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## The Cloud migration of all applications paves the way for the launch of the Digital Factory

The network digitization project, which is earmarked a cumulative amount of 300 million euro over the 2017-2019 three-year period, includes the installation of digital/IoT devices that enable the massive acquisition of the physical parameters of the network, with the aim of analyzing them by means of specific algorithms.

With a fully digitized network, Italgas will be able to monitor network operations in real time, promptly manage alarms, analyze big data, perform predictive maintenance, with the additional benefit of optimizing processes and making more efficient use of resources.

Presently, during the experimental phase, over 40 pilot projects are under way throughout the country. Once this phase will be completed, all the networks that Italgas manages will be progressively digitized.

**Within this program, two activities are especially critical: on the one hand, the installation of smart meters, which will be completed in early 2020, as a preliminary step for network digitization, and, on the other, the adoption of Cloud Azure, developed in partnership with Microsoft, which is key to the digitization of business processes.**

The evolution of the Company's IT ecosystem to a Cloud-based model will enable the incremental introduction of new platforms that will grant Italgas immediate access to new technologies made available by the big global IT providers over time.

Italgas is migrating its applications to the Public Cloud these days: a milestone in the digitization process that the Company has shaped with the aim of achieving a complete transformation of business processes through innovative technologies.

In the last quarter of 2018, therefore, the Digital Factory will start to operate, being the real driver for the transformation of Italgas business processes. It represents a secure environment, within which multifunctional teams, operating in parallel, will develop IT solutions in Agile and Time-Boxed mode.

Italgas Applications Map will be rationalized through the adoption of SaaS e PaaS solutions that will be customized on the specific features of Italgas business processes.

Growth  
strategy

## The steps of the digitization process

ONCE THE CLOUD MIGRATION WILL BE COMPLETED AND THE DIGITAL FACTORY WILL BE OPERATIONAL, ITALGAS EXPECTS THAT THE WHOLE CHANGE PROCESS WILL ACCELERATE

The path to catch the whole spectrum of benefits from a Cloud-based model



- 2017**
- Separation of Italgas applications: allowed to operate on dedicated systems, still hosted in the Green Data Center



- 2018**
- Migration of applications to Public Cloud
  - Digital Factory establishment
  - Office 365 adoption to improve personal productivity and collaboration
  - Adoption of Salesforce, CRM cloud-based software, in order to handle consumers contacts and introduce the new interactive cartographic system



- 2019**
- The Digital Factory favors the transformation leveraging on a rationalized map of Cloud-based systems
  - Spread of Salesforce across all call centers
  - Replacement of HR solutions with Success Factors
  - Introduction of new platforms for IoT and Mixed Reality



- 2020**
- Final choice on Big Data, Advanced Analytics and Machine Learning, as a result of the learnings developed over the previous years
  - Evolution of Procurement solutions toward SaaS solutions



- 2021**
- Introduction of the new Enterprise Content Management solution



- 2022**
- Expansion of the use of Salesforce to also manage relationships with business partners (CRM)

## ITALGAS: INVESTMENTS AIMED TO MAINTAIN HIGH QUALITY STANDARDS IN NETWORK INFRASTRUCTURE

### A SERIES OF INITIATIVES TARGETING NETWORK QUALITY AND SAFETY

Italgas has always invested with the aim of maintaining optimal conditions in its network. In support of the network safety, in 2017 the plan for the replacement of grey cast iron pipes with hemp- and lead-sealed joints and with mechanical joints continued, totaling 75 km of new pipes. These works increase safety standards, while also contributing to the decline of gas released into the atmosphere, as proven by lower emissions recorded vs. 2016 (-1.4%). The 2018-2024 Strategic Plan indicates that the replacement of cast-iron stretches with lead joints will be completed in 2019, while the replacement with mechanical joints will come to an end in 2025.

Works for renewing fully depreciated networks will be boosted from 2021, considering network aging: as a result, replacements will reach an average of around 250km/year.

## Further improvement in margins

**FIRST-HALF 2018 RESULTS SHOW AN INCREASE IN ALL LEADING INDICATORS COMPARED TO THE ALREADY GOOD 2017 RESULTS, WITH A FURTHER RISE IN MARGINS**

The 8% increase in net profit was driven by the positive contribution of EBITDA, which grows by 8.7% thanks to the 4.7% expansion in Revenues and the new operating efficiencies gained.

The EBIT growth (+9.3%) was even higher, despite the 14.1 mln € increase in D&A, of which 10 mln € due to accelerated depreciation for the replacement of traditional meters with the smart ones. Net profit reflects, in addition to strong operating performance, also improved fiscal efficiency, with tax rate declining from 28.9% in 1H 2017 to 27.9%, notwithstanding the greater taxable base.

Moreover, at the end of June 2018, Italgas presents a solid and efficient indebtedness structure, with fixed rate debt accounting for 88% of total debt (vs. 71% at 2017YE).

**1,709**  
Gas concessions

**7.5 mln**  
Active meters

**67,682 km**  
Length of gas distribution network

## CF from operations, nearly doubled, fully covered investments

**DURING THE FIRST HALF OF 2018 THE EXECUTION OF THE 2018-2024 INVESTMENT PLAN WENT AHEAD**

A relevant portion of total capex (41.4%, i.e. 227.9 mln €) was focused on installing 850,000 smart meters, of which 770,000 replacing traditional meters. At the end of June 2018, including non-consolidated affiliates, installed smart meters were 3.98 million, representing 49.1% of the entire meter fleet. Italgas therefore aims to complete its replacement program by early 2020, i.e. six months in advance the target-schedule set by the Authority. In the first six months of 2018 Italgas also invested 112.8 mln € in its distribution network, of

which 1.5 mln € dedicated to digitization.

During the six-month period Italgas consolidated its profile as a strong cash generator: cash flow from operations (632.3 mln €, +92.6% vs. 1H 2017) fully funded investments, thus leading to a pre-M&A Free Cash Flow of 393.4 mln €. After accounting for the M&A disbursement (96.1 mln €) and the payment of FY2017 dividends (168.3 mln €), Net Financial Debt as of 20 June 2018 amounted to 3,591.3 mln €, a 129.0 mln € decrease compared to the level at the end of 2017.

## The new consolidation scope reflects M&A developments

Compared to the end of 2017, the Italgas consolidation perimeter also includes some newly acquired companies: in particular, Ichnusa Gas (LPG distribution network in Sardinia), Seaside (energy efficiency) e 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.

Moreover, Acam Gas and Enerco Distribuzione were merged into Italgas Reti with effect on 1 January 2018.

### 1H2018 DATA (VS. 1H2017)

**591.3 mln € (+4.7%)**  
Revenues

**424.2 mln € (+8.7%)**  
EBITDA

**71.7%**  
EBITDA/Revenues

**223.0 mln € (+9.3%)**  
EBIT

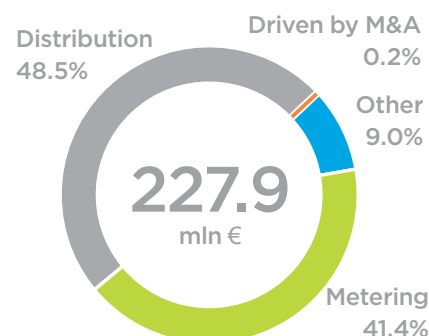
**150.7 mln € (+8.0%)**  
Net profit

**632.3 mln €**  
Cash flow from operations

**227.9 mln €**  
Capex

**3,591.3 mln €**  
Net financial debt

### 1H2018 BREAKDOWN OF INVESTMENTS



Stock  
Exchange  
performance

## Clear long-term strategy supports shareholder remuneration over time

Following the achievement of a 42.3% Total Shareholder Return in 2017, in 2018 Italgas had to face a difficult stock market environment, which has so far prevented the share price from fully reflecting the healthy Company's fundamentals.

In recent months the Italian stock market reflected the investors concerns both for an escalation of global trade tensions and for the end of the ECB Quantitative Easing, while GDP growth is expected to decelerate. Italgas shares - in line with the whole utility sector - showed negative correlation with bond yields. Moreover, the Italgas share prices reflected the uncertainty about the options of economic policy of the new Italian government - as the FTSE MIB shares generally did. In 2018, anyhow, Italgas shareholders benefited from a 2017 dividend yield of 4.1%, based on the 2017 year-end price.

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 14 Sept. 2018: **4.88 euro**

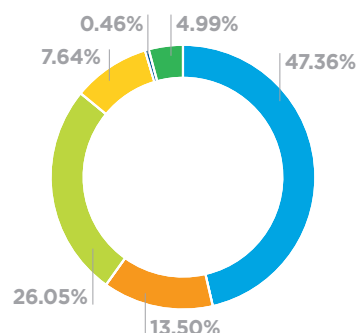
Mkt capitalization as at 14 Sept 2018: **3.95 billion euro**

Head of Investor Relations:  
**Marco Porro**  
[investor.relations@italgas.it](mailto:investor.relations@italgas.it)

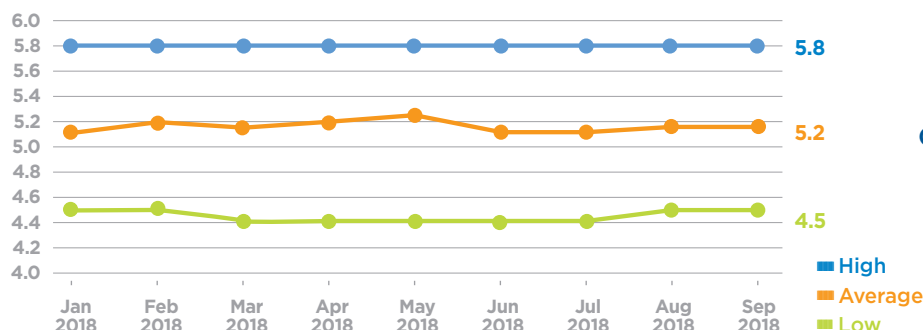
### ITALGAS VS. BENCHMARK INDICES FROM BEGINNING 2018 (BASE 2 JAN. 2018=100)



### SHAREHOLDERS' STRUCTURE

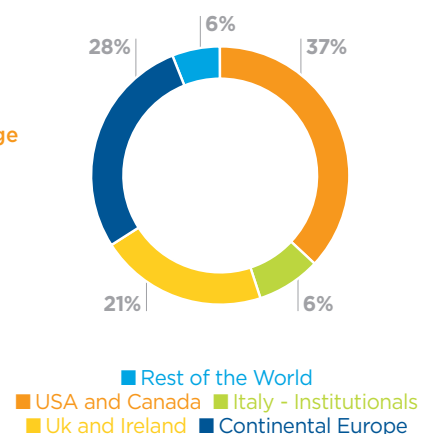


### BROKERS TARGET PRICE SINCE JAN 2018 (€)



Presently, 20 brokers cover Italgas, the majority of which (14 out of 20) has neutral recommendations (Hold/Neutral), while another 25% (5 out of 20) suggests buying the stock. Consensus target price is 5.16 €, slightly above the June 2018 level (5.11 €). For the period May 2018 onwards, the stock price has constantly remained below the consensus target price, therefore indicating room for potential upside.

### GEOGRAPHICAL DISTRIBUTION OF INSTITUTIONAL INVESTORS





## Sustainable mobility

**THE ENTIRE ITALGAS FLEET WILL BE FUELED BY “NATURAL POWER”: CARE FOR THE ENVIRONMENT GOES HAND IN HAND WITH COST EFFICIENCY**

Discussion on new CO<sub>2</sub> standards and initiatives proposed with a view to deploying alternative fuels infrastructure are at the core of the automotive sector scenario. Such choices will significantly influence the use of Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG) in road transport.

Fully consistent with European strategies, Italgas has early focused on sustainable mobility, with the aim of owning the first entirely CNG fleet in Italy

By the end of 2018 Italgas will complete the replacement of the whole Company's fleet, consisting of 2,500 vehicles, with CNG-powered models, built by Fiat Chrysler Automobiles: Panda, Panda Van, Fiorino, 500L, Doblò, Qubo, and Ducato.

The conversion into methane gas, started in December 2017, is one of the initiatives launched under the Italgas

Business Plan, in order to optimize environmental sustainability and cost efficiency. These initiatives also include the construction of over 120 self-consumption gas filling stations at 40 Italgas technical sites across the country.

At the end of 2018, Italgas will therefore be the first Italian company to own a fleet wholly fueled by natural gas.



### WHY METHANE GAS?

Today, using methane gas as motor fuel is a smart and environmentally sustainable decision. It is an ecological, safe, friendly and cheap fuel. Its use reduces CO<sub>2</sub> emissions and particulates, while leading to significant savings in fuel costs, as proven by Italgas estimates that assume 2,500 methane powered vehicles at the end of the program:

Fuel  
cost

**-50%**

vs 2017

CO<sub>2</sub>  
emissions

**teq -20%**

vs 2017

Particulates  
(PM10, PM2,...)

**-98%**

vs 2017