

# 1. The Italgas Group value creation process

## 1.1 Corporate identity

Italgas is the leading gas distributor in Italy and Greece and the third in Europe: with its affiliates and the work of 4,281 people at the various offices across Italy and Greece, it manages 81,309 kilometres of gas distribution network, through which, in 2022, it distributed more than 8,500 million cubic metres of gas to 7,959 thousand users. In Italy, the Group holds 1,904 distribution concessions, with a historical presence in Italy's main cities, including Turin, Venice, Florence and Rome, and a market share of over 33%. In 2022, the completion of the DEPA Infrastructure transaction enabled Italgas to acquire the distribution licence in 140 municipalities in Greece, of which 105 are already in operation.

With more than 185 years of history, Italgas 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 910 km of new digital native 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 plays and will play in supporting the energy transition, guaranteeing the country's energy security. Through the major investment plan announced in June 2022, the 2022-2028 Business Plan, the Group continues its extension and repurposing of the network, not only in order to guarantee its safety and efficiency, but also the capacity to distribute renewable, low-carbon, hydrogen and synthetic gases, which look set to play an increasingly important role over the next few years.

The recent acquisition of DEPA Infrastructure S.A. in Greece will also allow the Group to further strengthen its position in the European gas sector, entering a market that offers significant growth opportunities, making its network digitisation and development 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 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. and Janagas S.r.l. - operating in Sardinia
- DEPA Infrastructure S.A., through its subsidiaries EDA Attikis S.A., DEDA S.A. and EDA Thess - operating in Greece.

In Italy, 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. A similar regulatory activity is carried out in Greece by the public body appointed for this purpose (RAE).

The Italgas Group also operates:

- in energy efficiency through Geoside SpA, its ESCo (Energy Service Company) specialised in energy consulting and the supply of energy services to both the private residential and industrial sector and the public administration sector.
- in the management of the integrated water service of five Municipalities in Campania, on a concession basis, through Italgas Acqua S.p.A.
- in Information Technology through Bludigit, the company in which all the Group's IT assets are concentrated, offering proprietary cutting-edge digital solutions, making the competences and applications developed in-house available to other operators too, both in the energy sector and other sectors.

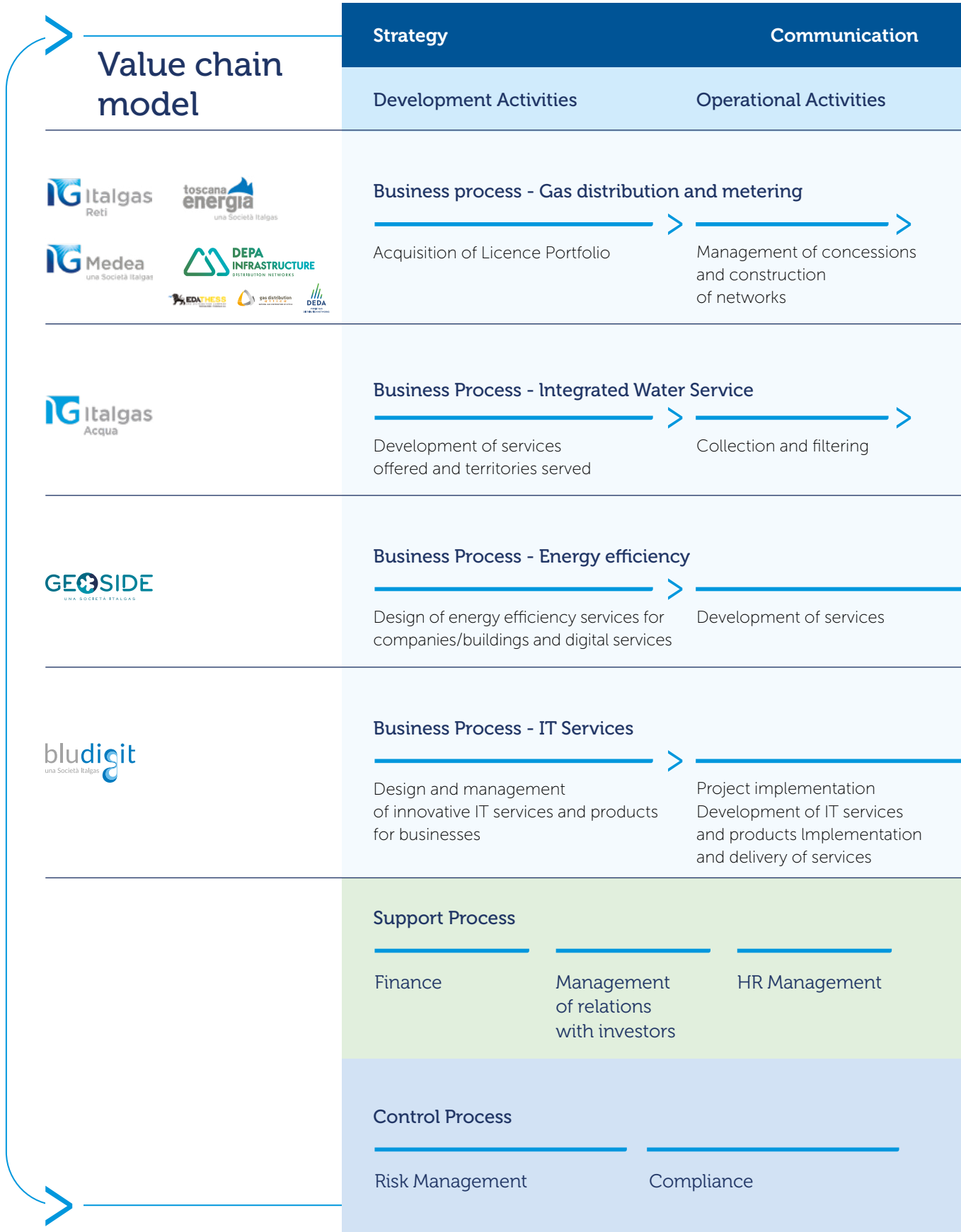
# 1.2 Business model NFS

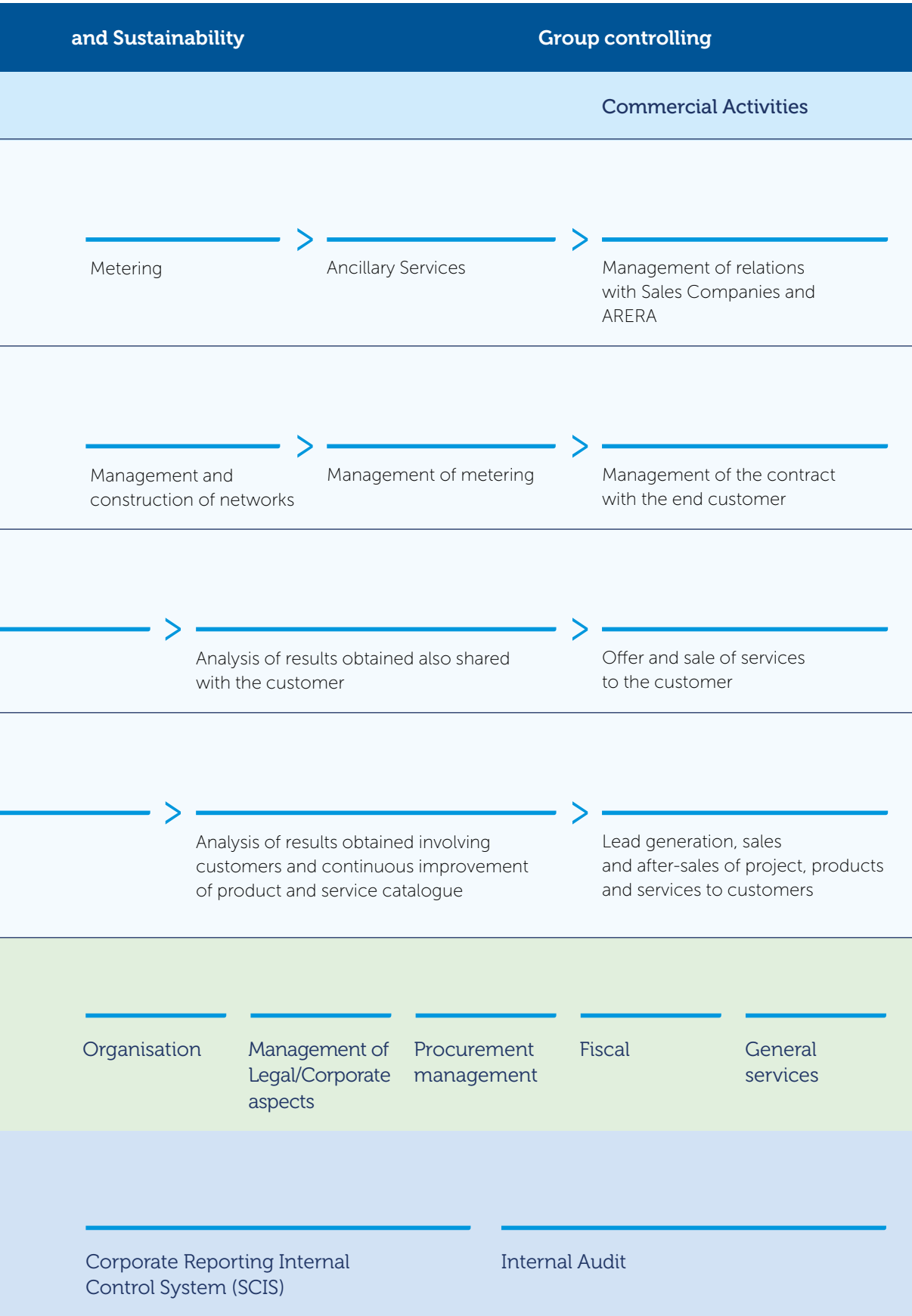
The operations of the Italgas Group are included in the business model. Below are the key processes of these operations:

- Governance processes;
- Business processes;

- Support processes;
- Control processes.

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).





and Sustainability

Group controlling

Commercial Activities

Metering

Ancillary Services

Management of relations with Sales Companies and ARERA

Management and construction of networks

Management of metering

Management of the contract with the end customer

Analysis of results obtained also shared with the customer

Offer and sale of services to the customer

Analysis of results obtained involving customers and continuous improvement of product and service catalogue

Lead generation, sales and after-sales of project, products and services to customers

Organisation

Management of Legal/Corporate aspects

Procurement management

Fiscal

General services

Corporate Reporting Internal Control System (SCIS)

Internal Audit

## 1.3 External context, markets and Italgas stock

### COVID-19 pandemic

The COVID-19 pandemic and the consequences caused first by the price shock on the energy markets, and then by the war on Europe's doorstep, have accelerated a series of evolutions in the companies' vision and way of operating, forcing them to adapt rapidly to change and to streamline their production processes in order to reduce consumption. In this scenario, Italgas showed exceptional resilience by guaranteeing service continuity for all the customers it serves, also thanks to the digital transformation of processes, assets and people, launched back in 2017. Since the beginning of the pandemic, investments in digitisation have enabled work to be reorganised and activities to be carried out remotely in smart working mode. Thanks to the application of innovative technologies, such as "ShareView" and "WorkOnSite", developed in the Italgas Digital Factory, it has been possible to manage construction sites and network interventions remotely and efficiently, reducing the number of people travelling on site and, consequently, reducing fuel consumption and CO<sub>2</sub> emissions. With 24 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 gradual increase in energy prices, which began in late 2021 and continued with the outbreak of war in Ukraine, was caused by a combination of factors – first and foremost geopolitical factors – which has generated further instability in Europe. This situation, which continues to challenge numerous industrial segments in Italy, has led to reflection on the investments necessary to achieve energy independence for the country. In this context, renewable gases – first and foremost biomethane – have been recognised as having a very significant potential, not only in terms of the decarbonisation of consumption but also to guarantee greater security of procurement. The gas distribution networks are a strategic asset also for renewable gases, 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. Thanks to the digital transformation process undertaken in 2017, Italgas is on its way to becoming the first gas distribution company in the world with a fully digitised network.

### The key role in the energy transition

The net-zero target by 2050, set by the European Union as part of the Green Deal, has made it urgent for the individual Member States to decarbonise consumptions and reduce the carbon footprint of all manufacturing activities to zero. Gas is expected to play a major role in the European energy transition process, supporting the imminent exit from coal. Gas will continue to account for approximately 20% of European energy consumption in 2050, but with a renewed composition that will reflect the increasing weight of renewal gases such as hydrogen, biomethane and synthetic methane (e-gas). In this scenario, the role of gas distribution networks will remain central due to their widespread coverage and extension, as also recognised by the European Commission with the inclusion amongst activities included in the European taxonomy of sustainable investments. In fact, the networks that distribute natural gas today will soon be able to host low-carbon content renewable gases and subsequently synthetic gases and hydrogen, as long as they are digitised. As part of its commitment to decarbonisation, Italgas has adopted practices and developed proprietary technologies that can pave the way for a more sustainable future for other operators too and not just in the energy sector.

### 1.3.1 Macroeconomic scenario and market trends

As a function of the economic recovery that started in 2021, as well as the subsequent supply tensions following the conflict in Ukraine and the sanctions imposed on Russia, 2022 saw a sharp rise in average energy commodity prices with a consequent impact on inflationary dynamics, central bank policies, bond yields and share prices.

Despite the significant drop from the historical peak of € 311/MWh in August 2022, the price of European gas on the TTF platform averaged € 132/MWh during the same year, tripling the average level of the previous year (€ 47/MWh) and generating an almost comparable rise in electricity prices in Europe. Wholesale electricity prices in Germany (1 month forward) increased from an average level of € 109/MWh in 2021 to € 285/MWh in 2022. Similarly, average coal prices (delivery Amsterdam/Rotterdam/Antwerp) rose from \$ 108 to \$ 267/tonne (+147%) and average oil prices rose from \$ 70 to \$ 100/b (+42%), against the backdrop of an average depreciation of the euro against the dollar of 11%, which further aggravated the cost expressed in euro.

The rise in commodity prices has been reflected in inflation. In October, the eurozone CPI (Consumer Price Index) peaked at +10.6% compared to the same month in 2021, at the highest level since the introduction of the euro, before falling back marginally in the following months (9.2% in December) due to the easing of energy commodity prices, in particular natural gas: these levels are well above the ECB's target (2%) even net of the more volatile food and energy components.

In order to limit the rise in inflation, central banks initiated restrictive monetary policies, aimed at increasing the cost of money and slowing down the level of economic activity and consequently the level of aggregate demand. As of July, the ECB raised rates by 250 bps. The policy move by the FED, which had already started in March, was even more far-reaching, with a cumulative interest rate hike of 425 bps, together with the start of the sale of government and mortgage bonds held in the portfolio as a result of previous QE (Quantitative Easing). As a reflection of monetary tightening, EU economic growth decelerated over the course of the year, from 5.6% y/y real GDP growth in Q1 to 2.5% in Q3; similarly, in the US, GDP growth fell from +3.7% y/y in Q1 to +1.9% in Q3.

Inflationary tensions and monetary tightening had significant impacts on bond markets. The German 10-year sovereign yield advanced 275 bps to 2.57%, the highest since July 2011, and the US 10-year yield advanced 236 bps to 3.87%, close to the highest since June 2008. Peripheral spreads also showed substantial increases, with the BTP-Bund spread on ten-year maturities rising from 135 bps to 214 bps (+79 bps). At the end of 2022, the yield curve remains largely inverted, both in the case of the US Treasury and the Bund, as a result of expectations of recession/economic slowdown induced by monetary tightening.

### 1.3.2 2022 Trend and Italgas stock

2022 recorded a downturn to global equity markets, due to expectations of an economic deceleration/recession induced by monetary tightening and the consequent rise in bond yields. However, after the lows reached in the third quarter as a result of the October spike in eurozone CPI, the stock markets showed a consistent recovery due to moderating inflationary expectations and the consequent mitigation of central bank rate hike expectations due to the overall moderation of energy commodity prices, especially natural gas.

With prices adjusted for dividend payments and reinvestments (total shareholder return), the Euro Stoxx share index contracted by 11.5%. The US S&P 500 index fell 18.1%, however, this was against a depreciation of the EUR/USD of around 6% (end-2022 vs. end-2021 values), which equals the performance between the two benchmarks in currency-adjusted terms. The difference in performance between the various eurozone national stock indices was mainly due to exposure to energy supplies from Russia. Down 12.4%, the DAX index was the worst performer, with Germany reporting the largest disruptions in the supply of Russian gas. Conversely, Madrid's Ibex 35 was the best index with a drop of 2.0%, Spain being predominantly exposed to gas supplies from Algeria and through LNG. Italy and France were in between, with the FTSE Mib and the CAC 40 at -9.4% and -6.7% respectively.

On a sectoral level, the Euro Stoxx Utilities fell by 7.1%, with the operators with the greatest exposure to marketing (due to rapidly rising electricity and gas prices not read-

ily passed on to end users) and renewables underperforming overall. Renewable operators were affected by fears of increased taxation and the introduction of price-caps, measures aimed at limiting and passing on part of the higher profits made as a result of higher commodity and electricity prices to end consumers.

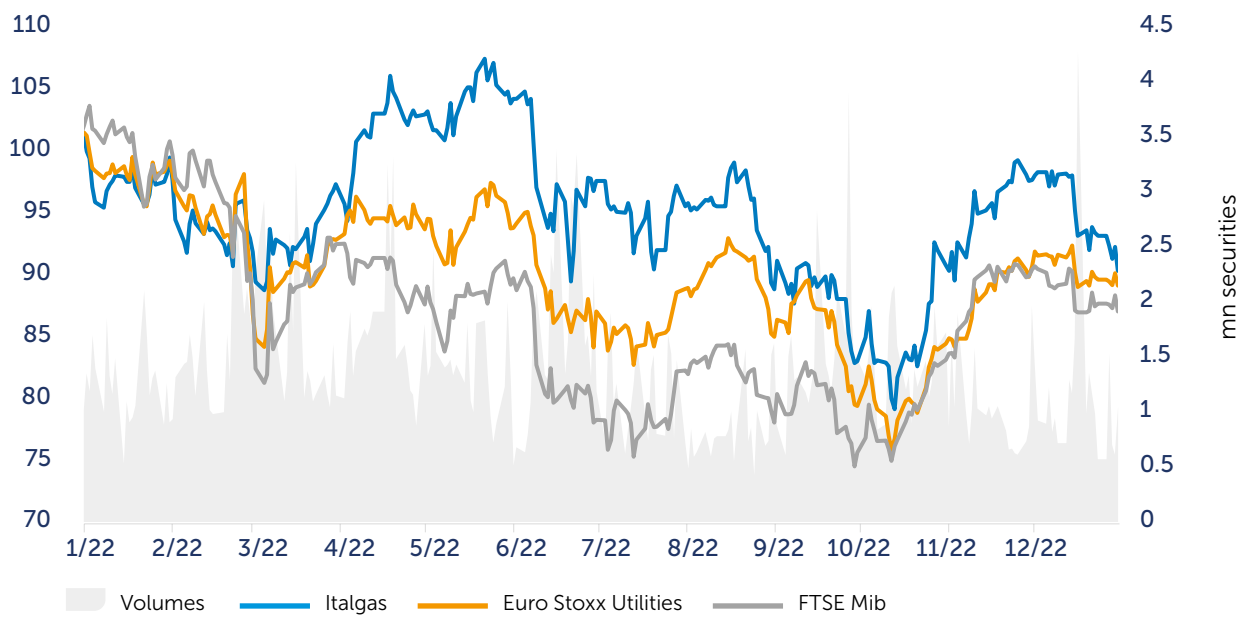
Regulated operators, on the other hand, were generally supported by the need to upgrade infrastructure as a result of the REPowerEU programme, aimed at accelerating the energy transition towards electricity and renewable fuels, including hydrogen, as well as increasing the diversification of gas supplies in order to reduce dependence on Russia.

Turning to the rest of the eurozone market, the aforementioned scenario, characterised by rising energy commodity prices, inflation and bond yields at multi-year highs, declining real disposable income and increasing consumer focus on spending levels, resulted in underperformance for the real estate, retail and technology sectors, while oil & gas and financials (banking and insurance) were best performers.

The Italgas share closed 2022 at € 5.19. Considering the per-share dividend of € 0.295 and a price at the end of 2021 of € 6.052, the total shareholder return at the end of 2022 was -10.1%. From the date on which it was listed in November 2016 to 31 December 2022, the total shareholder return is 71.8%. On 20 May, the stock updated its all-time highs (€ 6.39) in the non-dividend-adjusted version, while on 23 May, the stock updated its all-time highs in the dividend-adjusted version (€ 6.16).

During the year, the average daily trading volume of the Italgas stock on the Italian Stock Exchange electronic market was about 1.4 million shares, with a greater concentration of trades around the announcement of quarterly results, the ex-dividend date and updating of the 2022-2028 Strategic Plan, presented mid-June.

**Comparison of the quotes Italgas, FTSE MIB and EURO STOXX Utilities**  
(1 January 2022 - 31 December 2022, figures adjusted for dividends)



## 1.4 Ownership structure

The share capital of the Company as at 31 December 2022 consisted of 810,245,718 shares without par value, giving a share capital value of € 1,002,608,186.28.

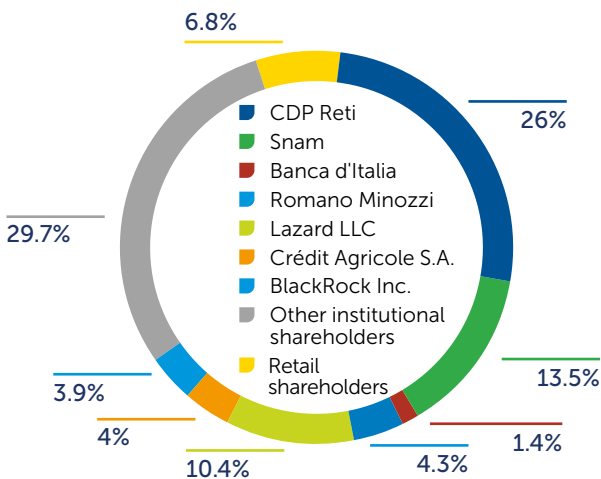
As at 31 December 2022, based on the shareholders' list, the information available and the notices received pursuant to Article 120 of the Consolidated Finance Act, the owners of significant equity investments are represented below.

Consolidating Company	SHAREHOLDERS	% Ownership
Italgas S.p.A.	CDP Reti S.p.A (*) (**)	26.01
	Snam S.p.A.	13.48
	Lazard LLC	10.4
	Romano Minozzi	4.28
	Crédit Agricole S.A.	4.0
	Blackrock Inc.	3.9
	Banca D'Italia	1.4
	Other institutional shareholders	29.7
	Retail shareholders	6.8

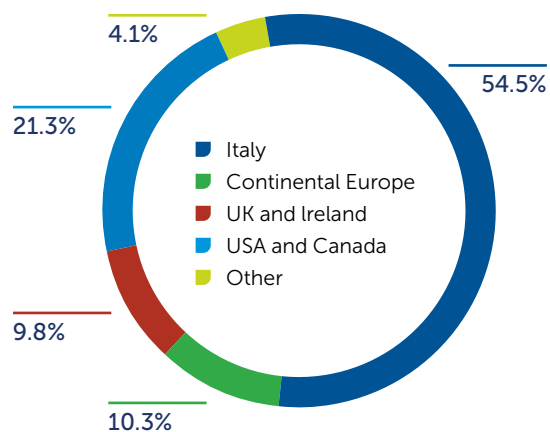
(\*) On 1 August 2019 the Board of Directors of CDP S.p.A., also with a view to considering the control guidelines contained in Consob Communication no. 0106341 of 13 September 2017, reclassified its equity investment in Italgas as de facto control pursuant to Article 2359, subsection 1, no. 2) of the Italian Civil Code and Article 93 of the CLF, exercising control through CDP Reti with, at the time, a 26.05% equity holding and through Snam with, at the time, 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 07 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. The shareholders' agreement is for three years and is automatically renewed for further three-year periods, unless one of the parties gives 12 months' notice. Given such forecast, in November 2019 and November 2022 the shareholders' agreement was renewed.

Italgas Shareholders by type of investor



Italgas Shareholders by geographical area



## 1.5 SRI indexes and ratings<sup>24</sup>

In 2022, the sustainability ratings of Italgas were further improved 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, the presence of challenging targets as well as the transparent, capillary information it provides to all stakeholders.



As of December 2022, Italgas was confirmed for the second consecutive year in the Dow Jones Sustainability Index Europe and for the fourth consecutive year in the Dow Jones Sustainability Index World.

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). With a score of 91 points out of 100 (score date 18 November 2022), Italgas ranked first out of 47 companies in the Gas Utilities Industry.

Based on the result achieved in CSA 2022, in February 2023 Italgas was also reconfirmed in the Sustainability Yearbook and included in the "Top 1% S&P Global ESG Score" category.



Since 2017, CDP (Carbon Disclosure Project) has recognised Italgas as an international leader for the strategies and actions implemented to combat climate change. In 2022, the Italgas Group was included for the first time in the "A-list" of leaders in the fight against climate change. This result is based on data acquired through the "Climate Change 2022" questionnaire and marks the second consecutive year of improvement for Italgas.



FTSE4Good

Since 2017, Italgas stock has been included in the FTSE-4Good index series.

FTSE4Good gave a positive review of the Group's responses to the rigorous criteria of the independent FTSE methodology in relation to environmental, social and governance (ESG) issues.



As of 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 was reconfirmed in September 2022.

24. Socially Responsible Investing (SRI).





Italgas shares are included in several MSCI indices

In August 2022, Italgas received an AA rating in the annual MSCI ESG Ratings, an improvement over the previous year. The MSCI Global Sustainability indices include companies with a high sustainability rating among those in the reference sector.



In October 2022, the rating agency ISS (Institutional Shareholder Services) confirmed the A- rating and Prime rating status to Italgas within the ISS ESG Corporate Rating.

The analysis focuses on companies' management of ESG issues, based on various criteria, most of which are specific to their sector; Italgas achieved the "Prime" rating, demonstrating that it is an industry leader in terms of sustainability performance.



In July 2022, Moody's ESG Solutions recognised Italgas' commitment to sustainability with an "Advanced" rating, thanks to an overall improvement of 10 points over the previous year's rating. Progress was mainly driven by the actions taken and the additional commitments made by the Group in the environmental, social and governance spheres.



In September 2022, Italgas received an ESG Risk Rating of 15.08 from Sustainalytics and was rated Low Risk of suffering material financial impacts from ESG factors.



In December 2022, Italgas stock was confirmed in the ECPI Euro ESG Equity and included in the ECPI World ESG Equity indices.

Italgas shares are also included in the Stoxx and EuroStoxx indices, as well as in the indices of other operators.