

## ITALGAS PRESENTS ITS 2019-2025 STRATEGIC PLAN

*London, 12 June 2019* – Chief Executive Officer Paolo Gallo is today presenting to analysts and investors the Italgas Group's Strategic Plan for the 2019-2025 period, which was approved yesterday by the Board of Directors chaired by Alberto Dell'Acqua.

The new Plan is structured along four guidelines: (i) innovation and digital transformation of the Company through the digitization of assets and processes and the development of digital skills for all employees, (ii) construction of the natural gas distribution network in Sardinia, (iii) new M&A operations and (iv) further organic growth, in terms of network extension and redelivery points served..

The Plan provides for a significant increase in investment programmes, equal to 500 million euros (+12.5%) compared to the previous one, to take the Company into the digital age, strengthening its leadership at European level, taking advantage of all development opportunities, and creating value for shareholders.

### Highlights

- **Digitization of networks and business processes for a total investment of approximately 1 billion euros. Completion in 2020 of the installation plan for smart meters and 500 new digital networks.**
- **500 million euros to build the most technologically advanced natural gas distribution network in Sardinia ("methanization").**
- **over 2 billion euros for organic development, maintenance and network extensions.**
- **Total investment plan of 4.5 billion euros (+ €500 million, +12.5%) with additional investment opportunities of approximately 1.9 billion euros for the acquisition of networks following sector tenders and related capex.**
- **Current dividend policy confirmed.**

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Paolo Gallo, Italgas CEO, said:

*"This plan has as its main focus the digital transformation of the company. Innovation, which is contaminating our sector, will create two categories of companies: frontier companies and followers. Today Italgas is a leader in history and size, tomorrow, thanks to investments in digital, it will become a 'frontier company', leader at European level. At the end of this long journey Italgas will have one of the most technologically advanced networks, with the application of advanced digital solutions.*

*The partnerships recently concluded with important global players, in the USA with Picarro, in China with State Grid Corporation of China and in Greece with Eda Thess are the international recognition of the quality of the path taken.*

*4.5 billion euros in investments, up 12.5% on the previous Plan, an opportunity to invest a further 1.9 billion euros in the sector tenders: these figures place Italgas among the main industrial companies in the country that create value for the communities in which they operate and for investors.*

*In light of the results achieved in recent years and the growth and development activities undertaken, this Plan revises all its main targets upwards, confirming the current dividend policy, which has proved particularly profitable for our shareholders, as shown by the last financial statements, with a dividend up 12.5% on the previous year"*

### **Investment plan at €4.5 billion**

In the period 2019-2025 Italgas has planned an investment plan (excluding gas tenders) of 4.5 billion euro, up 12.5% on the previous plan.

Approximately 1 billion euro will be used for technological innovation and digitisation, including the completion of the installation plan for the latest generation of smart meters in 2020, ahead of the deadlines set by the Regulator. More than half (540 million) of the amount allocated to innovation is directed towards the digitisation of assets and processes, in particular for the replacement of 5,300 intermediate pressure control systems (GRF and IRI) with 5,300 digital devices and the upgrade of another 2,000 similar systems. The massive installation of sensors and remote-controlled valves for the detection of network operating parameters and their remote management is also planned. The chapter also includes the creation of the new Integrated Center for Supervision and Control of the network in real time, a project which was developed entirely in the Digital Factory. Approximately 70 million euros are foreseen for the new activities of the Digital Factory and for the development of new Machine Learning, data analysis and augmented reality.

Approximately 500 million euros (+11% compared to the previous Plan) are allocated to the continuation of the plan for the construction of the natural gas distribution network in Sardinia, where the Group has assumed the role of main operator acquiring the management of about one third of the basins of users in which the island is divided and the management of the service in all the main cities of the region. The investments are mainly destined to the construction of more than 60 new distribution networks in 10 basins and to activities functional to the supply of the networks. To date, a total of about 160 kilometres of pipelines have been built, which also favours the creation of more than 500 new jobs in the induced sector in the area.

350 million euro will be used for growth by external lines through M&A operations, and related technical investments. The targets set in the previous Plan were reached with the acquisition of a network corresponding to 4,600 kilometres and 190 thousand redelivery points for an enterprise value of 335 million euros and a total RAB of 315 million euros. The new objectives envisage acquisitions for a further 160 thousand redelivery points, of which 60 thousand in 2019.

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A further 350 million euros is planned for investments by Toscana Energia, a company that is expected to be consolidated during the Plan period. Toscana Energia holds 104 concessions for the distribution of natural gas, manages a network of approximately 8,000 kilometres and serves 790,000 redelivery points.

Finally, 2.1 billion euros are allocated to network development and improvement activities, including the replacement of cast iron pipelines and the modernisation of fully amortised networks.

### **Consolidated Rab**

The implementation of the planned organic investments, together with the consolidation of Toscana Energia, will increase the consolidated Rab at an average annual rate (CAGR) of about 4.7% compared to 6.4 billion euros at the end of 2018 to reach about 8.9 billion euros at the end of the Plan without considering the sector tenders.

A further opportunity for business development is represented by the sector tenders, with dedicated investments estimated at about 1.9 billion euro, with the aim of increasing the market share in Italy from the current 34%, including the subsidiaries, to a share close to 45% in terms of active redelivery points, thus going from 7.6 million at the end of 2018 to about 9.7 million in 2025. In particular, approximately 1.3 billion euro of investments will be devoted to the acquisition of third-party networks in the areas in which Italgas, including Toscana Energia, will be awarded while a further 0.6 billion euro (until 2025) will be dedicated to the consequent investments in the acquired networks.

The positive completion of the participation in the sector tenders and the realization of the related technical investments will increase the consolidated RAB at an average annual rate (CAGR) of about 7.1% over the Plan period, to reach over 10 billion euro by 2025.

### **Energy efficiency**

Energy efficiency remains one of the drivers in Italgas 2019-2025 Plan. The acquisition in 2018 of Seaside, one of the most important Italian Energy Service Companies, puts the Group in the best position to develop projects aimed at optimizing its overall energy expenditure. The new Plan also assigns to Seaside the establishment of a platform for the management of innovative projects and the possibility of developing appropriate partnerships for the contribution of innovative products and services.

### **Operational efficiency**

Constant attention to the optimization of operating costs with the aim of exceeding the efficiency targets set by the regulator. In this respect, a significant contribution is expected from the company's digital transformation project. In particular, it is estimated that the benefits will amount to approximately 160 million euro over the entire duration of the Plan in terms of reduction of operating costs, efficiency on investments and higher revenues (especially for greater incentives).

### **Financial efficiency and capital structure**

The continuous focus on optimizing the financial structure will allow Italgas to fully cover, thanks to the significant operating cash flow, both the investment plan and the return on risk capital, also ensuring appropriate financial flexibility to support development. In 2019 and for the entire duration of the Plan, Italgas will continue the actions aimed at optimizing its financial structure in order to preserve a cost of debt at levels of excellence, which is currently just over 1%.

The ratio of net debt to RAB (considering the subsidiaries) at the end of 2018 was just under 60% and will remain at this level throughout the period.

During the Plan period, the expected robust cash generation will allow rating indicators to be maintained at levels consistent with a solid investment grade area.

### **Outlook**

Investments of approximately 700 million euro are expected in 2019, while revenues are expected to amount to approximately 1.2 billion euro, with EBITDA between 840 and 860 million euro and EBIT between 460 and 480 million euro.

The consolidated RAB (including M&A) is expected by the end of the year to be approximately 6.7 billion euro.

By 2025, thanks both to the organic development supported by the planned investment plan and to the completion of the sector tenders, the RAB (including M&A and sector tenders) is expected to have exceeded a level of 10 billion euros. With the completion of the gas tenders, revenues are expected to be around 1.8 billion euros with an estimated EBITDA margin of around 75% while leverage is expected to be less than 60%.

#### **Dividend policy**

Italgas is committed to guaranteeing shareholders an attractive, growing and sustainable dividend policy. In this sense, the Company confirms the policy announced last year, which provides for the distribution of a dividend until financial year 2020 equal to the higher of (i) the amount resulting from the DPS 2017 (€0.208) increased by 4% per annum and (ii) the DPS equivalent to 60% of consolidated net income per share. The application of this policy for the 2018 fiscal year has already allowed the distribution of a dividend of €0.234, up 12.5% on the previous year.

*The 2019-2025 strategic plan will be presented today to financial analysts and institutional investors at 15:00 CET (14:00 PM GMT). It will be possible to follow the event in a conference call, and supporting material will be made available on [www.italgas.it](http://www.italgas.it) on the Investor Relations section at the beginning of the conference call. It will also be possible to follow the presentation via video webcasting in this same section. The Presentations will also be made available on the authorised storage mechanism named eMarket STORAGE ([www.emarketstorage.com](http://www.emarketstorage.com)). Giovanni Mercante, the manager in charge of drawing up the Company's accounting documents, hereby declares under Art. 154 bis, paragraph 2 of the TUF (Single Finance Law) that the accounting information contained in this release matches the accounting documents, ledgers and items.*

**Disclaimer**

*This release includes forward-looking statements, relating in particular to: evolution of the natural gas demand, investment plans and future managerial performance. Forwardlooking statements have, by their nature, an element of risk and uncertainty, since they depend on future events and developments occurring. The actual results may therefore differ from the announced ones in connection with various factors, including the following: the predictable evolutions of the demand, supply and prices of natural gas, the general macroeconomic conditions, the impact of regulation on the energy and environmental sector, the success in developing and implementing new technologies, changes in stakeholder expectations and other changes in business conditions.*