

Italgas Strategic Plan 2017 - 2023

31st May 2017, Milan





PAOLO GALLO



ANTONIO PACCIORETTI

Agenda



Market
Overview



Strategy



Shareholder
remuneration &
Closing Remarks

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**

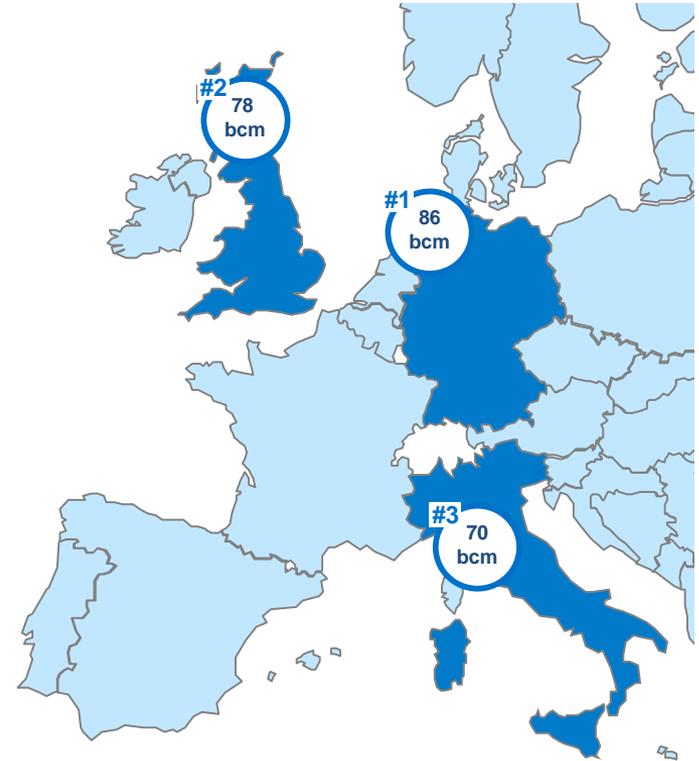


Market overview



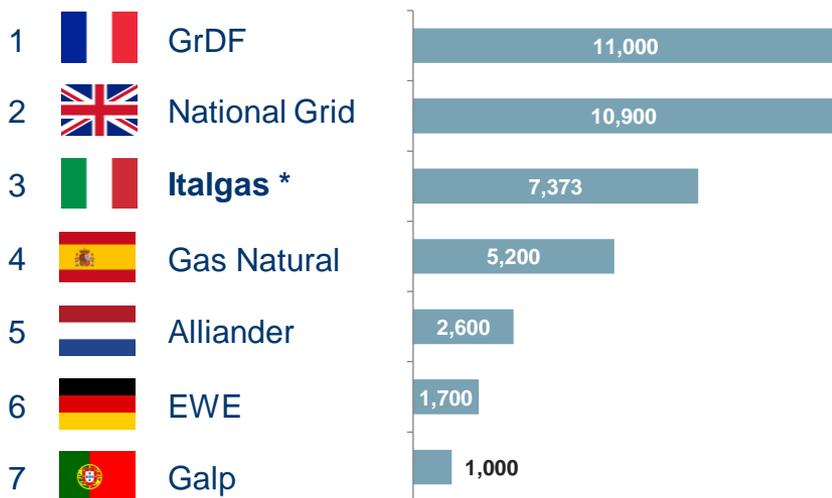
Italy: a developed gas market with growth options for infrastructures

- 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**



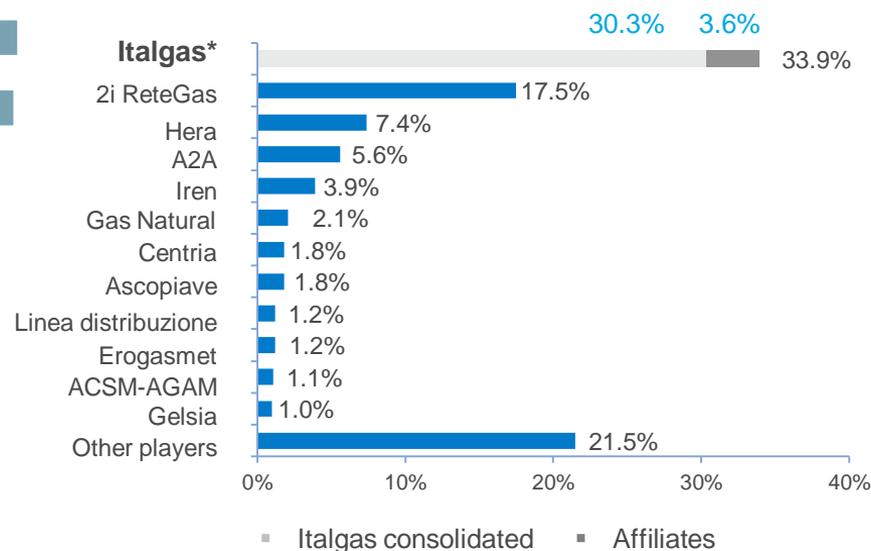
Leader in the European natural gas distribution market...

RANKING BY REDELIVERY POINTS (# redelivery points, thousands, YE 2015)



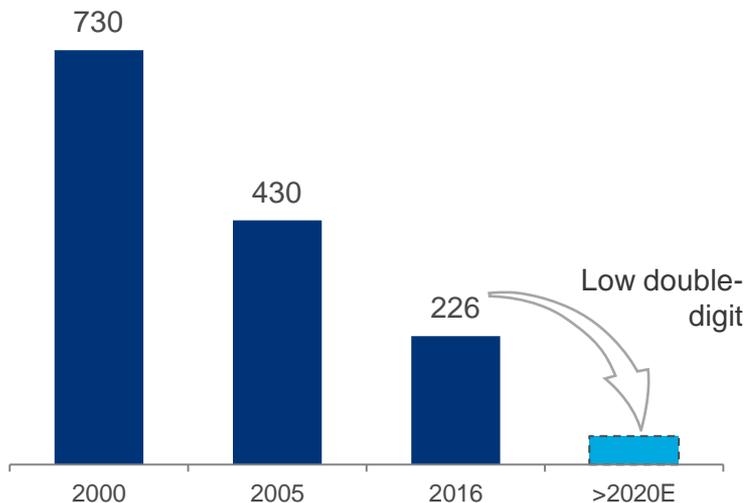
* Including affiliates

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



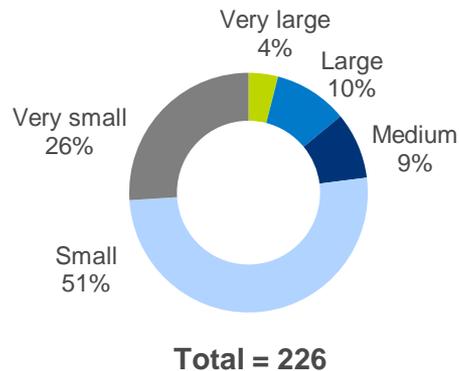
STREAMLINING OF ITALIAN OPERATORS

Numbers of operators

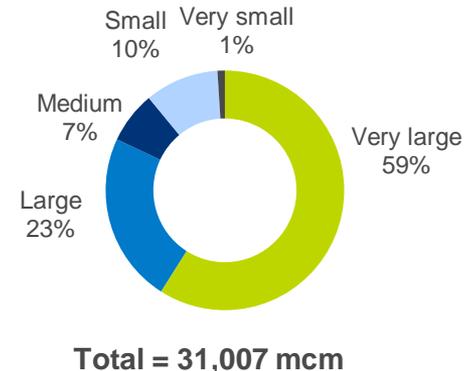


SCALE IS KEY IN THE ONGOING CONSOLIDATION PROCESS

Numbers of operators (2015)

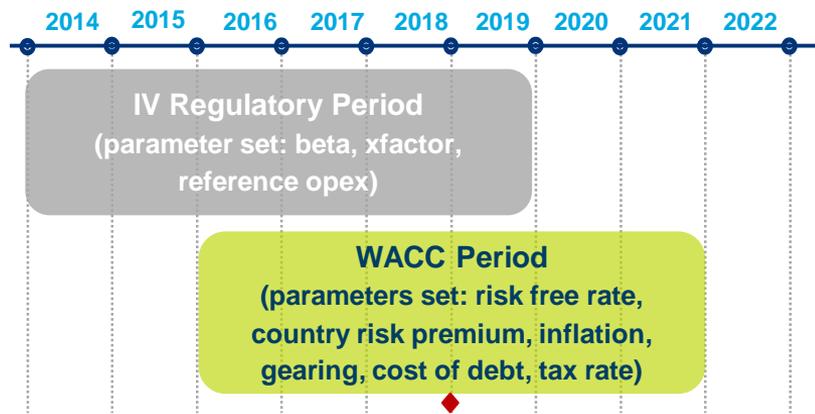


Gas volumes (2015)



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

ATEMs' process set to transform the industry



◆ 3 year updates of CAPM parameters

Clear and stable criteria driving visibility of returns

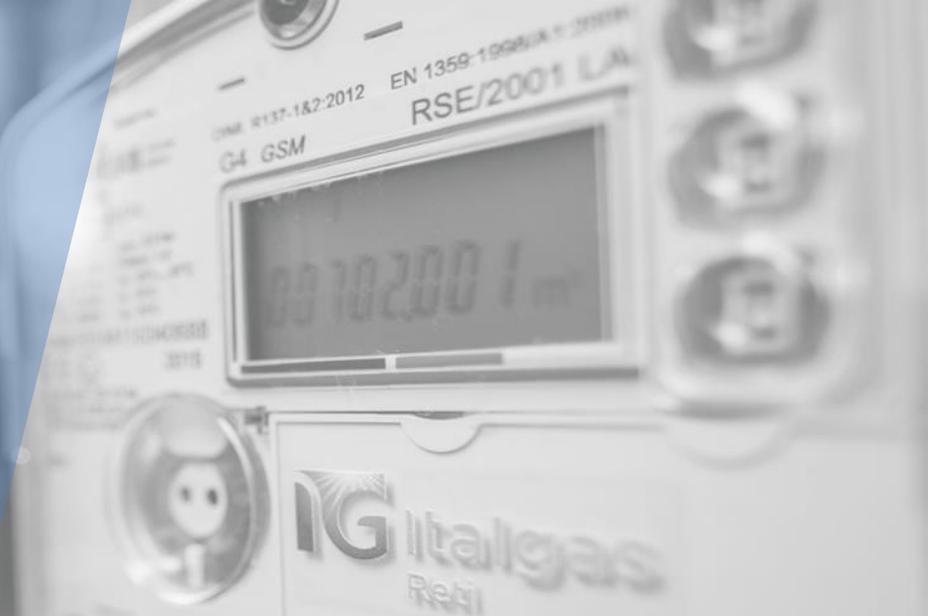
- Tariff components are currently set for the period 2014-2019
- WACC components are defined for 6 years 2016-2021 with an interim updated in 2019
- A floor is provided as well as correlation to Italian financial market conditions*

In the period 2017 – 2023 we expect WACC to remain at current level

* Country Risk Premium calculated on the basis of 10yBTP and 10yBund spread



Strategy for value creation





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



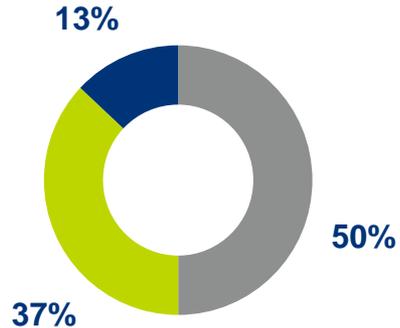
5. Shareholder returns

Robust and sustainable shareholder returns

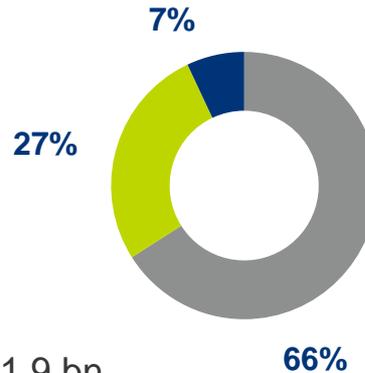
1 Solid organic growth

Significant organic investment plan: €3.0 bn

CAPEX 2017
~ €0.5bn



CAPEX 2018-2023
~ €2.5bn



■ Network	€1.9 bn
■ Metering	€0.8 bn
■ Other	€0.3 bn



1 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)

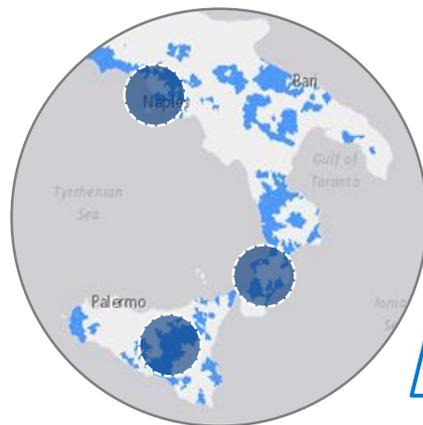
Network maintenance: €1.3 bn

- 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

ASSETS UNDER CONSTRUCTION

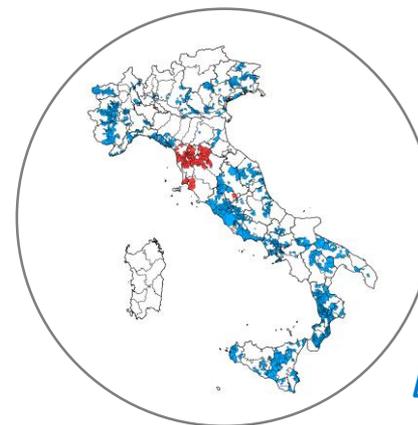


**Completion
expect by 1H2018**

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



- Italgas Reti, NPG, ACAM Gas
- Affiliates

**Today not
included in RAB**

LPG grid in areas of municipalities already served with natural gas : ~4,500 redelivery points

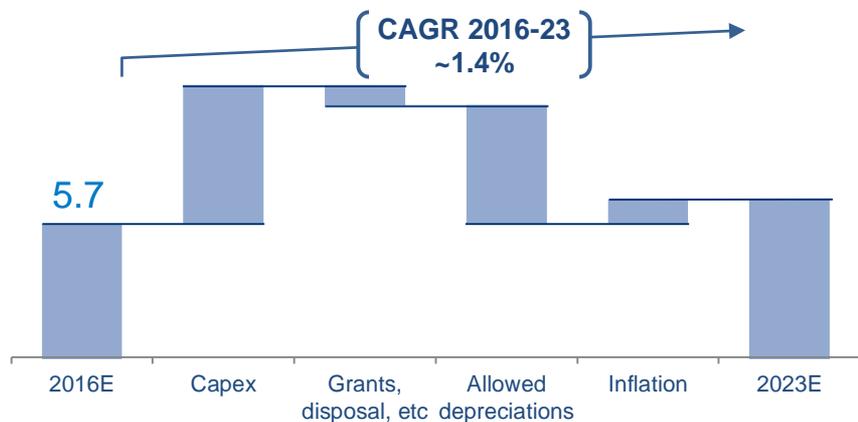
- Network expansion: ~240 km of network

Capex to complete integration of our national distribution network

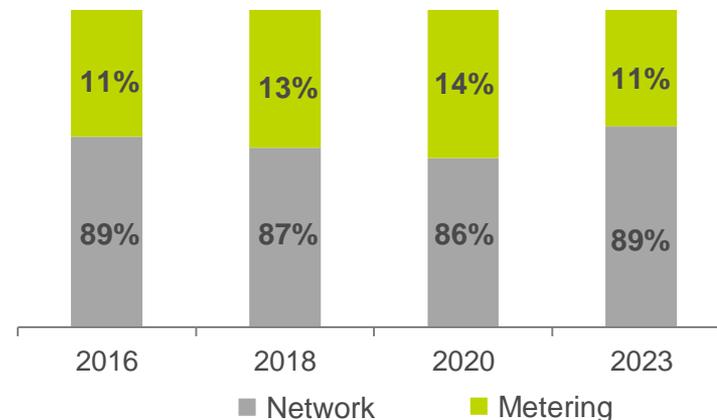
Organic RAB evolution not considering tender process

CONSOLIDATED RAB⁽¹⁾ 2016-2023

€bn



RAB REMUNERATION MIX IMPROVEMENT DRIVEN BY METER SUBSTITUTIONS



A significant €3bn capex driving RAB growth above inflation

(1) Continuity of regulatory treatment assumed for grants cumulated at 2016 year end



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



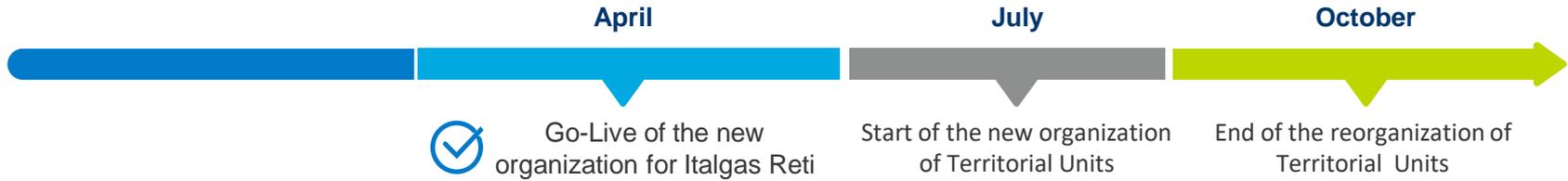
**14 territorial
units**

Technical
and support
functions feed
into the units

**Investments
project
management
approach
from permits
...to engineering...
to construction**

Improve investments and support tender auction process

2 New organization model



New territorial units with greater scale to improve local management

Strengthen HQ's direction and control and share best practice

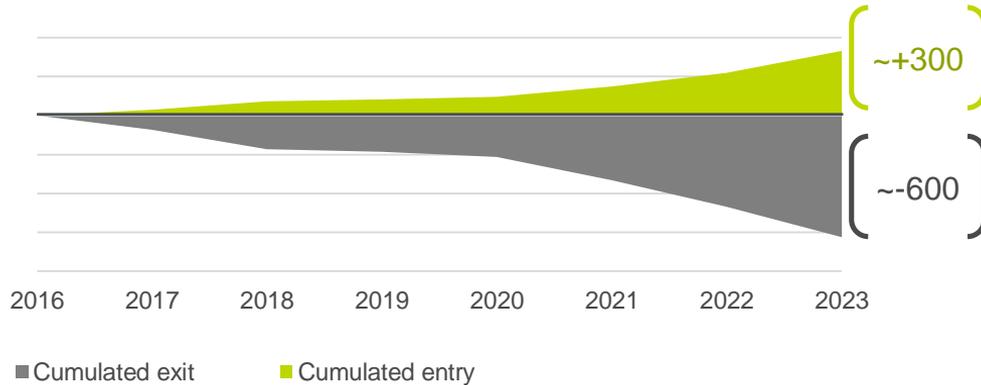
Roll-out the model across all geographical areas

Project Management Focus on network investments

Model is scalable for tender wins and potential M&A

2 Unlocking potential from Italgas people

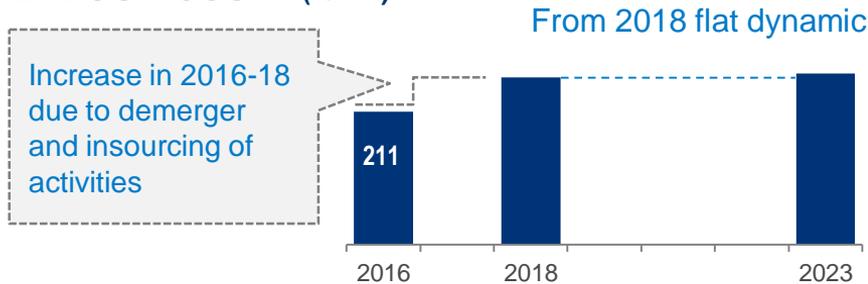
NEW HIRES/ EXITS* (headcounts)



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)



* Current perimeter based on current concessions; does not consider portfolio evolution following tenders process

AREA

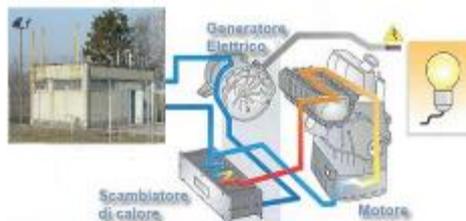
Energy optimization

Refueling system for company fleet vehicles

Co-generative plants at IPRM

KEY ACTIVITIES

- Turbo-expanders for the recovery of energy released by gas before expansion
- Installation of domestic methane refueling stations
- To substitute traditional pre-heating gas systems



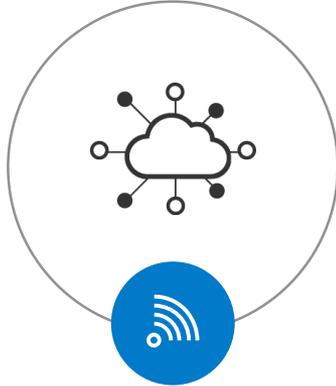
- ✓ **Energy efficiency improvements**
- ✓ **CO2 and fuel cost reductions**

Asset digitalization



- Further grid digitalization
- Network and metering managed remotely

Process digitalization



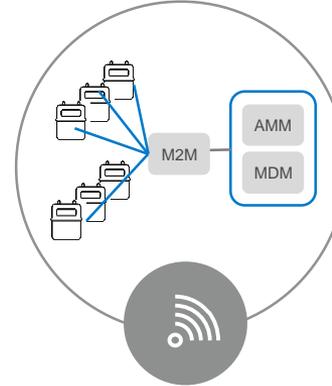
- Development of predictive control and maintenance algorithms

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

2 Energy Efficiency coupled with TEE management

ITALGAS ADVANTAGES

- ✓ Investment portfolio in energy efficiency projects
- ✓ «Captive» energy efficiency projects
- ✓ Hedging TEE short position
- ✓ Competitive TEE bilateral agreement
- ✓ Competitive advantage in ATEMs tender

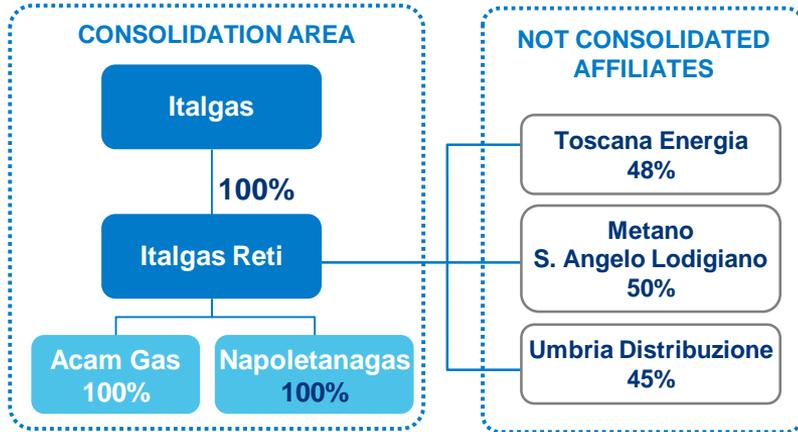
ESCO business model



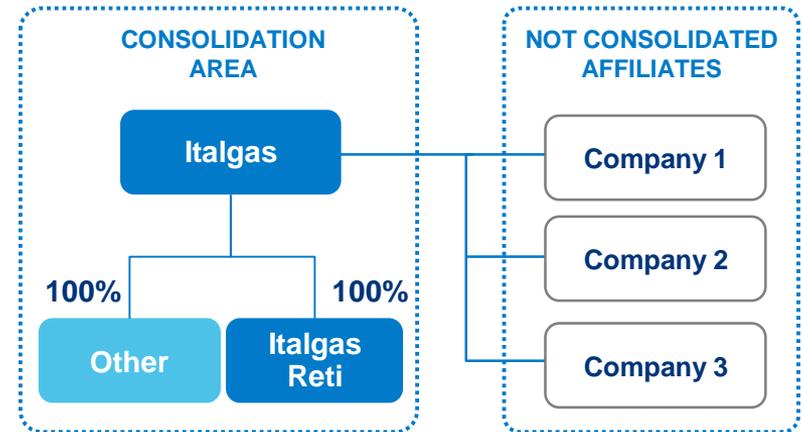
Opportunity to enter energy efficiency sector with an ESCo

Limited capital allocation

Italgas Group AS IS



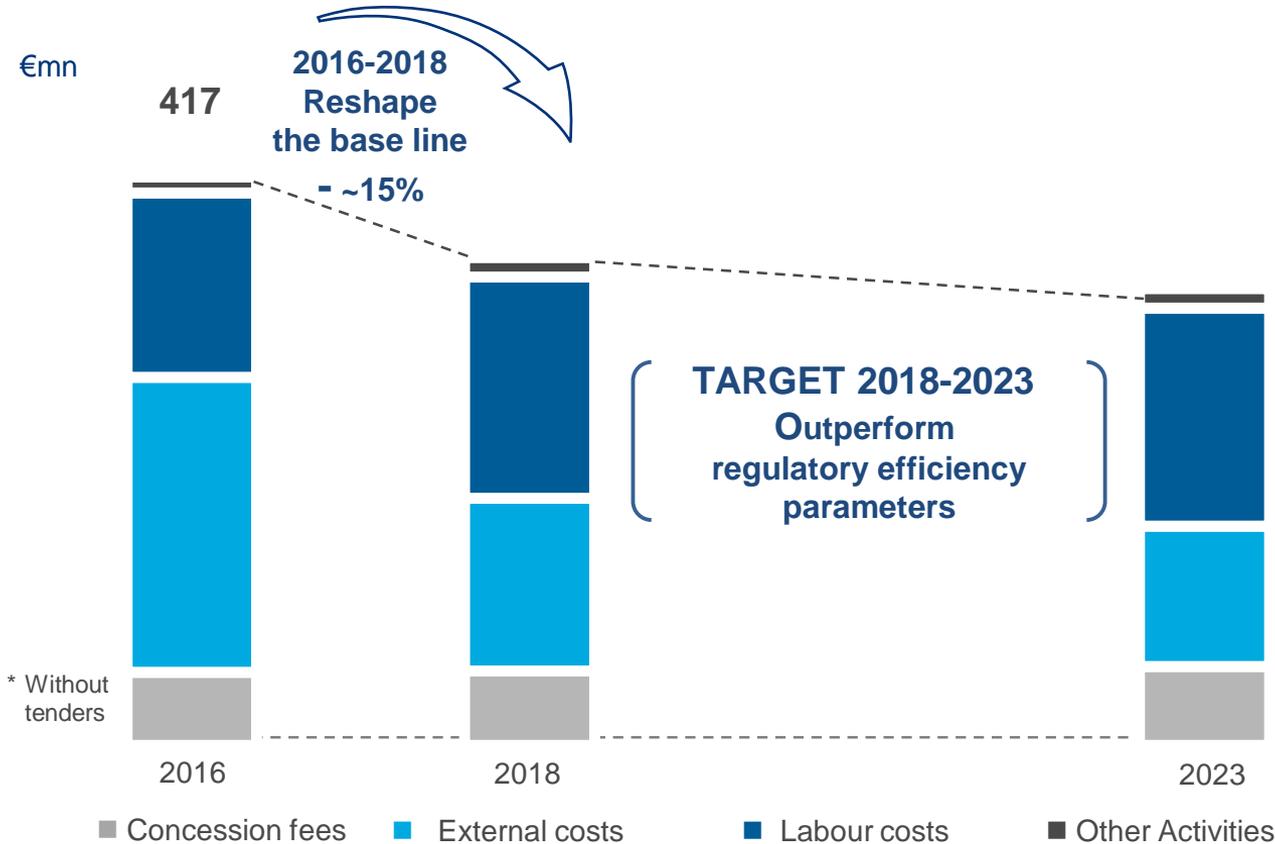
Italgas Group 2017-2018



- Operative and organizational integration
- Operational efficiency
- Simplification of affiliates' structure
- Intra group dividend policy optimization

To improve efficiency and business value

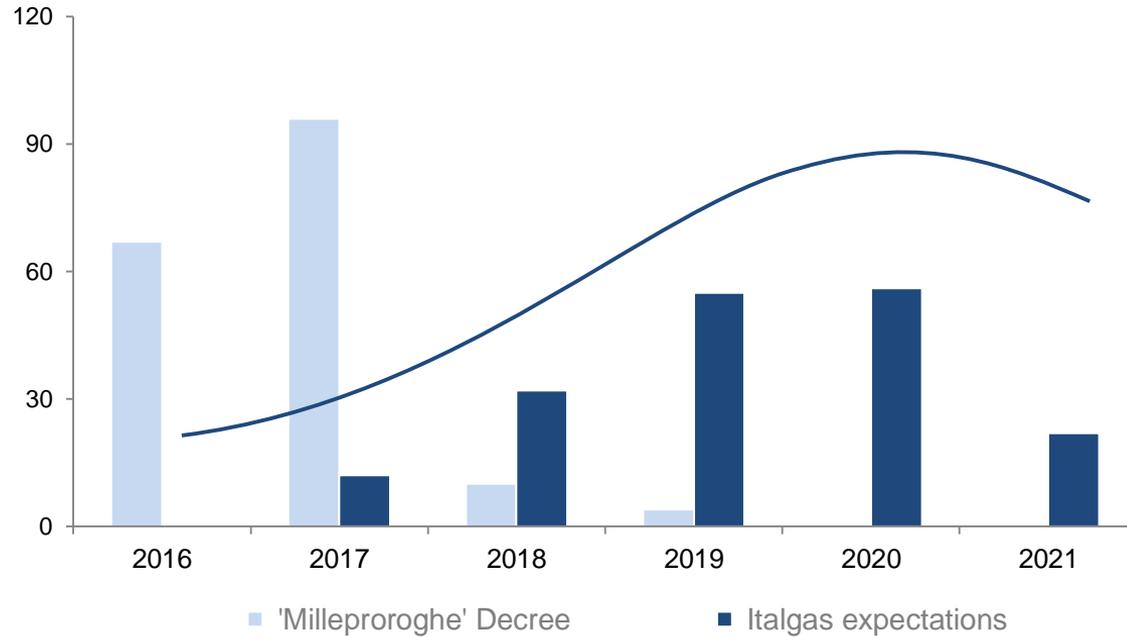
2 Distribution activities: Opex*



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

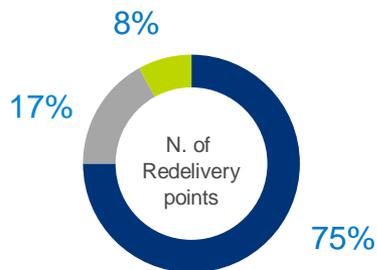
3 Tender Calendar

ESTIMATED NUMBER OF TENDER PER YEAR OF PUBLICATION



3 Italgas position in the New ATEMs

ITALGAS OWNS 6.5 M REDELIVERY POINTS

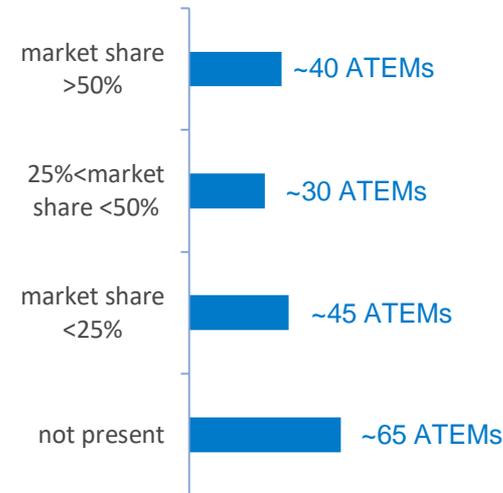


- Leader (redelivery points in ATEM where market share is >50%)
- Relevant position (25%< ATEM market share <50%)
- Minor position (ATEM market share <25%)

ITALGAS IS PRESENT IN 113 ATEMs (out of 177)



ITALGAS CURRENT MARKET SHARE IN EACH ATEM

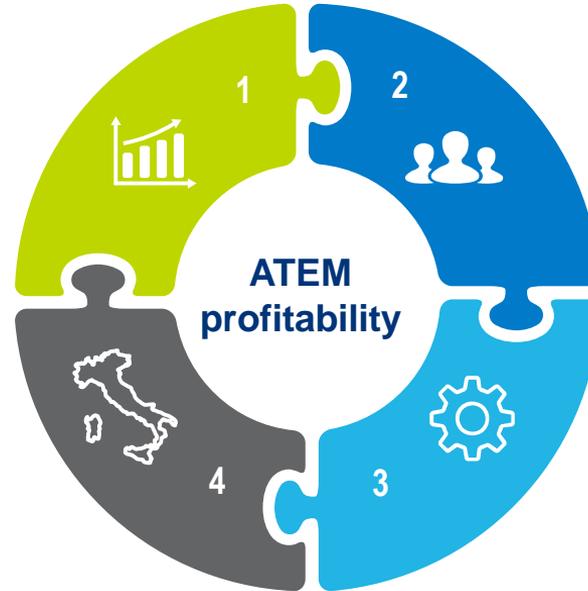


Solid platform to increase market share

3 Criteria to select target ATEMS

Italgas market share

Italgas PdR over ATEM PdR



Operators' fragmentation

Number of DSOs operating in the ATEM

Geographical contiguity

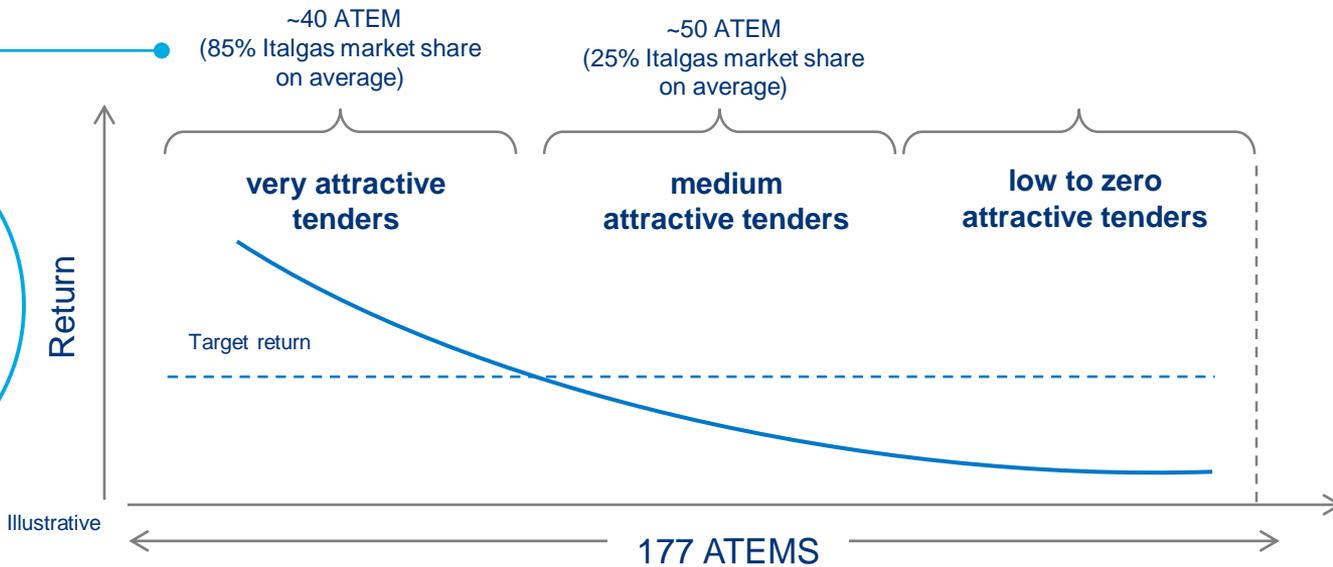
Italgas presence in neighboring ATEMs

Operators' type

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

3 Tenders clusters

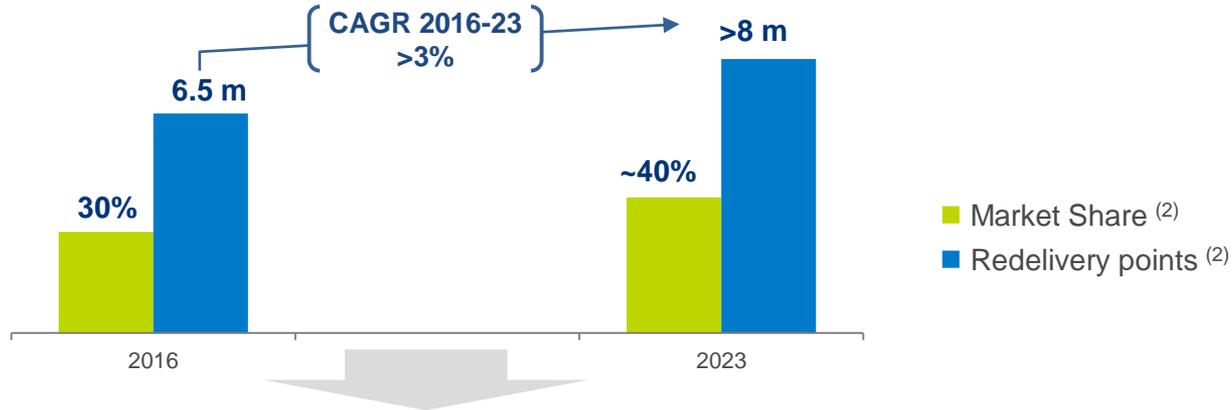
Out of the 40 very attractive ATEMS, ~30 are expected to be awarded within 2020



Source: Company data

3 Tenders: opportunities for profitable growth

SIGNIFICANT GROWTH



CAPITAL DEPLOYMENT OPPORTUNITIES

1.4
€bn

Net capital to be deployed
in tenders (1)

0.6
€bn

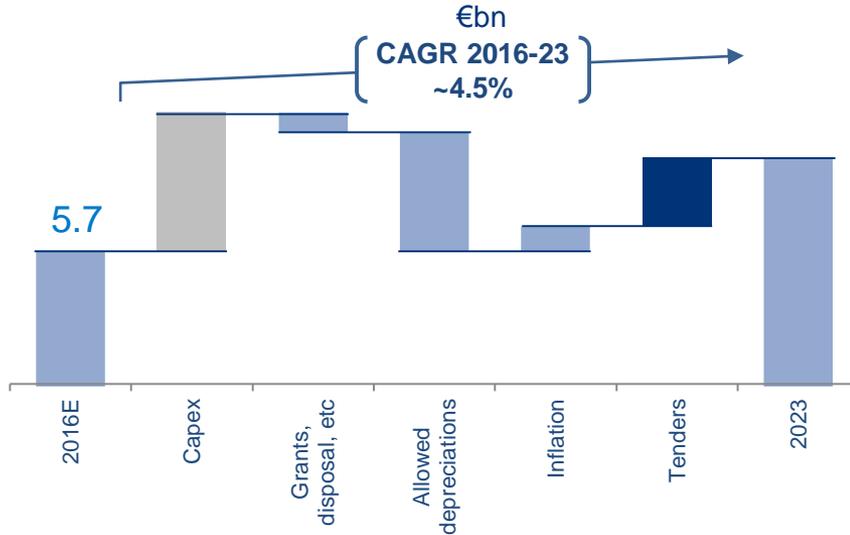
Capex within 2023
induced by tenders

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

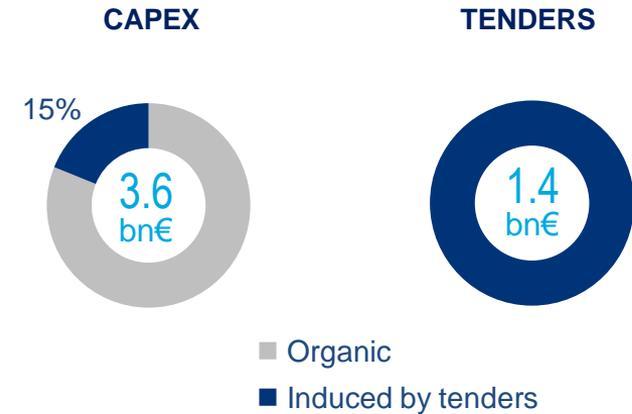
(2) Excluding affiliates and considering active redelivery points

RAB evolution considering tender process

CONSOLIDATED RAB⁽¹⁾ 2016-2023



OVERALL INVESTMENTS 2017-2023



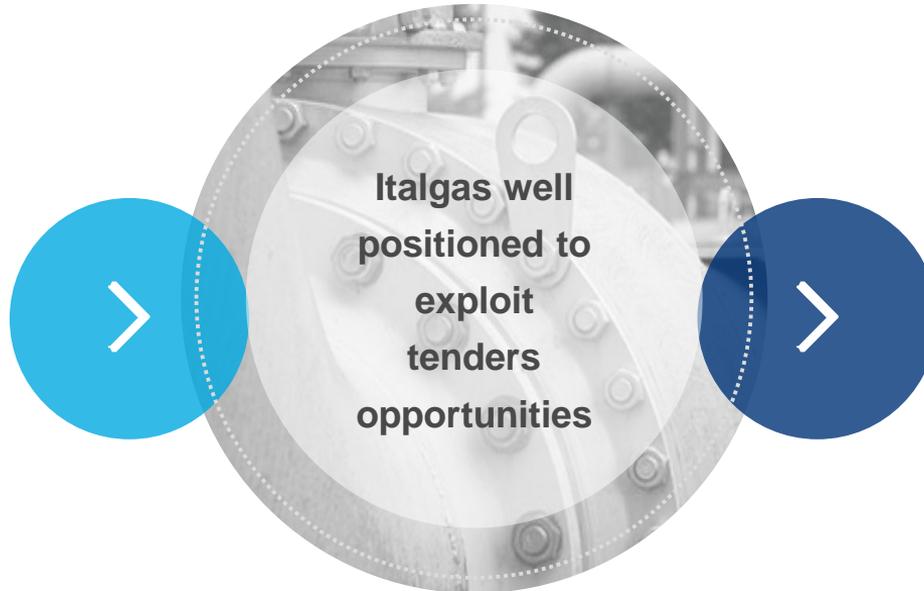
€5 bn (2017 – 2023) capital deployment opportunities supporting significant RAB growth

(1)Continuity of regulatory treatment assumed for grants cumulated at 2016 year end

3 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

3 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

4 Main pillars of financial strategy

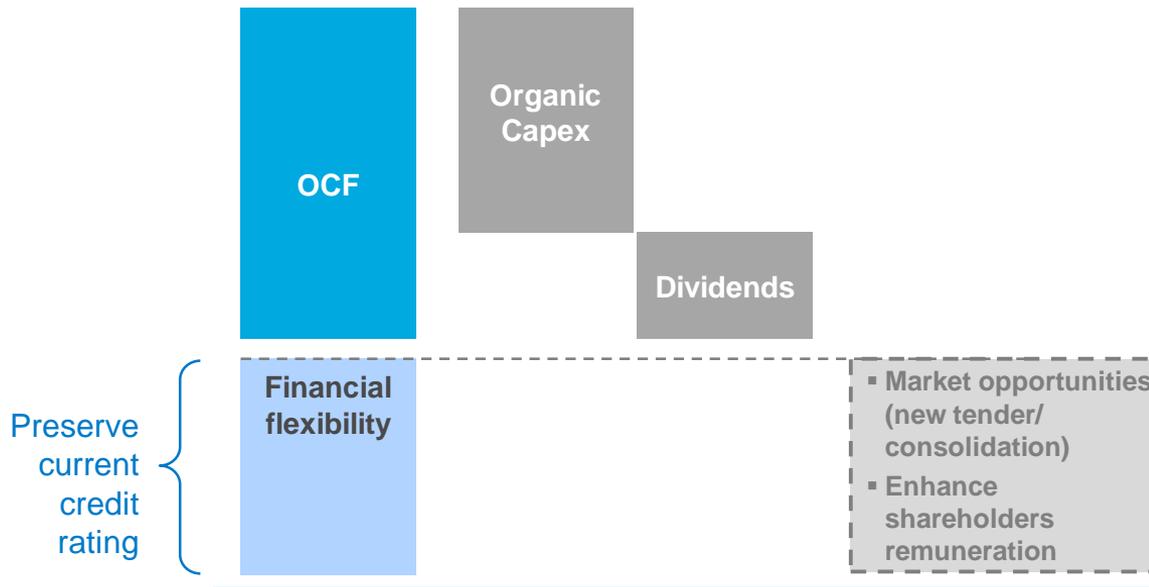


**Balance Sheet
solidity
and financial
structure
efficiency**

- 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

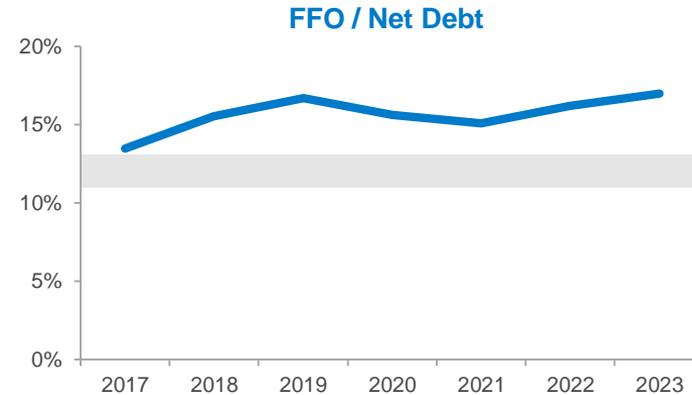
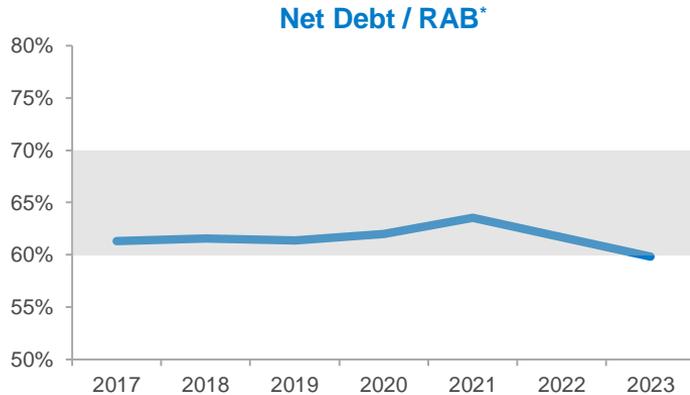
Self financing of investments and shareholders remuneration, flexibility for the growth

Cumulative amounts for the full business plan*



- 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

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

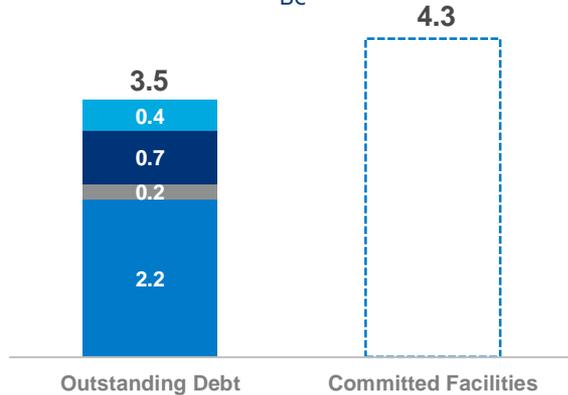
4 Achieving target financial structure

- 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

B€

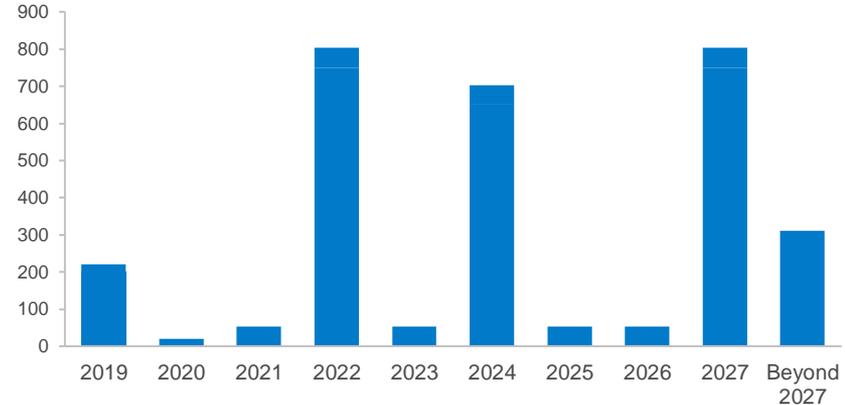


■ Bond ■ Term Loan ■ Institutional Lenders Financing ■ Banking Facilities

BOND ISSUES AND DRAWN COMMITTED FACILITIES MATURITY PROFILE

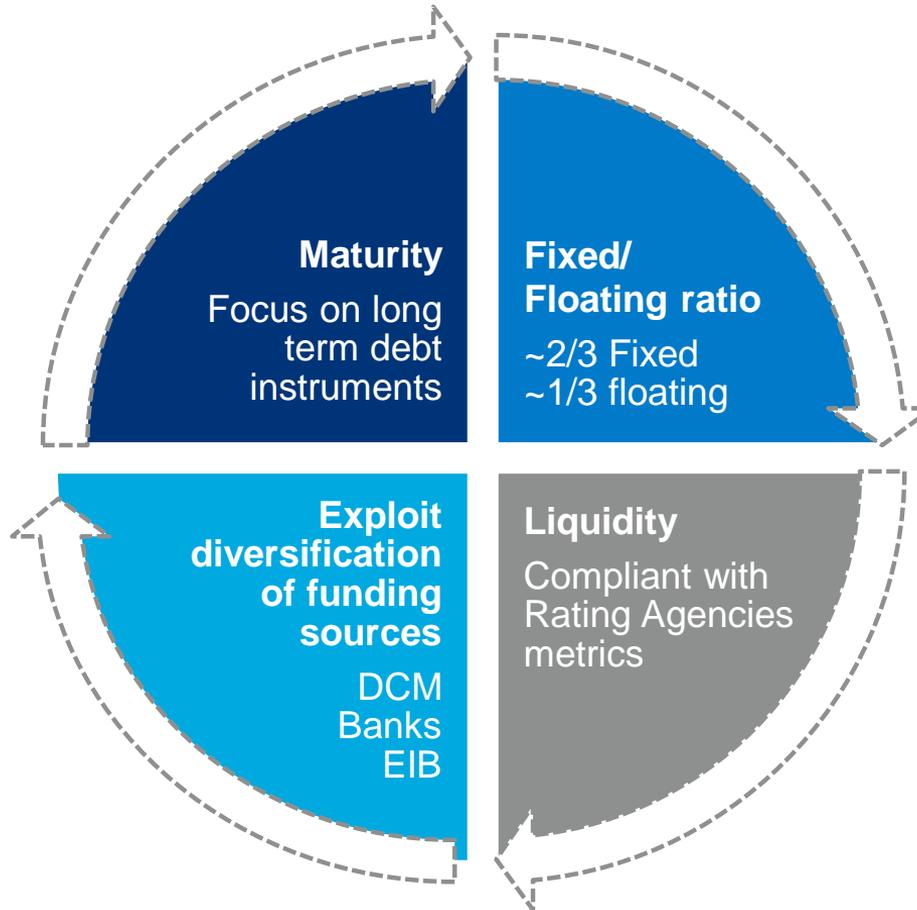
As of March 31st, 2017

M€



Italgas has undrawn committed credit lines for 1.1 billion Euro^(*)

^(*) 0.3bn Euro of the Banking Facilities are Uncommitted Credit Lines drawn at March 31st, 2017.



2017 CONSOLIDATED RESULTS

Revenues	1.1 €Bn
Ebitda	720-740 €mn
EBIT/RAB	Close to 7%
Consolidated RAB	5.8 €Bn
Leverage*	~62%

MID-TERM

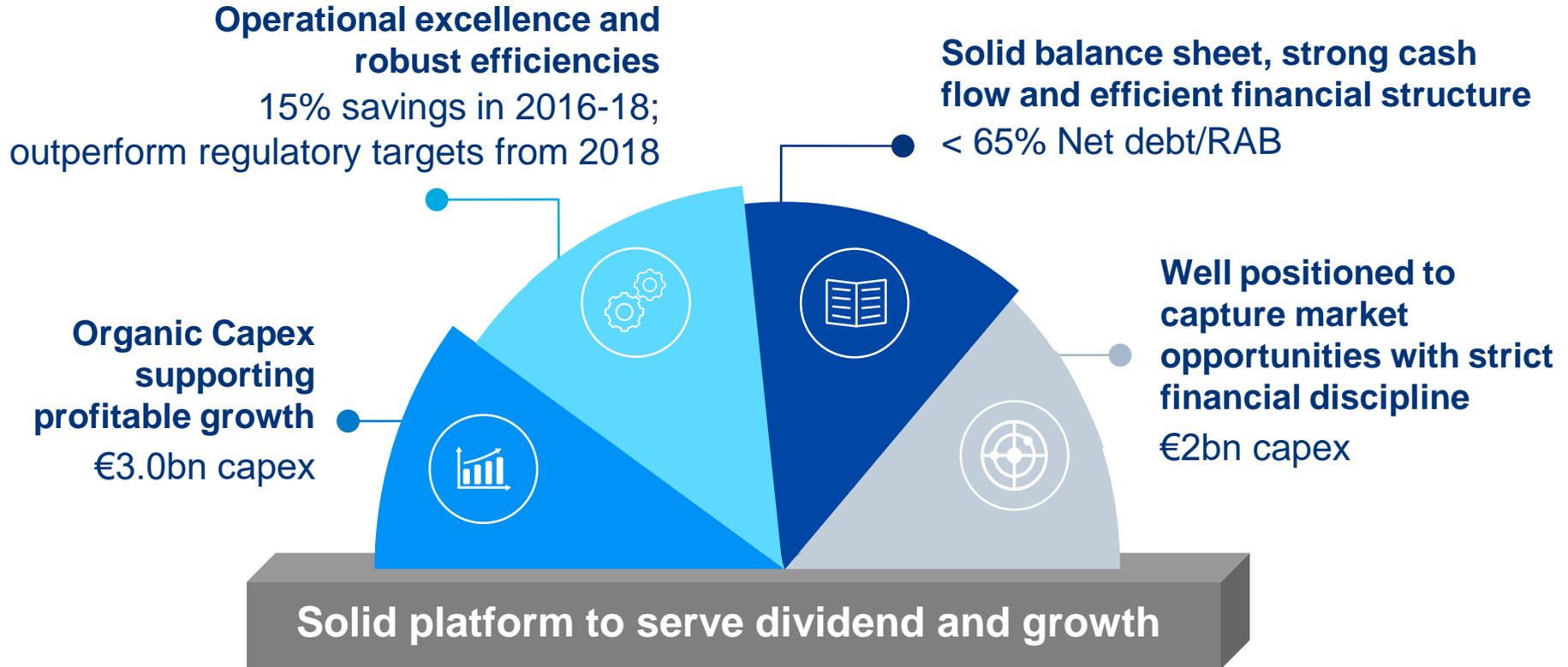
- Expected to grow in line with capital deployment following **organic capex**, new **tender process** and **market opportunities**
- Opportunities to **maintain attractive profitability**
- Room to outperform **cost of capital**
- **Steady growth** above inflation with further boost by tenders/ markets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

* Calculated as ND/RAB including affiliates

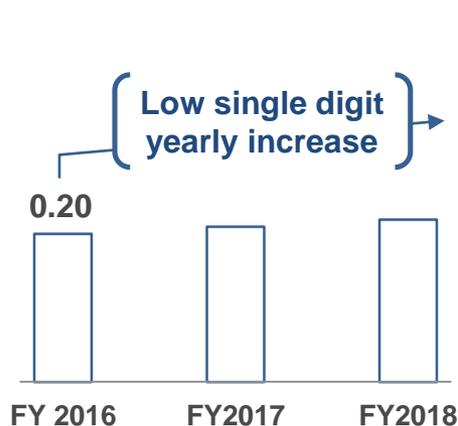


Shareholder remuneration & Closing Remarks

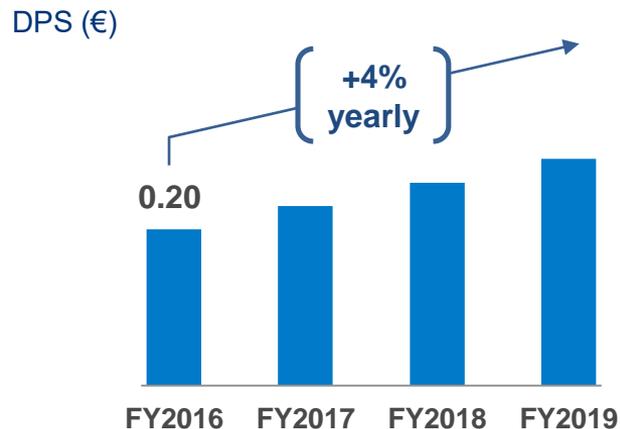
Clear strategy for value delivery through 2023



Capital Market Day (October 2016)



Strategic Plan 2017-2023



**Strategy delivery and success
in market opportunities enhance
shareholder returns**

Value drivers for profitable and sustainable mid-term growth



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

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.

Any forward-looking statements made by or on behalf of Italgas speak only as of the date they are made. Italgas does not undertake to update forward-looking statements to reflect any changes in Italgas's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

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

