



# STRATEGIC PLAN 2021-27 **EMPOWERING OUR FUTURE**

Rome  
15.06.2021





# AGENDA

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SMART GAS  
NETWORKS

3

ESCO

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# SCENARIO





# ENERGY TRANSITION OUR FUTURE

**“I want Europe to become the first climate neutral continent in the world by 2050”**

U. Von Der Leyen  
*EU Commission, President*  
December 2019

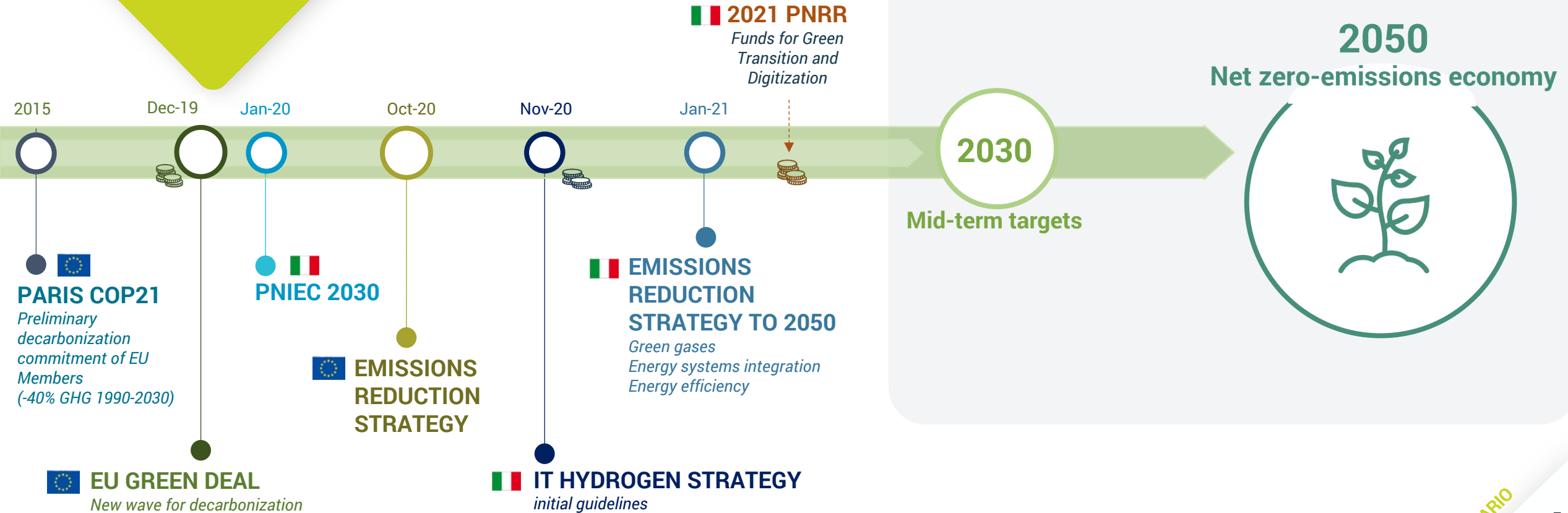
**“While we continue to battle the pandemic, we must also focus on our long-term challenges: this is why the Green Deal, as a growth strategy, remains our compass throughout the recovery”**

F. Timmermans  
*EU Commission, Executive VP*  
December 2020



# ENERGY TRANSITION KEY MILESTONES

EU committed to a carbon neutral economy by 2050  
both politically and economically



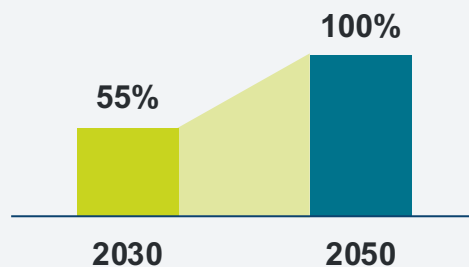


# ENERGY TRANSITION AT THE CORE OF EU POLICIES

€175-290bn a year of incremental investments necessary to reach decarbonization goals

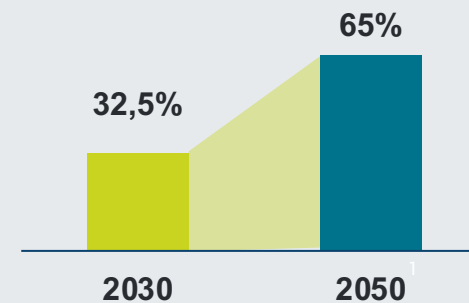
Contribution of all sectors is paramount

## CO2 emissions cut vs 1990



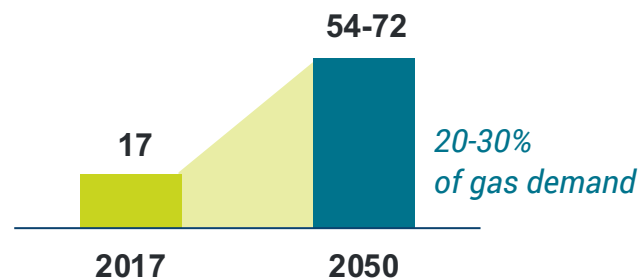
The EU is preparing a package of initiatives to reduce CO2. A general revision of gas market legislation is also targeted

## Energy Efficiency vs 1990



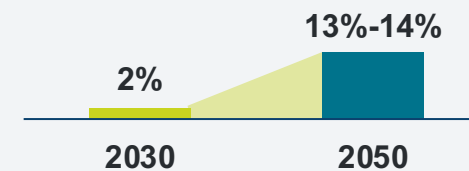
Ongoing revision of the European Energy Efficiency Directive

## Biomethane consumption MTOE



The revision of the gas market legislation includes how to facilitate the uptake of renewable gases

## Hydrogen in EU energy mix ~ 500 GW electrolysis capacity by 2050



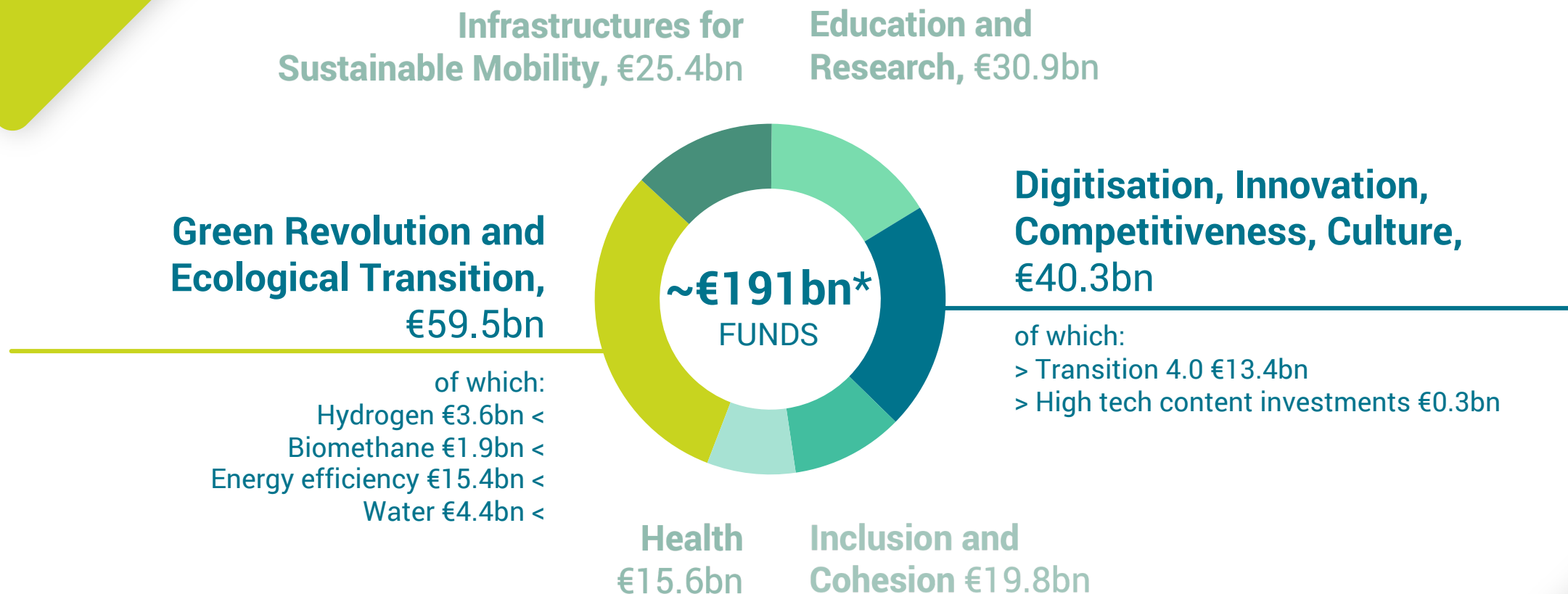
Hydrogen may be transported via repurposed natural gas pipelines and / or newly built pipelines

SCENARIO



# ITALIAN PNRR RESOURCES AVAILABLE

**Energy transition is a tool to support economic recovery  
Italian PNRR to make new resources available**





# IMPLICATIONS FOR GAS SECTOR OF EU ACTIONS

## ENERGY TRANSITION

Gas to account for **20% of 2050**  
European energy consumption

**Green gases production should rapidly increase** to meet decarbonization target

Gas mix to include **green hydrogen (33%)** and **biomethane/ blue hydrogen / e-gases (67%)**

Gas infrastructures should be able to **manage dynamic changes of gas blending**

Gas infrastructures strategic to ensure **efficiency of the energy system**

**Entire gas value chain** including both T&D and storage needs to evolve

Investments needed to **guarantee flexibility**, through gas and electric systems integration

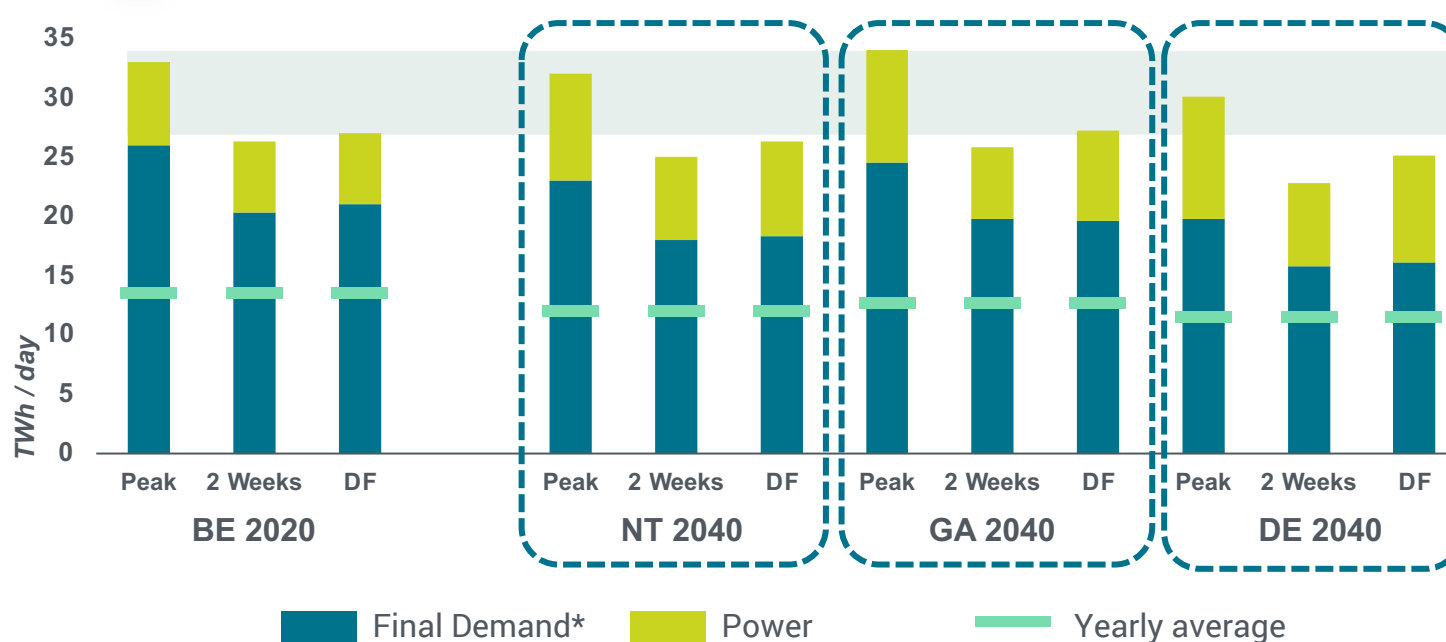
**Gas and electric infrastructures** should be able to **cooperate effectively** ("sector coupling")



# GAS DEMAND EXPECTATIONS REAFFIRMED

## Gas to provide the needed energy supply flexibility

EU Gas demand – ENTSOG high demand cases analysis



Gas demand to become more dependent from RES performance at peaks

Cold spells coupled with low RES to require high gas peaking capacity also in 2040

Source: ENTSOG, Scenarios BE – Best estimate, NT – National Trends, GA – Global Ambition, DE – Distribution Energy

The "2-week demand" refers to a two-week period during a cold spell resulting in high heating demand.

"Dunkelflaute" expresses a climate case, where in addition to a 2-week cold spell, variable RES electricity generation is low due to the lack of wind and sunlight.



# GAS NETWORKS

## KEY ROLE IN ENERGY TRANSITION

Enable a cost-effective decarbonisation, balancing short-term and long-term needs of energy markets



ALREADY DEVELOPED,  
STABLE AND WIDE-SPREAD INFRASTRUCTURE

~2mIn km of pipelines  
2,000 gas DSOs and 45 gas TSOs



ACCELERATOR IN THE DEVELOPMENT OF  
RENEWABLE AND LOW CARBON GASES

NATURAL GAS

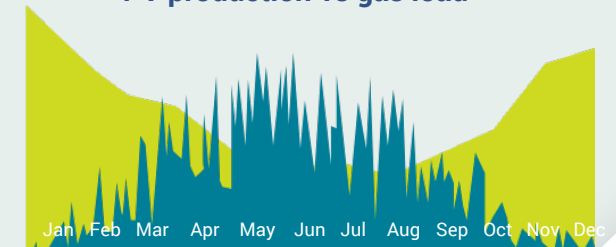
BIOMETHANE

HYDROGEN



STRATEGIC ROLE FOR FLEXIBILITY AND SECURITY  
OF SUPPLY OVER TIME AND SPACE

Schematic annual profile of  
PV production vs gas load

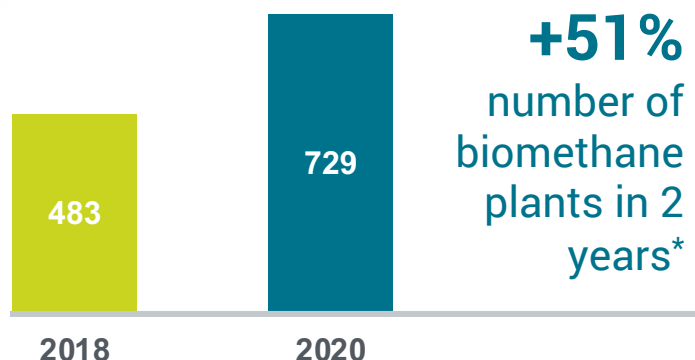




# 2020-30 BIOMETHANE THE CLOSER VIABLE GREEN OPTION

**Biomethane accounts for 5% of EU gas demand,  
It is the most significant green gas source  
but still below its potential**

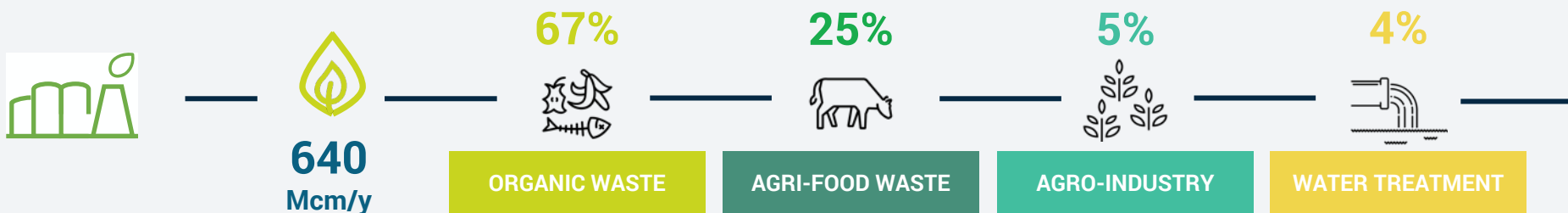
## IN EUROPE CAPACITY KEEPS GROWING



## AND PROSPECTS ARE ALSO STRONG IN ITALY

- Over 30 operative biomethane injection points on the Italian gas network
- ~90% biomethane plants produce methane from organic waste and agri-food waste sources
- Significant economic incentive framework (certificates guaranteed for 10 years)

ITALY  
Current  
production  
potential\*\*



SCENARIO



# 2030-40 HYDROGEN MOMENTUM BUILDING

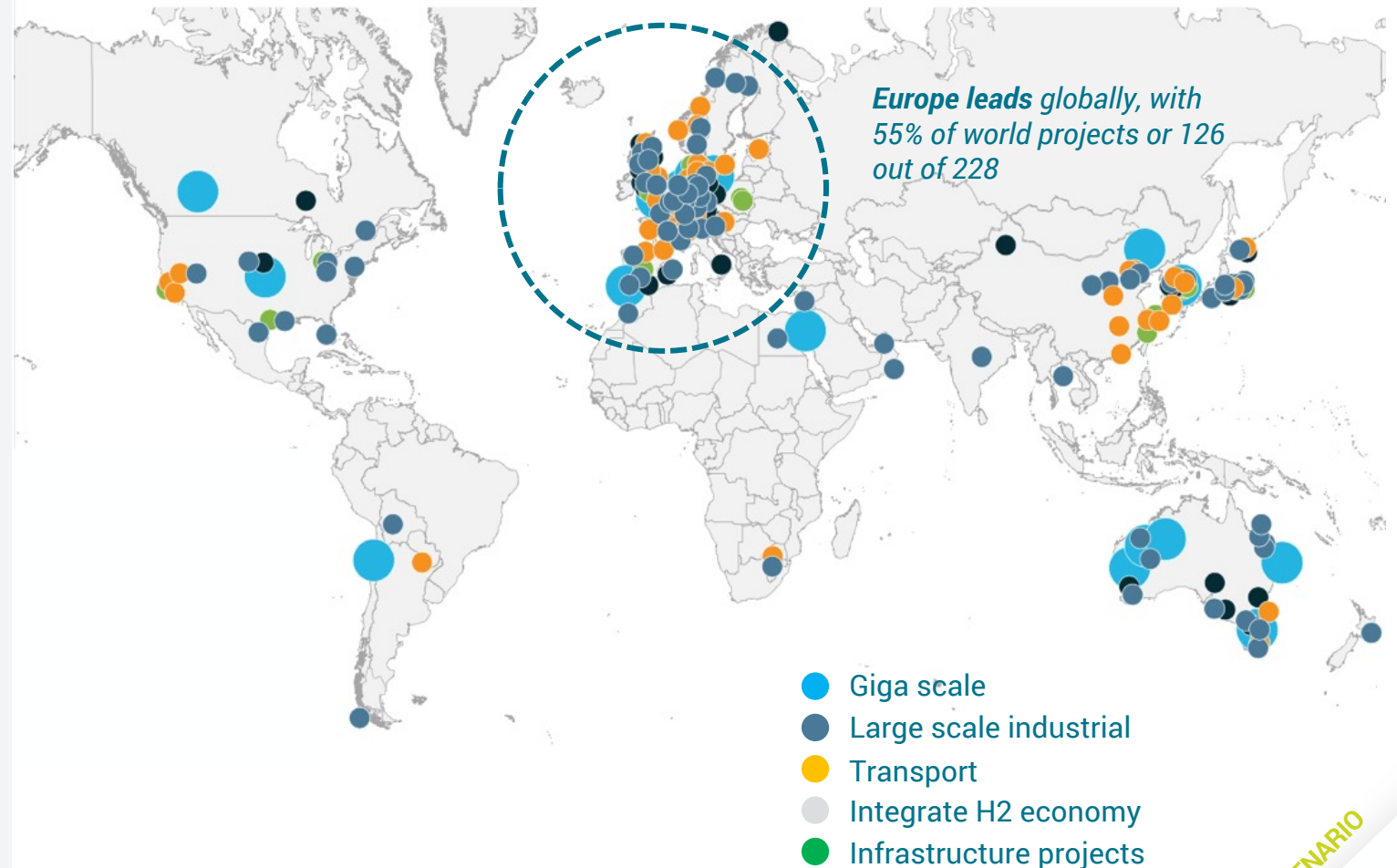
More than 200 projects for >\$80bn announced globally

EU leading the race also on the legislative side

Production costs could fall quicker than anticipated

but

Green hydrogen is not expected to be competitive before 2030

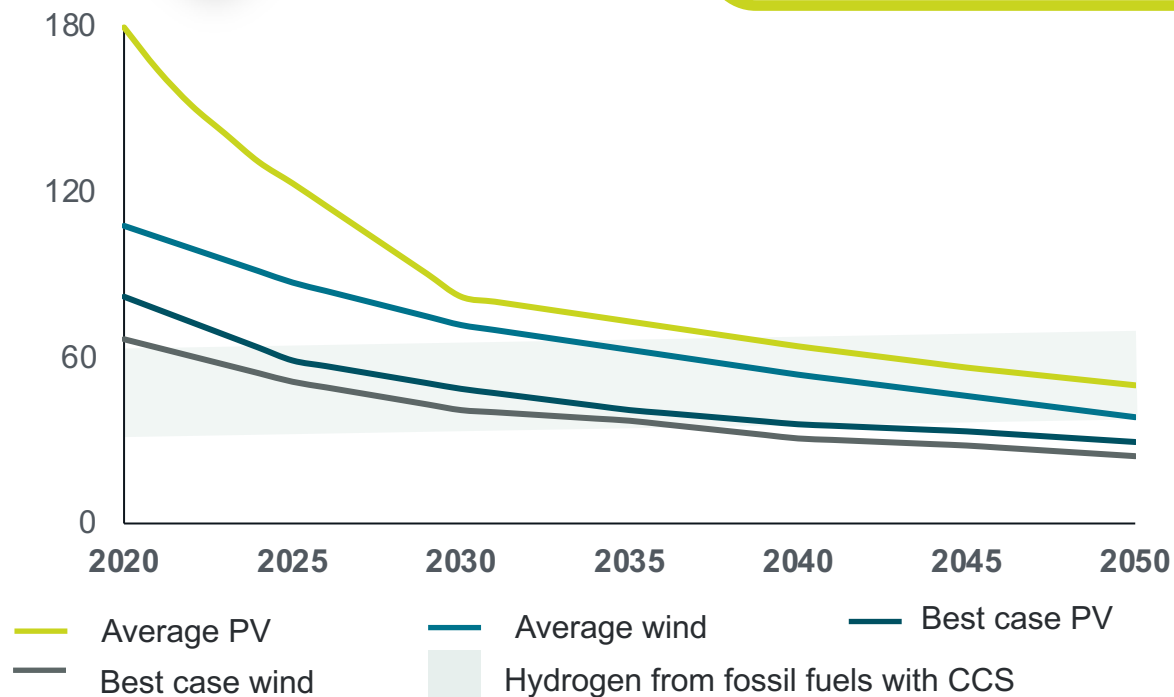




# 2030-40 GREEN HYDROGEN COST ISSUES TO BE ADDRESSED

Green hydrogen expected to become competitive  
But this will require ~ 10 years for prices to fall

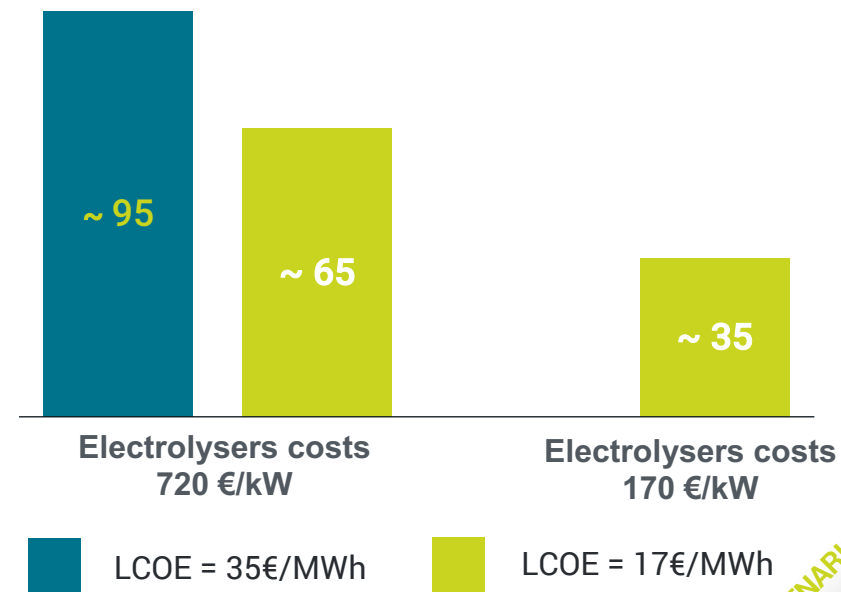
## Green hydrogen production costs LCOE (€/MWh)



Assuming falling electrolyzers costs from 720 to 300 €/kW

TODAY

2030-40

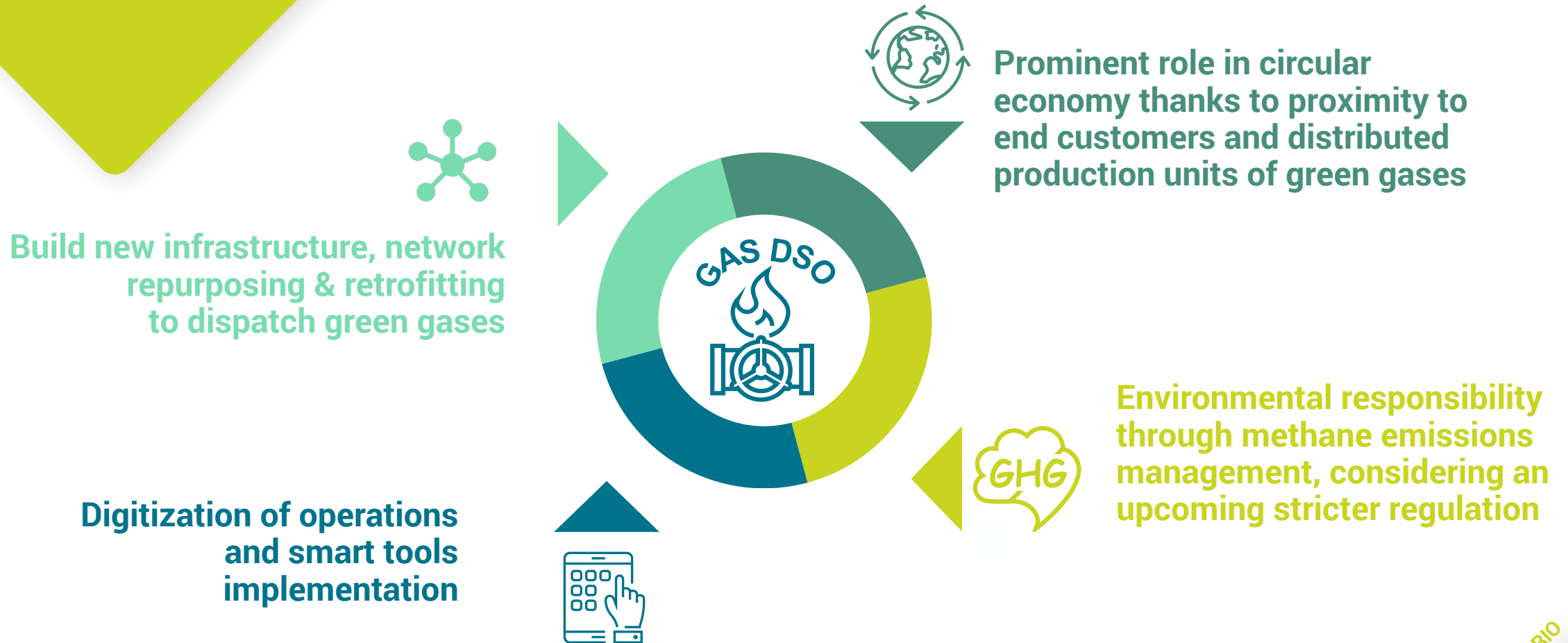


SCENARIO




# GAS DSOs NEW CHALLENGES AND OPPORTUNITIES

**DSOs need to adapt their strategies**  
**Networks upgrade necessary to distribute new gases,**  
**to support energy efficiency and cut methane emissions**







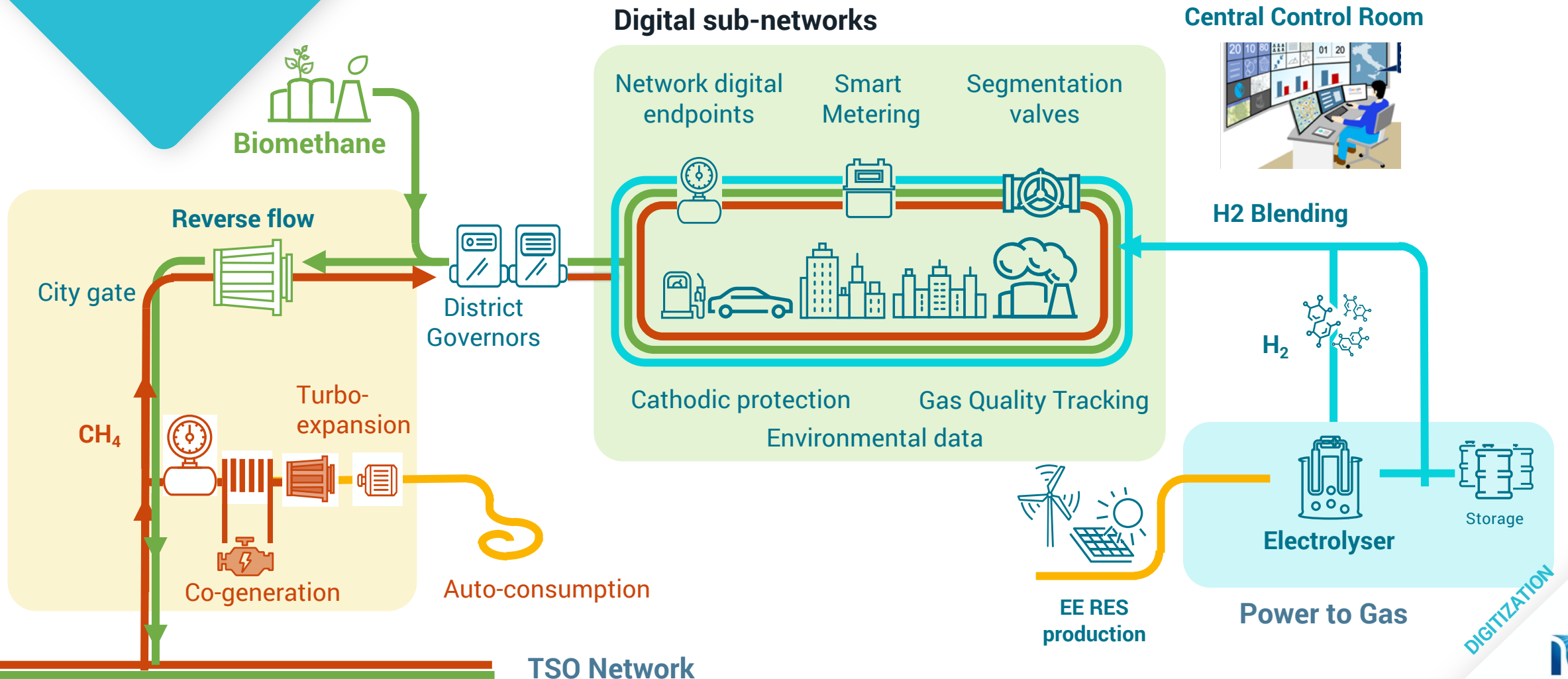
# SMART GAS NETWORKS



# NETWORKS

## A TANGIBLE CHANGE IN PARADIGM

Upgrade and repurposing combined with digitization to allow distribution/injection of green gases as well as reduce costs, increase efficiency and reliability

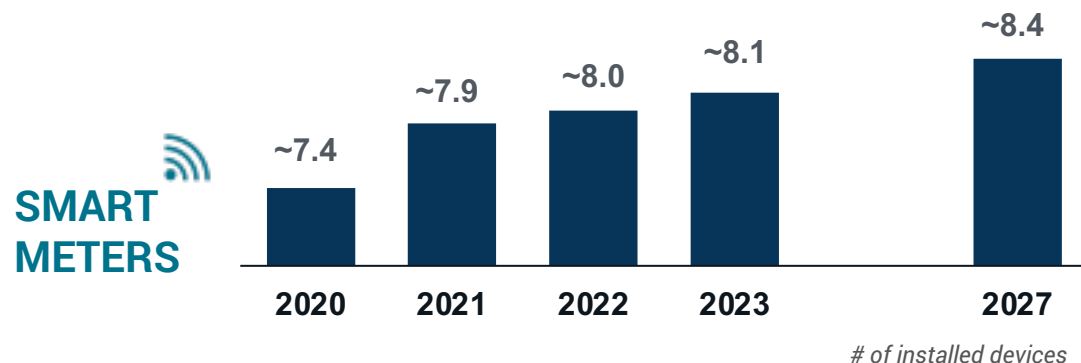




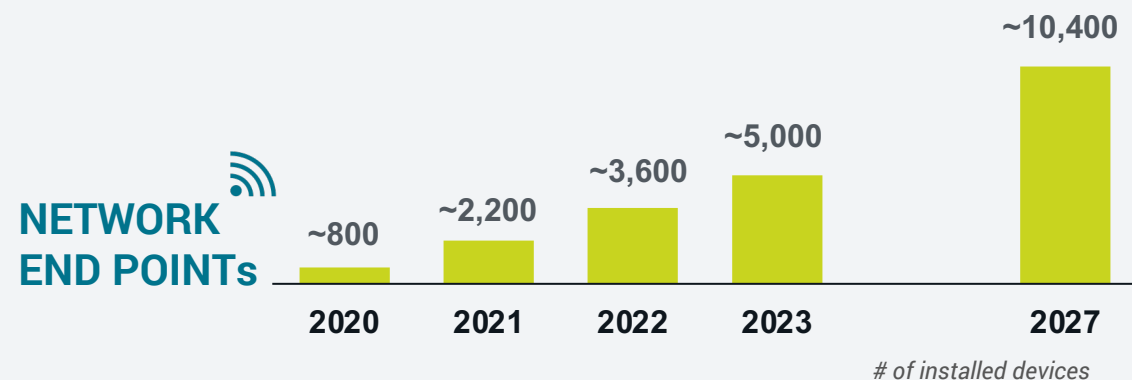
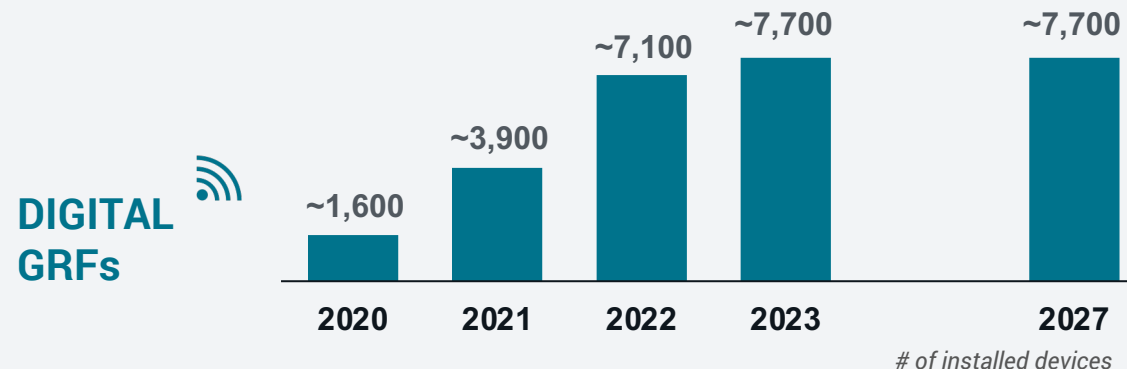
# DIGITIZATION CAPEX ASSETS NUMBERS



## Smart meters replacement plan near completion



## Step-up in digitization deployment



+5,000 digital assets, including gas analysers  
segmentation valves and odorization plants



# DIGITIZATION

## CORNERSTONE OF OUR CAPEX PLAN

### Digitization to benefit the gas distribution system in several ways



#### Safer operations

Safer  
operations  
foster service  
continuity



#### Consumption data

More accurate and  
updated  
consumption data  
enable proactive  
behaviors and  
predictive  
maintenance



#### Efficiency gains

Efficiency  
gains both on  
opex and  
capex resulting  
in savings for  
the system



#### Strict emission control

Crucial for  
reaching EU  
ambitious  
decarbonization  
targets



#### Green gases

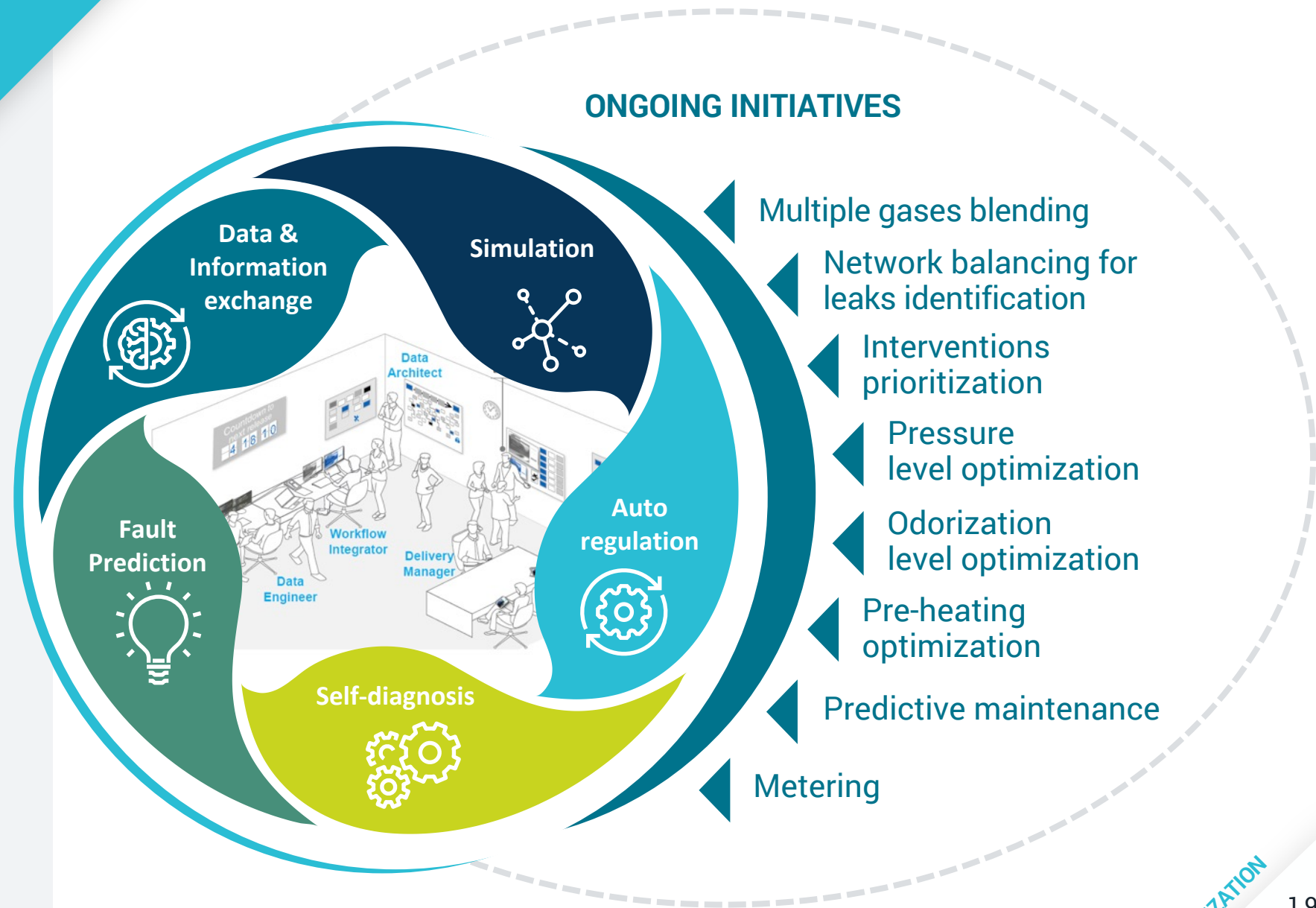
Enabler for  
injection of  
renewable and  
low carbon  
gases



# DIGITIZATION

## IoT, BIG DATA AND DIGITAL FOR GAS SMART NETWORKS

Smart gas networks enable an evolution in infrastructure management towards real-time, optimized and seamless operations





# R&D LEVERAGE ON DISTINCTIVE CAPABILITIES

Pursue technical innovation  
Targeting several research projects  
towards the future of the network

~€40mn  
CAPEX





# 2030-40 HYDROGEN ITALGAS H<sub>2</sub> PROJECT

H<sub>2</sub> P2G project aimed at testing the entire green hydrogen value chain, including implications on equipment

Shortlisted by MISE as eligible for European funds (IPCEI)



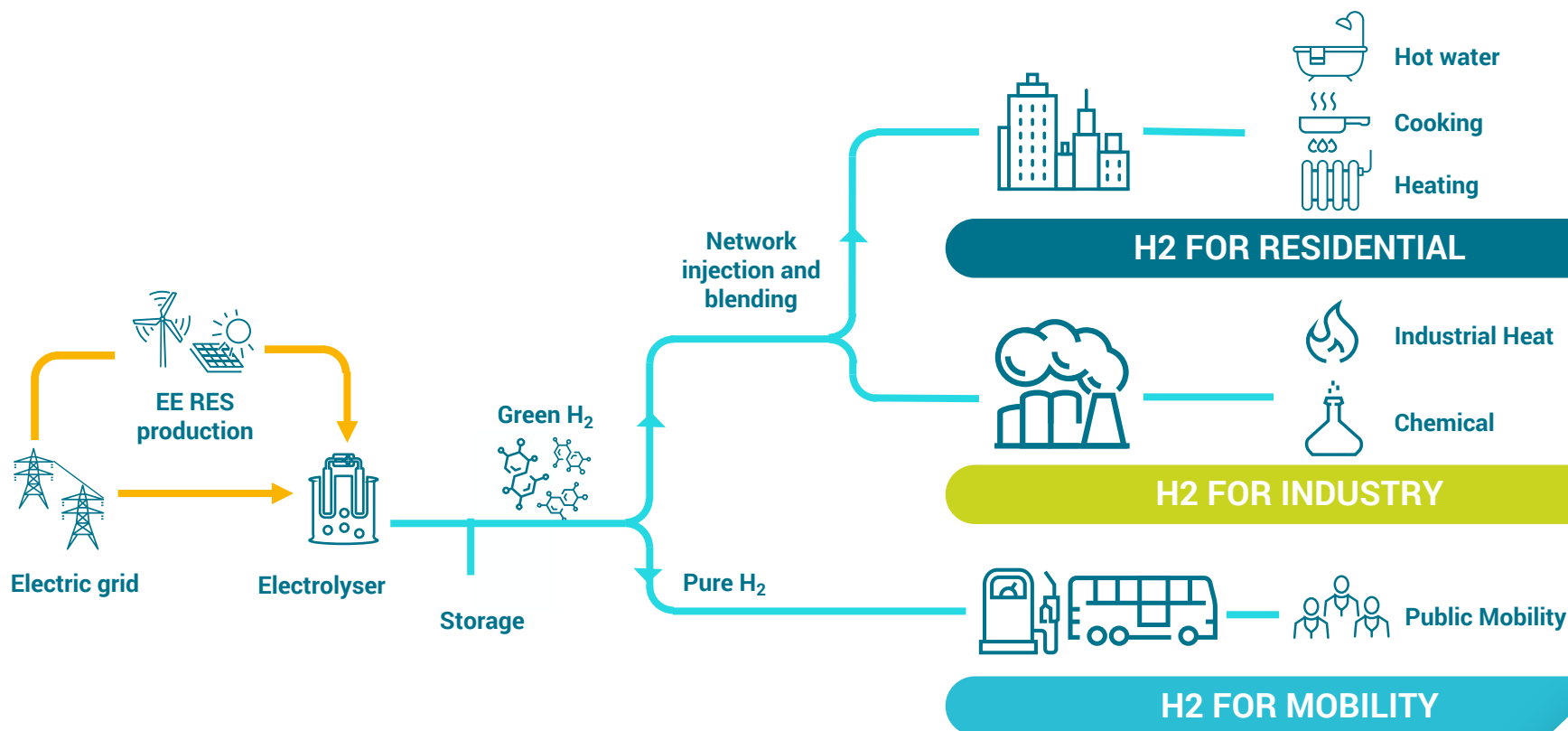
Sestu

Owned RES Plant 1 MW

Electrolyzer 0.5 MW

Refuelling station 200 kg/d

Basic design completed;  
permitting & procurement ongoing  
expected to be in operation in 2022





# R&D

## DESIGN NEW DIGITAL SMART METERS

Development of a new hydrogen ready smart meter to  
improve performance, guarantee security  
and benefit from standardisation



### SECURITY

Security by design



Long-lasting battery



Remote Control



Advanced safety



### INNOVATION

Sustainability



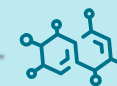
Modular Design



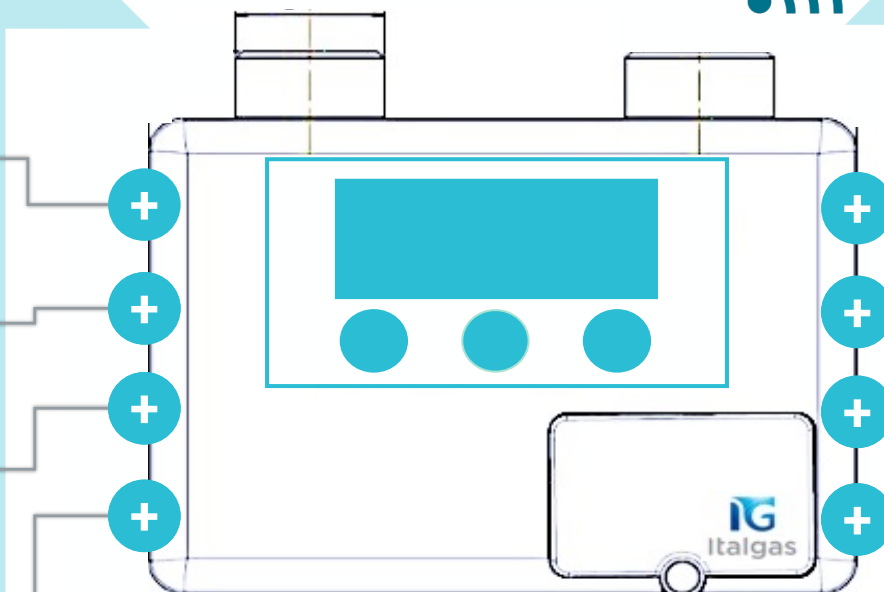
Connectivity



Gas blending



SMART METER  
NEXT GENERATION



METER



# NETWORK, REPURPOSING & UPGRADE

Network spending, well balanced between repurposing and extensions

~€3.4bn  
CAPEX



Repurposing  
and upgrade



Extensions  
and new  
grids



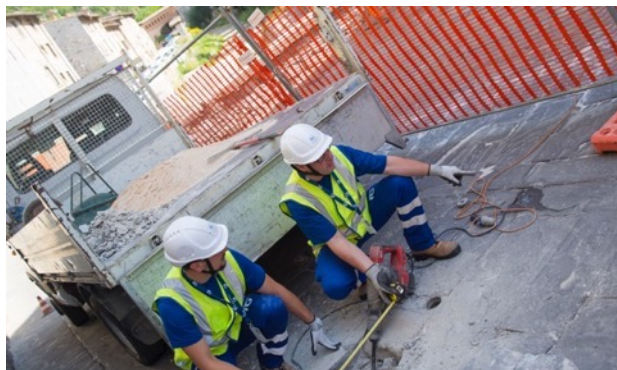
Maintenance  
of existing  
network



Sardinia  
new grids



Technical  
Innovation and  
energy efficiency





# NETWORK DEVELOPMENT TO ALLOW GAS TO REACH NEW CUSTOMERS

## SARDEGNA

### New fully digital native network

900km built starting from 2018  
out of 1,100km of new grid planned

45k active meters\*  
potential market 200.000\*\*

**~€0.3bn**  
CAPEX

TORINO, VALLE D'AOSTA, BELLUNO

Network development  
of won tenders

**~€1bn**  
CAPEX

EXISTING NETWORK

\* LPG / GNL to be converted to GNL / Natural gas \*\* GNL / natural gas

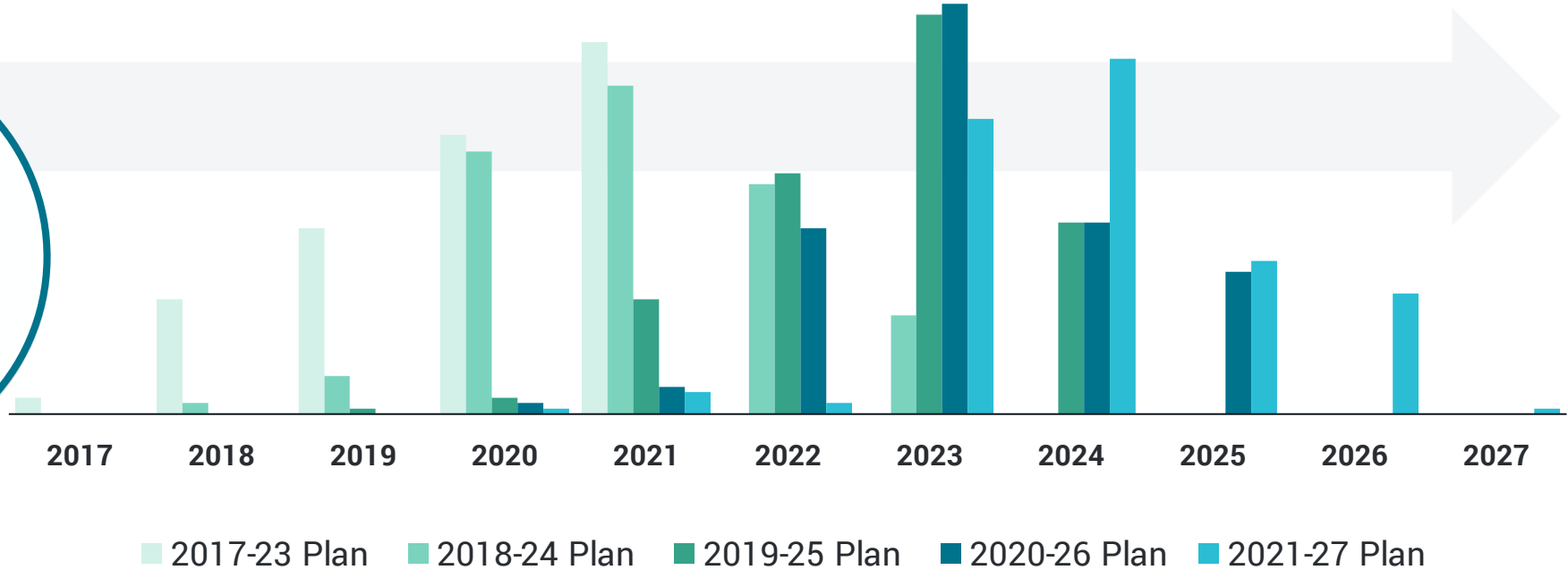


# TENDERS THE TIMELINE

Opportunity for investment and digital transformation,  
but timing subject to political decisions

2024 peak year in terms of expected awarded tenders

~€2.2bn  
CAPEX







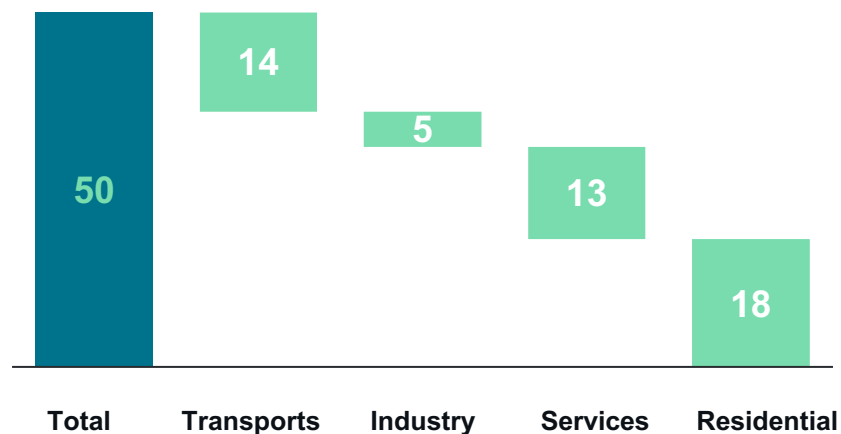
ESCO



# ESCO STRONG ENERGY SAVINGS MARKET OUTLOOK

**Outlook for the Italian energy efficiency market is very strong**  
Efficiency in residential buildings is core to achieve EU targets  
Highly fragmented market

**Target of energy savings by 2030 per sector\* (TWh)**



**€220bn investments expected by 2030**



**Residential sector accounts for  
~35% of the 2030 target**

12  
mn

Residential buildings in Italy

60%

Older than 45 years

>25%

Currently very low energy efficiency  
needs robust requalification  
initiatives



# ESCO FROM NEW OPPORTUNITY TO REALITY

## Delivering on announced strategy



### NOW 1 COMPANY

- **Seaside** and Toscana Energia Green completed the merger
- **High potential** thanks to complementary businesses (geography, customer base)
- Focus on **Buildings energy renovation** and **Digital Services**

### INTERNAL EFFORT

- Support Italgas energy transition, providing services within the Group
- Key asset for tenders

### EXTERNAL OPPORTUNITIES

- M&A initiatives to expand the scale of services offered and to consolidate a fragmented sector gaining economies of scale
- **Ceresa acquisition**



# ESCO FROM NEW OPPORTUNITY TO REALITY

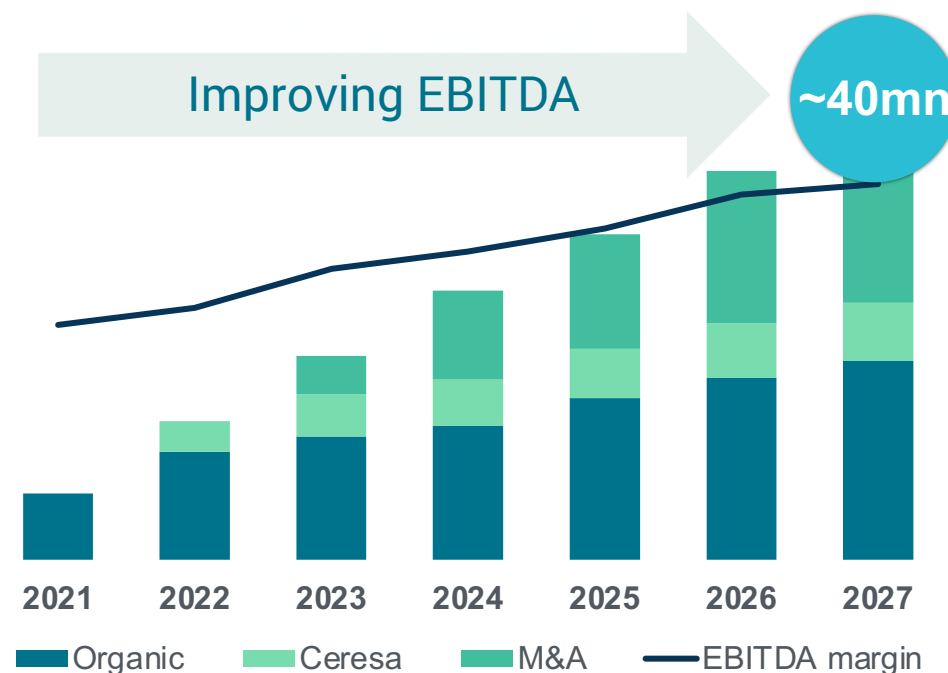
Growing EBITDA contribution

REVENUES  
**>€700mn**  
TOTAL  
CUMULATED  
POTENTIAL\*

**~€100mn**  
CAPEX\*

## M&A: CERESA (14/06/21)

- Operates in buildings energy efficiency with a focus on heat management
- Founded in 1921
- Mainly operates in the Northwest Italy with 27 employees.
- Serves a large customer portfolio (3,651 customers, mainly in individuals and condominiums).



\* Whole ESCO business,

ESCO



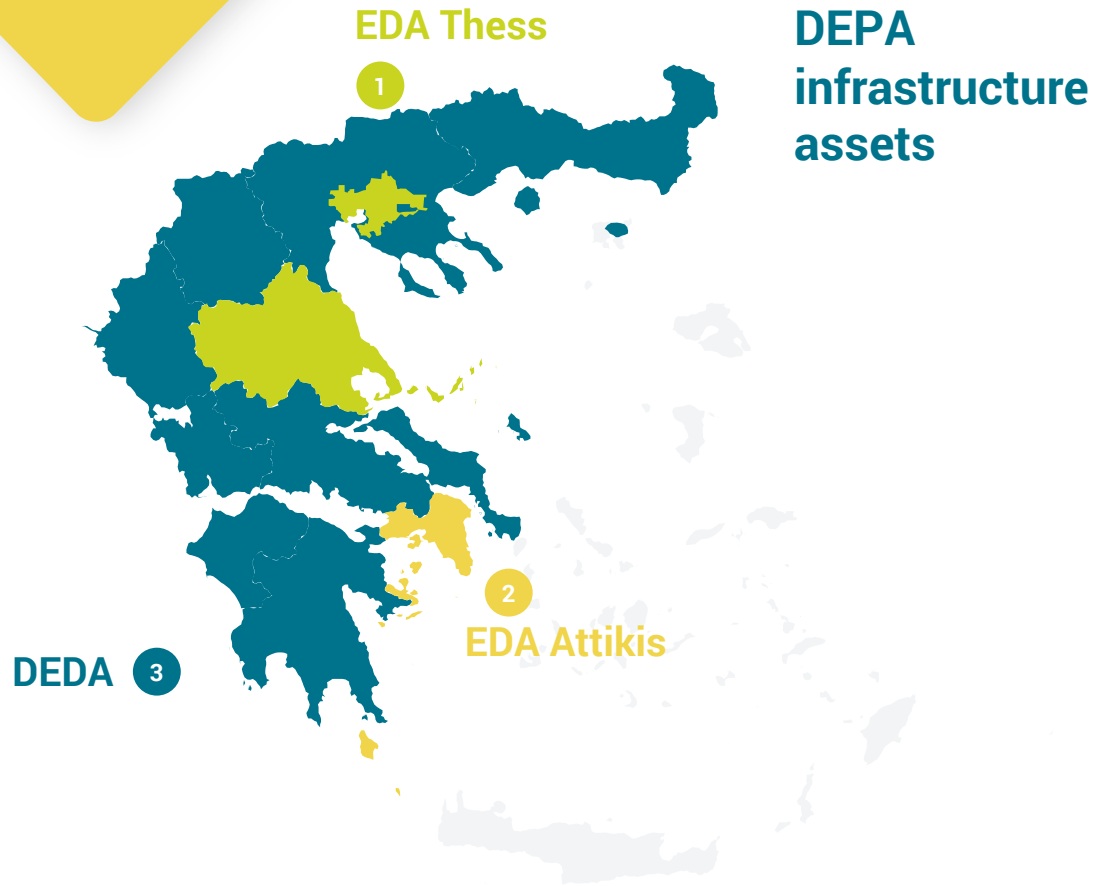


NEW OPPORTUNITIES



# POTENTIAL GROWTH OUTSIDE ITALY MONITORING OPPORTUNITIES

Italgas has been shortlisted for DEPA privatization in Greece  
Offer due date July 15, closing expected before year end



## FITS WITH INVESTMENT CRITERIA

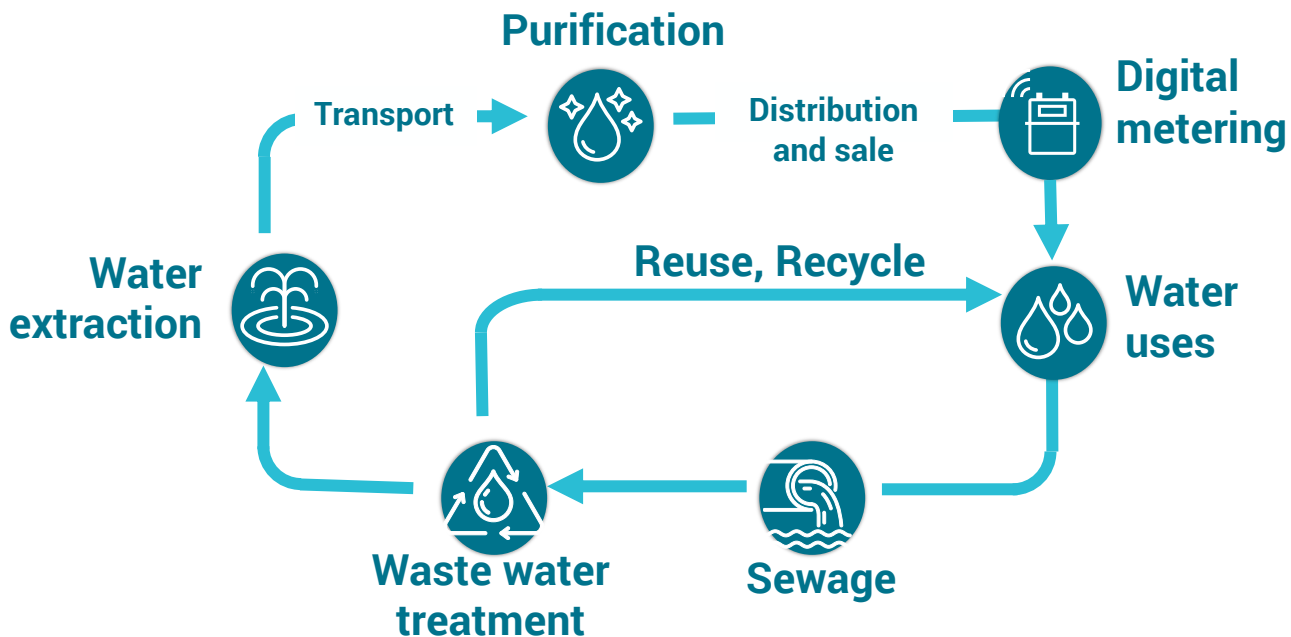
- Comparable sovereign risk
- Ability to exercise an industrial role  
significant network development  
digital transformation
- Visible and established regulatory framework
- Similar-risk adjusted returns to Italy



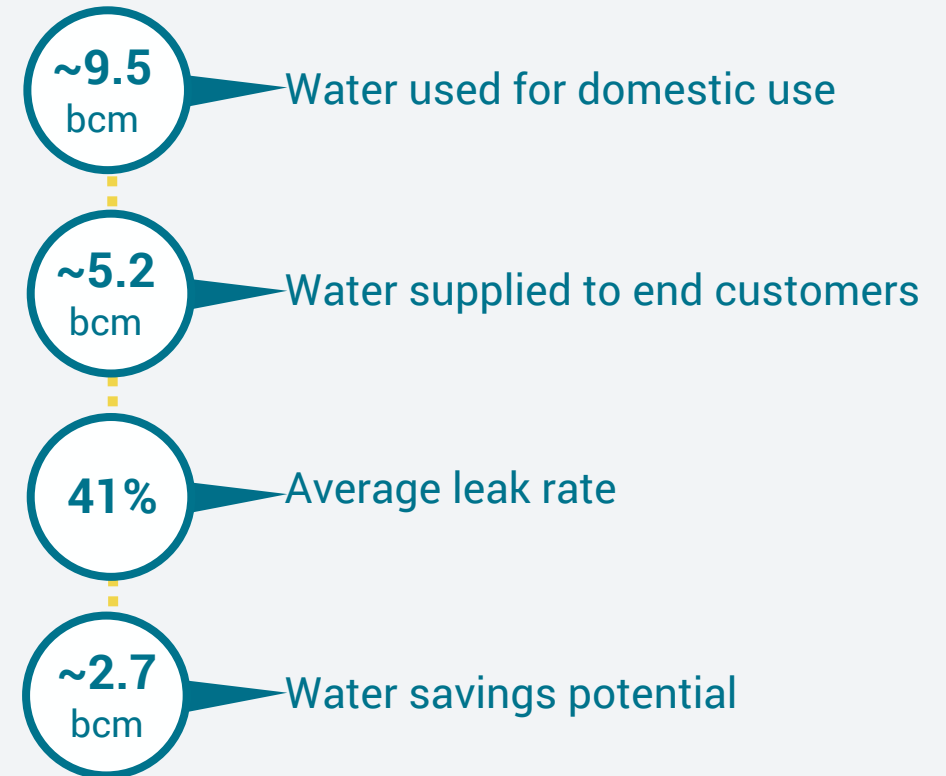
# WATER CONFIRMING TARGETS

Total water distribution market in Italy 27bcm,  
of which 20% for civil uses

Integrated water services system (SII)\*



## Distribution and sale



WATER



# WATER CONFIRMING TARGETS



## ITALGAS ACQUA

Serving 5 municipalities  
in the province of Caserta  
100% of the network remotely controlled

2019 Network Assessment  
2020 Network Design

## Best practices in gas network management applied to water networks

REVENUES  
**>€250mn**  
CUMULATED  
POTENTIAL  
2021-27

### ADVANTAGES

- ★ **Deep understanding** of the regulation and knowledge of the business
- ★ **Expertise in managing** pipeline networks
- ★ **Opportunity to digitise** new grids replicating what already done by Italgas
- ★ **Solid expertise** in water leakages management and reduction, also thanks to **Takadu** partnership
- ★ **Sustainability** focus

**Plan Period**  
CEM technology implementation  
NB-IoT smart meters deployment



# NEWCO ICT ACCELERATOR OF INNOVATION

Competence centre for the entire group,  
unlocking value of proprietary solutions  
in the market



## NEWCO ICT

**Rationalisation of all  
ICT activities** previously run by  
different group entities into a  
**NewCo fully owned by Italgas**

## ADVANTAGES

- ✓ **Agile vehicle**
- ✓ **Acceleration** of technological innovation and digitization
- ✓ **Simplified** ICT organization
- ✓ **Unique reference** for companies of the Group
- ✓ **Clearer focus** on economics



Potential to sell technological solutions developed  
and tested by Italgas to third Parties

DESIGNED FOR ITALGAS



Innovate

- **Test and learn**
- **Customization and development** of proprietary solutions
- **Piloting**



Run and improve

- **Roll-out at scale** to capture operational efficiencies
- **Monitoring** for continuous improvements and
- **Evolved operating model**

OFFERED TO THIRD PARTIES



Go to market

Productization of selected solutions for third parties such as:

- **SaaS solutions** supporting client's needs
- **Turn-key services** offered by Italgas
- **Opportunity** to leverage the Italgas agile delivery model in the Digital Factory



# FINANCIALS





# CAPEX PLAN 2021-27 OVERVIEW

€7.9bn total capex, +5.2% vs 2020-26

DIGITIZATION



NETWORK



SARDINIA



CENTRALIZED



€ 5.2 bn related to gas distribution base perimeter

EXPANSION OF GAS  
DISTRIBUTION  
PERIMETER<sup>(1)</sup>



M&A & development

DIVERSIFIED ACTIVITIES



M&A & development  
Energy efficiency  
Water  
Retail

TENDERS



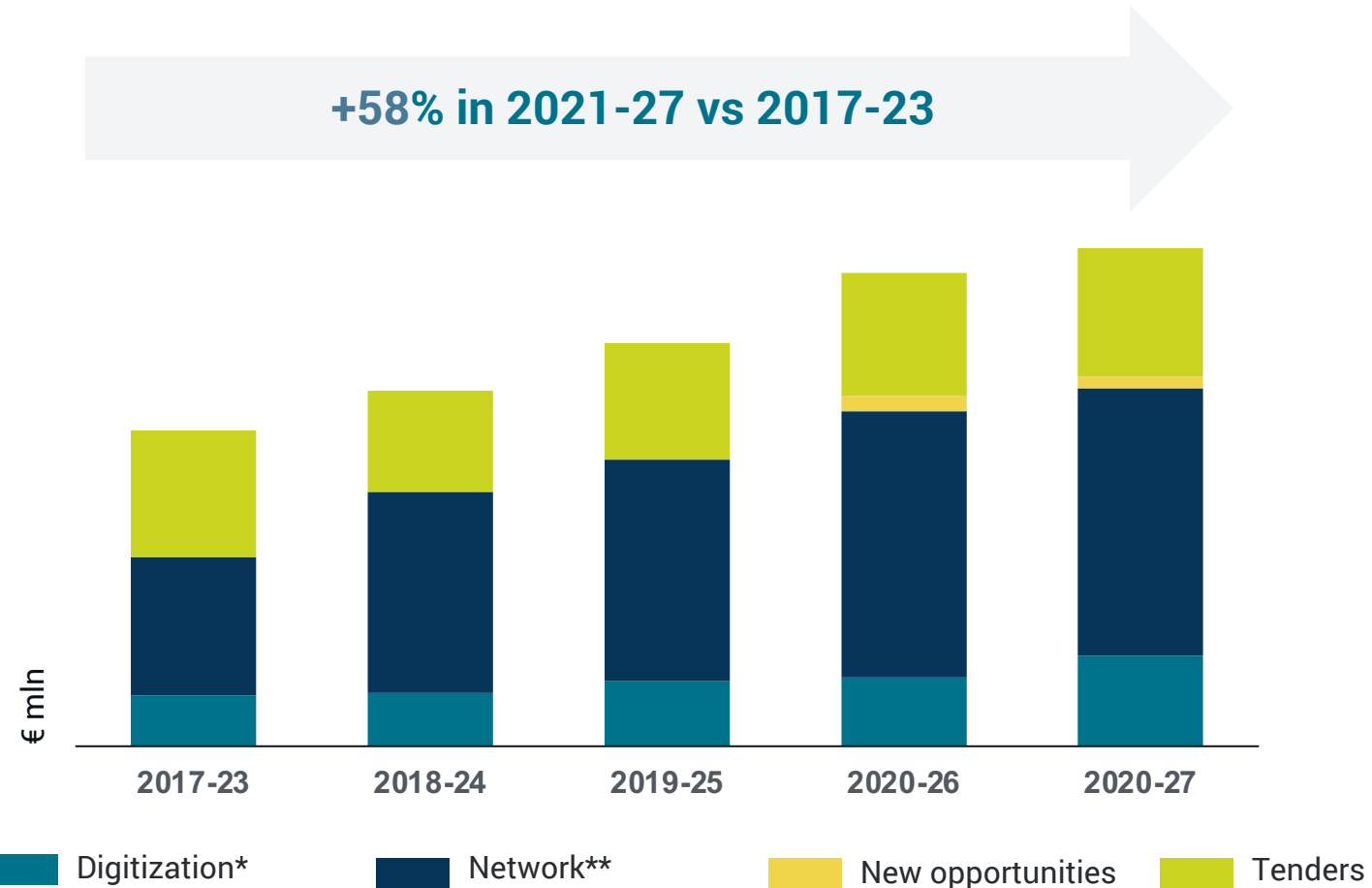
Net capital deployed  
and induced capex

<sup>(1)</sup> €0.4bn is M&A in the No Tenders scenario, while in the Tender scenario is reduced to €0.3bn



# CAPEX PLAN 2021-27 +58% IN 5 YEARS

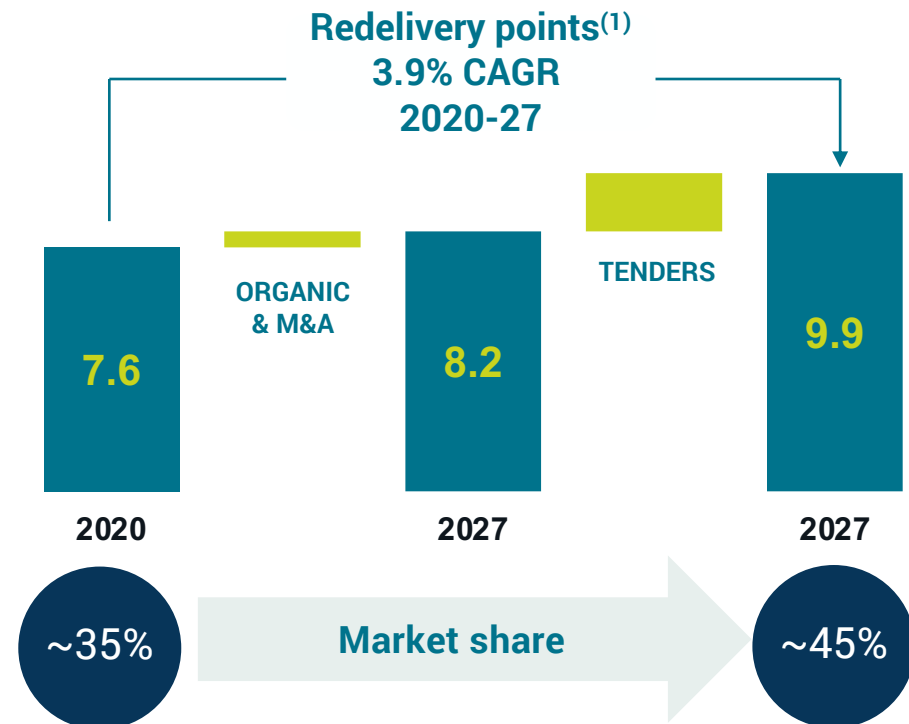
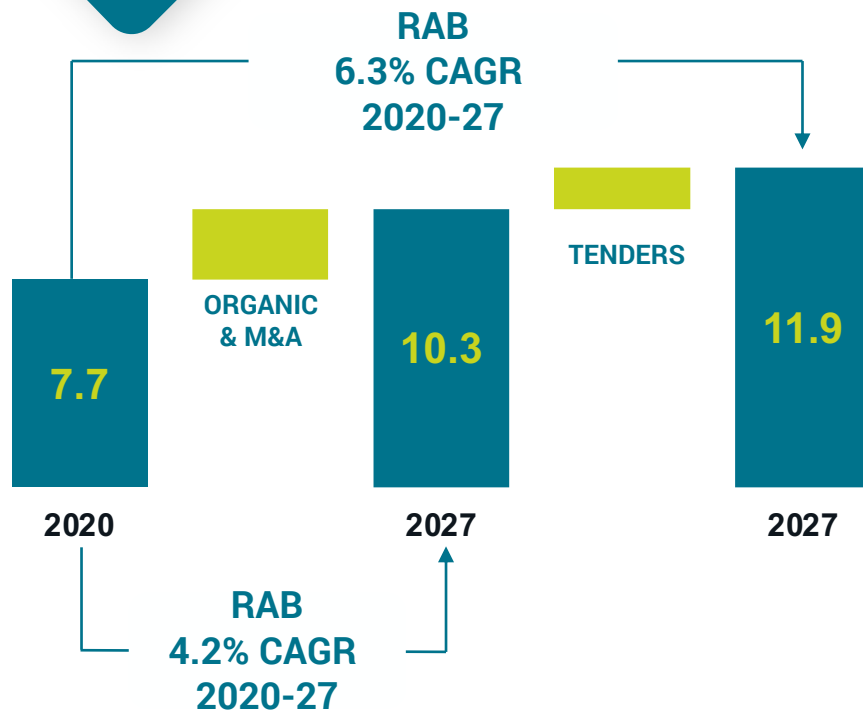
Increase in spending related to core assets  
and digitization





# GROWTH SUPERIOR RAB GROWTH

Growth in RAB and redelivery points driven by organic investments, M&A and tenders



FINANCIALS



# STRONG COMMITMENT NEW ENVIRONMENTAL TARGETS SET

Major step ahead in our  
commitment to the environment

Identified specific initiatives,  
made possible also by  
digitization

Picarro boosts emissions  
reduction



Scope I and II  
GHG emissions  
reduction<sup>(1)</sup>

10<sup>3</sup>t CO2 eq

FY 2020

Gas leaks

-30%

Civil and  
Industrial Gas  
Consumption

Vehicles

FY 2027

Net Energy  
Consumption<sup>(1)</sup>

TJ

FY 2020

Electricity

-25%

Civil and  
Industrial Gas  
Consumption

Vehicles

FY 2027

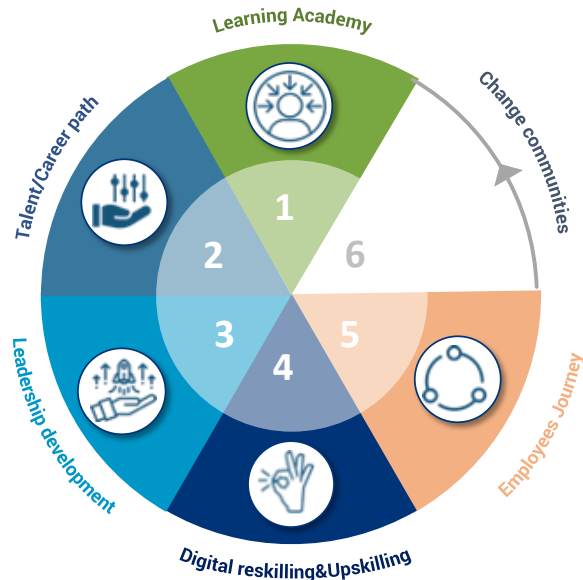


# HRO STRATEGY TO SUPPORT GROWTH

3 pillars HRO based strategy designed to sustain people development and industrial growth

## ENGAGEMENT & CHANGE MANAGEMENT

Strengthen engagement and facilitate change management



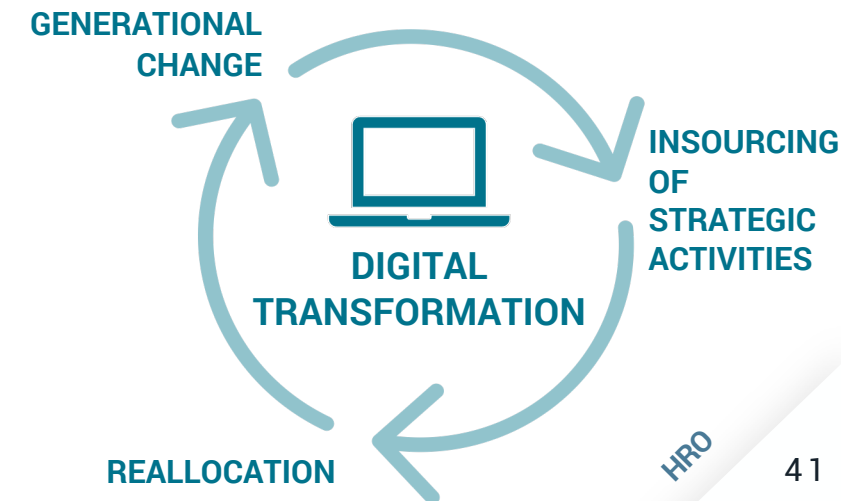
## SUSTAINABILITY & INCLUSION

Improve business sustainability and inclusion

- Smart working, start from home & office transformation
- Safety focus
- Listening (Inclusion Manager),
- Welfare upgrade
- Ambassadors & contamination
- Employee as a stakeholder

## OPERATIONAL EFFICIENCIES

Operational efficiencies leveraging on digitization











# INSOURCING OF STRATEGIC ACTIVITIES

Insourcing of core activities previously managed by 3<sup>rd</sup> Parties  
New activities created by digitization  
People reskilling and upskilling to empower strategic know-how  
and deliver excellence

## ACTIVITIES ALREADY INSOURCED

2021

## TO BE INSOURCED OVER PLAN PERIOD

-  ✓ • Leak detection and repair
-  ✓ • Metrological inspections
-  ✓ • Quote issuing activity
-  ✓ • On-site inspections
-  ✓ • Smart meters batteries replacement
-  ✓ • Risers



- Construction engineering

Currently  
externalized



- Digitized assets maintenance

New, driven by  
digitization

+

- New activities yet to be identified



*Leveraging on people growth and HR*

HRO



# PEOPLE KEY TARGETS



100 digital  
50 sustainability  
30 inclusivity  
ambassadors

Increase in Smart Office  
& Smart working

Top 10 Talent attraction  
brand awareness

Development of Italgas  
Academy

Gender equality new hires	<b>50%</b>	Women in responsibility roles	<b>25%</b>
Total hours to training in 2021-27 ...	<b>600k hours</b>	Employees in welfare	<b>&gt;75%</b>
<i>... of which digital learning</i>	<b>250k hours</b>	Learning hours/employee/yr	<b>38 hours</b>
Engagement in Net Promoter Score (NPS)	<b>&gt;80%</b>	New hires under 30 years old	<b>60%</b>



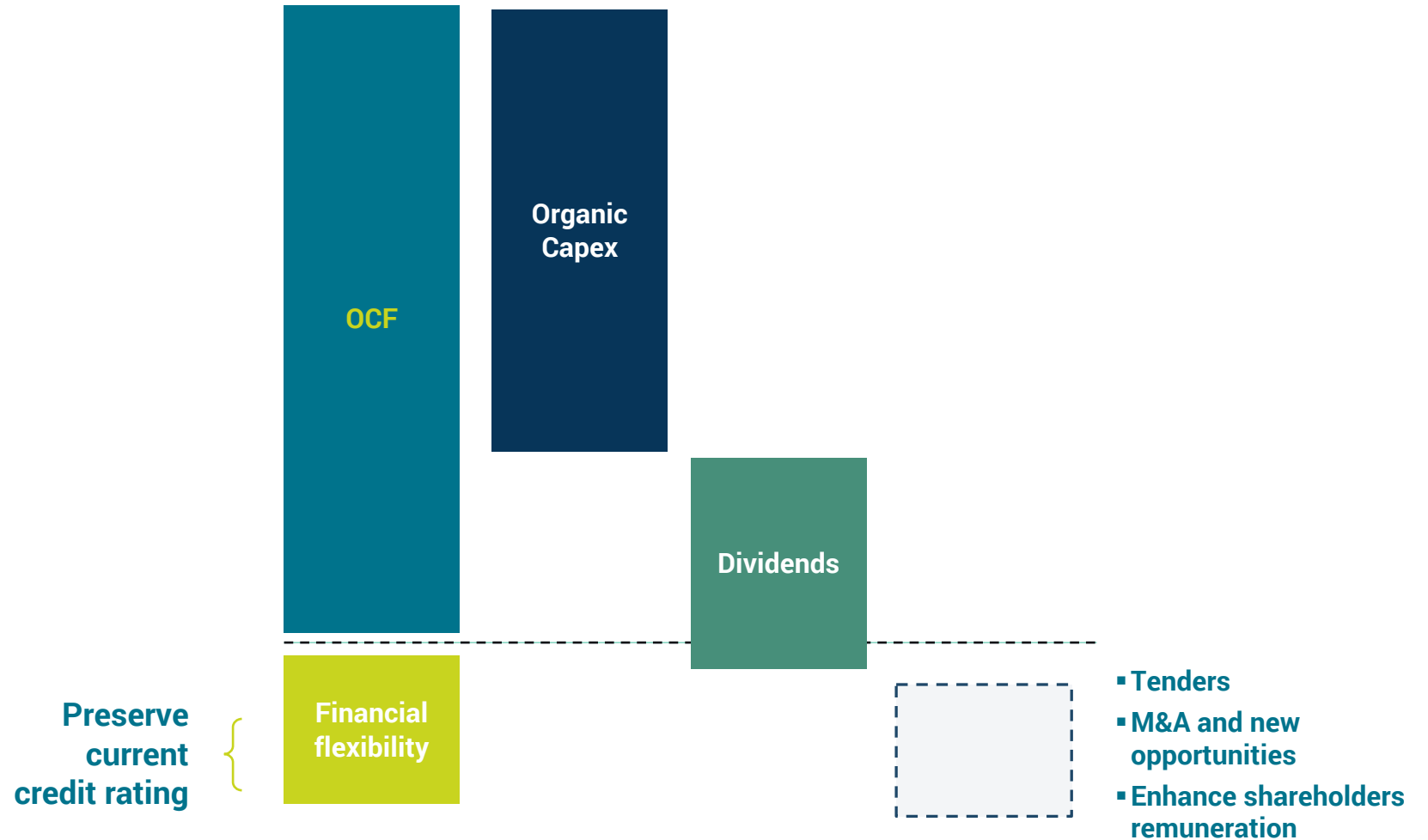
# FINANCIAL STRATEGY

A KEY SOURCE OF VALUE CREATION

Sustainable  
finance sources

Support capex growth  
maintaining flexibility

Preserve a solid  
investment grade profile





# FINANCIAL STRATEGY

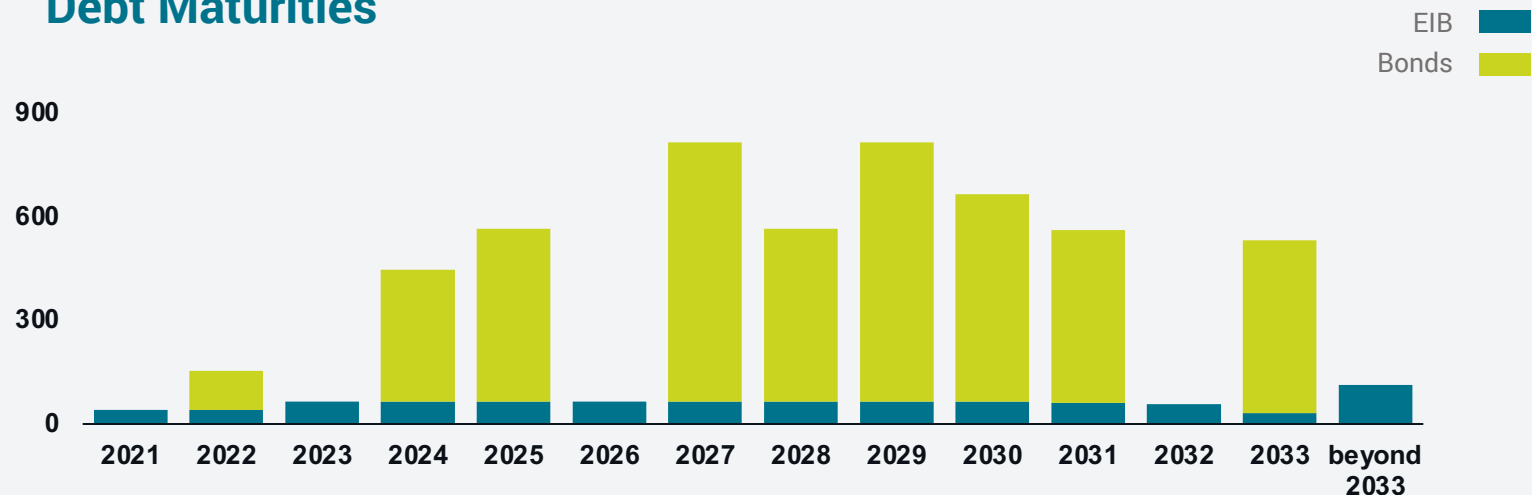
## A KEY SOURCE OF VALUE

Limited refinancing needs and ample liquidity buffer

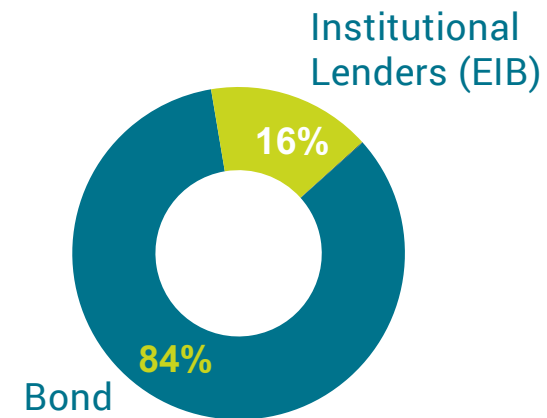
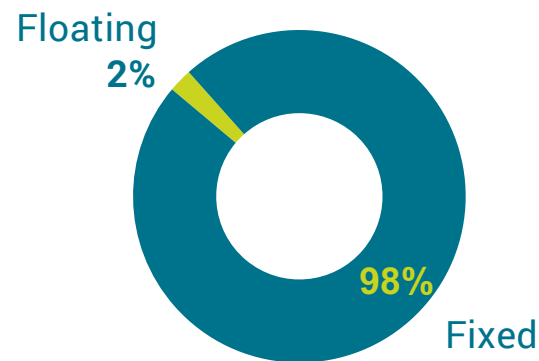
Low exposure to interest rates volatility and long debt tenor

Best in class cost of debt of ~1% over plan period

### Debt Maturities



### 1Q 2021 Gross Debt Structure\*



(\*) excluding IFRS16



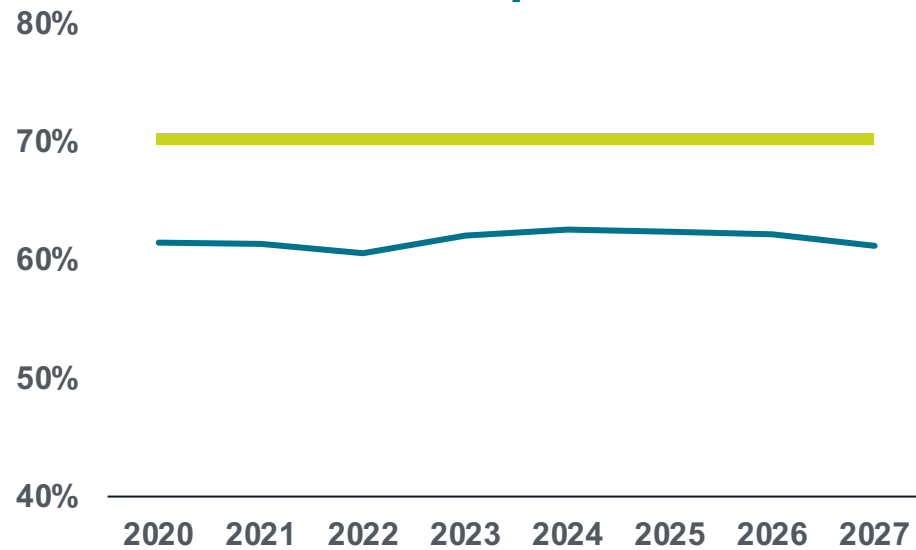
# CREDIT METRICS

MOODY'S Baa2

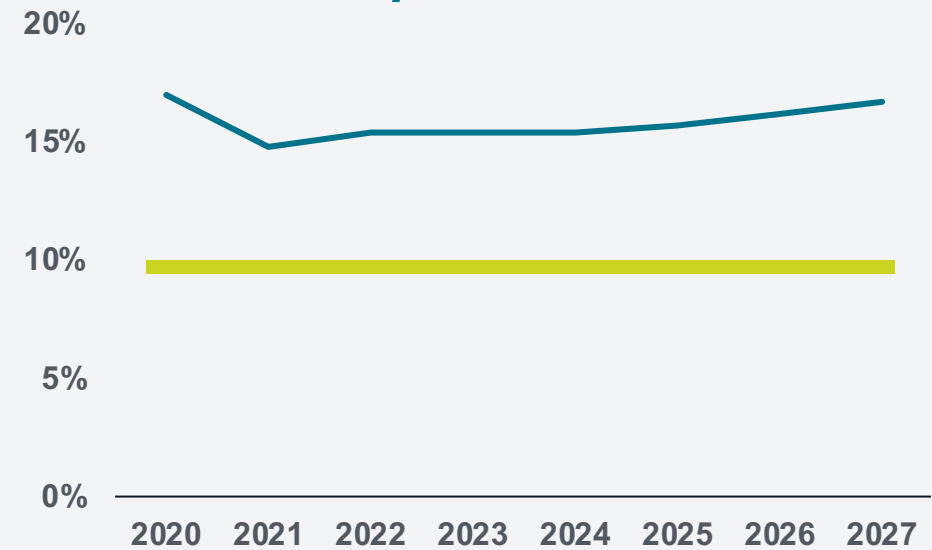
FITCH BBB+

Credit metrics remain within range throughout the plan

## Net Debt / RAB



## FFO / Net Debt





# DIGITIZATION

## A SOURCE OF VALUE CREATION



~ €60mn capex impact



- ✓ **ICT:** cloud adoption and reduction of software development requests



- ✓ **Network:** more efficient maintenance capex through workforce re-organization and intervention optimisation

~ €190mn P&L impact



- ✓ **ICT:** cloud adoption to drive opex reduction



- ✓ **Operation:** savings from activities to end-users, penalties reduction, grid maintenance efficiencies



- ✓ Increase of **ARERA incentives** thanks to leak detection activity and digital equipment

(\*) Cumulated over 2021-27 compared with a scenario of no digitization investments, more than €260mn since 2019



# DISTRIBUTION COSTS

## FURTHER EFFICIENCIES WITH TENDERS

Efficiencies driven by technological innovation and digitization

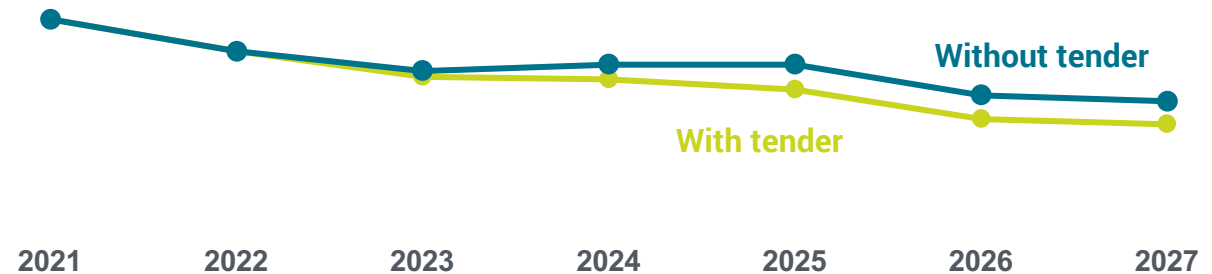
Offset X-factor impact

Tenders will drive higher economies of scale and optimised geographical footprint

Distribution operating expenses without tenders\*



Unit cost per redelivery point\*\*



(\*) without M&A and other activities, (\*\*) net of pass through



# GUIDANCE

2021

2024

2027

€ mn

**Revenues**

>1.35bn

**Revenues**

~1.9bn

~2.1bn

**EBITDA**

~1.0bn

**EBITDA**

~1.37bn

~1.6bn

**EBIT**

560-580

**EBIT/RAB\***

~7.5%

~8.2%

**Capex**

850-900

**Consolidated RAB**

10.5bn

11.9bn

**Net Debt**  
with IFRS 16

~5bn

**FFO / RAB**

10%

10%

**Leverage**

~61%

**Leverage**

~62%

~60%

\* Gas distribution only

FINANCIALS

49



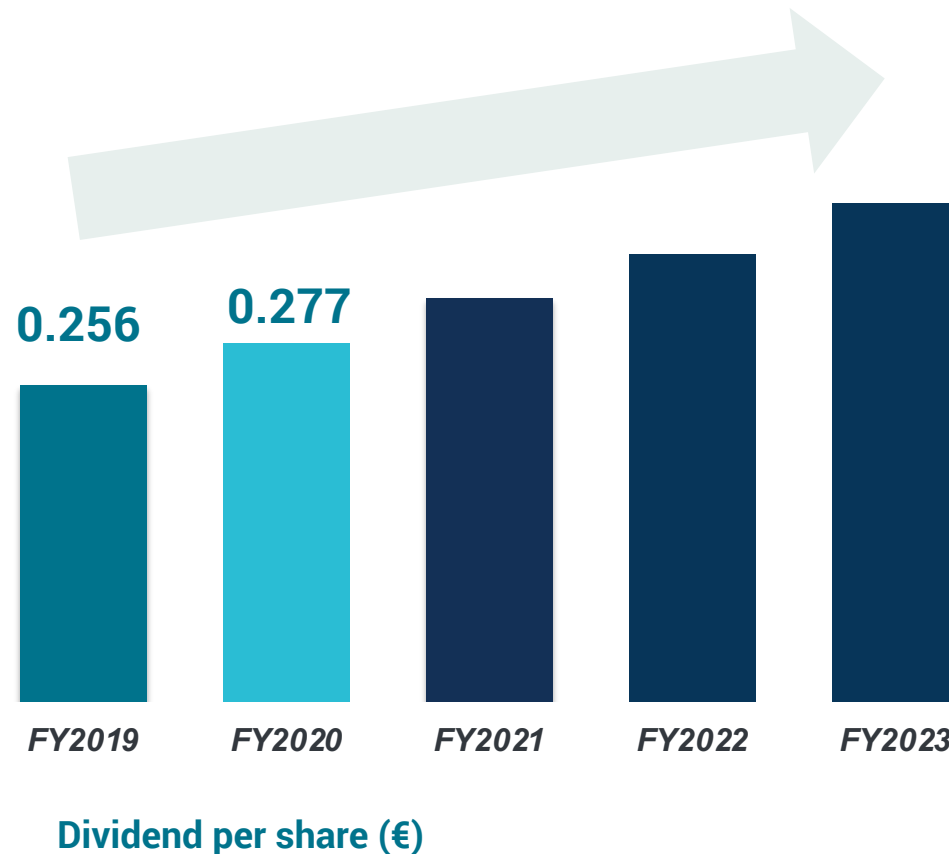


# DIVIDEND POLICY CONFIRMED

Dividend policy allows shareholders  
to benefit from growth potential

## Higher between

- ✓ DPS equal to 65% payout on  
Adjusted Net Income
- ✓ DPS 2019 +4% per annum





# EMPOWERING OUR FUTURE



## Foster Energy Transition

Foster the development, injection and at scale usage of green gases.

## Smart Gas Networks

Network upgrade and repurposing to reduce costs, increase efficiencies and resilience, enable green gases distribution, via digital transformation.



## Emission reduction and energy efficiency

Decarbonization of operations and full deployment of energy efficiency initiatives within the Group and versus the external market

## External growth / New opportunities

M&A initiatives (in Italy and abroad), tenders to grow in the gas distribution, leverage on existing internal capabilities to grow further (Water, ICT)



## Financial Structure & Shareholders' Returns

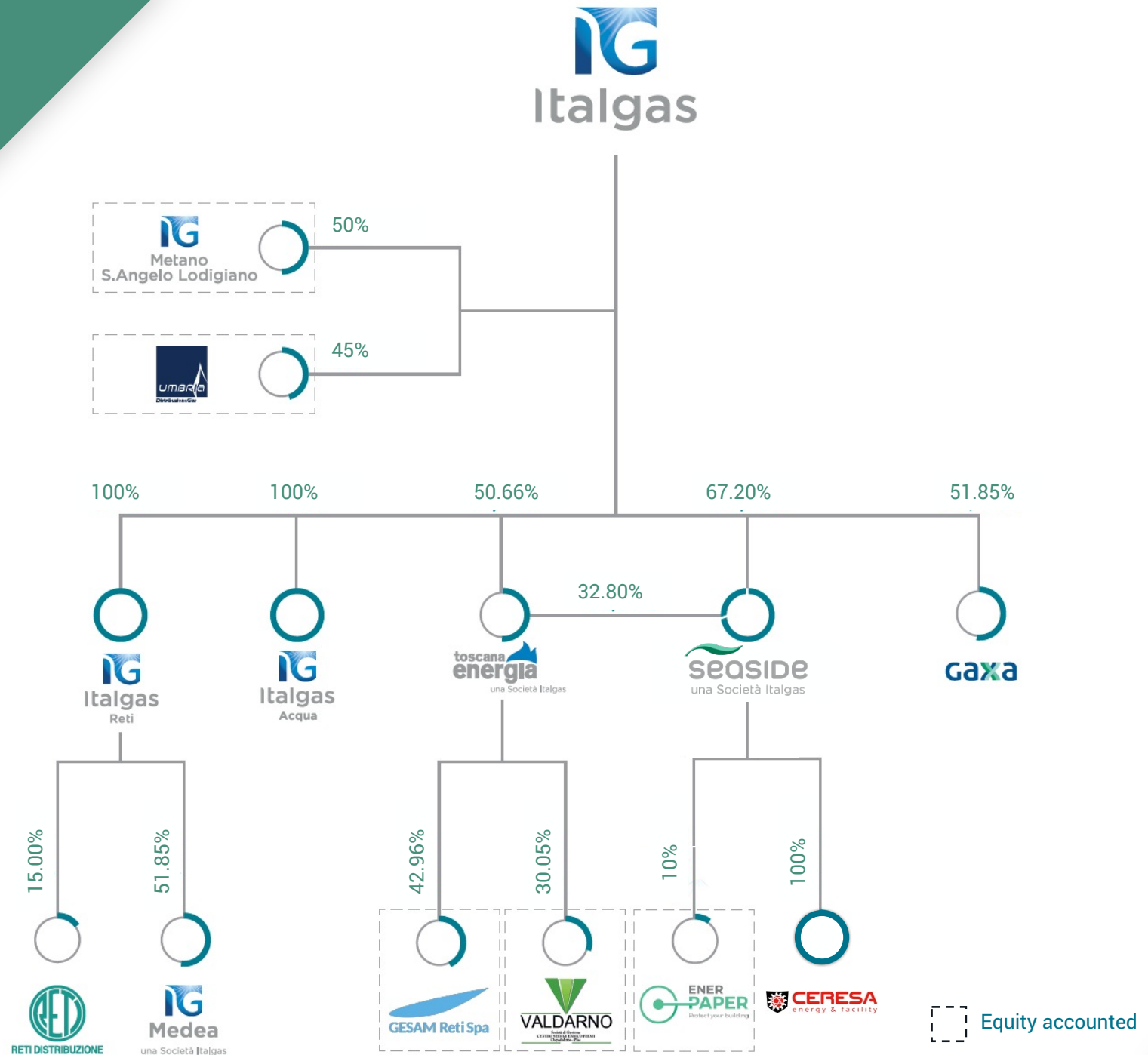
To ensure value creation, support growth opportunities and guarantee a robust shareholder's return



# APPENDIX



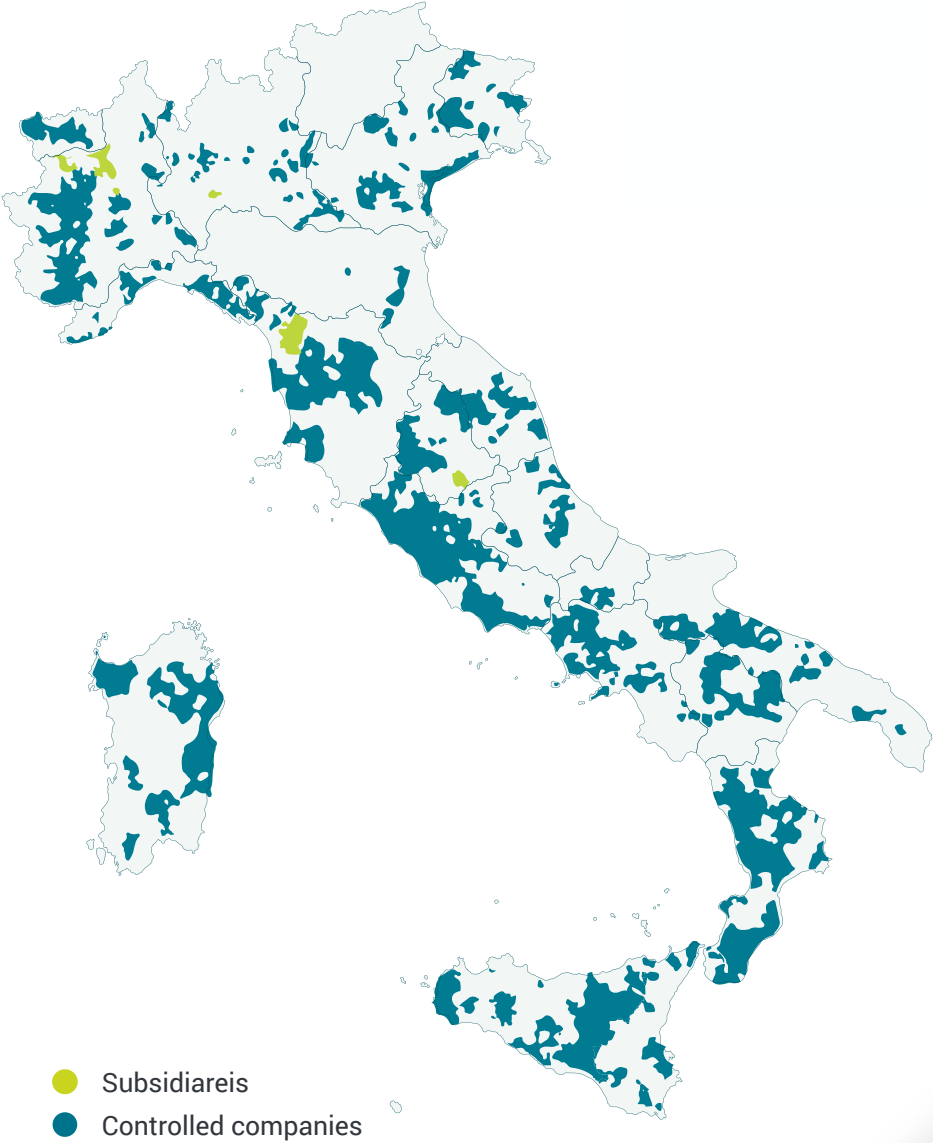
# GROUP STRUCTURE





# MAIN NUMBERS

	OPERATING HIGHLIGHTS (TOTAL)	OF WHICH AFFILIATES
Network length	73,319 km	1,877 km
Municipalities	1,888	61
Redelivery Points	7.750 mn	0.153 mn
Market Share <sup>(1)</sup>	35%	0.1%

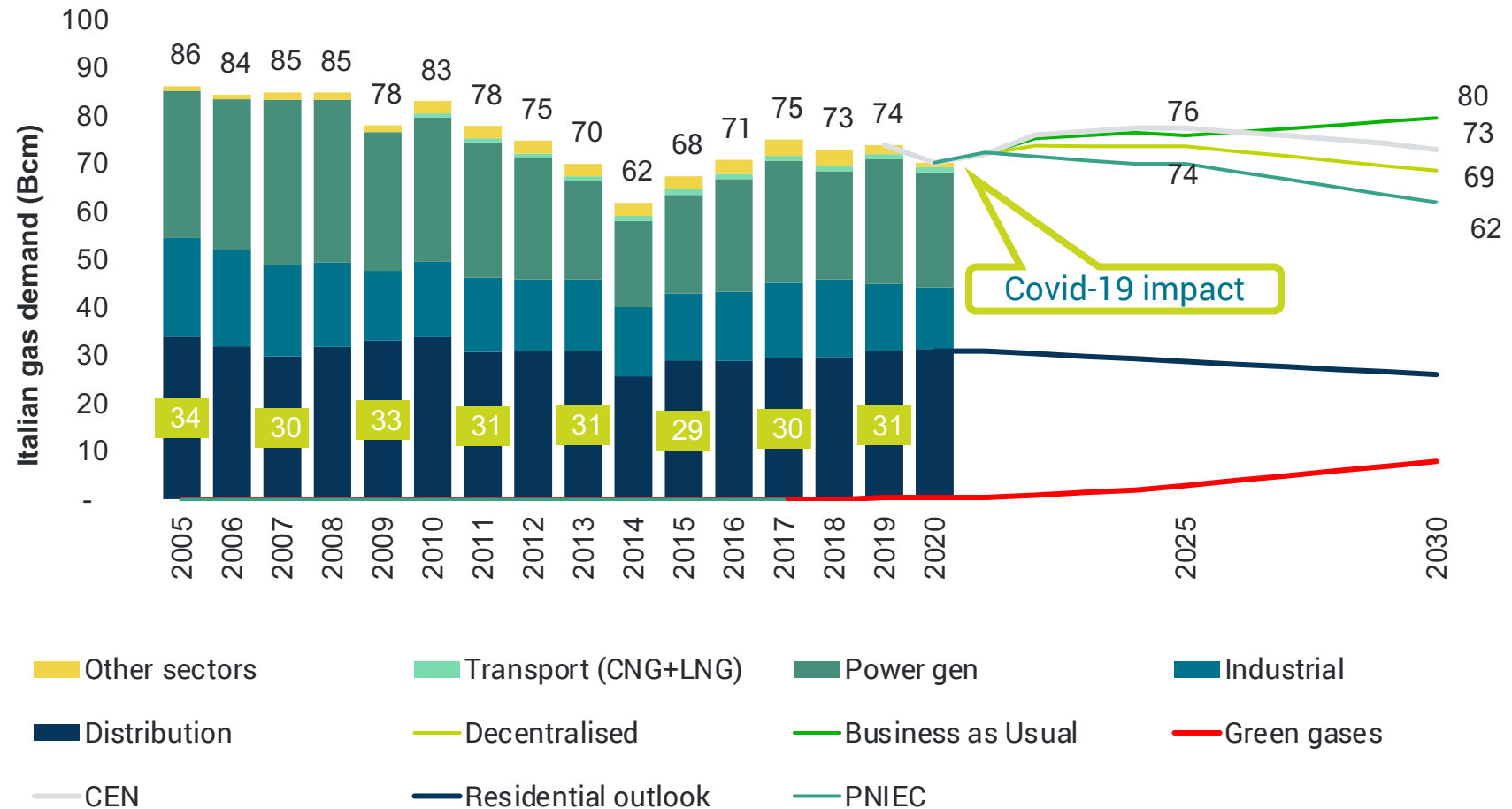


(\*) Calculated by redelivery points



# ITALY GAS DEMAND EXPECTATIONS REAFFIRMED

## Networks to accommodate new green gases





# SUSTAINABILITY

## AT THE CORE OF OUR ACTIONS

Committed to performance improvement and ESG culture. New targets set integrating Sustainability Plan pillars



### ENVIRONMENT

- **Decarbonization of operations and reduction of energy consumption**  
**Network digitization** to accommodate green gases
- Ongoing **Sardinia methanization**
- Scale-up of the **Power to Gas project**

### SOCIAL

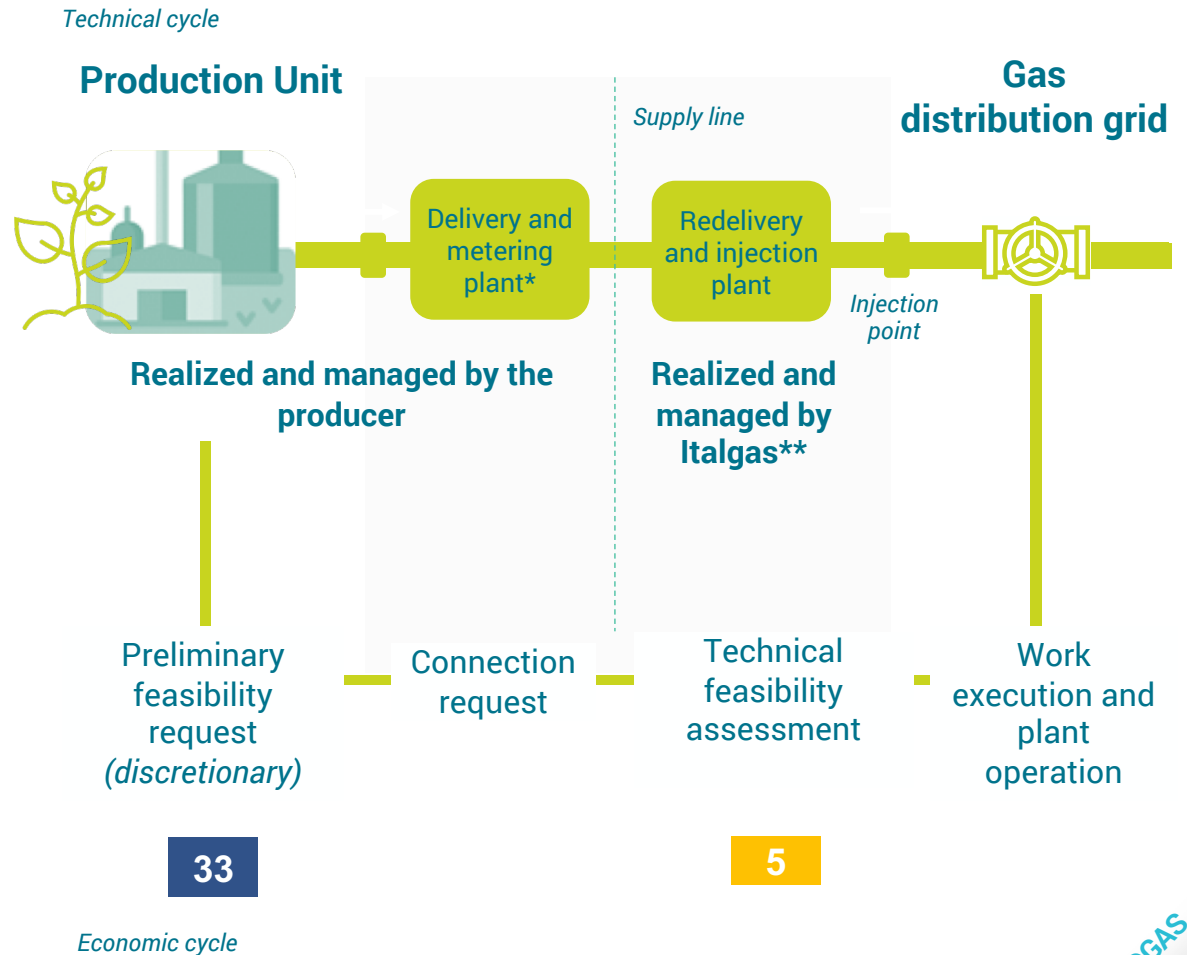
- **People empowerment and safety**, also considering impact from COVID-19
- **Diversity and equal opportunities** promotion
- **Improvement of the relation** with final customers, sales companies and suppliers
- Promotion of **social innovation through education** (digital divide, cultural projects)

### GOVERNANCE

- **ESG KPIs in top management remuneration**
- **Integrated Annual Report**
- **67% Independence of the board**
- Improved focus on **ESG and climate change issues in Enterprise Risk Management**
- Valorisation of **sustainability and gas advocacy on national and international round tables** (e.g. GD4S and OGMP)



**Connections requests keep raising. Italgas received 38 preliminary requests for connections since 2017. Need to consider “reverse flow ops”**



**BIOGAS**



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