

### 1.01.02

## Strategic approach and management policies

Scenario analysis is a methodology for defining useful inputs for strategic plans to increase the effectiveness of the business model over time.

This type of analysis involves a process aimed at testing a strategy's resilience under different assumptions describing possible future states. For the Hera Group, it is essential to analyse the potential impact, positive or negative, of various economic-financial, business, regulatory, competitive, environmental, technological and human capital scenarios that are different from each other, but equally plausible and internally consistent.

The study of scenarios has also been applied to climate change, in order to understand how physical and transitional climate opportunities and risks may plausibly affect business and its various areas over time.

The Hera Group's corporate purpose is the essential reference for defining the broadest aspects of its strategy. More specifically, the Group's path for development to generate value for shareholders and create shared value for its stakeholders is based on five strategic references and an enabling

- **profitability and financial sustainability**, through a search for efficiencies and the identification of development initiatives with good profitability, even in challenging external scenarios, and at the same time the definition of an amount of investments that does not compromise financial-operating balance;
- **resilience**, diversifying the portfolio by balancing free-market and regulated activities and mitigating risks (including climate risks) in favour of the resilience of the services offered;
- **carbon neutrality**, pursuing decarbonisation goals within the Group's scope of operations and supporting its stakeholders' energy transition;
- **resource regeneration**, promoting and adopting circular business models to reduce the consumption of the planet's natural resources by encouraging responsible stakeholder behaviour;
- **social equity and prosperity**, contributing to the development of local ecosystems, thus benefitting businesses and citizens, with particular attention to situations of vulnerability.

Pursuing these strategic references will leverage the support offered by innovation and digitalisation, to enhance the evolution of the Group's activities, thanks to the opportunities offered by the most advanced technologies. The aim is to increase efficiency and quality of the services provided, multiplying opportunities for stakeholder engagement and accelerating the spread of behaviours and skills capable of responding to the challenges of a constantly evolving context.

## Macroeconomy and finance

The debt structure towards which the Hera Group is oriented responds to its business needs, not only in terms of the duration of loans, but also interest rate exposure. The Group's financial strategy, in turn, is aimed at minimising its expenses while maintaining a prudential risk strategy.

The Group's financial structure is based on an attentive long-term planning of the necessary financial resources, which it carries out by analysing and monitoring cash flows, with a view to maintaining a flexible and efficient financial structure. The average cost of debt, in particular, is constantly monitored, through financial risk management activities, which in order to limit the risk of interest rate fluctuations also involve the use of derivative instruments, and through the evaluation of liability management operations aimed at seizing favourable market opportunities and maintaining a debt repayment profile evenly that is distributed over time.

Financial  
planning

Whereas the Group's financial structure currently shows a 96% portion of fixed-rate debt, by the end of the period covered by the current Business plan, in 2027, it is expected that the residual debt will be 59% of the current amount, of which 58% will be fixed-rate and 1% variable-rate. Refinancing for maturing debt has been planned. The Group, in a scenario that still presents high rates and a market that is still uncertain about the future monetary policy decisions to be made by central banks, intends to optimise the cost of debt by taking out, in relation to its residual needs, financing whose type of rate will be defined on the basis of future market conditions and in compliance with the limits of its financial risk policy.

The plan confirms the Group's will to meet its financial requirements by issuing bonds, including green and/or sustainable bonds, and through subsidised lines of financing (including loans granted by the European Investment Bank), in order to meet its investment needs with further efficiency gains and thus guarantee the implementation of innovative and sustainable projects in the waste management, water and energy sectors. The funding strategy is reflected in the actions included in the business plan for projects to reduce greenhouse gas emissions and increase the amount of recycled plastic.

Most of the Group's business is concentrated in Italy, and Hera's rating is thus closely linked to the country's rating, macroeconomic trends and political scenario. Hera's actions and strategies remain oriented towards maintaining and improving adequate ratings; its habitual communications with the rating agencies Moody's and Standard & Poor's (S&P) have resulted in positive feedback in terms of the solidity and excellent balance of its business portfolio, and in terms of its excellent operating performance, efficient and proactive risk management and resilient creditworthiness indicators. In 2023, Moody's rating was confirmed at BAA2, with an improvement in the outlook from negative to stable, in line with the sovereign rating's outlook, updated in November 2023 (since, even though the Group's operations are recognised as sound and sustainable, a company's rating cannot be more than 1 notch higher than that of the country in which it operates). S&P's rating was also confirmed at BBB+ with a stable outlook. The Group's ratings are one notch higher than the sovereign rating and among the best compared to other

Credit  
ratings

Italian and foreign utilities, confirming the significant growth achieved over the years and results that are always in line with multi-year forecasts.

Over the period covered by the plan, the ongoing adoption of sustainable financial reporting best practices will support the Group's green financing and ratings. Hera has been committed to green funding for some time, since it was the first Italian company to issue a green bond in 2014 and adopted a fully-fledged Green financing framework (GFF) in 2019. In 2022, the Green financing framework was updated and aligned with the latest regulatory changes on sustainability, becoming Taxonomy compliant. In October 2021, Hera published its Sustainability-Linked Financing Framework, updated in December 2023, which includes two environmental indicators and related intermediate and long-term targets. In particular, the first indicator concerns the Group's greenhouse gas emissions (Scope 1+2+3 from downstream electricity and gas sales), while the second involves the amount of plastics recycled by the Group. As part of this framework, the Group issued two Sustainability-Linked Bonds in 2021 and 2023, expanding its debt portfolio with sustainable funding instruments. Consistent with these guidelines, the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) have already been implemented by the Group and include the definition of climate scenarios, climate change-related risks and opportunities, processes for managing these risks, and targets for reducing climate-changing emissions.

**Sustainable  
financial  
reporting**



In this context, the Group's presence in the Dow Jones Sustainability Index (DJSI), the first index to track the financial performance of the world's leading companies in terms of sustainability, bears witness to the validity and credibility of the path undertaken by the Hera Group. Recognitions of this type, in fact, act above all as a stimulus and allow Hera to identify the areas to be developed for further improvement in its performance and, at the same time, to include among its reference investors those who are engaged in socially responsible investing (SRI), a segment that, as mentioned above, is undergoing considerable and continuous expansion.

## Business areas and industrial strategy

The Hera Group's 2023-2027 Business Plan confirms the strategic aspects that reflect its corporate purpose: to generate sustainable value for all stakeholders by implementing projects that balance the company's growth with the development of the local area, working towards a "just" transition. The framework aims to address the challenges arising from the geopolitical context, in line with EU policies and responding to the specific contingencies of the utility sector, built on the pillars of ecological transition, innovation, cohesion and social development.

The Group has confirmed its commitment to decarbonisation and resource regeneration, to encourage and support the ecological transition in the areas it serves: 60% of total investments over the five-year period will be allocated to initiatives contributing to carbon neutrality and the circular economy.

In order to guarantee service quality and continuity, the Group will continue to invest in the resilience of its networks and plants, to respond to exogenous events with a climatic or cyber origin, including extremely significant ones, by implementing development plans and efficiency measures for local system infrastructures.

Innovation is an enabling factor and a lever with which to accelerate the achievement of the environmental, social and economic-financial goals that the Group has set for itself. This involves the use of cutting-edge technologies and systems to optimise and reorganise processes and assets falling under the various organisational units, and thus supporting the chains in evolving and increasing their respective businesses. The implementation of predictive models, new systems and applications based on artificial intelligence will enable advanced remote monitoring and network management, at the same time guaranteeing service quality and continuity. The Group's investment plan will allocate over 30% of resources to innovation and digitisation initiatives.

The Group's strategy in free-market businesses aims to support the growth of the customer base, by promoting the ecological transition for customers and local areas, including through the use of digital tools, by offering integrated solutions.

**Free-market  
businesses**

In the energy sector, the Group offers to act as a partner in the energy transition of its customers, providing a rich portfolio of value-added services (VAS) alongside its sale of commodities, including renewable or energy-saving solutions (photovoltaics and the related storage systems, electric mobility, insulation for buildings), as well as assistance and maintenance services. Hera's ability to grasp commercial opportunities will bring it to reach 4.3 million energy customers by 2027, partially thanks to the acquisition of 1.1 million customers as a result of the gradual protection service tender, concluded in early 2024.



Hera's role in the offer of decarbonisation services also includes the technological and environmental sustainability proposals of the Group's ESCos. Now that the period in which incentives were provided by the 110% SuperEcobonus for condominiums is over, in the coming years increasing attention is expected to be paid to energy requalification offers, in particular for real estate belonging to public administrations, and the use of integrated services, including other market segments.

The commitment to the pursuit of carbon neutrality also involves the Group's intentions concerning consumption efficiency, relying on projects capable of promoting the production and use of renewable energy vectors. The objective over the period covered by the Plan is to encourage the development of owned photovoltaic plants, favouring plant solutions that do not involve further land consumption, such as the agrivoltaic plants and photovoltaic parks on Group sites.

In the waste treatment and recovery sector, a growing awareness of environmental protection and resource regeneration is what underlies the design and development of new services and state-of-the-art plant solutions.

In particular, in special waste management, the Group intends to expand and diversify its portfolio of treatment services with 360° "global waste" proposals, covering the entire life cycle of waste, in order to ensure the circularity of the system. Furthermore, by leveraging the Group's market leadership and the operating capacity of the newly acquired A.C.R. di Reggiani Albertino Spa, the Plan calls for the development of new technologies for managing reclamation and decommissioning services for industrial plants, including through the participation in new tenders and the consolidation of partnerships with major operators.

In the plastics recovery market as well, the Group's strategy calls for the development of new projects, both to expand plant capacity in segments already covered, such as the production of PET and recycled polymers for cosmetics and food use, and in more innovative niche segments. In particular, as regards infrastructures, during the period covered by the Plan, the Modena plant for rigid plastic recovery and the Imola (Bologna) plant for carbon fibre recycling will be activated.

Hera's strategy for regulated businesses will focus on increasing the resilience of all assets under management, thanks to the support provided by digital technologies and the use of predictive maintenance models, as well as a commitment to evolve networks and adapt them to the energy transition.

**Regulated  
businesses**

In electricity distribution, the installation by 2025 of about 450,000 second-generation (2G) electricity meters will allow for a more precise measurement of consumption, as well as remote control and maintenance. To accompany the areas served towards the electrification of consumption, the Group is planning investments to adapt primary and secondary substations and electricity grids to support the ever-increasing demands for connection.



In gas distribution, thanks to approximately 310 thousand NexMeter gas smart meters, patented by Hera in 2019 and able to work with "green gas" mixtures, it will be possible to improve safety functions in the event of leaks or earthquakes and offer customers a greater awareness of their consumption, leading to increased energy savings.

To contribute to decarbonisation and the energy transition by regenerating resources and reducing climate-changing emissions, assets in the gas distribution business will be adapted to accommodate alternative carriers to traditional ones, such as green gases.

During the period covered by the Plan, the Bologna power-to-methane plant will become operative. Connected to one of the area's main water cycle purification plants, it will use wastewater and electricity from renewable sources to produce biomethane to be fed into the grid and oxygen that, in the future, can be used to increase the plant's purification capacity and efficiency.

Other assets enabling the ecological transformation of the local areas served include district heating networks, for which the Group plans further developments and investments to maximise the use of heat from renewable sources, by increasing the technical efficiency of the networks (thanks to the interconnection of several systems with each other, such as in the municipalities of Bologna and Forlì), as well as the enhancement of geothermal energy and the development of the Ferrara network.

In the water sector, the challenges raised by climate change make it necessary to prepare for drought with an infrastructural development of the networks, which are entrusted with guaranteeing a quality service and a reliable and sustainable supply, through interventions aimed at resilience and the introduction of technological innovations designed to improve operational efficiency. The objectives involving waste reduction are complemented by those concerning wastewater reuse and sustainable water resource management, thus helping to reduce the effects of the footprint on climate change, while promoting responsible and sustainable behaviour.

In particular, in period covered by the Plan, activities will be carried out to increase the resilience of infrastructures in order to reduce network losses, since district-based interventions will guarantee constant control over portions of the network, able as they are to remotely control and intervene on pressure regulation or detect hidden leaks. To make networks smarter and more efficient, approximately 310,000 smart meters will be installed, to automate the management and maintenance of water resources. Various circular economy initiatives are also planned, both at our customers' facilities and within the Group's activities and offices, including the effective optimisation of sewage sludge management and recycling materials from water cycle waste with dedicated plant engineering and innovative tools.

In the area of municipal waste management, the Group has confirmed its commitment to achieving its ambitious recycling targets. This includes increasing the quality and quantity of sorted waste collection, which will increase to 77.7% by 2027, up 10 percentage points from the 67.8% recorded in 2022.

The industrial strategy outlined hereto makes it possible to project growth in the Group's Ebitda coming to over 350 million euro in 2027 compared to the 2022 figure, reaching a 1,650 million euro target at the end of the period covered by the Plan. Group indicators

The investment plan amounts to 4.4 billion euro, 48% of which will be reserved for development initiatives and acquisitions. Out of total investments, 55% will be allocated to regulated businesses, while the remaining 45% will help drive growth in free market-based businesses. Alongside the investments financed by the Hera Group over the period covered by the Plan, one must add the social and economic value of the additional works that will be carried out in the local areas served, thanks to the almost 400 million in grants received, equally divided between resources coming from the NRRP and other institutions.

The margins generated during the five years falling under the Plan will make it possible to respect the significant financial commitment required in terms of investments, also allowing the Net debt / Ebitda ratio to be brought back to 2.7x by 2027, confirming the Group's solidity.

As proof of Hera's commitment to sustainable growth, shared-value Ebitda is expected to rise to 64% of total Group Ebitda by 2027, reaching more than 1 billion euro (approximately 1,049 million, as against 670 million in 2022), in line with the target set at 70% by 2030.

Lastly, the Plan to 2027 confirms that the Group will approach its 2030 targets concerning carbon neutrality and circular economy, including the ambitious 37% emissions reduction target (compared to 2019, with SBTi validation) and a 150% increase in recycled plastics (compared to 2017 data).



## Climate and the environment: sustainable development

Hera's shared value framework, introduced in 2016, has oriented the Group's strategy towards growth based on responses to the problems coming from the external context, capable of maximising shared value, both for the company and for the community. The Group's objective is to create shared value through business activities that are strongly integrated into the socio-economic fabric of the communities served, generate operating margins and respond to the drivers of the Global Agenda, i.e. the calls to action for change indicated by policies at a global, European, national and local level.

**Shared value framework**

The latest revision of this model includes the topics of resilience and adaptation to climate change, drinking water (included within the scope of sustainable management of water resources) and

### Priority SDGs directly linked to business activities on which the Group has a direct impact



### Other important SDGs on which the Group has an indirect impact due to internal processes or business activities



biodiversity. These are issues to which the Group has been committed for years, which complement the other dimensions of Hera's framework (such as the circular economy and sustainable management of water resources). In 2023 as well, the validity of the initiatives launched by the UN Global Agenda to 2030 was confirmed, responding to the existing megatrends: fragile planet, technological disruption and accelerated urbanisation were considered the most closely linked to Hera's business, having a direct impact on corporate activities. Hera's contribution is most significant for seven sustainable development goals on the 2030 Agenda: 6) clean water and sanitation, 7) clean and affordable energy, 9) business, innovation and infrastructure, 11) sustainable cities and communities, 12) responsible consumption and production, 13) combating climate change and 17) partnership for the goals.

The Group's website ([www.gruppohera.it/gruppo/sostenibilita](http://www.gruppohera.it/gruppo/sostenibilita)) and its Sustainability Report (Sustainable Strategy and Shared Value section) offer further details on the actions that the Group intends to promote by contributing in a broad sense to the 17 Goals of the UN 2030 Agenda. The Group has set itself clear industrial objectives for both 2027 and 2030, to make a significant contribution to achieving carbon neutrality. As mentioned above a part of the presentation of the industrial strategy, note the strong commitment to reduce carbon dioxide emissions from the industrial chain by 37% within 2030 (compared to 2019), calculated according to Science Based Target references. The most significant contributions to achieving these targets lie in the energy efficiency solutions offered to all types of customers (valorising multi-business assets) in addition to those adopted within the Group, developing projects that promote the production and use of renewable energy vectors, and planning investments for infrastructural network upgrading.



In order to promote a culture linked to these SDGs among the Group's entire workforce, dedicated training events have been made available on its corporate training platform, concerning the circular economy in particular; the UN Agenda is also included in training for all newly hired employees. The main actions include those aimed at promoting energy efficiency, sustainable management of water resources, the selection of suppliers with qualifications in terms of environmental and social sustainability aspects, the development of employment and new skills, and a broader use of innovation and digitalisation. Awareness of the significance of climate change is considered by the Group to be the first necessary step towards incorporating precise responses to the ensuing risks and opportunities into its corporate strategy, consequently reflecting the effects of these responses in the drafting its multi-year plans.

### Promotion of energy efficiency and energy transition

Among the initiatives identified to grasp the opportunities emerging from an analysis of the hypothetical climate scenarios, the most promising have been included in the business plan to 2027, which also outlines the actions identified as mitigation and in response to the risks. In particular, the Group's strategy to promote energy efficiency and an energy transition towards carbon neutrality is mainly substantiated by the following actions, briefly outlined in the area of industrial strategy:



- increasing the portion of renewable electricity sold to end customers and promoting energy efficiency by offering green solutions, services and products dedicated to household and industrial customers;



- reducing the Group's energy consumption, following up on the initiatives included in its energy improvement plan (2027 goal to reduce its own energy consumption by 9% compared to 2019 consumption);
- increasing photovoltaics with the aim of being involved in producing electricity renewables, including through the installation of plants on Group sites, not consuming land by insisting on using disused buildings and sites, landfills or areas included in urban regeneration initiatives (e.g. energy parks);
- developing renewable energies by constructing dedicated plants for the production of hydrogen (Hydrogen Valley and Power to Methane);
- increasing the portion of renewable thermal energy produced, by increasingly turning to geothermal and waste-to-energy sources.

### Resilience and regeneration

The resilience of networks and plants, recycling, sorted waste collection, purification and sewage, and saving water resources are some of the main areas that guide resource regeneration in the various sectors. By way of example, the design and execution phases of engineering works show a significant focus on sustainability issues, reducing the environmental footprint and minimising the use of virgin soil. The construction of new treatment plants is increasingly oriented towards giving value to the organic portion of solid municipal waste. Particular attention is also paid to the plastics recycling market, in terms of increasing the recycling capacity of flexible plastics, as well as the construction of plants for recycling new types of plastics (rigid and carbon fibres). The rationale underlying circularity also involves the Group's main purchasing processes: Hera's strategic approach includes an increasing focus on materials or goods that meet the principles of the circular economy and extends the adoption of minimum environmental criteria (MEC) to the definition of product characteristics, not only to components for water connections but also to other standard elements of the networks such as gas and water reducers and sewer lifts.



The Group considers regenerating resources to be a fundamental asset of its system, and thus widely adopts circular economy solutions with medium- and long-term industrial objectives and projects based on defined deadlines, through technological and behavioural solutions. These solutions are geared towards improving volumes and quality of separate waste collection, enabling new plant capacity for the treatment, recovery and recycling of special urban waste, soil regeneration through remediation and decommissioning of industrial plants, reducing internal water consumption through the adoption of water-efficient solutions, and increasing the volumes of wastewater reused by promoting agricultural and industrial initiatives. Actions to increase the resilience of the Group's activities also include the installation of remote-controlled accessories and sensors in all networks (to ensure remote monitoring and management), the installation of smart meters in each business area, and the implementation of programming and modelling tools based on artificial intelligence to anticipate critical events or optimise maintenance.

To benefit the wider use of circular models, greater attention will also be paid to the various customer engagement tools, so as to use the different communication/dissemination channels according to the features of the various geographical areas, as well as to improve and expand the tools already in place by paying attention to the different types of customers.

The campaign to raise awareness of environmental challenges will continue to involve schoolchildren (environmental education projects), and will be carried out through the main media at a local level (press tour on environmental issues).

### Hydrogen as a new energy carrier

Decarbonisation policies reduce dependence on fossil fuels and therefore contribute to guaranteeing the security of the system. The Group's plant assets also have further potential to seize opportunities related to the development of new renewable energy vectors, such as hydrogen. The Group intends to become involved in the various phases of this chain, and has already launched experimental projects moving in this direction. In the sustainable hydrogen production phase, a circular solution comes from synergies between the electrolytic process and the water purification process, with multiple circular flows of material between the two activities (oxygen as input for purification, and biogas from sewage sludge as material for hydrogen methanation). The Group's Waste-to-Energy plants will be able to use biogenic electricity (considered renewable) to power electrolyzers capable of obtaining hydrogen for industrial customers, mobility or the distribution network. Once again with reference to gas distribution, the second phase of experimentation has been positively concluded on the Group's assets to assess the optimal blending percentage between methane and hydrogen for the operation of cogeneration assets and plants for industrial and household users. This experimentation, the first of its kind in Italy, involves all operators in the gas supply chain, from transport to manufacturers of technological equipment, up to manufacturers of domestic appliances.



For Hera, the need to guarantee quality and continuity in essential services in such a changing context, subject to increased climate risks, represents a cost, but at the same time an opportunity. The necessary increase in investments to improve the resilience of its assets puts the Group, thanks to its solidity and financial capacity, in an advantageous position compared to smaller competitors, who could face greater difficulties in dealing with such a volume of investments. In addition, reinforcing internal skills, accompanied by growth through external lines and tenders, allows the Group to seize opportunities for development in the most effective way.

In other words, the Group intends to make the most of the opportunities offered by technological evolution and digitalisation in order to extract innovations, operational improvements, cost efficiencies and synergies related to data management, to meet the needs of the local area and stakeholders and take a leading role in providing services and accompanying cities towards new development models, overseeing each technological upgrade by analysing its impacts and mitigating its side effects.

## Technology and human capital: innovation

The Group intends to leverage technological advances in the chemical and engineering industries to identify plastic recycling processes that are complementary to mechanical recycling and make the process effective even for less pure and less valuable plastic portions. The same advances make it possible, for example, to experiment with solutions that use excess renewable electricity (otherwise unusable) to split water molecules into hydrogen and oxygen and then convert the result into synthetic methane gas by adding carbon (from CO<sub>2</sub>).

**A strategy moving towards green innovation**

Hera has adopted a Group strategy to exploit all available information and to be able to guarantee the quality and exchange of data flows. The principles that have guided the implementation of this strategy involve an organisational approach to data architecture, which is articulated in the organisation of information by domains, development according to a product strategy, on a self-service technology platform and with the adoption of a federated governance model.

**Digital strategy**

The Group's data strategy model and related guidelines are included in training courses dedicated to individual business units, with the aim of applying the strategic plan at all levels. In order to increase the ability to prepare for anomalous events, the data sources used with the convergence between the management environment (applications) and the industrial environment (Group plants) must be continuously extended. Vulnerability assessment activities on both environments, aimed at preventing attacks on systems and plants, are fundamental; to this end, the model envisages distributed actions and responsibilities, and it will be further strengthened in the period covered by the Plan, through projects aimed at increasing monitoring capacity and the evolution of prevention tools.



In order to consolidate its role in the Italian utility sector, Hera intends to leverage the specialisations it has built up over time, by implementing new analytical methods and developing automation and process digitisation projects. The main pillars for developing the digitisation of the Group's activities include:

- more sensors in the field of operation and thus greater control capacity, through the enhancement of remote monitoring, the installation of smart meters in the various businesses and the expansion of predictive maintenance systems;
- digital customers, both in terms of making personalized offers to customers through the management of 2G meters, and through artificial intelligence applied to sales channels and customer interaction;
- data strategy, aimed at exploiting all available information and ensuring the quality and exchange of data flows, i.e. implementing data products;
- reporting on digital transformation initiatives according to the corporate digital responsibility (CDR) framework.
- launching a well-structured Open Innovation practice, as a further lever to accelerate the Group's digitalisation, to foresee and appropriately assess global innovation trends, and to promote the adoption of innovations already on the market. All this is achieved through a more detailed scouting programme focused on start-ups in innovation hubs around the world and an increasing focus on developing an ecosystem of partners for innovation.

Further developments in digitisation include the definition of a specific training plan dedicated to strengthening employees' skills in the areas of innovation and sustainability, ongoing data analytics and artificial intelligence projects to support the digitisation of processes in all of the Group's business areas



and, in particular, the areas of circular economy and energy transition, as illustrated below among the human capital development strategies.

Planning the data strategy is increasingly aimed at transforming the Group into a data-driven company, **Technology** where data-driven decisions, valued as a corporate asset and subject to an ethical and conscientious interpretation, highlight the growing importance of data management and the resources dedicated to protecting it.

The global trend of increasing cyberattacks was also confirmed in 2023. In addition to the effects produced by international geopolitical instability, which increased cyberwar actions involving in particular the energy sector and critical national infrastructures, criminal activities also continued, leading to an increase in cybersecurity incidents in all sectors. To face this external scenario, which was also confirmed by the numerous bulletins issued by the National Cybersecurity Agency, Hera maintained a high level of cybersecurity monitoring alerts in 2023, which also brought about an increase in the management of anomalous events by the Group's SOC (Security Operation Centre). Cybersecurity improvement initiatives continued in 2023, increasing the coordination between initiatives of individual IT (Information Technology) and OT (Operational Technology) Managers and Group-wide initiatives, and maintaining a balance between the macro-environments relating to technologies, processes and people.

As regards processes, during the year, the Group's cybersecurity management procedures concerning systems, networks and users were revised and communicated to all IT and OT managers. This revision mainly concerned the cloud area, in addition to other more technical aspects linked to increasingly rapid technological developments including the possibility of adopting passwordless solutions or the use of artificial intelligence in the Group's IT applications.

The increasingly close relationship between centralised monitoring of IT and OT environments was accompanied by the identification of new sources such as, for example, the agents on smartphones and tablets introduced during the previous year and a new monitoring platform for the Group's cloud environments. As part of monitoring, vulnerability assessments were carried out during the entire year on the Group's external surface, i.e. scans were done on all public and exposed IP addresses on the Internet, aimed at identifying vulnerabilities on systems and devices in production, as well as two cybersecurity assessments on industrial plants. In 2023 as well, activities aimed at increasing cybersecurity awareness and culture continued through informational campaigns for the entire corporate population, along with specific interventions for technical roles in the IT and OT fields. Periodic ethical phishing campaigns also continued, involving roughly 7 thousand employees for each campaign and reaching a total of over 70 thousand emails during the year. As regards the activities dedicated to technical roles, instead, incident simulation exercises were carried out using special platforms, capable of simulating the company's IT environment and enacting, in a protected environment, the actual activities that would have to be implemented in the event of a real incident.

The evolution of technology and digitalisation, which calls for an ongoing development of employees' skills and consequently needs for training, confirms the Group's strategic decision to introduce cloud-based platforms to increase individual productivity and as major tools for collaboration, since cooperation between humans and technology requires a continuous evolution of the working methods. With this in mind, process automation projects (virtual factory and digital lab) favour the wider presence of a culture of technological integration, focusing on initiatives for applying artificial intelligence, and generative intelligence in particular, as well as community empowerment through digital workplace tools.

The Group intends to use data to generate value for people and for its business, and this intention is confirmed by the gradual digitisation of human resource management processes and the creation of a reference architecture for integrating the systems and data available, along the lines of prescriptive analytics.

In a context where the pace of innovation is progressively increasing, the average age of the working population is rising and there is a need for large-scale professional requalification in a very short amount of time, training is increasingly becoming a strategic asset, not least to compensate for the gap between industrial needs and the education system. **Human resources**

The Hera Group's Employee value proposition (EVP), intended as a response to this context, therefore aims at developing an agile organisation that encourages continuous learning. Each person is thus a protagonist of growth and participates in creating shared value, within a purpose-driven strategy that is integrated with the evolution of the business. This strategy is therefore aimed at recognising that people play a leading role in personal and collective development, which must be enabled and encouraged by

a strong cultural alignment and the development of processes that are increasingly advanced, usable and consistent with the expected objectives.

Five priority actions have been derived from the context and the strategic direction defined by the EVP:

- guide the evolution of working methods by giving value to the development of each person, promoting a culture inspired by trust, transparency, a sense of community and guided by a widespread and authentic leadership;
- encourage behaviour and strengthen skills that enable people to deal consciously and effectively with the opportunities and challenges related to the energy, environmental and digital transitions;
- develop the ability to rapidly reconfigure strategy, business models, structure, processes, skills and technologies to support the Group's business;
- create a working environment that welcomes diversity and encourages everyone to be authentically themselves, fully expressing their potential;
- put people's needs at the centre of the evolution of technologies linked to human resource management processes, to make them participatory, aware and responsible, facilitating them in carrying out their roles.

In order to encourage the ethical values and behaviour that represent a distinctive model for the Group, a result-oriented culture is promoted, as are relations between individuals and the broad presence of a purpose-guided leadership. The Group's programmes for culture and an agile approach to improving performance, thanks to well-rooted trust, responsibility, autonomy and work ethics, are guided by the continuous development of a work-by-objectives culture. As part of the Group's strategy, it is fundamental to make everyone perceive that their work and sense of belonging are correlated to the company's overall results and performance. As a consequence, developing a talent attraction strategy guided by the company's purpose is fundamental. In order to enable everyone to express their potential and accelerate the organisation's growth, favouring harmony between work and private life and guaranteeing an ethical approach to work, welfare initiatives dedicated to individual physical, psychological and financial wellbeing will continue, in line with the priorities identified by continuously listening to people and with the aim of enhancing their wellbeing.

As regards the digital transition, the Group has introduced a specific training programme, HER@futura, with a focus on digital reputation. As mentioned among the previous development pillars for digitalisation, this will introduce increasingly innovative and customised initiatives to develop digital culture, processes and skills, increasing digital proficiency at all levels of the organisation and integrating aspects of corporate digital responsibility in the execution of projects and business processes.

An integrated approach between the ecological transition and the digital transition will be adopted, to improve the level of Energy and Green transition proficiency, accelerating the implementation of the ecoHERA programme so as to strengthen the widespread and/or specialised skills related to the impact of the energy and environmental transitions on the Group's business.

An equally important focus will go to knowledge management processes, to create a broader and more innovative know-how related to the transitions, as well as to evolve partnerships and projects with the education system (schools, institutes, universities, business schools, etc.) to promote ecosystem approaches and effectively address transition-related challenges.

In order to go beyond the concept of equality and achieve true equity in treatment, thus recognising individual specificities, the Group will continue to evolve its performance management, with the aim of making dialogue between team leader and team member increasingly effective, orienting it towards accountability regarding measurable objectives and greater delegation and autonomy in the organisation of work-related activities. Human resource management and development processes are designed to preserve the skills and distinctive values built up over time and, while also developing individual talents, regardless of gender and age, seeking innovation in all aspects that can generate added and sustainable value over time. In order to develop people's unique characteristics, targeted policies and programmes are foreseen to enhance inclusiveness and diversity, oriented at fostering a culture of innovation and continuous improvement. Creating more frequent and immediate moments for listening (e.g. pulse surveys, focus groups, etc.) aimed at grasping the intersectionality of people's characteristics, developing specific training programmes to recognise and remove bias, promoting a broad language that avoids prejudice and stimulating differentiated and accessible forms of communication are all priorities, to create a work environment that welcomes diversity and encourages everyone to be authentically themselves. It is no coincidence that, in addition to retaining the Diversity management working group (introduced in 2011), Hera, a signatory of the Utilitalia Pact - Diversity makes the difference, will continue to promote

inclusive policies at all levels of its organisation, progressively refining measures to reconcile work-life balance and adopting a merit management system that is not only transparent, but above all neutral with respect to gender, age and cultural diversity, with the use of systems aimed at monitoring progress and internal and external awareness policies. This is proven by the achievement, in 2023, by the Group's main companies, of gender certification pursuant to the UNI PDR 125 reference practice.