

## ITALGAS PRESENTS ITS 2022-2028 STRATEGIC PLAN

*8.6 billion euros investments to complete the digital transformation of assets, create one of the main national players in the energy efficiency sector, continue to play a leading role in achieving EU climate targets*

Turin, June 15th, 2022 – Italgas Chief Executive Officer, Paolo Gallo, is today presenting to analysts and investors the Strategic Plan of the Group for the 2022-2028 period, which was approved yesterday by the Company's Board of Directors chaired by Benedetta Navarra.

The new Plan envisages an investment program of **8.6 billion euros, with an increase of 0.7 billion euros** compared to the previous Plan presented last year. The increase in investments (+8.9%) is driven by the digital transformation of assets, the extension of the network and the initiatives aimed at consolidating in the energy efficiency sector that will enable the Italgas Group to continue to play a leading role in achieving the EU climate targets; in addition, the 2022-2028 Strategic Plan integrates the future commitment of Italgas in Greece with the awaited acquisition of Depa Infrastructure.

The strategic choices made in recent years by the Group have anticipated the approach of national and EU institutions towards the decarbonization and the containment of greenhouse emissions, which has materialized in the Fit for 55” and in the REPowerEU targets.

The new 2022-2028 Plan is structured along three main pillars: (i) continuation of the digital transformation, repurposing and network extension program to equip the country with cutting-edge infrastructures capable of receiving and distributing renewable gases such as biomethane and green hydrogen; (ii) consolidation in the energy efficiency sector with the aim of placing Italgas among the main operators in the sector; (iii) new growth opportunities through ATEM tenders and M&A in the gas and water sectors, and development of the Greek market. In pursuit of these goals, Italgas will further develop the skills of its people – also through insourcing and an internal Academy – and it will use a solid and efficient financial structure ensuring an appropriate return for shareholders.

**The Plan pivots on ESG factors** and responds to the challenges of sustainability by setting objectives for 2028 and 2030, in line with the carbon neutrality target for 2050, and further raising those defined last year in terms of emissions reduction, energy efficiency, competences, and people development to make the change effective.

In Greece, the Italgas Group expects to be able to complete the acquisition of DEPA Infrastructure over the next few months and to integrate and make the investment plans, currently prepared by the operators involved in the transaction, consistent with its vision.

## **Highlights**

- **Total net investments Plan of 8.6 billion euros (+700 million euros compared to previous Plan);**
- **4.5 billion euros net for the development, digitization and repurposing of the Italian gas distribution network;**
- **1.8 billion euros for Atem tenders and 1.8 billion euros for Greece;**
- **340 million euros to accelerate growth in the energy efficiency sector;**
- **Reduction of greenhouse gas emissions Scope 1 and 2 by 34% by 2028 and by 42% by 2030, Scope 3 (supply chain) by 30% by 2028 and by 33% by 2030, decrease in energy consumption by 27% by 2028 and by 33% by 2030 (baseline 2020);**
- **“Net Zero goal” by 2050;**
- **Strong attention to generational change, the engagement of the Group’s people as protagonists of the ecological transition and focus on training: the 3 levers that enable change;**
- **Optimization of the financial structure, with maintenance of the ratios in the solid investment grade area;**

**Paolo Gallo**, CEO of Italgas, commented:

*“In a European scenario that has REPowerEU as the new North Star to strengthen the resilience of the energy system and accelerate the ecological transition, Italgas can reap the benefits of a vision that had identified digital, flexible and smart networks as the main enabler of the decarbonization process.*

*With 8.6 billion euros, a further increase compared to the investment program presented last year, the Group is confirmed as one of the leading industrial companies capable of putting its design, spending and value creation skills at the service of the objectives of sustainable development of the country and of the European Union.*

*The largest share of the investments is once again destined for the extension, digital transformation and repurposing of the distribution network in order to create in time the conditions for the widespread use of the new gases, such as biomethane, green hydrogen and synthetic methane, which we will soon have to receive in our networks in increasing quantities.*

*After twenty years we return to having objectives beyond national borders: this Plan allocates 1.8 billion euros to Greece. We expect to complete the acquisition of DEPA Infrastructure over the next few months and thus be able to verify the correspondence of the investment programs of the three operating companies with our vision and the decarbonization targets set under the REPowerEU framework.*

*The role of energy efficiency in the Group's development programs is growing. With 340 million euros, almost double compared to the previous plan, we aim to create one of the main players at*

*national level, with a focus on innovation and digitization, contributing to the consolidation of a still very fragmented sector.*

*Innovation remains our main growth driver, the Digital Factory is the core of our cultural change: a place of 'contamination' around which we have developed an approach to open innovation that allows us to meet the most advanced startups and SMEs in the world.*

*The ability to manage innovation and put it to value will ultimately pivot on our people, to whom we will continue to allocate important resources for training, for the creation of new professionals and to attract best talents, always paying great attention to the issues of Diversity & Inclusion and female leadership”.*

### **8.6 billion euros net investment plan.**

In a geopolitical scenario strongly conditioned by the conflict in Ukraine, which has placed the issues of energy security and diversification of supplies at the forefront, REPowerEU has traced a path of independence from Russian gas. Moreover, it not only aims to strengthen the resilience of the European energy system, but also accelerates the process of decarbonization and the ecological transition. In particular, REPowerEU attributes to renewable gases (biomethane and hydrogen) the function of replacing about 50% of the amount of gas that the EU imports from Russia (in 2021 about 155 billion cubic meters).

In this context, the gas DSO are called upon to play a key role in guaranteeing the energy security of the Union, equipping the respective countries with digital, smart and flexible networks, also able to boost the production of these gases and enable its widespread use.

The Italgas 2022-2028 Strategic Plan continues the transformation process started few years ago and which, in the next year, will lead the Company to be the first gas utility in the world with a fully digitalized network.

### **4.5 billion euros for the Italian distribution network.**

4.5 billion euros are planned for the development and upgrade of the Italian gas distribution network<sup>1</sup>.

In detail, **1.5 billion euros (+100 million** compared to the previous Plan) are dedicated to the continuation of the digital transformation programs of the network. In fact, having a "full digital" network is the technical precondition for effectively managing the distribution of renewable gases - mainly biomethane, synthetic methane and hydrogen - for which the Plan allocates **over 100 million euros** to facilitate the connection of production plants to the distribution network, to introduce reverse flow technology to the transport network, in order to allow for the acceptance of the gas quantities not consumed at local level, without limits, and to develop "hydrogen ready" systems and components. In the last few years of the Plan, a further important investment is also envisaged for the replacement of smart meters, considering that the current GPRS technology will

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<sup>1</sup> Including centralized investments, gas distribution M&A and divestments.

soon be superseded and discontinued telecommunications operators. Italgas is already working on the development of a new latest generation meter, a cutting-edge tool, equipped with remote control devices and safety sensors, and compatible with blends of methane, biomethane, hydrogen and synthetic gases. The development of the first prototype, made entirely with recycled and recyclable materials, is scheduled for 2022; later, in 2023, there will be the launch on the mass market.

**2.7 billion euros** are dedicated to the continuation of repurposing, development, and improvement of existing infrastructures, which also considers the completion of initiatives already launched in previous years.

Approximately **200 million euros** are earmarked for the methanization process of Sardinia with the completion of the construction of the "digital native" networks and the conversion to natural gas of the networks currently powered by propane air. Through its subsidiary Medea, the Italgas Group is the main operator in Sardinia with a presence in about half of the Basins into which the island is divided (18 out of 38), 2,200 kilometers of networks under management (of which 1,400 digitalized), 61 cryogenic deposits of liquefied natural gas (LNG) which guarantee continuity and maximum flexibility of supply. These results have also given a new strong boost to the development of the island's energy infrastructures, attracting new operators.

The Plan provides for over **100 million euros** of investments aimed at developing the presence in the gas distribution sector also for external lines through selected operations and in line with the approach adopted so far.

### **500 million euros for diversification.**

Italgas' commitment to the **energy efficiency business** has almost doubled. It represents a fundamental lever for achieving the targets indicated by REPowerEU and it is increasingly crucial in Italgas' development strategies. In fact, the new Plan assigns **340 million euros** to the development of the Group's ESCOs, both to carry out targeted M&A operations and to strengthen the business areas and the customer portfolio in the residential, public, industrial and tertiary sectors.

**160 million euros are allocated to the water sector** for selected M&A operations and to continue applying best practices and technologies developed in the field of gas distribution to the networks currently under management.

**Greece.** The Italgas 2022-2028 Strategic Plan allocates 1.8 billion euros to the acquisition of Depa Infrastructure, its consolidation and the execution of the development programs set to date by the operating companies Eda Thess, Eda Attikis and Deda. Following the completion of the transaction, it will be possible to assess in detail the correspondence of these programs to the Italgas *vision* and their consistency with the decarbonization objectives set by the Greek government for the phase out of coal and lignite.

**Atem tenders.** The amount envisaged over the Plan period for participation in the Atem tenders and for investments in the acquired concessions is **1.8 billion euros**. It is reconfirmed that at the

end of the tender process, the company could reach a market share of 45%, compared to the current 35%. Carrying out gas tenders continues to represent an opportunity not only for Italgas, which would increase its perimeter of activity, but also for the territories involved, since they would benefit from the modernization of infrastructures, the digitization of networks and energy transition.

**RAB Consolidated.** Driven by the investment plan, the consolidated RAB of gas distribution, considering the acquisition in Greece, is expected to grow at an average annual rate (CAGR) of about 4.5%, reaching **11.2 billion euros** at the end of 2028. With the contribution of gas tenders, consolidated RAB is estimated to be around **12.6 billion euros** as of 2028 (+6.4% CAGR).

**Redelivery points.** The Plan envisages an increase in the number of redelivery points served from 7.6 million in 2021 to 8.6 million in 2028 considering the contribution of Greece and without considering the effect of tender process. The number of redelivery points will exceed **10 million** in 2028, thanks to the contribution of the tenders.

**Environmental sustainability.** To foster the ecological transition process, the Group extended to 2028 the target for reducing net<sup>2</sup> energy consumption compared to 2020, bringing it to -27% and setting a new target of -33% by 2030. The achievement of these objectives includes energy efficiency initiatives and the digitization and optimization of the control and management system of all operational assets, also thanks to the expertise of the Group's ESCOs, as well as the renewal of the company fleet of service vehicles. Italgas plans to reduce greenhouses emissions by 34% (Scope 1 and Scope 2<sup>3</sup>) by 2028 and by 42% by 2030 (baseline 2020), thanks also to the continuous effort to improve the network, the widespread search for leaks conducted using the innovative Picarro technology and the targeted planning of investments. Finally, Italgas also defined a target on greenhouse gas emissions of Scope 3 (supply chain), providing for a reduction of 30% in 2028 and 33% in 2030 compared to 2020<sup>4</sup>, through an intensification of the engagement with its own suppliers.

The targets for the reduction of greenhouse gases emissions, thus defined<sup>5</sup>, trace the Group's path towards the declared goal of carbon neutrality by 2050 for Scope 1, 2 and 3 (supply chain).

**People.** Our people are key to cope with the main challenges of digital transformation. The Group keeps investing in upskilling and reskilling activities, providing more than 600,000 hours of training, to be offered also through the new **Managerial Academy Italgas**, which is based on the 3 pillars of the new leadership model: People, Innovation, Excellence. The company also continues to recruit talents from the market to introduce additional digital skills in order to make the change effective. In this context, the Italgas Digital Factory represents a strong distinctive element in the complex market of digital skills; the insourcing of engineering and maintenance activities also continues.

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<sup>2</sup> On a like-for-like basis, excluding any changes following M&A, DEPA Infrastructure and ATEM tenders.

<sup>3</sup> Market-based.

<sup>4</sup> Baseline updated following the methodological review for the inclusion of the specific emission factors of the Group's suppliers.

<sup>5</sup> In line with the reduction path envisaged by the SBTi 'near and long-term science-based target' criteria for the '1.5°C ambition' and 'well-below 2°C' scenarios.

In the coming years, the generational change will allow a significant lowering of the average age of employees. The Group will keep acting as a hub for talents in the area of ecological transition, with an increasing focus on Diversity & Inclusion and Sustainability issues. Among the many challenges on human resources, the increasing engagement of people and the gender equality hold an important place: at the end of the Plan, more than one manager out of four will be a woman.

**Operational efficiency.** In the gas distribution sector, the digital transformation allows the company to continue generating efficiencies that now impact all the main business functions. It is estimated that digitalization will generate benefits of around 300 million euros (+50 million euros compared to the previous plan), in terms of reduced operating costs, efficiency on investments and higher revenues, compared to a scenario without digitalization.

**Financial efficiency and capital structure.** With the acquisition of DEPA Infrastructure the Group estimates the ratio between the debt and the RAB to be close to 65%. During the plan period, thanks to cash generation, this ratio is expected to return to around 61%, consistent with a solid investment grade area. The optimization of the financial structure will allow Italgas to support both the investment plan and shareholder remuneration. Italgas will continue the actions aimed at optimizing its financial structure. Over the plan period, the cost of debt is expected to remain below 1.2% on average due to the changed market scenario. The use of sustainable sources of financing to support the investments of Italgas in the energy transition makes the plan consistent with EU objectives.

**Predictable evolution of the management.** For 2022, technical investments of between 700 and 750 million euros and adjusted revenues of more than 1.4 billion euros are expected, with adjusted EBITDA of 1.00 to 1.03 billion euros and adjusted EBIT of between 570 and 590 million euros. These results do not consider the contribution of DEPA Infrastructure. Including the cost for the acquisition of DEPA Infrastructure and the impacts of IFRS 16, net debt at the end of 2022 is expected to be around 5.9 billion euros. With the completion of the tenders, thanks to the contribution of DEPA Infrastructure and the development of energy efficiency activities, revenues of more than 2.6 billion euros are expected in 2028 with an estimated EBITDA margin of around 70%, while financial leverage is expected to gradually decrease to around 61% at the end of the Plan.

The current dividend policy reflects the commitment of Italgas to provide shareholders with attractive, growing and sustainable remuneration. The 2020-23 policy announced in October 2020 provides for the distribution of a dividend equal to the greater of (i) the amount resulting from the 2019 DPS increased by 4% per year and (ii) the DPS equal to 65% of adjusted EPS. The application of this policy for the financial year 2021 resulted in the distribution of a dividend of €0.295, up 6.5% on the previous year.

*At 14:30 CEST (13:30 GMT) the Strategic Plan 2022-2028 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](http://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](http://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.*

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### **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.*