

1.01 Trends and contexts, strategic approach and Group management policies

1.01.01

Trends and contexts

Hera makes ongoing efforts to interpret the signs coming from the contexts in which it operates, in an attempt to obtain an overall view of what lies ahead for the Group and its stakeholders. In order to anticipate future developments, the main drivers of change and their inextricable interrelations are outlined below. Particular attention will go to identifying macro-trends in the Group's various contexts and its main management policies, i.e. industrial strategy and its links to sustainability (concerning the environment, technology and human capital).

Macroeconomy and finance

The global economy in 2019

The world economy showed moderate growth in 2019, with a slowdown compared to the expansion seen in 2018. According to the data provided by the International Monetary Fund (IMF), growth in global GDP came to slightly under 3% in 2019, as against 3.6% in 2018. The causes for this contraction lie mainly in rising geopolitical tension (first and foremost, the controversy between the United States and Iran), the ongoing trade war between the United States and China, in progress since 2018, and social and economic deterioration in some areas of South America.

The slowdown concerned all of the world's main economies. The Chinese economy continued its gradual deceleration, showing a growth rate of 6.1%, down half a percentage point compared to one year earlier. Growth in the USA economy was also more restrained, settling at +2.3%, compared to +2.9% in 2018.

The European economy in 2019

Within the eurozone, economic growth was slight (+1.2% over the previous year) and dropped compared to the rate of growth recorded in 2018 (+1.9%). Uncertainty as to the outcome of Brexit was seen during the entire year, and weaknesses appeared in the manufacturing and automobile sectors, along with instances of social tension (e.g. the gilet jaunes in France) and situations of political instability, such as in Italy. The inflation rate in the eurozone remained rather low, settling at close to +1.3% at the end of 2019.

World and European economic outlook

The IMF revised downwards its forecast for the rate of global growth in upcoming years with respect to the estimates released in October 2019, as a result of the ongoing trade wars and rising geopolitical tension. Growth in world GDP is expected to come to +3.3% in 2020 and +3.4% in 2021, while for the eurozone, the most recent projections saw growth coming to +1.3% and +1.4% over the next two years; progress in the current worldwide epidemic will however require these figures to be revised. The IMF, for example, updated its forecast in the second half of February, estimating a further slowdown in Chinese growth coming to 0.4 p.p. compared to the previous forecast, resulting in a 0.1 p.p. reduction in global growth; this situation will be updated in the months to come.

2019 data and outlook for the Italian economy

In line with the trends seen in the eurozone, in 2019 the IMF observed a very slight growth in the Italian economy, coming to +0.3%. The Bank of Italy's initial analyses link this slowdown to a reduced contribution to growth coming from business investments (which in any case increased by +1.4%, half of the +3.1% seen in 2018) and national consumption (with a modest improvement in household consumption, resulting from an increase in available income; public administration spending dropped). Foreign trade improved; a downward trend was seen in imports (-0.4%) and exports showed a +1.2% increase, despite the significant reduction that appeared in the last quarter.

Preliminary estimates for the 2019 consumer price index show an increase coming to 0.5% over 2018, due to the price of transportation, housing and expenses for water, electricity and combustibles. As regards the job market, the unemployment rate fell below 10%, down 0.7 p.p. compared to 2018.

Covid-19

The projections calculated by the IMF for the development of the Italian economy before the epidemic broke out were not particularly optimistic, but pointed towards a slight upturn over the next two years. GDP was expected to grow by 0.5% in 2020 and by 0.7% in 2021, leaving room for faint signs of recovery. These projections will have to be updated by the main international institutes to account for the epidemic, and a downward adjustment for growth in our country is quite likely.

Macro-financial data: global, European and national markets

Financial markets felt the effects of macro-economic uncertainty in 2019, showing contrasting signs that alternated recovery with a fall in the volume of financial instruments traded. The first meeting held by the European central bank (ECB) under its new president Lagarde maintained the monetary policy measures seen previously, as regards both interest rates and asset purchasing; the Ecb's forward guidance expects rates not to rise above their current level until inflation comes sufficiently close to 2%.

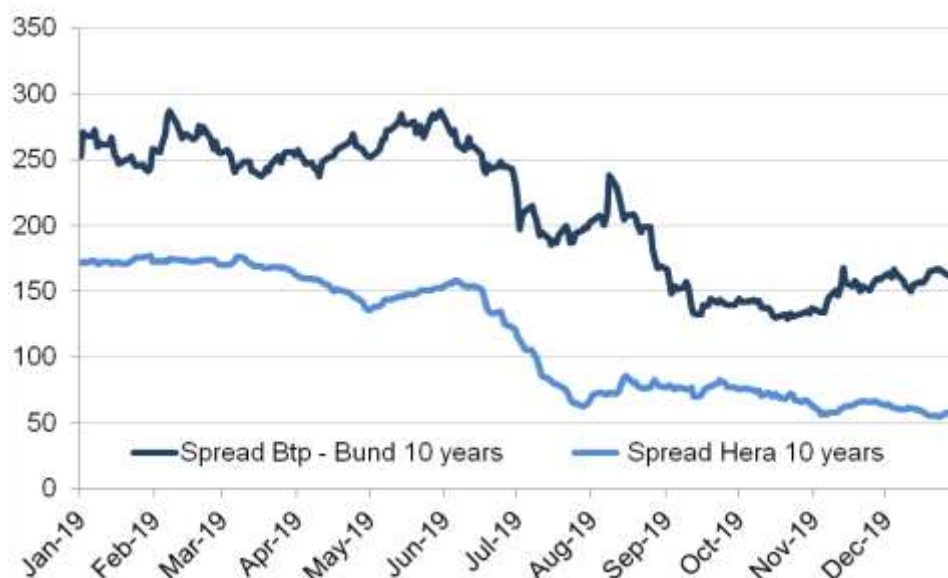
With the goal of bringing inflation to this level, furthermore, the ECB stated its wish to continue with an accommodative monetary policy at least until mid-2020. In order to deal with the Coronavirus crisis without additional reductions in interest rates, the ECB announced further liquidity auctions for banks, relaxing the criteria for assigning money so that it can flow more easily towards small-to-medium enterprises. The bond-buying program, furthermore, which as of 1 November came to 20 billion euro per month with no preset maturity, increased by 120 billion. Supervision criteria for banks were also revised, to give them greater flexibility in facing these extraordinary circumstances. The ECB also introduced an additional special

purchasing program (Pepp – Pandemic Emergency Purchase Program) amounting to 750 billion, as a response to the uncertainty has compromised liquidity on the European secondary market. These purchases, which will continue for the entire duration of the Covid-19 crisis (and in any case at least until the end of 2020), will not be subject to the capital key rule (that is, they may not proportionally reflect the amount held by each country among ECB shareholders); the purchases may be made with a certain degree of flexibility, and Greek bonds will also be included.

The yield curve continued however to show a downward trend, reaching negative rates even for long-term maturities. The 10-year swap yield, for example, fell below zero with forward rates showing no signs of rising.

The 10-year **Btp-Bund spread** decreased by roughly 100 bps compared to the previous year and, after approaching 300 bps over the year, settled at around 150 bps in December.

Hera's 10-year spread remained considerably lower than the Btp-Bund spread for the same time period, thanks to the Group's good credit rating, which helped consolidate its continuous growth.



Businesses and regulation

Trends in Group businesses

The weakness seen in the Italian economy, as described above, was reflected by **energy consumption**, which dropped slightly compared to the previous year. According to the preliminary data released by the company responsible for the national transmission grid (Terna), total demand for electricity in Italy came to 319.6 TWh, falling by 0.6% compared to 2018. Over the year, 88.8% of the demand was met by national generation, which increased by 283.8 TWh over the previous year, while imports amounted to 38.2 TWh.

In 2019, **net national generation from renewable sources** came to 39.8% of total production, amounting to 112.9 TWh, up over the 111.5 TWh produced in 2018, bringing the amount of consumption covered by renewables to 35%. This result is mainly due to an increase in photovoltaic generation (+9%, from 22.3 TWh in 2018 to 24.3 TWh in 2019) and wind power (+14%, from 17.6 TWh to 20.1 TWh). A decrease was seen, instead, in hydroelectric generation, which fell by 6%, settling at slightly under 47 TWh.

According to the initial estimates provided by the Authority for energy markets (Gme), natural gas consumption began to rise after the decrease recorded one year earlier, going from 72.1 billion m³ in 2018 to 73.8 billion m³, thus rising by 2.3%. The most significant increase in consumption came from higher demand in thermolectric plants, which settled at 25.7 billion m³, with a significant +10% growth over the previous year. This consumption was boosted by the higher cost of CO₂ emission permits – unfavourable to carbon generation – and a phase in which lower prices were seen for gas, which lasted for all of 2019.

As regards **waste**, the annual production of municipal waste in Italy comes to roughly 30 million tons, with an average of slightly below 500 kilos per inhabitant. Updated information for 2019 is not currently available, but considering the correlation between this figure and certain socio-economic indicators (first and foremost, GDP and consumer spending), the amount is expected to be essentially in line with 2018.

Water consumption in Italy comes to approximately 9 billion cubic metres and, according to the estimates available at present (calculations based on the Regulatory authority for energy, networks and the environment's yearly report for 2019 and Blue Book 19 on Istat data), agriculture continues to be the sector with the highest consumption, followed by energy production, with lesser amounts consumed in industry, for household use and in services.

The context in terms of competition

As regards competition in the sectors in which utility companies typically operate, a rise in the degree of competition was seen once again in 2019, in both free-market and regulated businesses.

As regards free-market businesses, competition is intense and is increasingly concentrated on the customer experience offered to clients and the competitive nature of the services proposed.

In the energy market, the level of competition is very high and is leading towards a gradual fall in average margins, with the churn rate rising in both gas and electricity sales.

A few elements found in this context have contributed to increasing competition in last resort services – the safeguarded electricity service, default gas and last resort gas supply. In particular, for the default gas service and last resort gas supply, the duration of concessions has been reduced by one year compared to the previous two years. Increasing interest has also been shown by operators towards tenders for safeguarded electricity service concessions.

In the area of industrial waste treatment and recovery, the competitive arena is marked by the presence of large European players who offer integrated services along the entire waste chain and purchase plant capacity and competences on the market. The context within which these operators compete shows an ongoing capacity gap, with an additional estimated 27 million tons of waste disposal required in waste-to-energy plants each year. Within Italy, the situation is similarly critical and this gap varies between 9 and 10.5 million tons per year, with extreme differences appearing from one region to another.

This context means that over 2019 prices for all main types of waste treatment in Italy came into line with the higher ones seen on the European market. This increase is primarily due to the persistent difficulty shown by in the Italian system in constructing the necessary number of plants.

As regards **regulated businesses**, the Hera Group operates within the market regulated by the Regulatory authority for energy, networks and the environment (Arera). In regulated markets, European regulations set out the basic procedures for both the mechanisms with which prices are defined and payment for/transfer of the good being bought or sold. The supervisory Authority approves the rules concerning access to the market and its operation, and obligations concerning transparency must be respected.

The beginning of the procedures used for assigning gas distribution, integrated water cycle and waste management service concessions was seen in 2019. In the upcoming years as well, these businesses will continue to take into account the deadlines for the various tenders for concession assignments. In gas distribution, however, the amount of time involved in announcing the tenders, and in awarding the concessions at a later date, is expected to be longer than originally planned.

Legislative and regulatory context

The **legislative and regulatory measures** approved by Arera in 2019 with the greatest consequences for the Hera Group include: the approval of the 2019-2021 Strategic Framework; the beginning of the fifth regulatory period for gas distribution and measurement; infra-period updating for regulations in the electricity distribution service; the beginning of the third tariffary period for the integrated water cycle and the definition of regulations for arrears; the beginning of the new tariffary period for the integrated waste management service.

2019-2021 strategic framework: objectives

Arera, with resolution 242/2019/A, approved the **strategic framework for the 2019-2021 three-year period**. This document, subdivided across areas and into sectors, is an important tool for transparency towards stakeholders. Among the strategic objectives concerning more than one sector, note the more central role given to consumers (who will be provided with tools giving them greater awareness in making choices), the valorisation of technological innovation and new approaches intended to guarantee that goals in decarbonisation and development of a circular economy are reached.

Among the strategic goals with relevance for the energy area, importance is given to developing markets that are efficient and integrated across Europe. Arera thus intends to promote a reform of dispatching and imbalances, complete the capacity market and reinforce monitoring tools to contrast unauthorised practices. In the gas market, measures will be aimed at bringing Italian prices into line with European ones, enhancing infrastructures and overcoming long-term contracts. The strategic framework furthermore contains a focus on the retail market and reaching the **end of protected markets**. Arera intends to guarantee that the transition to the free market comes about with full awareness on behalf of end customers and without distortions in competitiveness, furthermore taking into due account the evolution of prosumers and the services surrounding the system, encouraging aggregation in demand. On this matter, as regards counterparty risk in regulated services, with reference going to system charge collection, on the one hand tools aimed at measuring operators' financial solidity will be introduced, and on the other systems for providing minimal guarantees and mechanisms for recovering unpaid fees will be developed. In the area of energy infrastructures, importance will go to selectivity in interventions on networks and to an efficient use of resources, with the aim of combining providers' operating and financial balance with objectives in service efficiency improvement. A few measures aimed in this direction include: progressively and gradually overcoming the current approach towards cost recognition, differentiated as it is between operating costs and capital costs, in favour of an integrated approach (totex); completing (in gas distribution) the progress made on aligning recognised costs and efficient costs, overcoming the current differentiations based on the size of operators. As regards the water and waste services, Arera has noted the need to overcome the sharp differences found within the country in both infrastructures and service quality and transparency.

Foreseeable future

The impact of regulation on each business is largely foreseeable, thanks to the tariff regulations approved for the upcoming regulatory periods, and prospect for the single services are specific to each sector.

Gas sector: distribution and measurement

In the **gas distribution and measurement** sector, with resolution 570/2019 the Authority approved tariffary regulations for the fifth regulatory period, covering 2020-2025. The methodology set out in the framework is, for the first three years, 2020-2022, essentially in line with the previous period, effectively postponing until the second half of the regulatory period, also covering three-years, the most innovative interventions. And yet, even within this context of methodological continuity, a few interventions planned by Arera for 2020 are particularly significant, such as a reduction in operating costs for distribution services and a higher level of efficiency enhancement required from businesses, in addition to an alignment between the rate of return on the service and the value of distribution (6.3%). Concerning the significant drop in the recognition of operating costs introduced by resolution 570/2019, in February 2020 Inrete Distribuzione Energia Spa, the Group's foremost distributing company, along with other main operators in the sector contested this measure at the Lombardy-Milan Tar. As regards the

Electricity sector: distribution and measurement

technical and commercial service quality, Arera guaranteed that the rules would not be changed, even while including new and gradual obligations for upgrading distribution networks.

For the **electricity distribution and measurement** sector, with resolution 568/2019, Arera approved the unified text for tariff regulations in the 2020-2023 regulatory semi-period. In this case as well, the measures approved are fundamentally similar to the methodology used in the first semi-period, but a few new tools were introduced in order to make the most of synergies among sectors and improve the service offered. For example, a net revenue sharing mechanism was introduced, since optic fibre has passed into the electricity infrastructures. With resolution 566/2019, Arera furthermore updated, for the 2020-2023 regulatory semi-period, regulations for bonuses-penalties for service quality. The Authority wishes to improve services for customers and reduce the gap still seen from one region to the next; this will come about by adopting special regulations for areas experiencing greater difficulties and introducing extraordinary forms of regulation for innovative experiments proposed by operators. While waiting for a complete application of the clean energy package, definitively approved by the European commission in spring 2019, a few of the measures adopted by Arera are already aimed at promoting an energy transition towards renewable sources, regarding collective self-consumption in particular.

Integrated water service

As regards the **integrated water service**, with resolution 580/2019, Arera approved the tariff method for the third regulatory period, covering 2020-2023 (MTI-3), which combines elements that remain unchanged with respect to the previous period and innovative aspects. The new method indeed confirms the structure of a guaranteed revenue and an upper limit on annual increases in tariffs, differentiated according to the specific characteristics of each Water Manager (so-called "asymmetrical" regulation). From the point of view of the cost of capital, a gradual decrease is foreseen in remuneration for a few specific ongoing works (with the exception of those defined as strategic). The rate covering financial and fiscal charges is instead essentially the same as in the previous regulatory period (5.24%). Note furthermore the introduction of significant incentives going towards interventions intended to promote energy efficiency and environmental sustainability, for example promoting the recovery of materials and energy from purification sludge; in the process of applying the circular economy package, for example, the government began revising decree 99/92 concerning the use of purification sludge in agriculture, also introducing regulations for energy recovery from this sludge. For the costs linked to arrearage, the unpaid amount of sales volumes recorded in a given year is expected to be recognised (unpaid ratio at 24 months); with the goal of reducing arrearage during this regulatory period, resolution 311/2019 was aimed at unifying water managers' debt collection processes nationwide. Lastly, as of 2020 the bonuses and penalties involved in promoting technical service quality will be quantified, as will, as of 2022, bonuses and penalties for contract quality, established by the new national mechanism described in resolution 547/2019.

Integrated waste cycle





Within this regulatory context, one significant new element consists in the introduction of tariffary regulations for the integrated waste cycle (concerning the period covering 2018-2021). In order to recognise an increase in compensation that reflects objectives in improving the quality of the services offered or changes in the scope of operations, Arera has set out a regulatory framework that is valid nationwide on the one hand, and asymmetrical on the other. For the two-year period covering 2020-2021, resolution 443/2019 defined a tariffary regulation for the entire municipal and similar waste chain (thus including treatment activities). The principles of full cost recovery and Rab-based regulation, linked to setting a the rate of return on invested capital at 6.3%, are the basis for the sector's tariffary regulation. In the new tariff method, a great deal of significance goes to incentives for developing activities in material and energy valorisation, by implementing mechanisms through which the ensuing revenues are shared between service managers and customers, including the mechanisms recognised by Conai covering the higher charges for packaging waste collection. Arera's recent activity does not overlook promoting the quality of the services offered: a regulation that calls for both generic and specific levels of quality in the services offered to customers will indeed be introduced.

During 2019, the Ministry of the Environment began the work foreseen by European enabling act (L.117/2019) concerning the implementation of directives on waste (Directive 2018/851/EU on waste, Directive 850/2018/EU on landfills, Directive 2018/852/EU on packaging and Directive on end-of-life vehicles, batteries and electronic waste 2018/849). This enabling act is intended to introduce a **reform of national legislation on waste management**. The new legislative framework is expected to be published within 2020. On a European level, Directive 019/904/EU on single-use plastics was published, introducing new elements as to production, commercialisation and waste management for certain categories of plastic products.

The framework for **regulating district heating services** is nearing completion, through a consolidation of the requirements concerning technical and commercial quality, adapting the basic mechanisms of the more time-tested energy regulation. More specifically, regulations have been introduced for service transparency in the regulatory period covering 1 January 2020 – 31 December 2023 and technical quality for the regulatory period covering 1 July 2020 – 31 December 2023. Lastly, concerning the right of withdrawal from supply contracts, the regulations have been revised so as to offer greater protection to the investments made by operators.

The updates in the regulatory periods illustrated above have also caused, as described, slight changes in the **definition of the rates of return** in each single sector; this was possible because the regulations allow Arera, while updating the single regulatory periods, to intervene in setting the sector's level of risk (Beta), while all the other parameters that make up rates of regulatory return (risk free rate, premium country risk, etc.) are set by a specific regulation that is renewed every six years and updated every three.

The main factors involved in tariffs for each regulated activity, based on the legislative framework in force in 2019 and expected to last until the end of the current regulatory periods, are shown below.

	 Natural gas distribution and measurement	 Electricity distribution and measurement	 Integrated water service	 Integrated waste cycle
Regulatory period	2014-2019 4th regulatory period (resolution 573/13) 2020-2025 5th regulatory period (resolution 570/19)	2016-2019 first sub-period of the 5th regulatory period (resolution 654/15) 2020-2023 second sub-period of the 5th regulatory period (resolution 568/19)	2016-2019 2nd regulatory period (resolution 664/15) 2020-2023 3rd regulatory period (resolution 580/19)	2018-2021 1st regulatory period (res. 443/19) (1)
Regulatory governance	Single level (Arera)	Single level (Arera)	Double level (Ega, Arera)	Double level (Local authority, Arera)
Invested capital recognised for regulatory purposes (RAB)	Previous cost revised (distribution) Average between standard cost and actual cost (measurement) Parametric recognition (centralised capital)	Parametric recognition for assets until 2007 Previous cost revised for assets as of 2008	Previous cost revised	Previous cost revised
Regulatory lag for investment recognition	1 year	1 year	2 years	2 years
Return on invested capital (2) (real, pre-tax)	2019 6.3% Distribution 6.8% Measurement 2020-2021 6.3% Distribution and measurement	2019-2021 5.9%	2018-2019 5.31% 2020-2021 5.24% +1% for investments as of 2012, covering the regulatory lag	2020-2021 6.3% +1% for investments as of 2018, covering the regulatory lag
Recognised operating costs	Average value of actual costs by company grouping (size/density), based on 2011 (for revenues until 2019) and 2018 (for revenues as of 2020) Sharing efficiencies achieved with respect to recognised costs Update with price-cap	Average value of actual sector costs based on 2014 (for revenues until 2019) and 2018 (for revenues as of 2020) Sharing efficiencies achieved with respect to recognised costs Update with price-cap	Efficiency-applicable costs (3): actual values for manager 2011 adj. for inflation Updatable costs: actual values with 2 year lag Added charges for specific purposes (provisional)	Actual costs for manager with 2 year regulatory lag (beginning with 2020 tariffs on 2018 costs) Added costs for quality improvement and changes in manager's scope (provisional) Balance for 2018-2019 based on 2017 costs (gradual)
Annual efficiency factor operating costs	Annual X-factor 2019: Distribution: 1.7% large businesses 2.5% medium businesses Measurement and commercialisation: 0% As of 2020: Distribution: 3.53% large businesses 4.79% medium businesses Measurement: 0% Commercialisation: 1.57%	Annual X-factor 2019: Distribution: 1.9% Measurement: 1.3% As of 2020: Distribution: 1.3% Measurement: 0.7%	Efficiency-applicable mechanisms based on: Sharing manager's 2016 efficiencies Level of sharing differentiated for the distance between actual cost and manager's efficient cost	
Incentive mechanisms		Sharing for net revenues derived from the transfer of fibre optics into electricity infrastructures	Sharing for costs of electricity based on energy savings achieved Recognition of 75% of margins from activities aimed at environmental and energy sustainability	Sharing for revenues deriving from material and energy sales (range 0.3-0.6) and CONAI incentives
Annual limit on tariff increases			Asymmetric, based on: investment requirements management cost estimates changes in scope Possibility of motion guaranteeing operating-financial balance	Asymmetric, based on the presence of: changes in scope quality level improvement Possibility of motion guaranteeing operating-financial balance

The regulation reference unit for defining reference revenues for regulated businesses is the Rab (Regulatory asset base), i.e. the value of net invested capital calculated according to the rules defined by Arera.

Resolution 443/19 is applied to operators in the integrated waste cycle, including treatment and disposal or recovery activities only if they are included in the company's consolidated scope. A specific measure will instead be introduced for tariffary regulation of compensation for plants falling outside this scope.

This measure will be effective as of the 2020 tariff year, following the application procedure foreseen in the measure itself.

For the energy and waste sectors the Wacc methodology is applied, while for the integrated water service the amounts indicated refer to coverage of the financial and fiscal charges.

Efficiency-applicable costs refer to internal operating costs, which can be directly controlled by operators.

Technology, the environment and human capital

The institutional and regulatory conditions of today's markets requires existing infrastructures to be modernised ever more frequently, with faster telecommunications, higher efficiency and flexibility in energy networks and network services, as well as investments in intangible assets such as the research and development (R&D) related to feasibility and spread of new technologies.

Countries that have traditionally given great attention to technological development and that show stable links with overall productivity in this area (China, USA and UK are a few examples) invest increasingly in intellectual property. Most of these investments are increasingly oriented towards two groups of technologies: internet, digitalisation and artificial intelligence; renewable energies and storage.

These investments have an effect on the job market and the environmental context. The arrival of robotisation and artificial intelligence, accompanied by moving management from the field to advanced remote control centres, requires working processes to be deeply rethought. The purpose of this is to make them more flexible and integrate those activities that can be managed by evolved machines with human activities, reallocating to the latter the distinctive added value that is typical of human capital. From an environmental point of view, one of the most important innovations involves substituting fossil fuels with renewable sources. This however requires significant financial investments whose economic benefits are not always immediately tangible, since they only appear over the long term if well-focused systems of incentives or compensation for externalities are lacking.

It became clear at the 2019 World Economic Forum that the companies who have automated their most operative tasks are the ones that will hire the most in upcoming years, and will thus have to concentrate on the skills of the future. A report published by the OECD in February 2019 shows that technological innovation alone is not sufficient to increase productivity; in addition to exogenous reasons involving global, economic and social contexts, this is due to endogenous reasons linked to an organisation's ability to manage, update and develop the skills of human capital. Today's digital leaders must be at the forefront in promoting the values of continued learning, because our chances of success depend on our ability to work throughout all corporate processes and in all individual behaviour. The organisational context is no longer limited to a company's physical boundaries or the logical ones of its business strictly speaking, but must now cover the interrelations that characterise it and its objectives in sustainable development. The external projection of a company's mission becomes extremely significant for multi-utilities who, given that they manage key elements of the environment (water, materials, energy) must commit themselves to reaching objectives that pertain to the community and the area served: put briefly, they must "create value". This type of action has positive repercussions on a corporate environment and on its ability to recruit the best resources, who wish for their work to have an effect on a larger scale and with broader objectives, including the external context.

Technological scenario

The digital and technological opportunities now seen on the market give utilities the chance to increase the number and variety of their activities and be more flexible and dynamic across all levels of the value chain.

Digital evolution is the cornerstone of current technological transformation, since it is an enabling factor in evolutions that insist on extensive infrastructures and relations with individuals.

The main information and communication technology (ICT) trends seen in the sector can be grouped into Internet of Things (IoT), Automation, Artificial intelligence (AI), Data analytics, Cloud and information security.

Trends in the world of ICT: enabling elements (Cloud, IoT), technologies (AI, automation) and cybersecurity

As regards the technologies applied to utility infrastructures, the category receiving the most attention includes field sensors (which allow important data to be collected concerning network functionality and state of maintenance) and technologies supporting remote management of plants and other resources in the local area.

Applying the IoT to an industrial context is often referred to as the Industrial internet of things (IIoT). In this direction, network infrastructures managed by utilities have become increasingly smart, that is, assets able to communicate with the manager and provide important data for the networks' operations and evolution.

The volume of data collected through field sensors has become quite considerable; utilities make the most of them in terms of optimising asset management through the data analytics associated with new technologies based on artificial intelligence.

As regards interaction with customers, instead, the latter are increasingly accustomed to interacting with service managers through digital channels and mobile tools, such as smartphones and tablets. This context is based on the need for a single vision in managing all customer requests (customer centrality), interacting with customers through various channels (omnichannel) and reducing response time (flexibility and speed). Utilities, therefore, are changing their way of interacting with customers, making increasing use of dedicated channels and chatbot to offer timely responses, along with data analysis tools to study and predict the behaviour of their customers, whether current or potential. Offering services and tools that are ever more oriented towards checking one's own consumption, and managing other devices directly "at home" are two ways to reinforce ties with customers and learn about the main features of their behaviour.

The enabling factors of the digital revolution also include clouds, which allow significant volumes of data to be collected, managed and stored, along with giving simple access to it for gradually decreasing costs and easily scalable technologies in situations of growth. Europe's policies concerning digitalisation have laid the foundations for increasing confidence in clouds and their adoption as a rapid and cost-effective instrument for digitally transforming companies, providing better guarantees in

terms of reliability, security and privacy. Italy, just like the rest of Europe, is becoming increasingly digital thanks to the significant progress made in the use of services in cloud mode that, in a few cases, is the only mode offered by software providers and information platforms. The availability of accessible cloud services has gradually shifted the focus of utilities and other companies from an approach based on ownership of software and infrastructures towards more versatile solutions such as Software as a service, Platform as a service or Infrastructure as a service.

The most significant and innovative technologies also include solutions in industrial automation, such as Robotic Process Automation (RPA) and the application of Artificial intelligence algorithms. The former help reduce the highly repetitive and manual activities entrusted to a company's personnel, freeing up resources for activities with higher added value. Furthermore, solutions in process automation (which can be applied to many typically corporate areas) represent a starting platform for developing more advanced solutions, based on Artificial intelligence and self-learning systems. Developments that are already in the works allow machines to interact directly with individuals, adapting to different behaviour, or again to analyse higher volumes of data or images than could be imagined with traditional technology, in order to identify interactions and correlations able to optimise the choices made by management.

As is the case in other sectors, for utilities as well attention towards issues in information security is on the rise, due to both their nature as public utility services, and the likeliness that these networks are infrastructures spread out over the local area, and thus potentially more exposed to the attacks.

This phenomenon is growing: the European commission, for example, has reported that in 2016, in the European Union alone, 4 thousands cases of ransomware were seen on a daily basis, and that in 2018 over 80% of European companies suffered from at least one information attack.

The human and economic resources dedicated to the issue of cybersecurity are expected to evolve in upcoming years as well, so that the best technologies and solutions capable of facing possible attacks can continually be used. From the benchmark analyses provided by the most prominent observers of the information market (Gartner, Forrester, IDC and others), information security spending is estimated at between 4% and 10% of annual ICT spending in companies. Between 2012 and 2018, average spending in cybersecurity per employee almost doubled and over the next few years this trend will continue. Indeed, the International Data Corporation (IDC) expects this item of expenditure to increase globally at an average annual rate of 10% until 2022.

Environmental scenario

The increase in individual awareness of environmental and social inclusion issues is one of the factors sought after by market operators, i.e. by the best resources. Our planet's climate has always changed over time; the new and worrying aspect consists in humanity's contribution to accelerating this change.

Climate change: regulations, causes, impact and initiatives announced

Changes in individual expectations and priorities as regards environmental issues have been accompanied by praiseworthy ambitions at a global and European level; the most outstanding include the 17 goals on the 2030 Agenda for Sustainable Development, the objectives contained in the Paris Agreement on climate change (whose objective is to keep global warming under 2°C), those included in the long-term climate strategy, referred to as A Clean Planet For All, presented by the European Commission during one of the most recent Conferences of the parties to the Convention on climate change (Cop 24)¹, which stressed the need to maintain global warming below 1.5° C and outlined a new total decarbonisation scenario, reached through greenhouse gas emission neutrality within 2050 and, more recently, those contained in the Green Deal².

The European Green Deal lies at the heart of the political program of the new Von Der Leyen Commission and, according to the intentions of the community executive, it will bring actions favouring a containment of global warming together with opportunities for developing Europe's industrial layout, with important effects concerning employment. The political package will be made up of over 50 legislative and strategic initiatives which will come to light over 2020 and 2021, covering a wide range of sectors including energy and mobility.

Energy and transportation indeed contribute significantly to climate-changing gas emissions in Europe, considering among other things the still heavy use of fossil sources. Over the past decade, renewable sources have become progressively more important within the mix of electricity generation in the EU (e.g. wind and solar power), but have still not been able to make their way into the mobility sector and struggle to emerge as an alternative for solutions in warming/cooling.

Europe's strategy in laying out the conditions for an energy transition in **transportation** will thus have to concentrate on promoting technologies with a lower environmental impact for private mobility (e.g. electric cars), public mobility (e.g. renewable gasses, hydrogen) or again for freight transport (e.g. intermodality).

Along similar lines, the transition in the **energy** sector will be based on an increased role of electricity to satisfy final consumption, along with power generation from renewable sources. However, it will also have to unite aspects including reliable procurement and competitiveness for the industrial system, which require an integrated approach to the sector, making the most of the strong points of electricity and gas, also including the ideas involved in sector coupling.

The focus of the European Commission and the international community in responding to climate change will then be extended to other sectors, including waste management and water.

The European Green Deal will be built around the promotion of circular solutions involving the entire production chain, from production to consumption of a given good, as well as **waste management**. Until present, indeed, some important steps have been made in this direction, and yet the most significant legislation has focused on some links in the chain (e.g. waste management) or some areas of production (e.g. the plastics sector). The EU thus aims at giving greater attention to the phase

¹ Cop 25, which came to a close on 15 December 2019, simply confirmed the conclusions of the previous Conference of Parties and deferred a discussion of all new issues, including the intentions of member countries as regards reducing emissions, to the upcoming Cop 26 in Glasgow.

² The European Commission's new president insisted repeatedly on the centrality of the environment in her executive action and promised a Green Deal for Europe in her first 100 days in office (beginning on 1 December 2019). The draft for the strategy presented by the European Commission stresses its ambition to become the first carbon-neutral continent, within 2050, i.e. a region where CO₂ emissions produced are offset by an equal amount of absorption. This ambition will take the shape of a European climate law and, in light of this, the 2030 target for greenhouse gas reduction might be increased by at least 55%.

of production/importing of manufactured goods that are as reusable and recyclable as possible, enhancing the recycled materials market and replacing virgin materials, including some specific chains that must be individually reoriented.

The main **consequences** of climate change, highlighted by recent European studies, include an increase in sea level, a reduction in the volume of glaciers and the snow cover, as well as effects on health linked to climate-sensitive diseases. Some zones risk being submerged and, last but not least, extreme weather conditions have gradually increased in intensity and frequency.

It is increasingly necessary to adopt a sustainable management system for **water resources** that is able to reconcile needs in storage and conservation, efficiency in consumption and the possibility of reusing waste water, which at the same time allows natural ecosystems to be reconstituted. The exhaustion of water resources is furthermore one of the main threats to economic growth: energy production is one of the leading causes of freshwater resource consumption.

In order to sustain the projects mentioned above, on 14 January 2020 the European Commission presented its **investment plan for a sustainable Europe**, which will mobilise the EU funds required for the transition towards a climatically neutral economy, which is green, competitive and inclusive. This plan, which includes other initiatives announced in the draft for the Green Deal, is structured around three areas: allocating a certain amount of public spending to actions for the climate and the environment (as well as attracting private funding, thanks to the European investment bank); providing incentives to encourage and reorient public and private investments; giving practical sustainment to public authorities and promoters for the phases of planning, processing and implementing sustainable projects. In line with the other European countries, the Italian government stressed its intention to follow up on the Green Deal with its 2020 Budget Law, launched a **green pact** which, through incentive mechanisms intended for the industrial and production sector, aims at the transition towards a circular economy model. Among the tools designed to contrast climate change included in the new Budget Law, a few examples that must be mentioned include: introducing tax credits (coming to 36%) for sustainable expenses made by businesses in purchasing recycled products; channelling resources towards municipal administrations for projects in improving energy efficiency and ensuring public asset security; introducing funds for activating sustainable projects in urban upgrading and energy conversion, to incentivise the use of renewable sources.

Human capital scenario

Trends in the economic, political, environmental and social system, combined with exponential growth in digital transformation, impact various aspects of human capital. Developments in technological applications, along with significant growth in the technological ability to manage data, make it all the more important to invest in the human ability to interpret phenomena, aimed at generating value. The relation between man and machine is increasingly aimed at integration on the workplace, rather than simply enhancing cost efficiency in a rationale based on substitution. Future paths in technological development require companies to increase their management abilities, orienting their choices based on ethical aspects no less than technical ones. Increased digitalisation shapes models for education, and yet risks creating a sharp gap between those who rapidly acquire excellent digital skills and those who struggle to gain this knowledge. Abilities in interpersonal relations become increasingly important, as do abilities in interpreting and managing complex contexts. Increases in the information and tools available for collaboration at a distance cause changes in the way of working and measuring performance. Individual priorities are also changing with respect to the past: the need for stability in employment and retribution observed until present is matched by a search for challenging contexts, attractive in their ability to offer a connected environment in terms of human relations.

1.01.02

Strategic approach and management policies**Macroeconomic and financial factors**

The Hera Group pursues a debt structure that is compatible with business requirements in terms of the length of financing and exposure to interest rates. The Group currently shows and strives to constantly maintain a financial management capable of maximising its yield profile while maintaining a cautious risk strategy.

Hera carefully plans its financial resources, cash flows and debt over the long term; the average cost of debt is continually optimised through forms of liability and financial risk management aimed at seizing favourable market opportunities.

The capital market and the Green financing framework

In line with these goals, as regards capital markets, in July 2019 Hera issued a green bond with an overall value of five hundred million euro, maturing in eight years, with the coupon set at 0.875%, and a 1.084% return, as part of the company's funding strategy. This green bond was listed on the Dublin and Luxembourg regulated stock exchanges and on Borsa Italiana's Extra Mot platform; the transaction saw significant participation coming from green and sustainable investors. The funds raised will be used to finance or refinance numerous projects included in the Business plan, which pursue some of the goals on the UN's 2030 Agenda in the areas of energy efficiency, circular economy and sustainable waste management and water infrastructures.

Note furthermore that in 2019 Hera drafted its own **Green financing framework (Gff)**, available on the Group's website. This is a programming document that informs investors as to the green projects financed (the document has received ISS-oeekom certification). As regards the process of optimising the Group's financial structure, two bonds, maturing in 2021 and 2024, were also repurchased (the amounts of repurchased debt come to 40 million euro and 171 million euro respectively).

The banking market

As regards the banking market, at 31 December 2019 Hera had 363 million euro in liquidity, 600 million euro in committed lines of credit and 537 million euro in uncommitted lines of credit (of which 37 million euro currently used).

The lines of credit and the corresponding financial assets are distributed among major Italian and foreign banks, and their conditions are highly competitive.

Derivative financial instruments used for hedging

The Group's financial management furthermore includes the use of derivative financial instruments mainly used for hedging; in 2019 the latter were perfectly in line with the underlying debt.

Average cost of debt

Taken as a whole, these transactions on bond or banking markets allowed for an optimisation in the conditions for a further reduction in the average cost of medium-term debt, which in 2019 settled at 3.5%.

Ratings

Over the year, the Group continue communicating as usual with the rating agencies Moody's and Standard & Poor's (S&P): both agencies maintained their positive opinion of the creditworthiness of the Group, which has a solid medium-long term investment grade. Moody's (Baa2, stable outlook) and S&P (BBB/A-2, positive outlook) confirmed their opinion for reasons including the positive results reached over the year in the Group's credit metrics.

The Group's risk profile was positively evaluated by rating agencies, in terms of the solidity and good balance of the portfolio of businesses managed, as well as its good operating performance, its liquidity risk and its resilient creditworthiness indicators. It must however be stressed that the Group's rating is closely related to Italy's, since the majority of its Ebitda derives from domestic business and is thus exposed to the country's macroeconomic trends and its political scenario.

Hera Spa's actions and strategies are always particularly prudent and aimed at guaranteeing that adequate ratings are maintained and improved.

Business factors: industrial strategy

The Group presented its business plan in January 2020, which sets out **Hera's strategy** in effectively responding to the **complex context** outlined until present.

The Group's strategic orientation

The three foremost strategic guidelines in the plan to 2023 are:

industrial growth, an indispensable condition in order to continue distributing increasing value, benefitting all stakeholders within the ecosystem in which the Group operates;

risk management, in particular adopting the medium-long term approach required to deal with the risks to which utilities are exposed and identify the most effective steps to mitigate them (e.g. climate risks);

circular economy, as a reference model for bringing Hera's business activities into line with the paradigms of reduction, reuse, recycling, recovery and regeneration.

Furthermore, the Group will leverage and continue to elaborate some of its assets and strong points, such as its wide and diversified service portfolio (marked by a significant amount of regulated activities), its financial solidity, its constant search for innovative solutions in promoting higher efficiency and better service quality, and its continuous investment in training for its own resources so that its employees' skills evolve alongside the overall context.

Free-market businesses

As regards free-market businesses, the Group's strategy will unfold mainly in the areas of industrial growth and circular economy.

In **energy markets**, growth in the customer base is expected to reach **3.5 million customers by 2023**. This target was revised upwards compared to the previous plan, thanks to the contribution coming from the recent partnership with Ascopiave, which consolidated the Group's position in North-Eastern Italy.

Growth in the customer base will result, first and foremost, from **marketing development**, supported by innovative offers, **added value services** and increasing **customer experience** for each type of client.

Among marketing offers, mention must go to the ones aimed at promoting business **circularity** through **renewable energy supply**, or initiatives supporting **energy efficiency**, through means including applying the principles of **behavioural economics** to influence individual habits.

Once again in the area of circular initiatives, the Group will aim at developing and implementing solutions in energy savings for public administrations, industrial firms and condominiums, with offers tailored to the specific needs of each category of customers.

Over the period covered by the plan, furthermore, the Group will continue participating in competitive procedures for last resort markets (held annually for the gas service and every two years for the safeguarded electricity service). The leading role played by Hera until present in this area is expected to be confirmed.

Lastly, an important new feature in this line of business will consist in the gradual liberalisation of the protected electricity market, which will give the Group opportunities in terms of widening its customer base.

In the waste treatment and recovery sector, the Group intends to confirm its national commercial and technological leadership, which is due to its avant-garde set of plants, in line with European best practices, and will be further developed in upcoming years, with the goal of obtaining the maximum reuse possible of natural resources. In this sense, based on the experience gained with the Sant'Agata Bolognese plant, over the period covered by the plan biomethane production is expected to increase thanks to an anaerobic digester.

Attention towards circularity will also guide the strategy of the subsidiary company Aliplast Spa, thanks to which the Group is now involved in rigid plastic recovery and recycling and is carrying out initial experiments in molecular pet recycling.

Development of the industrial customer portfolio will be based on integrated and circular marketing solutions that can be adapted to the specific needs of each customer and offer complete waste management, which may also include looking for opportunities in water and energy efficiency within the production processes of industrial customers.

Regulated businesses

As regards regulated businesses as well, which mainly concern distribution infrastructure management, the strategic guidelines set out above will be fully implemented. Industrial growth will be fuelled by a significant investment plan (to which roughly 70% of total Group investments will go over the period covered by the plan) and by participating in tenders for regulated service assignment in most of the areas served by Hera.

As regards tenders for gas distribution service concessions, part of the competitive procedures concerning the areas managed by the Group are expected to come to a close within 2023. This estimate is based on the initial tenders held nationwide, which showed some postponement due to delays in initiating the tenders, the complexity of the procedures and the appeals later filed by some of those participating.

In the water cycle the Group will take part in the procedures used for assigning this service in the Rimini area, and for municipal waste tenders are expected to be concluded in all areas of Emilia Romagna. The Group's goal is to be confirmed as the reference operator in all areas already served, counting on its level of service quality and its innovative solutions made available to users.

The introduction of new technologies will not only be a distinctive feature to be highlighted during tenders, but also an enabling factor in extracting efficiencies from operations and offering to communities services that are up to date with the technological evolution of the context. The Group has in fact made plans to replace metres in gas and electricity networks and in water infrastructures. In particular, Hera has developed a new gas metre – called NexMeter – that is able to interrupt the flow of gas and make the user's system safe in the event of significant earthquakes, gas leaks or smaller latent leakage. These interventions meet the need to increase resilience towards exogenous conditions in network infrastructures, an important action to undertake in mitigating the increasing climate risks.

In the integrated water cycle, the Group's strategy will be focused on water resource protection, through both increased activity in searching for network leakage and services in **water management** intended to promote increasing sustainability and awareness in water management, both inside and outside the company. Particular will also be given to reusing purified water, following the principles of a circular economy. Purified water can be reused (e.g. in agriculture) and can also stimulate local regeneration initiatives (e.g. maintaining hydrologic balance in times of drought).

The same principles will also be applied to the district heating business, with a strategy focused on technological network and plant renovation and on maximising heat recovery and its final use, through means including extensions of or improved interconnections between previously existing systems.

Promoting circular behaviour will be a cornerstone of Group strategy in municipal waste, by introducing new technological solutions able to increase the quantity and quality of sorted waste, and through communication and training initiatives aimed at raising awareness among citizens and getting them more involved.

The strategy outlined until present will lead to an increase in Group Ebitda, reaching the target of 1.25 billion euro by 2023. All business areas will contribute to this growth in Ebitda and, over the period covered by the plan, positive balance will be confirmed in the contribution coming from free-market and regulated activities.

Investments totalling roughly 2.9 billion euro have furthermore been included in the strategic plan, an amount higher than the previous five-year period. These investments will respect the proper balance in proportions among the macro-areas served by the Group and will be mainly concentrated in regulated activities, with the interventions going to modernisation and infrastructure development, as described above.

The business plan confirms the Group's strong attention towards sustainability, which has always been in Hera's DNA and now respects the goals contained in the 2030 Agenda. Almost 75% of the growth expected over the period covered by the plan will be fuelled by shared value projects, i.e. those that are able to respond to the UN's calls to action. The amount of shared value Ebitda and investments in 2023 will reach 530 and 750 million euro respectively, coming to 42% of overall Ebitda and 35% of total Group investments, thus helping construct a business model that is ever more resilient and regenerative.

Technological, environmental and human capital factors: sustainable development

In order to meet the needs of the areas served and satisfy customers, three critical factors in success have been identified: technology, circularity and the ecosystem.

Technological evolution, taken as a whole, and digitalisation in particular, are elements that cover the nation's entire industrial scene. The Group wishes to make the most of the opportunities offered by new technology and extract cost efficiencies and related synergies from data management, which will take on a significant role in facilitating the expansion of a smart approach across the area served, in particular in the case of smart cities.

The Group continually carries out studies to understand which goals defined by the 2030 Agenda for sustainable development and the fight against climate change (as confirmed by a series of legislative and regulatory agreements) it can better contribute to reaching with its activities, projects and policies, all anchored to a circular economy. **Circular economy** is a response to a range of critical elements that must be faced by modern society, which go from increasingly scarce resources to a reduction of emissions into the atmosphere, or again a reduction in non-recoverable waste. Over the years, the Group has developed industrial strategies inspired by sustainability, and its future actions will be equally aimed at goals in circularity and decarbonisation, with effective solutions and determination.

Belonging to a reference **ecosystem** in a continually changing context furthermore increases companies' resilience towards transformations of the context and accelerates changes in the corporate environment thanks to external contamination. The Group's strategy has always been based on a close relation with the areas served and its ecosystem; today, this distinctive element is considered an asset by investors rating agencies.

Sustainable development

Hera contributes heavily towards six of the 2030 Agenda's sustainable development goals: 7) affordable and clean energy, 13) combat climate change, 6) clean water and sanitation, 12) responsible consumption and production, 9) industry, innovation and infrastructure and 11) sustainable cities and communities.

For further details on the actions the Group intends to promote, contributing in a broad sense to 169 targets within the 11 Goals on the UN 2030 Agenda mapped into the 2019 Csv framework, see the Group's website (Social responsibility section) and its Sustainability report ("Shared value" section). Note, furthermore, that over 2019 two training events on SDGs were organised, to consider Hera's current and potential contribution to the 2030 Agenda. The main actions include those aimed at promoting energy efficiency and sustainable water management, selecting qualified suppliers in terms of environmental and social sustainability, developing employment and new skills, and working towards increased innovation and digitalisation.

The increasing energy sustainability towards which the Hera Group is moving is guided by a few significant investments, made during 2019 or ongoing: 4 industrial cogeneration plants, the Sant'Agata Bolognese plant which produces biomethane and injects it into the gas network, and the introduction of led light bulbs in public lighting, along with initiatives in reducing electricity consumption and its carbon footprint. The green offers (nature package and zero footprint, to name only two) that the Group expects to cover 58% of all gas and electricity customers by 2023, are evidence of an additional strategy planned in this sense.

As regards sustainable management of water resources, note above all Hera's intention to continue improving the sewerage-purification sector in the areas served, and the interventions for resource availability and purified water reuse contained in the business plan.

Generally speaking, with regard to the waste management sector, the continued work done by EU institutions in the area of circular economy has been confirmed, meaning that this trend is being consolidated as a paradigm towards which all models of production and consumption will move. In other words, the element underlying all activities in the Group's strategy is its increasing attention to all kinds of footprints: from carbon to water, including the more general resource footprint left by the

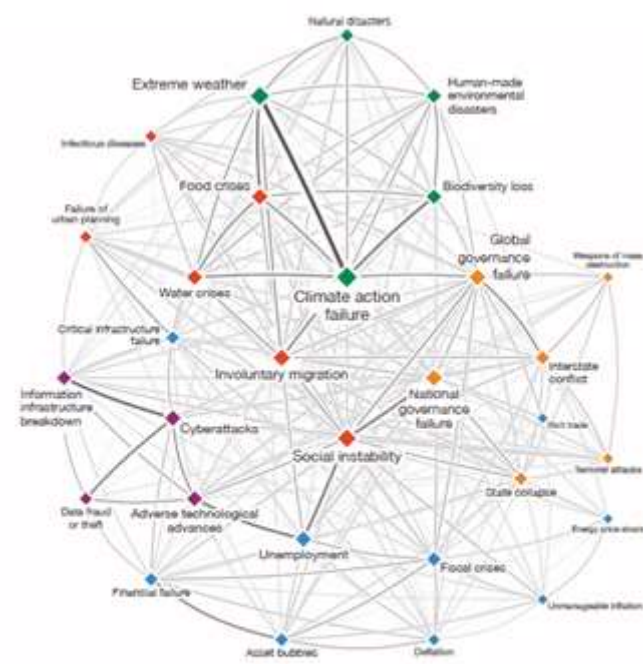
Group and its main stakeholders, from suppliers to customers and citizens.

A path of sustainable industrial growth is a fundamental condition for continuing to distribute value to stakeholders in the areas served by the Group. The 2019 Global Risk Report, published by the World Economic Forum, presents climate change and technological risks as the two families of risk that most concern multi-utilities, and that could produce the most significant impact worldwide.

The evolution expected in the context in which one operates makes it even more necessary to anticipate and mitigate the significant risks that utilities such as Hera will have to face, working towards constructing an increasingly resilient and regenerative model. Circularity is the primary strategy in designing the businesses of the future and concretely contributing to the future wellbeing of the system in which companies act.

Evolving technology and digitalisation is an opportunity that will be carefully considered and grasped, to avoid underestimating the commitment required for a digital corporate and organisational transformation.

Digitalisation leads towards new development opportunities for businesses; adopting new solutions in Artificial intelligence is however necessarily tied to the specific activity in question, and machine learning is thus time-



The Global Risks Interconnections Map 2020. Source: World Economic Forum Global Risks

Environmental Risks
Economic Risks
Technological Risks
Number and strength of connections (weighted degree)

consuming and have to be repeated for each type of activity/process.

The leading technological evolutions that concern the waste (first and foremost, plastic) and energy (biofuels and biogas) chains, as part of the search for concrete solutions that can be of aid in the challenges posed by climate change or natural resource depletion, are instead the progress made in the chemical industry and engineering. This progress is strategically exploited in order to define plastic recycling processes that are complementary to mechanical recycling, and in order to effectively recycle the less pure or less valuable portions of plastic as well. This same progress furthermore allows experimental solutions to be tried, which use the excess of renewable electricity (otherwise unusable) to divide water molecules into hydrogen and oxygen and then convert them into substitute natural gas with the addition of carbon (from CO₂).

Human capital development strategy

To effectively deal with this context, the Group is now equipped with a human capital development strategy that is able to generate value over time. The goal is to create and constantly develop a model of agile learning organization, understood as an organisation able to learn and rapidly translate this learning into action, within a purpose-driven strategy. Human resource management and development processes are designed to conserve the skills and distinctive values built up over time, and simultaneously search for all aspects that can generate an added value that is sustainable over the long term.

One important step taken in this direction consisted in reconsidering the workforce planning process. With strategic workforce planning, indeed, a greater knowledge of the dynamics of the workforce becomes possible, helping us understand the impact of business strategy on priorities in developing human resource processes. The strategic dialogue between different lines of business and the function of human resources, for example, allows the most significant ongoing trends to be analysed, sharing the meaning of the business challenges shaped over the years by the business plan, along with the risks and opportunities these challenges carry with themselves, and bringing all human resource processes within a coherent plan of action, able to orient their implementation and allow the correlated risk mitigation strategies to be managed.

In particular, it is becoming increasingly important to invest in the continuous development of an inclusive and performance-driven work environment, in which employees are the protagonists of their own self-development; to encourage an environment that reflects agile organization and to develop the latter; to redefine the rules so as to promote higher rotation in roles and processes and optimise people's experience, through means including digital tools.

Furthermore, in order to make fully operational the automation and digitalisation processes that must involve all company employees, and thus require a transition in the working environment, it is increasingly urgent to develop paths in focused reskilling for personnel engaged in activities that, by their very nature, can be automated to a significant degree, helping employees along a path that valorises their employability.

With the aim of encouraging access to training that is increasingly tailored to the specific features of each role, and that takes people as its starting point, the Group's strategy is furthermore designed around a knowledge management system that is highly adaptable to various organisational and individual contexts. The development processes thus reward the resources who invest in their own learning and facilitate the application of learning agility as a condition for gaining access to roles with greater responsibility.

Hera's Human Resources function therefore pursues its social purpose, working in the interests of the environment, communities, employees, suppliers and customers, promoting the continuous development of the corporate environment within the Group and gradually bringing individuals in line with this goal.

In other words, after defining the factors that will lead the utilities of the future to success, goals in industrial growth, circularity and risk management are translated into corporate processes. To orient the actions to be undertaken, the priorities that will guide the Group's projects until 2023 have been identified.