



Italgas **Strategic Plan 2018 - 2024**

13th June 2018, Milan



— Speakers



PAOLO GALLO



ANTONIO PACCIORETTI

— Agenda



Scenario



Strategy



Shareholder
Remuneration &
Closing Remarks

— Agenda



Scenario



Strategy



Shareholder
Remuneration &
Closing Remarks

Overall macro scenario



Policies Framework

United Nations
COP 21

EUROPEAN GUIDELINES
Clean Energy Package

NATIONAL
ENERGY
STRATEGY



Decarbonization

Renewables

Energy efficiency

Sustainable Mobility

Digitization

Power to Gas

Green Gas



Main Impact on DSO

Renewable
integration

Supply flexibility
and security

Infrastructure
development

Innovation and
digitization

Full impact on gas DSO

Gas as a flexible source to enable energy transition

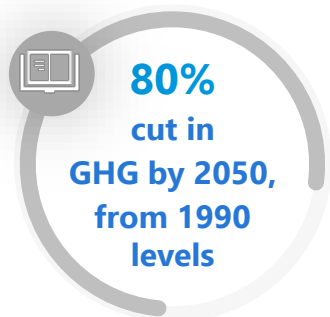
Natural Gas plays a key role in Decarbonisation

Paris agreement COP21

Agreed by all UNFCCC Parties in December 2015

(159 countries covering 90% of global GHG emissions)

Due to **enter in force in 2020**



1

COAL DECOMMISSION & SUBSTITUTION WITH ADVANCED CCGT

Natural Gas with 2.3 tons of CO₂ emitted per toe has a carbon dioxide emission rate 41% lower than that of coal

2

POWER TO GAS

3

RENEWABLE GAS (BIOMETHANE)

Facilitate the implementation of an effective and economically sustainable path towards decarbonization

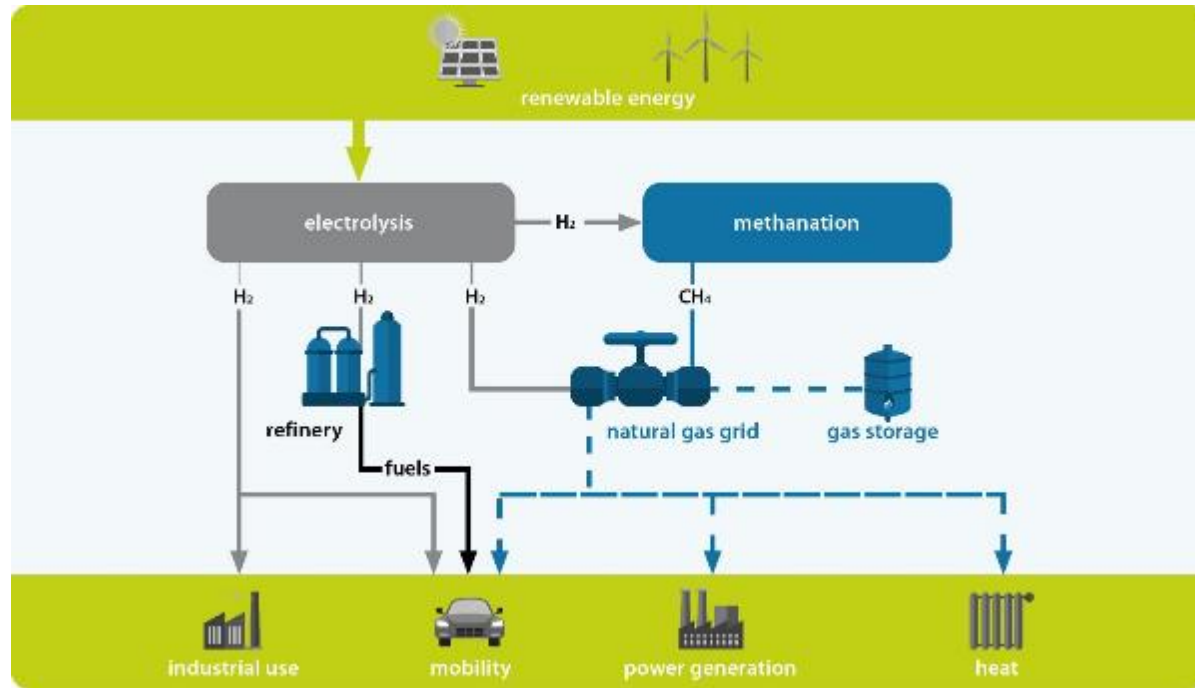


— Sustainable Mobility

**Italgas is the first company in Italy to
own a fully methane vehicle fleet
The new fleet will enable costs reduction
and limit environmental impact**



— Power to Gas



Allows transformation of surplus supplies of electricity from wind and solar sources into synthesized gas

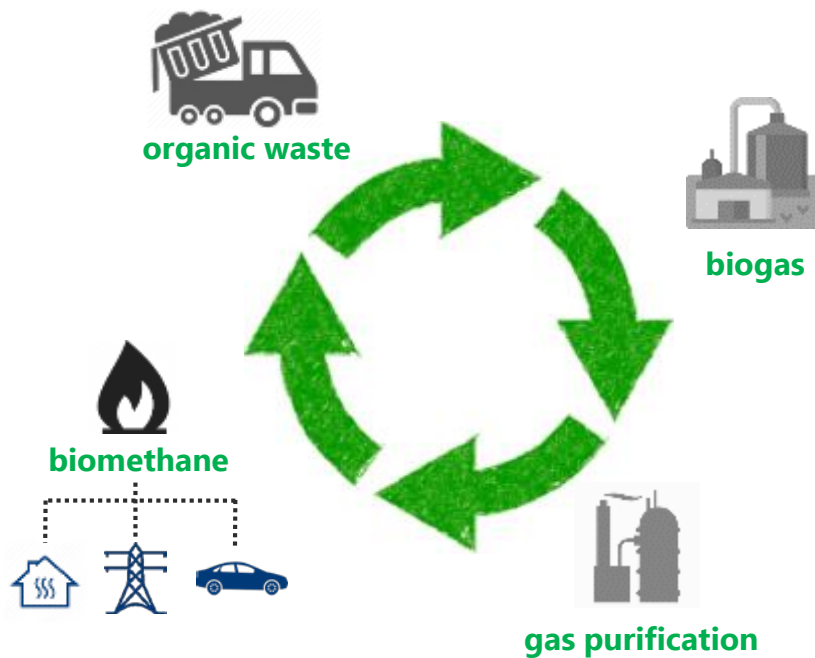


Renewable Gas enabling circular economy in energy sector

BIOMETHANE offers a valuable option for the recovery of by-products

Combined with the already existing gas transport and distribution infrastructure, biomethane can make a decisive contribution to the development of a circular economy.

In Europe, it is estimated that renewable gas (hydrogen and biomethane), can reach an annual production higher than 120 billion cubic meters resulting in savings of around 140 billion euros*.

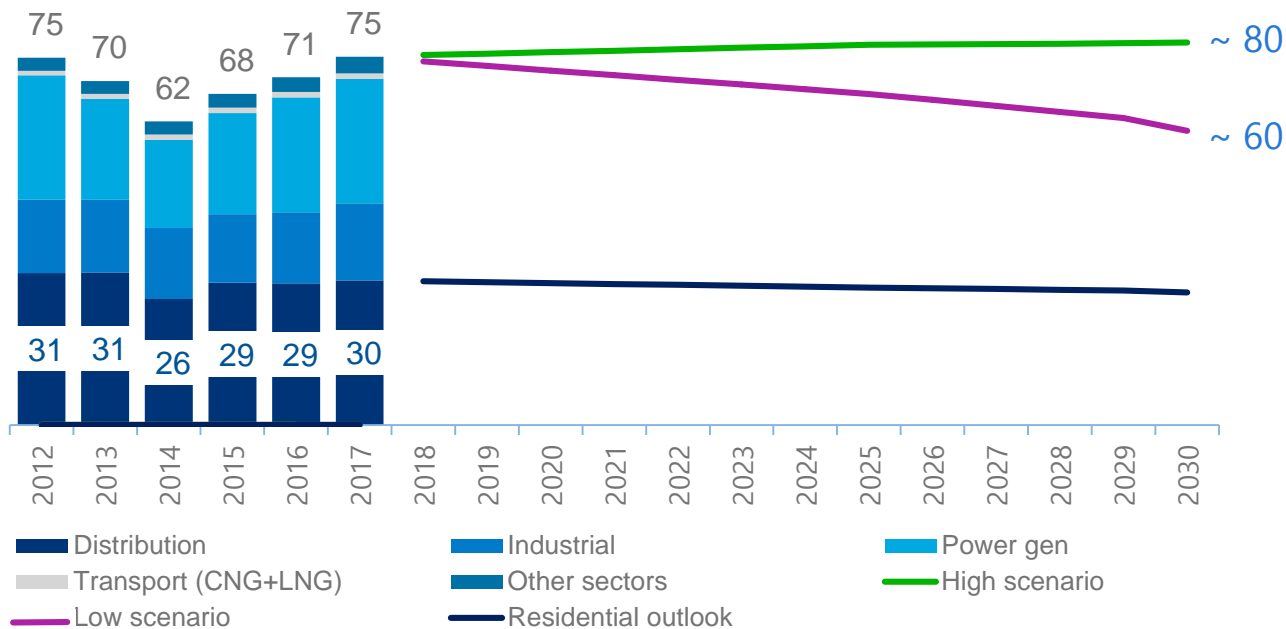


* Source: Gas4Climate Consortium, composed of Snam, Enagás, Fluxys, Gasunie, GRTgaz, Open Grid Europe and TIGF.



Italian gas demand outlook

Bcm



Natural gas: a key role in the long term energy scenario

— The National Energy Strategy (SEN)



Sustainable growth

- ↑ RES
- ↑ energy efficiency and review of TEE system
- Acceleration of decarbonisation
- Public financing to sustain clean energy R&D



Country competitiveness

- ↓ gas price gap with EU
- ↓ electricity price gap with EU
- Completion of energy markets liberalization



Supply flexibility & security

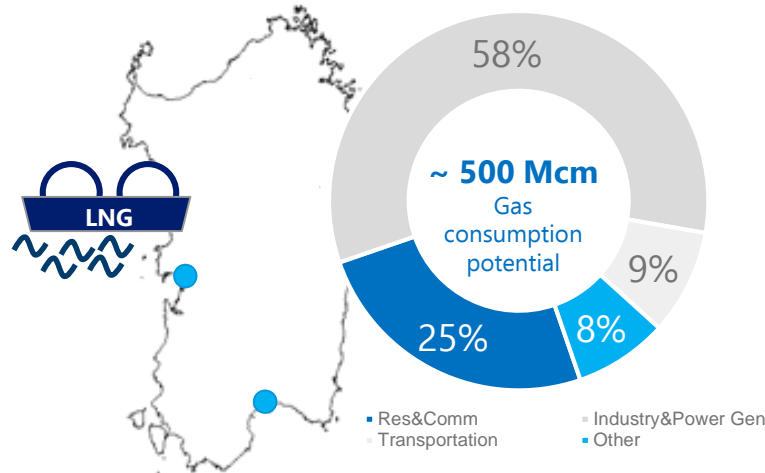
- Supply diversification
- Network upgrade
- LNG infrastructure development
- Sardinia methanization and SECA pilot project

— SEN on Sardinia methanization

Project rationale

- Low pollutant source enabling regional energy transition
- Reduction of GHG in maritime transportation, where Med Sea is included in SECA
- Replacement of coal phase out by 2025 – 2030 and support to bio-methane development
- Development of favourable industrial and work environment

~€1.4 bn total investment to develop infrastructure



Main infrastructure projects

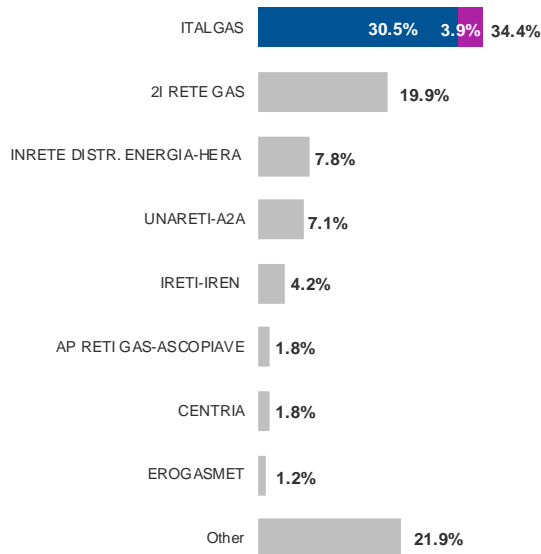
- SSLNG regasification plants for gas supply (~€400mIn)
- Transportation network and connection to SSLNG sites and distribution grid (~€1bn)
- CCGT for electricity production

Natural gas is key for Sardinia energy transition

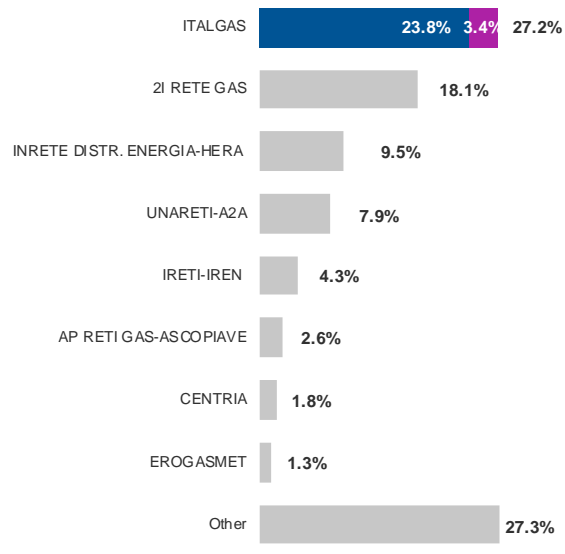
Leader in a fragmented market ...

Current market share in Italy

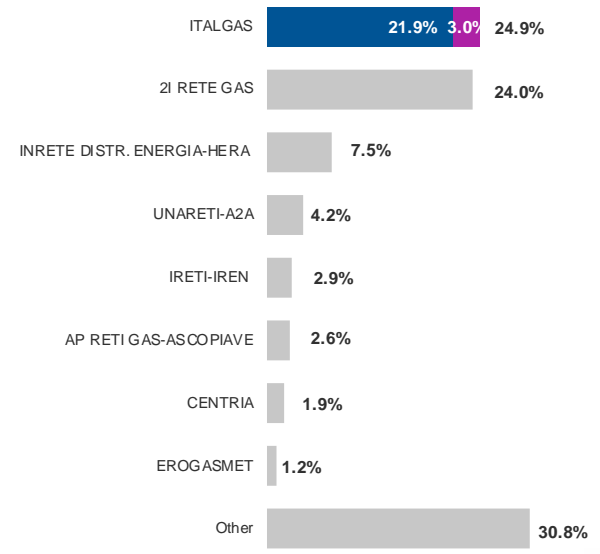
...by re-delivery points



...by gas volume distributed



...by network

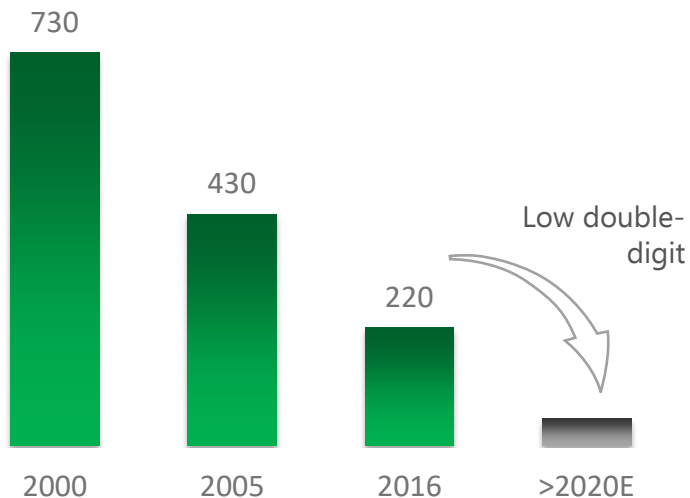


■ Italgas consolidated ■ Toscana Energia & affiliates

... with consolidation gathering pace

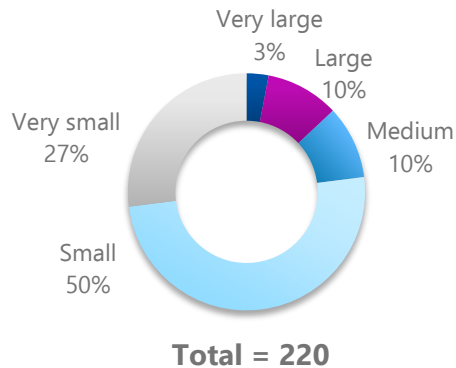
Streamlining of Italian operators

Numbers of operators

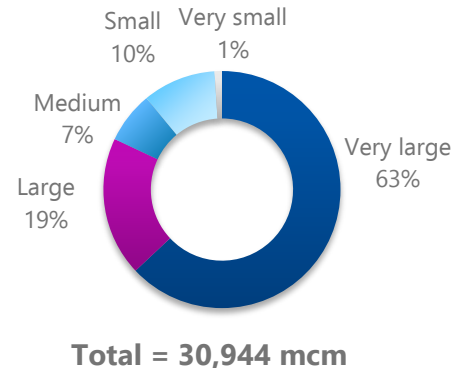


Scale is key in the ongoing consolidation process

Numbers of operators (2016)



Gas volumes (2016)

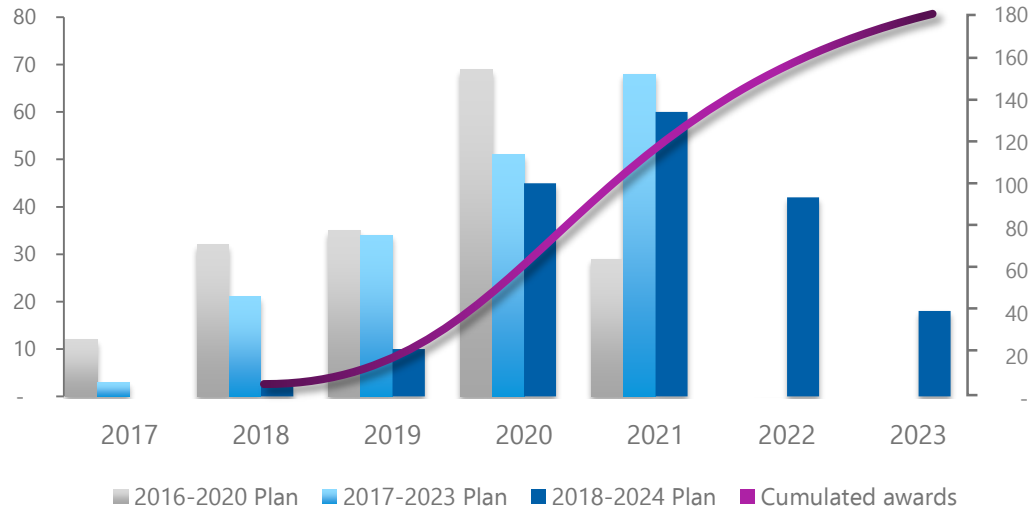


- Very Large (>500k clients)
- Large (>100k clients)
- Medium (>50k clients)
- Small (>5k clients)
- Very small (<5k clients)

ATEMs' process set to transform the industry

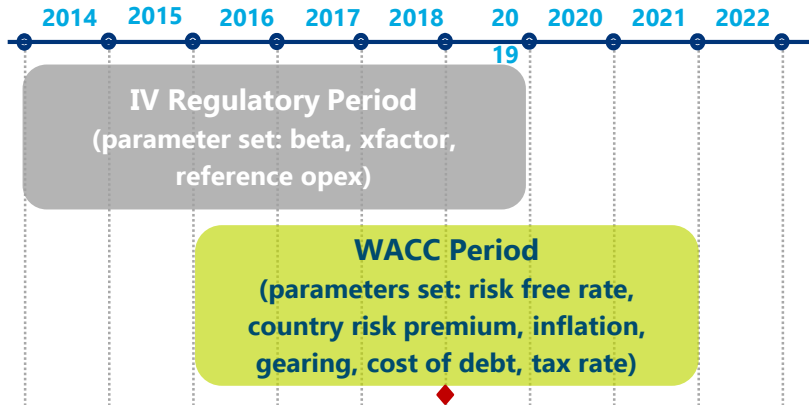
Tenders Calendar

Total market awarded tenders (177 ATEMs)



Italgas estimate

Underpinned by a stable regulatory environment



◆ 3 year updates of CAPM parameters

Current Wacc (2016-2018)	Distribution	Metering
Regulatory WACC	6.1%	6.6%
Real risk free rate	0.50%	0.50%
Country risk premium	1.00%	1.00%
Beta unlevered	0.44	0.50
Beta levered	0.63	0.72
Market risk premium	5.50%	5.50%
Real cost of equity	4.97%	5.45%
Real risk free rate	0.50%	0.50%
Country risk premium	1.00%	1.00%
Debt risk premium	0.50%	0.50%
Cost of debt (pre-tax)	2.00%	2.00%
Tax shield	27.50%	27.50%
Real cost of debt	1.45%	1.45%
D/E	60.00%	60.00%
D/(D+E)	37.50%	37.50%
Tax rate	34.40%	34.40%
Inflation rate	1.50%	1.50%
F factor	0.54%	0.50%

Parameters subject to potential changes

In the period 2018 – 2024 we expect WACC to remain at current level

— Agenda



Scenario



Strategy



Shareholder
Remuneration &
Closing Remarks

— Sustainability: moving from strategy to action

UN Sustainable Developments Goals

The 17 Sustainable Development Goals (SDGs) are contained in the 2030 Agenda for Sustainable Development.

They represent the United Nation's global plan of action for the undermining of poverty, the protection of the planet and the guaranteeing of prosperity for all.



Italgas Sustainability Plan 2018-2023

Italgas sustainability strategy is driven by nine of these SDG's.

The Sustainability Plan contains actions to both assure Italgas sustainability and contribute to UN goals achievement.



5 STRATEGIC PILLARS:



— Italgas Sustainability Plan underpins company strategy

We are driven by:

1. COMMITMENT TO SUSTAINABILITY

Involvement, accountability and communication

2. PUTTING PEOPLE FIRST

Prepare our people to success in emerging industrial challenges

3. STRONG LOCAL PRESENCE

Pursue an active role in the social innovation process of cities and communities

4. VALUE FOR MARKET AND CLIENTS

Reshaping contents and communication with users

5. ENERGY EFFICIENCY AND ENVIRONMENT

The key role of gas in decarbonization process of society

We want to:

1. Increase Italgas visibility on sustainability issues
2. Develop the culture of sustainability
3. Strengthen key process
4. Protect and enhance know-how
5. Strengthen corporate welfare
6. Promote women occupation in the company
7. Improve safety at work
8. Improve relations and involvement with territories
9. Invest in communities through measurable social innovation
10. Harmonize process with sales companies
11. Improve end customers' relation
12. Improve efficiency and reduce our carbon footprint
13. Develop the gas advocacy
14. Enable circular economy process

SUSTAINABLE
DEVELOPMENT
GOALS



— Strategic pillars



1. Network development

Development, Maintenance and Upgrade



2. M&A and market opportunities

Anticipation of growth and improve portfolio quality and value



3. Technical innovation & digitization

Technical innovation and digitization of assets, processes and workforce



4. Operational efficiencies

Continuous efficiency actions



5. Gas tenders

Highly qualified to reach 40% market share



6. Solid and efficient financial structure

Outstanding cost of debt and financial flexibility to support growth



7. Shareholder returns

Robust and sustainable shareholder returns



Sustainability

— Investment Plan without Tenders

~4.0 Bn€ Capex

2018-2024

Network



Metering



Digitization



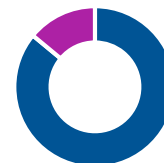
Centralized
Assets



~3.2 B€ related to 2017 base perimeter

Sardinia and M&A

Sardinia
0.45
Bn€



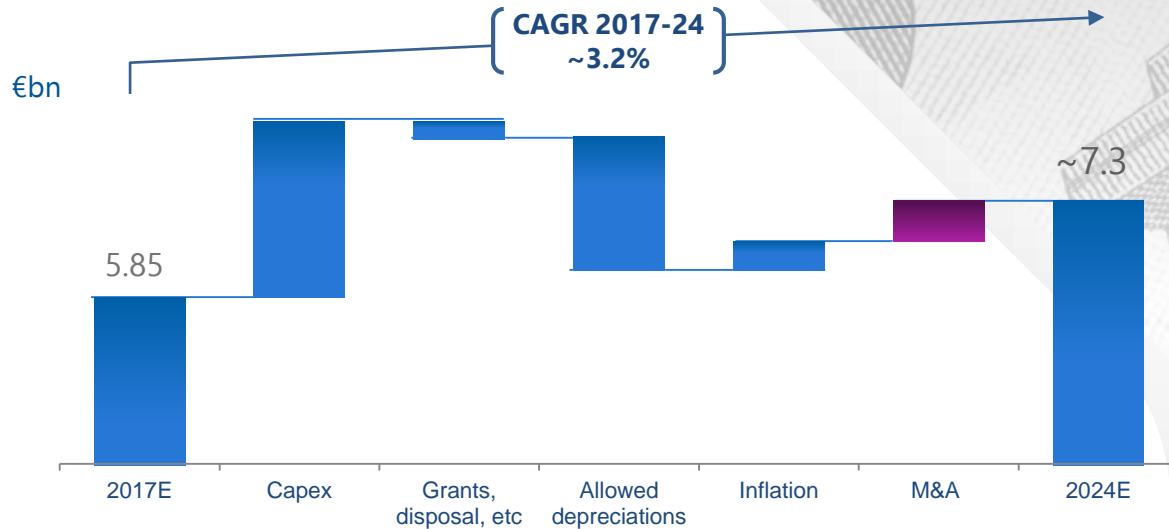
M&A
0.42
Bn€



Capex
Acquisition

RAB evolution without Tenders

Consolidated RAB* 2017-2024



A significant capex plan and selected M&A driving a robust RAB growth

* Continuity of regulatory treatment assumed for grants cumulated at 2017 year end; average deflator in the plan period assumed at 1.4%

— 1. Network capex

2.0
Bn€

1. Replacement and upgrade

- Grey cast iron pipelines with hemp & lead joints (by 2019)
- Grey cast iron pipelines with mechanical joints (by 2025)
- Part of fully depreciated pipelines
- Unprotected steel pipes
- Replacement related to emergency interventions
- Replacement of risers and plants

2. LPG network conversion

3. Network extension & new connections

- Development of services to meet demand for new connections

4. Energy efficiency

- Turboexpander and cogen plants

5. Sustainability

- Reduction of energy consumption and GHG emissions

6. Tenders already awarded

- Capex related to commitments of tenders

1. Metering and digitization capex

0.5
Bn€

Smart meters rollout (G4-G6)

- Outperformance of ARERA targets for mass market meters' replacements (set by Res. 554/15 at 50% by 2018)
- Completion of mass market meters replacements by H1 2020



0.3
Bn€

1. Asset digitization

- Gas network
- Water network (smart meters and sensors)



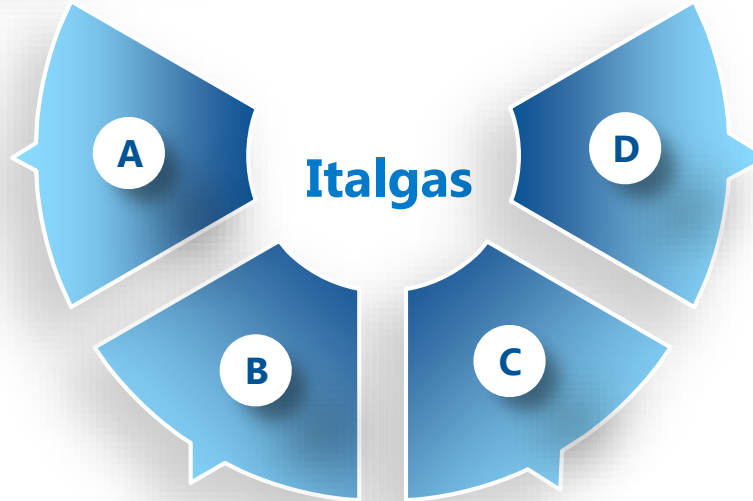
2. Digital Factory

- Multiple parallel digital rooms producing continuous innovative output

— 2. Pursue opportunities to strengthen market position, portfolio quality and growth

M&A

Acquisition of third party assets, appealing in size or/and geographical positioning



Affiliates consolidation

Full consolidation of affiliates

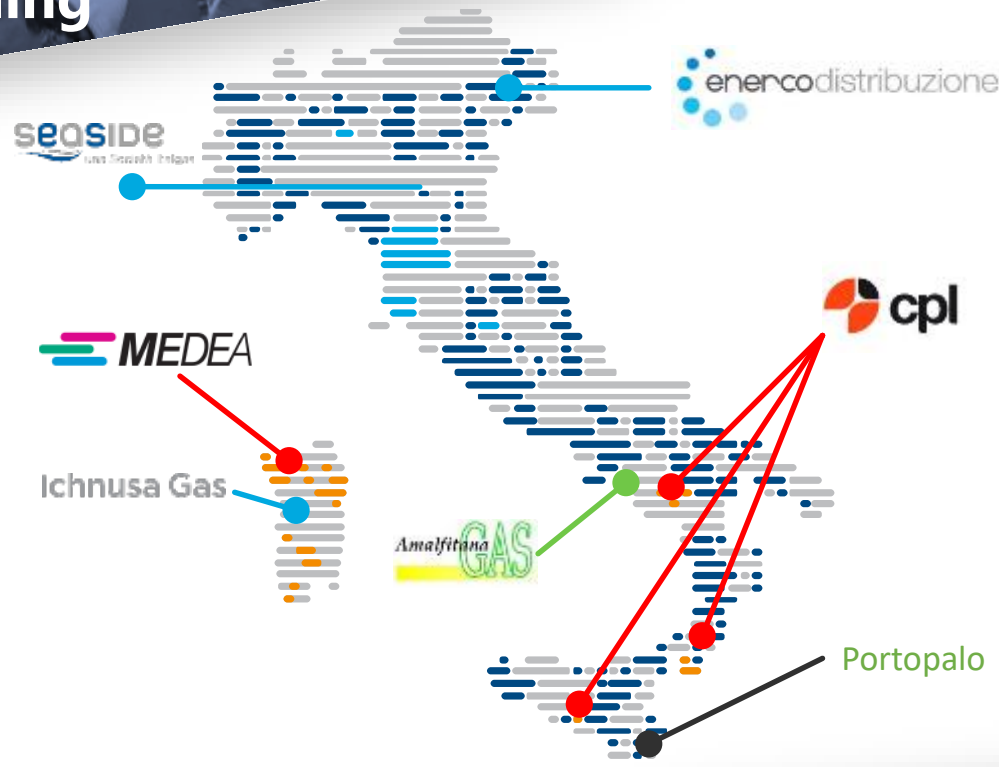
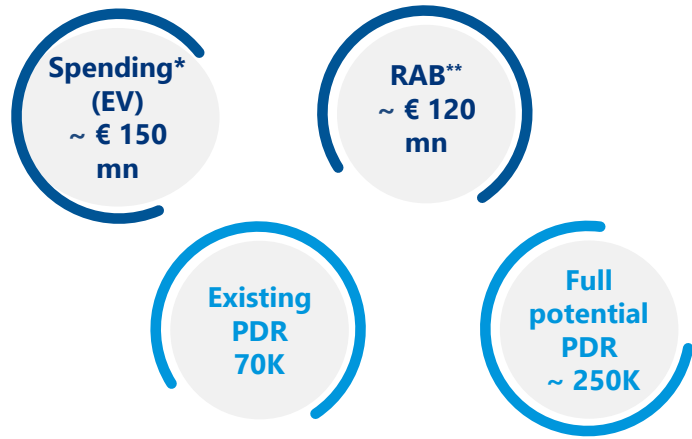
SARDINIA

Acquisition of assets in Sardinia and contribution to the methanization of the Region

Energy Efficiency

Develop Energy efficiency business

— 2. Already completed bolt-on acquisitions fueling RAB growth



* Of which Seaside ~ € 9mn and ~ € 4mn for Medea retail
** Includes Net Assets value of LPG networks under construction

— 2. M&A opportunities

2017-2018 RdP ~180k

- ✓ **Enerco** 30k RdP
- ✓ **Amalfitana** 22k RdP
- ✓ **CPL (new grid)** 1k RdP
- ✓ **Medea** 13k RdP
- ✓ **Ichnusa** 2k RdP



RdP ~110k
RAB ~ €170mn



70k RdP

Spending ~ € 150mn



- ✓ Completed in 2017 and 1H 2018

2019 RdP ~70k

**Other
M&A**

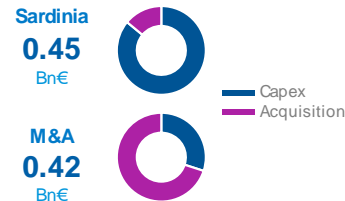
RdP ~70k
RAB ~ €100mn



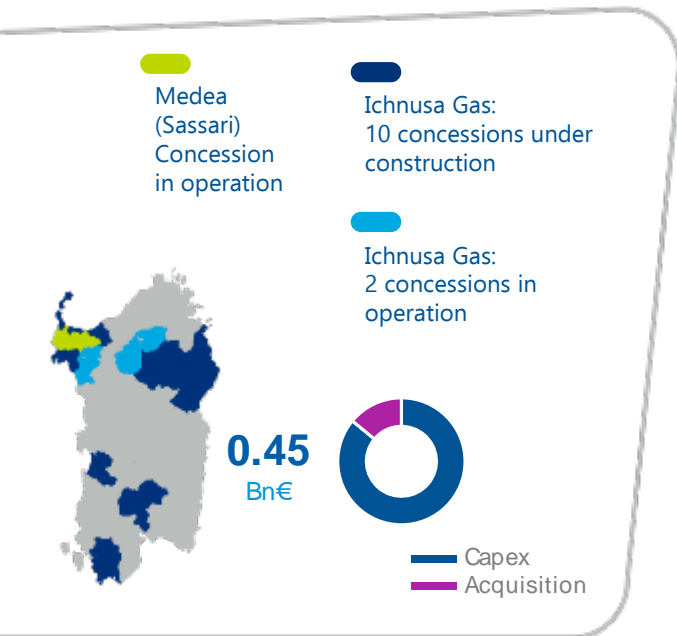
Spending ~ € 250mn

Opportunities are currently under evaluation to acquire additional 180k RdP by the end of 2019

Sardinia and M&A



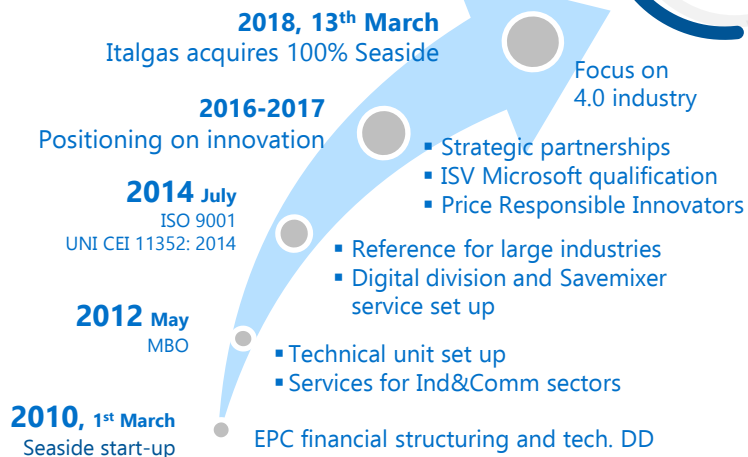
— 2. Sardinia – a strategic role



		Today	→	Tomorrow
# clients		13.000	→	Potential market ~180.000
Network km		400	→	1.500 FULLY DIGITALIZED
Fuel	Concessions in operation	LPG / LPG air Until natural gas is not available in Sardinia	→	Natural Gas
	Under construction	n.a.	→	LNG Until natural gas is not available in Sardinia Natural Gas Once natural gas supply is available in Sardinia

— 2. Energy Efficiency

History



Development path



— 3. The digital transformation program

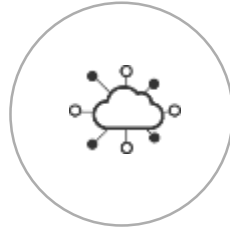
Digitization areas

Asset digitization



- Industrial IoT
- Advanced Analytics / Big Data

Process (staff&ops) digitization



- Advanced Analytics / Machine Learning
- Bots / Digital Assistants
- Blockchain

Workforce digitization



- Mixed Reality
- Wearables
- Bots / Digital Assistants

Transformation steps

1

IT Architecture evolution to **Cloud-based model**

2

Digital Factory

Metering

0.53
Bn€

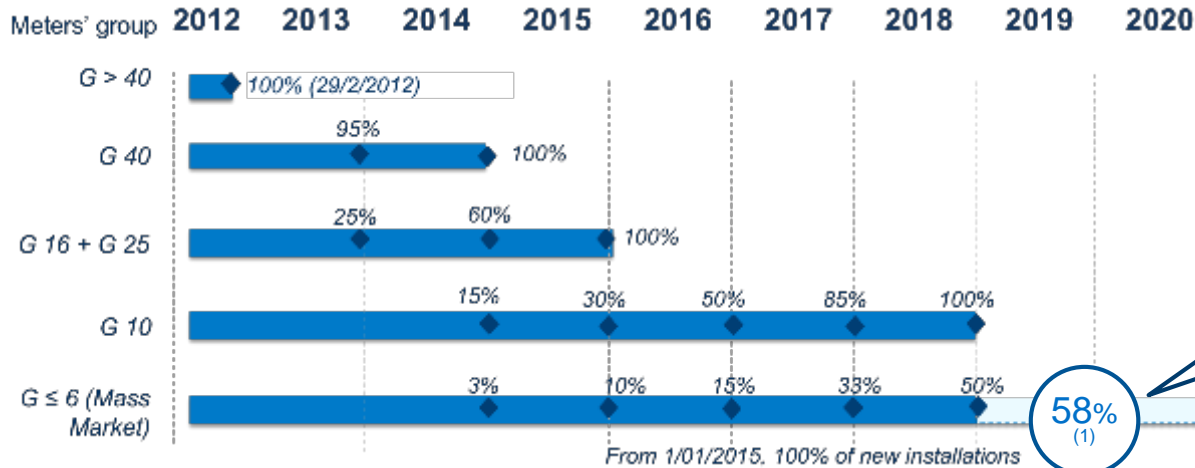
Digitization

0.31
Bn€

3. Digitization of assets – Smart Meters

SMART METERS' ROLL-OUT PLAN - ARERA target

For DSO with > 200k final customers



Italgas is outperforming ARERA target by year end 2018

- By 2020 all the active and accessible meters will be renewed²
- After 2020 is assumed a progressive recovery of non accessible meters (in addition to new installations)

(1) % replacements are referred to the entire meters in place, including not accessible and not active.

(2) Based on the assumption that regulation will evolve towards a suitable tariff contribution for meters' replacement.

— 3. Benefits of Smart Meters



Gas DSO manages the meter and collects data on gas consumption

The **Sale Company** invoices gas consumption to final customers

Benefits for the system

DSO

1. Technological upgrade of Smart Meters and information system
2. Remote control of meter operation and consumption level
3. Improved metering performances and remote reading of inaccessible meters
4. Possible remote closure of supply
5. Customers' claims reduction
6. Optimized planning of grid interventions thanks to improved awareness of consumptions

Sale company

1. More reliable gas invoicing and reduction of customers' claims
2. Simplification of the process to switch gas supplier
3. Commercial offers targeted on customers' consumption
4. Improved protection from credit risk (remote closure of supply)

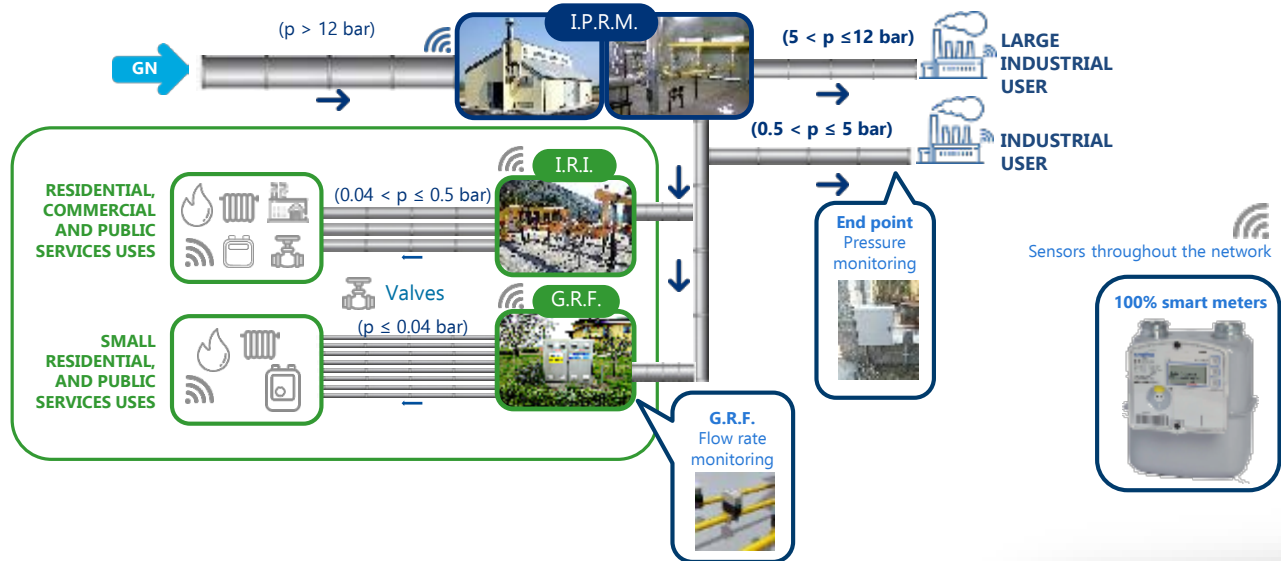
Customer

1. Invoicing based on effective gas consumption
2. Improved energy efficiency thanks to higher awareness of self consumption
3. Real time information on consumption
4. Integration with innovative services
5. Reduction of reasons for claims
6. Simplification of the process to switch gas supplier or contract holder

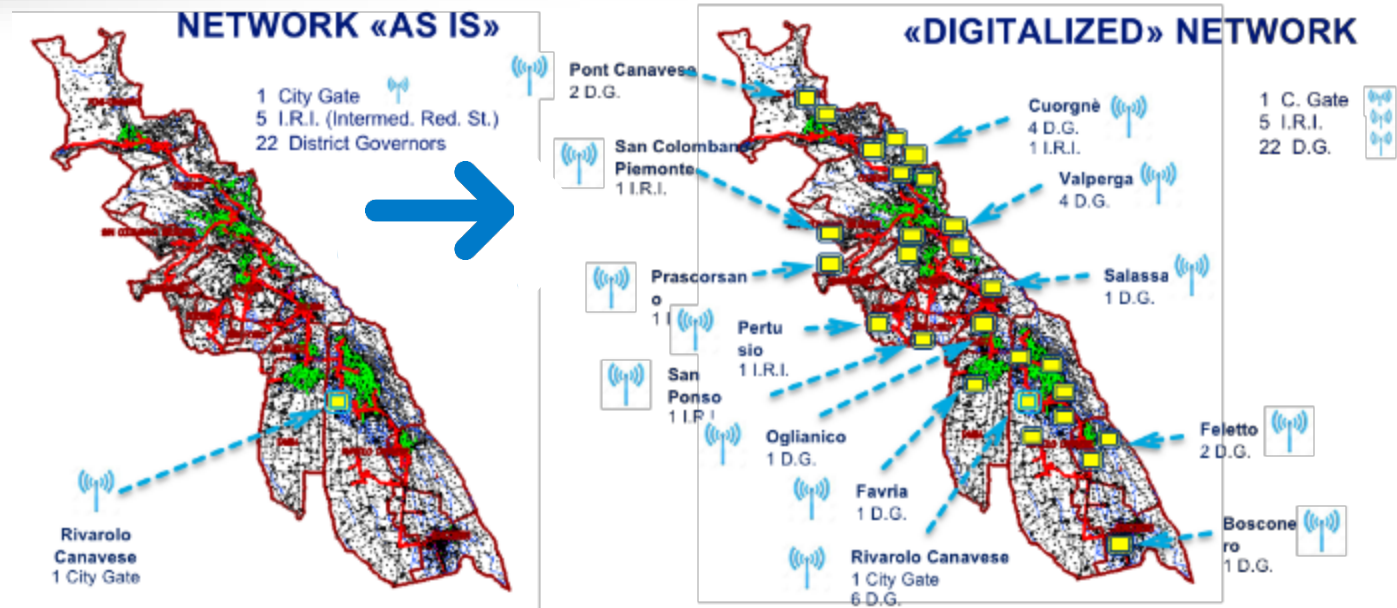
— 3. Digitization of assets – Gas distribution grid

Smart meters, pressure and flow monitoring, digitalized GRF, valves and sensors to digitalize the gas grid

- Real time monitoring
- Big data analysis
- Alarm management
- Predictive maintenance
- Processes and resources optimization



3. Digitization of assets – Gas distribution grid



2018-2019

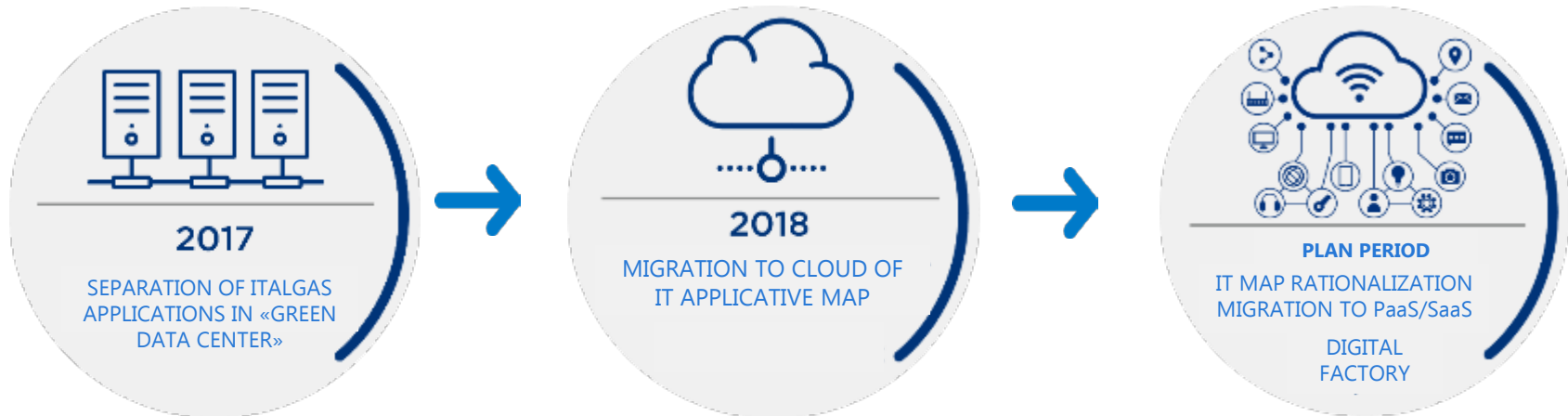


42 pilot projects

Plan Period

Digitization extended to the entire gas grid

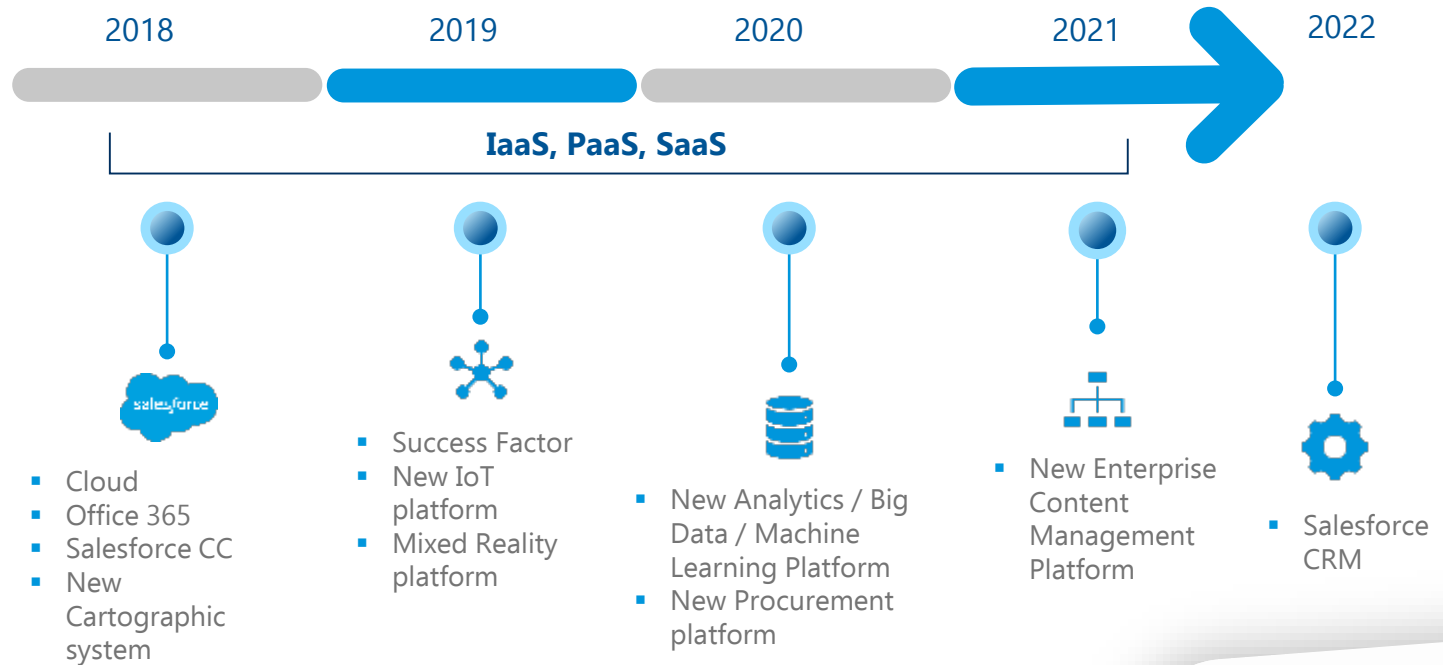
— 3. Digital program deployment



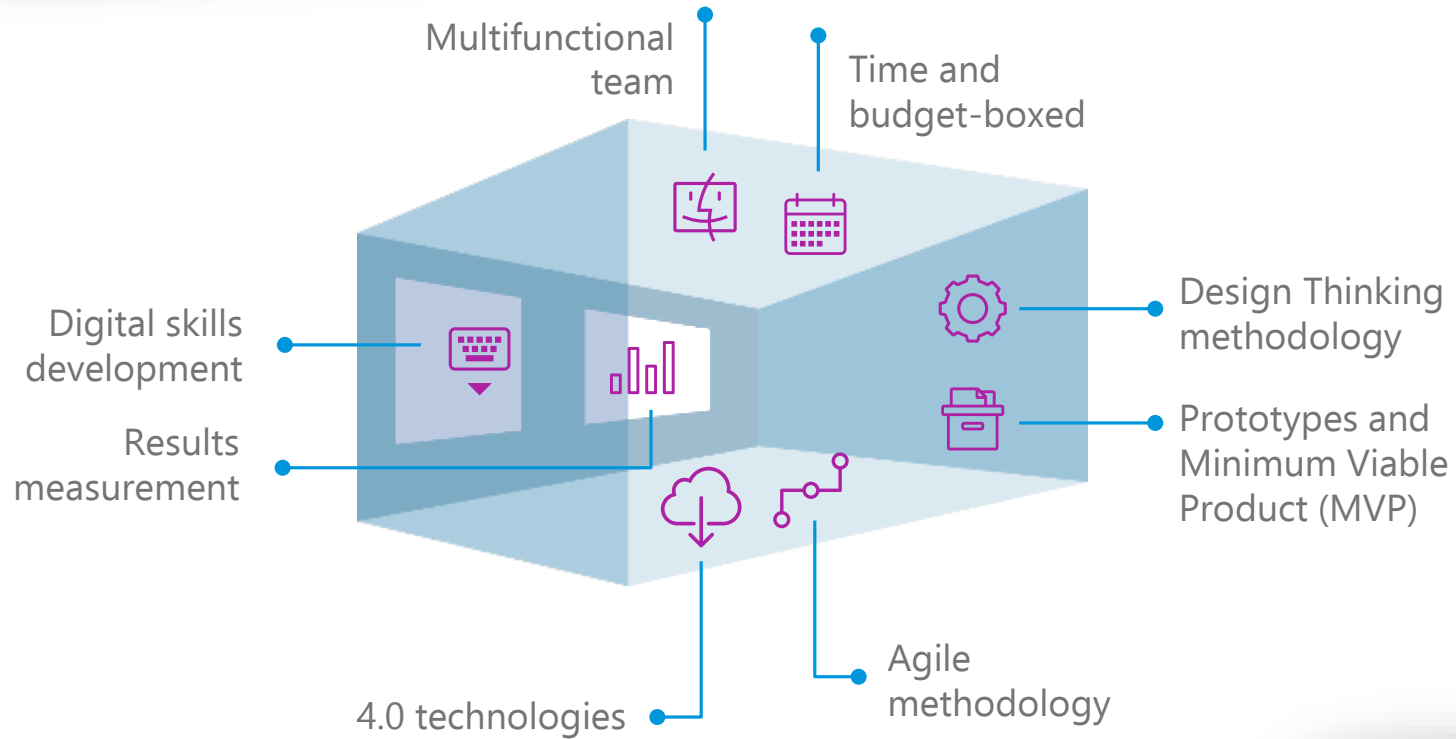
Transition to cloud is the first digitization step
Digital Factory is set up from 4Q 2018

— 3. Digital program deployment

IT Architecture evolution to **Cloud-based model**



3. The Digital Factory



— 4. Operational Efficiency



Workforce

- **Organization of workforce to realign with standard requirements** ✓
- Improvement of skills mix



Operational process

- Increasing productivity through best practices
- Leveraging on «make or buy» mix ✓
- **Optimizing vehicle fleet** ✓



Asset management

- **Optimization of smart meters supply and installation cost** ✓
- **New contractual strategy for network maintenance and expansion** ✓



ICT

- Innovation technology
- **Public Cloud strategy** ✓
- Network digitization



Smart meters

- **Reducing telecoms cost associated to reading activity** ✓
- Technology innovation
- Network digitization



Facility

- Utilities cost reduction



Corporate reorganization

- **Group Distribution activities integrated in Italgas Reti** ✓
- Affiliates ownership concentrated in Italgas

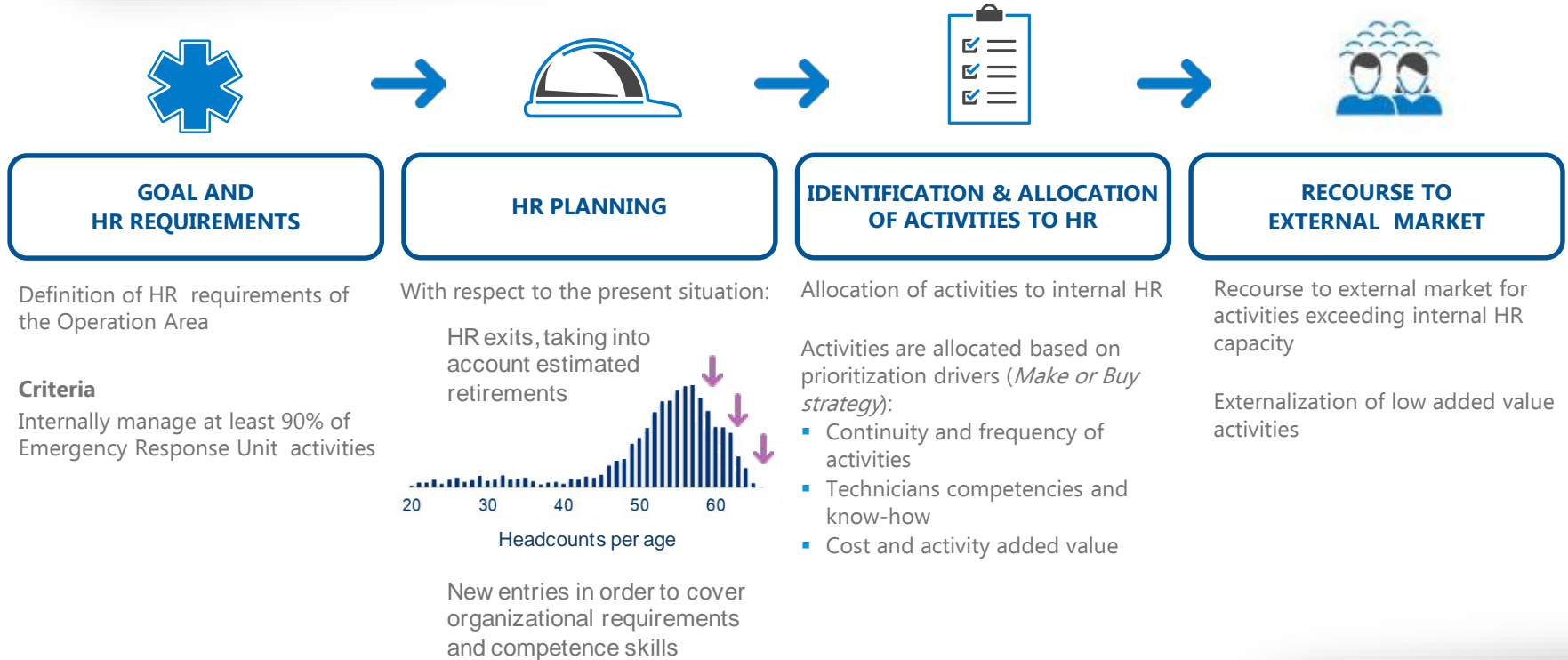
.... and

Continuous Improvement Program “on line”



Already exploited in 2017

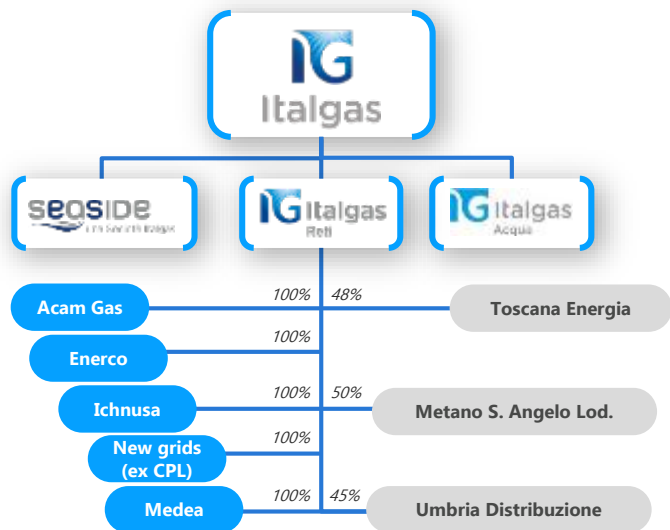
— 4. Leveraging “Make or Buy Mix”



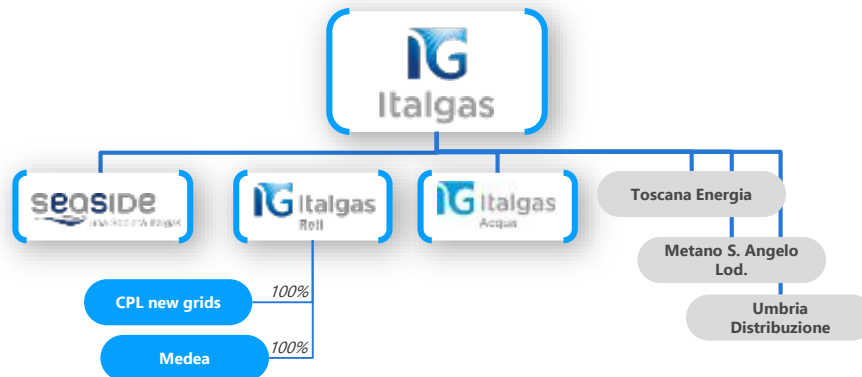
Improve efficiency and quality of service

4. On going restructuring

Consolidated perimeter – structure as of 31/5/2018



Consolidated perimeter – future structure



1. Integration of distribution activities into Italgas Reti

Merging of Napoletanagas, Acam Gas and Enerco.
Corporate simplification once networks enter operations

2. Affiliates

Transfer of affiliates' ownership from ITG Reti to ITG SpA

3. Water and energy efficiency

Dedicated entities for activities in the water and energy efficiency sectors

— Fully consolidation method

— Equity method

To improve efficiency and business value

4. Vehicle fleet optimization



Fuel Cost*

-50%

vs 2017

CO₂ emission*

teq -20%

vs 2017

Particulate*
(PM10, PM2,...)

-98%

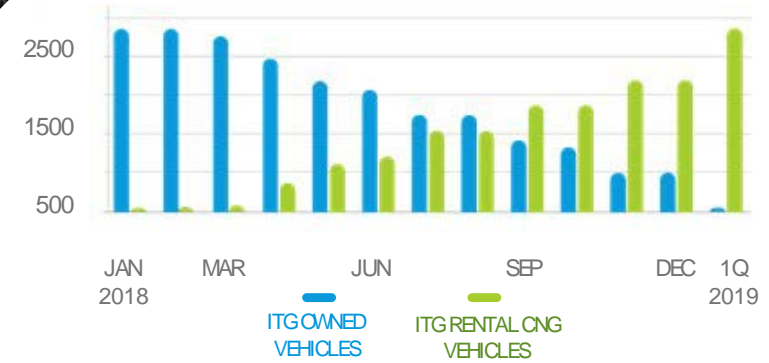
vs 2017

2.500

new natural gas fuelled vehicles

120

natural gas stations



Italgas is the first company in Italy to own a fully methane vehicle fleet

* Assuming 100% CNG vehicle fleet

— 4. Procurement strategy

Network Initiatives



- New contractual strategy on network maintenance works and network extensions
- Leak detection supply optimization

Smart Metering



- Optimization on smart meter installation costs
- Smart meter supply with full guarantee

Warehouse



- Warehouse and logistic optimization cost

ICT Initiatives



- Telco optimization cost
- IT device (PC /Ipad) optimization cost by introducing lease contract

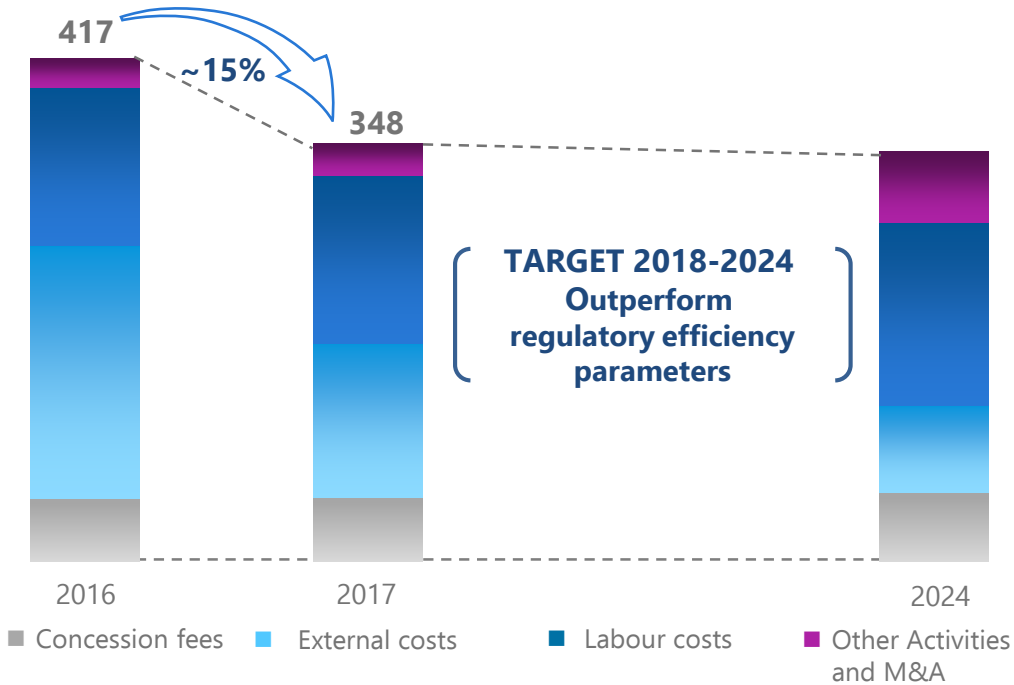
**Enhanced cost control
and quality improvement**

4. Distribution activities: Opex

€mn

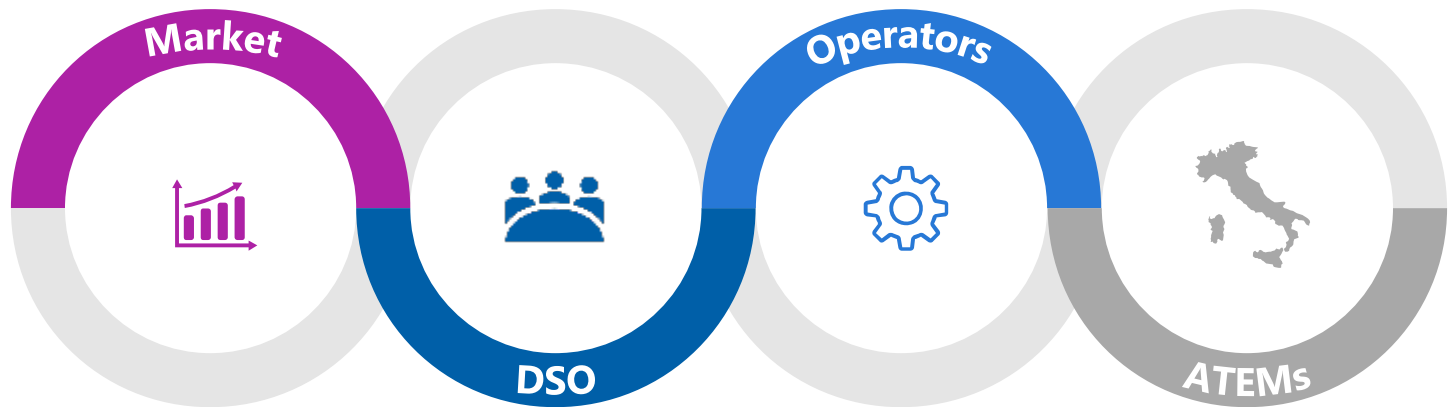
2016-2017

Base line reshaped one year ahead of target



— 5. Criteria to select target ATEMs

ATEM profitability



Italgas market share

Italgas PdR over ATEM PdR

Operator fragmentation

Number of DSOs operating in the ATEM

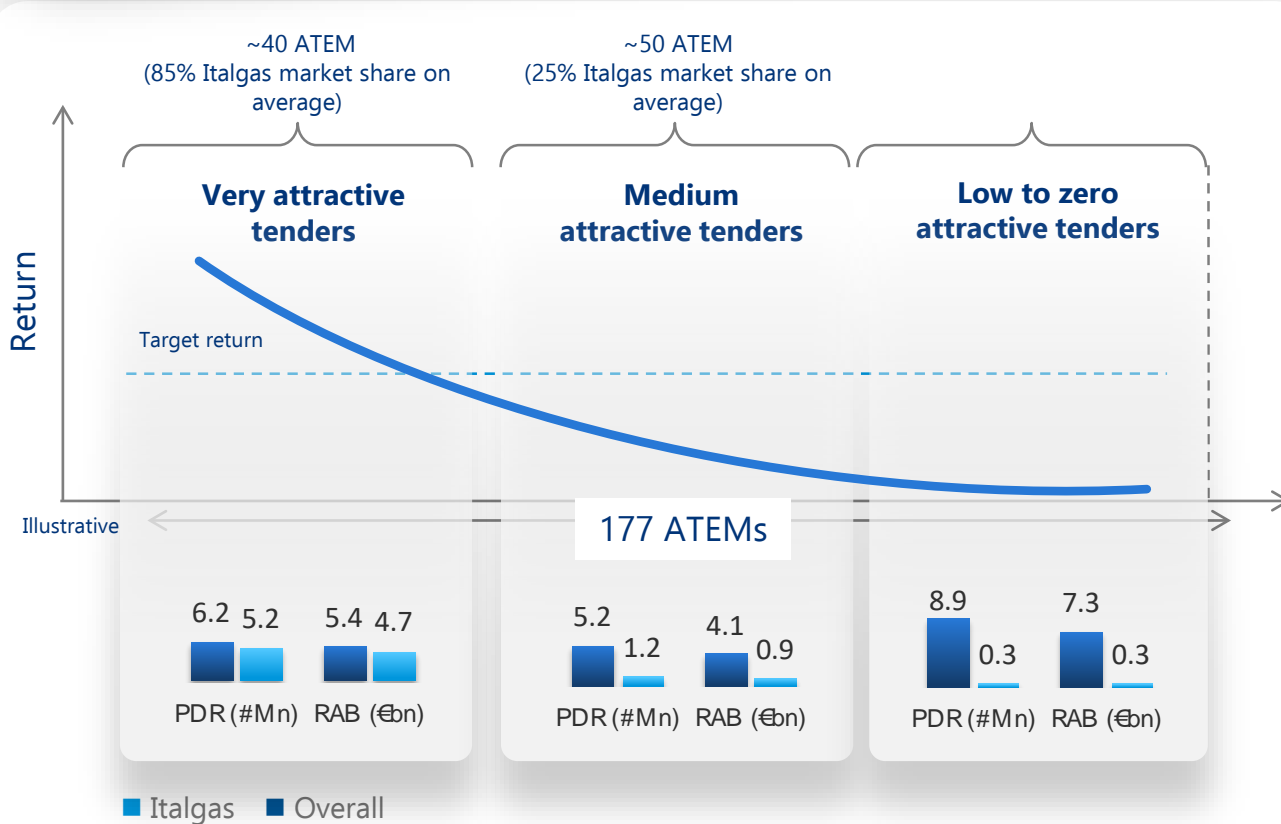
Operator type

Main competitors' market share (national and regional level) and type

Geographical contiguity

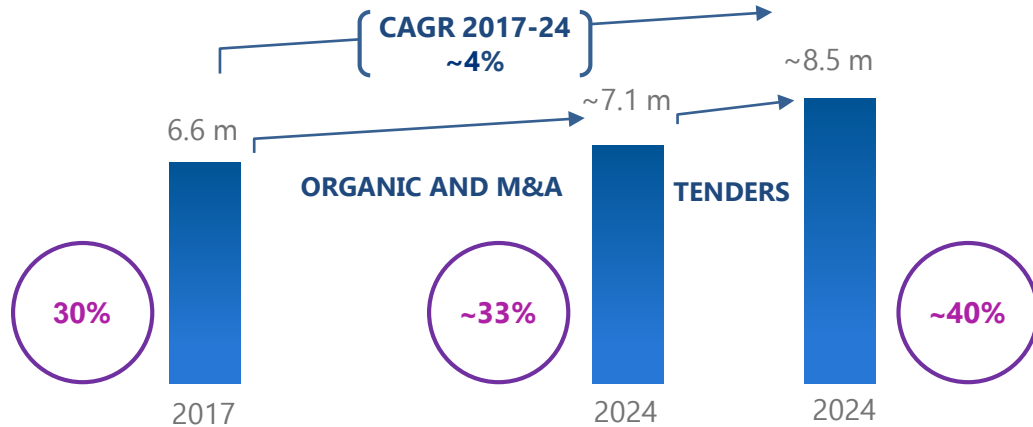
Italgas presence in neighboring ATEMs

5. Tenders clusters



5. Tenders: an additional growth opportunity for profitable growth

Redelivery points⁽¹⁾



■ Market Share ⁽¹⁾

Tenders capital deployment opportunities



Net capital to be deployed in tenders ⁽²⁾



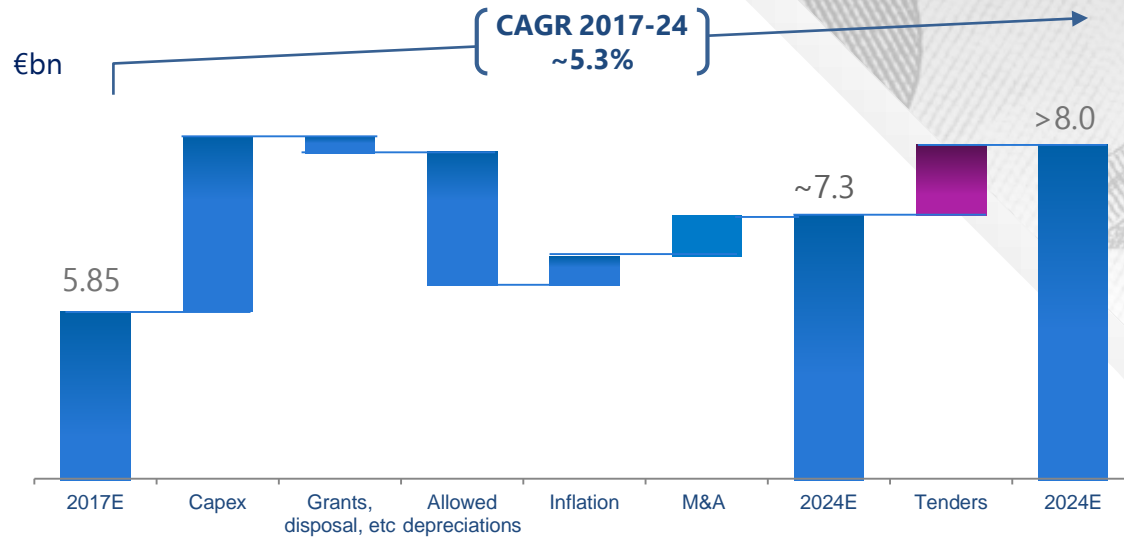
Capex within 2024 induced by tenders

(1) Excluding affiliates and considering active redelivery points

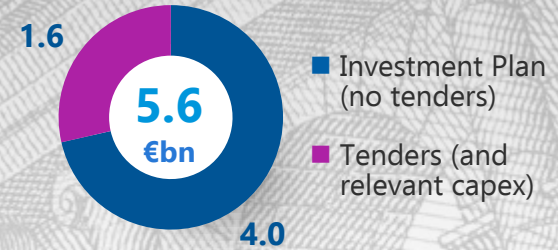
(2) Net of redemption value of asset transferred to other operators in the tender process and assuming RV=RAB

5. RAB evolution with tenders

Consolidated RAB* 2017-2024



(2018 – 2024)



Tenders represent an additional capital deployment opportunity

* Continuity of regulatory treatment assumed for grants cumulated at 2017 year end; average deflator in the plan period assumed at 1.4%

6. Main pillars of financial strategy to support...



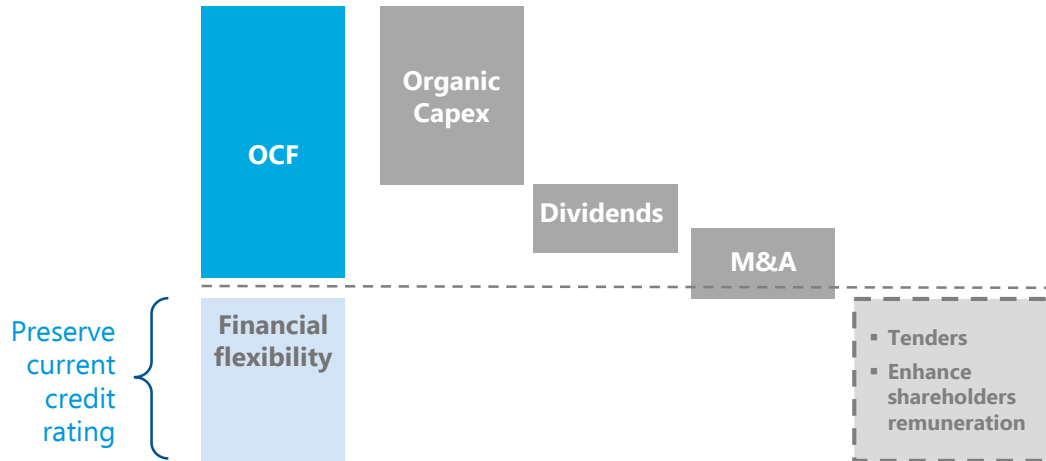
A solid and efficient financial structure

- Generate strong and resilient cash flow to cover organic capex and dividends
FFO/RAB ~ 10%*
- Preserve a solid investment grade rating
Baa1 Moody's & BBB+ Fitch
- Maintain a safe liquidity profile in the medium term
> €1 bn undrawn committed credit lines
- Outstanding cost of debt over the plan period
From current 1.1% to 1.4% at the end of the plan period
- Current fixed rate debt portion to protect financial outperformance in the medium term
~ 88% fixed rate
- Limited refinancing risk
No refinancing needs until 2022

* Stable at ~ 10% over the plan period

— 6. ...self financing of organic growth, M&A and shareholder remuneration... leaving flexibility for tender opportunities

Cumulative amounts for the full business plan*

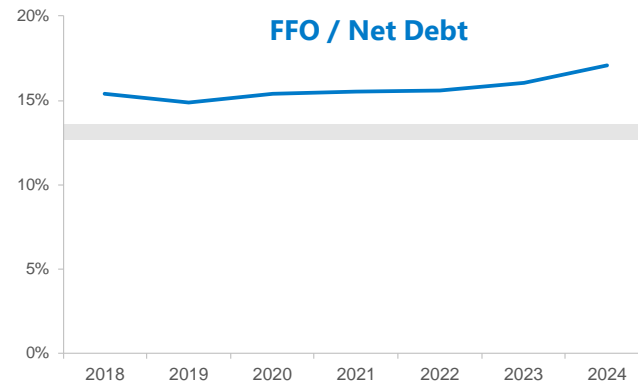
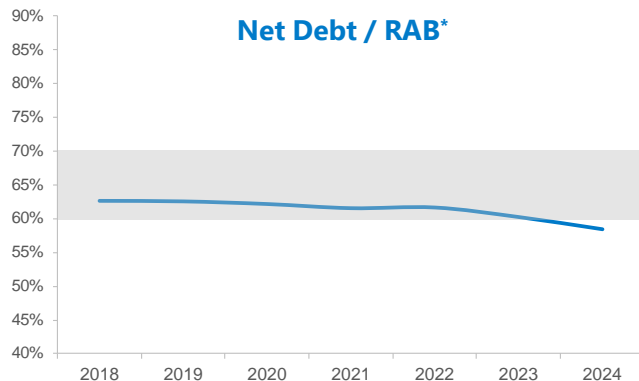


- Operating cash flow covers capex – including M&A – and dividends
- Financial flexibility allows to capture tenders' opportunities and/or enhance shareholder remuneration

* Measurement of the chart for Illustrative purpose

6. Key credit metrics

Resilient cash flow generation and strong credit metrics



- M&A and Sardinia anticipate capital deployment in the first part of the plan period
- Well balanced capex profile to optimize cash-flow
- Adequate financial structure even in a growing scenario

- Robust and resilient cash flow generation
- Sound credit profile well positioned in a solid investment grade area

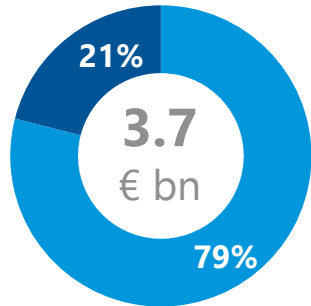
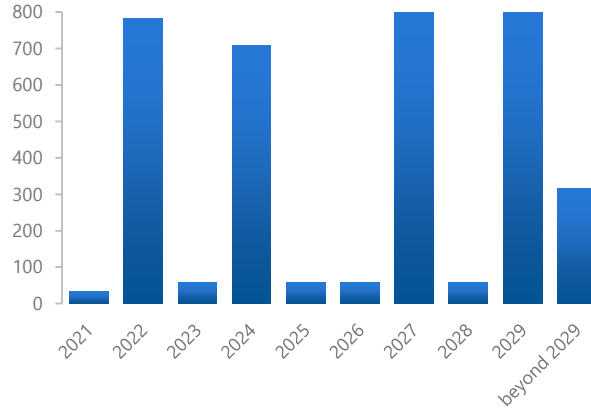
* Consolidated RAB including LPG assets and Equity RAB of affiliates

6. A solid, efficient and resilient debt structure

Italgas Net Debt Structure

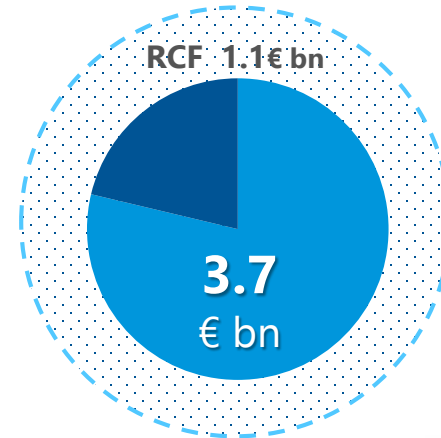
As of March 31st, 2018

Limited refinancing risks thanks to maturities profile

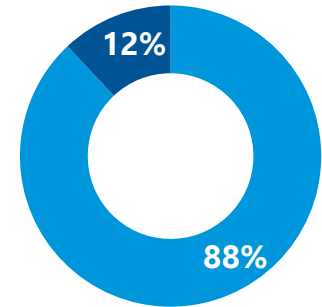


- Bond
- Institutional Lenders Financing (EIB)

4.8 € bn
Total Committed
Credit Facilities and Bonds



Fixed Floating ratio



- Fixed
- Floating

— 2018 Guidance and expected plan evolution

2018

Revenues	~1.2	€Bn
Ebitda	810 – 830	€mn
EBIT/RAB	>7	%
Capex	>500	€mn
M&A	~200	€mn
Consolidated RAB*	~6.2	€Bn
Leverage**	~63	%

2024 OUTLOOK
with tenders

- Consolidated EBITDA ~1.1 €Bn
- Cumulated Investments 2018-2024 5.6 €Bn
- Consolidated RAB* ~8.4 €Bn
- Leverage <60%



* Includes M&A and Net Assets value of LPG network

** Calculated as ND/RAB including affiliates at equity RAB

— Agenda



Scenario



Strategy



**Shareholder
Remuneration &
Closing Remarks**

— Multiple-levers to deliver value through 2024



€ 4Bn Investment Plan (Capex and M&A) to support significant RAB growth



Digital Factory, network digitization to consolidate market leadership



Tenders as an additional capital deployment opportunity

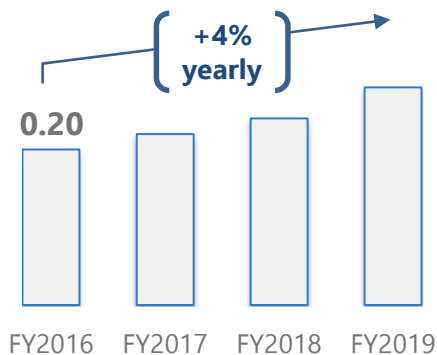


Underpinned by solid balance sheet with superior cost of capital



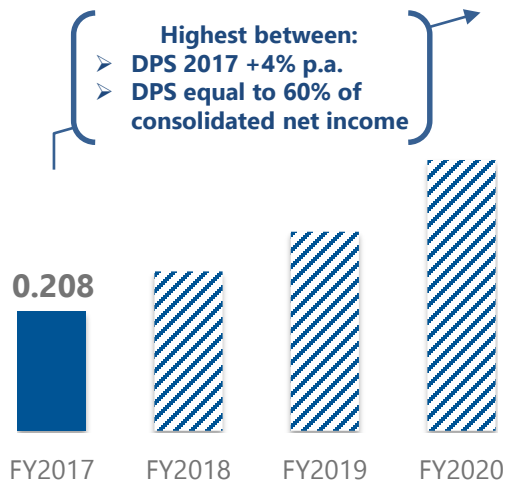
— Robust and sustainable shareholder remuneration with significant upside

Strategic Plan 2017-2023



DPS (€)

Strategic Plan 2018-2024





— Q & A

— Disclaimer

Italgas's Manager, Giovanni Mercante, in his position as manager responsible for the preparation of financial reports, certifies pursuant to paragraph 2, article 154-bis of the Legislative Decree n. 58/1998, that data and information disclosures herewith set forth correspond to the company's evidence and accounting books and entries.

This presentation contains forward-looking statements regarding future events and the future results of Italgas that are based on current expectations, estimates, forecasts, and projections about the industries in which Italgas operates and the beliefs and assumptions of the management of Italgas.

In particular, among other statements, certain statements with regard to management objectives, trends in results of operations, margins, costs, return on equity, risk management are forward-looking in nature.

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Italgas **Strategic Plan 2018 - 2024**

13th June 2018, Milan

