

2 | Strategy and forward-looking vision

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The 2021-2027 Strategic Plan envisages investments for € 7.9 billion dedicated to the energy transition, digital transformation and sustainability, in addition to the development of the portfolio businesses through the awarding of future tenders for the management of the ATEMs (Minimum Territorial Areas) and M&A initiatives.

The strategy is structured along the following lines:

- | development of the long-term value of the gas distribution infrastructure through:
 - | the construction of a new generation of smart networks that, through digitisation and the application of innovative technologies, causes the infrastructure management model to evolve to the benefit of safety and operative efficiency, as well as enabling the use of renewable, low carbon content, synthetic and hydrogen gases in the distribution networks;
 - | the progressive decarbonisation of the infrastructure managed, mainly reducing fugitive methane emissions through a frequent, granular control of the networks and

all possible emission points, in line with the guidelines given by the European Commission;

- | growth of the reference perimeter, through a combination of organic growth, M&As, area tenders (ATEM) and international developments in the sector of natural gas distribution;
- | growth in the energy service sector for the efficiency of industrial, residential and public administration consumption;
- | growth in the water segment, in synergy with the competences of the Group developed for the innovation and digitisation of the natural gas distribution infrastructure;
- | maintaining a sound and efficient financial structure to support the growth opportunities and continue to ensure adequate return for shareholders.

These objectives involve the entire Group in an overall, consistent effort, inspired by a model that integrates the sustainability principles. ESG topics are in fact the matrix in which the drivers of the Plan are inserted, as well as being the keystone that links them together, guiding investment choices.

2.1 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.

Moreover, the key role of gas in the energy transition was highlighted at European level¹³, in light of the recent review proposal of the directive and the regulations on the gas market and hydrogen, as well as the guideline from the European Commission regarding the inclusion of gas among the sources included in the European taxonomy of sustainable investments, with reference to electricity generation and cogeneration. For gas, a leading role is envisaged in supporting the imminent exit of carbon and will continue to account for approximately 20% of European energy consumption in 2050¹⁴, but with a renewed composition that will reflect an increasing weight of renewal gases such as hydrogen, biomethane and synthetic methane (e-gas). In this scenario, the role played by gas distribution networks remains key. Thanks to its capillary distribution and extension in Europe, the gas infrastructure is a key asset in the energy transition

process. The networks that today distribute natural gas, in fact, will soon be able to host low-carbon content renewable gases and subsequently synthetic gases and hydrogen: to do so, the infrastructure needs to be entirely digitised. The digital transformation is therefore the main enabler of the energy transition, or its precondition.

As part of its commitment to decarbonisation, Italgas has adopted advanced practices and technologies that can pave the way for a more sustainable future. These competences and solutions can also be useful for other infrastructure and energy operators or operators of other sectors, in fixing more ambitious, concrete objectives. Bludigit, the Italgas Group digital services company, with the capacities developed in the Digital Factory in the proprietary digital applications and through the partnerships with technological suppliers globally, offers innovative solutions to third parties in support of the energy transition process.

2.2 Digitisation, network upgrades and energy efficiency

Digitisation is considered an essential element in enabling the energy transition process in the gas distribution sector. Digitisation increases efficiency, improves safety, network management and the quality of the service, enables predictive maintenance, for more effective control of the operating parameters, and helps guarantee operation under any conditions.

The digitisation and transformation of the current gas distribution infrastructure towards a smart, flexible, digital model, remains one of the main objectives: it is the contribution of the Italgas Group assets towards creating the net-zero energy mix envisaged by the European Union by 2050 and the very future of the gas distribution sector. This is why in the 2021-2027 Strategic Plan, Italgas has allocated € 5 billion to upgrading / repurposing the networks, digitising assets/processes and developing initiatives for the integration of low-carbon content gases.

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. A digital network is an infrastructure with built-in devices capable of giving and receiving information and can be controlled remotely and in real time

through a centralised command and control system. It is a necessary condition for the accommodation and distribution of renewable gases other than methane, such as hydrogen, biomethane and synthetic methane.

To this end, Italgas has installed digital devices that can give and receive information in real time, it has introduced IoT technologies for the mass acquisition of the physical network parameters and has created smart algorithms that can usefully interpret this information. Finally, it has virtually completed its replacement of traditional meters with smart meters, latest generation meters equipped for smart metering and thus able to read consumption without the need to access the meter. Replacement results in greater operational efficiency, with a direct impact on the consumer. It also increases the capacity to provide sales companies with reliable and timely consumption data. This makes it possible to obtain accurate billing quickly, while increasing customer trust. The replacement process makes it possible to make the network monitoring and control increasingly more capillary, also in terms of security, and above all constitutes a technical condition that must be met in order to transport renewable gases like hydrogen, biomethane and synthetic methane.

¹³ The taxonomy of investments, in fact, is a European classification system of environmentally-sustainable economic assets that is aimed to channelling and redirecting the flow of international capital towards sustainable energy solutions (please refer to the annex "Information on the assets that can and cannot be admitted to the Taxonomy of sustainable investments")

¹⁴ European Commission COM (2021) 803 final, Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on common rules for the internal markets in renewable and natural gases and in hydrogen



The integration of green gases in the networks

The transformation of the networks involves digitisation, but not only this. Italgas has already planned and launched projects, in the 2021-2027 period, for investments of approximately 40 million, in support of the development and integration of low-carbon content gases in the distribution networks. The main development initiatives include:

- | the pilot Power to Gas project in Sardinia, near Cagliari, the very first application in the EU, aimed at verifying the whole green hydrogen chain, from the production of hydrogen from electricity produced by photovoltaic panels, to the distribution in the networks and the end uses, such as mobility, industrial applications and residential uses, which according to plans, will come to light in 2023. Italgas believes that Power-to-Gas technology is another way in which gas and electricity sectors are merging, able to offer a reliable solution to the problem of the reduced programmability of renewable resources. The plant will be connected to the new “native digital” networks that Italgas is developing in Sardinia. The region, which was once the only one in Italy not reached by natural gas, can, in fact, today boast the country’s most modern infrastructure; a network that already today guarantees greater efficiency and quality of gas distribution service, and in a not-too-distant future, will be able to collect and distribute renewable gases to end customers, making the achievement of decarbonisation targets ever more concrete;
- | In line with the expertise being developed, Italgas has signed an agreement with Buzzi Unicem (during the early months of 2022), to carry out a feasibility study to develop Power to Gas plants combined with carbon capture systems (CO₂ capture) at the production plants of Buzzi Unicem. The development of these technologies will help ensure the decarbonisation of the production processes of cements and concretes, thereby guaranteeing greater environmental sustainability and support to the energy transition;
- | the design and development of a new generation, hydrogen ready Italgas smart meter, which integrates green gas metering and management functions. The development of the first prototype, created entirely using recycled and recyclable materials, is expected for 2022 and the first installations from 2023;
- | relaunch of the historic technical and metrological analysis laboratory of Asti, Piedmont, and the creation of the laboratory in Sestu in Sardinia, near the Power to Gas pilot project, which will take on the role of centres of excellence of analysis and tests of new gases.

Italgas has chosen to optimise this important knowledge base, together with the best practices acquired in gas distribution, also to contiguous sectors, with the aim of fostering an innovation process, always assuring safety, efficiency and sustainability. Within this context, approximately € 200 million of investments was allocated to extending the digital skills to the water network management and energy service sectors, in which the following Group companies operate: Italgas Acqua, and the ESCOs Seaside and Ceresa. In the water sector, the aim is to further improve the quality and efficiency of managed networks by means of a two-level intervention plan. On the one hand, by installing “water smart meters” to replace traditional meters for the 30,000 users served; and on the other, through the widespread installation of sensors along the networks, to enable the monitoring of all operational parameters of the infrastructures at all times, prompt and increasingly accurate detection of any faults and fast intervention in the event of leaks. Similarly, digital know-how is being rapidly and effectively put to use with the launch of various innovative projects aimed at saving energy and reducing the carbon footprint of consumptions. One such project is “Savegas”, a service offering energy efficiency measures for buildings, with a turnkey system to cut bills by up to 20%.

Digital transformation also concerns processes and people. In the case of processes, driving this great change is the Italgas Digital Factory. Inside the Digital Factory, physical and virtual rooms work in agile mode to digitise the company’s processes, creating innovations that have further improved day-to-day operations. The main innovations of 2021 include a particularly effective digital solution called ClickToGas: an application that allows the end customer to share information and photographs with Italgas or even to activate video collaboration sessions with indications in augmented reality, eliminating the need for physical site inspections at the customer’s premises and drastically reducing the time necessary to provide a quotation for a new connection to the gas network. Continuing on with the enabling of smart maintenance, new solutions have been introduced based on machine learning and AI for predictive analysis and the optimisation of the function of critical components of the network, such as smart meters and the odourisation stations.

As for the people, all Italgas employees have now been provided with at least one mobile device and are involved in training, refresher and digital reskilling programmes. This approach proved invaluable during the continued pandemic context, to rise to the challenges of reorganising work and increase everyone’s skills. This approach has proven to be ever more effective, making the skills and tools available to our people to be able to interpret and use the numerous data items sent each and every day by the IoT sensors distributed throughout the infrastructure. In addition, the re-design has been launched of the digital experience of employees, through the optimisation of the HR processes and the related support systems and evolution of the collaboration and communication tools.

2.3 The role played of sustainability

All aspects of sustainability are part of the Group's operational and strategic management and a reference value for the work of top management and all company departments. In its vision for a sustainable approach to business, the Italgas Group intends to contribute daily to the achievement of the sustainable development goals of the United Nations 2030 Agenda and the goals defined by the European Union. In line with global sustainability principles and the important integrations made to the Italian Constitutional Charter in February 2022, which establishes on the one hand that the environment, biodiversity and ecosystems must be protected, introducing the concept of the interests of future generations, on the other it strengthens the principle that economic activity cannot be carried out while harming health and the environment, as well as the aspects of safety, freedom and human dignity already present, Italgas further strengthens its commitment and conviction that it is operating in the right direction.

The strategic guidelines, in terms of commitment and lines of action, are set out in the Italgas Sustainability Plan, developed in line with the United Nations Sustainable Development Goals.

The whole of the Strategic Plan responds to the main sustainability challenges and integrates the ESG criteria, setting new targets for the Company in terms of emissions reductions, energy efficiency and the development and enhancement of resources. Sustainability is therefore one of the company's cornerstones: and this aspect too is involved in defining the Group's operative and strategic choices. When defining the strategic drivers for 2027, Italgas was guided by the five pillars of the Sustainability Plan that represent the basic principles with which the company has identified from day one: nurturing an ESG culture, choosing to put people first, creating value for the local area, customers and the market, and helping to make the system safer and more effective. These pillars are translated into objectives and measures for the short- to medium-term. They are also the source of the specific policies officialising the company's commitment, including:

| **sustainability and Stakeholder Engagement Policy**, which defines its vision on social, environmental and governance topics relevant to the corporate identity and the desire to cre-

ate lasting value for all its stakeholders, through continuous dialogue, the sharing of objectives and the strengthening of collaborative, transparent and professional relations;

| **corporate Citizenship Policy**, to further consolidate the support to the local communities in line with its strategic growth and sustainable development plans;

| **diversity and Inclusion Policy**, to promote matters of diversity and encourage progress and innovation;

| **human Rights Policy**, which outlines the reference principles and actions taken to safeguard human rights in the conduct of its business and, in general, in any context in which Italgas' people and business partners operate;

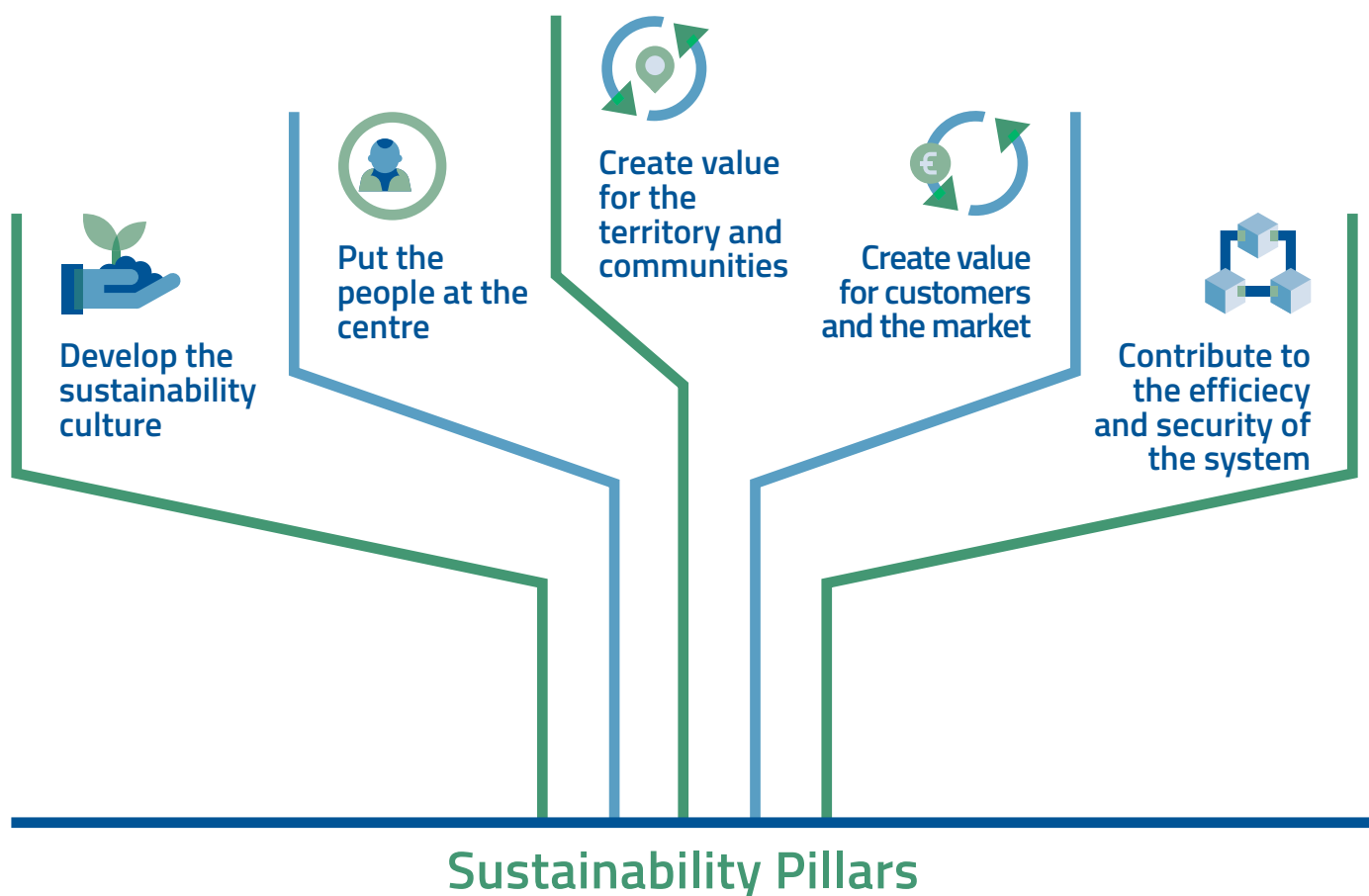
| **policy for the prevention of discrimination and protection of dignity**, by which the company undertakes to prevent discrimination, protect the dignity of its personnel and maintain the best conditions of well-being at work;

| the **HSEQE Policy**, to promote full compliance with the standards protecting health, safety, the environment and energy performance;

| **policy for managing dialogue with all shareholders**, to promote, with a view to active and constructive communication, an open and constant dialogue with shareholders.

These policies are periodically updated and integrated, with a view to ensuring constant adherence to the evolution of the Group strategies and position, also on the basis of the guidelines that have emerged from sustainability indexes and ratings and international ESG trends.

According to the preparation of the next Strategic Plan, the Group has taken action to guarantee an even more organic integration of strategic and sustainability pillars, creating a framework that guides the whole process, from the preparation of strategies to the definition of objectives and reporting on them.



2.3.1 The decarbonisation of the group's operating assets

In order to support the energy transition with the 2021-2027 Strategic Plan, the Group has undertaken to obtain a 30% reduction in its CO2 equivalent emissions by 2027, and 25% of energy consumption as compared with 2020¹⁵. These objectives have been defined through a detailed planning of measurable interventions. In particular, during the Plan, the following actions have been planned to reduce:

- | fugitive methane emissions: the company is very committed in this sense, using and promoting the adoption of the most advanced leak detection solutions. Already in 2018, in fact, Italgas had introduced Picarro Surveyor, the most cutting-edge technology available in the field of network monitoring and the identification of gas leaks; based on CRDS (Cavity Ring-Down Spectroscopy) technology, a sophisticated sensing technology that, as compared with traditional technologies, offers important advantages in terms of speed of action, sensitivity in detection and scope of the areas under control. Since 1 January 2020, Picarro Surveyor has fully replaced the traditional system on 100% of the natural gas network managed by Italgas Reti. Moreover, last year Italgas launched a trial based on the use of drones and satellite images to monitor the above-ground portion of difficult-to-access pipelines. The company also continues its scouting work carried out worldwide to identify new technologies and solutions aimed at making the detection of fugitive emissions increasingly more accurate and effective;
- | civil and industrial energy consumption and emissions (natural gas and electricity): energy efficiency interventions and the renewal of the Group's real estate assets, technological innovations to optimise industrial consumption, such as the mass use (or deployment) of Savemixer and Savegas solutions - energy intelligence solutions by the ESCo, Seaside - on the distribution network plants equipped with pre-heating;
- | consumption and emissions of the company fleet of service vehicles: modernisation of the operations fleet, removal of cars powered exclusively by petrol and diesel from the car list

¹⁵ Considering the contribution of self-production through the recovery of energy that is otherwise dispersed. The reduction is measured with the same scope, excluding any changes following M&As and ATEM (Minimum Territorial Area) tenders.

of the Managers class, introduction of hybrid vehicles (electric-petrol), among the cars for mixed personal/business use as well as operations vehicles, with the consequent installation of charging points at the company offices. In addition to changes to the fleet, the following is envisaged: the implementation of a fleet management software for monitoring consumption and vehicle status and training activities for safe and sustainable driving;

| electricity consumption for industrial use: design, implementation and commissioning, at the main city gates, of turbo-expanders for energy recovery and cogeneration plants.

2.3.2 Attention to people and skills

Italgas HR management intends to support personal development and the Group's industrial growth, based on three strategic pillars:

- | strengthening engagement and encouraging innovation and organisational changes;
- | improving inclusion and sustainability of doing business;
- | increasing efficiency through digitisation processes.

Aware that the main challenges of the digital transformation must involve the people, in its 2021-2027 Strategic Plan, the Group has envisaged continuing to invest in upskilling and reskilling with more than 600,000 hours of training, of which 250,000 focussed on digital learning. In addition, the Italgas Managerial Academy, which will be established in the early years of the Plan, will ensure continuous managerial and cultural growth, conveying a single corporate purpose among the various businesses and managers.

Italgas reiterates its commitment to diversity & inclusion in order to improve the inclusion of its people, promote equal opportunities, appreciate the value of diversity and promote the uniqueness of individuals.

To this end, a change management programme was launched dedicated to Diversity & Inclusion through widespread awareness-raising initiatives, which culminated in the identification of over 30 Diversity & Inclusion Ambassadors, key figures of change who will be engaged in specific work areas such as Age & Culture, Disability and Gender.

The objectives that Italgas has set itself for 2027 are challenging: increase in the gender representation, with particular reference to managerial positions (one in 4 management roles are held by women), generational renewal (over 60% of new resources hired under 30 years old and 50% women).

2.3.3 Partnerships for the goals



United Nations Global Compact

For a sustainable future: international initiatives and working tables

Since 2018, Italgas is a member of the Global Compact, the initiative created 20 years ago by the then United Nations Secretary-General Kofi Annan, to promote a sustainable global economy which encourages companies to adopt strategies consistent with development increasingly geared towards social and corporate responsibility. The Global Compact encourages companies all over the world to create a network for sustainable development. To do this, it requires participating companies and organisations to act in accordance with the 10 universal principles of the Global Compact, which refer to human rights and labour, environmental protection and the fight against bribery.



Oil and Gas methane partnership initiative - OGMP 2.0

In 2020, Italgas joined the second edition of the Oil and Gas Methane Partnership Initiative (OGMP 2.0), the voluntary initiative aimed at helping companies cut methane emissions in the Oil&Gas sector, created by the Climate and Clean Air Coalition (CCAC) and by the United Nations Environmental Programme (UNEP) and launched for the first time during the United Nations (UN) Secretary-General's Climate Summit in 2014.

From 2020, the initiative was extended to sectors midstream and downstream of the O&G chain, therefore also including all natural gas transportation and distribution activities. The OGMP 2.0 - which remains a voluntary initiative - essentially strives to incentivise participating companies to adopt increasingly effective and incisive methodologies to control, measure and reduce emissions. To this end, the OGMP requires participating companies to establish increasingly accurate corporate protocols that will lead, in five years, to a 45% reduction in emissions by 2025, taking 2015 values as a basis, in line with the climate change emission reduction targets set by the COP21 conference in Paris. Participating companies are required to report emissions data with an increasing degree of accuracy on five different levels, starting with the overall data on plants managed, calculated based on standard emission factors, right up to, at the end of the

final year, accurate information measured at site-level, for each specific type of plant and material used by the company when carrying out its operations.

Companies participating in the OGMP obtain the recognition of a "gold standard" in the management of methane emissions, initially in connection with adherence to the initiative and subsequently confirmed based on the actual progress made towards achieving the announced reduction targets.

At the official presentation of the OGMP 2.0 held on 23 November 2020, Italgas officially showed its commitment as a company in the Downstream sector on a global level, thanks to the participation of the CEO, Paolo Gallo.

OGMP member companies - including Italgas - worked in spring 2021 to define individual voluntary targets to reduce methane emissions by 2025. Italgas indicated a reduction of methane emissions deriving from the management of its business, measured in absolute value, of 83% by 2025 as compared with 2015. In the UNEP publication "An Eye on Methane International Methane Emissions Observatory 2021 Report", Italgas was recognised as a Gold Standard company, thanks to a quality of data considered "excellent" for operated assets and "very good" for non-operated assets. In addition, the same report certifies that the company has presented a good implementation plan, assisted by credible scheduling, objectives and technological developments. It is also declared that it has already begun making an important effort to also involve companies in which it holds an investment but not operative control, in the reporting programme and to extend the adhesion of other subjects to the OGMP 2.0 initiative.



GD4S

Italgas is part of the GD4S (Gas Distributors for Sustainability), the non-profit association of European gas distributors that seeks to represent the position of the gas distribution sector at European institutions, specifically concerning the role that such infrastructures can play in the energy transition process towards a low carbon economy. In particular, the association supports gas and LNG as fuels for the transport sector, biomethane development, the study and implementation of Power to Gas technologies for the production of "green" hydrogen and its use as energy carrier able to carry and store renewable energy, taking advantage of the existing infrastructure now used for natural gas.

In July 2021, the GD4S presented a "White Paper" setting out its strategic vision and all the policy recommenda-

tions for the development of renewable gases and the limitation of methane emissions, essential tools for the fight against climate change.

In addition, in the last two years, under the chair of Italgas, GD4S has worked intensely on defining a Sustainable Charter to give shape to a collective approach to sustainability for all association members. In short, the Charter sets out nine shared commitments - in line with the United Nations SDGs - to achieve shared objectives on the three dimensions of sustainability: Environmental, Social and Governance. The commitments are based on best practices already adopted by one or more members of GD4S, also acting as inspiration for the other members. In the Charter, all seven associated companies are committed to defining clear KPIs relating to the commitments made and to regularly reporting on the progress made, starting 2023. The Sustainable Charter will be formally unveiled during a dedicated event held on 15 March 2022.



Joint statement on methane emissions

The associations CEDEC, EUROGAS, GD4S and GEODE, which together represent virtually the entire European sector of gas distribution, in 2021 signed a document in which they undertook to encourage and support their respective members in taking proactive action to monitor, report on and reduce fugitive methane emissions into the atmosphere. In particular, four specific commitments were made to stakeholders and associates:

- | to promote monitoring, reporting and verification procedures based on the **best methods and technologies available**;
- | to support the spread of the digitisation programmes consisting of the installation of sensors and data analysis capacity to allow for **predictive maintenance**;
- | to encourage the signing of operative protocols with local entities, aimed at **limiting the interference of roadworks** with the gas distribution networks;
- | to promote the adoption of methods based on cutting-edge detection systems and on **adequate inter-**

vention protocols, consistent with the entity of the emissions expected from each individual leak.

To maximise the effort made by European DSOs (Distribution System Operators), the Associations also asked for:

- | the introduction of consistent, homogeneous regulations governing methane emissions throughout Europe, which can adjust to local conditions and network specificity;
- | the development of appropriate guidelines to support network operators in reporting fugitive methane emissions occurring on their networks;
- | as regulated subjects, the introduction by national regulation authorities of an incentive system, without additional cost to the end customers, to support the implementation of methods and technologies aimed at reducing methane emissions, at the same time guaranteeing the safe function of the network;
- | the introduction of a regulatory framework to foster the injection of biomethane into the networks and which optimises the capacity to reduce, recover and reuse methane emissions linked to waste and raw agricultural materials that would otherwise be released into the atmosphere.



Ready4H₂

In 2021, Italgas adhered to “Ready4H₂” (Ready for Hydrogen), an international-reach initiative that brings together the experience and expertise of the most important DSOs of 13 European countries to promote access to hydrogen by consumers and the development of the entire value chain, including through the entrance onto the market of new producers.

The project aims to pool the respective competences and establish how, starting from hydrogen ready gas distribution networks, a solid European hydrogen market can be constructed. With this initiative, distributors want to make sure that their specific competences, and those developed through collaboration with all the other players in the hydrogen chain, are made available to European and national decision-makers as part of the process for defining public policies in support of a hydrogen economy.

“Ready4Hydrogen” is open to all organisations and businesses choosing to adhere to it and has, in the immediate term (by February 2022) decided to carry out three specific studies:

1. the know-how of DSOs regarding hydrogen. A collec-

tion of experience and knowledge that European DSOs have accrued during projects and in developing hydrogen infrastructures. The study will also focus on the involvement of the individual DSOs in the development of the hydrogen chain in its country and the evolution of the hydrogen strategy nationally;

2. The contribution made by DSOs to the hydrogen value chain. By using the data from the first study, an analysis will be performed of how European distribution operators can help develop hydrogen. The experience and knowledge of the DSOs will be examined and transformed into value proposals to boost the hydrogen chain. In addition, the role to be played by each DSO in its country and its contribution towards strategic territorial planning, will be assessed. Another point of interest will be the role played by the distributor over the years, within the gas market and how the experience and skills accrued can be used in hydrogen;
3. a roadmap to transform the DSOs into the main players of hydrogen distribution in Europe. A roadmap setting out concrete initiatives relating to how the DSOs, on a European and national level, can act as a go-between for hydrogen producers and consumers. The study aims to identify the opportunities, as well as the obstacles, to the route of DSOs in becoming lead players in hydrogen distribution.