

# *Risk and Sustainability Management in Hera Supply Chain*

*Solid infrastructures for a long-term sustainable strategy*

*Photo by Silvia Camporesi: construction phase of the biomethane plant of Sant'Agata Bolognese*





# Supplier Code of Conduct

## The Code as an agreement between Hera and its suppliers

Hera pursues sustainability and social responsibility in its business activities, but is also aware that these objectives can only be achieved if the companies forming its value chain also adopt similar behavior. This value chain is a crucial structure for the economy and society, and as such must be improved through a commitment to shared governance that aims at a balance between business relations and ethical considerations, and that always takes into account the social and environmental consequences of business activities. Hera therefore initiated a dialogue with its suppliers, especially its most consolidated collaborators, to share intentions and rules regarding sustainability and business ethics. This Code is the outcome of the ensuing discussion and agreements.

The understanding between Hera and its suppliers is based on the observation that contracts cannot cover all aspects of their relationship, especially when sustainability is involved. Therefore, an ethical agreement was established that goes beyond the limits of contracts and takes into consideration the various possible relationships within the value chain. Hera requires all its suppliers and their employees to respect the principles of this Code and to commit themselves to applying it to their own value chain as well, in order to improve its operation and create an increasingly sustainable ecosystem. More specifically, compliance with this Code is required of both direct suppliers and their subcontractors (including all parties that are part of temporary associations of enterprises and consortia).

## Guiding principles

Hera's purpose is as follows: "The Company's business model aims at creating long-term value for its shareholders through the creation of a shared value with its stakeholders. For this purpose, the Company organizes and carries out its business activities also in order to promote social equity and contribute to achieving carbon neutrality, the regeneration of resources and the resilience of the services system managed for the benefit of customers, the ecosystem of its territory and future generations. (Hera for the Planet, People and Prosperity)."

Hera has defined the values and operating principles that guide its activities and the people who, in various capacities and with different responsibilities, directly or indirectly achieve the following aims, which Hera asks its suppliers to adopt:

- **integrity, transparency, personal responsibility and coherence** are the values promoted by Hera on a daily basis;
- **sustainability and shared value, service quality and excellence, efficiency, innovation and ongoing improvement, engagement and valorization** along with the will to choose are the operating principles aimed at achieving Hera's strategic objectives.

These elements form the basis for the ongoing development of Hera's Code of Ethics, in which these values and principles are described in detail.

In addition, the Code of Ethics contains a specific chapter devoted to Hera's commitments and responsibilities towards its suppliers, including: the management of relations based on respect for the aforementioned values and principles, and the improvement of environmental and social sustainability in the process of qualifying, monitoring and assessing suppliers. The objective of this Code is to define these issues from the suppliers' point of view, in order to complete the correspondence between Hera's commitments and those taken on by its suppliers, from the shared perspective of sustainability.

The purpose agreed upon between Hera and its suppliers is: **to improve the value chain in terms of sustainability, equity, transparency and efficiency.**





# Supplier ESG Programs & CSRD

Throughout the years, **Hera has established a strong and all-encompassing ESG program for suppliers**. This program is regularly updated and includes a variety of activities and measures designed to identify and evaluate potential ESG risks. Consequently, it allows for the planning of corrective actions to ensure the Group's supply chain maintains a high level of sustainability performance and transparency also in light of CSRD future requirement.

To uphold the integrity, quality and efficiency of the supply chain, **Hera uses a series of instruments** such as: risk assessment, predictive qualification rating and supplier screening, supplier vendor risk card, non-conformities management, improvement plans, site inspections, performance rating, capacity building programs.

The supplier evaluation process is the first step to identify, monitor and manage potential risks. In order to ensure a responsible supply chain management, a risk analysis tool named "Vendor Risk Tool" has been developed. Such tool allows to segment active suppliers on the basis of relevant risk rating. Moreover, site inspections are carried out by using certified third-party auditors, in order to monitor both technical-qualitative performance and ESG performance (with a particular focus on corporate social responsibility). Improvement plans and specific corrective actions are implemented when any non-conformity is detected. Improvement plans and corrective actions are digitally managed through Hera\_Pro portal: by using such portal, suppliers can interactively follow Hera Group recommendations as well as the progress of improvement plans.

Furthermore, a capacity building programme has been in place since 2024 to support suppliers' **growth** and **sustainable development**, aiming to raise awareness of ESG (Environment, Social and Governance) issues and enhance their operational and technical capabilities and quality.

As part of the **Hera\_Pro Empower** programme, Hera provides participating suppliers with an ecosystem of services at reduced rates, including courses for obtaining management system certifications, personnel recruitment and selection services, energy efficiency solutions and industrial waste recovery services. The **Supplier Sustainability School**, a free academy open to all Group suppliers, offers seminars and training courses aimed at raising awareness and skills on ESG issues within the supply chain.

**To avoid potential conflicts with ESG (Environmental, Social, and Governance) requirements, Hera conducts internal reviews of their purchasing practices.** This involves assessing current practices against ESG criteria, identifying potential risks, and implementing necessary changes to align with sustainability goals. By conducting internal reviews of purchasing practices, Hera aims to manage ESG risks, enhance its sustainability performance, and build a stronger, more resilient supply chain.

During the qualification phase, suppliers requesting to be included in our vendor list are evaluated using a questionnaire with which their degree of ESG maturity is assessed and a score is assigned in the qualification rating. The ESG score is required as a minimum criterion for participation in tenders. Furthermore, **suppliers with higher ESG score are preferred** and gather a clear advantage both in the short-listing for invitation to tender and in the tender evaluation stage for the selection process. If the suppliers have an **ESG maturity level lower than the minimum required**, Hera encourages them to start **an improvement process within a defined time frame**. In case of breach of the Supplier Code of Conduct, with special reference to ESG issues, they are **no longer eligible to participate in tenders** until they demonstrate full recovery of the minimum level of compliance.

Hera's procurement strategy, which encompasses **all the ESG supplier programs**, has been **validated by the Board of Directors** and the monitoring results are **regularly reviewed by top executive management**.

Ultimately, Hera is dedicated to **offering ongoing training for buyers and relevant internal stakeholders** in their respective roles. This is to ensure they comprehend how their daily actions and decisions are integral to the Hera ESG strategy.





# Supplier Screening & Ranking

The Hera Group manages risk in the supply chain through an **integrated Supply Chain Management system** organized on different levels, which intervenes in all phases of the supplier management process, from the qualification/selection phase to the contract execution phase, with particular attention to risks related to the impact on the business, on the end customer and on ESG aspects.

To identify significant suppliers **Hera conducts supplier screenings**. The process is based on the joint evaluation of the following variables: impact on the business and on the end customer (**business relevance**), incidence of the principles of the Group's integrated management system and **Environmental, Social and Governance parameters**. Furthermore, business potential risks related to the **country, sector and commodity of the supplier are considered**.

The criticality level of the commodity group is a key indicator in the new supply chain risk management model, as it is used both in the supplier qualification process and in establishing priorities for timely monitoring of existing contracts, providing for differentiated qualification based on the criticality of the commodity group and more frequent checks during the contract execution phase.

In addition, a **risk analysis tool called Vendor Risk Tool has been developed**, which allows suppliers with active contracts to be segmented according to risk level. The system evaluates various factors, including the strategic positioning of the supplier in terms of outsourced volumes and criticality of the product categories managed, the impact on the business and on customers, the trend of economic-financial indicators and the number and type of nonconformities found, as well as taking into account negative events/news regarding reputation. This periodic analysis generates a vendor card for each supplier, highlighting the level of reliability and strategic positioning, allowing the identification of the most critical ones to guarantee the quality and continuity of services.

From April 2023, summary reports on the vendor cards of the 30 most critical suppliers are periodically distributed to purchasing managers and company representatives, accompanied by specific recommendations to mitigate risks, such as the need for specific audits, corrective actions and intensified monitoring. The company representatives were involved in the implementation of these actions, with a focus on safety, employee management and respect for the environment, through documentary checks and field visits. Finally, further actions were implemented, such as the recording of punctual non-conformities, the organization of specific audits at the sites, or the call for specific actions to remedy the corrective actions.

This integrated approach allows Hera to maintain a high level of transparency, control and sustainability, ensuring targeted and timely interventions to minimize risks and improve supplier performance throughout the supply chain, helping to ensure that contractual performance meets sustainability and safety requirements, protecting workers and the environment at every stage of the process.



# Supplier Evaluation and Improvement

- **Suppliers are requested to provide information and supporting evidence on their ESG maturity through a *ad hoc* questionnaire. This information is then reviewed, verified and analyzed in order to assign a rating.** The requirements monitored indicatively include: quality certifications (ISO14001, ISO50001, ISO45001, SA8000, ISO37001, ISO27001, legality rating), sustainability report, governance system and a 231 supervisory body, reduction in the accident rate, percentage of employees with permanent contracts, ESG score, adoption and formalisation of sustainability policies/strategies, integration of ESG risks into the corporate risk management model, availability of CSR function and disclosure of the results, supply chain monitoring and supplier selection including reference to ESG factors, legal compliance (anti-bribery, anti-fraud, anti-laundering, conflict of interest, anti-competitive behaviour, cybersecurity, adoption of a code of ethics), employees' health and safety, responsible personnel management and employee wellbeing (e.g.: working conditions, working hours and remuneration, human rights and child labour, diversity/inclusion/equal opportunities, welfare, remote working, whistle blowing channels...), professional development and training, recruitment and employees retention, environmental impacts, pollution, climate change, energy saving, renewable sources, greenhouse gas emissions, circular economy, volumes of plastic used and waste produced, management of water as a resource.
- During the contract execution phase, **continuous monitoring of suppliers** is ensured with particular attention given to compliance with environmental, energy efficiency, quality, safety, anti-corruption and corporate social responsibility requirements by all parties involved, covering the entire supply chain, including subcontractors and sub-suppliers. In addition, annual on-the-spot audits are carried out at suppliers' sites who have a particularly critical level of risk, as evaluated by the vendor risk tool described under the Supply Chain Risk Management model. These **audits are managed by hiring third-party auditors** (duly certified in relation to the standards to be verified), to guarantee the process based on transparency and independence adopted by the Group, **to verify compliance with the principles and standards involving ISO9001 45001 37001 SA8000 / Corporate Social Responsibility, that establish guidelines and requirements to ensure quality, efficiency and sustainability.**
- Each year, **additional audits are carried out directly at Hera Group worksites by the Supply chain audit and monitoring department**, along with the Quality, Safety and Environment Department. These monitoring activities integrate the periodic audits of the company contract manager to assess the quality of performance and compliance with ESG requirements, including the proper management of any possible subcontracts, as well as the verification of CSR elements.
- If any non-conformity is detected, during periodic monitoring or audits/inspections, **specific corrective actions and improvement plans are implemented and their actual progress is checked. Hera provides also technical support during the implementation of the improvement plans.**
- A **capacity building programme** has been in place since 2024 to support suppliers' growth and sustainable development, aiming to raise awareness of **ESG (Environment, Social and Governance)** issues and enhance their operational and technical capabilities and quality. As part of the Hera\_Pro Empower programme, Hera provides participating suppliers with an ecosystem of services at reduced rates, including courses for obtaining management system certifications, personnel recruitment and selection services, energy efficiency solutions and industrial waste recovery services. The **Supplier Sustainability School, a free academy open to all Group suppliers, offers seminars and training courses** aimed at raising awareness and skills on ESG issues within the supply chain. **During the courses, best practices and case studies are analyzed** in order to disseminate knowledge of best practices and encourage all suppliers to achieve high levels of performance.



# Supply Chain Management KPIs

Supply chain management KPIs reported in this document are elaborated from a database which is embedded in the **fully audited by third party figures** of the Financial report

Screening	2024 data
Total number of Tier-1 suppliers	4,788
Total number of significant suppliers in Tier-1	280
% of total spend on significant suppliers in Tier-1	59%
Total number of significant suppliers in non Tier-1	83
Total number of significant suppliers (Tier-1 and non Tier-1)	363

Evaluation and Improvement	2024 data	Target for 2024
Total number of suppliers assessed via desk assessments/on-site assessments	363	100% of significant suppliers
% of unique significant suppliers assessed	100%	
Number of suppliers assessed with substantial actual/potential negative impacts	138	
% of suppliers with substantial actual/potential negative impacts with agreed corrective action/improvement plan	100%	
Number of suppliers with substantial actual/potential negative impacts that were terminated	2	

Corrective action plan support	2024 data	Target for 2024
Total number of suppliers supported in corrective action plan implementation	138	100% of significant suppliers
% of suppliers assessed with substantial actual/potential negative impacts supported in corrective action plan implementation	100	

Capacity building program	2024 data	Target for 2024
Total Tier1 suppliers interested by capacity building programs	502	20% of significant suppliers
% of Tier1 suppliers in capacity building programs	10.4%	
Number of capacity building seminars completed	5	
Total number of suppliers in capacity building programs	77	
% of unique significant suppliers in capacity building programs	21.21%	