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The Cloud-based organization provides new benefits: the greatest possible flexibility and cost optimization

Italgas digitization project follows a tight schedule: once the Cloud migration of all applications was completed, in early November 2018 the Digital Factory became operational; this transformation in the organization, technology and culture of the Company is set to generate significant benefits in infrastructure management, while improving both efficiency and service quality. In the 2018-2024 Strategic Plan, investments strictly related to digitization exceed 300 million euro: an amount that reaches 800 million euro when including the resources needed to install the new smart meters. A large-scale digital transformation, which takes shape in three different areas, involving gas distribution networks, all business processes, and Italgas human resources in the field.

By opting for a comprehensive and profound digitization, Italgas has set a pioneering model in the European utility sector. We believe in driving innovation and anticipating changes as the most effective way to sustain growth, develop new business models, and ultimately remain relevant as IT organization.

Provided that Italgas as a Group manages a 66,000-km long network and serves 7.5 million customers distributed throughout 1,600 municipalities, we opted for a public Cloud solution. Therefore, we set up a new 'Internet as a Service' infrastructure, where we moved all applications and IT assets formerly on premise; later on, we re-configured our network to make it operational in the new Cloud environment. A complex project, which involved over 200 ICT professionals, considering both internal and external resources, and came to a successful conclusion after six months of work.

The impact of the transformation - which involved approximately 5,000 devices throughout 99 different sites, and 90 applications - has led to re-configuration of around 1,000 virtual servers and transfer of data for more than 100Tb.

This is a first step in the transformation of our application map, which envisages subsequent rationalization and modernization, in order to benefit from the Cloud advantages and quickly adopt innovative technologies needed for the Digitization program.

Francesca Vergara

Chief Information Officer of Italgas

The engine of the
4.0 revolution

The Digital Factory drives the digital transformation

IN SEARCH OF AGILITY AND NEW OPPORTUNITIES PROVIDED BY DIGITIZATION, THROUGH A PERMANENT LAB IN WHICH DIFFERENT MULTI-FUNCTIONAL TEAMS OPERATE.

New ICT solutions aimed at accelerating Italgas digitization

The Digital Factory is the factory of innovative ideas and solutions that supports Italgas process of digital transformation.

Through the Digital Factory, Italgas expects to accelerate the digitization of its processes, by introducing innovative technologies, developing new competences, and adopting an agility-oriented culture.

With the aim of creating the right environment for powering trials and learn-by-doing, Italgas has structured its Digital Factory as a real permanent lab, hosted in modern spaces, whose design

is expressly intended to encourage the new way of working.

At the Milan headquarters, Italgas has created four digital rooms; in each of these rooms, multi-functional teams will be at work. They will be in charge of developing new ICT solutions and drawing up new work processes within 16 weeks.

The labs will work full-time, following a very operative and time-focused approach.

Presently two out of four digital rooms started their operations; their early results will be released by March 2018.

CLOSING OF THE EGN DEAL: A NEW STEP TOWARDS ITALGAS GROWTH THROUGH ACQUISITIONS

IN 2018, M&A REPRESENTED A KEY LEVER IN CONSOLIDATING ITALGAS PRESENCE ON THE ITALIAN MARKET

On 3 December 2018, Italgas completed the acquisition from CPL Concordia of three shareholdings presenting an overall Enterprise Value of 116 million euro. The acquired portfolio includes:

- A 60% stake in European Gas Network, a company holding 37 concessions for the natural gas distribution in Sicily, Calabria and Campania, for a total of approximately 60,000 redelivery points (put&call option on the remaining 40% stake);
- 100% of Fontenergia, which holds a concession for gas distribution in Sardinia and boasts more than 7,000 customers served by LPG;
- 100% di Naturgas, which holds a concession for gas distribution in a municipality in the Naples province and serves over 2,700 customers.

In 2018 Italgas has leveraged on well-targeted M&A deals in order to strengthen its market share, so achieving one of the key goals in the 2018-2024 Business Plan. In the first nine months of 2018, M&A activities absorbed 96.1 million euro, an amount which was broadly funded by operating cash flow. More specifically, the 2018 new entries in the Italgas perimeter were Ichnusa Gas (LPG distribution network in Sardinia), Seaside (energy efficiency) and Medea (LPG distribution and sale company, based in Sassari), in addition to 6 companies holding 7 concessions for the construction and management of the gas network in 16 municipalities in Southern Italy.

The completed acquisitions provided a significant contribution both in terms of network development (ca. 3,000 additional kilometers) and in terms of new customers served (ca. 70,000 additional redelivery points). Including non-consolidated shareholdings, Italgas market share is above 34%.

P&L indicators on the rise

ALL LEADING INDICATORS OF ITALGAS P&L GREW IN THE FIRST NINE MONTHS OF 2018 COMPARED TO THE SAME TIMESPAN OF 2017. SUCH PERFORMANCE PROVES THAT ITALGAS IS ON TRACK WITH THE TARGETS SET IN THE 2018-2024 BUSINESS PLAN

The 6.1% increase in Net Profit was driven by an 8.9% EBIT growth: a figure in turn reflecting the 5.5% expansion in Revenues and the higher level of operating efficiency gained. The EBIT increase of 27.2 million euro has been partly offset by higher Net Interest Expenses (+8.6 million euro), as a result of a finance strategy aimed at lengthening the average maturity and increasing the fixed-rate share of Italgas debt.

As of 30 September 2018, Italgas shows a solid and efficient debt structure, with an 87% weight of the fixed-rate component and no refinancing risk until 2022, thanks to the debt maturity profile.

1,709
Gas concessions

7.5 mln
Active meters

67,901 km
Length of gas distribution network

Strong cash generation supports a demanding investment program

DURING THE FIRST NINE MONTHS OF 2018, ITALGAS CONTINUED TO EXECUTE ITS 2018-2024 INVESTMENT PLAN

A significant portion of capital expenditure, which totaled 349.1 mln €, was aimed at installing 1,386 thousands smart meters, of which 1,258 thousands for the replacement of former meters. At the end of September 2018, including non-consolidated affiliates, installed smart meters were around 4.28 million, i.e. 53.2% of the entire meter fleet. Such figure, which exceeds the 50% share to be reached by the end of 2018, as set by the Authority, also allows Italgas to expect that the replacement of its meter fleet will be completed within first-

half 2020. Nine-month 2018 financials prove the strong cash flow generation that is typical of Italgas.

Cash flow from Operations (590 mln €: +214.8 mln € vs. 9M 2017) has fully funded investments, generating 250.4 mln € pre-M&A Free Cash Flow. After accounting for the M&A disbursement (96.1 mln €) and the payment of FY2017 dividends (168.3 mln €), Net Financial Debt as of 30 September 2018 amounted to 3,734.2 mln €, remaining broadly unchanged vs. the 2017 year-end figure (3,720.3 mln €).

The regulatory framework presents a WACC improvement in 2019

On 6 December 2018, the Regulator (ARERA, Autorità di Regolazione per Energia Reti e Ambiente) released the updated remuneration rate of capital invested in gas infrastructure regulated services, for the 2019-2021 three-year period. In more detail, the 2019 WACC for distribution was set at 6.3%, compared to the current 6.1%, while WACC for metering moves from the current 6.6% up to 6.8%.

9M 2018 DATA (VS. 9M 2017)

880.7 mln € (+5.5%)
Revenues

333.9 mln € (+8.9%)
EBIT

349.1 mln €
Capex

629.2 mln € (+8.9%)
EBITDA

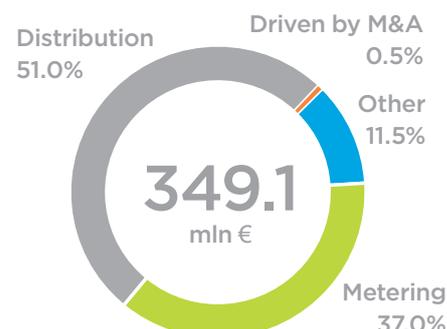
226.4 mln € (+6.1%)
Net profit

3,734.2 mln €
Net financial debt

71.4%
EBITDA/Revenues

590.0 mln €
Cash flow from operations

9M 2018 BREAKDOWN OF INVESTMENTS



Stock Exchange performance

Since October 2018, Italgas outperforms the FTSE MIB Index

During 2018, Italgas share price fluctuated in the range 5.4 to 4.3 euro. Presently, the Italgas price is approaching the end of the year, trading at the same level it was at the beginning of 2018. Anyhow, in 2018 Italgas provided its shareholders with a 2017 dividend yield of 4.1%, based on the 2017YE price.

Over the last few months, stock market performance reflected the rising trade tensions on the international scene as well as the uncertainty on the pace at which Central Banks would have increased the cost of borrowing, in the face of a weakening economic growth. The Italian equity market has also been affected by the worries for a dispute over the budget deficit, between the Italian government and the European Commission, resulting in increasing spread between 10-year Italian and German government bonds. The Italgas share price has therefore been traded in this challenging framework, which has overshadowed strong Company's fundamentals, at least till the end of September 2018. From that moment on, the stock recovered, rising more than 10%, with a significant outperformance compared to the Italian blue chips index.

Official listing: **Italian Stock Exchange - MTA**
 Segment: **Blue Chips**
 Type: **ordinary shares**
 Index membership: **FTSE MIB, FTSE Italy All-Share, Euro Stoxx, Euro Stoxx Utility**

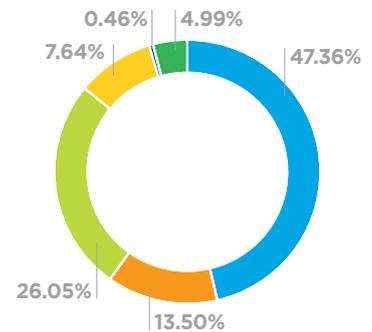
Number of outstanding shares: **809,135,502**
 ISIN Code: **IT0005211237**
 Reuters Code: **IG.MI**
 Bloomberg Code: **IG IM**
 Price as at 18 Dec. 2018: **5.11 euro**

Mkt capitalization as at 18 Dec. 2018: **4.13 billion euro**
 Head of Investor Relations: **Marco Porro**
investor.relations@italgas.it

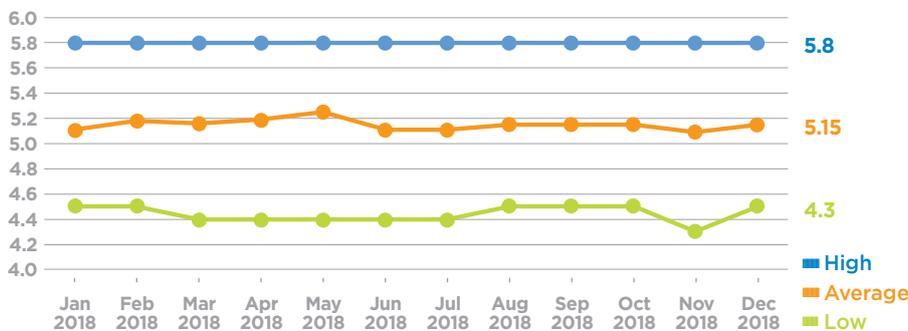
ITALGAS VS. BENCHMARK INDICES FROM BEGINNING 2018 (BASE 2 JAN. 2018=100)



SHAREHOLDERS' STRUCTURE

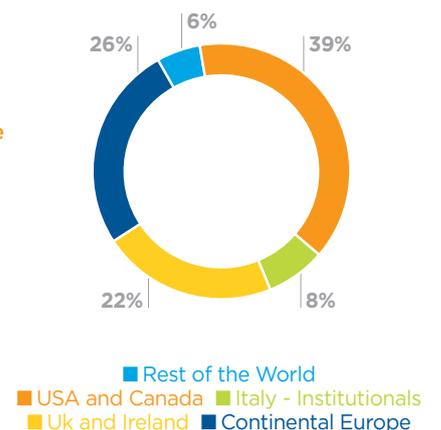


BROKERS TARGET PRICE SINCE JAN 2018 (€)



■ Institutional investors ■ Snam
 ■ CDP Reti ■ Retail investors
 ■ Bank of Italy ■ Romano Minozzi

GEOGRAPHICAL DISTRIBUTION OF INSTITUTIONAL INVESTORS



Currently 20 brokers cover Italgas, the overwhelming majority of which has neutral or buying recommendations (13 Hold/Neutral, 6 Buy/Outperform). Consensus target price is 5.15 €. Since May 2018, the stock price has always traded below the average target price. Over the last trading days, the stock recovered, reaching period highs and partially closing the gap with brokers valuations.

Italgas actions to promote efficiency and safety of the energy system

Italgas Sustainability Plan presents a clear structure, based on 5 strategic pillars, each of them addressing precise material issues and pointing out specific goals. Lastly, each goal has a well-defined action plan. In that frame, the actions to be taken for the fifth pillar are particularly interesting. They warrant a more focused analysis, as they show how Italgas will contribute to the efficiency and safety of the energy system.

FIVE STRATEGIC GUIDELINES IN THE PLAN



MATERIAL ISSUES OF THE FIFTH STRATEGIC GUIDELINE

ENERGY EFFICIENCY
ENVIRONMENTAL PROTECTION

GOALS

IMPROVE ENERGY EFFICIENCY AND REDUCE THE CARBON FOOTPRINT
DEVELOP THE GAS ADVOCACY
ENABLE THE PROCESSES OF CIRCULAR ECONOMY

THE ACTIONS FOR EACH OF THE THREE GOALS

1. IMPROVE ENERGY EFFICIENCY AND REDUCE THE CARBON FOOTPRINT

Over the next year, Italgas will install efficient systems that make it possible to reduce energy consumptions during pre-heating and will assess whether it is appropriate to install low power consumption illuminating systems (LED) in its building and booths.

Moreover, the Sustainability Plan envisages that over two years the Company's fleet will be completely replaced with methane-powered vehicles: a commitment that Italgas has already fully achieved in 2018.

Over the same timespan, Italgas will also complete the plan for the replacement of grey cast iron pipes with hemp- and lead-sealed joints.

2. DEVELOP THE GAS ADVOCACY

Over the coming two years, Italgas will increase the number of redelivery points in the areas that still use LPG or other fuels. Over the coming three years, the Company will sign partnerships for the development of new uses of natural gas.

3. ENABLE THE PROCESSES OF CIRCULAR ECONOMY

Within a year, Italgas will identify, inside its supply chain, the types of products and services in which it will develop an environmentally friendly and sustainable approach. Over the next two years, Italgas will be committed to disposing in a virtuous way the mechanical meters replaced with smart meters. Lastly, over the coming five years, Italgas will draw up the best approach for handling the life-end of smart meters.