

ITALGAS PRESENTS ITS 2021-2027 STRATEGIC PLAN

7.9 billion euro investments to extend the network, complete the digital transformation and drive the energy transition, boosting the development of renewable gases and energy efficiency

Rome, June 15th, 2021 – Italgas Chief Executive Officer, Paolo Gallo, is today presenting to analysts and investors the Group's Strategic Plan for the 2021-2027 period, which was approved yesterday by the Company's Board of Directors chaired by Alberto Dell'Acqua.

The new Plan envisages an investment program of 7.9 billion euros, with an increase of 0.4 billion euros compared to the previous Plan presented in October 2020. The increase in investments is driven by digitization, with the aim of completing the digital transformation of assets in 2022 and making Italgas a leading player in the energy transition for all intents and purposes; a Plan in line with European decarbonization targets and the development of renewable gases such as biomethane, synthetic gas and green hydrogen.

The new 2021-2027 Plan is structured along five main pillars: (i) digital transformation and technological innovation that will enable Italgas to play a key role in the energy transition; (ii) repurposing and upgrade of the infrastructure to accommodate and distribute renewable gases, and network extension also through M&A and gas tenders; (iii) new growth opportunities by enhancing the Group's expertise in the energy efficiency, water and IT services sectors; (iv) insourcing of core skills, further boost to people reskilling and upskilling (v) a solid and efficient financial structure to support growth opportunities and continue to ensure an appropriate return for shareholders.

The Plan integrates ESG factors and meets the challenges of sustainability by setting new targets for the Company in terms of emissions reduction, energy efficiency, competences and people development to make the change effective.

Highlights

- **Total investment Plan of 7.9 billion euros, of which 2 billion euros dedicated to gas tenders;**
- **More than 1.4 billion euros for network digitization (+32% compared to previous Plan);**
- **30% reduction in greenhouse gas emissions and 25% reduction in energy consumption;**
- **First step in growth strategy in the energy efficiency sector with the acquisition of the ESCo Ceresa SpA;**
- **Consolidation of the Group's Information Technology activities into a new corporate vehicle;**
- **Strong attention to Gender Equality and focus on training (600,000 hours);**
- **Optimization of the financial structure and use of financial instruments characterized by sustainability profiles;**
- **Dividend policy confirmed until 2023.**

Paolo Gallo, CEO of Italgas, commented:

"Digital transformation remains the main enabler of our growth with the aim of completing network digitization by 2022 and drawing the roadmap that will confirm the strategic role of gas networks as a key driver of the energy transition to achieve EU net carbon zero targets.

With 7.9 billion euros investments, an increase compared to the previous Plan presented last October, Italgas confirms its position as one of Italy's leading industrial groups in terms of planning, execution and value generation for the communities it serves, able to give a strong boost to the recovery of our Country.

The largest amount of investments is allocated for the repurposing of the 73,000 km network and its further extension to unreached territories, also to support the development of biomethane, expected this decade, and other renewable gases such as green hydrogen, to be accommodated and distributed through our network.

This capability for innovation is reflected in the technology applied to the networks we are building in Sardinia, which are already the most advanced in the country. On the island, we have met the challenge of starting to distribute methane in just over two years, and we are close to completing the construction of 1,100 kilometers of digital native grids which will be suitable for receiving green hydrogen blending, produced by our Power to Gas plant in the province of Cagliari.

The unlocking of gas tenders, for which we have allocated 2 billion euros, would activate important investments and also would enable the digital transformation of networks which are not involved in this kind of actions due to the current impasse.

In line with the EU Commission's recommendations to DSOs, we are strengthening our commitment in the energy efficiency sector, working on the acquisition of new competences, also through M&A transactions.

We will support the implementation of this Plan, and therefore the growth of our Group, through our people and our financial resources. For the former, important training and recruitment initiatives are planned in order to acquire additional digital skills, functional to the energy transition, always focusing on Diversity & Inclusion. Through traditional and sustainable finance, the Company will continue to raise the necessary resources on the market, being able to count on a profitability and a solid cash generation ability, firmly supported by the great attention to operational efficiency".

7.9 billion euros investment plan. In an energy scenario characterised by the targets set by the European Union for 2030 and 2050, the DSO system is called to play a key role in the decarbonization of the economy. Italgas 2021-2027 Strategic Plan meets these challenges by enhancing the role of gas networks as a driver of the energy transition. The Plan envisages total investments of approximately 5.9 billion euros (with an increase of 5.4% compared to the previous Plan); further 2 billion euros are intended for participation in gas tenders and the implementation of development plans related to the Atem to be awarded in the future.

Of the 5.9 billion euros, **1.4 billion euros (+300 million euros** compared to the previous Plan) are dedicated to completing the programs to digitize the entire network with the creation of smart networks capable of accommodating renewable gases such as biomethane - already widely available today and expected to develop strongly over the next decade - as well as synthetic gas and green hydrogen. More than 7,000 pressure regulation stations are expected to be replaced and upgraded by 2022. The plan includes as well the massive installation of sensors and remote-controlled shut-off valves to monitor the operating parameters of the network and operate it remotely. This scenario involves: the innovative "Power to Gas" project that the Group is developing in Sardinia, the first technological showcase of the green hydrogen production chain in Italy, which will become operational in 2022; the boost to R&D through the expansion of the Italgas technological laboratory, which is already an international center of excellence in traditional metrological testing and chemical analysis activities. The laboratory will have a new venue in Turin and will gain additional expertise in the field of renewable gases useful for the transformation of networks into smart infrastructures capable of accommodating and distributing blends of new gases.

3.1 billion euros will be allocated for repurposing, developing, improving and upgrading the existing infrastructure, in line with the previous Plan. Of those, **2.1 billion euros** are dedicated to maintenance in order to further improve service quality standards, reduce fugitive emissions

from the network, extend the infrastructure and complete the plan to convert LPG grids to natural gas. The aim is to evolve maintenance programs from traditional to predictive, planning interventions on the basis of the analysis of operational data collected in real time through the new sensors integrated into the network. Nearly **1 billion euro** will be used for the construction of new infrastructure in the Atem areas already awarded to Italgas (Belluno, Valle d'Aosta, Turin 1 and Turin 2) and also includes **140 million euro** (+82% compared to the previous Plan) as a result of the planned acquisition of Energie Rete Gas assets in Valle D'Aosta.

Approximately **300 million euros** are allocated to the Sardinia methanization plan to complete the construction of "digital native" networks and convert to natural gas the grids that currently distribute LPG and propane-air. Today, the Italgas Group, through its subsidiary Medea, is the main operator in Sardinia, with a presence in about half of the areas (17 out of 38) and has already realized about 900 kilometers of grids out of the 1,100 planned. From 2023, the progressive conversion to natural gas of the networks in Oristano, Nuoro, Cagliari and Sassari, which currently distribute propane-air, is also planned.

While waiting to seize the growth opportunities arising from the tenders, **380 million euros**, in line with the previous Plan, will be dedicated to growth by external lines through M&A operations. Despite the slowdown in negotiations imposed by the Covid-19 health emergency, it is expected that a further 150 thousand redelivery points will be acquired over the Plan period, as well as the acquisition of the control of infrastructures currently managed by non-consolidated subsidiaries.

Environmental sustainability. Thanks to the digital transformation of the network and the technological innovations implemented - from Picarro to Seaside know-how - Italgas expects to reduce greenhouse emissions (Scope I and Scope II) by 30% by 2027 and energy consumption by 25% by 2027, both compared to 2020 data. The emissions target will be reached mainly thanks to the increasingly widespread use of Picarro technology. Further contributions to the achievement of sustainability goals are expected from Seaside's energy efficiency activity, aimed at reducing the civil and industrial gas consumption, as well as from more efficient management of the company service vehicles fleet. Electricity consumption will fall thanks to cogeneration and turbo-expansion plants installed in the main city gates of the network enabling the use of self-produced electricity.

The Plan also provides for **180 million euros** of investments to consolidate growth in the other sectors in which the Group operates, such as energy efficiency, water and services. In energy efficiency, the subsidiary Seaside will become an increasingly important lever of the Group's decarbonization and energy saving activities as well as one of the main operators in the still highly fragmented energy services market. After the incorporation of Toscana Energia Green,

announced in the previous Plan and completed in May 2021, the Company further expands its scope thanks to the binding agreements for the acquisition of ESCo Ceresa SpA, founded in 1921 and specialized in energy services, with a significant portfolio of 3,700 clients (including over 800 apartment buildings) mainly located in the Turin area. Ceresa has revenues of approximately 20 million euros and EBITDA of approximately 3.5 million euros; the Company's Enterprise Value is 22 million euros, to be adjusted on the basis of the net financial position at closing, which is expected in the coming months subject to the fulfilment of certain conditions precedent.

In the water sector, **120 million euros** investments are confirmed, both organic and for external growth. Part of this amount will be allocated to the water networks currently under management to continue the adoption of best practices and technologies developed in the gas distribution sector.

As far as services are concerned, the Group will concentrate all its Information Technology activities, including the Digital Factory, in a specific corporate vehicle, which will kick off in the next few weeks. As of its launch, the new company will control assets with a total value of approximately 100 million euros and over 100 contracts worth 306 million euros. With a staff of around 100 people, it will allow to further rationalize IT activities and to strengthen and build synergies among the Group's businesses. The new company will be able to further improve its efficiency as well as to offer its expertise and the innovations developed in-house to third parties.

Atem tenders. Carrying out gas tenders would not only represent an opportunity for Italgas to widen its scope, but also to extend the benefits of digitization to other networks with positive effects on the involved territories and the whole country. Planned investments amount to more than 2 billion euros. Of this, 1.4 billion euros will be dedicated to the acquisition of third-party networks in the Atems to be awarded to Italgas, while the balance will be allocated to investments in the maintenance, modernization and extension of the networks acquired, aligning their operating standards to those of the Group. It is estimated that through the tender process Italgas can increase its market share from the current 35% to approximately 45% in terms of redelivery points.

Consolidated RAB. Driven by the investment plan, it is estimated that the consolidated RAB of gas distribution could increase at an annual rate (CAGR) of about 4.2% to **10.3 billion euros** at the end of 2027. With the contribution of tender process, the consolidated RAB is estimated at about **11.9 billion euros** by 2027 (+6.3% CAGR).

Redelivery points. The Plan foresees an increase in redelivery points served from 7.6 million in 2020 to 8.2 million in 2027, without considering the effect of tender process. The number of redelivery points will reach **10 million** in 2027, thanks to the contribution of the tenders.

People. Aware that people are a key lever to cope with the challenges of digital transformation, the Group continues to invest in upskilling and reskilling activities, providing more than 600,000 hours of training as well as targeting profiles on the market to acquire additional digital skills useful to drive the change. In this scenario, the Italgas Digital Factory represents a hallmark in the competitive market of digital skills. Over the next few years, more than 60% of the new human resources recruited will be under 30 and this will lead to a significant reduction in the employees average age, also considering the ordinary generational turnover. The Plan also foresees the insourcing of digital equipment engineering and maintenance activities, in line with what has been done in recent years: bringing core activities back into the Group.

An Italgas Managerial Academy, which will be set up in the early years of the Plan, will ensure continuous managerial and cultural growth, conveying a common purpose among businesses and managers of the Group. Increasing attention is being paid to Diversity & Inclusion through ad hoc initiatives and inner dissemination carried out also with the contribution of more than 150 ambassadors. Among the many challenges on human resources, the target on gender equality holds an important place: at the end of the Plan, at least one manager out of four will be a woman.

Operational efficiency. In the gas distribution sector, digital transformation enables the company to achieve the efficiency targets set by the regulator in Resolution 570. Indeed, it is estimated that digitalization will generate benefits of around 250 million euros (+40 million euros compared to the previous plan), in terms of reduction of operating costs, efficient investments and higher revenues, compared to a scenario without digitization.

Financial efficiency and capital structure. The continuous attention on the optimization of the financial structure will allow Italgas to support, thanks to significant operating cash flow, the investment plan and shareholders' remuneration, also ensuring appropriate financial flexibility to support development. Italgas will continue the actions aimed at optimizing its financial structure in order to preserve its debt cost, today of about 1%. The ratio between net debt and RAB, equal to about 61.5%, will be maintained throughout the entire Plan period at levels consistent with a solid investment grade area. The use of sustainable sources of financing to support Italgas' investments in energy transition makes the plan coherent with EU targets.

Guidance and predictable evolution of the management. In 2021 investments are estimated between 850 and 900 million euros and revenues are expected to exceed 1.35 billion euros, with EBITDA of about 1.0 billion euros and EBIT between 560 and 580 million euros. Net debt,

including the impact of IFRS 16, is estimated to be around 5 billion euros. With the completion of the tenders, revenue are expected to exceed 2.1 billion euros in 2027 with an estimated EBITDA of around 1.6 billion euros, while leverage is expected to be just above 60%.

Dividend policy confirmed. The dividend policy reflects Italgas' commitment to provide shareholders with attractive, growing and sustainable remuneration. The Company confirms the four-year policy (2020-23) announced in October 2020, which provides for the distribution of a dividend equal to the greater of (i) the amount resulting from the 2019 DPS (€0.256) increased by 4% per year and (ii) the DPS equal to 65% of adjusted EPS. The application of this policy for the 2020 financial year resulted in the distribution of a dividend of €0.277, up 8.2% on the previous year.

At 14:30 CEST (13:30 GMT) the Strategic Plan 2021-2027 will be presented to financial analysts and institutional investors. It will be possible to follow the event via conference call and the support material will be made available on www.italgas.it in the Investor Relations section, in conjunction with the launch of the conference call. In the same section it will also be possible to follow the presentation through video webcasting.

The Presentations will also be made available at the authorized storage mechanism called eMarket STORAGE (www.emarketstorage.com).

The manager responsible for preparing the Company's financial reports, Giovanni Mercante, declares, pursuant to paragraph 2 of Article 154 bis of the Consolidated Law on Finance, that the accounting information contained in this press release corresponds to the document results, books and accounting records.

Disclaimer

This press release contains forward-looking statements, in particular regarding: evolution of natural gas demand, investment plans and future management performance. Forward-looking statements by their very nature have a component of risk and uncertainty because they depend on the occurrence of future events and developments. Actual results may therefore differ from those announced in relation to various factors, including: the foreseeable evolution of natural gas demand, supply and prices, general macroeconomic conditions, the impact of energy and environmental regulations, success in the development and application of new technologies, changes in stakeholder expectations and other changes in business conditions.