

# 1 | The Italgas Group value creation process

## NFS 1.1 Corporate identity

Italgas is Italy's top gas distributor and the third in Europe: the Group and its affiliates<sup>11</sup>, with 3,966 people working at the various offices across Italy, manage 74,397 kilometres of gas distribution network, through which, in 2021, 9,194 million cubic metres of gas were distributed to 7,757 thousand users. The Group and its affiliates hold 1,898 distribution concessions, with a historical presence in Italy's main cities, including Turin, Venice, Florence, Rome and Naples, and a market share of over 35%.

Italgas was founded in 1837. With more than 180 years of history behind it, it is unanimously acknowledged as the company that has brought gas into Italian homes, contributing towards the country's social and economic development. It is a contribution that is also renewed today: the most significant example is the methanisation of Sardinia, where since it first started back in 2018, the Group has installed approximately 900 km of new native digital networks and in 2020, the first natural gas was distributed on the island.

Italgas has always had a firm focus on the future, aware of the role its infrastructure will play in supporting the energy transition, guaranteeing the country's energy security. Through the major investment plan announced in June 2021, the 2021-2027 Business Plan, the Group intends to continue its extension and repurposing of the network, not only in order to guarantee its safety and efficiency, but also to distribute renewable, low-carbon, hydrogen and synthetic gases, which look set to play an increasingly important role over the next few years.

The acquisition of DEPA Infrastructure S.A. in Greece, which should draw to a close during the first few months of 2022, will allow the Group to further strengthen its leadership position in the European gas sector, entering a market that offers significant growth opportunities, making its distribution network development and digitisation capacities available to support Greece's energy transition.

### The Group's business

The core business of Italgas is focused on gas distribution, which it carries out as part of the wider national system, involving the distribution of gas on behalf of sales companies authorised to sell the gas to end customers. In addition to the

delivery service, carried out using the local pipeline networks from the city-gates (reduction and metering stations interconnected with the transmission networks), the company also carries out metering activities, which include the collection, processing, validation and provision of consumption data in order to regulate commercial transactions between operators and users.

The operations for the gas distribution business are managed by:

- | Italgas Reti S.p.A. - which operates nationwide;
- | Toscana Energia S.p.A. - operating in the Tuscany region;
- | Medea S.p.A. - operating in Sardinia.

Italgas is subject to regulation by the Italian Regulatory Authority for Energy, Networks and Environment (also referred to as the Authority or ARERA), which defines both how to conduct the service and the rates for distribution and metering. The gas distribution business is carried out under concession.

The Italgas Group also operates in energy efficiency through Seaside S.p.A. and Ceresa S.p.A., the two energy service companies specialised in energy consulting and the supply of energy services to both the private residential and industrial sector and the public administration sector.

In Sardinia, Italgas also sells gas (LPG, propane air and methane) through Gaxa S.p.A., the island's most important sales company.

The Group also manages the integrated water service (IWS) of five municipalities in Campania, on a concession basis, through Italgas Acqua S.p.A..

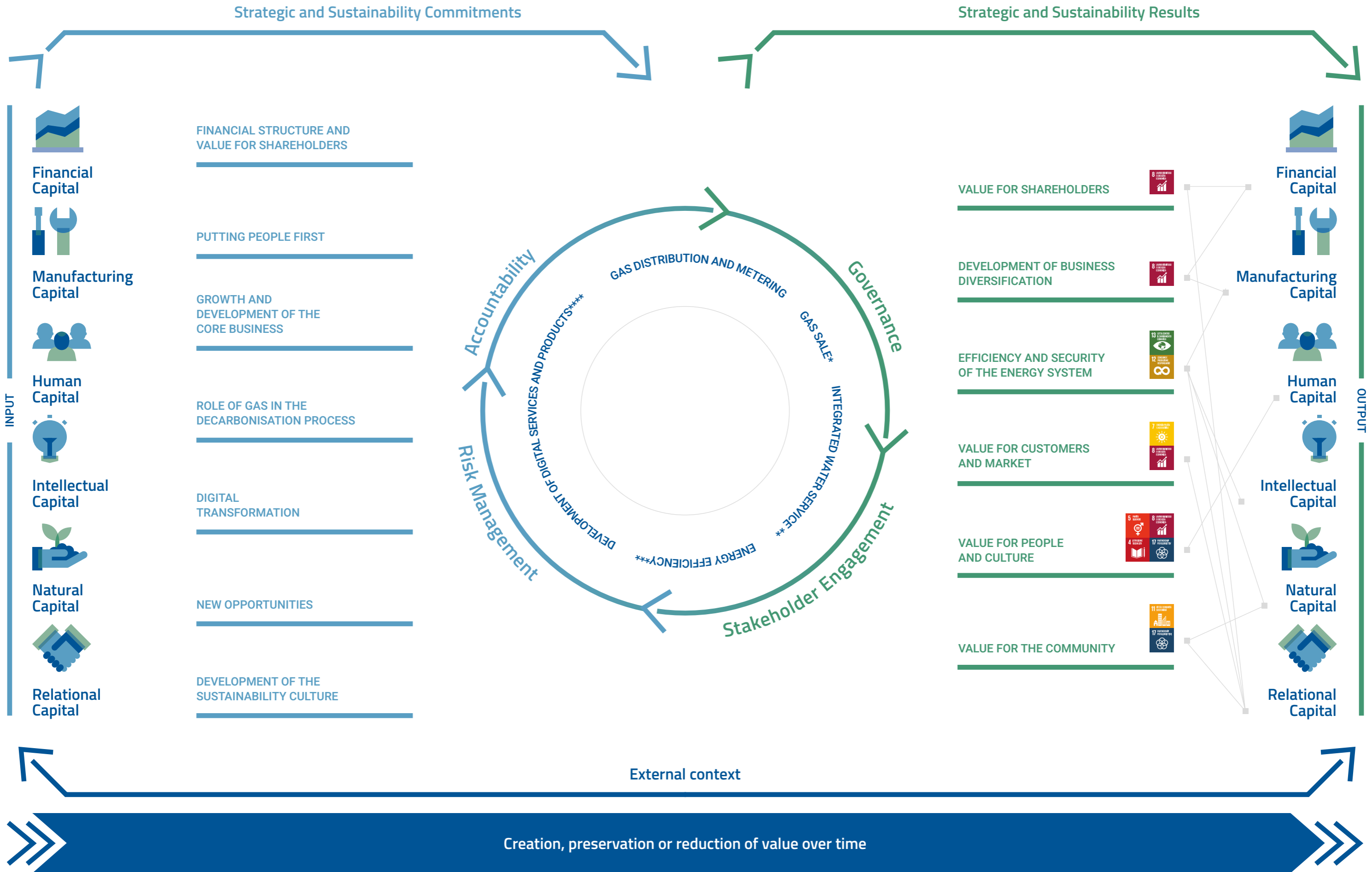
In 2021, the company Bludigit S.p.A. was established, in which all the Group's Information Technology business was concentrated: through this new company, the Italgas Group offers cutting-edge proprietary digital solutions, making the competences and applications developed in-house available to other operators of both its own energy sector and other sectors.

<sup>11</sup> The data referring only to the Group, subject to reporting, are as follows: 3,904 employees, 72,503 km of network, 8,887 million Sm<sup>3</sup> of gas distributed, 7,604 million active meters.

## NFS 1.2 Business model

To implement a real economic, financial, environmental and social sustainability and be able to create shared value in response to the expectations of all stakeholders - from investors and shareholders to the territorial context and employees - the Group has adopted an integrated business model that can use all its input capital to achieve strategic objectives and create value in the short, medium and long-term.





\* through Gaxa    \*\* through Italgas Acqua    \*\*\* through Seaside    \*\*\*\* through Bludigit

In the representation of the model, the input capitals correspond to the Group's resources and distinguishing factors, such as the distribution network, know-how, people and stakeholder relations, which are used, transformed or enhanced in the various processes.

## INPUT CAPITALS



### Financial Capital

Financial capital guarantees the cash flows needed to ensure investments, infrastructure management and achievement of the growth and diversification goals.



### Human Capital

Human capital is made up of all the people at Italgas and their skills, knowledge and experience.



### Natural Capital

Natural capital consists of the environmental resources used by the Group to carry out its activities, including the environmental resources themselves, such as natural gas, which enable the Group to provide the service.



### Relational Capital

Relational capital consists of the relations built and preserved by Italgas within the community and with its reference stakeholders.



### Intellectual Capital

Intellectual capital is made up of company know-how, company processes and systems enabling optimum management of business activities.



### Manufacturing Capital

Manufacturing capital is made up of the Group's assets.

The 2021-2027 Business Plan and the Sustainability Plan of the Italgas Group, also on the basis of the input capital, constitute the main guidelines along which the Italgas Group works:

## Sustainability

- | digital transformation;
- | growth and development of the core business;
- | decarbonisation process;
- | new opportunities;
- | financial structure and return for shareholders;
- | human resources.

The operations of the Italgas Group are also included in the business model. Below are the key processes of these operations:

- | governance processes;
- | business processes;
- | support processes;
- | control processes.



## Governance process

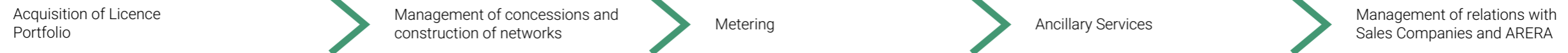


### DEVELOPMENT ACTIVITIES

### OPERATIONAL ACTIVITIES

### COMMERCIAL ACTIVITIES

## Business process - Gas distribution and metering



## Business Process - Sale of gas



## Business Process - Integrated Water Service



## Business Process - Energy efficiency



## Business Process - IT Services



## Support Process



## Control Process



\* In the case of the value chain for the energy efficiency process, commercial activities take place before operations.

Responsible governance, stakeholder engagement, risk management and accountability are key, essential elements of all the above activities and processes (see “Governance, risks and opportunities” section).

Lastly, the model shown includes the Strategic and Sustainability Results, detailing the United Nations Sustainable Development Goals (SDGs) of reference and the link to the output capitals, which represent the impacts generated by the Group’s business.

## **NFS** 1.3 External context, markets and Italgas stock

### Covid-19 pandemic

The continuation of the Covid-19 pandemic has generated a phenomenon of social insecurity, albeit faced with a substantial recovery that has marked the national, European and world scene. At two years since the emergency first started, in fact, most countries are finding themselves addressing a series of peaks in the health emergency, alternating with less critical periods. The pandemic has speeded up a whole series of evolutions in how companies work, as they found themselves forced to innovate to adapt quickly to the changes. In this scenario, Italgas showed exceptional resilience, guaranteeing continuity of service to around 8 million customers in Italy, while at the same time allowing its people to operate in complete safety.

Precisely in this situation of extraordinary unpredictability, Italgas gathered its first results on the digital transformation of processes, assets and people launched in 2017. Investments in digitisation have allowed, from the very start of the pandemic, for work to be reorganised and all activities carried out from a remote position. Still today, the presence in the company office is alternated with long periods spent working from home, to guarantee maximum employee safety. In addition, thanks to the development and application of innovative technologies, such as “ShareView” and “WorkOnSite”, it has become possible to efficiently manage the network from a remote position, reducing the number of trips to the field and, consequently fuel consumption and CO2 emissions.

Recording twenty consecutive quarters of growth since its return to the stock exchange, Italgas has shown itself capable of continuing its development and transformation even during the health emergency, supporting the country’s economic fabric, contributing to the economic recovery thanks to important investments and playing a lead role in the energy transition.

### Rising energy prices

The major rise in energy prices seen during the latter months of 2021, was caused by a combination of factors - first and foremost geopolitical - which has generated further instability on a European level. This situation, which is putting numerous industrial segments very much to the test in Italy, has led to a reflection on the investments necessary to achieve energy independence for the country. In this context, renewable gases - biomethane first and foremost - have very significant potential, not only in terms of the decarbonisation of consumption but also to guarantee greater security of procurement.

The gas networks are a strategic asset by which to stimulate renewable gas production, as long as they are entirely digitised and flexible, i.e. able to transmit data, receive and execute instructions, be managed from a remote position. Comparisons within national and international trade associations, thanks to the digital transformation undertaken, find that Italgas is the first gas distribution company in the world with an entirely digitised network. The company is working on numerous innovative projects aimed at driving the integration of renewable gases in the country’s energy mix.

### 1.3.1 Macroeconomic scenario and market trends

After the major slow-down last year, 2021 saw a rapid recovery of the GDP (gross domestic product) and employment levels worldwide, thanks to the progressive reopening of economic activities and the support supplied by the monetary and tax authorities. This is confirmed by the GDP growth for the US, Europe and Italy, coming in respectively at 5.7%, 5.2% and 6.5% for 2021. At the same time, the Purchasing Managers Index for the US manufacturing sector reached all-time highs, while initial unemployment applications in the United States have dropped to the lowest level seen in more than 50 years.

The major recovery of economic activities, coupled with the rising pressure on prices of energy commodities, due to growth in demand that exceeds supply, have given rise to a major price increase and, accordingly, inflation. This increase intensified in particular towards year end. In December, US inflation rose to 7.0% as compared with the same month of 2020, to the peaks recorded in 1982, while German inflation came to 5.3%, a high since 1992.

Despite the rise in inflation, central banks maintained an approach that was generally accommodating, in support of the economy. It was only at year end that they decided to proceed with a gradual withdrawal of monetary stimuli. More specifically, the FED initially announced in November the progressive reduction of 15 billion dollars a month of the QE (Quantitative Easing) and during the following meeting held in December, it doubled the monthly purchase reduction plan to 30 billion dollars, so as to zero QE in March 2022. The FED has also declared its expectation to raise the rates three times in 2022. After having intensified the PEPP (Pandemic Emergency Purchase Programme) in the 2nd and 3rd quarters, during the December meeting, the ECB instead announced the end of this programme as from end March 2022, with its temporary substitution, for a total of 6 months, with the strengthening of the APP programme (Asset Purchase Programme).

Despite the considerable increase of inflationist forecasts, the



central banks' policy compressed real bond yields on new all-time lows, with a consequent limited rise in nominal yields. The German 10-year nominal yield rose by 39 bps (from -0.57% to -0.18%) with the real component declining by 59 bps (the new all-time low was recorded mid-November: -2.26%) and implicit inflation rising by 98 bps. In the case of the US Treasury, the increase in the nominal yield was even more marked (+60 bps; from 0.91% to 1.51%), reflecting the less accommodating approach of the FED and the more dynamic US economy, with the variation entirely brought about by inflationist forecasts, whilst the real component was generally stable at all-time lows (in this case too, the new low was recorded in November: -1.20%). The BTP-Bund spread showed a moderate rise (+24 bps, i.e. from 111 to 135 bps), entirely concentrated in the last two months of the year as a reflection of expectations for a gradual withdrawal of monetary stimuli by the ECB in order to mitigate the inflationist dynamic consequent to the overheating of the economy.

The performance of currencies reflected the different expectations in terms of timing for the normalisation of monetary policies by the various central banks. In 2021, the EUR/USD depreciated by 7% (to 1.14, close to the lows since June 2020) and the EUR/GBP drew back by 6% (to 0.84, lowest since February 2020).

### 1.3.2 2021 Trend and Italgas stock

With the progressive reopening of economic activities and support by the monetary and tax authorities, the main world share indexes recorded major rises in 2021, extending the all-time highs. With prices adjusted for dividend payments and reinvestments (total shareholder return), the Euro Stoxx share index rose by 23.5%. The US S&P 500 index improved by +28.7% thanks to the greater exposure to technological securities, which, together with the banking sector, were the best of the list. Faced with an economic recovery that was fairly homogeneous in the various countries of the Eurozone, the difference in yield between the various national share indexes reflected exposure to the specific economic sectors. With a rise of 31.9%, the French CAC 40 share index was the best,

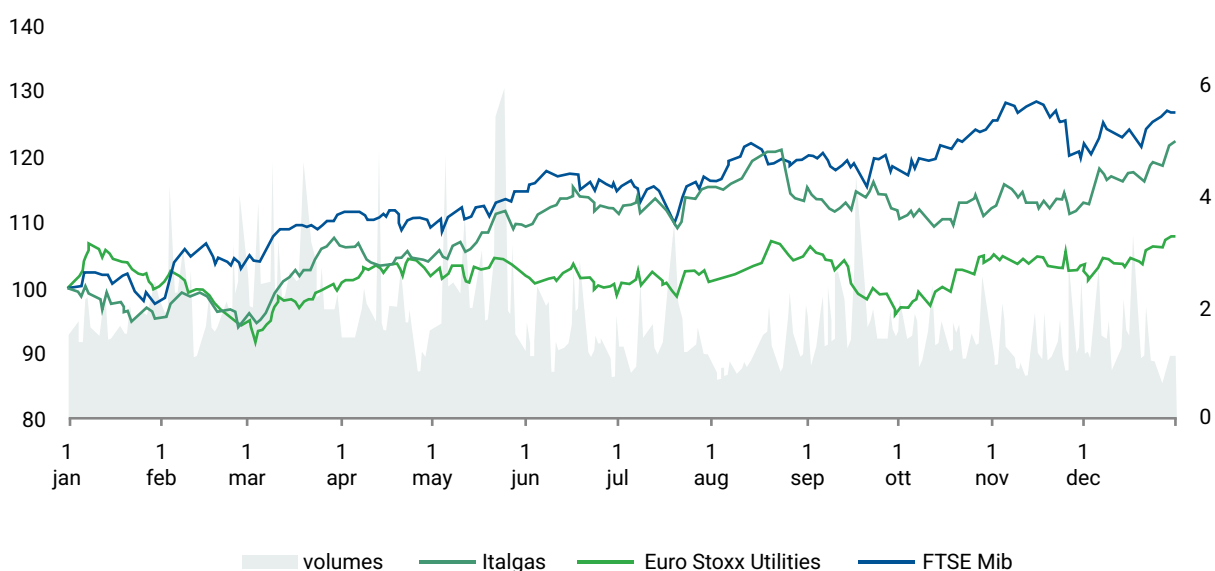
thanks to the exposure to the fashion & luxury segment, which benefited from the major recovery of sales worldwide and particularly in China. This was followed by the Italian FTSE Mib (+26.8%), which benefited from exposure to the bank segment and the production of semi-conductors. Further off, is the German DAX index (+15.8%) and the Spanish Ixex 35 (+9.4%), with the latter penalised by its high exposure to the utilities sector, the worse of the list.

Despite the support given by the energy scenario, the Euro Stoxx Utilities only rose by 7.9%, coming in fourth-to-last of the European sector indexes, penalised by fears over legislative interventions aiming to mitigate the impact on end users of the rise in gas and electricity prices, with a negative impact on the profits of the integrated operators. The banking and technological segments performed best on the Eurozone market, the first due to the improved economic scenario and major rise in inflation, the second thanks to the digitisation process underway in a great many sectors, which resulted in a world shortage of semi-conductors. The defensive sectors (real estate and retail) were the worst in terms of return, due to the improved macroeconomic context.

The Italgas share closed 2021 at € 6.052 per share. Considering the dividend of € 0.277 per share issued in May 2021 and a price at end 2020 of € 5.20, it recorded a total shareholder return (with reinvestment of the dividend) of 22.2%.

From the date on which it was listed in November 2016 to 31 December 2021, the total shareholder return is 91.2%.

During the year, the average daily trading volume of the Italgas stock on the Italian Stock Exchange electronic market was about 1.9 million shares, with a greater concentration of trades around the announcement of quarterly results, the ex-dividend date and updating of the 2021-2027 Strategic Plan, presented mid-June 2021.



## 1.4 Ownership structure

The share capital of the Company as at 31 December 2021 consisted of 809,768,354 shares without par value, giving a share capital value of € 1,002,016,254.92.

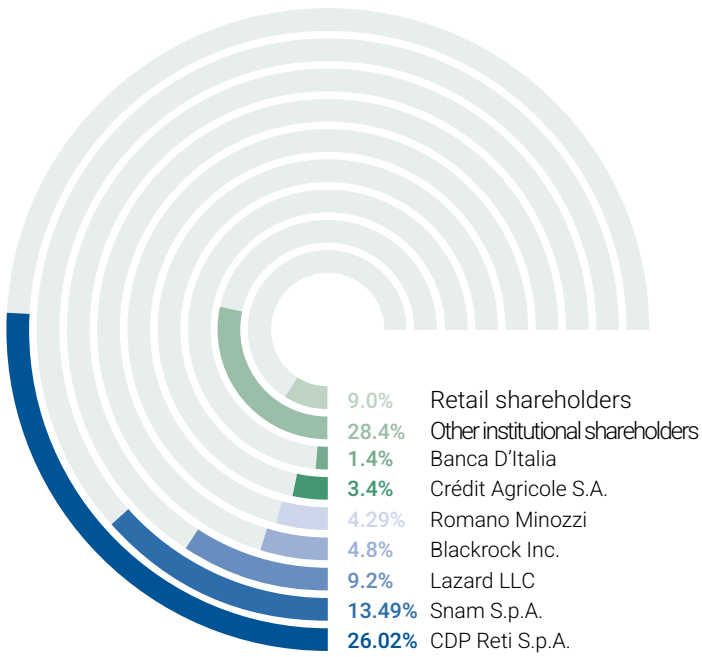
As at 31 December 2020, based on the shareholders' list, the information available and the notices received pursuant to Article 120 of the Consolidated Finance Act, the owners of significant equity investments are represented below.

Consolidating company	Shareholders	% Ownership
Italgas S.p.A.	CDP Reti S.p.A (*) (**)	26.02
	Snam S.p.A.	13.49
	Lazard LLC	9.2
	Blackrock Inc.	4.8
	Romano Minozzi	4.29
	Crédit Agricole S.A.	3.4
	Banca D'Italia	1.4
	Other institutional shareholders	28.4
	Retail shareholders	9.0

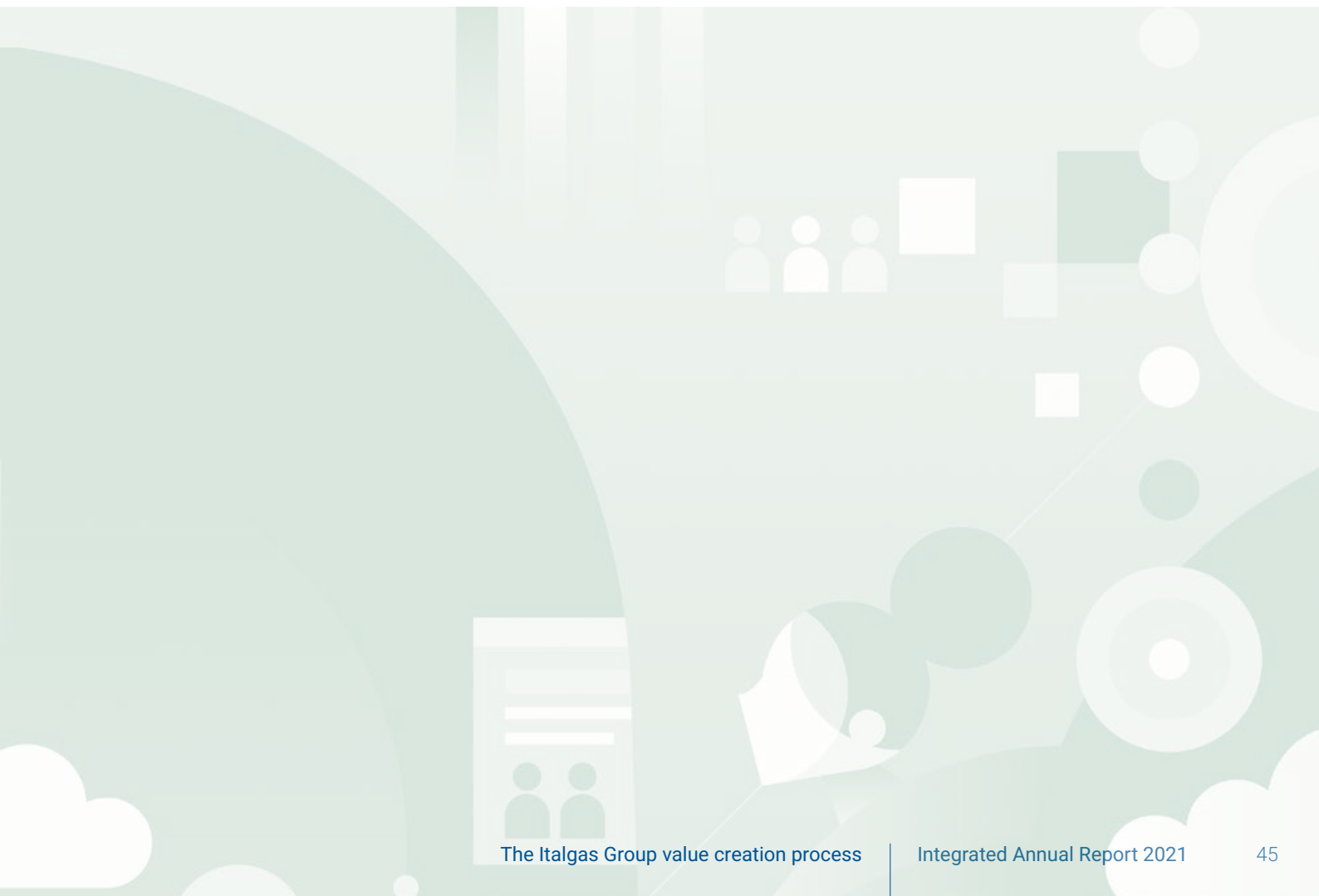
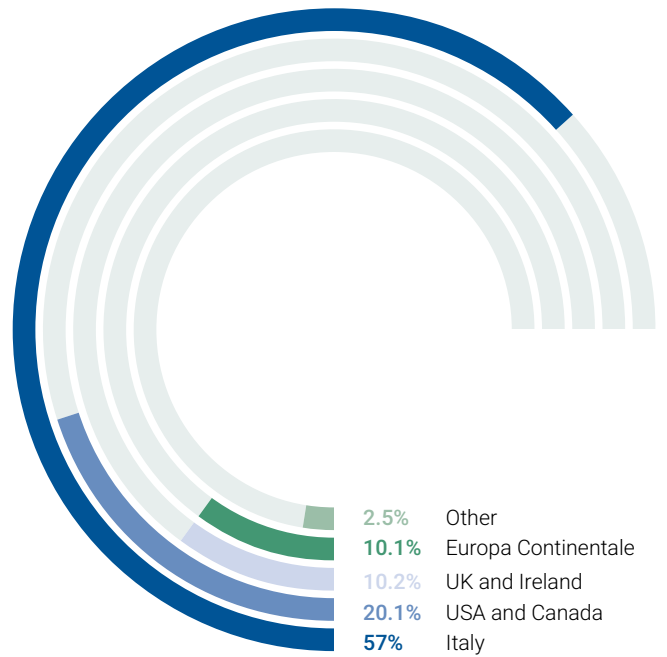
(\*) On 1 August 2019 the Board of Directors of CDP S.p.A., also with a view to considering the control guidelines contained in Consob Communication no. 0106341 of 13 September 2017, reclassified its equity investment in Italgas as de facto control pursuant to article 2359, subsection 1, no. 2) of the Italian Civil Code and article 93 of the CLF, exercising control through CDP Reti with a 26.05% equity holding and through Snam with a 13.50% equity holding. CDP does not exercise management and coordination activities with respect to Italgas pursuant to articles 2497 et seq. of the Italian Civil Code.

(\*\*) A shareholders' agreement between Snam, CDP Reti and CDP Gas was signed on 20 October 2016, effective from the date of the demerger of Italgas S.p.A. on 16 November 2016. With effect from 1 May 2017, CDP Gas was merged into CDP. Subsequently, on 19 May 2017, CDP sold to CDP Reti, inter alia, its equity investment in Italgas S.p.A., equal to 0.969% of Italgas S.p.A.'s share capital. CDP Reti is 59.1% owned by CDP, 35% by State Grid Europe Limited - SGEL, a company of the State Grid Corporation of China group, and 5.9% by a number of Italian institutional investors. On 1 August 2019, the shareholders' agreement was further updated to take account of the aforementioned re-qualification of the shareholding.

### ITALGAS SHAREHOLDERS BY TYPE OF INVESTOR



### ITALGAS SHAREHOLDERS BY GEOGRAPHICAL AREA



## NFS 1.5 SRI indexes and ratings<sup>12</sup>

The sustainability ratings of Italgas were reconfirmed or improved in 2021, and its stock was included in a growing number of leading SRI stock indexes, in recognition of the sustainable approach of the company's strategies and activities, as well as the transparent information it provides to all stakeholders.



Italgas was included for the first time in the Dow Jones Sustainability Index Europe in November 2021 and confirmed for the third consecutive year in the Dow Jones Sustainability Index World, with a score of 90 points out of 100 (score date 12 November 2021).

The two indexes comprise the world and European leaders of sustainability selected by S&P Global every year, on the basis of the score achieved on the Corporate Sustainability Assessment (CSA).

On the basis of the result achieved in the CSA 2021, in February 2022 Italgas was also reconfirmed in the Sustainability Yearbook, obtaining Gold Class Distinction recognition.



Since 2017, CDP (Carbon Disclosure Project) has recognised Italgas as an international leader for the strategies and actions implemented to combat climate change. In 2021, the Italgas Group was included in the Leadership band, thanks to the improvement of its score to "A-" from last year's "B" on the "Climate change 2021" questionnaire. This score positioned Italgas above the European average and the average of the Energy Utilities Networks sector, which both have a score of "B".



In January 2022, the Italgas share was once again confirmed as "constituent" in the series of FTSE4Good indexes on the basis of the valuation conducted in the fourth quarter of 2021.



On 18 October 2021, Italgas' stock was included in the MIB ESG Index, the first blue-chip index for Italy dedicated to Environmental, Social and Governance (ESG) best practices of Borsa Italiana, part of the Euronext group. The MIB ESG Index was made operational by Euronext in collaboration with Vigeo Eris. The inclusion also reflects the score of 58 points and the "Robust" rating assigned by Vigeo to the Italgas Group in 2021.

<sup>12</sup> Socially Responsible Investing (SRI).



The Italgas stock has been confirmed in its position in the ECPI Euro ESG Equity and ECPI World ESG Equity stock. In July 2021, the company was also included on the ECPI Global Infrastructure Equity Index. ECPI focuses on the ESG (Environmental, Social, and Governance) performance indicators which determine the sustainability profile of an issuer. ECPI uses an objective approach, differentiated by industrial sectors in the analysis of the ESG data with the aim of translating mainly qualitative information into quantitative indicators thus assigning a score and a rating to each issuer.



In 2021, Italgas had its sustainability rating from ISS (Institutional Shareholder Services) confirmed as A- in the context of the ISS ESG Corporate Rating last year.

Italgas shares are also included in the ESG MSCI, Stoxx and EuroStoxx indexes as well as those of other operators.

