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## More challenging targets and higher visibility in the new Strategic Plan

The 2018-2024 Strategic Plan presents targets that are more challenging than those of the previous Plan, as a result of a robust investment program, on the rise of 30% in its overall amount. At the same time the new Plan focuses more resources on areas that are within our sphere of control, with a lower profile of execution risk. Moreover, the Plan fits within a very favorable context, given the role to be played by gas both in the European decarbonization process and in the outline of the National Energy Strategy, which includes the methanization of Sardinia.

**We plan to cumulatively invest 5.6 bn € over the Plan's period. Out of these, 4.0 bn € are focused on network, technological innovation, Sardinia methanization, and M&A deals. As a result, we expect RAB to increase from 5.6 to 7.3 bn € in 2024. Additional 1.6 bn € are allocated for ATEM tenders, with the aim of achieving 8.5 million meters in 2024 and a RAB above 8 bn € by the end of the Plan: therefore, tenders would significantly speed up growth.**

As we are growing, we are also going to change. In 2024, Italgas we will be profoundly different, through technological innovation and digitization, which will lead people and asset to work more efficiently, to the benefit both of margins and of quality and competitiveness in the service provided to customers. We play our leading role being convinced that we first have to be a leader in innovation: this new Company's profile is taking shape through the complete replacement of gas meters with the smart ones, the digitization of both gas and water networks and, last but not least, the launch of a Digital Factory that is the engine of the new digital processes.

Our commitment to efficiency will also target operating expenses, an area in which we expect to outperform regulatory requirements. Presently, our financial structure is already solid and efficient, with a competitive cost of debt: we will be working for further optimizing it. In the way the new Plan has been outlined, cash generation can fully fund investments for organic growth, M&A, and shareholder remuneration. In addition, we have the financial flexibility that allows us to seize the opportunities provided by the tenders and possibly increase dividends. Shareholder remuneration is a pillar of our strategy. It takes shape through a commitment to an attractive and sustainable policy, which in the 2018-2019-2020 period includes the distribution of a dividend equal to the higher of (i) the amount resulting from the 2017 DPS (0.208 €) increased by 4% per annum and (ii) the DPS equivalent to 60% of the consolidated net income.

**Paolo Gallo**

Chief Executive Officer of Italgas

Growth  
strategyFocus on 2018-2024  
Plan targetsITALGAS GROWTH STRATEGY LEVERAGES ON A SIGNIFICANT  
AND WELL-STRUCTURED INVESTMENT PLAN, WHICH WILL RESULTS  
IN A RAB EXCEEDING 8 BN €

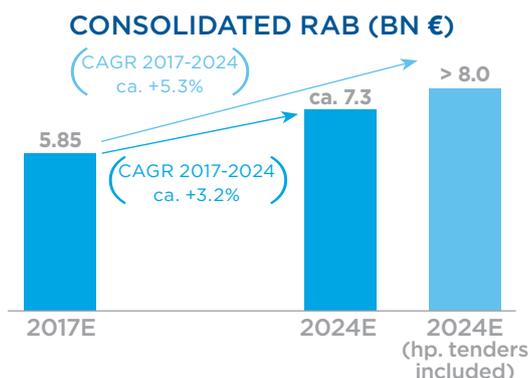
Italgas has several investment areas, all of which are strategic

Italgas growth leverages on a cumulated investment plan of **4 bn €** over the 2018-2024 period, structured as follows:

- **2 bn €** for the development and improvement of the network;
- **800 mn €** for the technological innovation and digitization, of which 500 mn € for the completion, by 2020, of the installation program for smart meters;
- **450 mn €** for the construction of the infrastructure needed for the Sardinia methanization;
- **420 mn €** for M&A operations and the related investments on the newly acquired networks;
- **300 mn €** for initiatives supporting the distribution activity and remunerated in the centralized RAB, especially initiatives to support the cloud strategy.

On top of 4bn €, Italgas expects to invest **1.6 mld €** for the ATEM tenders: as a result, its market share would move from 30% currently, up to approximately 40%, while redelivery points would reach 8.5 million units in 2024.

As a result of 4 bn € investments planned, even excluding the contribution from the tenders RAB is expected to grow at a CAGR of 3.2% over the period: a proof that Italgas business model can generate profitable organic growth. Under the scenario that includes 1.6 bn € investments in tenders, RAB growth could accelerate, reaching a CAGR of 5.3%.



Assuming continuity of regulatory treatment for grants cumulated at 2017 year end and average inflation of 1.4% over the Plan's period.

## THE LATEST M&A DEAL, SIGNED ON 22 JUNE 2018, PROVIDES SIGNIFICANT CONTRIBUTION TO THE EXPANSION OF THE NUMBER OF USERS TARGETED FOR 2018

### ITALGAS ACQUIRES 70,000 NEW REDELIVERY POINTS THROUGH THE ACQUISITION OF THREE OPERATORS FROM CPL CONCORDIA

The 2018-2024 Plan confirms the relevant role played by M&A operations within the Italgas growth strategy, also as an opportunity to effectively deliver the sector consolidation.

A significant portion of the expansion targeted for 2018 in terms of redelivery points (+110,000) has already been achieved through the latest M&A deal, which will bring into the Italgas perimeter a total of 70,000 new points, as a result of the binding agreement signed on 22 June 2018.

When the operation will be completed, by the end of 2018, Italgas will acquire from CPL Concordia:

- a 60% stake in EGN, European Gas Network (player with 60,000 users, operating in Sicily, Calabria and Campania)
- 100% of Naturgas S.r.l. (operator with 2,700 users in the Naples province)
- 100% of Fontenergia S.r.l. (operating the concession of the pool 22 in Sardinia, with more than 7,000 users temporarily served by LPG).

The Enterprise Value of the operation is 116 mn €. The agreement provides Italgas with a put & call option on the remaining 40% stake in EGN, held by CPL Concordia, exercisable from the sixth month from the closing date of the transaction. Within one year, Italgas has therefore acquired 140,000 new active redelivery points, in areas with a high potential for the development of new infrastructure.

## Further achievement of operating efficiencies

**IN 2017 ITALGAS HAS ALREADY MANAGED TO SEIZE NEW EFFICIENCIES THAT HAVE REDUCED OPERATING COSTS BY 15% COMPARED TO THE 2016 LEVEL, ON A LIKE-FOR-LIKE BASIS: THE OBJECTIVE THAT THE COMPANY WAS COMMITTED TO ACHIEVE BY 2018 HAS THEREFORE BEEN REACHED ONE YEAR AHEAD OF SCHEDULE**

Starting from a base of operating costs already streamlined in 2017, over the 2018-2024 period Italgas expects to achieve additional savings, exceeding the parameters set by the Regulator. An articulated program of continuous improvement drives Italgas in the achievement of new efficiencies. While the areas that contributed to the positive outcome of 2017 will remain key, starting from 2018 Italgas will focus on additional areas in which efficiency can be extracted.



### PROGRAM OF CONTINUOUS IMPROVEMENT

Re-shaping of organization and corporate structure	Adoption of new technologies for energy efficiency	Revision of purchasing strategies for services, facilities, and smart meters, also according to a logic optimizing the "make or buy" mix
Replacement of the whole vehicle fleet with vehicles powered by gas, by the beginning of 2019		

## Continuous commitment to financial efficiency

**ITALGAS WILL CONTINUE TO OPTIMIZE ITS FINANCIAL STRUCTURE, WITH THE AIM OF KEEPING DEBT COST AT LOW LEVELS - TODAY COST BEING JUST ABOVE 1% - AND OF HAVING THE FLEXIBILITY NEEDED TO SUPPORT DEVELOPMENT**

Italgas has an appropriate financial structure: at the end of 2017 the leverage ('Net Debt-to-RAB' ratio) was around 61%. Over the Plan's period, Italgas foresees that strong operating cash flow will be able to fully fund investments, including M&A, as well as the dividend distribution: it will be therefore possible to keep a well-balanced financial structure and, as a result, to maintain credit rating metrics at levels

consistent with the current solid investment grade (Moody's: Baa1 e Fitch BBB+). In the Plan's period the cost of debt is therefore expected to remain at outstanding levels, with a slight increase from the current 1.1% to 1.4% in 2024. The structure of financial sources, which today shows a fixed rate portion around 88% of total debt, enhances the visibility of a continuous financial outperformance of Italgas over the coming years.

## Dividend growth

Italgas confirms its commitment to guaranteeing shareholders an attractive, growing and sustainable dividend policy.

For the 2018-2020 period, Italgas will remunerate shareholders through the distribution of a dividend per share (DPS) equal to the higher of:

- the amount resulting from the 2017 DPS 2017 increased by 4% per annum and
- the DPS equivalent to 60% of the consolidated net income.

### GUIDANCE FOR 2018

1.2 bn €  
Revenues

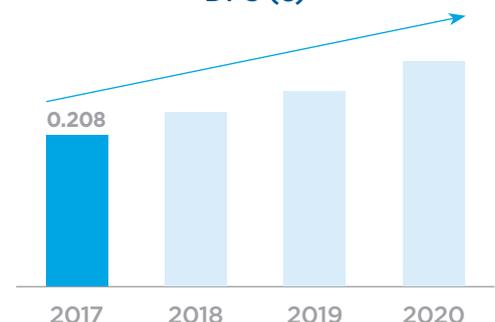
810-830 mn €  
EBITDA

ca. 6.2 bn €  
Consolidated RAB  
(incl. M&A and NAV  
of the LPG network)

>7%  
EBIT/RAB

ca. 63%  
Net Debt/RAB  
(incl. affiliates  
at equity RAB)

### DPS (€)



Stock Exchange performance

# The new Strategic Plan has put the shares in a new light

As is typical for utilities, in the first half of 2018 Italgas performance has been affected by the changes in the levels of the bond yields and, lately, by the rising 10Y Btp/Bund spread.

Just as it was after 12 March 2018, when the release of 2017 earnings triggered a strong upward movement that led the shares to reach a new all-time high of 5.37 € on 30 April 2018, also the presentation of the new Strategic Plan on 13 June 2018 had a positive impact on the Italgas price performance, even in a context that remains unfavorable to bond-proxy stocks and heavily conditioned by the trade tensions on the international scene.

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**

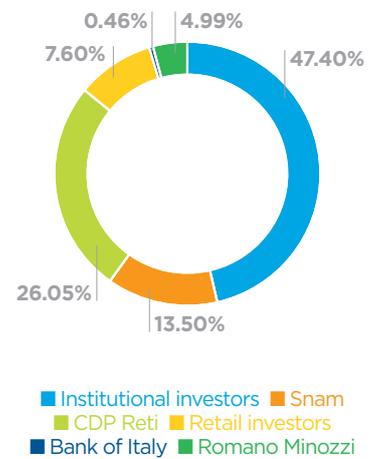
Number of outstanding shares: **809,135,502**  
 ISIN Code: **IT0005211237**  
 Reuters Code: **IG.MI**  
 Bloomberg Code: **IG IM**  
 Price as at 29 June 2018: **4.74 euro**

Mkt capitalization as at 29 June 2018: **3.84 billion euro**  
 Head of Investor Relations: **Marco Porro**  
[investor.relations@italgas.it](mailto:investor.relations@italgas.it)

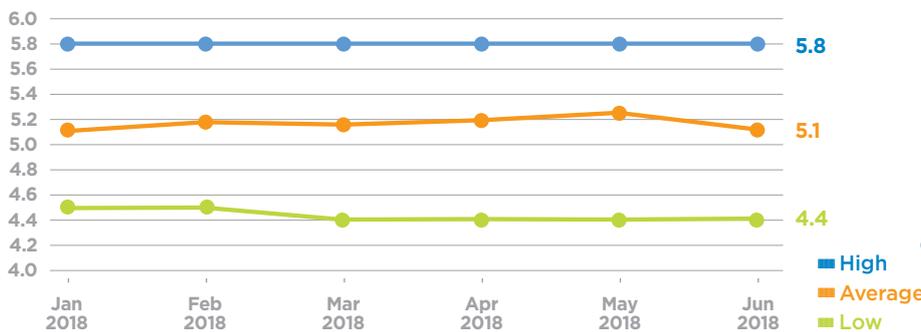
**ITALGAS VS. BENCHMARK INDICES FROM BEGINNING 2018 (BASE 2 JAN. 2018=100)**



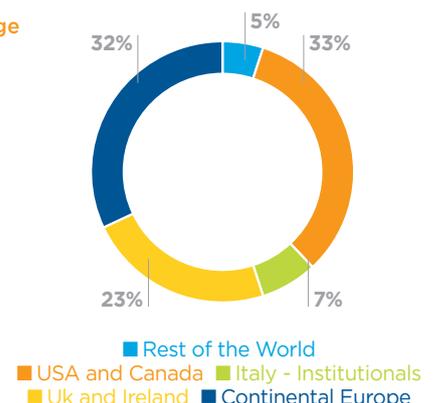
**SHAREHOLDERS' STRUCTURE**



**BROKERS TARGET PRICE SINCE JAN 2018 (€)**



**GEOGRAPHICAL DISTRIBUTION OF INSTITUTIONAL INVESTORS**



Presently the stock is covered by 20 brokers, 5 of which have buying recommendations, while the overwhelming majority (14 analysts) is neutral. The consensus target price is currently equal to 5.1 €, in line with the level of March 2018. Following the presentation of the new Plan, analysts have generally revised their P&L estimates upward, in order to incorporate the benefits of a larger investment plan, focused on areas providing visible returns. They therefore appreciated the growth opportunities that Italgas has identified, even in the absence of gas tenders. The evaluations expressed in the stock target price, however, did not materially change, as higher cash flows expected have been discounted at higher rates, in light of the current yields on sovereign debt.

## Sustainability in action

ITALGAS SUSTAINABILITY PLAN IS STRUCTURED SO AS TO BE COMPLETELY INTEGRATED IN THE BUSINESS PLAN AND MEET THE NINE UN SUSTAINABLE DEVELOPMENT GOALS THAT THE COMPANY HAS EMBRACED

The Sustainability Plan of Italgas, approved by the BoD on December 2017, is based on five strategic pillars that represents the corporate sustainability culture. These five pillars drove the identification of 14 specific objectives that the Company is committed to achieve

through the execution of an articulated action plan, structured in 43 points. Through the 43 actions to be implemented in the 2018-2019 two-year period, Italgas aims to satisfy also the nine sustainable development goals of the United Nations that it has adopted.

### 5 PILLARS

#### COMMITMENT TO SUSTAINABILITY

Involvement, accountability and communication

#### PUTTING PEOPLE FIRST

Prepare people to success in emerging industrial challenges

#### STRONG LOCAL PRESENCE

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

#### VALUE FOR MARKET AND CLIENTS

Reshape contents and communications with users

#### ENERGY EFFICIENCY AND ENVIRONMENT

The key role of gas in decarbonization process of society

### 14 ACTIONS

- 1 Increase Italgas visibility on sustainability issues
- 2 Develop the culture of sustainability
- 3 Strengthen key processes

- 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 processes with sales companies
- 11 Improve customers' relation

- 12 Improve efficiency and reduce our carbon footprint
- 13 Develop the gas advocacy
- 14 Enable circular economy processes



Sustainability is therefore completely integrated into Italgas business model: it makes a tangible contribution to the definition of strategic and operational choices, at the same time ensuring the pursue of long-term

sustainable growth. Thus Italgas combines the objective of satisfying shareholder expectations with the generation of economic, social and environmental value for all stakeholders.