

1.05 Sustainability results

The Group's efforts in reporting the results obtained in the areas of creating shared value (Csv) and sustainability to its stakeholders have been fully confirmed, this year as well, by its Sustainability Report, available at bs.gruppohera.it within the section entitled Social responsibility.

The Sustainability Report contains consolidated non-financial statements prepared by the Hera Group, pursuant to legislative decree 254/16, and is a distinct report with respect to the present Directors' Report, as foreseen by article 5, paragraph 3, letter b) of legislative decree 254/16. The Sustainability Report also includes indicators and information concerning the environment and personnel, as well as research and development.

An overview of the main results included in the 2019 Sustainability Report is provided below.

Further progress was made in areas pertaining to Csv and in prospects for sustainability in 2019, in terms of both results obtained and new projects in measurement and external reporting implemented. As regards the latter aspects, many elements have enriched the Group's corporate social responsibility and accountability profile:

- the approval, by Hera Spa's Board of Directors, of the Group's new Code of ethics, updated with many new elements that distinguish it, following a process that involved the collaboration of many employees and the supervision of the Ethics and sustainability committee;
- an improvement of three of the five reports dedicated to specific issues in sustainability, which integrate the financial statements and refer in particular to the Group's commitment towards innovation (report: I mille volti del servizio), reducing water consumption and reusing water (report: In buone acque) and recovering materials including minor portions of sorted waste such as vegetable oils, electric waste and fabrics (report: Sulle tracce dei rifiuti);
- the introduction, within the 2019 Sustainability report (released as of 2016, two years earlier than required by Gri standards) of the following changes:
 - a first step towards bringing the Group's reporting in line with the recommendations made by the Task force on climate-related financial disclosure (Tcfd), based on the results of a work group created in 2019, which will be operational for all of 2020;
 - adopting, one year early, two new Gri standards: 303 Water and effluents and 403 Occupational health and safety;
 - including, in the content index of the financial statements, indicators on the environmental benefits ensuing from the investments financed with the green bond issued in 2019;
 - broadening disclosure to include new areas defined on the basis of analyses of topics such as information and corruption risk prevention and management, and the adoption of circular economy principles in purchasing processes.

Creating shared value: Csv Ebitda rises to 422.5 million euro (38.9% of total Ebitda); Csv investments amount to 202.4 million euro (+10% over 2018)

The 2019 Sustainability Report confirms the innovative representation of its content introduced in 2017 and focused on shared value creation as seen in the Group's strategic approach, inspired by the indications offered by Porter and Kramer. The results achieved and the goals set for the future thus continue to be accompanied by an overview of the scenario as regards the three drivers identified for creating shared value: (i) smart use of energy, (ii) efficient use of resources and (iii) innovation and contribution to local development. Hera's position with respect to the significant environmental and socio-economic challenges found in future development, and its response to these issues, are thus clearly represented. These three Csv drivers each receive, in the 2019 report as well, one of the three most important chapters of the report.

One of the strong points of the Group's Csv reporting is the quantification of Csv Ebitda, i.e. the portion of total Ebitda deriving from business activities that are able to respond to the goals on the Global agenda. This agenda brings together calls to action for an evolution towards sustainable growth, indicated by da 75 policies on a global (including the UN Agenda), European, national and local level, duly analysed over the 2016-2018 three-year period and summarised in the three drivers mentioned above. This set of policies was enhanced with 14 new policies analysed in 2019. In 2019, Csv Ebitda reached 422.5 million euro, up 12.6% compared to the previous year, corresponding to 38.9% of total Ebitda. This result matches the path set out by the 2019-2023 business plan, designed so that roughly 42% of 2023 Ebitda derives from business activities that meet the priorities of the Global agenda for sustainability which are compatible the Group activities. The Group's contribution towards creating shared value also involves making investments in the three Csv drivers, which in 2019 amounted to 202.4 million euro (+10% over 2018), roughly 40% of total investments. This quantification of 2019 shared value Ebitda and investments was submitted for the first time to an auditing firm, with the intention of making the full value of these distinctive aspects of the Group's reporting clear to all stakeholders.

The Hera Group's commitment towards Csv is also confirmed by its active participation in the Ellen MacArthur Foundation's CE100 program, a network that brings together the world's 100 companies most engaged in the transition towards a circular economy. Particular mention must go to our participation in the New Plastics Economy Global Commitment, with a formulation of specific goals concerning increased plastic collection and recycling by 2025, and the first reporting carried out in 2019 as regards the objectives defined, which show positive results, higher than the trend expected for collected and selected plastic.

Once again in 2019, Hera participated in:

- developing the beta testing phase, along with 30 other organisations, of Circulytics, a digital tool launched in January 2020 by the Foundation which will allow companies to measure and monitor the progress made in the transition towards a circular economy;
- developing, along with 66 other organisations, including 30 companies, the Sdg Action Manager, a new tool conceived by Global Compact and B Lab to support companies in measuring and reporting their way of contributing to reaching SDGs, and in defining new business opportunities in line with the UN's 2030 Agenda.

Smart use of energy: -5.1% in energy consumption; 20% of contracts include energy efficiency services; -22% in the carbon footprint

The initiatives identified by Hera Spa, Inrete Distribuzione Energia Spa, AcegasApsAmga Spa and Marche Multiservizi Spa concerning Iso 50001 (included in the energy improvement plan) and already implemented have led energy consumption to be reduced by 11,748 Toe, 5.1% of 2013 consumption. The improvement plan calls for further energy efficiency initiatives (per circa 2,000 Toe) which will give way, once again with respect to 2013, to an overall savings of 5.9%, amply exceeding the 5% target set for 2020.

Numerous energy efficiency initiatives have also been introduced in customer/partner companies, to whom the Group makes its know-how available: 25 agreements have been made with trade associations and local businesses, in effect until the end of 2019. The initiatives aimed at promoting energy efficiency with residential customers include marketing offers such as Hera Led, Hera Thermo and Hera ContaWatt, to which one must now add the Consumption log, re-planned in 2019 with the collaboration of the Milan Polytechnic to raise awareness among customers about energy savings, based on the principles of behavioural economics. This report is freely available to Hera's gas, electricity and district heating customers, which allows them to compare their consumption to that of similar families. At the end of 2019, 20% of gas and electricity contracts contained energy efficiency solutions.

This area also includes Hera Spa's activity towards the Energy services manager (Gse) in order to obtain white certificates: ten new energy efficiency initiatives were presented in 2019.

The Group's commitment towards a smart use of energy, in particular to counter climate change, is rounded off by: the introduction of the new offer Hera Impronta Zero (Hera Zero Footprint); a purchasing program involving renewable sources which covers 74% of the Group's overall consumption; the production of 6.5 million m³ of biomethane from the organic portion of waste in the Sant'Agata biorefinery in the province of Bologna; the production of 584 GWh of renewable energy; a 22% reduction in the carbon footprint for energy production compared to 2013. The total amount of greenhouse gasses avoided thanks to Group initiatives is estimated at 2.3 million tons.

Efficient use of resources: sorted waste at 64.6%; packaging recycling at 72%; water management activity introduced

2019 saw a further increase in sorted waste, now at 64.6% (2018 Italian average: 58.1%), and at the same time a reduction in the use of landfills for municipal waste disposal, which fell to 3.4% (2018 Italian average: 24%). In this area, Hera is almost 20 years in advance with respect to the EU circular economy goal and is in line with the most advanced European countries.

In November 2019, Hera published the tenth edition of its report entitled *Sulle tracce dei rifiuti* (Retracing waste), verified by Dnv-GI, thus providing a guarantee to citizens as to the actual recovery of sorted waste, coming to 92%. This report contains a ranking of the area served by Hera with respect to the recycling objectives defined by the EU within the circular economy package: the overall amount of recycling came to 53%, meaning that Hera is already close to the goal of 55% set for 2025; and the amount of packaging recycling came to 72%, meaning that the Group has already reached the goal set for 2030. As regards waste prevention, the Group has launched numerous projects in partnerships with approximately 50 local non-profit organisations in order to recover non-expired medicine, voluminous objects that are still in good condition and food that is still edible. In 2019 alone, thanks to these projects non-expired medicine worth over 668 thousand euro was reused, as were over 630 tons of voluminous objects, while 9,700 meals were recovered.

Once again concerning circular economy, increases were seen in recovery of materials and energy in Herambiente Spa's selection plants, coming to 83% in 2019 (as compared to 77% in 2018) and in the recycled plastic sold by the Aliplast Group, which in 2019 amounted to 72.8 thousand tons (+22% compared to 2017, the baseline for the commitment made towards the New Plastics Economy Global Commitment, mentioned above).

The Group's efforts towards sustainability in the sewerage-purification area continued in 2019 as well, with the multi-year plan for compliance with regulations for urban agglomerates >2,000 P.E.: at the end of 2019, 97.3% of agglomerates proved to be adequate in terms of population equivalent (as against 92.2% in 2018). Important initiatives also regarded water resource conservation, such as the launch of the internal water management project, which led to a 5.5% reduction in consumption in 2019 (compared to the 2017 baseline) and the aforementioned Consumption log, which as of October 2019, in a testing phase, was distributed to a sample of roughly 80 thousand household customers in the water service.

Innovation and contribution to sustainable local development; investments in innovation and digitalisation: 78 mn€, economic value distributed to the local area: 2.1 bn€, amount of local supplies: 69%

In 2019, the Group achieved significant results in areas of Csv linked to the economic and occupational development of the local area, innovation and digitalisation, and air and soil protection.

The overall economic value distributed to the local area came to 2,131 million euro, or 78% of total economic value, showing an 11% growth over 2018. The amount distributed to local suppliers was 69% of the total, reaching 695 million (+10% compared to the previous year), while induced employment is estimated at approximately 8,400 workers; this data confirms

the Group's leading role in local development. As regards induced employment, note in particular the inclusion of disadvantaged workers (875 in total), which showed further growth and was linked to supply from social cooperatives, coming to 66.4 million euro in 2019.

Investments in innovation came to roughly 78 million euro, dedicated to projects in four areas: smart city, circular economy, utility 4.0 and customer experience. Among smart city projects, note the smart recycling depots and the dashboard offered to municipalities, universities and businesses to monitor their environmental sustainability. Further projects, in the circular economy area, aim at recovering energy from the sludge produced during waste water purification and reducing its quantity, reusing the water leaving purifiers and producing biomethane from wooden-cellulose waste and bioplastic from cellulose.

As regards digitalisation, in addition to numerous projects intended to further optimise operating processes, including the use of highly evolved data analysis tools, improving safety and continuity in services, as well as the quality of work and internal efficiency, in 2019 efforts continued to be made in developing digital channels for customer relations. In 2019, the Acquologo and Rifiutologo apps were actively used by over 200 thousand customers and over 59 thousand photos were sent by citizens (+51% compared to 2018), while the My Hera app, dedicated to residential customers, was downloaded over 230 thousand times. Digitalisation in customer relations also led to a constant increase in the procedures managed over the web channel: in 2019, the amount of customers using online services rose to 23.8%, while those who requested e-billing reached 30.1%. The attention given to this area in 2019, along with the work done together with local communities, led to the third edition of the promotional campaign for e-billing, called Digi e Lode, sending an additional 125 thousand euro in economic premiums for digitalisation to schools in the area served.

As regards air protection, positive results were confirmed in the environmental performance of the Group's waste-to-energy plants, which in 2019 as well produced a very limited amount of atmospheric emissions, 86% lower than the legal limits on average, while the average concentration of PM₁₀ in the Imola cogeneration plant was 99% lower than these limits. Lastly, as regards soil protection, note that a 77% reuse of soil was achieved in the projects carried out by HeraTech in 2019.

The results achieved in terms of shared value are complementary to the ones reached in the following areas, which round off the Group's social responsibility and sustainability profile.

- Thanks to awareness-raising programs and the adoption of 18001/ISO 45001 certification, which covers 83% of Group employees, in 2018 the accident frequency rate saw a further drop, down to 14.1 (as against 15.7 in 2018). A reduction was also seen in the area of blue-collar workers alone. The corporate welfare system, Hextra, provided over 4.5 million euro to employees in 2019; 98.8% of all workers are covered by this program. Training is still given high priority: in 2019, almost 29 hours of training per capita were seen on average. Employee satisfaction increased (Esi at 68/100 in the eighth enquiry on the internal business environment), as did the weight given to sustainability goals in the balanced scorecard system, linked to the system of incentives that is applied to all management personnel: in 2019, 34% of variable retribution for the Group's senior and middle managers was linked to sustainability project-goals, and the weight given to sustainability project-goals aimed at creating shared value came to 20% (as opposed to 17% in 2018).
- In 2019 as well, quality standards for customer relations channels remained high: the average waiting time at the call centre came to 27 seconds for household customers and 24 seconds for business customers. The average waiting time at help desks was 9.4 minutes in 2019. The 2019 inquiry on the quality of the services provided by the Group (with over 7,000 interviews carried out with residential customers) showed a high customer satisfaction rate (73/100), two points above the one seen one year earlier.
- In 2019, to select its suppliers Group used a method based on the most economically advantageous offer in 84% of public tenders and 68% of overall contracts (in economic terms). In both cases, the average weight given to social and environmental aspects came to approximately 34/100. Supplier monitoring focused on the social responsibility towards workers continued to take place in 2019, as did accident monitoring among the main suppliers (involving 77% of the value of service supply and the most significant works as regards work safety). 2019 also saw the activation of a project aimed at including criteria coherent with the principles of a circular economy within the guidelines for Group procurement, defining the priority types of commodity purchasing in which to apply, as of 2020, the first set of 20 circularity criteria that can be used in selecting suppliers.
- Interactions with locals communities led the new model of HeraLAB to be introduced in Bologna and Rimini in 2019. This is the tool that Hera provides to the areas it serves in order to set up a well-defined channel for reciprocal communication with local communities. Each LAB is made up of 12 representatives of local interests, appointed by Hera's BoD. The LABs met four times during 2019, and co-planned, along with Hera, ten local initiatives that will be introduced in 2020-2021.
- Lastly, in 2019 Hera was once again at the forefront in adopting sustainable financial tools. After having issued the first Italian green bond in 2014 and an Esg credit line in 2018, in July 2019 Hera issued another green bond amounting to 500 million euro overall, maturing in eight years, to finance investments in three areas (energy efficiency, circular economy and sustainable water resource management) all reflecting green bond principles. The 2019 Sustainability report contains a section dedicated to reporting on the funds allocated to each intervention and the environmental performance reached. This section as well is subjected to the auditing firm that verifies the Sustainability report.