

and ways of working, have an impact on the evolution of skills and learning models, but also on a concept of leadership based on authenticity, autonomy and transparency, on performance management beyond the boundaries of space and time, and on a greater search for agility and participation in work regulations. The emerging roles on which to focus training investments will depend on skills related to digital transformation, energy transition (with a focus on decarbonisation and renewable energies), the environmental transition (with a focus on circular economy, climate change and green finance) and, last but not least, problem solving and self-management, thus underlining the increased importance of “soft skills”. The technological ability to acquire huge amounts of data makes it even more important to invest in the human ability to read it and make it “speak”, so that it can generate the expected value. At the same time, while the increasingly pervasive adoption of remote collaboration tools has created a change in the way of working and measuring performance, the ability to provide an environment that is also connected in terms of human relations becomes, for this very reason, sought after and valued. The wider presence of performance management skills, through rooted trust, responsibility, motivation and autonomy, is necessary to ensure the achievement of objectives in a context in which the working time factor is becoming less and less important compared to the result, and has proved to be crucial. Employer branding, moreover, will be decisive in attracting and retaining talent; engagement and inclusion, interconnected by the idea that each person must be valued and encouraged to express his or her potential, are fundamental to maximising performance.

In order to generate value for people, it seems increasingly important to move towards structured data governance and to develop sustainable and circular behaviour. Enabling experiences and paths in training and development that are increasingly defined by a rationale of individual and collective responsibility will make it possible to face future scenarios that are changing and not always predictable. Flexible organisational models used to increase agility and resilience, individual empowerment actions, accompanied by a rethinking of working methods, the reinterpretation of space and time, and the well-being of people, are therefore drivers for the valorisation of human capital and as a consequence for increased productivity. In this respect, the creation of fair and inclusive environments is essential for the responsible financial community, and the commitment to promoting policies of inclusion and protecting diversity must increasingly translate into a fight against discrimination in the workplace.

### 1.01.02 Strategic approach and management policies

Scenario analysis is a methodology for defining useful inputs for strategic plans to increase the effectiveness of the business model over time.

This type of analysis involves a process aimed at testing a strategy's resilience under different assumptions describing possible future states. For the Hera Group, it is essential to analyse the potential impact, positive or negative, of various economic-financial, business, regulatory, competitive, environmental, technological and human capital scenarios that are different from each other, but equally plausible and internally consistent.

The study of scenarios has also been applied to climate change, in order to understand how physical and transitional climate opportunities and risks may plausibly affect business and its various areas over time.

The reference framework within which the Group's strategy has been developed in the various areas consists of three areas:

- **the environment**, in order to respond in a concrete way to the threats linked to climate change, by regenerating resources and strengthening the resilience of the assets managed, favouring the energy transition and aiming at carbon neutrality;
- **socio-economic factors**, in order to match developments in the Group's size with the generation of an increasing portion of shared value, to positively affect the well-being and prosperity of stakeholders and the areas served;
- **innovation**, to drive the evolution of the Group's activities, thanks to the opportunities offered by the most advanced technologies and digitalisation, with the aim of increasing the efficiency and quality of the services provided, multiplying opportunities for stakeholder engagement and accelerating the spread of behaviours and skills capable of responding to the challenges of a constantly evolving context.

## Macroeconomy and finance

The debt structure towards which the Hera Group is oriented responds to its business needs, not only in terms of the duration of loans, but also in terms of interest rate exposure. The Group's financial strategy, in turn, is aimed at maximising its return profile while maintaining a prudent risk strategy.

The scenario projected in the Plan expects the Group's financial structure to maintain, in 2026, 20% of variable-rate debt and 80% of fixed-rate debt, within the limits of the financial risk policy. These projections are part of a well-pondered long-term planning of the necessary financial resources, which Hera carries out by analysing and monitoring cash flows, paying attention to maintaining a flexible and efficient debt structure. The average cost of debt, in particular, is constantly monitored, both through financial risk management activities which, in order to limit the risk of interest rate fluctuations, include the use of derivative instruments, and through assessments of liability management operations aimed at seizing favourable market opportunities and maintaining a debt repayment profile that is evenly distributed over time. One challenging objective for the upcoming years, falling under the Plan, within a scenario that includes rising rates and a highly volatile market, is to contain the average cost of debt through liability and financial risk management activities. The Plan confirms the Group's desire to meet financial requirements through fixed-rate bond issues, including green and/or sustainable bonds, taking advantage of any opportunities for subsidised finance, in order to respond to the Group's investment needs with further gains in efficiency and thus guarantee the implementation of innovative and sustainable projects in the environmental, water and energy sectors. The funding strategy is reflected by the actions included in the Business plan for projects to reduce greenhouse gas emissions and increase the amount of recycled plastic.

Financial  
planning



Credit  
ratings

Most of the Group's business is concentrated in Italy, and its rating is thus closely linked to the country's rating, its macroeconomic trends and its political scenario. Hera's actions and strategies remain oriented towards maintaining and improving adequate ratings; its usual communication with the rating agencies Moody's and Standard & Poor's (S&P) has confirmed positive feedback in terms of the solidity and excellent balance of its business portfolio, as well as in terms of excellent operating performance, efficient and proactive risk management and resilient creditworthiness indicators. In 2022, in particular, Moody's and S&P ratings were confirmed respectively at BAA2, with an outlook going from stable to negative which reflects the worsening of the sovereign rating outlook (since, despite the Group's business being recognised as sound and sustainable, a company's rating cannot be 1 notch higher than that of the country in which it operates), and BBB+ with a stable outlook. The rating obtained is among the highest in the multi-utility sector at European level and is higher than the sovereign rating, confirming the path of growth implemented over the years and the results in line with multi-year expectations.

Sustainable  
financial  
reporting

Over the period covered by the plan, the ongoing adoption of sustainable financial reporting best practices will support the Group's green financing and ratings. Hera has already been committed to green funding for some time: it was the first Italian company to issue a green bond in 2014, which was followed by an ESG-linked loan in 2018. In 2019, it adopted a Green Financing Framework (GFF), accompanied by a further green bond issue. An expected further improvement in sustainability ratings, in turn, will make it even easier to access lines dedicated to sustainable financing, characterised by potentially lower costs than traditional credit lines. Consistently with these guidelines, the Group is also in the process of implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) coming from the Financial Stability Board, which foresee the definition of climate scenarios, risks and opportunities related to climate change, as well as processes for managing these risks, and the definition of targets for reducing climate-changing emissions.



In this context, becoming part of the Dow Jones Sustainability Index (DJSI), the first index to track the financial performance of the world's leading companies in terms of sustainability, bears witness to the validity and credibility of the path taken by the Hera Group, opening up further developments. Recognitions of this type, in fact, act above all as a stimulus and allow Hera to identify the areas to be developed for further improvement in its performance and, at the same time, to include among its reference investors those who are engaged in socially responsible investing (SRI), a segment that, as mentioned above, is undergoing considerable and continuous expansion.



## Business areas and industrial strategy

The Group's 2022-2026 Business Plan, approved in February 2023, was drafted with respect to a complex external context, strongly disrupted by the geopolitical and energy crisis. Faced with such a challenging scenario, the Group's strategy to 2026 confirms the strategic aspects of its previous planning, putting the focus back on its synergic relationship with its reference areas, thanks to significant investments in projects capable of effectively responding to the main macro-trends of the utility sector: ecological transition, innovation, cohesion and social development.

To orient the ecological transition, the Group's plan focuses on reducing climate-changing emissions, the circular economy and resilience in services, to improve their quality and continuity.

The Hera Group's strategy is also developed thanks to a solid contribution coming from innovation, by adopting technological solutions that will make it possible to know and monitor customers' needs and adapting existing services to their requirements, and to optimise the management of the assets, rationalising their maintenance.

### Free-market businesses

In the free-market businesses of the energy sector, the Group aims to consolidate its national position through a gradual increase in its customer base, reaching the target of four million energy customers by 2026. This goal will be pursued by strengthening and enhancing the portfolio of value-added services offered, with increasingly advanced solutions to enable and support customers in the path towards the energy transition. Examples of this include offers for monitoring and reducing waste, including the sale of smart thermostats, and those aimed at increasing energy efficiency. The Group's innovative service package also includes the sale of charging stations for sustainable mobility and the design, sale and installation of photovoltaic systems.



The customer base will also be expanded by taking advantage of the opportunities arising from the termination of the protected electricity service, which is scheduled to come to an end for household customers in January 2024.

Innovation will be a key element in enabling the evolution of the relationship between sellers and customers towards new standards of quality and satisfaction. This will be possible thanks to customised offers that will leverage the data collected by second-generation meters and the introduction of artificial intelligence solutions supporting the various business applications used in customer relations.

In the energy services business, the Group aims to grasp the new energy efficiency opportunities that will emerge in particular in the public administration segment, thanks to the NRRP and national energy saving targets.

With regard to the waste treatment and recovery business, the Group intends to consolidate its leadership by leveraging plant and industrial development, as well as commercial development in the industrial waste and recovery sectors. In the latter area, Hera, acting through its subsidiary Aliplast, will develop new projects both to expand plant capacity in segments already covered, such as the production of recycled PETs for food use and recycled polymers for cosmetics and food, as well as in narrower and more innovative segments. In particular, two new plants will be built, with state-of-the-art technology, also partially financed by the NRRP: work on both a carbon fibre regeneration plant in Imola (BO) and a rigid plastics recovery plant in Modena will begin during the period covered by the Plan.



In terms of commercial development, the Global Waste Management solutions offered to industrial customers will also be strengthened, with customised services covering the entire waste cycle, water resource management and energy services, fully exploiting the synergies between the various businesses covered by the Group. Furthermore, customers will be offered the means with which to improve the circularity of their production and logistics activities, with the aim of reducing waste production or changing its nature towards higher-value types of waste. Lastly, development in the remediation sector is expected to be accelerated by ongoing corporate acquisitions.

### Regulated businesses

As regards regulated businesses, our strategy for the coming years will be based on innovation and digitalisation, intended to increase the resilience of the infrastructures managed and to improve operations, benefiting the service offered to the Group's customers.

For example, the use of predictive maintenance and functional modelling models will make it possible to classify, plan and better gauge the interventions necessary for the range of networks managed, with benefits both of an economic nature and concerning system resilience.

In gas and electricity distribution, a drive towards innovation will come from installing approximately 410 thousand second-generation (2G) electricity meters, which will allow for a more precise measurement of consumption, and around 300 thousand NexMeter gas smart meters, patented by Hera, having advanced safety functions in the event of leaks or earthquakes, and which can also be used for green gas mixtures.



During the period covered by the Plan, the Group will further evolve its businesses towards decarbonisation, through investments in innovative and circular projects involving renewable gases, from the production phase to their final use, and at supporting the electrification of consumption and an increase in distributed generation. For example, the Power-to-Gas plant is scheduled to become managerial at the Idar purification plant in Bologna Corticella, which will use wastewater and electricity originating from renewable sources to produce biomethane and oxygen.

In the water cycle, work will continue on making networks more resilient to climate change, smarter in terms of automation and remote monitoring of assets, and more efficient in the management of water resources. The district-based programme for the aqueduct will be developed and extended, which allows the condition of the pipelines within portions of the water network (districts) to be constantly controlled, thanks to a precise monitoring system that provides data that can also offer indications on the presence of hidden leaks, as well as remote pressure regulation. Concerning the sustainable management of water resources, various circular economy initiatives have been planned for saving, reusing and recovering water, both at customers' premises and at the Group's assets and sites, including through the effective optimisation of sewage sludge management and recycling materials from water cycle waste with dedicated plants and innovative tools.



In district heating, investments will mainly be focused on projects aimed at developing and optimising existing systems and maximising the use of renewable heat. In this sense, the main efficiency-enhancing project, awarded NRRP funds, consists in the interconnection between two district heating systems in Bologna, the S. Giacomo facility (fed by a cogeneration plant with a gas integration boiler) and the Caab Pilastro system.



Lastly, in the municipal waste business, the Group will confirm its commitment to achieving ambitious recycling targets, by improving the quality of sorted waste collection. On the one hand, new communication campaigns and citizen engagement initiatives will be launched, with a focus on single-use plastics and packaging, as well as actions countering abandonment and degradation. On the other, the planned change for all Emilia-Romagna municipalities to unit pricing systems within the time covered by the Plan will also play an important role. As a further support to the virtuous behaviour of citizens, more than 60,000 smart bins will be made available, which can be monitored remotely and in real time (by a control room) in order to improve this service and optimise operator interventions.

#### Key figures for the Group

The industrial strategy described thus far makes it possible to project growth in the Group's Ebitda at 2026 coming to over 250 million euro, compared to the final figure for 2021, in order to reach the 1,470 million euro at the end of the time covered by the Plan. This development will follow a solid, sustainable and balanced path, fuelled both by internal and external lines, consistent with Hera's history and its industrial evolution over the years. Investments coming to approximately 4.1 billion euro have been planned over the five years, an amount significantly higher (approximately +53%) than the average seen during the last five years and also higher than the amount set out in the previous plan. These investments will be supported by more than 130 million euro of NRRP funding among the calls for tenders already assigned, which will allow for more rapid interventions for the ecological transition in the areas served, demonstrating that the Group's strategy is fully in line with national and European policies concerning sustainability. The margins created during the time covered by the Plan will make it possible to respect the significant financial commitment required in terms of investments, also enabling the ratio between net debt and Ebitda to be brought back below 3x, starting from 2025, thus confirming the Group's solidity.



By 2026, 62% of the Group's total Ebitda will contribute to creating shared value, fuelled by approximately 2.8 billion euro in investments over the period covered by the Plan (equivalent to 70% of the total amount of investments planned for the five-year period), a target in line with the Group's 2030 objective of increasing the amount of Shared Value Ebitda to 70%. The Plan to 2026 also confirms the convergence of the path towards the other 2030 targets that Hera is pursuing regarding carbon neutrality and the circular economy, including the ambitious 37% emissions reduction target (compared to 2019, with SBTi validation) and a +150% increase in recycled plastics (compared to 2017).

Local areas

Utilities are called upon to develop strategies able to effectively orient the challenges and the priorities of the coming years. Hera's strategy has always been based on a close relationship with the areas served and its own ecosystem. The evolution of this context, in its economic, political, local and technological aspects, affects the Group's activities across the board and influences the guidelines that will characterise their evolution, leading towards increased resilience and accelerating the evolution of its corporate culture. Local areas are the focus of the Group's strategic plan, which can be subdivided into various areas of action:

- **Energy Transition**, the path to economic growth and sustainability for the green transition;
- **Resilience**, confirmed and strengthened through the evolution of the enterprise risk management model;
- **Regeneration**, including a project for the reuse of soil and demolition materials;
- **Technology**, understood as harnessing the enormous amount of data available and its use in Artificial Intelligence projects, and for the enhancement of cyber security monitoring tools;
- **Community**, and tools for listening to and communicating with the reference area, considered fundamental for wellbeing, and aimed at consolidating relations with stakeholders and generating the engagement necessary for the success of initiatives;
- **Human resources**, enhancing the development of the individual and guiding the evolution of the way of working;
- **Opportunity**, in terms of growth in size, as well as green gas development, an opportunity to exploit synergies between the different businesses managed, including extending laboratories towards the external market by exploiting the experience and know-how acquired.



See the following paragraphs for further details about the strategic actions mentioned above, and the attention towards human capital implied by each of them.

## Climate and the environment: sustainable development

Shared value framework

Hera's shared value framework, introduced in 2016, has oriented the Group's strategy towards growth based on responses to the problems of the external context, capable of maximising shared value, both for the company and for the community. Creating shared value is the perspective that integrates an orientation towards sustainability into the very heart of the Group's strategic approach.

### Priority SDGs directly linked to business activities on which the Group has a direct impact



### Other important SDGs on which the Group has an indirect impact due to internal processes or business activities



The latest revision of this model includes the topics of resilience and adaptation to climate change, drinking water (included within the scope of sustainable management of water resources) and biodiversity. These are issues to which the Group has been committed for years, which complement the other dimensions of Hera's framework (such as the circular economy and sustainable management of water resources). The Group's objective is to create shared value through business activities that are strongly integrated into the socio-economic fabric of the communities served, generate operating margins and respond to the drivers of the Global Agenda, i.e. the calls to action for change indicated by policies at a global, European, national and local level. The year 2022 confirmed the validity of the initiatives already launched by the UN Global Agenda to 2030 to respond to the megatrends in



place: fragile planet, technological disruption and accelerated urbanisation were considered the most closely linked to Hera's business, having a direct impact on corporate activities. Hera's contribution is most significant for seven sustainable development goals on the 2030 Agenda: 6) clean water and sanitation, 7) clean and affordable energy, 9) business, innovation and infrastructure, 11) sustainable cities and communities, 12) responsible consumption and production, 13) combating climate change and 17) partnership for the goals.

The Group's website ([www.gruppohera.it/gruppo/sostenibilita](http://www.gruppohera.it/gruppo/sostenibilita)) and its Sustainability Report (Sustainable Strategy and Shared Value section) offer further details on the actions that the Group intends to promote





by contributing in a broad sense to the 17 Goals of the UN 2030 Agenda. Also note that the Group has set itself clear industrial objectives for both 2026 and 2030, to make a significant contribution to achieving carbon neutrality. The main elements include energy efficiency solutions applied both within the Group's operations and to customers (by valorising multi-business assets), the development of new renewable plants, the sale of green energy to customers and, as mentioned above, a strong commitment to reduce carbon dioxide emissions from the industrial chain, reaching 37% by 2030 (compared to 2019), calculated according to Science Based Target references.

In order to foster a culture linked to these SDGs among the Group's entire workforce, dedicated training events have been made available on its corporate training platform, concerning the circular economy in particular; the UN agenda is also part of training for all newly hired employees. The main actions include those aimed at promoting energy efficiency, sustainable management of water resources, the selection of suppliers with qualifications in terms of environmental and social sustainability aspects, the development of employment and new skills, and a broader use of innovation and digitalisation. Awareness of the significance of climate change is considered by the Group to be the first necessary step towards incorporating precise responses to the resulting risks and opportunities into its corporate strategy, consequently reflecting the effects of these responses in the drafting its multi-year plans.



### Energy transition and Opportunities

Among the initiatives identified to seize the opportunities emerging from an analysis of the climate scenarios hypothesised, the most promising were included in the Business Plan to 2026, which also reflects the mitigation actions identified in response to the risks defined. In particular, the Group's strategy to implement climate change mitigation mainly consists of:



- choosing renewable electricity to power its own activities and to promote dedicated business solutions for customers; examples include the plans to install photovoltaic systems at Group sites and other suitable areas, and the launch of the first energy community projects;
- increasing the production of energy from renewable sources (in particular geothermal and biomethane, in relation to which, at the Sant'Agata Bolognese plant, performances exceeding expectations continue to be obtained);
- offering solutions to reduce the carbon footprint of customers in all segments (households, condominiums, businesses and public administrations, for example by setting Business Plan targets that aim to involve customers in replacing boilers with a high environmental impact);
- initiatives and projects to reduce the carbon footprint, such as the technological and regulatory feasibility studies to produce green hydrogen through water electrolysis, using the share of renewable energy generated by WTEs, or connecting the two district heating systems in the Bologna area that are currently separate, from which a single, more resilient, efficient and saturated district heating network will emerge (Power-to-gas plant);
- implementing technological innovation projects and initiatives for greater environmental sustainability in the Group's activities, such as optimising the mix with which district heating heat is generated to increase the portion produced from renewable sources, extending the district heating programme for the water network, and extending public lighting with smart, consumption-conscious solutions. Also confirmed during the period covered by the Plan are revamping and automation interventions of some networks and district heating systems, of primary electricity substations, as well as the roboticization of about 1,200 secondary substations ("Apennine resilience plan", which will address resilience with a view to mitigating the risks identified in the area of electricity distribution).

In order to support the energy transition to which society is called, the Hera Group essentially plans actions aimed at increasing the incidence of energy efficiency among the various user categories, as well as exploiting every possible form of renewable energy.



Actions to reduce energy consumption within the Group's perimeter (-8.6% to 2026 compared to 2013) will therefore continue with renewed impetus.

### Regeneration & resilience

The resilience of networks and plants, recycling, separate waste collection, purification and sewage, and saving water resources guide specific projects in the various sectors. By way of example, the design and execution phases of engineering works show a progressive focus on sustainability issues, reducing the environmental footprint and minimising the use of virgin soil. Building information modelling (BIM) technology, which makes material analysis possible (even during plant demolition), allows for maximum recycling and reuse and extends the circular approach to the end-of-life of the work. The development of plastic recycling, in terms of increasing the recycling capacity of flexible plastics, in addition to building plants for recycling new types of plastics (rigid and carbon fibres) and processing plastics and paper, and an increase in the production of biomethane, foreseen in the period covered by the Plan, are increasingly oriented towards giving new value to the organic portion of solid municipal waste. The



rationale underlying circularity also involves the Group's main purchasing processes: Hera's strategic approach involves an increasing focus on materials or goods that meet the principles of the circular economy and extends the adoption of minimum environmental criteria (MC) to the definition of product characteristics, not only to components for water connections but also to other standard elements of the networks such as gas and water reducers and sewer lifts.

The Group confirms its commitment to widely adopting circular economy solutions with medium- and long-term industrial objectives and projects based on defined deadlines, through technological and behavioural solutions. These solutions are oriented towards improving the volume and quality of sorted waste collection, providing new plant capacity for the treatment, recovery and recycling of special urban waste (including through partnerships in the local area), revamping of sludge treatment plants, the recovery of sand from the integrated water cycle waste for subsequent reuse, and lastly technology, to maximise the reuse of water resources and for advanced plant engineering for purification quality, including through technological upgrading of dewatering systems. Actions to increase the resilience of the Group's activities also include the installation of remote-controlled accessories and sensors in all networks (to ensure remote monitoring and management), the installation of smart meters for each business, and the implementation of programming and modelling tools based on artificial intelligence to anticipate critical events or optimise maintenance.

To benefit the wider use of circular models, greater attention will also be paid to the various customer engagement tools, so as to use the different communication/dissemination channels according to the features of the various geographical areas, as well as to improve and expand the tools already in place by paying attention to the different types of customers.

The campaign to raise awareness of environmental challenges will continue to involve schoolchildren (environmental education projects), and will be carried out through the main media at a local level (press tour on environmental issues).

#### Opportunity

Decarbonisation policies reduce dependence on fossil fuels and therefore contribute to guaranteeing the security of the system. The Group's plant assets also have further potential to seize opportunities related to the development of new renewable energy vectors, such as hydrogen. The Group intends to become involved in the various phases of this chain, and is launching experimental projects in this direction. In the sustainable hydrogen production phase, a circular solution comes from synergies between the electrolytic process and the water purification process, with multiple circular flows of material between the two activities (oxygen as input for purification and biogas from sewage sludge as material for hydrogen methanation). The Group's Waste-to-Energy plants will be able to use biogenic electricity (considered renewable) to power electrolyzers capable of obtaining hydrogen for industrial customers, mobility or the distribution network. Once again with reference to gas distribution, experiments are underway on the Group's assets to assess the optimal blending percentage between methane and hydrogen for the operation of cogeneration assets and plants for industrial and household users. Finally, note the project to install the latest generation of "NexMeter" gas meters, suitable for measuring hydrogen/methane mixtures, as described in the paragraphs above.



For Hera, the need to guarantee quality and continuity in essential services in such a changing context, subject to increased climate risks, represents a cost, but at the same time an opportunity. The necessary increase in investments to improve the resilience of its assets puts the Group, thanks to its solidity and financial capacity, in an advantageous position compared to smaller competitors, who could face greater difficulties in dealing with such a volume of investments. In addition, internal reinforcement, accompanied by growth through external lines and tenders, allows the Group to seize opportunities for development in the most effective way. In this regard, further consolidations in the waste management and energy businesses are envisaged in period covered by the Plan, which will allow for synergies in activities complementary to those of the Group. This involves an expansion of the Group's range of services while, as regards the energy markets, Hera Comm, which has already been awarded two lots for the protected electricity service, is awaiting the tenders scheduled for 2023 for the 2023-2024 and 2024-2025 thermal years for the last resort gas and default gas markets. Further tenders in the regulated markets are possible in the period cover by the Plan. Many of the Group's projects fall within the financing scope of the NRRP and are related to the circular economy. Their objectives include the improvement and mechanisation of the urban waste collection network, and the construction, modernisation and expansion of treatment plants for waste sorting, sewage sludge, leather and textile waste.



Several tenders concerning the Group are expected to be issued in the coming months.

In other words, the Group aims to make the most of the opportunities offered by technological evolution and digitalisation to extract innovations, managerial improvements, cost efficiencies and synergies related to data management, in order to meet the needs of the local area and stakeholders, to take a leading role in the provision of services and to accompany cities towards new development models, overseeing each technological upgrade by analysing its impacts and mitigating its side effects.

## Technology and human capital: innovation

### A strategy moving towards green innovation

Advances in the chemical and engineering industries are at the forefront of technological development in production processes, and concern the waste management (first and foremost plastics) and energy (biogas and biofuels) sectors. This is where the search for concrete solutions may prove to be instrumental adapting to climate change or countering the depletion of natural resources. The Group strategically exploits these advances in order to identify plastic recycling processes that can flank mechanical procedures and make the process effective even for less pure and less valuable types of plastic. The same advances make it possible, for example, to experiment with solutions that use excess renewable electricity (otherwise unusable) to split molecules into hydrogen and oxygen and then convert the result into synthetic methane gas by adding carbon (from CO<sub>2</sub>).



### Digital strategy

Hera has adopted a Group strategy to exploit all available information and to be able to guarantee the quality and exchange of data flows. The principles that have guided the implementation of the strategy are those of an organisational approach to data architecture, which is articulated in the organisation of information by “domains”, development according to a product strategy, on a self-service technology platform and with the adoption of a federated governance model.

The Group's data strategy model and related guidelines are included in training courses dedicated to individual business units, with the aim of spreading the strategic plan at all levels. In order to increase the ability to intercept anomalous events, the data sources used with the convergence between the management environment (applications) and the industrial environment (Group plants) must be continuously extended. Vulnerability assessment activities on both environments, aimed at preventing attacks on systems and plants, are fundamental; to this end, the model envisages distributed actions and responsibilities, and it will be further strengthened in the period covered by the Plan, through projects aimed at increasing monitoring capacity and the evolution of prevention tools.

The utility sector is fragmented and characterised by strong technological gaps, the resolution of which is necessary to comply with the new European directives. In order to consolidate its role in the Italian utility sector, Hera intends to leverage the specialisations built up over time, through the implementation of new analytical methods and the development of automation and process digitisation projects. The main pillars for developing the digitisation of the Group's activities include:

- more sensors in the field of operation and thus greater control capacity, through the enhancement of remote monitoring, the installation of smart meters in the various businesses and the expansion of predictive maintenance systems;
- digital customers, both in terms of making personalised offers to customers through the management of 2G meters, and through artificial intelligence applied to sales channels and customer interaction;
- data strategy, aimed at exploiting all available information and ensuring the quality and exchange of data flows, i.e. creating the first data products;
- reporting on digital transformation initiatives according to the corporate digital responsibility (CDR) framework.

Further developments in digitalisation include the definition of a specific training plan to strengthen employees' skills in innovation and sustainability, the continuation of data analytics projects and artificial intelligence to support the circular economy and energy transition, as will be explained below in the strategies for human capital development.

Digital transformation processes will cover various business areas, in order to make the most of the opportunities offered by new technologies. In the sales business (energy and gas), for example, customer acquisition activities will be supported by advanced digital marketing tools; the technological infrastructures of the billing processes will be renewed to optimise the “meter to cash” process; and, to enhance customer centricity, a new customer relationship management platform will be implemented. The “more control” offer was also introduced, through which customers equipped with second-generation



electricity meters will be able to monitor their energy consumption hour by hour via app, and will be able to see the next day's cheapest energy hours. In distribution (water, gas and electricity networks) and collection (waste) businesses, the implementation of advanced functionalities aimed at improving the effectiveness of the service is planned, such as predictive maintenance, the sharing of managerial progress with municipalities through the development of a dual system, or the implementation of virtual control for containers, in order to optimise their maintenance.

**Technology** Data strategy is increasingly designed in such a way as to transform the Group into a data-driven company, where decisions guided by data, valued as a corporate asset and subject to an ethical and conscious reading, highlight the growing importance of data management and resources dedicated to its protection.

In 2022, international geopolitical events related to the Russia-Ukraine conflict led the national cybersecurity agency to raise the cybersecurity alert level, which forced Hera to increase the monitoring carried out by the Group's Security Operation Centre (SOC). Cyber security initiatives have continued and will be renewed in terms of technologies, processes and people. In the area of technologies, interventions are aimed at improving the security of mobile devices (smartphones and tablets) and controlling access to cloud services. For the security of smartphones and tablets, a solution was implemented for real-time monitoring (centralised at the Group SOC) of 80% of the company's devices. For the protection of access to cloud services, a cloud access security broker solution is planned, and event monitoring is centralised at the SOC. The group's cybersecurity monitoring service has also been enhanced with additional dedicated tool consoles; moreover, following the installation of probes in the industrial environment, visibility on the various operating contexts, particularly water and electricity, has increased. The evolution of the regulatory system also continued in 2022, with the revision and publication of the Security by Design procedure in each project, accompanied by the publication of mandatory training videos.

In order to ensure the security monitoring of systems, vulnerability assessment and penetration testing activities are constantly implemented, particularly of Group services exposed on the Internet.

With regard to people, who represent the human factor in the chain of cyber-attacks, awareness activities continue to be planned through a dedicated online training platform, extended to the entire corporate population, as well as monthly adaptive ethical phishing exercises. In addition, in the area of cyber security for industrial plants, an ad hoc training course was set up and a technical document was defined on cyber security controls in the area of operation technology to support the design of new plants.

The evolution of technology and digitalisation, calling for continuous development of employee skills and the consequent training needs, confirms the Group's strategic decision to introduce cloud-based platforms to increase individual productivity and as the main tools for collaboration, since cooperation between man and technology requires continuous evolution in the way we work. With this in mind, process automation projects (virtual factories and digital labs) encourage a wider awareness of technological integration, focusing on initiatives to apply artificial intelligence and enhance the community, through digital workplace tools.

The Group intends to use data to generate value for people and for its business; the gradual digitalisation of human resources management processes, as well as the creation of a reference architecture to integrate systems and data available by using a prescriptive analytics approach, confirm this intention.

**Community and human resources**

In the context of the current transitions, the human resources development guidelines are constantly updated in order to address the priorities within the Next GeneHERAtion Growth model, and guide corporate policies. After observing the external context, the Group has confirmed investments with the following strategic objectives:

- people development;
- people engagement;
- increasingly agile and flexible approach to organisational and operational models and the evolution of regulatory tools;
- evolution of skills to support the current energy, environmental and digital transition by seeking possible integrations between the different dimensions considered;
- technologies, to enhance the contribution of each individual through the conscious development of technological innovation, following a human-centred rationale.



In order to encourage ethical values and behaviour that can represent a distinctive model for the Group, a result-oriented culture is increasingly fostered, as well as relations between individuals and widespread leadership. The Group's programmes on culture and an agile approach to improving performance, through deeply rooted trust, responsibility, autonomy and work ethics, are guided by the continuous development of a work by objectives culture. As part of the Group's strategy, it is fundamental to make everyone perceive how their work and their sense of belonging are correlated to the company's overall results and performance and, consistently with this, the development of a talent attraction strategy guided by the company's purpose is fundamental. In order to enable everyone to express their potential and accelerate the organisation's growth, favouring harmony between work and private life and guaranteeing an ethical approach to work, welfare initiatives dedicated to individual physical, psychological and financial wellbeing will continue, in line with the priorities identified by continuously listening to people and with the aim of enhancing their wellbeing. As regards digital transition, the "HER@futura" programme will be followed up on, as mentioned among the previous development pillars for digitalisation, by introducing increasingly innovative and customised initiatives to develop digital culture, processes and skills, increasing the level of digital proficiency at all levels of the organisation and integrating aspects of corporate digital responsibility in the execution of projects and business processes.

In order to consolidate awareness of the Digital Workplace, the dissemination of the use of Microsoft 365 tools among the entire corporate population, segmented by target audience, and the implementation of new projects for the digitisation and automation of business processes will continue to be promoted. With the aim of consolidating the transfer and wider spread of technological knowledge within the Group, specific initiatives aimed at further stimulating the application of new technologies and methodologies will also continue through partnerships with universities, suppliers, start-ups and innovative training centres.

Therefore, moving towards a virtuous integration between people and technology remains central. The objective is to make each person a protagonist along the path of process automation and virtualisation, enhancing the skills of individuals to improve the daily work experience of the workforce.

In order to go beyond the concept of equality and achieve true equity in treatment, thus recognising individual specificities, the Group will continue to evolve its performance management, with the aim of making dialogue between team leader and team member increasingly effective, orienting it towards accountability regarding measurable objectives and greater delegation and autonomy in the organisation of work-related activities. This result management-oriented path will be further consolidated through a series of initiatives. The Group, also in this regard, is continuing its path of progressive digitalisation, which enables it to encourage experiences, training, development and career paths in an increasingly self-determined manner, confirming a rationale based on individual and collective empowerment and guided by the company's purpose. Human resources management and development processes are designed to preserve the skills and distinctive values built up over time and, at the same time, to develop individual talents, regardless of gender and age, seeking innovation in all aspects that can generate added and sustainable value over time. In order to develop people's unique characteristics, targeted policies and programmes are foreseen to enhance inclusiveness and diversity, oriented at fostering a culture of innovation and continuous improvement. In this sense, structured and frequent engagement initiatives will be implemented in synergy with the biennial surveys on human resources satisfaction, and diversity monitoring methodologies will continue to be implemented as a tool for awareness and sensitisation and a development of the Group's gender equality reporting model.

The expression of diverse individual potential constantly guides diversity & inclusion initiatives. Hera's strategy hinges on the continuous development of an inclusive culture of diversity, understood as an engine for generating change, in which employees can benefit from a positive balance between development actions assigned to them by the manager and development actions in which the initiative instead starts from themselves. It is no coincidence that, in addition to retaining the figure of the Diversity Manager (introduced in 2011), Hera, a signatory of the "Utilitalia Pact - Diversity makes the difference", promotes inclusive policies at all levels of the organisation, progressively refines measures to reconcile work-life time and adopts a merit management system that is not only transparent, but also and above all neutral with respect to gender, age and cultural diversity, with the adoption of systems aimed at monitoring progress and internal and external awareness policies. Artificial intelligence and digital tools are also now well established to analyse data emerging from listening initiatives that allow for in-depth analysis of employees' level of satisfaction on issues related to the working environment and corporate values, and translate them into corrective actions in each employee's reference department, but also through internal mobility between various departments.

The Group's strategy also contributes to the creation of value by accelerating the process of re-designing training activities from a blended learning point of view, the continuous evolution of professional academy progressions, the increasingly widespread use of a HerAcademy learning centre as a reference point for internal and external knowledge sharing, without forgetting other projects to further improve the level of employee engagement.

Consistently with its corporate path, the Group has planned multidisciplinary initiatives to develop projects consistent with the SDG framework, with particular reference to the circular economy, and to work in an ecosystem perspective with the various stakeholders, so as to converge towards common goals in terms of green economy. The broader adoption of a green culture and an approach oriented towards sustainability and circularity is a central element of the strategic plan and presupposes a path of cultural change that, since the previous year, has been supported by various project initiatives, processes of continuous updating of know-how and the expansion of the offer of specialised higher education, linked to the Group's core activities, to seize market opportunities and encourage the route towards the energy and environmental transition. Over the period covered by the Plan, the awareness-raising and skills-building processes already launched concerning the impacts related to Fit for 55, TCFD, EU Taxonomy and the continuous regulatory changes at European and national level will continue. The data of the "ecoHERA" assessment, carried out in 2022, will also be used to consolidate the indicators that measure and verify the level of proficiency achieved in both the energy transition and environmental transition fields, and to build the programme of transversal and vertical initiatives for strengthening the skills of the corporate population.



The objective of achieving results in terms of green economy in relation to the reduction of the Group's carbon footprint, by way of example, is shared through the enhancement of the contribution of remote working, through the enrichment of the green offer within the corporate welfare tools, and by raising awareness on green issues already at the time of hiring.

This integrated vision of technological evolution and employee experience, accompanied by the application of organisational network analysis, artificial intelligence and business intelligence tools, aims to foster the optimisation of organisational processes, human capital development and individual decision-making capabilities. The evolution of competences and roles according to the needs of the business, through a strategic dialogue between the areas of business and the function of human resources, enables a shared understanding of the meaning of the business challenges addressed by the business plan, but also a sense of the risks and opportunities.