

1.06 SUSTAINABILITY RESULTS

The Group's commitment to reporting to stakeholders as to the results achieved in the areas of creating shared value (CSV) and sustainability was confirmed once again this year by its Sustainability Report, available at bs.gruppohera.it and on the Group's website in the sustainability section.



The Sustainability Report contains the Hera Group's consolidated non-financial statement, prepared pursuant to legislative decree 254/16, and acts as a separate report compared to this Directors' report, as provided for in Article 5, paragraph 3, letter b) of legislative decree 254/16. The Sustainability Report also includes indicators and information relating to the environment, personnel and research and development activities.

What follows is a summary of the main results reported in the 2022 Sustainability Report.

During 2022, further progress was made in CSV areas and as regards sustainability, both in terms of results and recognitions obtained and new projects launched. Note, first and foremost, the process of updating the Code of Ethics, begun in June and completed in December, which led to the approval of its sixth edition by Hera Spa's Board of Directors during the meeting held on 8 February 2023. This updating process was the most participative seen since the introduction of the Code, involving management, all employees, with a specific initiative dedicated to younger workers, and trade unions. The "corporate purpose" introduced into Hera Spa's Articles of Association in 2021 characterises the new edition of the Code, which incorporates a commitment to a just ecological and digital transition, attention to the more vulnerable customers, promotion of work and personal well-being and the importance of communication and listening, even in critical moments.

Hera stock was included in 2022, for the third consecutive year, in the Dow Jones Sustainability Index, World and Europe, with a score that confirms the Group as the best company in the "Multi and Water Utilities" sector, and the Group achieved a top ranking internationally, for the second consecutive year, in the ESG Evaluation carried out by S&P Global Ratings;

Creating shared value: CSV Ebitda rises to 670.3 million euro (51.8% of total Ebitda); CSV investments come to 510.0 million euro (62.3% of total investments)

The 2022 Sustainability Report consolidates its representation of content focused on creating shared value. The achievements made and the targets set for the future are accompanied by a summary of the scenario related to the three drivers for creating shared value:

- (i) Energy - pursuing carbon neutrality;
- (ii) The Environment - regenerating resources and closing the circle;
- (iii) Local areas (and Businesses) - enabling resilience and innovating, to which an equal number of chapters are dedicated, representing the most significant part of the report.

One of the strengths of the Group's reporting is its quantification of shared value Ebitda (CSV Ebitda), i.e. the portion of Ebitda that derives from business activities capable of meeting the objectives on the Global Agenda, which refers to calls to action for sustainable growth (relevant to the Group's activities) summarised in the three drivers mentioned above.

In 2022, CSV Ebitda came to 670.3 million euro, corresponding to 51.8% of the Group's total Ebitda. 2022 CSV Ebitda showed a 17% increase compared to the amount seen in 2021. 2022 CSV Ebitda was thus in line with the path set out by the 2022-2026 Business Plan, which was designed so that approximately 62% of 2026 Ebitda will come from business activities that meet the priorities on the Global Agenda. The Group's contribution to creating shared value also comes from the investments made in the three CSV drivers, which in 2022 amounted to 510.0 million euro, roughly 62% of total investments, including corporate acquisitions.

The Group's quantification of shared-value Ebitda and investments for 2022 was audited for the fourth consecutive year by an auditing firm, in order to confirm these distinctive aspects of the Group's reporting to all stakeholders.

Pursuing carbon neutrality: -6.9% in energy consumption; 27.1% of contracts with energy efficiency services; -11.7% greenhouse gas emissions

Hera pursues the carbon neutrality of its own activities and those of its customers by promoting energy efficiency and projects in the area of the energy transition.

With regard to energy efficiency, note that:

- the initiatives included in the ISO 50001 energy improvement plans and already implemented by the end of 2022 have made it possible to reduce energy consumption by more than 19 thousand tons of oil equivalent (corresponding to the annual consumption of more than 13 thousand households), equivalent to 6.9% of 2013 consumption, on the path towards the target set for 2026;
- at the end of 2022, gas and electricity contracts with energy efficiency solutions amounted to 27.1% of total contracts and showed further growth compared to the previous year; initiatives to promote energy efficiency among residential customers include the Consumption Log, a free report to raise customer awareness of energy savings, based on the principles of behavioural economics, in addition to the numerous offers with energy efficiency solutions that were further enhanced in 2022.

With regard to the energy transition and renewable energies, Hera continued to promote its carbon-neutral commercial offer in 2022, achieving at the end of the year:

- an amount of electricity from renewable sources sold on the free market coming to 41.1% of total electricity sold, not far from the 2026 target, set at 44%;
- an amount of methane gas with compensation for CO₂ emissions sold on the free market coming to 14.2%, rapidly increasing compared to the 2026 target set at 21%.

In 2022, the Group continued to promote the Hera Photovoltaic offer launched in 2021, which provides for a “turnkey” installation of photovoltaic panels. During this same year, approximately 1,300 panels were sold for a total capacity coming to roughly 7 MW.

Within the Group, note:

- further progression in the green profile of Hera's own electricity consumption, which as of 2022 is covered by 100% renewable energy;
- the production of 7.7 million cubic metres of biomethane and a new plant, operative as of December 2022 in Spilamberto (Modena), whose annual production is expected to come to 3.7 million cubic metres;
- ongoing work on initiatives for the development of hydrogen and photovoltaics, including the continuation, with positive results, of the first national trials for hydrogen injection into the gas network for household use in Modena; the conclusion of the final design of a power-to-gas plant in Bologna, closely integrated with the wastewater treatment process; the start of construction of the first of a series of photovoltaic plants that will be built within the Group's sites and which, added to those built at external sites, will bring the Group's own installed photovoltaic power to over 90 MW by 2026;
- over 50 million euro obtained in NRRP contributions for developing district heating in Bologna, Ferrara and Forlì, through which the efficiency of the current energy sources used (waste-to-energy plants in the case of Bologna and Forlì, geothermal energy in Ferrara) will be improved, with significant benefits in terms of reducing carbon dioxide emissions.

Lastly, based on the third report drafted according to the Science Based Targets initiative methodology, as mentioned above, the Group's greenhouse gas emissions (scopes 1+2+3 from downstream electricity and gas sales) saw an 11.7% reduction in 2022 (excluding the transitory increase in volumes sold in last resort gas services), compared to the 2019 base year, which is within the path for the 2030 target validated by SBTi. More specifically, 2022 saw reductions in scopes 1+2 (market-based) emissions and carbon intensity of electricity sales (scope 3, upstream) coming to 17.5% and 21.0% respectively.

SUSTAINABLE PRESENT AND FUTURE

WHAT WE SAID WE WOULD DO...

Promoting energy efficiency

28% CUSTOMERS BY 2025 and 34% by 2030 with energy efficiency solutions



Energy transition and renewables

BIOMETHANE, HYDROGEN, PHOTOVOLTAICS
17 million m³ of biomethane production in 2025 and over 30 million in 2030. Continue with hydrogen development initiatives. Internal and external development of photovoltaics



Climate change mitigation

-37% GREENHOUSE GAS EMISSIONS (scopes 1+2+3 from downstream electricity and gas sales) by 2030 with SBTi method, compared to 2019 data



Transition to a circular economy

+125% PLASTIC RECYCLED by Aliplast within 2025 and +150% by 2030 (compared to 2017)



-20% INTERNAL WATER CONSUMPTION by 2025 and -25% by 2030, compared to 2017 consumption



WHAT WE DID...

27.1% CUSTOMERS IN 2022 with at least one energy efficiency solution; vs 24.5% in 2021



7.7 MILLION M³ biomethane produced and new plant launched in Modena in 2022. Continued various hydrogen and photovoltaic development initiatives:

- first trial hydrogen injection into the gas network carried out
- actions for photovoltaic development at Hera sites and other areas initiated



-11.7% GREENHOUSE GAS EMISSIONS to 2022 compared to 2019 level (excluding last resort gas services)



+33% PLASTIC RECYCLED by Aliplast in 2022 (compared to 2017)



-20.5% INTERNAL WATER CONSUMPTION in 2022, compared to 2017 consumption, thanks to specific water-saving initiatives



WHAT WE WILL DO...

34% CUSTOMERS BY 2026 and 37% by 2030 with energy efficiency solutions



BIOMETHANE, HYDROGEN, PHOTOVOLTAICS
12 million m³ of biomethane production by 2026 and over 30 million by 2030. Continue with hydrogen development initiatives. Over 90 MW photovoltaic power installed and 2,300 photovoltaic systems sold by 2026. Energy community development



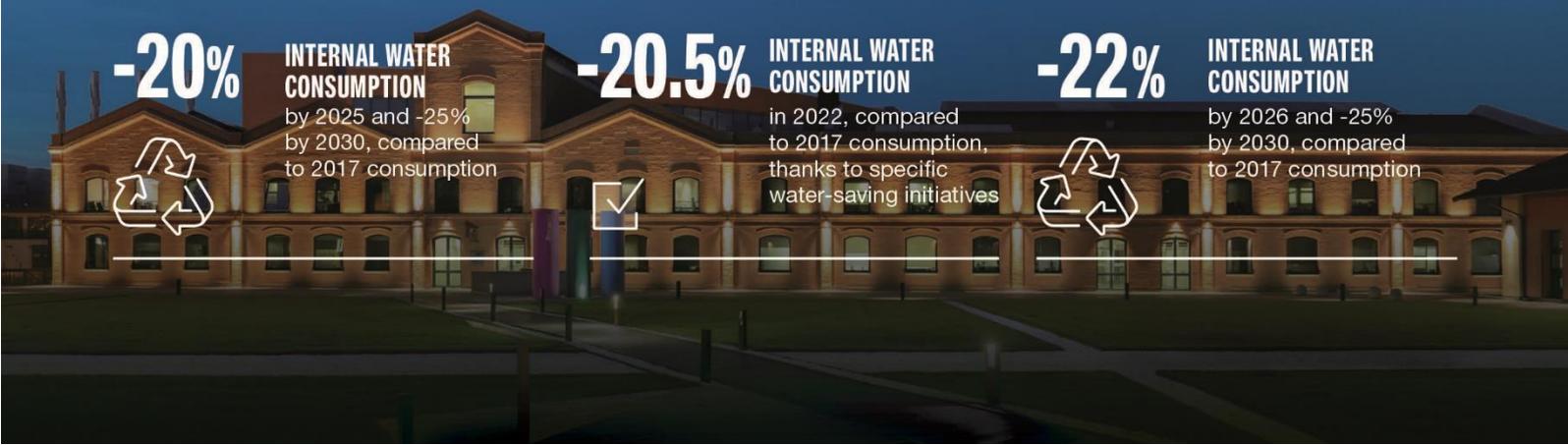
-37% GREENHOUSE GAS EMISSIONS (scope 1+2+3 from downstream electricity and gas sales) by 2030 with SBTi method, compared to 2019 data. Launch the Hera Net Zero project



+102% PLASTIC RECYCLED by Aliplast within 2026 and +150% by 2030 (compared to 2017). Build a plant to recycle rigid plastics and one to recycle carbon fibres by 2025, partially thanks to Nrrp funds



-22% INTERNAL WATER CONSUMPTION by 2026 and -25% by 2030, compared to 2017 consumption



Regenerating resources and closing the circle: sorted waste at 67.8%; +17.5% of packaging recycled; 7.3% purified wastewater reused; -20.5% in water consumption

Hera regenerates resources and closes the circle through initiatives and projects in three areas: (i) transition towards a circular economy, (ii) sustainable management of water resources, (iii) protection of air, soil and biodiversity.

With regard to the transition to a circular economy, 2022 saw sorted waste collection come to 67.8%, up 2.5 percentage points compared to 2021 (Italian 2021 average: 64%) and use of landfills for the disposal of urban waste at 2.3% (European 2021 average: 23%). In this respect, Hera is almost 20 years ahead of the EU target for the circular economy and ranks among the most virtuous European countries. In October 2022, Hera published the thirteenth edition of its "Tracking Waste" report, verified by DNV, thus providing citizens with a guarantee of the effective recovery of separate waste collection, which came to 91%. This report contains indications as to how the area served by Hera positions with respect to the recycling targets set by the EU as part of the circular economy package: the overall recycling rate, where Hera with 57% has already achieved the target set for 2025, and the packaging recycling rate, where the Group with 68% is close to the target set for 2030.

Once again as regards the circular economy, 2022 saw:

- an 80.6% material and energy recovery rate in Herambiente Spa's sorting plants, stable compared to the previous year;
- a further improvement in the circularity profile of Hasi Srl and its subsidiaries, demonstrated by an increase in the portion of managed waste sent for material and energy recovery, which went from 43.1% in 2021 to 48.6% in 2022;
- the quantity of plastics recycled by Aliplast coming to approximately 79.2 thousand tonnes, slightly down compared to 2021 due to increased energy costs and lesser demand for recycled PET and the ensuing shift of some large companies towards the use of virgin plastics. The figure for 2022 is however 33% higher than in 2017, the baseline of the commitments made in the New Plastics Economy Global Commitment, promoted by the Ellen MacArthur Foundation.

Regarding the sustainable management of water resources, the initiatives to preserve them were significant, such as the internal water management project, which led to a 20.5% reduction in consumption in 2022 (compared to the 2017 baseline), agreements with local authorities to make 7.3% of the water coming out of purification plants reusable, and the Consumption Log, mentioned above, which was distributed to about 35% of domestic water service customers.

As far as air protection is concerned, positive results were confirmed in relation to the environmental performance of the Group's WTE plants, which in 2022 as well recorded very low atmospheric emissions, on average 86% lower than legal limits, and the Imola cogeneration plant, whose average PM10 concentrations were 99% lower than the limits. Finally, with regard to soil protection, note that from 2018 to 2022, the construction of infrastructures involved soil reuse coming to 78%.

Enabling resilience and innovating: 102.8 million euro invested in innovation and digitisation; 2.3 billion euro in economic value distributed to local areas; local suppliers account for 64.5% of the total

Significant results were achieved by the Group in 2022 in the CSV areas related to economic growth and employment in the areas served, social inclusion, innovation and digitalisation. Equally important were the initiatives aimed at ensuring the resilience of its operations and therefore of the areas served.

The total added value distributed to local areas amounted to 2,324 million euro, or 76% of the total economic value. The amount distributed to local suppliers came to 64.5% of the total, reaching 881 million (+9% compared to the previous year), while the induced employment is estimated at over 9 thousand people; these figures confirm the Group's primary role in promoting growth in the local area. With regard to induced employment, the employment of disadvantaged people (amounting to 899) as a result of supplies and partnerships with social cooperatives is estimated at 82.3 million euro in 2022. Once again concerning social inclusion, note the measures put in place by Hera and improving on those defined by ARERA to support customers facing hardship in coping with rising energy prices: the number of bills paid by instalments increased by 36% compared to 2021 and the memoranda of understanding in place with the 135 municipalities served made it possible to prevent suspension of supplies to customers assisted by social services in 58% of cases. All the measures and advice for dealing with the

energy crisis have been summarised in SOSStegno Energia, an online guide that supplements the existing SOSStegno Hera guide summarising the tools available to customers facing financial difficulty.

In the area of innovation, investments amounting to 102.8 million euro were related to initiatives in two areas: ecological transition and digital transformation. With regard to digital transformation, the 2022 Sustainability Report confirms reporting for 20 projects, as introduced for the first time in the 2020 Annual Report, concerning objectives, results and impacts based on the framework of Corporate digital responsibility, defined as the set of practices and behaviours that help an organisation use data and digital technologies in an ethical and responsible manner, from a social, environmental, economic and technological point of view.

In 2022, the effort to develop digital channels for customer relations continued, with customers registered for online services rising to 29.4% and those who requested electronic billing coming to 34.5%. The Group's engagement in this area, combined with its focus on local communities, continued in 2022 with the fourth edition of the campaign to promote electronic billing and customers' digital behaviour, called Digi e Lode, through which the Group from 2017 to 2022 donated 565 thousand euro for the digitalisation of 226 schools.

As regards climate change resilience, the Group made investments coming to approximately 62.1 million euro in 2022. In this area, note:

- the continued work on upgrading the electricity distribution grid in the Modena Apennines: the amount of network upgraded at the end of 2022 rose to 38 kilometers, equivalent to 57% of the overall resilience plan defined;
- a 14% increase in remote-controlled plants, which went from 7.9 thousand in 2021 to 9 thousand in 2022;
- the planning and construction, in the aqueduct, of numerous interventions in the Triveneto and Emilia Romagna regions to mitigate drought risk, including aqueduct interconnections, optimization of catchment and intake pipes, and new wells and reservoirs; these interventions came in addition to development of predictive algorithms and the use of innovative technologies to support leakage detection; the district-based network for effective leakage monitoring increased from 48% in 2021 to 51% in 2022.

The results achieved in terms of creating shared value came alongside those in the following areas, which complete the Group's sustainability profile and are reported in the "Alongside the protagonists of change" section of the Sustainability Report.

Thanks to awareness-raising programmes and the adoption of ISO 45001 certification, which covers 88% of the Group's workers, the accident frequency rate remained more or less stable (10.5 in 2022) and was 48% lower than the sector average, reported by Utilitalia. A further drop was seen in the frequency rate for manual labourers, which came to 21.8 in 2022 (vs 22.9 in 2021 and 30.5 in 2020). In 2022, workers received more than 6.6 million euro through the Hextra welfare system, to which 99% of employees adhered. The amount of training remains high: in 2022, there were 30.8 average hours of training per capita, in line with 2021, and the role of sustainability objectives in the balanced scorecard system linked to the incentive system involving management remained significant: in 2022, 37% of the variable remuneration of Group executives and middle managers was linked to sustainability target projects, with 24% of sustainability target projects geared towards creating shared value.

In 2022, an overall increase was seen in call centre contacts (+25%, over 1.7 million more calls), which had an impact on waiting times. This was mainly due to the turbulence that occurred in the energy markets in the second half of the year and the resulting impact on bills, which prompted customers to contact the company for clarification and support. There was therefore an increase in the average conversation time required to provide adequate advice to customers, especially concerning payment by instalment options, social bonuses and energy saving opportunities. The average waiting time at call centres for residential customers thus increased from 32 seconds in 2021 to 93 in 2022. The corporate segment also saw an increase in calls to call centres in 2022 (+34%), which affected the average waiting time, which stood at 112 seconds. In 2022, Hera Group help desks handled inflows that increased by 17%, due to both the reasons described above and a return to face-to-face contacts compared to previous years. As a result, average waiting times increased slightly, going from 6 minutes in 2021 to 9 minutes in 2022.

The survey conducted in 2022 on the quality of services provided by the Group (approximately 9,950 interviews conducted with household customers) recorded a customer satisfaction rate coming to 72/100, down one point from the previous year, but still above 70/100, corresponding to high satisfaction.

When selecting suppliers in 2022, the Group used the most economically advantageous bid method for 95% of public tenders and 68% of overall tenders (in terms of value). Considering overall tenders, the

average score reserved for social and environmental factors came to 39/100. The “circular procurement” project also continued in 2022, with the application of the appropriate guidelines and the identification of technical criteria providing an advantage in tenders: eco-efficiency, dematerialisation, renewability and recyclability. As in previous years, in 2022 circularity criteria were included in over 82% of tenders carried out with the most economically advantageous bid method, with an average score of 13.2. Supplier monitoring focused on social responsibility towards workers also continued in 2022, as did monitoring of accidents, which involved 83% (in terms of commissioned value) of suppliers of services and works.

Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

The recommendations of the Task Force on Climate-related financial disclosures (TCFD) came after its establishment as a result of the 2015 Paris Agreement, in which the member states of the United Nations committed to keeping the global average temperature increase below 2°C compared to pre-industrial levels and if possible limiting the increase to 1.5°C by the end of the 21st century. During the same year, the G20 Financial Stability Board created the TCFD, with the aim of facilitating transparency on the financial opportunities and risks associated with climate change. In 2017, the TCFD published the reporting recommendations mentioned above, which are now an international benchmark for climate change disclosure by companies. The TCFD's recommendations are applicable to organisations across all sectors and are categorised according to four areas: governance, strategy, risk management and metrics & targets.



The Group began its path towards alignment with the TCFD's recommendations in 2020, and this ongoing process has been defined according to three main steps:

- establishing of a dedicated cross-departmental working group;
- carrying out an in-depth analysis of the gaps in the reporting system and the way in which the Hera Group deals with climate opportunities and risks with respect to the recommendations;
- defining a work plan to gradually increase the degree of alignment with the TCFD's recommendations, the results of which can be seen in this consolidated report and in the 2022 Sustainability Report, which can be consulted for an exhaustive illustration of the four thematic reporting areas (see the dedicated section “Hera for the climate”).



The European taxonomy of environmentally sustainable activities

The EU Taxonomy is a unique EU-wide classification system introduced with Regulation 2020/852, which establishes a list of environmentally sustainable economic activities. This is a classification tool provided for in the Action plan on sustainable finance, aimed at supporting the EU in increasing sustainable investments and implementing the Green Deal.

Following the recommendations of Delegated Regulation 2021/2178, which introduces disclosure requirements for information linked to the taxonomy in NFS, a multi-step process was developed in 2021 to analyse the Taxonomy's applicability along the entire value chain, taking into account all of the Group's consolidated companies. This process was focused exclusively on climate change mitigation and adaptation targets, for which Delegated Regulation 2021/2139 set out a list of activities that contribute substantially to these objectives, and a list of technical screening criteria that these activities must meet in order to be classified as environmentally sustainable. It thus became possible to go beyond the disclosure requirements established for the 2021 NFS and to quantify and report on the economic KPIs (turnover, opex and capex) of the activities managed by the Hera Group that are eligible for the taxonomy, i.e. activities included in the list envisaged in Regulation 2139, as well as those aligned with the taxonomy, i.e. activities that meet the technical screening criteria, as regards the mitigation target. In addition, the economic KPIs were supplemented with Ebitda coming from activities aligned with the taxonomy (which therefore accompanies and complements CSV Ebitda), and the amount of investments in those activities has been introduced in the Business Plan.

In 2022, this process continued by refining and updating the analysis of the technical screening criteria, by preparing the reporting in greater detail required for the current year and with an in-depth study of the complementary delegated act 2022/1214, which introduced certain nuclear and fossil gas energy production activities in the list of eligible economic activities, by defining the technical screening criteria for their alignment.



Once again with reference to the EU Taxonomy, note that in May 2022 Hera issued its third green bond, with a total amount of 500 million euro repayable over seven years, aimed at financing or refinancing numerous investments selected on the basis of the Group's Green Financing Framework, which was aligned with the principles underlying the Taxonomy in 2022.

Please refer to the sustainability report for an exhaustive discussion of the topics.