



# SPAFID CONNECT

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approved

*Testo del comunicato*

Vedi allegato.

## ITALGAS: CONSOLIDATED RESULTS AS AT 31 MARCH 2020 APPROVED

Milan, 29 April 2020 - The Italgas Board of Directors, which met today, chaired by Alberto Dell'Acqua, has approved the consolidated results as at 31 March 2020 (unaudited).

### Key figures

Consolidated economic and financial highlights<sup>1</sup>:

- Total revenues: 327.1 million euros (+5.2%)
- Gross operating margin (EBITDA): 227.3 million euros (+3.7%)
- Net profit<sup>2</sup>: 74.9 million euros (-13.2%)
- Technical investments: 206.0 million euros (+35.2%)
- Cash flow from operating activities: 174.2 million euros
- Net financial debts<sup>3</sup>: 4,450.5 million euros

Operating highlights including affiliates:

- Municipalities in gas distribution concessions: 1,839
- Number of active meters: 7.7 million
- Gas distribution network: around 72,000 Km

Performances in the first quarter of 2020 - despite the significant impacts of Resolution no. 570/2019/R/gas - demonstrate the ability of our company to keep sound economic - financial results thanks to the actions taken in the last three years.

The 206.0 million euros invested over the period (up +35.2% compared to the first quarter of 2019) were devoted to digital transformation, development and modernisation of the networks. Such an effort is confirmed by the related physical data: around 310 km of new pipelines laid versus around 170 km in 2019. Construction of the distribution networks continued in Sardinia, with the laying down of around 165 km of new networks, for a total of more than 630 km on a total of about 1.100 km to build.

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<sup>1</sup> This press release uses alternative performance indicators, including EBITDA (gross operating margin, calculated by subtracting operating costs from earnings), EBIT (operating income before taxes, calculated by subtracting operating costs, depreciation and amortisation and write-downs from earnings) and Net financial debt (calculated as the sum of short- and long-term financial debt, net of cash and cash equivalents and financial liabilities for leases pursuant to IFRS 16). The NON-GAAP financial statement must be considered complementary and does not replace the information prepared in accordance with the IAS-IFRS.

<sup>2</sup> Net Profit means net profit attributable to the Italgas Group net of the portion pertaining to third parties.

<sup>3</sup> The net financial debt as of 31 March 2020 does not consider financial liabilities for leases pursuant to IFRS 16 for 76.3 (74.7 million euros as at 31 December 2019).

Also considering affiliates, the replacement of traditional meters continued, with 0.28 million smart meters installed, bringing the total number of smart meters installed as at the end of the first quarter of 2020 to around 7 million<sup>4</sup>.

The smart meter installation plan, which is expected to be concluded in 2020, is part of the wider project for the digital transformation of the entire network managed. To date, this project has already upgraded the technology of over 400 distribution networks.

The financing requirements related to net investments for the first quarter of 2020 were partially covered by the positive cash flow from operating activities, equal to 174.2 million euros, with a negative Free Cash Flow - before M&A activities - of 33.6 million euros.

The net financial position as at 31 March 2020 was 4,450.5 million euros (4,410.6 million euros at 31 December 2019), net of financial liabilities pursuant to IFRS 16 of 76.3 million euros (74.7 million euros at 31 December 2019).

The EBITDA of the first quarter of 2020 amounted to 227.3 million euros (up 3.7% compared to 31 March 2019) and net profit was 74.9 million euros (down 13.2% compared to the same period of the previous year).

The so-called “Coronavirus Emergency” unfolded in Italy in February in relation to the spread of infection across the whole of Italy and the necessary emergency measures taken by the Health and Government Authorities to contain the spread.

The Company set up a Crisis Committee in the hours immediately following the onset of the first cases. In the light of the measures and indications of the competent authorities, this committee continually monitors the developments of the crisis and takes appropriate measures while ensuring the continuity and efficiency of essential and necessary services, focusing in particular on emergency intervention services.

To protect the health and safety of its people, the Company has adopted a series of initiatives aimed at limiting the mobility of personnel and contractors to the company’s premises, heavily adopting smart working and suspending travel of personnel around the country. In compliance with the emergency measures issued by the Authorities, only work considered to be essential is covered, and all worksite activities have been suspended. Technical staff assigned the task of carrying out work off the company premises, where provided for under current provisions, have been equipped with the necessary personal protection equipment required in order to ensure their safety.

With reference to the impacts, including potential ones, on revenues, costs, investments and cash flows expected as a result of the limitations imposed by the Coronavirus Emergency, the

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<sup>4</sup> Excluding affiliates, as at 31 March 2020, Italgas has installed 0.27 million new meters, of which 0.22 million to replace traditional ones, bringing the current total of smart meters to 6.96 million, corresponding to 82% of the entire stock.

Company has not found any evidence to date to suggest significant negative effects on the 2020 results.

The company is currently unable to estimate the potential material negative effects on the economic, financial and equity outlook of the years to follow, should the situation last significantly longer.

Paolo Gallo, CEO of Italgas, commented:

*The global emergency Covid-19 that has hit us in recent weeks has seen all the people of Italgas react with great determination to ensure the country's continuity of service. Thanks to the digital transformation already achieved, we have been able to use all those innovative technologies such as "gas leakage detection", "shareview", "work on site", to manage our network remotely, enhancing controls on the territory. And thanks to the cloud and the availability of digital tools to all the staff, remote work has met no problems. All the digital technologies developed by us will allow us to resume our daily activities in absolute safety in Phase 2, giving priority to remote management.*

*I am particularly proud of the response we have given as individuals and as a Company to the emergency collecting and devolving significant economic resources in support of hospitals and Civil Protection: in a particularly difficult time for the country everyone has to do their part.*

*The investments, in the first quarter of the 2020, have exceeded 200 million euros, with an increase of 35.2% compared to last year. A commitment that today translates into a further impulse and stimulus in view of "Phase 2" for the revival of Italy.*

*Until the lockdown, our plans have allowed us to lay over 300 kilometers of new networks, of which 165 "digital native" in Sardinia. We have now built more than 600 kilometres of new networks on this island and we are ready to feed with natural gas the first networks at the service of some municipalities, with a significant economic benefit to the economy and the local population.*

*Despite a tariff regulation in force from 1 January, particularly disadvantageous, Italgas has shown to be able to achieve solid results thanks to all the initiatives launched in recent years: the operating profit, of 122.9 million euros, is consistent with the figure achieved in the same period of last year, net profit amounted to around 75 million, with a drop compared to the corresponding period of the previous year.*

*We are even more determined to leverage the digital transformation of our networks, business processes, so that our people with the most innovative tools can face the challenges that lie ahead in the coming months.*

## Italgas group structure as at 31 March 2020

The structure of the Italgas Group as at 31 March 2020 has remained the same as at 31 December 2019

## Economic-financial highlights

### Restated income statement

(million €)	First quarter		Abs. Change	Change %
	2019	2020		
Gas Distribution regulated revenues	290.5	<b>315.3</b>	24.8	8.5
<i>of which distribution revenues (*)</i>	263.2	<b>294.9</b>	31.7	12.0
<i>of which other gas distribution regulated revenues</i>	27.3	<b>20.4</b>	(6.9)	(25.3)
Other revenues (*)	20.3	<b>11.8</b>	(8.5)	(41.9)
<b>Total revenues (**)</b>	<b>310.8</b>	<b>327.1</b>	<b>16.3</b>	<b>5.2</b>
Operating costs (**)	(91.6)	<b>(99.8)</b>	(8.2)	9.0
<b>Gross operating margin (EBITDA)</b>	<b>219.2</b>	<b>227.3</b>	<b>8.1</b>	<b>3.7</b>
Amortisation, depreciation and impairment	(95.6)	<b>(104.4)</b>	(8.8)	9.2
<b>Operating profit (EBIT)</b>	<b>123.6</b>	<b>122.9</b>	<b>(0.7)</b>	<b>(0.6)</b>
Net financial expense	(12.2)	<b>(13.4)</b>	(1.2)	9.8
Net income from equity investments	5.8	<b>0.9</b>	(4.9)	(84.5)
<b>Gross profits</b>	<b>117.2</b>	<b>110.4</b>	<b>(6.8)</b>	<b>(5.8)</b>
Income tax	(30.9)	<b>(29.9)</b>	1.0	(3.2)
<b>Net profit</b>	<b>86.3</b>	<b>80.5</b>	<b>(5.8)</b>	<b>(6.7)</b>
Net profit attributable to minority shareholders	0.0	<b>5.6</b>	5.6	
<b>Net profit attributable to the Group</b>	<b>86.3</b>	<b>74.9</b>	<b>(11.4)</b>	<b>(13.2)</b>

(\*) For the purposes of like-to-like comparison, as at 31 March 2019, the revenue item of the Medea company in relation to LPG transmission was restated from Other revenues to Revenues from transmission (2.4 million euros). Medea's 2019 revenues in relation to the sales item, which was later transferred to Gaxa through a demerger of the branch, are stated as Other revenues.

(\*\*) Unlike the legal statement, the restated income statement requires the listing of Total revenues and Operating costs net of the impact of IFRIC 12 "Service concession agreements" (180.2 and 122.5 million euros respectively in the first quarters of 2020 and 2019), connection contributions and some residual components (5.0 and 3.8 million euros respectively in the first quarters of 2020 and 2019) and net margin in relation to Energy Efficiency Certificates [EECs].

The **total revenues** of the first quarter of 2020 amount to 327.1 million euros, up by 16.3 million euros compared to the corresponding period of 2019 (+5.2%), and refer to natural gas distribution regulated revenues (315.3 million euros) and other revenues (11.8 million euros).

**Gas distribution regulated revenues** increased by 24.8 million euros compared to the same period of 2019 due to an increase in revenues from transmission (31.7 million euros) partially offset by a reduction in other regulated gas distribution revenues (6.9 million euros).

The increase in **distribution revenue** (31.7 million euros) is mainly attributable to the change in the scope of consolidation as a result of the acquisitions in Sardinia and central and Southern Italy by Conscoop (4.2 million euros) in April 2019 and the full consolidation of Toscana Energia (32.3 million euros) starting from the last quarter of 2019. These positive impacts were partially offset by lower tariff components (5.0 million euros) as a consequence of the changes made by Resolution 570/2019/R/gas .

The decrease in **other gas distribution regulated revenues** (6.9 million euros) is mainly linked to the lower contribution pursuant to article 57 of ARERA Resolution no. 367/14, relating to the

replacement of traditional meters with electronic ones (smart meters), equal to 2.5 million euros as at 31 March 2020 (8.7 million euros as at 31 March 2019).

The company did not see any impacts during the quarter of the change in method for recognising the residual costs of traditional meters over the previous years, as proposed by Resolution no. 570/2019/R/Gas, pending a decision by the Director of the Directorate of Energy Infrastructures and Unbundling identifying coherent operating solutions to manage the reconciliation between regulatory divestments and accounting divestments.

As at 31 March 2020, **other revenues** amounted to 11.8 million euros (down by 8.5 million euros compared to the same period in 2019). The decrease is mainly linked to lower capital gains from the sale of assets (9.2 million euros) and other operating income (1.5 million euros), partly offset by higher sales of LPG and propane air to active users in Sardinia (2.4 million euros).

**Operating costs** as at 31 March 2020 amounted to 99.8 million euros (of which 12.6 million euros due to the full consolidation of Toscana Energia and the acquisitions in Sardinia and central and Southern Italy by Conscoop). The increase compared to the first quarter 2019, of 8.2 million euros, associated primarily with the change in the scope of consolidation, is the result of higher: (i) net staff costs (4.2 million euros), (ii) net external costs (3.9 million euros), (iii) concession charges (3.0 million euros), partly offset by a reduction in net costs in relation to Energy Efficiency Certificates (2.9 million euros).

The **gross operating profit (EBITDA)** achieved as at 31 March 2020 amounted to 227.3 million euros, up by 8.1 million euros (+3.7%) compared to the same period in 2019, due to the increase in revenues, despite this being offset by higher operating costs.

**Amortisation, depreciation and impairment** (104.4 million euros) increased by 8.8 million euros, up 9.2% compared to 31 March 2019. The increase of 18.0 million euros (of which 10.8 million euros due to the full consolidation of Toscana Energia and 1.8 million euros linked to increased investments pursuant to IFRS 16), is offset by lower depreciation in connection with the replacement of traditional meters with smart meters, amounting to 6.0 million euros as at 31 March 2020 (15.2 million euros for the first quarter of 2019).

The **operating profit (EBIT)** as at 31 March 2020 amounted to 122.9 million euros, broadly in line with the EBIT of the same period in 2019 (123.6 million euros).

**Net financial expense** (13.4 million euros) rose by 1.2 million euros compared to the same period in 2019, due to the increased average financial debt, including as a consequence of the change in the scope of consolidation resulting from the full consolidation of Toscana Energia.

**Net income from equity investments**, which amounted to 0.9 million euros at 31 March 2020 (5.8 million euros in the same period in 2019; down by 4.9 million euros), decreased due to the consolidation of Toscana Energia in the first quarter of 2019, previously consolidated using the equity method.

**Income tax** for the first quarter of 2020 (29.9 million euros) was down by 1.0 million euros compared to the corresponding value in the previous year.

The **net profit attributable to the Group** as at 31 March 2020 amounted to 74.9 million euros.

### Reclassified Statement of Financial Position

Italgas' reclassified statement of financial position as at 31 March 2020 compared with that as at 31 December 2019 is summarised below:

(million €)	31.12.2019	31.03.2020	Abs. Change
<b>Fixed capital</b>	<b>6,335.0</b>	<b>6,452.7</b>	<b>117.7</b>
Property, plant and equipment	350.0	352.7	2.7
Intangible assets	6,176.1	6,279.5	103.4
Equity investments	33.7	34.6	0.9
Financial receivables and securities held for operations	0.2	0.2	0.0
Net payables related to investments	(225.0)	(214.3)	10.7
<b>Net working capital</b>	<b>56.3</b>	<b>57.5</b>	<b>1.2</b>
<b>Provisions for employee benefits</b>	<b>(113.2)</b>	<b>(111.2)</b>	<b>2.0</b>
<b>Assets held for sale and related liabilities</b>	<b>2.1</b>	<b>-</b>	<b>(2.1)</b>
<b>NET INVESTED CAPITAL</b>	<b>6,280.2</b>	<b>6,399.0</b>	<b>118.8</b>
<b>Net equity</b>	<b>1,794.9</b>	<b>1,872.2</b>	<b>77.3</b>
- attributable to the Group	1,560.4	1,632.0	71.6
- attributable to third party shareholders	234.6	240.2	5.6
<b>Net financial debt</b>	<b>4,410.6</b>	<b>4,450.5</b>	<b>39.9</b>
<b>Financial liabilities for operating leases pursuant to IFRS 16</b>	<b>74.7</b>	<b>76.3</b>	<b>1.6</b>
<b>COVERAGE</b>	<b>6,280.2</b>	<b>6,399.0</b>	<b>118.8</b>

The **net invested capital** as at 31 March 2020 amounted to 6,399.0 million euros and consists of the items discussed below.

The **fixed capital** (6,452.7 million euros) increased by 117.7 million euros compared to 31 December 2019, primarily due to the increase in intangible assets (103.4 million euros) and the reduction in net payables related to investments (10.7 million euros).

(million €)	Property, plant and equipment	IFRIC 12 assets	Intangible assets	Total
<b>Balance as at 31 December 2019</b>	<b>350.0</b>	<b>5,984.2</b>	<b>191.9</b>	<b>6,526.1</b>
Investments	14.0	180.6	11.4	206.0
- of which IFRS 16	5.4			5.4
Depreciation and amortisation, and write-downs	(8.8)	(84.5)	(11.1)	(104.4)
- of which metering instruments (ordinary depreciation)		(32.1)		(32.1)
- of which, acceleration of metering instruments*		(6.0)		(6.0)
- of which, amortisation as per IFRS 16	(4.5)			(4.5)
Acquisition of business branches		8.0		8.0
Contributions		(2.5)		(2.5)
Other changes	(2.5)	(0.6)	2.1	(1.0)
<b>Balance as at 31 March 2020</b>	<b>352.7</b>	<b>6,085.2</b>	<b>194.3</b>	<b>6,632.2</b>

\* Accelerated depreciation relating to traditional meters amounted to 6.0 and 15.2 million euros respectively at 31.03.2020 and 31.03.2019.

The **equity investments** item (34.6 million euros) refers mainly to the Gesam Reti, Valdarno, Umbria Distribuzione Gas, Metano S. Angelo Lodigiano and Enerpaper equity investments, consolidated using the equity method.



## Net working capital

(million €)	31.12.2019	31.03.2020	Abs. change
Trade receivables	474.0	470.0	(4.0)
Inventories	52.3	62.9	10.6
Tax assets	87.7	90.5	2.8
Accruals and deferrals from regulated activities	127.0	129.3	2.3
Other assets	100.9	98.3	(2.6)
Trade payables	(299.1)	(256.5)	42.6
Provisions for risks and charges	(169.6)	(171.8)	(2.2)
Deferred tax liabilities	(92.5)	(87.7)	4.8
Tax payables	(11.1)	(22.2)	(11.1)
Other liabilities	(213.3)	(255.3)	(42.0)
	<b>56.3</b>	<b>57.5</b>	<b>1.2</b>

Compared to 31 December 2019, **working capital** rose by 1.2 million euros, mainly as a result of: i) a reduction in trade receivables (4.0 million euros); ii) an increase in warehouse inventories (10.6 million euros) predominantly in relation to gas meters; iii) a decrease in net tax items (3.5 million euros) due mainly to higher tax payables; iv) an increase in accruals and deferrals from regulated activities (2.3 million euros) due to receivables relating to the contribution paid for meters pursuant to article 57; v) a decrease in other assets (2.6 million euros); vi) a decrease in trade payables (42.6 million euros); vii) an increase in provisions for risks and charges (up 2.2 million euros); viii) an increase in other liabilities for the period (42.0 million euros), as a result of payables due to the CSEA, mainly linked to the additional distribution components (33.5 million euros) and net payables to Municipalities (5.8 million euros).

## Net financial debt

(million €)	31.12.2019	31.03.2020	Abs. change
<b>Financial and bond debt</b>	<b>4,671.5</b>	<b>4,663.4</b>	<b>(8.1)</b>
Short-term borrowings (*) (**)	471.4	465.9	(5.5)
Long-term borrowings	4,200.1	4,197.5	(2.6)
<b>Financial receivables and cash and cash equivalents</b>	<b>(260.9)</b>	<b>(212.9)</b>	<b>48.0</b>
Cash and cash equivalents (**)	(255.8)	(207.8)	48.0
Financial receivables	(5.0)	(5.0)	(0.0)
Securities not held for operations	(0.1)	(0.1)	0.0
<b>Net financial debt (***)</b>	<b>4,410.6</b>	<b>4,450.5</b>	<b>39.9</b>
Lease liabilities pursuant to IFRS 16	74.7	76.3	1.6
<b>Net financial debt (including effects pursuant to IFRS 16)</b>	<b>4,485.3</b>	<b>4,526.8</b>	<b>41.5</b>

(\*) These include the short-term portions of long-term borrowings.

(\*\*) The items are stated net of the effects of factoring transactions, the underlying assets of which were collected on 31 March 2020 and repaid to the factor in the first working days of April 2020.

(\*\*\*) The net financial debt as of 31 March 2020 does not consider financial liabilities for operating leases pursuant to IFRS 16 for 76.3 million euros (74.7 million euros as at 31 December 2019).

**Net financial debt** as of 31 March 2020 rose to 4,450.5 million euros, up by 39.9 million euros (4,410.6 million euros as of 31 December 2019). Including the effects deriving from the application of IFRS 16, amounting to 76.3 million euros, the net financial debt came to 4,526.8 million euros.

**Financial and bond debt** as at 31 March 2020 totalled 4,663.4 million euros (4,671.5 million euros as at 31 December 2019) and were denominated in euros and referred to: bonds (3,334.2

million euros), loan agreements with the European Investment Bank (EIB) (873.5 million euros) and bank loans (455.7 million euros).

The breakdown of debt by type of interest rate, as at 31 March 2020, net of lease liabilities pursuant to IFRS 16 is as follows:

(million €)	31.12.2019	%	31.03.2020	%
Fixed rate	4,103.6	87.8	4,083.8	87.6
Variable rate	567.9	12.2	579.6	12.4
<b>Gross financial debt</b>	<b>4,671.5</b>	<b>100.0</b>	<b>4,663.4</b>	<b>100.0</b>

Fixed-rate financial liabilities amounted to 4,083.8 million euros and refer to bonds (3,334.2 million euros) and three EIB loans (749.6 million euros).

Fixed-rate financial liabilities reduced by 19.8 million euros with respect to 31 December 2019, due to the payment of coupons maturing in January 2020.

Variable-rate liabilities stood at 579.6 million euros and were up by 11.7 million euros due to the increased use of bank credit lines.

As at 31 March 2020, Italgas had bank deposits for a value of around 208 million euros and unused committed credit facilities of 500 million, maturing in October 2021.

As at 31 March 2020, there were no loan agreements containing financial covenants and/or secured by collateral, with the exception of an EIB loan for 90 million euros taken out by Toscana Energia, which requires compliance with certain financial covenants. Some of these contracts require, inter alia, compliance with: (i) negative pledge undertakings, pursuant to which Italgas and the subsidiaries are subject to limitations regarding the creation of real rights of guarantee or other restrictions concerning all or part of the respective assets, shares or goods; (ii) *pari passu* and change of control clauses; (iii) limitations on some extraordinary transactions that the company and its subsidiaries may carry out. As at 31 March 2020, these commitments were respected.

## Reclassified Statement of Cash Flows

(million €)	2019	1st quarter 2020
<b>Net profit</b>	<b>423.6</b>	<b>80.5</b>
<i>Adjusted:</i>		
- Amortisation, depreciation and other non-monetary components	275.6	99.0
- Net capital losses (capital gains) on asset sales and eliminations	(4.4)	0.3
- Interest and income tax	193.2	43.3
Change in working capital due to operating activities	18.9	(35.5)
Dividends, interest and income tax collected (paid)	(209.7)	(13.4)
<b>Cash flow from operations (*)</b>	<b>697.2</b>	<b>174.2</b>
Technical investments	(688.6)	(198.1)
Other changes related to investments activities	89.9	(10.7)
Divestments	8.0	1.0
<b>Free cash flow before Merger and Acquisition transactions</b>	<b>106.5</b>	<b>(33.6)</b>
Companies that have entered the consolidation area	(96.4)	-
of which:		
-price paid for equity	(40.2)	
-takeover of payables of acquired companies	(56.2)	
Acquisition of business units	(25.1)	(6.3)
<b>Free cash flow</b>	<b>(14.9)</b>	<b>(39.9)</b>
Change in short and long-term financial debt and in financial receivables	434.7	(8.1)
Transfer of minority interests (**)	24.8	-
Equity cash flow (***)	(196.8)	-
<b>Net cash flow in the financial year</b>	<b>247.8</b>	<b>(48.0)</b>

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

## Change in net financial debt

(million €)	2019	1st quarter 2020
<b>Free cash flow before Merger and Acquisition transactions</b>	<b>106.5</b>	<b>(33.6)</b>
Change due to the acquisition of equity investments and business units	(121.4)	(6.3)
Transfer of minority investments	24.8	-
Equity cash flow	(196.8)	-
<b>Change in net financial debt excluding the effects of IFRS 16, the EGN shareholders' loan and the financial liabilities deriving from M&amp;A transactions - Toscana Energia</b>	<b>(186.9)</b>	<b>(39.9)</b>
Change in financial debts pursuant to IFRS 16	(19.7)	(1.6)
Change in debt for EGN shareholder loan	21.0	-
Change in scope of consolidation of financial liabilities deriving from M&A transactions (*)	(414.5)	-
<b>Change in net financial debt</b>	<b>(600.1)</b>	<b>(41.5)</b>

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

The cash flow from operating activities in the first quarter of 2020 amounted to 174.2 million euros and made it possible to partially finance the flow from net investments, totalling 207.8 million euros, with a negative free cash flow, prior to M&A transactions, of 33.6 million euros. As at 31 March 2020, the cash outflow from M&A transactions amounted to 6.3 million euros.

Net financial debt rose by 39.9 million euros, gross of the effect deriving from the adoption of IFRS 16 in relation to lease liabilities (1.6 million euros). The change in net financial debt amounted to 41.5 million euros when taking that impact into account.

## Key operating figures

### Investments

During the first quarter of 2020, technical investments were made for an amount of 206.0 million euros (first quarter 2019: 152.4 million euros, +35.2%), of which 5.4 million euros by virtue of the adoption of IFRS 16.

(million €)	First quarter		Abs. change	Change %
	2019	2020		
<b>Distribution</b>	<b>83.6</b>	<b>155.0</b>	<b>71.4</b>	<b>85.5</b>
Network development and maintenance	68.1	110.6	42.5	62.4
- of which digitisation	3.4	17.4	14.0	
New networks	15.5	44.4	28.9	
- of which Sardinia	10.3	41.3	31.0	
<b>Metering</b>	<b>42.9</b>	<b>30.1</b>	<b>(12.8)</b>	<b>(29.9)</b>
<b>Other investments</b>	<b>25.9</b>	<b>20.9</b>	<b>(5.1)</b>	<b>(19.3)</b>
- of which Real Estate	3.0	7.1	4.1	
- of which ICT	4.8	7.7	2.9	60.4
- of which IFRS 16 effect	18.3	5.4	(12.9)	(70.5)
	<b>152.4</b>	<b>206.0</b>	<b>53.6</b>	<b>35.2</b>

**Investments in metering** (30.1 million euros, down 29.9% compared to the same period in 2019) primarily refer to the final phase of the plan to replace traditional meters with smart meters, which is expected to be completed in 2020, as part of the smart metering project. In the first quarter of 2020, the company installed 274.5 thousand new meters, of which 218.3 thousand to replace traditional meters and 56.2 thousand to restore digital meters with anomalies.

### Key operating figures – Italgas Group

	31.12.2019	31.03.2020	Abs. change	Change %
Active meters (millions)	7.573	<b>7.585</b>	0.01	0.2
Installed meters (millions)	8.464	<b>8.483</b>	0.02	0.2
Municipalities with gas distribution concessions (no.)	1,816	<b>1,825</b>	9.0	0.5
Municipalities with gas distribution concessions in operation (no.)	1,730	<b>1,739</b>	9.0	0.5
Distribution network (kilometres)	70,502	<b>70,721</b>	219.3	0.3

### Key operating figures – Italgas Group and affiliates

	31.12.2019	31.03.2020	Abs. change	Change %
Active meters (millions)	7.694	<b>7.706</b>	0.01	0.2
Installed meters (millions)	8.597	<b>8.616</b>	0.02	0.2
Municipalities with gas distribution concessions (no.)	1,830	<b>1,839</b>	9.0	0.5
Municipalities with gas distribution concessions in operation (no.)	1,744	<b>1,753</b>	9.0	0.5
Distribution network (kilometres)	71,761	<b>71,981</b>	220.0	0.3

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## Main events of the first quarter of 2020

### *Legislative and Regulatory Framework*

- **DCO 47/2020/R/EFR, was published** on 20 February 2020, with which the Authority aims essentially to confirm the framework defined to date on the mechanism of Energy Efficiency Certificates, in implementation of Italian Ministerial Decree of 10 May 2018.
- An **appeal was filed** before the Regional Administrative Court of Lombardy against **Resolution no. 570/R/gas/2019**. It was served on 24 February 2020, challenging the lawfulness of the resolution in several respects, including the planned reduction in operating costs granted to distributors, the reduction in the return on invested capital in metering activities, confirmation of the cap on investments in start-up locations, the proposed single tariff area for Sardinia with equalization limited to the first three years only and the proposal for a fixed x-factor throughout the entire regulation period.
- **Resolution no. 59/2020/R/com of 12 March 2020** was **published**, with which, in the light of the measures required to contain and manage the COVID-19 epidemiological emergency, the Authority postponed the deadlines set out in the regulation for energy services and adopted initial provisions on quality, laying down the rules, for the natural gas sector, for regulating force majeure in the event of failure to observe the required specific and general standards.
- With **Resolution no. 60/2020/R/com of 12 March 2020**, the Authority established that the procedures for suspending natural gas supplies due to end customer arrears, as well as the contractual clauses relating to the suspension/interruption of the supply of gases other than natural gas distributed through the urban network, shall not apply during the entire validity period of Government Decrees (DPCM) of 8 March 2020 and 11 March 2020 on the COVID-19 epidemiological emergency, i.e. during the period from 10 March to 3 April 2020 inclusive.
- **Resolution no. 74/2020/S/com of 17 March 2020** was **published**, with which the Authority adopted provisions on the suspension of the time limits of penalty proceedings, protecting the right of defence of operators, otherwise jeopardised by the COVID-19 virus containment measures.
- With **Resolution no. 78/2020/E/gas of 24 March 2020**, the Authority extended the deadline for the implementation of the inspection plan under Resolution no. 448/2019/E/gas, from 31 March 2020, as set initially, to 31 December 2020. The aforesaid plan is aimed at checking the accuracy of the data and procedures used by certain distribution companies for the natural gas balancing service.
- **Decision no. 5/2020 - DIEU of 26 March 2020**, was **published**, with which the Authority postponed to 30 April 2020 the disclosure obligations on commercial quality and safety and

continuity of service, and to 3 June 2020 the disclosure obligations applicable to safety checks on consumer gas equipment – post-metering.

- With regard to the criminal case following an accident which took place on 11 November 2015 in the **Municipality of Cerro Maggiore**, the judge, at the hearing of 13 January 2020, rejected the preliminary questions concerning plaintiffs and witnesses, adjourning the proceedings to the hearing of 8 June 2020 to begin the hearing of witnesses. All the offended parties - with the exception of the Municipality of Cerro Maggiore - waived bringing civil action. The company and the employees have submitted the most appropriate defences to finding that they are not involved in the alleged events.
- With reference to ruling no. **2430/2019 of 18 November 2019 of the Regional Administrative Court of Lombardy**, which upheld, with a favourable judgement, the appeals lodged by Italgas for various reasons against certain ARERA resolutions (including Resolution no. 494/2018 concerning the failure to acknowledge the extra return on investments for the years 2009 and 2010), ARERA has lodged an appeal, which it served on 11 February 2020 and filed on 13 February 2020. The setting of a date for the hearing before the Council of State is currently pending.

### 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.
- 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 capital of DEPA Infrastructure** was **presented** on 20 February 2020. The assets transferred include more than 420 thousand re-delivery points and around 5000 km of low-pressure networks.

### Other events

- On 2 January 2020, Italgas was **officially awarded the tender for the concession** of the natural gas distribution service in the territorial area of “**Valle d’Aosta**”. 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 Chamber proceedings, initially fixed for 12 March 2020, were postponed to 5 May 2020. Italgas Reti filed an appearance, challenging the groundlessness of the counterparties’ claims and filed a cross-appeal owing to the fact that both failed to fulfil the requirements for participation in the tender procedure. Subsequently, in relation to both proceedings, following the joint petition filed by the parties, the appellants waived their interlocutory application against the commitment made by the Contracting Authority not to proceed with the signing of the service

contract until the outcome of the proceedings, the discussion of which is scheduled for the hearing of 14 July 2020.

- **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.

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

### *Legislative and Regulatory Framework*

- **Resolution no. 106/2020/R/gas, published** on 1 April 2020, redefined the reference tariffs for gas distribution and metering services for the years 2009-2018. **Resolution no. 107/2020/R/2020, published** on 3 April 2020, defined the final reference tariffs for the gas distribution and metering services for 2019. The company is currently assessing the impacts of both Resolutions.
- **Resolutions no. 116/2020/R/com, 117/2020/R/com and Resolution no. 124/2020/R/com** were **published** on 2 April 2020 and 13 April 2020 respectively. Through these, further exemptions were introduced in relation to the management of any payment defaults by users, and all supply suspension procedures for electricity, gas and water arrears - of households and companies - initiated with Resolution no. 60/2020/R/com, were postponed until 3 May 2020, in compliance with the Government Decree of 10 April 2020.
- **Resolution no. 127/2020/R/gas** was **published** on 14 April 2020, setting out the provisional reference tariffs for gas distribution and metering services for 2020.
- With reference to the dispute with the **Municipality of Rome** regarding the implementation of the Industrial Plan, with order no. 1124/2020, published on February 21, 2020, the Lazio Regional Administrative Court (TAR) granted the precautionary measure requested by Italgas Reti and suspended the provision by which the Municipality of Rome asked for the payment of penalties to Italgas Reti. The Lazio TAR limited the effectiveness of the precautionary measure up to the Council Chamber of March 18, then postponed to April 22, 2020, expressing doubts about the existence of the jurisdiction of the Administrative Judge. On 18 April 2020, Italgas Reti filed an appeal with the Court of Cassation in order to ascertain the jurisdiction of the Lazio TAR. By order no. 4140/2020, published on 23 April 2020, Regional Administrative Court suspended the proceedings pending the decision of the Court of Cassation, without confirming the precautionary measure. Italgas Reti will challenge the order before the Council of State.



## **Coronavirus Emergency and foreseeable business outlook**

The so-called “Coronavirus Emergency” unfolded in Italy in February in relation to the spread of infection across the whole of Italy and the necessary emergency measures taken by the Health and Government Authorities to contain the spread.

The Company set up a Crisis Committee in the hours immediately following the onset of the first cases. In the light of the measures and indications of the competent authorities, this committee continually monitors the developments of the crisis and takes appropriate measures while ensuring the continuity and efficiency of essential and necessary services, focusing in particular on emergency intervention services.

To protect the health and safety of its people, the Company has adopted a series of initiatives aimed at limiting the mobility of personnel and contractors to the company’s premises, heavily adopting smart working and suspending travel of personnel around the country. In compliance with the emergency measures issued by the Authorities, only work considered to be essential is covered, and all worksite activities have been suspended. Technical staff assigned the task of carrying out work off the company premises, where provided for under current provisions, have been equipped with the necessary personal protection equipment required in order to ensure their safety.

It is currently not yet possible to identify impacts on the development and investment initiatives as a result of the slowing down and suspension of activities and the deteriorating macroeconomic situation caused by the global spread of the pandemic.

With reference to the customer/sales companies base and their solvency, the rules for access of users to the gas distribution service are established by ARERA and regulated in the Network Code. For each service type, this Code defines the rules for the rights and obligations of the parties involved in the process of providing the services, as well as the tools to mitigate the risk of default by customers.

As at 31 March 2020, the Company has not seen any significant adverse consequences impacting the regularity of payments from gas sales companies.

During the month of April 2020, the Company received a communication from some sales companies that indicated the possibility of using, for payments due in April, the faculties granted by Resolution no. 116/2020/R/com, if the conditions are met.

With regard to access to credit, Italgas does not foresee any significant negative impacts for 2020, taking the following into account: (i) the Company has cash deposited with major credit institutions for a total of 208 million euros as at 31 March 2020 and a committed credit facility of 500 million euros with a pool of Italian and international banks, (ii) there are limited requirements to refinance debt (the first bond repayment is due in 2022), (iii) the bonds issued by Italgas as at 31 December 2019, as part of the Euro Medium Term Notes programme, do not require the observance of covenants relating to the data in the financial statements, (iv) any downgrading of

the rating of Italgas or of any guarantors in excess of pre-established thresholds, could lead to the issuance of guarantees for certain lenders or a rise in the spreads applied.

The company has also introduced initiatives supporting the Coronavirus Emergency. In particular, in addition to facilitating voluntary fundraising by its employees, it has donated to hospitals, healthcare facilities and to the Civil Protection, and has also made its skills and know-how available to the community.

With reference to the impacts, including potential ones, on revenues, costs, investments and cash flows expected as a result of the limitations imposed by the Coronavirus Emergency, the Company has not found any evidence to date to suggest significant negative effects on the 2020 results.

The company is currently unable to estimate the potential material negative effects on the economic, financial and equity outlook of the years to follow, should the situation last significantly longer.

In this context and within the limits of the continuing emergency, Italgas will therefore continue to pursue its strategic objectives, focusing on digital transformation with the goal of improving service quality, streamlining processes and operating costs, whilst paying constant attention to development opportunities. With specific regard to investments, in 2020, Italgas expects to continue its plan targeted primarily at the implementation of network digitisation projects and the installation of “smart” meters and the methanisation of Sardinia, plus the normal maintenance and development of the networks managed.

In line with the strategic priorities of the 2019-2025 Plan and depending on the potential effect that the current emergency may have on the schedules, Italgas will take part in area tenders of interest for the concession of the natural gas distribution service, pursuing its goals to develop the business and consolidate the sector, which is currently very fragmented. Moreover, in line with the objectives of the Strategic Plan, following the 2019 acquisitions, additional initiatives for external growth could be completed in 2020, which will strengthen territorial presence and enable the scope of activities to grow.

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Legislative Decree no. 25 of 15 February 2016 – in force since 18 March 2016 – which implemented European directive 2013/50/EU of 22 October 2013 (the “New Transparency Directive”), abolished the requirement to publish an interim report on operations, previously required under art. 154-ter, subsection 5 of the Consolidated Law on Finance (CLF).

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

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

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

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

### **Conference call**

At 4 p.m. today, a conference call will be held to present the results of the first quarter of 2020 to financial analysts and investors. The presentation may be viewed, through audio webcasting, on the Company's website ([www.italgas.it](http://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.

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

### **Disclaimer**

*This press release contains forward-looking statements, specifically in the "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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