

HERA



Sustainability
report
2019

1

Introduction



Sustainability, strategy and shared value

422.5

million euro
shared value Ebitda,
39% of total Ebitda
(+13% over 2018)

202.4

million euro
shared value investments,
40% of total investments

73/100

customer satisfaction
our annual survey confirms the high
quality of Group services

68/100

employee satisfaction
improved results in the eighth
workplace climate survey

CE100

Hera among the world's leading
circular economy companies,
part of the Ellen MacArthur
Foundation's program

**Hera in the Diversity
and Inclusion Index**

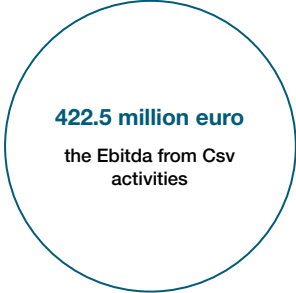
Hera ranked 3rd in Italy and
14th worldwide in the Refinitiv
index for its diversity and inclusion
policies

Letter to stakeholders

“Shared value” Ebitda: +13% in 2019, towards 42% of total Ebitda

The sustainability report we are currently presenting was drafted during the health emergency caused by the spread of the Coronavirus in our Country. As of 21 February, we prepared for the ensuing operational difficulties and introduced **health protection and safety measures to guarantee continuity in our services**, collaborating with our main suppliers. We decided to describe the impact of this emergency in this report, along with the measures we have taken, including those intended to help our customers experiencing economic difficulties due to the epidemic. Smart working was already widely used in our company and was extended during the most critical period. We were thus able to maintain continuity in all administrative services, including the preparation of this report, which reaffirms the innovative representation of its content, focused on our new strategic approach: Creating shared value (CSV).

In 2019, “**shared value**” Ebitda, i.e. the portion of Ebitda deriving from business activities able to meet the goals included in the “global agenda”, amounted to 422.5 million euro, with a 13% increase over 2018, now corresponding to 39% of total Ebitda. This result well respects the path set out by our Business plan, designed so that “shared value” Ebitda accounts for 42% of total Ebitda as at 2023. For us and our stakeholders, this indicator has become the gauge of our progress in working towards sustainability, and 20% of variable compensation for the Group’s senior and middle managers currently depends on its growth. We have therefore decided to submit it to an external firm for verification, as of this year.



422.5 million euro
the Ebitda from Csv activities

Underlying everything, our new code of ethics

Our values and principles already lead us, and will increasingly do so in the future, to fulfil our mission. They are contained in our code of ethics, which is revised every three years. We have taken the World Economic Forum’s Davos Manifesto, in its most recent version, as the source of inspiration for the **fourth update of our code**, completed in December 2019 as the result of initiatives supported by a large and well engaged number of Group employees. The main new feature consists in including an approach based on shared value among our operational principles. We are convinced that the companies of the future will use **the strength of business to contribute to regenerating the ecosystem and the environment**, while at the same time implementing measures that enable them to construct a system that shows resilience with respect to the emerging context.

Our analysis of the external context, carried out in 2019, confirmed our selection of 11 SDGs, 6 of which are given priority, which represent the portion of the UN Agenda to which we contribute with our activities. The three categories into which they fall, defined as follows, were thus also corroborated: (i) smart use of energy, (ii) efficient use of resources and (iii) innovation and contribution to development. These three areas explain **the “sense” of our business activity** and provide the backbone for the three main chapters of our sustainability report.



Energy, resources and territory:
three drivers for creating shared value

-5.1%
in energy
consumption

20%
customers adhering to
initiatives involving energy
efficiency services

64.6%
sorted waste

72%
packaging
recycling rate

69%
value of
local services

Hera for a smart use of energy

Our ambitions concerning a smart use of energy can be subdivided into three areas: (i) reducing our own energy consumption, (ii) reducing our customers' energy consumption and (iii) promoting renewable energies and decarbonisation. Thanks to Iso 50001 certification and an intense **plan for energy improvement**, we have succeeded in reducing our consumption by 5.1% compared to 2013. The additional energy efficiency initiatives we have already identified and planned will allow us to reach an overall savings coming to 5.9%, thus exceeding the target of 5% set for 2020.

Our residential and business customers can rely on a range of offers and **solutions in energy efficiency**, to which the "Consumption log" was added in 2019. This report, free of charge, was planned in a collaboration with the Milan Polytechnic, to raise awareness about energy savings among our customers, based on the principles of behavioural economics. In late 2019, 20% of our customers benefitted from Hera Comm's energy efficiency services.

Decarbonisation has become a **signature part of our commercial offer**: in 2019, we launched Hera Zero Footprint which, in addition to calling for 100% renewable electricity, guarantees that the emission of greenhouse gasses coming from natural gas consumption will be compensated by the acquisition of carbon credits. Internally, we are committed to reducing our impact on the climate by acquiring renewable electricity for all the Group's main companies, producing 6.5 million m3 of biomethane from organic waste in our biorefinery and reducing our carbon intensity in energy production by 22%.

Hera for an efficient use of resources

2019 saw a further **increase in sorted waste**, which reached 64.6% (2018 Italian average: 58.1%) and, at the same time, an additional reduction in the use of landfills for municipal waste, which settled at 3.4% (2018 Italian average: 24%). Hera is thus almost 20 years ahead of the EU's circular economy goal and ranks at the same level as the most advanced European countries. The tenth edition of the report entitled "Tracking Waste", published in 2019, shows a rate of packaging recycling coming to 72%, already meeting the EU goal set for 2030.

Once again in the area of circular economy, an increase was seen in the **recovery of both materials and energy** in Herambiente's selection plants, coming to 83% in 2019 (as against 77% in 2018), and the **recycled plastic** sold by Aliplast, which in 2019 reached almost 73 thousand tons (+14% over 2018).

Lastly, important initiatives intended to improve the "circularity" of our operating activities were introduced in 2019: the "**water management**" project was launched, which led to a 5.5% reduction in our water consumption over the year; the "Consumption log" mentioned above was distributed to a selection of roughly 80 thousand residential customers in water services, aimed at improving their consumption behaviour; and the "**circular procurement**" project was launched, whose goal is to introduce the principles of a circular economy into purchasing processes.

Hera for innovation and a sustainable development of the local area

Significant results were achieved by the Group in 2019 regarding Csv issues linked to the economic and occupational development of local areas, innovation and digitalisation, and air and soil protection.

The **value coming from local service providers** reached 69% of the total in 2019, amounting to 695 million euro (+10% over the previous year), while induced employment is estimated at approximately 8,400 workers; this data confirms the Group's leading role in local development.

Investments in **innovation** came to roughly 78 million euro and were dedicated to projects in four areas: smart city, circular economy, utility 4.0 and customer experience. In 2019, continued efforts were made towards developing digital means for customer relations: downloads of the MyHera app, dedicated to residential customers, more than doubled compared to 2018, reaching 230 thousand.

Air protection was confirmed by positive results coming from the emissions of the Group's waste-to-energy plants, which in 2019 as well showed a very modest amount of emissions into the atmosphere, 86% lower on average than the legal limits. Furthermore, in **soil protection** the projects completed by HERAtech in 2019 reused 77% of the total soil involved.

The future of our reporting: adopting the TCFD's recommendations

We have always been oriented towards enhancing our sustainability reporting, to the advantage of all our stakeholders, fully convinced that one of the merits of **transparency** is that it improves our performances. The report we are presenting to you this year adopts in advance the new GRI Standards concerning water consumption and health and safety on the workplace, gives an account of the environmental benefits coming from investments financed with the Green Bond issued in 2019, and includes new information such as a description of the actions undertaken to prevent and manage risks in the areas of IT and corruption.

We are however aware that the priority goes to **climate change**, as regards the future of our reporting as well. This is why we have launched a workgroup whose purpose is to adopt the recommendations provided by the Financial Stability Board's **Task Force on Climate-Related Financial Disclosure**, to which we have decided to give our support. This report already contains a few improvements in this area, such as the increased amount of reporting concerning direct and indirect greenhouse gas emissions. We are currently working towards quantifying significant targets in reducing these emissions, in line with a business model and a proposition of value for our stakeholders that are already oriented, as proven by this report, towards energy efficiency, circular economy and decarbonisation. We are convinced that in order to face the climate crisis, which concerns the long term and is much more structural than other crises, it is necessary to make use of means including disclosure on climate risk prevention and management, as well as diligence in the transition towards **an economy with low CO₂ emissions**.

We will thus be pleased to keep you up to date with our upcoming report entitled "Value to energy", and with our next sustainability report.

78 million euro

investments
in innovation
and digitalization

Climate change

is the priority



Tomaso Tommasi di Vignano

Executive Chairman



Stefano Venier

CEO

2

Shared value



Smart use of energy

Sustainable Development Goals



19.9%

contracts with offers involving energy efficiency services

5.1%

energy consumption reduction compared to 2013, 5.9% including projects already in the works

100%

renewable electricity for activities managed by the Hera Group's main companies

584 GWh

renewable energy produced

equivalent to the consumption of 177 families

100%

renewable electricity for all residential customers

11.6%

contracts

with "green" offers (electricity from renewable sources, and gas with compensation for CO₂ emissions)

-22%

carbon intensity

in energy production compared to 2013. Goal: -26% within 2023

6.5

million m³

biomethane produced in the Sant'Agata Bolognese plant

2.3

million

tons of greenhouse gas avoided



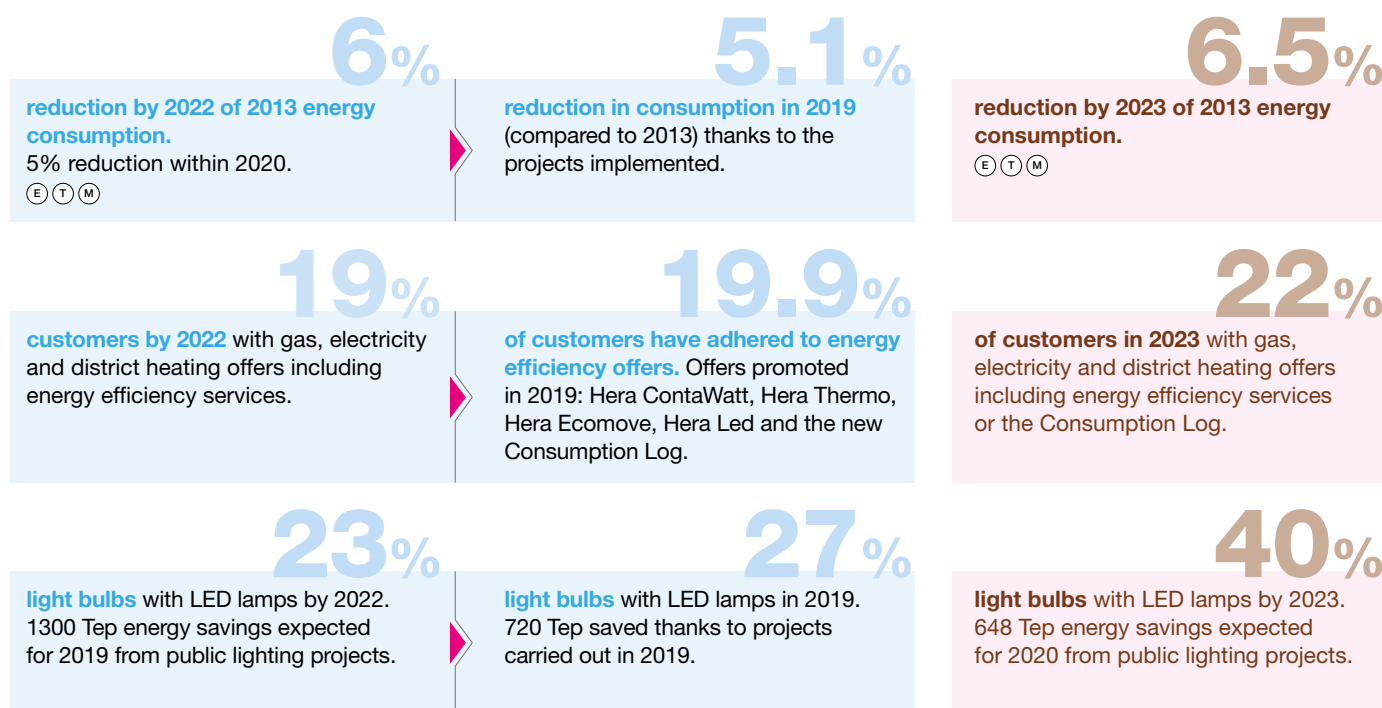
Objectives Results Future targets

what we said we would do...

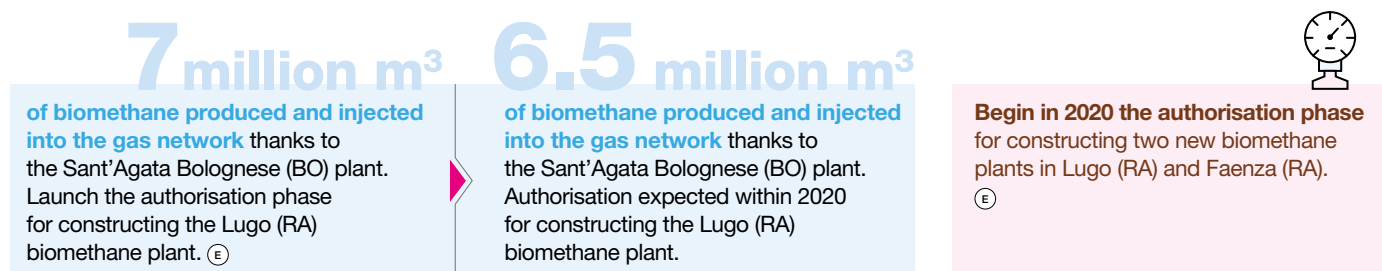
what we did...

what we will do...

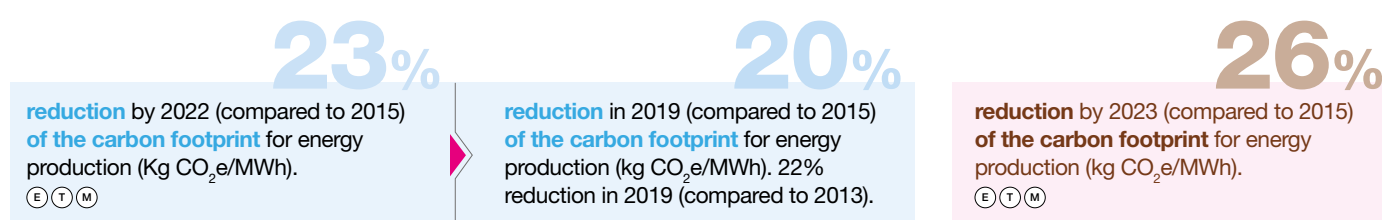
Promoting energy efficiency



Advancing renewable energy



Reducing greenhouse gas emissions



Applicable local area
of improvement measures

E Emilia-Romagna T Triveneto
M Marche Multiservizi

Other objectives, results and future targets
at [bs.gruppohera.it](https://www.bs.gruppohera.it)

3

Shared value



Efficient use of resources

Sustainable Development Goals



Urban waste collected and disposed of in landfills

97.3%
EU 2035 goal already reached

97.3%
of urban areas brought into line with purification regulations (>2 thousand PE, % of population equivalent)

3%
of total waste water reusable thanks to interventions on purifiers

64.6%

sorted waste
in an area with 3.2 million inhabitants

4

cities among the top 10
for sorted waste per capita served by the Hera Group (>100 thousand inhabitants)

668

thousand euro in non-expired medication
and 9,700 meals recovered with FarmacoAmico and CiboAmico

92%

of waste recovered
the amount of sorted waste recuperated, going towards a circular economy

72.8

thousands of tonnes of recycled plastic
sold by Aliplast (+22% compared to 2017)

72%

level of packaging recycled
EU 2030 goal reached

Objectives

Results

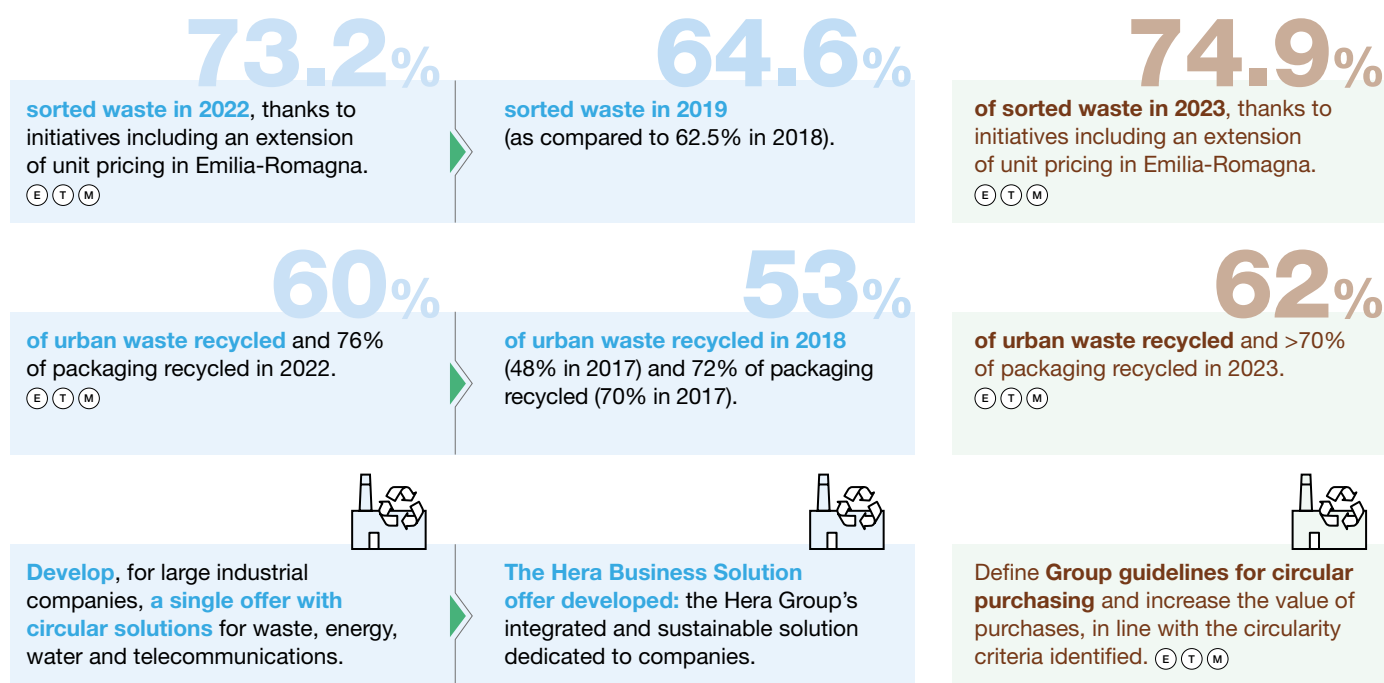
Future targets

what we said we would do...

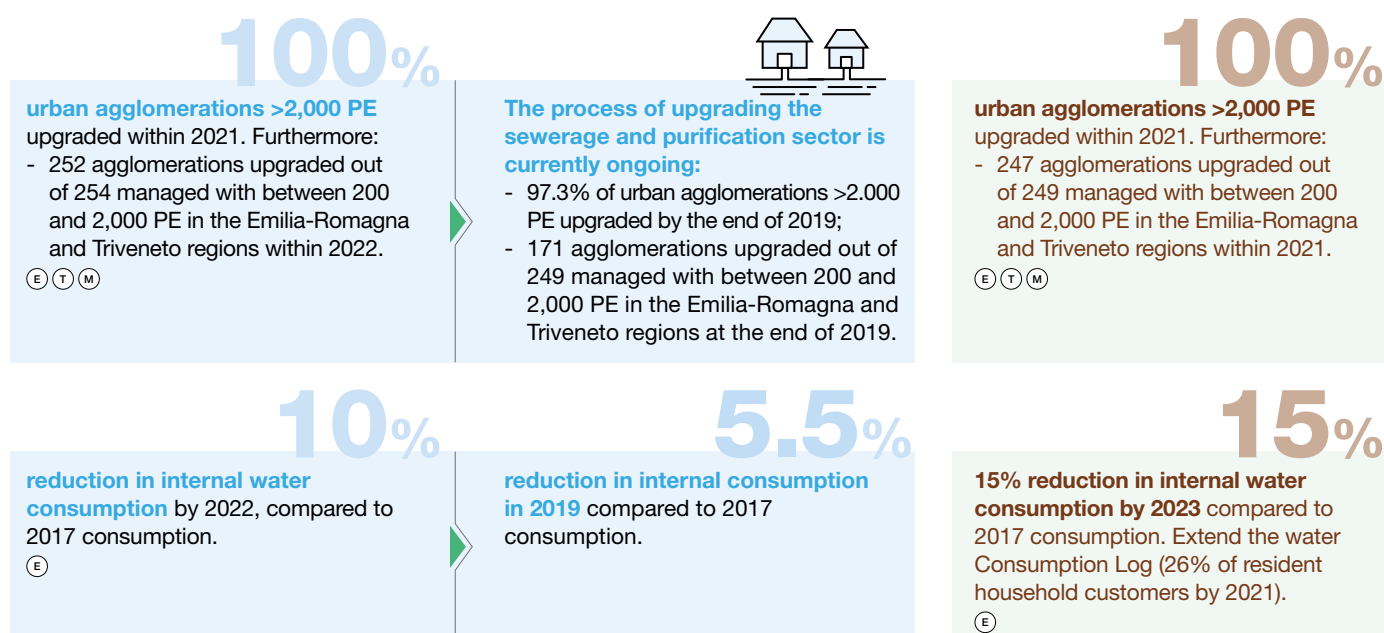
what we did...

what we will do...

Transition towards a circular economy



Sustainable management of water



Applicable local area of improvement measures

(E) Emilia-Romagna (T) Triveneto
(M) Marche Multiservizi

Other objectives, results and future targets at bs.gruppohera.it

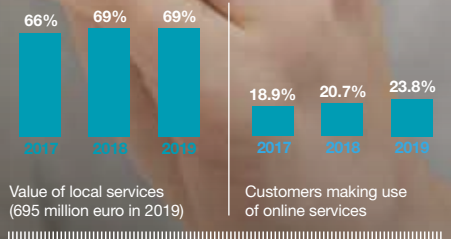
4

Shared value



Innovation and contribution to development

Sustainable Development Goals



8,392

workers

the induced employment generated by the Hera Group in 2019

875

people facing hardship

included thanks to supplies from social cooperatives, totalling 66.4 million euro

78

million euro investments

in innovation and digitalisation and projects involving smart cities, circular economy, data analytics and utility 4.0

119

thousand students

involved in environmental education activities

-86%

legal limits

on emissions from waste-to-energy plants. -99% PM₁₀ limits in the Imola plant

77%

of soil reused

in projects implemented in 2019

Objectives Results Future targets

what we said we would do...

what we did...

what we will do...

Broader use of innovation and digitalisation

41%

of customers with e-billing and 27% of customers making use of online services by 2022. Promote customer digitalisation through projects including an extension of the Digi e lode campaign.

(E) (T) (M)



Continue research for producing bioplastic from organic waste.

30.1%

of customers receive their bill by email (23.7% in 2018) and 23.8% (20.7% in 2018) of customers making use of online services in 2019. The third edition of the Digi e lode campaign extended to the Marche and Abruzzo regions.



Laboratories produce the first quantities of bioplastic from waste cellulose (trimmings).

45%

of customers with e-billing and 34% of customers making use of online services by 2023. Promote digitalisation among customers through means including Digi e lode. Further reduce the use of paper in contract documentation.

(E) (T) (M)



Innovation for a circular economy and energy transition: continued experimental production of bioplastic and construction of a power-to-gas plant prototype.

(E)

Developing employment and new skills



Continue to use the social clause to guarantee employment for contracts for emergency services on networks and services linked to customer management.

(E) (T) (M)

20

tenders, among the most significant, include the social clause to guarantee employment.



Continue to use the social clause to guarantee employment for contracts for emergency services on networks and services linked to customer management.

(E) (T) (M)

Air and soil protection

75%

of soil reused between 2019 and 2022 in infrastructure planning (3/4 of total soil involved in new projects).

(E)

77%

of soil reused in creating new infrastructures in 2019 (162 thousand square metres).

450 thousand

square metres of soil reused between 2020 and 2023 in planning, constructing and upgrading infrastructures (73% of total soil involved in new projects).

(E)

+200

infrastructures installed in 2019 for electric urban mobility in cities.

(E) (T)

+130

infrastructure installed in 2019 for electric urban mobility in cities.

270

public infrastructures installed by 2023 for electric urban mobility in cities.

(E) (T) (M)

Applicable local area of improvement measures

(E) Emilia-Romagna (T) Triveneto (M) Marche Multiservizi

Other objectives, results and future targets at bs.gruppoperha.it

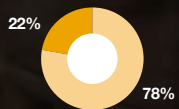
5

The bases and the organisational levers ○ ○ ●

Governance and value creation



Total operating investments (million euro)



Total economic value distributed

+319%

total return on stock compared to original listing in 2003

1,436

million euro added value distributed to local stakeholders



695

million euro value of services from local suppliers



2,131

million euro economic value distributed to local areas (+11% compared to 2017)

Iso 37001

Hera Spa certified by the management anti-corruption system

200

hours listening to stakeholders in the 8 HeraLAB meetings held in 2019

500

million euro second green bond issued to finance sustainable investments

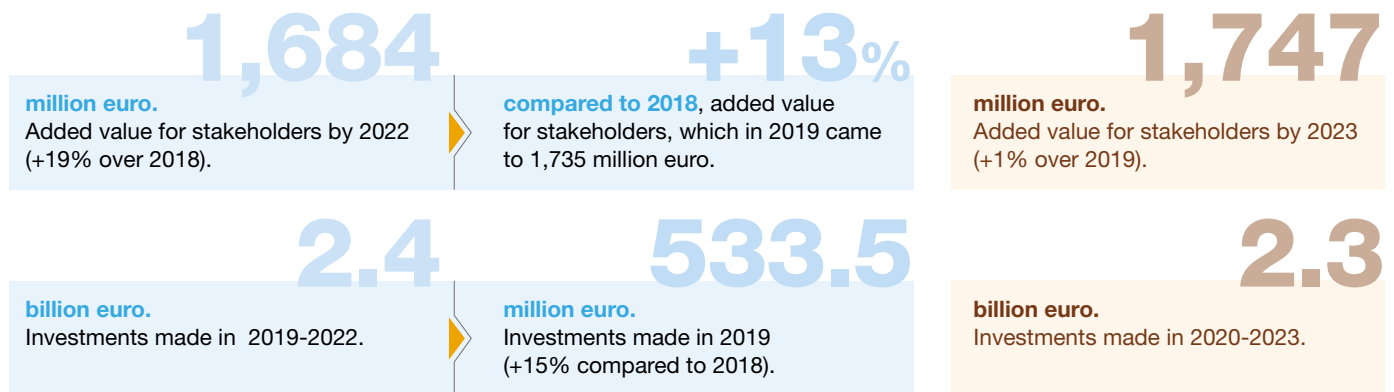
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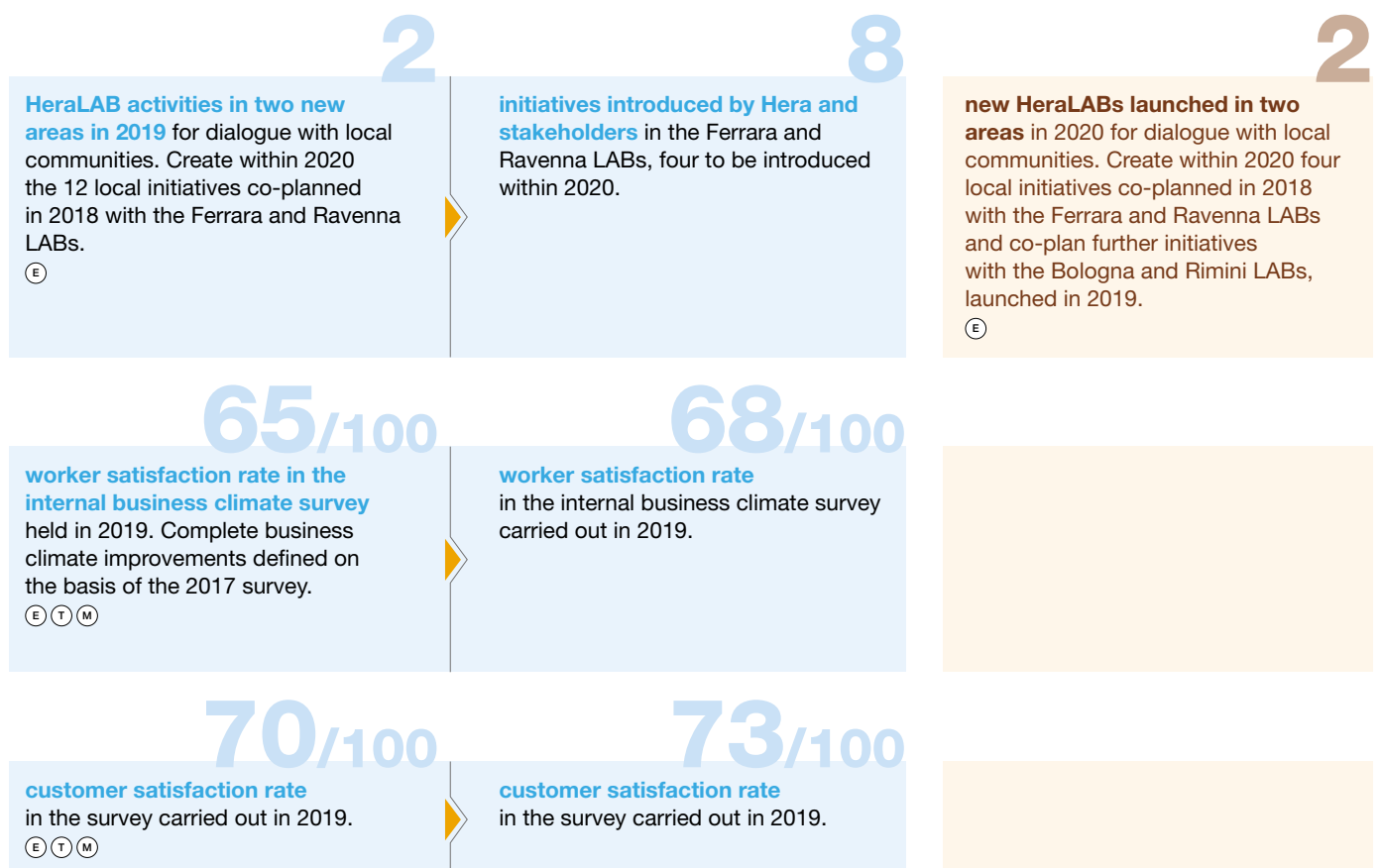
what we did...

what we will do...

Economic value for stakeholders



Dialogue with our stakeholders



Applicable local area of improvement measures

ⓔ Emilia-Romagna Ⓣ Triveneto
Ⓜ Marche Multiservizi

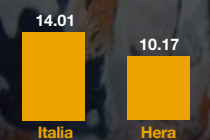
Other objectives, results and future targets at bs.gruppohera.it

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The bases and the organisational levers



Customer service quality, costs and safety



Average yearly expense for four types of non-household users (euro/m²)

-27%
lower than the Italian average cost for non-household urban waste



Average yearly expense per family (euro)

-18%
lower than the Italian average cost for household urban waste

47%

of bills attributable to Hera

26% raw materials and
27% taxes and system charges

97.0%

calls to the emergency gas service

with arrivals within 60 minutes. Higher than the service requirement (90%)

99.5%

compliance with the quality standards

set by the Authority for four services

9.4

minutes average waiting time

at help desk and chance to book an appointment with an operator

27

seconds average waiting time

at the Group's call centre to answer calls from residential customers

407

thousand analyses

carried out on Group drinking water, of which 63% on the distribution network

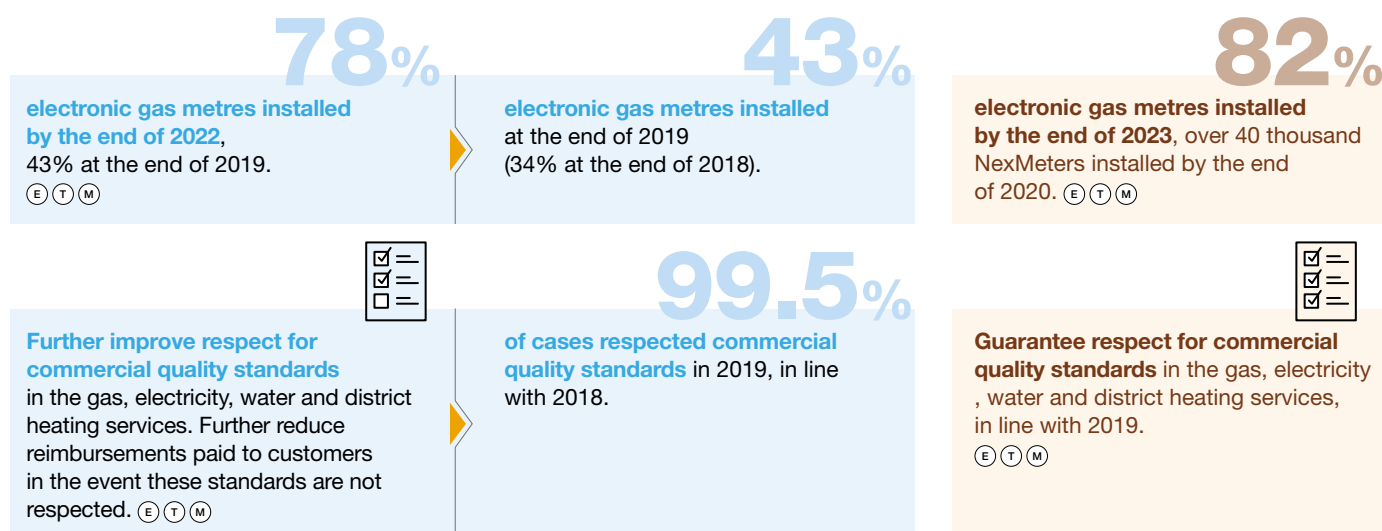
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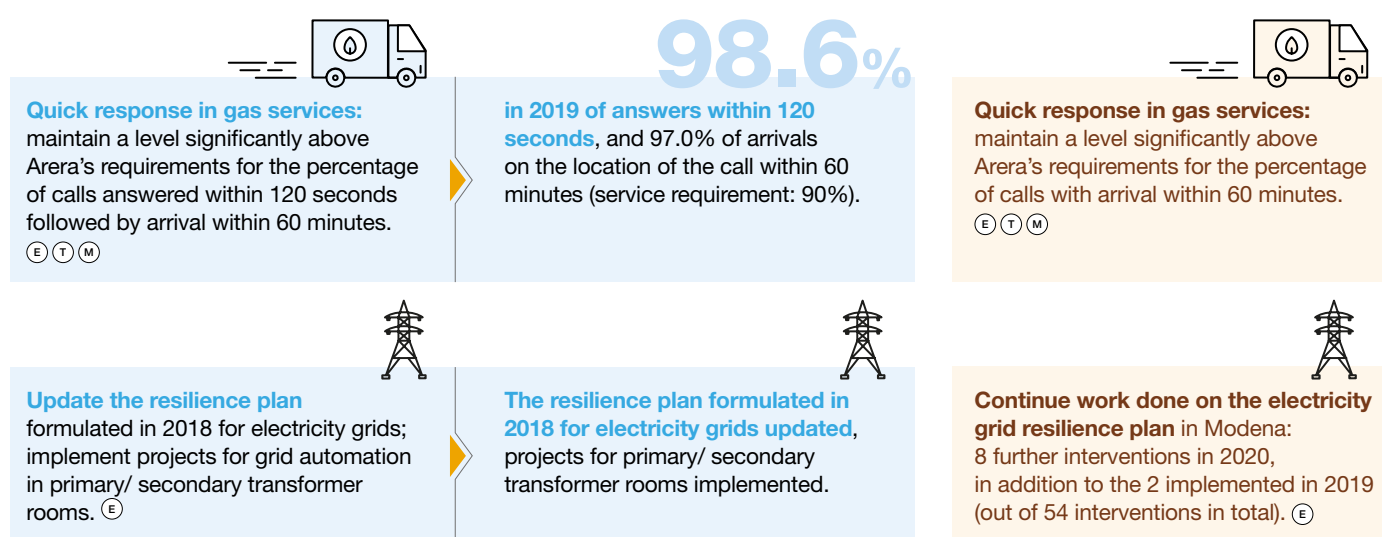
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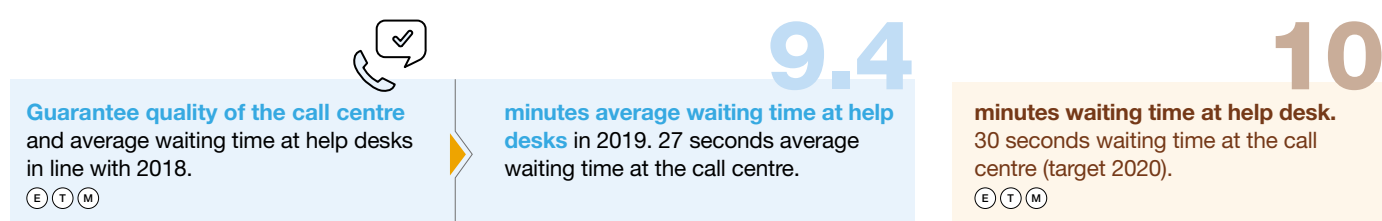
Service and drinking water quality



Safety and service continuity



Customer relations



Applicable local area
of improvement measures

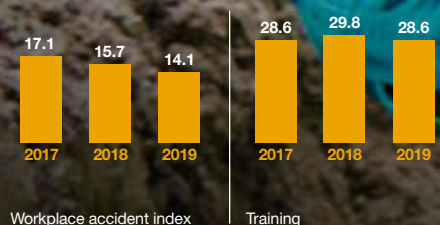
(E) Emilia-Romagna (T) Triveneto
(M) Marche Multiservizi

Other objectives, results and future targets
at [bs.gruppohera.it](https://www.bs.gruppohera.it)

7

The bases and the organisational levers 

People



96.6%
employees with permanent contracts

32.8%
women in positions of responsibility
41% in career advancement (excluding blue-collar workers)

26%
Group employees involved in the company's smart working project (excluding blue-collar workers)

4.5
million euro used by employees with Hextra, the company's welfare program with 98.8% of employees adhering

34%
variable retribution of middle and senior management is linked to sustainability goals, 20% to creating shared value

Hera Top Employers
tenth year of certification among the best working environments. Hera stood out for its welfare, working conditions, development and training

Objectives Results Future targets

what we said we would do...

what we did...

what we will do...

Workers



Continue to promote the third edition of HeraSolidale in 2019 and to support reaching the goals of the 5 partner non-profit organisations through donations.

(E T M)

370

thousand euro donated over the two years of the project that was concluded in 2019, by employees, customers and businesses to the five non-profit organisations, partners of HeraSolidale.



Launch the fourth edition of HeraSolidale in 2020 to help reach the goals of seven non-profit organisations/partners through donations by employees and customers.

(E T M)



Involve all employees in the fourth update of the Hera Group's Code of ethics.

(E T)



Fourth edition of the Code of ethics approved in December 2019, created thanks to employee involvement.



Continue activities in raising awareness of and valorising diversity and inclusion with events and training initiatives.

(E T)

Managing skills and training

24.4

hours per capital of training in 2019 within HerAcademy.

(E T M)

28.6

hours of training per capita provided in 2019.

24.7

hours of training per capita in 2020.

(E T M)

Welfare, diversity e inclusion



Continue to promote Hextra, valorising the related opportunities in terms of knowledge and availability of the services offered, to give employees more support in choosing how to use the amount received.

(E T M)



The service offers of Hextra increased, new choices for employee usage and participation.



Continue developing Hextra valorising the related opportunities in terms of knowledge and availability of the services offered; integrate services in education and support for families; further reinforce offers in health and well-being.

(E T M)

Health and safety

-3%

reduction in accident frequency in 2019 (18.2) compared to the 2014-2018 average. Raise awareness of health and safety through initiatives.

(E T M)

14.1

accident frequency in 2019 (-23% compared to the 2014-2018 average). A learning magazine consolidated and new defibrillators installed.

-4%

reduction in accident frequency in 2020 (16.3) compared to the 2015-2019 average. Launch a new training program in 2020 to promote awareness of health and safety across the company.

(E T M)

Applicable local area of improvement measures

(E) Emilia-Romagna (T) Triveneto
(M) Marche Multiservizi

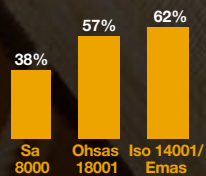
Other objectives, results and future targets at bs.gruppohera.it

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The bases and the organisational levers



Suppliers



Supplies from certified businesses

77%

supplies with accident monitoring

84.3%

value of public tenders

with the most economically advantageous bid method

67.7%

of total tenders

with the most economically advantageous bid method (of which 5.7% with circular economy criteria)

34/100

average score

assigned to sustainability in tender awards

21

suppliers

invited on average to participate in negotiated tendering procedures: open and transparent competition

“Circular” purchasing

plan launched to select suppliers based on the principles of a circular economy

Workplace condition monitoring

20 audits of suppliers, of which 8 in their offices and 12 in Hera work sites

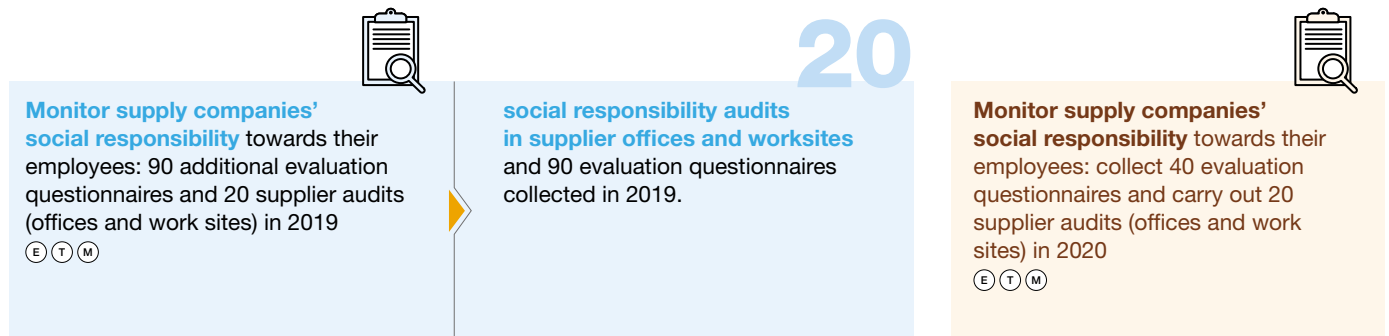
Objectives Results Future targets

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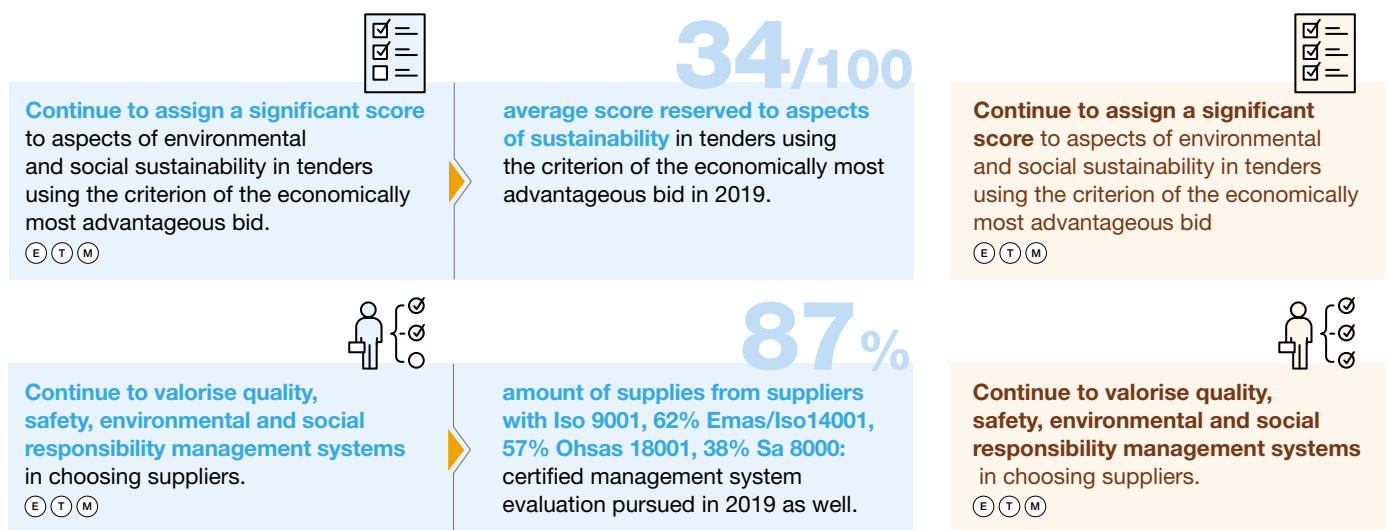
what we did...

what we will do...

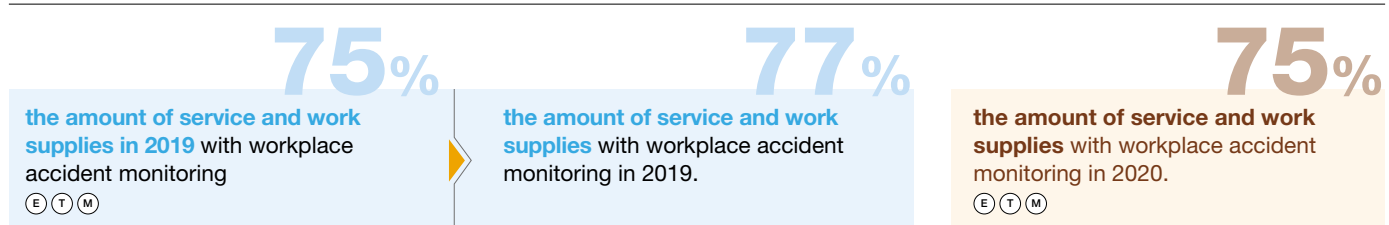
Suppliers



Qualification, selection and evaluation of suppliers



Contract management



Applicable local area
of improvement measures

(E) Emilia-Romagna (T) Triveneto
(M) Marche Multiservizi

Other objectives, results and future targets
at bs.gruppohera.it

Hera Spa

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Share capital, fully paid-in € 1,489,538,745.00
Tax Code / Companies' Reg. no. 04245520376
"Gruppo Hera" Group VAT no. 03819031208