

## 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](https://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 Sustainability Report for 2023, a year that saw Hera stock included, for the fourth consecutive year, in the Dow Jones Sustainability Index World and Europe, with a score that positions the Group among the best companies in the Multi and Water Utilities sector. Once again concerning green finance, a new 600 million euro sustainability-linked bond with carbon neutrality and circular economy goals was issued in 2023. This new bond follows up on the previous one, issued in 2021, and the three green bonds issued from 2014 (the first Italian green bond) to 2022 (first Italian green bond aligned with the EU Taxonomy). Thanks to this strong focus on green finance, the portion of debt financed with ESG instruments has gradually increased over the years, reaching 57% in 2023.

The 2023 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.

**Creating shared value: CSV Ebitda and investments**

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 summarised in the three drivers mentioned above.

In 2023, CSV Ebitda amounted to 776 million euro, corresponding to 52% of the Group's total Ebitda and 16% higher than in 2022, placing it on the track set out by the business plan, which was constructed for 2027 CSV Ebitda to reach over 1 billion euro and cover 64% of total Ebitda. A contribution to creating shared value also stems from investments pertaining to the three CSV drivers, which in 2023 amounted to 558.4 million euro, approximately 69% of total gross operating investments.

The quantification of CSV Ebitda and investments for 2023 was reviewed for the fifth consecutive year by an auditing company, with the aim of validating these distinctive aspects of the Group's reporting to all stakeholders.

Hera pursues carbon neutrality in its activities and those of its customers and the communities it serves by promoting energy efficiency and energy transition projects.

**Pursuing carbon neutrality**

As regards energy efficiency, note that:

- the initiatives included in the ISO 50001 energy improvement plans and already implemented by the end of 2023 have made it possible to reduce energy consumption by more than 21 thousand TOE (corresponding to the annual consumption of more than 17 thousand households), equivalent to 7.6% of 2013 consumption, on course for the target set for 2027;
- at the end of 2023, 35.7% of free-market gas and electricity household customers requested energy efficiency solutions, with further growth compared to the previous year; the initiatives to promote energy efficiency include the Consumption Log, a free report intended to raise awareness in energy savings based on the principles of behavioural economics, that comes alongside the numerous offers with energy efficiency solutions, further enhanced in 2023.

With regard to the energy transition and renewable energies, Hera continued to promote its carbon-neutral commercial offer in 2023 as well, achieving at the end of the year:

- 42.8% of electricity sold on the free market coming from renewable sources, up from 40.5% in 2022 and compared to the 2027 target set at 56%;
- 20.4% of natural gas sold on the free market with carbon offsetting, since only offers with carbon offsetting for the first 12 months after signing are found in the commercial portfolio for households;

- the sale of an additional 1,130 photovoltaic plants having a total capacity of approximately 6.3 MW. This brings the number of plants sold to 2,400 and the total installed capacity to 13.3 MW since the launch of the Hera Photovoltaic turnkey offer in 2021.

Internally, in 2023 the Group confirmed once again the green profile of its electricity consumption, which as of 2022 is covered by 100% renewable energy.

Concerning the projects implemented in 2023 for the development of renewables, note:

- the production of 8.5 million cubic metres of biomethane, up 12% compared to 2022 thanks to the new plant launched in Spilamberto (MO);
- initial work in planning two initiatives in Modena and Trieste that will produce 770 tonnes of green hydrogen, aimed at supporting decarbonisation in the industrial and local public transport sectors, which will be completed within 2026 also thanks to NRRP contributions;
- ongoing initiatives for an increased use of photovoltaics, including the construction of the first of a series of plants located on Group sites (depleted landfills and water cycle plants), bringing installed capacity to 5 MW by the end of 2023. Several initiatives have been planned, including agrivoltaic parks and Energy Parks, an innovative model for urban regeneration that combines municipal reforestation, renewable energy production and biodiversity protection. These initiatives, in addition to the panels sold to customers, will bring installed photovoltaic power to approximately 300 MW by 2027.

Lastly, based on the fourth report drafted according to the Science Based Targets initiative methodology, the Group's greenhouse gas emissions (Scope 1+2+3 from electricity and downstream natural gas sales) showed a 13.8% reduction in 2023, compared to the 2019 base year (excluding the transitional increase in volumes sold in last resort gas services), which falls within the course set for the SBTi validated target of a 37% reduction in greenhouse gas emissions by 2030. More specifically, 2023 will see a 17% reduction in Scope 1+2 (market-based) emissions, a 15% reduction in Scope 3 emissions from natural gas sales and a 24% reduction in the carbon intensity of electricity sales (Scope 3 upstream) respectively.

# SUSTAINABLE PRESENT AND FUTURE

## WHAT WE SAID WE WOULD DO...

Promoting energy efficiency

**44%**

**RENEWABLE ELECTRICITY SOLD** to free market in 2026



Energy transition and renewables

### BIOMETHANE AND HYDROGEN

12 million m<sup>3</sup> of biomethane produced by 2026 and over 30 million by 2030. Continue initiatives to develop hydrogen



Climate change mitigation

**-37%**

**GREENHOUSE GAS** (scopes 1+2+3 from downstream sales of electricity and gas) by 2030 with SBTi method compared to 2019. Launch the project Hera Net Zero



Transition to a circular economy

**+102%**

**PLASTIC RECYCLED** by Aliplast within 2026 and +150% by 2030 (compared to 2017). Build, within 2025, a plant for recycling rigid plastics and one for carbon fibre, partially thanks to NRRP funding



**-22%**

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



## WHAT WE DID...

**42.8%**

**RENEWABLE ELECTRICITY SOLD** to free market in 2023



### BIOMETHANE AND HYDROGEN

8.5 million m<sup>3</sup> the production of biomethane in 2023. Continued initiatives of green hydrogen and photovoltaic development:

- obtained authorization for the power-to-gas plant in Bologna;
- started the design of the production plants of hydrogen in Modena and Trieste



**-14%**

**GREENHOUSE GAS EMISSIONS** in 2023 compared to 2019 (not including last resort gas services). Hera Net Zero project launched: decarbonisation scenarios and levers fully researched



**+42%**

**PLASTIC RECYCLED** by Aliplast at 2023 (compared to 2017). Authorisation obtained for the Modena rigid plastics recycling plant and construction begun on the Imola carbon fibre recycling plant



**-21.5%**

**INTERNAL WATER CONSUMPTION** in 2023 compared to 2017 consumption thanks to specific water saving initiatives



## WHAT WE WILL DO...

**56%**

**RENEWABLE ELECTRICITY SOLD** to free market in 2027



### RENEWABLE GAS

184 GWh of renewable gas produced/year by 2027:

- 17 million m<sup>3</sup> of biomethane produced;
- 770 tons of green hydrogen



**-37%**

**GREENHOUSE GAS EMISSIONS** (scopes 1+2+3 from downstream sales of electricity and gas) with 2030 with SBTi method compared to 2019. Define the Hera Group's Net Zero commitment and 1.5 °C Climate transition plan



**+122%**

**PLASTIC RECYCLED** by Aliplast within 2027 and +150% by 2030 (compared to 2017). Build, within 2025, a plant for recycling rigid plastics and one for carbon fibre, partially thanks to NRRP funding



**-24%**

**INTERNAL WATER CONSUMPTION** by 2027 and -25% by 2030 compared to 2017 consumption



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

**Regenerating resources and closing the circle**

As regards the transition to a circular economy, 2023 saw sorted waste collection reach 72.2%, up 4.4 percentage points compared to 2022 (Italian 2022 average: 65%) and use of landfills for municipal waste disposal at 2.7% (European 2022 average: 24%). In this respect, Hera is 20 years ahead of the EU target for the circular economy, at the same level as the most virtuous European countries. In October last year, Hera published the fifteenth edition of its Tracking Waste report, verified by DNV, thus providing citizens with a guarantee of the amount of separate waste actually recovered, which came to 89%. This report contains the ranking of the area served by Hera with respect to the recycling targets set by the EU, including the overall recycling rate, where Hera with 61% has already reached the target set for 2030, and the packaging recycling rate, where the Group with 66% has already reached the target set for 2025. Also concerning the circular economy, 2023 saw:

- the material and energy recovery rate in Herambiente Spa's sorting plants reaching 84.9%, up 4 percentage points from the previous year;
- 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 will rise from 48.6% in 2022 to 51.8% in 2023;
- the completion by Hasi Srl of the acquisition of 60% of A.C.R. Spa, a transaction that broadened the range of circular services offered to companies and strengthened environmental reclamation activities in favour of soil recovery. In 2023, there were 148 sites with ongoing or completed reclamation activities, in which 40% of the soil was recovered;
- quantities of plastics recycled by Aliplast Spa amounting to 84.6 thousand tonnes, up 6.8% compared to 2022 and 42% higher than in 2017, the baseline of the 2025 commitments made as part of 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 21.5% reduction in consumption in 2023 (compared to the 2017 baseline), agreements with local authorities to make water coming out of purification plants reusable, which together with internal and company initiatives brought the portion of purified wastewater available for reuse to 10%, and the aforementioned Consumption Log, which was used by approximately 37.5% of household 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 2023 as well recorded very low levels of atmospheric emissions, on average 86% lower than legal limits, and the Imola cogeneration plant, whose average PM10 concentrations were 98% lower than limits. Finally, with regard to soil protection, note that from 2018 to 2023, the construction of infrastructures involved soil reuse coming to 76%.

Significant results were achieved by the Group in 2023 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.

**Enabling resilience and innovating**

The economic value distributed to local areas came to 2.3 billion euro, or 71% of the total economic value. The portion paid to local suppliers came to 72% of the total and reached 1.4 billion (+61% compared to the previous year), while the induced employment is estimated at over 11 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 962 disadvantaged people as a result of supplies and partnerships with social cooperatives should also be noted, amounting to 92 million euro in 2023. Once again concerning social inclusion, also note the measures introduced by Hera as improvements over those defined by ARERA to support the customers facing hardship: the number of bills paid by instalments increased by 10% compared to 2022, and the memorandums of understanding in place with 138 municipalities in the areas served made it possible to prevent the suspension of supplies to customers assisted by social services in 80% of cases.

In the area of innovation, investments amounting to 142.8 million euro (or 18% of gross operating investments) were related to initiatives in two spheres: ecological transition and digital transformation.

The installation of electronic gas meters continued, reaching 88% of the total at the end of 2023. Installations of the Nexmeter, the electronic gas meter designed by the Group with advanced safety functions, also continued in the Bologna, Modena, Ferrara and Udine areas, reaching 15% of the total number of gas meters. The electricity service, on the other hand, saw a replacement of first-generation electronic meters with more advanced 2G devices, which at the end of 2023 accounted for 42% of total meters (vs 6% in 2022). In the water service, the installation of electronic meters started in 2022 for

water-demanding users; at the end of 2023, almost 6,700 electronic meters were installed, amounting to 0.5% of the total and allowing for remote reading of approximately 8% of the volumes sold. Over the time covered by the Plan, installations will continue, bringing the volume sold covered by remote reading to roughly 25% of total volumes sold.

Efforts to develop digital channels for customer relations continued: in 2023, the number of customers registered for online services rose to 36.2%, while those who requested electronic billing reached 40.2%. The Group's commitment in this area, combined with its focus on local communities, continued in 2023 with the seventh edition of the campaign to promote electronic billing and digital customer behaviour named Digi e Lode, through which the Group from 2017 to 2023 donated 745 thousand euro for the digitisation of 298 schools.

As regards resilience, in 2023 the Group made investments coming to approximately 223 million euro, equivalent to 27% of total gross operating investments. In this regard, note:

- ongoing upgrading of the electricity distribution grid in the Modena Apennines, which increased the amount of network upgraded by the end of 2023 to 55 km, 82% of the work called for by the overall resilience plan;
- a 14% increase in remote-controlled installations (+758), which rose to 9,707;
- the planning and construction, in the aqueduct area, of numerous interventions in the Triveneto and Emilia-Romagna regions to mitigate drought risks, such as aqueduct interconnections, optimization of catchment and intake pipes, and new wells and reservoirs. These interventions came in addition to the development of predictive algorithms and the use of innovative technologies to direct maintenance actions and support leakage detection: the district-based network for effective leakage monitoring increased to 55% of the total (vs 51% in 2022), while that covered by predictive algorithms reaches 78% (vs 40% in 2022).

Once again regarding the resilience of the services and territories served, the Group provided support to communities affected by the floods that in May 2023 struck 44 municipalities in Emilia-Romagna. This activity involved restoring services as quickly as possible, collecting and disposing of over 70 thousand tonnes of waste as a result of the flooding, implementing the financial measures defined by the government and the regulatory authorities (integrated by the Group) in terms of bill suspension and instalment payments, and supporting the workers affected by the event and engaged in restoration activities through various measures, especially economic initiatives, put in place thanks to measures including solidarity initiatives promoted among all Group workers.

The results achieved in terms of creating shared value complement 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.

Alongside the  
protagonists of  
change

Thanks to awareness-raising programmes and the adoption of ISO 45001 certification, which covers 88% of the Group's workers, the accident frequency index was further reduced (10.2 in 2023) and stood at 39% lower than the sector average measured by Utilitalia. At the end of 2023, 11 Group companies had obtained UNI/Pdr 125:2002 gender equality certification, which now covers 81% of its workers. In 2023, workers received more than 6 million euro through the Hextra welfare system. The amount of training remains high: in 2023, there were 31.5 average hours of training per capita, a further slight increase over the previous year. The role of sustainability goals in the balanced scorecard system linked to incentives for management remained significant. In 2023, 40% of the variable remuneration of Group executives and middle managers was linked to sustainability target projects, with 24% of targets geared towards creating shared value.

In 2023, a further increase occurred in call centre contacts (+15%, roughly 1.3 million more calls) which, as in 2022, was mainly due to turbulence in the energy markets and the impact on bills in the first part of the year. Other aspects that led to an increase in contacts included the end of the protected gas tariff system and the flooding in Emilia-Romagna. Despite these discontinuities, the average waiting time at the residential call centre improved, going from 93 seconds in 2022 to 59 in 2023. The business segment also saw an increase in calls to call centres in 2023 (+10%), but this did not affect the average waiting time, which improved from 112 seconds in 2022 to 72 in 2023. On the other hand, waiting times at counters worsened slightly in 2023 (from 9 minutes in 2022 to 12 in 2023) as a result of inflows that increased by 23% compared to the previous year, for the reasons described above.

The survey carried out in 2023 on the quality of services provided by the Group (approximately 12,021 interviews conducted with residential customers) recorded a 73/100 customer satisfaction index, which thus returned to the level reached in 2021 after the one-point decrease seen in 2022, mainly due to turbulence in the energy markets.

When selecting suppliers in 2023, the Group used the most economically advantageous bid method for 87% of public tenders and 66% of overall tenders (in terms of value). Considering overall tenders, the average score reserved for social and environmental aspects was 39/100. The circular procurement project also continued in 2023, 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 2023 circularity criteria were included in over 92% of the tenders with the most economically advantageous bid, with an average score of 10.2. Supplier monitoring focused on social responsibility towards workers also continued in 2023, as did accident monitoring, which involved 74% (in terms of commissioned value) of the suppliers of services and works. Lastly, note the introduction in 2023 of a new vendor management and supplier qualification system that also assigns a score on the basis of suppliers' ESG maturity, which can affect the frequency of invitations to tender, and reinforcements in the system for assessing risks along the supply chain in order to more effectively orient control activities.

The Task force on climate-related financial disclosures (TCFD) was established by the G20 Financial stability board following 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 limit the increase to 1.5°C by the end of the 21<sup>st</sup> century. The TCFD, established with the aim of facilitating greater transparency on the financial opportunities and risks associated with climate change, published recommendations in 2017 that still serve as an international reference for corporate climate change disclosure. The TCFD's recommendations are applicable to organisations across all sectors and are categorised into four areas: governance, strategy, risk management and metrics & targets.

TCFD  
recommendations



The Group began its path towards alignment with the TCDS recommendations in 2020, and it has been defined according to three main steps:

- establishing 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 2023 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 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.

The EU  
Taxonomy

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 to 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 was included 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 2022 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.

Lastly, the process continued in 2023 with the analysis of eligible activities and the technical screening criteria defined by Delegated Regulation 2023/2486 concerning four additional environmental objectives (sustainable use and protection of water and marine resources, transition to a circular economy,

prevention and reduction of pollution, and protection and restoration of biodiversity and ecosystems) in order to draft the mandatory reporting for 2023. Once again, the analysis made it possible to go beyond the disclosure requirements set out for the 2023 NFS and to quantify and report on the economic KPIs for both eligible activities and those aligned with all six environmental objectives of the Taxonomy. The 2023 NFS also continues voluntarily report on Ebitda coming from taxonomy-aligned activities.

The Sustainability Report can be consulted for a complete discussion of these topics.

