

ITALGAS PRESENTS ITS 2018-2024 STRATEGIC PLAN

Milan, 13 June 2018 - Chief Executive Officer Paolo Gallo is today presenting to analysts and investors the Italgas Group's Strategic Plan for the 2018-2024 period, which was approved yesterday by the Board of Directors chaired by Lorenzo Bini Smaghi.

Italgas' growth objectives are based mainly on a significant programme of investment, significantly increased compared to the previous Plan, in a market that is still fragmented and which offers various opportunities for business development, leadership consolidation and the creation of value for shareholders.

Highlight

- **Investment plan, including M&A, of EUR 4 billion**
- **Additional investments of EUR 1.6 billion in the acquisition of third-party networks following gas tenders**
- **Programme to digitise networks and processes and launch Digital Factory in 4thQ 2018**
- **Dividends up to 4% per annum with upside potential to 60% of consolidated net income**

- **Investment plan (without tenders) of EUR 4 billion**

In the period 2018-2024 Italgas has an investment plan of €4 billion, an increase of more than 30% compared with the previous plan. This includes €2 billion for the development and improvement of the network, around €800 million for technological innovation and digitization (including the completion by 2020 of the installation plan for smart meters), approximately €450 million for the construction of gas networks in Sardinia and, finally, approximately €420 million in total for growth through M&A operations and the related technical investments to be made on the newly acquired networks. With the implementation of this Investment Plan, the number of meters managed will grow from approximately 6.6 million (at 31/12/17) to approximately 7.1 million at the end of the Plan (excluding affiliates).

In addition, a further growth option is represented by sector tenders with total investments estimated at approximately €1.6 billion, including both acquisitions of third-party networks and technical investments to be made in the areas awarded, with an increase in the

number of meters that will reach 8.5 million (excluding affiliates) at the end of the Plan period.

- **Consolidated Rab:** the implementation of the planned organic investments will increase the consolidated Rab by an average of 3.2% per annum over the period of the Plan and by an average of more than 5.3% per annum, considering the expected evolution of the tenders.
- **Operational efficiency:** continuous focus on the optimisation of operating costs with the aim of improving the efficiency targets set by the Regulator.
- **Capital structure and financial efficiency:** constant focus on optimisation of debt structure, with the objective of fully covering, thanks to the significant operating cash flow, both the investment plan and the return on risk capital guaranteeing also an appropriate financial flexibility to support development.
- **Dividend policy:** for the years 2018-2019-2020 a dividend will be distributed 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, CEO of Italgas, said:

“The priorities of the Industrial Plan are organic growth supported by a robust plan of investments, M&A operations, competitiveness improvement and quality of service provided to customers thanks to programmes of technological innovation. In this context, the plan to install smart meters, which represents the first step in the process of digitising networks and which we will complete in early 2020, is particularly important, as is the launch by the end of 2018 of the Digital Factory which will be the engine for the full digitization of business processes. The adoption of digital technologies will allow further improvements in operational efficiency and the improvement of services offered to commercial companies and end customers. The solid financial structure will allow us to take further opportunities to create value while maintaining financial conditions in line with our creditworthiness. The effect of these actions, which benefit the country and the entire Italian gas distribution system, also result in a strengthening of our dividend policy which, based on the 2017 dividend of €0.208, will see an increase of 4% for the next three years, but with a potential upside to a 60% of the consolidated net income”.

Investment plan

Under the investment plan, approximately €2 billion is dedicated to the development of the network and renovation activities, including the replacement of cast iron and the modernisation of fully amortised networks.

Around €0.8 billion is allocated to the digitisation of business networks and processes and the completion of the smart meter installation plan.

The network digitisation project, for which more than €300 million is earmarked, involves the installation of digital/IoT devices for the mass acquisition of the physical parameters of the network and their interpretation by means of specific algorithms. This will allow real-time monitoring of network operation, alarm management, big-data analysis and predictive maintenance, as well as further optimization of processes and resources. The experimental phase, currently in progress, has seen the start of more than 40 pilot projects throughout the country. Once the experimental phase is completed, the project will be extended to all the networks managed by the Italgas Group.

Furthermore, the transfer of the Italgas Application Map to the Public Cloud and its rationalisation through the adoption of specific solutions (SaaS and PaaS) will represent a fundamental technological step forward and will allow Italgas to have immediate access to all new technologies.

The Digital Factory that will be launched in the last quarter of 2018 will be the real driver for the digitization of business processes, within which multifunctional teams, operating in parallel, will develop IT solutions in Agile and Time-Boxed mode.

About **€500 million** will be used to complete the plan to replace traditional meters with the latest smart meters. In particular, Italgas aims to exceed the obligations set by the Regulator for 2018 for the Mass Market segment (replacement of 50% of G4 and G6 calibre meters) and to complete the total replacement for this segment by the first few months of 2020.

A significant commitment will concern the gasification project in Sardinia, where Italgas has become the main operator, acquiring the management of about a third of the 38 pools of users in which the island is divided. Thanks to the planned investment of approximately **€450 million** and the simultaneous development of technological innovation programmes, the local areas managed by Italgas will be equipped with cutting-edge networks and services. The best technological solutions will be applied during construction including the digitization of the networks, interconnections between the various pools of users, smart meters, and widespread use of fibre for data transmission which will enable us to introduce innovative service management criteria.

The growth through M&A operations set out in the previous Plan was effectively pursued by completing 7 transactions for a total of 138 new municipalities under concession. In the 2018-2024 Plan, Italgas will allocate approximately **€420 million** to new M&A initiatives. The objective is to accelerate the path of growth and improve our competitive positioning: with the acquisitions and related investments planned, the number of managed meters will grow from approximately 6.6 million (as at 31/12/17) to approximately 7.1 million at the end of the Plan (excluding affiliates).

A further **€300 million** will be used for initiatives supporting distribution activities and remunerated in the centralized RAB, in particular to support the cloud strategy.

Thanks to the investments described above, the consolidated RAB is expected to grow at a compound annual rate (CAGR) of approximately 3.2% over the plan period, compared to **€5.8 billion** at the end of 2017, to reach approximately **€7.3 billion** by the end of the Plan.

A further opportunity for business development is offered by the tender process. Investment estimated at **€1.6 billion** dedicated to increasing Italgas' market share in Italy from the current 30% to close to 40% (excluding affiliates) in terms of active redelivery points is planned, rising from 6.6 million at the end of 2017 to approximately 8.5 million in 2024.

In particular, approximately **€1.1 billion** of net investments will be aimed at the acquisition of third-party networks in areas in which Italgas will be awarded the contract, while a further **€0.5 billion** (until 2024) will be dedicated to the development, maintenance and efficiency of networks acquired through tenders.

The successful completion of the tenders and the realization of the related technical investments will increase the consolidated RAB at an average annual rate (CAGR) of about 5.3% over the Plan period, reaching about **€8.4 billion** by 2024.

Energy efficiency remains one of the drivers on which Italgas also focuses in its 2018-2024 Plan. The acquisition of Seaside, one of the main Italian Energy Service Companies at the forefront of digital services, with strong skills in the fields of Big Data, Business Intelligence and Machine Learning, puts the Group in the best position to achieve appropriate synergies in the field of TEE management and to develop captive projects aimed at optimizing overall energy costs thanks to the use of its own software.

Operational efficiency

The operating efficiency plan that was launched in the first few months of 2017 achieved in 2017, one year ahead of schedule, the objective of generating a 15% reduction in operating costs compared to the level of 2016 on a like-for-like basis. The objective during the period of the Plan will be to maintain Italgas' highly competitive cost structure, when compared with the efficiency objectives set by the Regulator.

A program of continuous improvement to support this efficiency plan is underway. It includes the revision of purchasing strategies for maintenance contracts, facilities, supply of smart meters and infrastructure services and follows the "make or buy" optimization logic. In addition, the adoption of new technologies for energy efficiency will allow the achievement further efficiencies by improving the quality of services offered as well as the environmental impact.

By the beginning of 2019, Italgas will completely replace its vehicle fleet with one powered by natural gas, and will also build a private network of over 120 gas supply points for its own consumption at 40 of its sites throughout Italy. At the end of the programme, the approximately 2,500 vehicles that make up the Italgas Group fleet will be replaced with the latest FCA "natural power" models, in line with Italgas' approach, which considers sustainability and efficiency as two pivotal points of its development.

Financial efficiency and capital structure

In 2018 and for the entire period of the Plan, Italgas will continue optimising its financial structure in order to preserve an outstanding cost of debt, which is currently just above 1%, and appropriate financial flexibility to support development.

The ratio of net debt to RAB (including subsidiaries) at the end of 2017 was around 61%. During the Plan period, the strong cash generation expected will allow credit rating indicators to be maintained at levels consistent with a solid investment grade.

Outlook

For 2018 investments of over **€500 million** are expected, while revenues are expected to be around **€1.2 billion**, with EBITDA between **€810** and **€830 million**. It is estimated that the profitability of the assets is higher than 7% in terms of Ebit/Rab.

The consolidated RAB (including M&A) is expected to amount to approximately **€6.2 billion** by the end of the year.

Leverage is expected to be around 63% thanks to significant cash generation.

As of 2024, thanks both to the organic development supported by the investment plan and to the completion of the gas tenders, the RAB (including M&A and gas tenders) is expected to reach a level of approximately **€8.4 billion**. EBITDA is expected to be in the order of **€1.1 billion**, while leverage is expected to be less than 60%.

Dividend policy

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

Taking into account the economic, financial and capital prospects of the Strategic Plan, the Company has established a dividend policy for the years 2018-2019-2020. In this period a dividend will be distributed 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.

The 2018-2024 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 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).

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. Forward-looking 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.