Speakers

PAOLO GALLO

ANTONIO PACCIORETTI
Confirming Italgas investment case

- **Leader in natural gas distribution**
  - Uniquely positioned to increase market share

- **Clear and visible regulation**
  - Predictable revenues and returns

- **Operational excellence**
  - Proven capabilities in managing gas networks

- **Value creating strategy**
  - Sizeable organic capex plan at RAB
  - Further efficiencies
  - Market opportunities

- **Solid Balance Sheet**
  - Solid Investment Grade credit rating
  - Fully funded plan
  - Financial flexibility

Highly visible returns and attractive dividend, coupled with significant accretive growth opportunities
Market overview
Italy: a developed gas market with growth options for infrastructures

- Italy is the **third largest gas market in Europe**…

- … with **one of the most developed EU infrastructure**

- The country is **expected to have** an increasingly strategic **role as a European gas hub** …

- … with **further developments on the transport and distribution networks**

Source: Eurogas (2016 preliminary data) and AEEGSI (Annual Report on the State of Services and on the Regulatory Activities on Year 2015)
Leader in the European natural gas distribution market...

**MARKET SHARE IN ITALY BY REDELIVERY POINTS**
(market share, YE 2015)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Italgas*</td>
<td>30.3%</td>
</tr>
<tr>
<td>2</td>
<td>2i ReteGas</td>
<td>17.5%</td>
</tr>
<tr>
<td>3</td>
<td>Hera</td>
<td>7.4%</td>
</tr>
<tr>
<td>4</td>
<td>A2A</td>
<td>5.6%</td>
</tr>
<tr>
<td>5</td>
<td>Iren</td>
<td>3.9%</td>
</tr>
<tr>
<td>6</td>
<td>Gas Natural</td>
<td>2.1%</td>
</tr>
<tr>
<td>7</td>
<td>Centria</td>
<td>1.8%</td>
</tr>
<tr>
<td>8</td>
<td>Ascopiave</td>
<td>1.8%</td>
</tr>
<tr>
<td>9</td>
<td>Linea distribuzione</td>
<td>1.2%</td>
</tr>
<tr>
<td>10</td>
<td>Erogasmet</td>
<td>1.2%</td>
</tr>
<tr>
<td>11</td>
<td>ACSM-AGAM</td>
<td>1.1%</td>
</tr>
<tr>
<td>12</td>
<td>Gelsia</td>
<td>1.0%</td>
</tr>
<tr>
<td>13</td>
<td>Other players</td>
<td>21.5%</td>
</tr>
</tbody>
</table>

**MARKET SHARE IN ITALY BY REDELIVERY POINTS**
(# redelivery points, thousands, YE 2015)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Redelivery Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GrDF</td>
<td>11,000</td>
</tr>
<tr>
<td>2</td>
<td>National Grid</td>
<td>10,900</td>
</tr>
<tr>
<td>3</td>
<td>Italgas*</td>
<td>7,373</td>
</tr>
<tr>
<td>4</td>
<td>Gas Natural</td>
<td>5,200</td>
</tr>
<tr>
<td>5</td>
<td>Alliander</td>
<td>2,600</td>
</tr>
<tr>
<td>6</td>
<td>EWE</td>
<td>1,700</td>
</tr>
<tr>
<td>7</td>
<td>Galp</td>
<td>1,000</td>
</tr>
</tbody>
</table>

* Including affiliates

Source: Company reports, Ministero sviluppo economico, AEEGSI 2015, company elaboration
STREAMLINING OF ITALIAN OPERATORS

Numbers of operators

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>730</td>
</tr>
<tr>
<td>2005</td>
<td>430</td>
</tr>
<tr>
<td>2016</td>
<td>226</td>
</tr>
</tbody>
</table>

Very large (59%): >500k clients
Large (23%): >100k clients
Medium (7%): >50k clients
Small (10%): >5k clients
Very small (1%): <5k clients
Low double-digit growth 226

SCALE IS KEY IN THE ONGOING CONSOLIDATION PROCESS

Numbers of operators (2015)

- Total = 226
- Very large (4%)
- Large (10%)
- Medium (9%)
- Small (51%)
- Very small (26%)

Gas volumes (2015)

- Total = 31,007 mcm
- Very large (59%) (>500k clients)
- Large (23%) (>100k clients)
- Medium (7%) (>50k clients)
- Small (10%) (>5k clients)
- Very small (1%) (<5k clients)

ATEMs’ process set to transform the industry

Source: AEEGSI 2015
In the period 2017 – 2023 we expect WACC to remain at current level

- Tariff components are currently set for the period 2014-2019
- WACC components are defined for 6 years 2016-2021 with an interim updated in 2019
- A floor is provided as well as correlation to Italian financial market conditions*

* Country Risk Premium calculated on the basis of 10yBTP and 10yBund spread
Strategy for value creation
Strategic pillars

1. **Organic Growth**
   Significant organic capex plan supporting RAB growth

2. **Operational efficiencies**
   Clear actions to implement efficiency programme

3. **Market opportunities**
   Tenders and M&A to improve portfolio quality and value

4. **Financial efficiency**
   Structure optimisation and flexibility to support growth

5. **Shareholder returns**
   Robust and sustainable shareholder returns
Solid organic growth

Significant organic investment plan: €3.0 bn

CAPEX 2017
~ €0.5bn
- 50%
- 37%
- 13%

CAPEX 2018-2023
~ €2.5bn
- 66%
- 27%
- 7%

Network: €1.9 bn
Metering: €0.8 bn
Other: €0.3 bn
Investment plan 2017-2023: Key areas

€3.0 bn

**Smart metering: €0.8 bn**
- Large size (>G6): ~18,000 meters in the 2017-2020
- Mass market (G4-G6): completion of program (2020) with ~5.4m of meters installed in 2017-20 (52% by 2018)
- Ordinary maintenance

**Grid digitalization and others: €0.3bn**
- Other investments are recognised in the centralized RAB

**Network development: €0.6bn**
- Expansion/Development of networks: ~300 km of new pipelines; ~70 km of new pipelines annually in 2021-2023
- New networks: completion by 2018 of the natural gas-connection program for the South (~50 km of new pipelines)

**Network maintenance: €1.3 bn**
- Completion of the replacement of the cast iron pipelines with lead joints (~20 km of new pipelines)
- Replacement of ~210 km of cast iron pipelines with mechanical joints
- Replacement/revamping of ~350 km of other pipelines
- Replacement rate increase for fully depreciated pipelines (~ 200 km/y) in 2021-2023
New grids completion
Conversion from LPG to natural gas grids

Construction works in ~110 municipalities (72 already in operation):
- ~1,650 km of new network (~1,100 already in operation)
- ~93,000 new redelivery points (~66,000 already in operation)

Conversion potential from LPG to gas grid:
- LPG grid in areas of municipalities already served with natural gas: ~4,500 redelivery points
  - Network expansion: ~240 km of network

Capex to complete integration of our national distribution network
Organic RAB evolution not considering tender process

CONSOLIDATED RAB\(^{(1)}\) 2016-2023

€bn

<table>
<thead>
<tr>
<th>Year</th>
<th>2016E</th>
<th>2018</th>
<th>2020</th>
<th>2023E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capex</td>
<td>5.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants, disposal, etc</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowed depreciations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAGR 2016-23</td>
<td>(\sim 1.4%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A significant €3bn capex driving RAB growth above inflation

RAB REMUNERATION MIX IMPROVEMENT DRIVEN BY METER SUBSTITUTIONS

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2018</th>
<th>2020</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metering</td>
<td>11%</td>
<td>13%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>Network</td>
<td>89%</td>
<td>87%</td>
<td>86%</td>
<td>89%</td>
</tr>
</tbody>
</table>

(1) Continuity of regulatory treatment assumed for grants cumulated at 2016 year end
Main areas of efficiency (opex and capex)

**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
- Private/Public Cloud strategy
- Network digitalisation

**Smart meters**
- Reducing telecoms cost associated to reading activity
- Technology innovation
- Network digitalization

**Facility**
- Utilities cost reduction

**Corporate reorganization**
- Group Distribution activities integrated in Italgas Reti
- Affiliates ownership concentrated in Italgas
Geographical reorganization: from operating centres to territorial units

14 territorial units for more efficient regional management

- Improved network management and resource allocation
- Technical and support functions feed into the units
- Investments project management approach from permits to engineering to construction

14 territorial units

Improve investments and support tender auction process
New organization model

- April: Go-Live of the new organization for Italgas Reti
- July: Start of the new organization of Territorial Units
- October: End of the reorganization of Territorial Units

- New territorial units with greater scale to improve local management
- Strengthen HQ’s direction and control and share best practice
- Roll-out the model across all geographical areas
- Project Management Focus on network investments
- Model is scalable for tender wins and potential M&A
Unlocking potential from Italgas people

**NEW HIRES/ EXITS** (headcounts)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulated exit</th>
<th>Cumulated entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>~-600</td>
<td>+300</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
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<tr>
<td>2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Generational workforce turnover to structurally upgrade our capabilities:

- Fresh talent with innovative skillsets
- Higher levels of technological expertise
- Increased productivity and efficiency
- Focused, dynamic workforce
- Invigorated company culture

**LABOUR COST** (€ mn)

Increase in 2016-18 due to demerger and insourcing of activities

* Current perimeter based on current concessions; does not consider portfolio evolution following tenders process
Innovation to drive energy efficiency, emissions reduction and…

**AREA**

- **Energy optimization**
  - Turbo-expanders for the recovery of energy released by gas before expansion

- **Refueling system for company fleet vehicles**
  - Installation of domestic methane refueling stations

- **Co-generative plants at IPRM**
  - To substitute traditional pre-heating gas systems

**KEY ACTIVITIES**

- Energy efficiency improvements
- CO2 and fuel cost reductions
...assets digitalization, coupled with cloud strategy

- **Asset digitalization**
  - Further grid digitalization
  - Network and metering managed remotely

- **Process digitalization**
  - Development of predictive control and maintenance algorithms

- **Workforce digitalization**
  - Employee digital identity and mobile devices for workers
  - Connection to corporate resources, augmented reality tools, digital assistants

- **Industrial IOT**
  - Cloud computing; network connected sensors enabling communication with physical assets
  - IoT applications for smart meters, tele control and cathodic protection

- **Dematerialization and automation**
  - Tools for digital conversion and data storage
  - AI software to replace physical mechanical interactions
Energy Efficiency coupled with TEE management

Opportunity to enter energy efficiency sector with an ESCo

Limited capital allocation

EscO business model

- Projects presentation
- TEE request

TEE authorization

TEE issuance

TEE trading and commercialization

Energy savings

Contractual fee

Development of EE projects

Investment portfolio in energy efficiency projects

«Captive» energy efficiency projects

Hedging TEE short position

Competitive TEE bilateral agreement

Competitive advantage in ATEMs tender

ITALGAS ADVANTAGES
To improve efficiency and business value

- Operative and organizational integration
- Operational efficiency
- Simplification of affiliates’ structure
- Intra group dividend policy optimization
Distribution activities: Opex*

- Action plan in place to achieve efficiency targets
- 2017 P&L already benefitting from significant savings

2016-2018 Reshape the base line

- ~15%

TARGET 2018-2023
Outperform regulatory efficiency parameters

* Without tenders

€mn

417

2016-2018

2016
2018
2023

Concession fees
External costs
Labour costs
Other Activities
Tender Calendar

ESTIMATED NUMBER OF TENDER PER YEAR OF PUBLICATION


'Milleproroghe' Decree
Italgas expectations
Italgas position in the New ATEMs

**ITALGAS OWNS 6.5 M REDELIVERY POINTS**

- 75%
- 17%
- 8%

**ITALGAS IS PRESENT IN 113 ATEMs (out of 177)**

- Italgas
- Affiliates

**ITALGAS CURRENT MARKET SHARE IN EACH ATEM**

- Market share >50%
  - ~40 ATEMs
- 25%<market share <50%
  - ~30 ATEMs
- Market share <25%
  - ~45 ATEMs
- Not present
  - ~65 ATEMs

Solid platform to increase market share
Criteria to select target ATEMS

1. Italgas market share
   Italgas PdR over ATEM PdR

2. Operators’ fragmentation
   Number of DSOs operating in the ATEM

3. Operators’ type
   Main competitors’ market share (national and regional level) and type

4. Geographical contiguity
   Italgas presence in neighboring ATEMs

ATEM profitability
Out of the 40 very attractive ATEMS, ~30 are expected to be awarded within 2020.

40 ATEM (85% Italgas market share on average)

~50 ATEM (25% Italgas market share on average)

Illustrative

Target return

177 ATEMS

Very attractive tenders

Medium attractive tenders

Low to zero attractive tenders

Source: Company data
Tenders: opportunities for profitable growth

**SIGNIFICANT GROWTH**

CAGR 2016-23 >3%

- 6.5 m
- >8 m

**CAPITAL DEPLOYMENT OPPORTUNITIES**

- 1.4 €bn
  - Net capital to be deployed in tenders (1)
- 0.6 €bn
  - Capex within 2023 induced by tenders

(1) Net of redemption value of asset transferred to other operators in the tender process and assuming RV=RAB
(2) Excluding affiliates and considering active redelivery points
RAB evolution considering tender process

CONSOLIDATED RAB\(^{(1)}\) 2016-2023

€bn
CAGR 2016-23 ~4.5%

\[
\text{Capex} \quad \text{Grants, disposals, etc} \quad \text{Allowed depreciations} \quad \text{Inflation} \quad \text{Tenders} \quad 2023
\]

5.7

\(\text{CONSOLIDATED RAB} \quad 2016-2023\)

OVERALL INVESTMENTS 2017-2023

CAPEX

TENDERS

15%

3.6 bn€

1.4 bn€

- Organic
- Induced by tenders

€5 bn (2017 – 2023) capital deployment opportunities supporting significant RAB growth

(1) Continuity of regulatory treatment assumed for grants cumulated at 2016 year end
Tenders for natural gas distribution concession

**ITALGAS TODAY**

- Sustainable profitable organic growth
- Solid balance sheet and strong cash flow
- Attractive cost of capital
- Clear regulatory framework

**TENDERS OPPORTUNITIES**

- Further significant capital deployment at RAB value
- Preserving profitability by further operational efficiencies and economies of scale
- Exploit financial flexibility
- A clear 12 years concession regime, «de-risking» the business

Italgas well positioned to exploit tenders opportunities
Opportunistic M&A activities

1. **Acquisitions**
   - **Target:** ~200k redelivery points by 2018/19
   - Distributors appealing for their size and/or for their presence in strategic areas for Italgas growth

2. **Sizeable gas distribution portfolios**
   - Gas distribution assets held by international groups in Italy

3. **Acquisition of control of affiliates**

**STRATEGIC RATIONAL**

- Anticipate tenders timing
- Enlarge and optimize concession portfolio to increase competitiveness in the tender process
Main pillars of financial strategy

- Strong, resilient cash flow generation to cover both organic capex and dividends
- Preserve a solid investment grade rating (BBB+ by Fitch, Baa1 by Moody’s)
- Maintain a safe liquidity profile in the medium term
- Significant fixed rate debt portion to protect financial outperformance
- Average maturity consistent with regulatory review frequency
- Flexible debt structure to manage financial needs to support growing business

Balance Sheet solidity and financial structure efficiency
Self financing of investments and shareholders remuneration, flexibility for the growth

Operating cash flow covers dividend distributions and organic capex over business plan

Financial flexibility allows to participate in market opportunities and enhance shareholder remuneration

Net Debt/RAB 2016: ~61%

Net Debt/RAB at completion of the tender process well inside rating boundaries

*Measurement of the chart for Illustrative purpose
RESILIENT CASH FLOW GENERATION AND STRONG CREDIT METRICS

- Sound credit profile confirmed in a growing scenario
- ND/RAB is expected to peak at the end of the tender process, but still well inside the solid investment grade area
- Rapid deleveraging after tender process completion, with a pace of >1% per year
- Robust and resilient cash flow generation
- Well positioned above solid investment grade area

* Consolidated RAB + Equity RAB of affiliates
Achieving target financial structure

- Bridge-to-bond refinancing has been completed well before year-end
- 2017 superior cost of debt (<1%)
- Financial structure in line with targets

OUTSTANDING DEBT AND COMMITTED FACILITIES

As of March 31st, 2017

<table>
<thead>
<tr>
<th>Outstanding Debt</th>
<th>Committed Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5</td>
<td>4.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outstanding Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>B€</td>
</tr>
<tr>
<td>2.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Committed Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>B€</td>
</tr>
<tr>
<td>3.5</td>
</tr>
<tr>
<td>0.4</td>
</tr>
<tr>
<td>0.7</td>
</tr>
<tr>
<td>0.2</td>
</tr>
</tbody>
</table>

BOND ISSUES AND DRAWN COMMITTED FACILITIES MATURITY PROFILE

As of March 31st, 2017

\[ 0.3 \text{bn Euro of the Banking Facilities are Uncommitted Credit Lines drawn at March 31st, 2017.} \]

Italgas has undrawn committed credit lines for 1.1 billion Euro\(^{(\ast)}\)
Target Debt Structure in the Plan Period

- **Maturity**: Focus on long term debt instruments
- **Fixed/Floating ratio**: ~2/3 Fixed, ~1/3 floating
- **Exploit diversification of funding sources**: DCM, Banks, EIB
- **Liquidity**: Compliant with Rating Agencies metrics
### 2017 Guidance and mid term evolution

#### 2017 CONSOLIDATED RESULTS

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1.1 Bn €</td>
</tr>
<tr>
<td>Ebitda</td>
<td>720-740 mn</td>
</tr>
<tr>
<td>EBIT/RAB</td>
<td>Close to 7%</td>
</tr>
<tr>
<td>Consolidated RAB</td>
<td>5.8 Bn €</td>
</tr>
<tr>
<td>Leverage*</td>
<td>~62%</td>
</tr>
</tbody>
</table>

#### MID-TERM

- Expected to grow in line with capital deployment following **organic capex**, new **tender process** and **market opportunities**
- Opportunities to **maintain attractive profitability**
- Room to outperform **cost of capital**
- **Steady growth** above inflation with further boost by tenders/ markets opportunities
- Well within current rating boundaries

* *Calculated as ND/RAB including affiliates*
Shareholder remuneration & Closing Remarks
Clear strategy for value delivery through 2023

Operational excellence and robust efficiencies
15% savings in 2016-18; outperform regulatory targets from 2018

Organic Capex supporting profitable growth
€3.0bn capex

Solid balance sheet, strong cash flow and efficient financial structure
< 65% Net debt/RAB

Well positioned to capture market opportunities with strict financial discipline
€2bn capex

Solid platform to serve dividend and growth
Robust and sustainable shareholder remuneration

Capital Market Day
(October 2016)

Low single digit yearly increase

0.20
FY 2016
FY2017
FY2018

Strategic Plan 2017-2023

DPS (€)

+4% yearly

0.20
FY2016
FY2017
FY2018
FY2019

Strategy delivery and success in market opportunities enhance shareholder returns
Value drivers for profitable and sustainable mid-term growth

**Leader** in gas distribution with proven **capabilities** in managing gas networks

**Clear and visible regulation**

**Operational excellence** and best practice efficiency

**Organic capex** at RAB value and market opportunities

**Solid balance sheet** secures fully funded plan and **financial flexibility**

Sustainable and attractive dividend policy coupled with significant accretive growth opportunity
Disclaimer

Italgas’s Manager, Claudio Ottaviano, 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.

Words such as ‘expects’, ‘anticipates’, ‘targets’, ‘goals’, ‘projects’, ‘intends’, ‘plans’, ‘believes’, ‘seeks’, ‘estimates’, variations of such words, and similar expressions are intended to identify such forward-looking statements.

These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict because they relate to events and depend on circumstances that will occur in the future.

Therefore, Italgas’s actual results may differ materially and adversely from those expressed or implied in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, economic conditions globally, political, economic and regulatory developments in Italy and internationally.

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The reader should, however, consult any further disclosures Italgas may make in documents it files with the Italian Securities and Exchange Commission and with the Italian Stock Exchange.
Italgas
Strategic Plan 2017 - 2023

31st May 2017, Milan