

2. Strategy and forward-looking vision

2.1 Reference scenario: the key role of gas in the energy transition

The Net-Zero 2050 target, set by the European Union as part of the Green Deal, and the further impetus on combating climate change, reducing climate-changing gas emissions and diversifying energy sources – brought about by the European Commission's REPowerEU plan and, before that, by the Fit-for-55 package – now place individual Member States under an urgent obligation to act.

The Russian-Ukrainian conflict has further boosted the need to reduce dependence on Russian fossil fuels and has prompted the European Union to define urgent measures for security of procurement, diversification of sources, use of renewable energy and energy efficiency. The REPowerEU Plan (2022), approved in response to the conflict, updated and increased the previously set targets on the penetration of renewable gases in the European energy mix. The new target is 35 billion cubic metres of biomethane and 20 million tonnes of hydrogen in energy supplies by 2030, respectively two and four times the target set in the "Fit-for-55" package (2021).

Moreover, the transformation of networks from "analogue" to digital, smart and flexible, has made it possible to anticipate change and to start implementing in good time the path mapped out by the REPowerEU, identifying gas distribution networks as the main enablers of source diversification and the progressive replacement of fossil-derived methane.

In the long-term too, gas is expected to play a key role in supporting the phase-out from carbon and energy security. Gas will continue to account for approximately 27% of European energy consumption in 2050 (of which 20% natural gas)²⁵, but with a renewed composition reflecting the increasing weight of renewal gases such as hydrogen, biomethane and synthetic methane. In this scenario, the role played by gas distribution networks, if digitised, remains key.

At the same time, energy efficiency is seen as a driver in the fight against climate change and for achieving the targets set in the Paris Agreements, both under European and Italian policies.

In this context, the Italgas Group has decided to play a leading role in the decarbonisation of the economy and consumption, through strategic decisions that have in fact anticipated the approach of national and EU institutions, embodied in Fit for 55 and REPowerEU.

25. ENTSOG TYNDP 2022 Visualization Platform - Global Ambition Scenario data.

2.2 The strategy map

Italgas' 2022-2028 Strategic Plan calls for investments amounting to € 8.6 billion, which will be allocated to the digital transformation of the gas distribution network, the awarding of future tenders for the management of ATEMs, the development of portfolio businesses through internal growth and M&A initiatives, the acquisition and future expansion of the Greek distribution network, with the aim of continuing to play a leadership role in the achievement of climate targets set by the European Union.

The strategy is structured along the following lines:

- Consolidation and development of the gas infrastructure through:
 - digital transformation geared towards a new generation of smart grids to achieve the highest standards of security and operational efficiency and to facilitate the progressive decarbonisation of the managed network;
 - promoting the development of green gases, biomethane, hydrogen, synthetic methane, accelerating their injection into the grid and distribution to end users;
 - expansion of the reference scope through a combination of organic growth, ATEM tenders, M&A and international developments.
- New opportunities, diversifying the business and evaluating adjacent sectors to gas distribution, such as:
 - energy efficiency, with the aim of creating one of the main national players in the sector;
 - the water sector, in synergy with the competences of the Group developed for the innovation and digitisation of the natural gas distribution infrastructure;
 - digital services.
- Development of the gas distribution infrastructure in Greece.

The Strategic Plan hinges on ESG principles and responds to the challenges of sustainability by setting targets for 2028 and 2030, in terms of reducing Group and supply-chain emissions, reducing energy consumption, developing the skills of its people and harnessing resources to drive change and promote the values of diversity and inclusion.

Digital transformation of networks and emission reduction

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.

For this reason, in its 2022-2028 Strategic Plan, Italgas has earmarked € 4.5 billion to the upgrade/repurposing

of Italian distribution networks, the digitisation of assets/processes, the development of low-carbon gas integration initiatives, and the methanisation process in Sardinia, with the completion of digital native networks. The repurposing of the network aims to guarantee network efficiency and security, also through the renewal of materials, based on predictive maintenance.

The ongoing digitisation (about € 1.5 billion envisaged in Plan 22-28), aims to collect as much information as possible, enable remote control, transport renewable gases and develop predictive maintenance programmes. Amongst the main related activities, the following are still ongoing: the replacement of all traditional reduction units (GRF); the installation of solenoid valves, sensors, actuators, digital gas chromatographs, and the gradual replacement of existing GPRS-based smart meters with NB-IOT meters are being carried out. The replacement of smart meters enables 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, enabling accurate billing. Italgas is developing its very own smart meter, designed to be able to manage different gas types (fossil and renewable), developed entirely using recycled and recyclable materials, which will combine the latest communication technologies with an environmentally sustainable design. A first prototype is expected by the end of 2023, to be field-tested in the following year and installed at scale from 2025, to replace today's communicating meters with GPRS technology.

Different portions of the Italgas network are already fully digitised, monitored and remotely managed in terms of flow rates, pressures, odourisation levels, and pre-heating. In 2021, the Group launched its centralised command and control system: DANA – Digital Advanced Network Automation. Today, DANA manages 80 plants in the Italgas network and will cover the entire network (more than 700 plants) by 2024. By harnessing the digitisation of assets, the system enables 24/7 remote control and management, recording and analysing the field data. The information collected is processed with innovative analytics and predictive maintenance algorithms to predict and anticipate potential network failures.

In addition to digitisation, the Group is active in the development of new biomethane connections, to which the 2022-2028 Strategic Plan dedicates around € 100 million in investments. Biomethane is a flexible and programmable resource and represents the most viable option for the carbon neutrality of gas distribution networks to date. The technology is mature and biomethane could become carbon negative if its production were integrated with carbon capture systems (CCS-CCUS). Italgas and biomethane producers are working together to find the best technical solution to reduce costs and improve the efficiency of connections to the network. Italgas is also developing two reverse-flow pilot projects to allow the re-injection of excess biomethane into the transmission network.

In the long term, hydrogen can unlock the full potential of renewables due to its production programmability, storage potential and use of existing infrastructure. Italgas

gas' Power-To-Gas pilot project in Sardinia, near Cagliari, is the first project in the European Union to test the entire green hydrogen value chain, from production to distribution in networks and end uses, such as mobility, industrial applications and residential uses (more details in section 6.1.1 "The integration of green gases in the networks").

The Group is committed to minimising fugitive emissions, using and promoting the adoption of the most advanced detection solutions. From 2018, Italgas has introduced the CRDS technology (Cavity Ring-Down Spectroscopy) – conceived and developed by the US company Picarro Inc.: a sophisticated sensing technology that, compared to traditional technologies, offers significant advantages in terms of speed of execution of inspection and the size of the areas to be inspected (more details in section 6.1.1).

Several initiatives and investments included in the 2022-2028 Strategic Plan are also aimed at reducing energy consumption for civil and industrial uses and lowering related emissions, thanks to energy efficiency measures on the industrial processes, the use of technological innovations as well as digital monitoring and control systems, the renewal of the fleet and the Group's real estate assets.

New opportunities

Energy efficiency

In the 2022-2028 Strategic Plan, Italgas envisages investments for € 340 million, effectively more than tripling the commitment to the energy efficiency sector compared with the previous Plan. The merger of the three companies acquired in recent years – Seaside (2018), Toscana Energia Green (2019) and Ceresa (2021) – has led to the creation of Geoside, the Group's ESCo, whose aims include:

- to help achieve the Group's sustainability targets, applying its competences and technologies to reduce consumption;
- to expand the Company's customer base by offering digital and innovative services, and new technologies to improve energy efficiency;
- to complement the offer of digital products and innovative services through specific acquisitions.

Recently, the European Investment Bank (EIB) has granted Italgas a framework loan for interventions to be carried out in Italy through Geoside. The loan, called the "Climate Action Framework Loan", is for interventions to achieve greater energy efficiency throughout national territory, mainly involving the renovation of residential buildings. Such interventions must aim to reduce atmospheric pollution and benefit health, in line with the directives of the European Green Deal and the Renovation Wave.

Water sector

The 2022-2028 Strategic Plan sets out € 160 million of investments in the water sector, dedicated to improving the quality and efficiency of the managed networks, making use of the skills developed for the innovation and digitisation of the natural gas distribution infrastructure. The demand for investment in the water sector is high. In Italy, according to market estimates, an average of 42% of the water distributed is dispersed along the network, with peaks of 70% in some areas of Southern Italy²⁶. Since 2018, Italgas Acqua has started a programme to digitise the 279 km of its network, with the application of widespread sensor technology, so that all network operating parameters can be kept under control at all times, any faults can be detected quickly and accurately, and rapid action can be taken in the event of leaks. At the same time, Italgas Acqua is proceeding with the installation of "water smart meters" (the latest generation of smart meters) to replace the traditional meters installed among the 30,000 users served.

Digital services

The digital transformation undertaken by Italgas does not only concern its assets, but also its processes. The driving force behind this great change is the Digital Factory, within which physical and virtual rooms work in Agile mode to digitise business processes, creating software and applications that have enabled further improvements in operational efficiency. Bludigit, the Italgas Group digital services company, with the capacities developed in the Digital Factory and through the partnerships with technological suppliers globally, offers innovative solutions to third parties in support of the energy transition process. Bludigit signed a strategic agreement with Salesforce, a global leader in Customer Relationship Management (CRM), with the aim of maximising the productivity of the investment cycle (capital deployment) through the use of advanced digital solutions. The aim of this collaboration is to reduce the overall time taken to implement infrastructure investments, from planning to execution, by giving full visibility of the end-to-end process to all the departments involved and fostering their effective collaboration. A first step was the creation of PASS (Permit Authorization Smart System), an application for managing internal authorisation requests within the Italgas Group, with a view to structuring a more linear, transparent process with as few actors involved as possible.

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 is proving to be ever more effective, making the skills and tools available to 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 employ-

26. <https://www.istat.it/it/files/2021/03/Report-Giornata-mondiale-acqua.pdf>

ees, through the optimisation of the HR (Human Resources) processes and the related support systems and evolution of the collaboration and communication tools.

International developments

On 1 September, Italgas completed the acquisition of 100% of DEPA Infrastructure, the leading Greek gas distribution operator. To date, DEPA Infrastructure fully owns Thessaloniki - Thessalia Gas Distribution S.A. (EDA Thess), Attiki Natural Gas Distribution Single Member Company S.A. (EDA Attikis) and Public Gas Distribution Networks S.A. (DEDA), the three players in gas distribution in Greece, which together manage around 7,500 kilometres of network and around 600,000 active re-delivery points.

The 2022-2028 Strategic Plan envisages investments of € 1.8 billion for the acquisition of DEPA Infrastructure and development of smart, digital, and flexible networks. Italgas provides its experience and technological know-how to equip Greece with an infrastructure of excellence and contribute to the country's energy transition.

From 2021, Italgas, in partnership with Picarro, has been supporting DSOs in adopting Picarro technology to effectively counter fugitive emissions. In doing so, it confirms its strong commitment to accelerating the reduction of greenhouse gas emissions and promoting the diffusion of cutting-edge technology.

2.3 2022-2028 Sustainable Value Creation Plan

In order to implement real economic, financial, environmental and social sustainability and to be able to create shared value, the Group has adopted an integrated business model, capable of employing all the capital it uses in its production processes (input capital) to achieve its strategic objectives and create value for all its stakeholders in the short, medium and long term. By doing so, it is able to develop a virtuous circle, capable of using such capital to generate positive impacts and preserve not only the future of Italgas, but also that of the communities and territories in which it operates.

With this objective in mind, Italgas structured its 2022-2028 Sustainable Value Creation Plan²⁷, "Builders of the Future", based on three pillars: Planet, People, Partnership (for a sustainable future together), corresponding to precise lines of action with clear commitments and measurable targets.

The 2022-2028 Sustainable Value Creation Plan was approved by Italgas' Board of Directors on 14 December 2022²⁸ and presented to stakeholders on 19 January 2023.

27. <https://www.italgas.it/wp-content/uploads/sites/2/2022/10/Piano-di-Creazione-di-Valore-Sostenibile.pdf>

28. <https://www.italgas.it/comunicato/italgas-il-cda-approva-il-piano-di-creazione-di-valore-sostenibile-2022-2028/>

Builders of the future



for the future of the planet

Digitalise to bring about the energy transition and decarbonisation

Contribute to the fight against climate change

Protect the ecosystems and promote a circular economy



for the future of people

Improve the quality of life and ensure the safety of employees, citizens and the national energy system

Develop and disseminate the skills of the future

Valorise diversity and support equal opportunities and inclusion



for a sustainable future together

Promote innovation and dialogue through partnerships

Promote the principles of Sustainability in the supply chain

Take care of the territory

There are three main dimensions of the Plan:

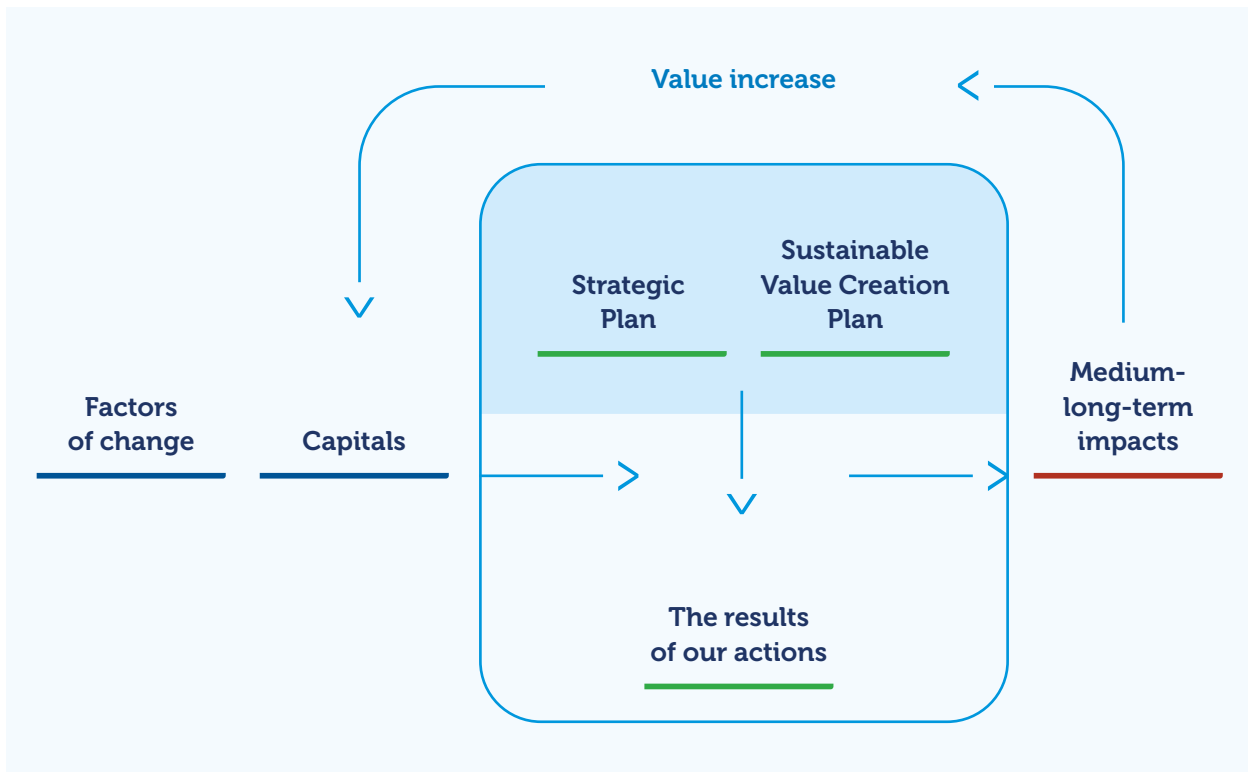
- **protecting the planet**, to enable energy transition, promoting decarbonisation and ensuring care for ecosystems;
- **the well-being of the people**, to respond to changing social concerns and demands to which increasing attention needs to be paid;
- **virtuous collaboration with partners**, to promote innovation and positive interaction between stakeholders, from start-ups, SMEs, regional actors to national and international associations.

Our idea of sustainability

Anticipating the market conditions in which the Group operates and understanding the drivers of change are prerequisites for making a real impact.

The increasing focus on renewable gases, the EU Green Deal decarbonisation plan, the REPowerEU Energy Independence Plan, the EU Circular Economy Action Plan are just some of the main regulatory and normative drivers that need to be considered when defining the sustainability and value creation strategy. In addition to these, there are socio-economic factors such as, for example, the increased concern for equal opportunities and the appreciation of diversity, the changing expectations of young workers, the changing demand for specialised know-how, and the expansion of responsibility across organisational boundaries throughout the supply chain.

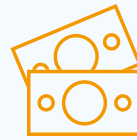
Factors of change and external context influence the capital the Group uses to create value in how it does business.





Natural Capital

- Natural gas, hydrogen, renewable gases
- Water
- Other natural and energy resources



Financial Capital

- Financial solidity of the Group
- ESG credibility and access to credit at competitive rates



Manufactured Capital

- Corporate physical assets: distribution networks and systems
- Digital infrastructure



Human Capital

- Shared values and goals within the Group
- Motivation and involvement of Italgas people



Intellectual Capital

- Ability to innovate (R&D)
- Technical and digital knowledge
- Corporate culture and know-how



Relationship Capital

- Relationships with partners in the gas supply chain
- Relationships with trade associations, regulatory bodies, institutions and citizens
- Reputation and recognition of leading role in the distribution sector in Italy

Italgas' aim is to ensure that the activities, addressed by the Strategic Plan and the Sustainable Value Creation Plan, not only create economic value, but also generate virtuous short and medium-to-long-term impacts on tangible and intangible capital used in production processes.

The Group's commitment is therefore to ensure that actions have positive impacts on a wide range of issues that contribute to developing a "sustainable" society.

The actions that the Group carried out during 2022 and that have contributed to the achievement of the objectives of the 2022-2028 Sustainable Value Creation Plan are recounted in the following chapters:

- 6.1 Italgas for the future of the Planet;
- 6.2 Italgas for the future of People;
- 6.3 Italgas for a sustainable future together.



The results of our actions

- Promotion of innovation and digital transition
- Reduction of energy consumption of the Group and of third parties
- Extensiveness and digitalisation of the distribution network
- Reduced leakage from the networks
- Distribution of renewable gases and GHG emissions' reduction
- Waste reduction
- Growth of knowledge within and outside the company
- Better results through the inclusion of diversity in terms of gender, age, abilities and education
- Employee satisfaction and engagement
- Respect for human rights
- Reduced work-related accidents
- Dissemination of good Sustainability practices along the entire supply chain
- Support for the communities and the territory
- Financial solidity



Medium-long-term impacts

- Increased supply chain resilience through the dissemination of the best Sustainability practices
- Mitigation of environmental impacts, protection of the ecosystems, support for the circularity EU goals
- Economic development of the Country
- Energy security of the Country
- Decarbonisation of the Country in keeping with EU goals
- Development of a culture orientated to the promotion of equal opportunities and women's empowerment
- Energy and digital literacy of the citizens in the service of the energy transition
- Generation of shared value for the stakeholders in the territory
- Development of a corporate culture that is healthy and inclusive, based on respect for human rights and designed to ensure the wellbeing of the workers
- Digitalisation, innovation, efficiency, safety and Sustainability of gas distribution infrastructure
- Safe and efficient access to energy for all
- Promotion of innovation in the service of energy transition

2.4 TCFD Report 2021 - Driving innovation for energy transition

On 14 December 2022, on the occasion of the approval of the Sustainable Creation Plan, the TCFD Report "2021- Driving innovation for energy transition" was presented to the Board of Directors. This report examines the relationship between the Italgas Group's business and climate change impacts in line with the recommendations set by the Task Force on Climate-Related Financial Disclosure (TCFD²⁹). In the document, the Group tells its stakeholders not only about the new opportunities identified in the climate transition and the potential risks, but also about the adequacy of its climate strategy in that regard. This Integrated Annual Report contains information on the main recommendations of the TCFD; however, for more details please refer to the TCFD Report "2021- Driving innovation for energy transition"³⁰.



2.5 Commitment to Sustainable Development

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 Group's strategic direction, in terms of commitment and lines of action, outlined in the 2022-2028 Sustainable Value Creation Plan in short- and medium-to-long-term objectives and actions, are developed in line with the United Nations Sustainable Development Goals and are formalised in the following main policies:

- **Sustainability and Stakeholder Engagement Policy³¹**, which defines its vision on social, environmental and governance topics relevant to the corporate identity and the desire to create lasting value for all its stakeholders, through continuous dialogue, the sharing of objectives and the strengthening of collaborative, transparent and professional relations;

29. <https://www.fsb-tcdf.org/>

30 <https://www.italgas.it/wp-content/uploads/sites/2/2022/10/2021-Driving-innovation-for-energy-transition.pdf>

31. https://www.italgas.it/wp-content/uploads/sites/2/2022/04/Politica-di-sostenibilita-e-SH-engagement_ITA.pdf

- **Corporate Citizenship Policy**³², to further consolidate the support to the local communities in line with its strategic growth and sustainable development plans;
- **Diversity and Inclusion Policy**³³, to promote matters of diversity and encourage progress and innovation;
- **Human Rights Policy**³⁴, 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**³⁵, 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**³⁶, to promote full compliance with the standards protecting health, safety, the environment and energy performance;
- **Policy for managing dialogue with all shareholders**³⁷, to promote, with a view to active and constructive communication, an open and constant dialogue with shareholders.
- **Policy for the Prevention and Combating of Corruption**³⁸, to promote the conduct of business according to the principles of fairness, correctness, transparency, honesty and integrity, in compliance with laws, regulations, international standards and guidelines.
- **Code of Ethics**³⁹, is a collection of the values that the Italgas Group recognises, accepts and shares and the responsibilities it assumes within and outside of its organisation.
- **Policy on Integrated Security, Resilience and Crisis Management**, which establishes the Group's objectives in terms of proactive protection of the assets comprising employees, physical and digital infrastructures and the distinctive know-how of the Italgas Group

These policies are periodically updated and integrated, constantly adhering to the evolution of the Group's strategies and position by taking into account the guidelines that have emerged from sustainability indexes and ratings, as well as the main international ESG trends.

32. <https://www.italgas.it/wp-content/uploads/sites/2/2021/07/Italgas-Politica-Corporate-Citizenship.pdf>

33. <https://www.italgas.it/wp-content/uploads/sites/2/2021/07/Italgas-Politica-Diversita-e-Inclusione.pdf>

34. https://www.italgas.it/wp-content/uploads/sites/2/2021/07/Politica-Diritti-umani_ITA.pdf

35. https://www.italgas.it/wp-content/uploads/sites/2/2021/07/Politica-Dignita%CC%80-Personale_ITA.pdf

36. https://www.italgas.it/wp-content/uploads/sites/2/2021/07/Politica-HSEQE_ITA.pdf

37. https://www.italgas.it/wp-content/uploads/sites/2/2021/06/Italgas_-_Politica-gestione-dialogo-azionisti.pdf

38. <https://www.italgas.it/wp-content/uploads/sites/7/2021/12/Politica-per-la-Prevenzione-ed-il-Contrasto-della-Corruzione.pdf>

39. https://www.italgas.it/wp-content/uploads/sites/2/2021/07/Italgas_CodiceEtico.pdf