

Progressive alignment with TCFD recommendations

In 2022, in order to study risks and opportunities related to climate change and their impacts on business activities, 2i Rete Gas continued its process of progressive alignment with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), established in 2015 by the Financial Stability Board (FSB) in order to improve and increase the quantity and quality of information concerning climate-related financial risks disclosed by businesses, banks and investors in order to provide more specific reporting to stakeholders.

The survey process included the involvement of the Sustainability and Transparency Working Group to have as cross-sectoral a view as possible on the various business operations and thus structure an alignment path that could cover all four areas required by the TCFD Recommendations.

GOVERNANCE OF RISKS AND OPPORTUNITIES RELATED TO CLIMATE CHANGE

The supervision of risks and opportunities related to climate change, albeit not formally structured, is entrusted to the Working Group which, by performing a constant monitoring

of sustainability issues, can monitor indicators related to climate change issues on a regular basis. The information thus collected is then submitted to the Board of Directors through the annual review and approval of the **Consolidated Non-Financial Disclosure** (NFD) and the Sustainability Plan. Indeed, NFD provides insights into different trends and makes it possible to monitor, relying on specific KPIs, the performance of energy consumption and emissions into the atmosphere. The Sustainability Plan, on the other hand, allows the Board of Directors to monitor, through a specific multi-year initiative (identification, evaluation, management of and reporting on risks and opportunities related to climate change based on the Recommendations defined by the TCFD), the implementation of the actions that have been and will be taken to gain a detailed view of the key risks and best opportunities.

Moreover, two additional tools provide oversight on these issues, i.e. the **Business Plan** and the **Budget**, which, by relying on cash flow qualification, also provide a thorough view on specific investments related to the reduction of the company footprint, such as the use of alternative carriers.

COMPANY STRATEGY ON RISKS AND OPPORTUNITIES RELATED TO CLIMATE CHANGE

The first step taken as part of the process whereby climate-related risks and opportunities were defined was to identify the timeframes on which to base the climate-related impact analyses:

- Short term = 0 – 5 years
- Medium term = 5 – 10 years
- Long term = 10 – 20 years

Regarding the short to medium term, the events that were identified mainly refer to the intensification and spread, over new geographical areas, of hydrogeological instability (chronic risk) and the increase in acute meteorological events such as rainfall of exceptional magnitude (also known as "water bombs"). On the other hand, regarding the longer time horizon, i.e. medium to long term, the greatest risks refer to the increase in average temperatures with consequent impact on energy consumption (chronic risk) and changes in policies and regulations regarding the transport and distribution of climate-changing energy carriers (transition risk).





In an attempt to mitigate the impact of such events on the company business, 2i Rete Gas has started, on the one hand, a constant monitoring of hydrogeological instability and large-scale meteorological events and, on the other hand, an in-depth assessment to intensify energy supply both in terms of replacement of climate-changing energy carriers and of green energy distribution (mixtures of CH₄ and hydrogen, injection of biogas or synthetic gas into the networks). With a view to extending its commitment and dealing more efficiently

with the issues related to risks due to climate change, the Group considers it essential, in the future, to base its planning and investment decisions also on predictive models that take these risks into account by identifying and monitoring geographic areas according to the likelihood of a given event occurring.

PROCESS FOR IDENTIFYING RISKS AND OPPORTUNITIES RELATED TO CLIMATE CHANGE

To correctly assess the risks and opportunities arising from climate change, 2i Rete Gas first carried out an

analysis of the external context, identifying the most relevant trends in its sector and carrying out benchmark analyses on Peers, and then engaged the managers of the areas most relevant to the issues that had emerged.

This allowed a preliminary overview to be outlined, in line with the requests of the Task Force on Climate-Related Financial Disclosure, highlighting those risks that could represent real threats and those opportunities that, if seized, could on the contrary bring numerous advantages.

Below are the risks thus identified:

TYPE	RISK	DESCRIPTION	LIKELIHOOD	TIMEFRAME
ACUTE PHYSICAL RISKS	Damage from extreme weather events	Damage to facilities, or disruption of energy supplies (gas/ electricity).	Possible	Short term
	Increased frequency and severity of fires	Damage to facilities and risk of increased frequency of fires at city gates, units and meters with possible damage to Third Parties.	Unlikely	Long term
CHRONIC PHYSICAL RISKS	Impacts from rising temperatures	Decline in demand for natural gas for heating (residential and commercial).	Unlikely	Long term
	Impacts from changes in rainfall patterns and extreme variability in weather patterns	Flooding resulting in landslides and mudslides.	Possible	Short term
TRANSITION: POLICY AND REGULATIONS	Regulatory changes in energy and climate policies to mitigate climate change	More challenging GHG emission reduction pathways. Accelerated transition to decarbonisation. Changes in carbon markets. Changes in environmental taxation. Electrification at the expense of natural gas.	Possible	Long term





TYPE	RISK	DESCRIPTION	LIKELIHOOD	TIMEFRAME
TRANSITION: TECHNOLOGICAL	Technological disruption in the energy transition	Technological improvements, cost reductions, or innovations that support the transition to a more efficient, low-emission economic system.	Possible	Medium term
	Incentives for circular economy	Expansion of recycling activities to switch from a linear to a circular business model.	Unlikely	Long term
TRANSITION: MARKET	Changes in traditional energy business models. Technological enhancement and plant efficiency	Demand for new low-carbon products and services. Funding difficulties for projects not consistent with GHG emission reductions. Loss in asset valuation (stranded assets).	Possible	Long term
	"Green Finance" Framework	Advantageous financial conditions when subscribing financing instruments, in relation to the achievement of sustainability goals. Reputational advantage, in particular, with institutional investors, investment funds, shareholders, etc.	Unlikely	Long term
TRANSITION: REPUTATION	Increased stakeholder demand for transparency and climate action	Loss of relevance in sustainability and climate change indices due to failure to meet expected climate change management standards or reputational damage resulting from climate change impacts that may adversely affect the valuation of intangible assets by stakeholders (shareholders, clients or employees).	Possible	Medium term





On the other hand, the opportunities that emerged from internal work included:

TYPE	OPPORTUNITY	DESCRIPTION	LIKELIHOOD	TIMEFRAME
RESOURCE EFFICIENCY	Renewal and efficiency of the company vehicle fleet with more fuel-efficient vehicles	Choosing new-generation vehicles with higher efficiency class to reduce fuel consumption, monitoring of mileage to reduce waste.	Possible	Medium term
	Efficiencies on preheating systems	Reduction of preheating consumption at city gates with the introduction of advanced preheating fluid temperature control systems.	Likely	Short term
	Efficiencies on cathodic protection systems	Consumption reduction by identifying and monitoring plants with critical consumption.	Likely	Short term
	Construction choices concerning the network, favouring the laying of polyethylene pipelines	Construction and replacement of the distribution network with polyethylene pipelines that do not require cathodic protection systems for their protection.	Likely	Medium term
	Energy efficiency of buildings	Identification of opportunities to achieve timely savings on corporate offices.	Possible	Medium term
PRODUCTS AND SERVICES	Increased attractiveness of the Organisation in terms of service offerings	Exploitation of diversification opportunities offered by the energy efficiency market. Strengthened relations with local communities through the Group's ESCo company, set up to provide energy efficiency services, mainly to Public Administrations.	Possible	Short term
	Service offering through own network infrastructure	Increased opportunities to open up its business to new markets by offering services (telecommunication and data transmission) that the technological infrastructure of the Organisation of the subsidiary 2i Rete Dati is able to support.	Possible	Short term
MARKET	Development of experiences with alternative fuels vs. traditional carbo-impacting energy carriers	Increased competitiveness in calls for tenders.	Possible	Short term
RESILIENCE	Design and testing of technologies for the use of renewable gases (biomethane, green hydrogen or Syn Gas)	Investments to enable plants to distribute and work with renewable gases.	Possible	Long term





In order to prevent and manage in the best way possible the above-mentioned issues, 2i Rete Gas is committed to several initiatives. Among these, the main ones include:

- preventive actions through which to assess hydrogeological risk areas in each project phase;
- developing specific plans for the management of network emergencies and activation of all the necessary actions to secure facilities considered to be at risk;
- remote monitoring of facilities using remote alarm systems and implementing effective procedures to take timely action on first response services;

- participating in pilot projects / studies / workshops for the introduction of new technologies on the infrastructure for transporting low-carbon gases (biomethane with reverse flow - green hydrogen - synthetic methane) or replacing energy carriers that cause greater polluting and climate-changing impact;
- constant participation in regulatory and technical panels to help steering choices;
- modernisation and digitalisation of the network infrastructure and containment of consumption energy (Scopes 1 and 2) with special attention also to CH₄ fugitive emissions.

METRICS

The main metrics used for the constant monitoring of issues related to climate change can be attributed to the macro-categories of KPIs provided by the GRI Sustainability Reporting Standards. As a result, they refer primarily to Scope 1 and Scope 2 emissions.

In 2022, the analysis to prepare Scope 3 emissions reporting was intensified and broadened.