certificates, arranged by the Italian Power Exchange (GME), by way of a subsequent **Resolution no. 273/2019/R/efr of 25 June 2019**.

Both resolutions were challenged by the Company and annulled by means of ruling no. 2538/2019, published on 28 November 2019. The aforementioned ruling also led to the annulment, in the relevant part, of Decree of 10 May 2018, already challenged by the company, and (ii) of resolution no. 487/2018/R/EFR of ARERA of 27 September 2018, containing the definition of the tariff contribution to cover the costs incurred by electricity and natural gas distributors subject to obligations as part of the energy efficiency certificates mechanism, pursuant to the aforementioned interministerial decree, already challenged by the Company.

- Publication of **Resolution DMRT/EFC/4/2019 dated 10 July 2019**, 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.

The Resolution was challenged by the company before the Milan Regional Administrative Court by means of an appeal (RG n. 2215/2019). The proceedings are currently pending and a public hearing has still not been set.

- On **25 July 2019**, Italgas was served a subpoena by **Publiservizi S.p.A.** which, in sustaining an alleged violation of a shareholders’ agreement entered into by Italgas S.p.A., Publiservizi S.p.A. and other Municipalities that are shareholders of Toscana Energia on 28 June 2018, demands that Italgas be ordered to execute the aforementioned shareholders’ agreement and compensate the associated damages. The first hearing,

held on 14 January 2020 before the Court of Florence, was updated on 6 May 2020. Italgas S.p.A., which appeared before the court in accordance with the law, raised all the necessary objections to demonstrate that the counterparty's claims are groundless.

- By means of **Resolution no. 328/2019/S/gas of 30 July 2019**, the Authority imposed a fine of € 469,000 on Italgas Reti, as it had determined the violation of Article 14, paragraph 1, letter c), point iii) of the Regulation of the Quality of Gas Distribution and metering services, with a view to guaranteeing the safety of the distribution service by imposing obligations on operators relating to the emergency response service for the period of 2015 to 2017. The Resolution has been challenged by the company by means of an appeal of 25 October 2019.
- With ruling **no. 1862/2019 of 5 August 2019, published on 7 August 2019**, the Ordinary court of Trani, civil section, rejected the petition through which the Municipality of Andria has requested verification of its right to obtain from Italgas the payment of the amount of € 1,521,402.00, plus legal interest and monetary revaluation, for the increase of the concession rental charge for the gas distribution service in the local municipality, from 1 January 2006 to 31 December 2011. With subsequent **ruling no. 2562/2019 of 25 November 2019, published on 29 November 2019**, the Ordinary court of Trani, civil section, rejected the petition through which the Municipality of Andria requested verification of its right to obtain from Italgas the payment of an amount, plus legal interest and monetary revaluation, in the form of the reimbursement of the restriction on distribution revenues due from the company to the Municipality, as owner of the gas distribution plant in the relative territory, from 1 January 2006 to 31 December 2011.
- By way of **Resolution no. 415/2019/S/efr of 23 October 2019**, the Authority imposed a fine on Italgas Reti, as it had determined the violation of the provisions on Energy Efficiency Certificates [TEE] for the 2016 obligation year. In a brief dated 27 March 2018, Italgas sustained that the requirements for imposing a fine had not been fulfilled, in so far as the failure to promptly achieve the energy efficiency objective for the 2016 obligation year would not be enforceable. In reality, the company claimed to not have been able to fulfil the objective due to the significant increase of the stock price of Energy Efficiency Certificates [TEE] recorded from October 2016 onwards (partly also exacerbated by the lack of certificates on the market as an effect of Italian Ministerial Decree dated 11 January 2017) with respect to the amount of the tariff contribution paid to the Authority. Therefore, the company had decided not to purchase energy efficiency certificates at excessively disadvantageous conditions by 31 May 2017.
- In relation to the call for tenders for the assignment of the **ATEM of Belluno** (around 45,000 redelivery points in 74 municipalities), Italgas Reti submitted its offer on 1 September 2017. One of the other operators participating in the tender filed an appeal,

hence blocking the tender process. This appeal was rejected by the Regional Administrative Court of the Veneto, then upheld by the ruling of the Council of State of 18 October 2018, published on 22 January 2019. On 4 December 2019, when the envelopes containing the economic offer presented by each competitor were opened, Italgas Reti was ranked first in the list of bidders: during the meeting, the tender committee, in acknowledging the score attributed to the competitors, took steps to verify the consistency of certain parts of Italgas Reti's bid, as set forth in the legislation in force prior to the definitive award of the tender. However, the Municipalities in the Area asked the Municipality of Belluno, as the contracting authority, to suspend the tender in order to carry out in-depth analyses, in light of the appraisal according to which the reimbursement for the networks owned by the outgoing manager, BIM Belluno – controlled by the Municipalities themselves - would have been roughly € 15 million higher than the value already recorded in the Call for Tenders. In consideration of the regional capital's decision to proceed with the process, the aforementioned Municipalities resolved to revoke the Municipality of Belluno's authorisation of the role of contracting authority. As a result of said decision, communicated to the contracting authority and the economic operators participating in the tender through the Municipality of Feltre, delegated for the purpose by the majority of the Municipalities forming part of Atem, Italgas Reti challenged the provisions assumed by the Municipalities forming part of the Area, considering them to be groundless. At the current state of play, the setting of a hearing before the Veneto Regional Administrative Court is pending. At the same time, Italgas Reti, by means of letter dated 27 December 2019, addressed to the contracting authority, called on said entity to continue without delay with the tender operations targeted at its definitive award: the contracting authority, via a reply letter of the RUP on 10 January 2020, communicated its "(...) impossibility to carry out cancellations, suspensions, revocations of tender procedures and/or interfere with the works of the Tender Committee". By means of a letter dated 22 January 2020, in order to proceed with the verification of the consistency of the bid, the Tender Committee asked the company for some clarifications and the relevant documents. The company quickly provided a reply by means of communication dated 12 February 2020.

- By means of **resolution no. 529/2019/R/EFR of 10 December 2019**, the authority launched a procedure for the reform of the tariff contribution to be recognised to distributors in execution of the ruling of the Lombardy Regional Administrative Court no. 2538/2019, which set forth that the quantification of the contribution cap at € 250.00 by Ministerial Decree of 10 May 2018 violates the prerogatives of the authority, and urgent measures in relation to the energy efficiency certificates mechanism.

- By means of **consultation document no. 487/2019/R/gas** of 26 November 2019, the authority illustrated the guidelines regarding the obligations for the commissioning of gas smart meters, the frequencies for meter collection, performance improvement and the development of tariff regulation.
- **Publication of Resolution no. 537/2019/R/gas** on 17 December 2019, based on which the authority recognised to distribution companies the costs incurred for the creation of meter reading/remote control systems for the years 2011-2016; these amounts will be disbursed by the Cassa per i Servizi Energetici e Ambientali (CSEA) - Energy and Environmental Services Fund - by using the gas distribution tariff adjustment account pursuant to the RTDG.
- **Publication of Resolution no. 570/2019/R/gas** on 27 December 2019, under which the regulation of tariffs for the gas distribution and metering services tariffs were approved for the period 2020-2025 and **Resolution no. 571/2019/R/gas** under which the mandatory tariffs for the natural gas distribution, metering and sale services and the amounts of bi-monthly account adjustment relating to the natural gas distribution service for the year 2020 were approved.
- **Publication of Resolution no. 569/2019/R/gas of 27 December 2019**, in which the authority approved the regulation of the quality of gas distribution and metering services for the 2020-2025 period.

Corporate Transactions

- **Exercise**, on 17 April 2019, of the **option** for the purchase, from CPL Concordia Soc. Coop., 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.
- **Completion**, on 30 April 2019, of the **acquisition** by Conscoop Soc. Coop.:
 - 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 with Conscoop, Italgas through the subsidiary Medea, 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 purchase price.

- On 25 September 2019, the **purchase from Sienergas Distribuzione S.r.l.** of the business unit relating to the distribution of natural gas in the municipality of Cannara (Perugia), a facility that covers 35 kilometres and services around 1,500 users **was finalised**.
- On 1 October 2019, the **transfer of 2,897,778 shares to Italgas S.p.A.** corresponding to 1.98% of the share capital of Toscana Energia, by five Tuscan Municipalities that exercised the right of withdrawal **was finalised**, for a consideration of € 10.7 million. After Italgas had gained control of Toscana Energia, new articles of association came into effect, resulting from the agreement between Italgas and its public shareholders and already approved by the Shareholders' Meeting held on 28 June 2018.
- On 7 October 2019, **Italgas and A2A signed an agreement for the reciprocal sale of several non-core industrial assets**, with a view to strengthening their respective core businesses. More specifically, Italgas Reti has undertaken to sell to A2A Calore & Servizi the district heating business it currently manages in the municipality of Cologno Monzese;

at the same time, Unareti (A2A Group) will sell Italgas its natural gas distribution business managed in seven municipalities belonging to the Alessandria 4 ATEM.

- **Signing**, on 15 November 2019, of the **deed of spin-off** of the sales division of the company **Medea S.p.A** to the company Medea NewCo S.r.l, incorporated on 7 May 2019 for the purpose of operating in the methane, LPG and propane air sales sector, and also in the methane gas sector in the future, and approval of the change of company name of the latter to **Gaxa S.r.l.**, effective from 1 December 2019.
- **Completion** by the subsidiary Seaside, on 12 December 2019, of the **purchase of 10%** of the share capital of the company **Enerpaper**, an innovative start-up which owns building heat insulation technology.
- On 18 December 2019, the Luxembourg Fund Marguerite II, through the companies **Marguerite Gas III S.à.r.l.** and **Marguerite Gas IV S.à.r.l.** **purchased 48.15% of the share capital of Medea S.p.A and Gaxa S.r.l. respectively** (the transformation of Gaxa to a joint-stock company took effect from 15 January 2020). This sale followed the signing of the **agreement signed** on 1 August 2018 with the **Fund Marguerite II**, which made provision for the acquisition of 48.15% of the share capital of Medea and Gaxa, through an initial investment of roughly € 25 million and subsequent share capital increases totalling approximately € 44 million, intended primarily for the pro-rata financing of investments in Sardinia set out in the Italgas 2019-2025 Business Plan. The value attributed to 100% of the assets as at 1 January 2019 was € 91.2 million.

In addition, with the aim of simplifying the Group's organisational structure, the following transactions were completed:

- **Signing**, on 12 March 2019, effective for statutory purposes from 1 April 2019 and for accounting and tax purposes from 1 January 2019, of the deed of **merger by incorporation** (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**, in Italgas Reti.
- **Signing**, on 29 July 2019, effective for statutory purposes from 1 August 2019 and for accounting and tax purposes from 1 January 2019, of the **deed of merger by incorporation of EGN S.r.l., EGN Distribuzione S.r.l., Ischia Gas S.r.l. and Marigliano Gas S.r.l. in Italgas Reti S.p.A.**
- **Signing**, on 21 October 2019, of the deed of **merger by incorporation of Mediterranea S.r.l. into Italgas Reti S.p.A.**, effective for statutory purposes from 1 November 2019 and for tax and accounting purposes from 1 January 2019.

Other events

- **Officially awarding**, on 23 April 2019, to Italgas Reti, from the contracting authority of Metropolitan City of Turin, of the contract for the management of the natural gas distribution service within the “**Turin 2 - Turin Plant**” local area for the next 12 years. The area consists of 48 municipalities in the first and second belt of the Piedmont capital for 190 thousand total end users. Due to this award, investments of around € 200 million have been planned. In this area, Italgas already held a 99.9% market share.
- **Publishing**, on 27 May 2019, of the **call for tenders of the Turin 1 Area**, which is comprised by 6 Municipalities, where Italgas Reti is the only operator, with 558,972 active end users as at 31 December 2019. The deadline for the submission of the bids were definitely extended to 11 December 2019 by Executive resolution of **31 October 2019**. Italgas Reti presented its offer within the new deadline set by the call for tenders. At the end of 2019, the selection board of the contracting authority was not yet installed and, therefore, the administrative envelopes of the offers have not yet been opened.
- Successful **conclusion**, on 24 July 2019, of the **launch** of the **new bond issue** maturing in April 2030, at a fixed rate, for the amount of **€ 600 million** with an annual coupon of 0.875%. 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.
- **Completion**, on 24 July 2019, of an **Interest Rate Swap transaction** (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.
- The board of directors of 1 August 2019 of **CDP S.p.A.** which, through the subsidiary CDP Reti S.p.A. holds a 26.05% stake in Italgas, **reclassified** the **shareholding** in the same **as de facto control** pursuant to art. 2359, paragraph 1, no. 2) of the Italian civil code and art. 93 of the Consolidated Finance Act (TUF).
- The **renewal of the 2019 EMTN Programme**, launched in 2016 and already renewed in 2017 and 2018, was **resolved** on 23 September 2019 and signed on 16 October 2019, at the same time increasing the maximum amount to a nominal amount of **€ 5 billion**.
- On 1 October 2019, Italgas **officially won** the **tender for the award under concession** of the natural gas distribution service in the **municipality of Castel San Giorgio** (Salerno). The current gas network of Castel San Giorgio covers around 40 kilometres and services around 1,300 users. On 21 October 2019, Aquamet S.p.A., as the other party, filed an appeal against Italgas Reti for additional reasons, with which it challenged the municipality’s decision to award the tender, in addition to the call for tenders already challenged in the main appeal on 4 June 2019. The hearing for discussing the merits of the proceedings is set for 25 March 2020.

- **Conclusion**, on 11 December 2019, of the **buyback transaction** relating to two bond issues for a nominal value of € 750 million, maturing in January 2022 and € 650 million maturing in March 2024. With a repurchase percentage exceeding 60% in the first case and 25% in the second case, the total repurchase nominal value was approximately € 650 million. On the same date, in implementation of the EMTN Programme, Italgas successfully concluded the **launch** of the **new bond issue** maturing in 2031, at a fixed rate, for an amount of € 500 million with an annual coupon of 1%.

Significant events after the balance sheet date

Legislative and Regulatory Framework

- **Appeal filed** by Italgas Reti on 20 January 2020 to the Veneto Regional Administrative Court for the annulment of the decisions taken by the assembly of Municipalities forming part of the territorial area of **Belluno**, for the revocation of the provincial capital's role of contracting authority in the tender for the award of the gas distribution service. In December 2019, the Municipalities in the Area asked the Municipality of Belluno, as the contracting authority, to suspend the tender in order to carry out in-depth analyses, in light of the appraisal according to which the reimbursement envisaged by the call for tenders for the networks owned by the outgoing manager, BIM Belluno – controlled by the Municipalities themselves - would have been € 15 million lower than the value already determined at the time of preparation of the Call for Tenders. Prior to the decision of the contracting authority to proceed with the process of awarding the tender, in which Italgas Reti was ranked first, said Area Municipalities therefore resolved to revoke Belluno's authorisation of the role of contracting authority.
- **Determination no. 1/2020 – DMRT of 31 January 2020** published, with which the authority defined the national quantitative obligations for the increase in the **energy efficiency** of final natural gas uses, to be achieved in 2020 by distributors with more than 50,000 end customers connected to their distribution network as at 31 December 2018. For subsidiaries and participated companies of Italgas S.p.A., the **quantitative obligation for the year 2020**, rounded to the nearest unit using the commercial method and expressed in terms of number of White Certificates, is equal to: i) 1,073,333 for Italgas Reti; ii) 155,367 for Toscana Energia and iii) 7,942 for Umbria Distribuzione Gas.
- With reference to the **control launched by GSE** on 55 applications for energy efficiency projects relating to the subsidiary Seaside, at the end of 2019, having completed the phase of collection of documents and transmission to the GSE, the notice of cancellation of 2 applications was received. Subsequently, by means of communication of 17 February 2020, the GSE announced the outcome of the controls on the remaining 53 applications,

highlighting that the requirements were not met for recognition of the incentives on all the applications under review. The GSE also specified that it was necessary to recover the amount already disbursed, according to the repayment methods it will disclose in subsequent communications, which can be challenged before the Administrative Court. Seaside, which is carrying out all the necessary technical and legal in-depth analyses in order to duly oppose the detailed observations proposed by the GSE, will evaluate, in due course, the opportunity to file an appeal to the Administrative Court.

- Publishing, on 20 February 2020, of **DCO 47/2020/R/EFR** through which the authority proposes to essentially confirm the framework defined up until now, in implementation of Ministerial Decree of 10 May 2018.
- **Appeal filed by Italgas Reti** on 24th February 2020 **against the Arera resolution nr. 570/R/gas/2019**, arguing about some issues of legitimacy, inter alia, the allowed costs reduction, metering allowed revenues reduction, the cap on capital expenditure in the case of start up investment areas, the provision of single tariff standard area for Sardinia with equalization limited to the first three years and the provision of a fixed x-factor for the whole regulatory period.

Other events

- On 2 January 2020, Italgas **officially won the tender for the award under concession** of the natural gas distribution service in the territorial area of "**Valle d'Aosta**". The Area is composed of 74 Municipalities, of which 24 currently supplied with methane gas (served by approximately 350 km of networks), for a total of 20 thousand end users and a RAB of more than € 40 million. In the bid submitted, Italgas made provision for investments of around € 100 million, targeted at an extension of the networks to areas still not covered by the service, the enhancement and digitisation of existing infrastructures and provision of further impetus to improvements in the quality and safety of the service.
- By means of appeal R.G. (general registry) no. 6/2020 and R.G. (general registry) no. 10/2020. **two other operators** requested the annulment of the definitive award to Italgas Reti. The preliminary application will be discussed at the Chambers of 12 March 2020. Italgas Reti appeared in court, challenging the groundlessness of the counterparties' claims and filed a cross-appeal owing to the fact both failed to fulfil the requirements for participation in the tender.
- **Signing**, on 31 January 2020, with the contracting authority Città Metropolitana di Torino (Metropolitan City of Turin) and with the outgoing managers, of a **report for the delivery of the plants of ATEM TORINO 2** to Italgas Reti, which then officially commenced the first operations involving the gas distribution service for the Territorial Area in Italy.
- **Publishing**, on 3 February 2020, of **Order no. 173/2020 of 17 December 2019** of the **Campania Regional Administrative Court**, Salerno Section, related to the appeal filed

by **AQUAMET** for the annulment of the call for tenders in the Municipality of Castel San Giorgio. The Regional Administrative Court required further documentation and set the public hearing for 25 March 2020 for the continued examination of the appeal.

- In February, Italy was struck by the “**Coronavirus Emergency**”, in relation to the verified presence of numerous cases of contagion and the measures taken by the Health and Government Authorities to limit its spread.

In the hours immediately after the first cases, the Company set up a Crisis Committee which, in light of the measures and guidelines from the competent Authorities, adopts the necessary measures, at the same time guaranteeing the continuity and efficiency of services, with particular regard to the emergency response.

In compliance to the **DCPM no. 14 of 9 March 2020**, all the measures aimed at ensuring the health and safety of all personell, such as limiting access to headquarters company, the adoption of agile work method, especially to the personnel suffering from chronic illnesses, the suspension of all personell transfers not related to essential services activities’ in order to ensure continuity of the service, giving at the same time instructions to use of audio/video conferences for meetings and gatherings. The technical staff destined to carry out external interventions was promptly equipped with all the necessary individual protection tools provided to deal with the emergency.

Corporate Transactions

- **Finalisation**, on 31 January 2020, of **the agreement for the sale of several non-core industrial assets between Italgas and A2A**, signed on 7 October 2019. The transaction was completed following the verification of the conditions precedent envisaged. More specifically, Italgas Reti transferred to A2A Calore & Servizi (A2A Group) the district heating business managed in the municipality of Cologno Monzese; at the same time, Unareti (A2A Group) transferred to Italgas Reti its natural gas distribution business managed in seven municipalities belonging to the Alessandria 4 ATEM. The Cologno Monzese district heating system is comprised of a distribution network stretching more than 8 kilometres and serves 52 heat exchange substations with heat sales of roughly 26.1 GWh. The seven gas distribution networks in the Municipalities of Castelnuovo Scriveria, Pecetto di Valenza, Bassignana, Rivarone, Guazzora, Montecastello and Pietra Marazzi extend over a total of more than 140 kilometres and serve roughly 4,200 users.
- **Presentation**, on 20 February 2020, in compliance with the “*Invitation to Submit Expression of Interest*” published on 9 December 2019, as part of the privatisation process launched by the Greek Government, the **expression of interest in the purchase of 100% of the share capital of DEPA Infrastructure**, a company 65%-owned by the HRADF privatisations fund and 35%-owned by the Hellenic Petroleum Group, which they head up,

through the affiliates EDA Attikis, EDA Thess, DEDA and the gas distribution assets in Greece of the DEPA Group. The assets forming the object of the transfer include over 420 thousand redelivery points and roughly 5,000 km of low-pressure networks with an important plan of industrial development targeted at consolidating the distribution sector in the country.

Business outlook

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

With specific regard to **technical investments**, in 2020, Italgas expects to continue its significant plan 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 **local 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 the 2019 acquisitions, the year 2020 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.

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.

The Board of Directors, in view of the current health emergency, confirms that the shareholders' meeting will be held on 20 April 2020 - unless otherwise specified by the competent authorities - and that it will call it in accordance with the law.

Conference call

At 17.00 today, a conference call will be held to present the 2019 results to financial analysts and investors. 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 “Business 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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